

Log Market Analysis

As at 29 July 2020

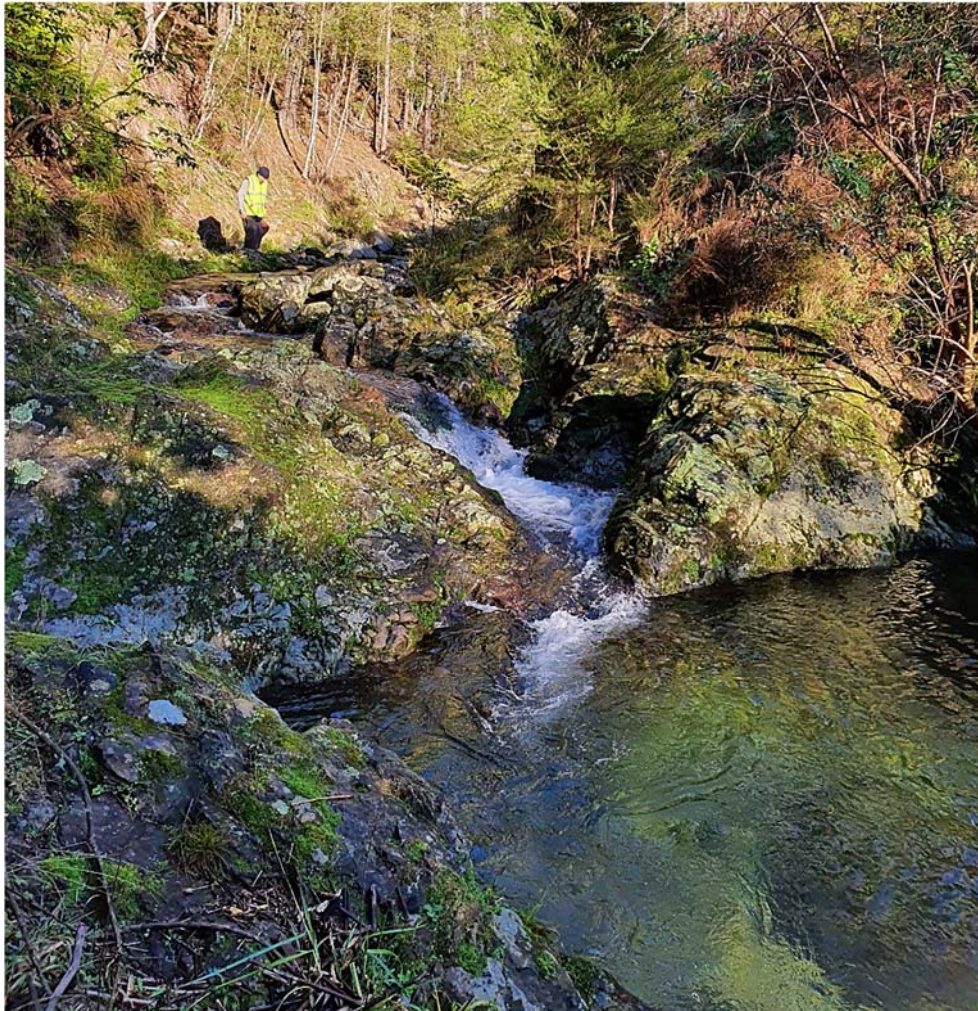


Photo 1: Second rotation forestry and clean water.

The content of this Log Market Analysis is produced monthly as part of a suite of documents that comprise the regular reporting to forest owners during harvest. This standalone document is made available to other forest owners approaching harvest to keep them informed on market conditions.

We have included log price series separately for Wairarapa and Gisborne forests, as the price series differ for reasons including different customers, log specifications and locations.

Forest Enterprises (FE) is currently harvesting approximately 650,000 tonnes of logs per annum for Wairarapa and Gisborne forest owners. We now harvest and deliver a further 350,000 tonnes for a private fund manager client in the same regions.

