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Speakers:	Mika Joukio, CEO Jussi Noponen, CFO Kati Sundström, Head of Investor Relations
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PRESENTATION

Mika Joukio

Good morning or good afternoon to everyone, depending on your location, and welcome to the presentation of Metsä Board's January–September 2020 results.

My name is Mika Joukio – I'm the CEO of Metsä Board. Here with me are Metsä Board's CFO Jussi Noponen and Head of Investor relations, Kati Sundström.

First – a summary of development in the third quarter, which went better than we had earlier expected.

Our paperboard sales volume exceeded our expectations and was at the level of the strong second quarter. In folding boxboard and coated white kraftliner our production capacity was in full use and sales prices remained stable. Our order books were on a good level throughout the quarter and therefore we can expect solid sales performance to continue in Q4 and beyond.

The end uses of our paperboards are mainly in consumer and retail packaging, where the demand has remained good, despite the uncertain economic situation.

Our mills continued their strong performance. During the third quarter, there were several annual maintenance shutdowns, for example, at Kemi integrated mill and at Husum integrated mill. Part of Husum's maintenance continued into October, as planned. All maintenance work went well, and negative profit impacts remained at the lower end of the estimated range. The total negative impact from the maintenance was roughly 10 million euros compared to the second quarter.

Our cash flow generation remained strong. In July–September, our operating cash flow was 74 million euros. This was already the fourth consecutive quarter with strong cash flow.

The global pulp market is still negatively impacted by the sharp decline in paper consumption, especially in Europe. However, in China, softwood market pulp demand increased somewhat during the third quarter.

Then, an update on the impact of Covid-19 on Metsä Board so far.

Overall, the negative impacts of the pandemic have been smaller than we had expected.

The pandemic has increased the demand for food, beverage and pharmaceutical packaging. At the same time, the demand in graphic end uses and luxury products packaging has declined.

We've managed to avoid the spread of infection, and our production has been in full swing throughout the year. And as I already mentioned, annual maintenance shutdowns have also proceeded well.

During the pandemic, we have had substantial precautionary measures in place, both in our mills and offices, ensuring the safety of all employees and business continuity.

And good demand can also be seen in our paperboard deliveries.

Our total paperboard delivery volume was 461,000 tonnes in the third quarter, slightly exceeding the Q2 level. But compared to the same quarter last year, this is a bit lower.

Year-to-date delivery volumes were almost 1.4 million tonnes, which is higher compared to the corresponding period last year. And as you can see from the graph, total delivery volumes have been rising throughout the whole year. This is a good performance for these uncertain times, and I am particularly pleased by this.

And then, a closer look at the sales split and development by market area during the review period.

In the EMEA region, delivery volumes grew in folding boxboard, but declined in white kraftliners. There has been occasional oversupply for uncoated white kraftliners, and for that reason, we have also curtailed our production somewhat. The price level for folding boxboard remained stable but declined slightly for white kraftliners, compared to the corresponding period last year.

Americas, and especially the US, have performed well. This good development has been supported by robust demand for food, beverage and pharma packaging, together with growth in e-commerce. We have been successful in our actions to improve our sales mix and customer base – which nowadays includes brand owners, too. Our delivery volumes in both FBB and coated white kraftliners to Americas grew from last year's levels, and prices remained stable in local currency.

Our operating result in the third quarter was 62 million euros, 20 million euros higher compared to the third quarter last year. Profitability was supported by lower production costs especially in paperboard business. Also, the corona pandemic has brought savings in fixed costs, such as travel costs. Changes in FX after hedges had a positive profit impact of 7 million compared to the third quarter in 2019.

The operating result for January–September was 157 million euros.

Again, the wood costs in pulp production and pulp costs in paperboard production were clearly lower compared to last year. So were the energy, other raw material and fixed costs.

The operating result was also improved by increased delivery volumes and positive FX impacts after hedges.

For both periods, the operating result was burdened by clearly lower market pulp prices and a smaller result share from our associated company Metsä Fibre.

Our return on capital employed exceeded 14% in the third quarter, the 12 month rolling ROCE being at 11%. So, we are reaching our targeted level, at least 12 per cent. Again, a very good achievement in a very uncertain economic environment.

