

Research Update:

Forest Company Svenska Cellulosa (SCA) Affirmed At 'BBB/A-2'; Outlook Stable

June 26, 2025

Rating Action Overview

- In 2024, Svenska Cellulosa Aktiebolaget's (SCA's) adjusted debt to EBITDA decreased to 2.5x from 2.9x in 2023 and its funds from operations (FFO) to debt improved to 33.3% from 27.8%. We forecast that both credit metrics will remain at similar levels in 2025 and improve slightly in 2026.
- We evaluate these ratios to be commensurate with our 'BBB' rating on SCA. However, we have updated our financial risk profile assessment on the company to intermediate from modest to reflect our expectation that adjusted debt to EBITDA will remain above 2.0x and FFO to debt below 45% over the next two to three years.
- We removed our one-notch negative financial policy modifier, as we believe that SCA has limited headroom for additional leverage under the current rating.
- We therefore affirmed our 'BBB' long-term issuer credit rating on SCA as well as the 'BBB' issue rating on the senior unsecured notes. We also affirmed our 'A-2' short-term issuer credit and 'K-2' Nordic regional scale ratings.
- The stable outlook reflects our expectation that EBITDA will grow over the next 24 months, supported by recent capacity additions. We do not expect any material deterioration in credit metrics in 2025, despite sizeable capital expenditure (capex) and market volatility.

Rating Action Rationale

While SCA's credit metrics remain in line with our 'BBB' issuer credit rating, we have revised our financial risk profile assessment to intermediate from modest. The revision reflects SCA's weighted average adjusted debt to EBITDA of above 2.0x and its FFO to debt of below 45%. We view these as in line with an intermediate financial risk profile. We removed our one-notch negative financial policy modifier, which provided headroom for a slight deterioration in credit metrics, which has now materialized.

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In 2025, we forecast a moderate 6%-7% increase in revenue, supported by higher pulp and containerboard volumes from recent capacity additions. The latter include the extended chemi-thermomechanical pulp (CTMP) line in Ortviken, which SCA expects to reach its full capacity of 300,000 tons per year in 2025. Production at SCA's new containerboard machine in Obbola also continues to ramp up and is expected to reach its full capacity of 725,000 tons per year, of which 275,000 tons is new capacity, in 2026. In addition, we assume a minor increase in wood volumes, as we expect a slight recovery in demand. We estimate that containerboard and wood products prices will see a modest increase in 2025. We forecast revenue of about Swedish krona (SEK) 21.6 billion (about €1.95 billion) for 2025, up 6.7% from SEK20.3 billion in 2024.

We anticipate that SCA's S&P Global Ratings-adjusted EBITDA margin will increase to 27% in 2025 from 26.3% in 2024. This is because we forecast that the EBITDA margin will benefit from improved fixed cost absorption due to the recent capacity additions, which allow for volume growth. SCA's vertical integration in forests, energy and logistics provides a partial hedge against cost inflation. However, SCA has some exposure to wood costs, as 50% of its wood needs are sourced externally. We expect wood costs to remain elevated but broadly stable in 2025, and continue to expect margins to recovery gradually rather than rebounding strongly.

SCA's free operating cash flow (FOCF) will likely decrease toward SEK1 billion in 2025 from SEK1.3 billion in 2024. We estimate that an SEK1 billion increase in capex in 2025 to SEK3.2 billion, up from SEK2.2 billion in 2024, will offset SEK500 million of EBITDA growth in 2025. This includes roughly SEK1.7 billion of maintenance capex and SEK1.5 billion of growth capex. SCA's main growth project in 2025 is the Fasikan windfarm, which will have a capacity of 330 gigawatt-hours per year from 2026. We assume that capex will decrease toward SEK2 billion in 2026, boosting FOCF above SEK2 billion.

Outlook

The stable outlook reflects our expectation that EBITDA will grow over the next 24 months, supported by recent capacity additions. We do not expect any material deterioration in credit metrics in 2025, despite sizeable capex and market volatility.

Downside scenario

We could take a negative rating action on SCA if adjusted FFO to debt fell below 30% for a prolonged period or if debt to EBITDA exceeded 3.0x on a sustained basis. This could result, for example, from a significant drop in demand, lower selling prices, cost increases that SCA cannot pass onto customers, capex overruns, or unexpected production standstills.

