

# Stora Enso

## Company report

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This report is a summary translation of the report “Jatkamme rauhassa valon merkkien odottelua” published on 07/24/2023 at 7:56 am.

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# We patiently continue to wait for positive signals

We reiterate our Reduce recommendation for Stora Enso and cut our target price to EUR 10.50 (was EUR 11.50). We continued to lower our near-term estimates for Stora Enso, as the company's Q2 report was gloomy even compared to the estimates we lowered before the report. From the perspective of long-term investors, misery has already been priced in Stora Enso's share, but the company is now treading the path of suffering and there are no concrete signs of how far it still has to go. Therefore, we will wait for the news flow to pick up before we are prepared to move our sights further away for Stora Enso.

## Operating result level slumped to its weakest since the darkest days of the financial crisis

Stora Enso's net sales contracted by 22% to EUR 2,374 million in Q2 (incl. the acquisition of DJP and the withdrawal from Paper) due to very weak volume development and price pressure in all industrial businesses. Volume growth was very weak due to falling private consumption and high inventories in value chains. Stora Enso's adjusted EBIT plummeted 93% to EUR 37 million in Q2, as high cost levels and weak net sales pushed the three industrial divisions into loss. After the news flow in the sector in the spring and summer, a weak result was practically a foregone conclusion, but the operating result was still well below our estimates.

## We revised our estimates further downwards after the gloomy Q2 report

In its Q2 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 very bearish and demand shows no signs of picking up in any of the industrial businesses, but overall, the market situation may even be slightly deteriorating despite certain cross-pull. In our view, the company's own actions (incl. production cuts, savings, inventory management, etc.) can only alleviate the pain of a very weak market, and the situation will not improve 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 almost 30%, particularly in relation to volumes and prices for pulp, wood products and packaging boards. Our estimates for the coming years were also lowered at the adjusted EBIT level by 6-7%, mainly for the same reasons. Nevertheless, we expect the company to rise from the bottom line to a break-even level next year, driven by recovering demand, easing inflation and savings, as economic growth picks up slightly and inventories fall.

## The stock is priced for misery, but risk-taking is not palatable at current valuations and outlook

Our projections for Stora Enso's earnings multiples for 2023 are very high. We also believe that the company's 2024 P/E ratio of 13x and EV/EBITDA multiple of 7x, which are at 5-year median levels, remain neutral 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 3-4%. In our view, a P/B of 0.7x is already moderate, even if the forest assets on the balance would be valued at higher required returns. The DCF is also above the share price, although we have raised our required return on the stock by another notch due to the high risk level in the short term and some question marks over the company's capital allocation. Hence, the stock is also priced for misery, but still, given the somewhat neutral risk/return picture, we are waiting for concrete signs from Stora Enso as to when the company will get out of its suffering.

## Recommendation

### Reduce

(previous Reduce)

### EUR 10.50

(previous EUR 11.50)

### Share price:

EUR 10.11



## Key figures

	2022	2023e	2024e	2025e
Revenue	11680	9986	9980	11062
growth-%	15%	-15%	0%	11%
EBIT adj.	1890	389	931	1153
EBIT-% adj.	16.2 %	3.9 %	9.3 %	10.4 %
Net Income	1549	-9	630	808
EPS (adj.)	1.84	0.28	0.80	1.02
P/E (adj.)	7.1	36.6	12.7	9.9
P/B	0.8	0.7	0.6	0.6
Dividend yield-%	4.6 %	3.0 %	4.5 %	4.9 %
EV/EBIT (adj.)	6.6	29.2	12.2	9.7
EV/EBITDA	4.7	13.2	6.9	5.9
EV/S	1.1	1.1	1.1	1.0

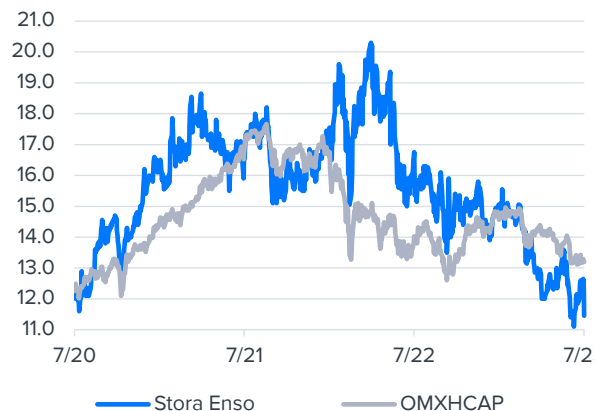
Source: Inderes

## Guidance

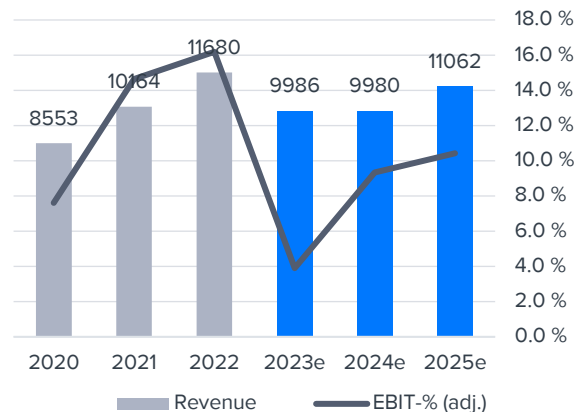
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Stora Enso's full-year 2023 operational EBIT is expected to be significantly lower than for the full-year 2022 (EUR 1,891 million).

