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Acadian Timber Corp. 2015 First Quarter Results Conference Call Transcript

Date: Wednesday, April 29, 2015

Time: 1:00 PM ET / 10:00 AM PT

Speakers: **Reid Carter**
President and Chief Executive Officer

Brian Banfill
Chief Operating Officer and
Acting Chief Financial Officer

OPERATOR:

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star, and one on your touchtone phone. You will hear a tone to indicate you're in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two.

The first question comes from Andrew Kuske with Credit Suisse. Please go ahead.

ANDREW KUSKE:

Thank you, good afternoon. You had a very strong quarter and I'm just curious, when you look into Q2, which is typically a weaker period of the harvest season, just what are your expectations given the severe weather we saw in much of Atlantic Canada? You know, how do you think about the harvest profile for Q2 and then maybe even drifting into the summer?

REID CARTER:

Thanks, Andrew. We had excellent operating conditions during the first quarter, as Brian mentioned. We didn't have the significant snowfall that was more prevalent in the coastal areas, so we had very cold weather, not so much snow. It did allow us to continue delivering into early April. Normally, as you know, we aren't able to operate really during most of April and May and sometimes into the first few weeks of June. So we had an opportunity to continue deliveries into April and we also—as Brian mentioned, deferred some of our first quarter production volume into the second quarter as a result of a managed inventory program for one of our largest softwood sawlog customers.

So while the second quarter, is typically a very slow quarter for us, the combination of additional sales volumes and an expected reasonable market should allow us to have a little better quarter than has historically been typical of the second quarter.

ANDREW KUSKE:

Okay, that's very helpful, and then just on the pricing, the pricing improvements are really notable even if we factor out the currency. Just what are your thoughts on the sustainability of pricing because we're at a point where we could argue the housing market data's been lacklustre and you're posting really good price realizations, so what happens if we actually saw the housing market come back? I guess,

how do you think about the sustainability where you are now and then in the scenario where things get really positive again from a housing perspective?

REID CARTER:

I think there's a number of dynamics at play here. As you know, many industry watchers would suggest that lumber prices have probably reached the bottom. As I'm sure you are very aware, a number of regions within North America are almost certainly operating below cash costs at today's lumber prices, and I think that, the inventory buildup of the first quarter should alleviate significantly through this first half of the second quarter. So I think people will expect some modest improvements and probably only modest improvements in lumber prices during the second quarter. As you know, we don't deliver large volumes during the second quarter and most of our customers would appear to want what we can deliver.

Our Canadian lumber customers, with the Canadian dollar where it is today, are still quite competitive and we would expect that they will want to take volumes and we'll compete for those volumes. But as we've mentioned before, the lumber selling prices we receive on our softwood sawlogs for our New Brunswick operations are through a fibre supply agreement that is on a six-month trailing basis, so any benefits of recovering lumber would likely be—more likely to be realized in the first half of next year than the second half of this year.

Our Maine softwood sawlog sales are very much direct drive into the market, with much of our sales goes to eastern township Canadian sawmills. We've been very pleased with their ability to pay a good price in Maine. They have Canadian dollar costs. They don't typically face export taxes and the like owing to the fact that much of their log purchases are in the States. It's probably FX and the competitiveness of US sawmillers' ability to pay and generate any margins with their higher cost structures and the US log prices in US dollars that we pay attention to the most. Today it would seem that the bottom's behind us and things have gone very well giving us some real optimism for how it could go in a much stronger market.

ANDREW KUSKE:

Okay, that's extremely helpful. Thank you.

OPERATOR:

As a reminder, if you wish to ask a question, please press star, and one on your touchtone phone. The next question is from Paul Quinn with RBC Capital Markets. Please go ahead.

PAUL QUINN:

Yes, thanks. Good morning and great results. Just a question on—following up Andrew on log prices. I can kind of understand what's going on in softwood but maybe you can give us some color into what's happening in the northeast there on the hardwood side. They seem to be particularly strong and what do you think that strength lasts through the balance of the year?

REID CARTER:

I assume you're mostly talking about hardwood pulpwood that's been a large portion, approximately 35% of our sales with very strong pricing? We had quite a discussion about this at our Board yesterday in that, you know, there's been a common longstanding view that the pulp industry in the northeast is in decline. Having said that, overall pulpwood consumption in the regions with the closure of the various pulp mills over the last decade, is pretty much equivalent to what it was 10 years ago, and what's happened over the last, you know, again, couple of decades is that any plant—any forest areas that could support softwood sawlogs, spruce or balsam fir, have been converted to these softwoods.

An awful lot of the hardwood inventories that had built up back in the '70s and '80s have been harvested and we've also seen the establishment of significant conservation areas further reducing overall supply. So what we really have here is a very tight supply of hardwood pulpwood with a fairly stable demand, and as result, we've got very good pricing and this has been reflected in the steady increase in pulpwood prices over the last five years, or since 2010. While we don't expect it to go much higher the current dynamics would suggest it will continue to be a relatively full priced product going forward.

PAUL QUINN:

Okay, thanks. Thanks for that, and just on the growth opportunities, you guys seemed still to remain pretty optimistic, although we've been talking about this for a little bit. I wonder if you could rank those areas that you're pursuing that growth in terms of your likelihood of trying to get a meaningful transaction between the US, Australasia and Latin America?

REID CARTER:

Well, you know, to make a comment on your first point, we have been in the timberlands—we meaning Brookfield timberlands management—in the timberlands acquisition, operation and ownership business for a long time now, and we've—we certainly believe that we will be successful, but we also know we have to be patient and very disciplined, and while we're frustrated with the current pace of acquisitions, we're also very comfortable we're making good decisions.

I think, you know, the US is very, very competitive right now. There's a tremendous amount of capital, a larger number of managers and almost everything goes to auction. We're certainly very focused on trying to make acquisitions in the US, but we also believe that if the last few years has been any guide there is good evidence that timberlands are going for very full value and we may not be the best buyer, so we'll continue to try to create proprietary opportunities and the like and remain patient.

I think our pipeline is in good shape, particularly in Latin America. This really is a testament to Mark's activities over the last seven years. As most of you know, the Brazilian economy is struggling. The currency, the reais, is weak and in Brazil and Uruguay, we have some interesting opportunities. I think that they would together rank near the the top. In New Zealand, almost all timberlands are currently under financial ownership and opportunities tend to go for a pretty full price but New Zealand would have at least equal opportunities to anything in the US right now.

There are some larger opportunities expected in Australia and we'll certainly be keenly participating in those if and when they become opportunities. These are government sales of crown timberlands probably as long-term leases to crown harvest rights and we'll definitely be very involved in those, but in the last three of those crown land privatizations, they have been very aggressive and competitive processes. So these are the jurisdictions that we're most focused on. We have looked at a few things in Colombia and Ecuador but those are really very small and less likely at this time.

PAUL QUINN:

Well, great. Thanks for the additional detail. Cheers.

REID CARTER:

Thank you.

OPERATOR:

There are no more questions at this time. I'll turn the conference back over to Mr. Carter for closing comments.

REID CARTER:

Well, thank you, Operator, and thank you to all the participants on the call for your interest in Acadian. We look forward to delivering good results going forward and wish you the best rest of the day. Thank you. Bye-bye.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.