Sappi Limited

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Results for the quarter ended March 2020

Short- form SENS announcement

	Quarter ended		
	Mar 2020	Mar 2019	Dec 2019
US$ million			
Sales	1,308	1,503	1,302
Operating profit excluding special items	52	117	62
Special items – loss (gain)	29	–	7
EBITDA excluding special items	131	187	139
Profit for the period	2	72	24
Basic earnings per share (US cents)	–	13	4
EPS excluding special items			
(US cents)	4	13	6
Net debt	1,879	1,680	1,916

Sappi is a global diversified woodfibre company focused on providing dissolving pulp, packaging and speciality papers, graphic papers as well as biomaterials and biochemicals to our direct and indirect customer base across more than 150 countries.

Our dissolving pulp products are used worldwide mainly by converters to create viscose fibre for fashionable clothing and textiles, as well as other consumer products; quality packaging and speciality papers are used in the manufacture of such products as soup sachets, luxury carry bags, cosmetic and confectionery packaging, boxes for agricultural products for export, tissue wadding for household tissue products and casting release papers used by suppliers to the fashion, textiles, automobile and household industries; our market-leading range of graphic papers are used by printers in the production of books, brochures, magazines, catalogues, direct mail and many other print applications; biomaterials include nanocellulose, fibre composites and lignosulphonate; biochemicals include second generation sugars.

The wood and pulp needed for our products are either produced within Sappi or bought from accredited suppliers. Sappi sells almost as much as it buys.

Commentary on the quarter

A strong packaging and specialities performance along with solid results in the graphics paper segment, could not offset the significant impact of the historic low dissolving pulp (DP) prices, and reduced DP sales volumes. Consequently, the group generated EBITDA excluding special items of US$131 million compared to the US$187 million in the equivalent quarter last year. Profit for the period declined to US$2 million from US$72 million primarily as a result of the lower EBITDA as well as restructuring provisions and asset impairments related to the proposed closure of Stockstadt PM2 that was announced during the quarter.

Covid-19 had a relatively small impact on profitability during the quarter. However, an anticipated improvement in DP prices did not materialise, principally as a result of the outbreak of Covid-19 in China. The subsequent actions taken by various governments only directly impacted our operations during the last few weeks of the quarter, and there was minimal disruption to production, although the Condino mill in Italy was temporarily shut. Towards the end of the quarter we began to receive significant cancellations of DP and graphic paper orders scheduled to be delivered in the third quarter, and new orders for both product categories slowed considerably.

Our strategy to diversify the product portfolio into higher margin segments and position the company for future growth reaped rewards as the packaging and specialities segment continued to grow profitability despite slow containerboard demand in South Africa. Improved product mix and machine efficiencies combined with lower input costs and increased sales volumes in Europe and North America contributed positively. The ramp up of Somerset PM1 and Maastricht on paperboard grades further assisted us to significantly reduce commercial downtime compared to the prior year.

Strong customer relationships and service levels, along with a focus on efficiencies and costs enabled us to make significant market share gains in our graphics paper business, and as a result helped maintain profitability in this segment, despite weak market conditions.

DP market prices fell by US$233/ton in the last twelve months as the combined impact of soft global textile markets, US duties on textiles from China, excess viscose staple fibre (VSF) capacity and a weaker US$/Renminbi exchange rate drove the DP price downwards. On the supply side, low paper pulp prices provided limited relief for swing producers, however some Chinese producers swung production to various grades of paper pulp. This decline in DP market prices significantly impacted both the segment and group profitability levels. The incorporation of the high yield pulp sales from the Matane Mill acquisition in the segment boosted year-on-year volume sales, but lowered the average realised selling prices. Selling prices for this high yield pulp did not decline as much as kraft pulp in the past year but remain at depressed levels.

Earnings per share excluding special items was 4 US cents, a decrease from the 13 US cents generated in the equivalent quarter last year. Special items reduced earnings by US$29 million, related mainly to restructuring provisions and asset impairment charges.

Cash flow and debt

Net cash generated for the quarter was breakeven, compared to US$148 million utilised in the equivalent quarter last year. The improvement in net cash generation was primarily a result of the suspension of dividend payments and lower working capital outflows, cash taxes, capex, and finance costs, partially offset by lower cash generated from operations.

Net debt of US$1,879 million increased by US$199 million relative to the equivalent quarter last year as a result of cash utilised in the prior twelve months, the acquisition of the Matane mill and the US$97 million net non-cash impact resulting from the recognition of operating leases on the balance sheet following the implementation of IFRS16.

Liquidity comprised cash on hand of US$268 million and US$642 million available from the undrawn committed revolving credit facilities in South Africa and Europe.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

07 May 2020

Short form announcement
This short-form announcement is the responsibility of the directors. It is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decision should be based on the full announcement accessible on 7 May 2020 via the JSE link and also available the sappi website at www.sappi.com.

Copies of the full announcement may be requested by contacting Jeanine Olivier on telephone: +27 (0)11 407 8307, email: Jeanine.Olivier@sappi.com.

The JSE link is as follows:
https://senspdf.jse.co.za/documents/2020/jse/isse/SAVVI/sappiQ220.pdf

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