

Sappi Limited

Registration number: 1936/008963/06

JSE code: SAP

ISIN code: ZAE000006284

Issuer code: SAVVI

("Sappi" or "the company")

Third quarter results for the period ended June 2022

Short-form SENS announcement

US\$ million	Quarter ended			Nine months ended		
	Jun 2022	Jun 2021	% Change	Jun 2022	Jun 2021	% Change
Sales	1 818	1 393	31%	5 373	3 840	40%
EBITDA excluding special items	371	145	156%	948	355	167%
Profit for the period	199	18	1006%	510	(22)	N/M
Net debt	1 530	2 055	-26%	1 530	2 055	-26%
Headline EPS (US Cents)	35	3	1067%	93	(4)	N/M
Basic EPS (US Cents)	35	3	1067%	91	(4)	N/M
EPS excluding special items (US Cents)	39	5	680%	94	3	3033%
Net asset value (US Cents)	421	362	16%	421	362	16%

* 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 ⁽¹⁾

The group generated a record quarterly EBITDA excluding special items of US\$371 million, an excellent achievement against a backdrop of significant geopolitical turmoil, supply chain headwinds and extraordinary global inflationary pressures. Strong global paper demand and pricing momentum offset sharply rising costs and the negative impact of the maintenance shuts in the pulp segment. The sizeable cash generation during the quarter supported our strategic objective to de-gear the balance sheet and accelerated our timeline to reduce debt.

Covid lockdowns in China and the ongoing Russian-Ukrainian conflict exerted renewed pressure on global supply chains and energy prices resulting in further broad-based inflation during the quarter.

During April, a flood in South Africa forced the temporary closure of our three mills in the KwaZulu-Natal region and resulted in a loss of 24,000 tons of production and 32,000 tons of inventory which was damaged in a warehouse at the Durban port. The insured margin on the damaged inventory and business interruption of US\$19 million were recognised in EBITDA.

The hardwood dissolving pulp (DP) market price⁽²⁾ rallied to US\$1,200 per ton on the back of buoyant viscose staple fibre (VSF) prices, which reached their highest level since 2017. Global DP supply-side constraints, including our own flood losses and a major fire at another large market player, served to tighten DP markets which further bolstered the price upswing. However, the profitability of the pulp segment was impacted negatively by the maintenance shuts at all three DP mills, significant input cost inflation and lower than planned sales volumes. Saiccor Mill production was unstable after the floods and the scheduled maintenance shut. In addition, further challenges at the Durban port after the floods led to renewed congestion which delayed shipments of approximately 24,000 tons at quarter end. Consequently, DP sales volumes were limited to 217,000 tons in the quarter.

⁽¹⁾ “year-on-year” or “prior year” is a comparison between Q3 FY2021 versus Q3 FY2022; “quarter-on-quarter” or “prior quarter” is a comparison between Q3 FY2022 and Q2 FY2022.

⁽²⁾ Market price for imported hardwood dissolving pulp into China issued daily by the CCF Group.

Graphic paper sales volumes were 4% higher than the prior year. The segment benefited from tight market conditions which supported selling price increases and drove margin growth. These favourable market conditions enabled all assets to run at full operating rates during the quarter.

The packaging and speciality papers segment reached another record level of profitability despite flat year-on-year sales volumes, which were constrained by available capacity and low inventory levels in North America and South Africa. Demand remained robust and further selling price increases lifted margins for the segment.

Earnings per share excluding special items of 39 US cents was a substantial improvement on the 5 US cents in the prior year. Special items reduced earnings by US\$34 million, related mainly to a negative plantation fair value adjustment of US\$16 million and the net loss after insurance proceeds for the South African floods of US\$19 million.

Cash flow and debt

Due to the higher profitability, net cash generated for the quarter of US\$170 million was substantially better than the US\$49 million in the prior year, despite an outflow for working capital related to inflationary increases for inventories and accounts receivables. Capital expenditure of US\$93 million was in line with expectations.

Net debt of US\$1,530 million was US\$525 million less than the prior year as a result of strong cash generation and a positive translation impact of a weaker EUR/US Dollar exchange rate on the predominantly Euro-denominated debt.

In terms of the relevant banking facilities, the covenant leverage ratio reduced to 1.4 times at the end of June 2022; a significant improvement on the 4.7 times last year and 2.0 times in the prior quarter.

Liquidity comprised cash on hand of US\$570 million and US\$643 million from the undrawn committed revolving credit facilities (RCFs) in South Africa and Europe.

Outlook

Although macroeconomic uncertainties related to geopolitical volatility within Europe and persistently high global inflation may dampen consumer sentiment and discretionary spend in the short term, we expect the favourable price levels and strong demand for our products to continue in the fourth quarter.

DP markets are expected to remain tight due to ongoing logistical challenges and supply constraints. Demand from our customers remains healthy and the benefit of the higher market pricing in the third quarter will support margins on our contracted sales in the fourth quarter. However, in late June, global recessionary fears prompted a broad-based selloff in commodities which triggered a sharp drop in cotton prices in China. The differential between cotton and VSF pricing has been eroded and VSF pricing may come under pressure which could impact future DP prices.

Despite early indicators of the graphic paper market softening in some of our sales regions, our order books remain healthy. Input cost inflation is likely to weigh upon margins in this segment, but we still anticipate favourable margins significantly above long-term trends.

Demand from our packaging and speciality papers customers remains robust. This segment has proven to be resilient through economic downturns and we will continue to focus our efforts to optimise product mix and maximise sales volumes.

The ongoing threat to gas and energy supplies in Europe poses a potential risk to our European business. To date, our energy risk mitigation strategies have successfully neutralised cost impacts, and we will continue to monitor developments and take action where appropriate.

Capital expenditure is estimated to be US\$395 million for FY2022.

Notwithstanding inflationary cost pressures, we are anticipating another strong performance in the fourth quarter, with EBITDA below the record levels achieved in the third quarter.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

4 August 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 from 4 August 2022 via the JSE link and also available on the home page of 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/sappiQ322.pdf>

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