IMPORTANT

Every effort has been made to provide current accurate information in this document, which is for information purposes only. Any opinions and views expressed are those currently held by Forest Enterprises; however, the reader accepts that where they are opinions and views in respect of future prices, they may subsequently be proven incorrect. The nature of the international log market is that of price fluctuations, and these fluctuations can be material, and material changes can arise due to factors not previously able to be foreseen.

Overview

Everyone wants things to go back to normal, but the past is a foreign country which you can't visit.

Investment decisions are changing as impacts of the evolving economic conditions slowly play out. Property managers with warehouse space are happy as e-commerce and just-in-time delivery comes to the fore. Retirement homes are struggling as they couldn't sell units easily during lockdown. Air New Zealand is learning to live as a minor provincial airline by global standards.

I expect most readers here are either investors in forestry or connected to the forest industry in some way like our contractors. As an industry, our revenue is based on trade, but the value of investments reflects the expectations that future trade and demand will continue. I'm confident that forests and forest products are globally important resources and returns continue to reflect that. So, I remain optimistic.

Forestry investment is in good shape fundamentally, and all things pass. We still need houses, cardboard boxes and furniture.



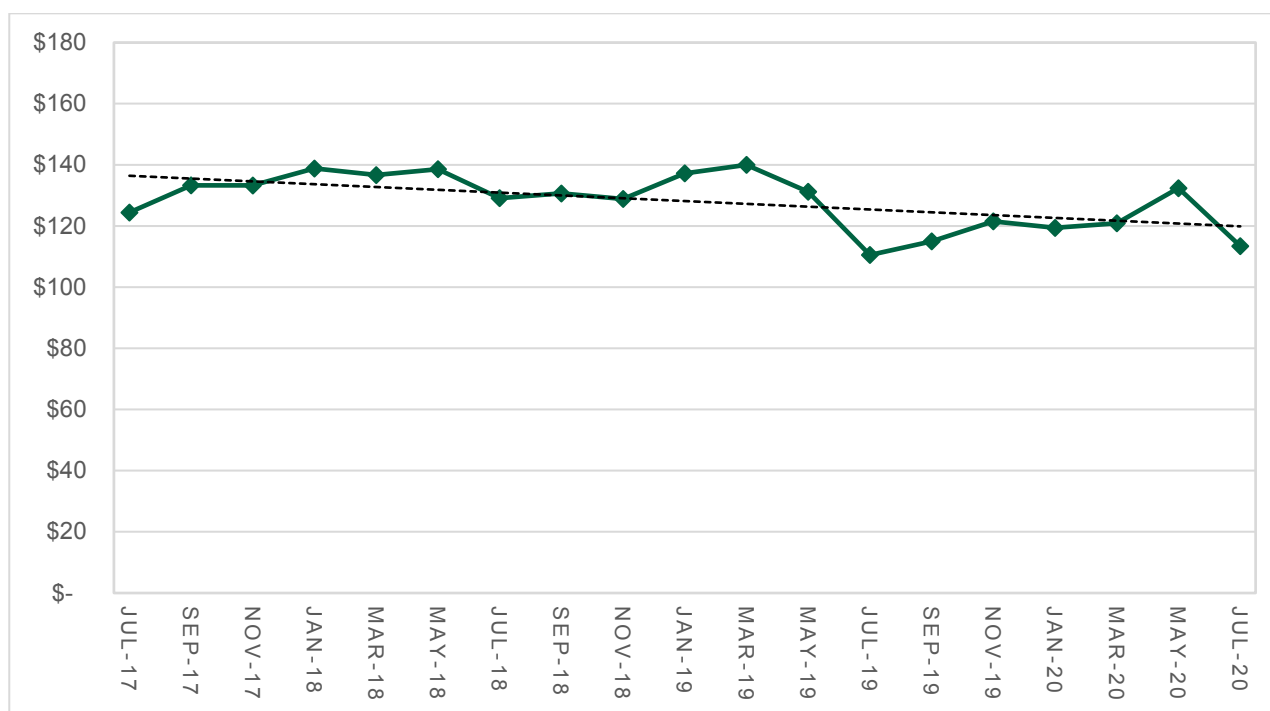
Photo 2: Landing 38 (off Oban Rd) looking south over Blairlogie Forest, Wairarapa.



