Stora Enso's Q1 2023 results transcript 25 April 2023

Annica Bresky:

Welcome everyone and thank you for joining us today for our first quarter result presentation. In my presentation, we will cover the financial result and our strategic progress. We will also go through how we are managing the more challenging market conditions, short and long-term. And finish with an outlook.

Sustainability is, as you're aware, deeply embedded in our strategy and corporate culture. Our purpose, to do good for people and the planet, is more important and relevant now than ever before. By replacing fossil-based materials with our renewable products, we can leverage on this opportunity for long-term earnings growth. And can, at the same time, positively contribute to mitigate climate change. This is what drives both our underlying performance and our opportunities for innovation and growth.

Please take a look at the image of a building on the right-hand side. This is how Stora Enso's new building of the headquarters in Helsinki will look like next summer when it's finished. And I'll come back a little bit to this building later on.

Looking at the key highlights for the quarter, we have acted on some major strategic initiatives by discontinuing the paper division. We have reduced cyclicality, optimised the business portfolio with a focus on key growth areas. We've also completed the tactical acquisition of De Jong Packaging. It is doubling the size of our packaging solutions division. It gives us the opportunity to integrate our long-term position in containerboard. And advances our growth in renewable packaging by entering new markets in Western Europe.

In consumer board, we are targeting growth in high end renewable packaging by allocating capital to the Oulu site. And after that investment, it will be a megasite with the lowest cost curve in Europe.

And, lastly, the divestment process of our Beihai site in China is progressing according to plan, with good interest from potential buyers.

Now, let's take a look at the key financials for the quarter. Group sales decreased by 3% to 2.7 billion euro. And we can see signs of weakening demand in most of our product segments, excluding liquid packaging. Higher sales prices in all divisions, except in Wood Products, and, also, favorable foreign exchange rates, had a positive impact on the top line year-on-year. On the downside, we had lower deliveries, mainly due to market curtailments, a long-planned shutdown in Veracel, and the logistical strike in Finland. We also had negative effects from structural changes, mainly related to the paper site disposals at Nymölla in Sweden and Maxau in Germany, as well as the exit from the Russian operations. As a consequence, the Group's operational EBIT decreased by 53% to 234 million euro and led to an operational EBIT margin of 8.6%. The operational return on capital employed, excluding forests, for the last 12 months was 16.5%, which is above the long-term target of more than 13%.

If we now take a look at the operational EBIT variances, you can see here that the increase in sales prices and product mix could not mitigate the continued year-on-year escalation in invariable costs from fiber, chemicals, energy, and logistics. The fiber costs increased due to higher pulpwood prices, as the market is very tight, especially in Finland and Baltics. And fixed costs increased, mainly due to maintenance costs, consumables, and services. Other variable costs increased mainly due to distribution of unit margin decrease because of lower sales prices in wood products. And the impact from logistics strike for the Group was approximately 26 million euro, with majority of that impact in Packaging Materials due to lost volumes and production disturbances.

On this next slide, you can see the quarterly impact on our operational EBIT due to maintenance activities, including both costs and lost volume. For Q1, the impact was 119 million euro, slightly higher than the estimated in conjunction to the Q4 report. And up by 12 million year-on-year, due to operational issues that we had during the maintenance shutdown at the Veracel site in Biomaterials division. In Q2, the impact is expected to increase year-on-year to 143 million euro, due to maintenance shutdowns at five of our sites. Last year, we only had three maintenance shutdowns in the second quarter.

The last few years, we have accelerated our actions to fulfill our strategic roadmap. And have successfully accomplished the significant transformation of our product portfolio towards our growth areas. You can see on the left that in 2006, 70% of sales were generated by the paper business. Today, we no longer have a paper division, and 53% comes from strategic growth areas. In the 2025 projections, we have excluded Anjala's paper line that is planned to be closed later this year. And have made sure that we continue with our investments in Oulu site to be able to take advantage of the growth that we have there.

In 2030, our ambition is that 80% of sales would come from packaging, building solutions, and biomaterials innovation. With this ambition, we can profitably grow with our existing and new customers in current markets. And build market share in new markets, with new products and solutions.

