

Log Market Analysis

As at 5 June 2020



Photo 1: Western red cedar, cypress and pine in a private mixed species block.

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.

Our harvest volume was at record levels in May 2020, hitting over 98,000 tonnes for the month.

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

We are back in the thick of it, and the slow days of lockdown feel like they're long gone.

There has been a tremendous flurry of activity as the loggers and supply chain restarted. We hit some roadblocks early which can be expected when production reaches such high levels so quickly.

I went pruning and thinning in my own forestry block last week and the phone didn't ring (there was no service). Cedars and cypress do not make the great monetary returns that pines generate, but they do smell great and look nice. Back into it this week and... its busy!

Price started strongly but is losing its impetus as the volumes grow. However, we are still in reasonable shape. Current price levels as shown on the graphs is good though.

It's good to be back.



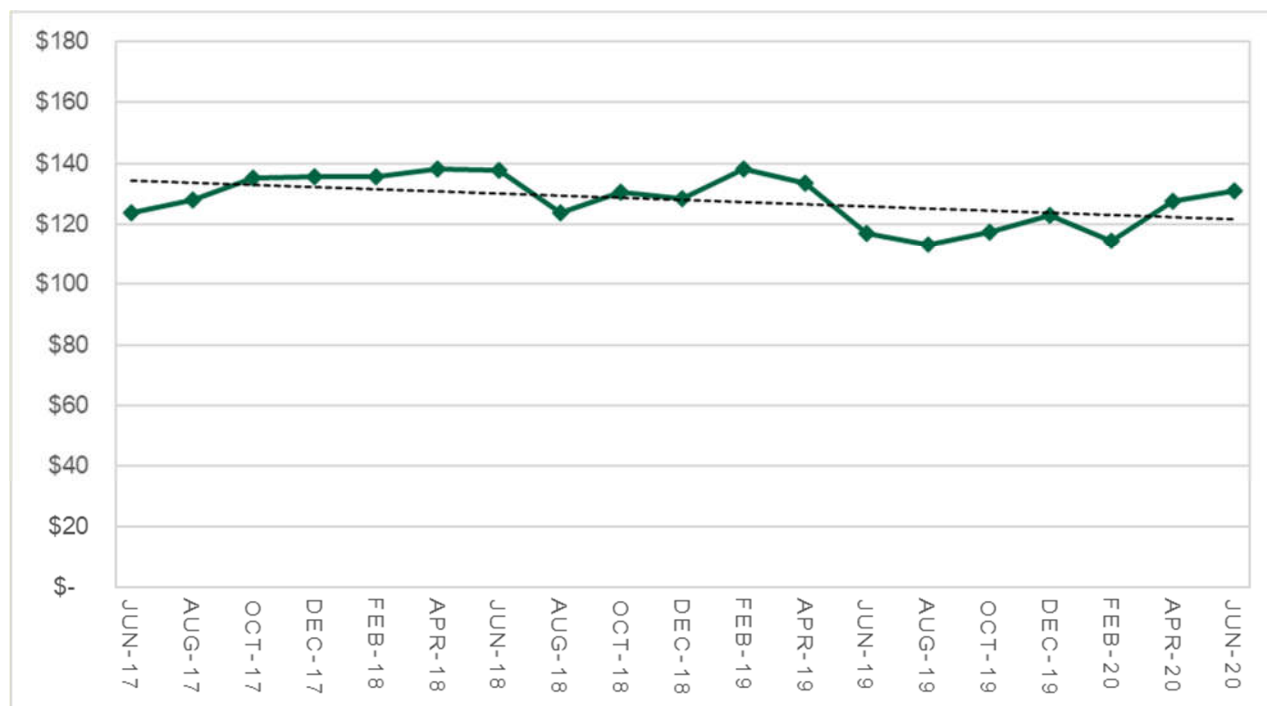
Photo 2: Hauler operation at Te Hau forest, Wairarapa. May 2020.



Wairarapa Log Prices Per Tonne

Grade	Forest Enterprises May-20	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of the 36m Average
Export P40	\$181.10	\$184.00	(\$2.90)	98%
Export P30	\$168.35	\$145.80	\$22.55	115%
Export A	\$144.55	\$133.90	\$10.65	108%
Export K	\$128.00	\$118.55	\$9.45	108%
Export KI	\$125.20	\$112.00	\$13.20	112%
Export Pulp	\$106.85	\$96.60	\$10.25	111%
Domestic P35	\$178.00	\$175.30	\$2.70	102%
Domestic S30	\$117.00	\$121.150	(\$4.10)	97%
Domestic S20	\$102.00	\$106.10	(\$4.10)	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	\$130.98	\$128.15	\$2.83	102%
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.				

