



August 24, 2006

Paper & Forest Products

Stock Rating:
Sector Performer

Sector Weighting:
Underweight

12-18 mo. Price Target \$65.00
WY-NYSE (8/24/06) \$61.50

Key Indices: S&P 500

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$54.25-\$75.48
Shares Outstanding 248.2M
Float 233.5M Shrs
Avg. Daily Trading Vol. 1,280,000
Market Capitalization \$15,264.3M
Dividend/Div Yield \$2.40 / 3.9%
Fiscal Year Ends December
Book Value \$38.28 per Shr
2006 ROE (E) 10.8%
LT Debt \$8,107.0M
Preferred Nil
Common Equity \$9,500.0M
Convertible Available No

Earnings per Share	Prev	Current
2005		\$4.24A
2006		\$4.23E
2007	\$4.01E	\$3.98E

P/E		
2005		14.5x
2006		14.5x
2007	15.3x	15.5x

Company Description

Weyco is the second-largest paper & forest products company in North America with major positions in containerboard & packaging, wood products, pulp & paper and timberlands.

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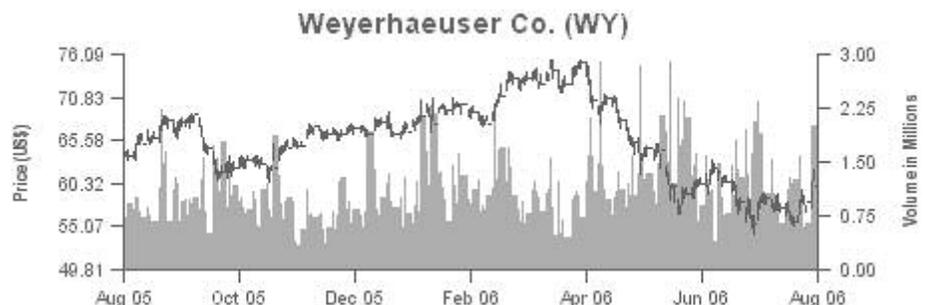
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Weyerhaeuser Co.

Adjusting EPS To Reflect Spin-off Of Paper Operations

- On August 23, Weyerhaeuser announced that it has reached a definitive agreement to combine its fine paper business and related assets with Domtar. Such a transaction, with either Boise or Domtar, was expected. We expect the stock of Weyerhaeuser to decline by \$7.30 at closing.
- The transaction gives Weyerhaeuser shareholders a 55% ownership in the new company and includes a \$1.35 billion cash payment to Weyerhaeuser. The cash payment, plus the stock valued at the closing price of Domtar stock on Aug. 22, 2006, results in a transaction value of \$3.3 billion.
- With this announcement, Weyerhaeuser can now resume its previously authorized share repurchase program and focus on its core businesses. The company will be out of fine paper, a segment that it qualifies as "structurally challenged."
- We would have preferred an outright sale, but we don't think there are buyers for the fine paper business. Assuming that the spin-off option is chosen, we are fine-tuning our 2007 EPS estimate on Weyerhaeuser from \$4.01 to \$3.98. We think the impact on Weyerhaeuser's value is marginal.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

The transaction is subject to review by antitrust agencies and securities regulators in the United States and Canada, the receipt of a favorable tax ruling from the U.S. Internal Revenue Service, and other customary closing conditions. It is also subject to approval by Domtar shareholders. Weyerhaeuser and Domtar (DTC-SU) will continue to operate separately until the transaction closes.

The combination is expected to be tax-free for Weyerhaeuser and its shareholders for U.S. federal income tax purposes. The transaction structure requires the cash received by Weyerhaeuser to be used to reduce debt in order to be tax-free.

