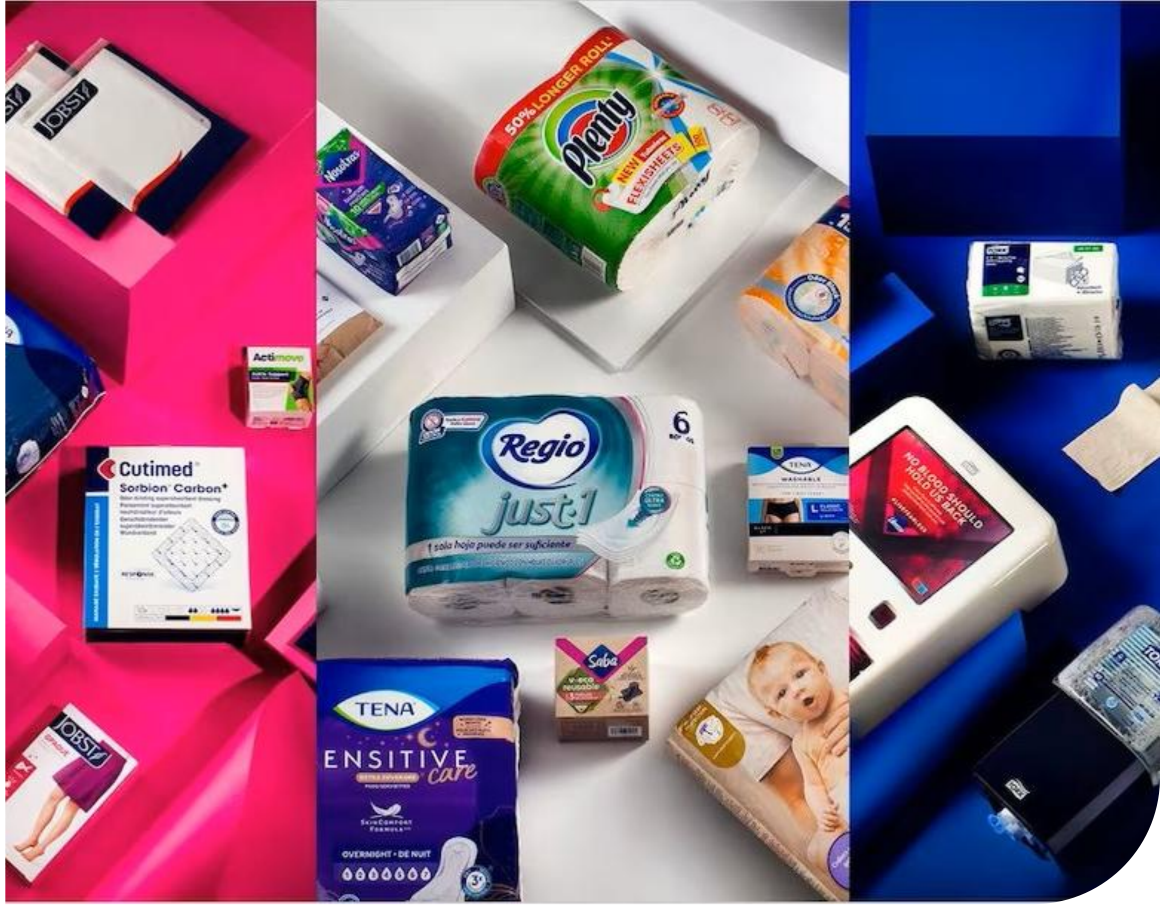

Essity

SELL | TP SEK260 (265)

BUY

NEUTRAL

SELL

Cost inflation and weak organic growth lingers

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Johannes Grunselius
Equity Research Analyst
(+46) 70 563 3889
Johannes.Grunselius@sb1markets.com

SB1 Markets
Phone: (+47) 24 14 74 18
Visit address: Olav Vs gate 5, 0161 Oslo
Post address: PB 1398 Vika, 0114 Oslo

