

# Sappi continues to deliver strong results with major investments

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**Sappi continues to deliver solid results driven by strong global dissolving pulp and speciality packaging performance**

## ***Financial summary for the quarter and half-year***

- EBITDA excluding special items:
  - For the quarter \$208m (2016 \$195m)
  - For the half-year \$409m (2016 \$370m)
- EPS excluding special items:
  - For the quarter 17 US cents (2016 16 US cents)
  - For the half-year 33 US cents (2016 29 US cents)
- Profit for the period:
  - For the quarter \$88m (2016 \$100m)
  - For the half-year \$178m (2016 \$175m)
- Net debt \$1,329m, down \$323m year-on-year

**Sappi Chief Executive Officer Steve Binnie, commenting on the group's performance, said:**

"I am pleased to report that Sappi continues to deliver solid results on the back of our strategic shift to place more emphasis on dissolving pulp and speciality packaging. Coupled with strong cash generation and cost management initiatives to reduce variable costs we are well positioned to achieve our 2020 targets.

"EBITDA for the half-year was up 10%; and for this quarter improved by 7% on last year despite our graphic paper business coming under pressure and the significantly stronger Rand/Dollar exchange rate partially offsetting the higher dissolving pulp prices.

"Our projects to increase capacity of speciality packaging in Europe and North America are progressing as planned. Capital expenditure in 2017 is expected to be approximately \$350m. This includes the next phase of the dissolving pulp debottlenecking projects at Ngodwana and Saiccor Mills, the Somerset Mill wood-yard and the initial phases of the speciality packaging conversions.

"Sappi's Biotech business is also progressing well, with the opening of a second-generation pilot plant for sugar extraction at our Ngodwana Mill in South Africa just after quarter close and the signing of a global sales agreement with Cellmark of Sweden for our Lignosulphonate products."

**The periods under review:**

The Specialised Cellulose business benefitted from strong demand and favourable pricing for dissolving wood pulp (DWP), which followed the trends for viscose staple fibre, cotton and polyester.

In Europe and the USA, the speciality packaging and casting and release paper businesses continued to achieve strong sales growth and profit margins. In South Africa, the paper business experienced a strong recovery in sales volumes this past quarter compared to both comparative periods. Containerboard and newsprint sales were particularly healthy, and the outlook for containerboard remains strong due to an anticipated year-on-year growth in fruit exports.

Europe experienced a soft graphic paper market while in the USA coated paper volumes and prices declined during the period. This was exacerbated by rapidly rising raw material costs, particularly purchased pulp and latex in Europe.

Strong cash generation supported our debt reduction programme with net debt reducing by a further 19.5% compared to levels a year ago. Sappi has also, since quarter end, repaid the 2017 \$400m bonds utilising existing cash resources. This will further lower the ongoing net interest charge by approximately \$21m per annum. The profit for the six months was flat compared to 2016 but decreased \$12m for the quarter due to a \$18m positive after tax plantation fair value adjustment that occurred in 2016.

## Outlook

Subsequent to the steady increase in the second quarter, DWP prices have moderated during April 2017. This follows a similar trend in viscose staple fibre, cotton and polyester pricing. Nonetheless, market dynamics appear favourable, with demand growth continuing to exceed our long-term forecast of 4% and only limited capacity addition is expected in the next two years.

Graphic paper markets in Europe and the United States remain sluggish, although orders in Europe improved in late March and April. Rising paper pulp and latex prices, along with a weaker Euro have started to place pressure on European margins, with paper price increases originally scheduled for April only offering partial relief.

Demand for speciality packaging continues to grow and we are making good progress with the conversion projects we recently announced for Europe and North America. These will further boost production capacity in these grades.

During 2017 we expect to reduce net debt further through positive cash generation and for the net interest expense to decline following the repayment of the maturing 2017 bonds in April.

Based on current market conditions; in particular, the higher paper pulp and latex prices and the current Rand/Dollar exchange rate, we expect the group's operating performance in the third quarter to be slightly below that of the equivalent quarter in 2016. However, the full year result is likely to be above that of the prior year.

**" Sappi Karkloof Classic Trails Festival – Building a lasting legacy "** 23 May 2024

**" Sappi signs milestone 175GWh per annum renewable energy Power Purchase Agreement with Enpower Trading "** 8 May 2024

**" Promising SA-first solution to convert paper sludge, food and textile waste into bioethanol "** 29 Apr 2024

**" Sappi's Pelletin achieves feed safety assurance certification for its lignin-based animal feed additive "** 22 Mar 2024

**" Sappi achieves PEFC Group Scheme certification for small growers "** 19 Dec 2023

Sappi



Sappi works closely with customer, both direct and indirect, in over 100 countries to provide them with the relevant and sustainable paper, paper-pulp and dissolving wood pulp products and related services and innovations.

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