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Paper & Packaging

Dr. Paper's Weekly Wrap-up

Periodical

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- Prices holding up remarkably well – can this continue? It's impressive considering sharp volume declines over past three months. Unprecedented amount of market downtime have been critical. The acid test? December-February is seasonally slowest part of year.
- Are inventory reductions starting the ease? November volume numbers will be scary weak. However, initial reports suggest some better comps in December. We're still in recession, but pressure from inventory drawdown may be easing.
- Greif reported strong F4Q results (about in-line with DB and above consensus) but issued disappointing FY09 guidance (well below both DB and consensus). However, we think GEF is too conservative in assuming that recent 10-15% volume declines will continue throughout FY09.

Figure 1: Weekly Metrics

	Rating	Price 12/12/08	52-Week High	Low	Div. Yield	YTD	LTM	MTD	Last Week
S&P Paper		67.80	166.26	54.73	7.2%	(56.6%)	(57.5%)	(1.2%)	7.4%
S&P 500		879.73	1523.57	741.02	3.1	(40.1)	(40.8)	(1.8)	0.4
DJII		8629.68	13850.92	7392.27	3.8	(34.9)	(36.0)	(2.3)	(0.1)
DBSI Paper & Forest Products Universe									
AbitibiBowater	HOLD	0.42	26.13	0.31	47.6	(98.0)	(98.3)	(39.1)	(12.5)
Domtar	HOLD	1.75	8.41	1.01	0.0	(77.2)	(76.9)	25.0	8.0
Glatfelter	SELL	9.33	16.33	7.50	3.9	(39.1)	(41.6)	(2.0)	0.8
International Paper	HOLD	12.17	34.44	10.20	8.2	(62.4)	(63.3)	(2.2)	10.0
Louisiana Pacific	HOLD	1.69	16.41	1.59	35.5	(87.6)	(88.7)	(26.8)	0.6
MeadWestvaco	BUY	11.15	34.45	9.44	8.3	(64.4)	(66.5)	(4.4)	3.4
Packaging Corp	BUY	12.75	29.97	10.95	9.4	(54.8)	(54.7)	(14.6)	10.7
Smurfit Stone	BUY	0.38	11.65	0.25	0.0	(96.4)	(96.6)	(33.3)	(13.6)
Temple Inland	BUY	3.85	21.68	2.34	10.4	(81.5)	(88.3)	21.8	31.0
Wausau Paper	BUY	10.08	10.90	6.51	3.4	12.1	4.7	(2.0)	0.5
Weyerhaeuser	HOLD	37.76	78.00	28.68	6.4	(48.8)	(48.9)	0.4	6.7
Group Average						(63.5)	(65.4)	(7.0)	4.1
DBSI Packaging Universe									
Ball Corp.	BUY	40.06	56.20	27.37	1.0	(11.0)	(11.9)	9.9	14.7
Bemis	HOLD	25.04	29.70	20.62	3.5	(8.5)	(8.7)	(7.3)	(4.1)
Bway	BUY	6.72	13.50	4.11	0.0	(31.1)	(32.6)	39.7	40.6
Crown Holdings	BUY	18.50	29.60	13.37	0.0	(27.9)	(30.4)	15.3	11.2
Greif Brothers	BUY	33.32	73.45	27.07	4.6	(49.0)	(50.0)	0.5	11.5
O-I	BUY	22.14	60.60	15.20	0.0	(55.3)	(53.8)	9.5	20.6
Pactiv	BUY	22.76	29.52	18.98	0.0	(14.5)	(12.5)	(8.9)	(2.3)
Rock-Tenn	BUY	33.00	46.37	21.77	1.2	29.9	28.1	(2.3)	2.4
Sealed Air	HOLD	14.75	28.32	12.01	3.3	(36.3)	(37.3)	(6.8)	(1.7)
Silgan	BUY	46.95	58.27	39.21	1.4	(9.6)	(12.7)	3.8	6.0
Group Average						(21.3)	(22.2)	5.3	9.9
DBSI Timber Universe									
Plum Creek	BUY	33.93	60.00	27.33	5.0	(26.3)	(26.3)	(4.7)	(0.5)
Rayonier	BUY	30.35	49.54	26.58	6.6	(35.8)	(33.6)	(9.1)	1.7
Sino-Forest	HOLD	9.40	22.23	5.25	0.0	(56.2)	(54.4)	29.8	32.2
Group Average						(39.4)	(38.1)	5.3	11.1

Source: Deutsche Bank estimates, Reuters

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Key Commodity Prices

MARKET PULP - NBSK (\$/m. ton)	← 750
	\$600 ————— \$1100
NEWSPRINT (\$/m. ton)	775 →
	\$415 ————— \$800
LWC (No. 5 - 40 lb.) (\$/ton)	1005 →
	\$680 ————— \$1240
COATED FREE SHEET (No. 3 Rolls - 60 lb.) (\$/ton)	1085 →
	\$720 ————— 1080
UNCOATED FREE SHEET (20lb.-Repro Bond) (\$/ton)	← 1100
	\$650 ————— \$1180
LINERBOARD (\$/ton)	610 →
	\$310 ————— \$610
SBS (\$/ton)	1050 →
	\$570 ————— \$1100
LUMBER COMPOSITE (\$/mbf)	← 217
	\$196 ————— \$499
PANEL COMPOSITE (\$/msf)	← 256
	\$196 ————— \$610