Inflation and consumer sentiment remains a concern

In the hands of macro and inflation. Ahead of Essity's Q2 report in mid-July, we downgraded the stock to SELL on concerns about weak organic growth and fierce cost inflation on escalating prices for energy and oil related products (+20% of the COGS basket). In the Q2 report, COGS were only up SEK90m YOY (only 0.3%) as higher costs had not yet started to impact the P&L. Still the underlying Q2 EBITA were largely unchanged YOY as price and mix were negative with c.1%. After Essity's Q2 report, elevated prices for energy, chemicals, oil-linked products and freights have moved further north, while competitors including Kimberley Clark, P&G and Ontex have also provided soft market outlooks. With this backdrop, we have trimmed our 2026-27e already below Bloomberg consensus and cut our TP to SEK260 (SEK265).

2% cut on our EBITA26-28e. For H2, we expect Essity's EBITA-margins to contract to the weakest levels since 2022. For Q3 and Q4 we now look at EBITA-margins of 11.4% and 11.8% (previously 11.6% and 12.5%) with a remaining risk of pressure in 2027. We lower our EBITA26-28 with 2% on softer margin assumptions, particularly for the Consumer Tissue business being significantly exposed to European gas prices.

Higher oil & energy prices = main concern. European gas prices have moved up c. 100% YTD while oil related input costs such as relevant propylene is up with c. 30% YTD. How long the Middle East conflict and the lower level of oil and gas supply to the world will last is impossible to predict. Still, every day the conflict drags on is a major negative for Essity 1) Higher energy prices will have a direct impact on the COGS and 2) the current energy situation will also have an impact on general inflation and at the end of the day disposable income and consumer confidence.

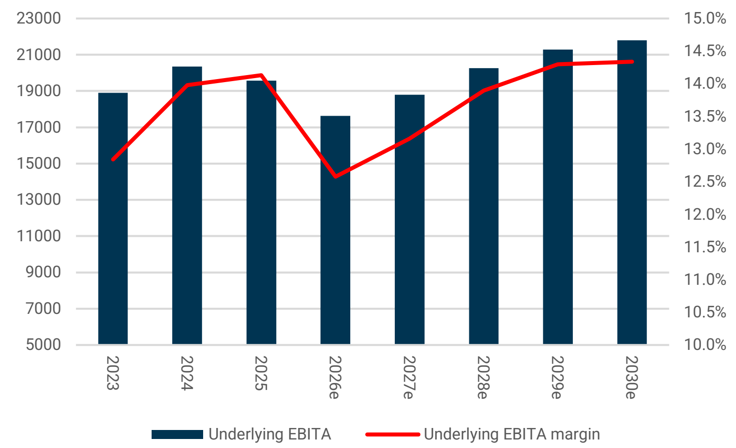
Tough market outlook confirmed by peers. As usual, Essity did not provide any guidance for Q3 and beyond in its Q2 report. However, in Kimberley's Q2 report, released 3 weeks after Essity, Kimberley guides USD150m higher H226 cost inflation vs. H126 translating into c. 3% incremental higher COGS. As Essity cost base is more pulp and energy tilted, the underlying COGS development is not at comparable. Still, we believe our assumption of 4-5% higher COGS YOY and H2 vs. H1 for Essity is a very reasonable assumption given where energy and commodity prices are trading. In this inflationary environment we expect margin contraction as we believe the pricing power is too weak in consumer tissue (30% of sales) in Baby care (5% of sales) and in large part of the Femi care business (c. 10% of sales).

Modest upside from a demerger situation. The uncertain business outlook for Essity in general and the consumer tissue in particular does not make the strategic review for the global consumer tissue business (SEK44bn sales 2025 with 80% exposure to Europe) any easier. From a value creating perspective, a sale to an industrial buyer where synergies can be achieved would be of best interest to shareholders. Still, in the current macro environment, we doubt that Essity can sell its consumer tissue business that has showed negative volume growth in four consecutive quarters. Our updated SOTP on Essity indicates c. SEK300 implying only 10% full valuation upside.

