

Tear Sheet:

Svenska Cellulosa Aktiebolaget SCA

February 22, 2024

Svenska Cellulosa Aktiebolaget SCA (SCA)'s EBITDA for 2023 was significantly below our expectations. S&P Global Ratings-adjusted EBITDA of Swedish krona (SEK)4.6 billion (about \$447 million) in 2023 was below our anticipated EBITDA of SEK5.7 billion. This was due to lower selling prices (primarily caused by weak economic conditions) and higher input costs (notably pulpwood and sawlogs). Adjusted leverage reached 2.9x at year-end 2023, compared to our previous forecast of 2.1x, and funds from operations (FFO) to debt was 29% at year-end 2023, compared to our earlier predicted 40%.

We forecast about 18% revenue growth, and about 29% EBITDA growth in 2024. We expect this will primarily be fueled by higher volumes from the ramp-up of the company's new containerboard line in Obbola, new pulp line in Ortviken, and new Gothenburg biofuel plant. We also forecast a modest recovery in prices for 2024, fueled by tight supply conditions.

Rating headroom has tightened but remains adequate. We anticipate that adjusted leverage will decline to 2.3x in 2024, from 2.9x in 2023, and FFO to debt will recover to 37% in 2024, up from 29% in 2023. This is underpinned by a stronger EBITDA and expected improvement in adjusted free operating cash flow generation (FOCF) to SEK1.7 billion in 2024, up from SEK578 million in 2023, as a result of lower capital expenditure (capex). We forecast capex of SEK2.4 billion in 2024, down from SEK3.1 billion in 2023, since SCA's expansion projects have largely been completed. Nevertheless, discretionary cash flow will remain negative at minus SEK266 million in 2024, since we expect SCA to pay SEK1.9 billion in dividends.

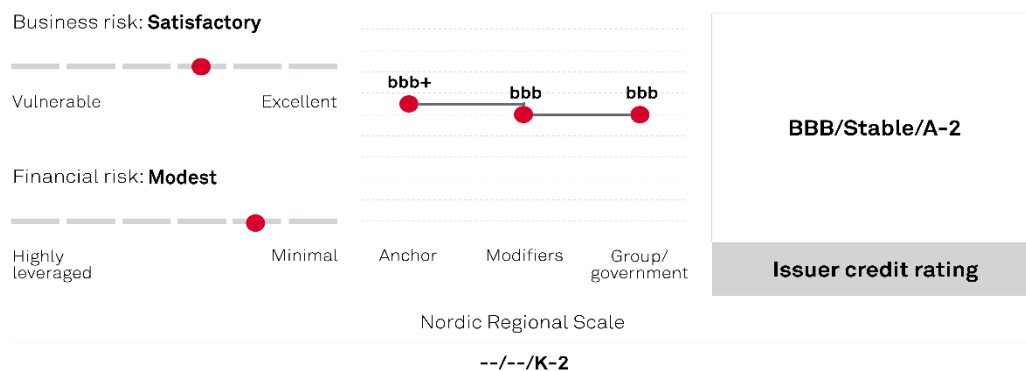
Primary contact

Guillaume Colomer
Milan
393402116723
guillaume.colomer
@spglobal.com

Secondary contact

Desiree I Menjivar
London
44-20-7176-7822
desiree.menjivar
@spglobal.com

Ratings Score Snapshot



Recent Research

- Svenska Cellulosa Aktiebolaget SCA (publ), June 8, 2023

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 SEK100 billion.

SCA generated revenue of SEK18.1 billion and adjusted EBITDA of SEK4.3 billion in 2023. Its sales came from its containerboard (kraftliner) segment (32%), wood products segment (29%), pulp segment (38%), and renewable energy segment. By region, Sweden contributed 17% of sales, the U.S. 11%, Germany 11%, the U.K. 8%, rest of Europe 32%, Asia 14%, and the rest of the world 7%.

