

Brascan to roll newly acquired B.C. timber assets into equity fund

Lumber behemoth's \$1.2 billion Weyerhaeuser deal promises to restructure the province's coastal forest industry

Paul Harris

Freshly minted lumber powerhouse **Brascan Corp.** is preparing later this year to spin its highly prized B.C. forestland assets into a private equity fund, as speculation mounts over the impact of this new player on coastal sawmilling.

The Toronto-based asset management company is buying 635,000 acres of private timberlands, 3.6 million cubic metres of Crown harvesting rights, five sawmills and two remanufacturing facilities from **Weyerhaeuser Co. Ltd.** in a deal worth \$1.2 billion plus \$200 million in working capital.

The deal raises key issues over how the coastal forest sector will be reshaped. It also repositions Weyerhaeuser in B.C. as a purely Interior-based producer focused on the hot U.S. residential construction market.

For Weyerhaeuser, which bought the coastal forestry assets from **MacMillan Bloedel Ltd.** in 1999, it is like turning back the clock.

Its number of B.C. employees will be halved to around 2,000 serving sawmills in Kamloops, Okanagan Falls and Princeton, together with a truss-joint facility in Vancouver and a hardwood mill in Delta.

The Brascan deal will help pay down Weyerhaeuser's debt rolled up from such major acquisitions as the US\$6.1 billion takeover in 2002 of **Willamette Industries Ltd.**, said **Dave Larsen**, Weyerhaeuser's vice-president of public affairs.

Last year's impressive earnings also helped repayments.

"I think in some ways the assets have become more attractive to Brascan because lumber markets have improved in recent years," he said. "They had been shopping and this was high on their radar screen from the very beginning."

Brascan spent almost two years informally wooing Weyerhaeuser on a deal before it finally came in with an unsolicited offer in September. Under its terms, Brascan is acquiring two distinct businesses: Crown forestry and private timberland.

When the deal is sealed later this year, Brascan plans to syndicate the private timberland segment to several Canadian institutional investors. They will include major pension funds, said **Reid Carter**, managing partner of **Brascan Timber Asset Management**, in a *BIV* interview.

"The private timberland represents the majority of the value, and the plan is to put them into a Brascan private equity fund which Brascan would be a major investor in," he said. "It would not be a widely held investment, and these need to be long-lived assets, non-depreciating with steady cash flows."

Brascan's stake in such a fund could vary from 25 per cent to 60 per cent.

"Timber assets have been recognized by institutional investors as a very attractive asset class, and we have received considerable interest from prospective partners to participate in this investment with us," confirmed Brascan CEO **Bruce Flatt**.

Ironically, Brascan owned 49 per cent of **MacMillan Bloedel** until 1989, said Carter. One analyst last week suggested that Brascan could eventually merge the acquired Crown forestry business - which includes the five sawmills - with **Western Forest Products Inc.**, a business it has a significant stake in.

Brascan successfully led the restructuring of Western as a successor to the old **Doman Industries Ltd.**

Carter said Brascan's Tricap Restructuring Fund has 18 per cent of the existing equity in Western. And Brascan has 50 per cent of the equity in Tricap, resulting in a net nine-per-cent share of Western, or around \$19 million at today's share price. Western's board chairman, **John MacIntyre**, is an independent adviser to Brascan while director **J. Peter Gordon** is managing partner of the Tricap fund, and fellow board member **John Lacey** a member of Tricap's advisory board.

Western's president and CEO, **Reynold Hert**, knows Weyerhaeuser's former assets well. He was previously Weyerhaeuser's vice-president, Canadian Forestlands.

While Carter confirmed Brascan has "meaningful board representation" at Western, he added: "The popular story that Brascan will be spinning its Crown sawmilling assets into Western is speculation at this time."

More widely, the Brascan deal is viewed as a vote of confidence in the coastal forestry industry's future, said analyst **Paul Quinn** of **Salman Partners Inc.**

"We expect that over the next six to 12 months, Western Forest Products and Brascan's newly acquired forestry business will be joined, in some form, to create a significant coastal player," he said.

The deal also raises expectation over the potential rationalization of coastal sawmilling facilities, said Quinn.

Brascan currently also controls 1.4 million acres of timberland in Maine, New Brunswick and Brazil. Weyerhaeuser's shares traded at \$80.97 last week; Brascan's traded at \$45.90 on the **Toronto Stock Exchange**.

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