Wood Industry Summit – Access to Resources and Technology

24 May, 2017
http://whatwood.ru/english

Deutsche Messe

Making more out of wood LIGNA

Russian softwood lumber industry:

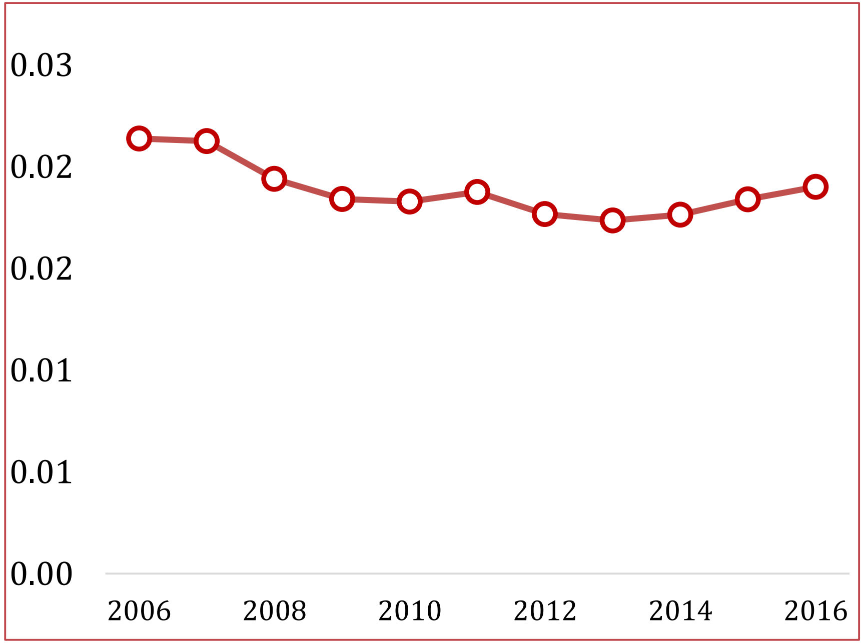
capacities, competitive environment & sales markets

