



## Forestry & Paper

Date: 25 May 2021

### SCA Q1 21A Insights

**Key message:** *Kraftliner stocks on a “very, very low level”, with further price increases to be realised in Q2/Q3. Spread between Europe & China pulp prices likely to drive European prices higher.*

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[Group overview](#)

[SW pulp demand, SW/HW pulp inventories and kraftliner deliveries and inventories](#)

- **Europe’s largest independent kraftliner producer saw Q1 21A EBITDA increase by 32% y/y, boosting ROCE to 16%:** The Group EBITDA margin expanded to 32.6%, driven by high demand, improved pricing across the board and SCA exiting from the graphic paper markets, with the last LWC machine closed in February. Gearing improved with net debt/EBITDA of 1.5x (down from 1.7x in Q4).
- **Kraftliner deliveries from Europe globally continue to increase and European inventory levels continue to decline:** Demand for boxes remains strong and is now higher than the pre-COVID trend. Accordingly, kraftliner inventories are on a “very low level”. The US market is also very strong which has seen US producers reduce exports to Europe to focus on domestic demand. SCA’s containerboard segment (24% of EBITDA) EBITDA margin expanded by 67 bps y/y to 25.2%.
- **Kraftliner pricing poised to increase further:** Unbleached kraftliner will increase by EUR 50/t and EUR 30/t for white-top kraftliner during Q2. A further EUR 50/t price increase for both grades is expected to take place from Q3. Time lag for prices to be implemented is generally c. 2-3 months.
- **Project to build the world’s largest kraftliner machine at Obbola (Sweden) is on time and on budget:** SCA is building a new paper machine and will increase capacity from 450ktpa to 725ktpa with a total investment of EUR 738mn (EUR 2,684/t). Ramp-up is expected to start in H1 23e.
- **The Pulp segment (28% of EBITDA) printed an EBITDA margin of 30%:** This performance was mainly boosted by good production (+3% y/y) and higher prices. Their core customer base is in Europe and the US, with limited sales to China. Realised pricing was lower than expected due to increased discounting (increases by c.1-2% p.a.). Time lag for prices to be implemented is c. 2-3 months.
- **Pulp project is on time and on budget:** SCA is investing SEK 1.45bn (SEK 5k/t or EUR 500/t: 33% of the greenfield cost) at their Ortviken mill to achieve production of 300ktpa chemical pre-treated mechanical pulp (CTMP). Production is expected to ramp-up in H1 23E. Once up and running, their 100ktpa Ostrand machine will be closed.
- **Pulp markets remain strong:** Demand remains strong, underpinned by China. Pulp inventories have come down to “normal to low level” in both softwood and hardwood pulp. Supply chain has been impacted by lack of capacity in logistics, especially to Asia. Further price increases will be implemented in Q2 and Q3, targeting USD 1,300/t. The net price in China is c. USD 100/t higher than in Europe, even after allowing for the rise to USD 1,220/t in Europe. Given this price differential, pulp prices in Europe are likely to increase further. Despite some recent weakness in the Shanghai futures price, they are comfortable that demand remains strong.
- **Q2 outlook optimistic:** Strong demand and improved pricing is expected to persist into Q2.

## Group overview

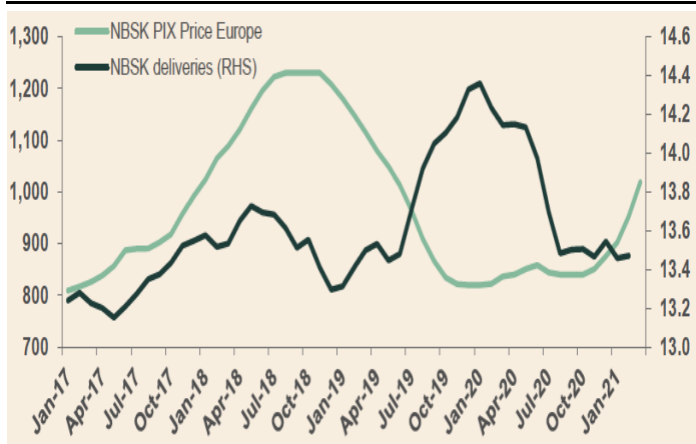
Figure 1 Financial summary (SEKm)

