

Transcription

Metsä Board Q1 Interim Report 2021

28 April 2021

Mika Joukio

Good afternoon everyone and welcome to the presentation of Metsä Board's Results for the first quarter of 2021.

My name is Mika Joukio, I'm the CEO of Metsä Board. Here with me I have our CFO Jussi Noponen and Head of IR Kati Sundström.

Despite the coronavirus pandemic, the year 2021 started favourably for Metsä Board. We witnessed a strong demand for both folding boxboard and for white kraftliners in all market areas, and our paperboard delivery volumes were at record-high levels.

At the same time, the global pulp market strengthened and prices of long-fibre pulp rose sharply – especially in China but also here in Europe.

As a result, our operating result improved to 89 million euros, and our operating margin was as high as 18 per cent.

Production volumes for paperboard and market pulp were also at record-high levels, due to low maintenance and further improved production efficiency at the mills.

At the beginning of the year, we sold a 30 per cent stake of our Husum pulp mill to Norra Skog. The deal ensures long-term availability of certified Swedish pulpwood and decreases the Husum mill's cost volatility, as less wood will be imported from the Baltic countries.

Along with this transaction, our net debt turned slightly negative.

Earlier this year, we started a development programme for Kemi paperboard mill, which will increase our annual white-top kraftliner capacity by 40,000 tonnes.

In addition, we are planning to increase our annual folding boxboard capacity by 200,000 tonnes in Husum. But no firm decision has been made yet.

So, our paperboard delivery volumes were at a record-high level and totalled 491,000 tonnes. Compared to the corresponding period last year, they grew by 9 per cent, and compared to the previous quarter, the growth was 11 per cent. And the good news is that, at the end of March, our order book was at an exceptionally high level, which predicts good paperboard sales for the second quarter of the year as well.

Demand was strong in all regions, which can be seen in the pie graphs on the right.

The impacts of the coronavirus on paperboard demand have been mixed: we have seen strong demand in food, beverage and pharma packaging, whereas segments like luxury

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packaging and graphic end uses have suffered. However, in the first quarter of this year demand was strong in nearly all end uses. In Americas, the growth in retail and e-commerce boosted the demand for our coated white kraftliners.

Then about the price development. In the EMEA region, the average prices of paperboards decreased slightly compared to the corresponding period last year. In the Americas region, prices in local currencies improved.

We have made several price increase announcements this year in Europe and in the Americas region. We believe the average prices for both folding boxboard and white kraftliners will rise in Q2 versus Q1.

Our sales increased by roughly 5 per cent compared to the first quarter last year.

The comparable operating result was 89 million euros, and the operating margin was 18 per cent. And when we compare the operating result to the result of the corresponding period last year, we need to remember that the strike at the Finnish mills weakened the Q1 2020 result by 15 million euros. Nevertheless, the year-on-year improvement was remarkable.

Here are listed the main items affecting the operating result in the first quarter.

The main positives were the increased paperboard volumes together with higher market pulp prices, which in turn led to a higher result share from Metsä Fibre.

On the negative side, we had the FX impact, roughly 5 million euros compared to the corresponding period last year. In addition, cost inflation has accelerated. Increased logistics costs and especially higher energy prices had a negative impact on first quarter results.

And strong earnings performance also boosted the return on capital employment. Comparable return on capital employed for the first quarter of 2021 was 18,3 per cent and rolling 12 months was 14,8 per cent. Both above our long-term target of at least 12 per cent.

Then to market pulp. Demand for long-fibre pulp has strengthened in Europe, but especially in China. Pulp demand has been supported by growing demand for fresh-fibre-based tissue papers and the growing e-commerce market, which has increased paperboard consumption. At the same time, prolonged maintenance breaks mainly in Q4, together with unplanned production stoppages, have decreased pulp supply. The global shortage of containers has tightened the pulp market situation further. Market pulp prices have risen rapidly in both China and Europe.

Then the balance sheet, which is strong at the moment. The sale of a 30 per cent stake in the Husum pulp mill to Norra Skog decreased our net debt by 260 million euros and made us a net-debt-free company. And along with that, our leverage went to zero, just before the dividend payment. As a reminder, the capital gain from the transaction is recognized only in equity. 125 million euros was recognized as a minority interest and 135 million euros in retained earnings. No impacts reported in the P&L.

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Operating cash flow in January–March was 16.8 million euros. Cash flow in the first quarter is typically affected by strong growth in working capital when production volumes are at a high level. As seen in the graph, this did not happen last year, because the paper industry strike limited production at all Finnish mills. Investments during the review period were 35 million euros.

