

# Stora Enso

## Company report

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This report is a summary translation of the report “Karikko jäi taakse ja horisontti on hieman kirkkaamp” published on 4/26/2024 at 7:41 am EEST.

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# Troubled waters left behind; the horizon is a little brighter

We reiterate Stora Enso's reduction recommendation and raise our target price to EUR 11.50 (was 10.50), reflecting the slightly reduced risk profile. In our view, the Q1 report landed on the positive side thanks to the earnings beat and cautiously positive market commentary. We revised our forecasts slightly upwards after the report, although some of the changes were technical. In our view, the stock already has enough earnings growth expectations priced in (2025e: P/E 14x), given the turnaround that has started well under the new CEO and the short- and medium-term opportunities and threats in the operating environment. We see limited downside for the stock given the balance sheet valuation and the earnings uptrend starting in Q2.

## Operating results better than forecast, but some of the estimate beat was due to technical factors

Stora Enso's revenue shrank by 20% to 2,164 MEUR in Q1, mainly due to plant closures and lower prices. Stora Enso's Q1 adjusted EBIT decreased by 33% to 156 MEUR, beating our and consensus forecasts by more than 30%. However, we note that Stora Enso's depreciation level in Q1 was well below our expectations due to accounting changes at the Chinese mill and other factors, so part of the beat is technical.

## We raised our forecasts slightly after the Q1 report

Stora Enso reaffirmed its guidance for the current year that the company's adjusted EBIT this year will be higher than last year (2023: adj. EBIT: 342 MEUR). In Stora Enso's scale, "higher" means an improvement of 15-50%, i.e., in practice the company guided for an adjusted EBIT of 394-512 MEUR for this year. Our and consensus forecasts were already above guidance before the Q1 earnings beat, so guidance remains loose, especially given the floor-level comparison level. However, we did not expect Stora Enso to raise its guidance at this stage, but we do expect the company to clarify its guidance numerically during the second half. Market commentary was cautiously optimistic in the light of the sector's news flow and a turn for the better seems to have taken place, although it is still difficult to draw firm conclusions on the underlying demand for paperboard in particular. Stora Enso expanded the savings program announced in the Q4 report by 50% to 120 MEUR. Following the report, we increased our forecasts for the coming years, particularly with regard to pulp prices and savings, and the review of depreciation forecasts also had a positive impact on our EBIT forecasts. Adjusted EBIT forecasts for 2024 increased by 12%, while changes for 2025-2026 were 2-4%. We still expect Stora Enso to improve to a passable level this year as the inventory trend reverses and the economic situation improves slightly with recovering volumes, easing inflation (excluding timber) and savings. We expect further improvements in the coming years, but it will take several years to achieve a good result.

## Appropriate proportions of profit improvement baked in

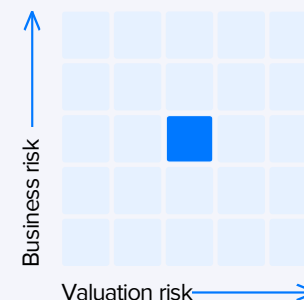
Our projections for Stora Enso's earnings multiples for 2024 are high (2024e: P/E 21x) and only next year's adjusted P/E of 14x and EV/EBITDA of 8x look neutral. We expect dividend yields in the coming years to be at a satisfactory level of 3-4%. However, we believe that a P/B of 0.9x is already moderate, even if the valuation of the forest assets on the balance sheet is viewed through the lens of an equity investor's required returns. The DCF value is also roughly in line with the current share price. Overall, we believe that the stock is appropriately priced for a turnaround and that a continuation of the stock's upside would require a sharper turnaround in 2024-2025 than we already expect.

## Recommendation

**Reduce**  
(previous Reduce)

**EUR 11.50**  
(previous EUR 10.50)

**Share price:**  
EUR 12.70



## Key figures

	2023	2024e	2025e	2026e
<b>Revenue</b>	9396	9116	10232	11116
<b>growth-%</b>	-20%	-3%	12%	9%
<b>EBIT adj.</b>	342	749	1078	1194
<b>EBIT-% adj.</b>	3.6 %	8.2 %	10.5 %	10.7 %
<b>Net Income</b>	-357	451	723	824
<b>EPS (adj.)</b>	0.22	0.58	0.92	1.04
<b>P/E (adj.)</b>	56.7	21.9	13.8	12.2
<b>P/B</b>	0.9	0.9	0.9	0.8
<b>Dividend yield-%</b>	2.4 %	2.8 %	3.2 %	3.9 %
<b>EV/EBIT (adj.)</b>	38.3	18.1	12.5	10.9
<b>EV/EBITDA</b>	13.4	10.5	7.8	7.0
<b>EV/S</b>	1.4	1.5	1.3	1.2

Source: Inderes

## Guidance

(Unchanged)

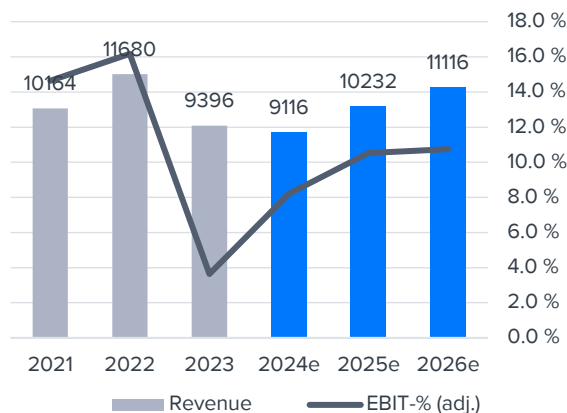
Stora Enso's full year 2024 operational EBIT is expected to be higher than for the full year 2023 (342 MEUR).

### Share price



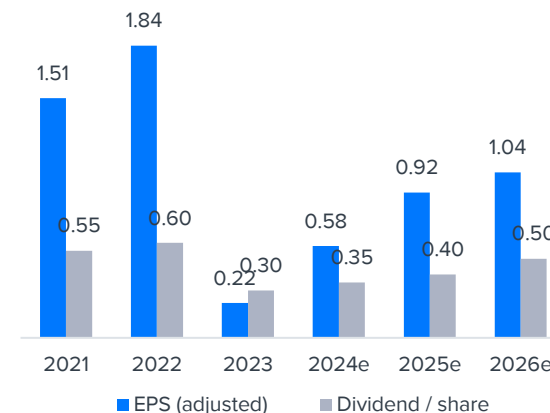
Source: Millstream Market Data AB

### Revenue and EBIT-%



Source: Inderes

### EPS and dividend



Source: Inderes



### Value drivers

- Good long-term prospects for packaging businesses and strong market position
- Product mix gradually improving with new products
- Realizing the potential of 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 revenue comes from Europe