by WhatWood – Timber Industry Analytics

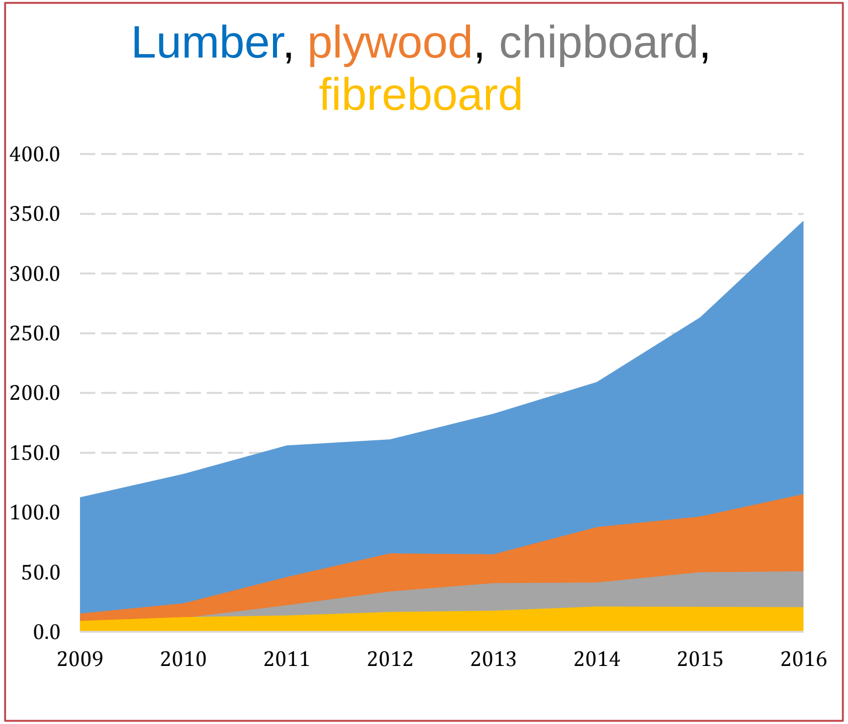
WOOD INDUSTRY SUMMIT LIGNA

Share of timber industry in Russia’s GDP

Forest industry share in 2016 grew up to 1.9% mainly on high export revenues



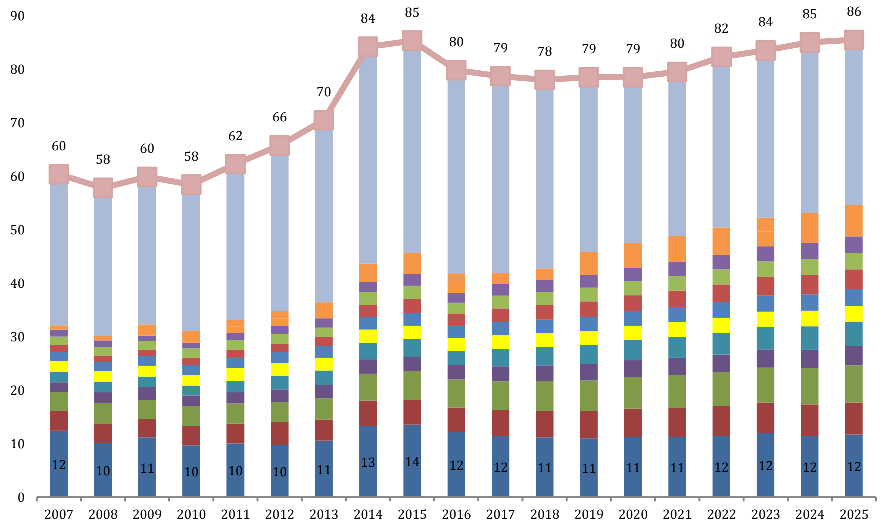
Lumber sales in the general woodworking revenues (billion RUB)



Housing volumes in Russia (+WhatWood outlook)

Several factors affect directly the construction sector in recent years:

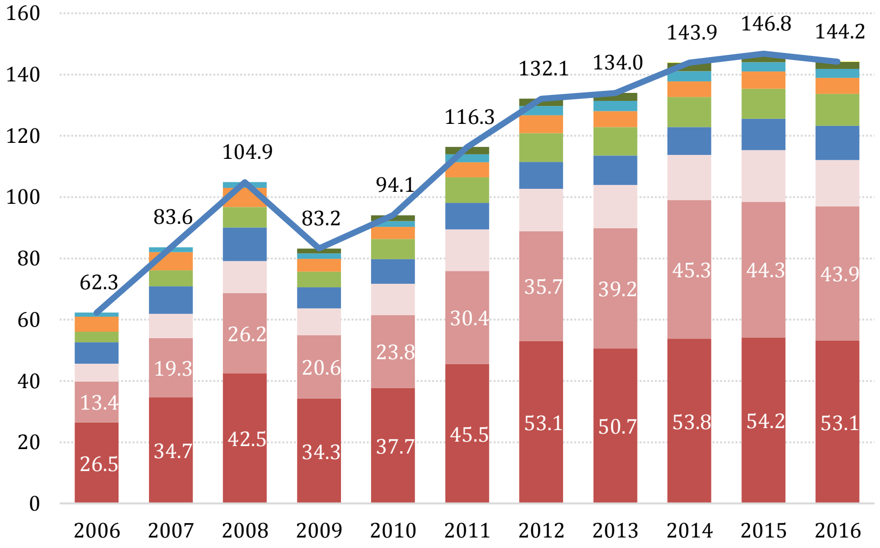
1. Stagnation in the economy
2. Shortage of affordable mortgage lending
3. Decrease in real disposable incomes of Russians (-6% in 2016)



Furniture production in Russia

Russian furniture production grew dynamically after the economic crisis of 2009, but presently the industry is affected:

1. reduction in household incomes
2. general stagnation in the construction sector
3. growing pressure of furniture from Belarus and Asia