In January, Stora Enso finalised the acquisition of the Dutch De Jong Packaging Group, now a major part of the Packaging Solutions division. The integration process is proceeding according to plan and will deliver annual synergies of about 30 million euro in EBITDA over the cycle. When the ongoing expansion projects in packaging converting are fully ramped up, during this year, an additional EBITDA of 40 million euro is estimated to be delivered. A divestment of Beihai would include both the industrial side and forest operations. And the released capital would support our already decided investments in Europe, improving our long-term profitable growth opportunities in existing sites such as Oulu site in Finland. Existing and new customers in China and other Asian markets will continue to be served from Stora Enso's other global sites. And we are working very closely with our joint venture partners in China to manage the interest from potential buyers. We have no committed timeline yet for the completion.

On January 1st, we discontinued the Paper division. The divestment of the Nymolla and Maxau paper sites were completed during the first quarter. And the divestment of the Hylte site was completed in April. And after evaluating available options, we decided to discontinue the divestment process of the Anjala paper site in April. The paper market continues its structural decline. And due to the prevailing weak demand and high input costs, we recently announced a plan of closing one paper line, producing uncoated mechanical grades in the Anjala site. The union negotiations have been initiated, and we will revert once that process is finalised.

I will now cover a few examples of developments we're working on, in partnerships and corporations with other companies, to advance our innovations. For the development of lignin-based products, we are collaborating with a Polish company called Paged to meet market demand for bio-based and more sustainable plywood. By using Stora Enso's bio-based, high purity lignin, Paged can replace up to 40% of fossil based glue in plywood.

We're also collaborating with the Finnish company, Valmet, to advance the next generation of lignin process development, to optimise the process machinery and asset design. The objective is to capture the growing demand for lignin-based products and increase the supply further by developing the quality and customer value of lignin.

And, lastly, we signed a joint development agreement with a Korean company, Kolon Industries to develop industrial bio-based polyesters and their applications as well, as renewable binder for raising formulations. This is a very early phase of the technology of using sugars extracted from wood. That is not there yet, but having the insight, we are now testing and developing future bio-based materials, which can replace fossil-based materials in this field. Applications area for this material covers packaging, car tire reinforcements, for instance, display films for electronic screens and panels.

I would also now like to show you a couple of recent examples of how we are innovating to advance a renewable future in Wood Products division. Looking at the image on the left, you can see how our new headquarters in Helsinki will look like when it's finished in summer 2022. This is a one-of-its-kind construction. And there is no comparable wooden frame anywhere else in the world. The first mass timber elements have been installed. And the building will be our own headquarters, also host a hotel and functions for the public. And this spectacular building will be a landmark for sustainable and climate smart construction, built with our own Stora Enso's applications. The timber structure stores around 5,900 tonnes of CO_2, removed from the atmosphere while the trees were growing. The CO_2 stored is equivalent to driving 1,260 times around the world by car. The building on the right is a wooden landscape in one of the wettest places on earth, which shows that wood construction is doable also in rain-soaked climates.

Nanyang Technological University in Singapore is one of the first timber landscrapers in the world, with an enormous 42,000 square meter footprint. The horizontal mega structure would be the second-tallest building in the world if stacked vertically. And Stora Enso's largest delivery to a single building. Also, here, the timber structure stores around 5,800 tonnes of CO_2. And it will be safely locked in the structure for the duration of the building's total life cycle.

Now, let's move over to the financials. All the Group's long-term targets, except for the growth targets, were achieved in the first quarter. Our sales decreased by 3%, even though the sales prices were higher. This was because of lower deliveries and impact from the structural changes, as I mentioned before. For the divisions, Biomaterials, Wood Products, and the Forest division, outperformed their ROOC targets, while Packaging Materials and Packaging Solutions underperformed. Now, I hand over to you, Seppo, to give us some more flavor on our financials.

Seppo Parvi:

Thank you, Annica. And I start by looking at the cash flow that was impacted by working capital development and high capex. Going forward, we are now putting focus to improve cash flow. Cash flow after investing activities was one million euro. And working capital increased by 120 million euro, mainly because of the increased inventories that was somewhat offset by lower trade receivables and increased payables. Cash spent on capital expenditure was 253 million euros, which is mainly related to our strategic investments, like Oulu conversion.

