

# Stora Enso

## Company report

10/25/2023



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This report is a summary translation of the report “Emme ole vielä vakuuttuneita optimismin perusteista” published on 10/25/2023 at 9:25 am EEST.

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res.**

# Not yet convinced of the rationale for optimism

We reiterate Stora Enso's Reduce recommendation and our target price of EUR 10.50. Following the company's weak Q3 report, our near-term estimate revisions for Stora Enso were small but negative. Stora Enso's share is already priced with misery from the perspective of long-term investors. In the short term, the optimism already generated by the few signs of light has pushed the stock's valuation too high and, consequently, we believe that the short-term earnings outlook remains weak. Thus, we expect the new CEO to deliver the likely upcoming strategy update and an improvement in the market news flow before considering positive recommendation.

## Operating profit level in Q3 still slightly weaker than in Q2

Stora Enso's net sales contracted by 28% to EUR 2,127 million in Q3 (incl. the acquisition of DJP and the withdrawal from Paper) due to very weak volume development and price pressure in all industrial businesses. Stora Enso's adjusted EBIT plummeted 96% to EUR 21 million, as on top of weak net sales, high costs kept all industrial divisions under pressure and only Forest's good performance was enough to lift the group-level EBIT into the black. After the news flow in the sector in recent months, the weak result was a virtual certainty, but the operating result was still slightly below our and consensus forecasts.

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

In its Q3 report, Stora Enso reiterated its guidance for the current year, according to which the company's adjusted EBIT this year will be significantly lower than last year, i.e., more than 50% (2022: adj. EBIT: 1,891 MEUR). We think this was to be expected. Comments on the market were muted and demand shows no clear signs of picking up, but the negative inventory effects are certainly starting to fade. Less surprisingly, the first pages of the new CEO's playbook were profitability, competitiveness and capital release. We believe it is possible that the review of these issues will push Stora Enso into a round of restructuring and lead to a portfolio review of assets other than the Chinese cardboard mill for sale. In our view, Stora Enso's own actions can only alleviate the pain of a very weak market, and there is no chance of a good result without substantially stronger demand. In turn, demand is linked to European economic growth and consumer purchasing power. Our forecast for the company's adjusted EBIT for the current year fell by a further 8%, especially for the Packaging Materials and Wood Products businesses. We raised our forecasts for the pulp unit slightly, driven by a better news flow than our expectations for the sector in recent weeks. Our estimates for the coming years were also lowered at the adjusted EBIT level by 2-6%, mainly for the same reasons. We still expect the company to improve to a tolerable earnings level next year as demand recovers, inflation abates, and savings come through as the decline in inventories eases.

## Valuation picture is contradictory, risks still higher than rewards for us

Our projections for Stora Enso's earnings multiples for 2023 are very high. We believe that the company's 2024 P/E ratio of 17x and EV/EBITDA ratio of 9x, which are above the 5-year medians, are also elevated relative to prevailing uncertainties and interest rates. With a big cut in the dividend for this year, we expect the dividend yield for the coming years to remain neutral at only 3%. In our view, a P/B of 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. Thus, short-term indicators are in red and long term in green. However, given the prevailing uncertainties and the back-loaded nature of earnings expectations, we are not yet convinced that the risks are worth the reward.

## Recommendation

### Reduce

(previous Reduce)

### 10.50 EUR

(previous EUR 10.50)

### Share price:

11.21 EUR



## Key figures

	2022	2023e	2024e	2025e
<b>Revenue</b>	11680	9511	9397	10576
<b>growth-%</b>	15%	-19%	-1%	13%
<b>EBIT adj.</b>	1890	358	797	1046
<b>EBIT-% adj.</b>	16.2 %	3.8 %	8.5 %	9.9 %
<b>Net Income</b>	1549	-56	521	720
<b>EPS (adj.)</b>	1.84	0.23	0.66	0.91
<b>P/E (adj.)</b>	7.1	47.8	17.0	12.3
<b>P/B</b>	0.8	0.8	0.8	0.7
<b>Dividend yield-%</b>	4.6 %	2.7 %	3.6 %	4.5 %
<b>EV/EBIT (adj.)</b>	6.6	35.6	16.1	12.2
<b>EV/EBITDA</b>	4.7	16.2	8.6	7.2
<b>EV/S</b>	1.1	1.3	1.4	1.2

Source: Inderes

## Guidance

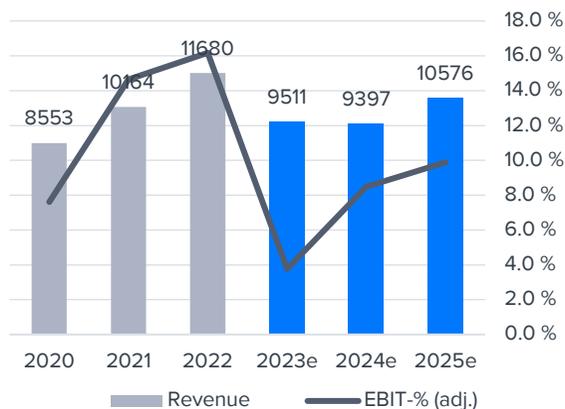
(Unchanged)

Stora Enso's full-year 2023 operational EBIT is expected to be significantly lower than for the full-year 2022 (EUR 1,891 million).