Upside scenario

We believe an upgrade is unlikely due to the company's asset breadth and diversity, and its commodity exposure. That said, we could consider a potential upgrade with this business configuration if:

- SCA's adjusted FFO to debt exceeded 50% on a sustained basis;
- Its adjusted debt to EBITDA fell below 2.0x on a sustained basis; and
- SCA committed to maintaining such ratios, which we believe are commensurate with a modest financial risk profile.

Company Description

SCA is a Swedish forward-integrated forest products company. It is Europe's largest private forest owner, with about 2.7 million hectares of forestland, of which 2.1 million hectares are productive. The market value of the forests in Sweden and the Baltic countries is estimated at over SEK107 billion.

SCA generated revenue of SEK20.2 billion and adjusted EBITDA of SEK5.32 billion in 2024. Its external sales related to pulp (38%), containerboard (kraftliner; 32%), wood products (29%), and renewable energy (about 1%). Sweden accounted for 19% of sales, Germany 11%, the U.S. 10%, the U.K. 9%, the rest of Europe 35%, Asia 11%, and the rest of the world 5%.

The company is the third-largest containerboard manufacturer in Europe, and recent investment increased production capacity by 275,000 tons to 1.14 million tons. We expect prices for containerboard (made from virgin pulp) to remain weak in the near term due to overcapacity and somewhat correlated to prices for testliner, which is made from recycled paper. However, we expect volume growth in the medium term to be supported by e-commerce, the transition to environmentally friendly materials from plastic packaging, and food safety regulations.

SCA operates five highly efficient and well-invested sawmills that transform the most valuable parts of trees into sawn timber. Its wood products are sold to wood converters and traders, such as furniture, door, and window manufacturers and the building materials trade.

In pulp, SCA focuses mainly on Northern Bleached Softwood Kraft, used for packaging, tissue, filter, and publication paper applications. The new production line in Ortviken began operating in May 2023 and will increase SCA's pulp production capacity to 300,000 tons from 2025.

SCA leases a small area of its forestland to wind-power operators and is diversifying into the production of wood-based biofuels, which it largely uses in its own plants. At year-end 2024, the group had 9.7 terawatt-hours (TWh) of wind-power production on its land. SCA also produced about 11 TWh of bioenergy in 2024.

Our Base-Case Scenario

Assumptions

- Real GDP growth of 0.8% in 2025 and 1.2% in 2026 in Europe; 1.8% and 2.8%, respectively, in Sweden; 1.5% and 1.7% in the U.S.; and 3.8% and 3.7% in Asia-Pacific.
- We expect revenue to grow by 6%-7% in 2025, driven by higher volumes in containerboard, mainly due to the continued ramp-up of the new paper machine in Obbola, and in pulp, as the new chemical thermomechanical pulp capacity will reach full capacity in 2025. We assume broadly stable selling prices and forecast about 9% growth in 2026 from further volume growth due to new capacity ramp-up.
- We forecast an S&P Global Ratings-adjusted EBITDA margin of 27% in 2025, up from 26.3% in 2024, as a result of additional volumes as the ramp-up of production at its new sites improves fixed cost absorption. We forecast that SCA's vertical integration will continue to partly offset sustained elevated wood costs. In 2026, we expect a gradual improvement to 27.7% as SCA continues to reap the benefits of the recent capacity expansions.
- Capex of about SEK3.2 billion in 2025, including about SEK1.7 billion in maintenance capex and SEK1.5 billion in growth capex, mainly for the wind farm project in Fasikan. From 2025

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onward, annual capex of about SEK2.2 billion, including maintenance capex of about SEK1.4 billion and some expansion projects.

- Annual working capital outflows of about SEK750 million in 2025 and 2026, in line with volume growth.
- About SEK200 million per year of forestland acquisitions in 2025 and 2026. We assume fixed asset divestments of SEK100 million per year.
- Dividend payments of SEK2.1 billion in 2025 and SEK2.3 billion in 2026.