Valuation	2024e	2025e	2026e
Share price	12.7	12.7	12.7
Number of shares, millions	788.6	788.6	788.6
Market cap	10012	10012	10012
EV	13545	13423	12964
P/E (adj.)	21.9	13.8	12.2
P/E	22.2	13.8	12.2
P/B	0.9	0.9	0.8
P/S	1.1	1.0	0.9
EV/Sales	1.5	1.3	1.2
EV/EBITDA	10.5	7.8	7.0
EV/EBIT (adj.)	18.1	12.5	10.9
Payout ratio (%)	61.2 %	43.6 %	47.9 %
Dividend yield-%	2.8 %	3.2 %	3.9 %

Source: Inderes

# Earnings beat not quite as big as it seems at first glance

## Revenue trend still miserable

Stora Enso's Q1 revenue fell 21% to 2,164 MEUR, below consensus and in line with our expectations. Net sales in almost all divisions were affected by lower volumes (including the Finnish strike burden and plant closures) and price pressure. However, relative to Q4, demand improved after the end of the inventory level correction, which was expected based on the news flow.

## Result exceeded expectations, but some of the beat was technical

Stora Enso's adjusted EBIT for Q1 dropped by 33% to 156 MEUR, exceeding our and especially consensus expectations by more than 30%. The political strikes in Finland had a negative impact of 25 MEUR, but Stora Enso's Packaging Materials received an energy subsidy of approximately 30 MEUR. We also note that Stora Enso's depreciation in the first quarter was

well below our expectations due to accounting changes at the Chinese mill and other factors. Thus, part of the earnings beat was technical, and the EBITDA beat was much smaller.

Among the divisions, Forest was able to improve its profitability and perform well in the tight Nordic timber market. However, the earnings beat came from Packaging Materials, which moved from a loss at the end of the year to a clearly positive profitability (Q1: adj. EBIT 5.5%) thanks to a decent increase in sales and capacity utilization, a decrease in depreciation and a one-off emissions compensation. As expected, the Biomaterials' result was modest thanks to a rise in pulp prices early in the year. The magnitude of the loss at Wood Products, which continues to suffer from the weak construction market, was not significantly different from expectations. Packaging Solutions fell slightly short of our forecast as fierce competition pushed the unit

into the red in a seasonally slow first quarter.

## Balance sheet still weakening, but expected to reverse trend soon

Lower in the income statement, Stora Enso recorded small net negative adjustment items for Q1. Financing costs were slightly above our estimate, but there were no surprises on taxes. As a result, Stora Enso's EPS, which fell to EUR 0.11, beat our and consensus forecasts, mirroring the operating result. From a cash flow perspective, the report was also surprisingly good as there was no seasonal working capital commitment this time. Due to the decline in rolling profit and high capital expenditures, the net debt/EBITDA ratio continued to increase and stood at 4.0x at the end of Q1 (vs. target below 2x). However, as the quarterly earnings turnaround progresses, the risk of balance sheet problems has already diminished significantly and the balance sheet should start to improve as early as Q2 (or Q3).

Estimates	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2721	2164	2124	2323	2124	- 2484	2%	9116
EBIT (adj.)	234	156	119	105	63	- 131	31%	749
EBIT	258	148	119	105	63	- 131	25%	741
PTP	228	101	79	57	15	- 81	28%	559
EPS (reported)	0.24	0.11	0.08	0.06	0.01	- 0.08	38%	0.57
Revenue growth-%	-2.8 %	-20.5 %	-21.9 %	-14.6 %	-21.9 %	- -8.7 %	1.5 pp	-3.0 %
EBIT-% (adj.)	8.6 %	7.2 %	5.6 %	4.5 %	3.0 %	- 5.3 %	1.6 pp	8.2 %

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

# We raised our forecasts slightly after the Q1 report

## Estimate revisions 2024e-2026e

- Stora Enso reaffirmed its guidance for the current year that the company's adjusted EBIT this year will be higher than last year (2023: adj. EBIT: 342 MEUR). In Stora Enso's scale, "higher" means an improvement of 15-50%, i.e., in practice the company guided for an adjusted EBIT of 394-512 MEUR for this year. Our and consensus forecasts were already above guidance before the Q1 earnings beat, so guidance remains loose, especially given the floor-level comparison level. We expect the company to provide numerical guidance in H2.
- Market commentary was cautiously optimistic in the light of the sector's news flow and a turn for the better seems to have taken place, although it is still difficult to draw firm conclusions on the underlying demand for paperboard in particular.
- We increased our pulp price forecasts for Biomaterials slightly, although we see some risk of a possible break in the recent supply-driven price rally.
- We lowered our depreciation forecasts for the current year, especially in Packaging Materials, which pushed down our adjusted EBIT forecasts
- We cut our estimates for Packaging Solutions and Wood Products due to difficult market conditions. For Forest, the changes were small.

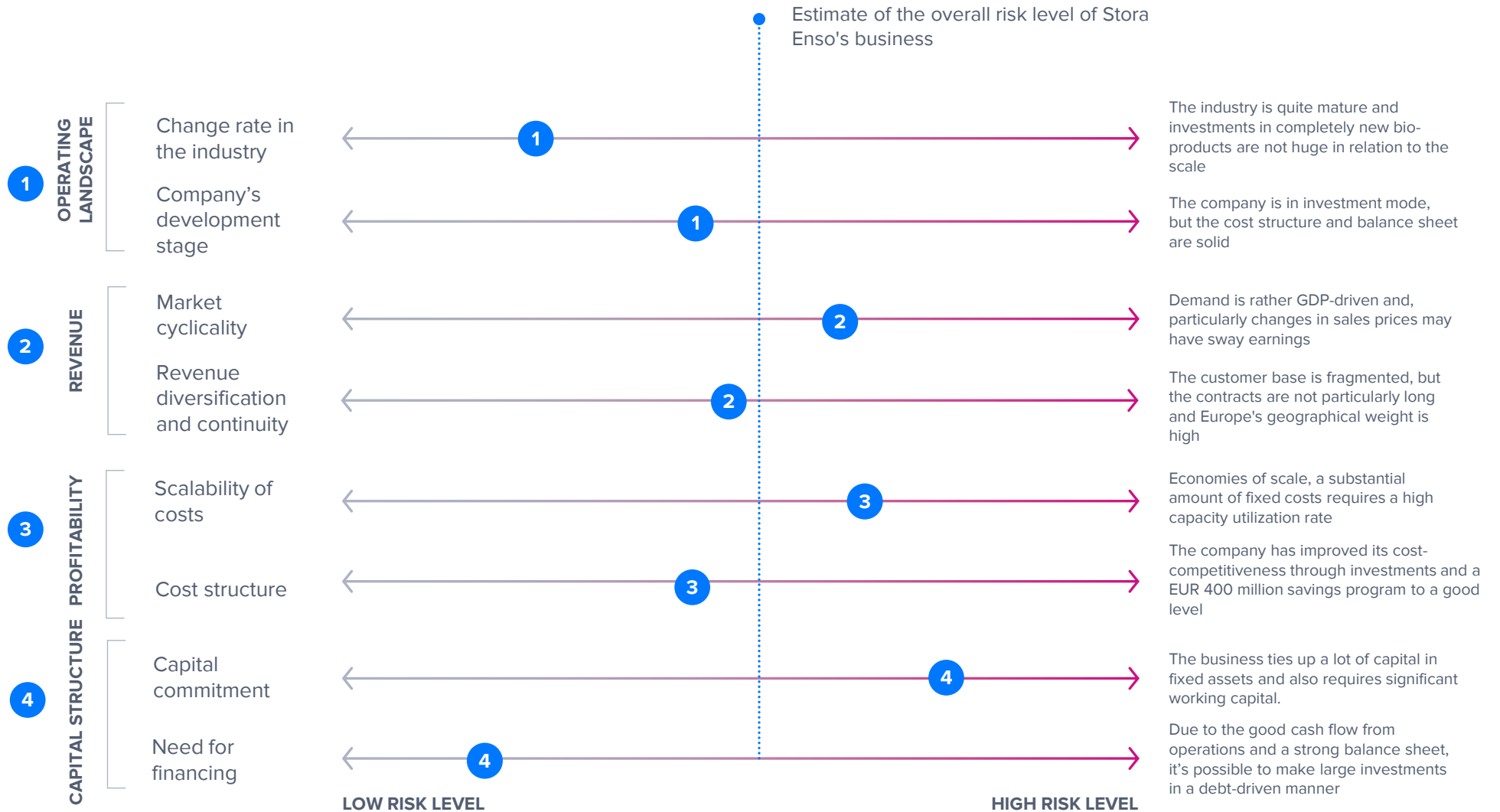
## Operational result drivers 2024e–2026e:

- We expect Packaging Materials' performance to gradually improve from the very poor level of 2023, driven by the business cycle, easing inflation and new investments (in Oulu). In 2024, the market situation will not allow the division to perform miracles, and the ramp-up of the Oulu plant will weigh on 2025. The sale of the Beihai plant in 2024 should improve the division's earnings.
- We expect earnings growth in Biomaterials to start in the second quarter as pulp prices have continued to increase in the early part of the year. In principle, however, we believe that price increases will come to an end in the near future as supply (including new capacity) recovers and customer inventories increase.
- Packaging Solutions will only improve its performance in line with the 2025-2026 economic cycle, although overcapacity in the market is a constraint.
- The outlook for Wood Products is difficult as construction continues in the doldrums in 2024, although savings and abating inflation should bring some relief. We do not expect a return to the exceptionally high results of 2021-2022 in the forecast period.
- Forest is forecast to continue its stable and even slightly bullish performance in the coming years thanks to the tight timber market

Estimate revisions MEUR / EUR	2024e		Change %	2025e		Change %	2026e		Change %
	Old	New		Old	New		Old	New	
Revenue	9129	9116	0%	10469	10232	-2%	11276	11116	-1%
EBITDA	1293	1288	0%	1675	1727	3%	1835	1862	2%
EBIT (exc. NRIs)	668	749	12%	1034	1078	4%	1175	1194	2%
EBIT	668	741	11%	1034	1078	4%	1175	1194	2%
PTP	498	559	12%	870	908	4%	1019	1034	1%
EPS (excl. NRIs)	0.51	0.58	15%	0.88	0.92	4%	1.03	1.04	1%
DPS	0.35	0.35	0%	0.40	0.40	0%	0.50	0.50	0%

Source: Inderes

# Risk profile of the business model



# We think the price level is about right

## Valuation multiples are high for the coming years

Stora Enso's earnings multiples for 2024 are high, while the P/E ratio for 2025 is 14x and the EV/EBITDA ratio is 8x. Next year's multiples are also around the company's medium-term medians, and we view them as neutral relative to the ongoing uncertainties in the operating environment and current interest rate expectations. Attractive valuation signals can only be found at 2026 multiples (2025e: P/E 12x), even though the forecasts include substantial and still uncertain earnings improvements. In our view, enough earnings growth expectations have been built into the stock, even though Stora Enso's turnaround under a new CEO has started promisingly. In our view, there are also a number of attractive expected medium-term returns on Nasdaq Helsinki equities, which encourages investors to allocate capital elsewhere.

The reduction in the share of Paper has in principle improved the quality of the company's results and supported the achievement of the cyclicality reduction target set out in the previous CMD, but the sharp fall in last year's results shows that the company has a lot of work to do to reduce cyclicality and probably also competitiveness. Based on five-year average actual earnings, Stora Enso's adjusted P/E would be around 13x, which we believe is a fairly neutral level at current interest rates. The period coincides with the peak results in 2021-2022, the Nordic timber market is structurally tighter, interest rate pressure has increased and competition is also tightening/increasing. Given these factors and the company's somewhat questionable capital allocation in recent years, we are not prepared to accept high multiples for the company.

## Other indicators not in the green either

On a relative basis, Stora Enso is priced at a premium, so even the relative valuation does not give a buy

signal for the stock. The value of our DCF model, based on our longer-term forecasts, is slightly above the share price at just over EUR 12. Thus, the DCF also indicates that the stock is correctly priced.

