



Forestry & Paper

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SCA: Exits Publication Paper Segment

Key message: SCA exits remaining Paper exposure in favour of Pulp. A welcome announcement for Coated Paper and UWF producers in Europe.

Analyst

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- **Intention to exit publication paper:** Having previously closed over 1mtpa, remaining assets are cash flow negative. Negotiations have been initiated for the closure of all three paper machines at the Ortviken mill within next six months. This will remove 775ktpa of graphic paper capacity from Europe, comprised of: 500ktpa of LWC (good for Sappi) and 275ktpa (good for Mondi).
- **Increasing CTMP capacity and opening the door for further NBSK:** SCA intends to add 300ktpa of chemi-thermomechanical pulp (CTMP) at its Ortviken mill and close 100ktpa of CTMP capacity at its Östrand mill (provides opportunity to increase NBSK pulp capacity at the mill by 100-200ktpa). Capacity addition will be with low CapEx of EUR 486/t and facilitate a leading top quartile position amongst European and North American SW CTMP producers with a cash cost of EUR 311/t delivered. Project is expected to ramp-up by early 2023.
- **CTMP expansion focussed on growing segments:** End users will be in Europe, Asia and North America with a focus on Packaging; Tissue and to a lesser extent P&W and Specialties.
- **Birch CTMP improves customer product properties at a lower cost than NBSK:** The grade has a lower production cost; similar stiffness; higher absorption, increased shape stability; and same product thickness with less wood used. Usually trades at an USD 100/t (less wood required) discount to NBSK, while margins are similar.
- **Consistent strategy deployed:** Focus on integration with growth in pulp and kraftliner and renewable energy, while reducing publication paper exposure.
- **SCA remains bullish on kraftliner:** Obbola (Sweden) project to increase kraftliner production by 275ktpa. SCA will spend c.EUR 690m (ER 1,533/t) increasing capacity by 275ktpa. The mill will be in full operation during the construction period before switching over from the old machine to the new one ahead of its start-up in FY 23e. Ramp-up is expected to take three years. New machine will have a capacity of 725ktpa and allows an increased share of WT kraftliner at Munksund.

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