



Forestry & Paper

Date: 23 July 2024

UPM: Pulp, Graphic & Specialty Paper Insights

Key message: Profitability impacted by unusually high maintenance and strikes in Finland. Graphic paper volumes were lower after restocking in Q1 and UPM is set to reduce their graphic paper footprint by 12%, equal to 610Kt/yr. Their paper margins came under pressure as fibre cost increases materialised quicker than paper price increases.

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- **Profitability improved significantly YoY; however sequential profitability came under pressure due to heavy maintenance and strikes in Finland:** Sales softened by -4% QoQ (flat YoY). Meanwhile, EBITDA slumped -27% QoQ (+41% YoY) with an EBITDA margin of +14.1%. Gearing increased with net debt up +20% QoQ and net debt/EBITDA now 1.6x. Encouragingly, their major investment cycle is coming to an end.
- **Key developments during the second quarter:** Underlying consumer demand is moderately improving. However, demand development moderated in the second quarter after the strong first quarter. Global pulp markets were further tightened by supply-side restrictions. Meanwhile, UPM's Paso de los Toros pulp mill reached nominal capacity before its first maintenance shutdown in June.
- **UPM Fibres profitability significantly improved as Paso de los Toros reached full capacity (54% of EBITDA):** Sales increased by +15% QoQ (+30% YoY), pulp deliveries up 16% YoY (-5% QoQ) as global demand was good and varied depending on end-uses. The average realised pulp selling price increased by +21% QoQ (+12% YoY).
- **UPM Communication Papers profitability weakened QoQ due to lower volumes (14% of EBITDA):** Sales for the segment slumped by -22% YoY (-11% QoQ). This was mainly driven by lower volumes (-10% QoQ & -11% YoY) after restocking in Q1 and the strikes in Finland. This compares to European market demand, which improved by +4% YoY. Meanwhile, average pricing softened by -1% QoQ (-12% YoY). The EBITDA margin came under pressure to reach 10.8% as fibre cost increases materialised quicker than price increases.
- **UPM Communication Papers continues to reduce capacity (-12%, equal to 610Kt/yr) with customer demand and ensure competitiveness:** UPM plans to close their Hürth newsprint mill (-330Kt/yr) and one fine paper machine (PM3: -280Kt/yr) at Nordland Papier in Germany latest by the end of 2024. The planned actions are estimated to result in annual fixed cost savings of €45mn.
- **UPM Raflatac deliveries recovered from last year's lows as European market demand recovered, up 23% from last year, but down -4% from Q1 (16% of EBITDA):** Successful margin management meant the EBITDA margin came in at 12.6%, up 251bps YoY, but softer QoQ (-208bps). The segment has accelerated growth in Graphics by acquiring Grafityp, with typical applications such as indoor and outdoor advertising, signage and vehicle wrapping. The Graphics global market size is c.€4bn and grows around 4-5% pa.
- **UPM Specialty Papers delivered good results despite higher pulp prices (14% of EBITDA):** Sales increased by +5% YoY (-8% QoQ), with deliveries recovering from last year (+9% YoY; -7% QoQ), especially in specialty grades, while demand for fine papers in Asia stabilised. Selling prices for the segment remained soft YoY (-4%), while broadly stable QoQ. EBITDA slumped -19% QoQ (+164% YoY) with an EBITDA margin of 15.8%.
- **Guidance remains unchanged for FY 24e:** FY 24e EBIT expected to be higher YoY, supported by higher delivery volumes, the ramp-up and optimisation of the UPM Paso de los Toros pulp mill, and lower fixed costs. Demand for many UPM products is expected to gradually improve as the destocking seen in 2023 is over. The market conditions for renewable fuels are expected to be weaker than last year. Meanwhile, H2 EBIT is expected to be higher HoH driven by UPM Fibres, with the full pulp capacity available and pulp price levels starting at a higher level than at the start of the year. No major maintenance shutdowns are scheduled for H2 and the timing of the annual energy-related refunds is expected to support the result in Q4.

Financial summary (€mn)