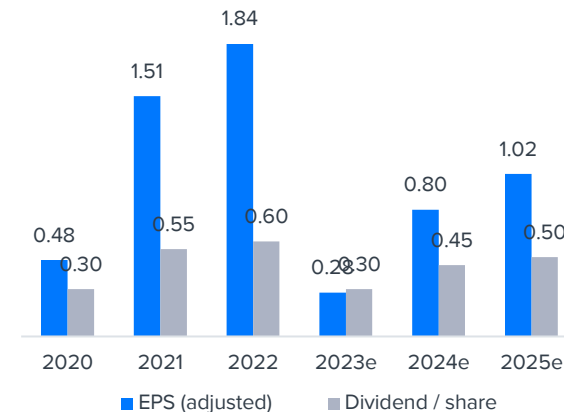
### Share price



### 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	10.1	10.1	10.1
Number of shares, millions	788.6	788.6	788.6
Market cap	7973	7973	7973
EV	11357	11318	11156
P/E (adj.)	36.6	12.7	9.9
P/E	neg.	12.7	9.9
P/FCF	neg.	20.3	12.6
P/B	0.7	0.6	0.6
P/S	0.8	0.8	0.7
EV/Sales	1.1	1.1	1.0
EV/EBITDA	13.2	6.9	5.9
EV/EBIT (adj.)	29.2	12.2	9.7
Payout ratio (%)	neg.	56.4 %	48.8 %
Dividend yield-%	3.0 %	4.5 %	4.9 %

Source: Inderes

# Apart from Forest, the figures were very ugly

## Worse than expected net sales decline

Stora Enso's Q2 net sales decreased by 22% to EUR 2,374 million, which was moderately below our estimate set at the lower end of the consensus range. Net sales in practically all industrial businesses was weighed down by lower volumes due to destocking and weak underlying demand, as well as depressed prices in oversupplied markets. Structural changes (incl. DJP acquisition and the sale of several paper mills) had a slightly negative impact on sales.

## Three out of five units made an adjusted operating loss

Stora Enso's adjusted EBIT for Q2 fell 93% to EUR 37 million, also below our and especially consensus forecasts. Among the divisions, Forest was able to improve its profitability and perform well in the tight Nordic timber market. Packaging Solutions also pushed ahead to a satisfactory level of results and earnings growth, thanks to the acquisition. In turn,

Stora Enso's strategically critical Packaging Materials business, which has traditionally been the mainstay of the company's operations, again posted an almost unprecedented operating loss in Q2 due to price, volume and inflation problems. Biomaterials and Wood Products also made operating losses for the same reasons. Thus, the report was very gloomy for industrial businesses. The Finnish mills of Biomaterials, Packaging Materials and Wood Products in particular have been facing severe difficulties in Q2 due to a tight wood market and low utilization rates. The Swedish units may have fared a little better in Q2 due to a slightly less tight timber market and exchange rates, but low utilization rates have also hampered their efficiency.

On the bottom lines, Stora Enso's results were negatively impacted by mostly known significant one-off costs, mainly related to restructuring, while financial expenses were slightly higher due to currency-related reasons and taxes were recorded as

positive. The negative profit share attributable to minorities was also exceptionally large. As a result, EPS fell to EUR -0.29 and naturally short of all forecasts. In cash flow terms, the report was also weak, as cash flow from operating activities decreased by 64% year-on-year to EUR 146 million. Working capital management kept cash flow up.

## Balance sheet leverage will soon exceed the target level

The net debt to EBITDA ratio was at a moderate level of 1.7x at the end of the period (target > below 2x), as the backward rolling EBITDA weakness and (Oulu) investments continued. The company's net gearing ratio remained 6 percentage points above the comparison period at 27%. However, the ratio of net debt to EBITDA will exceed the target already in Q3. Of course, there is no acute problem with the company's financial position, but the situation will certainly have a negative impact on the dividend outlook in the near future.

Estimates	Q2'22	Q2'23	Q2'23e	Q2'23e	Consensus		Difference (%)	2023e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	3054	2374	2458	2622	2320	- 2799	-3%	9986
EBIT (adj.)	505	37.0	82	125	45	- 179	-55%	389
EBIT	399	-253	-108	71.4	-145	- 179	134%	106
PTP	370	-304	-147	17.5	-190	- 139	107%	-46.9
EPS (reported)	0.39	-0.29	-0.15	0.03	-0.14	- 0.14	93%	-0.01
Revenue growth-%	0.0 %	-22.3 %	-19.5 %	-14.1 %	-24.0 %	- -8.4 %	-2.8 pp	-14.5 %
EBIT-% (adj.)	16.5 %	1.6 %	3.3 %	4.7 %	1.9 %	- 6.4 %	-1.8 pp	3.9 %

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

# Estimates continued to trend downwards

## Estimate revisions 2023e-2025e

- Stora Enso reiterated its guidance for the current year in the Q2 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 informative value of the guidance is no longer there.
- We further cut our volume estimates and, to some extent, prices in virtually all industrial divisions for this year. Our adjusted EBIT estimates for the current year went down by almost 30%. We lowered our estimate for the group's adjusted EBIT in the coming years by a further 6-7% for 2024 and 2025, particularly in relation to pulp prices and packaging board volumes and prices and cost levels. In contrast, Forest's forecasts rose modestly, driven by a tight wood market, and we also raised Packaging Solutions' forecasts after the market leveled off slightly to its weak level.
- We made no changes to our assessment of the company's long-term earnings potential
- We also further cut our dividend estimates for the coming years as our EBIT estimate came down. A big dividend cut next spring is a foregone conclusion.

