



## Forestry & Paper

### Sappi Ltd: Q2 21A Insights

Date: 06 May 2021

**Key message:** Results broadly in line with our expectations and thesis intact. Packaging and Specialties performed well, supported by the DWP segment. The European Graphic Paper business continues to weigh on earnings.

#### Analyst

Sean Ungerer, CFA  
+27 82 319 3373

[sean.ungerer@chronux.co.za](mailto:sean.ungerer@chronux.co.za)

- **Q2 21A snapshot:** EBITDA of USD 112mn was 4% lighter than our estimate, with EBITDA down 2% y/y but up 10% q/q. EPS came in at negative USD 0.01/share (CRe: USD 0/share).
- **Europe (25% of EBITDA) EBIT now in the red:** Sales were slightly weaker than what we expected. We attribute this to lower-than-expected Packaging and Specialty volumes. Encouragingly, the EBITDA margin surprised to the upside at 4.8%.
- **North America (32% of EBITDA) EBIT was back in the green:** However, the EBITDA margin was lower than our estimates driven by more optimistic CFS volume and pricing expectations.
- **Strong performance from South Africa, drove EBITDA up 29% q/q (43% of EBITDA):** Strong DWP and Packaging volumes helped uplift EBITDA for the quarter; however, this was not enough to offset ZAR strength, which adversely impacted the EBITDA margin (down 90 bps q/q).
- **Despite a strong recovery in DWP volumes, margin came under pressure due to a stronger ZAR (30% of EBITDA):** DWP sales were in line with our estimates; but potentially could have been 23kt higher if Ngodwana did not curtail production due to oxygen supply issues (flagged previously).
- **Packaging & Specialties (48% of EBITDA) had a strong quarter, with EBITDA up 6% y/y (51% q/q):** The EBITDA margin expanded by 290bps q/q (but down 200bps y/y) on the back of a strong volume performance in North America (+56% y/y and +18% q/q), supported by SA (+28% y/y), while Europe (+2%) missed our estimates by 11%.
- **Graphic Paper (22% of EBITDA) had another tough quarter, driven by weakness in Europe:** North American volumes were strong (but still at 85% of pre-COVID levels), while Europe declined by c.19%. The achilleas heel for this segment remains the lack of pricing power in Europe, coupled with SAP's net short pulp position in Europe (c.800ktpa).
- **Gearing increased in Q2 but key metrics to improve from Q3:** Net debt increased by 10% y/y and 1% q/q to USD 2.07bn. Net debt/EBITDA increased to 6.5x vs. our estimate of 6.4x. SAP has agreed revised leverage covenants (net debt/EBITDA) with its banking group: December 2021: 5.50x; March 2022: 5.25x; June 2022: 4.75x; September and December 2022: 4.50x and March 2023: 4.25x. Based on our current estimates, SAP has more than enough headroom. We currently estimate FY 21E net debt/EBITDA of 3.0x.
- **FY 21E CapEx guidance remains on track for USD400mn:** This implies USD 230mn in H2 21E. Saiccor mill expansion project is expected to see production on track for Q4 21E. SAP have not communicated further guidance on cost savings since 2019.
- **Outlook guidance in line with our expectations:** SAP is guiding for Q3 21e EBITDA to be higher q/q (CRe: USD 187mn); however, with European earnings to be lower on the back of higher pulp prices (CRe: EUR 12mn, -48%q/q).

- **Conference call today at 3pm:**  
[Conference call registration.](#)

**Disclaimer:**

This report is not investment, financial, accounting or tax advice and is provided for information purposes only. In preparing this report we did not take your specific needs and investment objectives into account. Any prices or quotations provided are indicative only and may not be used or relied on for any purposes, including valuation purposes. Opinions expressed in this communication may change without any notice. This communication is not a solicitation to buy or sell any product. To the extent permitted by the law, Chronux Research Pty. Ltd. and/or the author(s) accept no responsibility or liability (in negligence or otherwise) for loss or damage resulting from the use of or relating to any error in the information provided. This information has been prepared in good faith and is based on information obtained from third party sources. Any modelling, scenario analysis past or simulated past performance (including back-testing) contained in this information is no indication of future performance. This product may not be eligible for distribution in all jurisdictions and is directed at institutional investors who have professional experience as defined by the applicable law and/or regulation in the relevant jurisdiction. It is not for retail investors and may not be distributed into any jurisdiction where the information is not permitted. This communication is for the intended recipient only and if you have received this communication in error or in an unlawful manner the report must be destroyed, and the author notified immediately. These disclaimers and exclusions shall be governed and construed in accordance with South African law. If any provisions of these disclaimers and exclusions shall be unlawful, void or for any reason unenforceable then that provision shall be deemed severable and shall not affect the validity and enforceability of the remaining provisions. © Chronux Research Pty. Ltd. All rights of Chronux Research Pty. Ltd are reserved.