Then, to market pulp.

During the review period, January–September, the average market prices for long-fibre pulp weakened by 19 per cent in Europe and 12 per cent in China compared to the corresponding period last year.

The corona pandemic has accelerated the decline in demand for printing and writing paper, a large end-use for pulp. The sharp decline has been offset by increased demand for tissue and hygiene products, but it has not been enough to balance the demand and supply situation for long-fibre pulp. However, during the third quarter, the market situation picked up slightly in China with increasing demand.

Towards the end of the year, the pulp supply will be reduced due to production curtailments announced by certain pulp producers and several planned annual maintenance shutdowns. Also, the fourth quarter is seasonally the strongest quarter for the pulp business.

However, at the same time, the global inventory levels are still high.

Our operating cash flow continued its strong performance. In January–September, the operating cash flow was 227 million euros, and over the past 12 months, cash flow generation has been over 300 million euros.

Let's repeat the main reasons for the strength:

First, the strong working capital growth typical for the first half of the year did not occur due to production losses caused by the strikes at Finnish mills. Second, the lower pulp price has increased the share of Metsä Board's own board mills, and correspondingly reduced the share of the associated company Metsä Fibre, in generating cash flow.

Total investments in January–September were 118 million euros. The total investments for the full year 2020 will be around 180 million euros, of which 120 million euros has been allocated to the Husum pulp mill renewal.

And now an update on this project.

The environmental permit process has taken longer than we expected, and this prevents us from starting the erection of the new recovery boiler. The foundation work of the new boiler, which we started in March, is already completed.

The good news is that there has been no material disagreement on the permit conditions between the company and the Swedish authorities, and we are still expecting to make the final investment decision by the end of this year.

However, we have slightly revised our earlier estimates: a new estimate for this investment for this year is roughly 120 million euros (was 140 million euros) and we now estimate that the new recovery boiler and turbine will be in operation during the first half of 2022, at the earliest. Our previous estimate for start-up was the fourth quarter of 2021.

So, no major changes considering the significance of this investment to Metsä Board. It will create an excellent platform for us to develop our paperboard capacity in the Husum integrated mill in the future. In addition, it's an important step for us to take us closer to our ambitious target of fossil free mills by 2030.

Our balance sheet is strong, and net debt reached its lowest level in several quarters, 277 million euros, despite large investments this year. This, together with good profitability, pushed our leverage to the level of 1.0. This is well below our targeted ceiling level, which is a maximum of 2.5.

And moving on to the outlook.

We estimate that our paperboard delivery volumes in the fourth quarter will slightly decline from the third quarter. This dip in deliveries is quite typical this time of the year, and is caused by seasonally slower December.

We expect paperboard prices to remain stable in local currencies.

The mill's maintenance work will continue to have an impact on the fourth quarter profitability: first, the annual maintenance shutdown at Husum integrated mill was partly in September, and partly in October. In addition, Metsä Fibre's three pulp mills will have maintenance shutdowns in the fourth quarter. Maintenance works will also be carried out at our non-integrated mills in Finland. We estimate that the positive delta from maintenance between Q4 and Q3 operating result will be some 2–3 million euros.

Metsä Board's market pulp deliveries are expected to increase in the fourth quarter, compared to the third. This is mainly driven by increased demand in China.

And both production costs as well as FX impacts after hedges are expected to remain stable.

Based on these assumptions and current visibility, we estimate that our operating result in the fourth quarter will remain roughly at the same level as in the third quarter.

Now to summarise.

Metsä Board's business has performed well, and the negative impacts of the corona pandemic have so far been smaller than we have earlier expected. And for this reason, at the beginning of October, we had to raise our earlier estimate of our third quarter result.

The demand for our fresh fibre paperboards has remained on a good level.

We have been able to maintain the health and safety of the employees at our mills, our production has been running smoothly, and the annual maintenance works have been carried out without any major hick-ups.

And, what is more, our profitability has remained good and cash flow strong.

We have started to see some signs of a recovery in the Chinese pulp market. Demand for softwood pulp has picked up and price levels have slightly increased. Despite this recovery, we still cannot expect that the pulp market has permanently improved. In Europe, the market situation still remains somewhat uncertain.

