

Tuesday, June 11, 2024 | special comments

# Arctic Paper: Rewriting the Script of Papermaking

Rating: Overweight | Current Price: PLN 22.60

ATC PW; ATC.WA | Industrials, Poland

Analyst: Jakub Sargsyan; +48 519 419 895

**We initiate coverage of Arctic Paper S.A. with an OVERWEIGHT recommendation. We see ATC stock as offering a relatively low valuation compared to peers, moreover, the Company has lined up capital investment projects that will it to grow and add new strategic products to the sales mix.**

**Arctic Paper's capital investment pipeline includes the following major projects:**

- **A pellet plant, expected to reduce annual energy costs by about PLN 18.5m while increasing sales by about PLN 37m,**
- **Solar power plants that will sell electricity and provide storage and grid services at a high EBITDA margins of about 30%,**
- **Packaging plant extensions to increase annual volumes from 12kt in 2023 to 120kt in 2030, with intermediate goals of 40kt by 2026 and 80kt by 2028, achieving a CAGR of 23%,**
- **A joint investment with Rottneros in cellulose trays, expected to add about PLN 12m to annual EBITDA,**

**and other smaller projects.**

**All these projects will become increasingly significant as the world moves away from plastic.**

## Return to full capacity utilization

After a post-pandemic drop to 55%, capacity utilization by Arctic Paper has steadily improved, with projections indicating an increase to 80% in early 2024 and an expected further rise to 90% within the year.

At the same time, paper prices peaked at PLN 6,570/t in late 2023 but have since stabilized at a more usual level of 5.14 kPLN/t.

Sales volumes have also rebounded from a low of 97kt closet to a historical average of 160kt, reflecting a sustained recovery in market conditions.

## New kinds of packaging to make up for falling demand for paper

Arctic Paper S.A., jointly with Rottneros AB, have established Kostrzyn Packaging Sp. z o.o., a joint venture focused on cellulose fiber-formed packaging, initiated on February 17, 2023. The project, supported by investments and tax benefits under the Polish Investment Zone instrument, will operate a facility in the city of Kostrzyn nad Odrą starting Q3 2024.

Targeting the eco-friendly packaging market, this venture aims to produce 80 million molded fiber trays annually, generating about 60m PLN in revenue, and significantly contributing to Arctic Paper's sustainability and growth objectives.

## High dividend potential

Arctic's policy is to distribute between 20-40% of annual net profit as dividends. Since 2018, dividend payments have totaled PLN 241m (PLN 3.48 per share, 17% of current stock price). In addition, Arctic's Management Board have recommended a payout from 2023 net profit to make a dividend per share of 1.00 PLN (5% DY).

### Forecast of 2024-2026 results in Arctic Paper

(PLN m)	2019-23' avg	2023	2024E	2025E	2026E
Revenues	3,564	3,549	3,975	4,048	4,194
EBITDA	472	475	503	524	527
EBIT	359	357	388	390	391
Net income	240	247	301	289	283
Operating CF	374	471	268	307	308
CAPEX	-158	-200	-180	-200	-200
FCF	216	271	88	107	108
Net debt	-79	-377	-397	-402	-411
DPS	0.7	2.7	1.0	1.5	1.4
EBITDA margin	12.5%	13.4%	12.7%	12.9%	12.6%
EBIT margin	9.2%	10.1%	9.8%	9.6%	9.3%
NI margin	6.0%	7.0%	7.6%	7.2%	6.7%
P/E	3.2	4.9	8.0	6.5	6.6
EV/EBITDA	1.5	2.1	3.4	3.2	3.3
P/BV	0.4	0.7	0.6	0.5	0.5

Source: Arctic Paper, mBank



## About Arctic Paper

Arctic Paper is a leading European paper and pulp manufacturer with a diverse portfolio. Operating four paper mills in Kostrzyn nad Odrą, Poland, and Munkedal and Grycksbo, Sweden, the Company has an annual production capacity of roughly 695 thousand tonnes of paper.

After acquiring over 50% of the shares of the Swedish company Rottneros in 2012, Arctic Paper added two pulp mills in Rottneros and Valvik, Sweden, increasing its pulp production capacity to 400kt annually.

The Company caters to a broad clientele, including printing houses, wholesalers, publishers, advertising agencies, and end consumers, offering a wide range of high-quality uncoated and coated fine and book papers, as well as pulp products.

Arctic Paper employs about 1,500 people across its paper and pulp mills, sales operations, and a wood procurement company collaborating with Swedish private forest owners for sustainable raw materials. The Company operates 13 sales offices across Europe, ensuring broad market reach and distribution.

In 2021, Arctic Paper launched its "4P Strategy" (Paper, Pulp, Power, Packaging) in response to trends like declining graphic paper demand and rising packaging needs from e-commerce. This strategy aims to increase the revenue shares of the packaging and energy segments by 2030 while maintaining a strong pulp sector. It includes a PLN 1.3 billion CAPEX, allocating PLN 540 million to paper and packaging and PLN 450 million to energy.

## Key Capital Projects

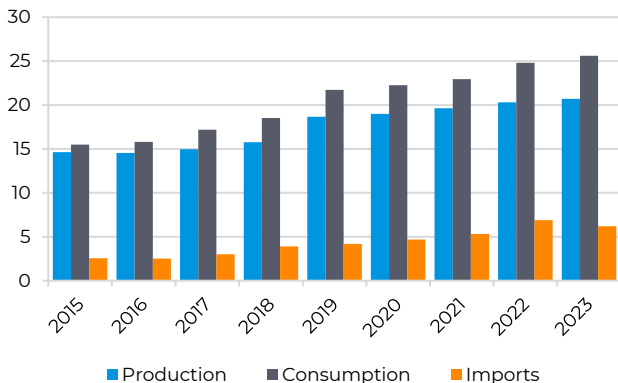
### (1) Pellet Plant

The European market for wood pellet heating systems has increased at a CAGR of 2.70% between 2019 and 2023. Looking into 2024, the segment of pellet boilers is expected to maintain a 44.70% market share.

