

Transcription

Metsä Board Interim report January–March 2022

Mika Joukio

Good afternoon everyone, and welcome to the presentation of Metsä Board's 2022 first quarter results.

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Let's begin by taking an overview of the first quarter

The strong momentum of the paperboard market continued, and our deliveries increased from the previous quarter, ending at 473,000 tonnes.

Average sales prices for our paperboards have increased for four consecutive quarters, and they were up by 20 per cent year-on-year. This was reflected in both the top line and profitability. Our quarterly sales were 582 million euros, and comparable operating result was 122 million euros. Furthermore, comparable ROCE was above 21 per cent – all record high figures again.

As always, the first quarter did not include any major maintenance shutdowns, and production volumes were at a high level. In pulp and BCTMP, we achieved new record highs – an excellent achievement, given the weakened coronavirus situation and the larger number of infections among employees. Thanks to several precautionary measures, there have been no production interruptions.

Henri will cover cost inflation in more detail, but I'd like to underline the rapidly increased logistics costs we've seen this year. This is a result of higher fuel prices and several bottlenecks in logistics around the world.

Russia's attack on Ukraine is creating uncertainty in the global economy and is also reflected in Metsä Board's business operations.

Our exposure to Russia is derived from paperboard sales, wood sourcing and the use of natural gas.

In March, we discontinued all paperboard sales to Russia, and we are now reallocating those volumes to other markets. Reallocation opportunities are not limited by demand, but rather by bottlenecks in the supply chain. In 2021, 5.6 per cent of our total sales came from Russia, consisting mainly of folding boxboard sales to multinational brand owners.

Metsä Group, responsible for our wood sourcing, has discontinued wood procurement from Russia. Sourcing now focuses on the other existing regions: Finland, Sweden and the Baltic countries.

In 2021, roughly 9 per cent of our total wood sourcing came from Russia, and was mainly birch.

And in production, three out of our eight mills use natural gas, imported from Russia. In the short term, we have explored alternatives to replace this with Liquefied Gas, Liquefied Natural Gas or oil. In the long term, and according to our sustainability targets, all the energy we are using will be fossil free by 2030. Here, the alternative energy sources could be electricity or biogas.

So, to sum up: the war in Ukraine does have impacts on us, but our opportunities to cope with it, through alternative operations, are relatively good. So far, the financial impacts have been quite small. The risks of inputs and raw material availability have certainly increased, and at least some

extra costs can be expected going forward. Naturally, our great concern is for the people affected by the war and their survival.

And now we move on to the quarterly deliveries.

Typically, first quarter delivery volumes increase from the fourth quarter levels. This time, they were almost 7 per cent higher than in Q4.

If we compare this to the level a year ago, deliveries decreased by 4 per cent. And this was not due to a fall in demand, but our own capacity constraints. Our stock levels were low at the start of the year, and we have also gradually started to build up stocks for the ramp-up of Husum's new FBB capacity in 2023.

And now the delivery split by market area.

There were no major changes here, except for the decline in folding boxboard deliveries due to the capacity limitations.

The market situation in our main market EMEA remains tight. Demand exceeds supply, and the bottlenecks in logistics are also keeping imported volumes from Asia and Latin-America lower than normal.

In the Americas, and especially in the US, demand for both folding boxboard and white kraftliners has been strong. Inland supply chain problems have gradually eased, but cost levels have increased.

Average selling prices have improved in all market areas.

Now for the pulp market.

For the time being, demand for long-fibre market pulp is good in both Europe and China.

At the same time, the global pulp supply has been reduced by several factors like bottlenecks in logistics, cost inflation in energy and chemicals, and other unplanned production shutdowns. This imbalance between supply and demand has kept prices high.

But now, I'll let Henri tell you more about the factors affecting our profitability and financial position.

Henri Sederholm

Thank you, Mika, and good afternoon.

Let's first look at the big picture of the development of sales and the operating result

Our quarterly sales ended up at 582 million euros, almost 90 million euros higher than the same quarter last year.

Our comparable operating result also improved significantly compared to any previous quarter, at 121 million euros.

And operating margin during the first quarter was as high as 20.9%.

These are all record figures.

And here is the comparison with the same quarter last year.

The most significant factor improving profitability was higher paperboard prices. Year-on-year, average sales prices in euros improved by 20 per cent. Market pulp prices also improved.

And during the first quarter, we sold emission allowances worth 7 million euros. As we stated in the previous earnings call, we are planning to carry out the sale of unused emission allowances more evenly throughout the year.

On the negative side, the main burden came from cost inflation. The price level of chemicals and energy especially increased significantly from last year. The same development was seen in logistics. Higher pulp costs impacted the profitability of the stand-alone paperboard business, yet the overall impact from higher pulp prices was positive for Metsä Board.

A small negative impact also resulted from lower delivery volumes of paperboard and FX after hedges.

At the end of the review period, we completed the sale of our fully owned subsidiary Hangö Stevedoring to Euroports Finland. The gain on the sale, 19 million euros, was booked as an item affecting comparability. Hangö Stevedoring is a port operator in the Port of Hanko, and its business is not part of Metsä Board's core business. In 2021, its sales were EUR 22 million, and it had 187 employees.

Now, cash flow, which also continued at a strong level.

In January–March, operating cash flow was 93 million euros. The difference from the corresponding period last year is mainly explained by the dividend received by Metsä Fibre, 59 million euros. Last year, the dividend was zero.

And the comparable return on capital employed, which in the first quarter was as high as 21.1 per cent, significantly above our target level of 12 per cent. The 12-month rolling ROCE was 19.3 per cent.

