

Transcription

**Metsä Board Interim report
January–September 2021**

27 October 2021

Mika Joukio

Good afternoon everyone, and welcome to the presentation of Metsä Board's January-September results.

My name is Mika Joukio, and I'm the CEO of Metsä Board. Together here with me I have our CFO Henri Sederholm and Head of IR Kati Sundström.

Henri and I will go through this presentation, and after that we will open the lines for your questions and more discussion.

So, let's start with the highlights from the Q3.

Demand for our paperboards remained strong in all market areas, and our order books stayed at a high level throughout the quarter.

Average selling prices for our paperboards improved, and the rising trend is expected to continue. Some of the price increases came into force from October, and some only from next year.

The average selling price for market pulp also improved and boosted our profitability. Our comparable operating margin in the third quarter exceeded 20 per cent, which I consider an excellent performance and best ever.

On the negative side, cost inflation continued. The biggest item contributing to higher costs was energy, but we also saw rising logistics costs and fixed costs compared to the corresponding period last year.

Our financial position remained strong, and net debt was negative. This supports our ongoing and planned investments, of which we currently have several in the pipeline. Our latest investment decision was taken in July, which will increase our folding boxboard capacity by 200,000 tonnes in Husum. But I will return to this and our other ongoing projects in more detail later in this presentation.

Despite the strong market demand, and according to our earlier expectations, our Q3 paperboard delivery volumes declined from the record high levels in Q1 and Q2. Especially in Q2, the volumes already exceeded our technical production capacity.

As always, the third quarter included more annual maintenance than the first and second quarter. In addition, the fire at the Husum pulp mill's chip conveyor in June cut our paperboard production by roughly 30,000 tonnes. However, taking these into account, paperboard volumes were at a good level and totalled 475,000 tonnes in the third quarter.

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In the review period from January to September, we delivered more than 100,000 tonnes more paperboard than in the same period last year.

In general, demand for folding boxboard and white kraftliners has been good in all market areas and in all end-use segments. Covid-19 has particularly boosted the demand for products consumed at home, and especially food packaging. As economies have gradually opened up, and the mobility of people has increased, demand for food service packaging has also picked up.

During the review period in EMEA, our biggest market area, our paperboard deliveries grew by 5 per cent compared to the corresponding period last year. In addition to strong demand, rapidly declining import volumes, especially from Asia, have further tightened the market situation.

In the Americas, our delivery volumes grew by 12 per cent, and in APAC by 31 per cent.

Average selling prices improved in all market areas.

Now we turn to market pulp.

During the review period, market pulp volumes for both Metsä Board and our associate Metsä Fibre increased compared to last year.

In Europe, demand has been good, and the price level stable, thanks to increased paperboard and paper production. In China, we have witnessed more volatility in both demand and prices.

The global problems with container availability have continued and caused delays in deliveries. In the second half of the year, several planned annual maintenance shutdowns will also reduce market pulp supply.

In October, after the review period, the European Commission started an inspection of Metsä Fibre under EU antitrust rules. Metsä Board is not subject to this investigation.

And then some results of our R&D work.

Roughly two years ago, we introduced our fully recyclable alternative for plastic packaging, dispersion coated barrier paperboard, which is mainly used for food service purposes. Our customers have shown strong interest in this product, and we have seen rapidly growing delivery volumes, which we expect to further accelerate next year.

And just one month ago, we reported our long-term collaboration with the Finnish start-up The Paper Lid Company, which has led to the development of a 100% recyclable paperboard lid for use with takeaway cups. The carbon footprint of this lid is more than 50% lower than the plastic lid. So we are working to provide alternatives to plastics according to consumer preferences. Initial interest in the paper lids has also been strong.

But now, we will move on to the financials, and I will hand over to Henri – please go ahead.

Henri Sederholm

Thank you Mika, and good afternoon.

Let's start with the sales and operating result.

This year, our quarterly sales have been significantly higher than the same quarters in 2019 and 2020, thanks to the improved prices and volumes. Our third quarter sales were 516 million euros – a little lower than Q2, which was expected due to lower delivery volumes. And looking at the review period from January to September, we are 150 million euros ahead of the corresponding period last year.

And the same favourable development contributes to profitability. Comparable operating result for January–September was 295 million euros, almost 19% of sales. And for the third quarter, operating result was 104 million euros, which corresponds a record-high level of 20% of sales.

And listed here are the main items affecting profitability:

In the third quarter, the main positives were increased paperboard and market pulp prices. And the latter, along with higher prices for sawn timber, naturally improved the result share of our associate, Metsä Fibre. We also sold a small stake of the surplus of our emission allowances, 5 million euros in total. After the sale, we still have some 700,000 tonnes of emission allowances left. The main negatives in Q3 were higher energy and logistics costs and the impacts from FX.