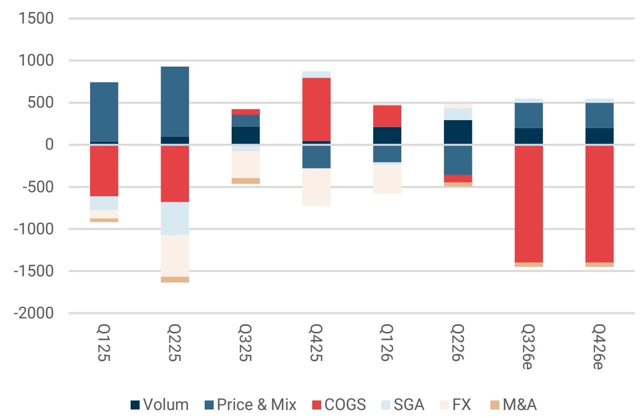
Good market positions and strong balance sheet. Essity has strong market positions in many of its businesses, and we continue to argue that the long-term prospects for the Health & Medical business (c. 20% of sales) exposed to structural growth. Another quality of the company is the much-overcapitalized balance sheet that could mean increased buy-backs over time above the current rate of SEK3bn annually. Still, in the near-term, we see weak risk-reward on margin-squeeze concerns.

Investment case in 6 charts

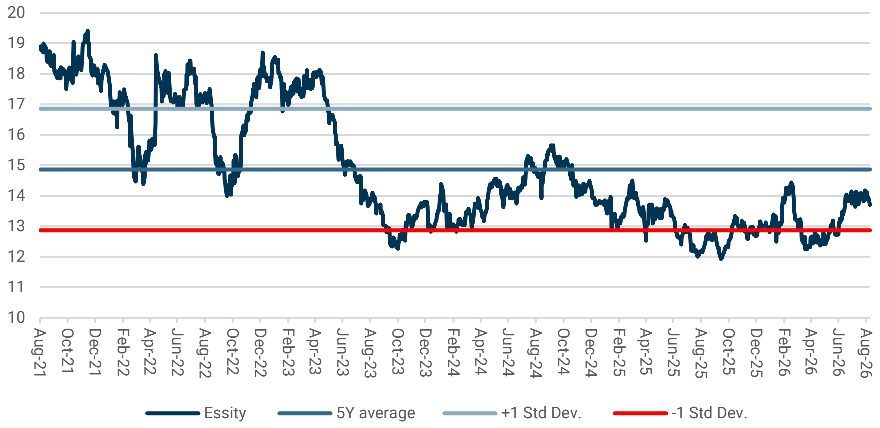
Sales and EBITA-margin trajectory 2023-2030e, SEKm
We see margin pressure in 2026e and high risk in 2027e



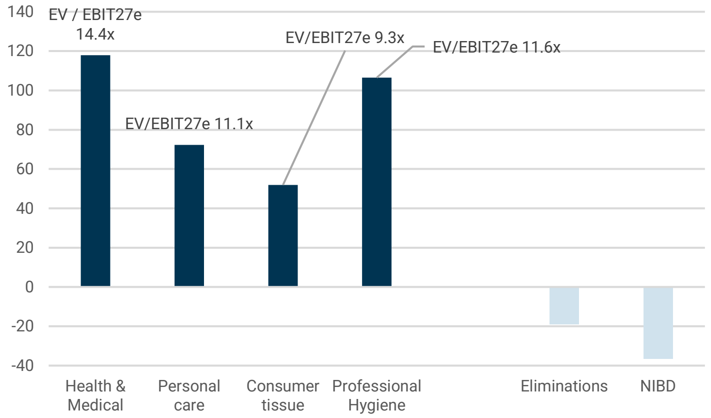
YOY delta in EBITA – different components
In SEKm