The transaction, which has been approved by the boards of directors of both companies, is expected to close in the first quarter of 2007. Under the terms of the agreement, Weyerhaeuser will distribute ownership of the Fine Paper business to its shareholders in either a spin-off or split-off transaction. Weyerhaeuser will determine which approach it will take prior to closing the transaction. A spin-off would involve a pro-rata distribution of shares to Weyerhaeuser shareholders. In a spin-off, Weyerhaeuser shareholders would receive a pro rata distribution of approximately 1.14 shares of the new company for each share of Weyerhaeuser that they own. A split-off would provide Weyerhaeuser shareholders the option to elect to exchange Weyerhaeuser shares for stock in the "new Domtar."

Once the transaction is completed, Weyerhaeuser will focus on its core businesses. The priorities include:

- Resuming the share repurchase program for 18 million shares of common stock, or 7.3% of its market capitalization, over the next two years;
- Continuing the ongoing transformation of containerboard packaging to generate higher returns;
- Investing in growth opportunities in real estate;
- Optimizing and growing the timberlands business while pursuing better timber tax legislation;
- Successfully building upon the newly-realigned wood products business. We think that could include the purchase of a large OSB franchise;
- Focusing on high value-added non-paper grade pulp products by the cellulose fibers business.

Weyerhaeuser manufacturing assets included in the combination include:

- Eight paper mills and associated pulp mills (Dryden, Ontario; Hawesville, Ky.; Johnsonburg, Pa.; Kingsport, Tenn.; Bennettsville, S.C.; Plymouth, N.C.; Prince Albert, Saskatchewan; Rothschild, Wis.).
- 14 converting centers (Brownsville, Tenn.; Cerritos, Calif.; Dallas, Texas; DuBois, Pa.; Indianapolis, Ind.; Langhorne, Pa.; Mira Loma, Calif.; Owensboro, Ky.; Plymouth, N.C.; Prince Albert, Saskatchewan; Ridgefields, Tenn.; Rock Hill, S.C.; Tatum, S.C., Washington Court, Ohio).
- The market pulp mill at Kamloops, British Columbia.
- The coated groundwood mill in Columbus, Miss.
- Two softwood lumber mills (Big River, Saskatchewan; Ear Falls, Ontario).

This transaction will create the North American market leader in fine paper, with a 33% market share, and it is anticipated that the combination will generate approximately \$200 million in annual synergies within the next two years. Raymond Royer, Domtar president and CEO, will lead an organization of 14,000 employees with a management team composed of executives from Weyerhaeuser paper operations and Domtar. This team includes Marvin Cooper, Weyerhaeuser senior vice president, Cellulose Fiber & White Paper, Containerboard Manufacturing and Engineering, who will become chief operating officer of the new company. The "new Domtar" will have its head office in Montreal, Quebec, while the headquarters of operations will be in Fort Mill, S.C. New Domtar will be incorporated in the U.S.

Exhibit 1 shows the location and the competitiveness of the new Domtar assets. Not only is Weyerhaeuser disposing of its UFS paper franchise, but it is also getting rid of what we view as two "orphan" mills – the groundwood paper mill in Columbus and the NBSK pulp mill in Kamloops. Unfortunately, we don't think these two facilities fit any better into the new Domtar than they did into the old Weyerhaeuser.

