

**SAWMILLS**

**SEGEZHA SAWMILLS**

# **NEW GLOBAL CHALLENGES FOR RUSSIAN SAWN TIMBER PRODUCERS**

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# 1. SEGEZHA GROUP: full processing production cycle

Broad geographical sales range, a leading sawn timber producer in Russia

## TIMBER RESOURCES DIVISION- RESOURCE SECURITY



## PAPER AND PACKAGING DIVISION



Cellulose  
400 th. tones / year



Kraft Sack Paper  
409 th. tones / year



Paper sacks  
1,4 bn pcs / year

## PLYWOOD AND BOARDS DIVISION



Plywood- 192 th. m<sup>3</sup> / year

## TIMBER RESOURCES

Annual allowable cut -

**12.7** Mln m<sup>3</sup>/year

Total harvesting volume -

**7.3** Mln m<sup>3</sup>/year

## WOOD WORKING DIVISION



Sawn timber  
1,9 mln m<sup>3</sup> / year



Glued wooden components  
70 th. m<sup>3</sup> / year



Woden buildings  
30 th. m<sup>3</sup> / year



CLT  
50 th. m<sup>3</sup> / year



Pellets  
220 th. m<sup>3</sup> / year



## 2. SAWN TIMBER SHORTAGE, VERY HIGH DEMAND GROWTH RATE AND HIGH PRICES ARE OVER

### US LUMBER FUTURES PRICE

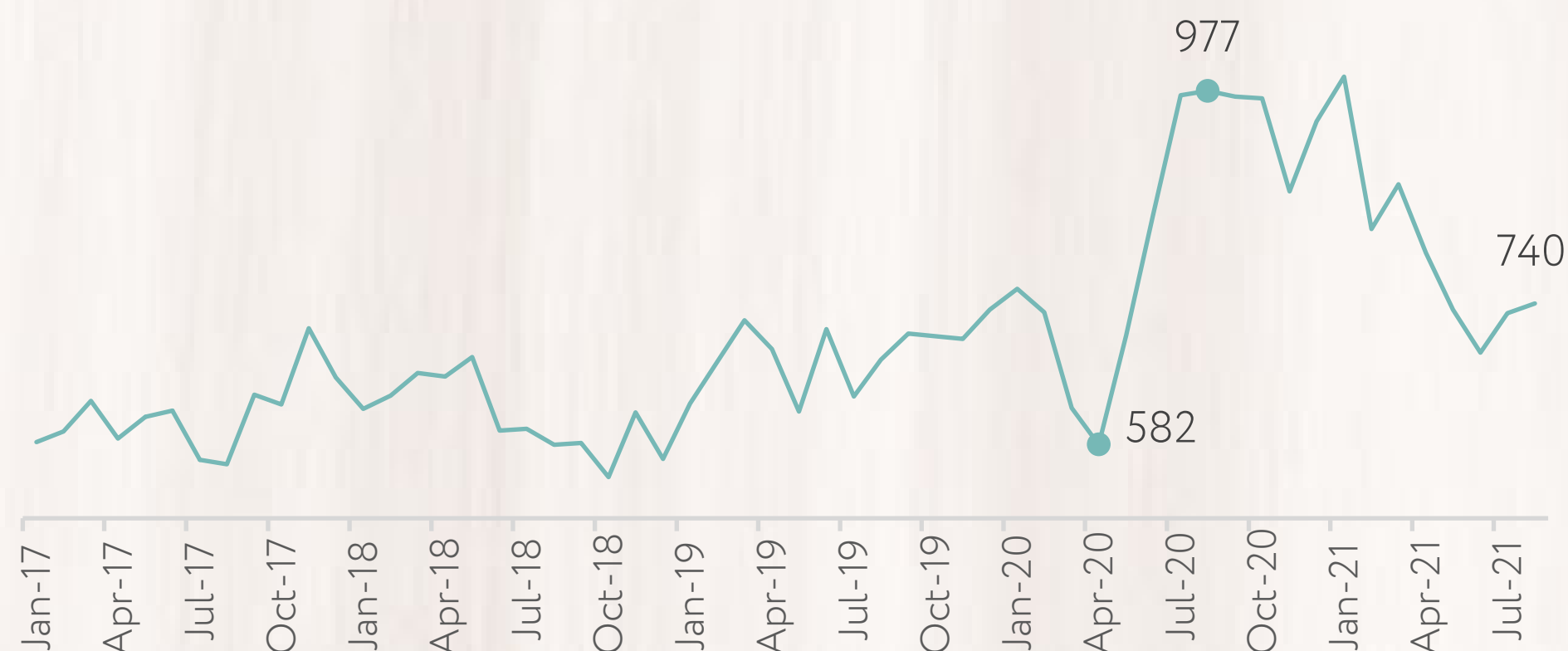


### TWO DIFFERENT MARKETS IN ONE YEAR

#### H1 2021:

- ◆ Demand growth rate exceeds offer.
- ◆ Reasons: high demand for housing construction, house renovation, high DIY consumption.
- ◆ Global sawn timber shortage.
- ◆ Record-low volume of stocks throughout the supply chain.
- ◆ State support as a resource for development of the construction industry.
- ◆ Unprecedented deficit of trucks. Logistical restrictions at ports due to COVID. Growing logistics costs.