As regards our Husum pulp mill renewal in Sweden, we expect to make the final investment decision during the fourth quarter. This is an important investment to us, as it will take us closer to our ambitious target of fossil free mills by 2030 and create a solid platform to develop our paperboard business in Husum's integrated mill in the future.

Ladies and gentlemen, that was the presentation, and now it's time for questions, please.

Q&A

Operator

Thank you. If you wish to register for an audio question, please do so by pressing 01 on your telephone keypad. If you wish to withdraw your question, please do so by pressing 02 to cancel. Once again, 01 on your telephone keypad if you wish to ask an audio question. There will be a brief pause whilst we wait for questions to be registered.

Our first question comes from Antti Koskivuori from Danske Bank. Please go ahead.

Antti Koskivuori

Thank you. A few questions from me; starting with the folding boxboard and the pricing outlook. You imply quite good and strong demand in Europe and in US, however, some comments from the producer side imply pressure for the European folding boxboard prices. I was just wondering how would you describe the market balance and the pricing outlook for 2021? That would be the first question. I'll start with that then we can take it further.

Mika Joukio

Yes, of course. The contract negotiations concerning next year, they are ongoing at the moment in Europe. Demand and supply balance here in Europe is healthy. Our order inflow is good. So we don't see any major difficulties here in this market, and then the US market, the situation is strong. Demand is very good, and we know that some competitors, they have close to capacity on SBS side. So also, there the outlook for prices is not that negative at all. So all in all, we don't see any kind of major pressure on prices at this point. We know more when the negotiations are over.

Antti Koskivuori

Yes, thank you. Second question on FX. I guess you have now hedged more or less the next six months fully when it comes to FX, and you guide neutrally impacted in Q4 versus Q3. I was just wondering if you could give us an indication what you see as a profit impact from FX going into Q1 next year compared to the current level.

Mika Joukio

OK, Jussi Noponen will take this.

Jussi Noponen

Yes, so in US dollars we will see more or less the full negative impact from the recent development already in the first quarter, whereas in Swedish kronor not so much yet in the first quarter. So, I would say all in all you can expect about 5 to 10 million negative versus the fourth quarter.

Antti Koskivuori

All right thanks, very clear. Still one question on maintenance. I was just wondering if, looking at next year, if Q1 is typically very quiet when it comes to maintenance for you, should we expect the same to happen in 2021 or is there something that you have postponed from H2 '20 into next year?

Mika Joukio

Yes, I know – Mika Joukio here – so next year will be pretty much— We are planning next year as normal year, so during the first quarter we won't have any major maintenance shutdowns. But then second, third and fourth, then we will see them.

Antti Koskivuori

Yeah, but those will be kind of normal, nothing extraordinary as such.

Mika Joukio

That's true.

Antti Koskivuori

OK, thank you very much.

Operator

Our next question comes from Robin Santavirta from Carnegie. Please go ahead.

Robin Santavirta

Thank you very much. So, you say demand of folding box board in Europe and North America is good at the moment. What do you see regarding linerboard market for coated and uncoated? And I was wondering about the development in Q3 and the current market situation.

Mika Joukio

Yes, starting from folding boxboard. As you said, demand and supply balance is good and we see that the demand will continue to be good also. Also, in Q4 and then next year. Then linerboard, so especially coated, coated white kraftliner, and especially in the US, the demand has been very, very good. And we will not see any reason why it wouldn't be the case also in the near future. As far as then the uncoated white kraftliners are concerned there has been some oversupply here in Europe, and we, among other producers, we curtailed production also during the first half of the year, but now the situation has improved also in uncoated white kraftliner side.

Robin Santavirta

Alright. Thank you. Then I have a question related to costs in the paperboard business in general. It seems as if the cost per tonne is down 10% year on year, if you look at the past two quarters. What is driving such a big decline? What is the cost outlook in that business for the end of the year and for the winter?

Mika Joukio

So, the estimation for Q4 is that production costs will be pretty flat comparing Q3. No reason to believe something else.

