

Transcription

Metsä Board Interim Report
January–March 2024

25 April 2024

Mika Joukio

Good afternoon, everyone and welcome to the presentation of Metsä Board's results for January-March 2024. My name is Mika Joukio, and I'm the CEO at Metsä Board. Here with me are CFO Henri Sederholm and the Head of IR, Kati Sundström.

So, let's go through the presentation first and then take the questions.

As always, let's first take a summary of Q1.

The year started positively, with a significant pick-up in the demand for paperboards. As expected, the average price of folding boxboard fell slightly compared to last year's average price. The white kraftliner price level remained fairly stable.

The pulp market also improved, especially in Europe. Pulp demand was boosted by increased activity among paper and paperboard producers, which had a positive impact on European market pulp prices.

There were no planned maintenance shutdowns during the first quarter. Production volumes increased by 6% compared to the same period last year and by 28% compared to the previous quarter.

In March, the positive development was interrupted by political strikes in Finland, which shut down all our Finnish mills for 2 to 3 weeks. The total result impact due to the strikes is estimated at 25 million euros, divided between Q1 and Q2.

In Kemi bioproduct mill, there was a serious gas explosion in March. This also has an impact on our kraftliner mill, as it is part of the Kemi integrate. However, we aim to continue white kraftliner production in Kemi at a lower-than-normal production level during the repair works. The accident will have a significant impact on our results, and I will return to that in the near-term outlook

Finally, we decided not to invest in the folding boxboard mill in Kaskinen. The result of the pre-engineering showed the total costs were significantly higher than initially estimated, and the project's financial targets would not have been met. Instead, we are planning and already implementing investments in our existing mills, about which I will say more later.

And now for paperboard sales and the overall demand situation.

After several consecutive quarters of decline, our paperboard deliveries finally took an upward turn.

Total deliveries in the first quarter were 364,000 tonnes, not far from the corresponding period last year. Compared to the previous quarter, they were up by 22%.

The demand has mainly been boosted by customer restocking activities. I think it's still too early to speculate on a clear improvement in consumer demand or a strengthening of purchasing power. But hopefully, we'll see more evidence of both later this year.

The good order inflow at the beginning of the year was interrupted in mid-March, when trade unions launched massive political strikes in Finland. The strikes stopped the raw material shipments to the mills and closed all the ports in Finland, preventing deliveries to our customers. We had to close all our Finnish mills, resulting in an estimated loss of production of 50,000 tonnes in paperboards and 30,000 tonnes in BCTMP.

And here are the paperboard sales split by region and by product.

There were no major changes compared to the corresponding period last year. If the comparison were against the previous quarter, each region would show a clear increase, except EMEA linerboards, which remained stable.

In the US, we have re-routed our deliveries following the collapse of a bridge in Baltimore, where one of Metsä Board's North American warehouses is located. Our customer deliveries have not been affected, but there will be small additional costs.

Market pulp delivery volumes increased compared to the corresponding period last year.

In Europe, the demand for market pulp has clearly increased due to the higher operating rates of paper and paperboard producers. The improved market situation has also been reflected in European market pulp prices, which have recently experienced a sharp upward trend.

In China, demand was seasonally affected by the Chinese New Year, during which paper and paperboard production is partly shut down.

Going forward, the market will remain tight, especially in long-fibre pulp. Supply is limited due to several overlaps: extended impacts from Finnish political strikes, global logistical bottlenecks, several planned maintenance works among pulp producers and the long shutdown in Metsä Fibre's Kemi mill.

And now for sustainability.

First, I'd like to take the opportunity to highlight our actions in terms of sustainability reporting. According to one of our strategic programmes – Leader in Sustainability – we have already conducted our 2023 reporting in accordance with the CSRD, and the full report is included in the Board of Director's report. There, you will find an extensive description of sustainability at Metsä Board, including several indicators related to it.

Here are a few of them, the most relevant for us.

First, safety. Our TRIF, 2.2, showed a clear improvement from last year, yet not at its target – which is zero accidents.

The share of certified wood fibre was at 92%, which is over our target 90%.

Fossil-based CO₂ emissions decreased compared to the corresponding period last year. The steady production rate reduced emissions, even though production volumes increased.

Energy efficiency and water use are still lagging a little behind the targets, reflecting the impacts from last year, when we had to adjust our production to meet the demand.

But now I will hand over to Henri to present the financials.

[Henri Sederholm](#)

Thank you, Mika, and good afternoon.

The first quarter sales were 10% lower than in the corresponding period last year. The main contributor here was lower paperboard prices.

The operating result in the first quarter landed at 32 million euros, and the operating margin was 6.6%.