| Group (SEKm)                        | Q1 20A        | Q4 20A        | Q1 21A        | Q y/y %/bps chg.        | Q q/q %/bps chg.        |
|-------------------------------------|---------------|---------------|---------------|-------------------------|-------------------------|
| Net sales                           | 4 793         | 4 592         | 4 172         | -13%                    | -9%                     |
| EBITDA                              | 1 030         | 1 451         | 1 359         | 32%                     | -6%                     |
| EBITDA margin (%)                   | 21.5%         | 31.6%         | 32.6%         | 1 111                   | 100                     |
| D&A                                 | 402           | 367           | 313           | -22%                    | -15%                    |
| EBIT                                | 628           | 1 084         | 1 046         | 67%                     | -4%                     |
| EBIT margin (%)                     | 13.1%         | 23.6%         | 25.1%         | 1 197                   | 147                     |
| EPS                                 | 0.69          | 1.11          | 1.14          | 65%                     | 3%                      |
| OCF                                 | 341           | 957           | 475           | 39%                     | -50%                    |
| Industrial ROCE                     | 8.6%          | 5.4%          | 16.3%         | 770                     | 1 090                   |
| Net debt                            | 9 087         | 7 671         | 7 043         | -22%                    | -8%                     |
| Net debt/EBITDA (x)                 | 1.9           | 1.7           | 1.5           | -21%                    | -12%                    |
| <b>Forest (SEKm)</b>                | <b>Q1 20A</b> | <b>Q4 20A</b> | <b>Q1 21A</b> | <b>Q y/y %/bps chg.</b> | <b>Q q/q %/bps chg.</b> |
| Net sales                           | 1 833         | 1 659         | 1 627         | -11%                    | -2%                     |
| EBITDA                              | 452           | 747           | 449           | -1%                     | -40%                    |
| EBITDA margin (%)                   | 24.7%         | 45.0%         | 27.6%         | 294                     | (1 740)                 |
| D&A                                 | 54            | 58            | 55            | 2%                      | -5%                     |
| EBIT                                | 398           | 689           | 394           | -1%                     | -43%                    |
| EBIT margin (%)                     | 21.7%         | 41.5%         | 24.2%         | 249                     | (1 730)                 |
| ROCE                                | 2.8%          | 4.6%          | 2.6%          | (20)                    | (200)                   |
| Harvesting of own forest (K m3 sub) | 751           | 1 629         | 767           | 2%                      | -53%                    |
| Revaluation of biological assets    | 333           | 383           | 316           | -5%                     | -17%                    |
| <b>Wood (SEKm)</b>                  | <b>Q1 20A</b> | <b>Q4 20A</b> | <b>Q1 21A</b> | <b>Q y/y %/bps chg.</b> | <b>Q q/q %/bps chg.</b> |
| Net sales                           | 1 436         | 1 498         | 1 264         | -12%                    | -16%                    |
| EBITDA                              | 95            | 227           | 310           | 226%                    | 37%                     |
| EBITDA margin (%)                   | 6.6%          | 15.2%         | 24.5%         | 1 788                   | 930                     |
| D&A                                 | 64            | 59            | 56            | -13%                    | -5%                     |
| EBIT                                | 31            | 168           | 254           | 719%                    | 51%                     |
| EBIT margin (%)                     | 2.2%          | 11.2%         | 20.1%         | 1 794                   | 890                     |
| ROCE                                | 3.5%          | 20.4%         | 30.0%         | 2 650                   | 960                     |
| Deliveries wood products (k m3)     | 610           | 610           | 493           | -19%                    | -19%                    |
| <b>Pulp (SEKm)</b>                  | <b>Q1 20A</b> | <b>Q4 20A</b> | <b>Q1 21A</b> | <b>Q y/y %/bps chg.</b> | <b>Q q/q %/bps chg.</b> |
| Net sales                           | 1 188         | 1 166         | 1 288         | 8%                      | 10%                     |
| EBITDA                              | 186           | 109           | 385           | 107%                    | 253%                    |
| EBITDA margin (%)                   | 15.6%         | 9.3%          | 29.9%         | 1 430                   | 2 060                   |
| D&A                                 | 131           | 140           | 142           | 8%                      | 1%                      |
| EBIT                                | 55            | (31)          | 243           | 342%                    | -884%                   |
| EBIT margin (%)                     | 4.6%          | -2.7%         | 18.9%         | 1 427                   | 2 160                   |
| ROCE                                | 2.4%          | -1.4%         | 10.9%         | 850                     | 1 230                   |
| Deliveries pulp (kt)                | 226           | 223           | 232           | 3%                      | 4%                      |
| <b>Containerboard (SEKm)</b>        | <b>Q1 20A</b> | <b>Q4 20A</b> | <b>Q1 21A</b> | <b>Q y/y %/bps chg.</b> | <b>Q q/q %/bps chg.</b> |
| Net sales                           | 1 219         | 1 219         | 1 272         | 4%                      | 4%                      |
| EBITDA                              | 299           | 299           | 321           | 7%                      | 7%                      |
| EBITDA margin (%)                   | 24.5%         | 24.5%         | 25.2%         | 67                      | 70                      |
| D&A                                 | 111           | 111           | 106           | -5%                     | -5%                     |
| EBIT                                | 188           | 188           | 215           | 14%                     | 14%                     |
| EBIT margin (%)                     | 15.4%         | 15.2%         | 16.9%         | 148                     | 170                     |
| ROCE                                | 14.2%         | 14.2%         | 18.5%         | 430                     | 430                     |
| Deliveries kraftliner (kt)          | 220           | 220           | 226           | 3%                      | 3%                      |