We are now focusing to reduce our working capital, turn around the trend that we have been facing now. And, also, restrict capital allocation to improve cash flow. In the current business environment, cash flow is very important to focus and work on. We are reviewing our strategic capex initiatives, as well as other capex projects that we have in the pipeline. And we are now making a decision on the conversion of Langerbrugge site somewhat later. So that will be postponed due to the cashflow of related issues, and the business environment. We are also processing the investment in Lignode when it comes to phasing and timing of that project.

Higher capex estimate is mainly due to growth investments in consumer growth. This increase from last year's 778 million euro to a range of 1.2 to 1.3 billion euro. And in the strategic projects, we have included projects like the Oulu conversion, Skoghall capacity increase, and Skutskär bleach plant. If you look over the time, you can see that maintenance and development capex has been rather stable, remained stable, somewhat up now in 2023, mainly because of the De Jong transaction and acquisition, but strategic capex is more or less double compared to historical averages. It is obviously something temporary that will come down over time as the strategic projects are finalised. Looking over 10-year trend, roughly half of the capex is expected to go to strategic projects, somewhat less to maintenance and development, and then typically around 80 million euro to biological capex. Then, let's look at the divisional results overview. The development, and I start by looking at the Packaging Materials, where high operating costs continued in the quarter with weakening market demand outside liquid packaging board. The liquid packaging board market has been holding well and remains rather stable. Sales were down one percentage point year-on-year, and price and volume decline was only partly offset by the contribution the De Hoop recycled containerboard site that was part of the De Jong acquisition, and higher consumer board and paper prices. There was a clear trend when it comes to demand, weakening demand of cartonboard towards the end of the quarter.

Operational EBIT was down by 167 million-euro year-on-year. That was a reflection of higher operating costs, lower containerboard volumes and prices, as well as impact from the logistics strikes in Finland. Like Annica mentioned, 26 million euro in total for the Group, and the majority of that in Packaging Materials. These negatives were only partly offset by higher consumer board and paper prices. Then, looking at the price development in the Packaging Materials division. In containerboard. we have seen since last summer a downward trend when it comes to selling prices, both for kraftliner and testliner, and that has continued now also in the first quarter of this year. When it comes to consumer board, and especially folding box board prices, you can also see there that now at the beginning of this year, prices have started to go down.

Then, moving to Packaging Solutions, where we could see strengthened results despite challenging overall market demand also in this business. Sales were up 46% year-on-year thanks to the acquisition of De Jong that more than offset the impact from the divestment of Russian operations in the second quarter last year. Sales from the Northern and Central-Eastern European businesses, the businesses that we had before the De Jong acquisition, decreased slightly due to the soft market and lower sales prices. Operational EBIT was up by 3 million euro at 8 million euro. The acquisition of De Jong contributed positively, as well as the Northern and Central-Eastern European markets where performance was improved. That mitigated the negative impact from the soft market and the divestment of the Russian operations in the second quarter last year.

In Biomaterials, all-time high first quarterly sales did not offset cost escalation as the pulp market turned softer during the quarter. Sales were up 10% year-on-year, and this was, if you look at sales, an all-time high first quarter. Sales were driven by stronger year-on-year prices, solid by-product sales, as well as favourable currency rates. We could see increasing global market pulp inventories due to low demand, and a weaker than expected Chinese market. That was also reflected in the price development seen recently. Operational EBIT was down 22% at 91 million euro. Higher sales, as mentioned, did not offset higher wood costs, chemicals, and fixed costs. Also, to note, is that the Veracel site in Brazil had a planned major annual maintenance shutdown, which had a significant impact on the result.

Next, we have a graph on global pulp inventories development. As I mentioned already on the previous slide, we are now seeing an increasing trend when it comes to pulp inventories, and especially in the case of softwood pulp we are at record high historical levels. Also, hardwood pulp inventories have been trending upwards from the beginning of the year. This is of course then reflected on the global market pulp prices, where now we see the turn when it comes to price development, and we have seen now clearly a downwards trend, both in hardwood and in softwood pulp prices.

