

# Pulp & Paper

## Most preferred

Navigator | TP € 3.70

## Least preferred

Altri | TP € 6.90

## Re-rating completed, selective approach on quality defensive profiles

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| Price 05/03/21 | Reco.        | Curr. | Price | TP    |
|----------------|--------------|-------|-------|-------|
| Altri          | Underperform | EUR   | 6.56  | 6.90  |
| Ence           | Neutral      | EUR   | 3.66  | 4.00  |
| Iberpapel      | Neutral      | EUR   | 18.70 | 21.40 |
| Navigator      | Outperform   | EUR   | 2.85  | 3.70  |

| Next Events |           |                        |
|-------------|-----------|------------------------|
| 10/05/2021  | Navigator | Annual General Meeting |
| 20/05/2021  | Altri     | Q1 Results             |
| 28/05/2021  | Navigator | Q1 Results             |
| 19/07/2021  | Iberpapel | Q2 Results             |
| 27/07/2021  | Navigator | Q2 Results             |

*We are initiating the coverage of the Iberian pulp and paper sector after the recent re-rating of the industry (+90% pulp, +30% paper over the last six months) on the back of the sharp recovery in European pulp prices (\$ 936/t: +38% YtD). While pulp prices could continue rising in the short term, we believe risks are now clearly tilted to the downside while current valuations seem fair (c.8.0x EV/EBITDA pulp). Thus we are initiating Altri to Underperform and Ence to Neutral. Meanwhile, the mature printing & writing segment (P&W) should also benefit from a normalisation of the economy which we recommend playing through the undisputed sector leader: Navigator (Outperform, FCF yield c.10%, c.7.5x EV/EBITDA). We have a Neutral rating on Iberpapel.*

### Pulp prices peaking, paper prices expected to rise

European hardwood pulp prices (BHKP) have strongly recovered (+38% YtD to \$ 936/t) from multi-year lows (\$ 680/t) following the completion of the destocking process in Asia and supportive demand fundamentals (normalised inventory levels, strong tissue demand, expected normalisation of production post lockdown). While price momentum could continue in the short term, we believe risks are now on the downside (new capacity in H2 2021 and 2022) as prices have significantly deviated from their historical average (\$ 800/t). Our estimates for 2021 stand at \$ 950/t while we expect prices to stabilise at \$ 900/t thereafter. Alternatively, we expect printing & writing paper in Europe to gradually recover from 2020 declines (-10%), preserving the profitability of non-integrated producers.

### Results momentum and strategy progress justify pulp premium

Iberian pulp producers (Ence: Neutral, target price of € 4.0, Altri: Underperform, target price of € 6.90) are comfortably placed in the global cash cost curve as they hold a significant share of the European pulp market (5% each) although their profitability largely depends on global demand/supply dynamics. Its results are highly sensitive to pulp prices (each +1% rise translates into a 3% increase in EBITDA of the pulp segment: 3x) and as such we believe the segment re-rating is justified (7.7x EV/EBITDA 2021e vs 6x in Q3 2020, 8.0x 2022e). Additionally, their strategy in renewable energy has seen remarkable progress with the partial divestment of the unit at Ence (14.5x implied EV/EBITDA or 8.5x excluding earn-outs) and the announcement of an IPO at Altri expected for Q3 2021.

### Mature, yet highly cash-generating printing & writing industry

The mature uncoated woodfree (UWF) industry contracted significantly in 2020 (-13%) and we expect some recovery both in volumes and prices (c.+10%) throughout 2021-2022. Integrated (pulp-paper) cash cost leaders should withstand the ongoing demand contraction and defend their market share as closures and conversions continue amongst less efficient producers. Navigator (Outperform, target price of € 3.70) is the undisputed leader in Europe in volumes (c.20% share) and quality. This, supported by strong competitive advantages (integration, logistics), translates into sector's leading profitability (24% average EBITDA margin: +700 bp vs peers) and strong cash flow generation which we feel is not adequately reflected in valuation multiples (7.5x EV/EBITDA 2021/2022e). Iberpapel (Neutral, target price of €21.4) maintains a flexible work-to-order business model although its reduced scale limits margins and strategic growth alternatives as reflected in its decision to put its paper capacity expansion project (+85kt, +34%) on hold after a difficult year.

|           | Currency | Market Cap (m) | Rating       |        | TP      |        | EPS   |       | PE (x) |       |
|-----------|----------|----------------|--------------|--------|---------|--------|-------|-------|--------|-------|
|           |          |                | Revised      | Former | Revised | Former | 2021e | 2022e | 2021e  | 2022e |
| Altri     | €        | 1 346          | Underperform |        | 6.9     |        | 0.51  | 0.40  | 12.9   | 16.5  |
| Ence      | €        | 900            | Neutral      |        | 4.0     |        | 0.16  | 0.17  | 22.7   | 22.1  |
| Iberpapel | €        | 206            | Neutral      |        | 21.4    |        | 0.80  | 1.20  | 23.2   | 15.6  |
| Navigator | €        | 2 045          | Outperform   |        | 3.7     |        | 0.22  | 0.27  | 12.7   | 10.4  |

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## Contents

|   |               |
|---|---------------|
| <b>Re-rating completed on cycle swing, selective approach on quality defensive profiles</b> | <b>3</b>      |
| Pulp price normalisation already factored in  | 3             |
| Sticking with the P&W leader  | 4             |
| Cyclical profile demonstrated again   | 4             |
| Consensus estimates send mixed signals  | 5             |
| Self-financing growth opportunities   | 6             |
| <br><b>The Iberian script: cautious on pulp, selective on paper</b>                         | <br><b>7</b>  |
| Global fibre market review  | 7             |
| Hardwood pulp market review   | 9             |
| Tissue and China driving demand growth  | 10            |
| Consolidated supply structure with strong entry barriers                                    | 11            |
| No significant overcapacity risks but new supply coming onstream in H2 2021-2022            | 12            |
| Cyclical profile reflected in price oscillations  | 13            |
| Pulp price estimates: \$ 950/t in 2021e, \$ 900/t thereafter                                | 15            |
| Inflationary risks under control  | 15            |
| Biomass: from subproduct to strategic pillar  | 15            |
| Printing & writing segment overview   | 16            |
| Lower price volatility despite demand maturity  | 17            |
| Pulp costs to pressure unintegrated producers   | 19            |
| Sustainability at the top of the agenda   | 19            |
| <br><b>Company profiles</b>   | <br><b>21</b> |
| Altri   | 22            |
| Ence  | 30            |
| Iberpapel   | 41            |
| Navigator   | 48            |



## RE-RATING COMPLETED ON CYCLE SWING, SELECTIVE APPROACH ON QUALITY DEFENSIVE PROFILES

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*We are initiating our coverage of the Iberian pulp and paper sector (Altri, Ence, Iberpapel and Navigator). Altri and Ence are relevant market pulp players in hardwood (1.1Mt and 1.2Mt annual capacity respectively: c.3% global market share, c.10% in Europe each) operating a growing biomass/ renewable energy asset base (97MW and 266MW respectively). Iberpapel is a small (250kt) but flexible and highly integrated operator in the European UWF market with a diversification strategy in paper for packaging. Finally, Navigator is the undisputed leader of the European P&W segment (1.6Mt capacity: 20% market share, 50% in premium products) displaying the highest margins of the industry.*

*After the recent re-rating of the Iberian pulp and paper sector (+90% pulp, +30% paper over the last six months) on the back of the sharp recovery in European pulp prices (\$ 936/t: +38% YtD) and while pulp prices could continue rising in the short term, we believe risks are now clearly tilted to the downside while current valuations seem fair (c.8.0x EV/EBITDA pulp). Thus we are initiating Altri to Underperform and Ence to Neutral. Meanwhile, the mature printing & writing segment (P&W) should also benefit from a normalisation of the economy which we recommend playing through the undisputed sector leader: Navigator (Outperform, FCF yield c.10%, c.7.5x EV/EBITDA). We have a Neutral rating on Iberpapel.*

### Pulp price normalisation already factored in

Altri and Ence have both benefited from the sharp increase in pulp prices (+38% YtD to \$ 936/t) and further price rise announcements (to above \$ 1,000/t) which could maintain the strong momentum and should be reflected in a strong results recovery in 2021 (+140% EBITDA 21e).

However, we believe this is already reflected in the valuation (+90%) as we believe pulp prices will ultimately normalise towards \$ 900/t (still +13% above its historical average of \$ 800/t).

Renewable energy units slightly reduce dependence on pulp prices and are a critical strategic pillar, although effective pulp selling prices will remain as the most critical factor for future financial performance.

We initiate **Altri** with an Underperform rating and target price of € 6.90 despite recognising its cash cost leadership in Europe and its value crystallisation opportunity in renewables. Its higher financial leverage, large exposure to P&W and adjusted valuation (8.8x EV/EBITDA 2022e) justify our stance.

We initiate **Ence** with a Neutral rating and target price of € 4.0. While its pulp-energy strategy and execution track record are commendable and the valuation does not seem overly stressed (7.2x EV/EBITDA 2022e), uncertainties surrounding Pontevedra's pulp concession (43% of production) weigh in our decision.



## Sticking with the P&W leader

The mature P&W industry (-3% in developed economies) has been severely affected by the pandemic and the subsequent acceleration of the digitalization trend. However, we believe demand will recover a significant part of the lost ground and prices will react to the recent pulp price spike.

We initiate **Navigator** with an Outperform rating and target price of € 3.70, attracted by its resilient cash flow profile, strong positioning in the sector (20% market share, 50% in premium products), incipient diversification opportunities and inexpensive valuation (c.7.5x EV/EBITDA 2021-22e).

We initiate **Iberpapel** with a Neutral rating and target price of € 21.4. While we appreciate its business model and strong financial position, we believe its limited size hampers margin enhancement and growth opportunities as reflected by its decision to postpone strategic investments. It currently trades significantly above its historical multiples (EV/EBITDA 2021e of 7.6x vs 6.5x).

### Valuation summary

| €                   | ALTRI               | ENCE           | IBERPAPEL      | NAVIGATOR         |
|---------------------|---------------------|----------------|----------------|-------------------|
| Last                | 6.56                | 3.66           | 18.70          | 2.85              |
| <b>Target Price</b> | <b>6.90</b>         | <b>4.0</b>     | <b>21.40</b>   | <b>3.70</b>       |
| Upside              | 5%                  | 9%             | 14%            | 30%               |
| Method              | DCF                 | SOTP/ DCF      | DCF            | DCF               |
| <b>Reco.</b>        | <b>Underperform</b> | <b>Neutral</b> | <b>Neutral</b> | <b>Outperform</b> |
| Nb of shares (m)    | 205.1               | 246.3          | 11.0           | 717.5             |
| Market Cap (€m)     | 1 346               | 900            | 206            | 2 045             |
| EV (€m)             | 1 793               | 1 428          | 180            | 2 720             |
| EV/EBITDA 21e       | 7.7x                | 7.7x           | 7.6x           | 7.7x              |
| EV/EBITDA 22e       | 8.8x                | 7.2x           | 5.9x           | 6.9x              |
| FCF Yield 21e       | 7.4%                | 0.3%           | 2.7%           | 8.3%              |
| FCF Yield 22e       | 8.8%                | 11.5%          | 5.8%           | 9.9%              |
| EBITDA CAGR 20-23e  | 15%                 | 43%            | 18%            | 11%               |

Table 1 - Source: ODDO BHF Securities

## Cyclical profile demonstrated again

2019 and 2020 were difficult years for the pulp and paper sector in Iberia (2018/2020 EBITDA CAGR of up to -51% for Ence, -33% Altri, -32% Iberpapel and -21% for Navigator), characterised by low prices followed by the demand impact from the pandemic. However, operating disruptions were limited as these activities were immediately considered essential and some segments such as tissue (despite the negative impact on the hospitality/tourism sectors) and packaging behaved extraordinarily well (cocooning effect, overstocking, etc.). We now expect a resurgence of the P&W segment as life "goes back to normal".

Pulp prices fell to multi-year low levels (\$ 680/t from Q4 2019 to Q1 2021) resulting in the weakest profitability levels since 2014 (with similar net prices in Europe), but they have sharply recovered and we believe that the effect on company results has been largely priced in over the last six months.



## Stock price performance

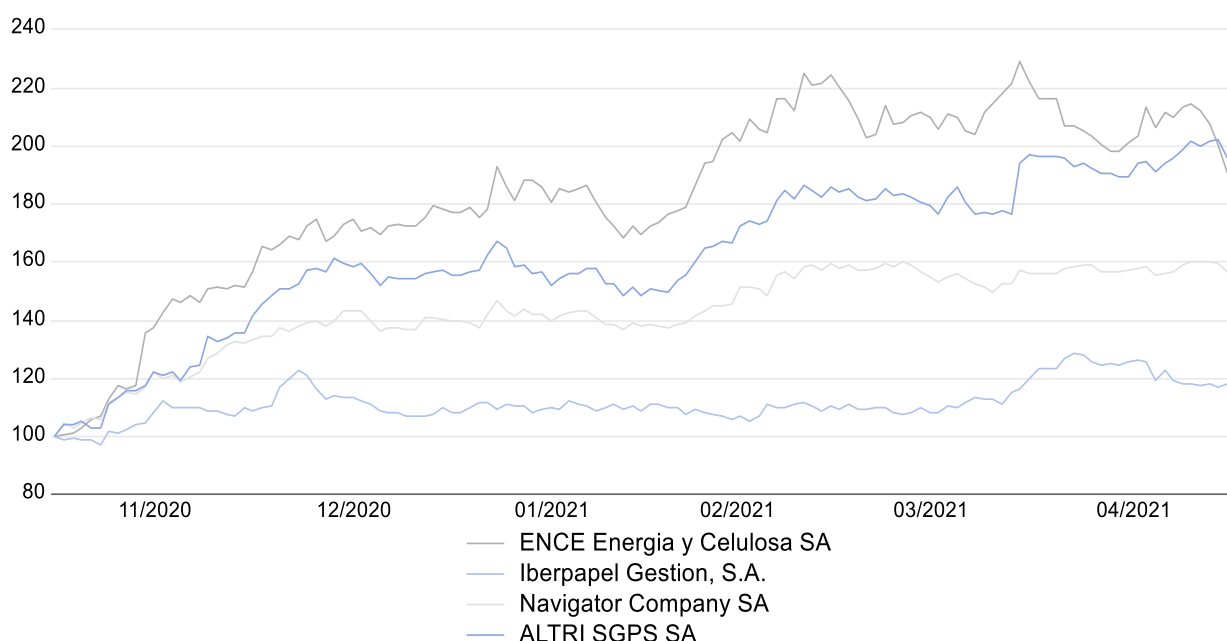


Chart 2 - Sources: FactSet, ODDO BHF Securities

## Consensus estimates send mixed signals

Our estimates for Iberpapel are significantly below the consensus which we mainly attribute to the potential inclusion of the investment in new paper capacity in the consensus. We are however more optimistic regarding Navigator (+15% above consensus at EBITDA 22) and Ence (but only for 2021 figures). Our estimates reflect significant downside for consensus estimates for Altri in 2022e (-20%), which does not align with our pulp price scenario.

As in any cyclical sector, we would be very cautious when approaching market estimates which largely depend on commodity price forecasts.

### ODDO BHF estimates vs Consensus

| €m                     | ALTRI | ENCE | IBERPAPEL | NAVIGATOR |
|------------------------|-------|------|-----------|-----------|
| EBITDA 2021e           | 233   | 187  | 24        | 351       |
| EBITDA 2022e           | 197   | 187  | 29        | 387       |
| Css EBITDA 2021e       | 216   | 166  | 32        | 351       |
| Css EBITDA 2022e       | 245   | 200  | 34        | 335       |
| ODDO vs Css EBITDA 21e | 8%    | 12%  | -26%      | 0%        |
| ODDO vs Css EBITDA 22e | -20%  | -6%  | -14%      | 15%       |

Table 3 - Sources: FactSet, ODDO BHF Securities

We also advise against extensive use of peer multiples for comparisons and valuation purposes considering the wide differences in terms of integration, forest ownership/management and accounting practices.



#### Peer multiple comparison

| x             | Country  | Mkt Cap (€m) | EBITDA margin 2021e | EBITDA margin 2022e | EV/EBITDA 2021e | EV/EBITDA 2022e | PE 2021e    | PE 2022e    |
|---------------|----------|--------------|---------------------|---------------------|-----------------|-----------------|-------------|-------------|
| Altri         | Portugal | 1 346        | 32%                 | 28%                 | 7.7             | 8.8             | 12.9        | 16.5        |
| Ence          | Spain    | 900          | 23%                 | 23%                 | 7.7             | 7.2             | 22.7        | 22.1        |
| Iberpapel     | Spain    | 206          | 13%                 | 14%                 | 7.6             | 5.9             | 23.2        | 15.6        |
| Navigator     | Portugal | 2045         | 22%                 | 23%                 | 7.7             | 6.9             | 12.7        | 10.4        |
| Suzano*       | Brazil   | 14 198       | 62%                 | 58%                 | 5.3             | 6.3             | 8.7         | 9.3         |
| CMPC*         | Chile    | 5 943        | 28%                 | 24%                 | 5.3             | 6.2             | 11.2        | 15.5        |
| Stora Enso*   | Finland  | 17 464       | 20%                 | 20%                 | 7.0             | 6.8             | 14.5        | 11.7        |
| UPM*          | Finland  | 13 065       | 18%                 | 19%                 | 11.5            | 10.8            | 18.5        | 18.2        |
| Metsä*        | Finland  | 3 804        | 21%                 | 18%                 | 7.1             | 7.9             | 13.8        | 15.7        |
| Intl. Paper*  | US       | 18 844       | 17%                 | 17%                 | 8.5             | 8.0             | 12.8        | 11.2        |
| Domtar*       | US       | 1 659        | 14%                 | 13%                 | 4.0             | 4.2             | 8.3         | 10.2        |
| <b>Median</b> |          |              | <b>21%</b>          | <b>20%</b>          | <b>7.6</b>      | <b>6.9</b>      | <b>12.9</b> | <b>15.4</b> |

\* not covered

Table 4 - Sources: FactSet, ODDO BHF Securities

## Self-financing growth opportunities

The Iberian pulp and paper sector averaged a RoCE of c.9% in 2010-2020 with significant volatility during the period (due to pulp prices gyrations) and important deviations amongst constituents (with Navigator and Altri leading the sector and Ence lagging in part due to its significant investment effort in renewable energy).

In any case, we believe the cash conversion ratio (EBITDA) in the sector should stabilise at around 50%, with all players showing a similar level. We do not expect significant capex requirements (c.5% of sales on average with Navigator slightly skewing the average upwards at 7%).

We expect the sector to allocate capital to shareholder returns (with Navigator and Altri offering higher dividend yields: c.7% and c.4% respectively) and debt reduction, while offering the opportunity to self-finance future growth opportunities in additional pulp, paper or renewable energy capacity.

#### EBITDA, Capex, pay-out and ROCE evolution

| %                           | ALTRI | ENCE | IBERPAPEL | NAVIGATOR |
|-----------------------------|-------|------|-----------|-----------|
| <b>5-year average</b>       |       |      |           |           |
| EBITDA margin               | 29%   | 21%  | 16%       | 24%       |
| Capex (% of sales)          | 10%   | 24%  | 11%       | 9%        |
| EBITDA - Capex (% of sales) | 19%   | -2%  | 5%        | 15%       |
| Pay-out ratio               | 95%   | 38%  | 42%       | 117%      |
| ROCE post-tax               | 13%   | 9%   | 12%       | 11%       |
| <b>10-year average</b>      |       |      |           |           |
| EBITDA margin               | 28%   | 19%  | 15%       | 24%       |
| Capex (% of sales)          | 7%    | 17%  | 8%        | 6%        |
| EBITDA - Capex (% of sales) | 20%   | 2%   | 7%        | 18%       |
| Pay-out ratio               | 59%   | 86%  | 43%       | 118%      |
| ROCE post-tax               | 12%   | 6%   | 9%        | 12%       |
| <b>2021-24e</b>             |       |      |           |           |
| EBITDA margin               | 29%   | 23%  | 14%       | 24%       |
| Capex (% of sales)          | 5%    | 8%   | 4%        | 7%        |
| EBITDA - Capex (% of sales) | 24%   | 15%  | 10%       | 17%       |
| Pay-out ratio               | 61%   | 50%  | 37%       | 80%       |
| ROCE post-tax               | 10%   | 7%   | 6%        | 12%       |

Table 5 - Source: ODDO BHF Securities



# THE IBERIAN SCRIPT: CAUTIOUS ON PULP, SELECTIVE ON PAPER

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*Iberian pulp producers are comfortably placed in the global cash cost curve thanks to the advantages of the eucalyptus forestry base in terms of wood yield (3m<sup>3</sup>/t) and costs (shortest harvest cycle in the industry), but still have a significant disadvantage vs the world hardwood pulp leaders in Latin America, which act as global price setters in the industry.*

*Most of their production is directed to the European markets targeting different end segments but mainly the high-growth tissue industry. They enjoy a competitive wood supply and cover their energy needs internally through their own energy asset base (biomass and cogeneration) while capturing the growth opportunity that independent renewable energy/ biomass projects offer.*

*The Iberian paper producers have a high degree of integration (pulp-paper), covering most, if not all, of their pulp needs internally. This protects their profitability when pulp prices rise, maintaining a cost advantage even under stressed pulp price scenarios.*

*While the P&W industry is mature, its cost efficiency and market positioning has allowed them to maintain high operating rates while unintegrated and less efficient paper manufacturers continue to lose market share and are forced to gradually abandon the market (conversions, closures). Its flexibility and strong cash generation allows them to target natural diversification opportunities in higher growth segments such as tissue and packaging.*

## Global fibre market review

Global fibre demand is estimated at around 425Mt with pulp accounting for approximately 40%, and chemical market pulp for around 35% of that, or 62Mt. Hardwood (short fibres) account for c.55% and eucalyptus for almost 75% of the segment or 25Mt. Iberian producers account for c.10% of that market.



## Global fibre demand (Mt)

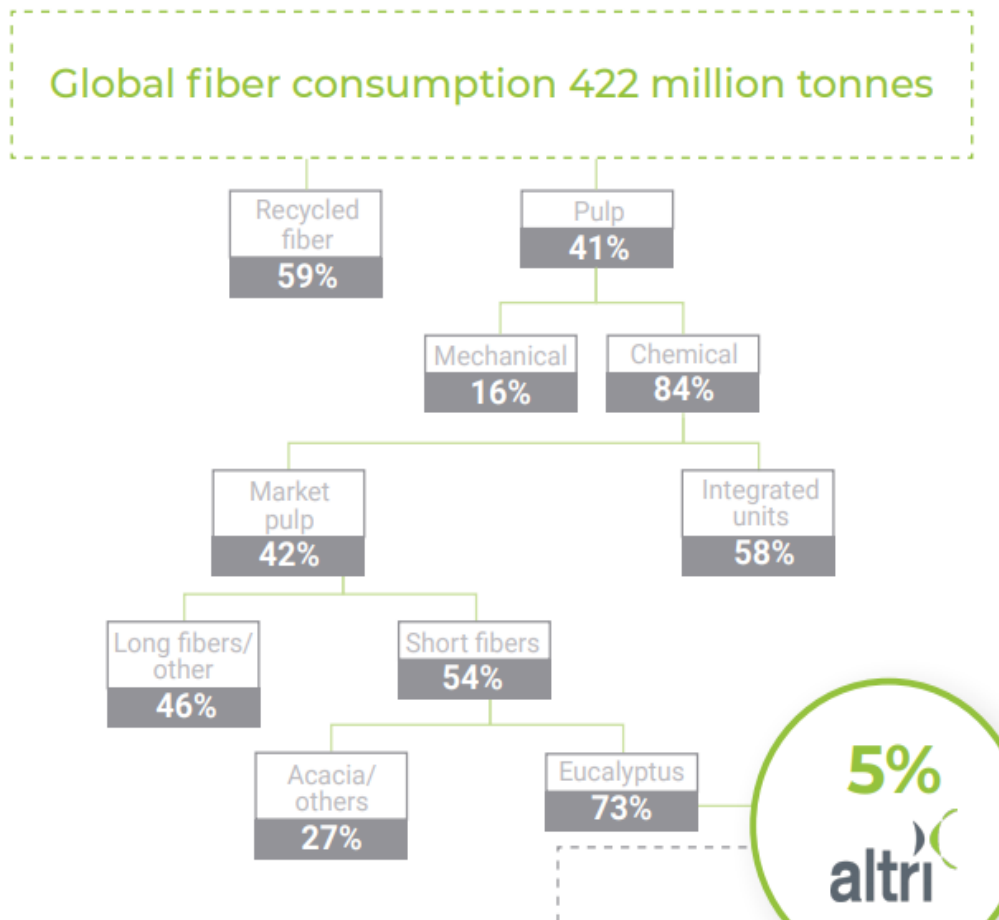
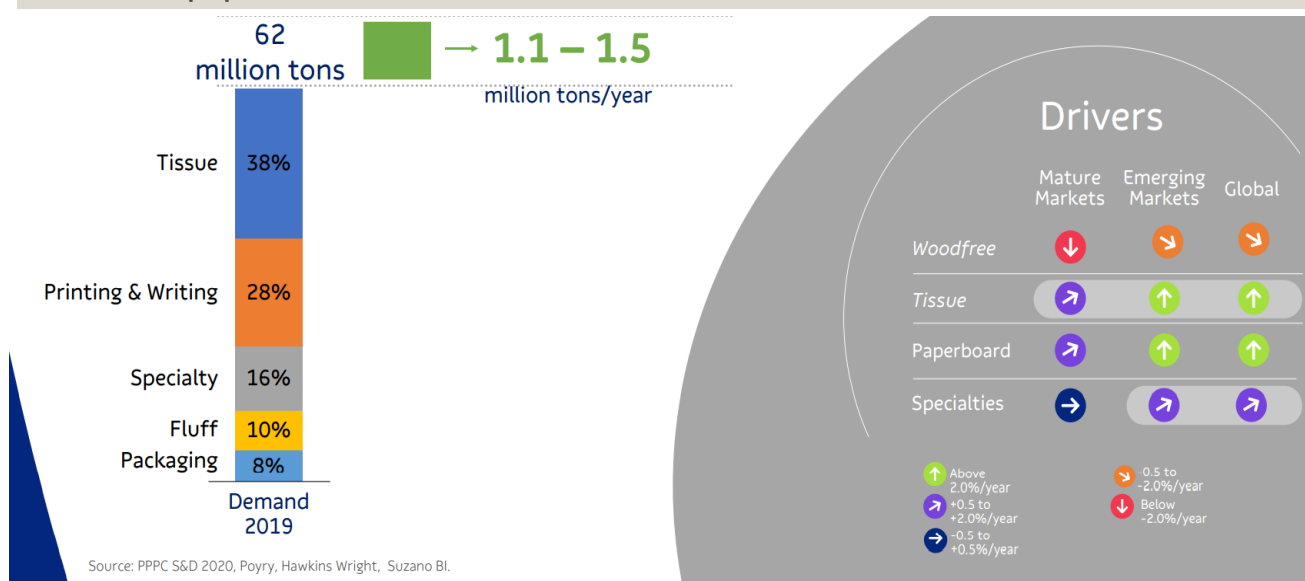


Chart 6 - Source: Altri (2019 Annual Report)

Global pulp market organic growth is estimated at around 1.5-2Mt/year (+2%/+3%) with the tissue and paperboard segments exceeding the average ahead of the specialties and the declining woodfree category. In fact, pulp demand grew by 1.9Mt in 2020 (+3%) above the last decade average of 1.6Mt.

## Global market pulp demand



Graphique 7 - Source: Suzano





Many significant global megatrends support the continued rise in pulp market demand, including:

- Urbanisation,
- Emerging economic growth,
- Growing and ageing population, and
- Climate change (sustainability, circular economy, “war on plastics”)

On the contrary, the main threat to pulp market growth is the maturity of the printing & writing (woodfree) segment and the negative impact from digitalization, although this trend might also bring opportunities.