As Mika already mentioned, the total negative impact from the political strikes is estimated to be 25 million euros, of which 10–15 million was in first quarter, and the rest in the second quarter.

And now let's take a closer look at the items that affected the result.

First, January–March compared to the same quarter last year, and starting with the positives:

The slightly reduced cost level improved the operating result. Total cost deflation, excluding pulp costs, was around 4% compared to Q1 last year. All other costs, except wood costs, reduced or remained stable.

Increased market pulp volumes and FX had positive impacts on results.

On the negative side, the main contributor was the lower folding boxboard price. In addition, market pulp prices weakened, which also impacted Metsä Fibre's result share.

The estimated impact from political strikes was 10 to 15 million, and roughly the same effect was seen in the reduced sale of emission allowances.

Now for the comparison with the previous quarter:

The main positive was increased paperboard volumes. As Mika mentioned earlier, deliveries increased by 22%.

The first quarter did not include any planned maintenance, creating a positive impact of roughly 10 million compared to Q4.

The operating efficiency of all the mills improved, as there were no maintenance, market or investment-related shutdowns. However, the main positive impact came from Husum's FBB, as the start-up of new capacity took place in Q4.

And the main negative differences were due to the lower FBB price and the impact of political strikes.

Comparable return on capital employed, quarterly level 5.7% and rolling 12 months at 3.1% still clearly below our target of over 12%.

Capital employed at end of period totalled 2.3 billion euros.

Q1 cash flow from operations was 8 million euros negative. It was weakened by the rapid growth in working capital due to a pick-up in sales and production volumes. In the corresponding period last year, cash flow was supported by production adjustment measures to prevent an increase in inventory levels.

In addition, cash flow this year included only a 9.8 million euros dividend from Metsä Fibre, whereas the dividend last year included in Q1 cash flow was as high as 83 million euros.

Now for the financial position.

Our net debt increased somewhat and was 176 million euros at the end of the period.

Leverage also increased, mainly because of lower rolling 12 months' EBITDA, landing at 1.1. This is still a good level, with sufficient headroom to the maximum target level of 2.5.

And a reminder that our own dividend payment, roughly 90 million euros, took place in April and is therefore visible in the Q2 figures.

But now, I'll hand the floor back to Mika.

[Mika Joukio](#)

Thanks Henri.

So, let's move on to the investments, starting with the completed ones from last year – the folding boxboard capacity increase in Husum and the Kemi mill development programme.

We're currently focusing on making full use of Husum's expanded capacity of folding boxboard. This will further strengthen our leading position in our main markets in Europe and North America. We are continuing investments in the Husum port, which should be completed this year.

In Kemi, kraftliner production has been interrupted due to the gas explosion at the Metsä Fibre's bioproduct mill's evaporation plant.

The renovation of the old evaporation plant is expected to last until the end of June, and the installation of the new evaporator units is expected to take place in Q4.

During the renovation and installation works, our aim is to continue the production of white kraftliner with dried unbleached pulp, at lower-than-normal production level. Some coated grades will also be produced in Husum.

However, this may delay our target of having Kemi's expanded kraftliner capacity fully available on the market in 2025.

And finally, a reminder that at the end of 2022, a new recovery boiler and turbine at the Husum pulp mill started up. This was a 380-million-euro investment, which strengthened Husum's role as an efficient and sustainable platform for the long-term development of paperboard production.

Part of the costs from the investments completed last year will also be carried over to 2024.

As a result, our total investments in 2024 are expected to be slightly lower than in 2023.

Depreciation will naturally increase year-on-year due to the completions of the investments.

During the review period, we also made the decision not to invest in the new Kaskinen folding boxboard mill. As a result of pre-engineering, the total cost of the project was significantly higher than originally estimated, and the project would not have met our financial objectives.

Instead, we are planning growth and development investments at our current mills, which will support our strategy to grow in fibre-based packaging materials and renew our industrial operations. They also support our goal of fossil free production by the end of 2030.

In Husum, we are still planning the second phase of pulp mill renewal, which means replacing existing fibre lines with new ones.

Also in Husum, we have started a programme for new products on the current white kraftliner production line, BM 2. The aim is to find innovative solutions for the growing food and food service packaging segment.

Simpele board mill will be modernised in phases over the next 10 years. This programme includes renewals in the paperboard machine and the finishing area, renewals in the mechanical pulp production, and a new power plant. Yesterday, we made the first investment decision regarding Simpele's modernisation, which I will open up further in my next slide.

And finally, at the Kyro board mill, a programme will be launched to improve the performance of the current barrier board and expand its end use areas.

Yesterday we announced an investment decision to modernise Simpele's paperboard machine. This is the first part of a broader investment programme planned for Simpele mill over the next ten years.