Exhibit 1. The New Domtar

	Estimated Position On Cost Curves	Number of Machines	Avg. Size of Machines	Capacity			Capacity		
				Canada	U.S.	Total	Domtar	Weyco	Total
Uncoated Freesheet (short tons)									
	North America Cash Costs								
Ashdown, AR	1st	4	225		900	900	900		900
Bennetsville, SC	2nd	1	370		370	370		370	370
Dryden, ON (one machine down, not shown in capacity)	2nd	1	330	330		330		330	330
Espanola, ON	Specialties, 2nd	2	50	100		100	100		100
Hawesville, KY	1st	2	300		600	600		600	600
Hull, QC	Specialties, 3rd	1	100	100		100	100		100
Johnsonburg, PA	2nd	2	180		360	360		360	360
Kingsport, TN	1st	1	410		410	410		410	410
Nekoosa, WI	2nd	3	67		200	200	200		200
Plymouth, NC	1st	2	235		470	470		470	470
Port Edwards, WI	3rd	4	50		200	200	200		200
Port Huron, MI	Specialties, 4th	4	25		100	100	100		100
Rothschild, WI	3rd	1	140		140	140		140	140
Prince Albert, SK (shut down indefinitely)	4th	1	290	290		290		290	290
Windsor, QC	2nd	2	300	600		600	600		600
Woodland, ME	2nd	1	100		100	100		100	100
Total				1,420	3,850	5,270	2,300	2,970	5,270
Coated Groundwood (short tons)									
	Global Cost Curve Del. Chicago								
Columbus, MS	1st				240	240		240	240
Pulp Mills (metric tonnes)									
	Global Softwood Curve Del. Rotterdam								
Ashdown, AR	1st				190	190	190		190
Bennetsville, SC	2nd				90	90		90	90
Dryden, ON (currently idled)	4th			50		50		50	50
Espanola, ON	4th			240		240	240		240
Hawesville, KY	2nd				100	100		100	100
Kamloops, BC	3th, worst in BC Interior			450		450		450	450
Lebel-sur-Quevillon, QC (shut down indefinitely)	4th			290		290	290		290
Plymouth, NC	2nd				160	160		160	160
Prince Albert, SK (shut down indefinitely)	4th			120		120		120	120
Woodland, ME	Hardwood, n/a				240	240	240		240
Total Market Pulp				1,150	780	1,930	960	970	1,930
Total Pulp & Paper									
Distribution				2,570	4,630	7,200	3,260	3,940	7,200
				36%	64%	100%	45%	55%	100%
Paper Converting & Forms (short tons)									
	n/a				1,820			1,820	
Lumber (mfbm)									
	North America Cash Cost								
9 sawmills in eastern Canada, 1 in Saskatchewan	4th on average			1,300		1,300	1,100	200	1,300
Packaging									
50% of Norampac	n/a					1,600	1,600		

Source: RISI, Company reports and CIBC World Markets Inc.

Based on annualized Q2/06 results, the new entity would have generated \$6.5 billion in sales and \$730 million in EBITDA and carried \$3.2 billion in debt. While the Weyerhaeuser assets would have contributed \$380 million in EBITDA, this reflects \$334 million in depreciation and amortization. As a result, on an EBIT basis, the Weyerhaeuser assets would have contributed only \$46 million.

In terms of the impact on Weyerhaeuser's valuation, the company is giving away an estimated \$418 million in 2007 EBITDA in exchange of a cash payment of \$1,350 million and 55% of new Domtar. Given that we value Weyerhaeuser's fine paper EBITDA at 7.25x in our price target calculation (i.e., \$3.0 billion) and that we estimate the value of a 55% ownership in new Domtar at \$1.6 billion, we estimate that the net effect on Weyerhaeuser's value is a decrease of only \$50 million, or \$0.20/share. This is a low price to pay to become more focused and exit a segment in which we think demand is on a secular downward trend.

Assuming that the spin-off option is chosen, we expect the stock of Weyerhaeuser to decline by the value of the equity distributed at closing. Based on the current share price of Domtar (\$6.40), this value represents \$7.30 per Weyerhaeuser share.

Exhibit 2. Weyerhaeuser's Income Statement (\$ mlns., except per share)

	2005	2006E	2007E
Sales	\$22,886.0	\$22,619.5	\$19,865.1
Cost of Sales	\$19,338.0	\$19,314.3	\$17,132.8
EBITDA	\$2,968.0	\$2,454.2	\$2,704.0
Depreciation	\$1,329.0	\$1,248.0	\$914.0
Operating Profit	\$1,639.0	\$1,206.2	\$1,790.0
Other Expenses (Gains)	\$0.0	\$1.0	\$2.0
Financial Expenses	\$580.0	\$369.5	\$262.9
Earnings Before Income Taxes	\$1,059.0	\$835.7	\$1,525.1
Income Taxes	\$326.0	\$513.9	\$549.8
Minority Interest	\$0.0	\$0.0	\$0.0
Net Earnings	\$733.0	\$321.8	\$975.3
Net Earnings Per Share (Fully Diluted)	\$2.99	\$1.31	\$3.98
EPS Before Unusuals	\$4.24	\$4.23	\$3.98

Source: Company reports and CIBC World Markets Inc.