Then, moving to Wood Products, sales and profits were impacted by a significantly weaker sawn wood market and the exit from Russian operations a year ago. Sales were down 21% year-on-year, and the construction market was impacted by market slowdown, with fewer building permits and projects. Lower sales were impacted by lower volumes and sales prices, especially for sawn woods and exit from the Russian operations, as mentioned. EBIT was down 129 million euro compared to the first quarter last year due to lower prices and volumes, and together with increased costs, mainly for logistics and electricity.

Moving to forest, where strong and stable financial results continued, as expected, the forest business should be more stable and less cyclical. Sales were up 10% year-on-year at 687 million euro, driven by higher wood prices year-on-year. Especially that is visible in pulpwood, whereas the wood demand was lower year-on-year. Operational EBIT up 16% year-on-year, driven by stable and strong operational performance in our own forests, as well as in the wood supply operations.

Then about forest assets fair valuation. That remained stable at 8.3 billion euros compared to year-end last year. That is about 300 million euro up compared to a year ago, when it was standing at 8 billion euro. That is equivalent to 10.49 euros per share. Just to remind you that we are updating market-based forest property prices at the end of the Q2 and Q4 reports.

With that, handing over back to you, Annica.

Annica Bresky:

Thank you, Seppo. A few words now about our changed market guidance, the demand outlook for quarter two. We can see materially lower earnings forecast for the full-year results of 2023, and therefore we have issued a new guidance for the full year, estimating that the operational EBIT being significantly lower than last year's result, which was roughly 1.8 billion euros. That means being more than 50% lower compared to 2022. We expect uncertain market conditions and continued inflationary pressures to be more challenging during 2023 than in 2022 as the market outlook worsened during the latter part of Q1 this year.

Compared to last year, and for the full year of 2023, Group margins are expected to be adversely impacted by higher costs, particularly in relation to energy, wood, and chemicals. We continuously take decisive actions and measures, such as pricing when it's possible. We have reinforced cost control for our own fixed and variable costs, and operationally we focus on decentralisation, and that continues throughout the organisation, together with reduction of overhead costs and focus on cash flow and lowering capex as Seppo described. Capacity adjustments are also in place to respond to fluctuations in demand, and we adapt our product mix, and manage our inventories according to the market development.

I will now cover the market demand outlook for Q2 compared to Q1 this year per division. For Packaging Materials, we can see signs of weakening throughout the product portfolio related to reduced consumer confidence. Consumer board serves packaging of premium applications within liquid and food, pharmaceuticals, cosmetics, et cetera, and overall, we expect demand in Q2 for consumer board to remain stable, even if we see weakening demand for some consumer board grades such as folding box board and food service board. As I mentioned previously, liquid packaging board is more stable and resilient. Containerboard serves end users such as e-commerce and slow-moving consumables such as electronics, as well as industrial packaging. Here, demand is expected to remain weak and, in combination with the current supply-demand imbalance due to the many capacity increases in the recent years, the market will be challenging for the full year.

For corrugated packaging in Packaging Solutions, demand is improving from low levels, mainly due to seasonality effects as the agricultural season now is picking up going forward. At the end of the quarter, as mentioned also by Seppo, we saw the global pulp inventories increasing and a weaker demand for pulp in both Europe and China. Prices started to drop during the end of the quarter and, in combination with high pulpwood prices, we expect this to put pressure on the margins of the Biomaterials division.

The construction sector remains challenging, with a lower number of issued building permits and new housing starts, and also private home renovations. Normally there is a positive seasonality impact from sawn wood between Q1 and Q2, but we expect that to be limited. Of course, this is expected to have an adverse impact on demand for the wood products division this year. As also mentioned by Seppo, the Forest division is the most stable of our divisions, and for this quarter the tight wood market conditions in the Nordics are expected to continue. Therefore, we expect the demand for sawlogs to remain stable, while pulpwood demand is expected to decline due to the slowdown in the overall pulp market.

To summarise, we continue to adapt and take decisive actions to navigate the challenging market environment. Our financial performance in Q1 was weak and disappointing, caused by external factors such as weakening demand in most of the segments and continued high-cost inflation. We have ongoing actions in place to manage market volatility, being flexible and adapting to the conditions, taking sourcing measures combined with reinforced cost control, and efforts to lower capex.