And then a few slides about ongoing and planned investments. Our biggest ongoing investment is the first phase of the Husum pulp mill renewal, which we expect to be ready next year.

After the review period, we increased the estimated investment value of this project from 320 million euros to 360 million euros. The design scope has been slightly expanded. The original schedule of the final investment decision was also delayed due to the unexpected length of the environmental permit process. The delay has exposed project purchases outside the main equipment deliveries to cost inflation, which has been quite significant in recent months.

The second phase of this investment consists of a new fibre line, which will be decided on and implemented during the 2020s. We have started preparations for the environmental permit process; the application will follow later this year.

In February, our associated company Metsä Fibre made an investment decision to build a new bioproduct mill in Kemi. The new mill will have an annual pulp production capacity of 1.5 million tonnes, and it will replace Metsä Fibre's old pulp mill in Kemi. The value of this investment is 1.6 billion euros, and it will be fully funded through Metsä Fibre's own cash and debt. So, no equity injections from owners.

Enabled by this investment, we have launched a development programme for our Kemi paperboard mill, in which the annual production capacity of white-top kraftliner – mainly coated – will be increased by 40,000 tonnes. In addition, the mill's water and energy use will be significantly improved. As part of the programme, we will purchase the modernised unbleached pulp production line from Metsä Fibre in 2023.

During the review period, we also launched pre-engineering to increase the annual production capacity of the Husum folding boxboard machine by approximately 200,000 tonnes. The readiness to make the investment decision is expected to be achieved in the summer of 2021. The planned increase in production would then begin in 2023.

We estimate that our capex for this and next year, in total, will be in the range of 450 to 550 million euros. The amount will be specified when a decision has been made on the investment concerning the expansion of folding boxboard capacity at Husum.

The annual maintenance capex will be around 50 to 60 million euros at least for the next two years.

Then the outlook. At the end of the first quarter, our order books were at a very high level, and we estimate that our paperboard delivery volumes will continue to grow. We also expect paperboard prices in local currencies to increase.

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As always, the second quarter will include more planned maintenance shutdowns than the first quarter. The negative impact from the maintenance shutdowns will be some 5–7 million euros.

Good demand for long-fibre pulp is expected to continue both in Europe and in Asia. Seasonal maintenance shutdowns and container availability issues will reduce the global pulp supply. The market situation will remain tight. Cost inflation accelerated during the first quarter and is expected to slightly increase further in Q2. We estimate that cost inflation for the full year 2021 versus 2020 will be around 3 per cent. And FX impacts after hedges will have a negative impact in the second quarter compared to the first. The difference will be around 6 million euros.

And based on this, we expect that our comparable operating result in the second quarter will improve compared to the first quarter.

And to summarize.

Despite the prolonged uncertainty caused by the coronavirus pandemic, Metsä Board has had a good start to the year 2021. Our paperboard delivery volumes were at an all-time high, and profitability was strong.

Thanks to our thick order book, our near future also looks good. Of course, our top priorities will still be securing the health and safety of our employees, ensuring business continuity, and preventing the virus from spreading.

The development of the global pulp market has also been strong, and rising market pulp prices have supported our results.

Good market demand for premium and sustainable paperboards, supported by our strong financial position, enable us to continue our investments in further development and growth.

And before we move into the questions part, I'd like to go through a couple of changes in our Corporate Management Team. Our current CFO Jussi Nojonen has been appointed Metsä Board's SVP, Sales and Supply Chain. Sari Pajari-Sederholm, now responsible for Metsä Board's Sales and marketing, has been appointed Metsä Group's EVP in Strategy. Henri Sederholm will take Jussi's position as our new CFO of Metsä Board. Henri's current position is Metsä Group's SVP, Group Finance. All changes are effective as of 1 May 2021.

And now, I believe Jussi wants to say a few words before we take your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question is from Antti Koskivuori of Danske Bank. Please go ahead.

Antti Koskivuori

Yes, thanks, and congratulations on a strong result, and congratulations, Jussi, for the new position. First question from me would be on cartonboard prices. Overall, it seems that there is fairly little resistance at the moment for price increases overall in the sector. Is it fair to assume that this is also the situation for folding boxboard and the announced €85 per tonne price increase? That would be the first one, thanks.

