

# Arctic Paper

## Resilient Q123 in a challenging market

Arctic Paper has continued to face the challenging market trends that affected Q422, with lower demand, higher input costs and higher prices across most of its segments in Q123. Management continued to proactively respond to the conditions and EBITDA was only 10% down on Q122 while sequentially much improved from Q422, up 32%. With customers naturally hesitant to lock in a higher pricing environment given the macroeconomic shocks and geopolitical uncertainty, demand now appears unlikely to bounce back sharply. Management is set to continue to focus on profitability and cash flows, providing operating leverage for when conditions do improve.

### Q123 results focus on profitability

In Q123 lower demand led to a 7% fall in group revenues to PLN1.03bn (Q122: PLN1.11bn), 4% down on Q422. Paper volumes of 113k ton were 32% down on Q122, when markets were strong, and were only down 3% on Q422. Pulp volumes actually improved to 87k ton, up 10% on Q422 but 13% lower than Q122. Pulp and paper prices showed signs of stabilising in Q123 with low single-digit declines during the period. Invoiced paper prices remained over 20% higher than Q122. Arctic buys-in pulp as well as selling its own pulp output. Management focus on cost control led to a significant sequential improvement in profits with EBITDA (PLN185.5m), EBIT (PLN155.6m) and net income up 33%, 42% and 76%, respectively, from Q422 and broadly c 10% below the strong Q122 result. EBITDA margin remained healthy at 18.0% (Q122: 18.5%). The group held net cash of PLN290m at Q123 (FY22: PLN307m).

### Continuous transition to reflect market trends

Falling long-term demand in fine-grade paper is expected to continue and Arctic management continues to exploit its capabilities to mitigate the trend and transition to niche areas with greater stability. It has a leading position in book paper markets that remains relatively stable, although subject to the same macroeconomic trends that have moderated customer demand recently. In addition, it is seeking to develop products and segments, such as in non-graphic (packaging, technical) paper markets where it is investing to grow to c 20% of revenues over the next few years.

### More cautious for FY23

Management's outlook for FY23 is less favourable than had been anticipated at the start of the year. However, the resilient profitability and strong finances support the investment strategy, and the P/E rating is undemanding, with a healthy yield.

#### Consensus estimates

Year end	Revenue (PLNm)	PBT (PLNm)	EPS (PLN)	DPS (PLN)	P/E (x)	Yield (%)
12/21	3,413	223	1.6	0.4	12.3	2.0
12/22	4,894	928	9.1	2.7	2.2	13.7
12/23e	4,442	651	6.5	2.6	3.0	13.2
12/24e	3,835	304	2.9	2.6	6.8	13.2

Source: Company reports, Refinitiv

#### Pulp and paper production

10 May 2023

**Price** **PLN19.66**  
**Market cap** **PLN1.36bn**

#### Share price graph



#### Share details

Code ATC  
 Listings Warsaw SE, Stockholm (Nasdaq)  
 Shares in issue 69.3m

#### Business description

Based in Poland, Arctic Paper is a paper producer (one of the leading producers of graphical paper in Europe) with three paper mills located in Poland and Sweden. It is the majority owner of Rottneros (51%) in Sweden, which complements the company's portfolio with pulp, partly produced for its own paper products. Arctic Paper is listed in Warsaw (WSE) and Stockholm (Nasdaq).

#### Bull

- An agile management and strategy allowing proactive responses to market developments.
- Investing PLN1.5bn in two new strategically important segments of renewable energy and packaging, targeting 25% revenue growth by 2030.
- Strong balance sheet facilitates investment to support strategy.

#### Bear

- Global inflationary pressure stifling customer confidence and demand.
- Long-term structural decline in paper demand.
- Lower returns projected through FY24.

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