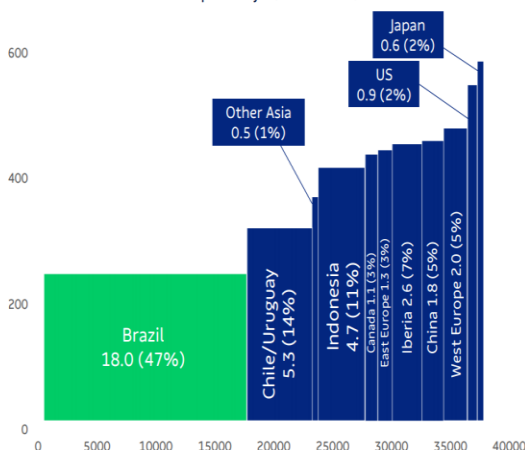
## Hardwood pulp market review

Virgin market pulp can be derived from softwood (long, uniformly packed fibres with a high strength-to-weight ratio) or hardwood (short fibre, most suitable for paper products demanding softness, opacity and uniformity). Softwood comes mainly from conifers while the most common hardwood pulp derives from eucalyptus (with outstanding forestry and industrial yields).

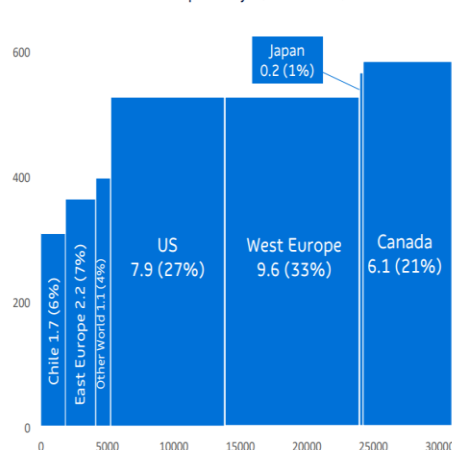
Hardwood and softwood can be used alternatively in up to 80% of the applications with the price competitiveness of hardwood (harvest cycles from 7-10 years in Latin America to 12-15 years in Iberia compared to 50-70 years for softwood) resulting in an historical average discount of \$ 110/t.

### Global pulp cash cost curve (Mt, \$/t)

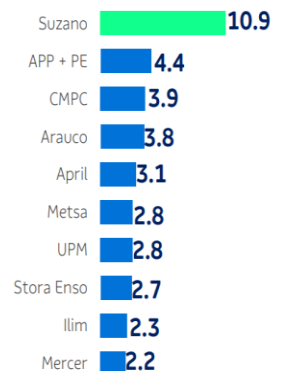
Hardwood | CIF China | USD / ton  
and Production Capacity (M Tons)<sup>2</sup>



Softwood | CIF China | USD / ton  
and Production Capacity (M Tons)<sup>2</sup>



Top 10<sup>1</sup>



<sup>1</sup> Market pulp capacity production including hardwood and softwood volumes. Source: Hawkins Wright, December 2020. | <sup>2</sup> Source: Hawkins Wright, December 2020.

Chart 8 - Source: Suzano

Hardwood demand is estimated to have grown by +6% in 2020 driven by the increase in demand from China (+13%), attractive prices (large discount to softwood prices: \$ 160/t) and the substitution effect of high-quality recycled fibres for virgin fibre due to the limited availability of the former during the pandemic.

Eucalyptus hardwood fibre has outgrown the market over the last decade, c.+5% vs total hardwood growth of +4% and softwood compounded annual growth of +2% in the period which resulted in a global pulp market CAGR rate (2009-19) of +3%. The competitiveness and suitability of eucalyptus pulp for high-growth segments is driving its market share upwards.



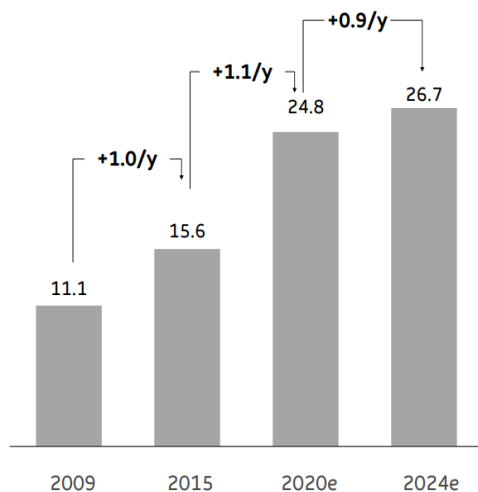
## Tissue and China driving demand growth

The relentless growth in China and of the tissue segment worldwide (toilet rolls, hand towels) have been the strongest contributors to market pulp demand growth. Tissue accounts for approximately 40% of the demand by use and has proven to be a very resilient segment even in the most developed geographies (+1.8% in Europe during 2020), with the at-home categories absorbing the declines of the professional channel (Away from Home) during the lockdown/COVID outbreak.

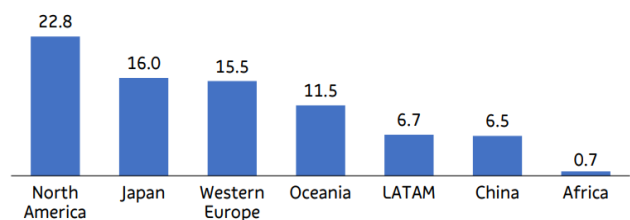
Developing regions are expected to continue driving tissue demand growth considering its economic growth and the still low penetration of tissue in those geographies (3x lower vs developed countries).

### Chinese market pulp demand (Mt) and tissue demand per region (kg/year, Mt)

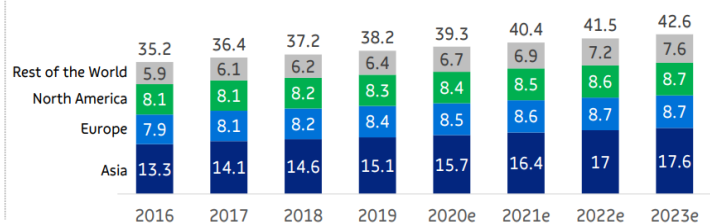
**Chinese Market Pulp Demand**  
in million tons



**Tissue Consumption per Capita, 2020**  
in kgs per year



**Tissue Demand by main regions**  
in million tonnes



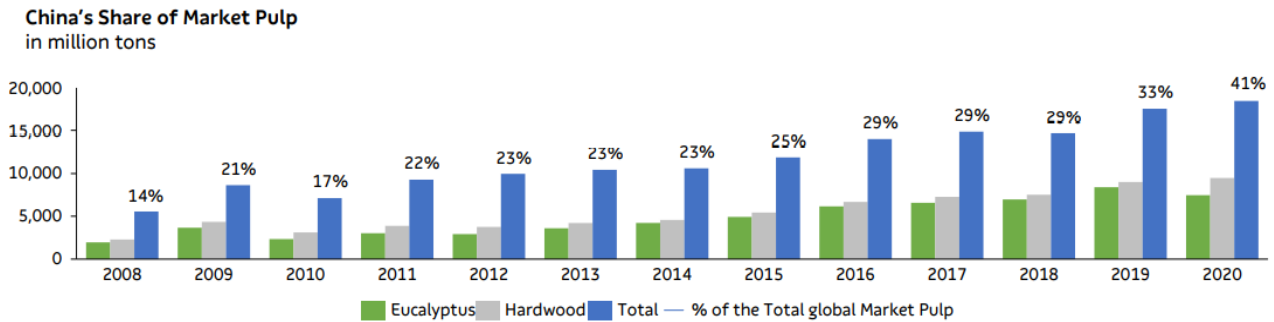
Sources PPPC S&D Nov 2020  
PPPC Global Tissue Outlook Dec/19, Suzano BI.

Chart 9 - Source: Suzano

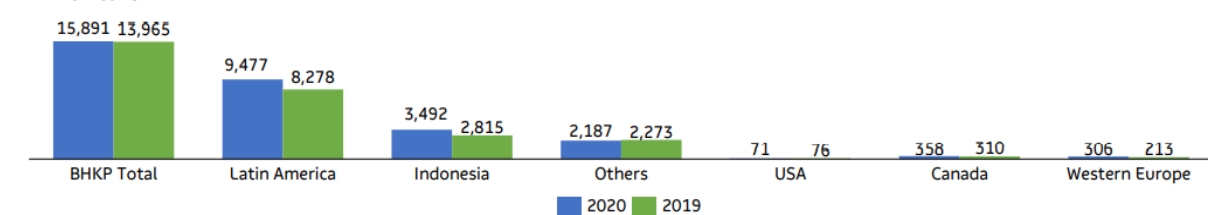
China also represents 40% of the pulp market by destination (only 15% self-sufficiency in pulp) and covers up to 60% of its requirements from Latin America. These flows effectively set global prices. North America and Europe are also net importers of hardwood although their markets are much more balanced.



## China's share of market pulp (Mt) and BHKP imports by region/country (Mt)



### China's demand of BHKP by Country



Source: PPPC – W20 (Dec/2020) and Chinese Demand Report

64

Chart 10 - Source: Suzano

## Consolidated supply structure with strong entry barriers

Brazilian hardwood pulp producers (particularly Suzano, the world's leader with 11Mt capacity: 30% market share) command the lowest cash cost in the industry followed by other Latin American producers (Chile: CMPC, Arauco; Uruguay). Indonesia, Eastern Europe, and Iberia come behind but still have significant competitive advantages when compared to the remaining hardwood producers and most of the softwood production from the Northern Hemisphere.

The supply of hardwood is relatively concentrated with the 10 largest producers representing over 75% of total production. Ence and Altri both account for approximately 5% of the eucalyptus pulp production capacity worldwide.

## BHKP producer's market share (%)

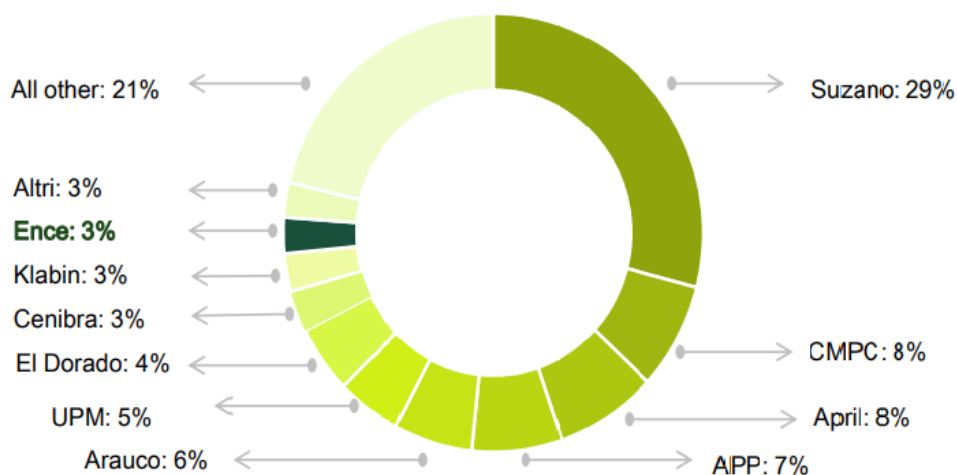


Chart 11 - Source: Ence



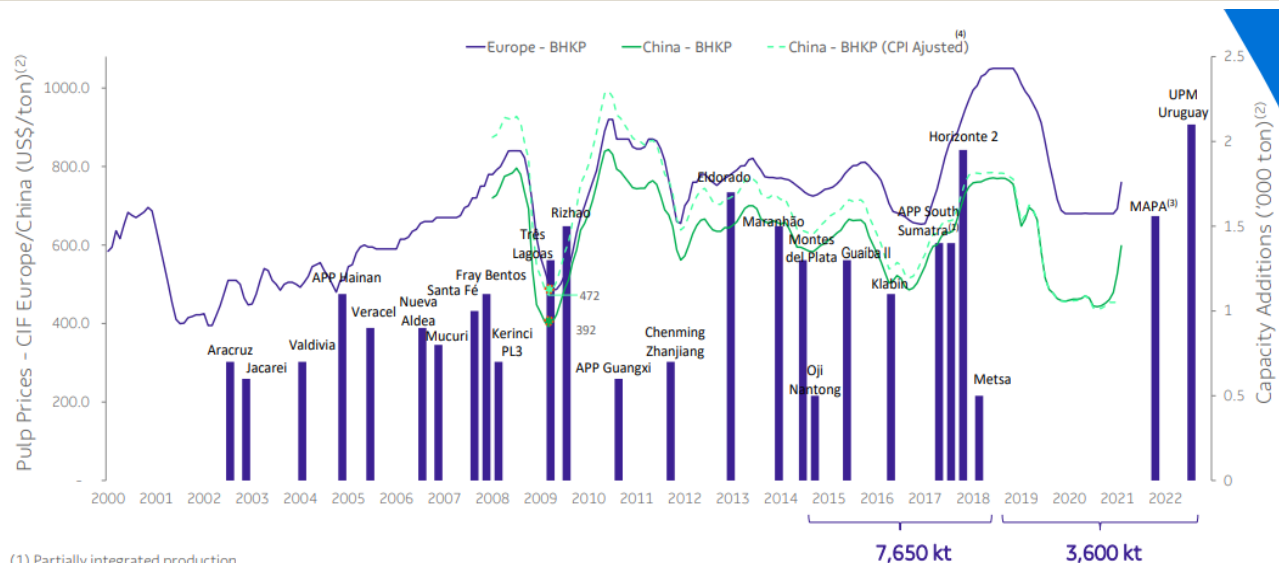
Operating capacity rates in the industry are traditionally high (c.90%) in a context of tight supply/demand equilibrium and the need for annual technical stoppages for maintenance.

The pulp market is subject to significant entry barriers, the most important one being access to competitive wood supply, which mainly limits new projects to outstanding locations in the Southern Hemisphere. It is also a capital-intensive industry and new capacity is subject to strict environmental scrutiny which extends lead times.

## No significant overcapacity risks but new supply coming onstream in H2 2021-2022

There are currently two large projects under execution, MAPA (Arauco in Chile: 1.5Mt) and Paso de los Toros (UPM in Uruguay: 2.1Mt), with combined capacity expansion of 3.6Mt which should gradually come onstream over 2022-2025. In our opinion, the annual growth rate of the sector has the capacity to absorb one new large plant per year and we should also consider the annual shutdowns of non-competitive capacity. A third project, Bracell (part of the Royal Golden Eagle group which also controls April) is also expected to come onstream in H2 2021 (1.2Mt expansion of its Sao Paulo plant) targeting the dissolving pulp market.

### Capacity investment pipeline (Mt) and pulp prices (\$/t)



(1) Partially integrated production

(2) Sources: Hawkins Wright, Poyry and Suzano; PIX China List Price until April 2017 and PIX China Net Price afterwards

(3) Gross capacity, does not consider the closure of Line 1 in Horcones plant (Source: RISI)

(4) Adjusted to Feb/2021

Chart 12 - Source: Suzano

The new expected capacity will be managed by incumbents and as such we expect a gradual ramp-up of their operations. We therefore see a relatively benign environment for market pulp producers over the following years.



### Expected demand and supply trends (2021-25, Mt)

| Mn t   |           | 2021  | 2022  | 2021-22 | 2023  | 2021-23 | 2024  | 2021-24 | 2025  | 2021-25 |
|--|-----------|-------|-------|---------|-------|---------|-------|---------|-------|---------|
| ESTIMATED ANNUAL MARKET PULP DEMAND CHANGE             |           | 1.9   | 1.9   | 3.8     | 1.9   | 5.7     | 1.9   | 7.6     | 1.9   | 9.5     |
| ESTIMATED ANNUAL MARKET PULP SUPPLY CHANGE (CONFIRMED) |           | (0.4) | 0.8   | 0.4     | 1.1   | 1.5     | 0.5   | 2.0     | -     | 2.0     |
| UPM (PASO DE LOS TOROS)                                | BHKP      |       |       |         | 1.2   | 1.2     | 0.5   | 1.7     | 0.3   | 2.0     |
| ARAUCO (MAPA / HORCONES)                               | BHKP      |       | 0.7   | 0.7     | 0.5   | 1.2     |       | 1.2     |       | 1.2     |
| METSA FIBER (KEMI)                                     | BSKP      |       |       |         |       |         | 0.6   | 0.6     | 0.3   | 0.9     |
| BRACELL (LENÇÓIS PAULISTA)                             | BHKP / DP |       | 0.5   | 0.5     |       | 0.5     |       | 0.5     |       | 0.5     |
| PAPER EXCELLENCE (PRINCE ALBERT)                       | BSKP      | 0.2   | 0.1   | 0.3     |       | 0.3     |       | 0.3     |       | 0.3     |
| NORDIC KRAFT (LEBEL-SUR-QUEVILLON)                     | BSKP      | 0.3   |       | 0.3     |       | 0.3     |       | 0.3     |       | 0.3     |
| DOMTAR (ASHDOWN)                                       | BHKP      | 0.2   |       | 0.2     |       | 0.2     |       | 0.2     |       | 0.2     |
| SODRA (VARO)   | BSKP      |       | 0.1   | 0.1     |       | 0.1     |       | 0.1     |       | 0.1     |
| ARAUCO (VALDIVIA)                                      | BHKP      | (0.3) |       | (0.3)   |       | (0.3)   |       | (0.3)   |       | (0.3)   |
| APRIL (KERINCI)  | BHKP      | (0.1) | (0.1) | (0.2)   | (0.1) | (0.3)   | (0.1) | (0.4)   | (0.1) | (0.5)   |
| APRIL (RIZHAO)   | BHKP      | (0.1) | (0.1) | (0.2)   | (0.1) | (0.3)   | (0.1) | (0.4)   | (0.1) | (0.5)   |
| NEW-INDY CONTAINERBOARD (CATAWBA)                      | BSKP      | (0.2) |       | (0.2)   |       | (0.2)   |       | (0.2)   |       | (0.2)   |
| NON COMPETITIVE CAPACITY ANNUAL CLOSURES               |           | (0.4) | (0.4) | (0.8)   | (0.4) | (1.2)   | (0.4) | (1.6)   | (0.4) | (2.0)   |
| SURPLUS / (DEFICIT)                                    |           | (2.3) | (1.1) | (3.4)   | (0.8) | (4.2)   | (1.4) | (5.6)   | (1.9) | (7.5)   |

Chart 13 - Source: Ence

## Cyclical profile reflected in price oscillations

Despite the structural growth in demand, market pulp prices have been historically very volatile responding to episodic supply/demand imbalances and global inventory levels.

Hardwood kraft pulp prices (BHKP) in Europe have averaged \$ 800/t since 2010 with peak and trough levels of \$ 1,050/t (H2 2018) and \$ 650/t (Q4 2011) respectively (\$ 400/t price gap: +30%/-20% around its mean value) and a standard deviation of \$ 108/t.

The 5-year average has been slightly higher despite being negatively affected by the extremely low prices of 2020 (\$ 680/t) due to destocking in China, the devaluation of the \$ and uncertainties surrounding the pandemic.

Current BHKP prices (\$ 936/t) have recovered strongly (+38% YtD) from their recent multi-year lows supported by the continued dynamism of the tissue, packaging and specialties segments which offset the significant declines in the printing & writing (P&W) segment during the pandemic.

This rise follows the outstanding increase in net prices in China (+56% YtD) which has narrowed the 10-year historical gap of \$180/t (average discount of 22%) to \$ 158/t (implied discount of 17% vs commercial discount of 34%).



#### BHKP pulp price trend (\$/t)

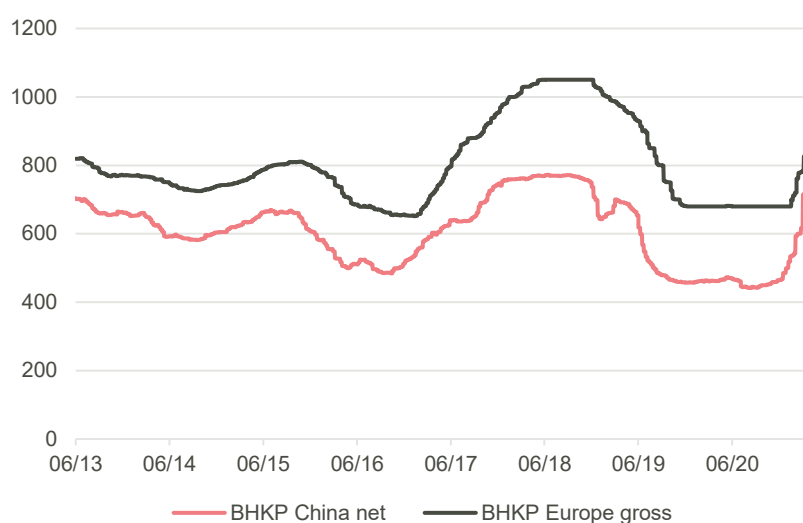


Chart 14 - Source: ODDO BHF Securities

Pulp prices have been exposed to significant pressure in terms of commercial discounts which have more than doubled over the last decade (from 15% to last year's 34%), making gross prices less significant. These discounts reflect the purchasing power of the large customers in Europe (paper manufacturers) which secure large volumes in return for a discount over spot prices, practically aligning their prices (€ 500/t 10-year average or \$ 600/t at annual average FX rates) to net prices in China (\$ 620/t 10-year average). Commercial discounts typically increase when new production capacity from Latin America is allocated to different markets besides Asia.

Net prices in euros, after removing the effects from discounts and FX effects, have proven to be slightly more stable despite the cyclicity.

The gap between BHKP and BSKP (softwood prices) in Europe currently stands at \$ 184/t compared to its historical average of \$ 110/t. The previous occasions in the last decade (Q1 2012, H2 2014) when the gap widened to current levels were followed by mild declines in softwood prices.

Producer stocks of hardwood have averaged 42 days over the last decade (compared to 30 days for softwood) and currently stand slightly below that level (while softwood inventories remain slightly above the long-term average).

#### BHKP and BSKP pulp price trend (\$/t)

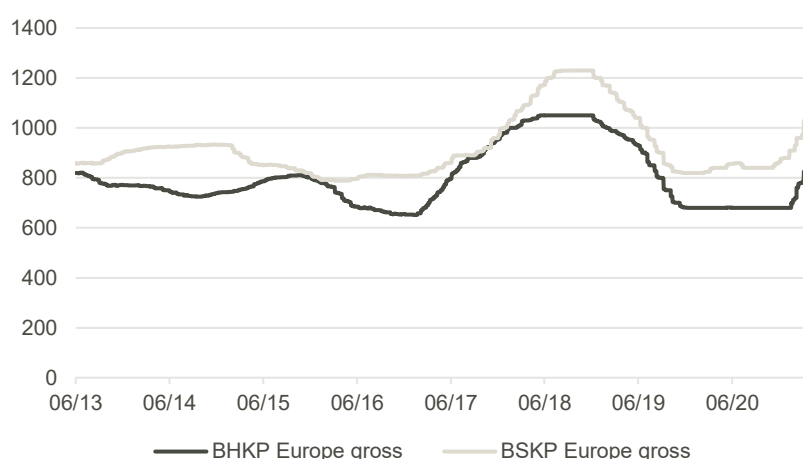


Chart 15 - Source: ODDO BHF Securities



## Pulp price estimates: \$ 950/t in 2021e, \$ 900/t thereafter

We expect BHKP prices in Europe to continue increasing in 2021 in view of recent announcements (above \$ 1,000/t) and before any noticeable impact from the announced capacity increases which we delay to 2022 and more significantly for 2023. We set our BHKP price estimate at \$ 950/t for 2021 and \$ 900/t thereafter. We expect net prices in Europe to range between € 525/t in 2021 and € 500/t thereafter.

The Iberian market pulp producers mainly serve the European markets, being indirectly affected by international trends within a global commoditised sector. Their logistics competitive advantages and the capillarity of their distribution network offer an advantage compared to Latin American producers although pricing is determined mainly by negotiations between the latter and the large Chinese buyers.

| Pulp prices (BHKP) evolution (\$, €) |      |      |      |      |      |          |          |       |       |       |       |
|--------------------------------------|------|------|------|------|------|----------|----------|-------|-------|-------|-------|
|                                      | 2016 | 2017 | 2018 | 2019 | 2020 | 5Y avge. | LT avge. | 2021e | 2022e | 2023e | 2024e |
| BHKP (\$/ t)                         | 697  | 818  | 1037 | 860  | 680  | 818      | 801      | 950   | 900   | 900   | 900   |
| \$/ €                                | 1.11 | 1.13 | 1.18 | 1.12 | 1.12 | 1.1      | 1.22     | 1.20  | 1.20  | 1.20  | 1.20  |
| BHKP (€/ t)                          | 628  | 724  | 879  | 768  | 607  | 721      | 661      | 792   | 750   | 750   | 750   |
| Selling price (€/ t)                 | 464  | 528  | 635  | 523  | 401  | 510      | 503      | 538   | 510   | 510   | 510   |

Table 16 - Sources: FactSet, Ence, ODDO BHF Securities

## Inflationary risks under control

Wood accounts for approximately 50-55% of the estimated cash cost of producers in Europe (€ 65-70/m<sup>3</sup> for eucalyptus wood), with transformation costs representing c.30% (including energy costs and chemicals such as caustic soda and sodium chlorate). The remaining share is evenly split between commercial and logistics costs and structural costs.

While inflationary pressure has increased following the rebound in commodity prices (oil prices +25% YtD), we expect costs to remain more stable considering the ample wood availability in domestic markets (low pressure from alternative uses in Iberia) and the high degree of energy independence of Iberian producers.

We estimate a net cash cost amongst Iberian market pulp producers in a range of € 340/t to € 400/t although these calculations are distorted by many factors and are not fully comparable domestically (renewable energy and co-generation production linked to pulp, product type and hedging strategies) or internationally (forest depletion, etc.).

Weak average net selling prices in Europe in 2020 (c.€ 400/t) greatly reduced the profitability of domestic pulp manufacturers, with the share of renewable energy profits sharply increasing.

## Biomass: from subproduct to strategic pillar

The kraft pulp production process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed into pulp: lignin (black liquor) or biomass. Pulp and paper manufacturers require significant energy and steam (pulp and paper drying) which they generate internally through the combustion of lignin and biomass, producing steam that activates a turbine, which in turn activates an electric generator. However, the sale of renewable energy at a premium (feed-in tariffs) has over the years become a central strategic pillar for many groups.



Many companies in the sector have developed additional electric power capacity to benefit from their know-how in the management of forestry, forestry sub-products and agricultural residues and the relatively stable regulatory framework (despite continuous technical adjustments). This strategy improves the energy independence of companies and offers the benefits of feed-in tariffs and regulatory support for renewable energy, which partially offsets the cyclical nature of the pulp business.

In fact, the independent energy segment of listed Iberian pure pulp producers generated an EBITDA margin of 34% over the 2013-20 period compared to a total EBITDA margin of 23.5%. This comparison could be distorted by recent weak pulp prices, but the global EBITDA margin still stands at 25%, significantly below the estimated profitability for the energy business.

More recently, companies have embarked on a wider diversification process in renewable energy, targeting solar, wind and new technologies (hybrid technologies, waste to energy, decentralised energy generation), thus creating autonomous units that can self-finance their growth plans.

| Energy capacity      |            |            |           |            |
|----------------------|------------|------------|-----------|------------|
| MW                   | ALTRI      | ENCE       | IBERPAPEL | NAVIGATOR  |
| Integrated capacity  | 70         | 112        | 60        | 369        |
| Cogeneration         | 70         | 75         | 50        | 344        |
| Biomass              |            | 37         | 10        | 25         |
| Independent capacity | 97         | 266        |           |            |
| Biomass              | 97         | 266        |           |            |
| Other                |            |            |           |            |
| <b>Total</b>         | <b>167</b> | <b>378</b> | <b>60</b> | <b>369</b> |

Table 17 - Source: ODDO BHF Securities

## Printing & writing segment overview

Printing & writing is the second largest use in the chemical market pulp after tissue, representing approximately 30%. Uncoated wood free (UWF) product is the premium grade in P&W and the least dependent on the media and advertising sectors, making it the best protected from the digitalization trends. UWF's resilience comes from its universality and versatility.