Wairarapa Log Prices Per Tonne

Grade	Forest Enterprises Jul-20	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of 36 Month Average
Export P40	\$156.35	\$183.50	(\$27.15)	85%
Export P30	\$130.20	\$147.60	(\$17.40)	88%
Export A	\$112.70	\$134.55	(\$21.85)	84%
Export K	\$100.60	\$119.15	(\$18.55)	84%
Export KI	\$93.55	\$112.60	(\$19.05)	83%
Export Pulp	\$71.70	\$96.85	(\$25.15)	74%
Domestic P35	\$178.00	\$175.45	\$2.55	101%
Domestic S30	\$117.00	\$120.90	(\$3.90)	97%
Domestic S20	\$102.00	\$105.90	(\$3.90)	96%
Domestic Pulp	\$31.00	\$31.00	\$0.00	100%
Export sales units are volumetric (JAS) while domestic sales units are paid per tonne. The Export JAS prices have been converted to tonnes. Refer to page 5 for more detail on the JAS to Tonne Conversion.				
Index Log Price	\$113.43	\$128.40	(\$14.97)	88%
Index Log Price is calculated using inventory measurements from our Wairarapa forest crops and establishing an average log grade recovery for our typical Wairarapa Forest. Applying these estimates to our long run prices per grade has derived an Index Log Price. This index price helps to estimate the average logs sales predicted for a typical forest.				

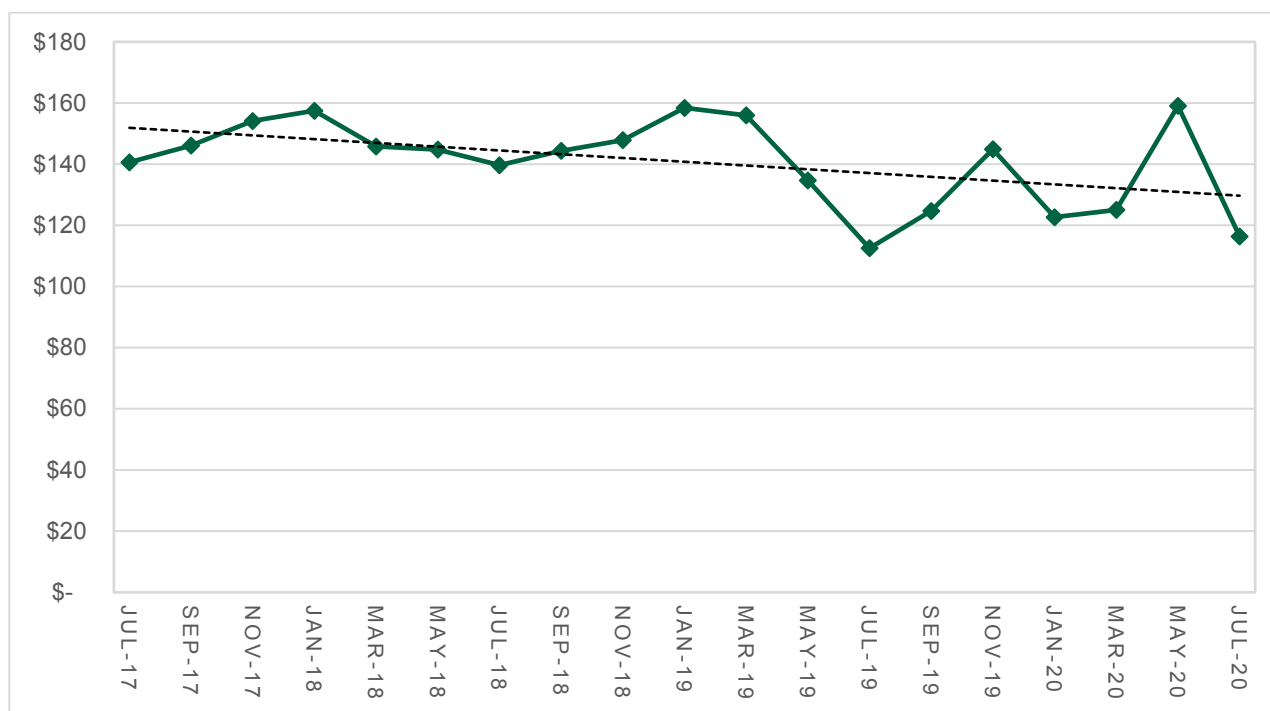
Index Log Price for our typical Wairarapa Forests



