

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Keweenaw is a forest products and land management company. Keweenaw has land holdings of approximately 162,000 surface acres and over 400,000 acres of mineral rights, located predominantly in the western Upper Peninsula of Michigan. Timber products include veneer logs and sawlogs for customers to mill hardwood products such as paneling, furniture, and flooring; and softwoods for pallets and other purposes. Additionally, the company owns more than 400,000 acres of both severed and attached mineral rights that it offers out to lease. Keweenaw also owns acreage suitable for commercial and/or residential development: four miles of inland lake frontage, four miles along Lake Superior and approximately 30 miles of frontage along major rivers. Although it reorganized as a Michigan company in 1999, the company traces its origins to the period immediately following the Civil War. Keweenaw is headquartered in Ironwood, Michigan, and has 17 full-time employees.

KEY INVESTMENT CONSIDERATIONS:

Heightened Interest in Mineral Exploration –

Keweenaw is promoting the development of mineral ownership through leasing to qualified exploration and mining companies. The company has leases that generate annual income of more than \$220,000 per year but has a major lease that was signed in 2008 on a property that will begin mining in 2014. Leases generate annual rental fees plus sliding scale net royalties. In December Keweenaw entered into a mineral lease agreement with Keweenaw Copper Co., encompassing approximately 6,400 acres with a primary term of ten years which may be extended. These leases have the potential to add significantly more revenue to the mineral business segment.

Growing Per Acre Valuations – The lumber market bottomed out in 2009 but has been slowly recovering. A recent appraisal indicates that Keweenaw's standing timber values are up 14% from 2009, despite the economic uncertainty. Keweenaw's assets are well stocked timberlands, consisting of 88% hardwoods. Hard maple, which accounts for half of its hardwoods, sells for 150% more than softwoods. Additionally, the increase in timber revenue in 2012 was generated while actually harvesting less volume, demonstrating the efficiency of the timber operations.

Keweenaw Land Association, Limited (KEWL:OTC)

Non-timber Land Opportunities – Management seeks to monetize its non-strategic holdings through sale or development. Approximately 8,000 acres on commercial, recreational and urban properties have been identified as good targets for rural residential users, conservation buyers and recreational and hunt club sales. Keweenaw is currently marketing six developments.

Strong Financials in 2012 – Keweenaw generated \$1 million in cash flow in 2012, has \$3.9 million in available total cash resources, and less than \$750,000 in debt. Earnings per share more than doubled over 2011, as did the return on capital. The company is in a good position to continue to buy attractive timberland with value that can be maximized through careful management.

VALUATION:

Keweenaw is an asset play: one of those rare opportunities where income is generated by the sale of assets, yet the value of the remaining assets continues to grow and appreciate. The company's asset value far exceeds the market capitalization; the timber and land recently appraised at \$140 million and the market cap is \$99 million.

Keweenaw Land Association, Limited (KEWL:OTC)

Investment Data (as of 5/21/13)

Recent Price	\$76.28
52-Week Range	\$68.25 - \$88.75
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	1.3 M
Average Trading Volume (3 mos)	905
Market Capitalization	\$99 M
Cash	\$1.2 M
Long-term Debt	\$0.8 M
Enterprise Value (EV)	\$101.7 M
Book Value	\$12.22
TTM Revenue	\$10.8 M
P/ Revenue	9.2 x
TTM EPS	\$0.67
P/ EPS	114 x
TTM EBITDA	\$1.8 M
EV/ EBITDA	56 x

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