

INDIA

Media

Finally, newsprint prices take a U-turn

Reason for report: Sector update

Newsprint prices sharply declined 18.4% MoM in November (Chart 1) with ex-factory cost of domestic newsprint dipping to Rs31,000/MT from Rs38,000/MT. This is in line with our interactions with the Indian publishers and according to them, the prices of imported newsprint dipped to US\$800/MT from US\$900-950/MT highs. Internationally, newsprint prices are witnessing pressure, despite production cuts announced by AbitibiBowater, North America's largest newsprint producer. On account of declining newsprint demand (down 18% YoY & 5% YoY in the US and Europe respectively in October), AbitibiBowater has decided not to push through US\$20/MT price hike as was planned for December '08. The decline in newsprint prices signals a trend reversal with significant demand erosion in the US and Europe, and reduction in raw material, energy and transportation costs. We expect listed publishing companies – HT Media and Jagran Prakashan (JPL) – to be major beneficiaries.

- ▶ **AbitibiBowater rescinds planned price hike.** AbitibiBowater has decided not to push through the US\$20/MT December instalment of its total newsprint price hike of US\$60/MT planned for Q4CY08. This is despite the company's plans to cut 830,000MT production of newsprint capacity in '09 to combat the slowdown, including 205,000MT permanent closure (Table 3). AbitibiBowater is facing liquidity crunch and is exploring refinancing alternatives and sale of assets to honour its maturities in '09. With reduction in raw material costs and improvement in net realisations from newsprint (as per Q3CY08 data), it will be difficult for producers to hike prices further. Three-month futures of wood pulp have corrected from US\$720/MT to US\$626/MT; we believe this should start reflecting in newsprint prices in Q4FY09.
- ▶ **Demand erosion continues.** Newsprint consumption in the US fell 18.2% to 570,000MT in October, with January-October consumption declining 13% YoY. In line with the consumption decline, North American newsprint production dipped 7.8% YoY in January-October '08 to 8.6mnMT (Table 2). Also, Tribune, one of the largest publishers in the US, has filed for Chapter 11 bankruptcy on December 7, '08, burdened by the decline in circulation and advertising revenues. Tribune is estimated to account for ~8% of AbitibiBowater's annual sales and although Tribune plans to continue operating under bankruptcy protection, the bankruptcy filing could lead to further decline in newsprint demand in the US.
- ▶ **Domestic prices declining.** Domestic ex-factory newsprint prices declined 18.4% MoM in November to Rs31,000/MT from Rs38,000/MT. This follows a 5% MoM decline in October. Landed cost of imported newsprint was almost flat in November, rising a meagre 0.6%, and we expect it to start coming down Q4FY09 onwards. As per most publishers, newsprint prices have corrected 10-20% and international prices are expected to stabilise below US\$800/MT.

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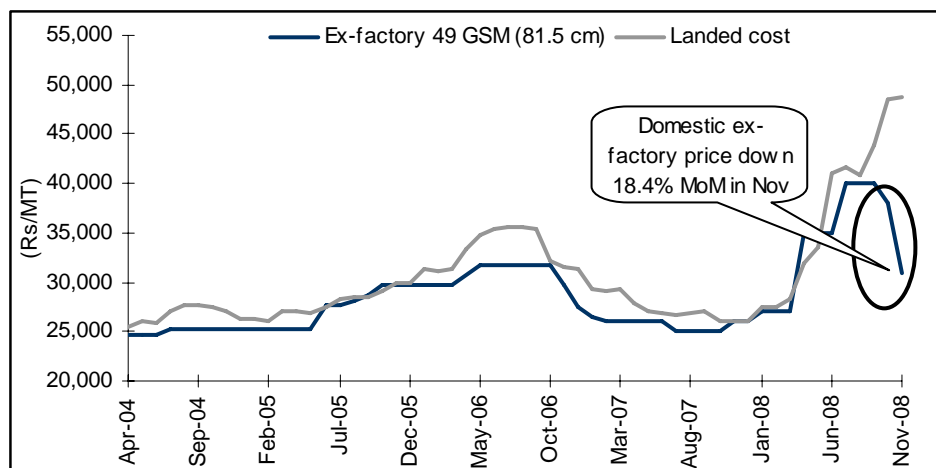
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Table 1: Comments by company managements

	Q2FY09/Q3CY09 conference call	Now
Jagran Prakashan	"The biggest concern seems to be over as the prices of domestic newsprint have started falling and it is expected that the prices of imported newsprint should also see a downtrend in the next 3-4 months. The gains from drop in newsprint prices will be visible in the current and next quarter."	"Imported newsprint prices have declined to US\$800/MT level. Decline in domestic newsprint prices has been steeper from Rs32,000-33,000/MT to Rs 28,000-29,000/MT."
HT Media	"You will begin to see some amount of correction (in newsprint) in the next two quarters, definitely starting next quarter onwards."	"Newsprint prices have reduced from the peak of US\$900-950/MT to ~US\$800/MT. Prices are expected to remain below US\$800/MT."
AbitibiBowater	"We have implemented each of our previously announced North American newsprint price increases through November, and expect to implement the announced US\$20/te December increase."	"...not to push through another newsprint price hike that was expected to be implemented from the beginning of December."

Source: Company data

Chart 1: Domestic newsprint prices down 18.4% MoM in November '08

Source: Industry

Table 2: Newsprint consumption and production in the US

	Monthly (MT)		YTD (million MT)	
	Oct '08	YoY (%)	Jan-Oct '08	YoY (%)
US newsprint consumption	570,000	(18.2)	5.691	(13.0)
North American newsprint production	845,000	(6.6)	8.604	(7.8)

Source: Pulp and Paper Products Council (North America), I-Sec Research

Table 3: Newsprint production cuts at AbitibiBowater

Type of cut	Capacity (MT)
Permanent closure (by Q1CY09 end)	205,000
Immediate idling	385,000
Revolving basis downtime	20,000/month
Total newsprint cuts	830,000

Source: Company data, I-Sec Research

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