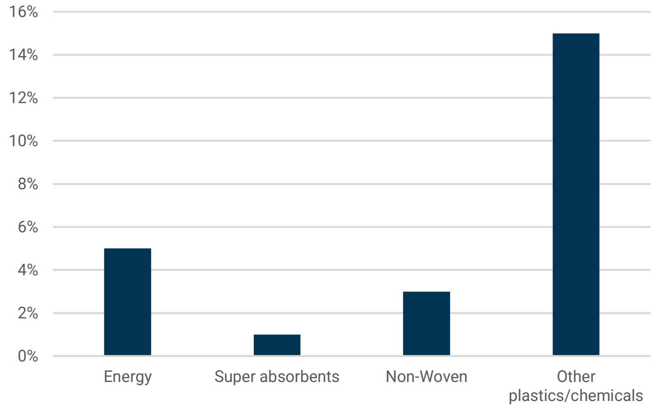
P/E ratios 12m fwd based on Bloomberg consensus data
Our EPS26-27e are 14-6% below Bloomberg consensus



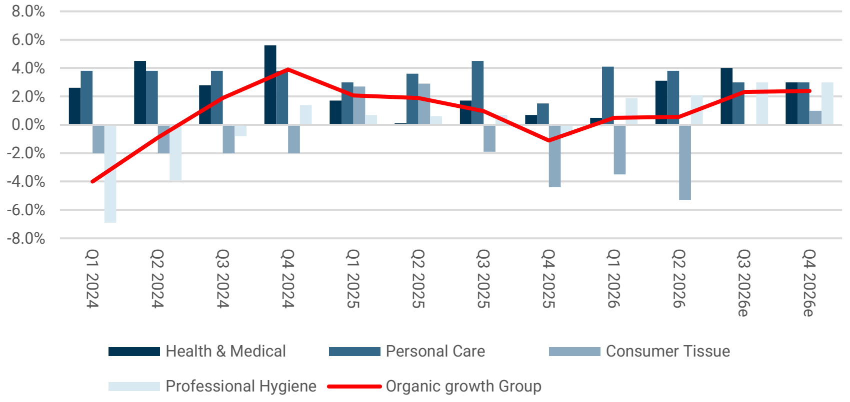
SOTP valuation of c. SEK300 for Essity's 4 divisions



C. 20% of OPEX basket relates to energy and oil-based input materials where prices have escalated



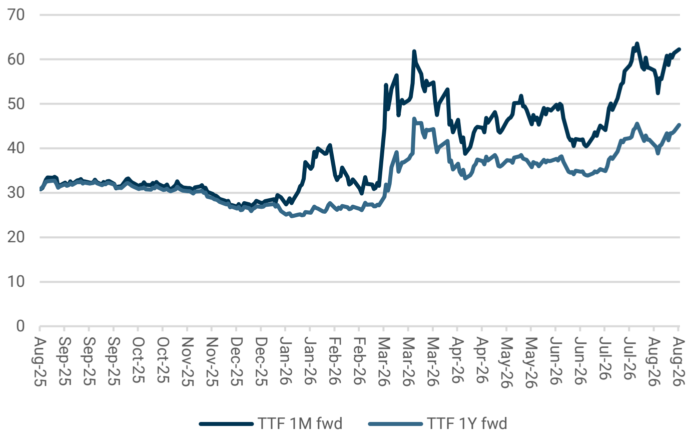
Organic growth trajectory Q124-Q426e
Higher levels are mainly linked to higher inflation



Company data & SB1M, Bloomberg data

Top-down indicators

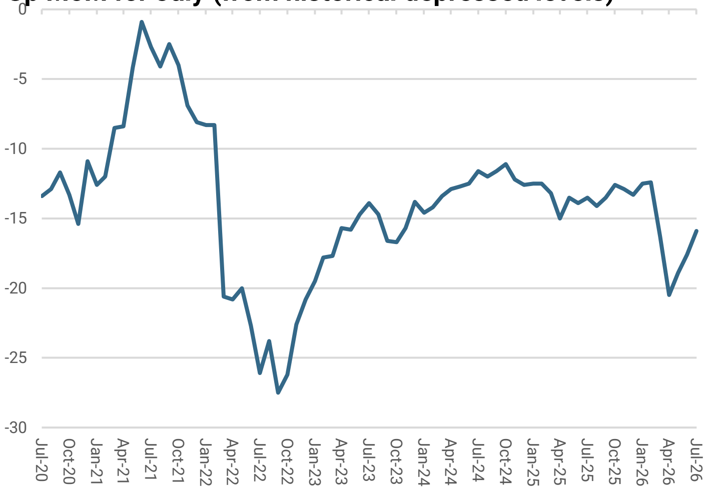
European gas prices (TTF natural gas fwd) EUR/MWh
Essity's total gas consumption is 6TWh



