Sappi Limited

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Fourth quarter results for the period ended September 2020

Short-form SENS announcement

	Quarter ended			Year ended		
US$ million	**Sep 2020**	**Sep 2019**	%	**Sep 2020**	**Sep 2019**	%
Sales	1 092	1 454	-25%	4 609	5 746	-20%
EBITDA excluding special items	82	185	-56%	378	687	-45%
Profit for the period	(88)	50	-276%	(135)	211	-164%
Net debt	1 957	1 501	30%	1 957	1 501	30%
Headline EPS (US Cents)	(14)	11	-227%	(19)	42	-145%
Basic EPS (US Cents)	(16)	9	-278%	(25)	39	-164%
EPS excluding special items (US Cents)	(4)	10	-140%	(5)	44	-111%
Net asset value (US Cents)	299	359	-17%	299	359	-17%

Sappi is a leading global provider of powerful everyday materials made from woodfibre-based renewable resources. Together with our partners, we are quickly moving toward a more circular economy.

Our raw material offerings (such as dissolving pulp, wood pulp and biomaterials) and end-use products (packaging and specialities papers, graphic papers, casting and release papers and forestry products) are manufactured from woodfibre sourced from sustainably managed forests and plantations, in production facilities powered, in many cases, with bio-energy from steam and existing waste streams. Many of our operations are energy self-sufficient.

Sappi works to build a thriving world by acting boldly to support the planet, people and prosperity.

Commentary for the quarter

The group generated EBITDA excluding special items of US$82 million, a decrease of 56% over the same quarter last year, led by a large reduction in DP and graphic paper sales volumes of 29% and 32% respectively.

Packaging and specialities volumes and profitability increased compared to the prior year as the US business in particular experienced encouraging sales growth across all of the major

product categories, offsetting a slightly weaker performance from the European business which was affected by the temporary shut of Alfeld PM3 following the fire at that machine in the previous quarter and softer demand for non-essential consumer products. The South African container board business also achieved a strong end to the year.

Industry demand for DP recovered faster than expected as global clothing retail sales rebounded and supply chain inventory levels, which had been allowed to run down, were refilled. In response to lower demand, we temporarily shut the calcium line at Saiccor and switched some capacity at Cloquet to paper pulp. As a consequence, DP volumes were 29% lower than the prior year. The segment includes 90,000 tons of BCTMP from Matane and paper pulp produced at Cloquet and Ngodwana which were sold in external markets.

Graphic paper demand in Europe and North America was most affected by Covid-19 over the May/June period. Since then we have experienced a slow recovery through to September with volumes 32% lower than last year. Downtime of 321,000 tons was taken in the fourth quarter, less than that required in the prior quarter, helping to improve profitability. Export markets, many of which were impacted later by Covid-19, were particularly weak. South African newsprint and uncoated woodfree demand continues to be impacted by the weaker domestic economy.

Net finance costs were US$21 million compared to US$20 million in the equivalent quarter last year.

Earnings per share excluding special items for the quarter was a loss of 4 US cents. Special items for the quarter reflected an expense of US$39 million. This related mainly to asset impairments due to weaker market conditions and restructuring provisions including the machine closures at Stockstadt and Westbrook.

Cash flow and debt

Net cash generated for the quarter was US$88 million, compared to US$173 million in the equivalent quarter last year. The decrease was as a result of reduced profitability and restructuring costs, offset somewhat by lower capital expenditure. Capital expenditure of US$95 million related mainly to the expansion of DP capacity at Saiccor.

Net cash utilised for the financial year was US$257 million (FY2019 US$1 million generated). The deterioration in cash generation was largely due to the impact that Covid-19 had on sales volumes, lower average DP prices, the acquisition of the Matane pulp mill and an increase in finance costs. Reduced capital expenditure and a reduction in working capital helped mitigate these impacts.

Net debt at financial year-end increased to US$1,957 million as a result of the cash utilisation, as well as the implementation of IFRS 16 Leases (US$105 million) and the acquisition of the Matane Mill (US$160 million). At the end of September 2020, liquidity comprised cash on hand of US$279 million and US$582 million from the committed revolving credit facilities (“RCF”) in South Africa and Europe.

At quarter end we agreed an extension of the covenant suspension period applicable to our debt facilities financial covenants until September 2021 with the first measurement due again at the end of December 2021.

Outlook

Underlying demand for most packaging and speciality products remains robust, driven by consumer preference and the shift from plastic to paper. First quarter sales volumes will be impacted in both Europe and South Africa by usual seasonal weakness and exacerbated by both the Ngodwana annual maintenance shut which was delayed from the third quarter of FY2020 and the scheduled Somerset annual maintenance shut. These shuts will have an estimated US$30 million impact on profitability, predominantly linked to the packaging segment. Some products remain affected by weaker economic activity in certain regions or end-use markets impacted by Covid-19.

Market conditions for DP have improved and pricing has recovered during October. At the time of this report the Chinese market price has risen to US$680/ton, driven by an acceleration in DP demand, tighter market balance and higher viscose staple fibre prices. However, in the short term, the combination of the mill maintenance shut at Ngodwana, constrained production on the calcium line at Saiccor due to the closure of the Lignotech plant and DP pricing which still favours own consumption paper pulp production at Cloquet, will mean that DP sales volumes in the first quarter will be only marginally higher than in the preceding quarter. Port and rail challenges in South Africa may additionally impact sales volumes for the quarter. We are evaluating opportunities to recover some of the lost DP production prior to the completion of the Saiccor expansion project.

Graphic paper demand continues to improve, and a series of paper machine and mill closures or conversions in the industry recently completed or imminent should improve operating rates in the coming quarter and year. However, a second wave of Covid-19 infections in Europe is leading to stricter lockdown conditions and a slowing of the recovery in many countries. Pricing is expected to move in line with variable cost movements.

Current liquidity headroom in the group remains good, with cash deposits at the end of the quarter of US$279 million and committed revolving credit facilities of approximately US$582 million. We negotiated an extension of our credit facility covenant suspension period until September 2021. The first measurement of these covenants will now take place at the end of December 2021.

Capital expenditure in FY2021 is estimated to be US$370 million and includes approximately US$100 million related to the decision to delay the Saiccor expansion project and the postponement of major shuts at Saiccor and Ngodwana which reduced capital expenditure in FY2020.

In the first quarter the underlying performance of the business will continue to improve, barring a widespread Covid-19 second wave, driven by the current recovery in DP and graphic paper markets. However, this will be offset by the impact on the packaging and speciality segment of the delayed shut at Ngodwana and the scheduled annual maintenance shut at Somerset. As a result, EBITDA in the first quarter of FY2021 is expected to be slightly below that of the

fourth quarter of FY2020. We remain encouraged by the resilience of our business and the opportunities offered by our strategic focus on the transition of the business towards higher growth segments.

On behalf of the board

S R Binnie
Director

G T Pearce
Director

5 November 2020

Short form announcement
This short-form announcement is the responsibility of the directors. It is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decision should be based on the full announcement accessible on 5 November 2020 via the JSE link and also available the sappi website at www.sappi.com.

Copies of the full announcement may be requested by contacting Jeanine Olivier on telephone: +27 (0)11 407 8307, email: Jeanine.Olivier@sappi.com.

The JSE link is as follows:
https://senspdf.jse.co.za/documents/2020/jse/isse/SAVVI/sappiQ420.pdf

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