

STORA ENSO/HOLMEN – AS GREEN AS IT GETS

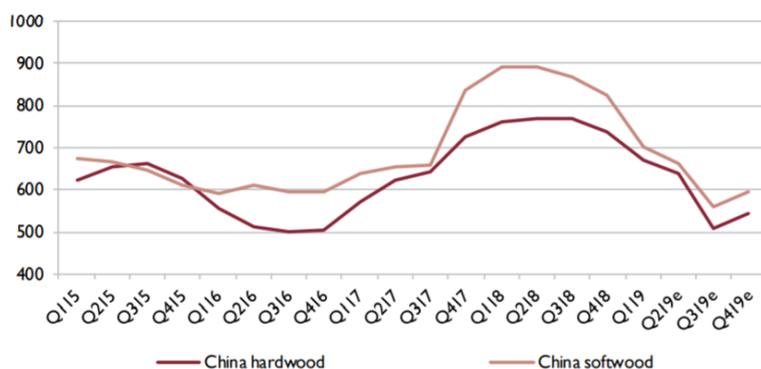
Fund managers looking to greenwash their portfolios in paper stocks in the beginning of the year got whipsawed as a double dip in the China NBSK wreaked havoc to analysts' earnings estimates, with EBIT est for the paper companies easily down 15pc or more since late last year.



Source: Bloomberg

The resultant crash in the paper stocks has left a buying opportunity for the rest of us, as NBSK in China is now dipping below cash marginal cost of approx \$600/t, which traditionally marks a cyclical floor for prices as capacity is curtailed. While Europe NBSK will follow China down with a lag and perhaps lead to further downgrades for the European paper companies in 2H, the inflection point for the cycle to trough and begin its next upward journey is already here while valuations on the paper stocks are down to historical lows.

China: pulp prices USD/t



Source: : Carnegie Research, bleached kraft pulp - list prices

Asset values

The BillerudKorsnas sale of 317k hectar of forestland in Central Sweden y`day highlights the vast «hidden» values in the forest owning paper companies. The price comes in at SEK 38,500/ha or around 2x book. The read-across to large forest owners such as SCA, Stora and Holmen is an eye-watering SEK 70/bn for SCA (1,1 it's EV alone) and SEK 36bn for Holmen (on SEK 38bn EV) and for Stora the implied value on it's share of Bergvik Skog alone is EUR 4,3bn on top of forest land in other countries (40pc of it's EV, 50pc of mrk cap on Bergvik alone).

Assuming EV/EBIT 10x over the cycle as a fair multiple, implied pricing on SEK333/m3 implies a fair price of SEK 140 on SCA and SEK 290 on Holmen. Using consensus EBIT of EUR 1240 this year on Stora and incl only Bergvik, leaves an EV/EBIT multiple of merely 5,7 already this year or a EUR 17 target on 10x EBIT.

A large transaction like BK's leads one to think Fredrik Lundberg (Industrivarden) may want to use SCA to buy Holmen to gather his forestry holdings and unlock value. Considering the rest of Holmen comes for free, the stock is maybe the most obvious way to get exposure to this. I will own some Stora, too, as it gives me the largest leverage to the next pulp upcycle while waiting for Mr Market to mark up all the green on the balance sheet.

GRAB						
STERV_FH Equity		Actions	Export	Settings	Consensus Overview	
Stora Enso OYJ		Periodicity	Annuals	Source	Standard	Cur EUR
Estimates for several more measures are available MODL »		Broker	-----	Guidance		
Values	Growth					
12 Months Ending	FY 2018 Act	FY 2019 Est	FY 2020 Est	FY 2021 Est	FY 2022 Est	
	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	#
11) EPS, Adj+	1.290	1.081 ↓	1.093 ↓	1.154	1.100	1
12) EPS, GAAP	1.280	1.089 ↓	1.069 ↓	1.148	1.100	1
13) Revenue	10.486B	10.535B	10.515B	10.462B	10.851B	4
14) Gross Margin %		29.646	29.469	30.025		2
15) Operating Profit	1.209B	1.243B	1.266B	1.290B	1.374B	2
16) EBIT	1.325B	1.214B ↓	1.219B ↓	1.259B	1.379B	2
17) EBITDA	1.878B	1.789B	1.794B ↓	1.852B	1.923B	2
18) Pre-Tax Profit	1.190B	1.044B ↓	1.056B ↓	1.125B	1.095B	1
19) Net Income Adj+	961.000M	842.944M ↓	847.889M ↓	897.800M	866.000M	1
Current Multiples						
	Last 4 Qtrs Act	Next 4 Qtrs Est	FY 2019	FY 2020	FY 2021	
Price/EPS, Adj+	7.88	9.51	9.11	9.01	8.53	
Price/Book	1.19	1.16	1.08	1.02	0.95	
Price/Cash Flow	7.13	5.72	5.42	5.37	5.17	
EV/Revenue	1.08	1.08	1.08	1.08	1.09	
EV/EBITDA	6.80	6.43	6.37	6.35	6.15	
EV/EBIT	9.76	9.61	9.38	9.34	9.04	
EV/OPP	9.76	9.54	9.17	9.00	8.83	
Dividend Yield			5.36	5.63	6.05	

Source: Bloomberg

Why buy e.g Tomra (or other ESG-hypes) at 33x EBIT and single digit top line growth when you can get an even greener Stora at 5,7x EBIT and single digit top line growth? With a highly visible 100pc repricing on its books and a 12pc FCF and 5pc divi yield while waiting for the pulp cycle to turn up. Remember; there is no product you can make from hydrocarbons that you can't also make from wood. Not only is it hard to see that it gets any greener and more ESG-friendly than this, it hardly gets any cheaper, either.

BUY – target EUR 17

The Harpoon Report

Hunting for value



Source: Bloomberg

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Ståle