Italy's demand for pellet heating systems is projected to grow at a CAGR of 2.9% through 2034, while Germany is anticipated to see a CAGR of 4.4% in the same period. Furthermore, Spain and France are also forecast to witness growth, with CAGRs of 3.5% and 3.1%, respectively from 2024 to 2034.

The growing demand for pellet boilers is driven by a combination of economic incentives, supportive legislation, technological advances, and increasing environmental consciousness, reflecting a broader trend towards sustainable energy solutions across Europe.

### EU Wood Pellet Supply and Demand (million tonnes)



Source: GAIN, mBank

Arctic Paper is investing **SEK 285m** to expand and upgrade its bioenergy operations in Grycksbo, enhancing wood pellet production. This initiative utilizes locally sourced wood chips, primarily targeting markets in Germany and France.

The project will cut the Grycksbo plant's annual energy costs by **SEK 50m** due to the use of cheaper fuel sources like pellets and waste products in production, and increase capacity to **50kt** of wood pellets annually. These pellets, produced from sawmill residuals, are valued at about **SEK 100m**.

Completion is expected in the first half of 2025, advancing Arctic Paper's environmental sustainability and energy resource diversification.

### (2) Energy

As mentioned earlier, in 2021 Arctic Paper outlined a comprehensive CAPEX strategy for the period from 2022 to 2030, with a total planned investment of **PLN 1.3bn**. This strategy is poised to support the Company's growth and modernization initiatives over the next decade.

A significant component of the investment strategy is dedicated to ramping up Arctic Paper's renewable energy capabilities, with a total investment of **PLN 450m** planned by 2030. The projects will be implemented in phases, with 30% of total CAPEX allocated to the period from 2022 to 2024, and the remaining 70% from 2025 to 2030.

The strategy includes launching a **17MW** PV plant in June 2024 and planning for an additional **9MW** on available Kostrzyn land during 2024-25.

Additionally, Arctic Paper is considering acquisitions of 20MW PV plants, spurred by recent price declines, with potential completions anticipated within the year.

#### Energy investment plan

Energy Source	2023	2030
Solar energy (MW)	0.8	40
Wind energy (MW)	0	60
Water energy (MW)	6.5	8
Bioenergy (MW)	6	8
Share in sales (%)	<2%	>7%

Source: Arctic Paper, mBank

The Energy Division, one of Arctic Paper's four primary segments, is projected to account for **7%** of the group's total revenues by 2030. More notably, it is expected to become the most profitable segment in terms of EBITDA margin, potentially reaching as high as 30%.

Revenue generation within this segment will extend beyond mere energy sales; Arctic Paper aims to penetrate the software market and the energy storage services sector. By leveraging these initiatives, the Company plans to secure a constant fee for its services, in addition to a commission of several percentage points on sales of stored energy.

### (3) Packaging

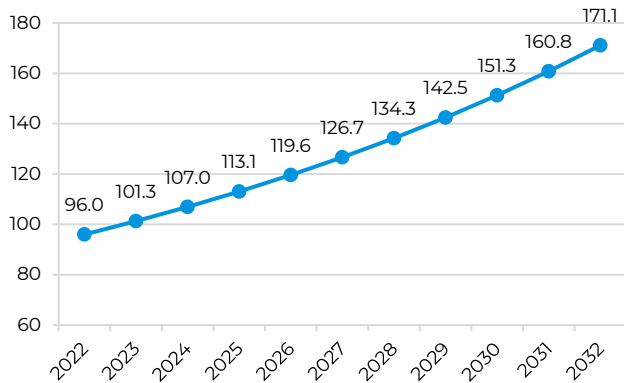
The European market for sustainable packaging, merging the domains of green and paper-based solutions, is set to experience robust growth.

Valued at \$96 billion in 2022 with projections to reach \$171.11 billion by 2032, this sector is advancing at a **6% CAGR**, reflecting a substantial shift towards eco-conscious packaging driven by environmental concerns and regulatory mandates. Factors fueling this growth include increasing consumer demand for eco-friendly packaging, stringent government regulations on environmental protection, and the inherent attributes of paper packaging like

biodegradability and recyclability which cater to both aesthetic and functional packaging needs.

The industry's evolution is underscored by a 4% increase in packaging paper and board production in 2022, signifying a solid commitment to sustainable packaging solutions.

**Europe Green Packaging Market Size (in USD bn)**



Source: Precedence Research, mBank

Consumer perceptions and regulatory frameworks heavily influence market dynamics

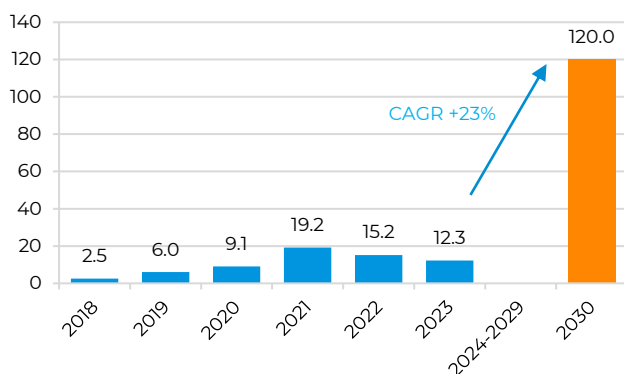
Amcor's 2023 report indicates a shift towards sustainability, with a notable increase in consumers willing to pay more for sustainable products.

The European Union's Packaging and Packaging Waste Regulation (PPWR) aims for the full integration of post-consumer recycled (PCR) content in packaging by 2030, reinforcing a regulatory push for sustainability. This regulation is part of a wider effort to minimize packaging waste and enhance recycling, highlighting the EU's dedication to environmental protection.