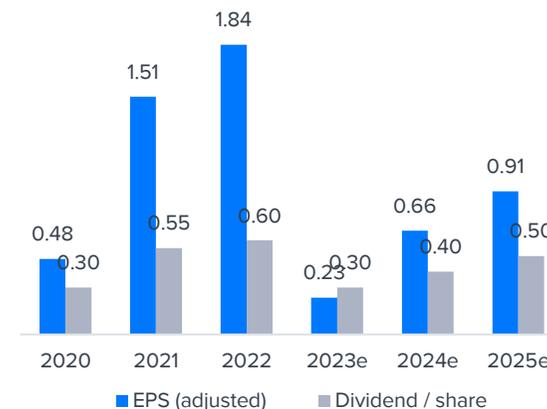
## Share price



## Revenue and EBIT-%



## EPS and dividend



### Value drivers

- Good long-term prospects for packaging businesses and strong market position
- Product mix gradually improving with new products
- Realizing the potential of ongoing investments
- Improved cost-efficiency through the cost savings program
- Battery materials have potential as a high-margin volume product



### Risk factors

- Somewhat cyclical demand in several product groups
- Tighter competition
- Pulp price risk
- Foreign exchange rate risks
- Most of net sales come from Europe

Valuation	2023e	2024e	2025e
Share price	11.2	11.2	11.2
Number of shares, millions	788.6	788.6	788.6
Market cap	8841	8841	8841
EV	12753	12858	12754
P/E (adj.)	47.8	17.0	12.3
P/E	neg.	17.0	12.3
P/B	0.8	0.8	0.7
P/S	0.9	0.9	0.8
EV/Sales	1.3	1.4	1.2
EV/EBITDA	16.2	8.6	7.2
EV/EBIT (adj.)	35.6	16.1	12.2
Payout ratio (%)	neg.	60.5 %	54.8 %
Dividend yield-%	2.7 %	3.6 %	4.5 %

Source: Inderes

# Operating result only just above the break-even point

## Volumes down in all segments

Stora Enso's Q3 net sales decreased in all segments year-on-year, falling 28% to EUR 2,127 million, below both our and consensus forecasts. The restructuring had a slightly negative impact on net sales. The decline in net sales was driven by lower demand than in the comparison period and high customer inventory levels, which pushed volumes and sales prices down year-on-year.

## Profitability demolished by falling sales prices

Stora Enso's adjusted EBIT collapsing in Q3 was expected, and EBIT fell slightly below our and the consensus forecast to EUR 21 million. The main drivers behind the decline in profitability were a less favorable sales mix than in the comparison period and lower sales prices. Other drivers of reduced profitability were lower volumes (incl. loss of efficiency due to low utilization rates) and higher raw

material costs.

In line with our expectations, only Forest was able to improve its profitability and perform well in the tight Nordic timber market. In a challenging business environment in the pulp market, Biomaterials beat our estimates slightly, managing to keep its operating result profitable and above forecasts, while unit costs fell faster than expected. At the heart of the strategy, Packaging Materials and Wood Products posted deeper operating losses than we had forecast in very difficult market conditions. Packaging Solutions, which was boosted by the recent acquisition, missed our forecasts, but did improve year-on-year. On the lower rows, the result was weighed down by small one-off expenses, while financial expenses and minority interests were at their normal levels and taxes were recorded as positive. Reflecting the operational forecasts misses, EPS also came in below forecasts at EUR -0.04.

## Indebtedness rose above the target level

Stora Enso's operating cash flow in Q3 was EUR 231 million due to positive EBITDA and working capital release. Stora Enso's net debt increased slightly to EUR 3,120 million. As expected, the ratio of net debt to EBITDA rose to 2.4x, above the company's target level (2x), on the back of a weaker EBITDA margin. The company does not have an acute problem with its financial position, as it has ample liquidity and assets on its balance sheet that can be used as collateral for financiers. Dividend prospects in the near term will be negatively affected by rising debt, and a big dividend cut next spring is a certainty. We also believe that the company has no room to consider new major investments until the result has improved significantly and the balance sheet has been strengthened.

Estimates MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2963	2127	2373	2344	2079	- 2625	-10%	9511
EBIT (adj.)	527	21.0	41	35.0	-40	- 94.0	-49%	358
EBIT	511	-1	41	32.5	-40	- 94.0	-102%	53.8
PTP	448	-41	5	-7.6	-72	- 47.0	-862%	-103.2
EPS (reported)	0.47	-0.04	0.01	-0.01	-0.07	- 0.05	-563%	-0.07
Revenue growth-%	0.0 %	-28.2 %	-19.9 %	-20.9 %	-29.8 %	- -11.4 %	-8.3 pp	-18.6 %
EBIT-% (adj.)	17.8 %	1.0 %	1.7 %	1.5 %	-1.9 %	- 3.6 %	-0.8 pp	3.8 %

Source: Inderes & Vara Research, 9 forecasts (consensus)

# Estimates continued to fall, although in absolute terms the changes were small

## Estimate revisions 2023e-2025e

- Stora Enso reiterated its guidance for the current year in the Q3 report, which is to deliver a significantly lower (>50%) operating profit this year than in 2022. Stora Enso generated an adjusted operating profit of EUR 1,891 million in 2022. This was in line with our expectations, as the guidance do not comment on the scale of the drop in earnings. However, the guidance no longer has any informational value.
- We slightly raised our forecasts for Biomaterials due to the recent slight increase in Chinese pulp prices and FX rates. We did not make any material changes to our estimates for Forest. However, the revisions we made to Packaging Materials and Wood Products volume and price forecasts following the weak Q3 report lowered our annualized adjusted EBIT forecasts by 2-8% for 2023-2025.
- 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 expect a strategy update from the company in the near future to support long-term expectations.
- We kept our dividend forecasts unchanged for now, but a big dividend cut next spring is a certainty.