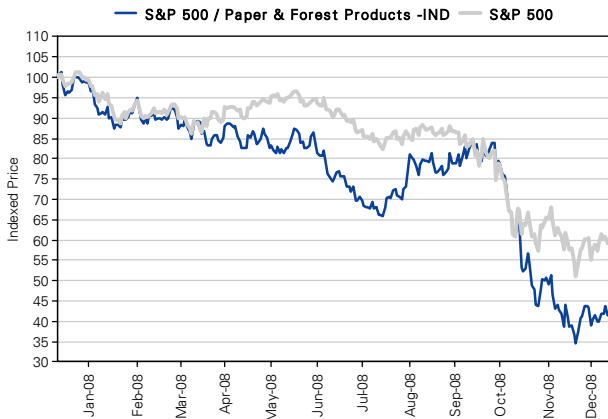
Source: Pulp & Paper Week and Random Lengths

Company Valuation Ratios, 2008E & 2009E

	EV/EBITDA		P/E		Price/ Book
	2008	2009	2008	2009	
ABH	9.9x	6.3x	NM	NM	3.1x
UFS	3.4x	4.0x	6.1x	10.7x	0.3x
GEF	4.9x	4.7x	8.0x	0.0x	1.5x
GLT	4.8x	5.0x	8.3x	8.7x	0.8x
IP	5.8x	6.1x	5.8x	12.3x	0.5x
LPX	NM	NM	NM	NM	0.1x
MWW	5.0x	5.2x	14.5x	18.3x	0.5x
PKG	4.6x	5.6x	9.4x	13.7x	1.8x
RKT	7.8x	6.1x	11.6x	8.9x	1.9x
SSCC	7.3x	9.8x	NA	NM	0.1x
TIN	5.5x	6.3x	NM	NM	0.5x
WPP	8.3x	6.2x	NM	28.5x	2.0x
WY	83.2x	52.6x	NM	NM	1.0x
PCL	17.2x	NM	30.7x	32.0x	2.3x
RYN	8.0x	NM	14.1x	14.9x	0.0x
BLL	7.1x	6.8x	9.4x	13.7x	2.6x
BMS	7.0x	6.4x	14.4x	13.8x	1.5x
BWY	5.7x	4.8x	8.8x	7.9x	0.9x
CCK	6.2x	5.8x	10.9x	9.8x	NM
OI	4.6x	4.4x	5.9x	5.6x	NM
PTV	7.1x	6.6x	13.3x	11.5x	2.2x
SEE	7.3x	6.3x	10.7x	9.7x	1.3x
SLGN	6.9x	6.5x	13.0x	11.8x	3.2x
TRE	2.8x	NM	7.4x	7.2x	3.1x

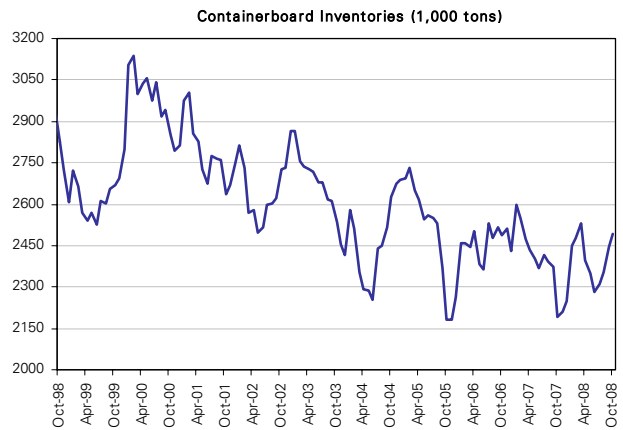
Source: Company Data and DB Estimates

S&P 500 vs S&P Paper



Source: Factset

Containerboard Inventory



Source: AF&PA, Deutsche Bank

Appendix 1

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Equity rating key Equity rating dispersion and banking relationships

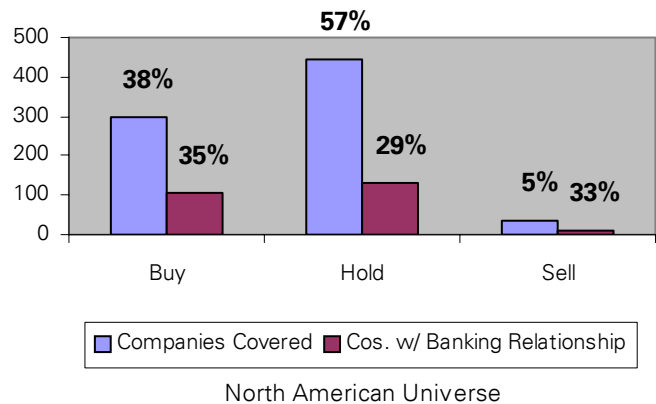
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