Mika Joukio

OK, so concerning the price increases we have here in Europe, we have given two price increases for white kraftliners, and one price increase for folding boxboard. And concerning the folding boxboard, of course, quite remarkable share of our deals are annual deals where the prices are fixed. So, this increase is not possible for all customers, but we do our best. And then, as far as the Americas market is concerned, there we have given two price increases for white kraftliner, and also two price increases for folding boxboard.

Antti Koskivuori

But could you give a—?

Mika Joukio

But how much, I can't estimate and give you an exact figure how much will go through because negotiations are still ongoing.

Antti Koskivuori

Sure. All right, thanks. Then, second, on the annual maintenance schedule that you have. It's emphasized in Q4. If you could give a number for each of the quarters, how the maintenance costs will evolve now in the three remaining quarters of the year?

Mika Joukio

Rough figures. First of all, Q2 is around 5 million to 7 million compared to Q1, as I said already in the presentation. And then, Q3, again, comparing to Q1, that's in the area of 10 million to 15 million. And then, Q4, then, 15 million to 20 million because this year Husum investment shutdown will be fully in Q4. And then, we also have other, for example, Metsä Fibre

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Äänekoski bioproduct mill, as well as, then, our Kyro paperboard mill. Investment shutdown will be, then, in Q4. So, these are the scales.

Antti Koskivuori

Excellent, thank you. Those were my questions, thanks.

Operator

Thank you. Next question is from Linus Larsson of SEB. Please go ahead.

Linus Larsson

Thank you very much. If I may follow up on the folding boxboard pricing, quite unusual that you launch price hikes this time of the year. I guess that's a reflection of an exceptional market that we're in. Nevertheless, could you please quantify what volume is potentially up for negotiation this time around?

Mika Joukio

You mean in folding boxboard or white kraftliners?

Linus Larsson

No, in folding boxboard. I'm aware you have some full-year contracts and maybe other setups as well, but how much could be renegotiated on price terms going into, say, the second or the third quarter?

Mika Joukio

If I start from Americas, there our volume is between 250,000 and 300,000 tonnes annually. We don't have annual deals; we have prices which are until further notice, or valid until further notice. So, there practically the whole volume can be renegotiated. But then, in Europe, the situation is different. Here, quite a remarkable share of the volume has fixed annual prices.

Linus Larsson

And roughly, you gave a very precise figure there on Americas, but in Europe, how many tonnes roughly could potentially be renegotiated for the second half of the year?

Mika Joukio

I don't have the figure for you at this point; only the figure for Americas, but not for Europe.

Linus Larsson

OK. And then, also, just a completely different topic: on wood supply. Now, with the Norra Skog partnership in place, what kind of cooperation can we expect, what synergies and what changes are you able to implement at this stage, and what might that mean in terms of supply costs?

Mika Joukio

Cooperation have started, as we know, when we closed the deal on 4th of January this year, but the operations in Husum are pretty much similar as before. We are running the integrate as one integrate, even though the ownership of the pulp mill is different. But then, of course, the benefits for us will be that then there will be less imported wood, from Baltic countries especially, and then the cost volatility will be, of course, lower, but we'll see the full impact only after the second investment phase of the Husum pulp mill, when we have the new fibre line. But of course, already, now, and before that investment, we can see positive development, and especially, then, the security of the wood supplies is better now.

Linus Larsson

OK. And then, just a final question, if I may, on pulp. This is more a question relating to Metsä Fibre, but I'm sure you can answer it as well. What's the latest development in terms of realised pricing for Metsä Fibre pulp in China? Is it on a net realised basis rising? Is it declining? Is it stable?

Mika Joukio

During this year, they have risen. And now the pulp prices are at the level of 1,000, and net price, of course, slightly lower, but that is the situation in there. And in Europe, the prices are still going up.

Linus Larsson

And net pricing for Metsä Fibre is still rising now we're some way towards the end of April, and should I understand you, that net pricing is still on an upward trend?

Mika Joukio

Yes, that has been the case.

Linus Larsson

Thank you.

Operator

Thank you. Next question is from Robin Santavirta of Carnegie. Please go ahead.

Robin Santavirta

Thank you very much. I have two questions related to costs. Now, first of all, if I look at Q1 and the paperboard business, or if I deduct Metsä Fibre, it seems as if cost per tonne for the paperboard business has declined quite a lot year on year, and even quarter on quarter. Why is that? What is the key driver driving down the cost per tonne in the paperboard business in Q1?

Mika Joukio

Jussi, you should take this.

