



## Forestry & Paper

### Billerud: Sack kraft & Graphics Insights

Date: 19 July 2024

**Key message:** Improved pricing across most grades more than offset sequentially higher costs. Pulpwood costs continued to increase and reached an all-time high and are expected to rise further. North America had a strong performance (positive read-through for Sappi North America), where the company expects to maintain a graphic paper presence well into the 2030's. In Europe, kraft paper and containerboard (strong demand for fluting) sales improved sequentially (positive read-through for Mondi). Billerud expects a slight improvement in market conditions heading into the third quarter.

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- **Billerud returned to growth in the second quarter with improved profitability and solid cash generation:** Sales growth of +8% YoY (+3% QoQ) was largely driven by volume and mix. EBITDA improved significantly YoY as positive pricing and mix effects more than offset sequentially higher input costs, where the headwind of SEK 130mn q-o-q was mainly driven by pulpwood.
- **The European business was impacted by significant planned maintenance, which reduced EBITDA by 40%:** Sales improved by +8% YoY & +1% QoQ. EBITDA increased by over +400% YoY, but slumped -20% QoQ, with an EBITDA margin of +9.0% (+720bps YoY and -234bps QoQ). In terms of sales mix, kraft paper (+15% of sales) and containerboard (+19% of sales: strong demand for fluting) sales improved sequentially (positive read-through for Mondi), while liquid packaging board was under pressure. Higher input costs were mainly driven by pulpwood costs which reached an all-time-high level during the quarter and are expected to increase further into Q3.
- **Excellent profitability in North America despite operating rates <70% (positive read-through for Sappi North America) fuelled by volumes, up +4% QoQ:** Sales improved by +15% YoY & +10% QoQ, this was driven by both graphic paper (70% of sales) and specialty paper (+18% of sales). EBITDA increased by +26% QoQ, with an EBITDA margin of +18.5% (+231bps QoQ). Total input costs remained stable with a minor decline expected into Q3.
- **New direction to transform production in the US towards packaging materials:** Billerud will not proceed with plans to convert its Escanaba mill to cartonboard production, positive for Sappi, in our view. Instead, the company will target to shift the product mix gradually towards packaging materials with a moderate investment level. Further plan details and investment estimates will be provided at their Capital Markets Day during Q4 2024.
- **Market conditions improved for most categories during Q2 with a slight improvement expected going into Q3:** Market conditions to improve slightly, with positive price and mix impact to offset higher input costs. Capex guidance remains unchanged at SEK 2.3bn in FY 24e, with 70% flagged for Europe and 30% for North America. In North America, P&W stocks are more normalised and expect the US election to fuel demand, while pricing is expected to remain stable. In Europe, pricing is expected to improve further to offset cost headwinds of SEK 180mn (mainly pulpwood and pulp).

## Segmental summary

Europe (NOKmn)	Q2 23A	Q1 24A	Q2 24A	YoY	QoQ
Net sales	6 495	6 920	7 011	8%	1%
Liquid packaging board	2 242	2 659	2 516	12%	-5%
Containerboard	1 227	1 262	1 317	7%	4%
Kraft and specialty paper	936	953	1 029	10%	8%
Sack paper	714	784	762	7%	-3%
Cartonboard	677	662	705	4%	6%
Pulp	634	518	618	-3%	19%
Net OpEx	(6 379)	(6 136)	(6 381)	0%	4%
EBITDA	116	784	630	443%	-20%
EBITDA margin (%)	1.8%	11.3%	9.0%	720	234
Sales volumes (Kt)	638	709	675	6%	-5%
Average selling price (NOK/t)	10 180	9 760	10 387	2%	6%
Europe sales mix	Q2 23A	Q1 24A	Q2 24A	YoY	QoQ
Liquid packaging board	35%	38%	36%	137	254
Containerboard	19%	18%	19%	11	55
Kraft and specialty paper	14%	14%	15%	27	91
Sack paper	11%	11%	11%	12	46
Cartonboard	10%	10%	10%	37	49
Pulp	10%	7%	9%	95	133
North America (NOKmn)	Q2 23A	Q1 24A	Q2 24A	YoY	QoQ
Net sales	2 655	2 763	3 046	15%	10%
Graphic paper	1 914	1 962	2 130	11%	9%
Specialty paper	380	456	560	47%	23%
Pulp	361	344	357	-1%	4%
Net OpEx	(2 450)	(2 316)	(2 483)	1%	7%
EBITDA	205	447	563	175%	26%
EBITDA margin (%)	7.7%	16.2%	18.5%	1 076	231
Sales volumes (Kt)	193	212	220	14%	4%
Average selling price (NOK/t)	13 756	13 033	13 845	1%	6%
North American sales mix	Q2 23A	Q1 24A	Q2 24A	YoY	QoQ
Graphic paper	72%	71%	70%	216	108
Specialty paper	14%	17%	18%	407	188
Pulp	14%	12%	12%	188	73

Source: Company data, Chronux Research

### Europe raw material cost outlook



Source: Chronux Research, Company data

### North America raw material cost outlook



Source: Chronux Research, Company data

## Segmental summary Q3 outlook

# Market conditions improved for most categories during Q2

## Slight improvement expected going into Q3

Sales split, % <sup>1</sup>	 Food & Drink	 Printing & Publishing Papers	 Consumer & Luxury	 Industrial
LPB (9.4bn)	100%			
Cartonboard (2.8bn)	25%		75%	
Containerboard (5.4bn)	80%		10%	10%
Kraft & Specialty Paper (5.1bn) <sup>2</sup>	50%		30%	10%
Sack Paper (2.9bn)	15%			85%
Graphical Paper (8.3bn)		100%		
<b>Share of Group Net Sales<sup>3</sup></b>	<b>~40%</b>	<b>~20%</b>	<b>~10%</b>	<b>~10%</b>
Billerud Market status Q2'24	Normal/Good	Soft	Normal	Normal
Billerud Market trend outlook	Stable	Slightly improving	Stable	Stable

Source: Company data, Chronux Research

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