

Empresas CMPC (CMPC.SN)

Results: 2Q20 EBITDA 5% above our forecast on lower-than-expected operating costs across all business divisions

■ **Citi's Take** — We are positive on CMPC's 2Q20 results as EBITDA of \$257m (+16% Q/Q; -21% Y/Y) came in 5% and 9% above Citi-Banchile and consensus estimates of \$244m and \$237m, respectively. 2Q20 results reflected a higher-than-expected contribution from its pulp/forestry division due to higher realized prices and lower operating costs partially offset by lower pulp sales volumes. Tissue division showed a sequential decrease in volumes as tissue paper consumption normalizes, however EBITDA margin remained at a high level on lower fiber costs and SG&A expenses, along with the recognition of tax credits in Brazil. Packaging EBITDA was a positive surprise as well due to increased productivity and low pulp prices.

■ **Key Highlights** — Positives: (1) Pulp & Forestry EBITDA (61% of total ex-corporate expenses) increased 38% Q/Q, exceeding our forecasts by 10% on higher-than-expected avg selling pulp prices and lower costs since there was not mills maintenance during the quarter; (2) Packaging EBITDA (11% of total) surprised us on the upside as well (+7% Q/Q; 42% above our forecasts) due to increased productivity (sales volumes and realized prices were in-line); (3) NFD/ LTM EBITDA was unchanged Q/Q at 3.2x (slightly below our estimate of 3.3x) mainly due to taxes reimbursement for about \$66m, along with a slightly higher-than-expected EBITDA as mentioned above, and lower Capex (CFFO was in-line). Neutral to Negative: Tissue EBITDA division (28% of total) ex- tax credits in Brazil decreased 19% Q/Q on lower-than expected sales volumes (-5% Q/Q; 8% miss) and lower avg selling prices due to LCs depreciation. However, adjusted EBITDA Mg stood at a high level (~14%).

■ **Implications** — We expect a slightly positive market reaction to these results since investors remain focused on identifying signals about a possible bottom in pulp prices. In this regard, improved pulp price affordability for Chinese graphic paper producers observed since the end of May is good news that supports our view that pulp prices have bottomed. However, still high pulp inventories across the supply chain is a key hurdle to overcome for a sustained recovery in pulp prices.

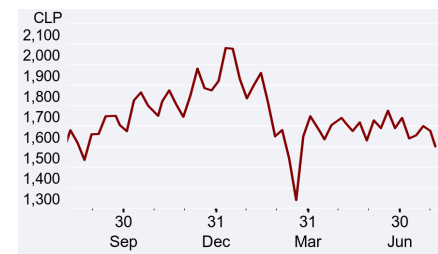
Estimates	2019A	2020E	2021E	2022E	Q120A	Q220E	Q320E	Q420E
Sales (US\$m)	5,670	5,247	5,667	5,845	1,348	1,323	1,277	1,300
EBITDA adj (US\$m)	1,169	935	1,147	1,165	222	244	221	249
EBITDA margin adj (%)	20.6	17.8	20.2	19.9	16.4	18.4	17.3	19.1
Net income (US\$m)	84	-108	206	232	-132	-11	14	21
EPS (US\$)	0.02	-0.06	0.06	0.08	-0.06	-0.01	0.00	0.00

Valuation	Ratios		2019A	2020E		
EV/EBITDA adj	7.7	9.7	7.7	7.4 ROE adj (%)	0.7	-1.9
PE	98.7	na	33.5	26.5 ROIC adj (%)	2.3	0.6
FCF (%)	-0.7	7.5	6.3	5.8 Debt to Capital (%)	32.7	37.7

Source: Company Reports and dataCentral, Citi Research.