## Operational result drivers 2023e-2025e:

- We expect Packaging Materials to make a loss this year due to volume and price pressures for cardboard and inflation. We forecast a gradual improvement in the unit's profitability, driven by the economic cycle, easing inflation and new investments (Oulu).
- We expect Biomaterials' earnings to fall sharply in 2023 from the 2022 peak, as pulp prices have slumped in the spring and summer, inventories are high, and more supply is also on the way. However, the price trend seems to be reversing from Q4 onwards, but we see no evidence of a sharp rise given the expectations of economic growth in Europe and China and rising supply.
- Packaging Solutions is gradually improving its performance significantly with the acquisition of DJP. Inflation in Packaging Solutions is already easing this year and demand will no longer fall in H2.
- In Wood Products, we forecast a sharp drop in earnings in a weak construction cycle this year. We do not expect a return to the exceptionally high results of 2021-2022 on the forecast horizon.
- Forest is forecast to continue its stable and even slightly bullish performance in the coming years thanks to the tight timber market

Estimate revisions	2023e			2024e			2025e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
MEUR / EUR									
Revenue	9766	9511	-3%	9787	9397	-4%	10819	10576	-2%
EBITDA	861	789	-8%	1548	1492	-4%	1793	1766	-1%
EBIT (exc. NRIs)	389	358	-8%	849	797	-6%	1070	1046	-2%
EBIT	106	53.8	-49%	849	797	-6%	1070	1046	-2%
PTP	-47.1	-103.2	119%	705	651	-8%	929	903	-3%
EPS (excl. NRIs)	0.28	0.23	-15%	0.71	0.66	-8%	0.94	0.91	-3%
DPS	0.30	0.30	0%	0.40	0.40	0%	0.50	0.50	0%

Source: Inderes



# Risks still overshadow rewards

## Valuation multiples are elevated for the coming years

Our projected earnings multiples for Stora Enso in 2023 are very high, while the P/E ratio for 2024 is 17x and the EV/EBITDA ratio is 9x. Next year's multiples are also above the company's 5-year median, and we view them as demanding relative to the uncertainties surrounding the operating environment and current interest rates. Thus, attractive elements in the valuation cannot be found before 2025 forecasts, but in light of the company's recent track-record, we are not ready to lean on this yet.

In principle, the reduction in the share of Paper has improved the quality of the company's earnings and supported achievement of the target to reduce cyclicity presented at the CMD. However, the sharp fall in the current year's result shows that the company has a lot of work to do to reduce cyclicity and possibly also competitiveness. Based on the 5-year average actual results, Stora Enso's P/E would be around 10x. This is not a high level, considering that the company's profile has basically improved a few notches over the last 5 years (the period naturally includes the peak results of 2021-2022). However, the weaker-than-average business outlook keeps us away from the desire to lean on longer-term valuations. In our view, Nasdaq Helsinki offers quite many attractive medium-term expected returns, so in the current situation we are still watching Stora Enso from the sidelines and prefer other investments.

## Long-term indicators are in green

Relatively speaking, Stora Enso is priced at a premium, but peers' consensus forecasts may of course be based on a more optimistic market and economic growth forecast than our model scenario. Our DCF model, which is also based on our longer-term forecasts, is well above the share price at around

EUR 13. Thus, DCF already provides an attractive indication of valuation, but in the current uncertain and high-risk market, we believe that a positive recommendation would also require support from near-term valuation metrics.

