2016 China Paper Industry Development Situation and Strategic Measures

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Summary

- Macro environmental impact
- Operation analysis on Paper Industry
- Future trends
- Strategic measures
Chinese economy has entered a period of adjustment of structure optimization, and the growth is slowing, but the growth potential is huge.

- China 2015 GDP growth is 6.9%, with the growth rate less than 7% for the first time since 1990.

- The total GDP reaches RMB 67.6708 trillion, and China’s economic growth is far better than the world average.

- China’s per capita GDP ranks 90th in the world, and the future development space is large.
Macro environmental impact

➢ Chinese authorities predict that long-term trends in China's economic development will show a L-type situation, indicating that the economy will not have a big shock.

➢ Premier Li Keqiang:
- Since this year, the Chinese economic operation is overall smooth, and structural adjustment and transformation and upgrading appears a good momentum.
- The comprehensive deepening reform and active opening up can keep the economic operation at a reasonable range and towards a long-term and good orientation.

➢ Chinese government “Thirteen Five-Year" plan puts forward economic growth of not less than 6.5%.

Chinese economic overall good development momentum forms a strong support for the development of the paper industry.
Macro environmental impact

With the impact by rigid demands, the light industry develops well in the first quarter and is thriving among the national industries. The profit growth of the light industry is higher than the revenue growth of main businesses, and the operation quality improves.

Consumer goods industry has a good momentum of development, increasing the demand for packaging and leading the development of the entire paper industry.
Operation analysis on Paper Industry

In recent years, the paper industry enters into the era of great change. Results of the change and adjustment in the industry have been initially apparent. Since this year, in the dual role of markets and policies, the overall development of the paper industry is good.

- Rapid growth of paper output
  From January 2016 to April 2016, the national large-scale machine paper and paperboard enterprises has completed an output of 38,806,800 tons, with a year-on-year growth of 5.13% and a “good start” for the first time in recent years.

- Tissue and packaging paper maintains a strong growth
  The output of tissue increases 3.24%, and the output of containerboard increases 5.19%.

- Graphic paper is still accelerating the structural adjustment
  The output of uncoated printing paper is 2.4879 million tons, reducing by 4.03% on a year-on-year basis.
  The output of newsprint is 1.0732 million tons, reducing by 11.76% on a year-on-year basis.
  The output of coated printing paper is 2.1321 million tons, reducing by 3.89% on a year-on-year basis.
Operation analysis on Paper Industry

The industry profitability has an overall rapid growth, but the profitability varies.

- Pulp industry loss; the profit declines 74%.
- Paper industry enjoys the policy support of waste paper material products VAT refund of 50% since July 1, 2015, and the profit surges 17%.
- The revenue and profit of main businesses of paper products industry increase 7%.

Comparison of revenue and profit growth of main businesses of industry in the first quarter of 2016.
Operation analysis on Paper Industry

Paper Industry increases the degree of concentration

As the market survival of the fittest and the government forcing out backward enterprises, the number of machine paper and paperboard companies reduces by 216 compared to 2014, namely 8.3% of paper companies are forced out.

Increased industrial degree of concentration can help the paper industry to give play to the scale economics effect, reduce pollution emissions, enhance the brand profitability and establish a good market order.
Recalling the past and looking to the future, look at the future trends based on the following rules:

- China's paper industry has entered the era of strategy. Entrepreneurs should learn to summarize the rules of industrial development and guide the development of enterprises with the rules rather than experience.

- The current two important industry rules must be noted.
  - Paper output growth rate and GDP growth rate is not consistent
  - Paper production and consumption are saturated in stages

At present, the total amount of paper is saturated, the output increases slowly, and some grades of paper have been saturated.
Future trends

Over the years, many research institutions have always thought that paper output is positively related with the GDP growth rate, but from the current perspective, the paper output growth rate deviates from GDP growth rate and the GDP growth rate cannot be used to measure the paper output in the future.
Future trends

Paper production and consumption are saturated in stages. Since the beginning of this century, the paper industry in the United States and Japan has experienced the trend from slow growth of output, reaching the highest point, and then to negative growth.
Future trends

Paper output trend in Japan

Ten thousand tons

- 2001: 3072
- 2002: 3067
- 2003: 3046
- 2004: 3089
- 2005: 3095
- 2006: 3111
- 2007: 3063
- 2008: 3127
- 2009: 2736
- 2010: 2661
- 2011: 2607
- 2012: 2624
- 2013: 2647
- 2014: 2619
- 2015: 2619
Future trends

Paper output trend in China

Ten thousand tons
Future trends

In 2015, paper output is 117.74 million tons, appearing a turning point for the first time.

