Forestry & Paper Weekly Insights

Date: 19 May 2020

Key message: *20% of German media & printing companies could survive 2020, fire at Sappi's Alfeld mill and OCC jumps 33%.*

- **Under current circumstances, 80% of German media and printing companies unlikely to survive 2020:** This is based on the Bundesverband Druck and Medien survey. 24% of companies said they would be able to survive till the end of July. 33% expect sales to drop by 50% y/y in Q2 and another 37% expect sales to fall by 26-50%.
- **Fire at Sappi's Alfeld mill in Germany:** PM3 (35kpta of SPP) at the mill was impacted by a fire last week Tuesday. PM 2,4 and 5 also produce Specialty paper with a combined capacity of 210ktpa. PM 1 produces virgin cartonboard (capacity: 50ktpa). We estimate that PM 3 generates EUR 1.5m EBITDA per quarter.
- **Lecta is calling a recovery by June:** They are expecting a recovery in June when the lockdown will be gradually lifted in most European Countries. Their April orders were 25% lower m/m and are expecting a 45% reduction in CWF volumes in Q2 and 50% in UWF. Lecta has proposed a further recapitalization and are expecting a EUR 150m liquidity injection.
- **Coated paper downtime update:** *Burgo* comes back from CM downtime, Duino mill (Italy: 200ktpa) PM3 was idled from 27 April due to lack of demand. *Norske Skog* Bruck mill PM 4 (CM reels) stopped on 1 May and resumed on 14 May.
- **UWF European demand was down 4.6% in February:** Prices are steady for now, supported by planned downtime (Navigator: 15% of capacity; SAP's 200kt PM 7 at Lanaken in Belgium, MNP's Neusiedler mill in Austria, Merebank in SA, Stora's PM2 280kpta at its Veitsiluoto mill in Finland).
- **OCC up 33% w/w and now 52% ytd:** As a read-though, Austrians produced 15-20% more household waste during the initial restrictions, while commercial waste volumes declined by up to 80%.
- **Russian containerboard down over 20% y/y:** Q1 prices were under pressure due to oversupply and reduced demand during the traditionally slower winter. Virgin prices (unbleached and white-top) declined by 7% q/q, while prices were stable January – March. The spread between virgin and recycled widened further as testliner and recycled fluting dropped by 10% q/q. Supply/demand balance improved from March supported by retail, e-commerce and a weaker RUB. Testliner declined by 40% y/y and by 10% q/q in Q1. Producers margins have been under pressure with a weaker RUB and production costs partly USD based (chemicals, spare parts etc). PfR supply has been stable, which could be an opportunity for Russian testliner producers.
- **Stora obtains environmental permit for Oulu conversion to kraftliner:** The mill's pulp production will increase to 530kpta of unbleached pulp and 450ktpa of kraftliner (permit allows for up to 500ktpa).
- **Containerboard projects proceed:** *Pro-Gest* marches on with testliner ramp-up at its Mantova mill in Italy. They aim to start testliner production during July/August. They are doubling production to 400ktpa (brown testliner and recycled fluting). *Palm* expect to start up their PM 5 750ktpa (testliner and recycled fluting) in H1 21e in Germany. PM 5 will replace their existing 3 machines.

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Key prices

Details	12-May	w/w % chg.	YTD % chg.
Pulp (EUR/t)			
NBSK (USD)	850.03	1.2%	3.7%
NBSK	783.87	1.3%	7.0%
BHKP	628.73	0.4%	3.5%
BHKP (USD)	681.80	0.3%	0.3%
Paper (EUR/t)			
LWC	611.33	-0.4%	-4.6%
Ctd WF	662.25	0.2%	-4.3%
A4 B-copy	846.78	-0.3%	-3.7%
Newsprint	448.05	0.0%	-8.1%
Packaging (EUR/t)			
Kraftliner	593.82	0.5%	-0.6%
White-top Kraftliner	737.15	-0.1%	-3.9%
Testliner 2	420.09	0.0%	-1.1%
Testliner 3	395.07	0.0%	0.5%
RB-Fluting	377.31	0.0%	-1.4%
PIX OCC 1.04 dd	73.43	32.6%	51.8%
PIX ONP/OMG 1.11 dd	100.32	8.7%	-5.9%
ROW Pulp (USD/t)			
PIX US NBSK	1161.36	0.8%	3.7%
China BHKP Net	473.31	0.9%	3.3%
China NBSK Net	585.31	0.3%	4.6%

Source: Chronux Research, FOEX

Russian packaging prices

RUB/t (ex-works and excl. 20% VAT)	Mar-19	Dec-19	Mar-20	y/y % chg.
Virgin fibre containerboard				
Unbleached kraftliner (125g)	46 375	35 000	32 600	-30%
White-top kraftliner (125kg)	53 525	45 550	42 400	-21%
Semi-chemical (112g)	40 825	29 400	27 000	-34%
Recycled containerboard				
Testliner 2 (125g)	34 080	22 830	20 450	-40%
Recylced fluting (112g)	32 395	21 245	18 975	-41%

Source: Chronux Research, RISI

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