Key metrics

Svenska Cellulosa Aktiebolaget SCA--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. SEK)	2021a	2022a	2023a	2024a	2025e	2026f
Revenue	18,822	20,794	18,081	20,232	21,586	23,542
Gross profit	13,838	16,134	13,460	15,256	16,489	18,152
EBITDA (reported)	7,356	8,369	4,609	5,303	5,876	6,578
Plus/(less): Other	(96)	29	(162)	24	(50)	(50)
EBITDA	7,260	8,398	4,447	5,327	5,826	6,528
Less: Cash interest paid	(179)	(363)	(533)	(594)	(549)	(587)
Less: Cash taxes paid	(538)	(859)	(330)	(293)	(340)	(550)
Funds from operations (FFO)	6,543	7,176	3,584	4,440	4,937	5,391
Capital expenditure (capex)	5,054	5,799	3,090	2,152	3,200	2,200
Free operating cash flow (FOCF)	863	364	759	1,311	1,037	2,491
Dividends	1,405	2,282	1,756	1,931	2,107	2,283
Discretionary cash flow (DCF)	(542)	(1,918)	(997)	(620)	(1,070)	208
Debt (reported)	9,502	11,947	12,784	13,964	14,964	14,964
Plus: Lease liabilities debt	636	588	600	696	708	720
Less: Accessible cash and liquid Investments	(1,056)	(836)	(502)	(1,328)	(973)	(897)
Debt	9,082	11,699	12,882	13,332	14,699	14,787
Adjusted ratios						
Debt/EBITDA (x)	1.3	1.4	2.9	2.5	2.5	2.3
FFO/debt (%)	72.0	61.3	27.8	33.3	33.6	36.5
FFO cash interest coverage (x)	37.6	20.8	7.7	8.5	10.0	10.2
EBITDA interest coverage (x)	56.7	44.7	9.1	9.3	10.6	11.1
CFO/debt (%)	65.2	52.7	29.9	26.0	28.8	31.7
FOCF/debt (%)	9.5	3.1	5.9	9.8	7.1	16.8
DCF/debt (%)	(6.0)	(16.4)	(7.7)	(4.7)	(7.3)	1.4
Annual revenue growth (%)	2.2	10.5	(13.0)	11.9	6.7	9.1
EBITDA margin (%)	38.6	40.4	24.6	26.3	27.0	27.7

a--Actual. e--Estimate. f--Forecast.

Liquidity

The 'A-2' short-term rating on SCA reflects its long-term issuer credit rating and strong liquidity assessment. We expect that liquidity sources will cover uses by about 1.5x in the 12 months from March 31, 2025. SCA's liquidity is supported by the group's well-established relationships with banks and its high standing in credit markets.

Principal liquidity sources

- Cash balance of about SEK1.3 billion as of March 31, 2025;
- SEK6 billion available under committed credit facilities; and
- Cash FFO of about SEK4.9 billion.

Principal liquidity uses

- Debt maturities of about SEK2 billion;
- Working capital outflows of SEK750 million;
- Capex of about SEK2.9 billion; and
- Dividends of about SEK2.1 billion.

Covenants

The group is not subject to any maintenance covenants under its loan agreements.

Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of SCA. We think the company benefits from its extensive forest assets in Sweden. Its 2.7 million hectares of forestland bound 5.7 billion tons of carbon dioxide in 2024. Like those of other forest and paper companies, SCA's forests could be exposed to adverse effects of climate change. However, we think SCA's risk is lower owing to the location of its sizeable forest assets in Northern Sweden and because the company will benefit from higher temperatures leading to higher forest growth. We see environmental risks posed by SCA's operations, since the production of pulp and paper requires significant amounts of energy, water, and chemicals. These risks are partly offset by the carbon dioxide sequestration in its growing forests and extensive use of fossil-free energy sources.

SCA also continually improves the energy efficiency of its industrial assets. The Östrand pulp mill, for example, is a net seller of green electricity and heating. The company is also expanding its renewable energy activities. In addition to biofuels production, SCA leases out forestland for wind-power projects and has owned some wind turbines since 2023.

Our neutral management and governance assessment is supported by the company's exit from the graphic paper market in 2020 and diversification into higher-growth fiber-based products, which we think were timely and pertinent decisions. The overall governance architecture follows Swedish corporate practices and is largely in line with standards for large Swedish companies.

Issue Ratings--Subordination Risk Analysis

Capital structure

SCA's SEK14.9 billion debt as of March 31, 2025, included bank loans, bonds, and leases. Except for the SEK657 million in leases, all of the debt is unsecured.

Analytical conclusions

As there is no contractual subordination, we rate SCA's unsecured obligations 'BBB', in line with the issuer credit rating.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/STABLE/A-2
Local currency issuer credit rating	BBB/STABLE/A-2
Business risk	Satisfactory
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019

- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings list

Ratings Affirmed

[Svenska Cellulosa AB SCA](#)

Issuer Credit Rating	BBB/Stable/A-2
Nordic Regional Scale	--/--/K-2
Senior Unsecured	BBB

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