**Equities**

19 July 2011 | 28 pages

# Paper Bulletin

## Superior returns in developing market packaging

- **Implications of grade and location mix** — Our analysis confirms our preference for packaging (EBITDA margins of 16%) over fine paper exposure (12% EBITDA margin), as well as developing-market over developed-market exposure, with developing EBITDA margins almost 50% higher on average. Superior grade and location mix has resulted in average Mondi returns 50bps and 270bps higher than SKG and Sappi since 2007, respectively. Stringent capital structure management also supports Mondi's superior returns (SKG and Sappi avg net debt-to-equity of 181% and 134% since 2007, respectively, vs. Mondi at only 52%).

- **Mpact listing, MND looks cheap** — Based on to-date trading since the demerger of MPT, we calculate the consolidation in Mondi Ltd shares on 22 July to 119mn (from 147mn previously). This implies a post–consolidation share price, today, of ZAR68.10/sh, a 1.4% discount to Mondi Plc (in ZAR).

- **Q2 2011 Previews** — Heading into a month of results, we expect pricing power to have largely offset cost pressures for Mondi and SKG in Western Europe. Sappi's weak Q3 FY2011e has been well guided on significant annual maintenance at 5 key mills, while weak European demand remains a concern across all three companies.

- **Price hike amid strong euro produces mixed result for containerboard players –** Healthy demand growth for European containerboard has helped producers to raise prices by €50/ton during May-June. European producers also faced some relief on cost pressures as recovered paper prices softened slightly. However, strengthening of the euro resulted in mixed moves in containerboard prices.

- **Coated woodfree shipment continues downtrend in Europe –** After declining over 10% in April, coated woodfree paper demand in Europe fell 10.2% again in May. Rising production costs and a stronger euro are creating dual pressure on producer margins. PIX coated woodfree prices were down 0.49% during May at €714.5/t.

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| | Rating | | Target Price | | Current Year Earnings Estimates | | Next Year Earnings Estimates | |
|---|---|---|---|---|---|---|---|---|
| Ticker | Old | New | Old | New | Old | New | Old | New |
| MNDI.L | 1M | 1M | £7.70 | £7.70 | EU¢65 | EU¢65 | EU¢79 | EU¢79 |
| SAPJ.J | 2M | 2M | R38.00 | R38.00 | US¢10.1 | US¢10.1 | US¢44.3 | US¢44.3 |
| SKG.I | 1M | 1M | €13.00 | €13.00 | €1.06 | €1.06 | €1.70 | €1.70 |

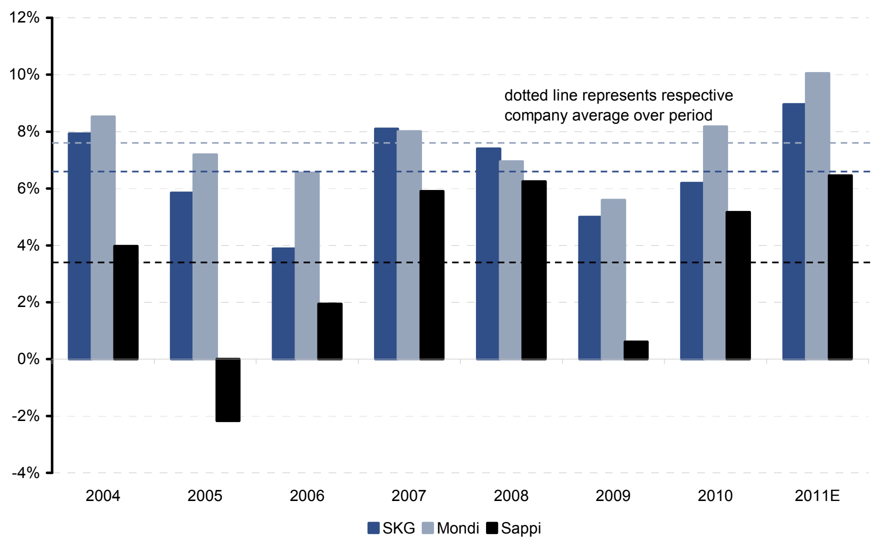
**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.**

# Contents

# Debt and overcapacity impacts margin

**In this edition of Paper Bulletin, we analyse the relative performance of our coverage universe on EBIT margins and RoE. EBIT margins have been impacted by an industry wide capacity/demand mismatch which has largely pegged price hikes to cost inflation and seasonal movements. RoE performance has been doubly impacted by weak margins and high debt levels. Analysis by grade and location confirms our preference for exposure to packaging in developing markets (Mondi and SKG).**

**Figure 1. Paper producers EBIT (pre-exceptionals) margin and period averages**




Source: Citi Investment Research and Analysis, Company reports

## Mondi –Performance benefits from rational capital mix

Mondi has delivered reasonably consistent underlying operational performances through the cycle. Mondi's EBIT margin has average 7.6% since 2004 while average return on equity for the same period has been 3.2%, the highest among our coverage. The company has strictly managed its grade exposure, using the downturn in 2008/2009 to execute on its streamlining. Stringent monitoring of its capital structure (by rapidly reducing debt) has helped it to deliver superior returns.

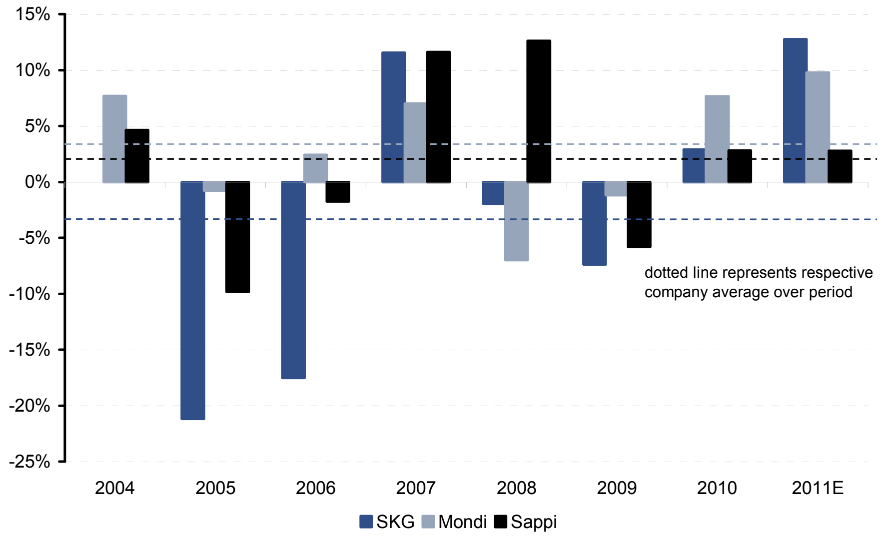
## Sappi – Underperformance due to grade exposure

Sappi has been the worst performer among the peer group on EBIT margins (3.5% average since 2004). The majority of operations in low growth developed markets (W. Europe and N. America), coupled with the majority of capacity exposed to grades that have structurally high capacity, has capped margins. Returns (RoE) also suffered due to poor earnings and high debt levels (net debt-to-equity average of 134% since 2007).

## SKG – Performance undermined by capital structure

Smurfit Kappa has been consistently able to deliver superior operating results due to its exposure to high growth, high margin Latin American and its focus on value added packaging "solutions". However, shareholder returns tell a different story with negative average returns of 3% since listing in 2005. A stressed balance sheet (net debt –to-equity average of 181% since 2007) struggled in the 2008/2009 recession and resulted in a sharp contraction in margins.

**Figure 2. Paper producers Return on Equity and period averages**

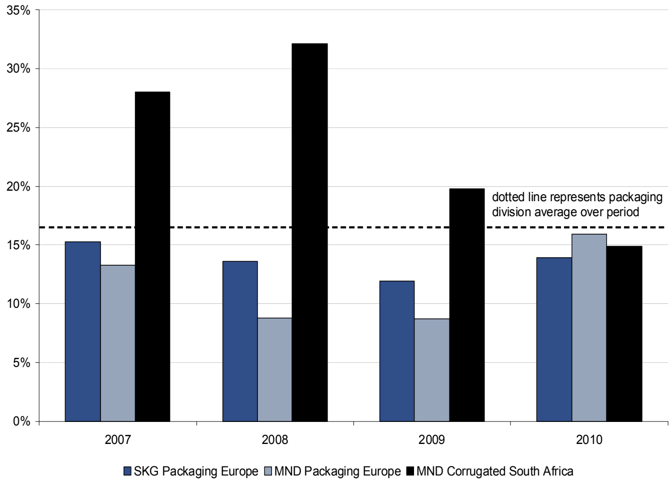



Source: Citi Investment Research and Analysis, Company reports

## Packaging delivering more consistent margins

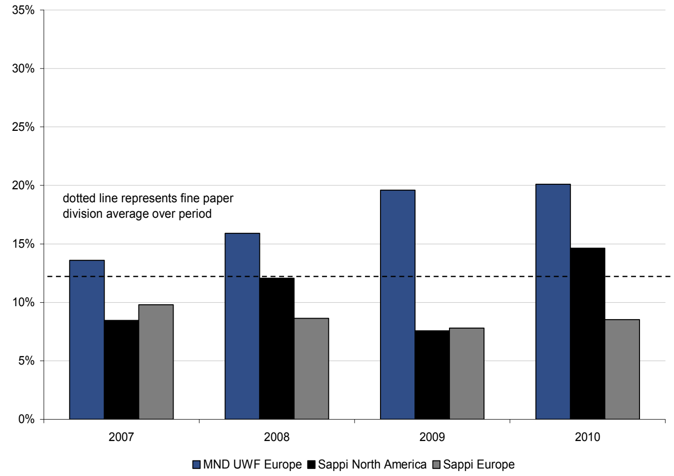
Comparing the grade exposure of our covered companies based on reporting segments confirms our preference for packaging producers. Packaging divisions have delivered better and more consistent margins than fine paper divisions. Packaging EBITDA margins averaged 16.4% over 2007-2010, while the average fine paper margin is only 12.2% over the same period. The packaging sector benefits from offering high value added "packaging solutions" for customers, as opposed to commoditised paper (a stringent cost focus game) – this is positive for Mondi and SKG.

