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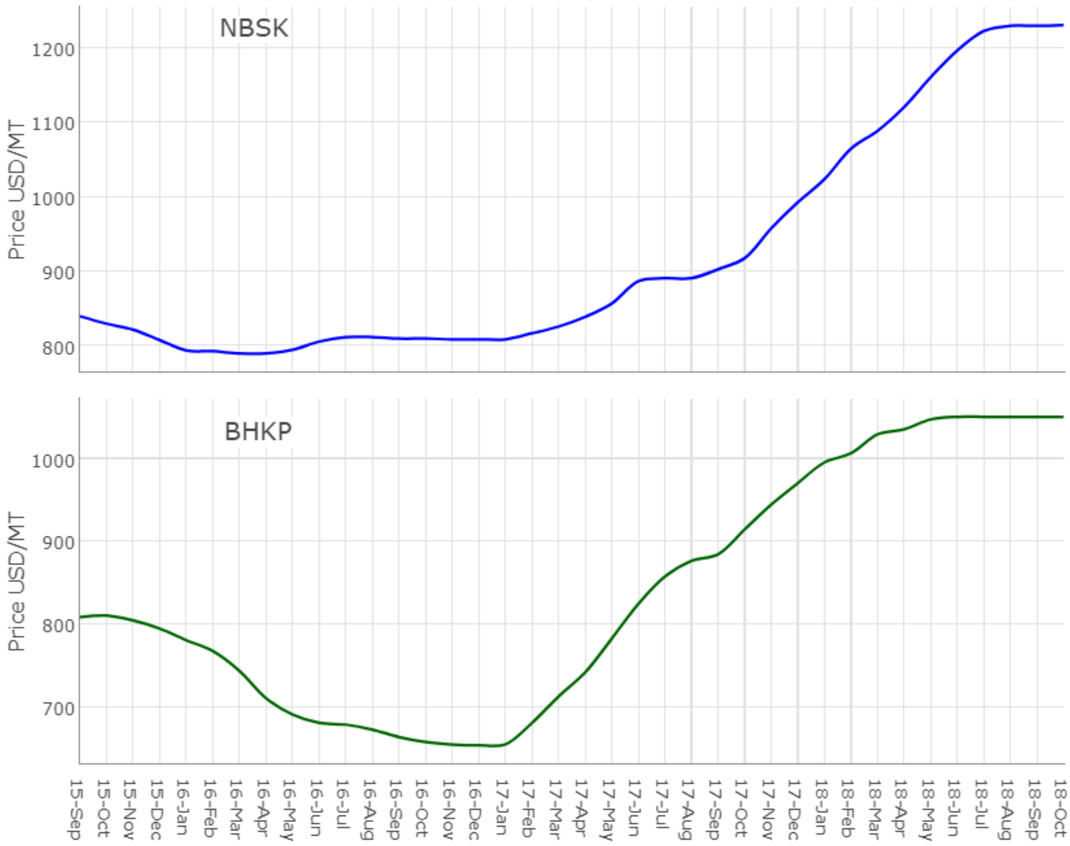
Pulp&Paper • News&Trends • Your November Newsletter

Pulp Prices likely on Hold again in November

The prices stability that has gripped the European pulp market throughout the summer is likely to continue into autumn. With producers not seeking price increases and overall fundamentals largely unchanged. On the other hand, paper mills are under pressure with the surplus of tissue products in Europe at the moment.



Pulpwood Price Fell for the First Time in over a Year

Pulpwood prices declining the most in Brazil, Russia, Australia and Sweden, reports the Wood Resource Quarterly. The two WRI global wood fiber prices indices fell slightly in the 2Q18 after having increased for all of 2017 and early 2018. For most of the key pulp-producing regions, prices were down because of the strengthening US dollar, while prices in the domestic currencies generally have gone up the past year.

Consumer Companies try Price Hikes as US Wages Climb

Procter & Gamble, Kimberly-Clark and others have told grocers in recent months that they need to raise prices on some products, as commodities costs surge and truck fleets hike rates. Tariffs resulting from international trade disputes have also pushed the cost of some raw materials higher. Now, retailers are more open to price hikes because they believe consumers are willing to pay more for certain goods given the fact that US job growth rebounded sharply in October and wages recorded their largest annual gain in nearly a decade.

P&G and K-C have invested in product improvements and in making them more attractive to consumers with increased disposable income to justify higher prices.

Impact of Strong Dollar for Business

Kimberly-Clark Chief Operating Officer Michael Hsu said during the company's latest conference call that **fluctuations in the dollar and other currencies could be "pretty significant headwinds" in 2019**. That is a big reason why the company plans on raising prices for most of its consumer products in North America in the first quarter of next year. It appears that many large corporations have been caught off guard by the dollar's continued resilience and underestimated its potential negative impact.

