

Stora Enso

Company report

2/2/2024



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This report is a summary translation of the report “Via Dolorosaa on vielä talsittavana” published on 2/2/2024 at 9:42 am EET.

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res.**

Not out of the woods yet

We reiterate our target price of EUR 10.50 but raise our recommendation to Reduce (was Sell). The Q4 report offered no major negative surprises and no clear prospect of a recovery in the market situation. We made negative revisions to our forecasts for the current year, but in the longer term the changes were small. In the short term, the stock is expensive on an earnings basis (2023e: P/E 22x) and looking further out is not attractive given the uncertainty around earnings improvement expectations, certain question marks around the company's capital allocation and the relatively good supply of alternative investments with good earnings expectations. However, we see limited downside potential for the stock due to the balance sheet valuation and the earnings trend that will soon turn in the right direction.

The operating result is far from tolerable, although there were no negative surprises

Stora Enso's revenue contracted by 22% to 2,174 MEUR in Q4 (incl. the acquisition of DJP and the withdrawal from Paper) due to very weak volume development and price pressure in all industrial businesses. In the quarter, Stora Enso's adjusted EBIT plummeted 86% to 51 MEUR, as on top of weak revenue, high costs kept all industrial divisions under pressure and only Forest's strong performance was enough to lift the group-level EBIT into the black. In the wake of the sector's news flow in recent months, the weak performance was virtually a foregone conclusion, and the operating result was broadly in line with our forecasts.

Estimate revisions were relatively small in absolute terms, but still negative

Stora Enso gave guidance for the current year that the company's adjusted EBIT this year will be higher than last year (2023. EBIT: 342 MEUR). In Stora Enso's scale, "higher" means an improvement of 15-50%, i.e., in practice the company guided for an adjusted EBIT of 394-512 MEUR for this year. Our and consensus forecasts before the report were above 700 MEUR, so in principle the guidance was a clear disappointment. However, before the report, we did not expect the company to start the year with any more aggressive wording than that given the current weaknesses and uncertainties. Market commentary was sluggish, even though the bottom is already behind us. Stora Enso is also launching a new 80 MEUR savings program. We believe that the savings are necessary, but we believe that Stora Enso's own measures can only alleviate the pain of a very weak market, and there is no chance of a good result without substantially stronger demand. Demand, in turn, is mainly linked to European economic growth and consumer purchasing power. We have lowered our forecasts for the current year by about 15% due to the sluggish market commentary, but for the coming years the savings program has offset the downward pressure. We still expect Stora Enso to improve to an adequate earnings level this year as the decline in inventories eases and the economic situation improves slightly, driven by recovering demand, easing inflation (excluding wood) and savings. We expect the improvement to continue in the coming years, but it may take some time before a good result is achieved.

We believe that a better risk/return ratio can be found elsewhere

Our projections for Stora Enso's earnings multiples for 2024 are high (2024e: P/E 22x) and only next year's adjusted P/E of 13x and EV/EBITDA of 7x look neutral. The dividend yield over the next 12 months is marginal or, in the best case (i.e. using an additional EUR 0.20 dividend authorization), a satisfactory 3%. However, we believe that P/B 0.8x is already moderate, even if a small margin of safety is added to the valuation of forest assets on the balance sheet. The DCF is also above current share price. The short-term indicators are therefore in the red, but we believe that the downside for the stock is still limited given the overall valuation picture.

Recommendation

Reduce
(previous Sell)

EUR 10.50
(previous EUR 10.50)

Share price:
EUR 11.25



Key figures

	2023	2024e	2025e	2026e
Revenue	9396	9129	10469	11276
growth-%	-20%	-3%	15%	8%
EBIT adj.	342	668	1034	1175
EBIT-% adj.	3.6 %	7.3 %	9.9 %	10.4 %
Net Income	-357	399	693	813
EPS (adj.)	0.22	0.51	0.88	1.03

P/E (adj.)	56.7	22.1	12.7	10.8
P/B	0.9	0.8	0.8	0.7
Dividend yield-%	0.8 %	3.1 %	3.6 %	4.5 %
EV/EBIT (adj.)	38.3	18.3	11.7	10.0
EV/EBITDA	13.4	9.4	7.3	6.4
EV/S	1.4	1.3	1.2	1.0

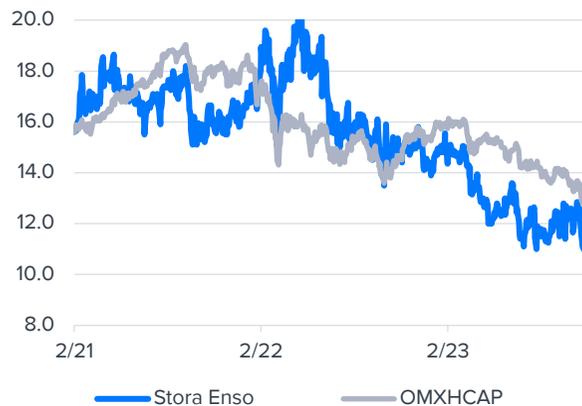
Source: Inderes

Guidance

(New guidance)

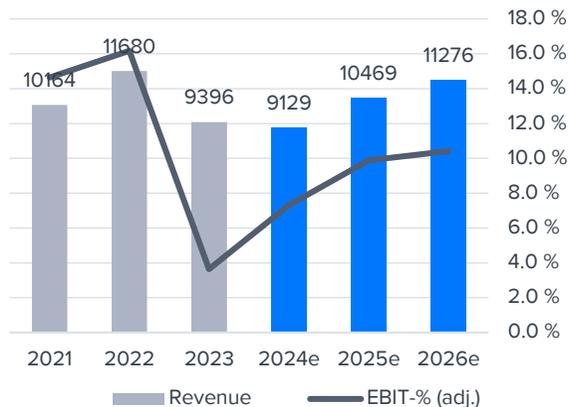
Stora Enso's full year 2024 operational EBIT is expected to be higher than for the full year 2023 (342 MEUR).