### NEW ONE FAMILY HOUSES SOLD: UNITED STATES



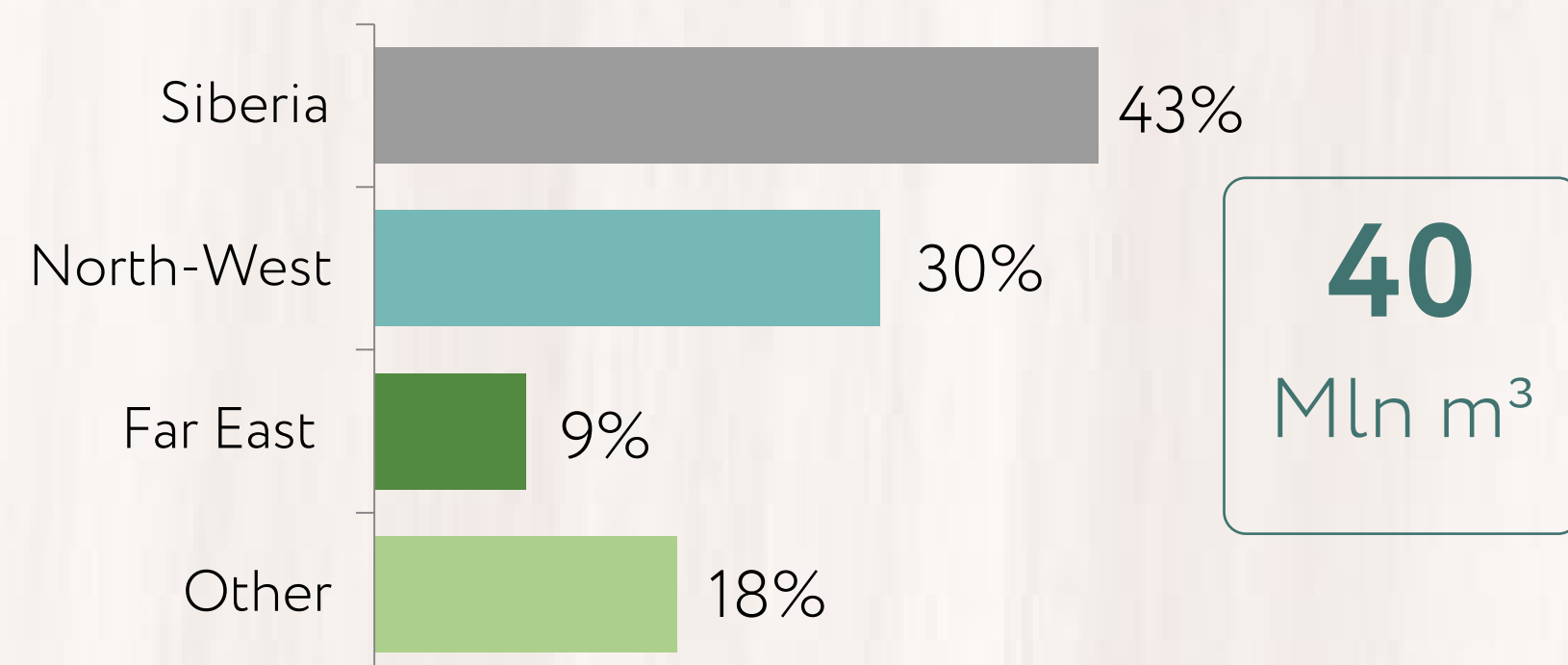
#### H2 2021:

- ◆ Seasonal decline in construction rates, postponement of construction projects until 2022 due to fast growing of prices.
- ◆ Restoration of the "supply-demand" balance, stock increase, change in pricing trend (USA – decrease by almost 3 times, price adjustment in China, Europe, MENA).
- ◆ High prices for raw materials and logistics services, unchanged since H1.

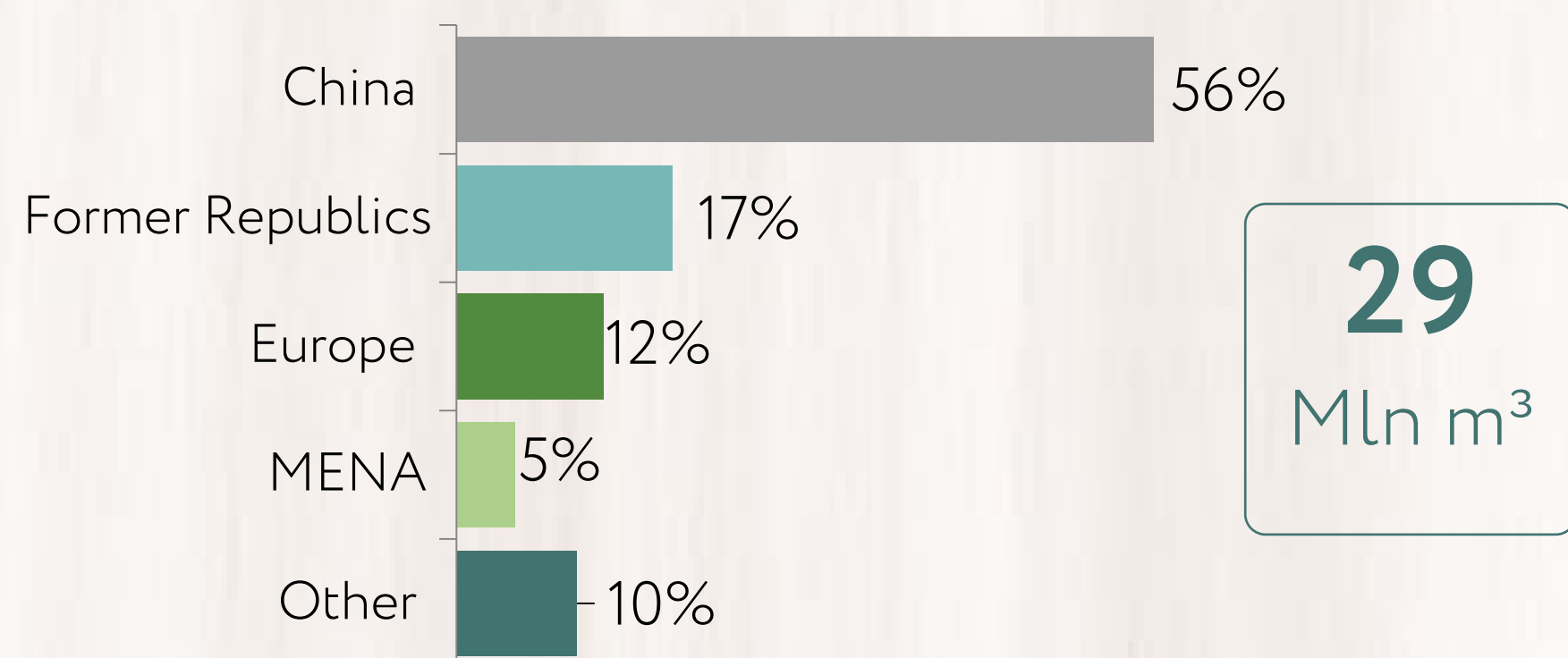
Source: Woodstat, <https://fred.stlouisfed.org/>

