Sappi Limited
Registration number: 1936/008963/06
JSE code: SAP
ISIN code: ZAE000006284
Issuer code: SAVVI
("Sappi" or "the Group")

Results for the fourth quarter and year ended September 2024, cash dividend declaration and changes to the Board

	Quarter ended			Year ended[1]		
US$ million	**Sep 2024**	**Sep 2023**	% Change	**Sep 2024**	**Sep 2023**	% Change
Sales	1 464	1 381	6%	5 458	5 809	-6%
Adjusted EBITDA	226	168	35%	684	731	-6%
EBITDA excluding special items	195	168	16%	685	731	-6%
Profit for the period	79	(40)	N/M	33	259	-87%
Net debt	1 422	1 085	31%	1 422	1 085	31%
Headline EPS (US Cents)	9	(3)	N/M	1	50	-98%
Basic EPS (US Cents)	13	(7)	N/M	6	46	-87%
Adjusted EPS (US Cents)	15	6	150%	41	52	-21%
Net asset value (US Cents)	430	438	-2%	430	438	-2%
Dividend per share (US cents)	-	-	N/M	14	15	-7%

N/M - Not meaningful

(1) The condensed consolidated financial statements for the year ended September 2024 have been reviewed in accordance with ISRE 2410 by KPMG Inc. An unmodified review opinion has been issued.

Sappi is a leading global provider of everyday materials made from woodfibre-based renewable resources. As a diversified, innovative and trusted leader focused on sustainable processes and products, we are building a more circular economy by making what we should, not just what we can.

Our raw material offerings (such as dissolving pulp, wood pulp, biomaterials and timber) and end-use products (packaging papers, 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.

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

Year ended September 2024[(1)]

After a strong last quarter, the group delivered Adjusted EBITDA[(2)] of US$684 million for FY2024. Against the backdrop of the subdued macroeconomic environment, ongoing low consumer confidence, and persistent geopolitical uncertainty, the performance exceeded our expectations for the year. A key highlight was the pulp segment's strong performance, driving record profitability for the South African region. However, paper markets remained subdued, with the expected recovery in demand after the prolonged destocking phase of 2023 unfolding more slowly than anticipated. Sales volumes steadily improved in the second half of the year but remained 5% below the previous year. Proactive management of capacity utilisation to align with demand, along with inventory optimisation to maintain working capital, positively impacted earnings.

Additionally, significant year-on-year fixed costs savings were achieved through our strategic rationalisation actions. Positive plantation fair value price gains in the first half of the year were offset by a significant reversal in the fourth quarter due to lower hardwood timber market prices in South Africa, which resulted in a net adjustment for the fiscal year of US$1 million.

Demand for dissolving pulp (DP) remained strong throughout the year, with selling prices rallying through the second half. Favourable market conditions were supported by a tight supply landscape following closures at competitors and little additional capacity added in the past two years and strong demand buoyed by high viscose staple fibre (VSF) operating rates and low inventory levels. The hardwood DP market price[(3)] recovered sharply and ended the year at US$960 per ton but overall net US dollar selling prices for the pulp segment were slightly down year-on-year. Sales volumes declined 5% compared to the prior year primarily due to scheduled maintenance shuts at Ngodwana and Cloquet Mills in the first quarter, which were not in the prior year, and lower high yield pulp[(4)] sales. Substantial variable cost savings, mainly attributable to lower wood costs in South Africa, boosted profitability of the segment.

Demand for packaging and speciality papers products improved steadily through the year as the destocking cycle of 2023 reversed, leading to an overall 8% increase in sales volumes compared to the prior year. Market dynamics varied across the regions, with North America and South Africa experiencing stronger recoveries and returning to full operating rates compared to Europe, where downstream demand remained suppressed due to lingering poor consumer sentiment. Although higher sales volumes and variable cost savings were achieved, these gains were offset by lower selling prices, leading to margin erosion for the segment.

Graphic papers sales volumes were up 2% from the previous year but the pace of recovery slowed as the year progressed, which suggests a likely permanent structural shift in demand. Lower selling prices were partially mitigated by variable cost savings. The closure of the Stockstadt and Lanaken Mills significantly reduced the fixed cost base and enhanced European capacity utilisation, contributing to improved profitability of the segment compared to the prior year.

Special items for the year reduced earnings by US$225 million. These included US$158 million for the restructuring and closure of European assets. Net finance costs for the year were US$67 million, an increase from the US$49 million in the prior year predominantly due to higher debt levels. As a result of these special items and the increase in finance costs, profit for the period of US$33 million was below that of the prior year.