### UWF demand drivers

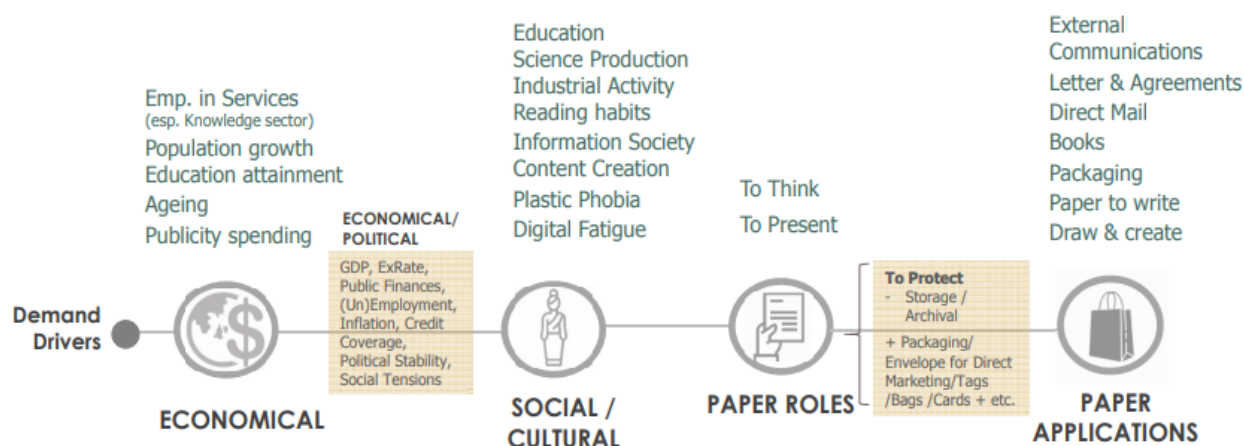


Chart 18 - Source: Navigator

UWF demand was, however, severely affected by the pandemic in 2020 with an estimated decline of -13% (teleworking, home-schooling) but it still outperformed coated papers (-17%: sharp decline in magazines and communication materials) and mechanical paper (-21%: collapse in newspaper circulation).

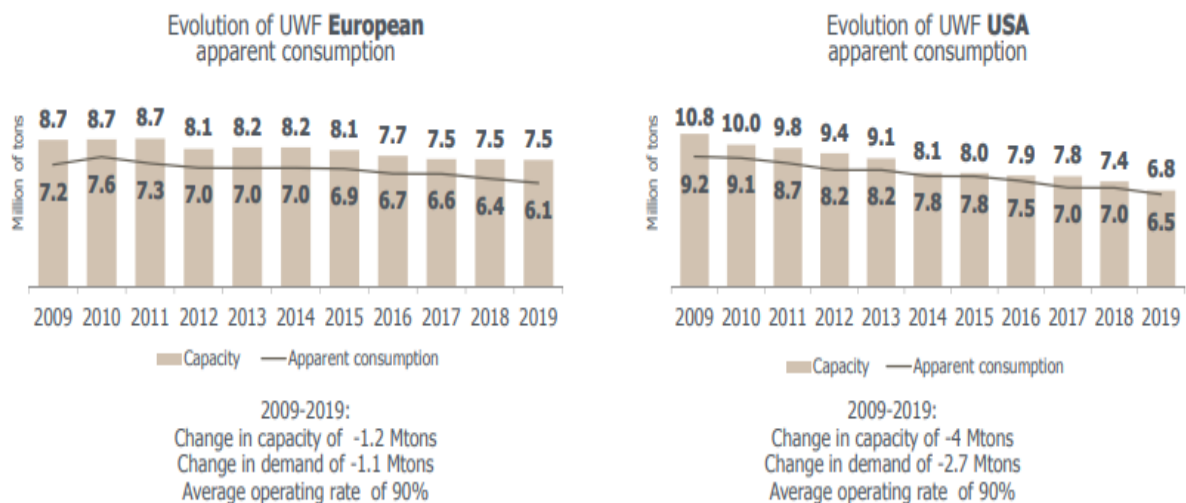




Europe's figures were slightly better than those of the US and the recovery has been gradual as economies reopen. Reels proved to be more resilient during the pandemic than A4 B-Copy paper (cut to size office paper) although order inflows of the latter category have soared in 2021.

The P&W segment is mature (-3%e in developed economies), but continuous adjustments to capacity through permanent closures (-0.8Mts recently implemented in North America and a similar adjustment in Asia over 2019-2020) and conversions to packaging (particularly in Europe) help balance market conditions. Stora Enso has just announced its intention to permanently close its UWF plant in Veitsiluoto (Finland, 790kt: 10% of Europe's capacity) which should contribute to balance the European market if finally confirmed.

#### European and US UWF apparent consumption trend (2009-19, Mt)



Source: Euro-Graph; EMGE; RISI

12

Chart 19 - Source: Navigator

The P&W industry is less global than the market pulp industry and prices in Europe (the largest global market) are denominated in euro terms. Although international trade flows are relevant, logistics costs and higher average prices in Europe make it the most attractive market for domestic producers.

## Lower price volatility despite demand maturity

UWF prices were also subject to intense downward pressure in 2020 (-7% average price change to € 836/t for the benchmark index of A4) and are now expected to gradually recover following the reaction of pulp prices and the impact this has on non-integrated producers. Price increases in Europe (+4%/+6%) have been implemented after the effectiveness of similar rises in international markets.

Historical A4 prices have averaged € 850/t over the last decade and volatility has been significantly lower than that of pulp (+/-30%) with only small deviations (+/-10%) to the mean value. Reels and other paper product categories command a significant discount to A4 prices.



#### A4 B-Copy (€/t) vs BHKP (\$/t) prices

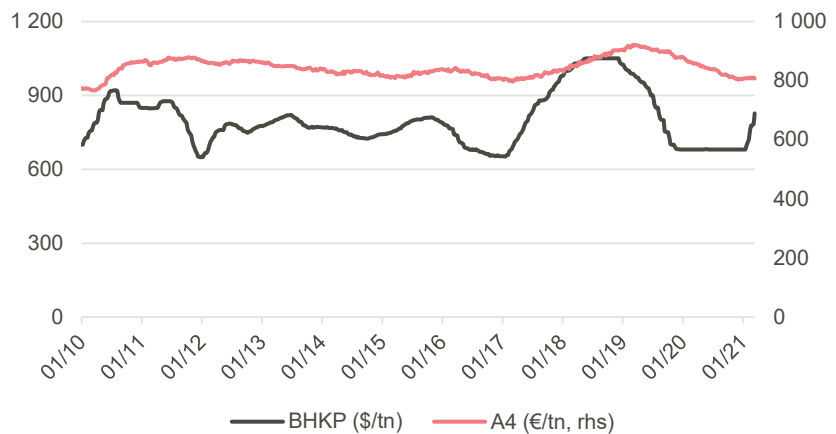


Chart 20 - Source: ODDO BHF Securities

We expect average paper prices to rise by +5% in 2021 and stabilise at a slightly higher level in 2022-2023 with A4 prices recovering its historical levels (€ 850/t).

The supply of UWF in Europe is led by Navigator (20% market share, up to 50% in premium products), followed by other mostly integrated (pulp-paper) producers such as Mondi, Stora Enso, International Paper and UPM. Other smaller non-integrated and integrated players (including Iberpapel with its Zicuñaga plant) fill the market.

#### Consolidated market structure (Mt, %)

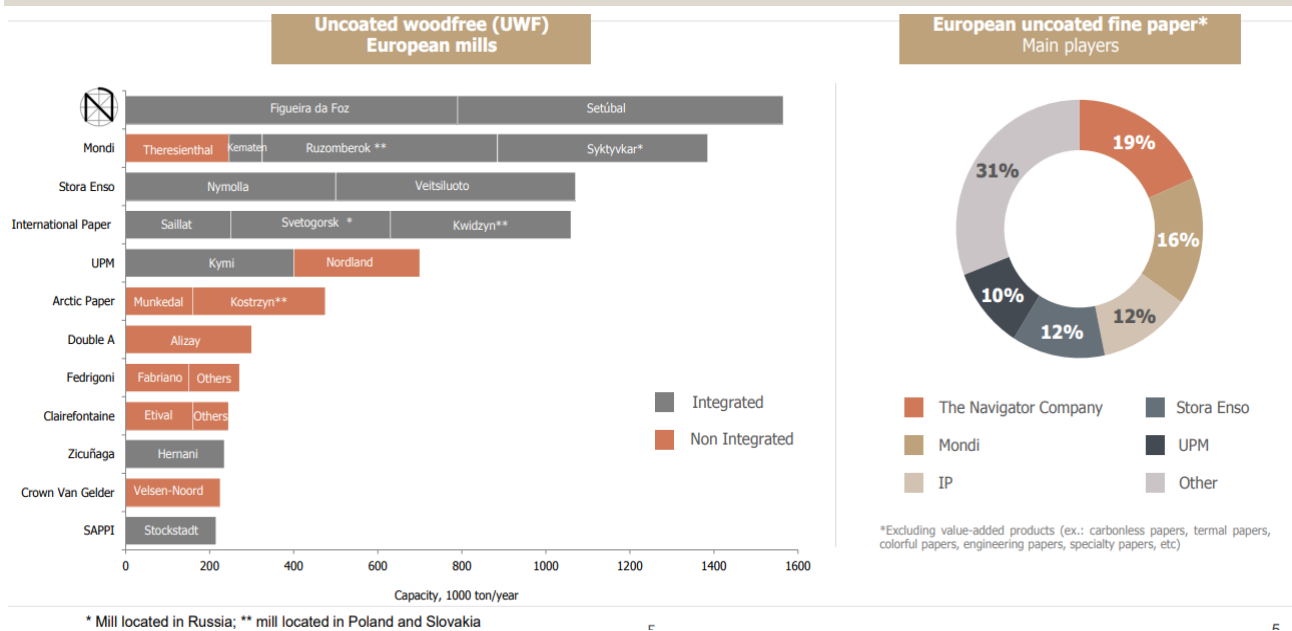


Chart 21 - Source: Navigator

Order books remain at a comfortable level (c.30 days for European manufacturers). This reflects the discipline of producers throughout the pandemic as capacity utilisation was adjusted downwards (below its historical average of 90%).



## Pulp costs to pressure unintegrated producers

Market pulp is UWF's main cost component, representing over 70% of cash costs for unintegrated producers. For integrated producers, we estimate that wood/market pulp accounts for 40% of costs, energy 20%, chemicals and other consumables 15%, personnel 15% and transportation and other items 10%.

While the profitability of unintegrated paper producers is heavily compromised when pulp prices increase, integrated manufacturers are far more resilient and could benefit from pulp pricing pressure through paper price rises or capacity closures amongst less efficient producers.

We estimate that up to 40% of adjusted capacity in Europe (2.5Mt: excluding Russia, UWF specialties and recycled grades) has a cash cost above € 600-650/t. At that level, producers are still profitable even during price downcycles, but as the cash cost curve steepens, less efficient producers could fail to meet capex and financing requirements, thus gradually forcing them out of the industry.

Navigator ranks very well in the European cash cost curve thanks to its modern and large-sized industrial footprint, outstanding export facilities/wood availability and Portugal's traditional lower cost base. In fact, some of Navigator's modern mills are not too far from the position of the lower-cost Eastern European producers. Iberpapel shares some of those advantages although its limited size hampers its efficiency.

European UWF cash cost curve (€/t)

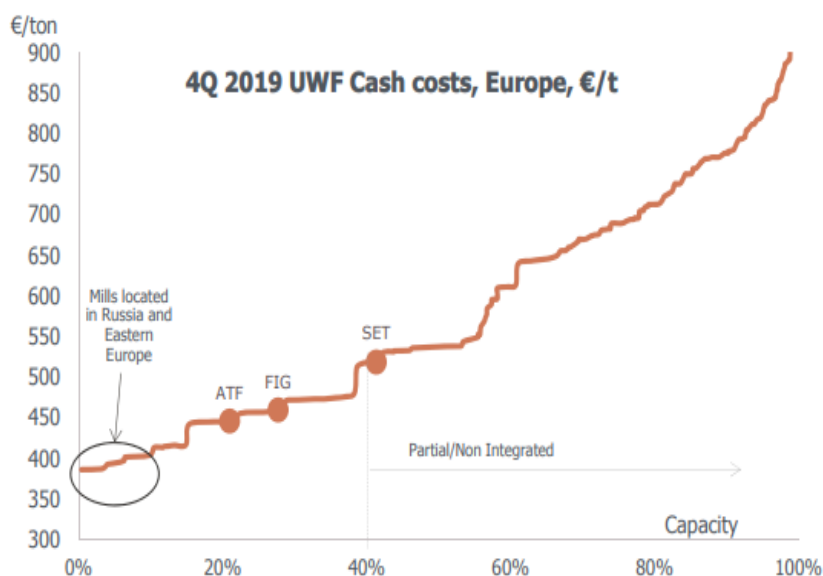


Chart 22 - Source: Navigator

## Sustainability at the top of the agenda

While sustainability has always been a central strategic pillar for the sector, the focus has shifted from merely controlling pollution and emissions and avoiding criticism at the local community level, to genuinely embracing sustainable practices in the use of natural resources for the eco-efficient production of pulp and renewable energy.

The sector promotes responsible forest management (contributing to CO<sub>2</sub> absorption) as a driver for sustainable socio-economic development in rural areas through initiatives such as the use of certified timber and the promotion of stable relations with local communities (responsible pricing practices).



As such, the sector is committed with the FSC (Forest Stewardship Council) and PSFC (Programme for the Endorsement of Forest Certification) standards in relation with forest management practices that preserve biological diversity and benefit the lives of local people and workers, while ensuring it sustains economic viability.

We believe that the Pulp and Paper sector not only has adapted its strategy to the rising climate change risks (as evidenced by recent forest fires and desertification/ drought threats) and growing social consciousness but that it can play an active role in mitigating its risks supporting the decarbonization of the economy.

These mitigation actions include besides the CO<sub>2</sub> absorption from responsible managed forests, the adoption of best practices to reduce emissions (including GHG emissions) and finite resource consumption (circular economy), the increase of renewables in the energy mix through related and independent renewable/ biomass plants and the design of pulp/renewable products to replace plastics and other oil derivative products.

In our opinion, the four companies under our coverage have done significant efforts over the last years in environmental as well as social and governance matters.




These efforts are reflected in the following milestones:

- Ence: in January 2021, MSCI upgraded Ence's ESG rating to AA (on a scale of AAA-CCC). In 2020, Sustainalytics upgraded Ence's overall ESG score to 82/100.
- Altri: the company is due to release its ESG targets for 2030 in 2021. These will include a commitment to reduce CO<sub>2</sub> emissions by 30% (Scope 3, and up to 60% for Scope 1 and 2 emissions).
- Navigator: the company has committed to being carbon neutral by 2035 and announced 2020-25 sustainability goals, with a renewable energy consumption target of 85%.
- Iberpapel: it has developed an Energy and Climate Change Programme focusing on energy efficiency, the use of biomass energy and CO<sub>2</sub> absorption at its timber plantations.



## COMPANY PROFILES

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|  |    |
|--|----|
|  Altri      | 22 |
|  Ence       | 30 |
|  Iberpapel  | 41 |
|  Navigator | 48 |



# Altri

**Underperform → | Target 6.90 €**

Price (03/05/2021) : 6.56 € | Upside : 5 %

| Revision | 2021e | 2022e |
|----------|-------|-------|
| EPS      | ns    | ns    |

## Cost leadership reflected in valuation premium

Tuesday 04 May 2021



Capital

| ALTR PL   ALSS.LS     |             |
|-----------------------|-------------|
| Market Cap (€m)       | 1 346       |
| Enterprise value (€m) | 1 793       |
| Extrema 12 months (€) | 3.20 - 6.72 |
| Free Float (%)        | 31.3        |

| Performance (%)          | 1m   | 3m   | 12m  |
|--------------------------|------|------|------|
| Absolute                 | 0.8  | 31.9 | 36.1 |
| Perf. rel. Country Index | -1.0 | 22.1 | 5.2  |
| Perf. rel. IBEX Medium   | 0.4  | 20.2 | 1.2  |

| P&L                   | 12/21e | 12/22e | 12/23e |
|-----------------------|--------|--------|--------|
| Sales (€m)            | 729    | 698    | 699    |
| EBITDA (€m)           | 233    | 197    | 197    |
| Current EBIT (€m)     | 161    | 128    | 132    |
| Attr. net profit (€m) | 104    | 81.6   | 86.9   |
| Adjusted EPS (€)      | 0.51   | 0.40   | 0.42   |
| Dividend (€)          | 0.24   | 0.25   | 0.27   |

|                     |      |      |      |
|---------------------|------|------|------|
| P/E (x)             | 12.9 | 16.5 | 15.5 |
| P/B (x)             | 2.8  | 2.6  | 2.4  |
| Dividend Yield (%)  | 3.6  | 3.9  | 4.1  |
| FCF yield (%)       | 7.4  | 8.8  | 8.2  |
| EV/Sales (x)        | 2.46 | 2.47 | 2.38 |
| EV/EBITDA (x)       | 7.7  | 8.8  | 8.4  |
| EV/Current EBIT (x) | 11.1 | 13.4 | 12.6 |
| Gearing (%)         | 92   | 72   | 57   |
| Net Debt/EBITDA (x) | 1.9  | 1.9  | 1.6  |

Next Events

20/05/2021 Q1 Results

## Cost leadership and strategic milestones already reflected in valuation

We believe Altri's sound fundamentals and positive strategic developments relating to the planned IPO of its renewable energy unit (c.20% of normalised EBITDA), are already reflected in its valuation (8.8x EV/EBITDA 2022e vs historical average of 8x). As pulp prices normalise (+c.40% YtD), we expect higher earnings growth amongst less efficient producers and Altri's cost advantage to be partially sidelined. The flotation of its renewable energy unit (c.20% of normalised EBITDA) to fund future growth may be seen as positive, but its pipeline is not yet defined and Altri's financial leverage (c.2x ND/ EBITDA 2021e) could limit future opportunities.

## Cash cost leadership

Altri is the most efficient Iberian pulp producer (estimated cash cost of € 340/t, -20% vs average BHPK in Europe) thanks to its competitive wood supply, transport logistics and extremely efficient cost base. This translates into high historical margins (10-year average EBITDA margin of 28% vs 21% in 2020) and strong earnings resilience in pulp price downcycles. Some of this advantage is lost in normalised pulp price environments.

## IPO of the renewable energy to act as a catalyst?

Altri has announced the IPO of its renewable energy unit (Greenvolt: 97MW) in Q3 2021, offering an opportunity to crystallise value and self-finance future growth opportunities. Altri intends to keep a 70-75% stake and the funds obtained (which we estimate at € 85m depending on the deal structure) will be used to develop its renewable asset base in Portugal and abroad in both biomass and other renewable technologies (mostly solar and wind). However, its pipeline has not yet been defined, and we believe the market has widely anticipated the success of its strategy which, in our opinion, has yet to be proven.

## Underperform rating, target price of € 6.90

We initiate Altri at Underperform with a target price of € 6.90 (DCF). Our Underperform rating is motivated by: 1/ a cautious stance regarding pulp prices following its recent rally (+40% 2021e, -5% 2022e); 2/ a high valuation on normalised pulp price conditions (8.8x EV/EBITDA22e); 3/ its relatively high financial leverage (3.7x ND/EBITDA 2020e, 1.9x 2021e); and 4/ uncertainties over the group's renewable energy strategy (pipeline, execution capacity).

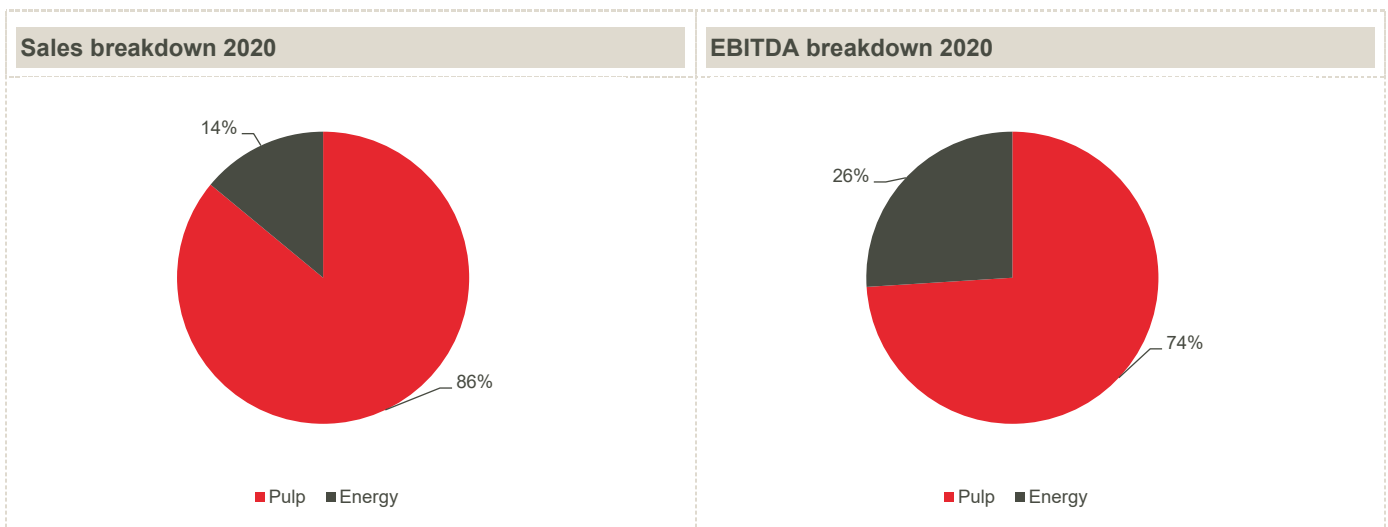
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## The most efficient Iberian market pulp producer

Altri is the most efficient Iberian market pulp producer (1.1Mt annual capacity: c.10% of which is dissolving pulp) with an estimated global share of the eucalyptus market pulp segment of 5%.

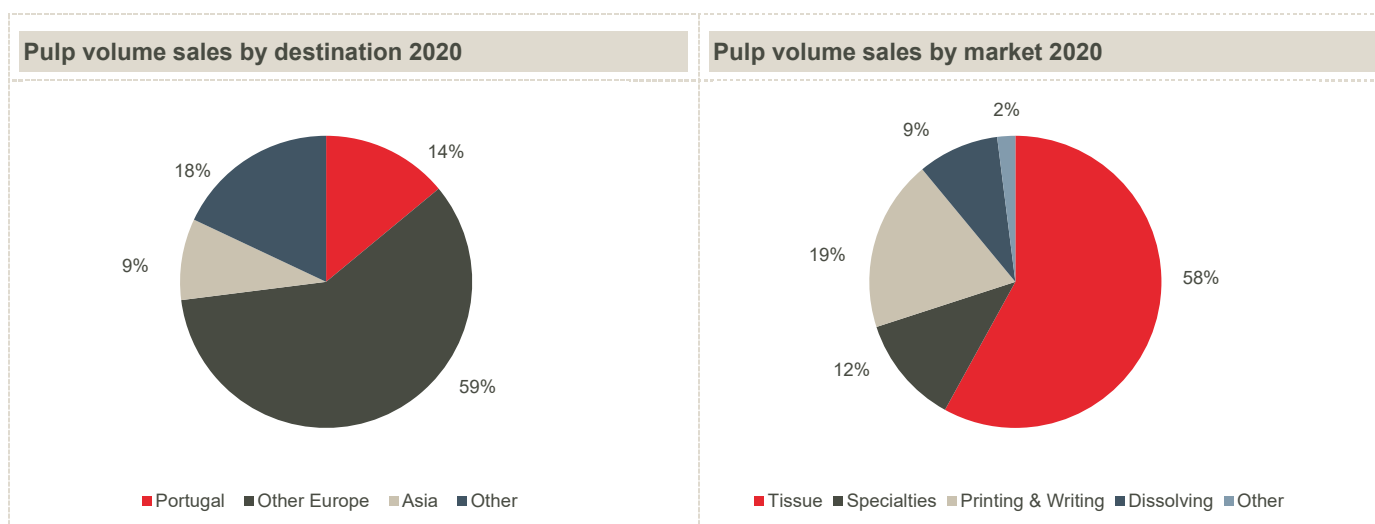
It operates 97MW of biomass and manages 86k ha of forestry assets in Portugal, giving it a 20% wood self-sufficiency rate. The wood is mainly sourced domestically within the Iberian Peninsula, and particularly in the Vale do Tajo region. If availability is limited, this may be complemented with wood imports from Latin America (up to 10%-15%), which slightly increases its costs.



Source: Altri

Altri has three pulp mills in Portugal: Celbi (Figueira da Foz, the largest market pulp plant in Iberia with outstanding profitability), Celtejo (Vila Velha de Ródão, which produces Totally Chlorine Free pulp mostly suited for tissue production) and Caima (Constância, producing dissolving pulp mainly for export markets). Celbi accounted for 69% of production in 2020, followed by Celtejo with 23% and Caima with the remaining 8%.

It mainly targets the European markets which account for 73% of sales (Portugal making up 14% of total), followed by Asia (9%) where it directs practically all its dissolving pulp volumes. China is the main market for soluble paste (dissolving pulp) which is used in the production of viscose, a raw material of the textile industry, other relevant uses being in electronics, tyres and glasses.



Source: Altri

In terms of pulp markets, tissue accounts for 58% of the total, followed by printing and writing with 19% and specialties with 12%. Dissolving pulp accounts for 9% of total volumes while packaging and others represent just 1%.

## IPO of renewable energy unit to better capture growth opportunity

The group operates 97MW of renewable biomass energy capacity at five plants and will soon spin off its energy activity (Greenvolt) in a public company through an IPO (granting shares of the newly listed vehicle to shareholders of Altri) in which it intends to keep a 70-75% stake. The funds obtained will be used to develop its renewable asset base in Portugal and abroad in both biomass and other renewable technologies (mostly solar and wind).

### Altri's renewable energy asset base

| Plant        | Type    | Capacity (MW) | Regulatory life |
|--------------|---------|---------------|-----------------|
| Mortágua 1   | Biomass | 8.6           | 2024            |
| Celtejo      | Biomass | 12.8          | 2031            |
| Caima        | Biomass | 12.8          | 2034            |
| Celbi 1      | Biomass | 27.9          | 2034            |
| Celbi 2      | Biomass | 35            | 2044            |
| <b>TOTAL</b> |         | <b>97.1</b>   |                 |

Source: Altri

Greenvolt's growth strategy in biomass will be based on optimising the management of existing assets (brownfield) outside Portugal while in other renewables (solar PV and wind) it expects to partner with experienced developers and target attractive and stable opportunities (power purchase agreements). The group could also get involved in decentralised energy generation projects.

The energy unit (which was split from the pulp segment in 2020) obtained an EBITDA of € 33m in 2020 (38% EBITDA margin), +50% vs 2019 levels of € 22m which did not yet reflect the full contribution of the new 35MW biomass capacity at Figueira da Foz, which increased the group's capacity by +56%. We estimate the historical segment EBITDA margin at around 36% in a very stable regulatory framework.

The group sells to the national grid all its biomass energy production (732GWh) at regulated feed-in tariffs (€ 119/MWh in 2020) which are granted for 25 years and are updated annually on recorded inflation.





Altri hired an experienced manager (the previous CEO of EDP Renováveis, the listed renewables arm of EDP) to lead the new growth phase with an independent and autonomous structure. We expect Altri could raise up to € 85m from the placement of a 25% stake of Greenvolt, although the group does not report the debt at the segment level individually. The process is expected to be completed in Q3 2021.

## Cash cost leadership in Europe

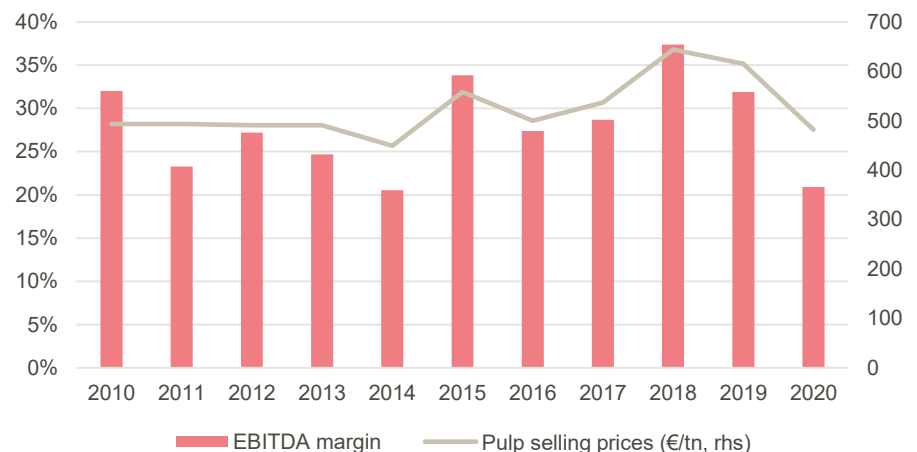
Altri's cash cost can be estimated at around € 340/t (including fleet costs for approximately € 30/t), making it well positioned amongst European producers (-10% vs the next most efficient operator and up to -20% vs the average hardwood producer in Europe).

