Sappi Limited

Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE000006284
Issuer code: SAVVI

Fourth quarter results for the period ended September 2021

**Short-form SENS announcement**

| | Quarter ended | | | Year ended | | |
|---|---|---|---|---|---|---|
| **US$ million** | **SEP 2021** | **Sep 2020** | % | **SEP 2021** | **Sep 2020** | % |
| Sales | 1 425 | 1 092 | 30% | 5 265 | 4 609 | 14% |
| EBITDA excluding special items | 177 | 82 | 116% | 532 | 378 | 41% |
| Profit for the period | 35 | (88) | N/A | 13 | (135) | N/A |
| Net debt | 1 946 | 1 957 | -1% | 1 946 | 1 957 | -1% |
| Headline EPS (US Cents) | 9 | (14) | N/A | 5 | (19) | N/A |
| Basic EPS (US Cents) | 6 | (16) | N/A | 2 | (25) | N/A |
| EPS excluding special items (US Cents) | 11 | (4) | N/A | 15 | (5) | N/A |
| Net asset value (US Cents) | 351 | 299 | 17% | 351 | 299 | 17% |

Sappi is a leading global provider of powerful everyday materials made from woodfibre-based renewable resources. Together with our partners, we are quickly moving toward a more circular economy.

Our raw material offerings (such as dissolving pulp, wood pulp and biomaterials) and end-use products (packaging and speciality papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bio-energy from steam and existing waste streams. Many of our operations are energy self-sufficient.

Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

Commentary on the quarter

The ongoing recovery from Covid-19 continued in the fourth quarter. High DP prices and an excellent performance by the North American region more than offset escalating raw material costs and ongoing supply chain challenges, which constrained shipments and negatively impacted delivery costs. Consequently, group EBITDA excluding special items of US$177 million was a further increase on the US$145 million achieved in the third quarter.

VSF prices dropped during the quarter due to higher inventory levels and a delay in the seasonal upswing in demand ahead of the Chinese National Holidays in October. This had a corresponding impact on the hardwood DP market price, notwithstanding it remained above US$1,000 per ton due to various DP supply side constraints, including unforeseen mill outages and the ongoing global supply chain challenges. DP sales volumes for the quarter of 263,000 tons, which included 37,000 tons of high yield BCTMP pulp, were significantly below expectations. The supply chain disruptions including global port congestion, inefficiencies in the Durban port and limited vessel availability were responsible for this shortfall. Despite the lower sales volumes compared to the prior quarter, the EBITDA for the segment increased by 38% due to beneficial pricing which peaked in the third quarter and formed the basis of fourth quarter contract prices.

Sales volumes in the packaging and speciality papers segment increased 10% compared to the equivalent quarter in the prior year as the North America region experienced encouraging sales growth and margin improvement across all of the major product categories. EBITDA for the segment improved 21% compared to last year.

Graphic paper demand continued to recover and, combined with industry capacity closures, ensured the market balance in Europe and North America was restored to healthy levels. However, profitability in Europe remained a challenge due to inflationary cost pressures. Low industry inventory levels and longer delivery lead times linked to the global supply chain challenges provided support for price increases during the quarter.

Earnings per share excluding special items for the quarter was 11 US cents, which was a substantial improvement on the 5 US cents in the prior quarter and indicative of the recovery of profitability for the group.

Cash flow and debt

Net cash generated for the quarter was US$33 million, compared to US$88 million in the equivalent quarter of last year and US$49 million in the prior quarter. The decrease was primarily as a result of increased capital expenditure of US$143 million related mainly to the expansion of DP capacity at Saiccor Mill.

Net cash generated for the financial year was US$29 million (FY2020 US$257 million utilised). The improvement in cash generation was largely due to the recovery of sales volumes and improved profitability. The prior year also contained the acquisition of the Matane Mill.

Net debt at financial year end decreased to US$1,946 million (FY20 US$1,957 million) as a result of the cash generation. The covenant leverage ratio at year end reduced substantially from a peak of 6.7 in the second quarter to 3.7 at year end and is expected to continue to reduce progressively as the low EBITDA Covid-19 impacted quarters are eliminated from the calculation. At year end, liquidity comprised cash on hand of US$366 million and US$732 million from the committed revolving credit facilities (RCF) in South Africa and Europe.

Outlook

Overall market conditions for DP continue to be strong. However, short-term demand in China is impacted by the recent implementation of energy savings regulations which impose curtailments for energy intensive manufacturing operations across the country. The textile value chain has been negatively impacted thereby reducing VSF production and DP demand. Consequently, DP market prices dropped to US$940 per ton in October. However, lower VSF supply and a widening price differential to cotton fuelled a significant rise in VSF pricing, which should be positive for DP pricing. Sappi’s sales volumes are not expected to be impacted by the weaker Chinese DP demand.

The recovery of demand for graphic paper combined with industry capacity closures has tightened the market balance. In North America, ongoing restrictions on imports due to global supply chain disruptions have further contributed to a positive environment in this region. The underlying demand in the packaging and specialities segment remains robust in both the North American and South African regions and opportunities for further growth in sales volumes exist in Europe. The scheduled Somerset annual maintenance shut, which includes an extended statutory cold outage, will have an estimated US$22 million impact on profitability in the first quarter.

Recent spikes in global energy prices for gas, power and coal are anticipated to have an adverse impact on our first quarter results, principally in Europe. To offset rising costs, we have announced selling price increases across all paper grades. In addition, energy specific surcharges have been implemented for all European shipments from 25 October 2021.

Global logistical challenges and vessel shortages are expected to continue through FY2022, which may have an ongoing negative impact on our export sales. It is unlikely that any significant improvement in supply chain reliability will be realised in the first quarter and hence the backlog of 100,000 tons of DP sales volumes will take time to resolve.

Capital expenditure in FY2022 is estimated to be US$395 million and includes approximately US$30 million of Saiccor Mill expansion capex, US$80 million for cost optimisation and quality improvement projects and US$75 million for sustainability projects.

The first quarter of FY2022 will comprise 14 weeks instead of the typical 13-week quarter. This is in order to adjust our reporting periods closer to the calendar periods and will result in increased sales compared to comparative quarters.

We remain encouraged by the growing resilience of global economies as the Covid-19 pandemic evolves and the corresponding recovery in underlying demand in all of our product segments. However, the supply chain challenges and the extraordinary cost inflation may affect profitability. In addition, the maintenance shut at Somerset Mill is scheduled for the first quarter and will impact EBITDA. Taking these factors into account, we anticipate a further improvement in EBITDA for the first quarter of FY2022 relative to the fourth quarter of FY2021.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

11 November 2021

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 11 November 2021 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/2021/jse/isse/SAVVI/sappiQ421.pdf

JSE Sponsor: UBS South Africa (Pty) Ltd