We have taken several strategic initiatives to streamline the company for long-term resilience and growth, and we are optimising the business portfolio to focus on the long-term value creation by growing in renewable packaging, sustainable building solutions, and biomaterials innovations. We're positioning ourselves for long-term growth and lowered environmental impact to serve all our business sectors and our customers. With that, I think we are ready to open for the question-and-answer session.

Moderator:

Our first question comes from Justin Jordan.

Justin Jordan:

You have taken a decisive action to postpone the Langerbrugge potential conversion. Can you give us some outline of the options you have potentially with regard to postponing some of the Lignode capex? Secondly, could you outline your confidence in the ongoing interest in the Beihai disposal? I'm just curious whether this is a good time to be disposing of a consumer board asset given weakened market demand. Secondly, just a quick question for Seppo. Working capital increased by about 100 million euro quarter-on-quarter in Q1 relative to December 2022, or about some 300 million euro year-over-year despite lower volumes and lower prices across most of the products. Can you help us understand what happened there, and your ongoing efforts to reduce working capital as go through 2023? Thank you.

Annica Bresky:

Hi, Justin. Unfortunately, I didn't hear the

start of your first question, you could repeat that?

Justin Jordan:

Sure, Annica. Apologies. Really what I was getting at was, I can fully appreciate the decision the board has taken regarding Langerbrugge. Can you help us understand what decisions might be possible in terms of rephasing or postponing some of the potential Lignode capex?

And similarly on the Beihai disposal, you've clearly indicated there's a considerable interest in the asset. Can you help us understand, given end market conditions for consumer board remains slightly weak, the Board's confidence in achieving a compelling disposal process?

Annica Bresky:

Thank you. So, when we look at project postponements, this is a natural part of, of course, being responsible in the current market environment. And we are reviewing all projects that we have in our strategic pipeline.

Referring to Langerbrugge, we have completed the feasibility study, we've gotten an environmental permit. And when the containerboard market is improving and we're seeing the cycle to turn, we are ready to push the button and continue. But so far, we have taken a pause in the project as such.

If we look at Lignode, it's one of the many projects that we have in our pipeline, that we now will finish the feasibility study that we are conducting in Sunila during this year, as we have said. And then depending on how the market looks like, we will take a decision of when to start such an investment.

On the Beihai disposal, as I said, the interest is strong. And we haven't committed a timeline for such a divestment. And of course, we will take consideration to how the discussions are going before making a final decision on that disposal.

Seppo Parvi:

And then, Justin, on your question, when it comes to working capital, and as I mentioned during the presentation, especially inventories went up during the first quarter.

That is something typical that happens when the cycle turns, and we need to put more focus on the sales and operations play as well as inventory management.

And obviously we also put focus when it comes to payables payment terms from our suppliers, as well as when it comes to receivables and collections from our customers.

Typically, we follow a ratio to sales, and we see that that should be below 11%, rather closer to 10%. And I think there is a potential of 100 to 200 million euro at least to be reduced.

Justin Jordan:

Thank you both.

Moderator:

Our next question comes from Lars Kjellberg from Credit Suisse. Please unmute your line and ask your question.

Lars Kjellberg:

Thank you. Just first a quick follow up on Justin's question. Can you help us think about capex in 2024? Should that be in the range 800, 900 million euro if we assume then you can only continue with Oulu?

And then my question's essentially a lot of these markets were weak in Q4 and heading into Q1. So, what are the biggest changes you've seen in the progress of the first quarter that has shifted your view on the current year in terms of... Is that, I mean, consumer board, is that an incremental new? Because containerboard has been weak pretty much since Q3.

And the second point then would be on costs. Most of these cost items certainly we would have seen coming up for quite some time. But I'm a bit curious about what you're talking about energy because most energy prices are materially down. Does that relate to hedges expiring in your business?

And then if I may, just the strike impact, if you can call that out, what that cost you in Q1? Thank you.

Seppo Parvi:

Okay. Well, thanks, Lars. If I start with capex and energy and then hand over to Annica when it comes to more market related comments. So, first, 2024 capex. As you know, we don't give guidance for 2024 yet. But as said during the presentation and as well what we said in the report, we are now reviewing the capex pipeline when it comes to this year.