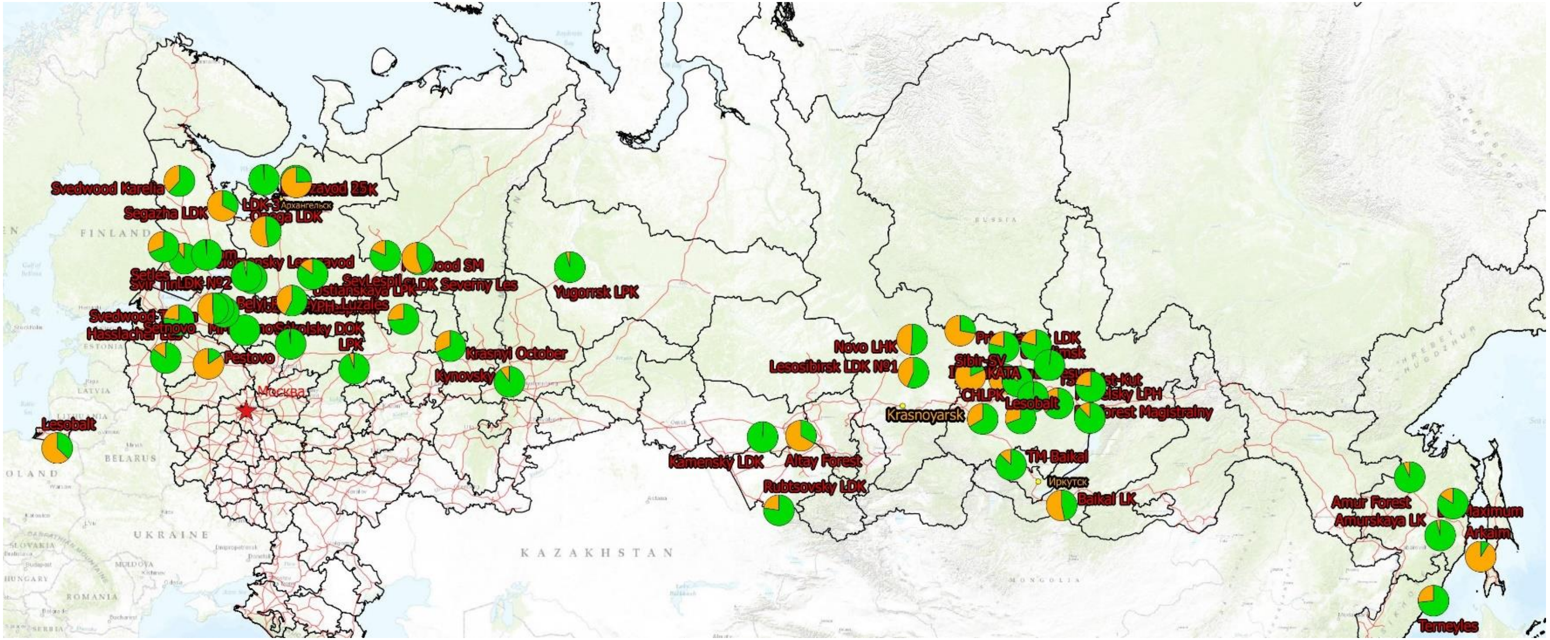


Lumber exports booming

1. Softwood lumber exports from Russia grew 11% to 24.8 million m3 in 2016, $2.9 billion in value terms (+4%)
2. Capacity utilization rate at the largest Russian sawmills in 2016 increased up to 80-95%.
3. Low rouble rate helped Russian sawmills get extra profits in 2014-2015, but rate volatility remains one of the key problems currently, as it makes financial planning very complicated
4. Segezha Group is the largest Russian exporter of sawnwood after the purchase of Lesosibirsky LDK-1 (900 thousand m3)
5. After reaching the bottom in the middle 2016, prices had been increasing until the end of 2016.
6. In the nearest 2-3 years, 3 million m3 of lumber capacities may appear in Russia