# 3. RUSSIA: MAIN PRODUCTION CLUSTERS, EXPORT FLOWS

## PRODUCTION GEOGRAPHY, 2021



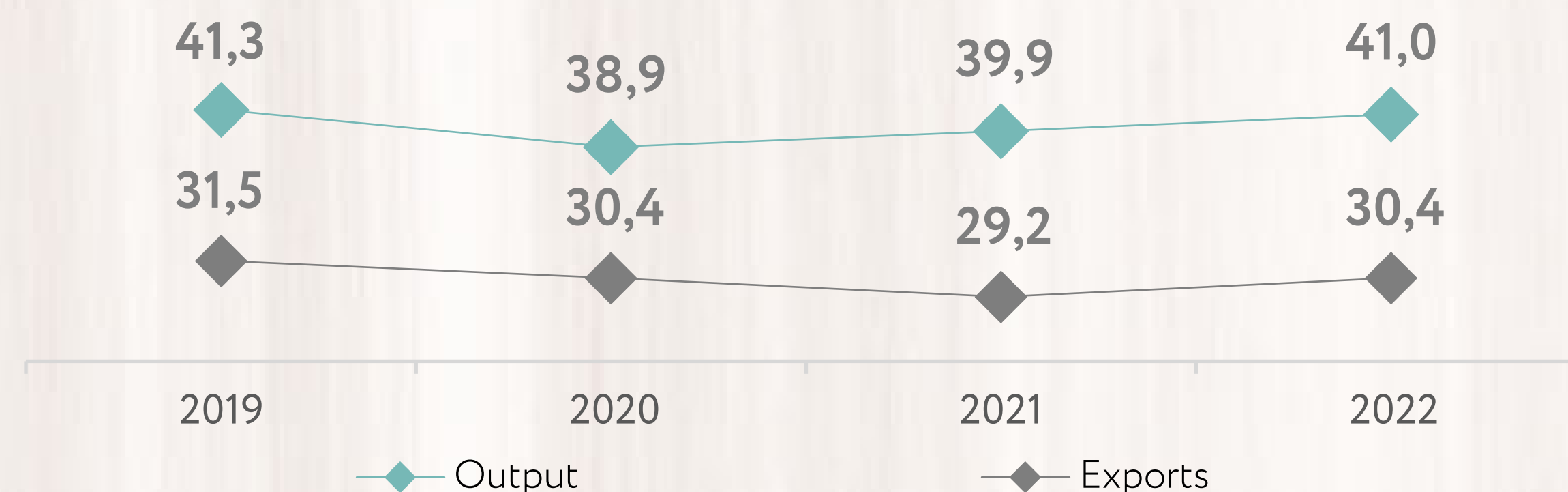
## EXPORT GEOGRAPHY, 2021



## RUSSIA

- ◆ Sawmills in Russia – in Siberia and North-West part – are remote from big cities. During the COVID period, they worked with minimal restrictions.
- ◆ Despite the price increase, Russia has reduced its exports for the second year in a row (due to a lack of raw materials and production capacity). Opportunities to increase the rate of production are limited.
- ◆ High export prices were the reason of lack of sawn timber on the market. Russian government has imposed duties on construction materials (metal, green sawn timber).
- ◆ Prices for raw materials increased (by 2-2.5 times y/y). Logistics costs reduced earnings from higher market prices. Profitability of sawmills, which don't have the own harvesting, is low.

## PROJECTED OUTPUT/EXPORTS, MLN M<sup>3</sup>



Sources: Federal Statistics Service, Federal Customs Service of Russia, FAOStat, SG estimates

# 4. RUSSIA'S KEY LOGISTIC ROUTES

## 2021 RESTRICTIONS



### PROBLEMS ON:

#### CHINA:

- ⚠️ Border-crossing points. The problem with train transportation (INNER China) will remain until the end of 2021.
- ⚠️ Growth in freight rates to China. For NW sawmills – up to +40% y/y.
- ⚠️ Shortage of vessels in Russian NW port.

#### MENA:

- ⚠️ Port of Novorossiysk: almost no vessels available, regardless of existing high freight rates.
- ⚠️ Freight rates grow by 100%.