Moreover, a 3.5% increase in 2023 sales in the food and beverage sector reveals growth opportunities in sustainable packaging.

The alignment of consumer preferences, innovation, and regulatory backing is driving the European packaging industry towards sustainability, emphasizing its critical role in market development.

**Arctic Paper Packaging Sales (thousand tonnes)**



Source: Arctic Paper, mBank

Arctic Paper is ambitiously planning to expand its presence in the packaging sector, aiming to increase its paper packaging output from approx. 12kt at the end of 2023 to **120kt by 2030**. The Company has set intermediate targets of 40kt by 2026 and **80kt by 2028**, targeting a compound annual growth rate (CAGR) of 23%.

This growth strategy aims to increase the Packaging Division's revenue share from less than 2% to 18% within the Company's portfolio.

To support this expansion, Arctic Paper has committed **PLN 540m in CAPEX**, staggered as 35% between 2022 and 2024, and 65% from 2025 to 2030. This investment will enhance the production of high-quality paper packaging materials, including Kraft paper under the Munken Kraft brand and one-sided coated packaging papers under the G-Flexmatt brand, for a variety of applications such as shopping bags, bulk food product bags, and sophisticated packaging solutions for the food and non-food industries, underscoring Arctic Paper's commitment to innovation and sustainability.

**(4) JV with Rottneros**

Arctic Paper S.A. and Rottneros AB have embarked on a strategic venture, solidifying their collaboration through the creation of a joint venture, Kostrzyn Packaging Sp. z o.o., finalized on February 17, 2023. The partnership heralds a significant stride towards more innovative production of cellulose fiber-formed packaging, integrating sales and furthering research and technical analyses of the products.

Financially underpinned by shareholder contributions and bank loans, this venture also benefits from tax exemptions granted under the Polish Investment Zone instrument, emphasizing a commitment to economic and social sustainability criteria over a five-year post-investment period.

The establishment of a production facility in Kostrzyn nad Odrą, with the launch set for in Q3 2024 and an investment value pegged at **PLN 100m**, marks a pivotal move towards capturing the burgeoning eco-friendly packaging market.

**A molded fiber food tray**



Source: Arctic Paper, mBank

The joint venture between Arctic Paper and Rottneros aims to redefine the biodegradable packaging landscape, combining Rottneros Packaging AB's advanced technology with Arctic Paper's operational expertise. The R&D center and initial production for the project are in Sunne, Sweden, with full-scale production planned in Kostrzyn at the JV company.

This partnership is set to elevate Arctic Paper's portfolio significantly as it is anticipated to yield an annual output of approximately **80 million trays** and estimated revenue of around **60m PLN**. With a EBITDA margin of about **15-20%**, the project is expected to contribute approximately PLN 12m to annual EBITDA. The impact of these efforts should be noticeable by 2025.

These results are not included in our forecasts, thus offering additional upside.

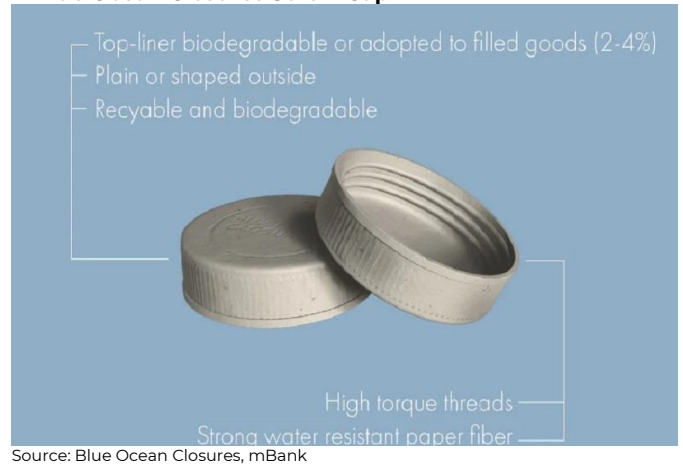
### (5) Other Projects

#### Blue Ocean Closures

Blue Ocean Closures AB, founded at the end of 2021 in Sweden, focuses on developing sustainable packaging solutions using high-density cellulose. The company, which builds on R&D efforts dating back to the early 2000s, is a collaboration between the ALPLA Group, Glatfelter, and Rottneros. It operates a head office in Karlstad and a production facility in Säffle, employing a diverse team of about 20 people from five different nationalities.

Blue Ocean Closures works closely with major partners like Absolut Vodka and The Coca Cola Company to meet high market standards and reduce plastic use and carbon footprints. The company's initiatives are supported by public funding from Swedish agencies such as Vinnova and Energimyndigheten.

#### A Blue Ocean Closures Screw Cap



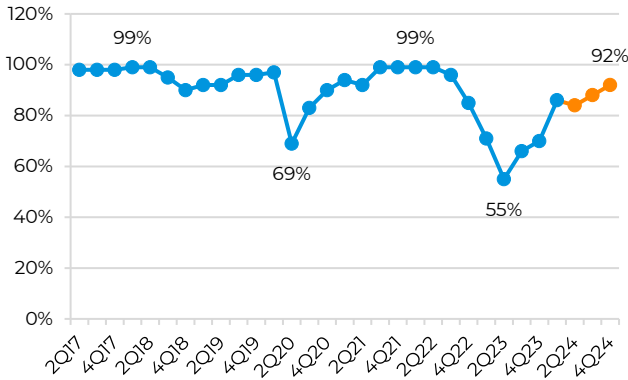
Source: Blue Ocean Closures, mBank

### Potential for 30% Paper Production Growth

After a post-pandemic market saturation, where production capacity utilization of Arctic Paper's mills reached almost 100%, a period of relief followed in the second quarter of 2023, with capacity utilization hitting a historic low of 55%.

Since then, Arctic has observed a consistent improvement for three quarters, and at the last investor conference the CEO mentioned that capacity utilization in the first quarter of 2024 could reach **up to 80%** and is expected to increase in the subsequent quarters.