Exhibit 3. New Domtar's Income Statement (\$ mlns., except per share)

	2005A	2006E	2007E
Sales	\$4,966.0	\$4,663.4	\$7,355.7
Cost of Sales	\$5,054.0	\$4,243.0	\$6,282.2
EBITDA	(\$88.0)	\$420.4	\$1,073.6
Depreciation	\$375.0	\$314.0	\$684.3
Operating Profit	(\$463.0)	\$106.4	\$389.3
Other Expenses (Gains)	\$0.0	\$0.0	\$0.0
Financial Expenses	\$150.0	\$155.0	\$276.4
Earnings Before Income Taxes	(\$613.0)	(\$48.6)	\$112.9
Income Taxes	(\$225.0)	(\$26.5)	\$39.5
Minority Interest	\$0.0	\$0.0	\$0.0
Net Earnings	(\$388.0)	(\$22.1)	\$73.4
Net Earnings Per Common Share (Fully Diluted)	(\$1.69)	(\$0.10)	\$0.14
EPS Before Unusual Items	(\$0.37)	(\$0.09)	\$0.14
Weighted Average Number of Common Shares	229.7	230.2	512.0

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

Based on a multiple of 7.25x our target EBITDA (25% of 2006E EBITDA and 75% of 2007E EBITDA), we have a price target of \$65.00 on Weyerhaeuser. Our target multiple reflects a liquidity premium on average historical valuation in the sector.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected economy, which would prevent pulp & paper prices from moving higher and a larger-than-expected correction in U.S. housing starts, which would result in low building materials prices.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$1.03A	\$1.34A	\$0.93A	\$0.94A	\$4.24A
2006 Current	\$0.69A	\$1.16A	\$1.26E	\$1.12E	\$4.23E
2007 Prior	--	--	--	--	\$4.01E
2007 Current	--	--	--	--	\$3.98E