**Figure 3. Packaging division EBITDA margin across companies**




Source: Citi Investment Research and Analysis; Company reports

**Figure 4. Fine paper division EBITDA margin across companies**

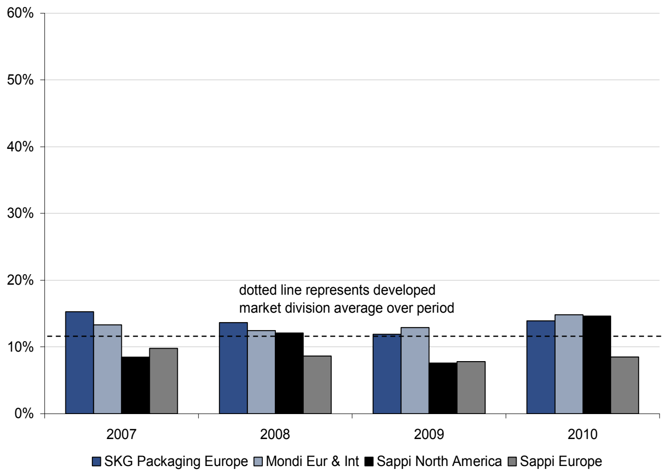



Source: Citi Investment Research and Analysis; Company reports

## Developing exposure is margin enhancer over time

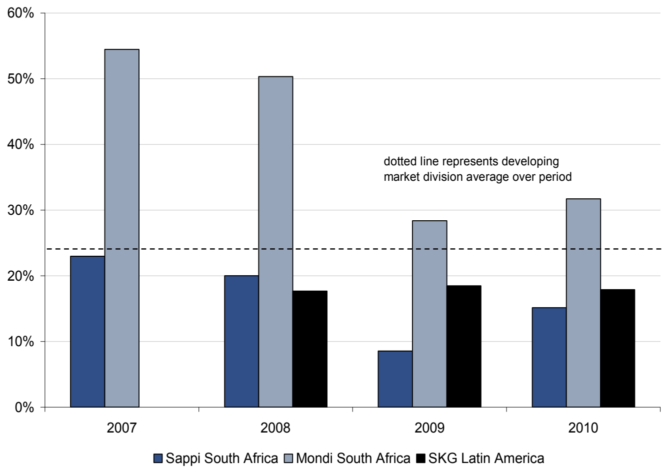
On another matrix we compare EBITDA margins based on geographical exposure. As expected, we found that developing markets have strongly outperformed developed market operations for the companies under our coverage. Strong GDP momentum, unsaturated product penetration and industrialisation have contributed to this outperformance. The developing market operations delivered an average EBITDA margin of 23.8% between 2007-2010 while developed markets have generated 11.6% over the same period - again benefitting Mondi and SKG which have larger developing market exposure.

**Figure 5. Developed market operations EBITDA margin**




Source: Citi Investment Research and Analysis; Company reports

**Figure 6. Developing market operations EBITDA margin**

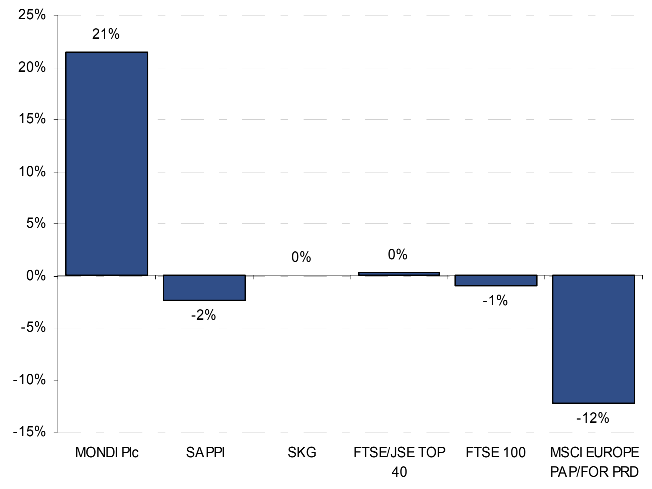



Source: Citi Investment Research and Analysis; Company reports

# Local issues; China slowdown: key June news

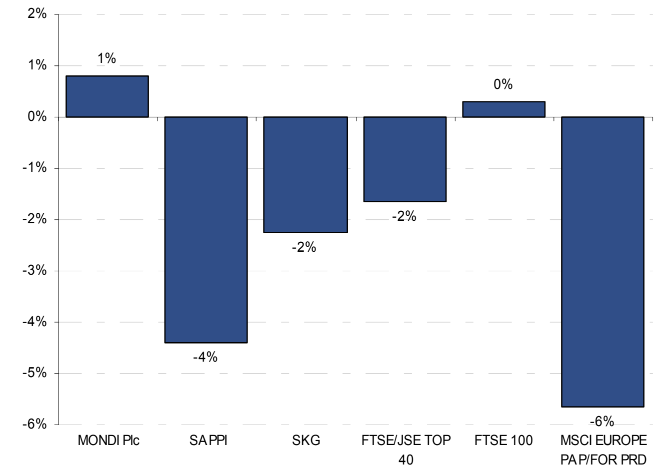
**The June month has been negative overall for the Global paper industry. Looming industrial action in South Africa, a slowdown in China and continued cost inflation has spoiled earlier momentum. The MSCI Europe paper/forest product index was down 6% for the month. We see Sappi's price hike announcement and a slight pullback in recovered paper prices as small positives for the sector during the period under review.**

Figure 7. YTD share price performance




Source: Datastream

Figure 8. MTD* share price performance




Source: Datastream *Note: MTD is for June 2011

### Industrial action to hit South African paper industry

**The union demand includes 15% wage rise and minimum monthly wage of R6,000.**

The strategic committee of the South African Chemical, Energy, Paper, Printing, Wood and Allied Workers Union (CEPPWAWU) has been on strike, since 14 July, following failed talks with employers over wage bargaining. The union demands include an increase in the minimum monthly wage and the transition of temporary workers to permanent employees. As a result, sites will be idled until resolution. Other South African industries (metal, engineering and plastic industries) are already facing strikes.

### M-real to sell its 35% stake in Myllykoski paper to UPM

**The deal would mean M-real booking a €4 million impairment before taxes in its second quarter**

UPM and M-real have entered into an agreement whereby M-real will sell its 35% stake in the Myllykoski paper mill in Finland (remainder owned by Myllykoski Corp). The mill houses paper capacity of 365k tpa supercalendered and 230 k tpa coated mechanical paper. The agreement is subject to closing of UPM's acquisition of Myllykoski Corp. (parent company) and Rhein Papier, announced at the end of 2010 which has been recently approved by the European Commission.

### Sappi announces 10% price hike for European CWF

Rising input cost has again "forced" Sappi to hike coated woodfree sheet and reel prices by 10%. The price hike will be effective for deliveries from September 1 in Europe. The increasing cost of pulp, energy, wood, latex and transportation remains concerning for producers in developed markets as demand wanes.

### European pulp mkt. faces Chinese slowdown; higher port inventories

**Seasonally weak period has also impacted the pulp market**

During May'11 woodpulp inventories at European ports rose by 3.9% (to 1.17mn tns), while producer inventories were below average. The inventory drawdown from buyers and subdued imports by China (-6.6% MoM) negatively impacted shipments and increased stock at ports. Low demand was compounded by declining pulp prices due to a strengthening Euro, with the PIX NBSK index down 2.4% to €702/ton in June.

### Corrugated box demand hit by E. coli outbreak

**AFCO has estimated a 3% drop in annual corrugated production in Spain, leading to €13 million losses for corrugated tray producers**

The recent outbreak of E. coli bacteria in Germany has resulted in a significant drop in corrugated box demand in Western Europe, particularly in Spain. Corrugated boxes are extensively used in fruit and vegetable export. The incident exposed vulnerabilities of packaging producers to sudden changes in end user demand.

### Recovered paper price ease in Europe

After rapid increases in 1Q'11, recovered paper prices softened during latter half of 2Q on higher inventory levels at European paper and board mills and subdued Chinese demand. Chinese imports were 15% lower in April compared to March 2011. This resulted in the PIX OCC benchmark index declining 1.6% during May and a further 0.8% in June 2011.

### Slowdown in Brazilian pulp exports on weak activity in China and Europe

Brazil's pulp and paper fundamentals were weak in June with pulp exports down 9% m-o-m and 7% y-o-y. Exports to China fell even more severely, down 37% m-o-m. This we attribute to weak China buying activity as consumer inventories are worked down. See "Brazil Pulp & Paper Trade – June/11 - Evidence of Weak 2Q11 Volumes; Slowdown in Pulp Exports".

### Upgrade Mondi Swiecie 2011e EPS & TP, but maintain sell

**Mondi Swiecie is expected to deliver a strong result this year, but valuations are looking expensive vs. peers therefore we maintain our Sell rating.**

Our Mondi Swiecie analyst has revised his earnings expectations post solid 1Q11 results, upgrading 2011e EPS by 23% to Zloty 7.18 and target price to Zloty 71/sh (from Zloty 59). Despite fast growth in recovered paper prices, the nominal spread between Fluting and recovered prices has recently widened to EUR323/t vs. EUR295/t at the beginning of the year, which should be supportive for Mondi Swiecie earnings. See "Mondi Swiecie S.A. (CELA.WA) - Strong 2011 Earnings but Valuation at the Premium to Peers".

### Dissolving pulp gets Lee & Man's attention in diversification plan

**Production from Wuzhou mill will be used to produce viscose fiber which is used in making textile products**

Lee & Man has announced the conversion of a 165kt kraft pulp line to produce dissolving pulp by end-2011. The mill is expected to produce 140 kt dissolving pulp annually. Furthermore, the company is planning to build a greenfield mill in Wuzhou city which will house a 103kt dissolving pulp line at a cost of RMB2bn. Note, in last Paper Bulletin, we highlighted the risk to Sappi's proposed dissolving pulp expansion at Ngodwana given the sizeable dissolving pulp capacity increases being announced globally. (see "Sustainable value creation remains a challenge").

# Result Previews

## Mondi 1H FY2011e preview

**Mondi will report 1H FY2011e results on Thursday 28th July**

- **Solid start to FY11** – We forecast 1H11e underlying EBIT of €347mn, +56% YoY with underlying EBIT margins of 10.2% from 7.3% in 1H10. An exceptional Q1 performance was reported but annual maintenance shuts will have taken place in Q2 (Richards Bay and Kraft paper Europe), negatively impacting costs and volumes versus Q1. Note, our H1 results still include MPSA (now demerged).

- **All divisions improving YoY** – Growth (YoY and HoH) in underlying EBIT and margins is forecast by us across all divisions as pricing and demand continued to show improvements. We expect margin expansion to be constrained, however, given the continued rise in input costs (pulp; recovered paper). The South African operation is forecast by us to be negatively impacted by the strength in the ZAR.

- **Best performers**– Bags and Coatings are forecast by Citi to benefit from early 2011 pricing gains in upstream Kraft paper, further enhanced by improving industrial bags profitability (on higher prices, volumes). UWF performance should benefit from operational performance at Syktyvkar in Russia (as it ramps up post the mill modernisation in FY10) and Ruzomberok, plus better pricing (+3% HoH), despite weak European demand.

- **Costs offset by volume and pricing gains —** Recovered paper and wood costs remain a concern. However, volume and efficiency gains in European operations (led by Russia and Poland), combined with price increases in corrugated and bags, is expected by Citi to more than offset these increases. The small softening in pulp prices is positive for European operations, while South Africa benefits from high export containerboard prices, despite the strength of the ZAR.