WOOD INDUSTRY SUMMIT LIGNA

Top 50 sawmills capacity utilization



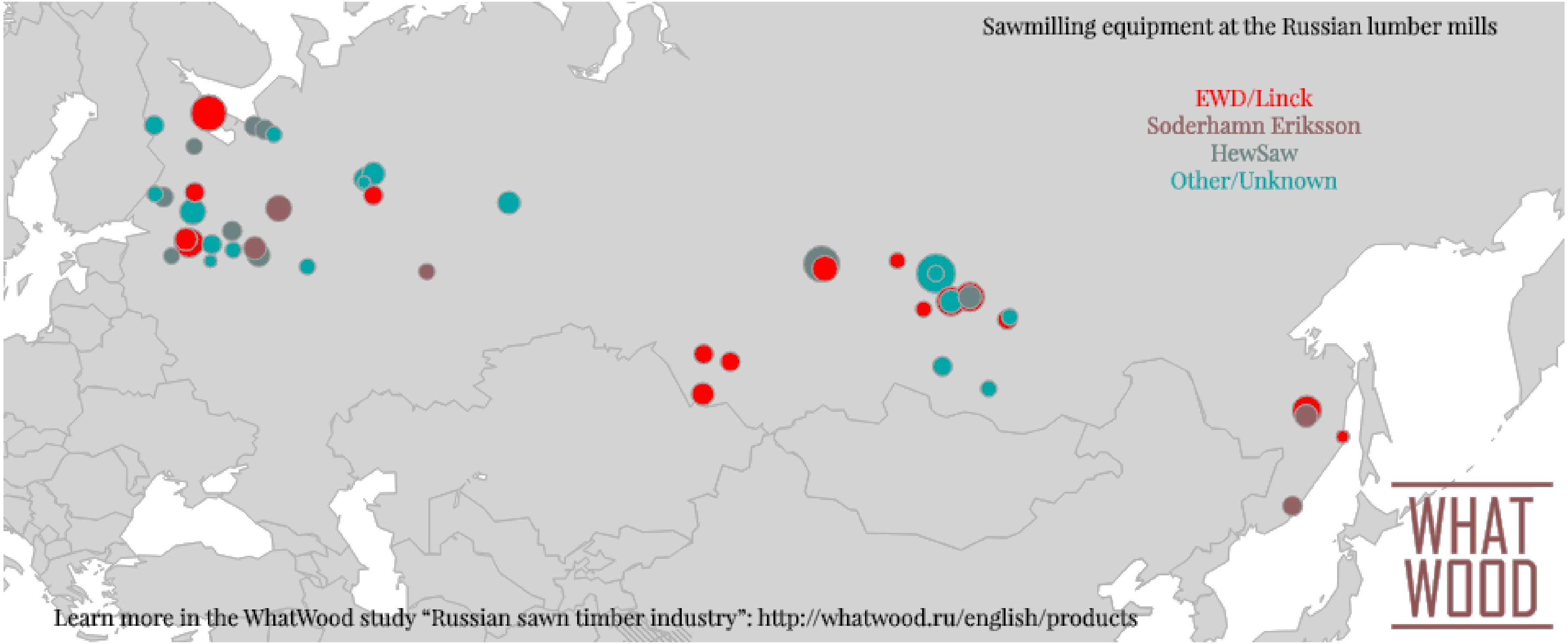
Major lumber holdings

1. Segezha Group 1.465 million m3: Lesosibirsk LDK-1, Onega LDK, Segezha LDK, Sokolsky DOK (NW&Siberia – Europe, Egypt, China)
2. Russian Timber Group 1.0 million: TSLK, LDK Igirma, Tairiku (Siberia – China, Japan, Central Asia)
3. Ilim Timber 0.7 (Siberia – supplies to China, Europe)
4. Titan Group 0.6: Lesozavod 25, LDK-3 (Northwest – Europe)