Gisborne Log Prices Per Tonne

Grade	Forest Enterprises Jul-20	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of 36 Month Average
Export P40	\$155.90	\$180.85	(\$24.95)	86%
Export P30	\$119.05	\$147.20	(\$28.15)	81%
Export A	\$115.25	\$138.80	(\$23.55)	83%
Export K	\$101.55	\$124.10	(\$22.55)	82%
Export KI	\$89.75	\$114.75	(\$25.00)	78%
Export Pulp	\$71.40	\$101.80	(\$30.40)	70%
Domestic P35	\$175.00	\$178.35	(\$3.35)	98%
Export sales units are volumetric (JAS) while domestic sales units are paid per tonne. The Export JAS prices have been converted to tonnes. Refer to page 5 for more detail on the JAS to Tonne Conversion.				
Index Log Price	\$116.37	\$140.85	(\$24.48)	83%
Index Log Price is calculated using inventory measurements from our Gisborne forest crops and establishing an average log grade recovery for our typical Gisborne Forest. Applying these estimates to our long run prices per grade has derived an Index Log Price. This index price helps to estimate the average logs sales predicted for a typical forest.				

Index Log Price for our typical Gisborne Forests



Factors Influencing Current Log Price

Key:

↑ More Benefit to the Investor

↓ Less Benefit to the Investor

↔ Neutral

Price, Costs and Logistics



Foreign Exchange (Forex)

Export logs are priced in USD. June to July movement is significantly detrimental to NZD terms with a movement from early June to July of about \$0.05 cents from 59 to 65.

FE takes no forward position or hedge in currency trading. Hedging imposes transaction costs without giving certainty of improved outcomes.



Shipping

Shipping rates are moving upwards slowly, but are still low compared with longer term rates. Bunker fuel remains cheap. One unusual problem is that fumigation aboard ships has been managed by a New Zealand domiciled technician who normally carries out tasks en route to China and returns by plane. The return voyage has been made difficult by Covid-19 and many technicians are stranded and accumulating costs on a daily basis. We have had one technician back after about 130 days on a planned spell of 18 days recently.



JAS to Tonne Conversion

JAS-to-tonne conversion rates are reducing as we go further into winter. Rates dropped from 97.9% in June to average 96% in July, which reduces revenues vs fixed cost.

Export logs are sold in Japanese Agricultural Standard cubic metres (JAS). JAS is a measure of useable log volume rather than weight. Payments to most contractors are made based on weight, which is appropriate for handling heavy material. This means the return to the forest owner is affected strongly by the conversion of weight to volume in the logs.

Conversion has seasonal trends and varies between log grades, length and log quality. Accounting for conversion is necessary to report comparable values from different sales options. Our convention is to report all prices converted to the 'per tonne basis', which would appear different if compared with a per cubic metre (JAS) series. Hence why our harvest reports show monthly JAS/tonne conversion per forest.



Log Price, Export CFR

CFR (Cost and Freight) is the price in USD paid by the end user/buyer.

<u>China</u>	Rising slowly.
<u>South Korea</u>	Low price.
<u>India</u>	A Covid-19 disaster; price low.
<u>Japan</u>	Low demand restricts price.

