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Paper & Forest Products
Latin America

Pulp Price Radar

NBSK pulp price in China is up by $2/t w/w; BHKP +$0.6/t. Price Gap widens.

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- **What's New** — The PIX Pulp Index (China net price) rose for the fifth and fourth week in a row for both hardwood and softwood pulp, respectively. The former increased $0.6/t w/w to $461.5/t, while the latter went up by $2/t to $573/t. The aforementioned has placed the pulp price gap between grades at $112/tonne (vs. $1110/t last week), well above the 5-yr average of $64/t. YTD, hardwood and softwood pulp prices are up 1% (+$4.5/t) and 3% (+$15.5/t), respectively.

- **Pulp Prices in Europe increased ~EUR3/t w/w** —The PIX Pulp Index in Europe (list prices) rose for the third week in a row for both hardwood and softwood pulp. The former is trading at EUR614/t, while the latter at EUR740/t .YTD, both hardwood and softwood pulp prices are up 1% (+EUR6/t and +EUR7/t, respectively).

- **Latest News on Market Pulp** — According to Risi, recent announcements of price hikes up to $20/t for most pulp grades in China, supported by supply side disruptions, have been carried through partially, if not fully, in particular for softwood pulp (BSK). However, suppliers have indicated that well-stocked customers, mainly large mills, are more reluctant to accept hikes, especially for hardwood pulp (BHKP). The latter, would have led the largest Brazilian pulp producer to offer tonnage fixed at an unchanged prices of $450-460/t (for its long-term customers who bought entire quarterly volumes at fixed prices in Q3 and Q4 2019). Finally, we highlight that pulp inventories at European ports decreased 3% m/m in December (source: Europulp), accumulating a drop of 11% since the peak observed in last March. However, stocks remain above the 3-yr average (+25%, equivalent to ~360k tonnes). On the other hand, Risi highlights that ~9,000 Finish paper mill workers went on a two weeks strike since the day of yesterday. We believe that the strike aforementioned would help to diminish the excess of pulp inventories observed in Europe. We estimate that a full two this would remove ~150kt of softwood supply from the market.

- **Citi´s take** — We believe that supply disruptions occurred YTD support our view on successful price hikes in the short-term. For more details on our market pulp fundamentals view, pulp prices forecasts and investment recommendation on Chilean pulp producers, please see our report in the following link: Chile Pulp & Paper: Pulp prices have bottomed-out; however, high inventories are a key hurdle to overcome – Neutral on both CMPC and COPEC

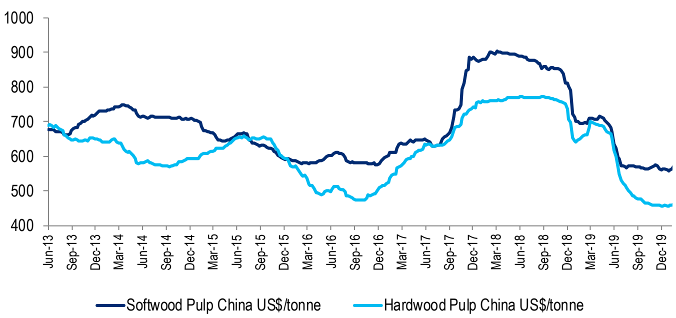
Pulp Price Radar

Figure 1. Pulp Price Index Performance

	Week		4 weeks		12 weeks		52 weeks		vs. 12 month High		vs. 12 month Low		vs. 2018 High		vs. 2019 Low	
	%	US$/t	%	US$/t	%	US$/t	%	US$/t	%	US$/t	%	US$/t	%	US$/t	%	US$/t
China Net Price																
Hardwood	0%	1	1%	5	1%	3	-30%	(196)	-34%	(239)	1%	5	-40%	(311)	1%	5
Softwood	0%	2	3%	16	0%	1	-17%	(120)	-20%	(141)	3%	16	-37%	(330)	3%	16
Europe List Price																
Hardwood	0%	(2)	-2%	(12)	-3%	(24)	-32%	(325)	-32%	(324)	0%	-	-36%	(374)	-1%	(5)
Softwood	0%	(2)	-2%	(14)	-1%	(9)	-30%	(355)	-30%	(355)	0%	-	-34%	(415)	-1%	(5)