Largest lumber mill projects

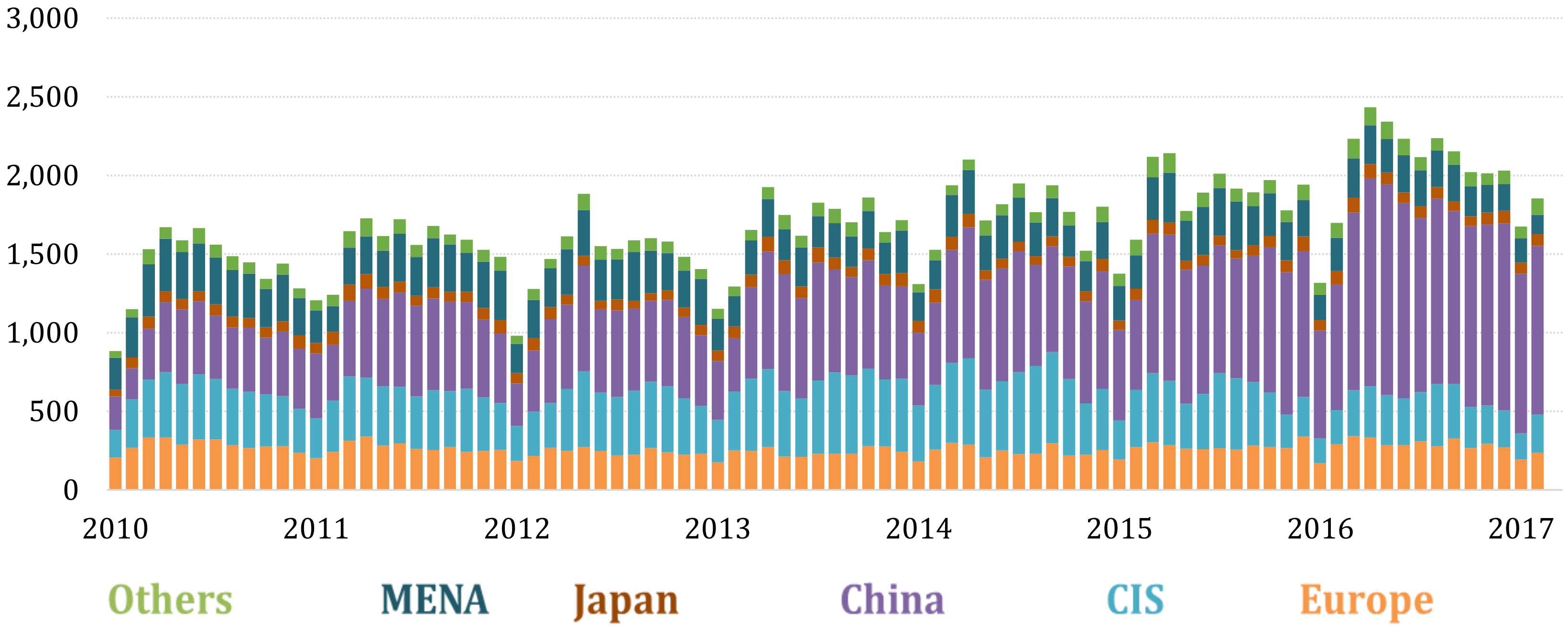
1. LDK-3 (2017, Northwest) – by Titan Group with Austrian shareholders, also owns Arkhangelsk Pulpmill and Lesozavod-25
2. Solombala (2018-2020, Northwest) – by a group of top managers and European traders
3. RFP Group (2017, Far East) – the largest regional holding which trades veneer and logs to China, Korea and Japan