And thanks to the strong cash flow, our net debt has remained zero or negative since the beginning of last year. As a reminder: our dividend payment of 146 million euros was paid at the beginning of April.

The strong financial position supports our investments in sustainable growth, about which Mika will tell you more. So over to you, Mika.

Mika Joukio

Thanks Henri. So, let's give you an update on our ongoing investments.

Compared to what we stated in our previous call in February, there are no major changes regarding the time schedules or costs of our ongoing investment projects.

The first phase of the Husum pulp mill renewal is close to completion, and the new recovery boiler and turbine are expected to start in September. The investment will increase the mill's generation of renewable energy, and with the new OL3 nuclear power plant, Metsä Board's overall self-sufficiency in electricity will rise to 85 per cent.

During the first quarter, our total investments were 107 million euros, including 31 million euros of acquired businesses. For the full year of 2022, we expect them to be around 300 million euros, which includes annual maintenance capex of 50–60 million euros.

Now let's move on to the outlook.

Strong demand for our sustainable paperboards continues. In the second quarter, we expect delivery volumes to remain stable. We expect average sales prices for both folding boxboard and white kraftliners to increase from the Q1 level.

Demand for long-fibre market pulp is expected to remain good in Europe and China. At the same time, the supply is restricted by various factors, including bottlenecks in logistics and unplanned production shutdowns.

The second quarter will include more maintenance than the first quarter, with an estimated negative impact of 10–15 million euros.

Cost inflation continues, especially in energy and chemicals. Global challenges in the availability of transport equipment remain, increasing logistics costs.

And based on these assumptions, we expect our comparable operating result in the second quarter to improve compared to the first quarter.

And to summarise:

The strong performance continued, and we again set several quarterly records in sales, production and profitability. The result was improved in particular by higher sales prices.

Demand for sustainably produced fresh fibre paperboards was strong, and we expect this to continue. We are seeing no major changes in the demand-supply balance, which also supports the favourable outlook.

We expect cost levels to remain high. Logistics costs, especially, are expected to increase due to higher fuel prices and bottlenecks in global transport.

Russia's attack on Ukraine has had and will have impacts on Metsä Board's operations. We have taken steps to replace our Russian-related businesses in the sale of paperboards, as well as in the procurement of wood and energy.

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

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad.

Our first question comes from the line of Mikael Doepel of UBS. Please go ahead.

Mikael Doepel

Thank you and good afternoon everybody. A couple of questions, first of all on folding boxboard volume. If I read your slide correctly, those were still down on a year-over-year basis. So my question there is, is that correct? And why, given the strong demand? I can also see that folding boxboard volumes to the Americas were down on a year-over-year basis, and I guess the same question there: why is that?

Mika Joukio

Okay. It's actually a very clear reason. At the beginning of this year, our stock levels – so, inventories – were clearly lower than a year ago, due to the fact that we had maintenance shutdowns in Q4 and also some investment shutdowns, like Äänekoski, Kyro, and for that reason the stocks were lower,

inventories were lower, and then we weren't able to deliver more, even though there was demand for that. Pretty much the same reasons for folding boxboard in general and in the U.S. So you're right, by saying that the volumes were lower, especially in folding boxboard.

Mikael Doepel

Right, and going into Q2 and for the rest of the year, would you expect that trend to change, or not?

Mika Joukio

In Q2 our estimation is that the volumes will remain pretty much similar as in Q1. Now that we are producing, production has been full in Q1 and then in Q2 we have more maintenance shutdown, but the estimation is that volumes will be pretty much similar; on the same level as in Q1.

Also, we need to remember that we are already now building stocks concerning the Husum investment next year, so we need to also now prepare for that.

Mikael Doepel

Yes of course, that makes sense. And then, continuing on from folding boxboard and onto pricing, you say that pricing is moving up to Q2? We know that there are shorter price contracts in the U.S, we've seen price increases and gains there. In Europe, you previously had a lot of annual contracts. I'm just wondering if there is any change to the European contract structure now given the, what you could call 'volatile market.' Have you gone shorter contracts, and perhaps also applied some energy charges to the pricing in Europe?

Mika Joukio

Not remarkably. It's pretty much a similar situation in Europe this year as compared to last year, if you think about how long the agreements we have are. They normally have annual deals with brand owners. But, wherever it has been possible, we have been able to increase the prices, and of course we have also then sent out price increase letters to these brand-owner customers even though we have fixed prices for this year, in order for them to understand what to expect then at the end of the year.

Mikael Doepel

Right, yes, that makes sense. And this final one, on wood supply: I'm just wondering how you see that developing going forward— you're not sourcing from Russia anymore. Where can you find more wood? Can you source more in Finland, or somewhere else, and also how do you expect this to impact the pulp wood costs?

Mika Joukio

We will replace those volumes by sourcing them from Finland, Sweden and Baltic countries. We have possibilities to increase volumes in Finland and Sweden, and then sourcing more from Baltics, so I don't see this as a major problem for us.

Mikael Doepel

Is it putting upward pressure on pricing?

Mika Joukio

At least not yet, here in Finland and Sweden, no. Maybe you can see something in the Baltics, but not here.

Mikael Doepel

Okay. That's very clear. Thank you very much.

Operator

Just to remind everyone, if you wish to ask a question, please press 01 on your telephone keypads.

And it seems we have no questions on the line at this time. Please go ahead speakers.

Mika Joukio

Okay. If there are no further questions, then of course thank you, thank you all for your participation, and I wish you a good continuation of the day. Thank you.