## Basis of optimism is still too thin, although there is not much downside left

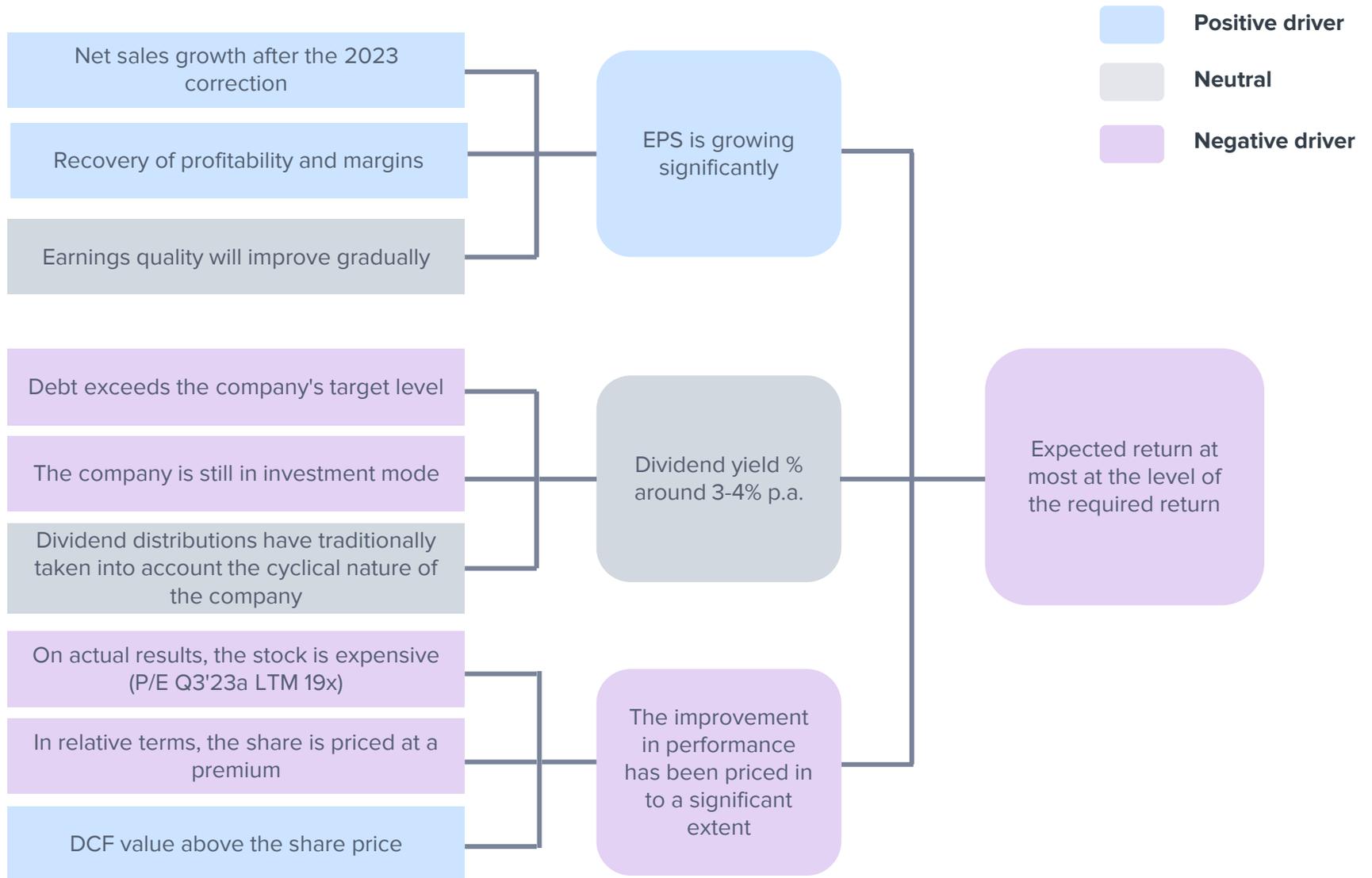
We expect investors to receive an annual dividend of about 3-4% over the next few years for the current share price. Thus, the dividend doesn't offer clear support or a baseline for expected return. Earnings growth is still a negative driver for two more quarters and the rate of the earnings turnaround starting in Q2 is wide open. Due to the partly low medium-term low valuation (incl. DCF and 5-year avg. P/E), a mere pick-up in the news flow could in principle still push the stock higher, but we think the basis for optimism is still too light.

Stora Enso's P/B ratio is below its medium-term median level at 0.8x (2023e). In our view, the level is already quite moderate, even if a small margin of safety is added to the valuation of forest assets on the balance sheet. In our view, this is necessary as the Forest division's ROCE-% is now around 4% of the balance sheet value that has been substantially written up in recent years and the cash flow yield is still well below that. Thus, even relative to the low risk of forest, we do not find the balance sheet value favorable (cf. US 10-year bond rate is just under 5%). Nor do we believe that equity investors will swallow the balance sheet value of the strategic forest (i.e. the forest is unlikely to be sold and the balance sheet value will therefore not be quickly liquidated) as such for Stora Enso. However, at the current P/B valuation, we believe that the downside potential of the stock is limited.

Valuation	2023e	2024e	2025e
Share price	11.2	11.2	11.2
Number of shares, millions	788.6	788.6	788.6
Market cap	8841	8841	8841
EV	12753	12858	12754
P/E (adj.)	47.8	17.0	12.3
P/E	neg.	17.0	12.3
P/B	0.8	0.8	0.7
P/S	0.9	0.9	0.8
EV/Sales	1.3	1.4	1.2
EV/EBITDA	16.2	8.6	7.2
EV/EBIT (adj.)	35.6	16.1	12.2
Payout ratio (%)	neg.	60.5 %	54.8 %
Dividend yield-%	2.7 %	3.6 %	4.5 %

