# Forestry & Paper

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## IP Packaging and UWF Insights

**Analyst**
Sean Ungerer, CFA
+27 82 319 3373
sean.ungerer@chronux.co.za

***Key message from our 1/1 call**: ST impact on UWF from COVID-19 does not compare to the 2008/2009 GFC.*

- **Their focus remains on maximising value and not necessarily integration:** 1 in 3 boxes in the US is from IP and they are the # 1 non-European supplier of kraftliner into Italy, Spain and Sothern France.
- **In the last five years, they have invested to improve flexibility:** They have increased their recycled exposure (generally lower ROICs). EBITDA margin in their North American packaging business is c.22-24%, with double digit ROICs.
- **Two key dramatic shifts in packaging seen:** Before COVID, processed food demand was stagnant, but has now seen nice tailwind. Beverage shift to home consumption is using less corrugated as well as the shift from restaurant and food service. Food and beverage comprise 50% of US box demand.
- **IP is overweight E-commerce in their portfolio:** They are the leading e-commerce supplier in the US (have contract with Amazon). They are underweight durable goods (7-10% of US box demand).
- **They have 12.3mt of containerboard capacity in the US:** 65% is virgin and 35% is testliner (similar structure for the US market). They are 80% integrated. 67% of their product is exported and 33% is sold domestically. 9.1mt is used in boxes, with 1.8mt exported (40% EMEA; 40% Latam; 20% Asia) and 0.9mt sold into the domestic spot market and 0.45mt into specialty. Line of sight on their corrugated order book is one week.
- **They prefer higher and more volatile OCC prices:** They like a steeper cost curve, given their low-cost ills (mostly first quartile. They consume 4.1t of OCC in the US; 0.45mt in Europe and some in Brazil. COVID has disrupted fibre collection in the ST, with limited to none exported to China. We note that household collections are the least efficient in terms of recovered fibre collection.
- **They intend to feed China's need for containerboard through their Ilim JV:** They export some kraftliner to Asia (mainly heavy grades), this demand is currently strong. They have 4-6 weeks visibility for their export markets and Chinese demand and inventories have been supportive. They do not export testliner and noted that Chinese mills are having a hard time sourcing recovered fibre. They see significant opportunity for unbleached kraft pulp instead of OCC in China.
- **UWF strategy remains focussed on maximising cash with limited investment:** UWF is 17% of their revenue. North America 3 mills, Brazil and Europe (1 mill in France; 1 in Poland and 1 in Russia).
- **Underlying UWF demand assumptions prior to COVID:** US - 3-4%; Brazil flat to +1%; France -3-4%; Eastern Europe flat to -1%; Russia +1-2%.
- **They are not sure whether the decline is structural or not:** People are not working and not going to school and print advertising has dropped off. Possibly, there is a step down that the structural decline goes from -3/4% goes to -7/8%. Either way, they are confident that their European mills will not need to be converted and that the volumes could be placed elsewhere.
- **GFC (2008/2009) does not compare to what they are seeing now:** Do not expect UWF prices to come under pressure. However, that said, "cannot price yourself" into a market with no demand.

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