#### ALL MARKETS:

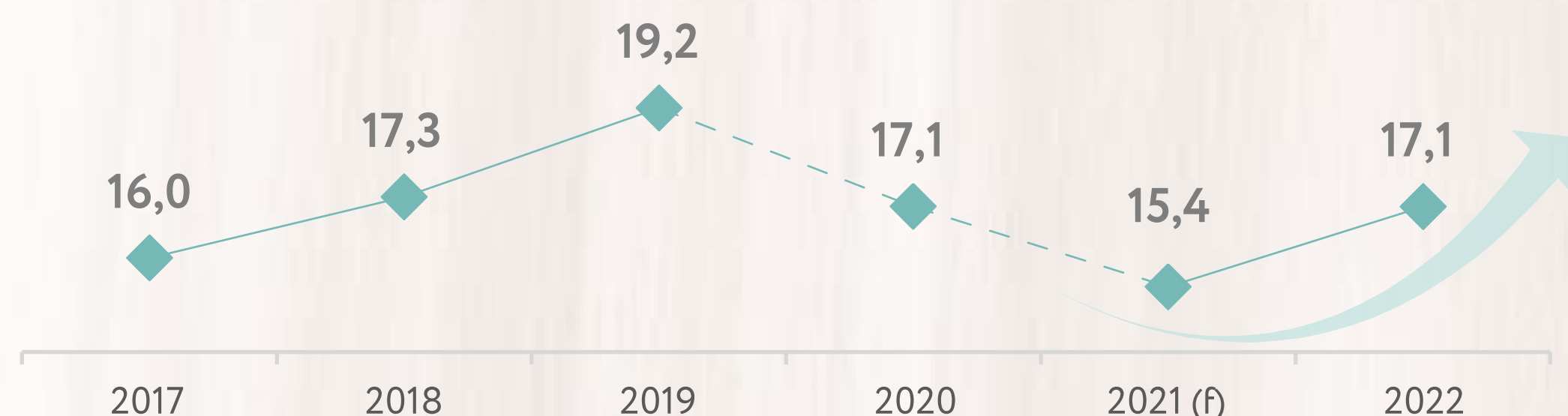
- ⚠️ Intense competition for cargo vessels with suppliers of various cargoes (metals, fertilisers, grain).
- ⚠️ High freight rates +60-70% y/y.



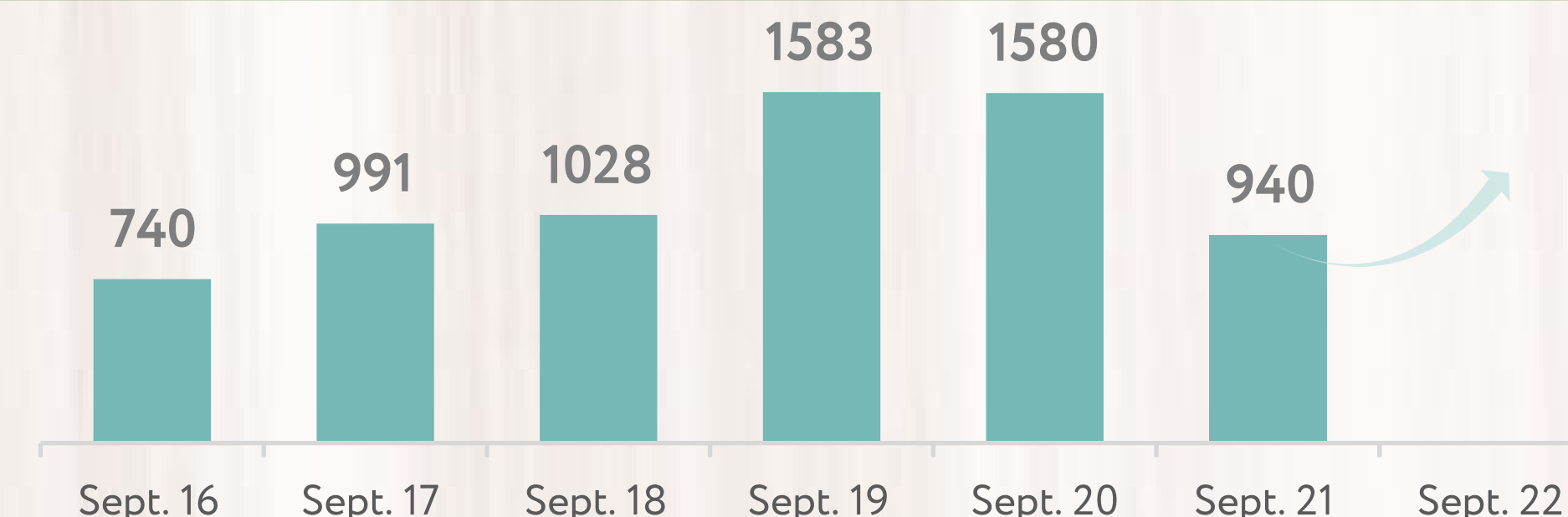
# 5. CHINA – A STRATEGIC MARKET FOR RUSSIA