This investment includes the renewal of the paperboard machine's pre-drying and coating section. With new technology, we can replace the use of fossil fuels in paperboard production, which in turn takes us closer to our 2030 fossil free target.

The investment will improve the quality and performance of Simpele's folding boxboard, which is mainly used in food and pharma packaging. These are end uses where the quality and safety criteria of the paperboard are extremely strict.

Further, our cost competitiveness will increase as production efficiency increases.

The estimated completion of the project is during the second half of 2025, and the value of the investment is estimated at 60 million euros.

And now for the near-term outlook.

The solid demand situation for fresh fibre paperboards is expected to continue in the second quarter. Demand is supported by re-stocking in the value chain. In addition, Q2 is a seasonally strong quarter in paperboard sales.

We expect our paperboard delivery volumes to increase slightly from Q1 and average sales prices to remain stable.

There will be more planned maintenance in the second quarter than in the first, with an estimated negative result impact of around 10 million euros.

The average market pulp price is expected to improve, driven by European PIX prices. The global market situation for long-fibre pulp remains tight, as supply is limited by the Kemi accident, pulp producers' annual maintenance shutdowns and global logistics bottlenecks.

The negative result impact of the political strikes in Finland in Q2 is expected to be roughly at the same level as in Q1, at EUR 10 to 15 million.

The negative result impact of the gas explosion in Kemi is estimated at EUR 30 to 40 million in Q2, depending on the schedule for the repair work and restart of kraftliner production. Metsä Board and Metsä Fibre have standard property and business interruption insurance policies, on which claims will be made later and whose financial impacts are not included in the estimate.

And based on this, we expect our operating result to weaken from the previous quarter.

To summarise:

As we already stated in connection with our full-year results in February, the order activity improved at the beginning of the year, which we expect to continue, at least in the coming months.

The first quarter was hit by political strikes, the effects extended into the second quarter.

The explosion at the Kemi bioproduct mill will impact Metsä Board's kraftliner production. It will have a significant impact on the Q2 results, which are not expected to include any insurance compensations yet.

We have recently announced plans for new investments at our current mills, to be implemented over the next ten years. With these investments, we are improving our competitiveness, accelerating our target to be fully fossil free in production and developing future products to replace plastics.

Yesterday, we made an investment decision to renew the Simpele paperboard machine. The investment will significantly improve the quality of Simpele folding boxboard and increase the mill's cost-competitiveness.

We will keep you updated with both our ongoing and upcoming investments as soon as plans are finalised.

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

Q&A

Operator: The next question comes from Andrew Jones from UBS. Please go ahead.

Andrew Jones, UBS: Hi. Just a question on the market, I guess. We were talking a lot about Asian imports at the back end of last year, and clearly, your volumes picked up a lot in the first quarter. I'm just curious, is that all demand driven by restocking or have you seen fewer Asian imports in some of your markets, now do you see that trend evolving as we go through the rest of the year? Obviously, some of those large machines in Asia have clearly, they're still ramping up. Do you see imports becoming a threat again later on in the year? Is that something that concerns you greatly? Thank you.

Mika Joukio: Yes. The activity of the Asian producers in Q1 was slightly lower than in 2023 on average, but of course, they still are in the areas where we operate like Turkey, like Far East, like Latin America, but maybe the Red sea situation has also then been a challenge for them and we have seen slightly lower volumes. As far as the year-end or later this year is concerned, it's difficult to speculate what will happen when the new machines start up. Probably then we might see new volumes, but I think it's too early to say and I don't want to speculate about that.

Andrew Jones, UBS: Okay. Fair enough. Just on the upturn in volumes that you've seen, I mean are there any particular sectors that have been driving that upturn, and how do you compare maybe the real market demand trend versus whether maybe a bit of restocking?

How do you assess that uptick between the fourth quarter and the first quarter in terms of demand?

Mika Joukio: Yes, so far we have seen restocking, no doubt that's clear, and then the activity in the North American market is a little bit better than here in the European market, but I think it's still too early. Remembering also then the impact of the strikes, political strikes, and shutdowns of the mill, so it's a bit too early to say. Has there really been a pickup in real demand? Hopefully, that has taken place and will take place, but at the moment it's a bit too early to say.

Andrew Jones, UBS: Okay. In the second quarter just to remind us of some of the moving parts. I mean, obviously, you're talking about higher volumes on the folding box board side. Clearly, White Kraft liner volumes will be down because of the accident effect that you've said is a 30 or 40 million impact. Do you have any estimate actually around the volume of the white Kraft line in the quarter? Then just on some of the other more moving parts, you flagged higher maintenance? I think that was about 10 million headwinds, but can you just clarify that? Also, Metsa Fibre was a negative contribution this quarter, but I guess, with the Kemi explosion despite the higher pulp price, I'm guessing that probably gets worse. Can you just talk us through some of those moving parts as to how we should think about the second quarter? Okay.