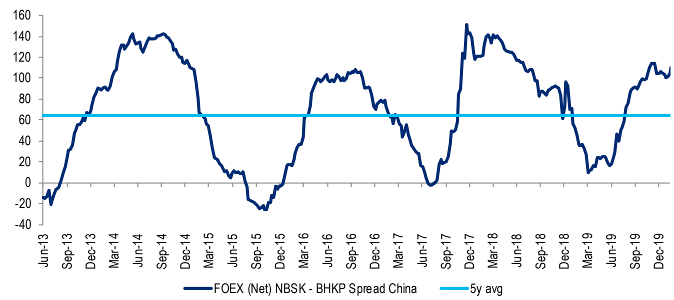
Source: Citi Research, FOEX

Figure 2. Current Price Gap in China is at US$112/t



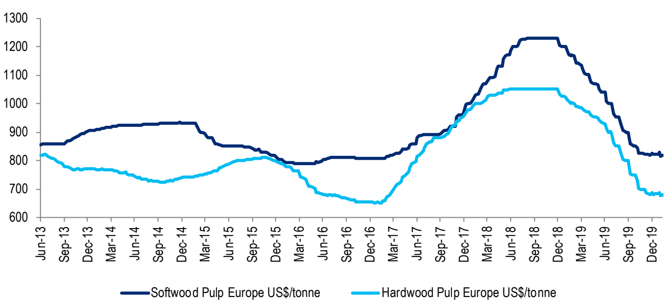
Source: Citi Research, FOEX

Figure 3. …while the 5-yr average price gap has been US$64/t



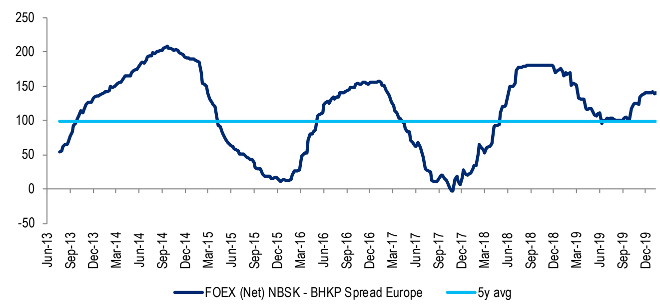
Source: Citi Research, FOEX

Figure 4. Current Price Gap in Europe is at US$139/t



Source: Citi Research, FOEX

Figure 5. …while the 5-yr average price gap has been US$99/t



Source: Citi Research, FOEX

Empresas CMPC

(CMPC.SN; ChP1,870.00; 2; 27 Jan 20; 16:00)

Valuation

We set our target price of ChP2,220 on a sum-of-the-parts (SOTP) multiple based valuation. We apply an EV/EBITDA target multiple on 2020 EBITDA forecasts for each of CMPC's divisions; Pulp & Forestry division (7.7x); Packaging (8.2x) in line with packaging peers; and Tissue (11.1x) in line with regional and global peers. Our target price implies a consolidated target multiple of 8.4x, ~0.5SD above its 3-5 year average market valuations.

Risks

The main risks that may cause the shares to materially underperform/outperform our target price are the following:

Pulp Prices - CMPC earnings are sensitive to pulp prices. Therefore, if pulp prices fail to recover from its currently very low levels as we are expecting, our earnings forecast for CMPC would be negatively affected. On the other hand, higher pulp prices would be positive for the shares.

Tissue Growth - We expect the tissue business to continue to grow in the upcoming years, supported by economic growth and higher per-capita consumption. Should prices and volumes be higher than our forecast, there could be upside to our estimates. Should new competitors enter CMPC’s markets in Latam, a tissue price war could lead to downward pressure on segment profitability. While we place a low probability on the entrance of new competitors, it remains a risk.

FX - CMPC earnings and valuation are exposed to changes in local LatAm currency FX. Higher-than-anticipated CLP or BRL depreciation would result in upside to our estimates, while a stronger CLP or BRL would be negative. Higher than anticipated depreciation/appreciation of ARS, MXN or PEN would be negative/positive for our estimates.

Empresas Copec

(COPEC.SN; ChP7,109.90; 2; 27 Jan 20; 16:00)

Valuation

Our ChP8,000 target price is based on a sum-of-the-parts (SOTP) valuation on 2020E EBITDA.