Source: Inderes

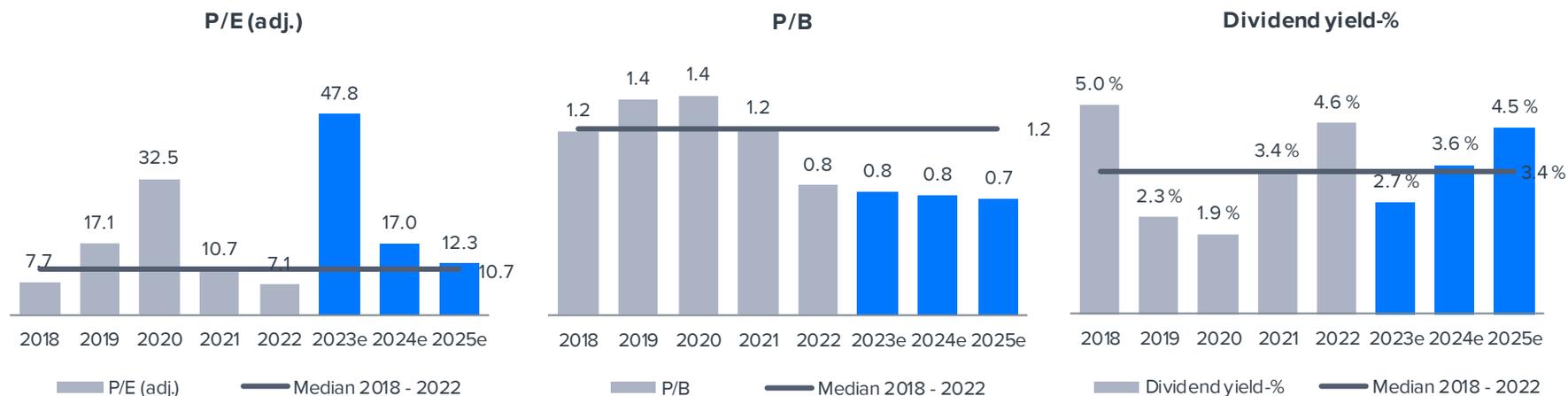
# TSR drivers Q2'23 LTM-2025e



# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	10.01	12.97	15.65	16.14	13.15	<b>11.21</b>	<b>11.21</b>	<b>11.21</b>	<b>11.21</b>
Number of shares, millions	788.6	788.6	788.6	788.6	788.6	<b>788.6</b>	<b>788.6</b>	<b>788.6</b>	<b>788.6</b>
Market cap	7890	10229	12342	12729	10371	<b>8841</b>	<b>8841</b>	<b>8841</b>	<b>8841</b>
EV	10124	13523	15409	15165	12401	<b>12753</b>	<b>12858</b>	<b>12754</b>	<b>12313</b>
P/E (adj.)	7.7	17.1	32.5	10.7	7.1	<b>47.8</b>	<b>17.0</b>	<b>12.3</b>	<b>10.9</b>
P/E	7.8	11.6	19.7	10.4	6.7	neg.	<b>17.0</b>	<b>12.3</b>	<b>10.9</b>
P/B	1.2	1.4	1.4	1.2	0.8	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>
P/S	0.8	1.0	1.4	1.3	0.9	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
EV/Sales	1.0	1.3	1.8	1.5	1.1	<b>1.3</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>
EV/EBITDA	5.4	7.1	10.5	6.8	4.7	<b>16.2</b>	<b>8.6</b>	<b>7.2</b>	<b>6.4</b>
EV/EBIT (adj.)	7.6	14.2	23.7	10.2	6.6	<b>35.6</b>	<b>16.1</b>	<b>12.2</b>	<b>10.3</b>
Payout ratio (%)	38.9 %	26.9 %	37.8 %	35.4 %	30.5 %	neg.	<b>60.5 %</b>	<b>54.8 %</b>	<b>53.4 %</b>
Dividend yield-%	5.0 %	2.3 %	1.9 %	3.4 %	4.6 %	<b>2.7 %</b>	<b>3.6 %</b>	<b>4.5 %</b>	<b>4.9 %</b>