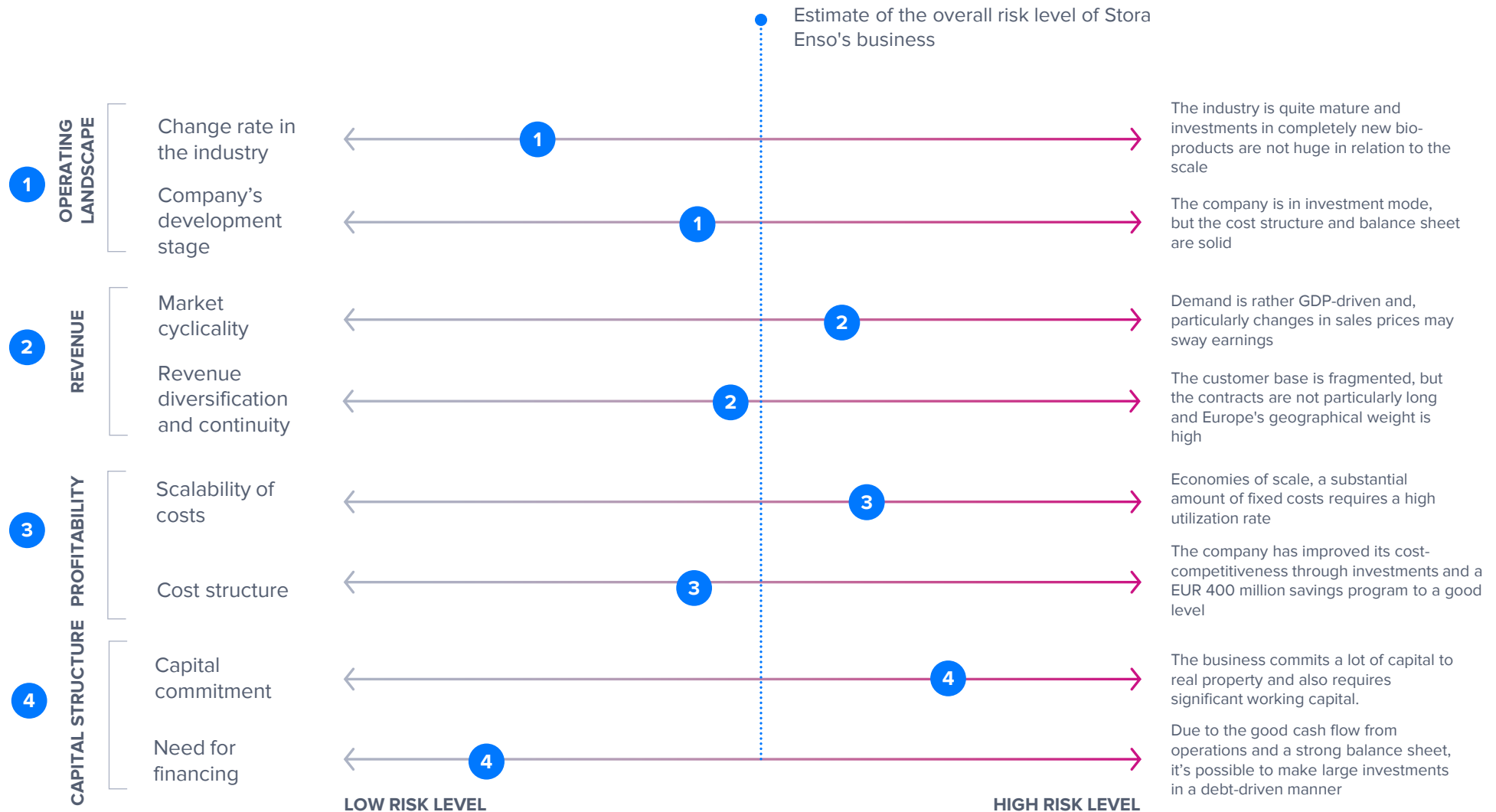
## Operational result drivers 2023e-2025e:

- We expect Packaging Materials to almost lose profitability due to inflationary pressures on cardboard volumes and prices. In the coming years, we expect the unit's profitability to gradually improve, driven by the economic cycle, easing inflation and new investments (new machine in Oulu).
- We expect Biomaterials' earnings to fall sharply from the 2022 peak in 2023-2024, as pulp prices have slumped in the spring and summer, inventories are high, and more supply is also on the way. We do not expect the price trend to reverse until 2024-2025.
- 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.
- 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	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	10540	9986	-5%	10933	9980	-9%	11878	11062	-7%
EBITDA	1381	861	-38%	1785	1630	-9%	2003	1876	-6%
EBIT (exc. NRIs)	723	389	-46%	1062	931	-12%	1259	1153	-8%
EBIT	730	106	-85%	1062	931	-12%	1259	1153	-8%
PTP	584	-46.9	-108%	923	787	-15%	1120	1013	-10%
EPS (excl. NRIs)	0.60	0.28	-54%	0.94	0.80	-15%	1.13	1.02	-10%
DPS	0.45	0.30	-33%	0.50	0.45	-10%	0.60	0.50	-17%

Source: Inderes

# Risk profile of the business model



# Looking ahead to next year, the valuation picture is neutral

## Valuation multiples look neutral for the coming years

Our projected earnings multiples for Stora Enso in 2023 are very high, while the P/E ratio for 2024 is 13x and the EV/EBITDA ratio is 7x. Next year's multiples are around the company's 5-year median levels, and we consider them neutral relative to the uncertainties surrounding the operating environment and current interest rates. We are not ready to look beyond 2024 for the stock at this stage either.