Arauco – Forestry (47.9% of Equity Value): For its pulp division, we use Chilean peer CMPC's pulp division multiple (8.1x) with a small premium to reflect active growth projects and its exposure to fluff and dissolving wood pulp. For panels, we consider a 8.2x EV/EBITDA, in line with implicit ratios in recent transactions. We also include the NPV value of the MAPA pulp project to our target price (ChP830/share).

Fuels (52.1% of Equity Value): We use a 10.2x EV/EBITDA multiple; using different peers comparable with each of Copec’s fuel companies (Copec Chile, Terpel, Sonacol, Abastible, Metrogas and Mapco from the U.S.).

Fishing (0.4% of Equity Value): We use a 6.8x EV/EBITDA multiple.

Mining (2.4% of Equity Value): We include the NPV of Mina Justa (ChP195/share).

Others (-2.8% of Equity Value): We use a DCF methodology to value Empresas Copec's parent & others.

Risks

Below we highlight the main risks to the stock achieving our target price:

Pulp Prices - If pulp prices increase more than expected, this would positively affect our earnings forecast and the shares may outperform our target price. However, if pulp prices decrease more than expected, it would negatively impact our earnings forecast.

Exchange Rate – COPEC’s forestry division named Arauco is an export-oriented company. As such, Arauco's profitability can be significantly affected by currency fluctuations. The depreciation of the CLP currency is positive for profitability, hence there could be upside risk to our estimates, yet the appreciation of the currency has an opposite impact to profitability. On the other hand, COPEC´s fuel division EBITDA is sensitive not only to fuel prices (FIFO accounting) but also to local currency fluctuations. The latter due to its exposure to several markets in Latam such as Chile, Colombia and Peru, among others, with the USD as functional currency for accounting purposes.

M&A – COPEC has actively grown via M&A. In this regard, there is a risk of achieving our target price if the company acquires assets at prices far from what might be consider fair.

Appendix A-1

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Fundamental Research

Analyst: Rodrigo Andres Godoy Munoz
Covered since August 2 2019

	Date	Rating	Target Price	Closing Price
1	18-Apr-17 18:18:08	2	*1,600.00	1,585.00
2	17-Sep-17 20:37:11	2	*1,700.00	1,602.00
3	22-Nov-17 06:44:54	2	*2,100.00	1,922.00
4	03-Apr-18 17:00:00	2	*2,400.00	2,300.00
5	05-Jun-18 15:03:08	2	*2,600.00	2,449.00
6	05-Oct-18 04:16:00	2	*2,800.00	2,626.00
7	27-Jan-19 17:41:48	2	*2,600.00	2,389.00
8	05-May-19 17:06:14	2	*2,400.00	2,176.10
9	03-Jun-19 06:54:50	2	*2,100.00	1,879.00
10	18-Jul-19 23:19:26	2	*2,000.00	1,815.00
11	18-Aug-19 22:18:56	2	*1,810.00	1,620.00
12	24-Oct-19 06:22:39	2	*1,900.00	1,839.90
13	17-Jan-20 04:00:00	2	*2,220.00	2,077.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

Empresas Copec (COPEC.SN)

Ratings and Target Price History
Fundamental Research

Analyst: Rodrigo Andres Godoy Munoz
Covered since August 2 2019

	Date	Rating	Target Price	Closing Price
1	24-Apr-17 16:29:51	2	*7,400.00	7,359.90
2	17-Jul-17 21:18:11	2	*7,800.00	7,920.00
3	17-Sep-17 20:37:11	2	*8,100.00	8,153.70
4	22-Nov-17 06:44:54	2	*9,100.00	8,815.00
5	03-Apr-18 17:00:00	2	*9,600.00	9,550.00
6	05-Jun-18 15:03:08	2	*10,600.00	9,947.10
7	05-Oct-18 04:16:00	2	*10,900.00	10,083.00
8	27-Jan-19 17:49:00	2	*9,900.00	9,038.90
9	05-May-19 20:19:46	2	*9,200.00	8,374.70
10	03-Jun-19 06:54:50	2	*8,000.00	7,399.80
11	18-Jul-19 23:19:26	2	*7,800.00	7,001.00
12	18-Aug-19 22:18:56	2	*7,000.00	6,257.00
13	24-Oct-19 06:22:39	2	*7,500.00	7,146.10
14	17-Jan-20 04:00:00	2	*8,000.00	7,799.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

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% of companies in each rating category that are investment banking clients	65%	63%	60%	70%	63%	66%

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