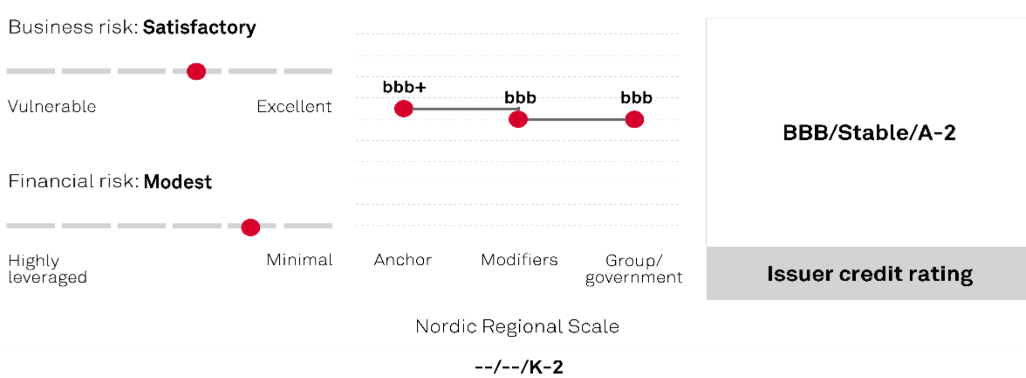
Svenska Cellulosa Aktiebolaget SCA (publ)

June 8, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Extensive forestland holdings (2.7 million hectares) secure half of its wood supply and provide asset backing to lenders.	High volatility in pulp, wood, and kraftliner prices.
Well-invested asset base, full energy self-sufficiency, and in-house logistics operations support above-average profitability, with S&P Global Ratings-adjusted EBITDA margins of about 35% through the cycle.	Small size compared to larger peers with sales of Swedish krona (SEK) 20.8 billion, S&P Global Ratings-adjusted EBITDA of SEK8.4 billion, and an asset base exclusively in Sweden.
Strong track record of free operating cash flow (FOCF), positive since 2018 despite high capital expenditure (capex) to sales of up to 27% in 2021.	Financial policy allows for higher S&P Global Ratings-adjusted leverage of up to 2.5x, from 1.4x at year-end 2022.

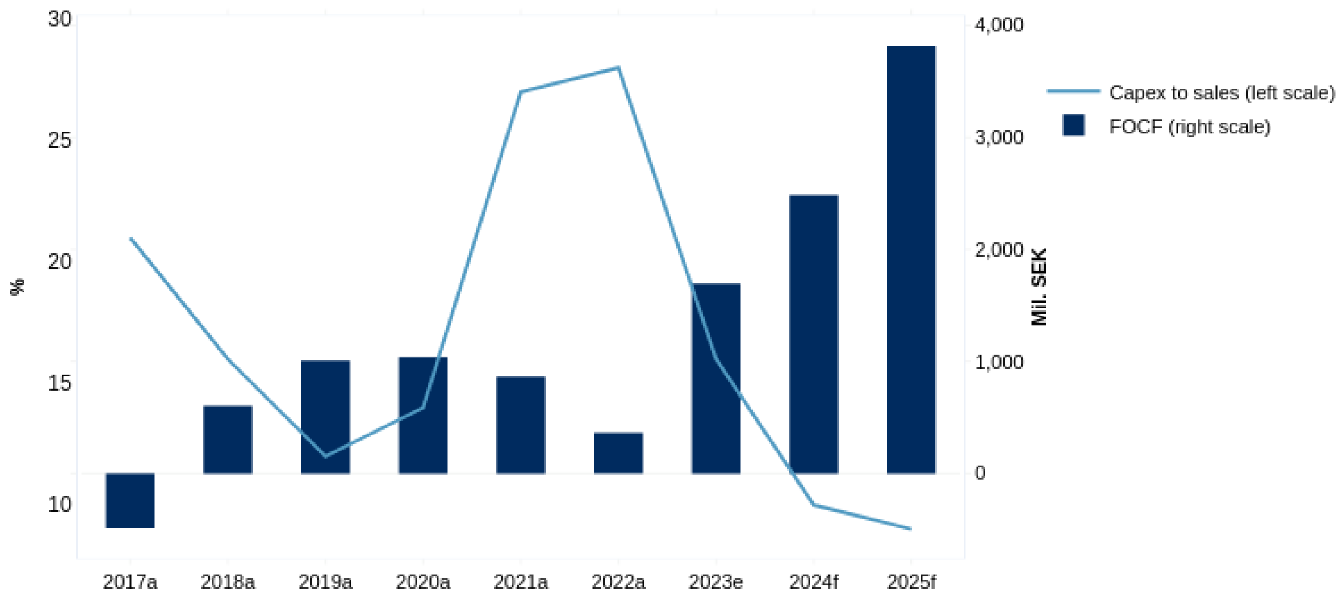
S&P Global Ratings forecasts a sharp (11.5%) decline in Svenska Cellulosa Aktiebolaget SCA (publ) (SCA)'s sales in 2023, driven by weaker prices across all segments. We forecast a 20% decline in northern bleached softwood kraft (NBSK) pulp prices in 2023 compared to 2022, due to softer economic conditions. The price declines will only partly be offset by additional volumes from the ramp-up of thew new chemi-thermo mechanical pulp (CTMP) line at Ortviken. We also anticipate weaker containerboard sales in 2023 due to lower prices and despite additional volumes from the new machine in Obbola. Furthermore, we expect lower prices and demand for wood products, given the downturn in the construction industry.