Then the whole review period from January to September. Our operating profit improved from 157 million to 295 million euros, or 88 per cent.

The biggest positive contributors were again improved prices, as well as higher volumes. And this goes for both paperboard and market pulp. In addition, profitability was boosted by a higher result share from Metsä Fibre. And bear in mind that in 2020, the operating result was hit by the strike at Finnish mills. The negative impact of this was 20 million euros. On the negative side, we had impacts from FX and cost inflation. Production costs have increased throughout the year, especially in energy, chemicals and logistics. Fixed costs were also higher compared to last year. We expect the cost inflation for the full year to be at least 4 per cent, including variable and fixed costs. Almost two thirds of this consists of energy.

Strong earnings performance has been reflected in the return on capital employed. Comparable return on capital employed for the third quarter of the year was 19.1 per cent, and the rolling 12 months was 17.5 per cent. Both are above our long-term target of at least 12 per cent.

Our operating cash flow remained good. In the third quarter, the cash flow was 59 million euros, and for the review period from January to September, it was 210 million euros. Capex for January-September was 134 million euros, including maintenance investments.

And thanks to the good cash flow, as well as high cash funds at the end of the period, our net debt was negative.

Earlier this year, the sale of a 30 per cent stake in the Husum pulp mill to Norra Skog decreased our net debt by 260 million euros.

Along with this, our leverage also remained at zero, supporting our investments in sustainable growth, about which Mika will tell you more. So over to you Mika.

Mika Joukio

Thanks Henri. So, let's take a look at our investments.

Our largest ongoing project at the moment is the first phase of the Husum pulp mill renewal, including a new recovery boiler and a turbine. The whole investment value is roughly 360 million euros, of which almost two thirds has already been invested. Project has progressed according to plan, and we expect the new recovery boiler to start at the end of H1 next year. The investment will enhance our pulp and energy production, and the anticipated positive impact on our annual cash flow will be roughly 35 million euros, starting from 2023. The second phase of the investment will include a new fibre line.

And staying in Husum, in July, we made an investment decision to expand our annual folding boxboard capacity in BM1 by 200,000 tonnes. The investment value is roughly 210 million euros, from 2021 to 2024. The new capacity will naturally increase the logistics volumes of the entire integrated mill area, and especially in the port. We will examine the whole Husum port concept separately and decide about potential investments later.

And finally, in Kemi, we are expanding our annual kraftliner capacity by 40,000 tonnes and improving water and energy use. As part of the programme, we will purchase the modernised unbleached pulp production line from Metsä Fibre. The total investment value for this is 67 million euros.

So our total capex for 2021 and 2022 is expected to be between 450 and 550 million euros, including annual maintenance capex of 50–60 million euros.

Now, the outlook.

Strong demand for our paperboards continues, and our order books are at a high level.

We expect the average selling prices for paperboards to increase from Q3, but delivery volumes to decline. Lower volumes will be affected by maintenance work, low stock levels and a potentially seasonally slower December. Delivery volumes for market pulp are expected to increase slightly.

We also expect to book insurance claims for production losses caused by the fire in Husum in the fourth quarter result. The amount of claims will be specified later.

Cost inflation will continue in the fourth quarter as prices of energy, chemicals and logistics will increase. The negative impact from maintenance compared to the third quarter will be roughly 10 million euros.

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And in market pulp, we expect to see solid demand in Europe, but growing uncertainty in China. The energy restrictions and carbon emission cuts initiated by the Chinese government may cause curtailments in board and paper production, and thus reduce demand in market pulp. In addition, the demand for sawn timber is expected to decline seasonally towards the winter, which will affect our associate Metsä Fibre's results.

And based on these assumptions, we expect that our comparable operating result in the fourth quarter to be weaker compared to the third quarter.

And then to summarize:

We are still witnessing a strong market demand for paperboards, which is reflected to our high level order books.

Our profitability in 2021 has been boosted by higher paperboard prices, and we expect this development to continue. Some of the price increases we have announced will become valid from the beginning of 2022, giving us a good start for next year.

Several ongoing investments drive our sustainable growth, and all are progressing as planned. Our solid financial situation provides strong support for our work.

In market pulp, the outlook is mixed. There is a solid market situation in Europe, but more uncertainty and volatility in demand in China. We must be prepared for lower market pulp consumption in China if the Chinese government continues to restrict paper and paperboard production.

Cost inflation has been faster than expected in 2021. Higher energy prices have been the single biggest driver of cost inflation, and we expect logistics costs for 2022 in particular impact on profitability. But let's return to these impacts in more detail next year.

And with that, we end our presentation and are now open for your questions. Thank you very much.

Q&A

Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad. If you need to withdraw your question, you may do so by pressing 02 to cancel. There will now be a brief pause while questions are being registered.

The first question comes from Linus Larsson from SEB. Please go ahead. Your line is open.