Obviously for this year some capex is already committed, and we need to see what is uncommitted and what can be reduced for this year. And then we will do the same for next year.

And like already mentioned, we are postponing the Langerbrugge conversion, as well as we are looking at the timing and phasing of Lignode project. And we come back to 2024 capex in due course.

When it comes to energy, you are right that the energy costs, especially recently, have been going down. There were some negatives during Q1 and like you said the hedges et cetera that have been in place.

We see now that there is a cost and pressure there especially on electricity is going down and so that is easing. But then if you look at the costs, that is then more than eaten up by higher pulpwood cost especially. And pulpwood cost is also a reflection of high demand, at least so far, paying capability of energy industry.

Annica Bresky:

Yes. And just an addition to the energy question. Yes, it's going down but it's still higher than last year. And in terms of capex for next year, Oulu capex is roughly evenly distributed between the two years. So therefore, as you know, we are not giving a guidance for 2024, but we will revert on that.

On the markets, what shifted during, I would say, March was the increase of inventories in the Biomaterials division and the pulp market, the global inventories went up. China opening, even though it's been kind of seeing a resumed consumer spending, it was not as strong as we had seen before the pandemic. So, we could see pulp prices in Biomaterials going down and spot prices going down. We know that local Chinese pulp producers are taking standstills in China, which is indicating kind of that there is a weakening in the pulp business. In consumer board, we have had, as you also mentioned, stability or more stability liquid packaging and also packaging diverted to food is resilient. But we have seen other segments being impacted in also consumer board at the end of Q1, mostly in folding box board and end uses that go to cosmetics or electronics or other applications where consumer spending is simply down.

So having those two shifts at the end of quarter one, we thought it was prudent to come out and give a guidance to the market that we see the weakening starting now in the pulp business.

Lars Kjellberg:

And just for clarity on the consumer board, you still called stable volumes in Q2 versus Q1. How does that stack up with what you just said?

Annica Bresky:

Well, if we look at that overall, the majority of the consumer board is stable, but it is a difference in the grades. You asked why we made the shift in our comment, and this is the shift that we see. So, between Q1, Q2 it's stable, but we give guidance for the full year.

Lars Kjellberg:

Thank you.

Moderator:

Our next question comes from Robin Santavirta from Carnegie Investment Bank. Please unmute your line and ask your question.

Robin Santavirta:

Yes, hello. I have a few questions. The first one is related to input cost. Now we spoke about energy a bit, but if you look at your key input costs overall and compare the outlook for Q2 versus Q1, should we expect the input costs to increase Q1 to Q2? What are the drivers there?

Annica Bresky:

Yes, thanks for the question. If we see between Q2 and Q1 totally on the variable cost side, they will increase. But between the different categories we see different movements, of course.

Energy prices, as we have described, are expected to go down even if they are going to be elevated compared to last year. Also easing in logistic costs and transport.

But then we see continued elevated costs within wooden fiber and that side. Which is of course one of the major categories we have, they have a share of 33% of our total variable cost structure.

So overall we see an expectation of continued increased or variable cost compared between the two quarters.

Robin Santavirta:

Thank you, Annica. Can I ask about pulpwood prices, it still seems to increase quite clearly in both Finland and also apparently in Sweden it’s still increasing. Could you explain what do you see f for the latter half of 2023 and 2024? And could you explain the dynamics that we have now?

Historically, when pulp prices and import prices start to decline in pulpwood prices in Finland, Sweden have also started to decline almost immediately after that. But now that doesn't seem to happen. What is going on here? And what are your expectations for the rest of the year and 2024?

Annica Bresky:

Yes, you're totally right, that has been the historical situation. And of course, there are always lagging effects. So, when the industry starts going down, you will at some point see an ease of pressure on the pulpwood.

However, the Russian war on Ukraine has cut the pulpwood availability and the influx of wood by 10% to 15% to the Baltic and Nordic market, if we look at the inflows of wood. And since the war is expected to be long-term and we don't see a solution on that, it means that there is a structural tightness on the market that is going to continue to impact us.

And then of course in the trail of that during the wintertime we also saw more pulpwood being used for energy generation, especially in the Baltics area.

So, all in all, I believe we are going to see a decline in pulpwood, but I don't expect us to go down to the levels that were before the Russian war on Ukraine, if I would summarise.