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 drop in earnings that started in Q4'22 and is expected to continue very steeply in H2 showed that Stora Enso's earnings are still volatile, and the company has a lot of work to do to reduce cyclicity. With 5-year average realized results, Stora Enso's P/E would be under 10x. This is no longer a high level considering that the company's profile has improved a few notches over the last 5 years (the period includes, of course, the peak results of 2021-2022). However, the earnings trend that's still heavily a downward one moves us away from relying on longer-term valuations.

Relative to peers, Stora Enso is priced at a premium, but this valuation is not a particularly useful measure now, as peers' consensus forecasts may have been on the high side due to the rapidly weakened market. Likewise, our DCF model, based on our longer-term forecasts, is well above the price at just under EUR 14, although we slightly increased the WACC due to short-term high uncertainties and certain discontinuities in the company's capital allocation (e.g. the timing and price of the DJP acquisition, the construction and sale of the Chinese board mill, the start and end of dissolving pulp production at the Uimaharju pulp mill, the acquisition and write-down of Virdia). Thus, the

DCF already gives an attractive indicator of the valuation, but in the current market this alone is not enough for a positive recommendation.

## We find the valuation reasonable

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. In our view, at least for the next 2-3 quarters, we do not see the multiples as favorable enough in the light of the earnings growth driver remaining negative. 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 push the stock up, but there are no concrete signs of this yet.

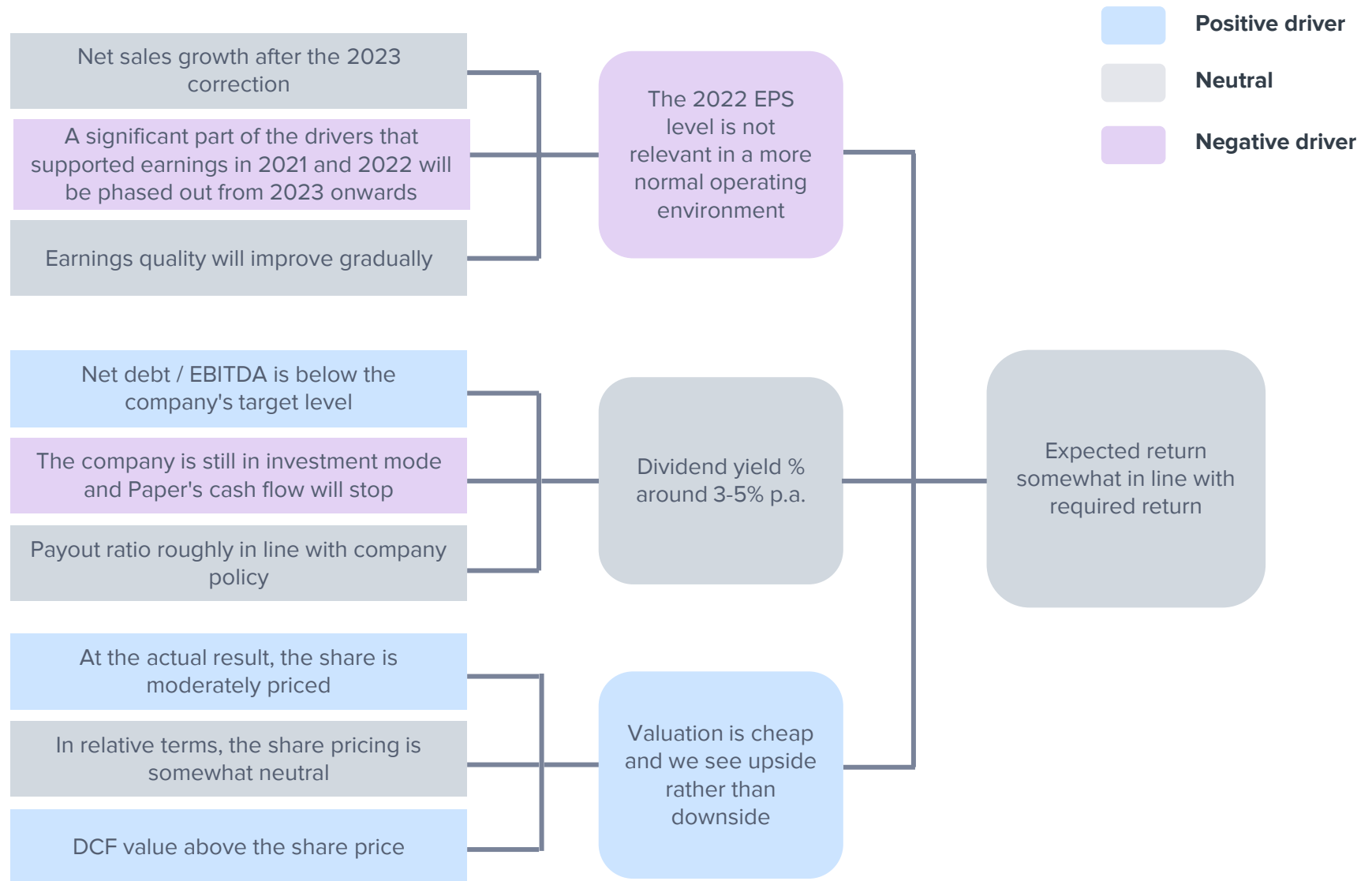
## P/B-based valuation starting to look moderate