Cash flow and debt

Net cash utilised for the period was US$306 million. The cash outflow included a dividend payment of US$84 million and US$234 million for the restructuring and closure of European assets, which included the proceeds from the sale of the Stockstadt Mill site, partially offset by a working capital inflow of US$29 million.

Capital expenditure of US$458 million was slightly below guidance due to timing differences on some projects and the deferment of some non-critical projects and exceeded the previous year's US$382 million. The expenditure is aligned with the Thrive strategy to grow the packaging and speciality papers segment and included US$160 million for the conversion and expansion of Somerset PM2.

Net debt at financial year end increased to US$1,422 million (FY2023: US$1,085 million) primarily due to the increased capital expenditure associated with the Somerset PM2 project and the closure of the two European paper mills. In addition, a negative currency translation effect on our Euro-denominated debt being converted at a higher rate, increased net debt by a further US$63 million for the year. At year end, liquidity remained healthy with cash on hand of US$317 million and US$692 million from unutilised committed revolving credit facilities (RCF) in South Africa and Europe.

Fourth quarter September 2024(5)

Operating performance for the fourth quarter was substantially better than last year and the group generated Adjusted EBITDA(2) of US$226 million. A strong performance from the pulp segment and significantly lower wood costs in South Africa were the main drivers of the success. As a result of the lower wood prices, the group incurred a negative plantation fair value price adjustment of US$31 million.

The pulp segment benefited from strong demand, higher selling prices and lower variable costs, which boosted margins to a healthy 30%. The combination of high operating rates for VSF producers, low downstream VSF inventories and rallying textile fibre prices provided positive support for hardwood DP market prices(3) which increased by a further US$18 per ton during the quarter.

Sales volumes for packaging and speciality papers were 16% above the prior year, driven primarily by a recovery in North American paperboard volumes following the destocking cycle in 2023. European markets remained lacklustre with weak consumer sentiment continuing to weigh on demand in the region. The profitability of the segment improved year-on-year as the higher sales volumes offset lower selling prices and higher raw material costs.

Underlying global demand for graphic papers remained suppressed but sales volumes for the fourth quarter benefited from a seasonal boost in North America. The higher sales volumes and substantial fixed cost savings from the European region offset lower selling prices, lifting profitability of the segment compared to the prior year.

Adjusted earnings per share(6) for the quarter was 15 US cents, which was substantially above the 6 US cents in the prior year and indicative of the improved operating environment compared to last year. Special items for the quarter increased earnings by US$3 million due to a Lanaken Mill impairment reversal, partially offset by other non-operational events.

Directorate

On 06 November 2024, the board approved the following changes to the directorate which will take effect from 01 January 2025.

Mr Mohamed Moosa retires from the board and his positions as Lead Independent Director, chairman of the Social, Ethics and Transformation (SETS) Committee and a member of the Nomination and Governance Committee on 31 December 2024.

Mr Michael (Mike) Fallon is appointed as Lead Independent Director and resigns from his position as chairman of the Human Resources and Compensation Committee. Mr Louis von Zeuner is appointed as chairman of the Human Resources and Compensation committee. Mr Brian Beamish is appointed as chairman of the SETS Committee. Additionally, Ms Eleni Istavridis is appointed to the SETS committee and Ms Zola Malinga to the Nomination and Governance Committee.

Dividends

On 06 November 2024, the directors approved a dividend (number 91) of 14 US cents per share which will be paid to shareholders on 13 January 2025. This dividend was declared after year end and was not included as a liability at the end of the 2024 financial year and will be funded from cash reserves.

The 2024 dividend is covered 3 times by Adjusted earnings per share(6).

Outlook

Dissolving pulp market dynamics are expected to remain favourable through the first quarter as VSF operating rates remain high and inventory levels through the value chain are at historical lows. The DP supply landscape remains constrained with no new capacity anticipated in the short term. VSF pricing has lifted in recent weeks, providing further support for hardwood DP pricing(3) which has maintained its upward momentum and increased a further US$8 to US$968 per ton since the end of the last quarter.

The long-term favourable outlook for our sustainably produced packaging and speciality papers products remains unchanged, and demand from our customers in South Africa and North America is healthy. Sappi is well positioned to benefit from the additional paperboard capacity from the conversion and expansion of Somerset PM2 that will start up in the third quarter. However, challenges persist in the short term in Europe as market recovery is taking longer than expected and we therefore do not expect any meaningful volume recovery in the region in the first quarter of the financial year.

Graphic papers markets have experienced a permanent structural decline through FY2024 and are expected to resume the historical 6% to 8% decline through FY2025. Globally there is significant overcapacity. However, we have proactively reduced our capacity in Europe to align with our anticipated market share of demand and will remove further capacity in FY2025 as we ramp up the wet strength label production on Gratkorn PM9. In North America, post the conversion of Somerset PM2, we will continue to meet the needs of our graphic papers customers while fully utilising our assets.