**Figure 9. Mondi summary P&L – 1H11e vs. 1H10**

| | | 1H10 | 1H11E | % change |
|---|---|---|---|---|
| Group Revenue | EURm | 3033 | 3383 | 11.5% |
| **Group EBITDA** | **EURm** | **405** | **546** | 34.8% |
| margin | % | 13% | 16% | |
| **EBIT before special items** | **EURm** | **222** | **347** | 56.1% |
| operating margin | % | 7.3% | 10.2% | |
| Eur & Intl | EURm | 201 | 292 | 45.1% |
| operating margin | % | 8.7% | 11.1% | |
| SA | EURm | 18 | 49 | 173.1% |
| operating margin | % | 10.7% | 27.0% | |
| Packaging SA | EURm | 18 | 24 | 33.4% |
| operating margin | % | 6.4% | 7.8% | |
| Merchant & News | EURm | 1 | -2 | nm |
| operating margin | % | 0.4% | -0.9% | |
| Corporate and other | EURm | -16 | -16 | |
| Special items | EURm | -36 | 0 | |
| **EBIT after special items** | **EURm** | **258** | **347** | 34.4% |
| Others | | -33 | 0 | |
| Net finance costs | EURm | 48 | 60 | 24.7% |
| Net income before tax | EURm | 177 | 287 | 62.0% |
| Total tax | EURm | 42 | 90 | 114.8% |
| Minority interests | | 26 | 42 | 60.2% |
| **Net income** | **EURm** | **109** | **155** | 42.1% |
| Weighted average shares | million | 514 | 514 | |
| **Basic EPS** | **EURc/share** | **21** | **30** | 42.1% |

Source: Company Reports and CIRA Estimates

# Sappi 3Q FY2011e preview

**Sappi will report 3Q FY2011e results on Thursday 4th August**

- **Disappointing outlook on Q3 maintenance** — We forecast Q3 underlying EBIT of U$72mn, in line with Q3 FY2010 but a significantly lower QoQ result. This is due to seasonal slowdown, continued input cost pressure (energy, pulp, chemicals) plus exceptional maintenance shuts at five of Sappi's major mills (incl. Gratkorn and Saiccor). Q4 earnings are expected by Citi to improve sharply (U$164mn underlying EBIT) on a seasonal recovery, small price increases and limited further cost growth.

- **Lower volumes to impact North America –** We forecast North American fine paper to report U$24mn EBIT in 3Q'11 (vs. $40 mn in 2Q'11) largely due to maintenance activity at Cloquet ( 28% of Sappi North America paper capacity and 48% of pulp capacity) which would reduce volumes (-5% YoY), and increase costs (unit cash costs +5% QoQ).

- **Cost pressure; maintenance to limit Europe profits –** Pulp mill maintenance at Gratkorn, cost increases and strengthening euro are likely to suppress profitability. The full impact of the recent announcement by the company to increase prices by 10% in Europe will likely only be seen in FY2012. We forecast 3Q EBIT at U$12mn (vs.U$31mn in 2Q'11).

- **Forest and paper products to suffer from domestic weakness –** The South African operations are forecast by Citi to report U$33mn EBIT in 3Q'11 (U$53mn in Q2). The unfavourable exchange rate (strong ZAR) plus muted domestic demand has limited pricing discretion as well as volume growth, in our view.

**Figure 10. Sappi 3Q FY2011e P&L forecasts vs. 3Q FY2010**

| | | 3Q10 | 3Q11E | % change |
|---|---|---|---|---|
| Group Sales | USDm | 1602 | 1868 | 16.6% |
| **Group EBITDA** | **USDm** | **176** | **179** | 2.0% |
| margin | % | | | |
| **EBIT before special items** | **USDm** | **75** | **72** | -3.5% |
| operating margin | % | | | |
| Fine Paper North America | USDm | 24 | 24 | 0.9% |
| operating margin | % | | | |
| Fine Paper Europe | USDm | 13 | 12 | -9.2% |
| operating margin | % | | | |
| Forest and Paper Products | USDm | 35 | 33 | -4.8% |
| operating margin | % | | | |
| Trading and corporate | USDm | 3 | 3 | 0.0% |
| Special items | USDm | -79 | 0 | |
| **EBIT after special items** | **USDm** | **154** | **70** | -54.6% |
| Net finance costs | USDm | 57 | 68 | 18.9% |
| Net income before tax | USDm | 97 | 2 | -97.9% |
| Total tax | USDm | 33 | 0 | -98.7% |
| **Net income** | **USDm** | **64** | **2** | -97.4% |
| Weighted average shares | million | 516 | 516 | |
| **Basic EPS** | **USc/share** | **12** | **0.3** | -97.4% |

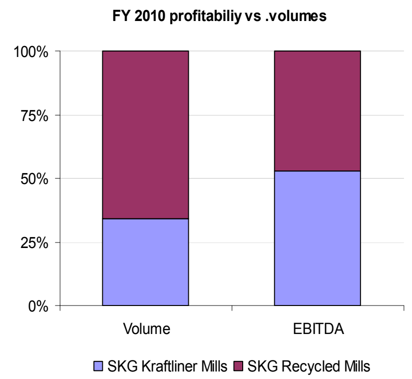
Source: Company Reports and CIRA Estimates

# SKG 2Q FY2011e preview

**Smurfit Kappa Group will report 2Q FY2011e results on Wednesday 10th August**

- **Margin expansion to support 2Q numbers –** Limited maintenance and the recent softening of recovered paper and pulp prices (OCC prices down c.4% during June'11) are expected by Citi to support operating margins, despite slightly weaker paper prices (Kraftliner down c.1% in June'11). We estimate SKG's Q2 2011e EBITDA margin at 14.5% vs. 13.5% achieved in Q1 FY11e.
- **Rationalising capex and grade exposure –** The company has highlighted it will focus returns through rationalising capital expenditures only to key mills that can operate most effectively. SKG is also focusing on Kraftliner operations which have historically delivered superior profitability over recycled mills (see figure 11).
- **European Packaging –** We forecast the division to report flat results QoQ amid slowing market growth but benefit from a slight softening in raw material prices towards period end. We forecast divisional EBITDA of €192mn during Q2 (vs. €186mn in Q1).
- **Latam –** Post Q1 maintenance activities, Latam packaging is expected by us to deliver strong operating results. Robust economic growth coupled with leading market position is forecast by CIti to help SKG post EBITDA of €58mn in Q2 compared to €50mn in Q1.
- **Specialties –** We forecast QoQ growth in EBITDA to €19mn (vs. €15mn in Q1) at a margin of 9.2% in Q2. Exposure to the challenging Western European market will likely keep profitability under pressure.

**Figure 11. European paper division FY 2010**




Source: Company reports

**Figure 12. SKG 2Q11 and FY 2011 forecast compared to previous periods**

| EUR mn | 2Q11E | 2Q10 | % Change | 2011E | 2010 | % Change |
|---|---|---|---|---|---|---|
| Revenue | 1812 | 1696 | 7% | 7288 | 6677 | 9% |
| EBITDA | 262 | 221 | 19% | 1075 | 904 | 19% |
| Packaging Europe | 192 | 158 | 22% | 805 | 668 | 21% |
| Specialties Europe | 19 | 17 | 9% | 73 | 63 | 16% |
| Latin America | 58 | 51 | 14% | 226 | 200 | 13% |
| Centre costs | -7 | -5 | 45% | -29 | -27 | 8% |
| EBIT | 157 | 77 | 104% | 653 | 413 | 58% |
| Net Profit | 58 | -23 | nm | 240 | 50 | 379% |
| Basic EPS | 0.26 | -0.11 | nm | 1.08 | 0.23 | 375% |

Source: Company Reports and CIRA Estimates

# Company Focus

- **Company Update**

| **Buy/Medium Risk** | **1M** |
|---|---|
| Price (15 Jul 11) | £6.24 |
| Target price | £7.70 |
| Expected share price return | 23.5% |
| Expected dividend yield | 3.8% |
| **Expected total return** | **27.3%** |
| Market Cap | £3,025M |
| | US$4,881M |

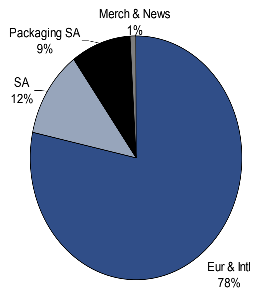
**Price Performance**
**(RIC: MNDI.L, BB: MNDI LN)**


# Mondi Plc (MNDI.L)

## Focused player with exposure to emerging markets

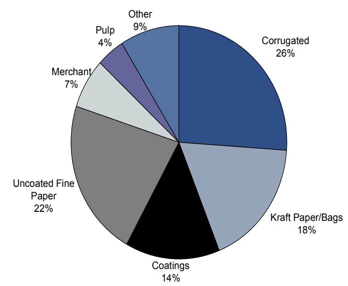
- Mondi has continuously shifted its exposure to high growth, low cost developing markets through active restructuring to offset the impact of structurally weak demand in Western Europe. Mondi's first mover advantage means it has entrenched positions with established asset bases in prime areas of Russia, Poland, Slovakia and South Africa.
- As major capital projects are now complete (Russia; Poland) and assets are well invested, we expect Mondi will deliver increasing free cash flows, target a net debt below €1.0bn by FY2012e and return cash to shareholders. We forecast FY11e DPS of €c28 is forecast (+25% YoY).
- Mondi's strategy to have market-leading positions in the grades it produces, combined with a high quality and low cost asset base in developing markets, has been well executed to date, in our view. The company's strategy attempts to address many key concerns about investing in paper markets – like overcapacity, low growth and high debt levels.
- Despite strong qualitative factors which seem to support a premium rating, on our numbers Mondi continues to trade at a discount to peers on an EV/EBITDA basis. As Mondi's earnings delivery history is now more established, we believe it should re-rate relative to peers.

**Figure 13. FY2010 Divisional EBIT* split**




Source: Citi Investment Research and Analysis, Company reports
* Note: EBIT before special items

**Figure 14. FY2010 Product split by sales**




Source: Citi Investment Research and Analysis, Company reports

**Mondi Plc (EUR)**

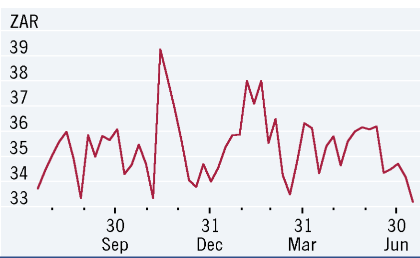
| Year to 31 Dec | 2009A | 2010A | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Sales (€M) | 5,257.0 | 6,228.0 | 6,737.6 | 7,063.8 | 7,180.1 |
| Profit Before Tax (€M) | 49.0 | 372.0 | 548.1 | 670.6 | 662.6 |
| Diluted EPS (¢) | 18 | 46 | 65 | 79 | 77 |
| Diluted EPS (Old) (¢) | 18 | 46 | 65 | 79 | 77 |
| PE (x) | 39.0 | 15.3 | 11.0 | 9.0 | 9.2 |
| EV/EBITDA (x) | 8.8 | 6.3 | 5.1 | 4.5 | 4.4 |
| DPS (¢) | 10 | 20 | 28 | 35 | 35 |
| Net Div Yield (%) | 1.3 | 2.8 | 3.9 | 4.9 | 4.9 |