We anticipate a significant drop in S&P Global Ratings-adjusted EBITDA margins to 31.2% in 2023 from 40.4% in 2022. This Is due to a lower absorption of fixed costs and higher wood costs (and despite lower energy costs). However, SCA's S&P Global Ratings-adjusted EBITDA margins remain above those of peers, reflecting its integrated business model and well-invested asset base. Half of its wood is sourced internally, and all its electricity is self-generated.

The completion of major capex projects in 2023 will support FOCF. The new 275,000-ton paper machine in Obbola started production in 2023 and is expected to reach full capacity by 2026. The extended CTMP line in Ortviken (capacity expansion of 200,000 tons) will also start production in 2023. The finalization of both these projects, which involved material capital outlays, will lead to improvements in revenue, S&P Global Ratings-adjusted EBITDA margins, and FOCF. We expect capex to decline to SEK2.9 billion in 2023 and SEK2.1 billion in 2024, from SEK5.8 billion in 2022. This will support FOCF of SEK1.7 billion in 2023 and SEK2.5 billion in 2024, despite working capital outflows of up to SEK1 billion in 2023 and 2024 linked to the ramp up of production at the Obbola and Ortviken plants.

SCA's adjusted FOCF and capex to sales evolution over 2017a-2025f

We expect capex intensity to reduce significantly from 2024, driving higher FOCF

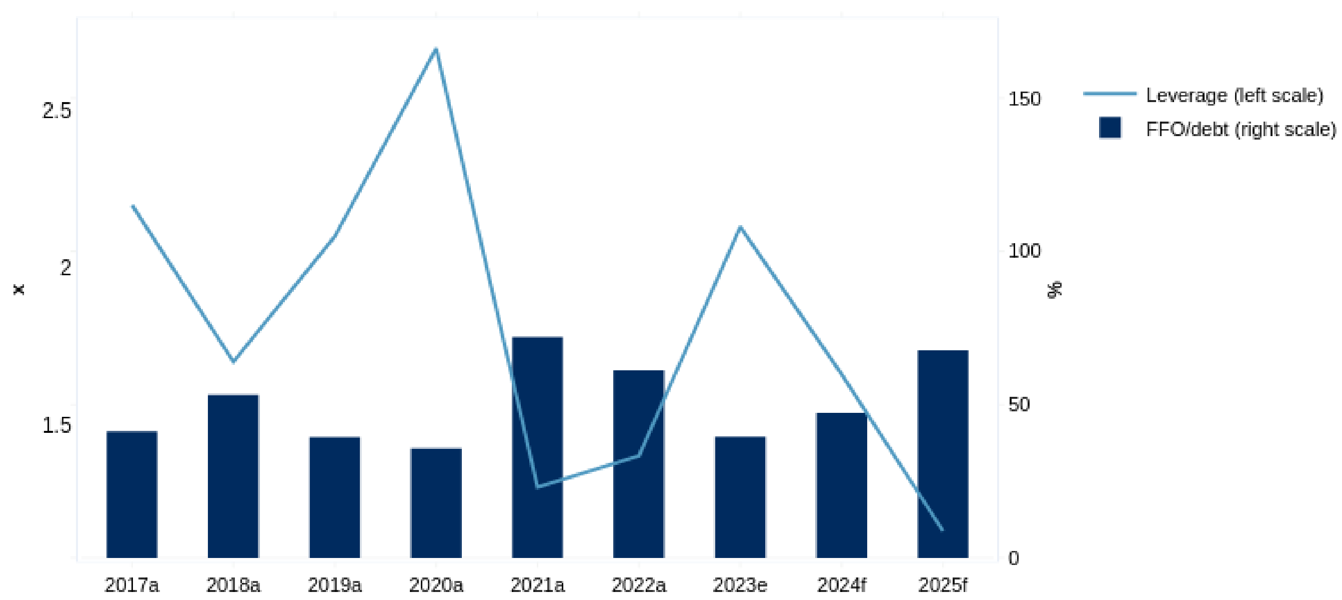


Capex--Capital expenditure. SEK--Swedish krona. FOCF--Free Operating Cash Flow. a--Actual. f--Forecast. Source: S&P Global Ratings.

Despite weaker performance in 2023, ratings headroom remains ample. In 2023, we forecast funds from operations (FFO) to debt at 39.5%, down from 61.3% in 2022, due to lower EBITDA and higher interest expenses. We then expect an improvement to about 47.2% in 2024 as demand for SCA's products recovers (resulting in slightly higher prices) and production ramps-up at Ortviken (pulp) and Obbola (containerboard).

SCA's adjusted leverage and FFO to debt evolution over 2017a-2025f

We expect credit metrics to strongly rebound from 2024



FFO--Funds From Operations. a--Actual. f--Forecast. Source: S&P Global Ratings.