Log Demand



Export Log Inventory in Market

<u>China</u>	Inventory of logs in China is a leading supply/price indicator. Inventory levels in China declined as they came out of Covid-19 lockdown but the falling trend in log inventory levels has flattened. Days of stock is inventory divided by usage and has declined to about 65 days, which is still high. The speed that logs turn to lumber and lumber turns to cash drives market sentiment. European spruce lumber has increased rapidly; volume is hard to measure as it arrives by containers which are delivered to a wide variety of destinations, rather than bulk ships discharging into main ports.
<u>South Korea</u>	Low demand for new housing, logs and lumber.
<u>India</u>	Tough times; Uruguay logs still arriving.
<u>Japan</u>	Sawn lumber being dumped.



Pruned Log Grades

Pruned price and demand is steady, and we are nicely balanced for sales and demand. Having pruned logs in the sales mix has been very favourable for investment revenues.



↔ **New Zealand Domestic**

Log quality is important; we need to keep a check on quality as price falls so that the logs remain of good value.

↓ **Housing and Business**

Building is still happening with very low interest rates, but uncertainty around unemployment makes it tough for some households.

↓ **Domestic Construction**

I'm hoping for a pre-election burst from Government stimulus.

Log Supply

NZ

Production levels continue to fall; weather getting worse and returns under pressure.

Australia

Clearing burnt logs and conventional logging continues; trouble with threatened species habitat takes out natural forest log supply.

Europe and Russia

Beetle damaged spruce exports hard to track and subject to container availability for freight.

Pacific Northwest (PNW)

Big burst of activity in the US as a lot of small building projects occurred over lockdown, meaning lumber inventories have reduced and sawmills have fired up to replenish stocks.

Other

Still delivering into India but is a very low margin business.

Point of Interest

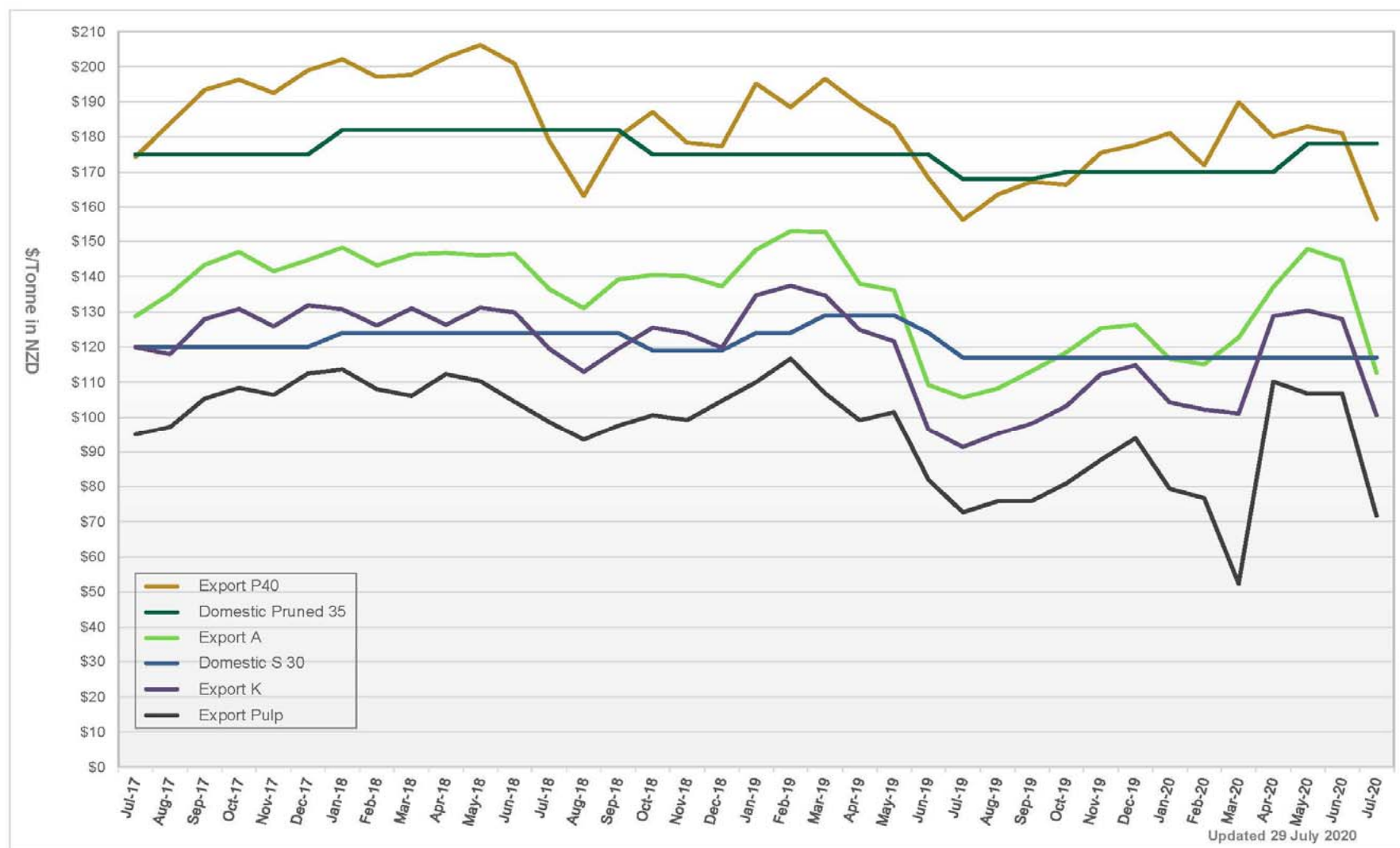
Physical tasks in the outside world get harder when it rains. We have many ford crossings in our forests which must comply with all environmental regulation, and therefore require constant monitoring.



