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Arctic Paper: underweight (downgraded)

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Cost Surge Meets Weak Demand

Both demand in the paper and packaging markets and capacity utilization across the Arctic Paper Group have fallen short of our expectations in recent quarters, prompting downward revisions to our production forecasts for both the Paper and Pulp segments. The lower-than-anticipated output reflects ongoing market weakness and subdued order volumes, particularly in Western Europe.

Arctic's cost position has also worsened. After a period of sharp declines, BHKP pulp prices—one of the main cost drivers—have started rising again. This reverses our earlier expectations of margin recovery in late 2024 and 2025. We expect continued upward pressure on pulp prices, likely delaying any meaningful margin improvement.

We see the outlook for the Pulp business, particularly for our subsidiary Rottneros, as increasingly challenging. In 1Q25, Scandinavian wood prices surged 33% y/y. Since wood accounts for around 66% of Rottneros's operating costs, this puts significant pressure on profitability. We believe the company is currently operating at a loss and may scale back production to limit financial impact.

We expect Arctic to post weak 1Q25 results, with EBITDA down 81% y/y to PLN 21.7m, driven by high production costs and low capacity utilization in the Paper segment. We expect Rottneros to contribute negatively with an EBITDA loss of PLN 11m. We forecast group revenue to fall 17% y/y due to ongoing economic weakness in Germany and its impact on Polish industry. BHKP pulp prices fell 5% y/y to \$1,070/t, though we expect margin relief later in the year. In Pulp, rising Swedish raw material costs and SEK/USD FX pressure are weighing on Rottneros (PLN -11m vs. PLN 6m in 1Q24)

We do not expect the new packaging initiatives – specifically the tray production facility in Kostrzyn – to contribute meaningfully to Arctic Paper's FY2025 results. We estimate that EBITDA from this project will remain close to zero throughout the 2025, primarily due to commissioning delays and weaker-than-anticipated demand. We expect the first visible impact on results in 2026; however, we forecast that the full-year EBITDA contribution will remain modest, likely below PLN 10m.

We lower our 2025–26 revenue forecasts by 14%, reflecting weaker demand and reduced Rottneros output due to unprofitable production. Higher BHKP and Swedish wood costs lead us to cut our EBITDA forecasts by 91% for 2025 and 46% for 2026. With the stock trading at a 42% EV/EBITDA '26 discount vs. a 67% historical average, we see downside risk to the current valuation.

Current Price*

15.18 PLN

12M Target Price

-

* Price as of May 13, 2025, 5:00 PM

	rating	target price	issued
new	underweight		2025-05-14
old	overweight		2024-12-02
Key Metrics		ATC PW	vs. WIG
Ticker	ATC PW	1M Price Chng	+2.1%
ISIN	PLARTPR00012	YTD Price Chng	-1.3%
Outst. Stock (m)	69.3	ADTV 1M	0.4 mln PLN
MC (PLN m)	1,051.8	ADTV 6M	0.6 mln PLN
EV (PLN m)	1,334.1	EV/EBITDA 12M fwd	3.4
Free Float	31.9%	EV/EBITDA 5Y avg	3.0 premium

Key Ratios

	2023	2024	2025E	2026E	2027E
P/E	4.3	6.8	-	10.5	6.3
P/B	0.6	0.6	0.6	0.6	0.6
EV/EBITDA	2.2	4.4	36.5	6.4	5.2
DPS (PLN)	2.70	1.00	0.00	0.51	2.00
DYield	17.8%	6.6%	0.0%	3.3%	13.2%
Forecast Update (% change)			2025E	2026E	2027E
Revenues			-14.4%	-13.8%	-6.5%
EBITDA			-91.0%	-45.7%	-30.7%
Net income			-	-60.1%	-33.7%

Financial Highlights

(PLN m)	'19-23 avg.	2024	2025E	2026E	2027E
Revenues	3,628	3,435	3,261	3,479	3,720
EBITDA	476	299	37	226	288
EBIT	357	184	-89	136	226
Net income	254	154	-34	101	167
Operating CF	343	188	169	131	204
CAPEX	-215	-424	-250	-200	-200
FCF	128	-235	-81	-69	4
Net debt	-114	-56	13	117	172
DPS	1.40	1.00	0.00	0.51	2.00
EBITDA margin	12.4%	8.7%	1.1%	6.5%	7.7%
EBIT margin	9.9%	5.4%	-	3.9%	6.1%
NI margin	7.0%	4.5%	-	2.9%	4.5%

List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases); **EBITDA margin** – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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mBank issued the following recommendations for Arctic Paper in the 12 months prior to this publication:

Arctic Paper (Jakub Sargsyan)			
Rating	overweight	overweight	overweight
Rating date	2024-12-02	2024-09-02	2024-06-11
Target price (PLN)	-	-	-
Price on rating day	16,50	20,34	21,60

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