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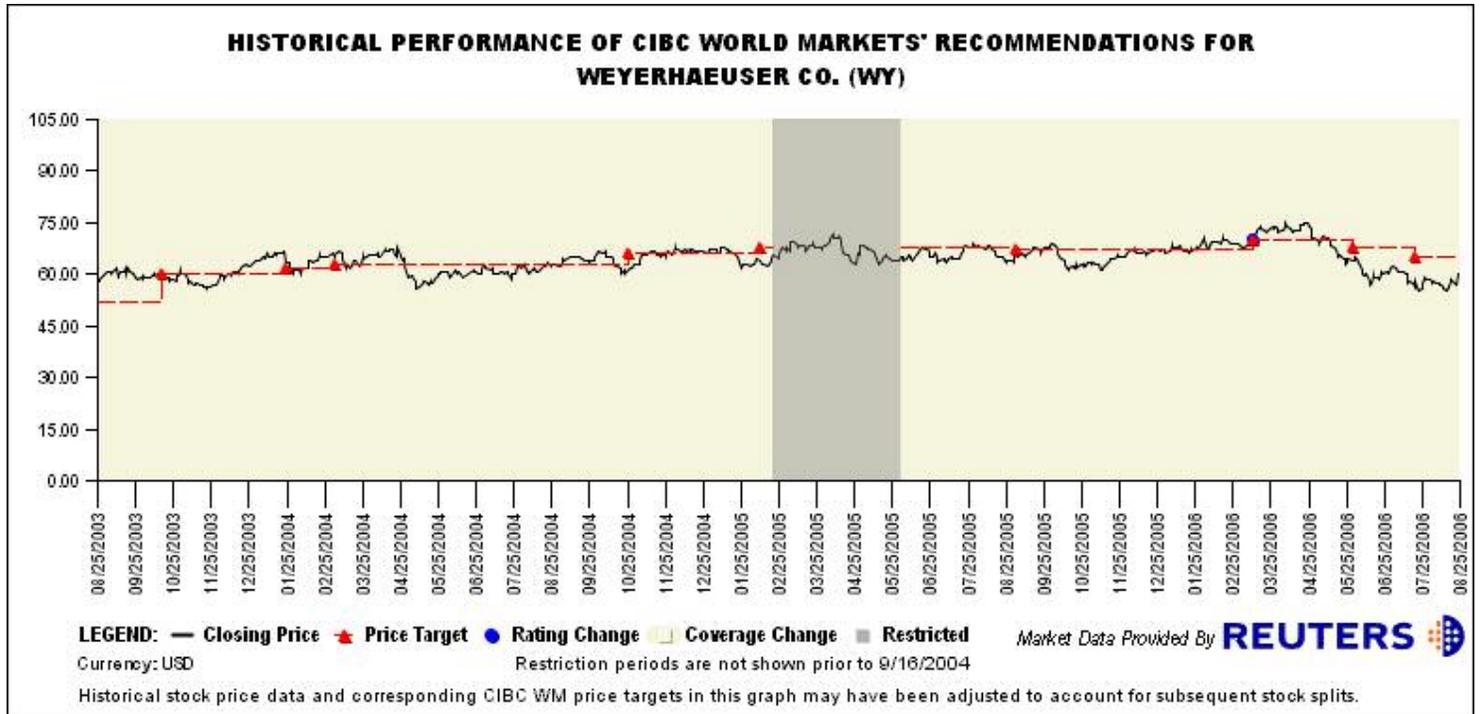
Domtar Inc. (2a, 2d, 2g, 7) (DTC-TSX, C\$7.18, Sector Underperformer)

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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR WEYERHAEUSER CO. (WY)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
10/15/2003	▲	59.60	SU	60.00	Don Roberts
01/23/2004	▲	63.26	SU	62.00	Don Roberts
03/03/2004	▲	65.42	SU	63.00	Don Roberts
10/24/2004	▲	60.30	SU	66.00	Don Roberts
02/06/2005	▲	64.43	SU	68.00	Don Roberts
02/18/2005	■	65.81	R	-	Don Roberts
05/31/2005	■	64.15	SU	68.00	Don Roberts
09/01/2005	▲	65.50	SU	67.00	Don Roberts
03/09/2006	▲ ●	70.03	SP	70.00	Don Roberts
05/29/2006	▲	64.61	SP	68.00	Don Roberts
07/18/2006	▲	56.35	SP	65.00	Don Roberts

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Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
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O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Sector Outperformer (Buy)	324	40.1%	Sector Outperformer (Buy)	171	52.8%
Sector Performer (Hold/Neutral)	390	48.3%	Sector Performer (Hold/Neutral)	189	48.5%
Sector Underperformer (Sell)	63	7.8%	Sector Underperformer (Sell)	30	47.6%
Restricted	22	2.7%	Restricted	21	95.5%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 24 Aug 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	2	14.3%	Sector Outperformer (Buy)	2	100.0%
Sector Performer (Hold/Neutral)	8	57.1%	Sector Performer (Hold/Neutral)	4	50.0%
Sector Underperformer (Sell)	3	21.4%	Sector Underperformer (Sell)	3	100.0%
Restricted	1	7.1%	Restricted	1	100.0%

Paper & Forest Products Sector includes the following tickers: A, BOW, CAS, CFP, CTL, DTC, FPS, IFP.A, IP, LPX, NBD, TBC, WFT, WY.

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