Photo 3: Te Puhi Forest, Wairarapa.



Lower North Island Log Price Graph per Tonne



Log Price Graph: Tracks the key log prices for a 37-month period. The first 36 months are the months which comprise the average referred to under Log Prices per Tonne above. The 37th month shows the indicative prices scheduled for the current month. Export sales units are volumetric (JAS) while domestic sales units are paid per tonne. The Export JAS prices have been converted to tonnes. These log price averages do not reflect any price adjustments that may occur following washups with our log export partners.



NGATAWHAI GROUP FOREST INVESTMENT

We are proud to provide this opportunity to invest in a sustainable, productive future for New Zealand.

The Ngatawhai Group Forest in Wairarapa is 627 stocked hectares of outstanding pine forestry, as well as 200+ hectares of permanent native bush and wetland.

This is existing forest land Forest Enterprises managed over three decades, through to the productive harvest of the first rotation crop.

Ready planted for its second crop rotation, this forest is now available for the next generation of investors.

Investment Overview:

- Initial Investment: Minimum initial application cost \$10,651 for 200 shares, plus affordable annual contributions
- Additional shares may be purchased at \$53.26 per share
- Projected annual contributions: Calls are projected to average around \$1,011* per year for 8 years, then drop to an average of around \$291* per year until harvest commences in 2038. The next call is 30 June 2021.
- Projected total investment: \$20,797*
- Projected gross return: \$129,060*
- Projected gross IRR: 9.33%*
- Harvest period (income): 2038-2046
- Production forest 627 net stocked hectares - 2.09 hectares per 200 shares

* Per 200 shares, based on 2% per annum inflation and Forest Enterprises' 36-month log price series to 30 June 2019. Refer Cashflow on pages 28-29 and other financial information in section 6 of the Product Disclosure Statement from page 25.

To learn more and for a copy of the product disclosure statement, contact Nikki Coulmann:

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forestenterprises.co.nz/new-investments

Ngatawhai Group Forest Investment is a managed investment scheme structured as a limited partnership, offered by Forest Enterprises Growth Limited, issued and managed by Forest Enterprises Limited.

Forest Enterprises is the business name of Forest Enterprises Growth Limited and its subsidiary Forest Enterprises Limited. Forest Enterprises Limited is licensed to manage Managed Investment Schemes (excluding managed funds) which are primarily invested in forestry assets.