



Forestry & Paper

Mondi: Q3 23A Insights

Key message: *Underlying EBITDA softened further in Q3 and Q4 is likely to be lower driven by further weakness in kraft paper pricing and demand, coupled with a greater impact from maintenance and project-related shuts. Proceeds from Russia exit underpins our OVERWEIGHT rating in the ST.*

- **Underlying EBITDA in Q3 23A fell 42% y-o-y and -21% q-o-q to €261mn:** Adjusting for the forestry FV gain (€14mn), underlying EBITDA softened by 4% q-o-q to €247mn (-40% y-o-y).
- **Mondi confirmed that market conditions remain challenging, however order books for containerboard are improving:** As expected, kraft paper pricing and volumes softened further, while the converting network delivered a resilient performance. The Uncoated Fine Paper segment remained under pressure due to weaker pricing. Meanwhile, the Corrugated Packaging segment appears to be slowly turning the tide, with prices stable and order books are improving. All else equal, corrugated box prices should be stable entering Q1 24E.
- **Wood costs have now stabilized, but the outlook for 2024 is unclear:** Mondi revealed that wood costs softened as expected in Q3 and have subsequently stabilized. Mondi also highlighted that the outlook for wood prices in 2024 is tough to call currently as sawmills operating rates are low on the back of weaker economic activity.
- **MT-LT fundamentals remain intact for Mondi's kraft paper business (Flexible Packaging):** ST demand and pricing set to remain under pressure, with Europe (their largest market) stabilizing in Q3 and the US slowing down into Q3, while the Middle East and Africa remains volatile. The MT-LT fundamentals remain intact with no major capacity set to enter the European market, except for Mondi's Štětí sack kraft paper machine (210Kt/yr) to ramp-up in FY 25E. In terms of contract pricing for the kraft paper business, this has continued to evolve given volatility of prices (10%: 12m contracts; 20%: 6m contacts and the remaining 70%: variable).
- **No changes to capital allocation:** Unlike many other project cancellations or deferrals announced across Europe, Mondi confirmed that its €1.2bn expansionary capex plans remain on track and within budget. Furthermore, Mondi re-iterated its intention that the net proceeds from the Syktyvkar disposal (€0.8bn, equal to €1.60/share or R32.25/share still to be adjusted downwards for transaction costs) will be distributed to shareholders (no confirmation of mechanism as of yet) in a timely manner once all instalments of the consideration are received (RUB 57bn has been received so far and Mondi is in possession of a letter of credit for the final RUB 23bn, which will be paid in two equal instalments in each of November and December 2023).
- **Q4 profitability likely to be lower:** Further price erosion is expected for the kraft paper business and a greater impact from maintenance and project-related shuts of around €45mn is expected in Q4 (Q3 23A: €15mn). Input costs however are expected to stabilize further. Following the update, we pencil in Q4 underlying EBITDA of €209mn or €194mn adjusting for a forestry fair value gain of €15mn.
- **Until containerboard prices begin to rebound and kraft paper bottoms out, the proceeds from Russian disposal (c.11% yield) remains the key ST catalyst:** To value Mondi, we use the average target price derived from our free cash flow to firm (FCFF), P/E (x) and EV/EBITDA (x) valuations. On this basis, we set a one-year target price of R 292.21/share (+4%) and including a 5% 1-yr rolled dividend yield and the proceeds from the Russian disposal, this underpins our OVERWEIGHT rating.

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Details (R)	
Bloomberg ticker	MNP SJ
Price	288.51
52 week low	276.43
52 week high	339.28
Market cap (bn)	140.18
Shares in issue (mn)	485.1
Target price	292.21
Rating	OVERWEIGHT
Upside/(downside)*	18%

Source: Bloomberg, *Includes divs and proceeds from Russian disposal

Key financial metrics (€mn)	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E
Revenue	6 974	8 902	7 494	7 448	7 784
Underlying EBITDA	1 157	1 848	1 150	1 296	1 597
EBITDA margin (%)	16.6%	20.8%	15.3%	17.4%	20.5%
Basic underlying EPS (EUR/share)	1.10	1.96	1.03	1.13	1.54
DPS (EUR/share)	0.65	0.70	0.70	0.70	0.70
Group ROCE (%)	16.9%	26.0%	10.3%	11.6%	15.5%
Net debt	1 763	1 011	1 107	1 217	1 146
Net debt/EBITDA (x)	1.5	0.5	1.0	0.9	0.7
Working capital as a % of revenue (%)	14.2%	14.4%	13.3%	13.0%	12.6%
CapEx	-481	-508	-805	-800	-800
Net movement in working capital	-195	-419	287	30	-15
Free cash flow (FCF)	268	559	424	309	502
FCF per share	0.55	1.15	0.87	0.64	1.04

Source: Chronux Research, Company data

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