Neutral	2
Price (06 Aug 20 16:00)	ChP1,630.00
Target price	ChP1,800.00
Expected share price return	10.4%
Expected dividend yield	0.0%
Expected total return	10.4%
Market Cap	ChP4,075,000M
	US\$5,268M

Price Performance (RIC: CMPC.SN, BB: CMPC CI)



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Figure 1. CMPC 2Q20 Results – Summary Table

In US\$ million	2Q20A	2Q19A	Y-o-Y Growth	1Q20A	Q-o-Q Growth	2Q20E	% Diff
Net Sales	1,240	1,442	-14%	1,348	-8%	1,323	-6%
Pulp / Forestry	547	711	-23%	579	-5%	589	-7%
Softys (Tissue)	495	512	-3%	545	-9%	540	-8%
Packaging	198	220	-10%	224	-12%	194	2%
Gross Profit (after Depreciation & Stumpage)	276	347	-20%	242	14%	271	2%
Gross Margin	22.3%	24.1%		18.0%		20.5%	
EBITDA Reported	257	325	-21%	222	16%	244	5%
EBITDA Margin	20.7%	22.5%		16.4%		18.4%	
Pulp / Forestry	164	274	-40%	119	38%	150	10%
Softys (Tissue)	76	46	67%	86	-12%	75	1%
Packaging	27	17	60%	25	7%	19	42%
Net Income	18	62	-71%	(132)	-114%	(11)	-268%
EPS	0.01	0.02	-71%	(0.05)	-114%	(0.00)	-268%
Operating Data							
Pulp Sales (000 tonnes)	839	890	-6%	913	-8%	924	-9%
Tissue Sales (000 tonnes)	205	174	18%	216	-5%	222	-8%
Packaging Sales (000 tonnes)	202	201	0%	229	-12%	199	1%
Net Pulp Price (\$/tonne)	526	630	-17%	483	9%	487	8%
Avg Packaging Price (\$/tonne)	980	1,093	-10%	977	0%	977	0%
Avg Tissue Price (\$/tonne)	2,415	2,940	-18%	2,525	-4%	2,430	-1%
Other Financials (US\$ million)							
Net Debt	3,187	3,192	0%	3,330	-4%	3,222	-1%
Net Debt/EBITDA	3.2	2.0		3.2		3.3	
Cash Flow from Operations	247	41	503%	128	94%	186	33%
Capex + Acquisitions	(69)	(158)	-56%	(73)	-6%	(76)	-9%
CFFO less Capex	178	(117)	-253%	54	230%	111	61%

Source: Company, Citi Research

Empresas CMPC

Valuation

We set our target price of ChP1,800 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 (8.5x) in line with packaging peers; and Tissue (12.6x) in line with regional and global peers. Our target price implies a consolidated target multiple of 9.3x, ~1.5SD above its 3-5 year average market valuations.

Risks

The main risks that may cause the share prices to differ materially from our target price are the following:

Pulp Prices - CMPC EBITDA is sensitive to pulp prices (+/-3.5% for every \$10/t change). Therefore, if pulp prices fail to recover from its currently very low levels as we are expecting, our earnings forecast for CMPC will 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 for a scenario in which new competitors enter Chile, Argentina, Peru and Mexico, it remains a risk in Brazil due to a more fragmented supply, market size and growth potential.

FX - CMPC earnings are very dependent on 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. The recent sharp depreciation of the BRL and CLP has boosted the profitability of the pulp business hence a reversal in this trend is the main risk to our investment thesis, in our view. Higher than anticipated depreciation/appreciation of ARS, MXN or PEN would be negative/positive for our estimates.

Appendix A-1

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Fundamental Research

Analyst: Rodrigo Godoy
Covered since August 2 2019



Date	Rating	Target Price	Closing Price	Date	Rating	Target Price	Closing Price	Date	Rating	Target Price	Closing Price
17-Sep-17 20:37:11	2	*1,700.00	1,602.00	27-Jan-19 17:41:48	2	*2,600.00	2,389.00	24-Oct-19 06:22:39	2	*1,900.00	1,839.90
22-Nov-17 06:44:54	2	*2,100.00	1,922.00	05-May-19 17:06:14	2	*2,400.00	2,176.10	17-Jan-20 04:00:00	2	*2,220.00	2,077.00
03-Apr-18 17:00:00	2	*2,400.00	2,300.00	03-Jun-19 06:54:50	2	*2,100.00	1,879.00	03-May-20 19:34:33	2	*2,000.00	1,799.90
05-Jun-18 15:03:08	2	*2,600.00	2,449.00	18-Jul-19 23:19:26	2	*2,000.00	1,815.00	19-Jun-20 09:03:38	2	*1,850.00	1,775.00
05-Oct-18 04:16:00	2	*2,800.00	2,626.00	18-Aug-19 22:18:56	2	*1,810.00	1,620.00	21-Jul-20 09:06:34	2	*1,800.00	1,619.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

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