The company is the third largest containerboard manufacturer in Europe, with current investments aiming to increase capacity by a further 275,000 metric tons (mt) to 1,140,000 mt by 2026. Although containerboard (made from virgin pulp) prices are volatile and somewhat correlated to testliner (made from recycled paper) prices, we expect growth to be supported by e-commerce, the transition to environmentally friendly materials (away from plastic packaging), and food safety regulations.

SCA operates five very 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 manufacturers of furniture, doors, and windows) and the building materials trade.

In pulp, SCA mainly focuses on Northern Bleached Softwood Kraft, used for packaging, tissue, filter, and publication paper applications. The company also produces 100,000 mt of ChemoThermoMechanical Bleached Pulp, used in hygiene and packaging products. The new production line in Ortviken will increase capacity to 300,000 tons.

SCA rents 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 2022, 7.2

terawatt hours (TWh) of wind power production was installed on SCA's land. Annual production by SCA owned wind farms amounted to 200 gigawatt hours (GWh). In 2022, SCA also produced 11.4 TWh of bioenergy, out of which 9 TWh was used in SCA's own plants and 2 TWh was delivered to external customers.

Outlook

The stable outlook reflects our expectation that SCA will successfully ramp up its expansion projects over the next 24 months. We expect these to fuel higher sales, and partly compensate for continuously low prices, which we expect will start to recover in 2024. SCA will also benefit from the progressive reduction of its capex following massive expansionary investments in previous years, fueling stronger cash flow, and consequently lower debt. This will result in FFO to debt above 30% by year-end 2024.

Downside scenario

We could lower the rating if adjusted FFO to debt falls below 30% for a prolonged period. This could result, for example, from an absence of recovery in demand after a weak 2023, lower selling prices, cost pressure, capex overruns, or unexpected maintenance-related production standstills.

Upside scenario

We see the possibility of an upgrade on the company as limited due to its asset breadth and diversity, and commodity exposure. To consider a potential upgrade with this business configuration, financial performance needs to be a long-term pillar, with SCA's public financial policies committing to maintain ratios commensurate with a modest financial risk profile, such as a minimum adjusted FFO to debt of 50%.

Key Metrics

Svenska Cellulosa Aktiebolaget SCA--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. SEK)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	19,591	18,410	18,822	20,794	18,081	21,417	24,688	28,159
Gross profit	12,522	11,237	13,838	16,134	11,387	13,993	16,679	19,673
EBITDA (reported)	4,602	2,131	7,356	8,369	4,609	5,964	7,424	9,117
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(233)	1,083	(96)	29	1	1	1	1
EBITDA	4,369	3,214	7,260	8,398	4,610	5,965	7,425	9,118
Less: Cash interest paid	(103)	(133)	(179)	(363)	(432)	(599)	(536)	(517)
Less: Cash taxes paid	(652)	(35)	(538)	(859)	(330)	(299)	(653)	(1,153)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	3,614	3,046	6,543	7,176	3,848	5,067	6,235	7,447
EBIT	2,679	999	5,857	6,789	3,009	4,348	5,797	7,483
Interest expense	113	126	128	188	429	599	536	517
Cash flow from operations (CFO)	3,296	3,683	5,917	6,163	3,691	4,066	5,234	7,246