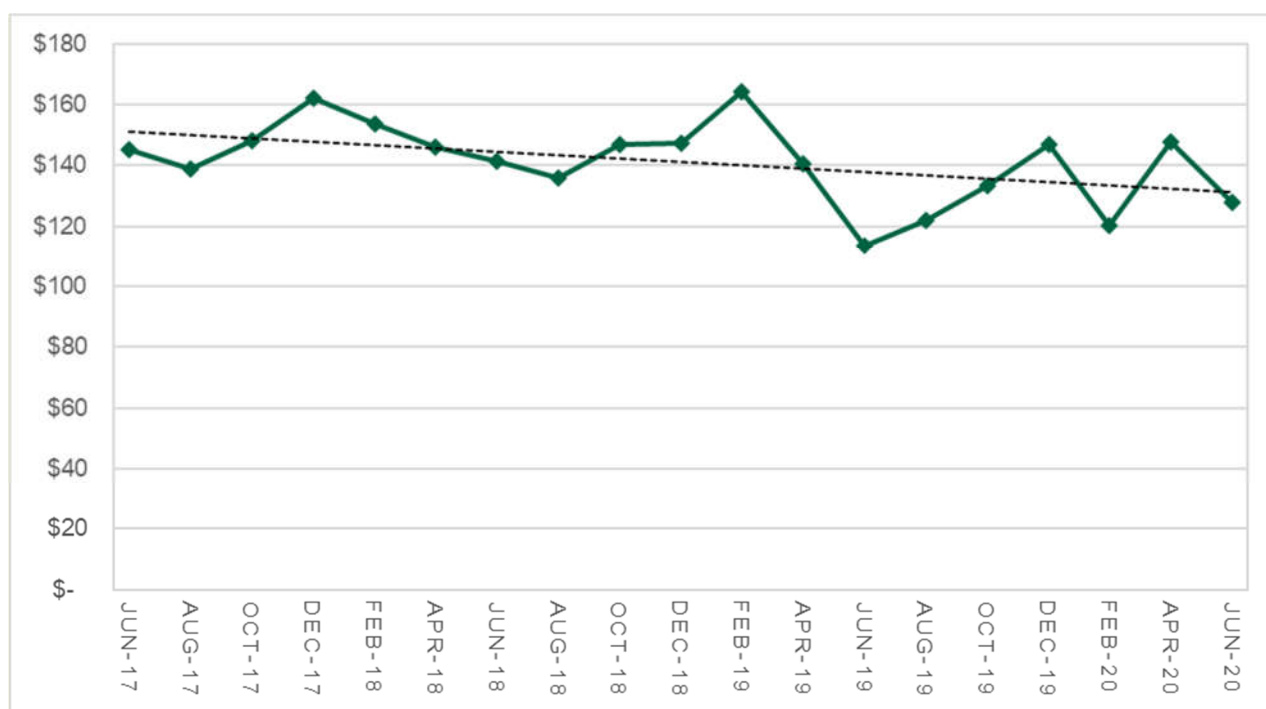
Index Log Price for our typical Wairarapa Forests



Gisborne Log Prices Per Tonne

Grade	Forest Enterprises May-20	Forest Enterprises 36 Month Average	Current vs 36 Month Average	Percentage of the 36m Average
Export P40	\$169.05	\$181.75	(\$12.70)	93%
Export P30	\$128.00	\$148.30	(\$20.30)	86%
Export A	\$126.00	\$140.00	(\$14.00)	90%
Export K	\$112.00	\$125.40	(\$13.40)	89%
Export KI	\$102.00	\$115.95	(\$13.95)	88%
Export Pulp	\$85.50	\$103.00	(\$17.50)	83%
Domestic P35	\$175.00	\$178.75	(\$3.75)	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	\$159.09	\$141.65	\$17.44	112%
Index Log Price is calculated using inventory measurements from our Gisborne 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 Gisborne Forests



NOTE: The trend shown on the charts is that Gisborne returns are more volatile than in the Wairarapa, due to fewer sawmill supply options. Domestic sawmill price is more stable than export, but often at lower prices.



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. Rate was low but rose at month end which is not good for forest owner returns.

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



Shipping

Shipping rates are very low as there has been little activity. We expect rates to rise as activity grows.