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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 drive higher volumes, and partially compensate for lower prices in 2023. SCA will also benefit from the progressive reduction of its capex, driving stronger cash flows, and consequently lower debt. This will result in FFO to debt above 50% on a weighted-average basis

Downside scenario

We could take a negative rating action on SCA if adjusted FFO to debt falls below 30% for a prolonged period. This could result, for example, from a significant drop in demand, lower selling prices, cost pressure, capex overruns, or unexpected maintenance-related production standstills.

Upside scenario

We see rating upside as rather limited due to the company's 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%.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Europe of 0.6% in 2023 and 1.8% in 2024; real GDP growth in Sweden of negative 0.3% in 2023 and positive 1.1% in 2024; real GDP growth in Germany of 0.0% in 2023 and 0.9% in 2024.
- An 11.5% revenue decline in 2023, driven by lower prices across all businesses, and lower volumes in wood, which will not be fully compensated by higher volumes in pulp and kraftliner (as the Ortviken and Obbola plants ramp-up). We assume sales growth of about 14.9% in 2024 driven by a modest recovery in prices and volume growth in pulp and containerboard.
- S&P Global Ratings-adjusted EBITDA margins of 31.2% in 2023 (40.4% in 2022) due to lower selling prices and volumes in pulp, kraftliner, and wood. In 2024, we expect higher EBITDA margins of 33.8% as sales prices recover and pulp and kraftliner volumes increase with the respective ramp ups of Ortviken and Obbola.
- Working capital outflows of about SEK250 million in 2023, spurred by the ramp up of Obbola and Ortviken volumes, increasing to about SEK1 billion in 2024.
- Strategic capex of about SEK4.0 billion in 2022, mainly due to the construction of a new kraftliner machine in Obbola and a new CTMP machine in Ortviken. Thereafter, we expect strategic capex to decrease to about SEK1.8 billion in 2023. Annual maintenance capex is forecast at about SEK1.6 billion.
- About SEK150 million in net annual forestland acquisitions in 2023 and 2024.
- Annual dividend payments of SEK1.75 billion in 2024 and SEK1.93 billion in 2025.

