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

Results for the first quarter ended December 2024

	Reviewed[1] Quarter ended		
US$ million	**Dec 2024**	**Dec 2023**	% Change
Sales	1 363	1 272	7%
Adjusted EBITDA	203	130	56%
EBITDA excluding special items	202	156	29%
Profit (loss) for the period	70	(126)	N/M
Net debt	1 406	1 216	16%
Headline EPS (US Cents)	12	(22)	N/M
Basic EPS (US Cents)	12	(23)	N/M
Adjusted EPS (US Cents)	14	5	180%
Net asset value (US Cents)	407	404	1%

N/M - Not meaningful

(1) The condensed consolidated financial statements for the first quarters ended December 2024 and December 2023 have been reviewed in accordance with ISRE 2410 by KPMG Inc

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.

Commentary on the quarter[(1)]

The group delivered a solid performance in the first quarter with Adjusted EBITDA of US$203 million, which was ahead of expectations and substantially above last year. Year-on-year profitability improved across all segments, supported by cost savings, operational efficiency gains, higher dissolving pulp (DP) selling prices and sales volumes combined with improved packaging and speciality papers sales volumes. Against the backdrop of global macroeconomic headwinds, weak consumer spending and overcapacity in paper markets, our

Thrive strategy – in particular our strategic capacity rationalisation and cost saving initiatives – continued to deliver positive outcomes.

The pulp segment delivered another strong performance with profitability significantly above that of last year. Demand for DP continued to be robust despite the Chinese viscose staple fibre (VSF) market entering the seasonally slow period ahead of the Chinese Lunar New Year. VSF industry operating rates remained high and inventories in the value chain continued to trend below historical levels. The hardwood DP market price[2] rose US$10 during the quarter to US$970 per ton at quarter end. DP sales volumes were 10% above last year but this was largely due to maintenance shuts in the prior year, which were not repeated in the current quarter.

Profitability of the graphic papers segment improved year-on-year driven primarily by cost savings related to operational efficiency improvements. Sales volumes declined by 3% compared to the prior year as market demand resumed its historical decline following the volatility observed over the last two years. Selling prices were resilient despite significant supply overcapacity and low industry operating rates, which supported healthy EBITDA margins for the segment.

Profitability of the packaging and speciality papers segment improved compared to the prior year, albeit off a low base. Sales volumes increased by 14% due to a significant recovery in North American paperboard sales volumes. Recovery in Europe continued to lag, driven by weak consumer sentiment and overcapacity. In South Africa, underlying demand was satisfactory within the context of the typical low seasonal activity in fruit export markets in the first quarter. Operational efficiency improvements at the Ngodwana and Somerset Mills further contributed to the profit improvement for the segment.

Adjusted earnings per share for the quarter was 14 US cents, which was substantially above the 5 US cents in the prior year and reflective of the improved operating performance. Special items reduced earnings by US$11 million and were mainly related to the final write offs for the mill closures of last year and fire damaged timber. The forestry fair value price adjustment for the quarter was a loss of US$1 million.

(1) "year-on-year" or "prior/previous year" is a comparison between Q1 FY2025 versus Q1 FY2024; "Quarter-on-quarter" or "prior/previous quarter" is a comparison between Q1 FY2025 and Q4 FY2024.
(2) Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.

Cash flow and debt

Net cash utilised for the quarter was US$62 million compared to the US$69 million utilised in the prior year. Significantly improved profitability and cash flow from operations compared to last year was offset by higher capital expenditure of US$101 million (Q1 FY2024: US$75 million) due to the planned expenditure for the Somerset Mill PM2 conversion and expansion project and a higher working capital outflow of US$130 million (Q1 FY2024: US$43 million) due to timing of debtors receipts and pulp and paper inventory build ahead of the Somerset Mill PM2 outage which will take place in Q2 FY2025. Cash flow for the quarter included an inflow of US$43 million for the sale of the Lanaken Mill site.

Net debt of US$1,406 million was US$16 million below last quarter due to a positive currency translation effect of US$89 million due to a stronger US Dollar on our Euro and ZAR-denominated debt.

Liquidity comprised cash on hand of US$283 million and US$642 million from the committed unutilised revolving credit facilities (RCF) in South Africa and Europe.

Outlook

Underlying demand for dissolving pulp remains strong, supported by high operating rates in the VSF industry. However, we expect the seasonal slowdown in China's textile industry during the Lunar New Year celebrations to apply short-term pressure to DP pricing in the second quarter.

Packaging and speciality papers markets in North America and South Africa are expected to remain stable with good demand from our customers. European markets remain weak, and recovery is taking longer.

Graphic papers markets have normalised following a prolonged destocking cycle, and demand across all regions has resumed its historical decline. Overcapacity remains a significant headwind for the industry, particularly in Europe. Our strategic focus for this segment is to maximise our market share and proactively manage our capacity utilisation as we transfer graphic papers sales from our Somerset Mill PM2 to alternate assets.

Challenging global macroeconomic conditions, persistent geopolitical tensions, and uncertainties surrounding US trade tariffs pose both risks and potential opportunities to our business, which we continuously assess. In this environment, our strategic focus remains firmly on cost savings to safeguard our competitive advantage.

The Somerset Mill PM2 will be shut for a period of approximately 70 days in the second quarter as we complete the conversion and expansion to paperboard. The machine is expected to start commissioning in April 2025. The paperboard product mix will shift with the commercial ramp-up of the machine, initially increasing the proportion of sales to the lower-margin food service market. The project will adversely impact the second quarter by approximately US$21 million.

Global paper pulp markets continue to be oversupplied and downstream paper demand recovery is slow. Prices have stabilised in recent weeks and market analysts are forecasting that we are approaching the trough in the cycle. We anticipate that our paper business will continue to benefit from the lower pulp input costs in the second quarter. Annual maintenance shuts are scheduled for the Ngodwana and Saiccor Mills in the second quarter (these occurred in the first quarter of last year), which will have a negative impact of approximately US$45 million. We anticipate that the forestry fair value price adjustment will be negative in the second quarter due to rising fuel costs.

Our capital expenditure forecast for FY2025 has risen to approximately US$525 million as we have made additional contingency provisions to account for increased labour costs associated with the Somerset Mill PM2 conversion and expansion project.

Notwithstanding relatively stable underlying market conditions and after taking into account the negative impacts of the annual maintenance shuts and the Somerset Mill PM2 project, we anticipate that Adjusted EBITDA for the second quarter of FY2025 will be below that of the first quarter of FY2025.

On behalf of the board

SR Binnie
Director

GT Pearce
Director

04 February 2025

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 05 February 2025 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/2025/JSE/ISSE/SAVVI/SAPQ125.pdf

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