Seppo Parvi:

And I would add there that also the fact that less peat is used for heating nowadays, that has then increased consumption of pulpwood for energy purposes as another driver.

Robin Santavirta:

All right, thank you. And the final question I have is that if we look at, you had a fantastic 2022 obviously, and 2021 was good, but now you have quite steep declines in earnings and turnover. My view based on also your comments is that apparently the next few quarters will not be, by any means, easier from a profitability standpoint.

What can you do on fixed costs? Ir sounds like this is the place you need to sort of revise not only capex but also sort of cost structures. Anything that you are looking at the moment or doing? Or how should we think about this?

Annica Bresky:

Yes, you're totally right. And as I mentioned, the fixed costs are of course in a high focus. We focus on everything we can impact ourselves, and fixed costs is part of that.

It's also part of continuous improvements in the way of working. And if you remember three years ago, we implemented a €410 million profit protection programme. We are working internally with similar actions, and all the divisions have plans and we follow that up in a very structured way.

However, fixed costs cannot by far mitigate the pressures that we see on variable costs. So how we are working is of course we are making sure that we can defend and protect the pricing situation by taking curtailments where we can or when we need. We have negotiated furlough agreements, so we are able to adapt the production according to market demand.

If we look at the variable cost side, our sourcing and logistics organisation is of course negotiating the contracts and making sure that we put the right pressure there as for instance, the logistics market is easing up after the pandemic. We have opportunities there to reduce costs and those will become visible going forward. So yes, we work with everything that we can impact.

Robin Santavirta:

All right, good. Thank you very much.

Moderator:

Our next question comes from Joffrey Bellicha Meller from Bank of America. Please unmute your line and ask your question.

Joffrey Bellicha Meller:

Good morning Annica and Seppo. I have two questions from my side. The first one is, I'm trying to gauge where is underlying demand compared to destocking across your businesses. So, if you could help us with any view you have there, that would be super helpful. And then the second one is around capex. You made an interesting comment earlier on the call saying that Oulu was split evenly between 2023 and 2024. So, I'm trying to understand in your strategic capex, what is the roughly 300 to 400 million euro left over, and what are they targeting? And more importantly, if capex optimisation is going to target those 300 to 400 million euro as well? Thank you very much.

Annica Bresky:

Well in the strategic capex, I can start with that. We also have the rebuild of Skoghall for new capacity in liquid, the investments in energy efficiency in Enocell and Skutskär. So, all in all, the strategic capex is in accordance with what we have communicated. It will improve the cost competitive situation of our pulp mills, which I believe is the right thing to do, both now and for the future. And then if we look at destocking, if I start in consumer board, we saw destocking in folding box board taking place and also seasonality of course.

So, we see that for the demand going forward in Q2 there is destocking going on. If we look at containerboard, the inventory levels there are still quite high, and the demand is weak. We know that there is a lot of curtailments taking place in Europe, but the inventories are still on elevated levels. And I should add that for consumer board the inventories are stable, so we don't see any increase in inventories in consumer board. On the paper mills and the paper business as such, this is going to customer orders directly and inventories are limited. If we look at the corrugated packaging, this is tailored according to customer needs. So, no significant inventories there. On the pulp side here, as Seppo also mentioned and showed in the graph, we can now see the first increase in global inventories. If we look at soft wood and hardwood, they are above the five-year average. 11 days above the average in soft wood and four days above the five-year average.

So, all in all this is, as I've mentioned before, if you will, we follow the global pulp inventories, because it's the first indication of the market starting to turn. And we also know that there are major pulp projects coming on stream in the coming two years. So, it will be a challenging situation I believe if the market continues to be weak. If we look at the Wood Products, even though it has been weak, the inventories in sawn timber are still at a relatively high level. So there also we expect, as I said, that it's going to be some time before we start seeing the decline in those inventories, even if there are now improvements here and there on several markets, depending on market activity.

Joffrey Bellicha Meller:

Thank you very much Annica.

Moderator 2:

Our next question comes from Charlie Muir-Sands from BNB Paribas Exane. Please unmute your line and ask your question.