## We estimate that the expected return will fall short

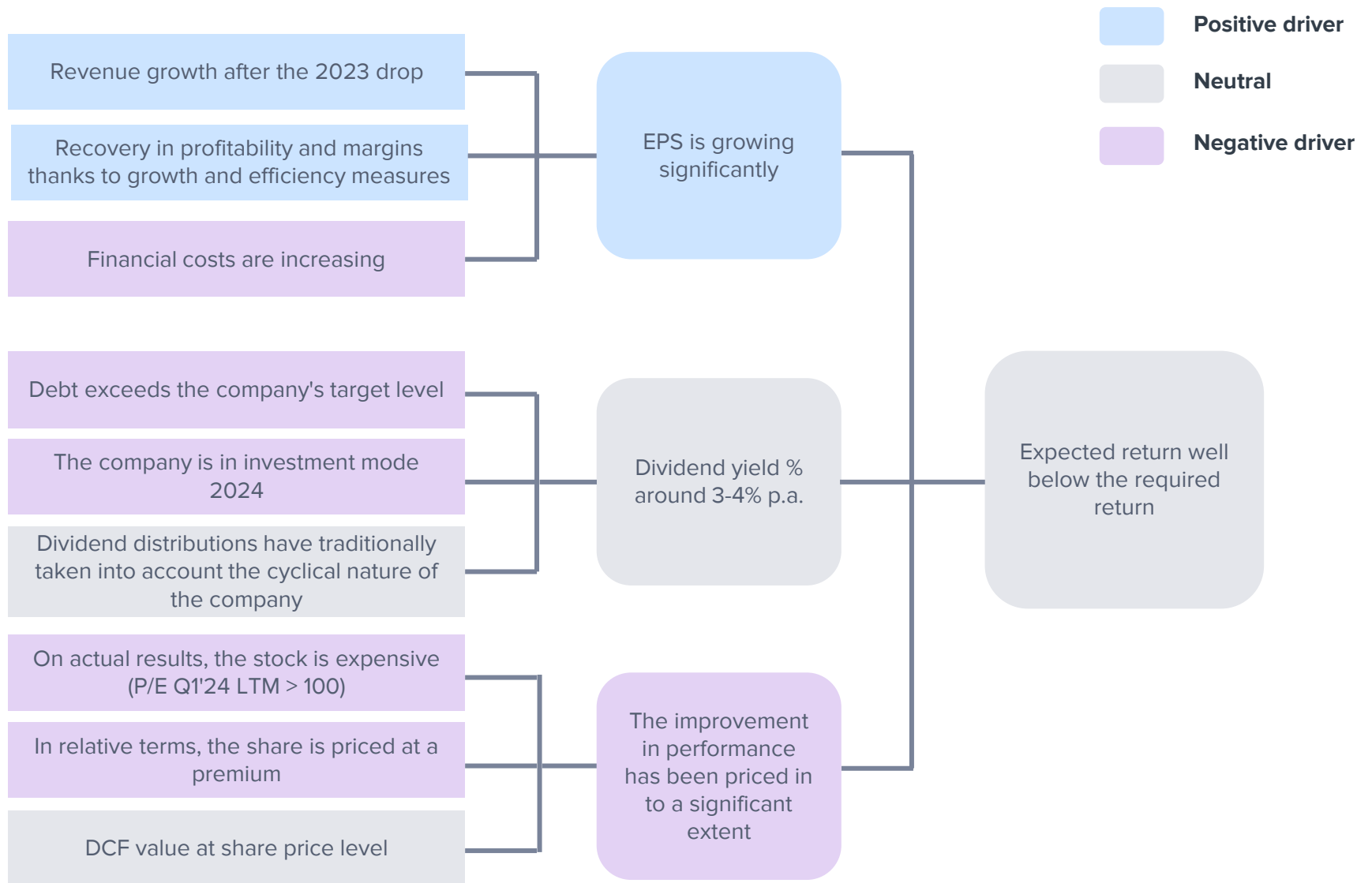
We expect investors to receive an annual dividend yield of 3-4% at the current share price in the coming years (we have added an additional EUR 0.20 component to our dividend forecast for 2023, which is under consideration by the Board of Directors, due to the progress of the earnings turnaround and the improvement in the market). This leaves a thin dividend base yield. The earnings growth driver turns in the right direction in Q2'24, but the starting level is low and the earnings growth rate is unclear. At the actual result, the share is very expensive. In our view, Stora Enso's expected return is lower than the required return in the short term, although the most negative scenario has receded during Q1.

Stora Enso's P/B ratio is below its medium-term median level at 0.9x (2023a). The Forest division's ROCE is now just under 5% of the balance sheet value, which has increased significantly in recent years. Thus, even in relation to the low risk of the forest, we do not consider its balance sheet value to be cheap (cf. US 10-year bond yields almost 5%), especially from an equity investor's perspective. Due to the rise in timber prices, the balance sheet value of the forest is probably on a solid footing and therefore the balance sheet value can already support the stock. As Stora Enso uses more timber net than it harvests in the Nordic countries, it is still difficult for the company to rejoice in rising wood prices, which weaken the competitiveness of its industrial operations. Moreover, the company has not been able, at least so far, to capitalize on the benefits of forest ownership through the profitability of its industrial operations.

Valuation	2024e	2025e	2026e
Share price	12.7	12.7	12.7
Number of shares, millions	788.6	788.6	788.6
Market cap	10012	10012	10012
EV	13545	13423	12964
P/E (adj.)	21.9	13.8	12.2
P/E	22.2	13.8	12.2
P/B	0.9	0.9	0.8
P/S	1.1	1.0	0.9
EV/Sales	1.5	1.3	1.2
EV/EBITDA	10.5	7.8	7.0
EV/EBIT (adj.)	18.1	12.5	10.9
Payout ratio (%)	61.2 %	43.6 %	47.9 %
Dividend yield-%	2.8 %	3.2 %	3.9 %