Stora Enso's P/B ratio is below its medium-term median level at 0.7x (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 would be necessary, as the Forest division's ROCE-% is now around 4% for a balance sheet value that has been significantly written up in recent years, and the cash flow yield is still much lower. 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 4%). Therefore, we do not believe that equity investors will swallow the balance sheet value of the strategic forest (i.e. the forest is unlikely to be sold and thus the balance sheet value will not quickly dissolve into cash) for Stora Enso as such. At the current P/B valuation, we believe that the downside potential of the stock is starting to be limited, but it is not yet tempting to grab the stock at least before the first signs of the end of the road of suffering start to appear.

Valuation	2023e	2024e	2025e
Share price	10.1	10.1	10.1
Number of shares, millions	788.6	788.6	788.6
Market cap	7973	7973	7973
EV	11357	11318	11156
P/E (adj.)	36.6	12.7	9.9
P/E	neg.	12.7	9.9
P/FCF	neg.	20.3	12.6
P/B	0.7	0.6	0.6
P/S	0.8	0.8	0.7
EV/Sales	1.1	1.1	1.0
EV/EBITDA	13.2	6.9	5.9
EV/EBIT (adj.)	29.2	12.2	9.7
Payout ratio (%)	neg.	56.4 %	48.8 %
Dividend yield-%	3.0 %	4.5 %	4.9 %

Source: Inderes

# TSR drivers Q2'23 LTM-2025e

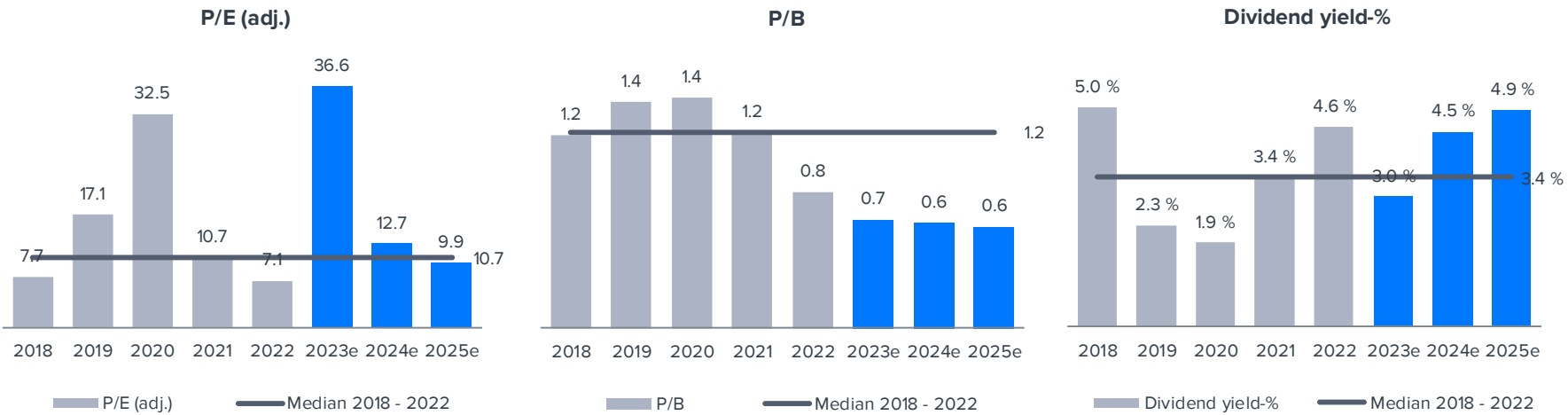




# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	10.01	12.97	15.65	16.14	13.15	10.11	10.11	10.11	10.11
Number of shares, millions	788.6	788.6	788.6	788.6	788.6	788.6	788.6	788.6	788.6
Market cap	7890	10229	12342	12729	10371	7973	7973	7973	7973
EV	10124	13523	15409	15165	12401	11357	11318	11156	10549
P/E (adj.)	7.7	17.1	32.5	10.7	7.1	36.6	12.7	9.9	8.2
P/E	7.8	11.6	19.7	10.4	6.7	neg.	12.7	9.9	8.2
P/FCF	10.1	neg.	22.4	51.8	21.7	neg.	20.3	12.6	7.1
P/B	1.2	1.4	1.4	1.2	0.8	0.7	0.6	0.6	0.6
P/S	0.8	1.0	1.4	1.3	0.9	0.8	0.8	0.7	0.7
EV/Sales	1.0	1.3	1.8	1.5	1.1	1.1	1.1	1.0	0.9
EV/EBITDA	5.4	7.1	10.5	6.8	4.7	13.2	6.9	5.9	5.0
EV/EBIT (adj.)	7.6	14.2	23.7	10.2	6.6	29.2	12.2	9.7	7.7
Payout ratio (%)	38.9 %	26.9 %	37.8 %	35.4 %	30.5 %	neg.	56.4 %	48.8 %	44.8 %
Dividend yield-%	5.0 %	2.3 %	1.9 %	3.4 %	4.6 %	3.0 %	4.5 %	4.9 %	5.4 %