Robin Santavirta

Right. I understand. What are the reasons for the large decline? I assume you have clearly lower wood raw material costs, especially in Sweden, and you have lower pulp cost in the paperboard business, perhaps lower energy as well but is there anything else? Or is it just input cost being low at the moment? Or is it something exceptional over the past couple of quarters in costs in the paperboard business that we should not expect for Q4 or for Q1?

Mika Joukio

I think you listed quite nicely the main elements of costs. As you said, wood prices, pulp prices and then energy. They are other key elements. So, your assumption was right.

Robin Santavirta

And looking at the key element fibre cost now for the end of the year, I would assume is a tailwind? Or is it unchanged, quarter on quarter?

Mika Joukio

Yes, you're right.

Robin Santavirta

But will it be lower Q4 compared to Q3? So, fibre cost in the paperboard business or do you expect it to be stable?

Mika Joukio

Quite flat, quite stable.

Robin Santavirta

Alright. Thank you.

Operator

Our next question comes from Mikael Doepel from UBS. Please go ahead with your question.

Mikael Doepel

Thank you. Just a question on demand. I'm trying to get my head around what's really happening there. What we have seen now, I guess both in Europe and in the US is a better than assumed demand trend overall. I was wondering if you could give some details on where in particular you see strong demand and if you expect a reversal once the impact of the pandemic fades, perhaps sometime next year, and also do you see any indications of a strong pre-buying ahead of the Christmas season? Perhaps some inventory build among customers driving demand currently, which could soften ahead. Any thoughts around this would be highly appreciated.

Mika Joukio

Yeah, if you take folding boxboard. So, our delivery volumes this year here in Europe are 13,000 tonnes higher and America's even 18,000 tonnes higher than last year and we have seen extremely good demand, especially in food, beverage and then pharmaceutical sector for packaging. But then of course lower demand in graphic end uses as well as in the luxury packaging packaged products. But demand has been good both here in Europe as well as in the Americas, and we do not see any reason why it wouldn't continue to be so also in the near future.

Mikael Doepel

OK, you haven't seen any indications of some pre-buying ahead of Christmas or inventory build or anything like that? Just basically good normal demand.

Mika Joukio

Yeah, of course December is always lower comparing to the other months because of Christmas. But if you think about production for Christmas purposes, of course then this production is made already in summertime and early autumn and not in December as such. So December is seasonally slower and that's it.

Mikael Doepel

OK, and then on the US you mentioned a very strong US market then and good progress on increasing your folding boxboard volumes in that particular market. If I remember correctly, you have a target to reach 300,000 tonnes of FBB there and I guess you are running close to that target perhaps already this year, but when do you expect to reach the full 300 000? Could we expect to see it up already next year? Or how should we think about that?

Mika Joukio

OK, planning for next year is ongoing, and we won't reach that this year, that's clear, but it will be next year or 2022, remains to be seen . Planning is ongoing and let's see. I don't have any figure for you at the moment considering next year, but target is to grow from this year.

Mikael Doepel

OK, OK, alright, good and then just finally on production costs. You already commented a bit on what's happening there now into Q4, but if you would assume the current levels remain pretty much where they are, I guess it's fair to assume that next year you should actually have production costs overall down on a year over year basis. Would that be a fair assumption?

Mika Joukio

You mean for next year?

Mikael Doepel

Yeah.

Mika Joukio

Versus Q1?

Mikael Doepel

Versus the average for 2020.

Mika Joukio

Maybe it's a little bit too early to say it, because where the pulp prices will go, that's a question mark even though some positive signs in Chinese markets, still Europe is quite uncertain. So, I can't say at the moment. We have to wait another month or two to kind of have a more clear picture on that. But I don't expect any big changes, but whether they are up or down remains to be seen.

Mikael Doepel

Yeah, sure, good. Thank you very much.

Operator

Thank you. Our next question comes from Harri Taittonen from Nordea. Please go ahead with your question.

Harri Taittonen

Yes, good afternoon. Thanks for taking the questions. Some comments on the pulp side still remain unanswered. You made comments on the extended shutdowns overall, the market affecting the long fibre pulp supply, but do you have colour on how much these sort of extra curtailments or the curtailment amount roughly in tonnage terms? I just wonder if you have colour on that from a sort of general market point of view. And then related to your guidance, you guided your own pulp volumes up, but it's the Metsä Fibre volumes, they will probably be down and I was wondering if Metsä Fibre is kind of extending their downtime also compared to the usual length.

