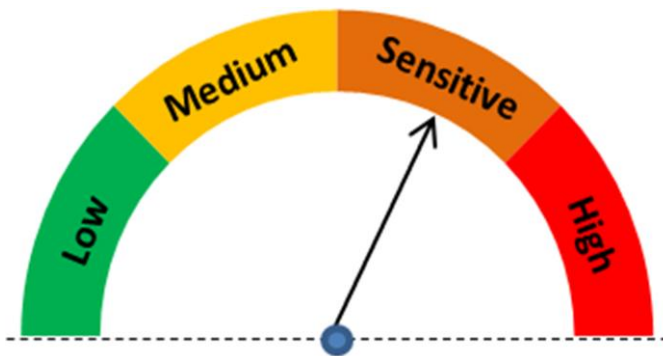


Sector Risk Rating



What to Watch?

- European pulp buyers squeezed by input costs denominated in euros vs. dollars
- U.S. papermakers overcoming stronger dollar through lower feedstock prices
- Paper companies' sensitivity to power costs as they belong to energy-intensive industries
- Growing importance of recycling and bioenergy in the paper sector to tackle climate change

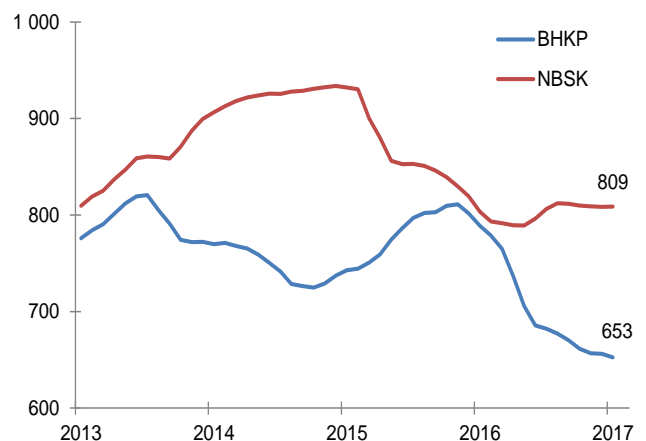
Tissue and wrapping enjoy better outlook than printing and writing

The upstream pulp sector has been coping with an uneven demand worldwide. At the same time, global pulp production has leveled off following capacity cutbacks despite Latin America appeared to be more favored. And yet pulp prices appear to be unable to do better than capping at their 2012 level, especially across Europe.

A dwindling demand undermines two subsectors in the downstream sector of paper and paperboard. Growing digitalization has been a thorn in the side of printing and writing papers and newsprint. Fortunately, the paper sector can still rely on tissue and wrapping papers, both of which are dependent on household consumption. Asia, which accounts for 45% of total paper and board demand, cashes in on a recovering household consumption. It makes up for sluggish demand from either Western Europe or Latin America. This does not prevent domestic paper companies from proceeding with plant closures when needed.

However, thanks to a surprising resilience of mass retailing and a rising demand for e-commerce packaging, we expect the global gross output of pulp and paper to go up +1.4% in 2017 vs. 2016. The paper's era has not come to an end yet.

European (pulp) paper prices in USD/ton
(As of end of December 2016)



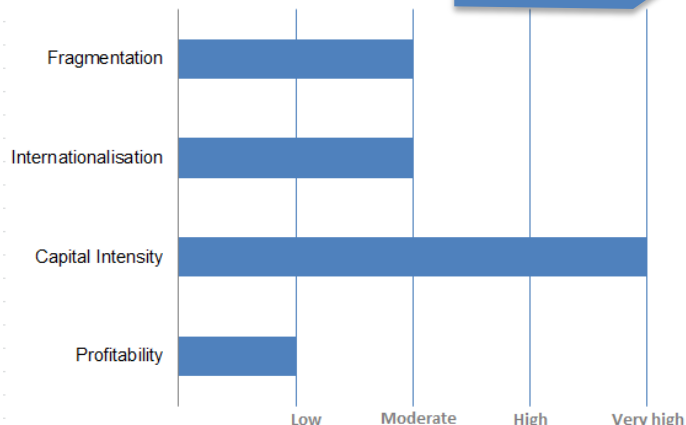
Sources: Copacel, Bloomberg, Euler Hermes

Sector Value:
1,190bn
USD

Key Players

Country	Role	Sector Risk
United States	#1 importer #2 producer	●
Japan	#3 producer	●
China	#1 producer	●

ID Card



Strengths

- Structural needs for packaging, in line with manufacturing, retail and e-commerce activities
- New market opportunities thanks to growing middle class in emerging markets
- Growing demand for hygiene products

Weaknesses

- High sensitivity to pulp prices
- Low level of cash flow generation putting at risk the ability to face restructuring costs
- Plastics in competition against paperboard in the packaging outlet when oil & gas prices are on a downward trend compared to pulp ones

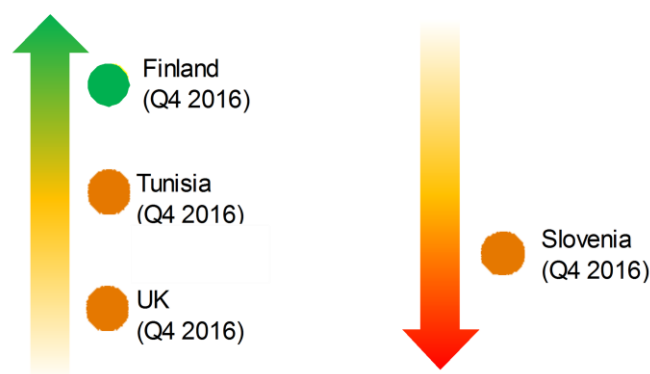
Subsectors Insight

Newsprint and printing papers: Digitalization has been eating away at this range of papers

Corrugated paper(board)s: Reliance on packaging outlet which in itself is dependent on the e-commerce and retail growth

Tissue papers: These higher-added-value paper products appear to be a market segment enjoying strong enough growth

Recent Sector Risk Changes



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