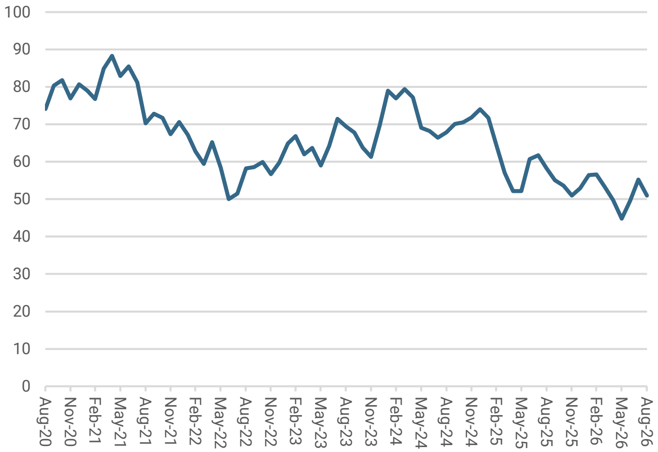
European power prices (German baseload) EUR/MWh
Essity's total electricity consumption is 4TWh

Polypropylene Future Dec 2026 CNY/Mt

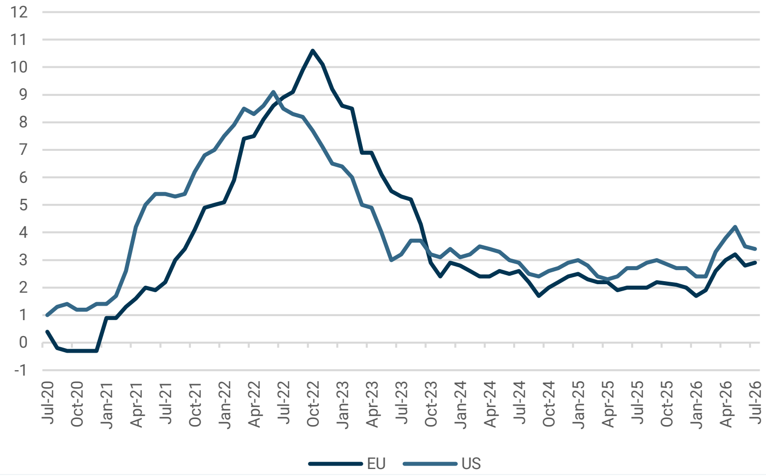
Eurozone flash consumer data vs. Essity (monthly data)
Up MoM for July (from historical depressed levels)



University of Michigan Consumer Sentiment Index
down MoM for August



CPI US and Europe: US 3.4%, Europe 2.9% clearly above our organic growth assumptions of 2%



Company data & SB1M, Bloomberg data

Oil & energy related COGS items and sensitivities

- If oil and energy related costs would increase with 10% for Essity this would mean close to SEK3bn in annual underlying headwind, all else equal….
- …. c. 2% higher prices would be needed to fully offset the cost inflation

		Indicative OPEX	Impact in SEKm		Impact on EBITDA26e in %		Required price increase to fully ofset higehr energy/oil costs	
GOGS items	**% of OPEX**	**In SEK**	**5% change**	**10% change**	**5% change**	**10% change**	5% change	10% change
Energy- gas prices	5%	6128	306	613	1.7%	3.5%	0.22%	0.44%
Super absorbents	1%	1226	61	123	0.3%	0.7%	0.04%	0.09%
Non-woven	3%	3677	184	368	1.0%	2.1%	0.13%	0.26%
Other plastics/chemicals	12%	14707	735	1471	4.2%	8.3%	0.52%	1.05%
Transport surcharges	3%	3677	184	368	1.0%	2.1%	0.13%	0.26%
Total	**24%**	**29414**	**1471**	**2941**	**8.3%**	**16.7%**	**1.0%**	**2.1%**