Source: Inderes

# TSR drivers Q1'24a-2025e

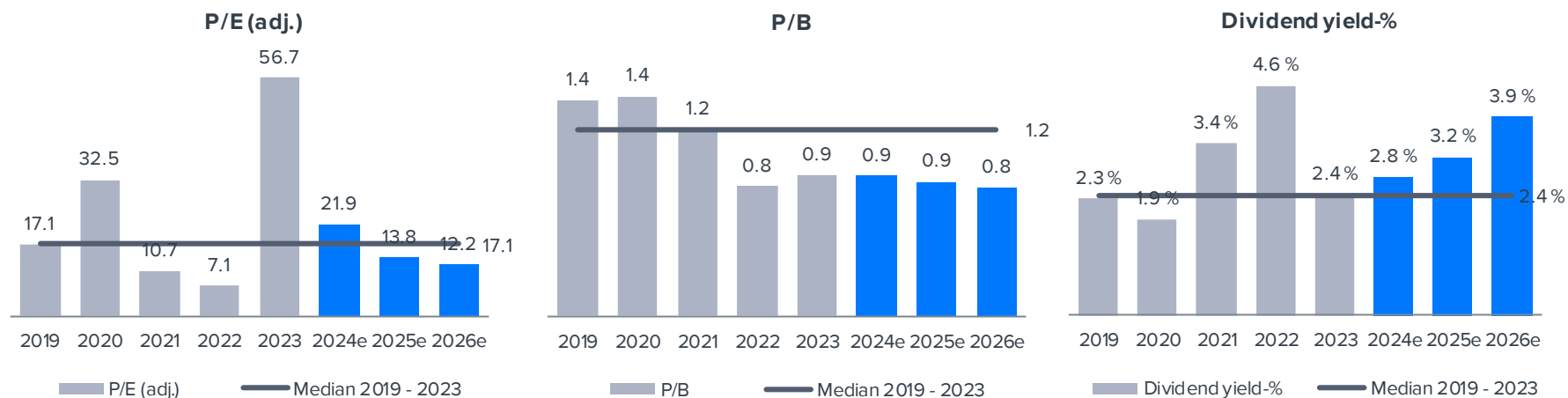




# Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	12.97	15.65	16.14	13.15	12.53	12.70	12.70	12.70	12.70
Number of shares, millions	788.6	788.6	788.6	788.6	788.6	788.6	788.6	788.6	788.6
Market cap	10229	12342	12729	10371	9878	10012	10012	10012	10012
EV	13523	15409	15165	12401	13105	13545	13423	12964	12446
P/E (adj.)	17.1	32.5	10.7	7.1	56.7	21.9	13.8	12.2	10.7
P/E	11.6	19.7	10.4	6.7	neg.	22.2	13.8	12.2	10.7
P/B	1.4	1.4	1.2	0.8	0.9	0.9	0.9	0.8	0.8
P/S	1.0	1.4	1.3	0.9	1.1	1.1	1.0	0.9	0.9
EV/Sales	1.3	1.8	1.5	1.1	1.4	1.5	1.3	1.2	1.1
EV/EBITDA	7.1	10.5	6.8	4.7	13.4	10.5	7.8	7.0	6.3
EV/EBIT (adj.)	14.2	23.7	10.2	6.6	38.3	18.1	12.5	10.9	9.4
Payout ratio (%)	26.9 %	37.8 %	35.4 %	30.5 %	neg.	61.2 %	43.6 %	47.9 %	55.0 %
Dividend yield-%	2.3 %	1.9 %	3.4 %	4.6 %	2.4 %	2.8 %	3.2 %	3.9 %	5.1 %

Source: Inderes



# Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
International Paper	11188	15379	13.2	10.5	7.2	6.4	0.9	0.8	15.9	12.1	5.4	5.4	1.4
Graphic Packaging	7880	12757	10.6	10.2	7.4	7.2	1.4	1.4	10.2	9.5	1.5	1.6	2.5
DS Smith	5551	7828	10.0	9.2	6.6	6.4	1.0	0.9	10.5	10.2	5.2	5.2	1.2
Metsä Board	2581	2853	14.5	9.6	9.6	7.0	1.4	1.2	18.1	11.5	4.3	5.1	1.2
Holmen	5837	5915	18.0	16.4	13.3	12.4	3.1	3.0	22.6	20.5	2.6	2.7	1.1
Billerud	2003	2456	14.8	9.8	6.0	4.9	0.7	0.7	18.2	11.3	2.9	5.1	0.8
Mayr-Melnhof	2276	3616	12.0	9.6	6.8	5.9	0.9	0.8	13.1	9.7	2.8	3.5	1.1
UPM	17101	19851	15.1	11.1	10.1	8.2	1.8	1.8	16.7	12.3	4.8	4.9	1.5
Suzano	14309	25124	11.8	9.3	6.7	5.9	3.2	2.9	13.1	9.7	1.9	2.3	1.6
Smurfit Kappa	10452	13289	9.9	8.9	6.6	6.1	1.2	1.2	12.5	10.8	4.0	4.4	1.8
<b>Stora Enso (Inderes)</b>	<b>10012</b>	<b>13545</b>	<b>18.1</b>	<b>12.5</b>	<b>10.5</b>	<b>7.8</b>	<b>1.5</b>	<b>1.3</b>	<b>21.9</b>	<b>13.8</b>	<b>2.8</b>	<b>3.2</b>	<b>0.9</b>
<b>Average</b>			<b>13.7</b>	<b>11.0</b>	<b>8.7</b>	<b>7.5</b>	<b>1.9</b>	<b>1.8</b>	<b>16.3</b>	<b>12.6</b>	<b>3.4</b>	<b>3.9</b>	<b>1.4</b>
<b>Median</b>			<b>12.6</b>	<b>9.7</b>	<b>7.3</b>	<b>6.4</b>	<b>1.3</b>	<b>1.2</b>	<b>16.3</b>	<b>11.4</b>	<b>3.2</b>	<b>4.2</b>	<b>1.3</b>
<b>Diff-% to median</b>			<b>43%</b>	<b>29%</b>	<b>44%</b>	<b>22%</b>	<b>16%</b>	<b>11%</b>	<b>34%</b>	<b>22%</b>	<b>-14%</b>	<b>-26%</b>	<b>-33%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
<b>Revenue</b>	<b>11680</b>	<b>2721</b>	<b>2374</b>	<b>2127</b>	<b>2174</b>	<b>9396</b>	<b>2164</b>	<b>2265</b>	<b>2328</b>	<b>2359</b>	<b>9116</b>	<b>10232</b>	<b>11116</b>	<b>11507</b>
Packaging Materials	5496	1300	1155	1057	1045	4557	1100	1122	1123	1151	4496	5153	5655	5842
Packaging Solutions	727	276	288	266	247	1077	224	260	285	285	1053	1174	1231	1283
Biomaterials	2180	488	380	345	374	1587	374	379	391	396	1539	1569	1594	1596
Wood Products	2195	454	436	349	341	1580	349	400	416	374	1538	1784	2001	2067
Forest	2519	687	620	534	649	2490	659	625	634	694	2612	2717	2799	2884
Other	2150	364	214	179	207	964	57	55	55	60	227	235	235	235
Internal sales / Eliminations	-3589	-848	-719	-603	-689	-2859	-599	-575	-575	-600	-2349	-2400	-2400	-2400
<b>EBITDA</b>	<b>2644</b>	<b>414</b>	<b>16</b>	<b>144</b>	<b>407</b>	<b>981</b>	<b>266</b>	<b>306</b>	<b>368</b>	<b>348</b>	<b>1288</b>	<b>1727</b>	<b>1862</b>	<b>1981</b>
Depreciation	-635	-156	-269	-145	-733	-1303	-118	-143	-143	-143	-547	-650	-668	-660
<b>EBIT (excl. NRI)</b>	<b>1890</b>	<b>234</b>	<b>37</b>	<b>21</b>	<b>50</b>	<b>342</b>	<b>156</b>	<b>163</b>	<b>225</b>	<b>205</b>	<b>749</b>	<b>1078</b>	<b>1194</b>	<b>1321</b>
<b>EBIT</b>	<b>2009</b>	<b>258</b>	<b>-253</b>	<b>-1</b>	<b>-326</b>	<b>-322</b>	<b>148</b>	<b>163</b>	<b>225</b>	<b>205</b>	<b>741</b>	<b>1078</b>	<b>1194</b>	<b>1321</b>
Packaging Materials	655	41	-21	-34	-43	-57	60	45	79	50	234	324	395	518
Packaging Solutions	16	8	15	14	6	43	-1	-3	17	10	23	78	95	99
Biomaterials	687	91	-13	5	35	118	57	58	66	72	254	296	297	288
Wood Products	308	-11	-5	-21	-27	-64	-9	5	-1	1	-4	98	116	121
Forest	204	57	62	59	75	253	70	70	69	79	288	296	306	310
Other	63	27	-10	-15	-1	1	-11	-10	-3	-6	-30	-15	-15	-15
Internal sales / Eliminations	-42	21	9	13	5	48	-10	-2	-2	-2	-16	0	0	0
Adjustment items	119	23	-290	-22	-376	-664	-8	0	0	0	-8	0	0	0
Net financial items	-151	-29	-52	-40	-52	-173	-47	-45	-45	-45	-182	-170	-161	-149
<b>PTP</b>	<b>1858</b>	<b>228</b>	<b>-305</b>	<b>-41</b>	<b>-378</b>	<b>-495</b>	<b>101</b>	<b>118</b>	<b>180</b>	<b>160</b>	<b>559</b>	<b>908</b>	<b>1034</b>	<b>1172</b>
Taxes	-322	-43	47	7	53	64	-17	-24	-36	-32	-109	-182	-207	-234
Minority interest	13	4	31	1	38	74	1	0	0	0	1	-3	-3	-3
<b>Net earnings</b>	<b>1549</b>	<b>189</b>	<b>-227</b>	<b>-33</b>	<b>-287</b>	<b>-357</b>	<b>85</b>	<b>95</b>	<b>144</b>	<b>128</b>	<b>451</b>	<b>723</b>	<b>824</b>	<b>934</b>
<b>EPS (adj.)</b>	<b>1.84</b>	<b>0.22</b>	<b>0.01</b>	<b>-0.02</b>	<b>0.02</b>	<b>0.22</b>	<b>0.12</b>	<b>0.12</b>	<b>0.18</b>	<b>0.16</b>	<b>0.58</b>	<b>0.92</b>	<b>1.04</b>	<b>1.18</b>
<b>EPS (rep.)</b>	<b>1.96</b>	<b>0.24</b>	<b>-0.29</b>	<b>-0.04</b>	<b>-0.36</b>	<b>-0.45</b>	<b>0.11</b>	<b>0.12</b>	<b>0.18</b>	<b>0.16</b>	<b>0.57</b>	<b>0.92</b>	<b>1.04</b>	<b>1.18</b>