# Company Focus

■ **Company Update**

| Hold/Medium Risk | 2M |
|---|---|
| Price (15 Jul 11) | R33.20 |
| Target price | R38.00 |
| Expected share price return | 14.5% |
| Expected dividend yield | 0.0% |
| **Expected total return** | **14.5%** |
| Market Cap | R17,832M |
| | US$2,590M |

**Price Performance**
**(RIC: SAPJ.J, BB: SAP SJ)**

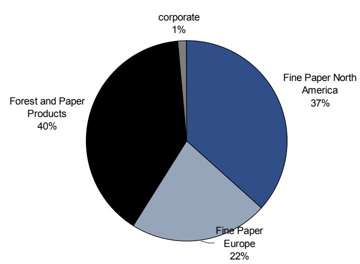



# Sappi Ltd (SAPJ.J)

## Positive factors priced in

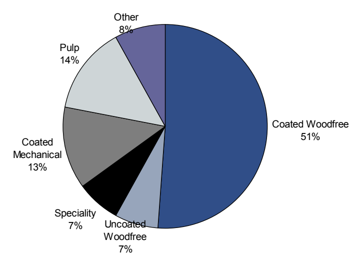
- Sappi trades at a discount to fine paper peers on both our PE and EV/EBITDA estimates. We expect this discount to remain on 1) exposure to low growth, high cost Western European and North American markets and 2) heavy reliance on an improvement in coated paper markets. We expect a meaningful and sustained improvement in its valuation discount to peers only once these issues have been addressed. This seems only likely to occur over the next 3 – 5 years as management restructuring is implemented (primarily in chemical cellulose).
- Sappi's indicated strategy is to continue running paper operations as profitably as possible, but to expand through chemical cellulose and the specialities business. The company management envisions the operation to be c.50% non-graphic paper over the next five to ten years, versus c.80% graphic paper exposure at present. Expansion of Chemical Cellulose at Ngodwana in SA and closure of underperforming paper assets (Biberist and Adamas) support this strategy.
- We think Sappi remains constrained by its balance sheet (net debt to EBITDA at 2.9x in FY10) and target to reduce debt substantially - below US$2bn by 2012.
- Sappi's medium term opportunities appear to be improving as management considers alternatives to traditional graphic paper. Options that could result in a re-rating, should it head strategically into these areas, are: 1) expansion into fibre (wood and pulp); 2) chemical cellulose and 3) increased specialities exposure.
- Product competition from alternative media, cannibalisation between coated fine paper and coated mechanical and high exposure to low growth, high cost markets in Europe and the US will likely remain a drag to earnings near term.

**Figure 15. FY2010 Divisional EBIT split**




Source: CIRA, Company reports

**Figure 16. FY2010 Product split by sales**




Source: CIRA, Company reports

**Sappi Ltd (USD)**

| Year to 30 Sep | 2009A | 2010A | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Sales ($M) | 5,369.0 | 6,572.0 | 7,726.5 | 8,012.7 | 7,507.8 |
| Net Income ($M) | -99.0 | 52.0 | 53.4 | 234.5 | 177.3 |
| Diluted EPS (¢) | -20.4 | 10.0 | 10.1 | 44.3 | 33.5 |
| Diluted EPS (Old) (¢) | -20.4 | 10.0 | 10.1 | 44.3 | 33.5 |
| PE (x) | -23.6 | 48.3 | 47.8 | 10.9 | 14.4 |
| EV/EBITDA (x) | 10.9 | 6.2 | 4.8 | 4.1 | 4.4 |
| DPS (¢) | 0.0 | 0.0 | 0.0 | 14.0 | 13.7 |
| Net Div Yield (%) | 0.0 | 0.0 | 0.0 | 2.9 | 2.9 |

# Company Focus

# Smurfit Kappa Group (SKG.I)

## Cheap access to growth and high margins

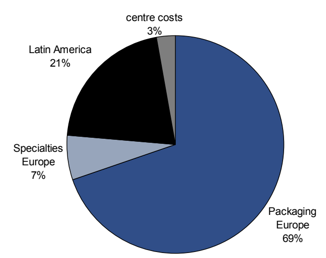
- **Company Update**

| **Buy/Medium Risk** | **1M** |
|---|---|
| Price (15 Jul 11) | €7.30 |
| Target price | €13.00 |
| Expected share price return | 78.1% |
| Expected dividend yield | 0.0% |
| **Expected total return** | **78.1%** |
| Market Cap | €1,619M |
| | US$2,292M |

**Price Performance**
**(RIC: SKG.I, BB: SKG ID)**

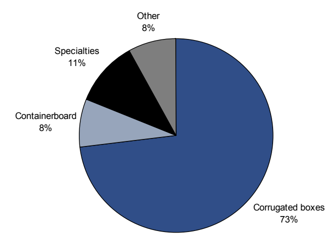

- SKG offers access to attractive high growth, low cost Latin American markets, and a broad geographic reach and product offering in Europe. This delivers SKG's more stable & higher margins than peers, in our view. We believe European restructuring opportunities to streamline operations, combined with debt reduction and high margin Latam growth, will drive a re-rating for SKG.
- SKG's downstream focused business model (packaging not paper) is unlikely to achieve the peak margins that competitor paper operations might in an up-cycle, but it also does not experience the same downside to margins in a downturn (i.e. 2009). SKG seems therefore a more defensive business than competitors.
- Our 12 month target price of €13, based on DCF, ROIC and a normalised EV/EBITDA valuation, would imply still attractive FY11e EV/EBITDA and PE multiples of 4.9x and 9.7x, respectively. SKG trades at a c.25% discount to European packaging peers at an EV/EBITDA in FY11e.
- While SKG looks well positioned to grow on global economic recovery, high debt levels, political risk in Latam markets and unfavourable currency exposure could derail the momentum of this growth impacting financial performance.

**Figure 17. FY2010 Divisional EBITDA split**




Source: Citi Investment Research and Analysis, Company reports

**Figure 18. FY2010 Product split by sales**



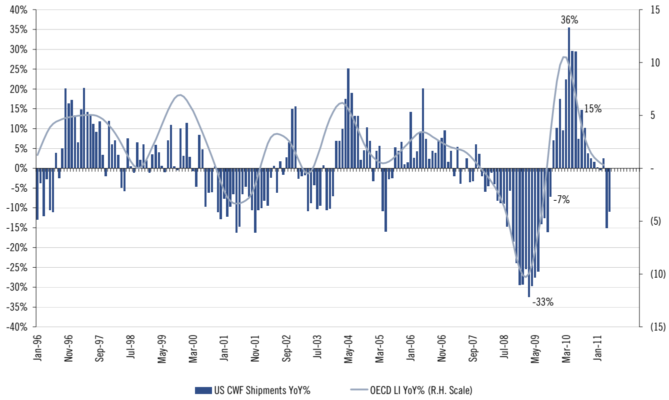

Source: Citi Investment Research and Analysis, Company reports

**Smurfit Kappa Group (EUR)**

| Year to 31 Dec | 2009A | 2010A | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|
| Sales (€M) | 6,057.1 | 6,677.0 | 7,288.2 | 7,621.7 | 8,060.4 |
| Net Income (€M) | -65.0 | 131.0 | 239.6 | 384.4 | 456.4 |
| Diluted EPS (€) | -0.30 | 0.59 | 1.06 | 1.70 | 2.02 |
| Diluted EPS (Old) (€) | -0.30 | 0.59 | 1.06 | 1.70 | 2.02 |
| PE (x) | -24.5 | 12.4 | 6.9 | 4.3 | 3.6 |
| EV/EBITDA (x) | 7.4 | 6.1 | 5.1 | 4.4 | 3.9 |
| DPS (€) | 0.00 | 0.00 | 0.00 | 0.58 | 0.69 |
| Net Div Yield (%) | 0.0 | 0.0 | 0.0 | 7.9 | 9.4 |