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	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
International Paper	10549	15323	13.3	13.3	7.3	7.3	0.8	0.9	14.9	15.1	5.7	5.7	1.3
Graphic Packaging	5829	10895	8.7	8.7	6.2	6.2	1.2	1.2	7.1	7.3	1.9	2.1	2.2
DS Smith	4200	5947	6.4	7.7	4.5	5.0	0.6	0.7	6.2	7.8	7.0	6.8	0.8
Metsä Board	2631	3063	19.7	11.8	11.9	8.4	1.5	1.3	23.8	13.6	3.1	4.0	1.3
Holmen	5532	5764	14.6	16.8	11.3	12.5	2.9	3.0	17.7	20.4	2.7	2.8	1.1
Billerud	1848	2432	106.8	11.4	9.5	5.5	0.7	0.7		12.4	5.7	5.5	0.8
Mayr-Melnhof	2180	3857	17.2	10.4	8.2	6.1	0.9	0.9	15.4	8.7	3.9	4.0	1.1
UPM	16242	19360	20.6	11.8	12.8	8.6	1.8	1.7	23.8	12.8	4.5	4.9	1.3
Suzano	13524	24283	11.3	13.0	6.7	6.7	3.3	3.2	6.4	17.2	1.4	1.7	1.7
Smurfit Kappa	7628	10810	8.0	8.5	5.3	5.4	0.9	0.9	8.8	9.4	5.0	5.3	1.4
<b>Stora Enso (Inderes)</b>	<b>8841</b>	<b>12753</b>	<b>35.6</b>	<b>16.1</b>	<b>16.2</b>	<b>8.6</b>	<b>1.3</b>	<b>1.4</b>	<b>47.8</b>	<b>17.0</b>	<b>2.7</b>	<b>3.6</b>	<b>0.8</b>
<b>Average</b>			<b>21.8</b>	<b>12.0</b>	<b>9.0</b>	<b>7.8</b>	<b>1.8</b>	<b>1.8</b>	<b>15.2</b>	<b>13.6</b>	<b>3.9</b>	<b>4.1</b>	<b>1.3</b>
<b>Median</b>			<b>14.0</b>	<b>11.6</b>	<b>7.7</b>	<b>6.9</b>	<b>1.2</b>	<b>1.2</b>	<b>14.9</b>	<b>13.1</b>	<b>4.1</b>	<b>4.3</b>	<b>1.2</b>
<b>Diff-% to median</b>			<b>155%</b>	<b>40%</b>	<b>109%</b>	<b>25%</b>	<b>14%</b>	<b>18%</b>	<b>221%</b>	<b>30%</b>	<b>-35%</b>	<b>-16%</b>	<b>-36%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
<b>Revenue</b>	<b>10164</b>	<b>2799</b>	<b>3054</b>	<b>2963</b>	<b>2864</b>	<b>11680</b>	<b>2721</b>	<b>2374</b>	<b>2127</b>	<b>2289</b>	<b>9511</b>	<b>9397</b>	<b>10576</b>	<b>11342</b>
Packaging Materials	4508	1317	1424	1421	1335	5496	1300	1155	1057	1157	4669	4283	5016	5537
Packaging Solutions	720	189	186	176	177	727	276	288	266	282	1112	1164	1248	1315
Biomaterials	1728	442	522	567	649	2180	488	380	345	370	1583	1492	1560	1596
Wood Products	1872	573	631	520	471	2195	454	436	349	352	1591	1813	2056	2145
Forest	2311	626	649	581	664	2519	687	620	534	587	2428	2545	2596	2648
Other	2119	481	568	575	528	2150	364	214	179	180	937	800	800	800
Sisäinen myynti / Eliminointi	-3094	-828	-925	-876	-959	-3589	-848	-719	-603	-640	-2810	-2700	-2700	-2700
<b>EBITDA</b>	<b>2225</b>	<b>598</b>	<b>531</b>	<b>645</b>	<b>870</b>	<b>2644</b>	<b>414</b>	<b>16</b>	<b>144</b>	<b>215</b>	<b>789</b>	<b>1492</b>	<b>1766</b>	<b>1938</b>
Depreciation	-697	-204	-132	-134	-165	-635	-156	-269	-145	-165	-735	-695	-720	-738
<b>EBIT (excl. NRI)</b>	<b>1488</b>	<b>503</b>	<b>505</b>	<b>527</b>	<b>355</b>	<b>1890</b>	<b>234</b>	<b>37</b>	<b>21</b>	<b>66</b>	<b>358</b>	<b>797</b>	<b>1046</b>	<b>1199</b>
<b>EBIT</b>	<b>1528</b>	<b>394</b>	<b>399</b>	<b>511</b>	<b>705</b>	<b>2009</b>	<b>258</b>	<b>-253</b>	<b>-1</b>	<b>50</b>	<b>54</b>	<b>797</b>	<b>1046</b>	<b>1199</b>
Packaging Materials	535	208	200	188	59	655	41	-21	-34	-15	-29	260	369	443
Packaging Solutions	42	5	2	4	5	16	8	15	14	21	58	91	113	137
Biomaterials	495	117	123	198	249	687	91	-13	5	16	99	213	255	279
Wood Products	364	118	134	70	-14	308	-11	-5	-21	-10	-47	36	124	151
Forest	267	49	47	47	61	204	57	62	59	59	237	225	230	234
Other	-166	6	14	29	14	63	27	-10	-15	-8	-6	-35	-45	-45
Sisäinen myynti / Eliminointi	-9	-1	-14	-8	-19	-42	21	9	13	2	45	7	0	0
Olkaisuerät	0	-109	-106	-16	350	119	23	-290	-22	-16	-304	0	0	0
Net financial items	-149	-19	-29	-63	-40	-151	-29	-52	-40	-36	-157	-145	-143	-180
<b>PTP</b>	<b>1379</b>	<b>375</b>	<b>370</b>	<b>448</b>	<b>666</b>	<b>1858</b>	<b>228</b>	<b>-305</b>	<b>-41</b>	<b>14</b>	<b>-103</b>	<b>651</b>	<b>903</b>	<b>1019</b>
Taxes	-151	-88	-71	-81	-82	-322	-43	47	7	-3	8	-130	-181	-204
Minority interest	-2	2	4	5	2	13	4	31	1	3	39	0	-3	-3
<b>Net earnings</b>	<b>1226</b>	<b>288</b>	<b>304</b>	<b>372</b>	<b>586</b>	<b>1549</b>	<b>189</b>	<b>-227</b>	<b>-33</b>	<b>14</b>	<b>-56</b>	<b>521</b>	<b>720</b>	<b>812</b>
<b>EPS (adj.)</b>	<b>1.51</b>	<b>0.48</b>	<b>0.49</b>	<b>0.49</b>	<b>0.39</b>	<b>1.84</b>	<b>0.22</b>	<b>0.01</b>	<b>-0.02</b>	<b>0.03</b>	<b>0.23</b>	<b>0.66</b>	<b>0.91</b>	<b>1.03</b>
<b>EPS (rep.)</b>	<b>1.55</b>	<b>0.36</b>	<b>0.39</b>	<b>0.47</b>	<b>0.74</b>	<b>1.96</b>	<b>0.24</b>	<b>-0.29</b>	<b>-0.04</b>	<b>0.02</b>	<b>-0.07</b>	<b>0.66</b>	<b>0.91</b>	<b>1.03</b>