Source: Company data

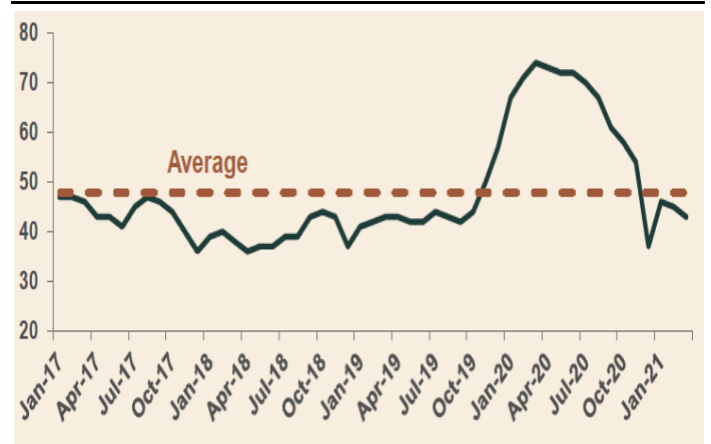
# Charts

**Figure 1 SW pulp price (lhs) vs. deliveries (rhs)**



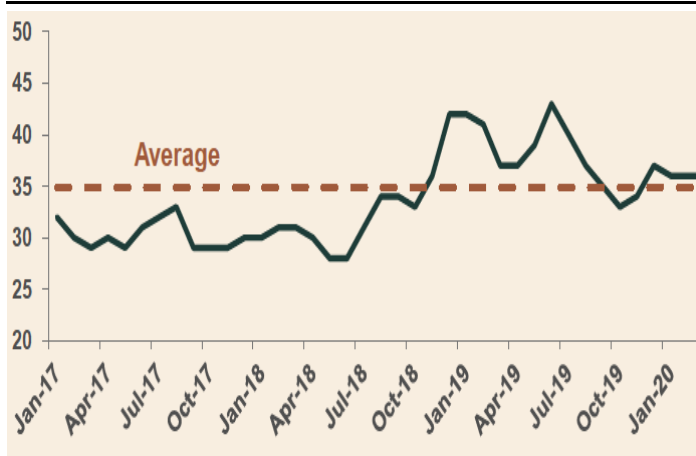
Source: Chronux Research, PIX, PPPC

**Figure 2 HW pulp inventories (days of supply)**



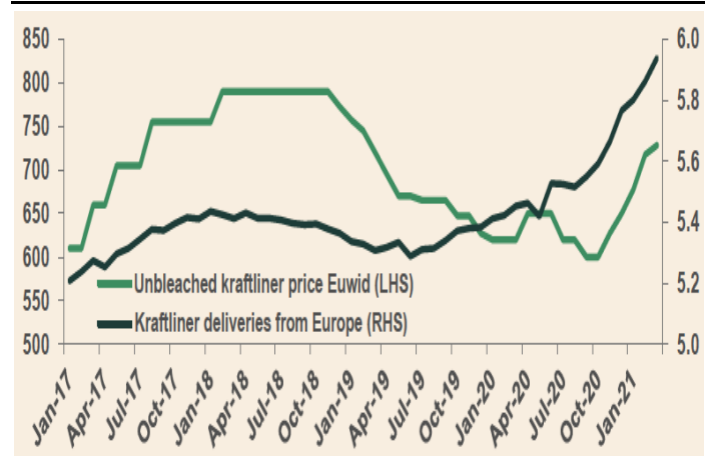
Source: Chronux Research, PIX, PPPC

**Figure 3 SW pulp inventories (days of supply)**



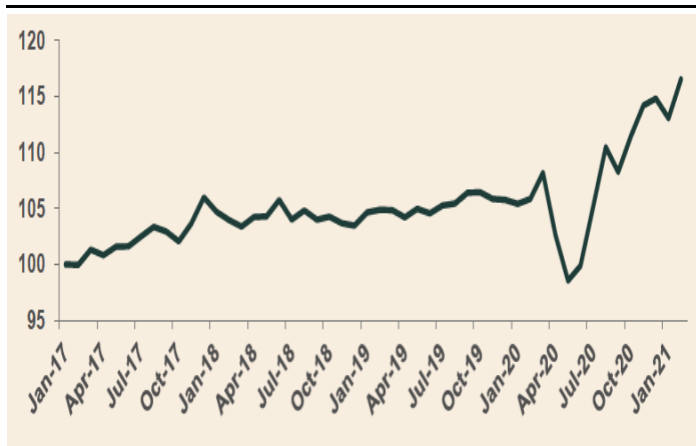