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	9946	14562	13.2	13.9	7.3	7.6	0.8	0.8	14.9	16.1	5.8	5.7	1.3
Graphic Packaging	6580	11446	9.1	9.1	6.7	6.6	1.3	1.3	8.1	8.0	1.8	2.2	2.6
DS Smith	4701	6459	6.9	8.3	4.8	5.4	0.7	0.7	6.9	8.6	6.3	6.0	0.9
Metsä Board	2569	2753	9.2	9.5	7.7	6.9	1.3	1.2	13.2	11.1	4.8	4.8	1.1
Holmen	5462	5504	13.2	15.3	10.3	11.6	2.8	2.9	16.7	19.2	3.0	3.0	1.1
Billerud	1775	2366	30.8	10.1	7.3	5.1	0.6	0.6	34.3	11.0	7.0	6.0	0.7
Mayr-Melnhof	2604	4145	19.6	10.6	8.5	6.0	1.0	1.0	18.9	9.6	3.2	3.2	1.2
UPM	15286	18109	13.5	10.2	9.6	7.6	1.6	1.5	16.2	11.0	4.8	5.4	1.2
Suzano	10994	21979	10.4	12.7	5.9	6.2	2.8	2.8	8.1	17.6	1.9	2.0	1.5
Smurfit Kappa	8884	11843	8.8	9.4	5.9	6.1	1.0	1.0	10.4	11.0	4.3	4.5	1.6
<b>Stora Enso (Inderes)</b>	<b>7973</b>	<b>11357</b>	<b>29.2</b>	<b>12.2</b>	<b>13.2</b>	<b>6.9</b>	<b>1.1</b>	<b>1.1</b>	<b>36.6</b>	<b>12.7</b>	<b>3.0</b>	<b>4.5</b>	<b>0.7</b>
<b>Average</b>			<b>13.7</b>	<b>11.3</b>	<b>8.0</b>	<b>7.4</b>	<b>1.7</b>	<b>1.7</b>	<b>15.4</b>	<b>13.0</b>	<b>4.1</b>	<b>4.1</b>	<b>1.3</b>
<b>Median</b>			<b>11.8</b>	<b>10.1</b>	<b>7.3</b>	<b>6.6</b>	<b>1.2</b>	<b>1.2</b>	<b>14.1</b>	<b>11.1</b>	<b>4.3</b>	<b>4.4</b>	<b>1.2</b>
<b>Diff-% to median</b>			<b>148%</b>	<b>20%</b>	<b>80%</b>	<b>5%</b>	<b>-5%</b>	<b>-2%</b>	<b>160%</b>	<b>14%</b>	<b>-31%</b>	<b>2%</b>	<b>-45%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	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>2373</b>	<b>2518</b>	<b>9986</b>	<b>9980</b>	<b>11062</b>	<b>11764</b>
Packaging Materials	4508	1317	1424	1421	1335	5496	1300	1155	1146	1187	4789	4758	5481	5985
Packaging Solutions	720	189	186	176	177	727	276	288	293	303	1159	1180	1282	1349
Biomaterials	1728	442	522	567	649	2180	488	380	336	348	1552	1458	1560	1596
Wood Products	1872	573	631	520	471	2195	454	436	440	437	1768	1918	2070	2160
Forest	2311	626	649	581	664	2519	687	620	573	662	2542	2666	2719	2774
Other	2119	481	568	575	528	2150	364	214	285	280	1143	1000	1000	1000
Internal sales / Eliminations	-3094	-828	-925	-876	-959	-3589	-848	-719	-700	-700	-2967	-3000	-3050	-3100
Adjustment items	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<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>206</b>	<b>225</b>	<b>861</b>	<b>1630</b>	<b>1876</b>	<b>2102</b>
Depreciation	-697	-204	-132	-134	-165	-635	-156	-269	-165	-165	-755	-699	-723	-741
<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>41</b>	<b>76</b>	<b>389</b>	<b>931</b>	<b>1153</b>	<b>1361</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>41</b>	<b>60</b>	<b>106</b>	<b>931</b>	<b>1153</b>	<b>1361</b>
Packaging Materials	535	208	200	188	59	655	41	-21	-14	16	22	435	511	639
Packaging Solutions	42	5	2	4	5	16	8	15	18	17	58	91	108	131
Biomaterials	495	117	123	198	249	687	91	-13	-25	-15	38	134	222	248
Wood Products	364	118	134	70	-14	308	-11	-5	-4	0	-20	66	150	178
Forest	267	49	47	47	61	204	57	62	60	59	239	225	206	209
Other	-166	6	14	29	14	63	27	-10	-2	-3	12	-25	-45	-45
Internal sales / Eliminations	-9	-1	-14	-8	-19	-42	21	9	7	2	39	7	0	0
Adjustment items	0	-109	-106	-16	350	119	23	-290	0	-16	-283	0	0	0
Net financial items	-149	-19	-29	-63	-40	-151	-29	-52	-36	-36	-153	-144	-140	-147
<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>5</b>	<b>24</b>	<b>-47</b>	<b>787</b>	<b>1013</b>	<b>1215</b>
Taxes	-151	-88	-71	-81	-82	-322	-43	47	-1	-5	-2	-157	-203	-243
Minority interest	-2	2	4	5	2	13	4	31	3	3	40	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>7</b>	<b>22</b>	<b>-9</b>	<b>630</b>	<b>808</b>	<b>969</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>0.01</b>	<b>0.04</b>	<b>0.28</b>	<b>0.80</b>	<b>1.02</b>	<b>1.23</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>0.01</b>	<b>0.03</b>	<b>-0.01</b>	<b>0.80</b>	<b>1.02</b>	<b>1.23</b>