Group

Total operating expenses[1]: SEK 119,894m

- Sales, general and administration[2], 22%
- Energy, 5%
- Transport and distribution expenses, 12%
- Other costs of goods sold[3], 26%
- Raw materials and consumables, 35%

Of which	
Pulp	10%
Recovered paper	3%
Super absorbents	1%
Non-woven	3%
Other[4]	18%
Total raw materials and consumables	**35%**

'Other' costs consists of

Chemicals (oil product)
Packaging materials (both oil and fiber based)
Plastic materials (oil product)

Earnings forecasts and revisions

- We note that our updated adj. EBITA26 is c. 6% below Bloomberg consensus

	OLD FORECASTS			NEW FORECAST			Changes		
	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Divisional Sales									
Health & Medical	27985	29040	30201	27985	29040	30201	0.0%	0.0%	0.0%
Personal Care	34072	35013	36063	33834	34768	35811	-0.7%	-0.7%	-0.7%
Consumer Tissue	42339	42339	42339	42232	42232	42232	-0.3%	-0.3%	-0.3%
Professional Hygiene	36138	36861	37598	36138	36861	37598	0.0%	0.0%	0.0%
Other	2	0	0	2	0	0			
Total	**140536**	**143252**	**146201**	**140192**	**142900**	**145842**	**-0.2%**	**-0.2%**	**-0.2%**
Divisional EBITA									
Health & Medical	4980	5602	6191	5052	5602	6191	1.5%	0.0%	0.0%
Personal Care	4352	4465	4688	4328	4433	4655	-0.5%	-0.7%	-0.7%
Consumer Tissue	3735	3925	4446	3617	3811	4434	-3.2%	-2.9%	-0.3%
Professional Hygiene	5996	6266	6392	5807	6266	6392	-3.2%	0.0%	0.0%
Other	-1062	-1027	-1107	-1172	-1307	-1409			
Total	**18000**	**19231**	**20610**	**17633**	**18804**	**20264**	**-2.0%**	**-2.2%**	**-1.7%**
EBITA-margin (%)									
Health & Medical	17.8%	19.3%	20.5%	18.1%	19.3%	20.5%			
Personal Care	12.8%	12.8%	13.0%	12.8%	12.7%	13.0%			
Consumer Tissue	8.8%	9.3%	10.5%	8.6%	9.0%	10.5%			
Professional Hygiene	16.6%	17.0%	17.0%	16.1%	17.0%	17.0%			
Total	**12.8%**	**13.4%**	**14.1%**	**12.6%**	**13.2%**	**13.9%**			