Share price



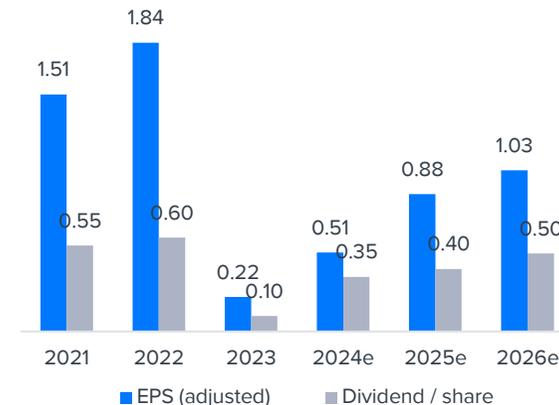
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Good long-term prospects for packaging businesses and strong market position
- Product mix gradually improving with new products
- Realizing the potential of investments
- Improved cost-efficiency through the cost savings program



Risk factors

- Somewhat cyclical demand in several product groups
- Tighter competition
- Pulp price risk
- Foreign exchange rate risks
- Most of revenue comes from Europe
- Tight Nordic timber market
- Capital allocation track-record is not flawless

Valuation	2024e	2025e	2026e
Share price	11.2	11.2	11.2
Number of shares, millions	788.6	788.6	788.6
Market cap	8805	8805	8805
EV	12213	12152	11711
P/E (adj.)	22.1	12.7	10.8
P/E	22.1	12.7	10.8
P/B	0.8	0.8	0.7
P/S	1.0	0.8	0.8
EV/Sales	1.3	1.2	1.0
EV/EBITDA	9.4	7.3	6.4
EV/EBIT (adj.)	18.3	11.7	10.0
Payout ratio (%)	69.2 %	45.5 %	48.5 %
Dividend yield-%	3.1 %	3.6 %	4.5 %

Source: Inderes

Operational figures were weaker than expected

Industrial divisions made a net loss

Stora Enso's Q4 revenue fell 24% to 2,174 MEUR, below consensus and our forecasts. Revenue was weighed down by lower volumes in practically all industrial businesses due to weak underlying demand and the tail end of the negative inventory cycle. However, the biggest drag on revenue continued to be price erosion in oversupplied markets. Structural changes (the acquisition of DJP and the sale of paper mills) also had a clear negative impact on revenue.

In Q4, Stora Enso's adjusted EBIT dipped 86% to 51 MEUR, which was practically in line with our and the market's forecasts. Among the divisions, Forest was able to improve its profitability and perform well in the tight Nordic timber market. By contrast, the industrial divisions posted a net loss, as Packaging Materials and Wood Products, which posted hefty adjusted operating losses due to weak demand, falling prices

and inflation, offset the modest operating profits of Biomaterials and Packaging Solutions, which had risen to an acceptable level thanks to rising pulp prices.

Balance sheet indicators continued to weaken

On the lower lines, Stora Enso's net results were negatively impacted by one-off charges, mainly from announced write-downs, and positive one-off items related to the increase in the value of forest assets. Financial expenses were slightly above our forecast, while taxes were positive as expected. As a result, Stora Enso's EPS of EUR 0.36 fell between our and consensus forecasts. In cash flow terms, the report was reasonable thanks to the working capital release, but the net debt to EBITDA ratio continued to rise and was already at 3.2x at the end of Q4 (vs. target below 2x) due to the decline in earnings and large investments.

Dividend proposal reflects the complexity of the situation

Stora Enso's ordinary dividend proposal was reduced by 83% to EUR 0.10 per share, and the board will be authorized to pay an additional dividend of EUR 0.20 per share if the situation so permits during the remainder of the year. In addition to the balance sheet situation, the dividend distribution is limited by the weak market situation and high investments, especially with the Oulu cardboard machine conversion. The 1-1.1 BNEUR investment level guided for this year exceeded our forecast quite clearly.

We estimate that the use of the dividend authorization would require a clearly upward earnings trend that would be at least in line with our forecasts. However, for reasons of prudence, we have not included the use of the mandate in our projections so far, although we now see a 50% chance of its realization.