#### Arctic Paper's Utilization of Paper Production Capacity

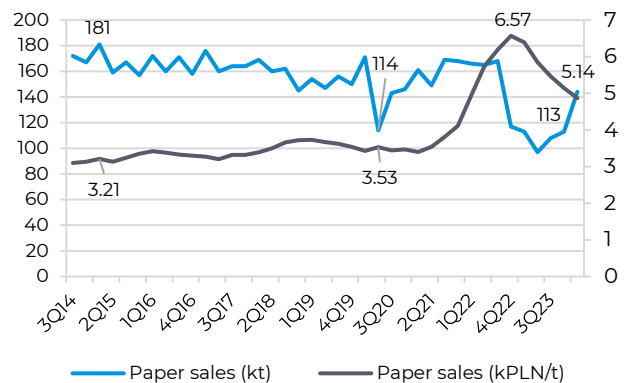


Source: Arctic Paper, mBank

After reaching a peak in the fourth quarter of 2022, with the average selling price of paper at 6.57 kPLN per ton, the price has gradually returned to its historical levels, achieving a value of 5.14 kPLN per ton in 1Q24.

Simultaneously, following a historical low in quarterly paper sales in the second quarter of 2023, when Arctic Paper sold a record low quantity of 97kt, we have observed a trend over the past two quarters of returning to the average sales volume of 160kt.

#### Paper sales (kt) and paper price (kPLN/t)



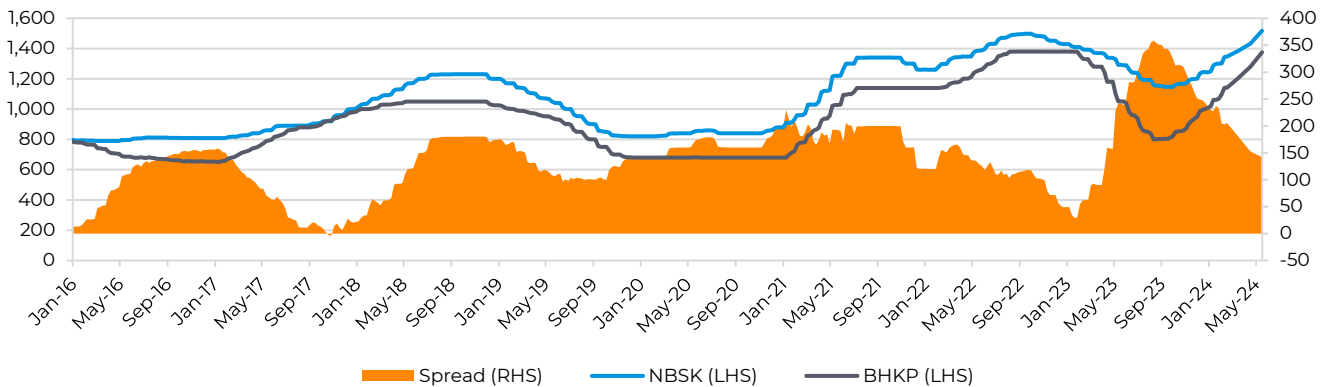
Source: Arctic Paper, mBank

Pulp prices, after reaching a low in the third quarter of 2023, have returned to an upward trend, reaching values at the end of May of \$1,517 for NBSK and \$1,375 for BHKP, simultaneously reducing the positive effect of the spread between them, which has returned to levels seen a year ago.

Arctic's subsidiary, Rottneros, is a producer of long-fiber softwood pulp (NBSK), which is primarily used in high-quality and durable products.

Arctic Paper's current strategy involves shifting production towards the use of BHKP pulp, which is produced from eucalyptus. By the end of 2021, the Company's consumption of pulp for production was BHKP: 71%, NBSK: 22%, Other: 7%.

**NSBK & BHKP pulp prices in USD per tonne**



Source: Arctic Paper, mBank

**Prices and Availability of Raw Materials**

Prices for timber in Sweden have continued to follow an upward trend since the third quarter of 2020, and by the end of the first quarter of 2024 they reached SEK 830/m<sup>3</sup> for spruce and SEK 765/m<sup>3</sup> for pine, marking respective year-over-year increases of 27.3% and 26.9%.

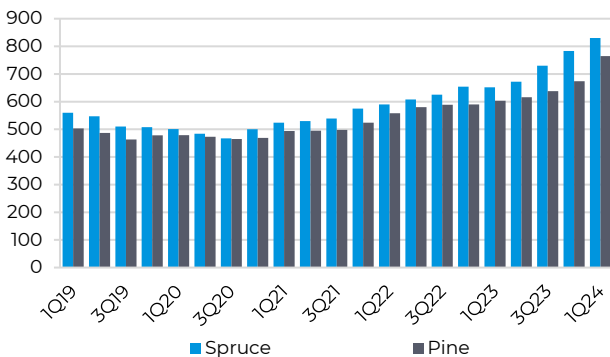
The high timber prices in the Swedish market have recently been offset by rising prices in the NBSK pulp market, reflected in higher average sales price per tonne of pulp.

However, the cost of production shift to using only BHKP (hardwood) pulp, and the projected increase in pulp prices, will depress Arctic Paper results.

The price spread per cubic meter between Polish and Swedish spruce narrowed from PLN 245 at the end of Q4 2022 to PLN 30 by the end of Q1 2024, reflecting an 81.6% year-over-year decline when comparing Q1 2023 with Q1 2024. Meanwhile, in April 2024, the average price of Polish spruce stood at PLN 329/m<sup>3</sup>, marking a 24% year-on-year decrease.

