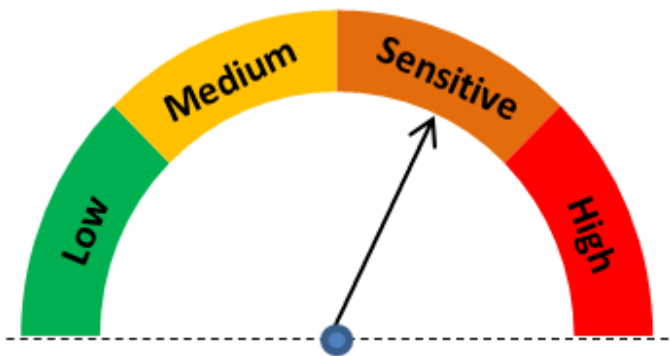


Sector Risk Rating



What to Watch?

- European pulp buyers squeezed by prices denominated in euro
- Paper companies' capacity to cope with soaring bad debt provision ratio, especially in China
- American papermakers overcoming stronger dollar through lower costs while Asian oversupply of print and writing paper continues
- Growing importance of recycling, in line with environmental objectives in Europe and North America

Digitalization is eating away at paper

Estimated at USD1,270bn the global paper and printing market was down -6% in 2015 vs. 2014 and is expected to drop once again this year with sales decreasing by -2%.

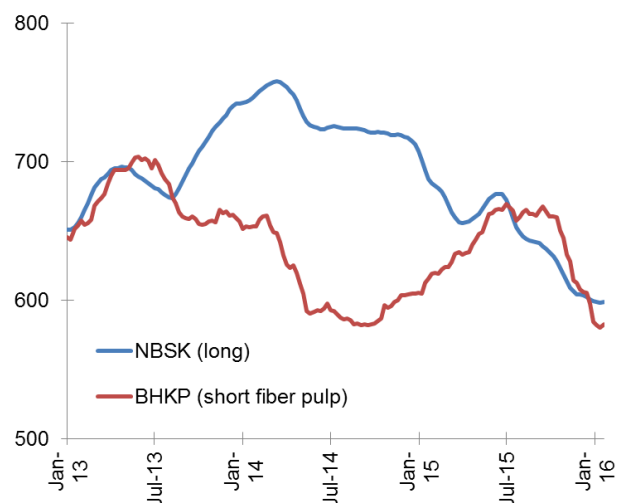
The upstream pulp sector continues to cope with a decrease in demand worldwide. Over 2015, most regions saw pulp production (and prices) declining on average, especially leading producer China (-2% y/y) and Brazil, down -2.5% since an annual high in 2012.

The downstream sector does not seem to fare better with no end in sight for graphic paper long-term decrease. Asia, which accounts for 45% of total paper and board demand, can barely make up for sluggish demand from either Western Europe or slowing-down Latin America.

The situation seems most challenging in Europe because of the strong dollar, which weighs down on European pulp buyers. Add to that the growing competition from digital devices (much tougher than in Asia) leading to plant closures.

Tissue and corrugated papers are the only two subsectors to stand out, still on a positive trajectory, thanks to a rising demand for e-commerce packaging.

Pulp prices in China (USD/ton)



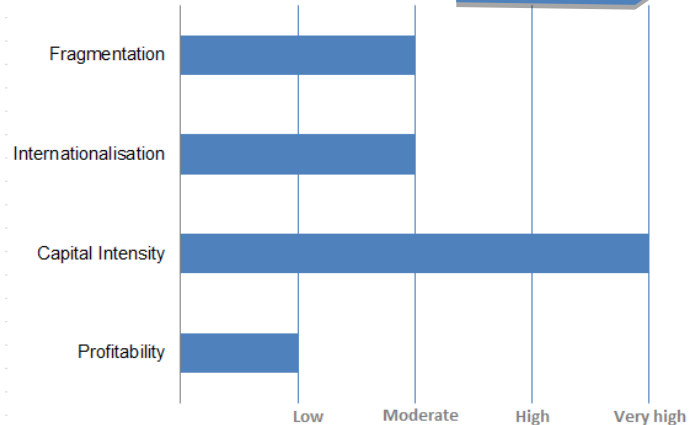
Sources: IHS, Euler Hermes

Sector Value:
1,270bn
USD

Key Players

Country	Role	Sector Risk
United States	#1 importer #2 producer	●
Brazil	#1 exporter	●
China	#1 producer	●

ID Card



Strengths

- Structural needs for packaging materials, in line with manufacturing activities, world trade and e-commerce
- 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 operating cash flow generation putting at risk the ability to face high indebtedness
- Growing digitalization leading to a structural decline in the printed segment activity

Subsectors Insights

Newsprint and printing papers: Digitalization has severely affected this range of papers.

Corrugated paper and paper boards: Dependent on packaging outlet, that is in turn reliant on e-commerce and retail growth.

Tissue papers: Higher-added-value products occupy a market niche and still enjoy growth.

Recent Sector Risk Changes



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