



Forestry & Paper

Date: 18 May 2020

Verso Q1 20A Insights (North American CFS)

Key message: Q2 volumes could drop by 40% y/y. Graphic paper downtime of c. 110-120kt in Q2 expected. FY graphic paper pricing could decline by 5-7%.

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- **Limited impact in Q1 20A from COVID:** Their RM supply chain remains solid with no anticipated supply issues. Verso noted pressure from lack of demand and “competitors are filling up machines and going after price aggressively”.
- **Continued pressure on Graphic and Specialty:** Revenue declined by 26% y/y due to unfavourable price/mix as well as volume pressure (Graphic and Specialty Paper). Total pricing was down 11% y/y with volumes declining by 17% y/y (-7% excluding the Luke Mill closure). Release liner and packaging continues to grow.
- **Sappi North America vs. Verso:** Verso reported net sales of USD 471m vs. SAP’s USD 387m (we estimate USD 334m excl. DWP). SAP’s volumes were 416kt (excl. DWP, we estimate <340kt) vs. Verso’s 554kt. SAP was able to gain CFS market share with volumes +10%, while Verso’s volumes declined by -7% (excl. closure). SAP’s EBITDA margin was 8.0% (excl. DWP, we estimate 9%) vs. Verso’s 7.4%.
- **Focus remains on diversification, but graphic paper remains key driver:** Verso continues to focus on growth of Packaging and Specialty Papers (16% of revenue), while maintaining a premium supplier position in Graphic Papers (74% of revenue).
- **Liquidity of USD 498m and no gearing (net cash position of USD 276m compared to net debt of USD 39m last year):** Verso can repurchase up to USD 250m of shares (Q2 20e: USD23m), with USD 2.7m in Q1. Additionally, they expect to initiate a quarterly dividend in Q2.
- **Further demand pressure across graphic papers is expected, while pressure has not been seen in their specialty, packaging and pulp business:** Volumes in Q2 could drop by as much as 40%, while graphic paper prices could drop 5-7% in 2020 (RISI). They intend to take 110-120kt of graphic paper downtime in Q2 and sell more market pulp. Release paper is doing well with more trials under way. They aim to be FCF positive this year “but will not be easy task”.
- **Verso snapshot:** Share price -35% in the last 12m (market cap: USD 482m and historical P/E: 4.3x).

Financial summary

Group (USDm)	Q1 19A	Q1 20A	Q y/y %/bps chg.
Net sales	639	471	-26%
Graphic	486	349	-28%
Specialty	96	75	-21%
Pulp	38	28	-26%
Packaging	19	19	-2%
Adjusted EBITDA	69	35	-49%
Adjusted EBITDA margin (%)	10.8%	7.4%	(337)
Diluted EPS	1.03	1.52	48%
Revenue contribution (%)			
Graphic	76%	74%	(200)
Specialty	15%	16%	100
Pulp	6%	6%	-
Packaging	3%	4%	100
Sales volumes (kt)	665	554	-17%

Source: Company data, Chronux Research estimates

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