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
<b>Revenue growth-%</b>	14.9 %	-2.8 %	-22.3 %	-28.2 %	-24.1 %	-19.6 %	-20.5 %	-4.6 %	9.4 %	8.5 %	-3.0 %	12.2 %	8.6 %	3.5 %
<b>Adjusted EBIT growth-%</b>	27.0 %	-53.4 %	-92.6 %	-96.1 %	-85.9 %	-81.9 %	-33.4 %	337.1 %	996.9 %	309.3 %	119.0 %	43.9 %	10.8 %	10.6 %
<b>EBITDA-%</b>	22.6 %	15.2 %	0.7 %	6.8 %	18.7 %	10.4 %	12.3 %	13.5 %	15.8 %	14.7 %	14.1 %	16.9 %	16.8 %	17.2 %
<b>Adjusted EBIT-%</b>	16.2 %	8.6 %	1.6 %	1.0 %	2.3 %	3.6 %	7.2 %	7.2 %	9.7 %	8.7 %	8.2 %	10.5 %	10.7 %	11.5 %
<b>Net earnings-%</b>	13.3 %	7.0 %	-9.6 %	-1.5 %	-13.2 %	-3.8 %	3.9 %	4.2 %	6.2 %	5.4 %	5.0 %	7.1 %	7.4 %	8.1 %

Source: Inderes

# Balance sheet

Assets	2022	2023	2024e	2025e	2026e
<b>Non-current assets</b>	<b>15121</b>	<b>14699</b>	<b>15204</b>	<b>15356</b>	<b>15340</b>
Goodwill	244	505	505	505	505
Intangible assets	121	283	285	287	289
Tangible assets	5278	4867	5370	5520	5502
Associated companies	832	926	926	926	926
Other investments	6854	6921	6921	6921	6921
Other non-current assets	1718	1063	1063	1063	1063
Deferred tax assets	74.0	134	134	134	134
<b>Current assets</b>	<b>5801</b>	<b>6055</b>	<b>4763</b>	<b>5078</b>	<b>5214</b>
Inventories	1810	1466	1276	1432	1556
Other current assets	601	934	934	934	934
Receivables	1473	1191	1185	1381	1501
Cash and equivalents	1917	2464	1367	1330	1223
<b>Balance sheet total</b>	<b>20922</b>	<b>20754</b>	<b>19967</b>	<b>20434</b>	<b>20554</b>

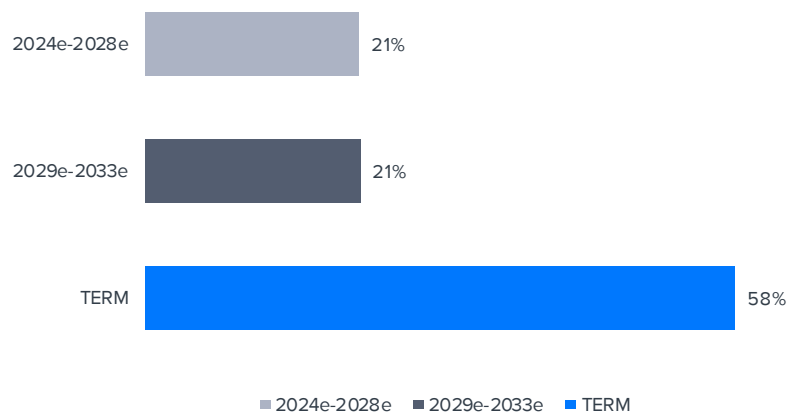
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
<b>Equity</b>	<b>12502</b>	<b>10889</b>	<b>11104</b>	<b>11551</b>	<b>12060</b>
Share capital	1423	1423	1423	1423	1423
Retained earnings	8532	7463	7677	8125	8633
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	2577	2100	2100	2100	2100
Minorities	-30.0	-97.0	-97.0	-97.0	-97.0
<b>Non-current liabilities</b>	<b>4486</b>	<b>6190</b>	<b>5721</b>	<b>5591</b>	<b>5135</b>
Deferred tax liabilities	1443	1433	1420	1420	1420
Provisions	81.0	83.0	83.0	83.0	83.0
Interest bearing debt	2792	4446	3990	3860	3404
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	170	228	228	228	228
<b>Current liabilities</b>	<b>3934</b>	<b>3675</b>	<b>3142</b>	<b>3292</b>	<b>3360</b>
Interest bearing debt	1180	1333	998	965	851
Payables	2410	2112	1914	2098	2279
Other current liabilities	344	230	230	230	230
<b>Balance sheet total</b>	<b>20922</b>	<b>20754</b>	<b>19967</b>	<b>20434</b>	<b>20554</b>

# DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-19.6 %	-3.0 %	12.2 %	8.6 %	3.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	-3.4 %	8.1 %	10.5 %	10.7 %	11.5 %	11.0 %	11.0 %	10.5 %	10.2 %	10.0 %	10.0 %	10.0 %
<b>EBIT (operating profit)</b>	<b>-322</b>	<b>741</b>	<b>1078</b>	<b>1194</b>	<b>1321</b>	<b>1297</b>	<b>1330</b>	<b>1301</b>	<b>1296</b>	<b>1302</b>	<b>1328</b>	
+ Depreciation	1303	547	650	668	660	659	658	657	629	631	633	
- Paid taxes	-6	-122	-182	-207	-234	-234	-243	-240	-241	-245	-253	
- Tax, financial expenses	-26	-41	-38	-36	-33	-29	-26	-23	-21	-19	-16	
+ Tax, financial income	0	6	4	4	3	3	3	3	3	3	4	
- Change in working capital	-119	-2	-169	-62	-27	-20	-21	-21	-22	-22	-18	
<b>Operating cash flow</b>	<b>830</b>	<b>1129</b>	<b>1343</b>	<b>1562</b>	<b>1689</b>	<b>1677</b>	<b>1701</b>	<b>1677</b>	<b>1644</b>	<b>1651</b>	<b>1678</b>	
+ Change in other long-term liabilities	60	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-727	-1052	-802	-652	-652	-652	-652	-652	-652	-652	-654	
<b>Free operating cash flow</b>	<b>163</b>	<b>77</b>	<b>541</b>	<b>910</b>	<b>1037</b>	<b>1025</b>	<b>1049</b>	<b>1025</b>	<b>992</b>	<b>999</b>	<b>1023</b>	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	163	77	541	910	1037	1025	1049	1025	992	999	1023	16464
<b>Discounted FCFF</b>		<b>73</b>	<b>473</b>	<b>734</b>	<b>772</b>	<b>704</b>	<b>666</b>	<b>600</b>	<b>536</b>	<b>498</b>	<b>471</b>	<b>7581</b>
Sum of FCFF present value		13108	13035	12563	11829	11056	10352	9686	9086	8551	8052	7581
<b>Enterprise value DCF</b>		<b>13108</b>										
- Interest bearing debt		-5779										
+ Cash and cash equivalents		2464										
-Minorities		87										
-Dividend/capital return		-237										
<b>Equity value DCF</b>		<b>9643</b>										
<b>Equity value DCF per share</b>		<b>12.2</b>										

Cash flow distribution

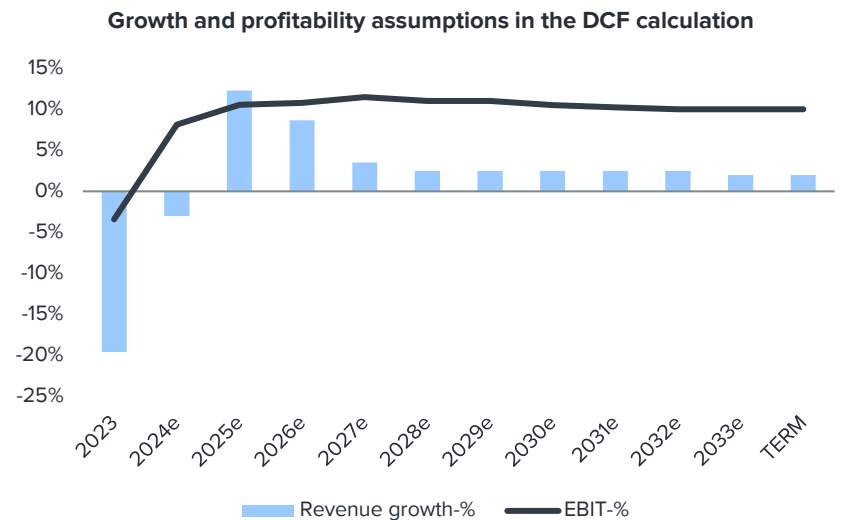
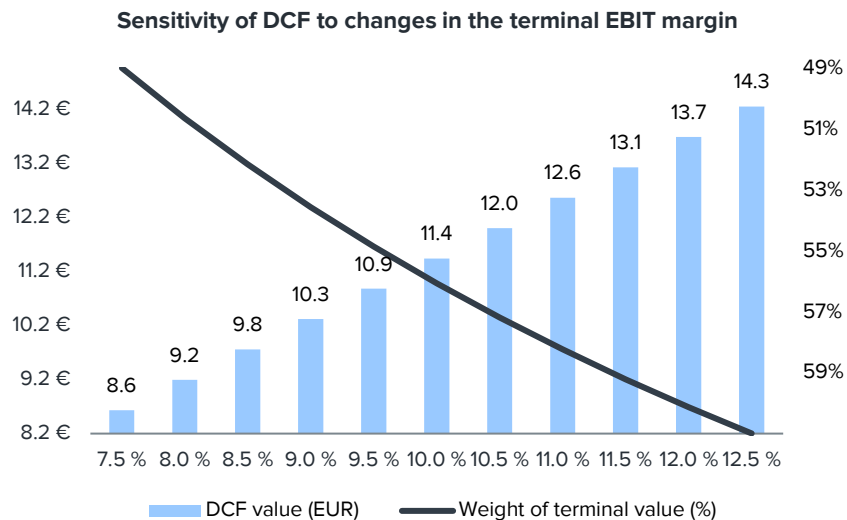
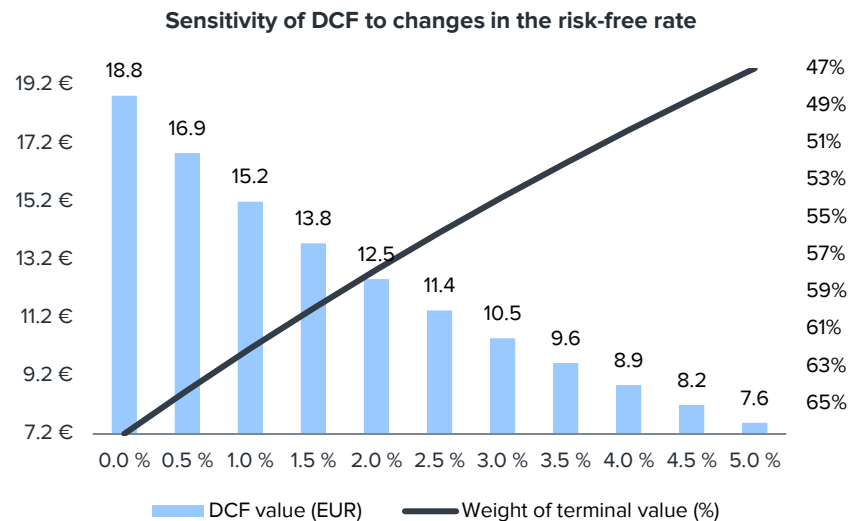
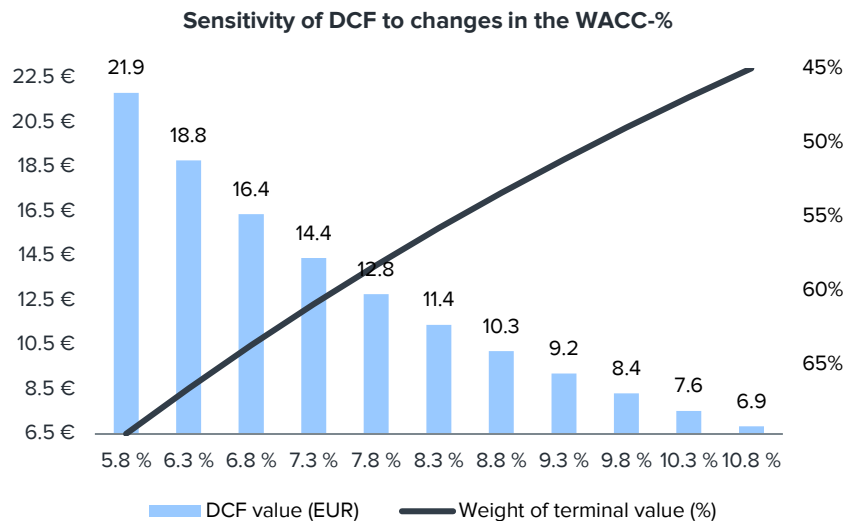


