



Forestry & Paper

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Stora Enso's Q2 20A Insights

Key message: Paper volumes down 34%, with a recovery still uncertain. Europe box prices under pressure and similar read-through from DS Smith results with box volumes down (-12% y/y and -6% q/q).

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- **Q2 20A hit the hardest from COVID-19 in its Paper business:** Sales declined by 18.9% y/y (-11.9% excl. Paper), while group EBIT margin was stable at 13% excluding the Paper segment. Selling prices trended lower for most grades and volumes were under pressure with the exception of Packaging Materials. The cost base benefitted from lower costs for wood (especially Sweden and Finland), P&R and pulp, coupled with the deferral of mill maintenance.
- **Consumerboard strong, while containerboard was weaker in Packaging Materials (57% of EBITDA):** Containerboard margin saw robust expansion of 611bps q/q, primarily driven by cost tailwinds despite lower sale volumes (-1% y/y; -3% q/q). Consumer board margins continue to outperform containerboard, supported by pricing and improved sales volumes (+9% q/q).
- **Mixed developments in corrugated, with e-commerce was strong in Packaging Solutions (5% of EBITDA):** Sales -22% y/y (-5% q/q), driven by weakness in corrugated sales volumes (-12% y/y and -6% q/q; specific reference to weakness in China) and box price pressure in Europe.
- **COVID-19 has accelerated the structural decline in all paper grades:** Stora's Paper volumes dropped by 34% y/y (-27% q/q) causing the EBITDA margin to collapse to -2.7% (Q2 19A: 10.7%) from 8.1% in Q1. As a reminder, Stora is exiting the CWF market by the end of the year following the Oulu conversion. The mill will stop paper production at the end of Q3 20e and supply CWF customers until the end of the year. In terms of demand trends in July, Stora's CEO noted it is just too early to tell if demand is improving and will need to wait until August/September to see how order books evolve.
- **Uncertainty in the pulp market continues:** Their pulp sales declined by 12% y/y (-3% q/q) due to lower demand in graphic paper end uses. Stora continues to caution around rising global pulp inventory days.
- **Ample liquidity (EUR 2.1bn) provides flexibility to weather a prolonged recession:** Despite working capital release (EUR 42m: lower inventories and receivables), gearing ticks up (net debt/EBITDA: 2.5x from 2.3x in Q1).
- **Stora launches plastic free innovations:** "AvantForte" (also using less material) is a food safe kraftliner for corrugated packaging. The "PermaLight" is a lightweight board that allows for a 70% reduction of CO2 emissions. It is used as a premium folding carton for chocolate, confectionary packaging and beauty products. Stora also had good take up from Fashion retailers in the Nordics and China for their plastic-free and recyclable ECO RFID Tag technology for clothing hand tags.
- **Oulu conversion on track (1.1mt of CWF to be converted to Kraftliner):** Start-up expected by Q4 20e and full ramp up expected in Q1 21e.
- **Guidance remains suspended:** However, Stora are resolute that COVID-19 has accelerated the decline in demand for European Paper. Stora are hosting a CMD on 11 November, perhaps we could see further Coated Paper rationalisation (they alluded to further conversion opportunity at Oulu).

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