

Arctic Paper

Packaging and power extension strategy

Arctic Paper, one of the leading producers of high-quality graphical paper in Europe, recently unveiled its new 4P strategy for 2022 to 2030. The strategy will reposition Arctic into four key pillars, building on its paper and pulp core businesses to invest and develop in packaging and power. This should enable Arctic to enhance its focus on sustainable solutions (eg reducing plastic waste), and to build its renewable energy business. The strategic investments will move the company up the value chain by adding higher margined packaging and power assets, while retaining its pulp and paper operations. The 4P strategy includes targets for EBITDA to be c 70% higher by 2030 and for Arctic to be carbon neutral by 2035.

Diversification towards higher-margin products

Arctic's current business comprises mainly paper and pulp (67% and 30% of FY20 revenues, respectively). By 2030 the company plans to generate c 18% of revenues from packaging and c 7% from power production, with overall revenues 25% higher versus FY21. The addition of higher-margined packaging and power should boost the EBITDA margin to 15% from the current 10%. Arctic Paper plans to spend c 40% capex to support expansion of the new business areas, adding 100kt of packaging paper capacity and 100MW of renewable power capacity by 2030.

Current business mix supports stable results

Paper margins are driven by paper pricing trends and raw material costs, mainly pulp (51% of COGS in H121). A favourable pulp and paper mix provides an inherent hedge between the two, generating stable EBITDA results (2014–20 EBITDA range of €51–65m). Additionally, the company is largely shielded from high electricity prices (68% YTD increase in the wholesale price in Poland), due to its hedging policy and on-site generation of two-thirds of its energy needs (50% from renewable sources). Arctic Paper paid a 7c dividend in 2021 (after a three-year break due to debt covenants), at a 19% pay-out ratio (the current dividend policy targets 20–25%). Low leverage, with net debt to EBITDA of 0.6x at end-June 2021 (vs a peer average of 1.8x), allows for financing part of strategic investments with new debt.

Valuation

Based on its consensus (one contributor) FY22e P/E (7.5x) and EV/EBITDA (3.7x), Arctic Paper trades at discounts of 42% and 51% to European paper and packaging peers. This may reflect the current business structure (mainly pulp and paper), whereas peers are operating higher-margin packaging businesses. That may indicate the potential valuation increase of a successful strategy realisation.

| Year end | Revenue (PLNm) | EBITDA (PLNm) | EPS (PLN) | DPS (PLN) | P/E (x) | Dividend yield (%) |
|----------|----------------|---------------|-----------|-----------|---------|--------------------|
| 12/19 | 3,117 | 278 | 1.19 | 0.0 | 7.6 | N/A |
| 12/20 | 2,848 | 271 | 1.60 | 0.0 | 5.7 | N/A |
| 12/21e* | 3,092 | 277 | 1.41 | 0.3 | 6.4 | 3.3 |
| 12/22e* | 3,208 | 276 | 1.22 | 0.4 | 7.5 | 4.6 |

Source: Arctic Paper, Refinitiv. Note: *Consensus data based on one contributor.

Paper & packaging

8 November 2021

Price **PLN9.09**
Market cap **PLN630m**

PLN4.59/€

Share price graph



Share details

Code ATC
 Shares in issue 69.3m
 Net debt at 30 June 2021 PLN152.6m

Business description

Arctic Paper is a Poland-based paper producer (fifth largest producer of graphical paper in Europe) with paper mills located in Poland and Sweden (with capacity of c 685,000 metric tonnes of paper per year). Its majority ownership of Rottneros (51%) complements the company's portfolio with pulp, partly produced for its own paper products. Arctic Paper is listed on the stock exchanges in Warsaw (WSE) and Stockholm (Nasdaq).

Bull

- Pulp and paper mix provides effective business hedge and ensures stable results.
- Packaging business benefits from the shift from plastic towards sustainable solutions.
- Booming e-commerce market is boosting demand for packaging.

Bear

- Company's competitors are integrated paper producers operating on a larger scale.
- Possible unfavourable pricing movements (pulp, paper).

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