JAS to Tonne Conversion

JAS-to-tonne conversion rates were high due to delivery of drier older stocks; fresh cut logs will be heavier.

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>	Falling.
<u>South Korea</u>	Low price and demand.
<u>India</u>	Price limited by low demand for lumber.
<u>Japan</u>	Falling demand restricts price.

Log Demand



Export Log Inventory in Market

China Inventory of logs in China is a leading supply/price indicator. Inventory levels in China rose very high and then declined as New Zealand took a month out from log production. Current stocks are estimated to be down a million cubic metres or so over the month, currently about 4,200,000 JASm³; daily usage is flat at around 60,000 per day. Days of stock is inventory divided by usage and has declined to about 70 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 and is hard to measure.

<u>South Korea</u>	Low demand.
<u>India</u>	Sawmilling limited by Covid-19 conditions; sentiment about clash with China in the Himalayas is material.
<u>Japan</u>	Log and lumber consumption flat.



Pruned Log Grades

Strong demand from local mills.



NZ Domestic

Demand remains good but not growing.





Housing and Business

There are still not enough houses. Perhaps the government will build them this time?



Domestic Construction

Commercial property is slow.

Log Supply

NZ

Rapid growth in production, very high level currently.

Australia

Still logging as normal.

Europe and Russia

Growing rapidly.

Pacific Northwest (PNW)

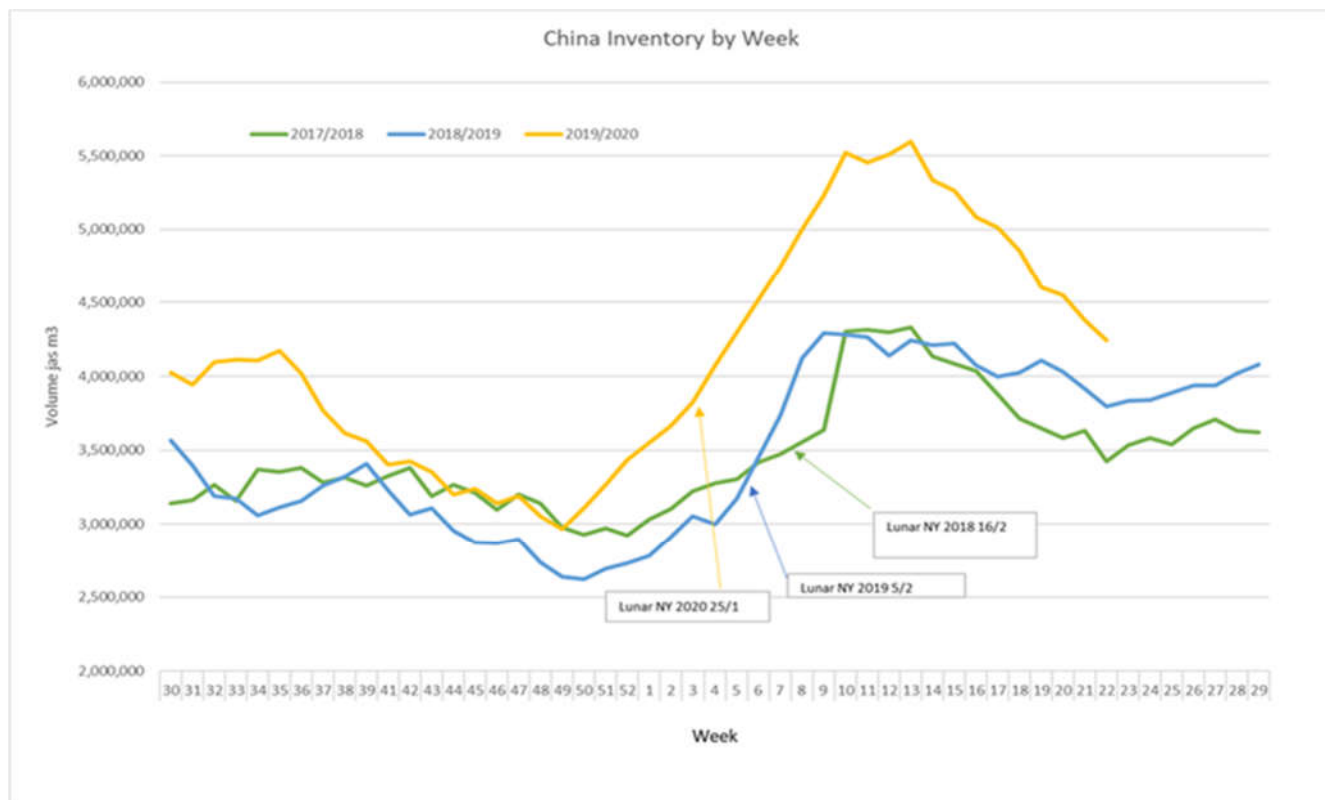
Still harvesting.