In 2013, it was predicted that 120 million tons was the output ceiling of China Paper Industry. Obviously, the forecast is still valid.
Future trends

Some grades of paper are saturated in China

Negative growth of the output of newsprint in 2010

Negative growth of uncoated writing paper in 2011

Negative growth of the output of containerboard in 2012

Negative growth of coated writing paper in 2013
Future trends

Paper production in China is saturated, so the future investment will become more rational.

- In the first quarter of 2016, total investment in fixed assets of paper and paper products industry is RMB 42.4 billion, with an increase of -11.7% on a year-on-year basis, forming a sharp contrast with 6.4% of total investment growth of national manufacturing industry.

- Chairman of Huatai Paper Industry said recently that the Company would not expand largely in the paper industry in the future, with emphasis on the upgrading and transformation of the paper industry towards the papermaking research and intelligent manufacturing.
Future trends

Reflection:

When tissue, packaging paper and boxboard with a substantial investment and rapid growth will have a turning point?
Future trends

- Product structure is optimized and the proportion of high-grade paper further increases.

With the progress of living standards and improvement of technology, the proportion of high-grade paper further increases, high-grade paper will force out mid-grade paper, mid-grade paper will force out low-grade paper and low-grade paper will be eliminated in the future.

- The industrial chain of paper enterprises extends and will provide consumers with personalized, customized and high value-added products.

  - Develop from the industrial paper to tissue
  - Develop from the production of pulp paper to the downstream paper packaging
  - Develop from bulk industrial goods to daily necessities of consumers
Future trends

- From paper making to fiber comprehensive utilization, the biomass project develops rapidly.

  Papermaking can utilize the plant fiber. With the advancement of science and technology, paper enterprises are entering the biofuels industry. Finnish companies have become the leaders in the trend.

  Paper production may slowly grow, but the comprehensive utilization on the plant fiber will be explored and is very important for social progress.

- Trend: China Paper Industry enters a balanced and optimization period.

  The total output of China Paper Industry enters a balanced development period.

  The structure of China Paper Industry enters an optimization period.
Strategic Measures

In face of the future development trend of the industry, the paper industry should take the initiative to respond, to consolidate strengths and to enhance competitiveness through quality manufacturing, product cost improvement, corporate M & A and global distribution and other strategic measures, so as to cope with future challenges.

- Quality manufacturing strategy
- Cost performance strategy
- M & A strategy
- Global distribution strategy
Strategic Measures

- Quality manufacturing strategy

The new high-end products can make huge profits in the paper industry. According to market demands, the production of high-grade paper is an important measure to improve product profitability.

China imports large quantities of paper and paperboard every year, remaining at around 2.6 million tons in recent years, so it is necessary to produce high-end domestic products to replace import.
Strategic Measures

- **Cost performance strategy**
  
  Under the premise of ensuring product quality, lowering investment and operating costs and increase production.

  - Optimization of equipment, saving investment
  
  - Process optimization, saving energy and increasing yield
  
  - A revolutionary brand-new technology in the slurrying and environmental protection, significantly reducing investment costs
Strategic Measures

- **M & A strategy**
  
  In next period, enterprises will expand through M & A instead of the investment in new projects.

- M & A between the upstream and downstream of the industry chain
- M & A between domestic and foreign companies
- M & A between the industry and other industries
Strategic Measures

- Global distribution strategy

  “One Belt and One Road” area is the key area of global distribution of Chinese enterprises

  China currently exports about 4 million tons of paper and paper products to One Belt and One Road area, and the import amount is about $7 billion. In 2015, China papermaking machinery and equipment export amount was $1.222 billion, with an increase of 15.51%, mainly in Vietnam, Indonesia, India, the United States, Belarus, Malaysia, Iran, Taiwan, Turkey, South Korea and other areas, including $146 million in Vietnam, $141 million in Indonesia and $105 million in India.
Strategic Measures

- Countries with market and resource superiority are also the key area of global distribution

● Chinese enterprises are actively walking out. Shandong Quanlin Paper Industry is investing $2 billion in Virginia to construct the 600,000 tons of wheat straw papermaking project.

● Shandong Sun Paper Industry invests in building a bio-refinery project with an annual capacity of 700,000 tons in Arkansas, with the total investment about $1 to 1.3 billion.

Conclusions

- Chinese government puts forward the “innovation, coordination, green, opening and sharing” development concept as the guiding ideology of “Thirteen Five-Year” period.

- Paper industry stems from the use of green fiber and is one of the most potential industries with green features in “Thirteen Five-Year” period.

- Facing the new situation in Chinese “Thirteen Five-Year” period, the paper industry should seriously sum up the rule of industry, scientifically make strategic plans, assess the situation, achieve a strategic breakthrough for the Chinese paper industry and make a brilliant contribution to the global pulp paper industry.