

Strong demand to drive timber sector

By Hanim Adnan, Malaysian Star

The timber sector appears to be heading towards a boom that could last several years with prices of logs and plywood set to remain stable, given strong demand from China, India and Japan. Analysts contacted by *StarBiz* have an “overweight” on the outlook for the sector, which is continuing to enjoy rising prices as the recovery in Japan’s economy leads to a pick-up in housing development there and China sources for huge amounts of tropical and softwood logs from elsewhere in the face of a supply crunch in Indonesia.

According to the International Tropical Timber Organisation (ITTO), the average price of plywood had risen by 25.8% between December last year and August this year, while that of logs had increased by 10.3% during the same period. Tropical plywood prices had in fact started to rise significantly in the second half of last year, when the recovering East Asian economies led to strong demand for plywood in Japan, South Korea and Taiwan OSK Research analyst Chris Ng said: “With the supply of logs remaining tight in Indonesia and China’s demand for logs soaring, we expect prices for timber products to remain strong until 2007.” Given that plywood prices are still significantly below the US\$500 per cu metre levels recorded in the mid-1990s, the research house feels that a price of US\$350 per cu metre is sustainable.



The latest ITTO report indicated that China would require 70,000 sq m of wooden flooring and 50,000 wooden doors for its sports venues, 190,000 sq m of wooden flooring for its hospitals, and five million sq m of flooring and 31,000 wooden doors for its hotels in its preparations for the 2008 Beijing Olympics.

“Consequently, China will be importing more logs, resulting in a short supply of logs and subsequently plywood for the rest of the world and thus driving up prices,” said Ng. OSK Research feels that timber consumption in China would be “very strong” starting from 2006 in the run-up to the Olympics. Given such domestic demand, China’s plywood exports would dwindle and no longer flood the lower end of this market. In Indonesia, Ng said, efforts to curtail illegal logging had continued this year with the export quota further cut to just 5.74 million cu m and the death

penalty proposed for illegal logging. "The effectiveness of these measures has prompted the rise in timber prices and we believe the log export quota for next year will be reduced further to 5.45 million cu m," he added. Indonesia's timber industry had received a lot of bad publicity in the past because of the large volume of timber extracted illegally.

An analyst with Mayban Securities said the short-term risk factors to the Malaysian timber sector included higher freight charges, the threat of replacement products such as softwood plywood, and possible stagnation of the Japanese economy. He also pointed out that production of sawn logs in Sabah and Sarawak might decline by 2% next year as timber companies were under pressure to comply with the ITTO's sustainable forest management requirement. The analyst's top timber stock picks, which are major beneficiaries of the rise in timber prices, include Ta Ann Holdings Bhd, WTK Holdings Bhd and Lingui Developments Bhd. OSK Research is recommending a "buy" on Ta Ann, a leader among local plywood producers. The research house expects Ta Ann to record a strong second half, with an increase in its net cash position to RM68.4mil and a "decent" dividend payout. The analyst said there was strong optimism for the Malaysian timber sector in the immediate future. Last year, the sector's export earnings grew by 6.9% to RM16.3bil, with better performance evident in nearly all timber products. Plywood and veneer together made RM4.4bil in export earnings, while logs and sawn timber contributed RM2.3bil and RM2bil respectively.

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