Key metrics

Svenska Cellulosa Aktibolaget SCA (publ)--Key Metrics*

Mil. SEK	2021a	2022a	2023e	2024f	2025f
Revenue	18,822	20,794	18,409	21,150	24,119
Revenue growth (%)	2.2	10.5	(11.5)	14.9	14.0
EBITDA	7,260	8,398	5,743	7,141	8,840
EBITDA margin (%)	38.6	40.4	31.2	33.8	36.7
Funds from operations (FFO)	6,543	7,176	4,841	5,588	6,918
Capital expenditure	5,054	5,799	2,900	2,100	2,100

Free operating cash flow (FOCF)	863	364	1,693	2,487	3,817
Dividends	1,405	2,282	1,756	1,756	1,931
Debt	9,082	11,699	12,247	11,835	10,218
Debt to EBITDA (x)	1.3	1.4	2.1	1.7	1.2
FFO to debt (%)	72.0	61.3	39.5	47.2	67.7
FOCF to debt (%)	9.5	3.1	13.8	21.0	37.4
EBITDA interest coverage (x)	56.7	44.7	12.0	13.8	16.4
FFO interest coverage (x)	37.6	20.8	11.1	11.8	13.8

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. SEK--Swedish krona.

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 SEK98 billion.

In 2022, SCA generated revenue of SEK20.8 billion and adjusted EBITDA of SEK8.4 billion. Its external sales relate to containerboard (kraftliner), wood products, and pulp.

By geography in 2022, 20% of its sales were directed to Sweden, 13% to the U.S., 12% to Germany, 10% to the U.K., 8% to Asia, and 1% to the rest of the word.

By division in 2022, 35% of sales came from the pulp division, 33% from the containerboard division, and 32% from the wood division.

The group is the third largest kraftliner 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 kraftliner (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 NBSK, used for packaging, tissue, filter, and publication paper applications. The group also produces 100,000 mt of CTMP, 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. As of 2022, SCA is also investing in own wind-power production. The first wind farm was bought in December 2022 and has annual production of approximately 0.2 terawatt hours.

Peer Comparison

SCA's closest rated peers include Holmen AB, UPM-Kymmene Corp. (UPM), Mondi PLC, and Metsa Board Corp.

Holmen's EBITDA margins are lower than SCA's, since it maintains exposure to the lower-margin publication sector. It also does not have any long pulp position like SCA, which usually yields higher margins. Holmen's size in terms of revenue is similar to that of SCA, with all its assets also located in Sweden. Furthermore, it is also vertically integrated with significant forest assets and both companies have sizeable wood operations. However, Holmen's strategy differs from SCA's in that Holmen's is more prudent, invests less capex, and is focused on developing its wood business, which is less capital intensive than pulp and containerboard activities. Although Holmen's creditworthiness is undermined by its financial policy, in our view, we incorporate into the rating support from its owner (L E Lundbergföretagen), which results in an issuer credit rating one notch above that on SCA, at 'BBB+'.

UPM is significantly larger than SCA, with sales almost six times larger in 2022. Its product offering is also significantly more diversified as well as its asset base, with major operations outside its home country--Finland--notably in Germany and Uruguay. That said, UPM displays lower margins, particularly due to its still very large exposure to publication paper, a sector which typically yields low margins of about 10%. Like SCA, UPM is somewhat vertically integrated, with some forestland ownership, although significantly less than SCA, but it is fully self-sufficient in terms of electricity and energy consumption. Our rating on UPM is also constrained by its financial policy, which allows for higher leverage than current levels, since it goes through intensive capex phases and periods of lower end prices, which depress Its EBITDA.

Mondi is significantly larger than SCA and more diversified geographically, with assets in emerging markets (including South Africa) and a strong focus on cost reductions. In terms of product mix, Mondi is more focused on the later part of the value chain with extensive containerboard and paperboard operations, but no wood sales. Mondi has significantly less forestland than SCA but is close to self-sufficiency in terms of electricity and energy consumption. Mondi's margins are lower, due to its product positioning and lower vertical integration. Like SCA, our rating on Mondi is constrained by its financial policy, which allows for higher leverage than current levels.

Metsa Board is marginally smaller than SCA and significantly less profitable due to its lack of vertical integration. Metsa Board primarily sells paperboard and pulp and its production assets are only in Finland. Metsa Board has no forest assets. It is also significantly short in terms of electricity and energy consumption. The company has lower leverage than SCA but the rating includes a one-notch deduction for our assessment of its financial policy.