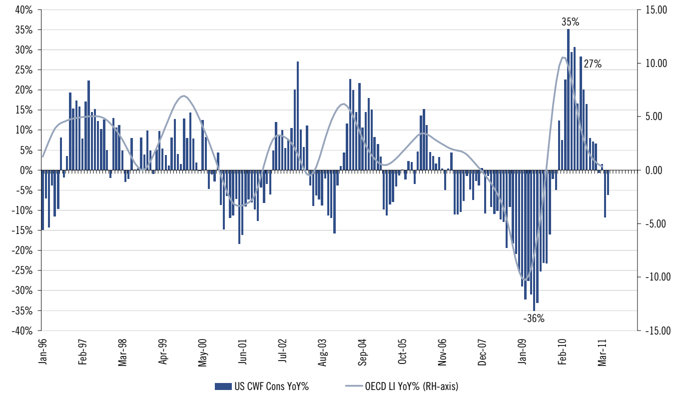
# Key Paper Market Charts

### Figure 19. US CWF Shipments vs OECD Leading Indicator



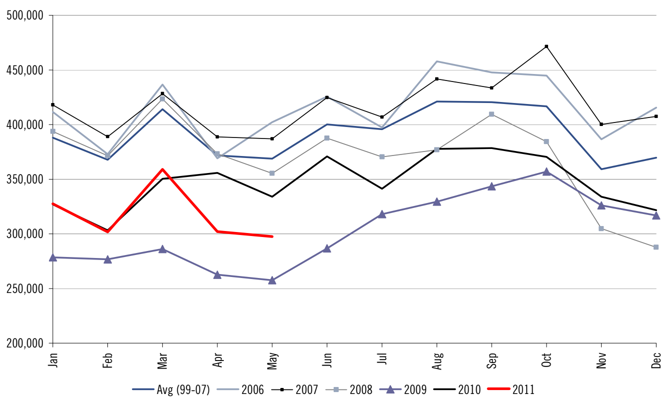

Source: RISI; AF&PA; Citi Investment Research and Analysis

### Figure 20. US CWF Consumption vs OECD Leading Indicator



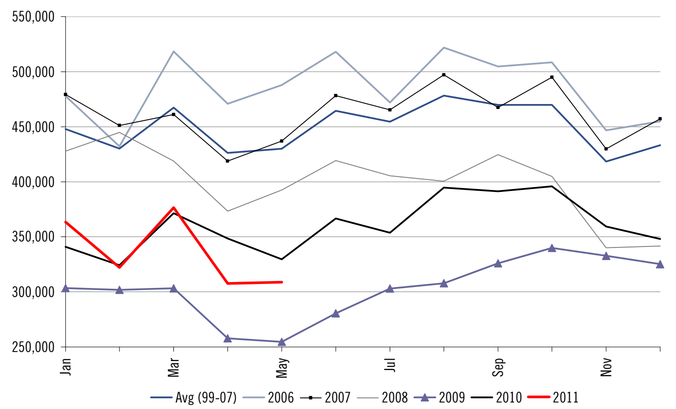

Source: RISI; AF&PA; Citi Investment Research and Analysis

### Figure 21. Average monthly US CWF shipments ('000 tons)



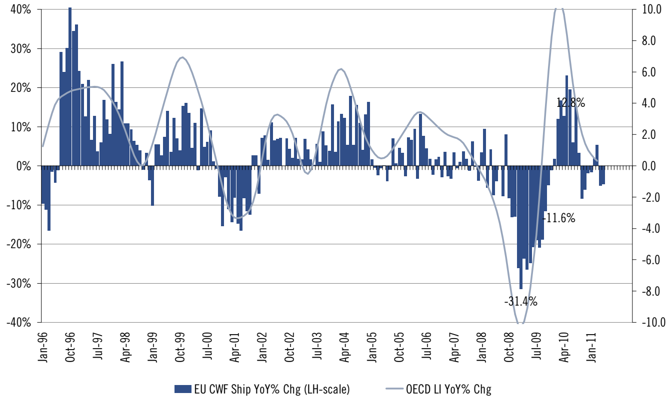

Source: RISI; AF&PA; Citi Investment Research and Analysis

### Figure 22. Average monthly US CWF consumption ('000 tons)



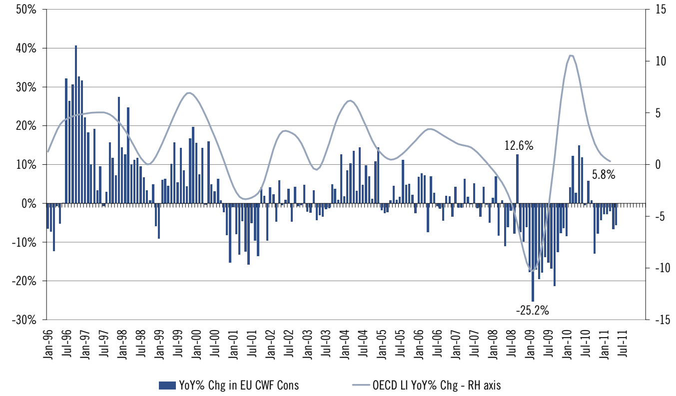

Source: RISI; AF&PA; Citi Investment Research and Analysis

### Figure 23. Europe CWF Shipments vs OECD Leading Indicator



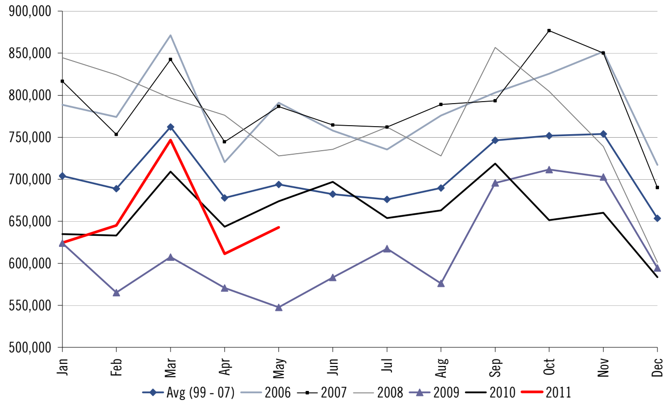

Source: RISI; Cepifine; Citi Investment Research and Analysis

### Figure 24. Europe CWF Consumption vs OECD Leading Indicator



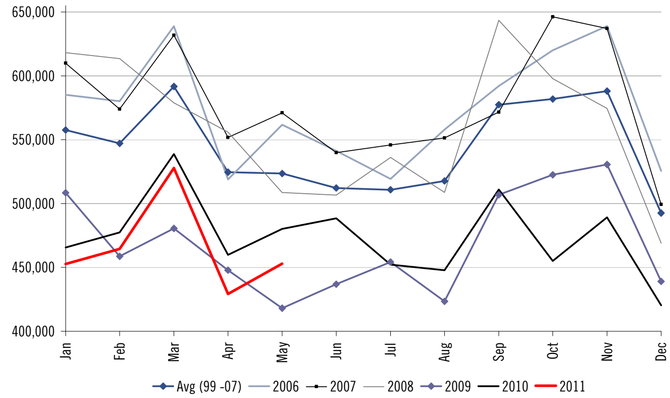

Source: RISI; Cepifine; Citi Investment Research and Analysis

### Figure 25. Average monthly Europe CWF shipments ('000 tons)



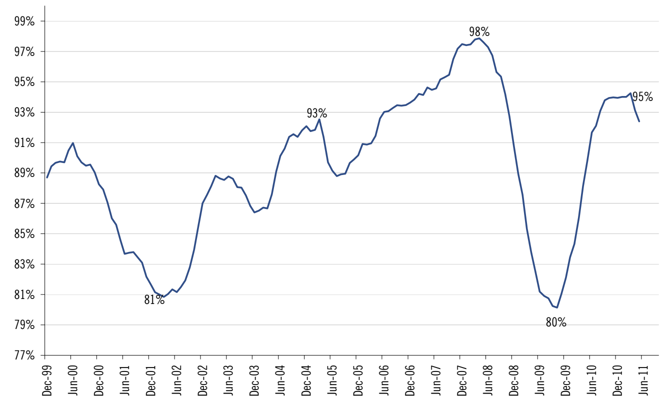

Source: RISI; Cepifine; Citi Investment Research and Analysis

### Figure 26. Average monthly Europe CWF consumption ('000 tons)



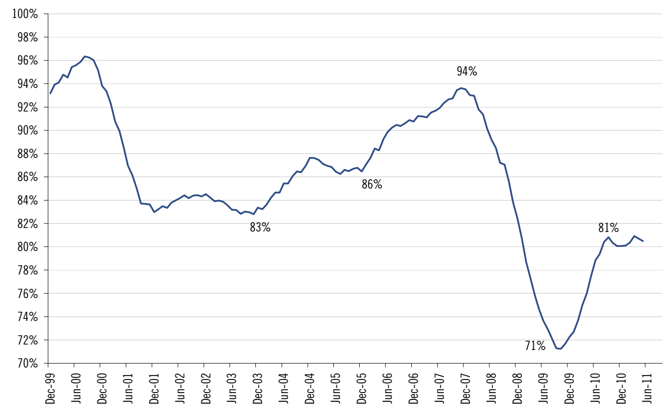

Source: RISI; Cepifine; Citi Investment Research and Analysis

### Figure 27. US CWF operating rate



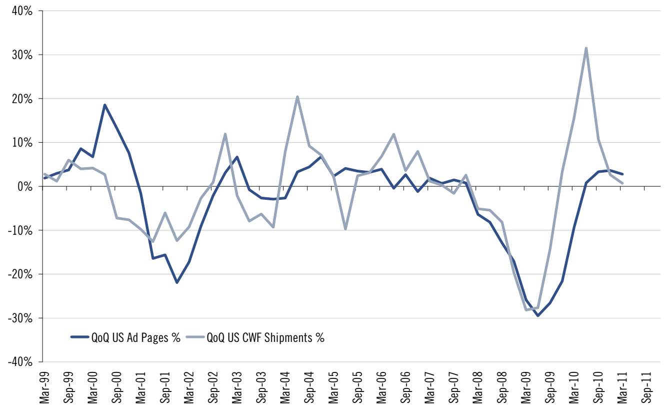

Source: RISI; Citi Investment Research and Analysis

### Figure 28. European CWF operating rate



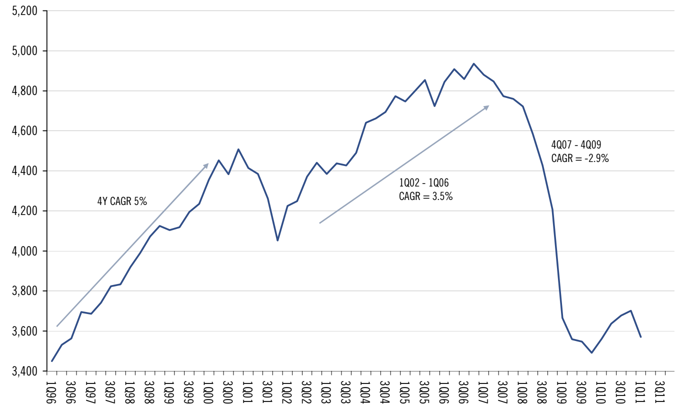

Source: RISI; Cepifine; Citi Investment Research and Analysis

### Figure 29. US ad pages versus CWF shipments QoQ % change



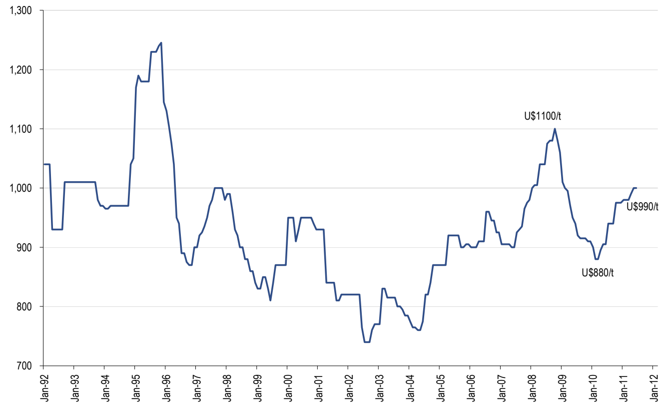

Source: Citi Investment Research and Analysis; PIB

### Figure 30. US Quarterly catalogue circulation



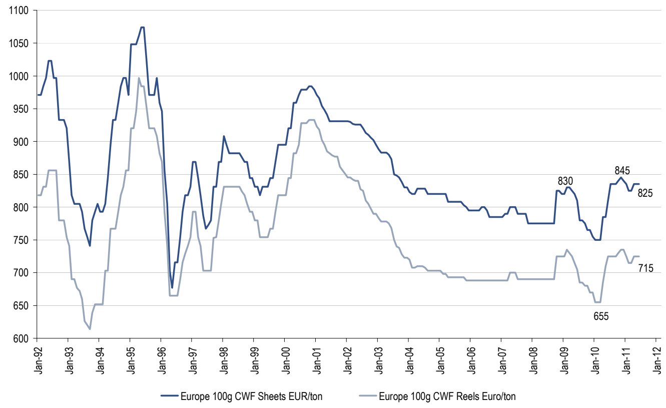

Source: RISI; Citi Investment Research and Analysis

**Figure 31. US CFS #3 60lb Rolls (US$/t)**



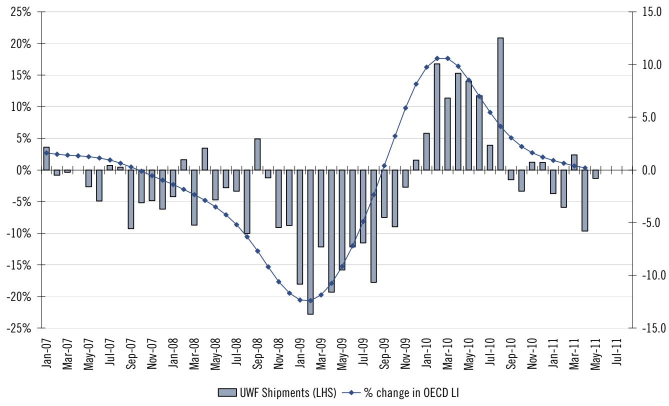

Source: RISI

**Figure 32. European CWF prices (EUR/t)**



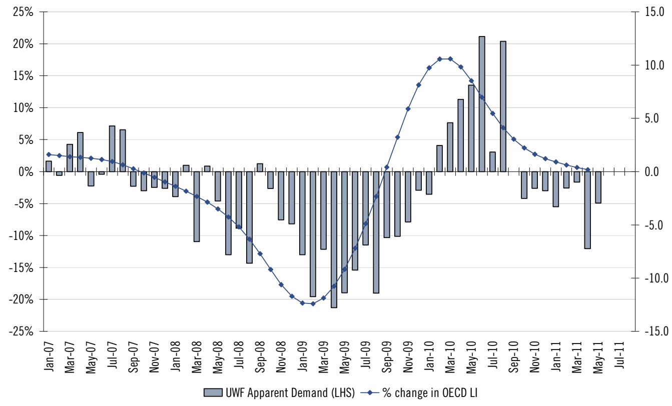

Source: RISI

**Figure 33. Eur UWF shipments % change vs OECD Leading Indicator**



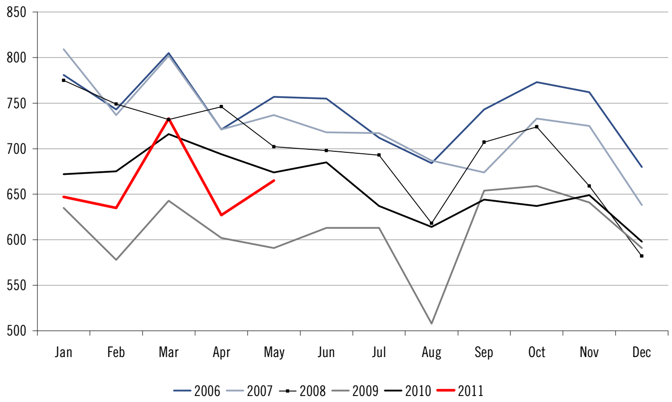

Source: Cepifine; DataStream; Citi Investment Research and Analysis

**Figure 34. Eur UWF consumption % change vs OECD Leading Indicator**



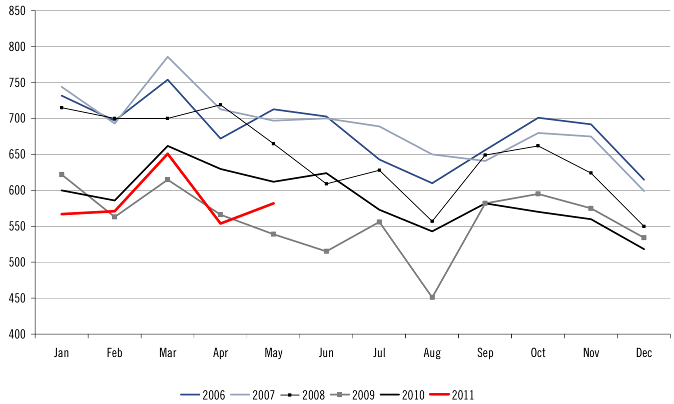

Source: Cepifine; DataStream; Citi Investment Research and Analysis

**Figure 35. European monthly UWF shipments ('000t)**



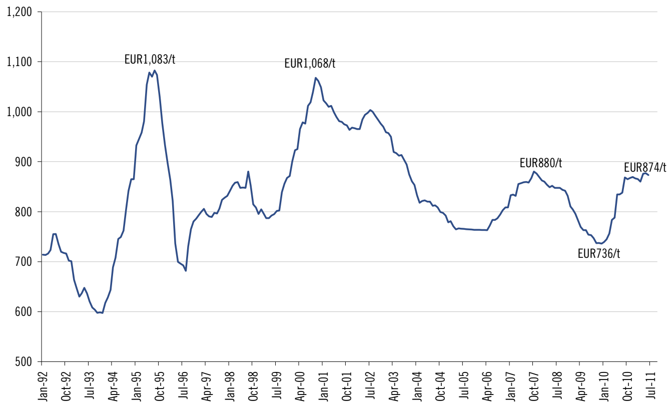

Source: Cepifine; DataStream; Citi Investment Research and Analysis

**Figure 36. European monthly UWF apparent consumption ('000t)**



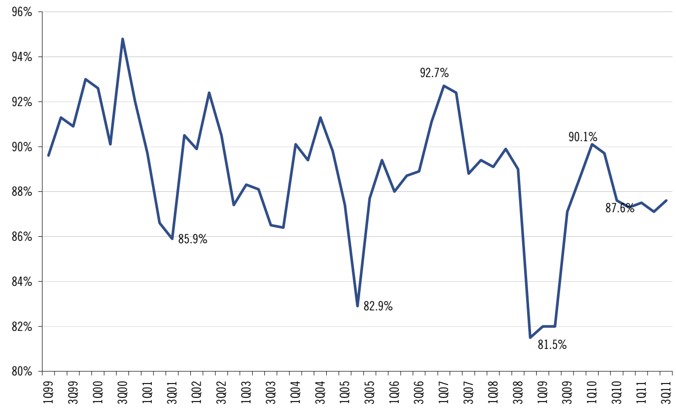

Source: Cepifine; DataStream; Citi Investment Research and Analysis

### Figure 37. European UWF A4 Copy Paper Prices (EUR/t)



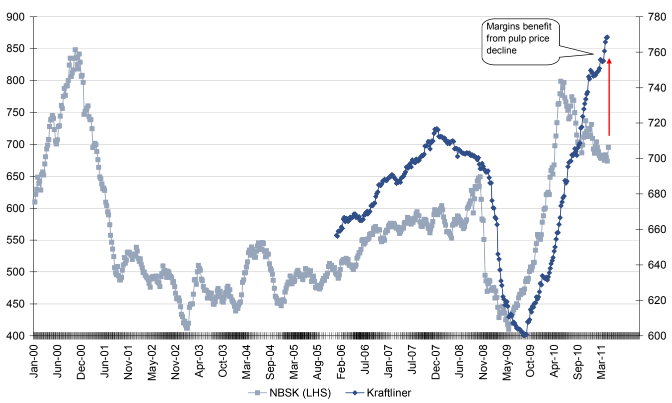

Source: RISI; Cepifine; DataStream; Citi Investment Research and Analysis

### Figure 38. European UWF operating rate



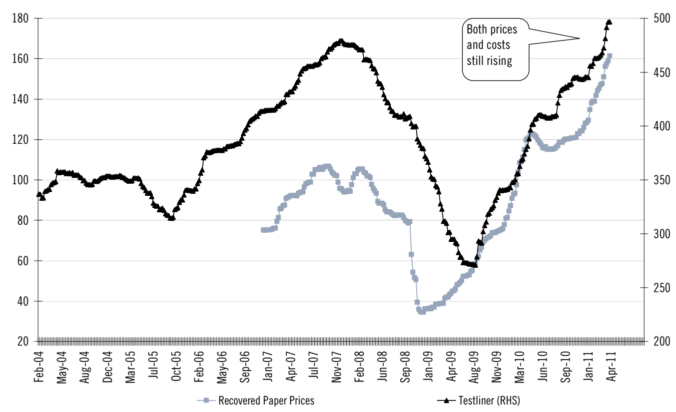

Source: RISI; Cepifine; DataStream; Citi Investment Research and Analysis

### Figure 39. NBSK Pulp price vs. Kraftliner (€/t)



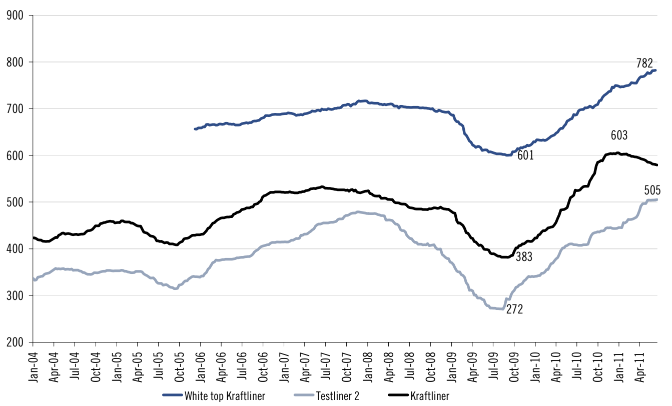

Source: FOEX; Bloomberg; Citi Investment Research and Analysis

### Figure 40. Recovered paper prices vs. Testliner (€/t)



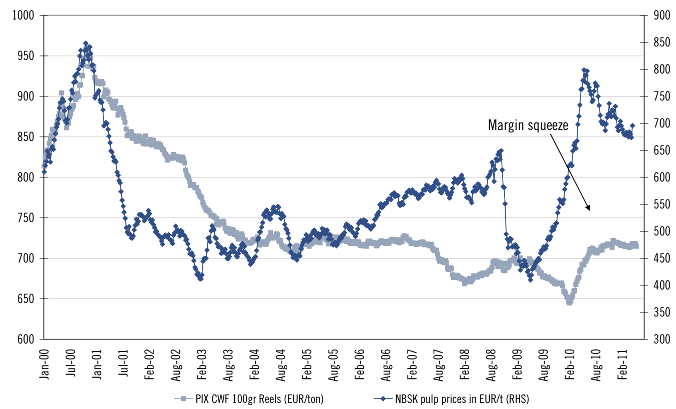

Source: FOEX; Bloomberg; Citi Investment Research and Analysis

### Figure 41. European packaging shows small near term weakness




Source: FOEX; Bloomberg; Citi Investment Research and Analysis

### Figure 42. NBSK Pulp prices versus CWF prices (in EUR/ton)




Source: Bloomberg; FOEX; RISI; Citi Investment Research and Analysis

# Global Paper comps sheet

**Figure 43. Paper and Packaging peer valuation comps sheet (priced on 15th July 2011)**

| | Price | Crncy | Rating | Recom | RIC Ticker | P/E | | P/BV | | Dividend Yield | | EV/EBITDA | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | 30 Dec 2011 | 30 Dec 2012 | 30 Dec 2011 | 30 Dec 2012 | 30 Dec 2011 | 30 Dec 2012 | 30 Dec 2011 | 30 Dec 2012 |
| Mondi Plc | 6.235 | GBP | 1M | Buy | MNDI.L | 11.0 | 9.0 | 1.2 | 1.1 | 3.9% | 4.9% | 5.1 | 4.5 |
| Sappi Ltd | 33.2 | ZAR | 2M | Hold | SAPJ.J | 25.9 | 11.6 | 1.2 | 1.2 | 0.7% | 2.9% | 4.6 | 3.8 |
| Mondi Swiecie S.A. | 80.4 | PLN | 3M | Sell | CELA.WA | 11.2 | 12.7 | 2.2 | 2.3 | 0.0% | 8.9% | 7.9 | 8.2 |
| Billerud AB (Publ) | 63 | SEK | | | BILL.ST | 8.4 | 9.7 | 1.3 | 1.3 | 5.8% | 5.9% | 3.7 | 3.9 |