## WACC

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

Source: Inderes

# DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

# Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	10164	11680	9396	9116	10232	EPS (reported)	1.55	1.96	-0.45	0.57	0.92
EBITDA	2225	2644	981	1288	1727	EPS (adj.)	1.51	1.84	0.22	0.58	0.92
EBIT	1528	2009	-322	741	1078	OCF / share	2.75	2.20	1.05	1.43	1.70
PTP	1379	1858	-495	559	908	FCF / share	0.31	0.61	0.21	0.10	0.69
Net Income	1226	1549	-357	451	723	Book value / share	13.54	15.89	13.93	14.20	14.77
Extraordinary items	40	119	-664	-8	0	Dividend / share	0.55	0.60	0.30	0.35	0.40
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	19026	20922	20754	19967	20434	Revenue growth-%	19%	15%	-20%	-3%	12%
Equity capital	10666	12502	10889	11104	11551	EBITDA growth-%	45%	19%	-63%	31%	34%
Goodwill	282	244	505	505	505	EBIT (adj.) growth-%	129%	27%	-82%	119%	44%
Net debt	2456	2055	3315	3620	3494	EPS (adj.) growth-%	214%	22%	-88%	163%	58%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	21.9 %	22.6 %	10.4 %	14.1 %	16.9 %
EBITDA	2225	2644	981	1288	1727	EBIT (adj.)-%	14.6 %	16.2 %	3.6 %	8.2 %	10.5 %
Change in working capital	40	-643	-119	-2	-169	EBIT-%	15.0 %	17.2 %	-3.4 %	8.1 %	10.5 %
Operating cash flow	2170	1735	830	1129	1343	ROE-%	12.6 %	13.3 %	-3.0 %	4.1 %	6.3 %
CAPEX	-1788	-1056	-727	-1052	-802	ROI-%	10.9 %	12.9 %	-1.9 %	4.7 %	6.8 %
Free cash flow	246	478	163	77	541	Equity ratio	56.1 %	59.8 %	52.5 %	55.6 %	56.5 %
						Gearing	23.0 %	16.4 %	30.4 %	32.6 %	30.3 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1.5	1.1	1.4	1.5	1.3						
EV/EBITDA (adj.)	6.8	4.7	13.4	10.5	7.8						
EV/EBIT (adj.)	10.2	6.6	38.3	18.1	12.5						
P/E (adj.)	10.7	7.1	56.7	21.9	13.8						
P/B	1.2	0.8	0.9	0.9	0.9						
Dividend-%	3.4 %	4.6 %	2.4 %	2.8 %	3.2 %						

Source: Inderes

# ESG

## Core activities are outside the taxonomy classification

Among Stora Enso's businesses eligible for taxonomy in 2023 were forest management, protective forestry, remediation of contaminated sites and land, battery manufacturing, manufacturing of energy efficiency equipment for buildings, co-generation of heat or cooling and electricity with bioenergy and installation, maintenance and repair of renewable energy technologies. Consequently, the board, pulp, paper, packaging and sawmill products that account for the majority of Stora Enso's revenue are not taxonomically classified.

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

## Businesses contain a political 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 political 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 Enson 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	2022	2023
Revenue	0.0%	1.3%
OPEX	2.1%	0.9%
CAPEX	0.4%	3.9%

Taxonomy alignment	2021*	2022
Revenue	6.5%	6.1%
OPEX	10.3%	13.7%
CAPEX	6.0%	6.6%

## 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

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

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## Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
12/28/2018	Accumulate	11.50 €	10.12 €
10/30/2019	Reduce	11.50 €	11.80 €
1/30/2020	Reduce	11.50 €	11.76 €
3/24/2020	Accumulate	8.50 €	7.36 €
4/16/2020	Reduce	9.50 €	9.90 €
4/22/2020	Reduce	9.50 €	10.06 €
6/24/2020	Reduce	10.50 €	11.19 €
7/22/2020	Reduce	10.50 €	11.25 €
9/24/2020	Reduce	13.00 €	13.64 €
10/20/2020	Reduce	13.00 €	13.67 €
11/12/2020	Reduce	13.00 €	13.73 €
2/1/2021	Reduce	14.00 €	15.00 €
3/24/2021	Reduce	15.00 €	16.15 €
4/26/2021	Reduce	15.50 €	16.68 €
7/22/2021	Reduce	15.50 €	16.04 €
10/21/2021	Reduce	15.50 €	14.65 €
1/31/2022	Reduce	17.00 €	17.50 €
4/29/2022	Reduce	18.00 €	17.85 €
6/14/2022	Reduce	17.00 €	16.18 €
7/25/2022	Reduce	16.00 €	14.79 €
10/24/2022	Reduce	14.50 €	13.62 €
2/1/2023	Reduce	14.00 €	13.10 €
4/21/2023	Reduce	12.00 €	11.48 €
4/26/2023	Reduce	11.50 €	11.15 €
7/19/2023	Reduce	11.50 €	11.45 €
7/24/2023	Reduce	10.50 €	10.11 €
10/4/2023	Reduce	10.50 €	11.31 €
10/25/2023	Reduce	10.50 €	11.21 €
1/27/2024	Sell	10.50 €	12.06 €
2/2/2024	Reduce	10.50 €	11.25 €
2/26/2024	Reduce	11.50 €	12.70 €



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