Mika Joukio: Yes, if I start and concerning the maintenance. Typically in Q1, it's quite a maintenance-free quarter and then in Q2, the maintenance activities will increase. That is the case also this year of course, during the strikes and shutdowns. We were able to do some maintenance, but anyway, there are more planned maintenance shutdowns in Q2 than in Q1, and those will have a negative impact of 10 million in Q2 compared to Q1, but then considering Metsa Fibre.

Henri Sederholm: Yes, as you know, we are not giving a profit guidance on Metsa Fiber's results. We are just commenting on the elements' impact, so average pulp prices are expected to improve clearly from the first quarter. As we have said, obviously the Kemi explosion impacts heavily. Metsa Fibre's result in the second quarter and our guidance on the impact of the Kemi situation includes also our share of Metsa Fibers' impact with which are 30 to €40 million, but we are not giving separate guidance on Metsa Fibre's profitability.

Andrew Jones: No worries. Thanks. I'll get back into the queue. Thank you.

Operator: The next question comes from Cole Hawthorne from Jefferies. Please go ahead.

Cole Hawthorne, Jefferies: Good afternoon. Thanks for taking the question. Just on the white Kraftline of the market. With your volumes out of the market, we're seeing price increases in the brown grades as well as brown grade export prices into Europe going up. I'm just wondering what you're doing on the price developments in the White Kraftliner because I imagine if it's a tighter market, you've got to be pushing the pricing lever, particularly given the Nordic wood costs. Then I just like your thoughts on the Kemi mill issues as well as the strike impacts on pulpwood. Could you give any color on the short-term impact of the strike on pulpwood? As I know there were logistics rail as well as a lot of

downtime on those short-term pulpwood dynamics too, just like your thoughts there. Thank you.

Mika Joukio: Okay. What are the prices? We also announced a price increase here in Europe and it quite nicely went through, but that was pretty much only for uncoated grades. Having this kind of situation as we have at the moment with Kemi, we don't see that those prices will pick up at least during Q2. Let's see what will happen then in the H2, and then as far as the pulpwood prices are concerned, there is a clear tendency that prices are going up. I can't say how much, but anyway the tendency is upwards not downwards.

Cole Hawthorne, Jefferies: Maybe just following up on the pulpwood, were there any shorter-term dynamics where just availability or logistics issues may have impacted that further and there might be a little bit of short-term relief coming in the market? I'm just wondering if there's more than the tight supply-demand situation of the wood fiber baskets. I'm wondering if there's kind of a logistic and operational impact with the strikes that may have made it slightly worse.

Mika Joukio: Yes. Concerning Metsa Fibre and Metsä Board, we are sure that we get wood enough, no doubt, so there won't be any shortages, but of course, I won't speculate what other competitors are doing.

Cole Hawthorne, Jefferies: Thank you.

Operator: As a reminder, if you wish to ask a question, please dial pound key five on your telephone keypad. The next question comes from Andrew Jones from UBS. Please go ahead.

Andrew Jones, UBS: I just made a firm on the CapEx profile now that Kaskinen is not happening and you've got these additional investments phased in. We talk about how the overall capital, the CapEx envelope looks over the next couple of years, this year into 2025, '26, just so we can reframe those expectations. Thank you.

Mika Joukio: Yes. Thank you for the question. Henry, we'll take this.

Henri Sederholm: Okay, so if we think about the elements, our sort of maintenance CapEx level continues at around 50 to 60 million euros per annum, and then we have also stated the renewal of the ERP system, which is expected to be at least 80 million euros which is divided between '24 and '25, mainly, as we currently know, which would be around 40 million per year. Then, as Mika mentioned in the presentation, we have a significant amount of CapEx, which is still related to the projects that ended last year for this year and some new investments also announced. Therefore, putting that all together amounts to around 200 million for this year, we are not giving guidance still on next year, but that probably will follow then later on this year when we know exactly which projects are starting. We announced a number of different things that we are looking into and that will clarify them a bit later on.

Andrew Jones, UBS: Okay, that makes sense, but presumably, the trend will be down from 2024. I would guess, right?

Henri Sederholm: Well, we cannot really speculate at this point, it depends on the projects that are decided.

Andrew Jones, UBS: Okay. That's clear. Thank you.

Operator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Mika Joukio: Okay. Thank you all participants and I wish you a nice continuation of the day. See you next time. Bye-bye.