



## Forestry & Paper

### Sappi Ltd Q4 23E Insights:

**Dissolving wood pulp segment continues to gain traction, while Packaging & Specialties destocking is taking longer than expected. Graphic Paper is still struggling, with further capacity reductions needed in Europe. Gearing to pick-up in the next 12-24m but covenants (net debt/EBITDA <4x) should not be tested based on our current estimates. We expect Q4 23E EBITDA of \$135mn.**

- **Sappi to report Q4 23E results on Thursday, 9 November:** EBITDA has fallen for three consecutive quarters; however, we expect Q4 23E EBITDA to increase by 27% q-o-q (-66% y-o-y) to \$135mn (+41% y/y; -14% q/q) with EPS of \$0.08/share. This is driven largely by improved profitability in North America, and to a lesser extent in South Africa. Meanwhile, we expect profitability in Europe to remain under pressure as demand remains weak, meaning fixed cost per ton will be higher, while variable costs remain elevated, albeit moderating somewhat. **Results will be released at 8am tomorrow with a conference call at 4pm: [Register for the Conference Call.](#)**
- **Q3 23A recap:** EBITDA weakened further to \$106mn, falling by 37% q-o-q (-71% y-o-y). This was largely explained by weakness in European volumes slumping 47% y-o-y (almost flat q-o-q), with Europe just remaining EBITDA positive. Profitability in North America too came under pressure as Graphics (-46% y-o-y) and Packaging & Specialties volumes (-37% y-o-y) continued to be adversely impacted by weak demand and continued destocking. Sappi guided for Q4 EBITDA to be “marginally above” that of Q3. Consensus implies an increase of 14% q-o-q to \$121mn and EPS of \$0.06/share.
- **European cost base to capture full benefits of capacity reductions in FY 25E (graphic paper capacity reduction of up to 28% in Europe):** The Stockstadt mill is set to close in Q1 24E. The mill has around 550 employees and will reduce Sappi Europe’s pulp capacity by 145Kt/yr and graphic paper capacity by 220Kt/yr (UWF), equal to 8% of Sappi Europe’s capacity. Sappi has indicated this closure, with cash proceeds for the site will be cash neutral. Sappi has also flagged the potential closure of the Lanaken mill. The mill has around 644 employees with pulp capacity of 165Kt/yr and graphic paper capacity of 530Kt/yr, equal to 20% of Sappi Europe’s graphic paper capacity (before adjusting for the Stockstadt closure). For modelling purposes, we have assumed the mill is closed in Q2/Q3 24E, with most of the fixed cost savings only realised in 2025. Accordingly, we expect the European EBITDA margin to contract to 2.6% in FY 24E and to rebound to 5.6% in FY 25E.
- **Lower profitability and higher capex likely to see dividends paused:** We have pencilled in capex of \$520mn in both FY 24E and FY 25E. Both years include capex of \$170mn (FY 23E: \$79m) for the Somerset conversion (from graphic paper to board). Taking this project into account, coupled with our expectation for EBITDA to soften by 14% y-o-y in FY 24E, we expect Sappi to pause dividends (Sappi resumed dividends in FY 22A, with a targeted dividend cover of 3x). Accordingly, we expect gearing to increase in FY 24E, with net debt/EBITDA to increase to at least 2.0x (covenant: 4x from March 23-December 2026).
- **Guidance to look out for:** Based on our current estimates, we would expect Sappi to guide for Q1 24E EBITDA to be similar or slightly higher than Q4 23E. This factors in a planned shut at Somerset (Q1 23A: \$22mn).
- **In our view, a rebound of Graphic Paper and Packaging & Specialties volumes remains the key ST catalyst:** To value Sappi, we use the average target price derived from our free cash flow to firm (FCFF), and EV/EBITDA (x) valuations. On this basis, we set a one-year target price of R 44.14/share (+12%), which underpins our NEUTRAL rating.

Date: 08 November 2023

### Analyst

Sean Ungerer CA (SA), CFA  
+27 82 319 3373

[sean@chronuxresearch.com](mailto:sean@chronuxresearch.com)

<b>Rating:</b>	<b>NEUTRAL</b>
Price:	R39.46
Target Price:	R44.14
Total return:	12%
Market cap	R22.5bn
WANOS	561mn

Financial Summary	FY 22A	FY 23E	FY 24E	FY 25E
Sales	7 293	5 960	5 373	5 544
EBITDA ex. special items	1 339	698	597	708
EBITDA margin (%)	18.4%	11.7%	11.1%	12.8%
EPS ex. special items	138	54	36	47
DPS	15	-	-	-
FCF (\$mn)	586	247	-72	28
FCF/share	1.04	0.44	-0.13	0.05
Net debt	1 163	1 181	1 216	1 152
Net debt/EBITDA (x)	0.9	1.7	2.0	1.6
ROCE (%)	29.5%	11.9%	8.5%	9.8%