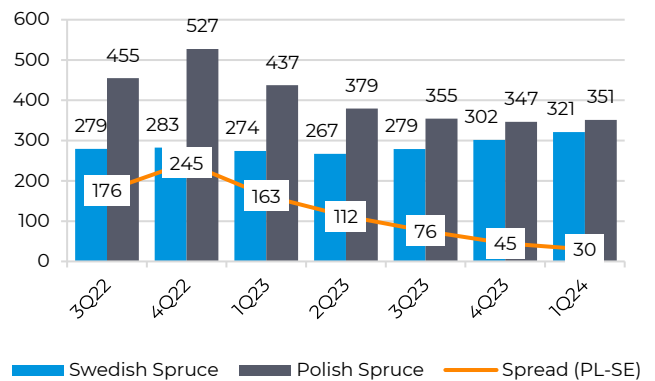
These trends suggest that importing spruce from Sweden to Poland is not financially viable. We believe the rising prices in the Swedish market are due to decreasing timber supply.

**Spruce and Pine Prices in Sweden (SEK/m<sup>3</sup>)**



Source: Skogsstyrelsen, mBank

**Polish and Swedish Spruce prices PLN/m<sup>3</sup>**



Source: Skogsstyrelsen, e-drewno, mBank





## Key Investment Risks

### Electricity Prices

One of the greatest threats to Arctic Paper's financial results that we have identified is the cost of electricity, which will continue to weigh in the coming 4 years despite significant investments by both Arctic Paper and its subsidiary Rottneros towards achieving energy independence.

This is particularly evident when it comes to Rottneros. For the year 2028, the company has secured electricity to meet 19% of its demand at a price of SEK 0.559 per kWh, which exceeded the price for 2024 by as much as **63.5%**. For context, Rottneros purchased 99% of the needed energy for 2024 at SEK 0.342 per kWh.

### Rottneros Electricity Hedges

Date	Proportion hedged, %	SEK per kWh
2024	99%	0.342
2025	81%	0.346
2026	30%	0.536
2027	26%	0.521
2028	19%	0.559

Source: Rottneros, mBank

The total annual energy consumption of the Arctic Paper Group of Companies amounts to about 2.8 TWh, of which Arctic Paper's own operations account for about 1.5 TWh, while the remaining 1.3 TWh is consumed by Rottneros.

Based on the table above, and assuming that Rottneros will pay for 100% of its own energy supply (approx. 200GWh) at SEK 0.559/kWh by 2028, we project that Arctic Paper's total energy costs will increase by SEK 43m (PLN 16m) compared to 2024.

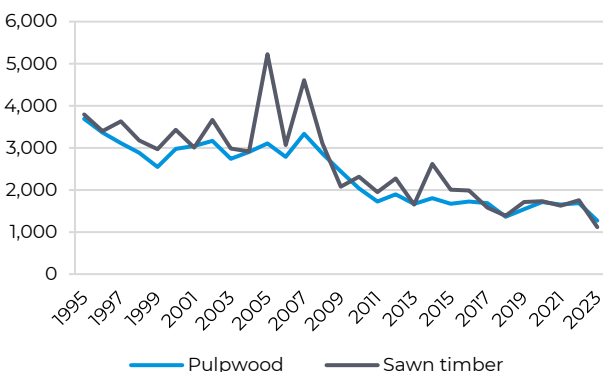
### Swedish Pulpwood Market

Data on the availability of raw wood material in Sweden reveals a concerning trajectory for stakeholders in the paper production sector.

Since 1995, the volume of pulpwood harvested in Sweden has diminished by approximately 67%, while sawn timber has seen an even steeper decline of 71% by the year 2023. This stark reduction highlights a challenging environment for the procurement of necessary resources, where the persistent scarcity is likely to exert upward pressure on raw material costs.

As the market adjusts to these tighter supply constraints, we anticipate a subsequent rise in the production expenses of NBSK pulp, potentially impacting Arctic Paper's profit margins.

### Volume of Sawn Timber and Pulpwood in Sweden (1,000 m<sup>3</sup>)



Source: Skogsstyrelsen, mBank

### Graphic Paper Demand

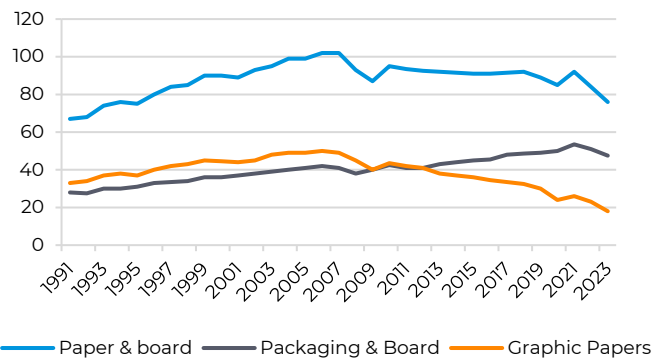
The overall consumption of paper and board in member countries of the Confederation of European Paper Industries (Cepi) in 2023 experienced a significant decrease of 15.3% compared to 2022, based on data for the first nine months of the year. This downturn surpassed any impacts witnessed during the Covid-19 pandemic, influenced by the repercussions of high interest and inflation rates on private consumption expenditure.

The sanitary and household paper segment emerged as the most resilient, primarily supported by the robustness of the 'at-home' sub-segment, which includes products like tissues and toilet paper, although it still saw a decrease of 3.7%. In contrast, the 'away-from-home' sub-segment faced challenges from less dynamic markets.

The demand for graphic paper was notably affected, recording a 27.5% drop in 2023 due to reduced needs in printing and publishing, further exacerbated by destocking activities.

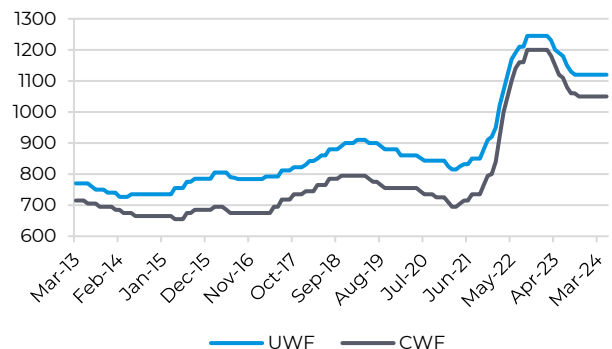
Similarly, the demand for packaging paper and board witnessed a 12.2% reduction.