Forecast: Russia will continue to expand its presence in the region

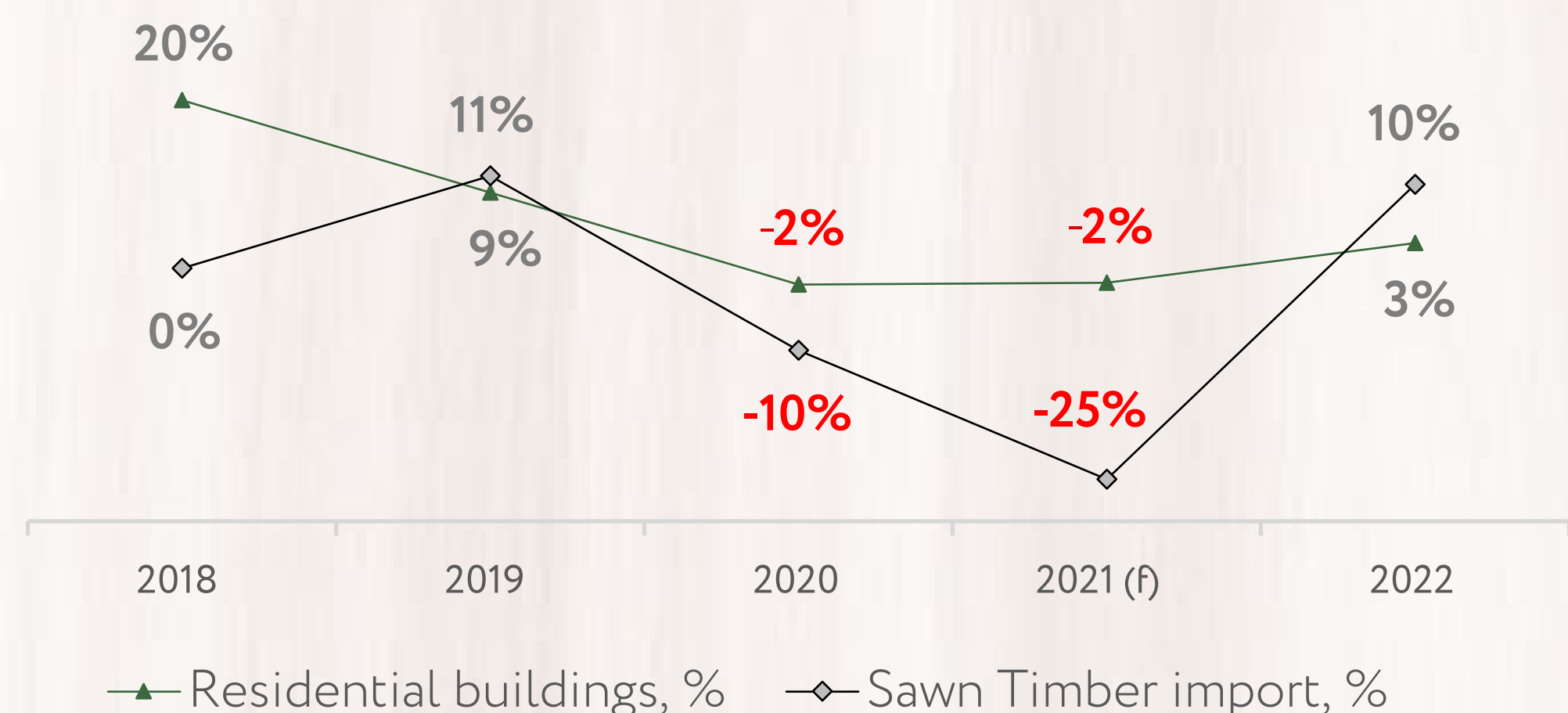
RUSSIAN IMPORT TRENDS, MLN M<sup>3</sup>



SOFTWOOD SAWN TIMBER STOCKS TRENDS, THOUSAND M<sup>3</sup>



CONSTRUCTION SECTOR FORECAST (Y/Y)



COMMENTS ON THE MARKET

**INCORRECT FORECAST OF 2021 IMPORTS FROM RUSSIA: -15% AS OF THE FIRST 7 MONTHS OF 2021.**

- ◆ Most of NW producers moved their volumes to Europe.
- ◆ Suppliers have rerouted traffic to Europe. Siberian companies have faced restrictions when shipping via border crossings. High stocks at the China ports. Low stocks at sawmills. Max prices were in June.
- ◆ Activity of buyers slowdown in summer. Prices adjust proactively. Saw logs price reduction in H2.

**FORECAST – FAVOURABLE, IMPORT VOLUME TO GROW BY +10% Y/Y.**

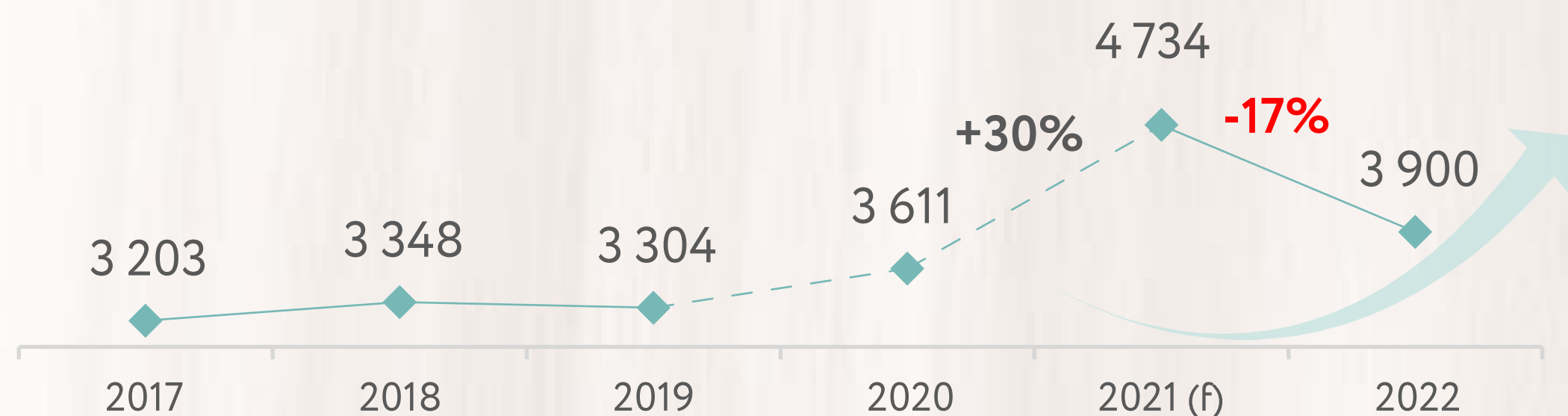
- ◆ By the end of the year, the import volume spread y/y will decrease to 7-10%.
- ◆ Fair market price will be set.
- ◆ Facility relocation to new industrial zones has finished, demand will recover. Large-scale infrastructural projects will be launched.
- ◆ New price range – +40% compared to the pre-COVID level.

