Australian Forestry in the Post-MIS Era

How Can the Australian Hardwood Sector Move Toward a Sustainable Future?

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About New Forests

- Established in 2005
- Head office in Sydney, with regional investment offices in Singapore and San Francisco
- Managing more than $AU2.3 billion in assets and funds in Australia, Asia and the United States
- Operating three investment strategies
  - Australia and New Zealand timberland
  - Southeast Asian timberland
  - US environmental markets and conservation forestry
- Currently managing investments in 400,000 hectares of land and timber plantations in Australia and the Timberlink Australia manufacturing, sales and distribution business.
Plantation Forestry in AUS and NZ

Source: Australian Bureau of Statistics and Statistics New Zealand. Data as at 1 April 2014.
Changing Ownership of Plantation Assets

- **2005**
  - Institutional: 10
  - Corporate Timber: 15
  - MIS: 25
  - Government: 35
  - Farm Forestry & Other Private: 5

- **2014***
  - Institutional: 15
  - Corporate Timber: 10
  - MIS: 40
  - Government: 20
  - Farm Forestry & Other Private: 5

*As at April 2014*
Plantation Ownership in AUS & NZ

Australian Assets – Already in transition from Government and MIS ownership to institutional investors. Corporate asset sales also occurring.

NZ Assets – Ownership of major plantation estates is stable, but consolidation of smaller estates occurring and Chinese buyers also entering market.

Australian Asset Ownership Dynamics

- Total Asset Pool approx: ~$7 billion
- New Forests forecasts $1.5-2 billion of asset sales during 2014-2016
- Final sale of assets of failed MIS companies
- Sale of forestry assets by corporations to reduce debt and re-allocate capital
- State Government asset sales in NSW and WA

Note: Based on New Forests’ evaluation of multiple sources. There may be overlap in area where plantation land and tree crops are under different ownership.
NZ Asset Ownership Dynamics

- Total Asset Pool ~$8 Billion
- New Forests Expects $1-2 billion of asset sales during 2014-16

- Institutional ownership cycle
- Offshore industry selling non-core assets
- Chinese buyers entering market

Note: Based on New Forests’ evaluation of multiple sources.
AUS/NZ Market Activity

- Over the last four years, the timberland investment market has been dominated by the restructure of the MIS assets, government asset sales and the collapse of Gunns Limited.

- The MIS rationalisation is almost complete, with only a couple of major assets still held in administration and/or receivership.

- In New Zealand, there were few large-scale transactions:
  - NZ Super – 10,000 hectares to a Chinese government owned forestry company
  - Juken – 9,000 hectares to Sumitomo (direct deal)
  - Harvard – sells 71.25% to PSP Investments and NZ Super Fund

- We are seeing moderate deal flow in Australia and New Zealand and a strengthening pipeline due to on-shore and off-shore corporate exits and privatisations of publicly owned estates.
US timberland transactions peaked between 2005 and 2008, when almost US$30 billion was invested in major timberland purchases by institutional investors, TIMOs, and private equity funds from US forest products companies (e.g., International Paper, Georgia Pacific, Temple Inland and others). Transaction values in Australia and New Zealand have recently been rising and will likely peak over the next two or three years.
Institutional Investment & Capital Flows

Investible Universe $Bn* - Approximately $180 B in total

- South Africa $3
- SE Asia $5
- Canada $7
- Australia $7
- New Zealand $8
- Other Latin America $20
- Brazil $35
- United States $95

*Source: HNRG and New Forests estimates, does not include Europe

- Australia and New Zealand are viewed as premium timberland regions.
- Represent about 10% of the investible universe of timberland.
- Particularly attractive to non-USD investors.
Who Is Investing and Why?

- There are two types of Institutional Investors active in Australia:
  - US investors seeking international diversification
  - Non-US investors seeking better returns outside the US market
Who Is Investing and Why?

- Australia and New Zealand are the main non-US market for timberland investors
  - Low political risk, good business climate, infrastructure, technical know-how – all attractive factors
  - Exposure to Asian growth story in a low-risk environment
  - Prevalence of high-quality assets available over the past decade – ‘once in a lifetime opportunity to enter a buyers market’
  - Many underlying markets are traded in USD, which provides some natural currency hedge
A Theory of Human Motivation

Maslow’s Hierarchy of Needs

Source: http://www.psychologytoday.com/blog/hide-and-seek/201205/our-hierarchy-needs
Theory of a Sustainable Hardwood Sector

- Rational Investment Thesis
- Sustainable Core Asset Base
- Sector Collaboration
- Research and Innovation
- Revenue diversification
Rational Investment Thesis

- The Australian hardwood plantation estate was largely established under the MIS legislation, which proved to be a flawed investment model.
- The model was unsustainable and encouraged irrational behavior around land acquisition, establishment, silvicultural and harvest timing.
- Under institutional and corporate ownership, investment in the sector is founded on sensible economic principals, by investors seeking to exploit market opportunities.
- It is my view that the Australian Hardwood plantation sector has taken the first step toward sustainable future under its new ownership.
The hardwood plantation estate has pushed into regions where the best land use is not forestry, either because the land is too valuable or is not economically viable based on distance to market and growing conditions.

In order to have a sustainable hardwood plantation sector, the estate must be economically viable and able to produce stable returns for investors during market cycles.

As a result, significant areas of plantation will be reverted and return to historical agricultural uses, such as grazing and cropping.

This is the case based on current and future expected woodchip prices.
Sector Collaboration

- It is critical that owners and managers of the hardwood forestry plantation estate collaborate in order to strengthen and grow the sector.
- The sector must acknowledge that its true competitors are in fact off-shore, in Southeast Asia and other regions that supply our key export markets.
- In order to create a sustainable sector, our plantations need to be internationally competitive.
- International competitiveness can be improved by taking advantage of the scale that the sector offers in its entirety.
- Sector collaboration includes government and other stakeholders.
Innovation and Research

- Innovation and research is critical for the Australian hardwood sector if it wants to remain competitive with other suppliers.

- Significant investment in industry-wide research initiatives is required to:
  - generate biological productivity enhancement
  - create more resilient plantations to pest and disease
  - understand the effects of changing climatic conditions
  - lower operating costs and improve safety

- Greater participation at industry conferences and events
Revenue Diversification

- Diversification is a fundamental management strategy to strengthen and protect businesses and industries.
- The hardwood plantation sector is heavily reliant on woodchip markets in China and Japan.
- To move toward a sustainable future, new markets must be developed to diversify revenue and protect asset values from cyclical market forces.
- New markets to be explored and developed include, carbon, round log exports for veneer, bio-energy, domestic pulp and engineered wood products such as cross laminated timbers.
- Diversification could help expand the asset base.
Theory of a Sustainable Hardwood Sector

- Rational Investment Thesis
- Sustainable Core Asset Base
- Sector Collaboration
- Research and Innovation
- Revenue Diversification
Conclusions (1)

- “We cannot solve a problem by using the same kind of thinking we used when we created them.” - Albert Einstein

- Assets have been well priced to date, but there are problems with the long-term fundamentals of the Australian hardwood sector that need to be addressed.
Conclusions (2)

- Australia and New Zealand are the second most attractive institutional timberland investment jurisdiction after North America.
- As the current owners of the plantation estate we have a significant and exciting opportunity to create a sustainable, profitable sector, that provides employment, enhances communities, creates environmental benefits and enables a long-term contribution to the Australian economy.