Global pulp markets have diverged over the last few months. In stark contrast to the robust DP market, paper pulp markets have come under significant pressure as large new pulp capacity has been added and downstream paper demand remains suppressed. Lower paper pulp pricing will benefit our paper businesses, particularly in Europe where we purchase approximately 50% of our pulp requirements from the open market. We anticipate that the plantation fair value price adjustment for the first quarter will be negative due to lower wood costs in South Africa.

Challenging global macroeconomic conditions and ongoing geopolitical tensions continue to cause disruptions in our markets. Additionally, supply chain instability and fluctuating input costs have added pressure to both production and pricing strategies, making market dynamics unpredictable. In this environment, we are sharpening our focus on operational excellence by proactively managing capacity utilisation and vigorously pursuing cost saving opportunities.

Aligned with our Thrive strategy, our capital allocation remains firmly directed toward expanding in high-growth market segments, strengthening our competitive position and delivering sustained shareholder value as we enhance profitability of the group. Capital expenditure for FY2025 is estimated to be in the region of US$500 million and will include approximately US$157 million for the completion of the Somerset PM2 project. The project is expected to be completed by April 2025 and therefore most of the capex will be incurred in the first half of the financial year. On 25 October 2024 the sale of the Sappi Lanaken Mill site was completed and proceeds of US$44 million were received.

Notwithstanding the ongoing global macroeconomic challenges, we anticipate that the Adjusted EBITDA(2) for the first quarter of FY2025 will be significantly above that of the equivalent quarter of the prior year.

On behalf of the Board

S R Binnie
Director

G T Pearce
Director

07 November 2024

Dividend announcement

The directors have resolved to declare a gross cash dividend (number 91) of 14 US cents per share, payable in ZAR at an exchange rate (US$1 = ZAR) of 17.62526, being 246.75364 cents per share, for the year ended September 2024 out of income, in respect of Sappi ordinary shares in issue on the record date set out below.

The South African dividend tax (DT) rate is 20% and the net dividend payable to shareholders who are not exempt from DT is 197.40291 cents per share. Sappi currently has 599,418,940 ordinary shares in issue. The income tax reference number is 9175203711.

In compliance with the JSE Listings Requirements the salient dates in respect of the dividend are detailed below.

Currency conversion determined on:	06 November 2024
Declaration and finalisation date:	07 November 2024
Last day to trade to qualify for the dividend:	07 January 2025
Shares commence trading ex-dividend:	08 January 2025
Record date:	10 January 2025
Payment date:	13 January 2025

Dividends payable to shareholders on the South African register will be paid in South African Rand and all dividends attributable to holders of American Depository Receipt (ADR) shares on the New York Stock Exchange will be dealt with in accordance with their custody agreements in place with their local custodian.

Certificated shareholders who previously held their shares on the UK register, which has subsequently been discontinued, shall be paid in Pounds Sterling at the ruling exchange rate at the time.

No currency elections are permitted.

All shareholders need to ensure that their current bank mandates with their service providers are up to date. Furthermore, shareholders who have not yet done so, should submit their service providers with their tax numbers and other relevant information for dividend tax purposes. Where shareholders qualify for withholding tax exemptions, they need to ensure that such exemption applications have been lodged with their service providers.

Certificated and own name shareholders can call Computershare in South Africa on 0861 100 950 for assistance in this regard.

Share certificates will not be dematerialised or rematerialised from 07 January 2025 to 10 January 2025, both days inclusive.

This results 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 decisions should be based on the full announcement accessible from 07 November 2024 via the JSE link and also available on the home page of the Sappi website at www.sappi.com.

The JSE link is as follows:

https://senspdf.jse.co.za/documents/2024/JSE/ISSE/SAVVI/SAPQ424.pdf

JSE Sponsor: RAND MERCHANT BANK (A division of FirstRand Bank Limited)

(1) “Year-on-year” or “prior/previous/last year” is a comparison between FY2024 versus FY2023.
(2) Adjusted EBITDA is EBITDA excluding special items and plantation fair value price adjustment.
(3) Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.
(4) High yield pulp = bleached chemi-thermomechanical pulp (BCTMP).
(5) “Year-on-year” or “prior/previous/last year” is a comparison between Q4 FY2024 versus Q4 FY2023; “Quarter-on-quarter” or “prior/previous/last quarter” is a comparison between Q4 FY2024 and Q3 FY2024.
(6) Adjusted EPS is EPS excluding special items and plantation fair value price adjustment.