### Production of Paper and Board in Cepi Countries (million tonnes)



Source: CEPI, mBank

### Graphic Paper Prices in Germany (EUR/t)

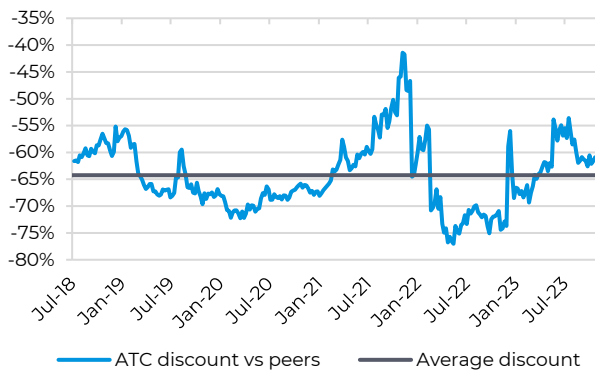


Source: Arctic Paper, mBank

CWF - coated woodfree paper grade, UWF - uncoated woodfree paper grade

## Peer Comparison

### 1-3YF EV/EBITDA



Source: Bloomberg, mBank

Arctic Paper's trading profile over the past six years, when compared with industry peers, consistently shows the Company as trading at substantial discounts as high as -64% on the EV/EBITDA multiple and -44% on the P/E ratio.

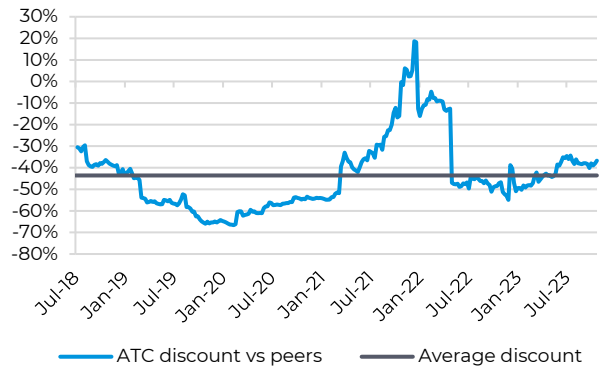
Forward-looking estimates reveal that this underpricing is set to continue. By 2024, the P/E ratio is projected at 79% below the peer median, with a marginal improvement to -65% by 2026.

### Arctic Paper vs Peers

Name	Country	MCap (USD m)	P/E			EV/EBITDA			DY
			24E	25E	26E	24E	25E	26E	
UPM-KYMMENE OYJ	FI	20,238	16.8	12.9	12.0	14.1	10.5	8.7	4.9%
INTERNATIONAL PAPER CO	US	15,359	22.1	15.2	13.6	9.1	8.9	7.2	5.5%
STORA ENSO OYJ-R SHS	FI	11,323	26.0	15.4	12.9	14.8	10.7	8.3	0.9%
MONDI PLC	UK	8,623	17.0	12.1	10.6	7.4	7.7	6.2	4.5%
HOLMEN AB	SE	6,777	23.3	21.3	20.3	11.7	14.0	13.1	2.0%
SAPPI LIMITED	ZA	1,672	9.7	6.2	5.2	4.4	4.6	4.1	4.3%
minimum			9.7	6.2	5.2	4.4	4.6	4.1	0.9%
maximum			26.0	21.3	20.3	14.8	14.0	13.1	5.5%
<b>median</b>			<b>19.5</b>	<b>14.1</b>	<b>12.4</b>	<b>10.4</b>	<b>9.7</b>	<b>7.8</b>	<b>4.4%</b>
Arctic Paper		397	8.0	6.5	6.6	3.4	3.2	3.3	5.0%
premium (discount)			-59%	-54%	-47%	-67%	-67%	-58%	13%

Source: Bloomberg, mBank

### 1-3YF P/E



Source: Bloomberg, mBank

Similarly, the EV/EBITDA discount is anticipated to be 81% in 2024, with a slight uptick to -78% in 2026.

These figures, although improved from the long-term averages, still place Arctic Paper significantly below the median valuations of its peers