Estimates MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2864	2174	2289	2259	2042	2406	-5%	9396
EBIT (adj.)	355	51	54	42	-8	71	-6%	342
EBIT	705	-326	-476	-214	-491	71		-322.0
PTP	666	-378	-512	-253	-540	72		-495.0
EPS (reported)	0.74	-0.36	-0.57	-0.28	-0.68	0.08		
DPS	0.60	0.10	0.30	0.28	0.00	0.45	-67%	0.10
Revenue growth-%	-71.8 %	-24.1 %	-20.1 %	-21.1 %	-28.7 %	-16.0 %	-4 pp	-19.6 %
EBIT-% (adj.)	12.4 %	2.3 %	2.4 %	1.9 %	-0.4 %	3.0 %	0 pp	3.6 %

Source: Inderes & Vara Research, 16 forecasts (consensus)

Result is turning around, but we lowered our expectations of the pace

Estimate revisions 2023e-2025e

- Stora Enso gave guidance for the current year that the company's adjusted EBIT this year will be higher than last year (2023. EBIT: 342 MEUR). In Stora Enso's scale, "higher" means in practice an improvement of 15-50%, i.e., the company guided for an adjusted EBIT of 394-512 MEUR for this year. Our and consensus forecasts before the report were above 700 MEUR, so in principle the guidance was a disappointment. However, before the report, we did not expect the company to start the year with any more aggressive wording than that given the current weaknesses and uncertainties.
- We lowered our forecasts for the Packaging and Wood Products businesses due to continued weak market conditions (including volumes and prices), especially for this year. Biomaterials forecasts remained stable. Forest's forecasts increased and savings offset the downward pressure on forecasts from 2025 onwards.
- We made no changes to our assessment of the company's long-term earnings potential, but the structurally tight Nordic timber market, intensifying competition, and a weak earnings outlook have increased the level of risk associated with our long-term assumptions. We also expect a strategy update this year to support long-term expectations, although the new CEO's initial agenda will be a defensive game of profitability, cash flow and competitiveness.

Operational result drivers 2023e-2025e:

- We expect Packaging Materials' performance to gradually improve from the very poor level of 2023, driven by the business cycle, easing inflation and new investments (in Oulu). However, 2024 (at least H1) is still likely to be a difficult year for the unit and 2025 will be burdened by the ramp-up of the Oulu plant. The sale of the Beihai plant in 2024 should improve earnings.
- We expect Biomaterials' earnings trend to reverse during 2024, as pulp prices have already recovered significantly from the summer lows. We see no prospects for a sharp rise in the unit's earnings, given expectations of economic growth in Europe and China, rising supply and the tight Nordic timber market.
- Packaging Solutions is progressively improving its performance with a marked improvement in results thanks to the DJP acquisition and the gradual recovery of the economic situation.
- The outlook for Wood Products is difficult as construction continues in the doldrums in 2024, although savings and abating inflation should bring some relief. We do not expect a return to the exceptionally high results of 2021-2022 in the forecast period.
- Forest is forecast to continue its stable and even slightly bullish performance in the coming years thanks to the tight timber market

Estimate revisions MEUR / EUR	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	9511	9396	-1%	9397	9129	-3%	10576	10469	-1%
EBITDA	789	981	24%	1492	1293	-13%	1766	1675	-5%
EBIT (exc. NRIs)	358	342	-4%	797	668	-16%	1046	1034	-1%
EBIT	54	-322	-698%	797	668	-16%	1046	1034	-1%
PTP	-103	-495	380%	651	498	-23%	903	870	-4%
EPS (excl. NRIs)	0.23	0.22	-6%	0.66	0.51	-23%	0.91	0.88	-4%
DPS	0.30	0.10	-67%	0.40	0.35	-13%	0.50	0.40	-20%

Source: Inderes

Too many question marks and too much waiting

Valuation multiples are high for the coming years

Our projected earnings multiples for Stora Enso in 2024 are high, whereas the P/E ratio for 2025 is 13x and the EV/EBITDA ratio is 7x. Next year's multiples are also close to the company's medium-term medians and relative to the uncertainties surrounding the operating environment and current interest rate expectations, we view them as neutral at best. Attractive valuation signals can only be found at 2026 multiples (2025e: P/E 11x), even though the forecasts include substantial and still very uncertain earnings improvements. We therefore consider the valuation picture for the stock as a whole to be challenging. In our view, Nasdaq Helsinki stocks also offer quite attractive expected medium-term returns, which encourages us to allocate capital elsewhere than in Stora Enso.

The reduction in the share of Paper has in principle improved the quality of the company's results and supported the achievement of the cyclical reduction target set out in the previous CMD, but the sharp fall in last year's results shows that the company has a lot of work to do to reduce cyclical and probably also competitiveness. With five years of average actual earnings, Stora Enso's adjusted P/E would be around 12x. This is not a high level even at today's interest rates. However, the period coincides with the peak results of 2021-2022, the Nordic timber market has become structurally tighter, interest rate pressure has increased, and competition has also intensified/is intensifying. Given these factors and the company's somewhat dubious capital allocation in recent years, we are not prepared to rely on a normalization of earnings or to accept high multiples for the company.

Other indicators not in the green either

In relative terms, Stora Enso is priced at a premium, although peers' consensus forecasts may of course be

based on a more optimistic market and economic growth forecast than our scenario. The value of our DCF model, based on our longer-term forecasts, is slightly above the share price at just over EUR 12. Thus, even the DCF does not give a clearly positive signal of valuation.