Factors supporting the strong efficiency of the group include the large scale of its Celbi operation (800kt: 70% of the group's total), its competitive wood supply and transport logistics (access to ports at an average distance of less than 70km from the industrial sites), and a deflated cost base (Portuguese competitiveness: labour costs up to 35% lower than European peers). These translate into strong earnings resilience in pulp price downcycles.

Wood accounts for almost 50% of total costs within a very efficient cost structure. Altri's results are therefore very sensitive to wood price variations (a 5% increase in wood costs implies a decline of up to 22% in EBIT in 2020), in a similar way to the exposure to final pulp prices.

Altri's EBITDA margins average 28% historically, with a marked correlation to effective selling prices.

### Historical EBITDA margins



Source: Altri

## Financial estimates

Our estimates take account of our pulp price deck (\$ 950/t 2021e, \$ 900/t thereafter) adjusted for the group's production and commercial mix (dissolving pulp, Asian exposure) and stable forex rates (\$/€ 1.2) and commercial discounts, which result in an estimated average selling price of € 590/t in 2021e (+22% vs 2020) and € 560/t thereafter (which compares to the 10-year average of € 526/t).



We estimate pulp volume sales of 1.09Mt in 2021 (-1% vs 2020) which already takes account of regular maintenance at the Celbi (Q4 2021) and Caima (Q3 2021) mills.

Our renewable energy sales estimates are based on stable volumes (85% implied load factor) and EBITDA margins (38%).

The impacts of Greenvolt's potential listing are not yet reflected in our estimates.

| Operating estimates          |        |        |       |       |       |
|------------------------------|--------|--------|-------|-------|-------|
|                              | 2019   | 2020   | 2021e | 2022e | 2023e |
| Pulp volumes sold (kt)       | 1 084  | 1 098  | 1 090 | 1 090 | 1 090 |
| Chg. %                       | 2.7%   | 1.3%   | -0.7% | 0.0%  | 0.0%  |
| Pulp listing price (\$/t)    | 860    | 680    | 950   | 900   | 900   |
| Chg. %                       | -17.1% | -20.9% | 39.7% | -5.3% | 0.0%  |
| Pulp selling price (€/t)     | 615    | 482    | 590   | 560   | 560   |
| Chg. %                       | -4.5%  | -21.7% | 22.5% | -5.1% | 0.0%  |
| Renewable Energy sales (GWh) | 540    | 733    | 733   | 733   | 733   |
| Chg. %                       | ns     | 35.6%  | 0.0%  | 0.0%  | 0.0%  |

Sources: Altri, ODDO BHF Securities

Our estimates are based on a 2020-2023e sales CAGR of +4% (with stable volumes at both pulp and energy and flat energy tariffs) and a 2020-2023e EBITDA CAGR of +15% with a significant surge in 2021e as a result of the sharp increase in selling prices (+23%).

Net profit variations reflect its strong sensitivity to pulp prices.

| Financial estimates    |       |        |       |        |       |
|------------------------|-------|--------|-------|--------|-------|
| € m                    | 2019  | 2020   | 2021e | 2022e  | 2023e |
| Sales                  | 754   | 616    | 729   | 698    | 699   |
| EBITDA                 | 240   | 129    | 233   | 197    | 197   |
| EBITDA margin (%)      | 31.9% | 20.9%  | 31.9% | 28.2%  | 28.2% |
| EBITDA Pulp            | 218   | 96     | 200   | 163    | 164   |
| EBITDA margin Pulp (%) | 31.7% | 18.1%  | 31.1% | 26.7%  | 26.8% |
| EBITDA Energy          | 22    | 33     | 33    | 33     | 34    |
| EBITDA margin RE (%)   | 34.5% | 37.9%  | 38.0% | 38.0%  | 38.0% |
| Net profit             | 101   | 35     | 104   | 82     | 87    |
| Chg.                   |       | 2020   | 2021e | 2022e  | 2023e |
| Sales                  |       | -18.3% | 18.5% | -4.3%  | 0.2%  |
| EBITDA                 |       | -46.5% | 81%   | -15.6% | 0.4%  |
| EBITDA Pulp            |       | -56.1% | 109%  | -18.4% | 0.2%  |
| EBITDA Energy          |       | 48.1%  | 0.0%  | 1.5%   | 1.5%  |
| Net profit             |       | ns     | 198%  | -22%   | 6%    |

Sources: Altri, ODDO BHF Securities

We expect Altri to get its relatively high net debt in 2020 back down towards 2x ND/EBITDA in 2021 and continue to deleverage in 2022-2023. We do not take into account the new investments in renewable energy capacity for the time being. Altri maintains relatively limited capex requirements (5% of sales in our projections).

| Net debt and capex trend |      |      |       |       |       |
|--------------------------|------|------|-------|-------|-------|
| € m                      | 2019 | 2020 | 2021e | 2022e | 2023e |
| Net Debt                 | 514  | 476  | 443   | 373   | 315   |
| Net Debt/EBITDA          | 2.1x | 3.7x | 1.9x  | 1.9x  | 1.6x  |
| Capex                    | 70   | 37   | 36    | 35    | 35    |
| Capex Pulp               | 42   | 34   | 31    | 30    | 30    |
| Capex Energy             | 29   | 3    | 5     | 5     | 5     |

Sources: Altri, ODDO BHF Securities



Altri maintains an attractive dividend strategy (>60% payout average over the last five years) although there is no set policy. We expect an increase in dividends for 2021 to reflect the expected improvement in results and see a future payout ratio at around 60% of net profit. We expect cash conversion rates (EBITDA) to stabilise at around 60%, reflecting the efficiency of its operations.

| Cash conversion estimates       |      |      |       |       |       |
|---------------------------------|------|------|-------|-------|-------|
| € m                             | 2019 | 2020 | 2021e | 2022e | 2023e |
| EBITDA                          | 240  | 129  | 233   | 197   | 197   |
| Net Debt                        | 514  | 476  | 443   | 373   | 315   |
| Dividends                       | 148  | 62   | 66    | 49    | 52    |
| Cash generated                  |      | 99   | 99    | 119   | 110   |
| Cash conversion rate            |      | 77%  | 43%   | 60%   | 56%   |
| Chg. in WC                      |      |      | -32   | 10    | 0     |
| Adjusted organic cash generated |      |      | 131   | 108   | 110   |
| Cash conversion rate ex WC      |      |      | 56%   | 55%   | 56%   |

Sources: Altri, ODDO BHF Securities

## Valuation : € 6.90 per share

Our valuation of Altri at €6.90 per share is derived from a DCF approach. We also perform a SOTP analysis as we try to assign valuations to its new independently reported segments (pulp and energy) and which reach 5.90 € per share. We initiate the stock with an Underperform recommendation and a target price of € 6.90.

There are no pure peers for Altri (besides Ence) in view of the limited number of hardwood market pulp manufacturers in Europe. We do not consider Latin American pulp producers or the integrated pulp/paper manufacturers of northern Europe or North America to be adequate benchmarks for valuation purposes.

We run a DCF model and normalise depreciation and capex at our terminal value. We discount the expected flows at our estimated WACC (7.1%) and use a perpetual growth rate of 1.5%.

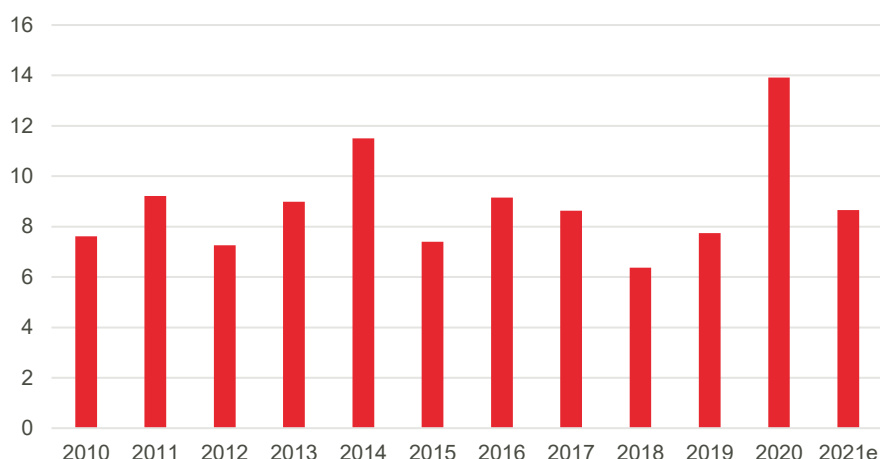
| DCF                 |       |       |       |       |       |     |       |       |
|---------------------|-------|-------|-------|-------|-------|-----|-------|-------|
| € m                 | 2021e | 2022e | 2023e | 2024e | 2025e | ... | 2031e | 2031e |
| NOPLAT              | 119   | 95    | 98    | 101   | 101   |     | 101   |       |
| Depreciation        | 72    | 68    | 65    | 62    | 62    |     | 62    |       |
| Capex               | -36   | -35   | -35   | -35   | -35   |     | -62   |       |
| Chg. in W/K         | -32   | 10    | 0     | 0     | 0     |     | 0     |       |
| FCF                 | 123   | 139   | 128   | 128   | 128   | ... | 101   | 1 830 |
| NPV                 | 1 858 |       |       |       |       |     |       |       |
| Net Debt 2021e      | 443   |       |       |       |       |     |       |       |
| Pension Liabilities | 5     |       |       |       |       |     |       |       |
| Equity value        | 1 410 |       |       |       |       |     |       |       |
| Shares (m)          | 205   |       |       |       |       |     |       |       |
| Value per share (€) | 6.9   |       |       |       |       |     |       |       |

Source: ODDO BHF Securities

Altri has historically traded at 8.5x EV/EBITDA. We believe 8.0x EV/EBITDA is an appropriate multiple for Altri's pulp business considering its quality (cash cost leadership in Europe) and exposure to dynamic consumer-related segments (tissue) while its presence in the mature P&W category is partially offset by its exposure to the export dissolving pulp market. We apply that multiple on 2022e earnings (normalised pulp prices).



#### Historical EV/EBITDA multiples (x)



Sources: FactSet, ODDO BHF Securities

The energy business can be valued through a DCF model (WACC of 6.2% estimated for the segment, perpetual growth rate of 1%) implying a 2021e EV/EBITDA multiple of 10.5x and € 3.6m per MW, representing 21% of the target EV (vs 14% for expected contribution to EBITDA in 2021e or 17% for 2022e).

We arrive at a benchmark valuation for Altri of € 5.9 per share after deducting total estimated net debt for 2021e (not reported separately by segment) and unfunded pension liabilities.

#### SOTP

| € m                 | Criteria              | Valuation | Weight % |
|---------------------|-----------------------|-----------|----------|
| Pulp                | 8.0x EV/EBITDA 2022e  | 1 306     | 79%      |
| Energy              | DCF (WACC 6.2%, g 1%) | 347       | 21%      |
| Total EV            |                       | 1 652     | 100%     |
| Net Debt 2021e      | 443                   |           |          |
| Pension Liabilities | 5                     |           |          |
| Equity Value        | 1 204                 |           |          |
| # Shares (m)        | 205                   |           |          |
| Value per share (€) | 5.9                   |           |          |

Source: ODDO BHF Securities

## SWOT analysis

| Strength  | Weaknesses  |
|---|---|
| <ul style="list-style-type: none"> <li>Cash cost leadership</li> <li>Lean operating structure</li> <li>Wood and biomass sourcing</li> </ul> | <ul style="list-style-type: none"> <li>Relatively high debt level</li> <li>Higher exposure to P&amp;W segment</li> <li>Limited room for further efficiency gains</li> </ul> |
| Opportunities   | Threats   |
| <ul style="list-style-type: none"> <li>Growth in renewable energy unit following planned IPO</li> <li>Dissolving pulp market</li> </ul>     | <ul style="list-style-type: none"> <li>Maturity of P&amp;W segment</li> <li>New pulp capacity in sector</li> </ul>  |

Source: ODDO BHF Securities



**ALTR PL | ALSS.LS**  
**Paper & Packaging | Portugal**

**Underperform**  
Upside 5.18%

Price 6.56EUR  
TP 6.90EUR

|  | 12/16        | 12/17        | 12/18        | 12/19        | 12/20        | 12/21e        | 12/22e        | 12/23e        |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| <b>PER SHARE DATA (€)</b>                          |              |              |              |              |              |               |               |               |
| Adjusted EPS                                       | 0.38         | 0.47         | 0.95         | 0.49         | 0.17         | 0.51          | 0.40          | 0.42          |
| <b>Reported EPS</b>                                | <b>0.38</b>  | <b>0.47</b>  | <b>0.95</b>  | <b>0.49</b>  | <b>0.17</b>  | <b>0.51</b>   | <b>0.40</b>   | <b>0.42</b>   |
| Growth in adjusted EPS                             | -34.6%       | 24.8%        | ns           | -48.2%       | -65.3%       | ns            | -21.6%        | 6.5%          |
| Net dividend per share                             | 0.25         | 0.30         | 0.72         | 0.30         | 0.32         | 0.24          | 0.25          | 0.27          |
| FCF to equity per share                            | 0.23         | 0.49         | -0.08        | 0.36         | 0.48         | 0.48          | 0.58          | 0.54          |
| Book value per share                               | 1.68         | 1.92         | 2.54         | 2.27         | 2.17         | 2.36          | 2.52          | 2.69          |
| Number of shares market cap (m)                    | 205.13       | 205.13       | 205.13       | 205.13       | 205.13       | 205.13        | 205.13        | 205.13        |
| Number of diluted shares (m)                       | 205.13       | 205.13       | 205.13       | 205.13       | 205.13       | 205.13        | 205.13        | 205.13        |
| <b>VALUATION (€m)</b>                              | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| 12m highest price (€)                              | 4.72         | 5.68         | 9.13         | 7.75         | 6.25         | 6.72          |               |               |
| 12m lowest price (€)                               | 2.86         | 3.63         | 4.41         | 5.13         | 2.88         | 4.92          |               |               |
| (*) Reference price (€)                            | 3.46         | 4.41         | 6.86         | 6.27         | 4.47         | 6.56          | 6.56          | 6.56          |
| Capitalization                                     | 709          | 905          | 1 406        | 1 286        | 917          | 1 346         | 1 346         | 1 346         |
| Restated Net debt                                  | 443          | 393          | 440          | 514          | 476          | 443           | 373           | 315           |
| Minorities (fair value)                            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Financial fixed assets (fair value)                | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Provisions   | 22.0         | 22.0         | 22.0         | 5.2          | 4.8          | 4.8           | 4.8           | 4.8           |
| <b>Enterprise Value</b>                            | <b>1 174</b> | <b>1 319</b> | <b>1 868</b> | <b>1 805</b> | <b>1 398</b> | <b>1 793</b>  | <b>1 723</b>  | <b>1 666</b>  |
| P/E (x)  | 9.2          | 9.4          | 7.2          | 12.8         | 26.2         | 12.9          | 16.5          | 15.5          |
| P/CF (x)   | 8.2          | 5.4          | 15.2         | 8.9          | 8.8          | 8.0           | 9.4           | 9.3           |
| Net Yield  | 7.2%         | 6.8%         | 10.5%        | 4.8%         | 7.2%         | 3.6%          | 3.9%          | 4.1%          |
| FCF yield  | 6.6%         | 11.0%        | ns           | 5.7%         | 10.7%        | 7.4%          | 8.8%          | 8.2%          |
| P/B incl. GW (x)                                   | 2.06         | 2.29         | 2.70         | 2.76         | 2.06         | 2.78          | 2.61          | 2.44          |
| P/B excl. GW (x)                                   | 9.08         | 7.01         | 5.49         | 6.42         | 5.10         | 6.17          | 5.37          | 4.71          |
| EV/Sales (x)                                       | 1.92         | 1.98         | 2.38         | 2.40         | 2.27         | 2.46          | 2.47          | 2.38          |
| EV/EBITDA (x)                                      | 7.0          | 6.9          | 6.4          | 7.5          | 10.9         | 7.7           | 8.8           | 8.4           |
| EV/Current EBIT (x)                                | 10.1         | 9.6          | 8.0          | 11.4         | 26.2         | 11.1          | 13.4          | 12.6          |
| (*) historical average price                       |              |              |              |              |              |               |               |               |
| <b>PROFIT AND LOSS (€m)</b>                        | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales  | 612          | 666          | 785          | 754          | 616          | 729           | 698           | 699           |
| EBITDA   | 168          | 191          | 293          | 240          | 129          | 233           | 197           | 197           |
| Depreciations                                      | -51.5        | -53.5        | -60.9        | -82.6        | -75.2        | -71.6         | -68.3         | -65.2         |
| <b>Current EBIT</b>                                | <b>116</b>   | <b>137</b>   | <b>232</b>   | <b>158</b>   | <b>53</b>    | <b>161</b>    | <b>128</b>    | <b>132</b>    |
| Published EBIT                                     | 116          | 137          | 232          | 158          | 53           | 161           | 128           | 132           |
| Net financial income                               | -18.6        | -21.3        | -12.6        | -21.6        | -23.6        | -20.6         | -18.0         | -14.8         |
| Corporate Tax                                      | -23.7        | -22.5        | -56.1        | -35.4        | 5.0          | -36.6         | -28.7         | -30.5         |
| Net income of equity-accounted companies           | 3.0          | 2.5          | 30.8         | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Profit/loss of discontinued activities (after tax) | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Minority interests                                 | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Attributable net profit                            | 77           | 96           | 194          | 101          | 35.0         | 104           | 82            | 87            |
| <b>Adjusted attributable net profit</b>            | <b>77</b>    | <b>96</b>    | <b>194</b>   | <b>101</b>   | <b>35.0</b>  | <b>104</b>    | <b>82</b>     | <b>87</b>     |
| <b>BALANCE SHEET (€m)</b>                          | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Goodwill   | 266          | 266          | 266          | 266          | 266          | 266           | 266           | 266           |
| Other intangible assets                            | 0.0          | 0.0          | 55.3         | 122          | 118          | 118           | 118           | 118           |
| Tangible fixed assets                              | 462          | 491          | 654          | 660          | 629          | 594           | 561           | 530           |
| WCR  | 52.6         | 20.2         | 27.3         | 50.6         | 27.1         | 58.6          | 48.3          | 48.3          |
| Financial assets                                   | 70.1         | 70.1         | 41.8         | 37.8         | 32.1         | 40.5          | 47.1          | 54.2          |
| Ordinary shareholders equity                       | 344          | 395          | 522          | 466          | 445          | 484           | 516           | 551           |
| Minority interests                                 | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Shareholders equity                                | 344          | 395          | 522          | 466          | 445          | 484           | 516           | 551           |
| Non-current provisions                             | 63.4         | 60.0         | 82.6         | 156          | 150          | 150           | 150           | 150           |
| <b>Net debt</b>                                    | <b>443</b>   | <b>393</b>   | <b>440</b>   | <b>514</b>   | <b>476</b>   | <b>443</b>    | <b>373</b>    | <b>315</b>    |
| <b>CASH FLOW STATEMENT (€m)</b>                    | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| <b>EBITDA</b>                                      | <b>167.8</b> | <b>190.9</b> | <b>293.3</b> | <b>240.4</b> | <b>128.6</b> | <b>232.9</b>  | <b>196.6</b>  | <b>197.5</b>  |
| Change in WCR                                      | 4.6          | 13.5         | 1.4          | -0.1         | 31.8         | -31.5         | 10.3          | 0.0           |
| Interests & taxes                                  | -54.6        | -41.4        | -57.2        | -53.1        | -12.8        | -65.6         | -53.3         | -52.4         |
| Others   | -26.4        | 19.1         | -143.5       | -43.6        | -12.1        | 0.0           | 0.0           | 0.0           |
| Operating Cash flow                                | 91.3         | 182.1        | 94.1         | 143.6        | 135.6        | 135.8         | 153.5         | 145.1         |
| CAPEX  | -44.7        | -82.2        | -110.8       | -70.4        | -37.0        | -36.5         | -34.9         | -35.0         |
| <b>Free cash-flow</b>                              | <b>46.6</b>  | <b>99.9</b>  | <b>-16.7</b> | <b>73.2</b>  | <b>98.6</b>  | <b>99.3</b>   | <b>118.6</b>  | <b>110.1</b>  |
| Acquisitions / disposals                           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Dividends  | -51.3        | -51.3        | -61.5        | -147.7       | -61.5        | -65.6         | -49.0         | -52.1         |
| Net capital increase                               | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Others   | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Change in net cash                                 | -2.2         | 50.6         | -47.1        | -74.1        | 37.4         | 33.6          | 69.7          | 58.0          |
| <b>GROWTH MARGINS PRODUCTIVITY</b>                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales growth                                       | -7.9%        | 8.7%         | 17.9%        | -4.0%        | -18.3%       | 18.5%         | -4.3%         | 0.2%          |
| <b>Lfi sales growth</b>                            | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| Current EBIT growth                                | -30.9%       | 18.2%        | 69.2%        | -32.1%       | -66.1%       | ns            | -20.5%        | 3.1%          |
| Growth in adjusted EPS                             | -34.6%       | 24.8%        | ns           | -48.2%       | -65.3%       | ns            | -21.6%        | 6.5%          |
| Net margin   | 12.6%        | 14.4%        | 24.8%        | 13.4%        | 5.7%         | 14.3%         | 11.7%         | 12.4%         |
| <b>EBITDA margin</b>                               | <b>27.4%</b> | <b>28.7%</b> | <b>37.4%</b> | <b>31.9%</b> | <b>20.9%</b> | <b>31.9%</b>  | <b>28.2%</b>  | <b>28.2%</b>  |
| <b>Current EBIT margin</b>                         | <b>19.0%</b> | <b>20.6%</b> | <b>29.6%</b> | <b>20.9%</b> | <b>8.7%</b>  | <b>22.1%</b>  | <b>18.4%</b>  | <b>18.9%</b>  |
| CAPEX / Sales                                      | -7.3%        | -12.3%       | -14.1%       | -9.3%        | -6.0%        | -5.0%         | -5.0%         | -5.0%         |
| WCR / Sales  | 8.6%         | 3.0%         | 3.5%         | 6.7%         | 4.4%         | 8.0%          | 6.9%          | 6.9%          |
| Tax Rate   | 24.3%        | 19.4%        | 25.5%        | 26.0%        | -16.8%       | 26.0%         | 26.0%         | 26.0%         |
| Normative tax rate                                 | 23.6%        | 19.0%        | 22.4%        | 26.0%        | -16.8%       | 26.0%         | 26.0%         | 26.0%         |
| Asset Turnover                                     | 0.8          | 0.9          | 0.9          | 0.7          | 0.6          | 0.7           | 0.7           | 0.7           |
| <b>ROCE post-tax (normative tax rate)</b>          | <b>11.4%</b> | <b>14.3%</b> | <b>20.3%</b> | <b>11.1%</b> | <b>5.8%</b>  | <b>11.5%</b>  | <b>9.4%</b>   | <b>10.0%</b>  |
| ROCE post-tax hors GW (normative tax rate)         | 17.4%        | 21.7%        | 28.9%        | 14.9%        | 7.8%         | 15.5%         | 12.7%         | 13.8%         |
| ROE  | 23.1%        | 26.0%        | 42.5%        | 20.4%        | 7.7%         | 22.4%         | 16.3%         | 16.3%         |
| <b>DEBT RATIOS</b>                                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Gearing  | ns           | 99%          | 84%          | ns           | ns           | 92%           | 72%           | 57%           |
| Net Debt / Market Cap                              | 0.62         | 0.43         | 0.31         | 0.40         | 0.52         | 0.33          | 0.28          | 0.23          |
| <b>Net debt / EBITDA</b>                           | <b>2.64</b>  | <b>2.06</b>  | <b>1.50</b>  | <b>2.14</b>  | <b>3.70</b>  | <b>1.90</b>   | <b>1.90</b>   | <b>1.60</b>   |
| EBITDA / net financial charges                     | 9.0          | 8.9          | 23.2         | 11.1         | 5.5          | 11.3          | 10.9          | 13.3          |

Sources: ODDO BHF Securities, SIX



Ence

Tuesday 04 May 2021

Initiating coverage  
Paper & Packaging | Spain

Ence

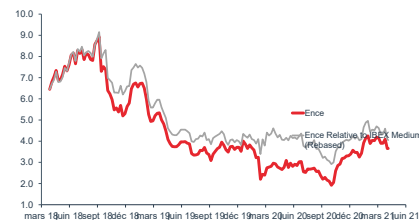
Neutral → | Target 4.00 €

Price (03/05/2021) : 3.66 € | Upside : 9 %

| Revision | 2021e | 2022e |
|----------|-------|-------|
| EPS      | ns    | ns    |

## Earnings normalisation to support strategic roadmap

Tuesday 04 May 2021



## Capturing the renewable growth opportunity

Ence is the largest Iberian pulp manufacturer (1.2Mt) and biomass energy producer (266MW) with a highly differentiated offering targeting the European tissue and specialties segments. Results should dramatically improve in 2021 (EBITDA +c.3x) supported by the normalisation of pulp prices. Meanwhile, the group completed decisive strategic actions in 2020 (divestment of thermosolar power plant and a 49% stake of its renewable energy unit: € 305mn combined proceeds) and is ready to embark on a new growth phase (0.5GW pipeline) in renewables. We believe its current valuation (7.2x EV/EBITDA 2022e) adequately reflects its risk-adjusted return profile.

## Uncertainty over Pontevedra concession obscures outlook

Ence operates two pulp mills in Spain and its future potential growth projects (340kt capacity increase including a swing line in dissolving pulp, fluff for hygiene products) are concentrated at its largest and most efficient plant in Navia (Asturias). The Pontevedra (Galicia) plant, representing 40% of the group's pulp production but significantly less in profits, is affected by a legal dispute over the concession lifespan (extended to 2073 amid considerable opposition) which we do not expect to be resolved any time soon (as the long-awaited decision by the national court is expected to be appealed by the losing party). We believe the most likely scenario is closure in 2033 (75 years since the original concession was granted under Spain's coastal legislation), which gives Ence plenty of time to adapt its strategy and minimise the negative effects.

## Profit normalisation...

Ence's earnings profile has been volatile over the last decade (average EBITDA margin of 19% within a range of -1% to 32%) following sharp pulp price movements and relatively inflexible cash costs (€ 370/t on average). But we expect the continued growth of its renewable energy base (with stable and higher margins: 32% EBITDA margin 2022e) and the continued focus on cost efficiency to stabilise the group's margins at a high level (c.23%).

## ...to support strategic roadmap

Ence is in a sound position to capture future growth opportunities in renewables (PV and biomass) provided the returns are attractive (7%-8% minimum required IRR in auctions/PPA), to resume its dividend policy after a tough 2020 and to consider future investments in pulp. But we think this decision might be postponed until the outcome for Pontevedra is clear.

## Neutral rating, target price of € 4.0

We initiate coverage of Ence with a Neutral rating and a target price of € 4.0 (SOTP/ DCF). We believe the group's risk reward profile (Pontevedra concession expiry and pulp price trends vs successful renewable strategy execution and structural demand growth in pulp) is evenly balanced with what we see as reasonable valuation levels (7.2x EV/EBITDA 2022e vs a historical average of 7x).