Top 50 sawmills equipment

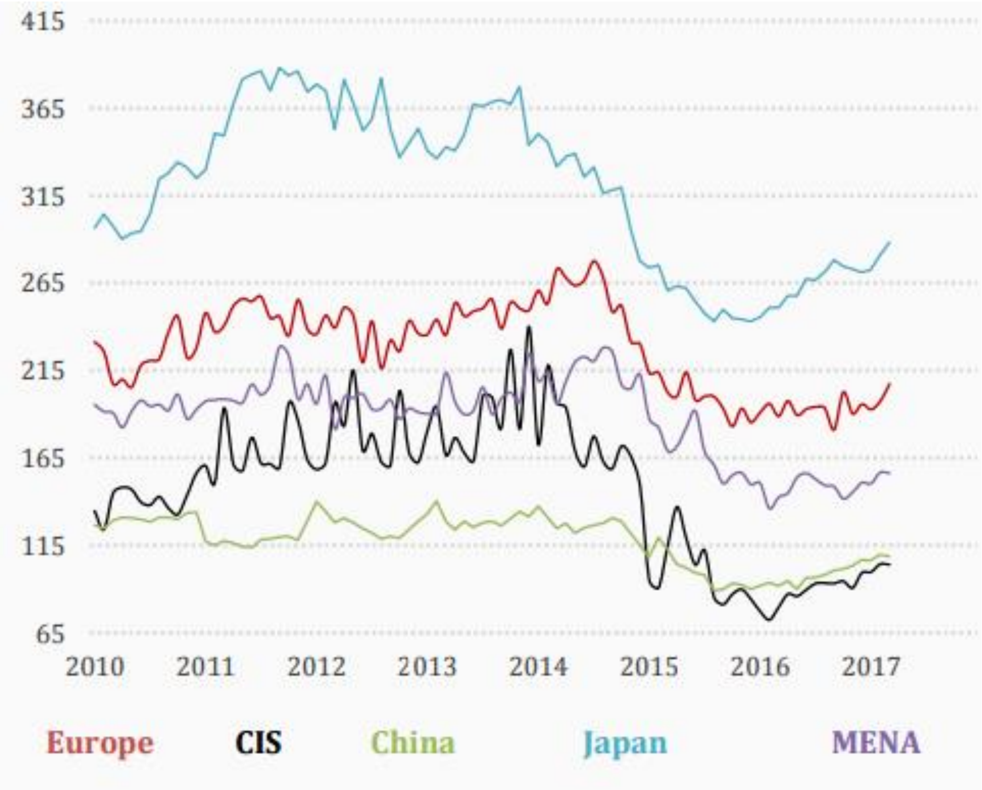


WOOD INDUSTRY SUMMIT LIGNA

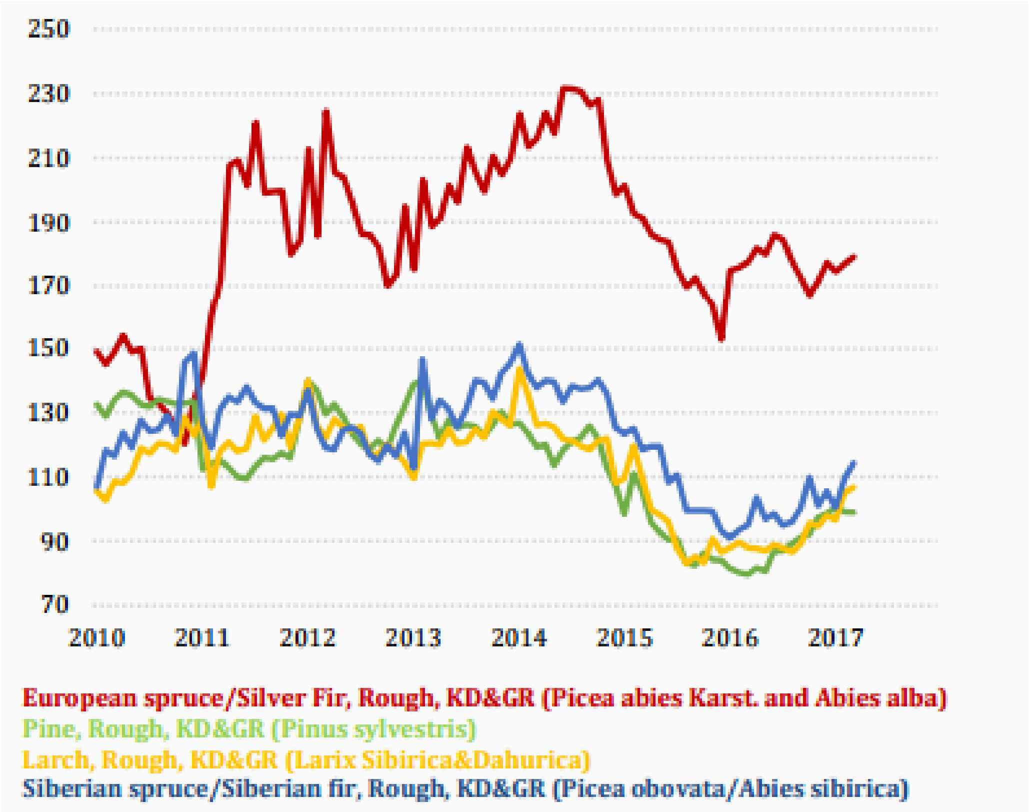
Russian exports by global regions (thousand m3)



Price indices for Russian softwood lumber, $/m3 (more in WhatWood’s Lumber Report)