SB1M, Bloomberg

Detailed forecasts

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026e	Q4 2026e	Q1 2027e	Q2 2027e	Q3 2027e	Q4 2027e	2024	2025	2026e	2027e	2028e
Divisisional Sales																	
Health & Medical	6936	6723	6883	6926	6499	6918	7296	7272	6694	7195	7588	7563	28599	27468	27985	29040	30201
Consumer Tissue	11301	10671	10656	10909	10356	10202	10656	11018	10356	10202	10656	11018	45886	43537	42232	42232	42232
Professional Hygiene	8757	9003	9183	8961	8139	9127	9642	9230	8302	9310	9835	9414	38067	35904	36138	36861	37598
Other	-2	25	-11	15	3	-1	0	0	0	0	0	0	-12	27	2	0	0
Total	**34976**	**34185**	**34638**	**34695**	**33177**	**35061**	**36155**	**35798**	**33695**	**35786**	**36897**	**36522**	**145546**	**138494**	**140192**	**142900**	**145842**
Organic growth																	
Health & Medical	1.7%	0.1%	1.7%	0.7%	0.5%	3.1%	4.0%	3.0%	3.0%	4.0%	4.0%	4.0%					
Consumer Tissue	3.0%	3.6%	4.5%	1.5%	4.1%	3.8%	3.0%	3.0%	2.0%	3.0%	3.0%	3.0%					
Professional Hygiene	2.7%	2.9%	-1.9%	-4.4%	-3.5%	-5.3%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%					
Group	**2.1%**	**1.9%**	**1.0%**	**-1.1%**	**0.5%**	**0.6%**	**2.3%**	**2.4%**	**1.6%**	**2.1%**	**2.1%**	**2.0%**					
Divisional EBITA																	
Health & Medical	1231	1159	1260	1296	1193	1310	1277	1273	1205	1367	1518	1513	5509	4946	5052	5602	6191
Consumer Tissue	1245	1248	1252	1442	1112	988	746	771	725	918	1066	1102	4464	5187	3617	3811	4434
Professional Hygiene	1413	1525	1676	1750	1311	1573	1446	1477	1411	1583	1672	1600	6829	6364	5807	6266	6392
Other	-381	-359	-242	-361	-275	-317	-287	-293	-285	-325	-351	-346	-1503	-1343	-1172	-1307	-1409
Total	**4706**	**4693**	**5056**	**5117**	**4603**	**4685**	**4124**	**4221**	**4099**	**4678**	**5050**	**4977**	**20344**	**19572**	**17633**	**18804**	**20264**
EBITA-margin (%)																	
Health & Medical	17.7%	17.2%	18.3%	18.7%	18.4%	18.9%	17.5%	17.5%	18.0%	19.0%	20.0%	20.0%	19.3%	18.0%	18.1%	19.3%	20.5%
Consumer Tissue	11.0%	11.7%	11.7%	13.2%	10.7%	9.7%	7.0%	7.0%	7.0%	9.0%	10.0%	10.0%	9.7%	11.9%	8.6%	9.0%	10.5%
Professional Hygiene	16.1%	16.9%	18.3%	19.5%	16.1%	17.2%	15.0%	16.0%	17.0%	17.0%	17.0%	17.0%	17.9%	17.7%	16.1%	17.0%	17.0%
Other																	
Total	**13.5%**	**13.7%**	**14.6%**	**14.7%**	**13.9%**	**13.4%**	**11.4%**	**11.8%**	**12.2%**	**13.1%**	**13.7%**	**13.6%**	**14.0%**	**14.1%**	**12.6%**	**13.2%**	**13.9%**

Key financials and valuation at a share price of SEK270

	2023	2024	2025	2026e	2027e	2028e	2029e	2030e
Revenue	147,147	145,546	138,494	140,192	142,900	145,842	148,876	152,006
Growth	*-19.6%*	*-1.1%*	*-4.8%*	*1.2%*	*1.9%*	*2.1%*	*2.1%*	*2.1%*
EBITDA	23,146	26,354	25,688	23,233	25,124	26,584	27,608	28,115
EBIT	15,148	18,295	18,550	15,887	17,804	19,264	20,288	20,795
CAPEX	6,850	7,396	7,090	7,800	8,400	8,400	8,400	8,400
EPS	13.6	17.2	18.6	16.4	19.1	21.1	22.7	23.7
CEPS	19.1	11.8	12.3	11.9	16.6	18.5	20.0	21.0
DPS	7.8	8.3	8.8	9.3	9.8	10.5	11.0	11.5
Total cashdistribution per share	7.8	10.9	13.0	13.4	14.0	14.6	15.4	16.0
Margins								
EBITDA	15.7%	18.1%	18.5%	16.6%	17.6%	18.2%	18.5%	18.5%
EBIT	10.3%	12.6%	13.4%	11.3%	12.5%	13.2%	13.6%	13.7%
EV/Sales	1.6	1.6	1.5	1.5	1.4	1.3	1.3	1.2
EV/EBITDA	9.9	9.1	8.1	8.9	8.0	7.3	6.9	6.5
EV/EBIT	15.1	13.1	11.2	13.0	11.3	10.1	9.3	8.8
P/E	18.4	17.3	14.2	16.5	14.1	12.8	11.9	11.4
FCF yield	7.7%	4.0%	4.6%	4.4%	6.1%	6.8%	7.4%	7.8%
Dividend yield	3.1%	2.8%	3.3%	3.4%	3.6%	3.9%	4.1%	4.3%
Total cash disbribution yield	3.1%	3.7%	4.9%	5.0%	5.2%	5.4%	5.7%	5.9%
Share price	250	297	265	270	270	270	270	270
Number of shares	700	700	683	671	659	647	635	623
Net debt YE	53703	30769	26543	24930	23213	20680	17775	14703
NIBD/EBITDA	2.3	1.2	1.0	1.1	0.9	0.8	0.6	0.5
Market cap*	175,069	207,982	181,008	181,183	177,943	174,703	171,463	168,223
EV**	228,772	238,751	207,551	206,113	201,157	195,383	189,238	182,926

