Sappi delivers strong first quarter; announces major investments in speciality packaging grades

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Financial summary for the quarter

- EBITDA excluding special items US$201 million (Q1 2016 US$175 million)
- Profit for the period US$90 million (Q1 2016 US$75 million)
- EPS excluding special items 16 US cents (Q1 2016 13 US cents)
- Net debt US$1,338 million, down US$396 million year-on-year

Investments to enhance competitive advantage and increase speciality packaging capacity

- Increased capability to produce paper-based packaging at Somerset Mill in the USA
- Lightweight packaging and speciality paper capacity to increase at Alfeld Mill in Germany
- Conversion of Maastricht Mill to solid bleach board facility
- Transition Lanaken Mill PM8 to support coated woodfree business
- European cumulative coated graphic paper reduction of 200,000tpa by 2020

Commenting on the result, Sappi Chief Executive Officer Steve Binnie said:
"I am pleased with our solid operating performance for this quarter. Group profit increased by 20% and EBITDA by almost 15%. We have reduced net debt by a further 23% compared to our levels a year ago. The past quarter saw greater sales volumes across all major categories, higher dissolving wood pulp (DWP) prices, benefits from cost savings initiatives but also lower selling prices for graphic paper.

"With DWP markets experiencing strong demand the Specialised Cellulose business continued to generate good returns during the quarter, with EBITDA excluding special items up 28% on last year. Our European business once again delivered strong results due to variable cost control and year-on-year growth of 26% in the specialities categories. In the US we increased sales volumes and gained market share, despite an overall decline in coated paper demand and our South African business delivered excellent margins due to higher DWP and paper prices, despite lower containerboard and tissue sales in December as customers worked to reduce inventory stock.

With regards to the investments announced by Sappi, he stated:
"To maintain our strong momentum and support our strategy for growth we have today announced a number of key investments. With demand for speciality packaging grades remaining robust we will be undertaking a number of significant projects over the next two years in order to increase our production capacity in these grades. Our decision demonstrates our clear commitment to the consumer packaging market and our focus on maintaining our leadership in coated paper production in both North America and Europe.

"In North America we will be investing approximately US$165 million to upgrade PM1 at the Somerset Mill. The project will enhance the flexibility of the machine, allowing it to act both as a strong platform for growth in paper-based packaging whilst equally maintaining Sappi's leadership position in the graphic paper market. The project will increase the overall capacity of the mill by 180,000tpa and is expected to be completed in 2018.

"In Europe we will undertake a number of projects that will result in a significant increase in our speciality packaging paper capacity and capability as well as support our drive to be the lowest cost producer and best service provider in graphic papers. The Maastricht Mill will be converted to focus predominantly on speciality grades and we will invest at Ehingen and Alfeld Mills to enhance the specialities offerings. Lanaken Mill PM8 will progressively transition to coated woodfree production over the next three years in line with the expected decline in the coated mechanical market. In total these projects will cost approximately US$140 million over a three year period."

Outlook

Demand for DWP remains favourable and pricing has recovered during January. Therefore a higher average dollar price is expected in the second quarter of 2017.
Graphic paper markets continue to be weak in Europe and the United States, however prices have started to stabilise. Raw material costs have started to rise, particularly for paper pulp, energy and chemicals but we remain focused on various efficiency and procurement initiatives in order to mitigate the effect of these increased costs.

Based on current market conditions, in particular the recent strength of the rand, continued strength in US dollar pricing for DWP and further weakness in graphic paper demand and pricing in Europe and the US, we expect the group's operating performance for the second quarter to be broadly in line with that of 2016. Further Rand strength could result in a weaker performance for the remainder of the year. The board is mindful of uncertainty wrought by global political events.

Capital expenditure in 2017 is expected to be approximately US$350 million as we continue the debottlenecking of DWP production at Saiccor and Ngodwana Mills, and undertake the first phases of the speciality packaging investments outlined previously.

We expect to reduce net debt levels further during the course of 2017 and it remains our intention to repay the maturing 2017 bonds from current liquidity sources in order to lower future finance costs.