Russian lumber in China



Russian lumber in China

1. Largest consumer of Russian lumber: 13.4m m3, +37% on-year
2. Sales shifted from Central Asia and MENA, esp. Egypt
3. Many border sawmills in Siberia supply very rough lumber to the other side of border
4. Canada lags far behind in recent years: -15% down to 3.87m m3 in 2016 to China
5. US duties may push Canadian lumber to Asia in 2017
6. Russian lumber reaches new niches in Southern and Central China
7. Chinese consumers start to have interest in premium quality lumber
8. NW Russia spruce also penetrates the Chinese market
9. Major increase in 2016 shipping rates from NW Russia to China ($20 to $60/m3)

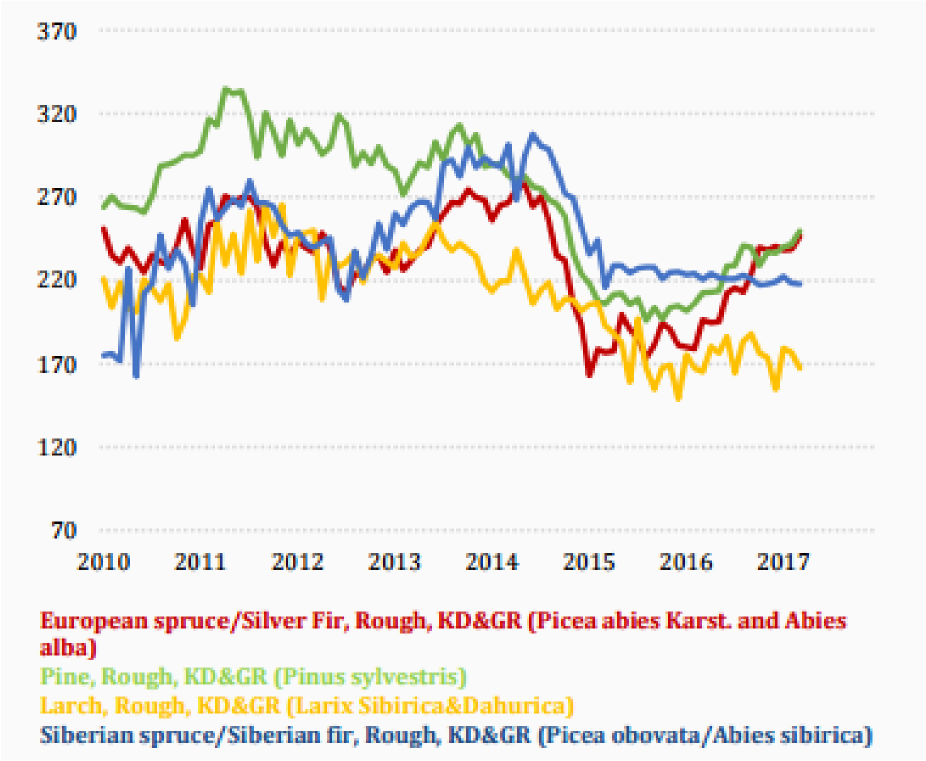
WOOD INDUSTRY SUMMIT LIGNA

Russian lumber in Europe (price index for Germany, $/m3)

Russian lumber in Europe

1. Sales to Europe +6% to 3.5 million m3 in 2016
2. Siberian larch is a premium and important product (joinery, windows, doors, stairs etc.)
3. European markets start growing in 2016: construction, furniture, parquet and pallets on the growth track.
4. Germany and UK are the growth drivers
5. Commercial construction grows faster than housing