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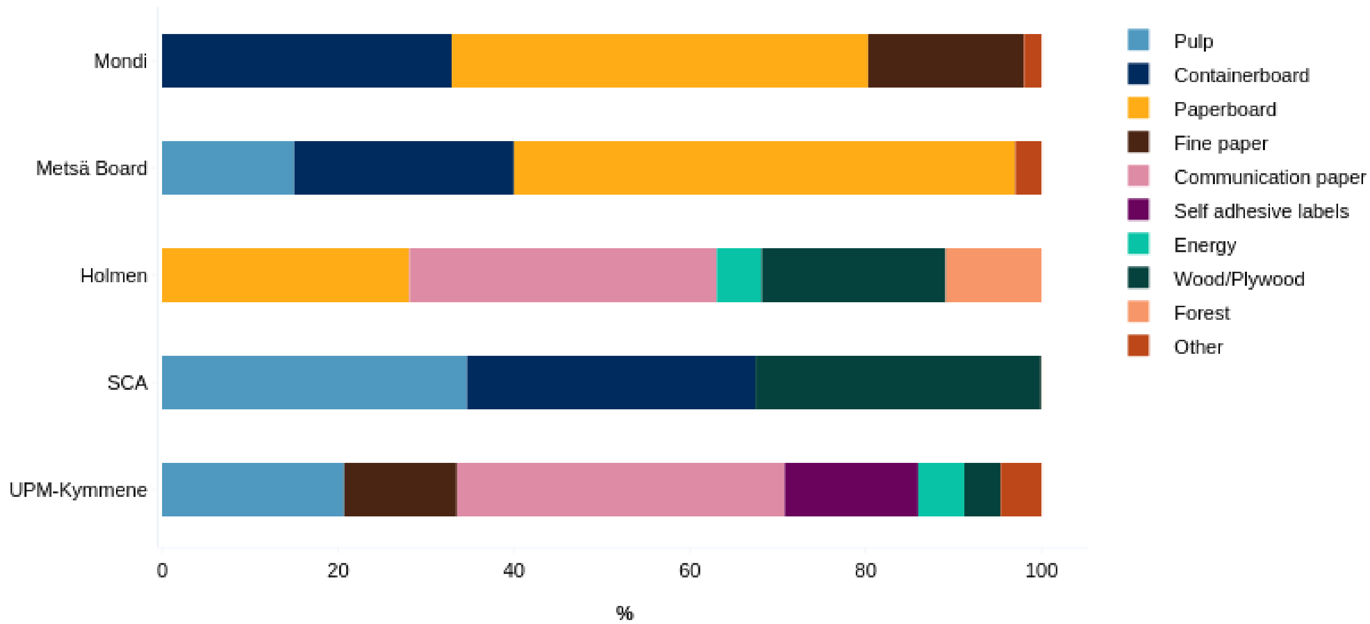
Forest companies' external sales by type of product In 2022

SCA is less diversified than most of its peers



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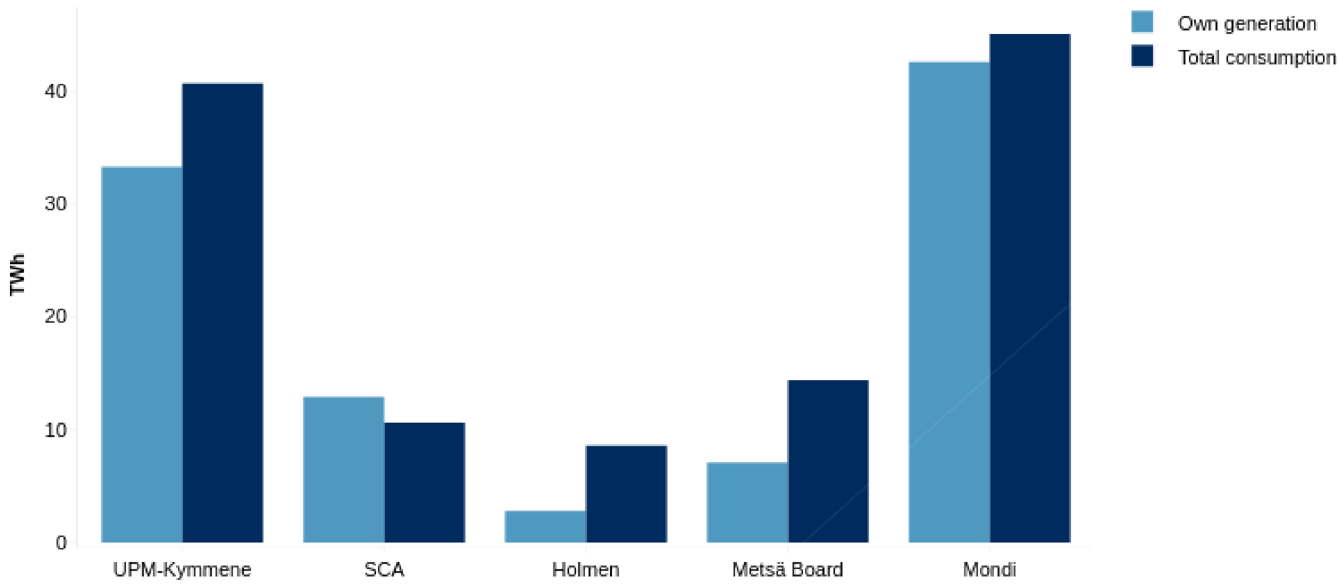
Forest companies' energy generation and consumption In 2022

