

Sappi Limited

Registration number: 1936/008963/06

JSE code: SAP

ISIN code: ZAE000006284

Issuer code: SAVVI

First quarter results for the period ended December 2021

Short-form SENS announcement

US\$ million	Quarter ended		
	Dec 2021	Dec 2020	% Change
Sales	1 697	1 163	46%
EBITDA excluding special items	240	98	145%
Profit for the period	123	(17)	N/M
Net debt	1 917	2 056	-7%
Headline EPS (US Cents)	22	(3)	N/M
Basic EPS (US Cents)	22	(3)	N/M
EPS excluding special items (US Cents)	20	(1)	N/M
Net asset value (US Cents)	353	327	8%

* N/M not meaningful

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 (specialities and packaging 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

Operating performance for the quarter exceeded expectations. The group generated EBITDA excluding special items of US\$240 million, a substantial improvement over the prior quarter and more than double the equivalent quarter in 2021. Robust market demand in all product segments combined with the implementation of higher sales prices to offset rising costs and a focus on product and customer mix optimisation facilitated the growth.

An additional sales week in the quarter augmented sales and boosted EBITDA by approximately US\$25 million.

Global logistical challenges continued unabated and posed headwinds for our export sales and raw material procurement in all regions. Substantial energy, raw material and delivery cost inflation in the quarter was offset by selling price increases in the paper business.

Pulp sales volumes increased by 48% compared to the prior quarter as we secured more shipping capacity for our South African exports. The hardwood dissolving pulp (DP) market price⁽²⁾ decreased to US\$905 per ton during the quarter on the back of weakening viscose staple fibre (VSF) demand and pricing in China. However, demand for Sappi Verve⁽³⁾ remained strong and our mills were fully sold with sales volumes of 334,000 tons in the quarter aligned to production. VSF prices rebounded towards the end of the quarter which stabilised DP pricing. The ongoing logistical challenges and adverse weather conditions in December at the Durban Port prevented any reduction of the 100,000 ton sales backlog from the fourth quarter of FY2021. Constrained global container vessel supply necessitated the use of alternative non-contracted ocean carriers and breakbulk shipping to fulfil customer shipping requirements, which negatively impacted delivery costs.

Markets for packaging and speciality papers continued to be robust across all regions with our sales volumes up 26% on a year ago. The successful implementation of price increases combined with product mix optimisation led to further progress in profitability for the segment.

Buoyant demand for graphic papers boosted sales volumes by 20% compared to last year and provided support for price increases, which were necessary to offset significant cost inflation and restore EBITDA margins for the segment. Notably, all assets ran at full operating capacity during the quarter.

Earnings per share excluding special items for the quarter was 20 US cents, which was a substantial improvement on the 11 US cents in the prior quarter and indicative of the excellent recovery of profitability. Special items increased earnings by US\$8 million primarily due to a US\$26 million settlement of a US pension liability offset by a loss on plantation price fair value adjustments of US\$15 million.

Cash flow and debt

Net cash utilised for the quarter was US\$11 million, compared to zero in the equivalent quarter of last year. The cash utilisation was due to a typical seasonal working capital outflow in the first quarter which included additional inventory build and creditors payments associated with the extra trading week in the quarter. Capital expenditure of US\$72 million included certain payments for the Saiccor Mill expansion.

Net debt of US\$1,917 million was US\$139 million less than at the end of the equivalent quarter of last year. The debt reduction was as a result of higher profitability over the past year and a comparatively stronger US Dollar, which reduced the Euro-denominated debt converted at a lower rate. In terms of the relevant banking facilities, the leverage covenant was reduced to 2.9 times at the end of the quarter, which was a substantial improvement on the 6.2 times in the equivalent Covid-19 impacted quarter of the previous year. Liquidity comprised cash on hand of US\$334 million and US\$706 million from the committed revolving credit facilities (RCF) in South Africa and Europe.

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- (1) “year-on-year” or “prior year” is a comparison between Q1 FY2021 versus Q1 FY2022; “quarter-on-quarter” or “prior quarter” is a comparison between Q4 FY2021 and Q1 FY2022.
 - (2) Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.
 - (3) Sappi Verve – brand name for dissolving pulp.

Outlook

The demand for DP continues to be strong. VSF pricing and operating rates improved in January which stabilised DP market prices at US\$905 per ton ahead of the Chinese New Year. An extremely high differential between cotton and VSF prices should support fibre substitution in future quarters which would be positive for DP demand and pricing. Furthermore, the addition of breakbulk shipping is expected to aid in the reduction of the DP sales backlog.

The recovery of sales for graphic papers across all regions combined with industry capacity closures has tightened the market balance. Additionally, the underlying demand in the packaging and speciality papers segment remains robust. The stronger markets for all our paper products should support announced price increase realisation which is necessary to offset extraordinarily high input costs.

Global logistical challenges and vessel shortages are likely to continue through FY2022, and our objective is to secure sufficient transport capacity to support the strong demand for our products and optimise delivery costs.

Timber, pulp, chemicals, energy and delivery costs are expected to remain at elevated levels through the current financial year. Specifically, in South Africa the higher delivery, timber and chemical prices will impact the margins for the pulp business.

As previously disclosed, capital expenditure is estimated to be US\$395 million for FY2022.

Given the favourable demand outlook for all of our product segments we anticipate a further improvement in EBITDA for the second quarter of FY2022 from the excellent results achieved in the first quarter.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

9 February 2022

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 9 February 2022 via the JSE link and also available the sappi website at www.sappi.com.

Copies of the full announcement may be requested by contacting Rosa Moodley on telephone: +27 (0)11 407 8515, email: Rosa.Moodley@sappi.com.

The JSE link is as follows:

<https://senspdf.jse.co.za/documents/2022/jse/isse/SAVVI/sappiQ122.pdf>

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