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| Capital                  |        |        |        |
|--------------------------|--------|--------|--------|
| ENC SM   ENC.MC          |        |        |        |
| Market Cap (€m)          |        |        | 900    |
| Enterprise value (€m)    |        |        | 1 428  |
| Extrema 12 months (€)    | 1.87   | -      | 4.40   |
| Free Float (%)           |        |        | 55.6   |
| Performance (%)          | 1m     | 3m     | 12m    |
| Absolute                 | -11.9  | 8.0    | 24.8   |
| Perf. rel. Country Index | -13.5  | 0.0    | -3.6   |
| Perf. rel. IBEX Medium   | -12.3  | -1.6   | -7.2   |
| P&L                      | 12/21e | 12/22e | 12/23e |
| Sales (€m)               | 815    | 825    | 825    |
| EBITDA (€m)              | 187    | 187    | 189    |
| Current EBIT (€m)        | 82.1   | 87.1   | 93.2   |
| Attr. net profit (€m)    | 40.2   | 41.3   | 46.4   |
| Adjusted EPS (€)         | 0.16   | 0.17   | 0.19   |
| Dividend (€)             | 0.08   | 0.08   | 0.09   |
| P/E (x)                  | 22.7   | 22.1   | 19.7   |
| P/B (x)                  | 1.2    | 1.2    | 1.2    |
| Dividend Yield (%)       | 2.2    | 2.3    | 2.6    |
| FCF yield (%)            | 0.3    | 11.5   | 10.9   |
| EV/Sales (x)             | 1.75   | 1.63   | 1.54   |
| EV/EBITDA (x)            | 7.7    | 7.2    | 6.7    |
| EV/Current EBIT (x)      | 17.4   | 15.4   | 13.6   |
| Gearing (%)              | 21     | 11     | 3      |
| Net Debt/EBITDA (x)      | 1.0    | 0.5    | 0.1    |

| Next Events |            |
|-------------|------------|
| 28/07/2021  | Q2 Results |
| 26/10/2021  | Q3 Results |

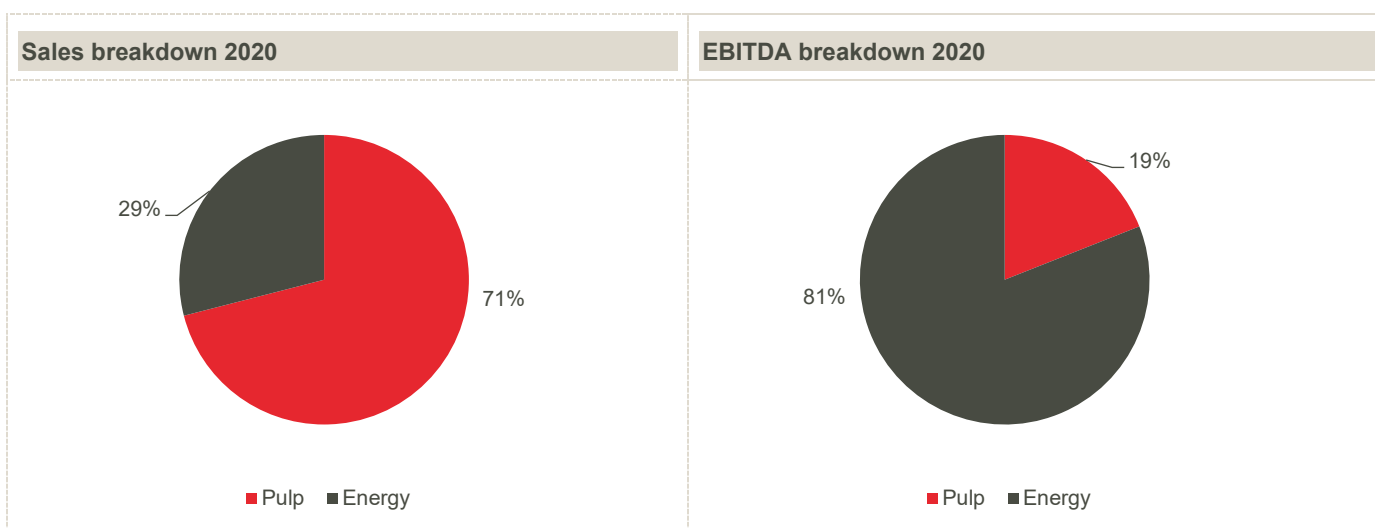


## High quality producer with strong commercial footprint in core European markets

Ence is one of Europe's leading manufacturers of market pulp (BHKP: 1.2Mt capacity) with two production sites in northern Spain, Navia in Asturias (685kt: 57% of the group's total) and Pontevedra in Galicia (515kt: 43% of the group's total but with a significantly lower contribution to segment EBITDA due to notably higher cash costs).

The latter is the focus of a legal dispute (potential suspension of its public concession) that could lead to its closure by 2033 (despite the recent concession extension up to 2073).

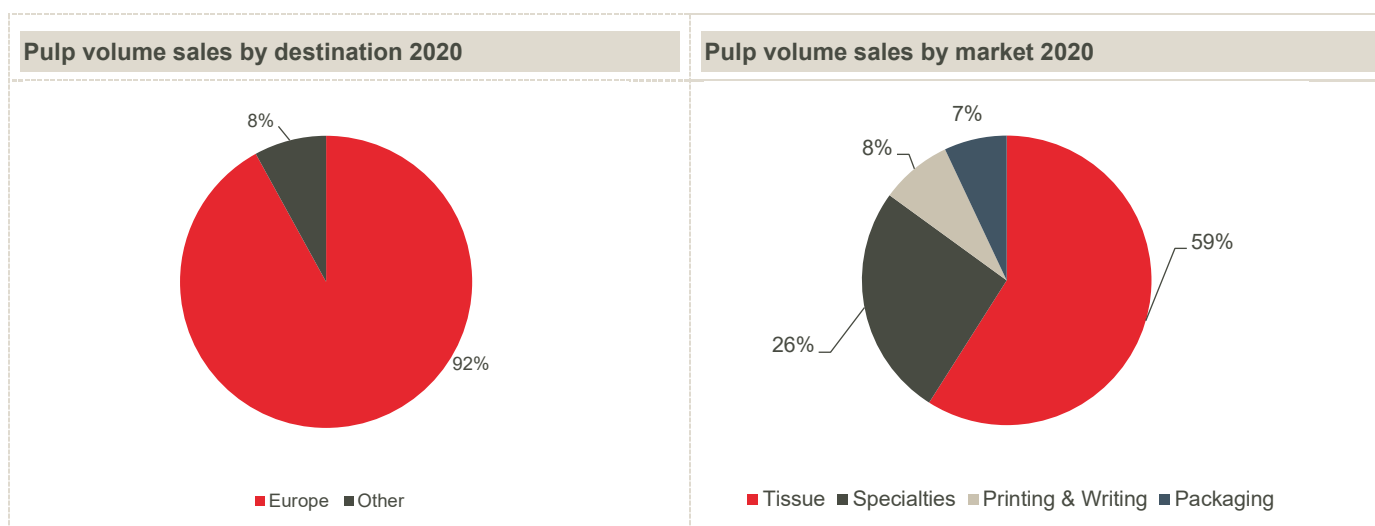
The group operates 266MW of independent renewable energy at nine plants while its pulp division includes an additional 112MW of integrated renewable energy capacity and 63k ha of forests under management (70% owned) which offers some supply flexibility (<5% self-sufficiency rate).



Source: Ence

Ence produces three different pulp grades: Elementary Chlorine Free (ECF), Totally Chlorine Free (TCF) and Unbleached Eucalyptus Kraft Pulp (UEKP) with an increasingly differentiated offering (de-commoditised products: environmentally friendly and better adapted to replace softwood in specialty segments) which currently represent 12% of pulp sales.

Europe accounted for up to 95% of sales in Q1 2021 (Germany, Spain, Poland, France and Italy are the main markets representing up to 72% of volumes) reflecting its strong logistics and service-related competitive advantages in the continent. In terms of pulp volumes, tissue represented 51% followed by specialties (32%) with a more limited exposure to printing and writing or packaging.



Source: Ence

## Renewable unit ready for a new growth phase

The group recently reached an agreement with Ancala Partners for the partial divestment of its renewable energy unit (49% for up to € 357m subject to the fulfilment of certain milestones: 14.5x implied EV/EBITDA multiple or c.8.5x excluding the earn out) to jointly develop its attractive pipeline of renewable energy projects (up to 505MW: 67% Solar PV, 28% biomass, 5% hybrid) at different stages of maturity. The group has also recently divested its stake in a concentrated solar power plant for an implied EV of € 157m. Ence has cashed in a total of € 305m from these divestments in Q4 2020.

These developments, which offered an implied valuation of the energy business of up to € 1bn, substantially reduced the group's net debt in 2020 (€ 178m, 2.4x ND/EBITDA: 3.1x at pulp and 2.3x at energy) and places the group in a sound position to fulfil its growth ambitions in renewable energy.

### Ence's renewable energy asset base

| Plant        | Type    | Capacity (MW) | Return on investment<br>Ri (€ m) | Return on operation<br>Ro (€/MWh) | Cap on sales hours<br>under tariff | Regulatory<br>life |
|--------------|---------|---------------|----------------------------------|-----------------------------------|------------------------------------|--------------------|
| Huelva       | Biomass | 41            | 10.1                             | 56.9                              | 7500                               | 2025               |
| Jaen         | Biomass | 16            | 4.2                              | 35.3                              | 7500                               | 2027               |
| Ciudad Real  | Biomass | 16            | 4.2                              | 36.3                              | 7500                               | 2027               |
| Cordoba      | Biomass | 27            | 3.3                              | 38.3                              | 7500                               | 2031               |
| Huelva       | Biomass | 50            | 13.3                             | 48.8                              | 7500                               | 2037               |
| Merida       | Biomass | 20            | 5.9                              | 47.8                              | 7500                               | 2039               |
| Huelva       | Biomass | 46            |                                  | 44.5                              | 7500                               | 2044               |
| Ciudad Real  | Biomass | 50            |                                  | 44.5                              | 7500                               | 2044               |
| <b>Total</b> |         | <b>266</b>    | <b>40.9</b>                      |                                   |                                    |                    |

Sources: Ence, ODDO BHF Securities

Ence expects to have 405MW ready to build by the end of 2021 or Q1 2022 and already has grid access for the remaining 100MW of solar PV capacity.

The planned investments in renewable energy will be gradual depending on the outcome of the auctions or agreements (PPA) and subject to maintaining the unit's net debt/EBITDA level below 4.5x.





#### Ence renewable energy pipeline

| Plant        | Type             | Capacity (MW) | Status                      |
|--------------|------------------|---------------|-----------------------------|
| Ciudad Real  | Biomass          | 50            | Ready to build Q3 2021      |
| Almeria      | Biomass          | 40            | Ready to build Q3 2021      |
| Jaen         | Solar PV         | 100           | Ready to build Q3 2021      |
| Huelva       | Solar PV         | 10            | Ready to build Q3 2021      |
| Huelva       | Solar PV         | 40            | Ready to build Q4 2021      |
| Sevilla      | Solar PV         | 90            | Ready to build Q4 2021      |
| Ciudad Real  | Biomass (hybrid) | 25            | Ready to build Q4 2021      |
| Cordoba      | Biomass          | 50            | Ready to build Q1 2022      |
| Granada      | Solar PV         | 100           | Grid access granted Q1 2022 |
| <b>TOTAL</b> |                  | <b>505</b>    |                             |

Sources: Ence, ODDO BHF Securities

## Energy framework

The group is the leading biomass energy producer in Spain with an installed capacity of 266MW. In 2020, the unit generated revenues of € 206m and EBITDA of € 60m (29% and 93% of the group's total respectively, with an EBITDA margin of 29% compared to the group's 9% in a year of very weak profitability at pulp). The average price per MWh reached € 97 (or up to € 145/MWh if we include the return on investment) compared to an average pool price of € 34/MWh in Spain in 2020.

The energy business of Ence is highly regulated and therefore offers a predictable framework both in terms of volumes and prices to achieve reasonable profitability over the entire life of the concession (25 years typically). Beyond that point, the plants can continue operating and selling their output to the national grid, but it receives no additional remuneration to secure reasonable profitability (set at 7.4% for the 2020/2031 period) for a standard installation.

Renewable energy producers are entitled to a complementary remuneration beyond the pool price for their investment (Ri: return on investment) and their operation (Ro: Return on operation) depending on the technology, fuel and vintage year to secure the targeted profitability. This secured price applies to 7,500 hours of production per year.

Ence's fixed remuneration (Ri) guarantees the recovery of the initial investment plus a return on the estimated cost of building a standard plant and accounts for € 40m per year at its current configuration.

The variable remuneration is based on the pool price (subjects to caps and floors set by the regulator), plus a remuneration on operations (Ro) which represents all the costs of operating a standard plant that exceed the pool price. The Ro is set by the regulator based on the pool price estimates for the next three years and it is reviewed every three years.

Ence will take part in the Spanish government renewable energy auctions that are expected to take place over the next years (10GW of solar PV and 380MW of biomass in 2020-2025) to meet the national targets (renewables share in the energy mix by 2030) which will award capacities to the bidders offering the lowest remuneration.



## Pontevedra concession

The concession for the construction of a pulp mill in Pontevedra's estuary dates back to 1958 and was renewed in 2016 by the National Coastal Directorate for 60 years (until 2073, subject to certain environment-related investments) under the previous Spanish government. However, the current administration has changed its stance and seems more aligned with Pontevedra's city council which together with environmental associations filed proceedings before the national court of Spain in order to cancel the concession extension as the mill is believed to be in a highly sensitive location environmentally. The Galicia regional government, meanwhile, seems to be more aligned with the previous administration's stance and is sensitive to the potential job loss (400 direct and 5,000 indirect jobs affected).

Coastal legislation currently limits the maximum term for maritime concessions in the public domain to 75 years. As such the Pontevedra pulp mill might end its concession in 2033 (75 years from 1958), which we consider to be the most likely outcome. The legal proceedings will probably be extended as the decision in the national court is expected to be subject to appeal by the losing party and we do not expect the definitive outcome before 2024.

Ence has estimated the potential financial impact at € 185m with a non-cash effect of € 111m derived from asset impairments and a € 74m expected cash outflow considering dismantling costs (€ 43m), cancellation of wood supply contracts (€ 16m) and layoff programme (€ 15m). Ence has invested or committed investments of more than € 130m in Pontevedra since the concession extension and could seek significant compensation in addition to considering alternative locations for a new plant in the region.

This matter is highly sensitive and despite the lengthy legal process expected, we do not rule out a final agreement between the parties that might include the dismantling of the plant by 2033 giving Ence plenty of time to adapt its strategy and minimise its negative effects.

## Pulp expansion projects on hold

Ence decided in 2018 (2019-2023 strategic plan) to focus its growth investments on pulp in the Navia factory which commands lower cash costs and is not subject to concession risk, while executing significant investments in sustainability at its Pontevedra plan. This growth plan takes account of potential diversification into the fluff segment (adapting 120kt of production for € 50m, targeting segments such as diapers and hygiene products) and the dissolving pulp segment (through a new swing line for an additional 200kt or alternatively 340kt of BHKP for an estimated investment of € 450m).

The board later decided to postpone these investments in pulp as it was felt that weak prices and uncertainties regarding the pandemic (and the legal outcome over Pontevedra) could not guarantee swift execution without imperilling the group's debt targets. These are based on a maximum level of 2.5x for the net debt/EBITDA ratio under normalised conditions for pulp and forex over the course of the cycle.

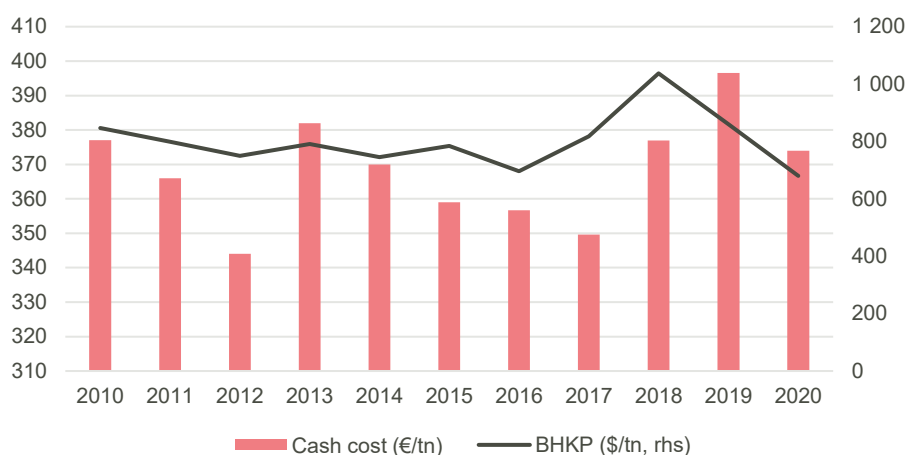
## Continuing efficiency focus, not always reflected in cash cost trend

Ence's pulp cash cost in 2020 stood at € 374/t (-5.7% vs. € 397/t in 2019) and the group targets a further reduction towards € 365/t (-2.4%), although the recent pulp price rise inevitably implies an increase in wood costs (55% of 2020 cash costs) as Ence links wood supply contracts to previous month pulp prices (with a € 2/m<sup>3</sup> surcharge when pulp prices exceed € 700/t, € 2.5/m<sup>3</sup> if pulp prices rise above € 800/t and a maximum € 3/m<sup>3</sup> surcharge if they exceed € 900/t).



Ence is closely focused on efficiency but despite its significant efforts, cash cost has proved relatively stubborn over the last decade (€ 370/t on average) due to many factors such as wood availability, maintenance, operating disruptions, investments in sustainability and value added production and hedging. This circumstance has been evidenced again in Q1 2021 with cash cost at € 386/t as transformation costs were impacted by the maintenance stoppages at both pulp mills.

#### Ence cash cost (€/t) and BHKP price (\$/t) trend

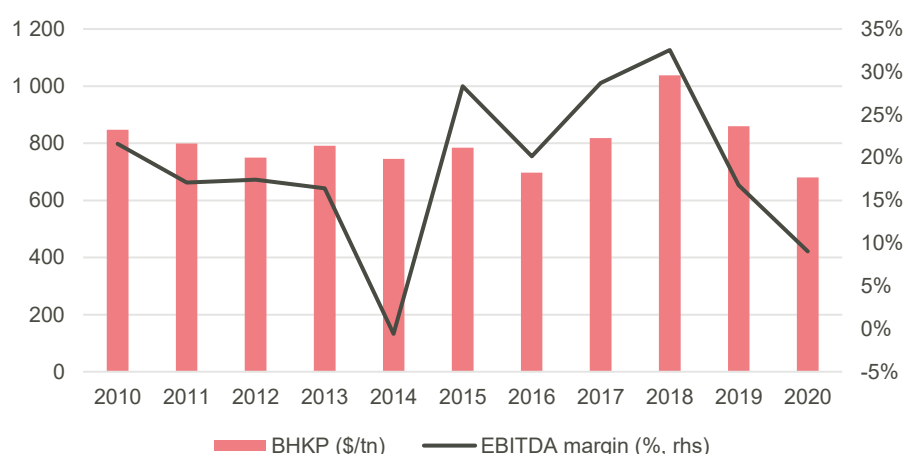


Sources: Ence, ODDO BHF Securities

The company has an active hedging policy and already hedged up to 24% of its pulp volumes for 2021 at \$ 773/t. It also put in place forex protection for up to 45% of its pulp volumes for 2021 at 1.21\$/€ and 33% of independent energy sales at a pool price of € 43.4/MWh. This strategy will slightly cap 2021 results.

As expected, EBITDA margins have shown a close correlation with pulp prices in \$ terms over the last decade (+60%), rising to 82% when factoring in FX and commercial discounts, and even higher (c.90%), when taking account of only pulp unit margins.

#### BHKP price (\$/t) and EBITDA margin (%) trend at Ence



Sources: Ence, ODDO BHF Securities

Pulp EBITDA margins at Ence range between -c.5% (during extremely weak pulp price environments) and 30%, the average being around 17%, while renewable energy has been relatively stable (mean value of 32%).

Ence's RoCE has also proved very volatile, ranging from -16% to 19% and a long-term average of 6%. However, we believe these historical metrics are partially distorted by the group's extensive capex (development of the renewable energy asset base, expansion in pulp) and we expect them to be significantly less volatile in the future under normalised pulp price conditions.



## Financial estimates

Our estimates are based on our pulp price ceiling (\$ 950/t 2021e, \$ 900/t thereafter) adjusted for the group's hedging policy and stable FX rates (\$/€ 1.2) and commercial discounts (32% vs 34% in 2020). This results in average selling prices of € 540/t in 2021e and € 510/t thereafter (compared to a 15-year average of € 480/t).

We estimate pulp volume sales of 1,05Mt in 2021 (+3% vs 2020), in line with the group's guidance which is already based on regular maintenance at both mills in Q1 2021.

Our renewable energy sales estimates for 2021 are also in line with the group's revised guidance of 1,450GWh (+2% vs. 2020, which reflect the expected production distortions at Huelva 50MW plant) with EBITDA margins at 30%e before stabilising towards its historical average (32%) in 2022.

We do not factor new renewable energy production capacity or investments into our estimates until new capacity is actually awarded, limiting segment capex to maintenance activities and pending investments.

| Operating estimates (kt, \$/t, GWh) |        |        |       |       |       |
|-------------------------------------|--------|--------|-------|-------|-------|
|                                     | 2019   | 2020   | 2021e | 2022e | 2023e |
| Pulp volumes sold (kt)              | 910    | 1 015  | 1 050 | 1 080 | 1 080 |
| Chg.                                | -3.9%  | 11.5%  | 3.4%  | 2.9%  | 0.0%  |
| Pulp listing price (\$/t)           | 860    | 680    | 950   | 900   | 900   |
| Chg.                                | -17.1% | -20.9% | 39.7% | -5.3% | 0.0%  |
| Pulp selling price (€/t)            | 523    | 401    | 538   | 510   | 510   |
| Chg.                                | -17.7% | -23.3% | 34.2% | -5.3% | 0.0%  |
| Renewable Energy sales (GWh)        | 1 047  | 1 421  | 1 451 | 1 515 | 1 515 |
| Chg.                                | 13.3%  | 35.7%  | 2.0%  | 4.4%  | 0.0%  |

Sources: Ence, ODDO BHF Securities

Our estimates are based on a 2020-2023e sales CAGR of +5% (with increasing pulp volumes and prices partially offset by the sale of Puertollano CSP) and a 2020-2023e EBITDA CAGR of +43%, with a significant surge in 2021e as a result of the large increase in selling prices (+34%).

Net profit increases significantly with minority interests reflecting the partial divestment of the independent renewable energy unit (49%).

| Financial estimates     |       |        |       |       |       |
|-------------------------|-------|--------|-------|-------|-------|
| € m                     | 2019  | 2020   | 2021e | 2022e | 2023e |
| Sales                   | 707   | 710    | 815   | 825   | 825   |
| EBITDA                  | 119   | 64     | 187   | 187   | 189   |
| EBITDA margin           | 16.8% | 9.1%   | 22.9% | 22.7% | 22.9% |
| EBITDA pulp             | 67    | 5      | 124   | 117   | 119   |
| EBITDA margin Pulp      | 12.4% | 0.9%   | 20.4% | 19.3% | 19.7% |
| EBITDA renewable energy | 52    | 60     | 63    | 70    | 70    |
| EBITDA margin RE        | 30.8% | 29.0%  | 30.0% | 32.0% | 32.0% |
| Net profit              | 9     | -26    | 40    | 41    | 46    |
| Chg.                    |       | 2020e  | 2021e | 2022e | 2023e |
| Sales                   |       | 0.3%   | 14.8% | 1.3%  | 0.0%  |
| EBITDA                  |       | -45.8% | 190%  | 0.4%  | 1.1%  |
| EBITDA pulp             |       | -93.1% | ns    | -5.3% | 1.8%  |
| EBITDA renewable energy |       | 15.3%  | 5.6%  | 11.4% | 0.0%  |
| Net profit              |       | ns     | ns    | 3%    | 12%   |

Sources: Ence, ODDO BHF Securities



We expect Ence to maintain a strong de-leveraging capacity under our projected pulp price scenario not including the likely investments in renewable energy (subject to the auction processes), the potential investments in pulp or the consequences of the resolution regarding the Pontevedra concession dispute (€ 74m potential cash outflow).

We have approached the potential collection of earn outs at the renewable energy unit very conservatively as they are subject to the success and prices obtained in the auction processes (140MW of biomass). The earn out that would be collected up to 2028 has been booked at € 21.4m in the group's 2020 financial accounts.

Ence's cash generation capacity will still be affected in 2021 by the pending investments from recent capacity increases which we estimate at € 75m (80% pulp, 20% renewable energy).

#### Net debt and capex trends

| € m                       | 2019 | 2020 | 2021e | 2022e | 2023e |
|---------------------------|------|------|-------|-------|-------|
| Net debt                  | 513  | 169  | 186   | 102   | 25    |
| Net debt/EBITDA           | 4.3x | 2.6x | 1.0x  | 0.5x  | 0.1x  |
| Net debt pulp             | 306  | 34   | 76    | 33    | 2     |
| Net debt/EBITDA pulp      | 4.6x | 7.4x | 0.6x  | 0.3x  | 0.0x  |
| Net debt renewable energy | 207  | 135  | 110   | 68    | 23    |
| Net debt/EBITDA pulp      | 4.0x | 2.3x | 1.7x  | 1.0x  | 0.3x  |
| Capex                     | 299  | 97   | 100   | 50    | 50    |
| Capex pulp                | 148  | 88   | 75    | 34    | 34    |
| Capex renewable energy    | 151  | 9    | 25    | 16    | 16    |

Sources: Ence, ODDO BHF Securities

We expect Ence to resume dividend payments in 2021 (50% estimated pay-out) and to normalise its cash conversion rate at c.55% of EBITDA by 2022 once the effect of extraordinary capex and working capital requirements (related to the surge in pulp prices: +30%) eases.

#### Cash conversion estimates

| € m                             | 2019 | 2020 | 2021e | 2022e | 2023e |
|---------------------------------|------|------|-------|-------|-------|
| EBITDA                          | 119  | 64   | 187   | 187   | 189   |
| Net debt                        | 513  | 169  | 186   | 102   | 25    |
| Dividends                       | 26   | 0    | 20    | 21    | 23    |
| Cash generated                  |      | 344  | 3     | 105   | 100   |
| Cash in from divestments        |      | 305  |       |       |       |
| Organic cash generated          |      | 39   | 3     | 105   | 100   |
| Cash conversion rate            |      | 61%  | 2%    | 56%   | 53%   |
| Chg. in WC                      |      |      | -44   | 7     | 0     |
| Adjusted organic cash generated |      |      | 47    | 97    | 100   |
| Cash conversion rate ex WC      |      |      | 25%   | 52%   | 53%   |

Sources: Ence, ODDO BHF Securities

## Valuation : € 4.00 per share

Our valuation of Ence is the result of the average of a SOTP approach (with pulp and renewable energy valued independently: €4.30) and a DCF (with our base case scenario for the Pontevedra pulp mill concession expiry at 2033e: € 3.80) valuation. We initiate the stock with a Neutral recommendation and a target price of € 4.00.

There are no pure peers for Ence (besides Altri) given the limited number of hardwood market pulp manufacturers in Europe. Comparisons with Altri should, however, take account of the larger size of its independent renewable energy business (c.3x in capacity, >2x EBITDA) and pipeline visibility. We do not see the Latin American pulp producers (Suzano, CMPC) or the integrated pulp/paper manufacturers of North Europe (Stora Enso, UPM) or North America (IP, Domtar) as adequate references for valuation purposes.



Ence has historically traded at around 7.0x EV/EBITDA (excluding 2009 and 2014 when EBITDA turned negative on extremely weak pulp prices) but with significant volatility. This calls for a cautious stance when applying normalised multiples to peak or trough earnings.

#### Historical adjusted EV/EBITDA multiples (x)



Sources: FactSet, ODDO BHF Securities

This multiple may appear conservative considering the relatively stable supply/demand environment for pulp and the exposure to the resilient tissue segment, but we believe it is reasonable considering the risks surrounding the continuity of the Pontevedra pulp mill.

In renewable energy, the recent transaction with Ancala Partners (49% divestment of the segment for € 357m, including a € 223m cash consideration and future potential earn outs for up to € 134m) points to an implied valuation for the unit of € 0.9bn (€ 0.6bn excluding the potential earn outs: c.8.5x EV/EBITDA). Albioma, the independent renewable energy producer has historically traded at c.8.5x EV/EBITDA.

Applying 8.5x for renewable energy (40% of normalised EBITDA), the historical 7.0x EV/EBITDA at the group level implies only 6.0x EBITDA for the pulp segment (60% of normalised EBITDA). We believe 7.0x is more reflective of the current environment for pulp, factoring in the concession risk at the Pontevedra pulp mill as well.

An SOTP valuation based on 7.0x EV/EBITDA for the pulp business in 2022 (reflecting normalised pulp prices, no significant effects from pulp or FX hedging and expected cash costs) and a DCF for the renewable energy unit (WACC 6.2% estimated for the segment, perpetual growth rate of 1%: € 2.9m/MW, 12.1x EV/EBITDA 21e) value Ence's equity at approximately € 1.1bn (70% pulp/30% renewables vs 45%/55% at the EV level). We do not factor in any minority discount in our valuation of the minority interests at the renewable energy unit.