Sources: National Bureau of Statistics of China, Russian Customs, China Bulletin

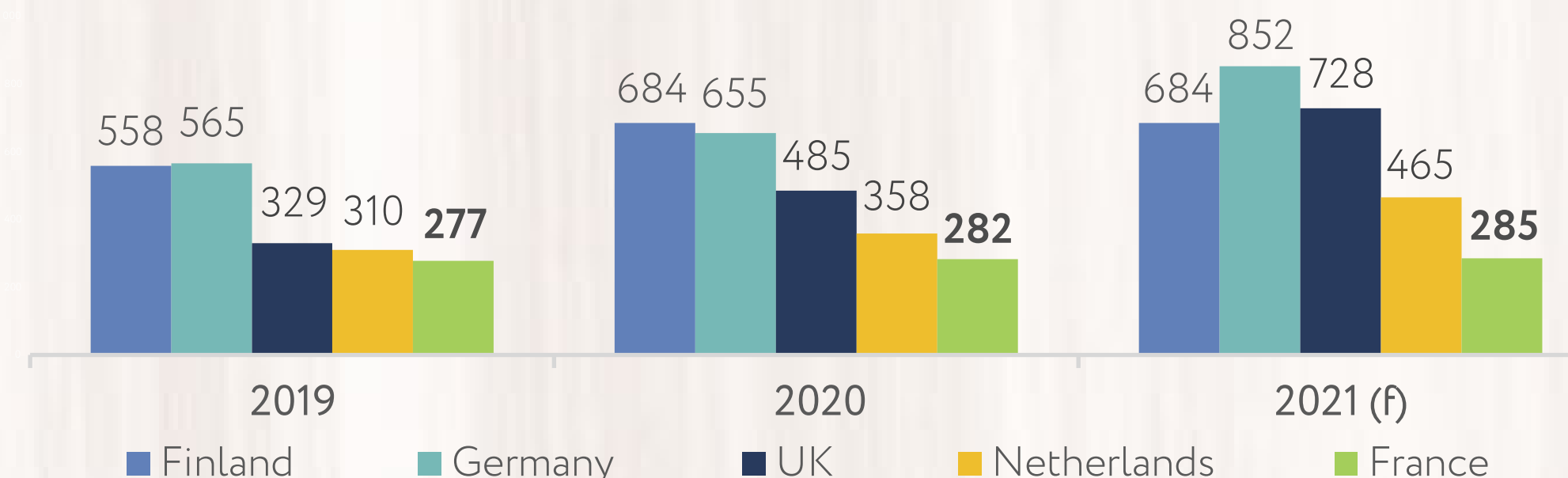
# 6. EUROPE – A STRATEGIC MARKET

Forecast: there are limits to total sales growth, so increase in niche segment sales is expected

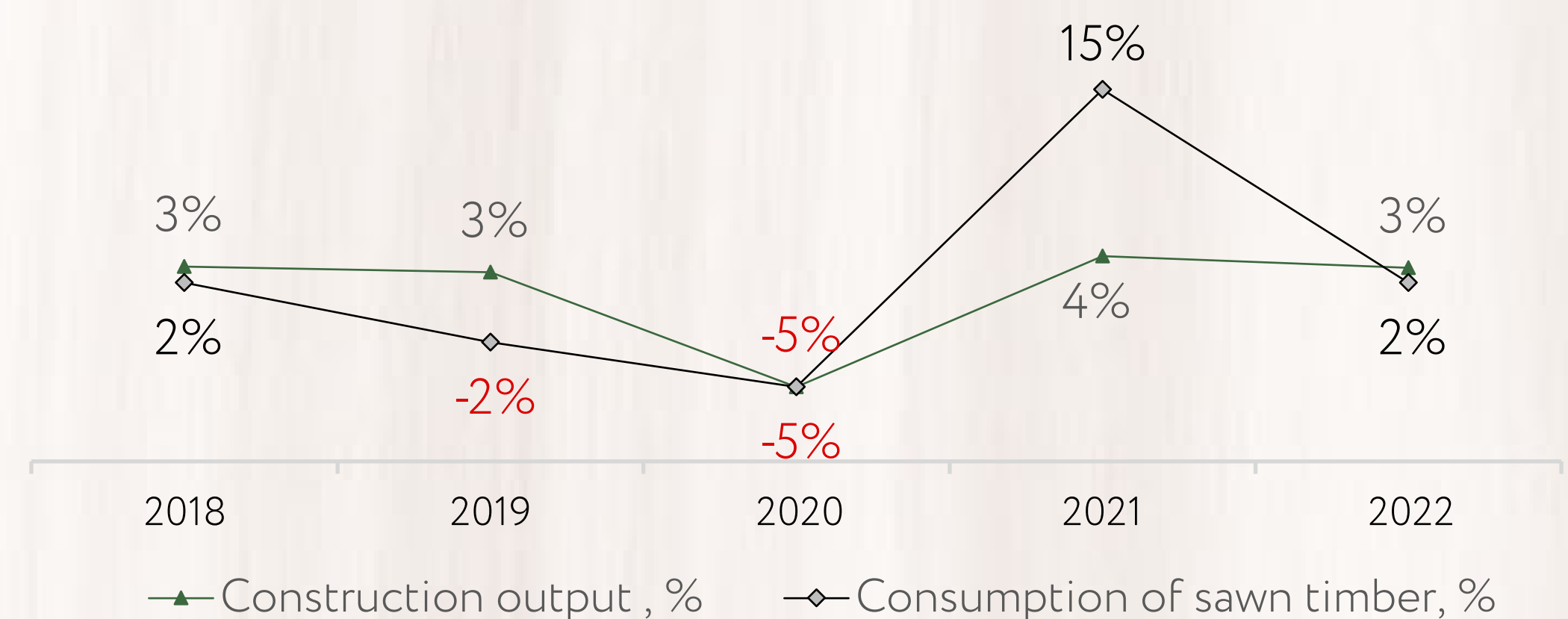
TRENDS IN SALES FROM RUSSIA TO EUROPE, THOUSAND M<sup>3</sup>



RUSSIAN IMPORTS TO EUROPE BY COUNTRY, THOUSAND M<sup>3</sup>



CONSTRUCTION SECTOR FORECAST (Y/Y)



COMMENTS ON THE MARKET

- ◆ Product outflow to the USA, supply deficit has allowed Russian producers to increase exports to Europe (due to the decline in China).
- ◆ Consumers were not ready for the price growth, construction project budgets exceeded estimates; projects have been postponed until 2022.
- ◆ Top prices remained till September. Price reduction started after reduction in China.
- ◆ Expensive stocks. Decline in house construction rates. Aftermath of Brexit: deficit of trucks and drivers in the UK, growth in stock volume at ports, delay in supplies to end user.