Source: Company data, Chronux Research



Source: Bloomberg, Chronux Research

## Segmental outlook by region in local currency

### Europe segmental outlook (€mn)

Europe outlook (€mn: to September)	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
Sales	2 090	3 504	2 477	2 015	2 084	2 055
Operating profit excluding special items	-44	384	30	-22	16	-2
<i>Operating profit excluding special items to sales (%)</i>	<b>-2.1%</b>	11.0%	1.2%	<b>-1.1%</b>	0.8%	<b>-0.1%</b>
EBITDA excluding special items	78	494	105	51	117	107
<i>EBITDA excluding special items to sales (%)</i>	3.7%	14.1%	4.3%	2.6%	5.6%	5.2%
Depreciation & amortisation	122	110	75	74	101	109

Source: Chronux Research, Company data

### North America segmental outlook (\$mn)

North America outlook (\$mn: to September)	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
Sales	1 688	2 200	1 827	1 729	1 787	2 104
Operating costs	-1 583	-1 831	-1 656	-1 616	-1 643	-1 971
Operating profit excluding special items	105	369	171	113	144	133
<i>Operating profit excluding special items to sales (%)</i>	6.2%	16.8%	9.3%	6.5%	8.1%	6.3%
EBITDA excluding special items	209	464	262	206	238	226
<i>EBITDA excluding special items to sales (%)</i>	12.4%	21.1%	14.3%	11.9%	13.3%	10.7%
Depreciation & amortisation	104	95	92	93	94	93

Source: Chronux Research, Company data

### South Africa segmental outlook (Rmn)

South Africa outlook (Rm: to September)	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
Sales	17 316	22 522	27 143	27 370	28 087	28 848
Operating profit excluding special items	2 242	3 946	4 358	4 674	4 649	4 853
<i>Operating profit excluding special items to sales (%)</i>	12.9%	17.5%	16.1%	17.1%	16.6%	16.8%
EBITDA excluding special items	3 386	5 271	5 855	6 312	6 455	6 768
<i>EBITDA excluding special items to sales (%)</i>	19.6%	23.4%	21.6%	23.1%	23.0%	23.5%
Depreciation & amortisation	1 144	1 325	1 497	1 638	1 806	1 915

Source: Chronux Research, Company data

## Group Financial Statements

### Income Statement (\$mn)

Segmental P/L (\$mn to September)	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
<b>Sales</b>	<b>5 265</b>	<b>7 293</b>	<b>5 960</b>	<b>5 373</b>	<b>5 544</b>	<b>5 870</b>
North America	1 688	2 200	1 827	1 729	1 787	2 104
Europe	2 499	3 803	2 643	2 190	2 265	2 234
South Africa Pulp and Paper	1 083	1 339	1 408	1 372	1 410	1 450
South Africa Forestry	83	88	83	83	83	83
<b>EBITDA excl. special items</b>	<b>532</b>	<b>1 339</b>	<b>698</b>	<b>597</b>	<b>708</b>	<b>702</b>
North America	209	464	262	206	238	226
Europe	94	536	112	56	128	116
South Africa	228	334	321	335	343	360
<b>Depreciation &amp; amortisation</b>	<b>329</b>	<b>299</b>	<b>255</b>	<b>260</b>	<b>300</b>	<b>313</b>
North America	104	95	92	93	94	93
Europe	146	120	81	80	110	118
South Africa	77	84	82	87	96	102
<b>Op. profit excl. special</b>	<b>203</b>	<b>1 038</b>	<b>443</b>	<b>337</b>	<b>409</b>	<b>389</b>
North America	105	369	171	113	144	133
Europe	-52	416	31	-24	18	-2
South Africa	151	250	239	248	247	258
<b>Net finance costs</b>	<b>-134</b>	<b>-97</b>	<b>-52</b>	<b>-60</b>	<b>-60</b>	<b>-60</b>
Profit before taxation	12	673	419	277	349	329
Taxation	-5	-137	-74	-76	-83	-83
<b>Profit for the period</b>	<b>7</b>	<b>536</b>	<b>345</b>	<b>201</b>	<b>266</b>	<b>246</b>
<b>EPS ex. special items</b>	<b>15</b>	<b>138</b>	<b>54</b>	<b>36</b>	<b>47</b>	<b>44</b>