#### Sum of the parts (€ m)

| Segment                                   | Criteria              | Valuation    | Weight %    |
|---|-----------------------|--------------|-------------|
| Pulp                                      | 7.0x EV/EBITDA 2022e  | 819          | 52%         |
| Renewable energy                          | DCF (WACC 6.2%, g 1%) | 767          | 48%         |
| <b>Total EV</b>                           |                       | <b>1 586</b> | <b>100%</b> |
| Net debt 2021e                            | 186                   |              |             |
| Minorities (49% of renewable energy unit) | 310                   |              |             |
| Provisions                                | 32                    |              |             |
| <b>Equity value</b>                       | <b>1 058</b>          |              |             |
| Nb of shares (m)                          | 246                   |              |             |
| <b>Target price (€)</b>                   | <b>4.3</b>            |              |             |

Source: ODDO BHF Securities



In our opinion, a DCF should take account of the potential closure of the Pontevedra pulp operations by 2033 (75 years since the original concession) to determine the terminal value. We normalise depreciation and capex in two steps after our projected horizon and consider the loss of the Pontevedra pulp mill at our terminal value.

Under normalised conditions we believe the mill accounts for approximately 10% of the group's EBITDA (vs 20% under normalised conditions now, roughly one third of the pulp unit) and capex by 2033 and adjust our estimates accordingly. We assume that potential cash outflows from the plant closure (€ 75m) would be significantly lower in a scheduled closure and would be offset by potential compensation/agreements.

We have discounted the expected flows at our estimated WACC (6.5%) and used a perpetual growth rate of 1.5%, reaching a valuation reference after deducting minority interests (at our estimated fair value, without any minority discount) of € 3.8 per share.

| DCF                 |       |       |       |       |       |     |       |     |       |       |
|---------------------|-------|-------|-------|-------|-------|-----|-------|-----|-------|-------|
| € m                 | 2021e | 2022e | 2023e | 2024e | 2025e | ... | 2030e | ... | 2033e | 2033e |
| NOPLAT              | 62    | 65    | 70    | 74    | 74    |     | 74    |     | 67    |       |
| Depreciation        | 105   | 100   | 96    | 92    | 70    |     | 50    |     | 45    |       |
| Capex               | -100  | -50   | -50   | -50   | -50   |     | -50   |     | -45   |       |
| Chg. in W/K         | -44   | 7     | 0     | 0     | 0     |     | 0     |     | 0     |       |
| FCF                 | 22    | 123   | 116   | 117   | 94    | ... | 74    | ... | 67    | 1 360 |
| NPV                 | 1 460 |       |       |       |       |     |       |     |       |       |
| Net debt 2021e      | 186   |       |       |       |       |     |       |     |       |       |
| Minority interests  | 310   |       |       |       |       |     |       |     |       |       |
| Provisions          | 32    |       |       |       |       |     |       |     |       |       |
| Equity value        | 932   |       |       |       |       |     |       |     |       |       |
| Shares (m)          | 246   |       |       |       |       |     |       |     |       |       |
| Value per share (€) | 3.8   |       |       |       |       |     |       |     |       |       |

Source: ODDO BHF Securities

## SWOT analysis

| Strength  | Weaknesses   |
|---|--|
| <ul style="list-style-type: none"> <li>Quality and differentiated pulp production</li> <li>Value crystallisation in the Renewable Energy unit</li> <li>Low financial gearing</li> </ul> | <ul style="list-style-type: none"> <li>Hedging of pulp prices in 2021</li> <li>Regulatory uncertainty (Pontevedra)</li> <li>Minorities in Renewable Energy cap the upside</li> </ul> |
| Opportunities   | Threats  |
| <ul style="list-style-type: none"> <li>Attractive biomass and solar PV pipeline</li> <li>Biorefinery product development</li> </ul>   | <ul style="list-style-type: none"> <li>Suspension of Pontevedra concession extension</li> <li>New pulp capacity in the sector</li> </ul>   |

Source: ODDO BHF Securities





**ENC SM | ENC.MC**  
**Paper & Packaging | Spain**

**Neutral**

**Price 3.66EUR**

Upside 9.41%

TP 4.00EUR

| PER SHARE DATA (€)                                 | 12/16        | 12/17        | 12/18        | 12/19         | 12/20        | 12/21e        | 12/22e        | 12/23e        |
|--|--------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|
| Adjusted EPS                                       | 0.15         | 0.36         | 0.52         | 0.04          | -0.11        | 0.16          | 0.17          | 0.19          |
| <b>Reported EPS</b>                                | <b>0.15</b>  | <b>0.36</b>  | <b>0.52</b>  | <b>0.04</b>   | <b>-0.11</b> | <b>0.16</b>   | <b>0.17</b>   | <b>0.19</b>   |
| Growth in adjusted EPS                             | -22.4%       | ns           | 43.1%        | -92.9%        | ns           | ns            | 2.8%          | 12.4%         |
| Net dividend per share                             | 0.08         | 0.19         | 0.26         | 0.05          | 0.00         | 0.08          | 0.08          | 0.09          |
| FCF to equity per share                            | 0.22         | 0.41         | -0.33        | -0.73         | 0.15         | 0.01          | 0.42          | 0.40          |
| Book value per share                               | 2.15         | 2.51         | 2.74         | 2.64          | 2.86         | 2.94          | 3.02          | 3.11          |
| Number of shares market cap (m)                    | 258.01       | 246.25       | 246.27       | 246.27        | 246.27       | 246.27        | 246.27        | 246.27        |
| Number of diluted shares (m)                       | 258.01       | 252.13       | 246.26       | 246.27        | 246.27       | 246.27        | 246.27        | 246.27        |
| <b>VALUATION (€m)</b>                              | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b>  | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| 12m highest price (€)                              | 3.32         | 5.85         | 8.94         | 6.87          | 4.00         | 4.40          |               |               |
| 12m lowest price (€)                               | 1.81         | 2.42         | 4.91         | 3.08          | 1.87         | 3.23          |               |               |
| (*) Reference price (€)                            | 2.42         | 3.76         | 6.75         | 4.40          | 2.87         | 3.66          | 3.66          | 3.66          |
| Capitalization                                     | 624          | 925          | 1 663        | 1 083         | 707          | 900           | 900           | 900           |
| Restated Net debt                                  | 218          | 153          | 305          | 513           | 169          | 186           | 102           | 24.9          |
| Minorities (fair value)                            | 7.2          | 9.9          | 18.3         | 18.3          | 310          | 310           | 310           | 310           |
| Financial fixed assets (fair value)                | 0.0          | 0.0          | 0.0          | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           |
| Provisions   | 10.8         | 11.3         | 34.6         | 38.5          | 32.2         | 32.2          | 32.2          | 32.2          |
| <b>Enterprise Value</b>                            | <b>860</b>   | <b>1 099</b> | <b>2 020</b> | <b>1 653</b>  | <b>1 218</b> | <b>1 428</b>  | <b>1 344</b>  | <b>1 267</b>  |
| P/E (x)  | 16.1         | 10.3         | 13.0         | 119           | ns           | 22.7          | 22.1          | 19.7          |
| P/CF (x)   | 4.7          | 5.2          | 7.6          | 15.7          | 6.5          | 6.2           | 6.2           | 6.1           |
| Net Yield  | 3.3%         | 5.0%         | 3.9%         | 1.2%          | 0.0%         | 2.2%          | 2.3%          | 2.6%          |
| FCF yield  | 9.1%         | 11.0%        | ns           | ns            | 5.4%         | 0.3%          | 11.5%         | 10.9%         |
| P/B incl. GW (x)                                   | 1.13         | 1.50         | 2.46         | 1.67          | 1.00         | 1.24          | 1.21          | 1.17          |
| P/B excl. GW (x)                                   | 1.13         | 1.50         | 2.46         | 1.67          | 1.00         | 1.24          | 1.21          | 1.17          |
| EV/Sales (x)                                       | 1.41         | 1.47         | 2.41         | 2.34          | 1.72         | 1.75          | 1.63          | 1.54          |
| EV/EBITDA (x)                                      | 7.0          | 5.1          | 7.4          | 13.9          | 18.9         | 7.7           | 7.2           | 6.7           |
| <b>EV/Current EBIT (x)</b>                         | <b>11.8</b>  | <b>7.3</b>   | <b>9.6</b>   | <b>50.8</b>   | <b>ns</b>    | <b>17.4</b>   | <b>15.4</b>   | <b>13.6</b>   |
| (*) historical average price                       |              |              |              |               |              |               |               |               |
| <b>PROFIT AND LOSS (€m)</b>                        | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b>  | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales  | 612          | 746          | 838          | 707           | 710          | 815           | 825           | 825           |
| EBITDA   | 123          | 214          | 273          | 119           | 64           | 187           | 187           | 189           |
| Depreciations                                      | -50.4        | -64.5        | -63.3        | -86.2         | -104.4       | -104.5        | -100.2        | -96.2         |
| <b>Current EBIT</b>                                | <b>73</b>    | <b>150</b>   | <b>210</b>   | <b>32.5</b>   | <b>-40.1</b> | <b>82</b>     | <b>87</b>     | <b>93</b>     |
| Published EBIT                                     | 73           | 150          | 210          | 32.5          | -40.1        | 82            | 87            | 93            |
| Net financial income                               | -21.6        | -29.8        | -36.3        | -21.4         | 3.5          | -25.5         | -24.3         | -21.5         |
| Corporate Tax                                      | -12.4        | -26.2        | -41.6        | 0.4           | 11.9         | -14.1         | -15.7         | -17.9         |
| Net income of equity-accounted companies           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           |
| Profit/loss of discontinued activities (after tax) | 0.0          | 0.0          | 0.0          | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           |
| Minority interests                                 | 0.0          | -1.9         | -2.5         | -2.3          | -1.7         | -2.3          | -5.8          | -7.3          |
| Attributable net profit                            | 38.7         | 92           | 129          | 9.2           | -26.4        | 40.2          | 41.3          | 46.4          |
| <b>Adjusted attributable net profit</b>            | <b>38.7</b>  | <b>92</b>    | <b>129</b>   | <b>9.2</b>    | <b>-26.4</b> | <b>40.2</b>   | <b>41.3</b>   | <b>46.4</b>   |
| <b>BALANCE SHEET (€m)</b>                          | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b>  | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Goodwill   | 0.0          | 0.0          | 0.0          | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           |
| Other intangible assets                            | 17.9         | 16.0         | 60.1         | 61.9          | 41.9         | 41.9          | 41.9          | 41.9          |
| Tangible fixed assets                              | 770          | 774          | 1 070        | 1 317         | 1 164        | 1 160         | 1 109         | 1 063         |
| WCR  | -99.8        | -77.4        | -187.5       | -229.7        | -260.7       | -216.8        | -224.2        | -224.2        |
| Financial assets                                   | 103          | 93.7         | 94.5         | 76.5          | 106          | 106           | 106           | 106           |
| Ordinary shareholders equity                       | 554          | 632          | 679          | 657           | 713          | 734           | 754           | 777           |
| Minority interests                                 | 7.2          | 9.9          | 18.3         | 18.3          | 137          | 139           | 145           | 152           |
| Shareholders equity                                | 562          | 642          | 697          | 675           | 850          | 872           | 899           | 929           |
| Non-current provisions                             | 10.8         | 11.3         | 34.6         | 38.5          | 32.2         | 32.2          | 32.2          | 32.2          |
| <b>Net debt</b>                                    | <b>218</b>   | <b>153</b>   | <b>305</b>   | <b>513</b>    | <b>169</b>   | <b>186</b>    | <b>102</b>    | <b>24.9</b>   |
| <b>CASH FLOW STATEMENT (€m)</b>                    | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b>  | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| <b>EBITDA</b>                                      | <b>123.1</b> | <b>214.1</b> | <b>272.9</b> | <b>118.7</b>  | <b>64.3</b>  | <b>186.6</b>  | <b>187.3</b>  | <b>189.3</b>  |
| Change in WCR                                      | 21.6         | -2.2         | 6.5          | 46.8          | 24.7         | -43.9         | 7.4           | 0.0           |
| Interests & taxes                                  | -34.0        | -56.0        | -77.9        | -21.0         | 15.4         | -39.6         | -40.0         | -39.4         |
| Others   | 43.5         | 22.4         | 26.6         | -27.9         | 31.3         | 0.0           | 0.0           | 0.0           |
| Operating Cash flow                                | 154.2        | 178.3        | 228.1        | 116.6         | 135.7        | 103.0         | 154.7         | 149.9         |
| CAPEX  | -97.6        | -73.7        | -310.4       | -299.0        | -97.0        | -100.0        | -50.0         | -50.0         |
| <b>Free cash-flow</b>                              | <b>56.6</b>  | <b>104.6</b> | <b>-82.4</b> | <b>-182.4</b> | <b>38.7</b>  | <b>3.0</b>    | <b>104.7</b>  | <b>99.9</b>   |
| Acquisitions / disposals                           | 38.7         | 3.4          | 1.4          | 5.1           | 305.0        | 0.0           | 0.0           | 0.0           |
| Dividends  | -32.7        | -39.8        | -69.9        | -25.6         | 0.0          | -20.1         | -20.6         | -23.2         |
| Net capital increase                               | 0.0          | 0.0          | 0.0          | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           |
| Others   | 0.0          | 0.0          | 0.0          | 0.0           | 0.0          | 0.0           | 0.0           | 0.0           |
| Change in net cash                                 | 23.6         | 65.2         | -151.7       | -207.8        | 344.1        | -17.1         | 84.0          | 76.7          |
| <b>GROWTH MARGINS PRODUCTIVITY</b>                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b>  | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales growth                                       | -8.5%        | 21.9%        | 12.4%        | -15.7%        | 0.3%         | 14.8%         | 1.3%          | 0.0%          |
| <b>Lfi sales growth</b>                            | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>      | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| Current EBIT growth                                | -45.4%       | ns           | 40.0%        | -84.5%        | ns           | ns            | 6.2%          | 7.0%          |
| Growth in adjusted EPS                             | -22.4%       | ns           | 43.1%        | -92.9%        | ns           | ns            | 2.8%          | 12.4%         |
| Net margin   | 6.3%         | 12.3%        | 15.4%        | 1.3%          | -3.7%        | 4.9%          | 5.0%          | 5.6%          |
| <b>EBITDA margin</b>                               | <b>20.1%</b> | <b>28.7%</b> | <b>32.5%</b> | <b>16.8%</b>  | <b>9.1%</b>  | <b>22.9%</b>  | <b>22.7%</b>  | <b>22.9%</b>  |
| <b>Current EBIT margin</b>                         | <b>11.9%</b> | <b>20.1%</b> | <b>25.0%</b> | <b>4.6%</b>   | <b>-5.7%</b> | <b>10.1%</b>  | <b>10.6%</b>  | <b>11.3%</b>  |
| CAPEX / Sales                                      | -16.0%       | -9.9%        | -37.0%       | -42.3%        | -13.7%       | -12.3%        | -6.1%         | -6.1%         |
| WCR / Sales  | -16.3%       | -10.4%       | -22.4%       | -32.5%        | -36.7%       | -26.6%        | -27.2%        | -27.2%        |
| Tax Rate   | 24.2%        | 21.9%        | 24.0%        | -3.6%         | 32.5%        | 25.0%         | 25.0%         | 25.0%         |
| Normative tax rate                                 | 24.2%        | 21.9%        | 24.0%        | -3.6%         | 32.5%        | 25.0%         | 25.0%         | 25.0%         |
| Asset Turnover                                     | 0.9          | 1.1          | 1.0          | 0.7           | 0.7          | 0.8           | 0.9           | 0.9           |
| <b>ROCE post-tax (normative tax rate)</b>          | <b>8.1%</b>  | <b>16.7%</b> | <b>19.2%</b> | <b>3.2%</b>   | <b>-2.6%</b> | <b>6.4%</b>   | <b>6.8%</b>   | <b>7.7%</b>   |
| ROCE post-tax hors GW (normative tax rate)         | 8.1%         | 16.7%        | 19.2%        | 3.2%          | -2.6%        | 6.4%          | 6.8%          | 7.7%          |
| ROE  | 6.9%         | 15.5%        | 19.7%        | 1.4%          | -3.9%        | 5.6%          | 5.5%          | 6.1%          |
| <b>DEBT RATIOS</b>                                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b>  | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Gearing  | 39%          | 24%          | 44%          | 76%           | 20%          | 21%           | 11%           | 3%            |
| Net Debt / Market Cap                              | 0.35         | 0.17         | 0.18         | 0.47          | 0.24         | 0.21          | 0.11          | 0.03          |
| <b>Net debt / EBITDA</b>                           | <b>1.77</b>  | <b>0.72</b>  | <b>1.12</b>  | <b>4.32</b>   | <b>2.62</b>  | <b>0.99</b>   | <b>0.54</b>   | <b>0.13</b>   |
| EBITDA / net financial charges                     | 5.7          | 7.2          | 7.5          | 5.5           | -18.3        | 7.3           | 7.7           | 8.8           |

Sources: ODDO BHF Securities, SIX





# Iberpapel

Neutral → | Target 21.4 €

Price (03/05/2021) : 18.70 € | Upside : 14 %

| Revision | 2021e | 2022e |
|----------|-------|-------|
| EPS      | ns    | ns    |

## Diversification on hold

Tuesday 04 May 2021



## Size disadvantage offset through efficiency

Iberpapel is a small (250kt) UWF producer with complete integration into BHKP having recently increased its pulp capacity and with a very flexible work-to-order business model. The group's profitability is aligned with the industry average despite its lower critical mass thanks to its high efficiency. The group has put on hold its paper growth (+85kt, +34%) and diversification (machine glazed paper for the packaging sector) project aimed at reducing its exposure to the mature P&W segment. Iberpapel trades at reasonable multiples (7.6x EV/EBITDA 21e, slightly above its modest historical average of 6.5x).

## Paper project postponed indefinitely

Iberpapel has been a stable cash generator over the years despite its consistent investment efforts which contributes to a healthy financial situation (net cash position of € 31m in Q1 2021, 15% of its market cap) which the group could now devote to fund its specialisation strategy on higher added value production. The difficulties faced in 2020 (weaker demand and prices, pulp plant stoppage) and the relatively large size of the investment (€ 180m total budget, with € 100m still pending) has compelled the group to postpone the project indefinitely. We believe the group will proceed in the future with the diversification plan as originally designed.

## A reel specialist in southern Europe

Iberpapel sells most of its UWF production in reel form (c.50%) and its average selling price thus shows a discount over some of its competitors (-10%e) with higher exposure to the cut-size segment. Its in-house distribution network for P&W places 90% of its output directly with final customers, although we are more sceptical about its distribution capabilities in specialised products. Spain accounts for up to 65% of its sales. The group has significant self-sufficiency in wood (25%e, with forestry operations in Latin America and Spain) and energy (60MW).

## Gradual normalisation of results below previous peak levels

We expect a gradual normalisation in EBITDA margins (towards its long-term average levels of 15%) as paper prices gradually recover in 2021-2023 (although not reaching the previous peak levels of 2019) and as demand normalises within a declining trend. While we do not expect the group to match the outstanding financial results of 2017-2019 (average EBITDA margin >17%), we believe it will benefit from continuing sector rationalisation.

## Neutral, target price of € 21.40

We initiate Iberpapel at Neutral with a DCF-based target price of € 21.40 which does not take account of the second stage of the diversification project. Iberpapel has historically traded at very low multiples (6.5x EV/EBITDA), penalised by its limited size and relative illiquidity. We believe Iberpapel deserves a higher multiple given its lower volatility when compared to pulp producers. Our target price implies an EV/EBITDA 2021e multiple of 9.0x.

### Capital

| IBG SM   IBG.MC       |               |
|-----------------------|---------------|
| Market Cap (€m)       | 206           |
| Enterprise value (€m) | 180           |
| Extrema 12 months (€) | 15.50 - 23.00 |
| Free Float (%)        | 85.7          |

| Performance (%)          | 1m   | 3m   | 12m   |
|--------------------------|------|------|-------|
| Absolute                 | -4.6 | 6.9  | -10.5 |
| Perf. rel. Country Index | -6.3 | -1.1 | -30.8 |
| Perf. rel. IBEX Medium   | -5.0 | -2.6 | -33.5 |

| P&L                   | 12/21e | 12/22e | 12/23e |
|-----------------------|--------|--------|--------|
| Sales (€m)            | 190    | 210    | 219    |
| EBITDA (€m)           | 23.8   | 29.1   | 31.4   |
| Current EBIT (€m)     | 11.7   | 17.1   | 19.6   |
| Attr. net profit (€m) | 9.0    | 13.4   | 15.2   |
| Adjusted EPS (€)      | 0.80   | 1.20   | 1.36   |
| Dividend (€)          | 0.35   | 0.42   | 0.48   |
| P/E (x)               | 23.2   | 15.6   | 13.8   |
| P/B (x)               | 0.8    | 0.8    | 0.7    |
| Dividend Yield (%)    | 1.9    | 2.3    | 2.6    |
| FCF yield (%)         | 2.7    | 5.8    | 8.6    |
| EV/Sales (x)          | 0.95   | 0.82   | 0.72   |
| EV/EBITDA (x)         | 7.6    | 5.9    | 5.0    |
| EV/Current EBIT (x)   | 15.4   | 10.0   | 8.1    |
| Gearing (%)           | -11    | -14    | -18    |
| Net Debt/EBITDA (x)   | ns     | ns     | ns     |

### Next Events

|            |            |
|------------|------------|
| 19/07/2021 | Q2 Results |
| 25/10/2021 | Q3 Results |

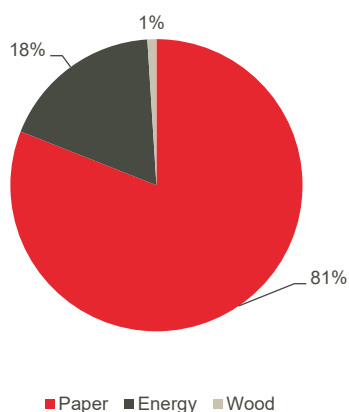


## A reel specialist in southern Europe

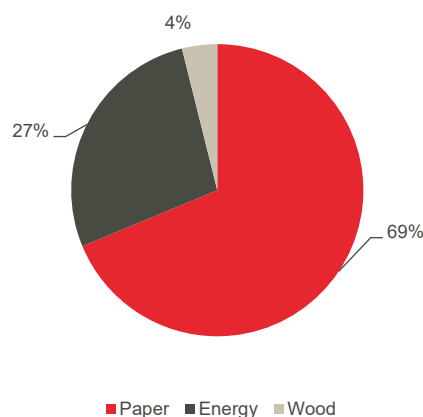
Iberpapel is a small (250kt annual production capacity) yet very flexible UWF producer with complete integration into BHKP pulp (200kt) after having recently increased its pulp production capacity (+8%) with the intention of subsequently expanding its offering of special paper (machine glazed) for the packaging sector.

The group manages forestry assets (26k ha: 45% Uruguay, 30% Argentina, 25% Spain) which provide some flexibility in the supply of wood, although it prioritises domestic sales of wood at its Latin America forestry operations (25% of theoretical self-sufficiency) and local wood sourcing at its pulp plant (Zicuñaga) in Hernani (Basque country). It also operates 60MW of energy (50MW of gas cogeneration and 10MW of biomass), significantly reducing its energy expenses.

Sales breakdown 2020 (%)



EBITDA breakdown 2020 (%)



Source: Iberpapel

## Efficient work-to-order business model

Iberpapel has a work-to-order model and has been a stable cash generator thanks to its productivity and efficiency together with its consistent investment efforts. This has contributed to a healthy financial situation which allow the group to adopt a specialisation strategy focused on higher added value productions.

The group has an inhouse distribution network for its printing and writing paper which is mostly (90%) sold directly to final customers. Its main brands include Go, Copy Star, and Copyright (office paper segment), although it also sells paper for different uses (editing, advertising, envelopes) including special papers (below 10% of total output) for the packaging/flexible packaging (Zicubag and Zicuflex brands) and labels (Vellum) sectors.

Iberpapel's diversification plan (Hernani project) includes constructing a Yankee mill (PM-5) for machine glazed paper (for paper bags) which would increase its paper capacity by 85kt (+34%) and reduce its exposure to the mature printing & writing segment.

The strategy aims to increase its exposure to less mature segments (CAGR -3%) and develop into dynamic markets such as that of paper-based packaging. Iberpapel is a small producer within the European Union (c.3% market share) and can place its production relatively easily at its core southern European markets without having to sacrifice margins in overseas markets. Spain accounted for 65% of sales in 2020, followed by rest of Europe (27%) and Other (8%).

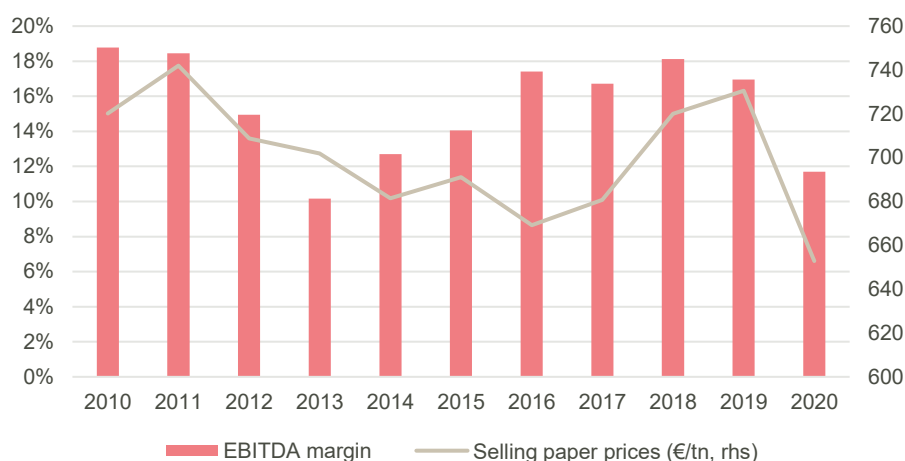


Iberpapel sells mostly in reel form (c.50%) and its average selling price thus shows a discount over some of its competitors (-10%e) with higher exposure to the cut-size segment, which accounts for some 35% of Iberpapel's volumes. The remaining volumes are directed at the specialty segment, mainly in the packaging industry.

## Resilient margin (under normalised conditions)

Iberpapel has traditionally maintained stable EBITDA margins (in line with mean values for integrated manufacturers despite its lower size) regardless of the macroeconomic environment or volume sales and showing a positive (but far from perfect) correlation to selling prices. This, in our opinion, reflects the capacity of the group to adapt to different market conditions. That said, it is not immune to sharp market disruptions, as in 2020. For Iberpapel, this was compounded by the collapse in volumes as a result of its long plant stoppage (pulp expansion project).

BITDA margin trend



Sources: Iberpapel, ODDO BHF

We estimate Iberpapel's cash costs at around € 640/t which reflects its limited critical mass and a significant cost disadvantage when compared to the largest integrated paper operators in Europe but still a favourable position compared to the non-integrated paper manufacturers (with more than 40% of market supply with higher costs).

The main cost components besides wood (c.20%) and natural gas/electricity (c.25%) are softwood, chemicals and personnel.

## Hernani project put on hold

The project, having encountered several difficulties from the outset (local building permits and authorisations, the need to relocate a critical high-voltage electric tower, delays related to the pandemic at the start of the pulp expansion work, etc.), was subsequently shelved indefinitely due to the uncertain environment resulting from the pandemic. The group had invested € 80m out of the total estimated budget of € 180m (including completed expansion of pulp capacity).

2020 results were negatively affected by the stoppage of the plant for 55 days to complete the pulp expansion project. The pandemic also had a significant impact on paper demand, with major disruption to schools, universities, offices and government administrations. These shifts could prove to have longer-lasting negative effects with the acceleration in digitalization trends (home-schooling, teleworking, etc.).



While Iberpapel still boasts healthy finances (€ 28m net cash position), the group did experience a sharp contraction in 2020 (€ 50m cash reduction), which justifies management's caution regarding the second stage of the Hernani project.

Iberpapel still requires some market softwood (BSKP) for its paper operations, although it can now sell higher volumes of BHKP to the market until its paper capacity is further expanded. This will absorb higher pulp volumes that are otherwise sold to the market. We expect the project to be revisited in the future although we do not include it in our financial estimates.