| DS Smith PLC | 2.455 | GBP | | | SMDS.L | 12.3 | 10.6 | na | 1.6 | 3.2% | 3.9% | 6.2 | 5.5 |
| SCA | 87.65 | SEK | | | SCAb.ST | 9.7 | 8.4 | 0.9 | 0.8 | 4.8% | 5.2% | 5.9 | 5.1 |
| M real Oyj | 2.69 | EUR | | | MRLBV.HE | 8.9 | 6.7 | 0.9 | 0.8 | na | 3.1% | 5.4 | 4.4 |
| Norske Skog | 8.61 | NOK | | | NSG.OL | nm | nm | 0.2 | 0.2 | 0.0% | 0.0% | 5.0 | 3.7 |
| Smurfit Kappa Group | 7.3 | EUR | 1M | Buy | SKG.I | 6.9 | 4.3 | 0.8 | 0.7 | 0.0% | 7.9% | 5.1 | 4.4 |
| Stora Enso Oyj | 6.685 | EUR | | | STERV.HE | 7.6 | 7.0 | 0.8 | 0.7 | 4.5% | 5.0% | 5.0 | 4.5 |
| Upm Kymmene Oyj | 11.94 | EUR | | | UPM1V.HE | 9.2 | 8.2 | 0.8 | 0.8 | 4.8% | 5.0% | 5.5 | 4.6 |
| **Average** | | | | | | **11.1** | **8.8** | **1.0** | **1.0** | **2.8%** | **4.8%** | **5.4** | **4.8** |
| **North America** | | | | | | | | | | | | | |
| Domtar Corp | 93.41 | USD | 2H | Hold | UFS.N | 9.0 | 9.9 | 1.1 | 1.1 | 1.1% | 1.1% | 3.7 | 3.7 |
| Packaging Corp of America | 27.68 | USD | 1M | Buy | PKG.N | 16.1 | 10.9 | 2.7 | 2.4 | 2.7% | 2.9% | 7.5 | 5.7 |
| International Paper Co | 29.87 | USD | 1H | Buy | IP.N | 10.7 | 8.4 | 1.7 | 1.5 | 3.3% | 3.5% | 5.6 | 4.6 |
| Temple-Inland Inc | 31.43 | USD | 2H | Hold | TIN.N | 28.1 | 16.1 | 3.1 | 2.8 | 1.7% | 1.7% | 4.4 | 2.9 |
| MeadWestvaco Corp | 33.15 | USD | | | MWV.N | 16.6 | 14.3 | 1.6 | 1.5 | 3.0% | 3.1% | 6.9 | 6.4 |
| Plum Creek Timber Co Inc | 40.5 | USD | | | PCL.N | 30.7 | 25.0 | 5.0 | 5.1 | 4.1% | 4.1% | 19.3 | 17.0 |
| Rayonier Inc | 65.99 | USD | | | RYN.N | 22.0 | 20.4 | 4.1 | 3.9 | 3.3% | 3.4% | 11.4 | 10.9 |
| Weyerhaeuser Co | 21.65 | USD | | | WY.N | 48.0 | 25.0 | 2.5 | 2.4 | 3.1% | 2.9% | 12.8 | 10.6 |
| **Average** | | | | | | **22.6** | **16.3** | **2.7** | **2.6** | **2.8%** | **2.8%** | **8.9** | **7.7** |
| **Asia** | | | | | | | | | | | | | |
| Nine Dragons Paper Holdings | 6.84 | HKD | 1M | Buy | 2689.HK | 10.8 | 8.5 | 1.3 | 1.2 | 0.9% | 1.2% | 9.8 | 8.3 |
| Lee & Man Paper | 4.25 | HKD | 3M | Sell | 2314.HK | 10.4 | 8.9 | 1.6 | 1.6 | 3.1% | 3.4% | 9.3 | 8.1 |
| Oji Paper Co Ltd | 400 | JPY | | | 3861.T | 13.9 | 11.3 | 0.9 | 0.8 | 2.5% | 2.5% | 5.5 | 5.3 |
| Rengo | 532 | JPY | | | 3941.T | 9.6 | 8.2 | 0.8 | 0.8 | 2.3% | 2.3% | 3.1 | 2.8 |
| Paperlinx Ltd | 0.155 | AUD | | | PPX.AX | nm | nm | 0.1 | 0.1 | 1.3% | 2.3% | 5.5 | 3.8 |
| **Average** | | | | | | **11.2** | **9.2** | **0.9** | **0.9** | **2.0%** | **2.3%** | **6.6** | **5.6** |
| **Latam** | | | | | | | | | | | | | |
| Fibria Celulose SA | 18.37 | BRL | 1M | Buy | FIBR3.SA | 17.1 | 9.9 | 0.5 | 0.5 | 3.0% | 2.5% | 3.8 | 2.5 |
| Empresas CMPC SA | 24900 | CLP | 2M | Hold | CAR.SN | 17.7 | 15.1 | 1.4 | 1.3 | 1.6% | 1.7% | 10.9 | 10.1 |
| Empresas Copec SA | 8659 | CLP | 2M | Hold | COP.SN | 19.7 | 18.2 | 2.3 | 2.1 | 1.7% | 2.0% | 11.8 | 11.1 |
| Klabin SA | 5.25 | BRL | 1H | Buy | KLBN4.SA | 22.7 | 12.9 | 0.9 | 0.8 | 3.9% | 4.3% | 6.9 | 5.5 |
| Suzano Papel e Celulose SA | 10.37 | BRL | 1H | Buy | SUZB5.SA | 7.2 | 8.9 | 0.5 | 0.4 | 6.0% | 5.2% | 3.9 | 4.7 |
| **Average** | | | | | | **16.9** | **13.0** | **1.1** | **1.1** | **3.3%** | **3.1%** | **7.5** | **6.8** |
| **Paper** | | | | | | **12.6** | **9.4** | **0.9** | **0.8** | **2.9%** | **3.3%** | **5.2** | **4.4** |
| **Packaging** | | | | | | **12.1** | **9.6** | **1.6** | **1.5** | **2.6%** | **4.3%** | **6.1** | **5.3** |
| **Group** | | | | | | **15.4** | **11.8** | **1.5** | **1.4** | **2.7%** | **3.3%** | **7.1** | **6.2** |

Source: dataCentral. dataCentral is CIRA's proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai.

# Mondi Plc

## Company description

Mondi is an integrated paper and packaging company. Operations are in Western and Eastern Europe, Russia and South Africa. Mondi manufactures packaging paper, converted packaging (including corrugated, bags and speciality) and office paper. It also has newsprint operations.

## Investment strategy

We rate Mondi Buy/Medium Risk (1M). We believe the company strategy is one of the strongest and best delivered in the paper markets. Mondi continues to deliver consensus beating earnings and its compelling growth proposition is supported by rising margins and returns, and the potential for enhanced cash returns to shareholders. Its absolute and relative valuation remains attractive, in our view. Potential catalysts for further upside include: positive demand newsflow; improved pricing realisations in packaging and uncoated fine paper; and enhanced margins from restructuring and recently completed projects in Poland and Russia.