Mika Joukio

Yeah, so starting from the from the curtailments. Our estimation is based on the information we have, is 370,000 tonnes of our fibre curtailments altogether, if you calculate all the mills that we know. And then as far as the Metsä Fibre deliveries are concerned, probably they will be slightly

higher in Q4 than Q3 because Q4 is typically and historically very strong or strong quarter in pulp business.

Harri Taittonen

OK, so despite of this maintenance that would be sort of more?

Mika Joukio

Inventories are there, so.

Harri Taittonen

Yeah, sure. Sure. Great, OK. Thank you very much.

Operator

Thank you. Our next question comes from Linus Larsson from SEB. Please go ahead.

Linus Larsson

Thanks, and good afternoon. I think you'd agree that cash flow surprised positively so far this year. And at the same time, the Husum project is delayed. I wonder if those factors affect your thinking around capital allocation to any degree. Are you now increasingly looking at potential paperboard investments, for instance? And also, in this context you are, I think you write that you are net long 600,000 tonnes of pulp and that figure will clearly increase once your 25% stake in the Kemi mill becomes real. If you could talk us through that, it would be very interesting. Thank you.

Mika Joukio

Yeah, first of all the capital allocation. And I think it wasn't the delay in Husum, the estimation still is 320 million. Of course, it will be a little bit different divided between the years than we originally estimated, but in the big picture there are no major changes. Then if you think about the possible paperboard investments, I repeat my earlier message that we calculate different options and when the time is right, then we will come out, but at this point I can't reveal anything more on that.

And then this net long position. So, at the moment you put it right, so it's 600,000 tonnes. What will be the case then after the Kemi investments, that's another question of course and remains

to be seen. I think this kind of also ownership in fibre is not carved in stone, but let's see, let's see when the decisions are made and what future will come.

Linus Larsson

That's interesting, what you said lastly. What is your long-term targeted pulp balance for Metsä Board?

Mika Joukio

We don't have a long-term target on this, because it depends of course a lot on what is our paperboard production capacity also, so how much we are utilising ourselves.

Mika Joukio

It's a very good situation that we have this pulp available for growth, and we don't have to buy outside the company.

Linus Larsson

No, that's for sure. That's for sure. No, I'm just thinking, it sounds as if you might, you and Metsä Group might reconsider the ownership stake in conjunction with the completion of the Kemi project, but I guess that's still early days how that may play out.

Mika Joukio

Yeah, I didn't precisely say that. I said that the ownership is not carved in stone. I didn't say when and how much it could be changed.

Linus Larsson

That's helpful, thanks, and just finally on this capex allocation topic. You slightly lowered capex for 2020 due to the Husum project. Do you have a figure, or rough indication for capex in 2021?

Jussi Noponen

Yes, you can expect similar levels or slightly higher than this year and mainly this capex that we sort of saved from this year, it will be pushed to 2022, so no major impacts on our earlier estimates for next year.

Linus Larsson

Great, thanks.

Operator

Thank you. Our next question comes from Johannes Grunselius from Kepler Cheuvreux. Please go ahead with your question.

Johannes Grunselius

Yes, hi everyone. It's Johannes Grunselius here from Kepler Cheuvreux. I have a question on how one should think about mix dynamics because in Q3 as well in Q2 you had a lot of increased volumes to food and pharma and less so to luxury segments. Is it the same sort of EBITDA per tonne for all these segments, or do you earn a higher EBITDA per tonne in luxury segments? That's my first question.

Mika Joukio

In rough figures they are pretty much similar. Of course, the products vary a little bit but in big picture no big changes or differences.

Johannes Grunselius

Because what I'm after is how one should view mix for the coming quarter, let's say 2021. Do you think you can take opportunities in terms of geographies, niche segments and so forth and thereby increase the profits through a better mix? Or how should one view on that one, on that aspect?

Mika Joukio

Yeah, of course we produce what customers order and I said profitability of different products, they are not that much different. So of course, it has impacts on the products and cycles at the mills. That's clear, at what grades we are producing, but that is not significant.

