



## *Pulp&Paper • News&Trends • Your February Newsletter*

### **P&G Overcomes Rising Cost Pressures with Price Increases**

Procter & Gamble's plan to raise prices and refresh its product line-up appeared to be bearing early fruit, according to its latest quarterly results on 23-Jan, as cost pressures continue to challenge the consumer goods industry.

### **Newsprint Prices Rise in Germany and France**

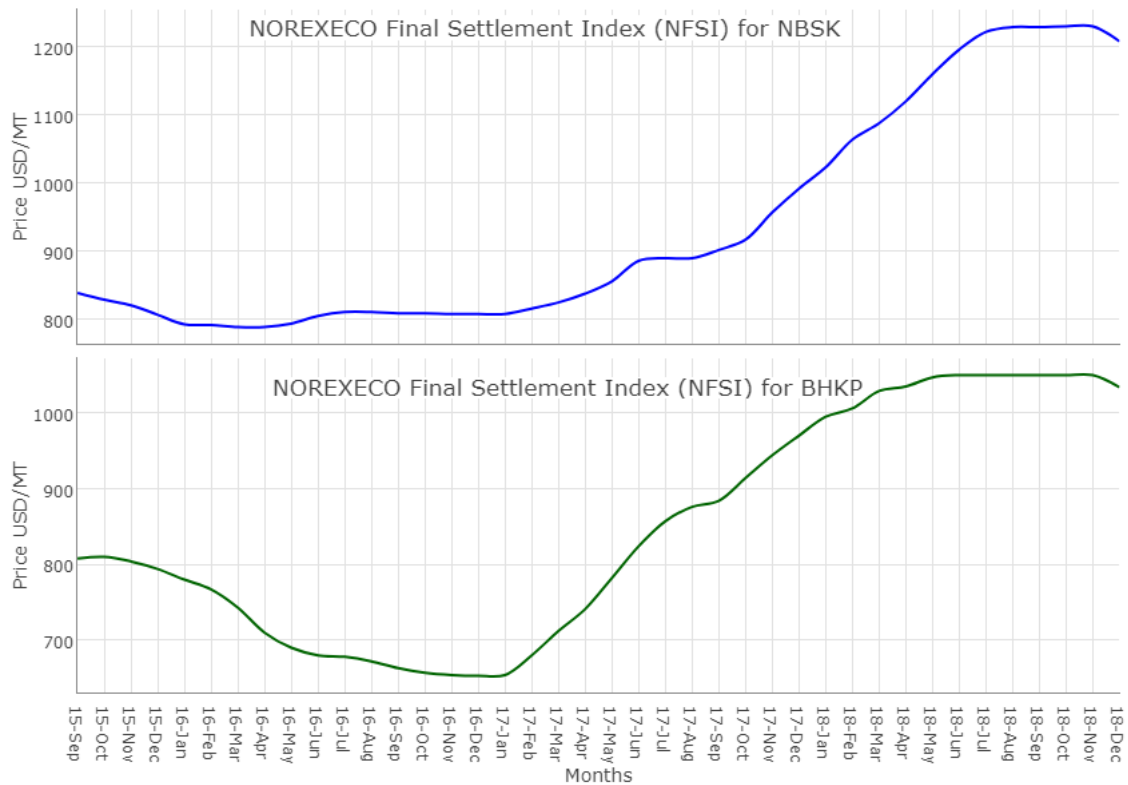
Manufacturers have implemented price hikes on many newsprints in Europe. In the specific case of annual contracts in which newsprint prices had not risen by the turn of the half-year 2018, customers had to swallow a double price hike. Correspondingly larger price increases apply for deliveries as of January in annual contracts. In general, most paper mills have not met their original price targets for deliveries of coldset standard newsprint. Nevertheless, the renewed price increase is considered a huge and burdensome step for publishers.