Essity Hit by Rising Pulp and Energy Costs

Essity reported a steeper-than-expected 12% drop in core profit as rising pulp and energy costs outweighed higher selling prices and cost savings, sending its shares lower. CEO Magnus Groth told analysts on a conference call on Monday he expected a significant increase year-on-year in the 4Q too in pulp, petrol-based raw materials and energy costs. “Pulp prices are... actually stabilising now since a few months, but there is no real reason why they should be coming down,” Groth said. “We are not really seeing, in the short to medium term, any changes there.”

Other major consumer product companies such as Procter & Gamble and Kimberly-Clark are also affected by all-time-high pulp prices.

Kimberly Clark CEO Steps Down as Company Profit Drops

Kimberly Clark CEO Thomas Falk has announced he is to step down as the company reports a fall in its full-year adjusted operating profit due to a rise in commodity costs such as plastic, pulp and oil. The operating profit decline has sent shares in the company falling by 5%, with commodity costs now expected to be at the higher end of the previous forecast of between $675M to $775M.

However…

Domtar, Resolute, Fibria report Record preliminary Q3 Results

Domtar reported net earnings of $99M for the 3Q18, an increase of $54M qoq and $29M yoy, mainly driven by price realizations and margin expansion. Sales for the 3Q18 were $1.4B.

Resolute Forest Products’ overall operating income in 3Q18 increased $14M qoq supported by higher pricing and improved productivity in their pulp and paper operations, as well as favourable impact of the weaker Canadian dollar and improved freight costs. Sales and net income were $974M and $117M in the quarter, respectively, an increase of $98M and $93M yoy, respectively.

Fibria's adjusted EBITDA set a new record of R$3.269B. The growth of 160% compared to the 3Q 2017 is mainly explained by sales volume growth, the 22% increase in the average pulp net price in USD and the 25% appreciation in the average BRL/USD exchange rate. EBITDA margin, which excludes sales of pulp from Klabin, set another record in the quarter, of 63%. Pulp production volume in 3Q18 was 1.8M tons, 25% higher than in 3Q17, which is explained by the production ramp-up of the second mill built in Três Lagoas, Mato Grosso do Sul, which during the quarter operated at its nominal capacity for the first time.

Brexit could Wipe Out Supply of Toilet Paper

There are fears that the United Kingdom could run out of toilet roll in the event of Brexit – especially if it crashes out of the European Union in five months’ time. According to Denis MacShane, former minister, each Brit consumes 110 toilet rolls a year – that is two and a half times the European average. He said that the **UK only has one day’s supply of toilet paper in stock at any time**, and that stockpile would soon be wiped out if it crashes out of the EU customs union and single market. MacShane told Prospect: “If Britain leaves the EU Customs Union and single

market in five months' time and the trucks transporting toilet paper are held up at Calais or Dover, British bottoms will have to be wiped with torn-up newspapers as in bygone days."
Tesco and Aldi have already said it is looking at plans to stockpile non-food goods.

Downtime at Kimberly Clark Tissue Plant in France due to Strike

Kimberly Clark's planned restructuring programme is making employees in France nervous. Rumours say that the Sotteville-Lès-Rouen plant might be sold or closed and employees demand to be informed.

Renova Toilet Paper Wrapped in Paper
Renova developed a new product that is 100% recycled that shows their commitment to the environment. The toilet paper is made of fibers from a previous life, no dyes and chlorine free.

M&A Activity / Investments

- Kimberly-Clark could make more than $2B off sale of European tissue business
- Kimberly-Clark could buy Asaleo Care
- WEPA takes over all shares in Northwood & Wepa JV - Bridgend – 52,000 tpa and converting capacity 80,000 tpa – £120M
- Nine Dragons Paper completed acquisition of the Old Town kraft pulp mill from OTM (subsidiary of CVG)
- Oceanwood (UK investment fund) will acquire Norske Skog that might lead to a potential consolidation in the publication paper market in Europe

New Developments

- Ilim Group invests $1B in strategic projects at Pulp Mills in Russia that will **increase pulp output** by 173,000 tpy by 2020 and will deliver 135,000 incremental tons of products per year
- Lila Group invests in a new Valmet tissue machine and its factory in Corlu is set to become the biggest tissue manufacturing facility under a single roof in Turkey, Middle East and North Africa
- Toscotec enters the Japanese market with two tissue lines for the Marutomi Group
- Kruger invests $575M to build a new tissue plant in Quebec featuring a TAD machine
- Stora Enso inaugurated Europe's largest wood fibre-based biocomposite plan at Hylte mill in Sweden
- Suzano becomes 3rd largest sanitary paper producer after acquiring Facepa
- ANDRITZ to supply major pulp production technologies for ARAUCO in Chile
- **Recard Speed Record 2150 m/min**: the 7th paper machine supplied by Recard to Cartiere Carrara started in the summer of 2017 run at 2130 m/min for 24h. The 2150 m/min was reached in 2018 with margin to exceed this personal record.

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