**Historical Financial Performance of Artic Paper**

(PLN m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	YoY	QoQ
Pulp production kt	103.0	111.0	96.0	87.0	90.0	93.0	89.0	80.0	84.0	-6.7%	5%
Paper sales kt	166.0	165.0	168.0	117.0	113.0	97.0	108.0	113.0	144.0	27.4%	27%
Pulp sales kt	100.0	106.0	96.0	87.0	87.0	83.0	102.0	85.0	90.0	3.4%	6%
<i>Capacity utilization</i>	99%	99%	96%	85%	71%	55%	66%	70%	86%		
Uncoated	571.2	631.8	726.9	565.8	490.5	393.0	387.3	368.0	0.0	-100.0%	-100%
Coated	249.3	317.2	316.0	203.9	232.0	174.0	203.3	212.3	0.0	-100.0%	-100%
Paper (uncoated + coated)	820.5	949.0	1,042.9	769.7	722.6	566.9	590.6	581.0	701.0	-3.0%	21%
Pulp	291.2	347.7	360.0	315.5	312.9	269.5	264.4	244.9	264.3	-15.5%	8%
Eliminations	-1.1	-0.5	-0.8	0.0	-3.2	-0.2	-0.2	0.0	0.0		
<b>Revenues</b>	<b>1,110.8</b>	<b>1,296.3</b>	<b>1,402.1</b>	<b>1,085.1</b>	<b>1,032.2</b>	<b>836.2</b>	<b>854.8</b>	<b>825.9</b>	<b>965.4</b>	<b>-6.5%</b>	<b>17%</b>
Gross profit	300.6	455.1	414.7	240.3	269.4	141.6	193.2	141.5	207.1	-23.1%	46%
Gross margin	27.1%	35.1%	29.6%	22.1%	26.1%	16.9%	22.6%	17.1%	21.5%	-17.8%	
SG&A	124.7	158.2	157.4	143.7	122.9	114.4	107.1	120.7	126.0	2.5%	4%
SG&A as % of sales	11.2%	12.2%	11.2%	13.2%	11.9%	13.7%	12.5%	14.6%	13.0%		
Profit on sales	176	297	257	97	146	27	86	21	81		
Profit on sales margin	15.8%	22.9%	18.4%	8.9%	14.2%	3.3%	10.1%	2.5%	8.4%		
EBITDA reported	205.7	330.1	298.2	140.0	185.3	69.2	124.5	96.3	112.0	-39.6%	16%
EBITDA reported margin	18.5%	25.5%	21.3%	12.9%	17.9%	8.3%	14.6%	11.7%	11.6%		
<b>EBITDA, adj</b>	<b>205.6</b>	<b>328.9</b>	<b>296.0</b>	<b>127.4</b>	<b>176.1</b>	<b>57.1</b>	<b>115.6</b>	<b>50.0</b>	<b>109.5</b>	<b>-60.7%</b>	<b>119%</b>
<b>EBITDA, adj margin</b>	<b>18.5%</b>	<b>25.4%</b>	<b>21.1%</b>	<b>11.7%</b>	<b>17.1%</b>	<b>6.8%</b>	<b>13.5%</b>	<b>6.1%</b>	<b>11.3%</b>		
<b>EBITDA adj 4Q trail</b>	<b>492.7</b>	<b>738.6</b>	<b>934.7</b>	<b>974.0</b>	<b>953.5</b>	<b>692.7</b>	<b>519.0</b>	<b>475.3</b>	<b>402.0</b>		<b>-15%</b>
EBIT	176.1	298.1	259.6	109.3	155.6	39.3	95.0	67.1	83.7		25%
Net profit	120.7	215.9	221.9	72.6	107.9	39.8	64.1	35.4	82.5		133%
# of shares	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3	70.3		
Net profit-4Q trail	218.7	416.2	601.2	631.0	618.2	442.1	284.3	247.1	221.7		
EPS (PLN)	1.74	3.12	3.20	1.05	1.56	0.57	0.92	0.51	1.17		
<b>EPS adj-4Q trail (PLN)</b>	<b>3.16</b>	<b>6.01</b>	<b>8.68</b>	<b>9.11</b>	<b>8.92</b>	<b>6.38</b>	<b>4.10</b>	<b>3.57</b>	<b>3.18</b>		
Net debt (cash)	106.2	-52.0	-239.8	-307.4	-289.9	-161.6	-335.3	-377.3	-341.7		
Equity	1,442.6	1,841.1	2,247.2	2,052.2	2,032.4	1,724.0	1,794.8	1,801.5	1,776.5		
<b>CF (PLNm)</b>											
NI	120.7	215.9	221.9	72.6	107.9	39.8	64.1	35.4	82.5		
DD&A	29.6	32.0	38.7	30.7	29.6	29.9	29.5	29.2	28.3		
WC chng	-164.1	-104.2	-43.2	53.5	-164.1	102.1	108.9	51.6	-44.5		
Other	31.8	74.7	27.9	-30.8	89.1	-89.5	-2.1	9.8	-7.3		
<b>OCF</b>	<b>17.9</b>	<b>218.3</b>	<b>245.1</b>	<b>126.0</b>	<b>62.5</b>	<b>82.2</b>	<b>200.4</b>	<b>126.1</b>	<b>59.0</b>		
CAPEX	-40.5	-34.9	-26.3	-53.1	-32.5	-37.1	-49.2	-81.4	-75.3		
<b>FCF</b>	<b>-22.6</b>	<b>183.4</b>	<b>218.8</b>	<b>72.9</b>	<b>30.0</b>	<b>45.2</b>	<b>151.2</b>	<b>44.6</b>	<b>-16.4</b>		
<b>FCF-4Q trail</b>	<b>67.2</b>	<b>248.2</b>	<b>456.6</b>	<b>452.5</b>	<b>505.0</b>	<b>366.8</b>	<b>299.2</b>	<b>271.0</b>	<b>224.7</b>		

Source: Arctic Paper, mBank



**Financial Performance**

(PLN m)	2019-23' avg	2023	2024E	2025E	2026E
Paper sales kt	575.2	432.0	573.0	585.0	604.5
Pulp sales kt	395.0	357.0	359.6	379.4	398.4
<i>Capacity utilization</i>	87%	66%	88%	90%	93%
Paper	2,565.1	2,460.4	2,809.3	2,866.5	2,962.1
Pulp	1,058.4	1,088.7	1,166.0	1,181.5	1,231.6
Eliminations	-39.2	-3.7	0.0	0.0	0.0
<b>Revenues</b>	<b>3,564.1</b>	<b>3,549.2</b>	<b>3,975.3</b>	<b>4,048.0</b>	<b>4,193.6</b>
Gross profit	798.3	745.7	899.4	971.5	1,006.5
Gross margin	22%	21%	23%	24%	24%
SG&A	474.3	465.1	532.3	595.1	629.0
Profit on sales	324.0	280.6	367.1	376.5	377.4
Profit on sales margin	8.2%	7.9%	9.2%	9.3%	9.0%
EBITDA reported	471.6	475.3	503.4	523.5	527.0
EBITDA reported margin	12%	13%	13%	13%	13%
<b>EBITDA, adj</b>	<b>436.7</b>	<b>398.9</b>	<b>483.0</b>	<b>509.5</b>	<b>513.0</b>
<b>EBITDA, adj margin</b>	<b>12%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>
EBIT	358.9	357.1	387.6	390.5	391.4
Net profit	239.8	247.1	300.9	289.5	283.0
# of shares	69.3	69.3	69.3	69.3	69.3
EPS (PLN)	3.5	3.6	4.3	4.2	4.1
Net debt (cash)	-79.4	-377.3	-396.7	-402.4	-410.9
Equity	1,400.0	1,801.5	2,020.2	2,232.7	2,445.9
<b>CF (PLNm)</b>					
NI	239.8	247.1	300.9	289.5	283.0
DD&A	112.7	118.2	115.8	123.8	126.5
WC chng	-22.9	98.5	-69.1	-43.4	-81.1
Other	44.5	7.3	0.0	0.0	0.0
<b>OCF</b>	<b>374.1</b>	<b>471.2</b>	<b>268.0</b>	<b>307.0</b>	<b>307.5</b>
CAPEX	-157.8	-200.2	-180.3	-200.0	-200.0
<b>FCF</b>	<b>216.3</b>	<b>271.0</b>	<b>87.7</b>	<b>107.0</b>	<b>107.5</b>