Source: Chronux Research, Company data

### Cash Flow Statement (\$mn)

Group Cash flow statement (\$mn to September)	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
Profit (loss) for the period	13	536	344	201	266	246
Adjusted for:						
Depreciation, fellings and amortisation	396	356	322	328	368	313
Taxation	-1	137	74	76	83	83
Net finance costs	134	97	52	60	60	60
Other non-cash items	-73	-85	-115	-32	-32	-32
<b>Cash generated from operations</b>	<b>472</b>	<b>1 267</b>	<b>677</b>	<b>633</b>	<b>744</b>	<b>670</b>
Movement in working capital	39	-270	105	-13	-18	-37
Net finance costs paid	-102	-92	-96	-60	-60	-60
Taxation paid	-2	-23	-50	-76	-83	-83
Dividends paid	-	-	-85	-	-	-
<b>Cash generated from operating activities</b>	<b>407</b>	<b>882</b>	<b>551</b>	<b>484</b>	<b>584</b>	<b>490</b>
<b>Cash (utilised) generated from investing activities</b>	<b>(378)</b>	<b>(376)</b>	<b>(431)</b>	<b>(520)</b>	<b>(520)</b>	<b>(300)</b>
Capital expenditure	-374	-368	-410	-520	-520	-300
Other movements	-4	-8	-21	-	-	-
<b>Cash effects of financing activities</b>	<b>33</b>	<b>(43)</b>	<b>-447</b>	<b>-</b>	<b>-</b>	<b>-</b>
Proceeds from interest-bearing borrowings	690	46	-	-	-	-
Repayment of interest-bearing borrowings	-631	-65	-408	-	-	-
Lease payments	-26	-24	-17	-	-	-
<b>Net movement in cash and cash equivalents</b>	<b>62</b>	<b>463</b>	<b>(318)</b>	<b>(36)</b>	<b>64</b>	<b>190</b>
Cash and cash equivalents at beginning of period	279	366	780	499	464	528
Translation effects	25	-49	37	-	-	-
<b>Cash and cash equivalents at end of period</b>	<b>366</b>	<b>780</b>	<b>499</b>	<b>464</b>	<b>528</b>	<b>718</b>

Source: Chronux Research, Company data

**Balance Sheet (\$mn)**

<b>Group Balance Sheet (\$mn to September)</b>	<b>FY 21A</b>	<b>FY 22A</b>	<b>FY 23E</b>	<b>FY 24E</b>	<b>FY 25E</b>	<b>FY 26E</b>
<b>Non-current assets</b>	<b>4 255</b>	<b>3 430</b>	<b>3 666</b>	<b>3 858</b>	<b>4 011</b>	<b>3 998</b>
Property, plant and equipment	3 325	2 705	2 894	3 086	3 239	3 226
Plantations	477	382	406	406	406	406
Deferred tax assets	59	46	54	54	54	54
Right of use assets	110	76	76	76	76	76
Goodwill and intangible assets	110	89	92	92	92	92
Equity-accounted investees	10	8	9	9	9	9
Other non-current assets	164	124	135	135	135	135
<b>Current assets</b>	<b>1 921</b>	<b>2 508</b>	<b>2 048</b>	<b>1 996</b>	<b>2 122</b>	<b>2 441</b>
Inventories	841	780	799	777	811	881
Trade and other receivables	703	939	742	748	776	835
Derivative financial instruments	4	8	3	3	3	3
Taxation receivable	7	1	4	4	4	4
Cash and cash equivalents	366	780	499	464	528	718
<b>Total assets</b>	<b>6 186</b>	<b>6 229</b>	<b>6 092</b>	<b>6 232</b>	<b>6 510</b>	<b>6 817</b>
<b>Shareholders' equity</b>	<b>1 970</b>	<b>2 358</b>	<b>2 534</b>	<b>2 735</b>	<b>3 001</b>	<b>3 247</b>
<b>Non-current liabilities</b>	<b>2 907</b>	<b>2 347</b>	<b>2 005</b>	<b>1 973</b>	<b>1 941</b>	<b>1 909</b>
Interest-bearing borrowings	2 062	1 688	1 329	1 329	1 329	1 329
Lease liabilities	94	66	64	64	64	64
Deferred tax liabilities	345	361	383	383	383	383
Defined benefit and other liabilities	400	232	229	197	165	133
Derivative financial liabilities	6	-	-	-	-	-
<b>Current liabilities</b>	<b>1 309</b>	<b>1 524</b>	<b>1 561</b>	<b>1 532</b>	<b>1 576</b>	<b>1 668</b>
Interest-bearing borrowings	132	171	267	267	267	267
Lease liabilities	24	18	20	20	20	20
Trade and other payables	1 131	1 045	1 052	1 023	1 067	1 159
Derivative financial instruments	4	21	9	9	9	9
Taxation payable	8	25	46	46	46	46
Provisions	10	4	2	2	2	2
<b>Total equity and liabilities</b>	<b>6 186</b>	<b>6 229</b>	<b>6 100</b>	<b>6 240</b>	<b>6 518</b>	<b>6 824</b>

Source: Chronux Research, Company data

**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. Analysts at Chronux Research might have direct exposure to companies they cover. 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.