Linus Larsson

Thank you very much. Good day to everyone.

On the variable costs, on a sequential basis, in the fourth compared to the third quarter, that is, are you expecting an overall increase, and could you say, on a sequential basis again, which costs you're seeing increasing compared to the third quarter, please?

Mika Joukio

OK. Henri will take this.

Henri Sederholm

Compared the fourth quarter to the third quarter, we are seeing some millions of inflation or seasonality costs in both variable and fixed costs. On the variable side, it's mostly energy, some chemical and logistic cost, as we have also mentioned, for the year-to-date commentary.

Linus Larsson

Right. Thanks. That's helpful. Yes, actually that was my second question, on the seasonality, at least on the fixed costs, you tend to have not only higher maintenance costs in the fourth quarter, as I think you said, €10 million - correct me if I'm wrong - but also for other reasons: seasonally higher costs, fixed costs compared to the third quarter. Could you also say something about that, please?

Mika Joukio

Yes, Henri will continue.

Henri Sederholm

Some single millions also, in the fixed costs side.

Linus Larsson

OK. Plus the 10 million - is that right? - of increased maintenance costs?

Henri Sederholm

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Yes.

Linus Larsson

Great. That's clear. Thank you very much. And then, just one more, if I may. You have a net cash position, even assuming the CapEx projects that you have outlined so far, it looks as if you will continue to have a very strong balance sheet for the foreseeable future. What's your thinking around that? Are you looking into more potential expansion projects, or extra dividends, or M&A, or something completely different?

Mika Joukio

You are right, as you mentioned, that we have several ongoing investments ongoing and in the pipeline, and of course, they are going to need funding, no doubt. But then, as far as the dividend is concerned, our dividend policy is unchanged: so, 50%; and of course, we can then play the game according to that. But of course, management always have something on the planning board in order to be competitive and strong also in the future, but it's too early to say anything more about those.

Linus Larsson

And just specifically on M&A maybe, is that on your agenda, or is that not really something that you spend much effort on?

Mika Joukio

Yeah, it's not actively on our agenda at the moment. But of course, we do not close any possibilities if they will be good ones.

Linus Larsson

Great. Thank you very much.

Operator

Thank you. The next question comes from Robin Santavirta from Carnegie. Please go ahead. Your line is open.

Robin Santavirta

Thank you very much, and hello, everybody. I would have a question related to your paperboard business and the order book development during the quarter. Could you describe what kind of order books do you have in paperboards Europe and North America, and how have those developed now since the summer?

Mika Joukio

An optimal situation for us is that the order books are around, let's say, three or four weeks. But now, the order books at all the mills are, let's say, two to four times higher than normally, and that situation has been pretty much so during the third quarter.

Robin Santavirta

OK, so order intake still very high during the third quarter? I understand.

Mika Joukio

You are right.

Robin Santavirta

Now, related to that, you have announced a quite big price increase in folding boxboard in Europe mainly, for next year. Could you shed some light how have those discussions gone? I assume that normally half of the implemented price increases to be achieved, but what one can expect if you're successful? Is this now the same rule of thumb we should use into '22, or is it better or worse? Any kind of comments or light on that would be helpful, thanks.

Mika Joukio

I don't specify any number for you, but you are right. We have had several price increases already during this year, and as you said, we have another price increase also for next year. And the tighter the market situation, of course, the easier are these discussions. So, maybe you can read between the lines what has been the success rate comparing to the, let's say, more normal market situation, but that is pretty much the case.

Robin Santavirta

All right. Thanks. And finally, just on Metsä Fibre volumes, am I right assuming that some 60% of all of Metsä Fibre pulp volumes - also, if you include the ones that are used internally - are sold in Europe, and 40% in China? Is that roughly right for Metsä Fibre?

Mika Joukio

I would say 50/50, pretty much.

Robin Santavirta

All right. Thank you very much. That's all.

Operator

Thank you. The next question comes from Mikael Doepel from UBS. Please go ahead. Your line is open.

Mikael Doepel

Thank you. Good afternoon, everybody. Just a question on the cost side of things. If you would assume the current spot rates for energy and chemicals and so on, what would be the magnitude of the cost inflation you would see into 2022? You have helpfully guided for this year – it's going to be at least 4% - but given what you see today, if you don't assume any major change, what would that mean for 2022?

Mika Joukio

OK. Henri will answer.

Henri Sederholm

It's a bit too early to speculate on next year. What we have stated in the report as well is that we expect the cost level to stay quite high, but it remains to be seen what the impact will be, and we don't want to speculate on any number at this stage.

Mikael Doepel

OK. But still, related to that, given the price hikes you have already announced - and as Mika alluded to, the markets are tight, so those are likely to go through in a good way - do you think that's going to be enough to cover the cost inflation that you might see next year? Or would you say that you still need to increase your pricing further to be on the safe side from that point of view?