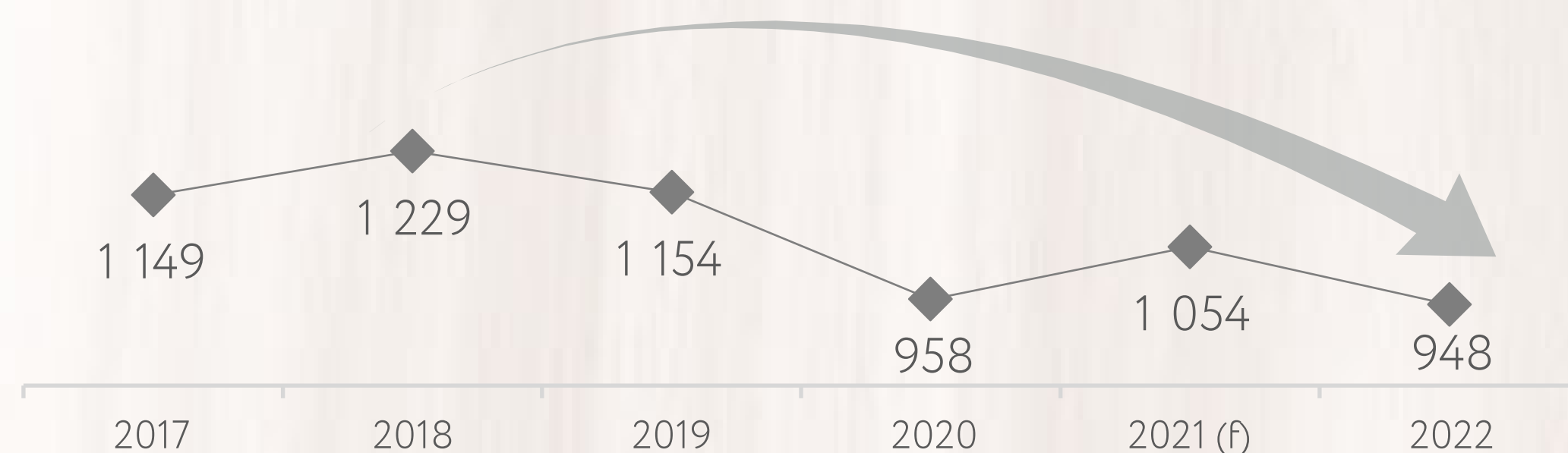
**FORECAST – DEMAND AND SUPPLY WILL BALANCE OUT, A NEW PRICE RANGE IS EXPECTED, DECLINE IN IMPORTS FROM RUSSIA (-17% Y/Y; +8% TO 2020)**