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
<b>Revenue growth-%</b>	18.8 %	0.0 %	0.0 %	0.0 %	-71.8 %	14.9 %	-2.8 %	-22.3 %	-28.2 %	-20.1 %	-18.6 %	-1.2 %	12.5 %	7.2 %
<b>Adjusted EBIT growth-%</b>	128.6 %	202.7 %	176.0 %	2192.6 %	-68.2 %	27.0 %	-53.4 %	-92.6 %	-96.1 %	-81.4 %	-81.1 %	122.5 %	31.4 %	14.6 %
<b>EBITDA-%</b>	21.9 %	21.4 %	17.4 %	21.8 %	30.4 %	22.6 %	15.2 %	0.7 %	6.8 %	9.4 %	8.3 %	15.9 %	16.7 %	17.1 %
<b>Adjusted EBIT-%</b>	14.6 %	18.0 %	16.5 %	17.8 %	12.4 %	16.2 %	8.6 %	1.6 %	1.0 %	2.9 %	3.8 %	8.5 %	9.9 %	10.6 %
<b>Net earnings-%</b>	12.1 %	10.3 %	9.9 %	12.6 %	20.4 %	13.3 %	7.0 %	-9.6 %	-1.5 %	0.6 %	-0.6 %	5.5 %	6.8 %	7.2 %

Source: Inderes

# Balance sheet

Assets	2021	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>14517</b>	<b>15121</b>	<b>16015</b>	<b>16222</b>	<b>16379</b>
Goodwill	282	244	576	576	576
Intangible assets	124	121	390	392	394
Tangible assets	5501	5278	5793	5998	6153
Associated companies	580	832	832	832	832
Other investments	7665	6854	6750	6750	6750
Other non-current assets	222	1718	1600	1600	1600
Deferred tax assets	143	74.0	74.0	74.0	74.0
<b>Current assets</b>	<b>4509</b>	<b>5801</b>	<b>4548</b>	<b>4407</b>	<b>4620</b>
Inventories	1478	1810	1332	1363	1533
Other current assets	101	601	601	601	601
Receivables	1449	1473	1189	1222	1428
Cash and equivalents	1481	1917	1427	1222	1058
<b>Balance sheet total</b>	<b>19026</b>	<b>20922</b>	<b>20563</b>	<b>20628</b>	<b>20999</b>

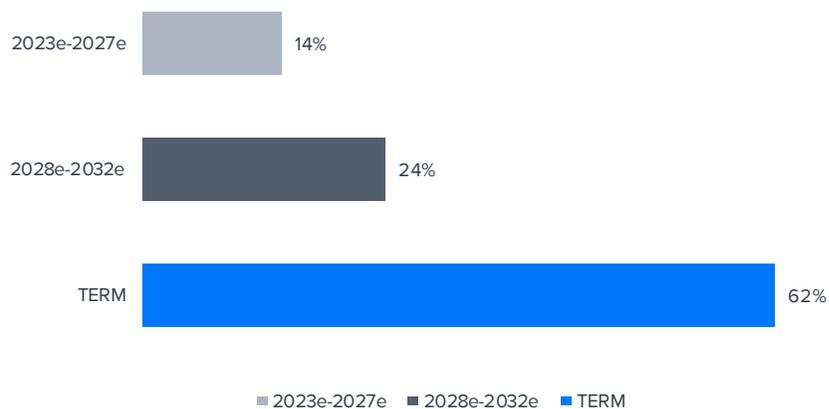
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
<b>Equity</b>	<b>10666</b>	<b>12502</b>	<b>11164</b>	<b>11449</b>	<b>11853</b>
Share capital	1423	1423	1423	1423	1423
Retained earnings	7416	8532	8002	8287	8691
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	1843	2577	1800	1800	1800
Minorities	-16.0	-30.0	-61.0	-61.0	-61.0
<b>Non-current liabilities</b>	<b>5195</b>	<b>4486</b>	<b>5980</b>	<b>5899</b>	<b>5683</b>
Deferred tax liabilities	1430	1443	1410	1410	1410
Provisions	91.0	81.0	90.0	90.0	90.0
Interest bearing debt	3313	2792	4310	4229	4013
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	361	170	170	170	170
<b>Current liabilities</b>	<b>3165</b>	<b>3934</b>	<b>3419</b>	<b>3281</b>	<b>3462</b>
Interest bearing debt	624	1180	1077	1057	1003
Payables	2339	2410	1997	1879	2115
Other current liabilities	202	344	344	344	344
<b>Balance sheet total</b>	<b>19026</b>	<b>20922</b>	<b>20563</b>	<b>20628</b>	<b>20999</b>

# DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	14.9 %	-18.6 %	-1.2 %	12.5 %	7.2 %	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	17.2 %	0.6 %	8.5 %	9.9 %	10.6 %	12.0 %	11.5 %	11.0 %	10.5 %	10.5 %	10.5 %	10.5 %
<b>EBIT (operating profit)</b>	<b>2009</b>	<b>54</b>	<b>797</b>	<b>1046</b>	<b>1199</b>	<b>1402</b>	<b>1377</b>	<b>1350</b>	<b>1321</b>	<b>1354</b>	<b>1381</b>	
+ Depreciation	635	735	695	720	738	728	718	710	703	668	666	
- Paid taxes	-240	-25	-130	-181	-204	-247	-247	-244	-241	-250	-258	
- Tax, financial expenses	-26	-13	-33	-32	-39	-36	-32	-29	-26	-24	-21	
+ Tax, financial income	0	0	4	3	3	3	3	3	3	3	4	
- Change in working capital	-643	350	-182	-141	-61	-27	-23	-24	-25	-25	-21	
<b>Operating cash flow</b>	<b>1735</b>	<b>1101</b>	<b>1151</b>	<b>1415</b>	<b>1636</b>	<b>1822</b>	<b>1797</b>	<b>1766</b>	<b>1735</b>	<b>1726</b>	<b>1750</b>	
+ Change in other long-term liabilities	-201	9	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-1056	-1629	-902	-877	-652	-652	-652	-652	-652	-652	-706	
<b>Free operating cash flow</b>	<b>478</b>	<b>-519</b>	<b>249</b>	<b>538</b>	<b>984</b>	<b>1170</b>	<b>1145</b>	<b>1114</b>	<b>1083</b>	<b>1074</b>	<b>1043</b>	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	478	-519	249	538	984	1170	1145	1114	1083	1074	1043	16786
<b>Discounted FCFF</b>		<b>-511</b>	<b>226</b>	<b>452</b>	<b>763</b>	<b>837</b>	<b>756</b>	<b>679</b>	<b>609</b>	<b>557</b>	<b>500</b>	<b>8043</b>
Sum of FCFF present value		12910	13421	13195	12743	11980	11143	10388	9709	9100	8542	8043
<b>Enterprise value DCF</b>		<b>12910</b>										
- Interest bearing debt		-3972										
+ Cash and cash equivalents		1917										
-Minorities		48										
-Dividend/capital return		-473										
<b>Equity value DCF</b>		<b>10430</b>										
<b>Equity value DCF per share</b>		<b>13.2</b>										

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 %
<b>Cost of equity</b>	<b>9.6 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>8.3 %</b>

Source: Inderes

# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	8553	10164	11680	9511	9397	EPS (reported)	0.79	1.55	1.96	-0.07	0.66
EBITDA	1531	2225	2644	789	1492	EPS (adj.)	0.48	1.51	1.84	0.23	0.66
EBIT	922	1528	2009	54	797	OCF / share	1.97	2.75	2.20	1.40	1.46
PTP	773	1379	1858	-103	651	FCF / share	0.70	0.31	0.61	-0.66	0.32
Net Income	626	1226	1549	-56	521	Book value / share	11.17	13.54	15.89	14.23	14.59
Extraordinary items	271	40	119	-304	0	Dividend / share	0.30	0.55	0.60	0.30	0.40
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	17431	19026	20922	20563	20628	Revenue growth-%	-15%	19%	15%	-19%	-1%
Equity capital	8794	10666	12502	11164	11449	EBITDA growth-%	-20%	45%	19%	-70%	89%
Goodwill	281	282	244	576	576	EBIT (adj.) growth-%	-32%	129%	27%	-81%	123%
Net debt	3089	2456	2055	3961	4065	EPS (adj.) growth-%	-36%	214%	22%	-87%	182%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	17.9 %	21.9 %	22.6 %	8.3 %	15.9 %
EBITDA	1531	2225	2644	789	1492	EBIT (adj.)-%	7.6 %	14.6 %	16.2 %	3.8 %	8.5 %
Change in working capital	206	40	-643	350	-182	EBIT-%	10.8 %	15.0 %	17.2 %	0.6 %	8.5 %
Operating cash flow	1552	2170	1735	1101	1151	ROE-%	7.7 %	12.6 %	13.3 %	-0.5 %	4.6 %
CAPEX	-2331	-1788	-1056	-1629	-902	ROI-%	7.4 %	10.9 %	12.9 %	0.3 %	4.9 %
Free cash flow	552	246	478	-519	249	Equity ratio	50.5 %	56.1 %	59.8 %	54.3 %	55.5 %
						Gearing	35.1%	23.0 %	16.4 %	35.5 %	35.5 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.8	1.5	1.1	1.3	1.4						
EV/EBITDA (adj.)	10.5	6.8	4.7	16.2	8.6						
EV/EBIT (adj.)	23.7	10.2	6.6	35.6	16.1						
P/E (adj.)	32.5	10.7	7.1	47.8	17.0						
P/B	1.4	1.2	0.8	0.8	0.8						
Dividend-%	1.9 %	3.4 %	4.6 %	2.7 %	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 net sales are not taxonomically classified.

As a result, the taxonomy rate of Stora Enso's net sales, 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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Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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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 €



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