Source: Chronux Research, PIX, PPPC

**Figure 4 Kraftliner price (lhs) vs. demand (rhs)**



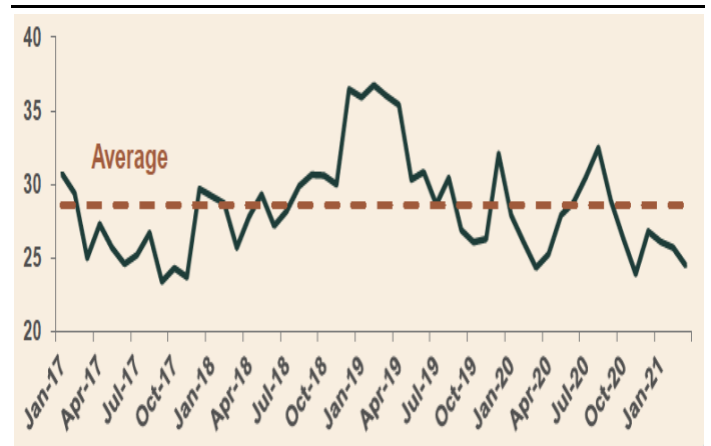
Source: Chronux Research, EUWID, Numera

**Figure 5 European box demand (Jan 17=100)**



Source: Chronux Research, EUWID, Numera

**Figure 6 Kraftliner inventories (days of supply)**



Source: Chronux Research, EUWID, Numera

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