Mika Joukio

Our prices are based on market demand. We don't adjust the prices based on the raw material prices or so. That is our philosophy. Demand plays a very important role in our pricing, and I don't want to say whether that will cover our cost inflation or not. We will see, and you will see next year.

Mikael Doepel

OK. And then, just finally, in terms of the building blocks, Q4 compared to Q3, now you already mentioned the maintenance impact of 10 million, you mentioned the cost impact that you're going to see. So, my question would be: what are the other moving parts there? You do guide for higher pricing, for example, Q4 versus Q3. What's the impact going to be of that? Then, there is an FX effect as well. If you could talk a bit more about the impacts of those. And also, if you could clarify the maintenance impacts of 10 million? Does that include Metsä Fibre Äänekoski Mill? Is that just Metsä Board or mills? Thanks.

Mika Joukio

OK. Henri will answer.

Henri Sederholm

OK, that last one first: maintenance covers Metsä Fibre's impact too. We have several elements impacting positively or negatively, as you listed. The paperboard prices have a positive impact. The volumes are lower, so that has a negative impact. Clearly, then, also, this pulp will have somewhat of a negative impact. So, that's the main things that you have listed there. FX has a very minor negative impact.

Mikael Doepel

Right. OK. And then, just finally on the sawn timber side of things. I know that that's part of Metsä Fibre's operation, but it still probably meaningfully impact on your earnings as well. So, I was

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wondering if you could shed some light on what kind of market dynamics you currently see in that particular market when it comes to demand and pricing.

Mika Joukio

We see that the prices in that segment, they're going down slightly, and then, seasonally also, the demand will be lower. So, both volumes and prices have negative impact if you compare quarters to quarters.

Mikael Doepel

Right. OK. That's very clear. Thank you very much.

Operator

Thank you. The next question comes from Johannes Grunselius from Kepler Cheuvreux. Please go ahead. Your line is open.

Johannes Grunselius

Hi, everyone. It's Johannes here. Two questions. You might have discussed this, but I was actually missing a few minutes of the presentation. But anyway, my question is then on the pulpwood and how you see these costs for 2022. If you can give us some light on that, please.

Mika Joukio

OK. Henri will take it.

Henri Sederholm

Our current view is pretty stable, so no dramatic changes expected.

Johannes Grunselius

And in terms of availability and so on, it is an input cost for wood fibre? Is it the same in Finland and Sweden, would you say, at this point?

Mika Joukio

Pretty much.

Johannes Grunselius

Yes, OK. Got you. And also more on the cost inflation theme, on energy, did you say how much of the energy cost here for the coming quarters or maybe 2022 that is hedged in your books? And if you could give some levels there, please.

Henri Sederholm

We didn't say that. It is not an easy question to answer very simply, as we have different commodities in the energy sector that we are hedging. We have a certain share of the net position hedged, for the next 12 months. But it's impossible to give a very simple answer to that.

Johannes Grunselius

OK, but how should we think about it? That you are a bit hedged or in quite reasonable hedged or more naked? Just to simplify things.

Henri Sederholm

A bit hedged would be probably close.

Johannes Grunselius

OK. Perhaps the third question from my side, because you mentioned in the report that China's current production and the impact inflows of paperboard products into Europe. Could you mention what product that is, and if you perhaps could indicate what kind of magnitude we're talking about here in the market.

Mika Joukio

Yes, the Asian producers and particularly the Chinese producers they are selling so-called ivory board here, which is close to folding boxboard. They are selling that here in Europe, Middle East, Turkey, these markets. Traditionally, it has been, in the rough figures, 100,000 to 200,000 tonnes, depending on the year and depending on the situation. The Chinese, there they're coming and going, or historically, they have been coming and going depending on the local demand in China and then, of course, then the strength of the euro.

Johannes Grunselius

Yeah, OK, but you have seen this effect and maybe it will become a bit greater in in Q4 maybe next quarter, given that all the signals is that China is taking off the production at the moment, or do you see a new stable level when it comes to imports of ivory board?

Mika Joukio

Yes, at the moment, there are two reasons, of course. These restrictions by Chinese government. But then, I think the even more important reason is that the container prices from China to Europe or these markets are very, very high at the moment. And of course, that restricts also then deliveries of them. My rough estimation is that the situation will remain pretty stable during the coming months.

Johannes Grunselius

All right. Then that's helpful. Thanks a lot.

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Operator

Thank you. Just a reminder that if you would like to ask a question, please press 01 on your telephone keypad. There will now be a further pause while any further questions are being registered.

We have no further questions, so I will pass back to the speakers.

Mika Joukio

OK, I would like to thank all participants, and wish you a good continuation of the day. Thank you, and see and hear you next time. Bye, now.