We estimate the expected return to be negative

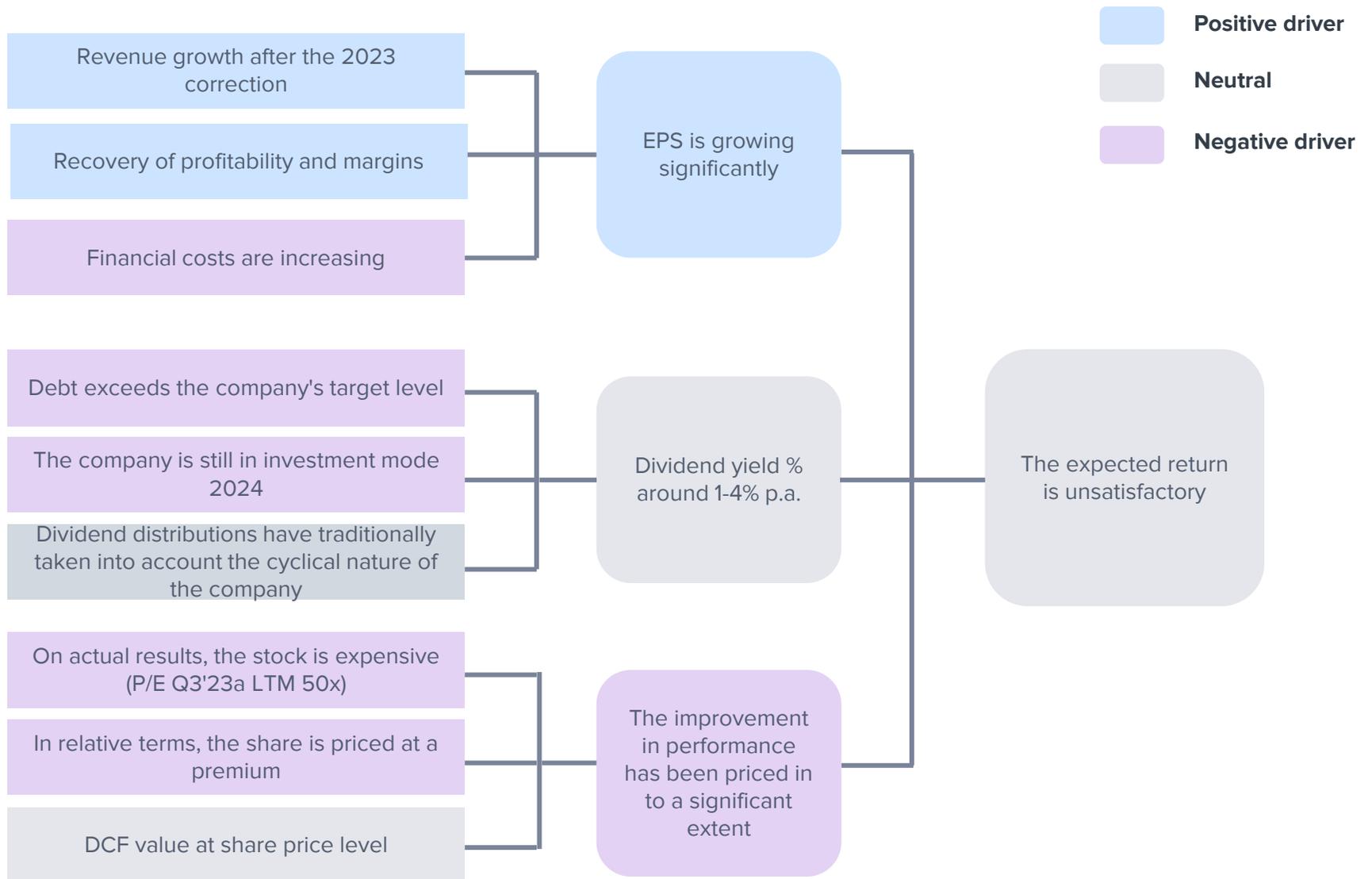
We expect investors to receive an annual dividend of about 1-4% over the next few years for the current share price. Thus, the dividend is not expected to support the stock or provide a basis for expected returns. The earnings growth driver is moving in the right direction in Q2'24, but the starting point is very low and the rate of growth is unclear. At the actual result, the share is very expensive. In our view, expected return is weak in the short term, even though the share's valuation has fallen slightly since the beginning of the year.

Stora Enso's P/B ratio is below its medium-term median level at 0.8x (2023 TOT). The Forest division's ROCE-% is now just over 4% of the balance sheet value, which has been markedly up in recent years, and the cash flow yield is still well below that. Thus, even in relation to the low risk of the forest, we do not consider its balance sheet value to be attractive (cf. US 10-year bond yields around 4%), especially from an equity investor's perspective. However, given the likely fall in interest rates and the rise in timber prices, the balance sheet value of the forest is probably on a solid footing in itself, and thus the balance sheet valuation may already support the stock. As Stora Enso uses more net timber than it harvests in the Nordic countries, it is still difficult to rejoice in the rise in timber prices, which is weakening the competitiveness of its industrial operations, and the company has, at least so far, failed to capitalize the benefits of forest ownership through the profitability of the group as a whole.