| UPM Group (€mn) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
|---------------------------------|---------------|---------------|---------------|------------|------------|
| Sales | 2 558 | 2 640 | 2 546 | 0% | -4% |
| Comparable EBITDA | 255 | 489 | 359 | 41% | -27% |
| EBITDA margin (%) | 10.0% | 18.5% | 14.1% | 413 | (442) |
| D&A | 141 | 156 | 177 | 26% | 13% |
| Comparable EBIT | 114 | 333 | 182 | 60% | -45% |
| EBIT margin (%) | 4.5% | 12.6% | 7.1% | (221) | 92 |
| EPS | 0.15 | 0.51 | 0.05 | -67% | -90% |
| ROCE (%) | 2.5% | 9.6% | 1.6% | (90) | (800) |
| Operating CF | 459 | 335 | 204 | -56% | -39% |
| Net debt | 2 557 | 2 312 | 2 763 | 8% | 20% |
| Net debt/EBITDA | 1.1 | 1.5 | 1.6 | 53% | 12% |
| Personnel (end of period) | 17 571 | 16 132 | 16 776 | -5% | 4% |
| Revenue contribution (%) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
| UPM Communication Papers (€mn) | 36% | 30% | 28% | (761) | (245) |
| UPM Fibres (€mn) | 30% | 33% | 39% | 910 | 635 |
| UPM Specialty Papers (€mn) | 14% | 15% | 14% | 77 | (62) |
| UPM Raflatac (€mn) | 14% | 15% | 16% | 164 | 10 |
| EBITDA contribution (%) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
| UPM Communication Papers | 40% | 19% | 14% | (2 540) | (522) |
| UPM Fibres | 16% | 39% | 54% | 3 757 | 1 457 |
| UPM Specialty Papers | 9% | 15% | 16% | 753 | 143 |
| UPM Raflatac | 14% | 12% | 14% | (19) | 166 |

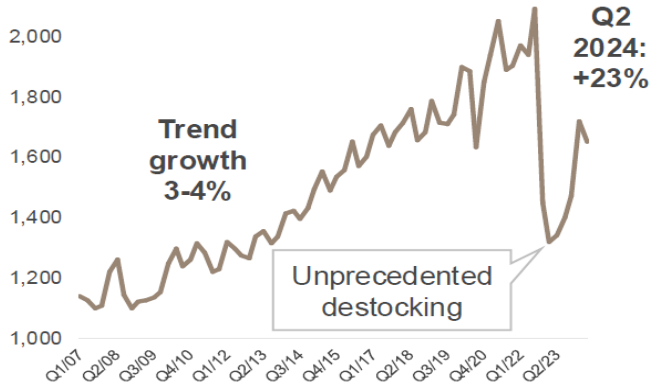
Source: Company data, Chronux Research

Segmental summary (€mn)

| UPM Fibres (€mn) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
|--|--------|--------|--------|---------|---------|
| Sales | 764 | 861 | 992 | 30% | 15% |
| EBITDA | 42 | 193 | 194 | 362% | 1% |
| EBITDA margin (%) | 5.5% | 22.4% | 19.6% | 1 406 | (286) |
| FV gain/(loss) of forest assets and wood harvested | (8) | (5) | (8) | 0% | 60% |
| D&A and impairments | 59 | 80 | 87 | 47% | 9% |
| EBIT | (24) | 108 | 99 | 313% | -8% |
| EBIT margin (%) | -3.1% | 12.5% | 10.0% | 1 312 | (256) |
| Items affecting comparability in EBIT | - | - | - | - | - |
| Comparable EBIT | (24) | 108 | 99 | 313% | -8% |
| Comparable EBIT margin (%) | -3.1% | 12.5% | 10.0% | 1 312 | (256) |
| Capital employed | 6 843 | 7 075 | 7 112 | 4% | 1% |
| ROCE (%) | -1.4% | 6.1% | 5.6% | (480) | (640) |
| Pulp deliveries (kt) | 974 | 1 185 | 1 126 | 16% | -5% |
| Average selling price (€/t) | 784 | 727 | 881 | 12% | 21% |
| UPM Energy (€mn) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
| Sales | 134 | 210 | 130 | -3% | -38% |
| EBITDA | 30 | 88 | 17 | -43% | -81% |
| EBITDA margin (%) | 22.4% | 41.9% | 13.1% | (931) | (2 883) |
| D&A and impairments | (1) | (2) | (2) | 100% | 0% |
| EBIT | 31 | 87 | 16 | -48% | -82% |
| EBIT margin (%) | 23.1% | 41.4% | 12.3% | (1 083) | (2 912) |
| Capital employed | 3 112 | 2 471 | 2 362 | -24% | -4% |
| ROCE (%) | 3.6% | 14.0% | 2.6% | (100) | (1 140) |
| Electricity deliveries (GWh) | 3 056 | 2 945 | 2 532 | -17% | -14% |
| Average selling price (€/Gwh) | 43 848 | 71 307 | 51 343 | 17% | -28% |
| UPM Raflatac (€mn) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
| Sales | 357 | 409 | 397 | 11% | -3% |
| EBITDA | 36 | 60 | 50 | 39% | -17% |
| EBITDA margin (%) | 10.1% | 14.7% | 12.6% | 251 | (208) |
| D&A and impairments | 13 | 9 | 11 | -15% | 22% |
| EBIT | 23 | 51 | 39 | 70% | -24% |
| EBIT margin (%) | 6.4% | 12.5% | 9.8% | 338 | (265) |
| Capital employed | 746 | 707 | 723 | -3% | 2% |
| ROCE (%) | 13.7% | 27.9% | 21.7% | 800 | (620) |
| UPM Specialty Papers (€mn) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
| Sales | 349 | 397 | 367 | 5% | -8% |
| EBITDA | 22 | 72 | 58 | 164% | -19% |
| EBITDA margin (%) | 6.3% | 18.1% | 15.8% | 950 | (233) |
| D&A and impairments | (18) | (21) | 17 | -194% | -181% |
| EBIT | 4 | 51 | 38 | 850% | -25% |
| EBIT margin (%) | 1.1% | 12.8% | 10.4% | 921 | (249) |
| Capital employed | 855 | 795 | 796 | -7% | 0% |
| ROCE (%) | 1.7% | 25.5% | 20.7% | 1 900 | (480) |
| Paper deliveries (kt) | 327 | 387 | 358 | 9% | -7% |
| Average selling price (€/t) | 1 067 | 1 026 | 1 025 | -4% | 0% |
| UPM Communication Papers (€mn) | Q2 23A | Q1 24A | Q2 24A | YoY | QoQ |
| Sales | 909 | 802 | 711 | -22% | -11% |
| EBITDA | 101 | 95 | 51 | -50% | -46% |
| EBITDA margin (%) | 11.1% | 11.8% | 7.2% | (394) | (467) |
| D&A and impairments | 21 | 16 | 57 | 171% | 256% |
| EBIT | 67 | 100 | 77 | 15% | -23% |
| EBIT margin (%) | 7.4% | 12.5% | 10.8% | 346 | (164) |
| Comparable EBIT | 80 | 79 | 35 | -56% | -56% |
| Comparable EBIT margin (%) | 8.8% | 9.9% | 4.9% | (388) | (493) |
| Capital employed | 1 459 | 1 215 | 1 120 | -23% | -8% |
| ROCE (%) | 22.0% | 26.1% | 12.4% | (960) | (1 370) |
| Paper deliveries (kt) | 885 | 879 | 790 | -11% | -10% |
| Average selling price (€/t) | 1 027 | 912 | 900 | -12% | -1% |