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	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 %	-19.9 %	-12.1 %	-14.5 %	-0.1 %	10.8 %	6.3 %
<b>Adjusted EBIT growth-%</b>	128.6 %	202.7 %	176.0 %	2192.6 %	-68.2 %	27.0 %	-53.4 %	-92.6 %	-92.2 %	-78.6 %	-79.4 %	139.3 %	23.9 %	18.0 %
<b>EBITDA-%</b>	21.9 %	21.4 %	17.4 %	21.8 %	30.4 %	22.6 %	15.2 %	0.7 %	8.7 %	8.9 %	8.6 %	16.3 %	17.0 %	17.9 %
<b>Adjusted EBIT-%</b>	14.6 %	18.0 %	16.5 %	17.8 %	12.4 %	16.2 %	8.6 %	1.6 %	1.7 %	3.0 %	3.9 %	9.3 %	10.4 %	11.6 %
<b>Net earnings-%</b>	12.1 %	10.3 %	9.9 %	12.6 %	20.4 %	13.3 %	7.0 %	-9.6 %	0.3 %	0.9 %	-0.1 %	6.3 %	7.3 %	8.2 %

Source: Inderes

# Balance sheet

Assets	2021	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>14517</b>	<b>15121</b>	<b>16262</b>	<b>16465</b>	<b>16619</b>
Goodwill	282	244	571	571	571
Intangible assets	124	121	390	392	394
Tangible assets	5501	5278	5823	6024	6176
Associated companies	580	832	832	832	832
Other investments	7665	6854	6854	6854	6854
Other non-current assets	222	1718	1718	1718	1718
Deferred tax assets	143	74.0	74.0	74.0	74.0
<b>Current assets</b>	<b>4509</b>	<b>5801</b>	<b>4346</b>	<b>4344</b>	<b>4694</b>
Inventories	1478	1810	1398	1447	1604
Other current assets	101	601	601	601	601
Receivables	1449	1473	1248	1297	1493
Cash and equivalents	1481	1917	1098	998	996
<b>Balance sheet total</b>	<b>19026</b>	<b>20922</b>	<b>20608</b>	<b>20809</b>	<b>21313</b>

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
<b>Equity</b>	<b>10666</b>	<b>12502</b>	<b>12020</b>	<b>12413</b>	<b>12866</b>
Share capital	1423	1423	1423	1423	1423
Retained earnings	7416	8532	8050	8443	8895
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	2577	2577	2577
Minorities	-16.0	-30.0	-30.0	-30.0	-30.0
<b>Non-current liabilities</b>	<b>5195</b>	<b>4486</b>	<b>5296</b>	<b>5183</b>	<b>5052</b>
Deferred tax liabilities	1430	1443	1443	1443	1443
Provisions	91.0	81.0	81.0	81.0	81.0
Long term debt	3313	2792	3602	3489	3358
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>3292</b>	<b>3212</b>	<b>3396</b>
Short term debt	624	1180	901	872	839
Payables	2339	2410	2047	1996	2212
Other current liabilities	202	344	344	344	344
<b>Balance sheet total</b>	<b>19026</b>	<b>20922</b>	<b>20608</b>	<b>20809</b>	<b>21313</b>