Svenska Cellulosa Aktiebolaget SCA--Forecast summary

Capital expenditure (capex)	2,288	2,644	5,054	5,799	3,113	2,400	2,100	2,100
Free operating cash flow (FOCF)	1,008	1,039	863	364	578	1,666	3,134	5,146
Dividends	1,229	--	1,405	2,282	1,756	1,931	2,107	2,283
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	(221)	1,039	(542)	(1,918)	(1,178)	(266)	1,027	2,863
Debt (reported)	8,763	9,051	9,502	11,947	13,059	14,059	14,956	14,653
Plus: Lease liabilities debt	854	751	636	588	751	751	751	751
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(454)	(1,273)	(1,056)	(836)	(502)	(917)	(2,572)	(4,913)
Plus/(less): Other	--	--	--	--	--	--	--	--
Debt	9,163	8,529	9,082	11,699	13,308	13,893	13,135	10,490
Equity	68,510	72,163	83,055	96,358	96,468	97,572	99,636	102,877
FOCF (adjusted for lease capex)	918	965	821	306	193	1,447	2,915	4,927
Interest expense (reported)	112	105	71	26	429	599	536	517
Capex (reported)	2,289	2,665	5,111	5,961	3,113	2,400	2,100	2,100
Cash and short-term investments (reported)	454	1,273	1,056	836	502	917	2,572	4,913
Adjusted ratios								
Debt/EBITDA (x)	2.1	2.7	1.3	1.4	2.9	2.3	1.8	1.2
FFO/debt (%)	39.4	35.7	72.0	61.3	28.9	36.5	47.5	71.0
FFO cash interest coverage (x)	36.1	23.9	37.6	20.8	9.9	9.5	12.6	15.4
EBITDA interest coverage (x)	38.7	25.5	56.7	44.7	10.8	10.0	13.8	17.6
CFO/debt (%)	36.0	43.2	65.2	52.7	27.7	29.3	39.9	69.1
FOCF/debt (%)	11.0	12.2	9.5	3.1	4.3	12.0	23.9	49.1
DCF/debt (%)	(2.4)	12.2	(6.0)	(16.4)	(8.8)	(1.9)	7.8	27.3
Lease capex-adjusted FOCF/debt (%)	10.0	11.3	9.0	2.6	1.5	10.4	22.2	47.0
Annual revenue growth (%)	4.5	(6.0)	2.2	10.5	(13.0)	18.4	15.3	14.1
Gross margin (%)	63.9	61.0	73.5	77.6	63.0	65.3	67.6	69.9
EBITDA margin (%)	22.3	17.5	38.6	40.4	25.5	27.9	30.1	32.4
Return on capital (%)	4.3	1.3	6.8	6.8	2.8	3.9	5.2	6.6
Return on total assets (%)	3.3	1.0	5.3	5.3	2.2	3.1	4.0	5.1
EBITDA/cash interest (x)	42.4	24.2	40.6	23.1	10.7	10.0	13.8	17.6
EBIT interest coverage (x)	23.7	7.9	45.8	36.1	7.0	7.3	10.8	14.5
Debt/debt and equity (%)	11.8	10.6	9.9	10.8	12.1	12.5	11.6	9.3
Debt fixed-charge coverage (x)	38.7	25.5	56.7	44.7	3.7	10.0	8.8	11.1
Debt/debt and undepreciated equity (%)	11.8	10.6	9.9	10.8	12.1	12.5	11.6	9.3

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. SEK--Swedish krona.

Environmental, Social, And Governance

environmental, social and governance factors are an overall neutral consideration in our credit rating analysis of SCA. We believe SCA benefits from its extensive forest assets in Sweden. Its 2.7 million hectares of forest land bound 5.4 billion tons of carbon dioxide in 2022. Although SCA's forests could be exposed to adverse effects of climate change (with as for other forest and paper companies), we believe that this risk is lessened by the location of its forest assets (Northern Sweden) and that it will benefit from higher temperature leading to higher forest growth rates. We see environmental risks from SCA's operations, since the production of pulp

and paper requires significant amounts of energy, water, and chemicals. These risks are partly compensated by the carbon dioxide sequestration in its tree plantations and its extensive use of fossil-free energy sources.

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

Our neutral management and governance assessment reflects management practices and governance structure that we view as credit neutral. It is supported by SCA's successful exit from graphic paper (in 2020) and diversification into higher-growth fiber-based products, strategic decisions that we believe were timely and pertinent. The overall governance architecture follows Swedish corporate governance practices and is largely in line with other large Swedish companies' standards.

Rating Component Scores

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	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb

Related Criteria

- 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

Svenska Cellulosa Aktiebolaget SCA

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.