Source: Arctic Paper, mBank



**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)  
**EBITDA margin** - EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

**Recommendations of Biuro maklerskie mBanku:**

A recommendation is valid for a period of 12 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 10%  
**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%  
**SELL** – we expect that an investment will bear a loss

The foregoing principle may be waived where circumstances warrant, including but not limited to periods of increased share price volatility experienced by the company that is the subject of a recommendation immediately preceding the time the recommendation is issued.  
 Recommendations are updated at least once every twelve months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for Sygnyty. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: [https://www.mdm.pl/ui-pub/site/market\\_and\\_analysis/analysis\\_and\\_recommendations/analytical\\_coverage\\_support\\_programme](https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme)

This document has been created and published by Biuro maklerskie mBanku. This report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. This report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of this report or for any damages incurred as a result of investment decisions taken on the basis of this report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Sygnyty, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in this report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation.

Biuro Maklerskie mBanku S.A. ("BM") has put in place internal regulations governing the active management of conflicts of interest, which establish internal organizational and administrative frameworks and information barrier protocols to prevent and avoid conflicts of interest in connection with recommendations. Different types of brokerage activities are separated from each other within BM's internal organizational structure, including the equity research department, which is separated from other brokerage activities. Information barriers, called "Chinese walls," have been created to restrict the exchange of information between different organizational units and employees of BM.

Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

The Issuer is a counterparty to mBank.

The production of this recommendation was completed on June 11, 2024, 7:51 AM.  
 This recommendation was first disseminated on June 11, 2024, 8:30 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing this report, in full or in part, or disseminating in any way information contained in this report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: <https://mdm.pl/bm/analizy>

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of this recommendations.

This publication constitutes investment research in the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

**For U.S. persons only:** This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

**Strong and weak points of valuation methods used in recommendations:**

**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

**mBank did not issue any recommendations for Arctic Paper in the 12 months prior to this publication**

## mBank S.A.

Prosta 18  
00-850 Warszawa  
<http://www.mbank.pl/>

## Research Department

Kamil Kliszcz  
director  
+48 667 770 837  
[kamil.kliszcz@mbank.pl](mailto:kamil.kliszcz@mbank.pl)  
energy, power generation

Piotr Poniatowski  
+48 509 603 046  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
gaming

Mateusz Krupa, CFA  
+48 571 608 973  
[mateusz.krupa@mbank.pl](mailto:mateusz.krupa@mbank.pl)  
strategy

Michał Konarski  
+48 515 025 640  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

Mikołaj Lemańczyk, CFA  
+48 501 663 511  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
banks, financials, property developers

Beata Szparaga-Waśniewska, CFA  
+48 510 929 021  
[beata.szparaga-wasniewska@mbank.pl](mailto:beata.szparaga-wasniewska@mbank.pl)  
biotechnology, healthcare

Paweł Szpigiel  
+48 509 603 258  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco, e-commerce

Janusz Pięta  
+48 506 065 659  
[janusz.pieta@mbank.pl](mailto:janusz.pieta@mbank.pl)  
retail, e-commerce

Jakub Sargsyan  
+48 519 419 895  
[marlen.sargsyan@mbank.pl](mailto:marlen.sargsyan@mbank.pl)  
industrials, mining

## Sales and Trading

### Traders

Piotr Gawron  
director  
+48 698 832 853 | +48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

Andrzej Kowalczyk  
+48 789 868 634 | +48 22 697 47 44  
[andrzej.kowalczyk@mbank.pl](mailto:andrzej.kowalczyk@mbank.pl)

Karol Kułaj  
+48 509 602 984 | +48 22 697 49 85  
[karol.kulaj@mbank.pl](mailto:karol.kulaj@mbank.pl)

### Sales, Foreign Markets

Marzena Łempicka-Wilim  
deputy director  
+48 696 427 249 | +48 22 697 48 82  
[marzena.lempicka-wilim@mbank.pl](mailto:marzena.lempicka-wilim@mbank.pl)

## Private Client Sales

Maciej Sokołowski  
director  
[maciej.sokolowski@mbank.pl](mailto:maciej.sokolowski@mbank.pl)

Jarosław Banasiak  
deputy director  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)

Paweł Cyłkowski  
+48 503 684 130 | +48 22 697 47 31  
[pawel.cylkowski@mbank.pl](mailto:pawel.cylkowski@mbank.pl)

Andrzej Sychowski  
+48 605 848 003 | +48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

Piotr Brożyna  
+48 512 756 702 | +48 22 697 48 47  
[piotr.brozyna@mbank.pl](mailto:piotr.brozyna@mbank.pl)

Łukasz Płaska  
+48 784 449 962 | +48 22 697 47 90  
[lukasz.plaska@mbank.pl](mailto:lukasz.plaska@mbank.pl)