# DCF calculation

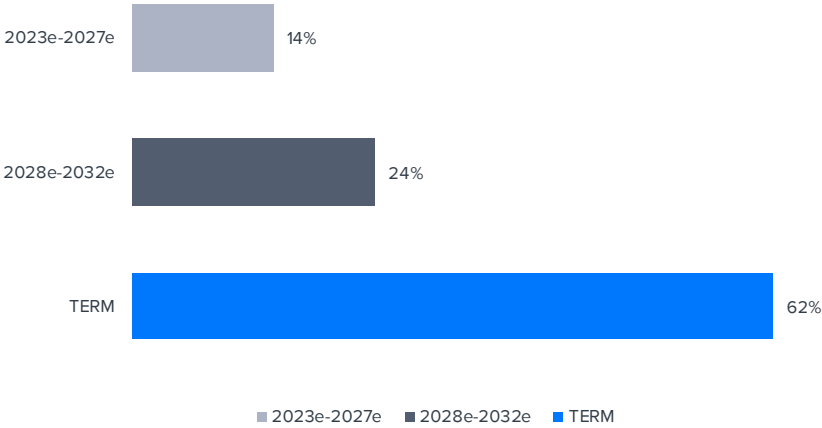
DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	14.9 %	-14.5 %	-0.1%	10.8 %	6.3 %	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	17.2 %	1.1%	9.3 %	10.4 %	11.6 %	12.0 %	11.5 %	11.0 %	10.5 %	10.5 %	10.5 %	10.5 %
<b>EBIT (operating profit)</b>	<b>2009</b>	<b>106</b>	<b>931</b>	<b>1153</b>	<b>1361</b>	<b>1454</b>	<b>1428</b>	<b>1400</b>	<b>1370</b>	<b>1404</b>	<b>1432</b>	
+ Depreciation	635	755	699	723	741	730	721	712	705	669	667	
- Paid taxes	-240	-2	-157	-203	-243	-265	-265	-261	-258	-268	-276	
- Tax, financial expenses	-26	6	-32	-31	-32	-29	-24	-21	-18	-15	-13	
+ Tax, financial income	0	0	3	3	3	3	3	2	2	2	2	
- Change in working capital	-643	274	-149	-136	-56	-28	-24	-25	-25	-26	-21	
<b>Operating cash flow</b>	<b>1735</b>	<b>1139</b>	<b>1294</b>	<b>1509</b>	<b>1774</b>	<b>1865</b>	<b>1839</b>	<b>1808</b>	<b>1775</b>	<b>1766</b>	<b>1791</b>	
+ Change in other long-term liabilities	-201	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-1056	-1896	-902	-877	-652	-652	-652	-652	-652	-652	-690	
<b>Free operating cash flow</b>	<b>478</b>	<b>-757</b>	<b>392</b>	<b>632</b>	<b>1122</b>	<b>1213</b>	<b>1187</b>	<b>1156</b>	<b>1123</b>	<b>1114</b>	<b>1101</b>	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	478	-757	392	632	1122	1213	1187	1156	1123	1114	1101	17718
<b>Discounted FCFF</b>		<b>-730</b>	<b>350</b>	<b>520</b>	<b>852</b>	<b>850</b>	<b>768</b>	<b>690</b>	<b>619</b>	<b>567</b>	<b>517</b>	<b>8318</b>
Sum of FCFF present value		13319	14049	13700	13180	12328	11478	10710	10020	9401	8835	8318
<b>Enterprise value DCF</b>		<b>13319</b>										
- Interest bearing debt		-3972										
+ Cash and cash equivalents		1917										
-Minorities		20										
-Dividend/capital return		-473										
<b>Equity value DCF</b>		<b>10810</b>										
<b>Equity value DCF per share</b>		<b>13.7</b>										

## 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

## Cash flow distribution



# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	8553	10164	11680	9986	9980	EPS (reported)	0.79	1.55	1.96	-0.01	0.80
EBITDA	1531	2225	2644	861	1630	EPS (adj.)	0.48	1.51	1.84	0.28	0.80
EBIT	922	1528	2009	106	931	OCF / share	1.97	2.75	2.20	1.44	1.64
PTP	773	1379	1858	-47	787	FCF / share	0.70	0.31	0.61	-0.96	0.50
Net Income	626	1226	1549	-9	630	Book value / share	11.17	13.54	15.89	15.28	15.78
Extraordinary items	271	40	119	-283	0	Dividend / share	0.30	0.55	0.60	0.30	0.45
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	17431	19026	20922	20608	20809	Revenue growth-%	-15%	19%	15%	-15%	0%
Equity capital	8794	10666	12502	12020	12413	EBITDA growth-%	-20%	45%	19%	-67%	89%
Goodwill	281	282	244	571	571	EBIT (adj.) growth-%	-32%	129%	27%	-79%	139%
Net debt	3089	2456	2055	3404	3364	EPS (adj.) growth-%	-36%	214%	22%	-85%	189%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	17.9 %	21.9 %	22.6 %	8.6 %	16.3 %
EBITDA	1531	2225	2644	861	1630	EBIT (adj.)-%	7.6 %	14.6 %	16.2 %	3.9 %	9.3 %
Change in working capital	206	40	-643	274	-149	EBIT-%	10.8 %	15.0 %	17.2 %	1.1 %	9.3 %
Operating cash flow	1552	2170	1735	1139	1294	ROE-%	7.7 %	12.6 %	13.3 %	-0.1 %	5.1 %
CAPEX	-2331	-1788	-1056	-1896	-902	ROI-%	7.4 %	10.9 %	12.9 %	0.6 %	5.7 %
Free cash flow	552	246	478	-757	392	Equity ratio	50.5 %	56.1 %	59.8 %	58.3 %	59.7 %
						Gearing	35.1 %	23.0 %	16.4 %	28.3 %	27.1 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.8	1.5	1.1	1.1	1.1						
EV/EBITDA (adj.)	10.5	6.8	4.7	13.2	6.9						
EV/EBIT (adj.)	23.7	10.2	6.6	29.2	12.2						
P/E (adj.)	32.5	10.7	7.1	36.6	12.7						
P/B	1.4	1.2	0.8	0.7	0.6						
Dividend-%	1.9 %	3.4 %	4.6 %	3.0 %	4.5 %						

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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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	Vähennä	12.00 €	11.48 €
4/26/2023	Vähennä	11.50 €	11.15 €
7/19/2023	Vähennä	11.50 €	11.45 €
7/24/2024	Vähennä	10.50 €	10.11 €





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