## Financial estimates

After a very difficult year in 2020 (EBITDA -48%, EBITDA margin of 11.7% vs 10-year average of 15% and 5-year average of 17%), due to weak volumes (-20%e in paper and pulp, -16% in energy) and prices, we expect a significant increase in volumes in 2021 (+10% vs. 2020) although paper prices are expected to remain at depressed levels with distributors and final customers reluctant to significantly increase their stocks despite the attractive selling prices.

We expect a gradual normalisation in EBITDA margins (towards its long-term average of 15%) as paper prices turn up. While A4 paper prices have proved to be much more resilient than pulp prices we also expect their recovery to be more gradual and project mild increases over the next three years for Iberpapel's average selling prices (+6%, +3% and +1% respectively), which we do not expect to reach the previous peak levels of 2019.

| Operating estimates (kt, €/t) |       |        |       |       |       |
|-------------------------------|-------|--------|-------|-------|-------|
|                               | 2019  | 2020   | 2021e | 2022e | 2023e |
| Paper volumes (kt)            | 236   | 190    | 210   | 229   | 240   |
| Chg. %                        | -4.2% | -19.4% | 10.1% | 9.3%  | 4.7%  |
| Paper selling price (€/t)     | 730   | 653    | 695   | 713   | 720   |
| Chg. %                        | 1.5%  | -10.6% | 6.4%  | 2.6%  | 0.9%  |

Sources: Iberpapel, ODDO BHF securities

Our estimates are based on a sales CAGR 2020-2023e of +10% and an EBITDA CAGR 2020-2023e of +18%, driven by the large increase in selling volumes in 2021 (+10%) and the gradual recovery in paper prices.

| Financial estimates  |       |        |       |       |       |
|----------------------|-------|--------|-------|-------|-------|
| € m                  | 2019  | 2020   | 2021e | 2022e | 2023e |
| Sales                | 218   | 164    | 190   | 210   | 219   |
| EBITDA               | 37    | 19     | 24    | 29    | 31    |
| EBITDA margin        | 16.9% | 11.7%  | 12.5% | 13.9% | 14.3% |
| EBITDA paper         | 28    | 14     | 16    | 21    | 24    |
| EBITDA margin pulp   | 16.2% | 11.0%  | 11.1% | 12.9% | 13.5% |
| EBITDA energy        | 9     | 5      | 7     | 8     | 8     |
| EBITDA margin energy | 22.6% | 19.3%  | 20.0% | 20.0% | 20.0% |
| Net profit           | 22    | 4      | 9     | 13    | 15    |
| Chg.                 |       |        |       |       |       |
| Sales                |       | -25.0% | 16.1% | 10.3% | 4.6%  |
| EBITDA               |       | -48.3% | 25%   | 22.3% | 7.7%  |
| EBITDA pulp          |       | -50.8% | 18%   | 31.1% | 10.5% |
| EBITDA energy        |       | -40.2% | 43.0% | 3.0%  | 0.0%  |
| Net profit           |       | ns     | 112%  | 49%   | 13%   |

Sources: Iberpapel, ODDO BHF securities

We expect Iberpapel's net cash position to remain relatively stable in 2021 and to increase steadily in 2022-2023 when the group could contemplate reactivating the paper investment related to the Hernani project.



#### Net debt and capex trend

| € m             | 2019 | 2020 | 2021e | 2022e | 2023e |
|-----------------|------|------|-------|-------|-------|
| Net debt        | -79  | -28  | -30   | -38   | -52   |
| Net debt/EBITDA | -2.1 | -1.5 | -1.3  | -1.3  | -1.6  |
| Capex           | 31   | 53   | 10    | 10    | 7     |

Sources: Iberpapel, ODDO BHF securities

Our estimates consider a pay-out of 35% and a cash conversion ratio stabilising towards 60% by 2023.

#### Cash conversion estimates

| € m                             | 2019 | 2020  | 2021e | 2022e | 2023e |
|---------------------------------|------|-------|-------|-------|-------|
| EBITDA                          | 37   | 19    | 24    | 29    | 31    |
| Net debt                        | -79  | -28   | -30   | -38   | -52   |
| Dividends                       | 8    | 4     | 4     | 4     | 5     |
| Cash generated                  |      | -47   | 6     | 12    | 18    |
| Cash conversion rate            |      | -244% | 24%   | 42%   | 57%   |
| Chg. in WC                      |      |       | -5    | -3    | -2    |
| Adjusted organic cash generated |      |       | 11    | 15    | 19    |
| Cash conversion rate ex WC      |      |       | 47%   | 53%   | 62%   |

Sources: Iberpapel, ODDO BHF securities

## Valuation: € 21.40 per share

Our valuation is based on a DCF approach. Our projections do not yet take account of the potential investment in the paper machine (PM-5) originally included in the Hernani project. We discount the projected cash flows at our estimated WACC (9.7%, reflecting its limited liquidity and unlevered balance sheet) and use a perpetual growth rate of 1% to determine our terminal value. We initiate the stock with a Neutral recommendation and € 21.40 target price.

#### DCF

| € m            | 2021e | 2022e | 2023e | 2024e | ... | 2031e | 2031e |
|----------------|-------|-------|-------|-------|-----|-------|-------|
| NOPLAT         | 10    | 14    | 16    | 18    |     | 18    |       |
| Depreciation   | 12    | 12    | 12    | 12    |     | 12    |       |
| Capex          | -10   | -10   | -7    | -8    |     | -12   |       |
| Chg. in WC     | -5    | -3    | -2    | -1    |     | 0     |       |
| FCF            | 6     | 13    | 19    | 21    | ... | 18    | 229   |
| NPV            | 210   |       |       |       |     |       |       |
| Net cash 2021e | 30    |       |       |       |     |       |       |
| Provisions     | 4     |       |       |       |     |       |       |
| Equity value   | 236   |       |       |       |     |       |       |
| Shares (m)     | 11    |       |       |       |     |       |       |
| TP (€)         | 21.4  |       |       |       |     |       |       |

Source: ODDO BHF Securities

Iberpapel has historically traded at an average EV/EBITDA multiple of 6.5x, penalised by its limited size and relative illiquidity. We believe Iberpapel deserves a higher multiple based on its lower volatility when compared to pulp producers. Our target price implies an EV/EBITDA 21e multiple of c.9.0x.



#### Historical EV/EBITDA multiples (x)



Sources: FactSet, ODDO BHF Securities

## Swot analysis

### Strength

- Flexible producer
- Integration rates
- Strong financial position

### Weaknesses

- Limited critical mass
- Uncertainties about the paper expansion project
- Brand recognition (price discount)

### Opportunities

- Expansion in packaging
- Energy and forestry operations

### Threats

- Maturity of the UWF segment
- Uncertainties about its distribution capabilities in new segments

Source: ODDO BHF Securities



**IBG SM | IBG.MC**  
**Paper & Packaging | Spain**

**Neutral**

**Price 18.70EUR**

Upside 14.44%

TP 21.40EUR

| PER SHARE DATA (€)                                 | 12/16        | 12/17        | 12/18        | 12/19        | 12/20        | 12/21e        | 12/22e        | 12/23e        |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Adjusted EPS                                       | 1.81         | 2.10         | 2.27         | 1.94         | 0.38         | 0.80          | 1.20          | 1.36          |
| <b>Reported EPS</b>                                | <b>1.81</b>  | <b>2.10</b>  | <b>2.27</b>  | <b>1.94</b>  | <b>0.38</b>  | <b>0.80</b>   | <b>1.20</b>   | <b>1.36</b>   |
| Growth in adjusted EPS                             | 26.6%        | 15.6%        | 8.2%         | -14.4%       | -80.4%       | ns            | 48.9%         | 13.3%         |
| Net dividend per share                             | 0.65         | 0.55         | 0.70         | 0.55         | 0.35         | 0.35          | 0.42          | 0.48          |
| FCF to equity per share                            | 0.74         | 5.36         | 2.29         | -0.44        | -4.06        | 0.51          | 1.09          | 1.61          |
| Book value per share                               | 20.51        | 21.66        | 22.97        | 23.90        | 23.37        | 23.82         | 24.68         | 25.61         |
| Number of shares market cap (m)                    | 10.93        | 10.93        | 11.04        | 11.04        | 11.04        | 11.04         | 11.04         | 11.04         |
| Number of diluted shares (m)                       | 11.09        | 10.93        | 10.99        | 11.04        | 11.04        | 11.04         | 11.04         | 11.04         |
| <b>VALUATION (€m)</b>                              | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| 12m highest price (€)                              | 22.66        | 31.17        | 38.12        | 33.00        | 26.00        | 20.60         | 18.70         | 18.70         |
| 12m lowest price (€)                               | 15.58        | 22.77        | 28.71        | 24.40        | 15.50        | 16.80         |               |               |
| (*) Reference price (€)                            | 18.24        | 27.92        | 33.77        | 28.33        | 19.76        | 18.70         |               |               |
| Capitalization                                     | 199          | 305          | 373          | 313          | 218          | 206           | 206           | 206           |
| Restated Net debt                                  | -26.5        | -77.4        | -91.7        | -78.8        | -28.2        | -30.1         | -38.4         | -51.7         |
| Minorities (fair value)                            | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Financial fixed assets (fair value)                | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Provisions   | 3.5          | 5.1          | 8.3          | 8.1          | 3.7          | 3.7           | 3.7           | 3.7           |
| <b>Enterprise Value</b>                            | <b>176</b>   | <b>233</b>   | <b>289</b>   | <b>242</b>   | <b>194</b>   | <b>180</b>    | <b>172</b>    | <b>158</b>    |
| P/E (x)  | 10.1         | 13.3         | 14.9         | 14.6         | 52.0         | 23.2          | 15.6          | 13.8          |
| P/CF (x)   | 5.4          | 40.6         | 10.3         | 8.1          | ns           | 9.9           | 8.2           | 7.7           |
| Net Yield  | 3.6%         | 2.0%         | 2.1%         | 1.9%         | 1.7%         | 1.9%          | 2.3%          | 2.6%          |
| FCF yield  | 4.1%         | 19.2%        | 6.8%         | ns           | ns           | 2.7%          | 5.8%          | 8.6%          |
| P/B incl. GW (x)                                   | 0.89         | 1.29         | 1.47         | 1.19         | 0.85         | 0.78          | 0.76          | 0.73          |
| P/B excl. GW (x)                                   | 0.89         | 1.29         | 1.47         | 1.19         | 0.85         | 0.78          | 0.76          | 0.73          |
| EV/Sales (x)                                       | 0.86         | 1.06         | 1.28         | 1.11         | 1.18         | 0.95          | 0.82          | 0.72          |
| EV/EBITDA (x)                                      | 5.0          | 6.3          | 7.1          | 6.5          | 10.1         | 7.6           | 5.9           | 5.0           |
| <b>EV/Current EBIT (x)</b>                         | <b>7.1</b>   | <b>8.8</b>   | <b>9.6</b>   | <b>9.2</b>   | <b>29.0</b>  | <b>15.4</b>   | <b>10.0</b>   | <b>8.1</b>    |
| (*) historical average price                       |              |              |              |              |              |               |               |               |
| <b>PROFIT AND LOSS (€m)</b>                        | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales  | 204          | 221          | 226          | 218          | 164          | 190           | 210           | 219           |
| EBITDA   | 35.6         | 36.9         | 40.9         | 37.0         | 19.1         | 23.8          | 29.1          | 31.4          |
| Depreciations                                      | -10.6        | -10.4        | -10.9        | -10.7        | -12.5        | -12.2         | -12.0         | -11.8         |
| <b>Current EBIT</b>                                | <b>25.0</b>  | <b>26.5</b>  | <b>30.0</b>  | <b>26.3</b>  | <b>6.7</b>   | <b>11.7</b>   | <b>17.1</b>   | <b>19.6</b>   |
| Published EBIT                                     | 25.0         | 26.5         | 30.0         | 26.3         | 6.7          | 11.7          | 17.1          | 19.6          |
| Net financial income                               | 0.0          | -0.6         | -0.7         | -0.2         | -1.6         | -0.9          | -1.0          | -1.3          |
| Corporate Tax                                      | -4.9         | -3.0         | -4.0         | -4.4         | -0.9         | -1.8          | -2.7          | -3.1          |
| Net income of equity-accounted companies           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Profit/loss of discontinued activities (after tax) | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Minority interests                                 | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Attributable net profit                            | 20.1         | 22.9         | 25.2         | 21.7         | 4.2          | 9.0           | 13.4          | 15.2          |
| <b>Adjusted attributable net profit</b>            | <b>20.1</b>  | <b>22.9</b>  | <b>25.2</b>  | <b>21.7</b>  | <b>4.2</b>   | <b>9.0</b>    | <b>13.4</b>   | <b>15.2</b>   |
| <b>BALANCE SHEET (€m)</b>                          | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Goodwill   | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Other intangible assets                            | 2.3          | 1.5          | 1.6          | 2.8          | 2.4          | 2.4           | 2.4           | 2.4           |
| Tangible fixed assets                              | 135          | 125          | 134          | 144          | 186          | 184           | 182           | 177           |
| WCR  | 51.7         | 24.0         | 15.5         | 28.7         | 24.4         | 29.9          | 33.1          | 34.6          |
| Financial assets                                   | 21.2         | 18.6         | 23.5         | 22.4         | 26.9         | 26.9          | 26.9          | 26.9          |
| Ordinary shareholders equity                       | 227          | 237          | 255          | 267          | 261          | 266           | 276           | 286           |
| Minority interests                                 | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Shareholders equity                                | 227          | 237          | 255          | 267          | 261          | 266           | 276           | 286           |
| Non-current provisions                             | 9.6          | 9.4          | 10.7         | 9.5          | 6.8          | 6.8           | 6.8           | 6.8           |
| <b>Net debt</b>                                    | <b>-26.5</b> | <b>-77.4</b> | <b>-91.7</b> | <b>-78.8</b> | <b>-28.2</b> | <b>-30.1</b>  | <b>-38.4</b>  | <b>-51.7</b>  |
| <b>CASH FLOW STATEMENT (€m)</b>                    | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| <b>EBITDA</b>                                      | <b>35.6</b>  | <b>36.9</b>  | <b>40.9</b>  | <b>37.0</b>  | <b>19.1</b>  | <b>23.8</b>   | <b>29.1</b>   | <b>31.4</b>   |
| Change in WCR                                      | -10.1        | 27.7         | 2.3          | -13.2        | 9.2          | -5.4          | -3.2          | -1.6          |
| Interests & taxes                                  | -4.9         | -3.6         | -4.8         | -4.6         | -2.4         | -2.7          | -3.7          | -4.4          |
| Others   | 6.4          | -25.8        | 0.4          | 6.7          | -17.7        | 0.0           | 0.0           | 0.0           |
| Operating Cash flow                                | 27.0         | 35.2         | 38.9         | 25.9         | 8.1          | 15.7          | 22.2          | 25.4          |
| CAPEX  | -18.8        | 23.3         | -13.5        | -30.8        | -53.4        | -10.0         | -10.0         | -7.5          |
| <b>Free cash-flow</b>                              | <b>8.2</b>   | <b>58.5</b>  | <b>25.4</b>  | <b>-4.9</b>  | <b>-45.3</b> | <b>5.7</b>    | <b>12.2</b>   | <b>17.9</b>   |
| Acquisitions / disposals                           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Dividends  | -6.9         | -7.1         | -10.3        | -7.6         | -3.8         | -3.8          | -3.9          | -4.7          |
| Net capital increase                               | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Others   | 0.0          | 0.0          | 0.0          | 0.0          | -0.5         | 0.0           | 0.0           | 0.0           |
| Change in net cash                                 | 1.1          | 50.9         | 14.3         | -12.9        | -50.6        | 1.9           | 8.3           | 13.2          |
| <b>GROWTH MARGINS PRODUCTIVITY</b>                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales growth                                       | -8.9%        | 8.0%         | 2.3%         | -3.3%        | -25.0%       | 16.1%         | 10.3%         | 4.6%          |
| <b>Lfi sales growth</b>                            | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| Current EBIT growth                                | 15.5%        | 6.1%         | 13.1%        | -12.3%       | -74.6%       | 75.0%         | 46.6%         | 14.4%         |
| Growth in adjusted EPS                             | 26.6%        | 15.6%        | 8.2%         | -14.4%       | -80.4%       | ns            | 48.9%         | 13.3%         |
| Net margin   | 9.8%         | 10.4%        | 11.2%        | 9.9%         | 2.6%         | 4.7%          | 6.4%          | 6.9%          |
| <b>EBITDA margin</b>                               | <b>17.4%</b> | <b>16.7%</b> | <b>18.1%</b> | <b>16.9%</b> | <b>11.7%</b> | <b>12.5%</b>  | <b>13.9%</b>  | <b>14.3%</b>  |
| <b>Current EBIT margin</b>                         | <b>12.2%</b> | <b>12.0%</b> | <b>13.3%</b> | <b>12.0%</b> | <b>4.1%</b>  | <b>6.1%</b>   | <b>8.2%</b>   | <b>8.9%</b>   |
| CAPEX / Sales                                      | -9.2%        | 10.6%        | -6.0%        | -14.1%       | -32.6%       | -5.3%         | -4.8%         | -3.4%         |
| WCR / Sales  | 25.3%        | 10.9%        | 6.9%         | 13.1%        | 14.9%        | 15.7%         | 15.8%         | 15.8%         |
| Tax Rate   | 19.5%        | 11.7%        | 13.8%        | 17.0%        | 16.9%        | 17.0%         | 17.0%         | 17.0%         |
| Normative tax rate                                 | 19.5%        | 11.7%        | 13.8%        | 17.0%        | 16.9%        | 17.0%         | 17.0%         | 17.0%         |
| Asset Turnover                                     | 1.1          | 1.3          | 1.5          | 1.3          | 0.8          | 0.9           | 1.0           | 1.0           |
| <b>ROCE post-tax (normative tax rate)</b>          | <b>10.8%</b> | <b>13.8%</b> | <b>17.2%</b> | <b>13.4%</b> | <b>2.9%</b>  | <b>4.5%</b>   | <b>6.6%</b>   | <b>7.5%</b>   |
| ROCE post-tax hors GW (normative tax rate)         | 10.8%        | 13.8%        | 17.2%        | 13.4%        | 2.9%         | 4.5%          | 6.6%          | 7.5%          |
| ROE  | 9.1%         | 9.9%         | 10.2%        | 8.3%         | 1.6%         | 3.4%          | 4.9%          | 5.4%          |
| <b>DEBT RATIOS</b>                                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Gearing  | -12%         | -33%         | -36%         | -30%         | -11%         | -11%          | -14%          | -18%          |
| Net Debt / Market Cap                              | -0.13        | -0.25        | -0.25        | -0.25        | -0.13        | -0.15         | -0.19         | -0.25         |
| <b>Net debt / EBITDA</b>                           | <b>ns</b>    | <b>ns</b>    | <b>ns</b>    | <b>ns</b>    | <b>ns</b>    | <b>ns</b>     | <b>ns</b>     | <b>ns</b>     |
| EBITDA / net financial charges                     | -2 542.8     | 63.7         | 55.0         | 212.6        | 12.2         | 27.8          | 28.9          | 23.7          |

Sources: ODDO BHF Securities, SIX



# Navigator

Outperform → | Target 3.70 €

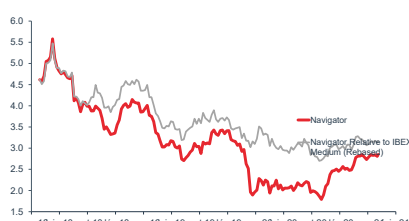
Price (03/05/2021) : 2.85 € | Upside : 30 %

Revision 2021e 2022e

EPS ns ns

## Quality at attractive prices

Tuesday 04 May 2021



## Undisputed leader in a mature sector

Navigator is the undisputed leader on size (c.20% market share), quality and cost in the mature UWF industry in Europe. The group has managed to sustain the sector's highest EBITDA margins and market share while less efficient producers have steadily abandoned the market. We expect Navigator to continue benefiting from sector rationalisation while executing its natural diversification strategy (tissue, woodchips) supported by a strong cash flow generation profile (c.10% FCF yield, 55% cash conversion rate).

## Sustainable cost advantages...

Navigator enjoys sustainable competitive advantages (integration rates, scale, logistics, deflated cost base), robust pricing power (50% market share in premium products, strong brand recognition) and a consistent management focus on efficiency which drives the group's historical profitability (24% EBITDA margin) well above the sector average (+700 bp). We estimate that c.50% of European UWF capacity exceeds Navigator's average cash costs.

## ...contributing to profitability normalisation

The mature P&W industry (-3% per year in developed economies) has been severely affected by the pandemic in volumes and prices (double digit declines) although we believe demand will gradually recover (2021-23) a significant portion of the lost ground (resumption of activity at offices, schools and public administrations) and prices will react to the recent pulp price spike. Our estimates assume a 2020-23 EBITDA CAGR of +11%, reflecting production normalisation, pulp and paper price improvements and the consolidation of efficiency gains (80% of last year's savings). We expect Navigator's EBITDA margins to recover their historical average (24%) by 2022-23e vs 20.6% in 2010.

## Outperform rating, target price of € 3.70

We are initiating coverage of Navigator with an Outperform rating and a target price of € 3.70 (DCF). Our rating is underpinned by: 1/ our expectation of gradual improvements in UWF prices (c.+10% 2021-22) and volumes post pandemic (despite the accelerating digitisation trend); 2/ higher earnings growth backed by Navigator's operating efficiency; 3/ scope for further rationalisation in the sector (c.20% overcapacity in Europe); 4/ strong cash flow generation supporting investments in sustainability and diversification and attractive shareholder returns; and 5/ an attractive valuation (c.7.5x EV/EBITDA 2021e).

### Capital

#### NVG-PT | NVGR.LS

|                       |             |
|-----------------------|-------------|
| Market Cap (€m)       | 2 045       |
| Enterprise value (€m) | 2 720       |
| Extrema 12 months (€) | 1.76 - 2.87 |
| Free Float (%)        | 29.8        |

| Performance (%)          | 1m  | 3m   | 12m  |
|--------------------------|-----|------|------|
| Absolute                 | 2.2 | 15.7 | 26.9 |
| Perf. rel. Country Index | 0.4 | 7.1  | -1.9 |
| Perf. rel. IBEX Medium   | 1.7 | 5.4  | -5.7 |

### P&L

|                       | 12/21e | 12/22e | 12/23e |
|-----------------------|--------|--------|--------|
| Sales (€m)            | 1 565  | 1 658  | 1 685  |
| EBITDA (€m)           | 351    | 387    | 394    |
| Current EBIT (€m)     | 216    | 261    | 269    |
| Attr. net profit (€m) | 163    | 199    | 206    |
| Adjusted EPS (€)      | 0.22   | 0.27   | 0.28   |
| Dividend (€)          | 0.22   | 0.23   | 0.24   |

|                     |      |      |      |
|---------------------|------|------|------|
| P/E (x)             | 12.7 | 10.4 | 10.0 |
| P/B (x)             | 1.9  | 1.9  | 1.8  |
| Dividend Yield (%)  | 7.8  | 8.1  | 8.3  |
| FCF yield (%)       | 8.3  | 9.9  | 10.4 |
| EV/Sales (x)        | 1.74 | 1.61 | 1.56 |
| EV/EBITDA (x)       | 7.7  | 6.9  | 6.7  |
| EV/Current EBIT (x) | 12.6 | 10.3 | 9.8  |
| Gearing (%)         | 60   | 54   | 48   |
| Net Debt/EBITDA (x) | 1.8  | 1.5  | 1.4  |

### Next Events

|            |                        |
|------------|------------------------|
| 10/05/2021 | Annual General Meeting |
| 28/05/2021 | Q1 Results             |
| 27/07/2021 | Q2 Results             |
| 28/10/2021 | Q3 Results             |





## Undisputed leadership in premium categories

Navigator is Europe's leading producer of UWF in terms of volumes (1.6Mt per year) and quality, also ranking very strongly on cost price competitiveness.

This position derives from its high level of vertical integration (1.6Mt annual eucalyptus pulp production) which drastically reduces costs and lead times (no need to dry pulp which is immediately directed to the paper production process), the large average size of its two integrated pulp-UWF paper modern facilities (Setubal and Figueira da Foz: 50% of the group's paper production each) with state-of-the-art technology and strong logistics advantages (access to ports), as well as competitive sourcing of wood and exposure to an attractive cost base in Portugal (personnel, services, etc.).

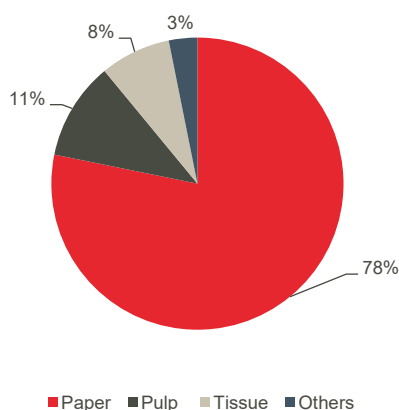
The group has diversified into the attractive tissue segment (130kt reel, 120kt converting capacity) from its Vila Velha de Ródão plant (65kt) and its market pulp plant in Caça (350kt pulp, 55kt tissue converting capacity) which continues to offer significant exposure to the market pulp segment.

Additionally, the group maintains 108k ha of forest under management (15% self-sufficiency) and has 2.5TWh of nominal electricity capacity (3 biomass cogeneration and 2 natural gas cogeneration plants associated with its pulp and paper production process and 2 independent biomass plants selling to the national grid) which covers its energy needs (up to 70% from renewable sources).

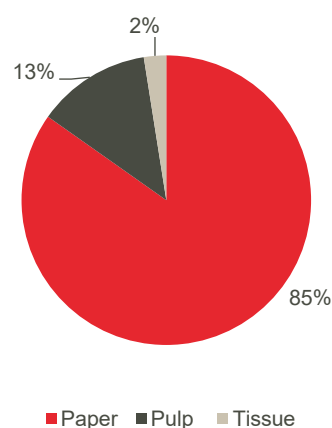
Finally, the group has identified international business opportunities in Mozambique based on high forest productivity and logistics advantages (exports to Asia) which could result in a future integrated forestry-energy-pulp project (\$ 2.5bn project, including partners and public financing) aimed at the Asian market. The project will initially be geared towards developing the forestry base (40k ha already planted in Zambezia and Manica regions) and a woodchip mill export facility (\$100m already invested) targeting the European market. The first shipments to Portugal are scheduled for 2021.

The group has four reporting segments: paper, pulp, tissue and other (which includes the group forestry activities, the production of electricity at its independent biomass plants and woodchip).

Sales breakdown 2020 (%)



Adjusted EBITDA breakdown 2020 (%)



Source: Navigator

Navigator holds 19% share in the EU uncoated fine paper market, rising to 50% in premium products, and enjoys strong brand recognition (most significantly through Navigator, the world's best-selling brand of premium office paper), with mill brands representing up to 70% of output vs an industry average of 20%.



Other company brands include Pioneer, Inacopia, Discovery (eco-efficient) and Soporset (offset paper for the printing industry).

This results in higher average prices (7% estimated price premium to the market), a higher value-added offering (cut size vs reels), more resilient demand and higher operating rates which also contribute to above-sector average margins.

Navigator sold 394kt of market pulp in 2020 (+26%) as the decline in UWF demand and production offered the possibility to place higher pulp volumes in its traditional specialty markets (decor and specialties: >70% of Navigator's pulp shipments) which also command a relevant price premium (6%) compared to average pulp uses.

Navigator's market share in tissue in the Iberian market stands at 10% (40% in Portugal standalone), placing it in third position. It could still play an active role in the potential consolidation opportunity in the Iberian tissue segment.

While the out-of-home tissue segment was impacted by the effect of the pandemic on the catering and tourism industries in Iberia, the at-home category offset the impact with overall tissue demand growing by +1.8% in 2020 despite the economic downturn.