Valuation	2024e	2025e	2026e
Share price	11.2	11.2	11.2
Number of shares, millions	788.6	788.6	788.6
Market cap	8805	8805	8805
EV	12213	12152	11711
P/E (adj.)	22.1	12.7	10.8
P/E	22.1	12.7	10.8
P/B	0.8	0.8	0.7
P/S	1.0	0.8	0.8
EV/Sales	1.3	1.2	1.0
EV/EBITDA	9.4	7.3	6.4
EV/EBIT (adj.)	18.3	11.7	10.0
Payout ratio (%)	69.2 %	45.5 %	48.5 %
Dividend yield-%	3.1 %	3.6 %	4.5 %

Source: Inderes

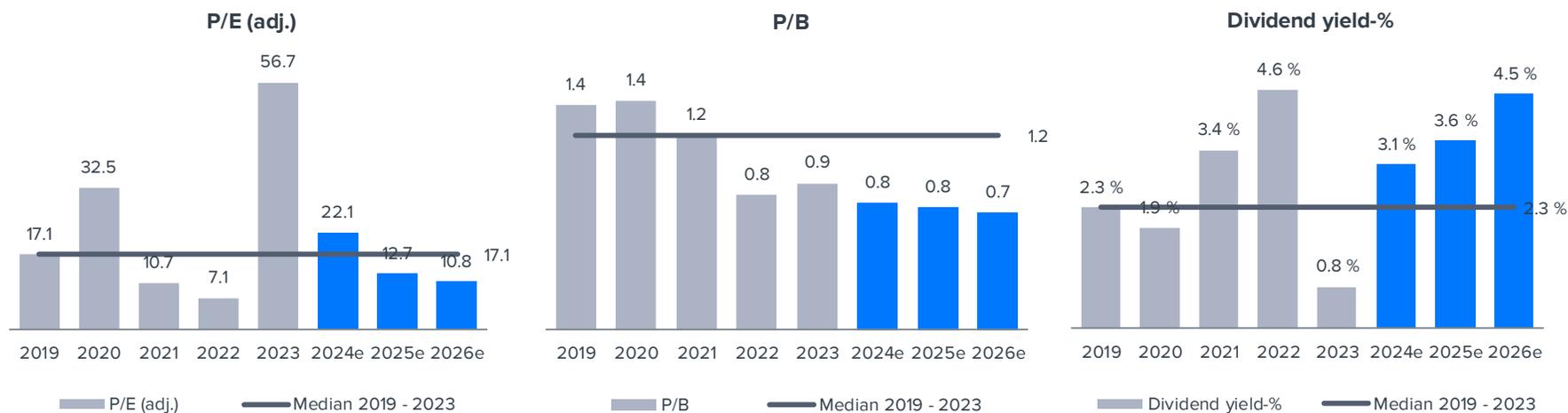
TSR drivers Q2'23 LTM-2025e



Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	12.97	15.65	16.14	13.15	12.53	11.17	11.17	11.17	11.17
Number of shares, millions	788.6	788.6	788.6	788.6	788.6	788.6	788.6	788.6	788.6
Market cap	10229	12342	12729	10371	9878	8805	8805	8805	8805
EV	13523	15409	15165	12401	13105	12213	12152	11711	11196
P/E (adj.)	17.1	32.5	10.7	7.1	56.7	22.1	12.7	10.8	9.4
P/E	11.6	19.7	10.4	6.7	neg.	22.1	12.7	10.8	9.4
P/B	1.4	1.4	1.2	0.8	0.9	0.8	0.8	0.7	0.7
P/S	1.0	1.4	1.3	0.9	1.1	1.0	0.8	0.8	0.8
EV/Sales	1.3	1.8	1.5	1.1	1.4	1.3	1.2	1.0	1.0
EV/EBITDA	7.1	10.5	6.8	4.7	13.4	9.4	7.3	6.4	5.7
EV/EBIT (adj.)	14.2	23.7	10.2	6.6	38.3	18.3	11.7	10.0	8.5
Payout ratio (%)	26.9 %	37.8 %	35.4 %	30.5 %	neg.	69.2 %	45.5 %	48.5 %	55.0 %
Dividend yield-%	2.3 %	1.9 %	3.4 %	4.6 %	0.8 %	3.1 %	3.6 %	4.5 %	5.9 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
International Paper	11413	15574	12.7	10.8	7.2	6.4	0.9	0.9	15.0	11.6	5.2	5.2	1.5
Graphic Packaging	7187	12193	10.1	9.7	7.1	6.9	1.4	1.3	9.3	8.7	1.7	1.8	2.3
DS Smith	4564	6858	8.8	8.6	5.7	5.6	0.8	0.8	8.5	8.3	6.4	6.5	1.0
Metsä Board	2707	2930	13.9	9.5	9.1	7.0	1.3	1.2	17.7	11.4	3.8	5.0	1.3
Holmen	5953	6129	17.0	16.6	12.7	12.5	3.1	3.0	20.9	20.4	2.9	2.7	1.2
Billerud	2062	2532	13.9	9.7	5.9	5.0	0.7	0.7	16.4	10.9	4.2	5.3	0.8
Mayr-Melnhof	2448	4057	12.3	10.1	7.0	6.2	1.0	0.9	11.9	9.4	3.0	3.6	1.2
UPM	17971	20477	12.3	11.1	9.0	8.2	1.8	1.8	13.9	12.2	4.5	4.8	1.4
Suzano	12542	24023	11.4	8.8	6.6	5.5	3.1	2.7	12.2	8.6	2.2	2.5	1.4
Smurfit Kappa	8995	12164	9.5	8.8	6.1	5.9	1.1	1.1	10.8	10.1	4.5	4.7	1.5
Stora Enso (Inderes)	8805	12213	18.3	11.7	9.4	7.3	1.3	1.2	22.1	12.7	3.1	3.6	0.8
Average			12.7	10.7	8.2	7.3	1.8	1.7	14.7	11.9	3.7	4.1	1.3
Median			12.3	9.7	7.1	6.3	1.2	1.1	14.1	11.0	4.0	4.6	1.3
Diff-% to median			49%	21%	34%	15%	12%	1%	56%	16%	-21%	-21%	-41%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	11680	2721	2374	2127	2174	9396	2124	2291	2312	2402	9129	10469	11276	11613
Packaging Materials	5496	1300	1155	1057	1045	4557	970	1063	1092	1102	4227	5121	5625	5758
Packaging Solutions	727	276	288	266	247	1077	261	282	282	274	1100	1180	1248	1315
Biomaterials	2180	488	380	345	374	1587	347	364	381	385	1477	1528	1581	1596
Wood Products	2195	454	436	349	341	1580	338	404	420	397	1559	1906	2037	2104