Jussi Noponen

You have to remember that the comparison period was the strike quarter last year. So, that comparison does not give exactly the right picture. So, what we say in the outlook that we expect the 3% cost in place of year on year for the full year this year versus the full year last year. That gives a far more fair picture about the situation.

Robin Santavirta

OK, but in Q1, if you look at the key items of the paperboard business, probably: pulpwood, pulp, energy, logistics. How have these developed now during the start of the year?

Jussi Noponen

There have been remarkable fluctuations in individual cost components: some going sharply up, and some going slightly down. And for that reason, we want to simplify the answer and speak to that 3% cost inflation guidance.

Robin Santavirta

All right, then. And that probably is a little bit more back-end loaded, that 3%? Or how should we view that number?

Jussi Noponen

Most of that was already in the first quarter result, and some further inflation we expect for the second quarter. And the second half of the year, we expect to be seeing a slight cost deflation.

Robin Santavirta

You said cost deflation. What items should we expect of your costs to decline in the second half of this year?

Jussi Noponen

As I said earlier, we want to keep the communication about this matter simple and stick to the overall figure.

Robin Santavirta

I understand. OK, that's clear. Then, just a final question on the paperboard volumes. Really strong now in Q1, as you state. And then, you say, a record high order book. What is the key driver of this, and how are you performing compared to the market development? And I'm especially curious about the European market.

Mika Joukio

As I already mentioned, the order books are a record high at all the mills, at all the production lines. So, that's why we are estimating that the volumes will increase in Q2 compared to Q1. What has happened here in Europe is that the Chinese as well as the Latin American producers have withdrawn from the European market to their own home markets, and that has tightened the situation in certain parts of Europe, and partly also, the Middle East; so, that has been the case. We have seen extremely good order inflow from the food and pharmaceutical segments. But also, during Q1 we saw improvement in other end uses; so, also in graphical and cosmetics, for example. So now, practically all segments are doing fine, and customers are busy.

Robin Santavirta

I understand. Thank you very much.

Operator

Thank you. Our next question comes from the line of Johannes Grunselius from Kepler Cheuvreux. Please go ahead.

Johannes Grunselius

Hello, everyone. It's Johannes. My first question is on the inventory situation in Europe. Do you feel that clients are buying ahead of price hikes, and are ordering materials and so forth? Could you give some thoughts or your intelligence on that, how you see inventories? And are you a bit worried that this very strong situation could reverse because of the ever-changing inventory cycle. That's my first question.

Mika Joukio

Based on our understanding, and based on the discussions I have also with our customers, people are not building inventories at the moment. So, there is a real consumption behind this demand. There is always a risk, but I don't see that there is anything very remarkable at this point.

Johannes Grunselius

And then, you had the discussion on the earlier question there about, let's say, non-European players withdrawing volumes from the European market. Is it possible to put any numbers on that just to get a sense for the positive magnitude in the market balance from this?

Mika Joukio

I don't have the numbers for you, but you can find them, I think, from some public sources even. They are remarkable; they are high.

Johannes Grunselius

Maybe then, on your Q2 outlook, there are a couple of positive things here. One is obviously higher pulp price, you're guiding for better volumes, also price hikes for paperboard. Would it be possible for you to give some colour, which of these three elements – or if there are any other elements – are most important for the uplift in the earnings for the quarter over quarter?

Mika Joukio

No, those are the most important positive things, of course. Then, there is some negative. For example, currencies; they have a negative impact in Q2 compared with Q1, but these that you mentioned they are the key drivers in positives.

Johannes Grunselius

Yes, OK. Because I was wondering also a bit on the volume side because you showed higher volumes in Q1. How much more can you lift volumes from here? Because there must be some kind of limit before you hit the full capacity utilisation. Is it possible to give any indication where the absolutely maximum is, and where you think you will be in Q2?

Mika Joukio

I think the maximum is coming from production, of course. And in Q1, we produced more than we delivered to customers. So, we have still potential, let's say, some tens of thousands of tonnes during Q2, depending on where the inventories go.

Johannes Grunselius

But if I look at the last two quarters, it's not a new level of production in your system. You still have the same volumes, constraints. Or could you tweak out more volumes from here? That's what I'm wondering. For the coming quarter.

Mika Joukio

During the first quarter, the production volumes were a record high. Of course, it's possible to make a new record, but of course, the improvement is not that big. But luckily enough, the production really has been good the whole year last year, as well as in the first quarter of this year.