Source: FaoStat, Euroconstruct

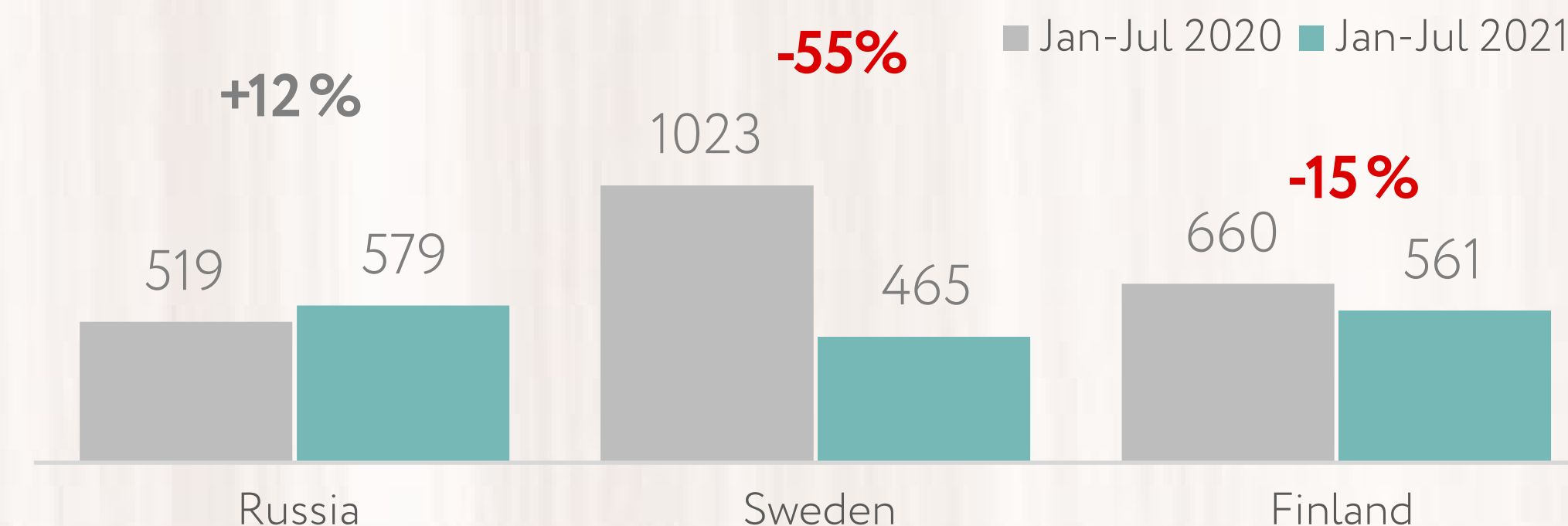
# 7. EGYPT MARKET

## Forecast: reduction in sales and in market share

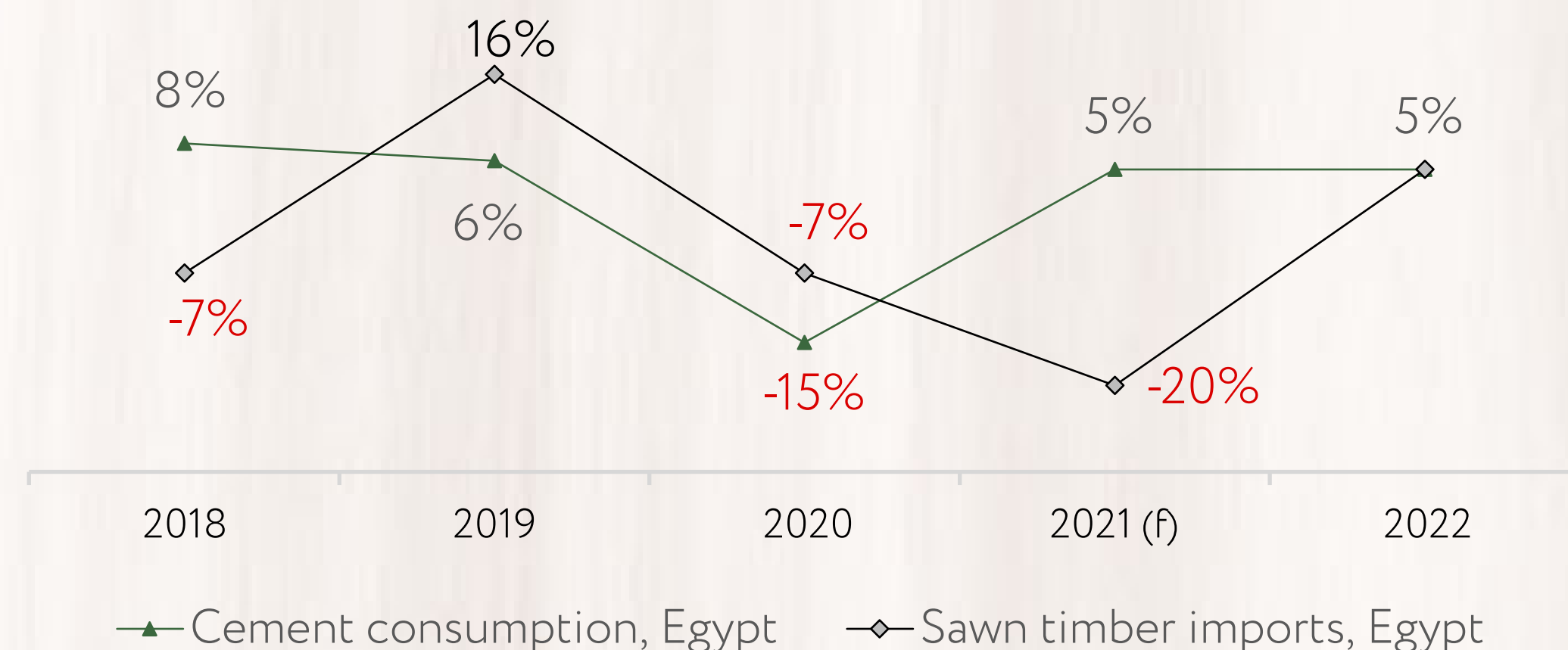
IMPORT FROM RUSSIA TO EGYPT, THOUSAND M<sup>3</sup>



SAWN TIMBER SUPPLIERS TO EGYPT, THOUSAND M<sup>3</sup>



CONSTRUCTION SECTOR FORECAST (Y/Y)



COMMENTS ON THE MARKET

- ◆ H1 – low stocks. Problem with transporting goods to Alexandria, shortage of vessels. Top prices remained till July.
- ◆ H2 – end buyers face a liquidity problem. Expensive stock.
- ◆ Forecast – demand will be normalised after local sales recovery. Importers will resolve their liquidity problems and will be ready for new purchases at a new market prices.
- ◆ There are no risks that consumption will drop (~4 mln m<sup>3</sup> is the usual average level).


**FORECAST FOR 2022: IMPLEMENTATION OF ACID MAY TEMPORARILY RESULT IN A DECLINE IN SUPPLIES FROM RUSSIA. MANY RUSSIAN EXPORTERS WILL NEED TIME TO ADAPT TO THE NEW RULES.**

Source: Woodstat




## 8. SUMMARY

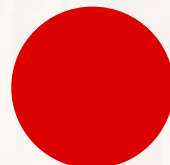
### CHINA:

- 
1. Growth in the supply rate from Russia in 2022 (compared to the low base of 2021).
  2. Solving of logistics problems at railway border-crossing points.
  3. Stable growth in demand will be restored amid the completion of construction of new industrial zones focused on timber processing.
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### EUROPE:

- 
1. Realization of new construction projects will be continued.
  2. European market will remain dependent on US prices. In case of growth in prices, Europe will continue shipping high volumes to the USA, freeing up the market for Russian supplies. In case of low prices, European volumes will remain in Europe. This is negative scenario on the market.
  3. Prices will be set in a new range.
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### EGYPT:

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1. Current problems in Russian Black Sea Port will be solved.
  2. Logistical matters will become easier to forecast.
  3. Liquidity problems will be resolved thanks to new product volumes at fair market prices.
  4. Russian suppliers may face the risk of a decline in supplies due to the adoption of new regulation (ACID).



# SEGEZHA GROUP

**THANK YOU FOR YOUR ATTENTION!**

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