Forest	2519	687	620	534	649	2490	668	632	587	694	2581	2633	2685	2739
Other	2150	364	214	179	207	964	190	195	200	200	785	800	800	800
Internal sales / Eliminations	-3589	-848	-719	-603	-689	-2859	-650	-650	-650	-650	-2600	-2700	-2700	-2700
EBITDA	2644	414	16	144	407	981	274	320	367	333	1293	1675	1835	1975
Depreciation	-635	-156	-269	-145	-733	-1303	-155	-155	-155	-160	-625	-640	-660	-653
EBIT (excl. NRI)	1890	234	37	21	50	342	119	165	212	173	668	1034	1175	1322
EBIT	2009	258	-253	-1	-326	-322	119	165	212	173	668	1034	1175	1322
Packaging Materials	655	41	-21	-34	-43	-57	5	25	60	10	100	322	385	502
Packaging Solutions	16	8	15	14	6	43	18	22	16	13	69	91	108	122
Biomaterials	687	91	-13	5	35	118	50	45	57	63	215	261	289	293
Wood Products	308	-11	-5	-21	-27	-64	-14	3	10	11	11	99	128	134
Forest	204	57	62	59	75	253	67	74	66	76	283	291	295	300
Other	63	27	-10	-15	-1	1	-10	-8	-3	-6	-27	-30	-30	-30
Internal sales / Eliminations	-42	21	9	13	5	48	3	4	5	6	18	0	0	1
Adjustment items	119	23	-290	-22	-376	-664	0	0	0	0	0	0	0	0
Net financial items	-151	-29	-52	-40	-52	-173	-40	-42	-44	-44	-170	-165	-155	-147
PTP	1858	228	-305	-41	-378	-495	79	123	168	129	498	870	1019	1175
Taxes	-322	-43	47	7	53	64	-16	-25	-34	-26	-100	-174	-204	-235
Minority interest	13	4	31	1	38	74	0	0	0	0	0	-3	-3	-3
Net earnings	1549	189	-227	-33	-287	-357	63	98	135	103	399	693	813	937
EPS (adj.)	1.84	0.22	0.01	-0.02	0.02	0.22	0.08	0.12	0.17	0.13	0.51	0.88	1.03	1.19
EPS (rep.)	1.96	0.24	-0.29	-0.04	-0.36	-0.45	0.08	0.12	0.17	0.13	0.51	0.88	1.03	1.19
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	14.9 %	-2.8 %	-22.3 %	-28.2 %	-24.1 %	-19.6 %	-21.9 %	-3.5 %	8.7 %	10.5 %	-2.8 %	14.7 %	7.7 %	3.0 %
Adjusted EBIT growth-%	27.0 %	-53.4 %	-92.6 %	-96.1 %	-85.9 %	-81.9 %	-49.2 %	341.0 %	934.8 %	245.0 %	95.4 %	54.7 %	13.6 %	12.5 %
EBITDA-%	22.6 %	15.2 %	0.7 %	6.8 %	18.7 %	10.4 %	12.9 %	14.0 %	15.9 %	13.8 %	14.2 %	16.0 %	16.3 %	17.0 %
Adjusted EBIT-%	16.2 %	8.6 %	1.6 %	1.0 %	2.3 %	3.6 %	5.6 %	7.2 %	9.2 %	7.2 %	7.3 %	9.9 %	10.4 %	11.4 %
Net earnings-%	13.3 %	7.0 %	-9.6 %	-1.5 %	-13.2 %	-3.8 %	3.0 %	4.3 %	5.8 %	4.3 %	4.4 %	6.6 %	7.2 %	8.1 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	15121	14699	15126	15288	15280
Goodwill	244	505	505	505	505
Intangible assets	121	283	285	287	289
Tangible assets	5278	4867	5292	5452	5442
Associated companies	832	926	926	926	926
Other investments	6854	6921	6921	6921	6921
Other non-current assets	1718	1063	1063	1063	1063
Deferred tax assets	74.0	134	134	134	134
Current assets	5801	6055	4814	5226	5332
Inventories	1810	1466	1324	1518	1635
Other current assets	601	934	934	934	934
Receivables	1473	1191	1187	1413	1522
Cash and equivalents	1917	2464	1369	1361	1240
Balance sheet total	20922	20754	19940	20514	20612