### **Voith Increases Price for Paper Machine Clothing in North America**

Voith has announced it will increase prices on paper machine clothing in North America by 3% effective in February. The company says the price adjustment is driven by notable increases in key raw material costs, combined with global inflationary factors in labour and freight.

### **Price Reductions for Pulp**

Some tissue and paper companies have reported signing contracts at lower prices for NBSK pulp. The same trend was seen in eucalyptus pulp.



### German Brown Kraftliner Prices Cheaper

The prices on the German market for brown kraftliner have dropped in December on good supply and cooler demand. According to market experts, this trend reflected what has been happening on the brown kraftliner market for quite some time now. Many buyers and converters had ordered more paper than they needed during peak periods when having reliable deliveries was deemed to be more important than prices, creating a bubble.

Moreover, demand from the corrugated board industry had cooled palpably, not only for conjectural reasons, but also because converters that had switched to substitute grades during the period of short kraftliner supplies, planned to stick with them.

### Containerboard

Operating rates falling fast and inventories up much more than normal - not good signs Russian containerboard market enters 2019 with higher prices amid good demand and rising PfR costs.



### **Could No-Deal Brexit Lead to Loo Roll Logjam?**

The Confederation of Paper Industries says it is concerned about the potential for delays if the UK does not achieve a trade deal over over Brexit. Guiseppe Munarie is country operations manager with Sofidel, which makes toilet roll for a number of brands. He has been advised to stock up in production materials - pulp - and in finish product - toilet paper - as industry leaders are **concerned about the potential delays at the ports in the event of a no-deal Brexit.**

### **Palm Paper Builds Waste Paper Sorting Plant in the UK**

Directly connected to the paper machine's materials processing, the fully automated sorting plant will house separately collected mixed waste paper from a range of collection points for sorting into newspaper and magazines. Sorted cardboard and corrugated board will be transported for recycling to other paper plants around the United Kingdom and Europe. Palm Recycling emphasised that this will not be a conventional recycling plant for sorting mixed reusable materials. It will solely process mixed waste paper types collected separately to glass, metals, plastics and other materials.

### **Accrol Trading Down 35% due to Rising Costs and FX Volatility, plus FCA Investigation**

In January, Accrol warned that weakness in sterling against the dollar and rising costs are expected will reduce profit by about £5M in the first half. Should the current conditions continue into the second half, Accrol is guiding for a further £3.5M hit to profit. For the previous financial year ended April, Accrol swung to a pretax loss of £24.1M on revenue of £139.7M.

## Kimberly-Clark Gets Hit by Pulp Costs as Outlook Fall Short

On 23-January, Kimberly-Clark fell as much as 5.1% after its fourth-quarter profit and outlook both fell short of Wall Street estimates amid rising costs of pulp and other raw materials for its consumer goods.

New Chief Executive Officer Michael Hsu, who took the reins from long-time CEO Tom Falk at the start of this year, is up against **shrinking margins, higher commodity costs and currency volatility**. Pulp prices surged last year to multiyear highs but have eased since then, leading analysts to cut the estimates for pulp producers.

The company has topped consensus revenue estimates three times over the last four quarters, with revenues of \$4.57B for 4Q18 (vs \$4.58B yoy). For full-year 2019, K-C expects its total sales to decline 1% to 2% but with a higher net selling price of at least 3%. In January, Procter & Gamble had raised the upper end of its own forecast for the year, but like K-C cited a **“challenging” environment**.

## Fantastic SCA 2018 Financials

SCA year-end report 2018 showed net sales increased 13% to SEK 18,755M (US\$ 2.1B), grew in all segments. EBITDA increased 44% to SEK 5,252M, mainly driven by higher prices. EBITDA margin increased to 28.0% (21.9). Operating cash flow increased to SEK 2,751M (2,273). During the year the expansion of the Östrand pulp mill was completed. The investment of almost SEK 8B, which doubles production capacity, has been financed from operating cash flow.



