



SCA – Correcting Citi’s Homework

Citi analysts have triple counted biological asset valuations in their financial model. A correction brings the price target from SEK 156 to SEK 95.

March 21, 2024 – On 15 March 2024 we wrote to Citi analyst, Ephrem Ravi, to inform him of a material calculation error in his SCA financial model, which we have sighted.

Viceroy’s team have subsequently tried to reach out to Citi and Mr. Ravi on numerous occasions without response in order to not have to air this dirty laundry.

1. Citi's target enterprise value (EV) consists of 3 items:
 - NPV to 2029 -SEK 14.4b
 - NPV terminal - SEK 26b
 - “2023 Forest minus 30%” (completely arbitrary, and actually uses 2024 expected value)

Citi EV Calculation	SEKm	%
NPV to 2029	14,218.64	12%
NPV terminal	26,686.80	23%
2023 Forest minus 30%	76,774.44	65%
Enterprise Value	117,679.88	100%

Figure 1 – Citi EV valuation summary recreation

2. The NPV lines are derived from the free cash flow enterprise which encompasses all segments of SCA's business, including the forest assets. Unlike Handelsbanken, this is not a sum of the parts valuation.
 - Why the actual value of SCA would extend beyond the NPV is also ludicrous given SCA's assets highest and best use for its assets is to harvest timber and sell timber. But we digress.
3. The "2023 Forest Minus 30%" is intended to encompass the mark-to-market (M2M) land value of the forestry assets in the Enterprise Value (again, ludicrous). This figure is a simple “0.7x” multiple of the 2024 expected Forest Assets balance sheet cell, which itself is comprised of:
 - Biological assets - **itself an NPV** of the future cash flows of the trees, being the double count
 - Land assets - the residual Forestry asset value on a M2M valuation approach, being the appropriate reference cell
4. The “2023 Forest minus 30%” reference cell is the 2024 expected forest valuation, which compounds 0.8% q/q valuation gain on the biological asset, thus the triple count.

Citi's calculation inadvertently/negligently triple counts the NPV of the biological assets.

Citi EV Calculation	SEKm
NPV to 2029	14,219
NPV terminal	26,687
2023 Forest minus 30% [2024e]	76,774
Enterprise Value	117,680
Net Debt [2024e]	(8,427)
Pension Deficit	(325)
Equity Value	108,928
No. shares	702.30
Citi equity value per share	155.10
Less: double & triple counted value of biological assets minus 30%	(42,419)
Citi corrected equity value	66,508.58
Citi corrected equity value per share	94.70

Figure 2 – Viceroy Research correction of Citi analysis



High-School Work

This correction, brought to you by high-school analysts Viceroy Research, does not even consider the obvious logical implications of attributing land values to a single-purpose use forest.

We will be correcting various other material errors in analyst SCA reports. As we have said before: we believe the quality of sell side analysis is not up to scratch. Of course, we will reach out in the first instance.

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