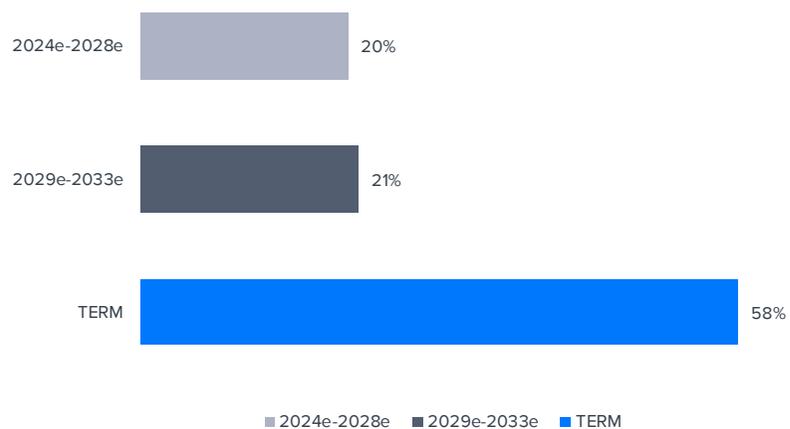
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	12502	10889	11209	11626	12123
Share capital	1423	1423	1423	1423	1423
Retained earnings	8532	7463	7783	8199	8697
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	2577	2100	2100	2100	2100
Minorities	-30.0	-97.0	-97.0	-97.0	-97.0
Non-current liabilities	4486	6190	5613	5556	5104
Deferred tax liabilities	1443	1433	1420	1420	1420
Provisions	81.0	83.0	83.0	83.0	83.0
Interest bearing debt	2792	4446	3882	3825	3373
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	170	228	228	228	228
Current liabilities	3934	3675	3118	3332	3385
Interest bearing debt	1180	1333	971	956	843
Payables	2410	2112	1917	2146	2312
Other current liabilities	344	230	230	230	230
Balance sheet total	20922	20754	19940	20514	20612

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-19.6 %	-2.8 %	14.7 %	7.7 %	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	-3.4 %	7.3 %	9.9 %	10.4 %	11.4 %	11.0 %	11.0 %	10.5 %	10.2 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	-322	668	1034	1175	1322	1309	1342	1313	1307	1314	1340	
+ Depreciation	1303	625	640	660	653	653	652	652	625	628	630	
- Paid taxes	-6	-113	-174	-204	-235	-237	-246	-243	-244	-248	-255	
- Tax, financial expenses	-26	-40	-37	-35	-33	-29	-26	-23	-21	-19	-16	
+ Tax, financial income	0	6	4	4	3	3	3	3	3	4	4	
- Change in working capital	-119	-48	-192	-61	-25	-22	-22	-23	-23	-24	-20	
Operating cash flow	830	1098	1276	1539	1685	1678	1704	1680	1647	1655	1683	
+ Change in other long-term liabilities	60	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-727	-1052	-802	-652	-652	-652	-652	-652	-652	-652	-652	
Free operating cash flow	163	46	474	887	1033	1026	1052	1028	995	1003	1030	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	163	46	474	887	1033	1026	1052	1028	995	1003	1030	16573
Discounted FCFF		43	407	703	755	693	655	591	528	491	466	7492
Sum of FCFF present value		12823	12780	12373	11670	10915	10222	9568	8977	8449	7958	7492
Enterprise value DCF		12823										
- Interest bearing debt		-5779										
+ Cash and cash equivalents		2464										
-Minorities		76										
-Dividend/capital return		-79										
Equity value DCF		9504										
Equity value DCF per share		12.1										

Cash flow distribution



WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	4.0 %
Equity Beta	1.5
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	9.6 %
Weighted average cost of capital (WACC)	8.3 %

Source: Inderes

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	10164	11680	9396	9129	10469	EPS (reported)	1.55	1.96	-0.45	0.51	0.88
EBITDA	2225	2644	981	1293	1675	EPS (adj.)	1.51	1.84	0.22	0.51	0.88
EBIT	1528	2009	-322	668	1034	OCF / share	2.75	2.20	1.05	1.39	1.62
PTP	1379	1858	-495	498	870	FCF / share	0.31	0.61	0.21	0.06	0.60
Net Income	1226	1549	-357	399	693	Book value / share	13.54	15.89	13.93	14.34	14.86
Extraordinary items	40	119	-664	0	0	Dividend / share	0.55	0.60	0.10	0.35	0.40
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	19026	20922	20754	19940	20514	Revenue growth-%	19%	15%	-20%	-3%	15%
Equity capital	10666	12502	10889	11209	11626	EBITDA growth-%	45%	19%	-63%	32%	29%
Goodwill	282	244	505	505	505	EBIT (adj.) growth-%	129%	27%	-82%	95%	55%
Net debt	2456	2055	3315	3484	3420	EPS (adj.) growth-%	214%	22%	-88%	129%	74%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	21.9 %	22.6 %	10.4 %	14.2 %	16.0 %
EBITDA	2225	2644	981	1293	1675	EBIT (adj.)-%	14.6 %	16.2 %	3.6 %	7.3 %	9.9 %
Change in working capital	40	-643	-119	-48	-192	EBIT-%	15.0 %	17.2 %	-3.4 %	7.3 %	9.9 %
Operating cash flow	2170	1735	830	1098	1276	ROE-%	12.6 %	13.3 %	-3.0 %	3.6 %	6.0 %
CAPEX	-1788	-1056	-727	-1052	-802	ROI-%	10.9 %	12.9 %	-1.9 %	4.3 %	6.5 %
Free cash flow	246	478	163	46	474	Equity ratio	56.1 %	59.8 %	52.5 %	56.2 %	56.7 %
						Gearing	23.0 %	16.4 %	30.4 %	31.1 %	29.4 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1.5	1.1	1.4	1.3	1.2						
EV/EBITDA (adj.)	6.8	4.7	13.4	9.4	7.3						
EV/EBIT (adj.)	10.2	6.6	38.3	18.3	11.7						
P/E (adj.)	10.7	7.1	56.7	22.1	12.7						
P/B	1.2	0.8	0.9	0.8	0.8						
Dividend-%	3.4 %	4.6 %	0.8 %	3.1 %	3.6 %						