## Valuation

Given the cyclicality of paper company earnings, we do not believe it prudent to focus only on single year price multiples in setting our target price. Instead we use a normalised EBITDA at a multiple of 6.5x, broadly in line with historical averages for packaging peers, and a DCF valuation, with price multiples as a check.

Mondi achieved a normalised EBITDA levels in FY10, at margins of c.14.5%. We normalise earnings by using average EBITDA between FY2006 (a "mid-cycle" year) and FY2015e, a 10-year average thatincludes the new capacity in both Russia and Poland.

Our normalised EBITDA valuation implies a target equity value for Mondi of 770p or R90.70. We also use a DCF valuation, which returns FY11e year-end target for Mondi of R88.56 or 752p.

We conservatively set our rounded target price at £7.70 (R90). At our target, Mondi would trade at FY11e PE of 13.2x and EV/EBITDA of 5.6x.

## Risks

We rate Mondi Medium Risk. Although paper markets are highly cyclical, we believe Mondi's diversified grade and country exposure along with company focus on being in the lowest cost quartile should shield the earnings and share price from major negative newsflow in any particular grade or region. Key risks that may impact upon our forecasts and/or our target price are an unfavourable grade exposure if prices or demand decline sharply in any of Mondi's grades, emerging market currency risks especially the ZAR/EUR and rising non-integrated costs. Below target returns continue to plague the paper industry, and Mondi as with most other paper companies, struggles to meet its targeted return of 13% ROCE through the cycle. Mondi earnings remain exposed to highly cyclical paper markets. Competition from low cost producers which could depress prices and displace domestically produced product is a further threat to the industry.

# Mondi Ltd

(MNDJ.J; R55.50; 1M)

## Valuation

Given the cyclicality of paper company earnings, we do not believe it prudent to focus only on single year price multiples in setting our target price. Instead we use a normalised EBITDA at a multiple of 6.5x, broadly in line with historical averages for packaging peers, and a DCF valuation, with price multiples as a check.

Mondi reached normalised EBITDA levels in FY10, at margins of c.14.5%. We normalise earnings by using average EBITDA between FY2006 (a "mid-cycle" year) and FY2015e, a 10-year average that includes the new capacity in both Russia and Poland.

Our normalised EBITDA valuation implies a target equity value for Mondi of 770p or R90.70. We also use a DCF valuation which returns FY11e year-end target for Mondi of R88.56 or 752p.

We conservatively set our rounded target price at £7.70 (R90). At our target, Mondi would trade at FY11e PE of 13.2x and EV/EBITDA of 5.6x.

## Risks

We rate Mondi Medium Risk. Although paper markets are highly cyclical, we believe Mondi's diversified grade and country exposure along with company focus on being in the lowest cost quartile should shield the earnings and share price from major negative newsflow in any particular grade or region. Key risks that may impact upon our forecasts and/or our target price are an unfavourable grade exposure if prices or demand decline sharply in any of Mondi's grades, emerging market currency risks especially the ZAR/EUR and rising non-integrated costs. Below target returns continue to plague the paper industry, and Mondi as with most other paper companies, struggles to meet its targeted return of 13% ROCE through the cycle. Mondi earnings remain exposed to highly cyclical paper markets. Competition from low cost producers which could depress prices and displace domestically produced product is a further threat to the industry.

# Sappi Ltd

## Company description

Sappi is a global paper and pulp company and a leading producer of coated woodfree paper. Sappi is also the world’s largest producer of chemical cellulose and produces a range of other paper and pulp based products. Main operating locations are the US, Western Europe and South Africa.

## Investment strategy

Earnings recovery along with an improving global outlook bodes far better for Sappi than recent tough years. Paper market trends are improving (demand, pricing) but we believe our earnings forecasts and Sappi's share price discount much of this potential upside. We have a Hold/Medium Risk (2M) recommendation on Sappi. Sappi has traded at a c.20% discount to fine paper peers on EV/EBITDA multiples since 2007. We expect this discount to remain given: 1) poor earnings visibility; 2)

currency risks to earnings; and 3) Sappi's significant reliance on an improvement in CWF markets for earnings recovery.

