

Mondi plc

Europe Satellite*

Recommended since 30.09.2020

10.06.2022



Country GB	Market capitalization (bn) GBP 7.4	Perf. since reco. (%)
Sector Matières premières	Free float 98.3%	Mondi plc -7.5
Factset MNDI-GB	Closing price GBP 15.17	Secteur 70.7
ISIN GB00B1CRLC47	ESG Risk score* 11.6 Low risk	



Profile
 Resulting from the demerger of Anglo American in 2007, Mondi is one of the world's leading packaging and paper manufacturers. The Group is vertically integrated, with a business that covers forestry operations (in Russia and South Africa), the manufacture of paper pulp and its transformation into corrugated packaging, kraft paper bags and fine paper. The business is divided into four segments: 1/ Corrugated packaging (35% of EBITDA); 2/ Flexible packaging (32% - based on paper and plastic); 3/ Uncoated fine paper (26%); 4/ Engineered materials (7% - soft nonwoven, stretchy elastic films, release liners).

Strengths/opportunities

- Low production costs (Tier 1 & 2 assets).
- Substitution of plastic by paper/cardboard in packaging.
- Offer increasingly oriented towards sustainable packaging to support the circular economy.

Weaknesses/threats

- Structural decline of the fine paper market (26% of EBITDA).
- Sensitivity to the evolution of paper prices and economic cycles.
- Assets mainly (62%) located in emerging countries: sensitivity to currencies, political/economic stability.

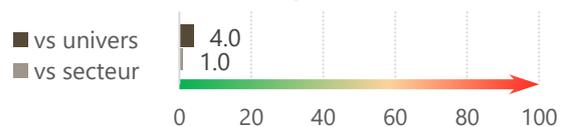
Investment case

- As the world leader in kraft paper production and No. 4 in containerboard in Europe, Mondi is well positioned to take advantage of the substitution of plastic by the more environmentally friendly paper/cardboard. This structural trend is expected to accelerate, supported by increasing regulations. Mondi achieves 60% of its sales in this field and is present mainly in Europe.
- Present in flexible plastic packaging, offering additional functionalities to preserve food and other consumer products, Mondi is increasingly orienting its offer by favouring the recyclability of its packaging.
- These segments, which are growing by 2%-3% per year, will more than compensate for the structural decline in fine paper sales. Mondi is the leader in this segment with a favourable positioning on the cost curve, a competitive advantage that enables it to hold up better than its peers.
- Russia accounts for 20% of EBIT. The company is currently evaluating various options, including a legal separation. We estimate that the value of these assets is GBP 2bn (or GBP 4.1/share) and that a worst-case scenario has been incorporated by the market.
- Market conditions remain very favourable, allowing for price increases to offset cost inflation. Given the performance achieved in Q1 (EBITDA = EUR 574mio, up 63% y-o-y and 41% sequentially), consensus expectations for 2022 appear achievable (EBITDA = EUR 1'867mio, +24% y-o-y).

Valuation

Reasonable valuation on a P/E basis, at a 20% discount to its main peers (Smurfit Kappa, DS Smith, UPM, Stora Enso, Metsa Board) in 2022.

ESG risk vs. universe & sector (percentile)*



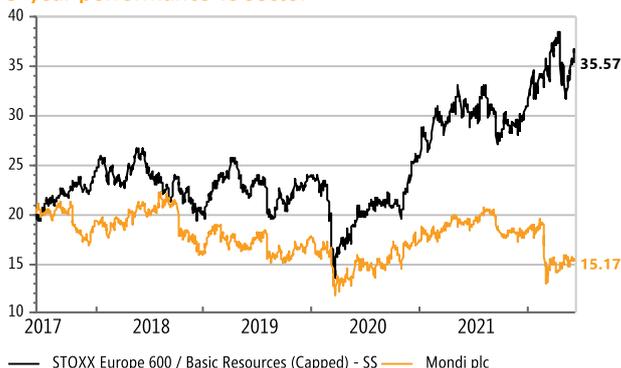
EUR	12/2021	2022e	2023e
Sales revenue (mio)	7'723	8'745	8'597
Sales growth	15.9%	13.2%	-1.7%
EBIT adjusted (mio)	1'066	1'405	1'331
% of sales	13.8%	16.1%	15.5%
Net income (mio)	764	1'049	963
Net income growth	18.1%	37.3%	-8.2%
FCF/Sales	5.1%	6.5%	6.7%
Net debt/Ebitda	1.1x	0.6x	0.5x
Dividend yield	3.6%	4.6%	4.4%
PE	11.9x	8.8x	9.3x
P/BV	2.0x	1.7x	1.5x

Factset estimates

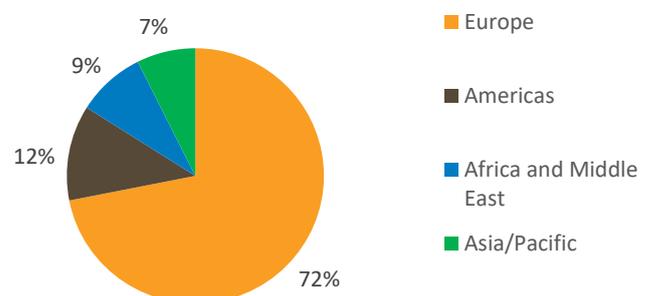
ESG - risks and key points

- Mondi plc's ESG risk level is low.
- Intensive water/energy consumption. But the company is continuously reducing its GHG emissions: down 39% since 2004.
- Strong corporate governance performance and absence of major controversy.
- Focus on sustainable packaging (paper, biodegradable, recyclable packaging). Managed forests are 100% FSC certified, external wood sources are certified (72%) or controlled (28%).

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainabilitys

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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