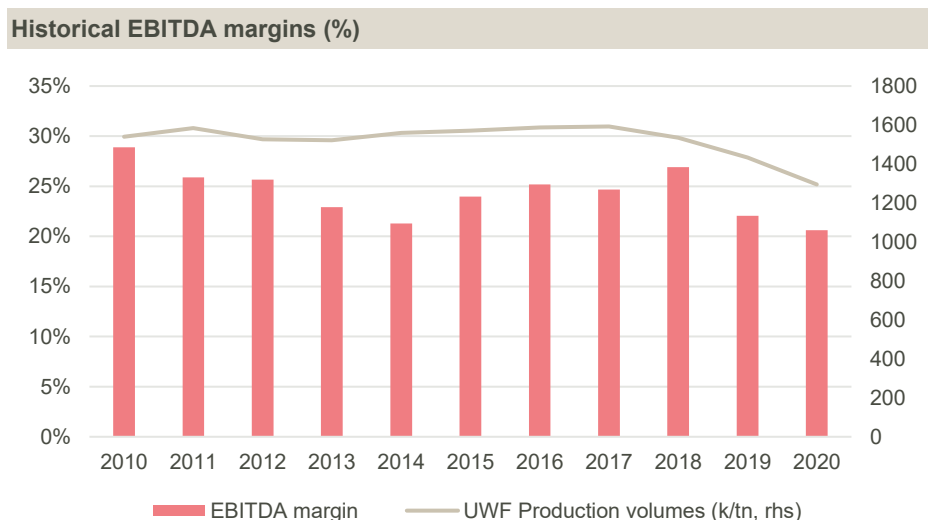
We expect tissue prices to gradually translate the rises in pulp to preserve the profitability of operations amongst non-integrated producers, although we expect a lag due to the importance of retail distribution in the segment.

## Cash cost advantage the best protection from sector maturity

While the UWF sector is mature (mostly in developed economies), the group's cash cost advantage with close to 50% of the European capacity significantly above Navigator levels, should protect the group and allow it to benefit from the expected sector rationalisation. We estimate a historical cash cost in paper of € 640/t.

Its premium positioning implies higher cash costs when compared to the more commoditised paper producers in Europe but its superior pricing still translates into significantly higher EBITDA margins. We estimate the sector's mean profitability at around 17% (EBITDA margin) as compared to Navigator's historical average of 24%.

The group's diversification into tissue had a limited negative impact on margins as the ramp-up of the new capacity depressed EBITDA margins at the unit in 2018-2019. We expect EBITDA margins at the segment to normalise at around 17%. Navigator could play a consolidation role in tissue and, in that case, we would not rule out margins expanding notably in the future once the activity reaches a certain critical mass in a fragmented industry.



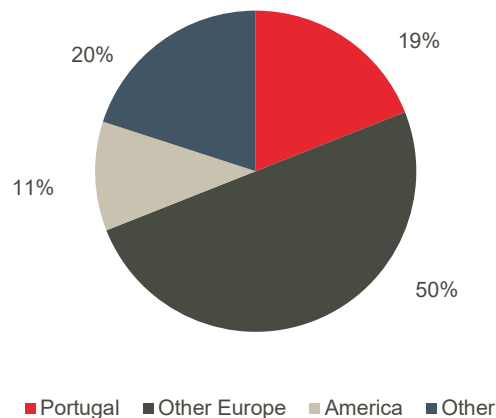
Sources: Navigator, ODDO BHF Securities



Navigator's margins have been more correlated to UWF production volumes than selling prices, reflecting its outstanding efficiency and capacity to adapt to different market dynamics (paper product categories, market pulp, geographical markets, etc.).

Navigator's sales to Europe account for approximately 70% of the total, although the group has an active commercial strategy in the US (despite being affected in the past by protective antidumping duties which are now set at a reasonable 6.75% level) and a stable presence in North Africa, the Middle East and Asian markets.

Revenue breakdown (%)



Source: Navigator

Navigator's main cost components are wood/biomass and pulp (long fibre), jointly representing c.30% of costs, energy (c.15%), chemicals (c.10%), personnel (c.10%) and transportation (c.10%). Its complete integration in BHKP at the group and plant levels offers strong competitive advantages.

## Efficiency programmes support cost advantage

Navigator has maintained its focus on efficiency by implementing various programmes in recent years (M2, ZBB, Digital Transformation), yielding significant savings over the last two years (€ 107m: c.55% in variable production costs, c.45% in fixed cost reductions). The new biomass boiler at Figueira da Foz (€ 55m investment), which started operating in Q4 2020, will replace the existing natural gas boiler and turbines supplying power to the paper machines, and should also have a significant effect on costs (reduction of natural gas and maintenance costs) while increasing the group's capacity from renewable sources to 70% (from 60% previously).

The resumption of full activity in 2021 (after the lockdowns) should consolidate the cost reductions achieved, although some of them were leveraged by the pandemic outbreak, and Navigator expects to retain approximately 80% of the reduction in operating and maintenance costs achieved over the last few years.

Navigator has embraced the net carbon emissions move and committed to achieving this by 2035, having identified opportunities to gradually reach these goals with planned investments of up to € 154m between 2018 and 2028. The most critical of these, in terms of environmental benefits, is the new biomass boiler at Figueira da Foz (which should help drive a 30% cut in the group's emissions as early as 2021 and a third of the objectives set by the company). It is also considering various solar photovoltaic projects that could contribute to its sustainability goals while also offering profitable investment opportunities.



## Financial estimates

We expect a significant surge in sales in 2021 following the weakness in 2020, as reflected by better orderbook levels and some improvement in prices. But this is unlikely to be enough to recover the attractive prices achieved in 2015-2019 (average of € 840/t as compared to a long-term average of € 800/t).

Our estimates are based on a 2020-2023 CAGR in paper and pulp volumes of +3% and -5%, reflecting the gradual recovery of paper volumes and tissue of +5%.

| Operating estimates (kt, €/t) |        |        |        |       |       |
|-------------------------------|--------|--------|--------|-------|-------|
|                               | 2019   | 2020   | 2021e  | 2022e | 2023e |
| Paper volumes sold (kt)       | 1 447  | 1 276  | 1 345  | 1 399 | 1 413 |
| Chg. %                        | -4.4%  | -11.8% | 5.4%   | 4.0%  | 1.0%  |
| Paper selling price (€/t)     | 828    | 740    | 792    | 808   | 816   |
| Chg. %                        | 0.4%   | -10.6% | 7.0%   | 2.0%  | 1.0%  |
| Pulp volumes sold (kt)        | 314    | 394    | 318    | 333   | 333   |
| Chg. %                        | 24.0%  | 25.6%  | -19.2% | 4.5%  | 0.0%  |
| Pulp selling price (€/t)      | 526    | 396    | 475    | 451   | 451   |
| Chg. %                        | -20.3% | -24.7% | 20.0%  | -5.0% | 0.0%  |
| Tissue volumes (kt)           | 96     | 106    | 117    | 124   | 124   |
| Chg. %                        | 51.9%  | 10.8%  | 10.4%  | 5.6%  | 0.0%  |
| Tissue selling price (€/t)    | 1 379  | 1 330  | 1 383  | 1 383 | 1 383 |
| Chg. %                        | -4.6%  | -3.6%  | 4.0%   | 0.0%  | 0.0%  |

Sources: Navigator, ODDO BHF Securities

Our estimates assume a 2020-2023 sales CAGR of +6%, reflecting a gradual recovery within an otherwise mature market that translates into higher growth at the EBITDA level (+11%) on production normalisation, price improvement and consolidation of efficiency gains. We expect Navigator's EBITDA margins to recover their historical average (24% excluding other operating income) by 2022-2023e.

| Financial estimates |       |       |       |       |       |
|---------------------|-------|-------|-------|-------|-------|
| € m                 | 2019  | 2020  | 2021e | 2022e | 2023e |
| Sales               | 1 727 | 1 424 | 1 565 | 1 658 | 1 685 |
| EBITDA              | 372   | 286   | 351   | 387   | 394   |
| EBITDA margin (%)   | 21.5% | 20.0% | 22.4% | 23.3% | 23.4% |
| Net profit          | 168   | 109   | 163   | 199   | 206   |
| Chg. %              |       |       |       |       |       |
| Sales               |       | -17.5 | 9.9   | 6.0   | 1.6   |
| EBITDA              |       | -23.3 | 23    | 10.2  | 1.8   |
| Net profit          |       | ns    | 49    | 22    | 4     |

Sources: Navigator, ODDO BHF Securities

We expect a continued reduction in financial leverage from 2020 levels (2.4x ND/EBITDA) despite anticipating an increase in investments in 2021 (capex/sales ratio of 7% post 2022) and a future dividend pay-out ratio of 80%.



#### Net debt and Capex trend

| € m             | 2019 | 2020 | 2021e | 2022e | 2023e |
|-----------------|------|------|-------|-------|-------|
| Net debt        | 715  | 680  | 638   | 593   | 544   |
| Net debt/EBITDA | 1.9x | 2.4x | 1.8x  | 1.5x  | 1.4x  |
| Capex           | 158  | 81   | 115   | 113   | 115   |

Sources: Navigator, ODDO BHF Securities

Navigator has an extremely attractive shareholder return strategy with historical average pay-out ratios of c.100% (2006-2020) and dividend distributions in 2020 of € 198m (1.2x net profit in 2019 and up to 1.8x in 2020).

Semapa, the listed holding group controlling 69.35% of Navigator (together with cement assets through Secil and environment activities through ETSA), uses the funds received from Navigator's dividends to fund its other (more cyclical) businesses, meet its financial obligations (ND/EBITDA c.3x) and pay dividends.

We therefore expect Navigator's attractive dividend strategy to be maintained and do not expect changes from Semapa's potential delisting (Sodim, owning 72% of the share capital, has launched a voluntary tender offer for the remaining 28% of Semapa, with a view to delisting its shares).

Navigator has a sound cash flow profile with cash conversion rates of 55% (EBITDA).

#### Cash conversion estimates

| € m                             | 2019 | 2020 | 2021e | 2022e | 2023e |
|---------------------------------|------|------|-------|-------|-------|
| EBITDA                          | 372  | 286  | 351   | 387   | 394   |
| Net debt                        | 715  | 680  | 638   | 593   | 544   |
| Dividends                       | 200  | 198  | 130   | 159   | 165   |
| Cash generated                  |      | 233  | 172   | 204   | 214   |
| Cash conversion rate            |      | 82%  | 49%   | 53%   | 54%   |
| Chg. in WC                      |      |      | -11   | -7    | -2    |
| Adjusted organic cash generated |      |      | 183   | 212   | 216   |
| Cash conversion rate ex WC      |      |      | 52%   | 55%   | 55%   |

Sources: Navigator, ODDO BHF Securities

## Valuation: € 3.70 per share

Our valuation of Navigator is derived from a DCF analysis (WACC 7.5%, perpetual growth rate 1%), based on the historical stability of its cash flows. We normalise depreciation and capex to determine our terminal value. Our target price is € 3.70 per share after deducting current net debt and provisions. We are initiating the stock with an Outperform recommendation.

#### DCF

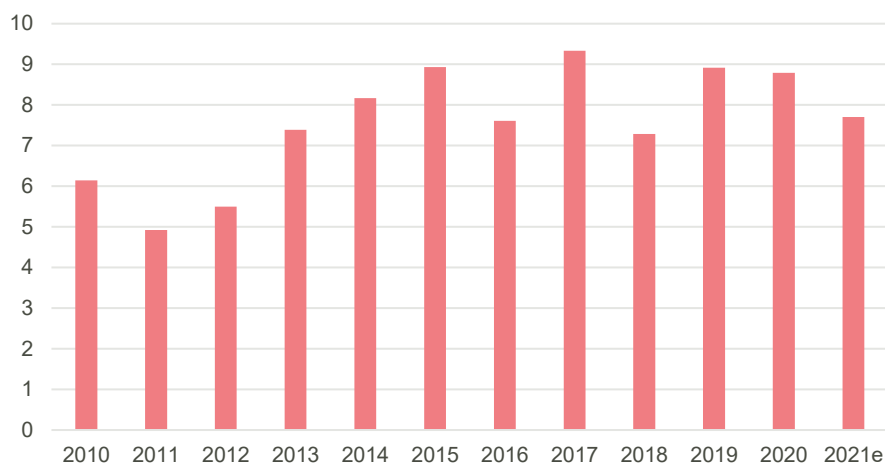
| € m                | 2021e | 2022e | 2023e | 2024e | ... | 2031e | 2031e |
|--------------------|-------|-------|-------|-------|-----|-------|-------|
| NOPLAT             | 173   | 209   | 215   | 221   |     | 221   |       |
| Depreciation       | 135   | 126   | 125   | 124   |     | 124   |       |
| Capex              | -115  | -113  | -115  | -117  |     | -124  |       |
| Chg. in WC         | -11   | -7    | -2    | -2    |     | 0     |       |
| FCF                | 182   | 214   | 223   | 227   | ... | 221   | 3 451 |
| NPV                | 3 304 |       |       |       |     |       |       |
| Net debt 2021e     | 638   |       |       |       |     |       |       |
| Minority interests | 0     |       |       |       |     |       |       |
| Provisions         | 36    |       |       |       |     |       |       |
| Equity value       | 2 630 |       |       |       |     |       |       |
| Shares (m)         | 718   |       |       |       |     |       |       |
| Target price (€)   | 3.7   |       |       |       |     |       |       |

Source: ODDO BHF Securities



Navigator has historically traded at an average EV/EBITDA multiple of c.8.0x, which in our opinion does not fully reflect the company's strong fundamentals. Our target price implies a 2021e EV/EBITDA multiple of c.9.5x and 2022e EV/EBITDA of c.8.5x, which we consider reasonable in view of its cash flow profile even in a mature market.

#### Historical EV/EBITDA multiples (x)



Sources: FactSet, ODDO BHF Securities

## SWOT analysis

| Strength  | Weaknesses  |
|---|---|
| <ul style="list-style-type: none"> <li>Integration, cost competitiveness</li> <li>Brand recognition</li> <li>Cash generation profile</li> </ul> | <ul style="list-style-type: none"> <li>Broad exposure to mature UWF market</li> <li>Uncertainty over Mozambique project</li> <li>Limited room for further efficiencies</li> </ul> |
| Opportunities   | Threats   |
| <ul style="list-style-type: none"> <li>Acquisitions in tissue segment</li> <li>Consolidation of efficiency gains</li> </ul>                     | <ul style="list-style-type: none"> <li>Acceleration of digitisation trend</li> <li>Semapa's large stake</li> </ul>  |

Source: ODDO BHF Securities



**NVG-PT | NVGR.LS**  
**Paper & Packaging | Portugal**

**Outperform**

Price 2.85EUR

Upside 29.82%

TP 3.70EUR

| PER SHARE DATA (€)                                 | 12/16        | 12/17        | 12/18        | 12/19        | 12/20        | 12/21e        | 12/22e        | 12/23e        |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Adjusted EPS                                       | 0.29         | 0.29         | 0.31         | 0.23         | 0.15         | 0.22          | 0.27          | 0.28          |
| <b>Reported EPS</b>                                | <b>0.29</b>  | <b>0.29</b>  | <b>0.31</b>  | <b>0.23</b>  | <b>0.15</b>  | <b>0.22</b>   | <b>0.27</b>   | <b>0.28</b>   |
| Growth in adjusted EPS                             | 14.5%        | -1.1%        | 8.2%         | -25.5%       | -35.3%       | 48.8%         | 22.2%         | 3.7%          |
| Net dividend per share                             | 0.28         | 0.28         | 0.28         | 0.28         | 0.18         | 0.22          | 0.23          | 0.24          |
| FCF to equity per share                            | 0.25         | 0.28         | 0.29         | 0.23         | 0.32         | 0.24          | 0.28          | 0.30          |
| Book value per share                               | 1.66         | 1.65         | 1.65         | 1.42         | 1.42         | 1.46          | 1.52          | 1.57          |
| Number of shares market cap (m)                    | 717.50       | 717.50       | 717.50       | 717.50       | 717.50       | 717.50        | 717.50        | 717.50        |
| Number of diluted shares (m)                       | 742.50       | 717.50       | 717.50       | 717.50       | 717.50       | 717.50        | 717.50        | 717.50        |
| <b>VALUATION (€m)</b>                              | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| 12m highest price (€)                              | 3.40         | 4.27         | 5.66         | 4.21         | 3.44         | 2.87          |               |               |
| 12m lowest price (€)                               | 2.29         | 3.09         | 3.24         | 2.67         | 1.76         | 2.45          |               |               |
| (*) Reference price (€)                            | 2.75         | 3.64         | 4.30         | 3.39         | 2.29         | 2.85          | 2.85          | 2.85          |
| Capitalization                                     | 1 974        | 2 614        | 3 085        | 2 430        | 1 643        | 2 045         | 2 045         | 2 045         |
| Restated Net debt                                  | 641          | 693          | 683          | 715          | 680          | 638           | 593           | 544           |
| Minorities (fair value)                            | 2.3          | 0.4          | 0.2          | 0.3          | 0.3          | 0.3           | 0.3           | 0.3           |
| Financial fixed assets (fair value)                | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Provisions   | 37.5         | 24.6         | 50.4         | 26.5         | 36.1         | 36.1          | 36.1          | 36.1          |
| <b>Enterprise Value</b>                            | <b>2 654</b> | <b>3 332</b> | <b>3 819</b> | <b>3 172</b> | <b>2 360</b> | <b>2 720</b>  | <b>2 674</b>  | <b>2 625</b>  |
| P/E (x)  | 9.4          | 12.6         | 13.7         | 14.5         | 15.2         | 12.7          | 10.4          | 10.0          |
| P/CF (x)   | 7.1          | 8.4          | 6.6          | 15.4         | 4.3          | 6.9           | 6.4           | 6.2           |
| Net Yield  | 10.1%        | 7.7%         | 6.5%         | 8.3%         | 7.9%         | 7.8%          | 8.1%          | 8.3%          |
| FCF yield  | 9.0%         | 7.6%         | 6.8%         | 6.9%         | 14.1%        | 8.3%          | 9.9%          | 10.4%         |
| P/B incl. GW (x)                                   | 1.66         | 2.21         | 2.60         | 2.38         | 1.62         | 1.95          | 1.88          | 1.81          |
| P/B excl. GW (x)                                   | 2.39         | 3.24         | 3.82         | 3.76         | 2.56         | 3.03          | 2.86          | 2.71          |
| EV/Sales (x)                                       | 1.64         | 2.00         | 2.20         | 1.84         | 1.66         | 1.74          | 1.61          | 1.56          |
| EV/EBITDA (x)                                      | 6.7          | 8.2          | 8.4          | 8.5          | 8.3          | 7.7           | 6.9           | 6.7           |
| <b>EV/Current EBIT (x)</b>                         | <b>11.5</b>  | <b>13.1</b>  | <b>12.6</b>  | <b>13.6</b>  | <b>16.8</b>  | <b>12.6</b>   | <b>10.3</b>   | <b>9.8</b>    |
| (*) historical average price                       |              |              |              |              |              |               |               |               |
| <b>PROFIT AND LOSS (€m)</b>                        | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales  | 1 619        | 1 667        | 1 739        | 1 727        | 1 424        | 1 565         | 1 658         | 1 685         |
| EBITDA   | 397          | 404          | 455          | 372          | 286          | 351           | 387           | 394           |
| Depreciations                                      | -167.1       | -148.8       | -152.1       | -138.5       | -145.1       | -134.7        | -126.1        | -125.1        |
| <b>Current EBIT</b>                                | <b>230</b>   | <b>255</b>   | <b>303</b>   | <b>234</b>   | <b>140</b>   | <b>216</b>    | <b>261</b>    | <b>269</b>    |
| Published EBIT                                     | 230          | 255          | 303          | 234          | 140          | 216           | 261           | 269           |
| Net financial income                               | -20.8        | -7.7         | -22.5        | -18.9        | -14.7        | -13.2         | -12.3         | -11.4         |
| Corporate Tax                                      | 7.3          | -39.6        | -55.5        | -46.4        | -16.5        | -40.6         | -49.7         | -51.5         |
| Net income of equity-accounted companies           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Profit/loss of discontinued activities (after tax) | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Minority interests                                 | 0.7          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Attributable net profit                            | 218          | 208          | 225          | 168          | 109          | 163           | 199           | 206           |
| <b>Adjusted attributable net profit</b>            | <b>218</b>   | <b>208</b>   | <b>225</b>   | <b>168</b>   | <b>109</b>   | <b>163</b>    | <b>199</b>    | <b>206</b>    |
| <b>BALANCE SHEET (€m)</b>                          | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Goodwill   | 377          | 377          | 377          | 377          | 377          | 377           | 377           | 377           |
| Other intangible assets                            | 4.3          | 3.9          | 2.9          | 50.0         | 63.7         | 63.7          | 63.7          | 63.7          |
| Tangible fixed assets                              | 1 295        | 1 171        | 1 239        | 1 250        | 1 184        | 1 164         | 1 151         | 1 141         |
| WCR  | 157          | 284          | 195          | 23.6         | 70.2         | 81.3          | 88.4          | 90.4          |
| Financial assets                                   | 171          | 175          | 254          | 222          | 211          | 211           | 211           | 211           |
| Ordinary shareholders equity                       | 1 231        | 1 184        | 1 186        | 1 027        | 1 026        | 1 058         | 1 098         | 1 139         |
| Minority interests                                 | 2.3          | 0.4          | 0.2          | 0.3          | 0.3          | 0.3           | 0.3           | 0.3           |
| Shareholders equity                                | 1 233        | 1 185        | 1 187        | 1 027        | 1 026        | 1 059         | 1 098         | 1 140         |
| Non-current provisions                             | 131          | 133          | 199          | 180          | 200          | 200           | 200           | 200           |
| <b>Net debt</b>                                    | <b>641</b>   | <b>693</b>   | <b>683</b>   | <b>715</b>   | <b>680</b>   | <b>638</b>    | <b>593</b>    | <b>544</b>    |
| <b>CASH FLOW STATEMENT (€m)</b>                    | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| <b>EBITDA</b>                                      | <b>397.4</b> | <b>403.8</b> | <b>455.2</b> | <b>372.1</b> | <b>285.5</b> | <b>351.1</b>  | <b>386.8</b>  | <b>393.9</b>  |
| Change in WCR                                      | 33.9         | 2.9          | -40.3        | 167.2        | -69.2        | -11.0         | -7.1          | -2.0          |
| Interests & taxes                                  | -13.5        | -47.3        | -78.0        | -65.3        | -31.2        | -53.8         | -62.0         | -62.9         |
| Others   | -96.0        | -46.4        | 89.2         | -147.7       | 128.9        | 0.0           | 0.0           | 0.0           |
| Operating Cash flow                                | 321.9        | 313.1        | 426.1        | 326.3        | 314.1        | 286.2         | 317.7         | 329.0         |
| CAPEX  | -138.6       | -114.7       | -216.5       | -158.0       | -80.6        | -114.5        | -113.2        | -115.1        |
| <b>Free cash-flow</b>                              | <b>183.3</b> | <b>198.4</b> | <b>209.6</b> | <b>168.3</b> | <b>233.5</b> | <b>171.7</b>  | <b>204.5</b>  | <b>213.9</b>  |
| Acquisitions / disposals                           | 0.1          | -0.2         | 62.7         | -4.4         | -27.3        | 0.0           | 0.0           | 0.0           |
| Dividends  | -170.0       | -250.0       | -200.0       | -200.0       | -198.0       | -130.0        | -158.9        | -164.8        |
| Net capital increase                               | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Others   | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Change in net cash                                 | 13.8         | -52.0        | 9.8          | -32.3        | 35.2         | 41.6          | 45.5          | 49.2          |
| <b>GROWTH MARGINS PRODUCTIVITY</b>                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Sales growth                                       | -2.1%        | 3.0%         | 4.3%         | -0.7%        | -17.5%       | 9.9%          | 6.0%          | 1.6%          |
| <b>Lfi sales growth</b>                            | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| Current EBIT growth                                | -18.6%       | 10.7%        | 18.9%        | -22.9%       | -39.9%       | 54.1%         | 20.5%         | 3.1%          |
| Growth in adjusted EPS                             | 14.5%        | -1.1%        | 8.2%         | -25.5%       | -35.3%       | 48.8%         | 22.2%         | 3.7%          |
| Net margin   | 13.4%        | 12.5%        | 12.9%        | 9.7%         | 7.7%         | 10.4%         | 12.0%         | 12.2%         |
| <b>EBITDA margin</b>                               | <b>24.6%</b> | <b>24.2%</b> | <b>26.2%</b> | <b>21.5%</b> | <b>20.0%</b> | <b>22.4%</b>  | <b>23.3%</b>  | <b>23.4%</b>  |
| <b>Current EBIT margin</b>                         | <b>14.2%</b> | <b>15.3%</b> | <b>17.4%</b> | <b>13.5%</b> | <b>9.9%</b>  | <b>13.8%</b>  | <b>15.7%</b>  | <b>16.0%</b>  |
| CAPEX / Sales                                      | -8.6%        | -6.9%        | -12.5%       | -9.1%        | -5.7%        | -7.3%         | -6.8%         | -6.8%         |
| WCR / Sales  | 9.7%         | 17.0%        | 11.2%        | 1.4%         | 4.9%         | 5.2%          | 5.3%          | 5.4%          |
| Tax Rate   | -3.5%        | 16.0%        | 19.8%        | 21.6%        | 13.1%        | 20.0%         | 20.0%         | 20.0%         |
| Normative tax rate                                 | -3.5%        | 16.0%        | 19.8%        | 21.6%        | 13.1%        | 20.0%         | 20.0%         | 20.0%         |
| Asset Turnover                                     | 0.9          | 0.9          | 1.0          | 1.0          | 0.8          | 0.9           | 1.0           | 1.0           |
| <b>ROCE post-tax (normative tax rate)</b>          | <b>12.8%</b> | <b>11.7%</b> | <b>13.3%</b> | <b>10.4%</b> | <b>7.2%</b>  | <b>10.2%</b>  | <b>12.4%</b>  | <b>12.8%</b>  |
| ROCE post-tax hors GW (normative tax rate)         | 16.1%        | 14.7%        | 16.8%        | 13.3%        | 9.2%         | 13.2%         | 16.0%         | 16.6%         |
| ROE  | 17.9%        | 17.2%        | 19.0%        | 15.2%        | 10.6%        | 15.6%         | 18.4%         | 18.4%         |
| <b>DEBT RATIOS</b>                                 | <b>12/16</b> | <b>12/17</b> | <b>12/18</b> | <b>12/19</b> | <b>12/20</b> | <b>12/21e</b> | <b>12/22e</b> | <b>12/23e</b> |
| Gearing  | 52%          | 58%          | 58%          | 70%          | 66%          | 60%           | 54%           | 48%           |
| Net Debt / Market Cap                              | 0.32         | 0.27         | 0.22         | 0.29         | 0.41         | 0.31          | 0.29          | 0.27          |
| <b>Net debt / EBITDA</b>                           | <b>1.61</b>  | <b>1.72</b>  | <b>1.50</b>  | <b>1.92</b>  | <b>2.38</b>  | <b>1.82</b>   | <b>1.53</b>   | <b>1.38</b>   |
| EBITDA / net financial charges                     | 19.1         | 52.5         | 20.2         | 19.7         | 19.4         | 26.6          | 31.4          | 34.7          |

Sources: ODDO BHF Securities, SIX



• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on ODDO BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

• **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Outperform: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Underperform: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

• **The prices of the financial instruments used and mentioned in this document are the closing prices.**

• **All publications by ODDO BHF concerning the companies covered and mentioned in this document are available on the research site: [www.securities.oddo-bhf.com](http://www.securities.oddo-bhf.com)**

**Recommendation split**

|                              |       | Outperform | Neutral | Underperform |
|------------------------------|-------|------------|---------|--------------|
| Our whole coverage           | (509) | 55%        | 32%     | 13%          |
| Liquidity providers coverage | (83)  | 61%        | 35%     | 4%           |
| Research service coverage    | (42)  | 64%        | 31%     | 5%           |
| Investment banking services  | (26)  | 81%        | 12%     | 8%           |

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#### Target price history over the last 12 months for the company analysed in this report

| Company   | Date       | Price Target | Price | Analyst              |
|-----------|------------|--------------|-------|----------------------|
| Altri     | 03/05/2021 | 6.90 EUR     | 6.56  | Luis de Toledo Heras |
| Ence      | 03/05/2021 | 4.00 EUR     | 3.66  | Luis de Toledo Heras |
| Iberpapel | 03/05/2021 | 21.40 EUR    | 18.70 | Luis de Toledo Heras |
| Navigator | 03/05/2021 | 3.70 EUR     | 2.85  | Luis de Toledo Heras |

#### Fixed-income recommendations & ratings

|           | Recommendation | Rating |     |         |
|-----------|----------------|--------|-----|---------|
|           |                | Oddo   | S&P | Moody's |
| Altri     |                | \      |     |         |
| Ence      |                | \      |     |         |
| Iberpapel |                | \      |     |         |
| Navigator |                | \      |     |         |



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