Johannes Grunselius

OK, OK, that's useful to know, and could you just remind us about on kraftliner, how much is coated and how much is uncoated? And because I know there is obviously a price premium on the coated materials, do you foresee that you can improve this ratio for next year?

Mika Joukio

Yeah, so the Husum white kraftliners, they are all uncoated. And then as far as Kemi is concerned it's about, let's say, 350,000 tonnes is coated and the remaining 70,000 tonnes, roughly, is uncoated.

Johannes Grunselius

OK. Are you running at full speed on the coated materials?

Mika Joukio

Yes, we do.

Johannes Grunselius

OK, OK, that's good to know. OK, and all my other questions have been discussed earlier, so thank you very much.

Operator

Thank you. Just as a reminder, if you wish to ask an audio question, you may do so by pressing 01 on your telephone keypad. Once again, it's 01 on your telephone keypad if you wish to ask an audio question.

Our next question comes from Markku Järvinen at Handelsbanken. Please go ahead with your question.

Markku Järvinen

Yes, good afternoon. I still had a few more questions. Perhaps, could we discuss a bit more about Metsä Fibre and their volume development this year? They'd reported that volumes are down 14% this year, and capacity utilisation, if you look at deliveries the capacity seems to be sort of around 80%. Could you talk about that dynamic and how much inventory have they built and what is the thinking behind this sort of situation?

Mika Joukio

Yeah, of course the biggest contributor is the strike. That really impacted the volumes that need to be remembered. All the pulp mills of Metsä Fibre are located in Finland and of course, the strike had a significant impact on the volume.

Markku Järvinen

And now in Q3, was Metsä Fibre still building up inventory? Is it sort of, and is that meant to be taken down now in Q4 when there is all this maintenance?

Mika Joukio

Yes, of course. Target is to get down the inventories now and at three mills they have shut down now, a maintenance shutdown. And as I said, fourth quarter is historically strong in pulp, so the intention is to go down as far as inventory levels are concerned.

Markku Järvinen

OK, very good. And then you said you've seen softness in unbleached white liners in terms of—

Mika Joukio

Uncoated, uncoated.

Markku Järvinen

Sorry, sorry, uncoated white liners, in terms of supply/demand, but that has improved. I wonder if you could sort of discuss the market dynamics there. We've seen BillerudKorsnäs with a lot of capacity for the uncoated market this year. They plan to shift to more coated markets, more to folding boxboard. Eventually, this liquid packaging board. But have you seen them in the market? And so how do you see that dynamic developing? Are they headed to coated white liners or folding box boards? Where do you see them now in the market and how does that impact the market balance in the various segments?

Mika Joukio

Yeah, I don't want to comment on one single competitor in this case, but as I said already in the presentation, the reason for softness in uncoated white kraftliners is the oversupply situation that we have. And now the situation or the balance is better, but during the first quarter and second quarter in the summertime it was worse, but now it's better and order inflows are thicker and order books are better for us.

Markku Järvinen

Very good, thank you very much.

Operator

Thank you, our next question comes from Robin Santavirta from Carnegie. Please go ahead with your question.

Robin Santavirta

Yeah thank you. Two follow up questions. First of all, could you just remind us about the financial impact of the earnings for you guys as a group from the strike we had in Finland, and whether that burdened Metsä Fibre part more or the paperboard part of Metsä Board more. And then secondly, a question related to potential future growth. Could you also consider M&A as a prospect for growth? So those two ones. Thanks.

Mika Joukio

OK, so the strike impact from Metsä Board, negative impact, was 20 million and then for the whole group, for Metsä Group it was 50 million. So that was the impact. And as far as the M&A issues are concerned, of course we're looking around all the time, but our kind of preliminary target is not to grow by that. But as I said, of course we are looking around.

Robin Santavirta

Understood, thanks.

Operator

Thank you. There appears to be no further questions so I'll hand back to the speakers for any other remarks.

Mika Joukio

OK, ladies and gentlemen, thank you very much for your questions, for your interest, and I wish you a nice continuation of the day and most importantly, I wish that everybody will stay safe. Thank you very much. Bye now.