## Demand for Folding Paperboard Boxes to reach \$13B in 2022

Demand for folding paperboard boxes is expected to grow c. 4% per year through 2022 to \$12.8B. In 2018, the Trump administration levied a 10% tariff on folding cartons from China that was scheduled to increase to 25% on January 1, 2019; however, in December 2018, China and the US agreed on a temporary suspension of tariff increases. If tariffs continue to rise as planned, they will result in increases in domestic production, as well as, a more rapid transition to flexible packaging formats.

The US maintains a trade deficit in folding paperboard boxes that accounted for about 5% of demand in 2017.

Demand for all types of corrugated and paperboard boxes (i.e., corrugated and solid fiber, folding paperboard and set-up paperboard) is forecast to increase 2.6% annually to \$42.5b in 2022. Nearly half of all new demand will stem from the large food and beverage market, and 16% of new box sales will derive from the small but rapidly growing e-commerce segment.

### **Production at Sirpur Paper Mill will Restart in Few Months**

Asian Pulp and Paper's plans to set up **\$3B pulp paper plant in India**. JK Paper won the bid and recovered Sirpur Paper, which will restart production in the next months after being closed for four years. The total capacity is just up to 140K ton. JK Paper is an integrated pulp and paper mill.

The profitability can be affected by the pulp price and the foreign exchange. However, the company has reduced the import of pulp driven to intensive work done on plantation with farm forestry and in the vicinity of their mills which has helped bring down the cost of raw materials, as well as do clonal propagation which has increased yields and productivity. In addition, in the past few months pulp prices have decreased by about \$100-\$120. The company does not know the plans yet. They may use the new capacity as a base to re-export a large quantity to other markets, including China. So, it does not mean that the entire capacity is necessarily going to come into the Indian market immediately.

## **M&A Activity / Investments**

- International Paper to acquire Spanish corrugated packaging company Envases Grau
- UPM is tendering for a pulp terminal in Montevideo deep sea port in Uruguay
- Kimberly-Clark will close plant in May, USA
- Former Arjowiggins security paper mill in France to be closed down and liquidated - last year a Swiss investment company took over the plant
- Georgia-Pacific completes \$100M lumber production facility in Alabama, USA
- Georgia-Pacific will lay off nearly 700 people at Port Hudson mill, USA
- Georgia-Pacific to exit Communication Papers business
- Positive sale of ABC Tissue based on financials: \$496M revenue (+5% yoy), \$47M pre-tax profit (+8% yoy) and total assets of \$496M in 2018, Australia
- Production at Sirpur paper mill will restart in next few months, India
- Stora Enso completes negotiations on possible temporary layoffs at Oulu, Finland
- Producer of paper for food contact Cartiera di Rivignano to receive €500K capital increase
- Suzano, the company resulting from the merger of Suzano and Fibria, started operating on 15-Jan, Brazil
- Valmet and Kemira collaborate to bring significant improvements to wastewater treatment processes
- Essity moves tissue production from Arizona to upstate New York
- Smurfit Kappa gets official approval to take over two paper mills in Serbia

## New Developments

- A.Celli to supply a complete turnkey plant to Global Hygiène, France
- A.Celli to supply two latest generation 8-metre rewinders to Shanying Huazhong Paper, China
- Toscotec chosen by Smurfit Kappa for PM5 rebuild project, France
- Toscotec's Steel Yankee Dryer starts up at CMPC in Argentina
- Valmet to supply automation for Gasum's LNG delivery to Metsä, Finland
- Valmet to replace a quality control system at Papelera del Principado, Spain
- Hamburger Rieger uses Voith efficiency system for the first time for White Top Testliner production, Germany
- Andritz to supply process technology for fiberline modernization to Iggesund Paperboard, Sweden
- Andritz to supply ATMP line to Kabel Premium, Germany
- Andritz starts up modernized board machine at RDM Arnberg (subsidiary of Reno de Medici), Germany

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