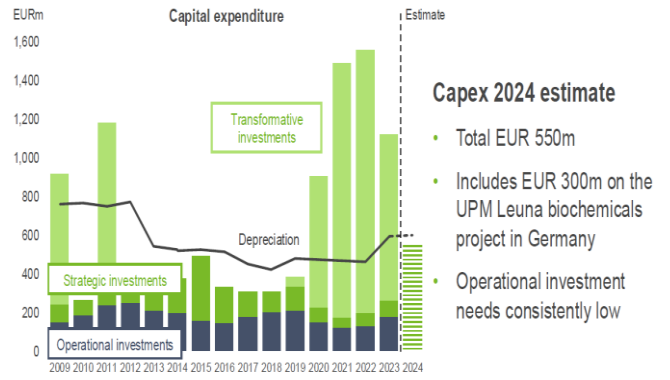
Source: Company data, Chronux Research

Self-adhesive label materials market shipments in Europe (mn m2)



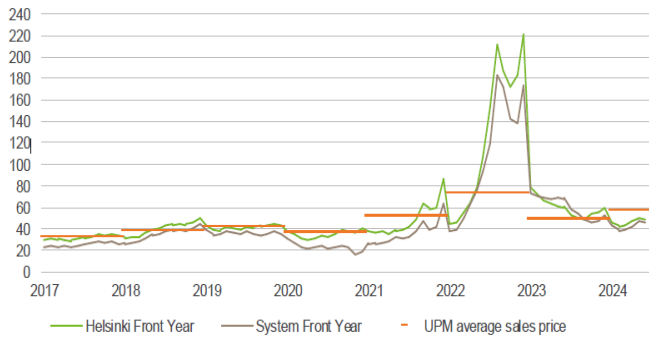
Source: Chronux Research, Company data, FINAT

Major investment cycle coming to an end



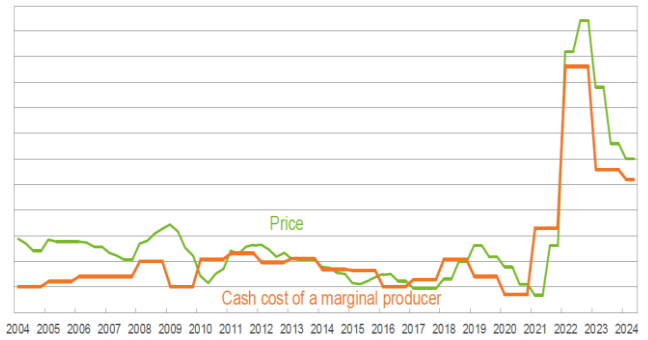
Source: Chronux Research, Company data

Electricity prices (€/MWh)



Source: Chronux Research, Company data, FINAT

Paper price vs. cash cost of marginal cost producer



Source: Chronux Research, Company data, PPI, RISI, AFRY

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