Charlie Muir-Sands:

Good morning. I just had a couple of follow up questions please. Firstly, on capital expenditure, could you just quantify what are the total expansionary capex commitments that you have that go beyond 2023, just so we have an understanding of what's the minimal spend likely in 2024 if none of the new projects that are not already up and running go ahead please? And secondly on De Jong, obviously good to hear that the synergies are still envisaged to be as per your original guidance, but I wondered if you could talk about the operational performance of De Jong at the moment, whether that has continued as you had anticipated? And then finally just on Beihai, can you just disclose what is the current annual profit contributions, just so we can understand what may be the potential scale of the disposal proceeds? Thank you.

Annica Bresky:

So, I can start. The De Jong business is as we said, showing a visible contribution to our packaging solutions business. De Jong, if you remember, one of the big areas of end uses that they are focusing on is on agricultural products which are more resilient if you look at it long term. And seasonally, not a lot of vegetables are grown in the greenhouses during the first quarter. And also, the high energy costs that we had this winter delayed the start of the agricultural season.

So seasonally, the end users of agriculture with De Jong will pick up. The spring was also a little bit cold, delaying the start. So, in that sense, yes, they are, but for the division, as I also mentioned, we exited the Russian units in Packaging Solutions, which were very profitable. So, De Jong had to pick up that slack compared to last year. And then if we look at Beihai, unfortunately we do not comment on individual mill's performances. But once we get further ahead in the divestment process and we can communicate, we will of course disclose the particulars of the site.

Seppo Parvi:

Then on the capital expenditure commitments going forward beyond 23, I think the main project there, is Oulu as already mentioned, this total conversion is roughly one billion euro in capex, which is evenly split over the three-year period. And then we have the maintenance and development capex, which typically has been 300-400 million euro. So that is more or less giving the sort of the range. But obviously there are small carryovers typically from one year to another. And then on top of that we are reviewing the pipeline. So that gives you sort of the ballpark where we are.

Charlie Muir-Sands:

Great. Thank you very much.

Moderator:

Our next question comes from Cole Hathorn from Jeffries. Please unmute your line and ask your question.

Cole Hathorn:

Morning Annica. Thank you for taking my question. Just following up on the impact into Q1, is there anything you can comment on? Is there any call out for EBIT impact for the destocking and downtime at the mills in Finland impacted by the strikes that you can quantify, or a rough range that you can give? Because I imagine that due to the port strikes, there were probably downtime that was less efficient than if you'd planned it and given a notice to the unions, and you were able to get some cost savings. So firstly, just trying to understand if there's any item you can quantify for Q1?

Secondly, just following up on pulpwood, the commentary that, it's going to be elevated but will ease but not go back to the prior levels. Will there be a divergence between what we're seeing in wood costs in the Nordic region versus potentially somewhere in central eastern Europe? And I know you've got sawmills in Central Eastern Europe, so just trying to understand if you think maybe Central Eastern European wood cost might ease before the Nordics? And then finally just following up on capacity closures, how are you thinking about your wider portfolio? Is there anything that you could do from a temporary basis to manage capacity? Thank you.

Annica Bresky:

I can start with the last question and then work myself through. For capacity, we are flexible and of course if we see that depending on where prices are going and we see that we have a product mix improvement, so we move products to more profitable sites and take capacity closures at sites we estimate are not performing as well. And this is part of the continuous arsenal that we have, and we utilise it as I said when we need it. Regarding wood flows in central Europe, the markets in Central Europe and Nordics are not really connected in terms of moving wood from one region to the other as such. But you are right that in the central European part, the influx of wood from Russia is not as evident as it was in the Nordics, where there was quite a significant capacity of wood that was used particularly in Finland.

Regarding the strikes, as I said, they did have an impact on how efficiently we could run our sites. On some of the sites we had to reduce the speed of production and our internal stocks got filled up. And of course, even though the strike is over, it takes some time before it eases up in the value chain. But I would not compare to the global demand weakening that we see and the inventories out on our market. That's not an effect that will stay for long in that sense. And as I said, the impact was 26 million euro for the quarter and that involved both volumes and increased costs that we had due to that. So, I think we have reached the end of our time now. I thank you once again for all your questions and I look forward to meeting you again at our next quarterly report in Q2. Have a great day and thank you.