Russian lumber in Japan

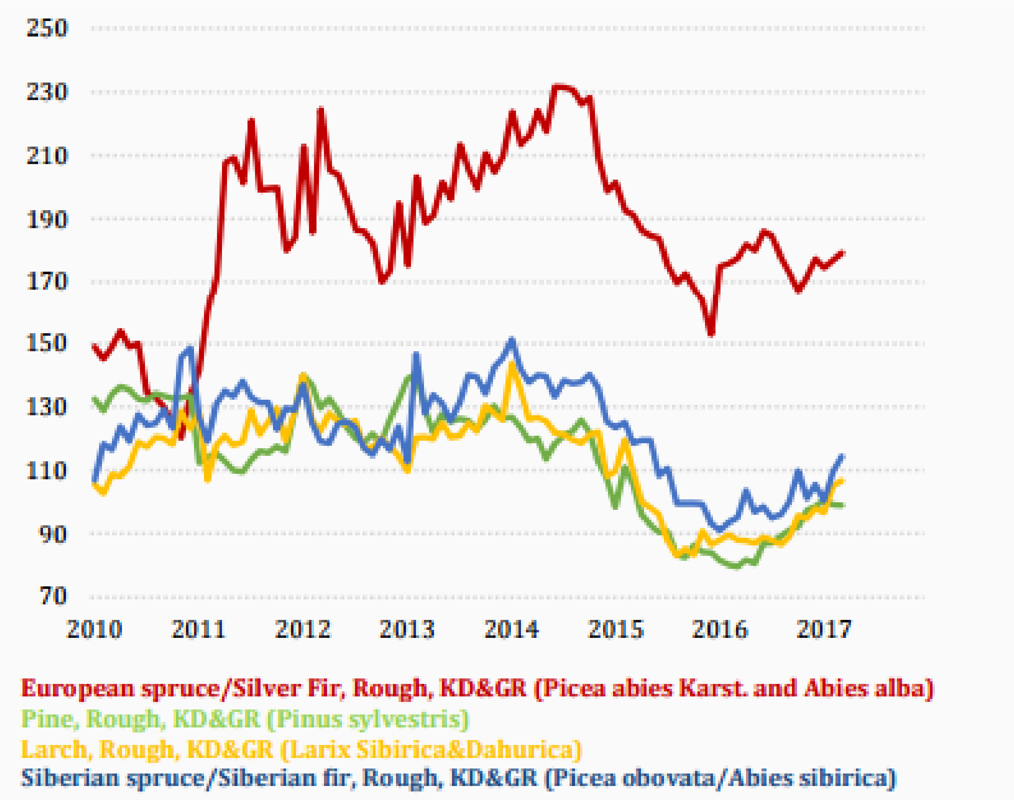


Russian lumber in Japan

1. Japan: +7.4% to 910,000 m3 in 2016
2. Angara pine from Siberia (mostly planed) is used in special Japanese grades like taruki, genban, mabashira etc. and competes with European products
3. Volumes and prices reached the bottom and started restoring
4. Deficit of high-quality pine sawlogs in Siberia for Japanese grades

WOOD INDUSTRY SUMMIT LIGNA

Russian lumber in MENA (price index for Egypt, $/m3)



Russian lumber in MENA

1. MENA: -20% down to 2.5 million m3 in 2016
2. Egypt is the top consumer (edged pine for industrial construction)
3. Volumes from Egypt were redirected to China by the largest lumber groups in 2016
4. Acute competition with Finland and Sweden in Egypt
5. Iran consumes edged spruce, Russia enjoys almost unique position

About WhatWood

WhatWood – Timber Industry Analytics:

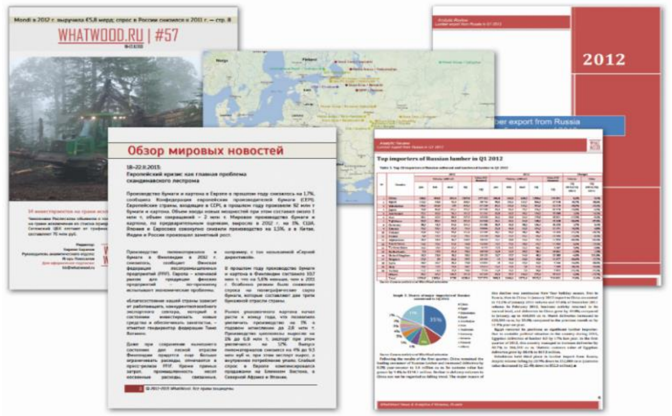
1. the only Russian consulting company with core specialization in the timber industry analytics
2. 130 clients in 15 countries within 5 years of timber market research
3. unique contact and knowledge base

About WhatWood

Regular publications, annual industry reports, custom studies:

WHAT WOOD

News & analytics
on Russian forest industry



Contacts

Thank you for your attention!

Kirill Baranov

WhatWood

Chief Editor

kb@whatwood.ru | http://whatwood.ru

+7 905 704 5133