** Current shareprice, ** Based on year-end NIBD*

Company data & SB1M

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previous company reports

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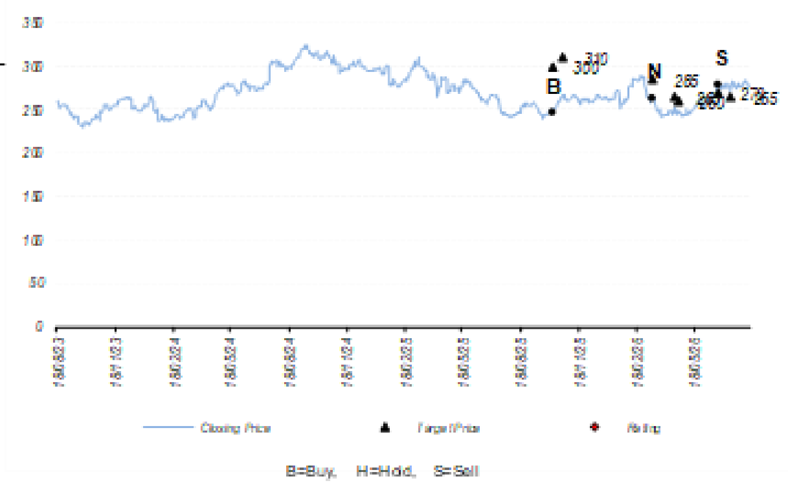
3-Year Price, Target Price and Rating Change History Chart for ESSITYB SS

ESSITYB SS Date	Closing Price	Target Price	Rating
07/10/2025	246.7	300	BUY
23/10/2025	267.9	310	BUY
15/03/2026	262.6	285	BUY
15/03/2026	262.6	285	NEUTRAL
18/04/2026	252.8	265	NEUTRAL
23/04/2026	249.3	260	NEUTRAL
27/06/2026	278.3	270	SELL
16/07/2026	271.7	265	SELL
17/08/2026	278.2	260	SELL



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Current recommendations of the Research Department

Recommendation	Percentage of companies under coverage with this recommendation	Percentage of companies under coverage for which SB1 Markets has provided investment banking services in the past 12 months
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Disclaimer

SB1 Markets Oslo

Olav Vs gate 5
0161 Oslo, Norway
Tel: + 47 24 14 74 00
www.sb1markets.com

SB1 Markets Stavanger

Christen Tranes Gate 35
4007 Stavanger, Norway
Tel: + 47 24 14 74 00
www.sb1markets.com

SB1 Markets Trondheim

Søndre gate 4
7011 Trondheim, Norway
Tel: + 47 24 14 74 00
www.sb1markets.com

SB1 Markets Bergen

Krinkelkroken 1
5014 Bergen, Norway
Tel: + 47 24 14 74 00
www.sb1markets.com

SB1 Markets Ålesund

St Olavs plass 1
6002 Ålesund, Norway
Tel: + 47 24 14 74 00
www.sb1markets.com

SB1 Markets Tromsø

Storgata 65
9008 Tromsø, Norway
Tel: + 47 24 14 74 00
www.sb1markets.com

SB1 Markets Stockholm

Malmskillnadsgatan 23
111 57 Stockholm, Sweden
Tel: + 47 24 14 74 00
www.sb1markets.com

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