Johannes Grunselius

OK. Thanks for taking my questions. Very useful.

Operator

Thank you. Our next question is from Mikael Doepel of UBS. Please go ahead.

Mikael Doepel

Thank you. I have two questions. Firstly, on the Husum debottlenecking. You gave it a CapEx estimate for '21 and '22 of between €450 million and €550 million, and based on your commentary, I would assume that there is some of that debottlenecking baked into that. But I was wondering if you could clarify a bit what the size of that particular investment could be in total?

Mika Joukio

It's a little bit too early to say precisely. We have said earlier that it's somewhere probably between 100 million and 200 million. But where that finally will land, the calculation and planning is ongoing, and then we'll know better. Remains to be seen, but that is the magnitude. So, not as much as the new production line.

Mikael Doepel

And the full effect of that is baked into the CapEx indication for '21 or '22?

Jussi Noponen

There is some carryover expected for '23.

Mika Joukio

Of course, depending on when we are finally able to make a decision.

Mikael Doepel

And then, just finally on the Husum minority stake booking on your balance sheet. Could you just briefly explain how that's going to be booked now? I heard Mika mentioning something on that in the commentary here in the beginning. But if maybe you could just clarify a bit more how it's going to be booked, and why it's not really showing up as a minority on your P&L.

Mika Joukio

OK, Jussi will clarify.

Jussi Noponen

I think the balance sheet impacts, as was stated by Mika, they are as they are; there is not much more to say. There is a minority interest and a positive impact on retained earnings on the balance sheet. And in terms of P&L, you are right that in the P&L itself, the minority is not deducted. But then, after the P&L statement, if you flip to page 15 of our Q1 release, there is a table at the bottom of the page, how the non-controlling share has been deducted when calculating EPS.

Mikael Doepel

And when you move that into equity, I guess it has to come off in some way there, as well, on your balance sheet and minority share?

Jussi Noponen

Sorry. I did not understand the question.

Mikael Doepel

Because you reduced the minority impact from your EPS, but I guess that reduction should also be reduced from your net profit, which should reduce what you flow into your equity and balance sheet. Or is that not the case?

Jussi Noponen

Perhaps, Mikael, we can take this offline?

Mikael Doepel

Sure, absolutely. OK, good. Thank you very much.

Operator

Thank you. Our next question is from Harri Taittonen from Nordea. Please go ahead.

Harri Taittonen

Good afternoon, Mika and Jussi. A couple of quick questions already partly passed upon, but related to this volume. Just curious, from the technical point of view, that with your guidance for the second quarter also, that means that production for the six-month period was roughly record high. If we assume that demand holds on like it is for the second half, what would be the second half technical potential? How much lower would it be compared to the first half, given the maintenance and things like that? Just to get a feel of the potential there for the second half.

Mika Joukio

I don't have the exact figure for you, but these big maintenance shutdowns will take place, as you said, in the second half, like Kemi and Husum, for example. And of course, there will be, then, losses or curtailment, so to say. I would say somewhere around 15 to 20,000 tonnes, maybe, all in all, depending on how the start-up will go after shutdowns, *et cetera*. But then we remember that Q1 production was really good. Several production records, and so on.

Harri Taittonen

So, we should not use that traditional ruler method to extrapolate from here?

Mika Joukio

Of course you can, but then the answer is not right.

Harri Taittonen

OK. Then, I just noticed that in the other operating expenses, the number was 27 million, Q1, and looks like it has been more like mid-30s last year per quarter, and it was -37 a year ago. Was that because of the strike and the maintenance? And will this other line be moving up to that mid 30s again, or was there something else?

Mika Joukio

Maybe Jussi can?

Jussi Noponen

Sorry, again. Such a detailed question that I'll have to take that offline as well.

Harri Taittonen

Sure. Thank you.

Operator

Thank you. Just as a reminder, if you wish to ask a question, press 01 on your phone keypad. There will be a brief pause while we register any further questions.

We have another question from Johannes Grunselius from Kepler Cheuvreux. Please go ahead.

Please go ahead. Your line is now open.

There are no further questions at this time, so I'll hand back over to our speakers.

Mika Joukio

So, no questions anymore?

Operator

No further questions.

Mika Joukio

OK. All right. Thank you very much for your attention, and I would like to use the opportunity to thank Jussi also for this CFO time, and wish him good luck and success for new position and new challenges. So, thank you very much, and thank you, all, for your attention also, and have a nice day, and see you next time.

Jussi Noponen

Thank you also from me.