

EQUITY INSIGHTS

Mondi PLC: Not For Sale!

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TRADING UPDATE CONFIRMS HOLD RECOMMENDATION

Mondi's recent trading update supports our fundamental conviction in the investment case of this high quality packaging and paper player. With valuations marginally ahead of historical averages and global peers, despite a +21% rally over the last three months, we remain comfortable with our existing position in (and the outlook for) this high quality company. **HOLD**.

COMPANY OVERVIEW

Mondi is a global packaging and paper group with listings on both the Johannesburg and London stock exchanges. The Group is fully integrated across the paper and packaging value chain, from managing forestry assets and producing pulp, paper and plastic films to developing and manufacturing industrial and consumer packaging solutions. Mondi demerged from Anglo American in 2007 and has since established key operations in central Europe, Russia, North America and South Africa.

WHAT WE LIKE ABOUT MONDI

Mondi's management team is renowned for prudent allocation of capital. This is illustrated most simplistically by the financial performance the business has generated since listing in 2007: operating¹ margins have expanded from ~14% to ~20% and returns on capital² have almost doubled from ~10% to ~19% over the same period. Earnings have compounded at ~14% per annum and, impressively, this growth has been either organically or debt financed, with the company having reduced their share count by some 9% over the same period. Their simple formula of i) maintaining financial strength, then ii) investing for organic growth and iii) supporting their dividend, before iv) seeking attractive M&A opportunities (or returning additional cash to shareholders as evidenced by their recently declared ~R15 special dividend in addition to the ~R9 ordinary dividend per share) has stood them in good stead relative to some of their more aggressive listed peers, and we believe it will continue to do so into the future.

Furthermore, Mondi's operations are currently supported by robust demand and supply dynamics in their key operating segments, namely: Containerboard-packaging (corrugated boxes, in-store displays etc.); Fibre-Packaging (kraft paper and industrial bags used in materials, chemicals, food industries) and Uncoated Fine Paper (printing, writing and specialty paper grades). This confers both volume growth and pricing power advantages on Mondi given that supply typically lags demand in these markets (investing in additional packaging / paper production facilities is a capital and time intensive). Mondi's increasing exposure to the Consumer Packaging segment, a more fragmented market serving the consumer staples and discretionary markets, bodes well to reduce Mondi's traditional commodity type exposure from the aforementioned three segments, providing for a relatively more defensive earnings stream and also playing well into the ongoing structural shifts toward online retailing.

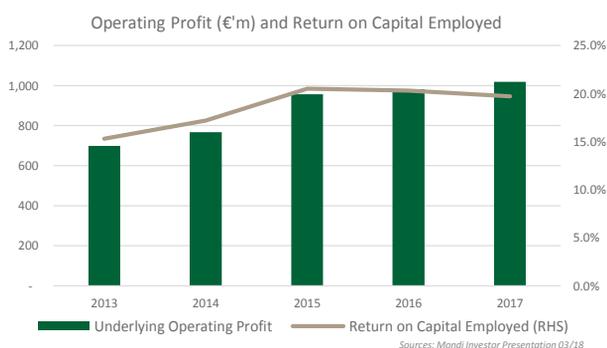
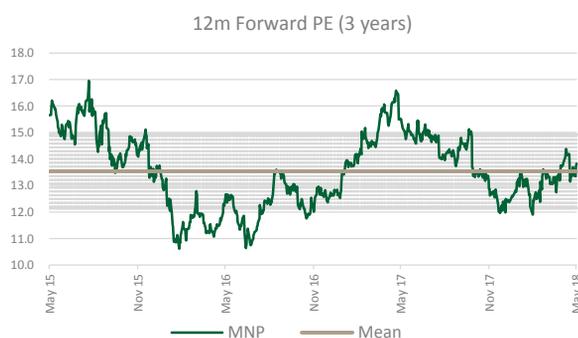
RELATIVE VALUATION SNAPSHOT

Mondi currently trades at 13.7x consensus forward earnings per share. This is ahead of its own historical average of (12.4x, since listing) and broadly in-line with the average rating of our internally constructed global packaging & paper peer group (13.3x).

Industry
Packaging & Paper
Industry View
Constructive
Current Recommendation
HOLD

	MNP
Market Capitalisation	R167.2 billion
Share Price	R344.85
12m Consensus Target Price	R381.19
52w Low-High Range	R289.07 – R385.51
Estimated Forward PE	13.7x
Estimated Forward DY (Ordinary)	3.1%
Next Reporting Date (Period)	3-Aug-18 (HYE Jun-18)

Sources: Factset 17/05/18



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