Source: Inderes

ESG

Core activities are outside the taxonomy classification

Among Stora Enso's businesses that are taxonomy-eligible are forestry, manufacture of energy efficiency equipment for buildings, and combined heat or cooling and electricity production with bioenergy. Consequently, the board, pulp, paper, packaging and sawmill products that account for the majority of Stora Enso's revenue are not taxonomically classified.

As a result, the taxonomy rate of Stora Enso's revenue, operating costs and investments remains low. Furthermore, the taxonomy rates are unlikely to rise in the coming years if the future taxonomy definitions won't include a much larger share of the company's external sales-generating products. We do not believe that the low taxonomy rate will put immediate upward pressure on, for example, Stora Enso's cost or availability of financing, or pose other challenges to the business.

Businesses have a social element

So far, taxonomy does not cover much of the forest industry's main products and value chain, but we think there is a certain social element to Stora Enso's business, as there is a general awareness of the role of forests in climate change mitigation and biodiversity issues in particular, and the proposed packaging directive, for example, may change market needs. Stora Enso's business is also energy-intensive. Therefore, regulations and policies, especially those related to forest use, may come from different regulatory frameworks. This is important for Stora Enso's business, as wood is by far the company's most important raw material. In addition, Stora Enso is a very significant forest owner, especially in Sweden. So far, we do not believe that forest-related regulation

has materially undermined Stora Enso's long-term business conditions.

Meeting climate targets requires investment

Stora Enso committed to the global warming scenario of 1.5 degrees by the end of 2021. We therefore believe that the company's climate targets have developed in a positive direction, taking into account the target set in the same context to reduce scope 3 emissions by 50% by 2030 (base year 2019). We estimate that moving towards the climate target will not impose significant additional direct costs to companies in the short term, but already in the medium term, climate targets are likely to require companies to invest at least in the production of the energy needed to manufacture final products and in the energy efficiency of their factories.

Taxonomy eligibility	2021*	2022
Revenue	-	0.0%
OPEX	-	2.1%
CAPEX	-	0.4%

Taxonomy alignment	2021*	2022
Revenue	-	6.5%
OPEX	-	10.3%
CAPEX	-	6.0%

Climate

Climate target	Yes	Yes
Target according to the Paris Agreement (1.5 °C warming scenario)	Yes	Yes

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Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
12/28/2018	Accumulate	11.50 €	10.12 €
10/30/2019	Reduce	11.50 €	11.80 €
1/30/2020	Reduce	11.50 €	11.76 €
3/24/2020	Accumulate	8.50 €	7.36 €
4/16/2020	Reduce	9.50 €	9.90 €
4/22/2020	Reduce	9.50 €	10.06 €
6/24/2020	Reduce	10.50 €	11.19 €
7/22/2020	Reduce	10.50 €	11.25 €
9/24/2020	Reduce	13.00 €	13.64 €
10/20/2020	Reduce	13.00 €	13.67 €
11/12/2020	Reduce	13.00 €	13.73 €
2/1/2021	Reduce	14.00 €	15.00 €
3/24/2021	Reduce	15.00 €	16.15 €
4/26/2021	Reduce	15.50 €	16.68 €
7/22/2021	Reduce	15.50 €	16.04 €
10/21/2021	Reduce	15.50 €	14.65 €
1/31/2022	Reduce	17.00 €	17.50 €
4/29/2022	Reduce	18.00 €	17.85 €
6/14/2022	Reduce	17.00 €	16.18 €
7/25/2022	Reduce	16.00 €	14.79 €
10/24/2022	Reduce	14.50 €	13.62 €
2/1/2023	Reduce	14.00 €	13.10 €
4/21/2023	Reduce	12.00 €	11.48 €
4/26/2023	Reduce	11.50 €	11.15 €
7/19/2023	Reduce	11.50 €	11.45 €
7/24/2023	Reduce	10.50 €	10.11 €
10/4/2023	Reduce	10.50 €	11.31 €
10/25/2023	Reduce	10.50 €	11.21 €
1/27/2024	Sell	10.50 €	12.06 €
2/2/2024	Reduce	10.50 €	11.25 €



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