### Valuation

We base our 12-month target price of ZAR38 or U$5.30 on a normalised valuation, with DCF as a check. Sappi trades at the lower end of its peer trading range, but in line with historical discounts, still with significant risk to earnings forecasts. Given the cyclicality of paper company earnings, and current depressed levels of earnings, we use a normalised EV/EBITDA multiple in setting our target price. Our normalised valuation uses average FY08-FY14e EBITDA. We use these years to include historical "normalised" years (FY08) and the expectation of a contribution from the M-Real assets from FY10. Our target EV/EBITDA multiple of 6.0x is based on Sappi's historical average EV/EBITDA.

### Risks

We rate SAPPI Medium Risk due to the cyclical nature of paper prices and long-term threat of supply and demand imbalances. We highlight risks to our target price to the up- and downside: Slower recovery in demand than forecast, particularly in Europe and North America, raw material cost increases or an inability to keep fixed cost pressures under control present near-term risk to Sappi earnings. Asian capacity expansions present the risk of competitive, lower-priced imports into global paper markets. A stronger USD than forecast could result in imports to North America, placing the earnings recovery at risk. Upside earnings risk lies on a spot ZAR/USD that is weaker than our forecast. Sappi earnings are positively geared to a weaker ZAR/USD. Better pricing power than our base case forecast presents upside risk to earnings. Our base case assumes a relatively slow recovery in prices and demand.

## Smurfit Kappa Group

### Company description

Smurfit Kappa Group (SKG) is an integrated packaging paper and paperboard manufacturer and converter into corrugated containers, with operations in Western & Eastern Europe and Latin America. SKG’s operations are divided into Packaging Europe, Specialties (eg: bag-in-box, solidboard and paper sacks) and Latin America (primarily packaging).

### Investment strategy

We rate SKG Buy/Medium Risk (1M). We believe that SKG enjoys stability from its mature market footprint and is concurrently leveraged to the growth potential in the developing world. SKG offers access to Latin American markets which have attractive long-term growth prospects and low-cost assets. In Europe, SKG's superior geographic reach and broad product offering have entrenched its position with customers as a "go to" business. We believe restructuring opportunities in Europe over the medium term (3 -5 years) to streamline operations, combined with debt reduction, will drive a re-rating relative to peers.

### Valuation

Though packaging companies are less prone to a recessionary environment, the industry remains cyclical and dependent on supply and demand fundamentals, as in 2008. To factor in this cyclicality, we use a conservative average of normalised

EBITDA, ROIC and DCF with valuation multiples as a check in setting our target price. We use a target multiple of 5.5x in our normalised EV/EBITDA valuation which is in line with long-term industry average multiples, which implies a value of €13.85 for SKG. Our DCF-derived value is €13.80, based on a WACC of 11.2% and terminal growth of 2.0%. We use EV/invested capital, with an implied value of €12.37, as an indication of a minimum fair valuation for SKG (what the market is willing to pay for economic returns). Our 12-month target price of €13.00 implies FY11e EV/EBITDA and PE multiples of 5.4x and 12.0x, respectively.

## Risks

We rate SKG Medium Risk. The main risks that could prevent the share reaching our target price are:

**High financial gearing:** SKG's current net debt to equity is 177%. The balance sheet was burdened with net debt of €3.1bn at end-FY10. This poses a significant risk to the flexibility and profitability of SKG, especially during economic slowdown.

**Currency exposure:** The Latam division contributes a significant portion of SKG's EBITDA. SKG consolidates its Latam operations and reports results in euro. Each country within Latin America has its own eco-political structure leading to currency movements that can adversely impact the profitability in euro terms.

**Political risk from Latam markets:** The Latam division has contributed significantly to EBITDA growth and margins. However, high inflation, currency devaluation, demand fluctuations and the small market size within individual countries make these operations risky.

**Cyclical industry:** Paper demand tracks general economic cycles and historically industry capacity tends to respond slowly to these cyclical changes. This leads to overcapacity during the slowdown putting dual pressure on the profitability from reduced sales volumes and lower margins.

**Nationalisation risk in Venezuela:** The government has been pursuing nationalisation of industries which are viewed as strategic following the re-election of Venezuela's Socialist Party. This reflects significant risk to the company's local operations.

**Cost pressure:** Cost escalations that cannot be transferred quickly or that have to be absorbed by the company place margins at risk. Moreover, there is a time lag of 3-6 months between increase in cost (containerboard) and prices of the final product (boxes).

**Product substitution:** Paper packaging is under constant threat of material substitution from plastics, synthetic fibre etc.

# Appendix A-1

## Analyst Certification

**The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.**

## IMPORTANT DISCLOSURES

### Mondi Plc (MNDI.L)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Tassin Meyer
Covered since December 9 2009


| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 27-Apr-09 | Coverage terminated | | |
| 2 | 8-Dec-09 | 1M | *4.10 | 3.35 |
| 3 | 23-Feb-10 | 1M | *5.00 | 3.80 |
| 4 | 6-May-10 | 1M | *5.10 | 4.22 |
| 5 | 10-Aug-10 | 1M | *5.50 | 4.69 |
| 6 | 1-Feb-11 | 1M | *5.70 | 5.15 |
| 7 | 21-Feb-11 | 1M | *6.20 | 5.47 |
| 8 | 13-May-11 | 1M | *7.70 | 6.06 |

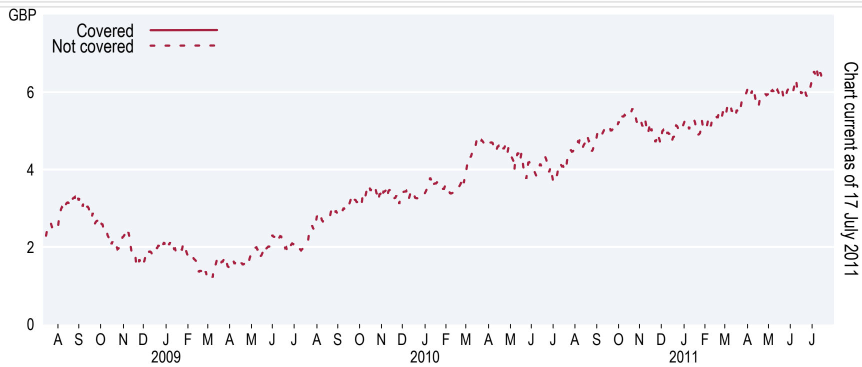
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Mondi Plc (MNDI.L)

**Ratings and Target Price History**
**Best Ideas Research**
**Relative Call (3 Month)**

Analyst: Tassin Meyer
Covered since December 9 2009



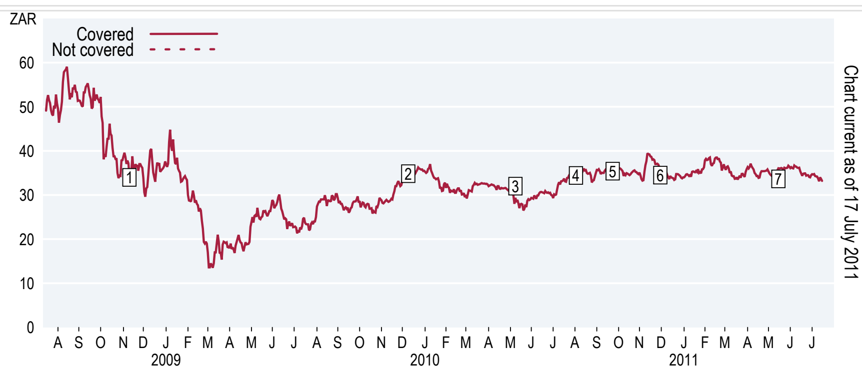

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

### Sappi Ltd (SAPJ.J)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Tassin Meyer
Covered since December 9 2009




| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 11-Nov-08 | 2M | *42.74 | 34.33 |
| 2 | 9-Dec-09 | *3M | *31.83 | 32.85 |
| 3 | 10-May-10 | *2M | *32.56 | 29.36 |
| 4 | 3-Aug-10 | 2M | *36.51 | 34.70 |
| 5 | 23-Sep-10 | 2M | *40.00 | 35.65 |
| 6 | 30-Nov-10 | 2M | *41.00 | 34.56 |
| 7 | 16-May-11 | 2M | *38.00 | 36.06 |

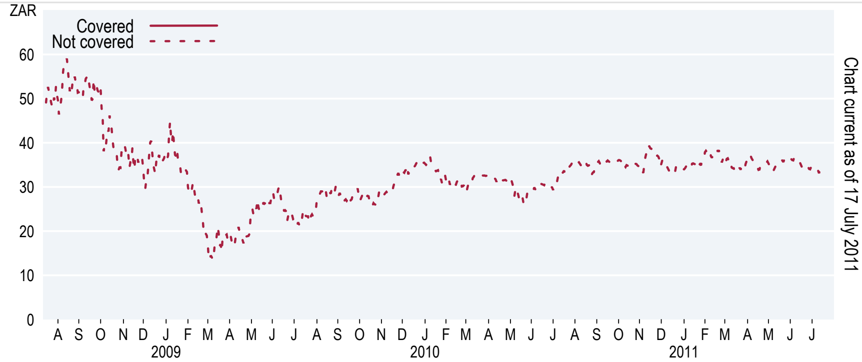
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Sappi Ltd (SAPJ.J)

**Ratings and Target Price History**
**Best Ideas Research**
**Relative Call (3 Month)**

Analyst: Tassin Meyer
Covered since December 9 2009




* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Smurfit Kappa Group (SKG.I)

**Ratings and Target Price History**
**Fundamental Research**

Analyst: Tassin Meyer
Covered since February 24 2011


| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 1 | 23-Feb-11 | 1M | *13.00 | 8.47 |

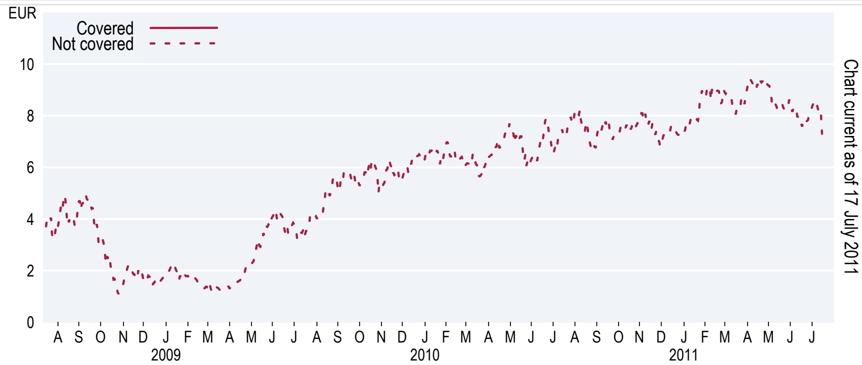
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Smurfit Kappa Group (SKG.I)

**Ratings and Target Price History**
**Best Ideas Research**
**Relative Call (3 Month)**

Analyst: Tassin Meyer
Covered since February 24 2011




* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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| | *12 Month Rating* | | | *Relative Rating* | | |
|---|---|---|---|---|---|---|
| ***Data current as of 30 Jun 2011*** | **Buy** | **Hold** | **Sell** | **Buy** | **Hold** | **Sell** |
| Citi Investment Research & Analysis Global Fundamental Coverage | 54% | 36% | 11% | 10% | 81% | 10% |
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