



## Forestry & Paper

### Klabin: Largest packaging producer in Brazil

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*Key message from our recent call with Klabin: Pulp demand holding up and supply/demand balance improving. Paper packaging performing well, but pressure seen on industrial sacks due to construction slowdown.*

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- **Decline in pulp demand from P&W more than offset from increased tissue demand:** Visibility is low for everyone, but China is back on track and “almost back to normal”. China inventories could normalise by the end of April/May. April price increase of USD 30/t targeted in China.
- **Pulp supply/demand to be tight in the next 5 years.** There are limited new announcements and South American producer’s balance sheets are stretched. Due to COVID, there are likely to be delays (Arauco’s MAPA and UPM’s Uruguay project). Demand to remain intact, driven by tissue, and packaging (supported further by shift from plastics).
- **Fibre availability to tighten further:** For example, in Australia, not much plantation has taken place, so next year will be more difficult. South America also appears to have its limitations.
- **Structural containerboard supply changes:** South America could become the mecca of kraftliner, as was the shift in pulp production from North America. Many US mills have recovery boilers that are over 40 years old and US producers will need to decide to retrofit recovery boilers or shift to testliner production (where CapEx should be lower).
- **Chinese wastepaper ban:** Klabin estimates a 14mt fibre shortage due to the wastepaper ban but expect the Chinese containerboard market to be balanced in the next 2-3 years, supported by a combination of imports of virgin fibre and testliner (mostly) and improved recycling rates (+7-8%).
- **PUMA II update (cash cost of USD 300/t):** The project will make Klabin the third largest kraftliner producer globally. The fixed cost will be 50% lower than their other lines (30% due to scale and 20% due to eucalyptus input). PM 1 (450ktpa) is expected to ramp-up in May 2021 and PM 2 (470 ktpa) in 2023. The project is according to schedule, with 30% physical construction completed. However, due to COVID, construction (most taking place outside of PUMA) assembly has been shut (5,000 workers on site). They intend to reopen on 15 April, if so, budget could still be in line. 50% of their planned production has already seen demand and flagged for Europe (USD 100/t delivery), South America and a smaller part to Asia.
- **They remain a local bags player, second biggest industrial sack producer after Mondi:** 80% of domestic demand is construction driven, which is under pressure. Klabin exports some sack paper to China.
- **Klabin sees limited M&A in the pulp sector but expects Packaging to continue:** USD 330m deal with IP (310kt of paper production capacity and 305ktpa of corrugated capacity) to improve vertical integration and increases their corrugated market share in Brazil to 23.9%.
- **Gearing expected to remain around 4.5x net debt/EBITDA:** There are no financial covenants in place.

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