

Sylvamo Corp.

4Q Flash: SLVM Results > BofA, 1Q24 EBITDA guide in-line

Maintain Rating: BUY | PO: 57.00 USD | Price: 45.52 USD

4Q op EPS of \$1.16 vs. BofA at \$0.82

Sylvamo Corp (SLVM) reported operating EPS of \$1.16 in 4Q23 vs. BofA at \$0.82 and adj. EBITDA of \$117mn was above our \$105.5mn estimate. At the segment level adj. EBITDA for North America +\$15.6mn above our model estimate of \$50.4mn at \$66mn, Europe was -\$14mn below our -\$1.9mn estimate at -\$16mn, and Latin America was +\$16mn above our model estimate of \$50.9mn at \$67mn. In 4Q, the company took approximately 23,000 short tons of economic downtime. Compared to our model, sales were higher for North America at \$496mn (v. our \$454.8mn est.), higher for Europe at \$197mn (v. our \$178.4mn est.), and higher for Latin America at \$288mn (v. our \$269.8mn est.). Compared to the prior year, price/mix lowered adj. EBITDA by -\$115mn while volumes improved by \$8mn. Meantime, adj. EBITDA was also impacted by operations and costs -\$10mn, maintenance outages +\$9mn, and input and transportation costs +\$63mn, while Nymolla earnings were a \$8mn negative y/y due to annual outage costs. Importantly it would appear based on results and guidance, operations & other costs were a source of positive variance in 4Q and are a bridge-driver for 1Q.

1Q24 EBITDA guide of \$115mn (midpoint)

SLVM has been rated a Buy based on its valuation, cashflow and the potential for smaller-cap, cyclical value stocks to be more desirable to investors as BofA's economic outlook has been improving. 1Q24 adj. EBITDA is projected between the range of \$105-125mn versus our \$114mn estimate. Sequentially versus 4Q, SLVM expects 1Q24 price/mix to decrease by \$5mn-10mn. Meantime, volumes are also expected to decrease by \$10-15mn and input and transportation costs to increase by \$5-10mn. As noted earlier, operations & other costs are expected to improve by \$20-25mn, while total maintenance expense is expected to decrease by \$3mn.

Key points and questions for the call

We plan to review our estimates following today's conference call at 10:00am ET (Dial-In: 877-336-4440). Topics we expect to be discussed include: (a) the headwinds apparently being faced in Europe; (b) the drivers of sequential pricing, particularly in Europe; (c) the ability to improve costs and productivity, in light of the weak demand and pricing trends; (d) the underpinnings of 1Q's implied \$105-125mn EBITDA range; (e) the implications of SLVM's required forest investments and third-party wood agreements in Brazil; (f) the potential for future results to be impacted by past pricing due to lags; (g) broader guidance for 2024 on EBITDA and FCF.

15 February 2024

Equity

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Stock Data

Price	45.52 USD
Price Objective	57.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-1-7
52-Week Range	37.33 USD - 52.90 USD
Mrkt Val (mn) / Shares Out (mn)	2,003 USD / 44.0
Free Float	83.5%
Average Daily Value (mn)	10.71 USD
BofA Ticker / Exchange	SLVM / NYS
Bloomberg / Reuters	SLVM US / SLVM.N
ROE (2023E)	34.5%
Net Dbt to Eqty (Dec-2022A)	99.1%
ESGMeter™	NLA

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Timestamp: 15 February 2024 08:38AM EST

Price objective basis & risk

Sylvamo Corp. (SLVM)

Our \$57 price objective is based on an average of: (a) an EPS forecast of \$4.75 in 2024E and a P/E of 12x, which is within the range in which paper companies have traded, (b) a normalized FCF estimate of around \$258mn, a calculated cost of equity of 8% and forecast rate of decline of 3%, (c) our SLVM sum-of-the-parts (SOTP) value, based on forecast midcycle EBITDA values and applying multiples of 4-7x across the regions.

Risks to our PO are: (1) Broader employment and macro picture, (2) Paper sector volatility and demand trends, (3) Changes in the cost or availability of key inputs, energy and transportation, (4) Demand, supply chain and other risks created by the pandemic, (5) Potential cash outflow related to the pending tax ruling on the deductibility of goodwill from IP's 2007 acquisition of the Luis Antonio mill, (6) Emerging market risk, including potential for volatility in Latin America, (7) Potential dis-synergies and operational risks related to the spin-off from IP, (8) Operational risks associated with the Svetogorsk recovery boiler project, (9) Potential for supply/demand imbalances in UCFS, (10) Potential loss of a key customer, (11) Risks of fragmentation in Europe. Volatility in macro and micro factors and the earnings leverage that exists could mean fundamental trends wind up worse than expected, causing further downside to the shares relative to our PO. Alternatively, better performance could cause the shares to perform better than our PO.

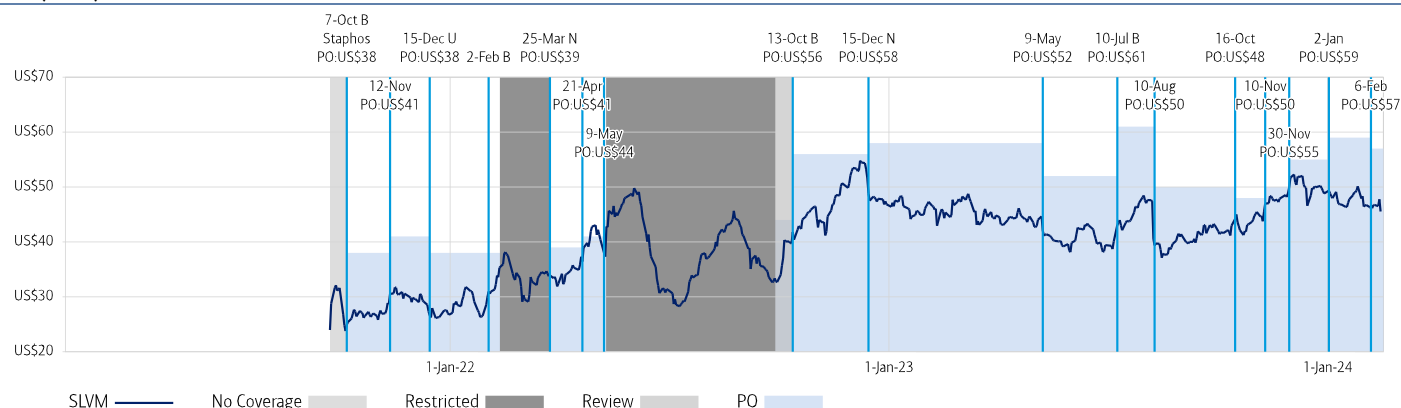
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Sylvamo (SLVM) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	45.00%	Buy	8	88.89%
Hold	2	10.00%	Hold	1	50.00%
Sell	9	45.00%	Sell	5	55.56%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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