Other

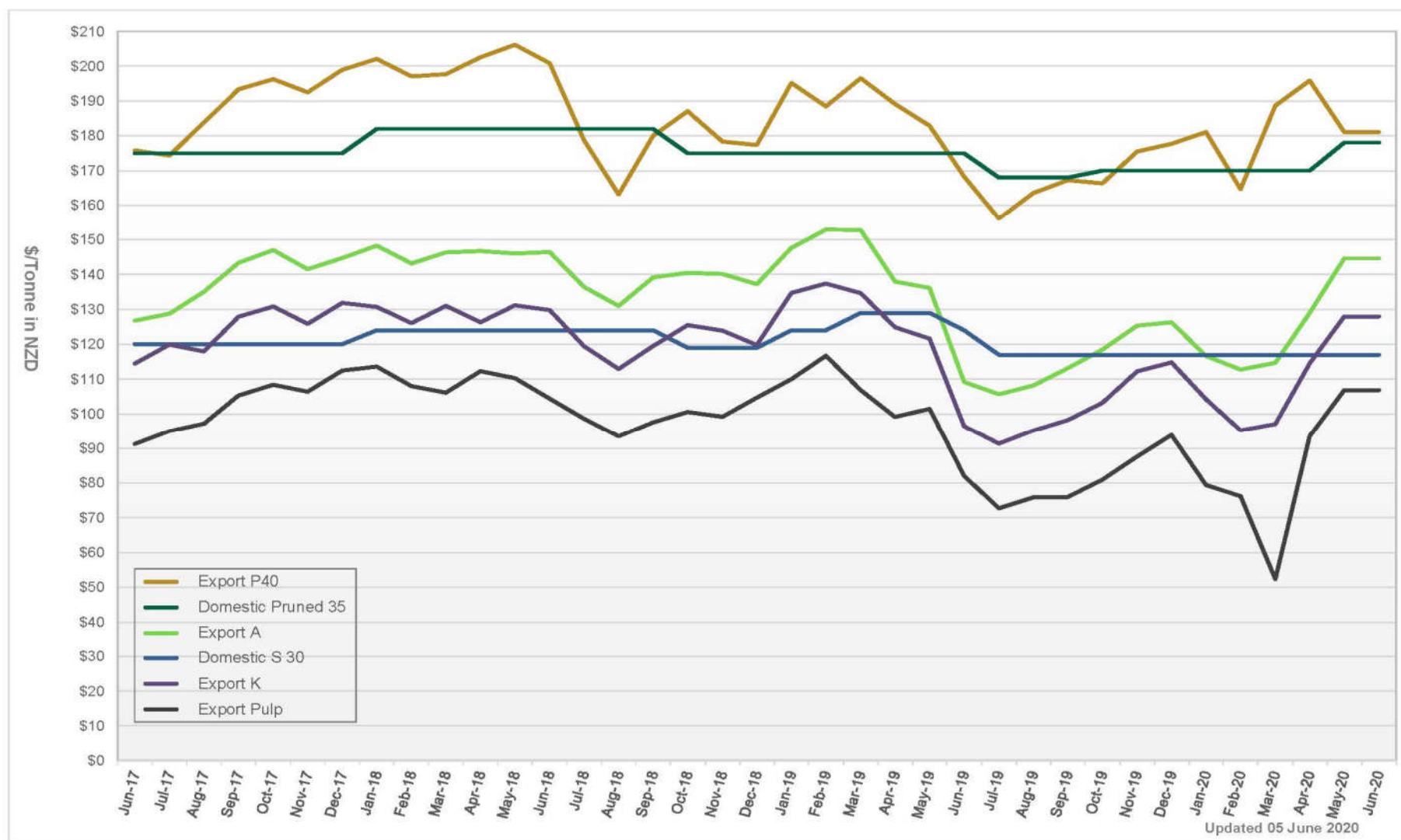
Still harvesting.

Point of Interest

Inventory slowly returning to normal, not there yet! Graph thanks to our Gisborne export partner, PFP.



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.



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 \$9,726 for 200 shares, plus affordable annual contributions
- Additional shares may be purchased at \$48.63 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 first call is 30 June 2020.
- 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.