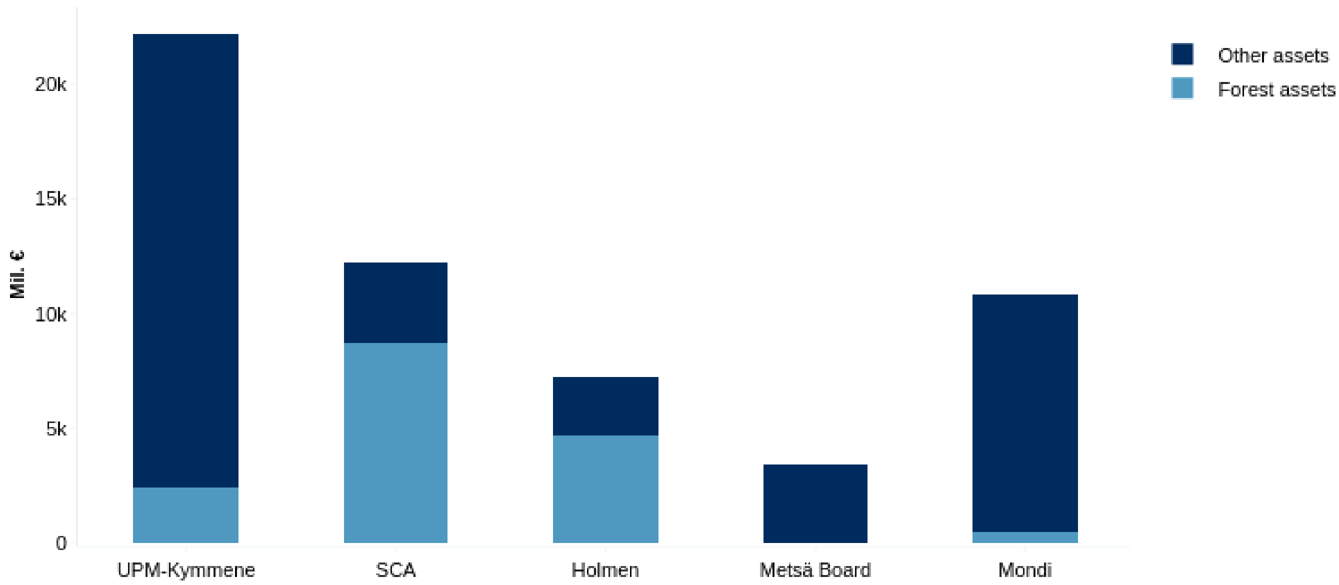
SCA is a net seller of energy.



TWh--Terawatt hour. Source: Companies fillings and S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserv

Forest companies' share of forest assets in total assets

SCA has the largest forest assets of the peer group in 2022.



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Svenska Cellulosa Aktiebolaget SCA--Peer Comparisons

	Svenska Cellulosa AB SCA	Holmen AB	Metsa Board Corp.	UPM-Kymmene Corp.	Mondi PLC
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB-/Stable/A-3	BBB+/Positive/A-2	A-/Stable/--
Local currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB-/Stable/A-3	BBB+/Positive/A-2	A-/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	SEK	SEK	SEK	SEK	SEK
Revenue	20,794	26,661	27,624	130,567	99,173
EBITDA	8,398	8,406	5,034	28,130	21,056
Funds from operations (FFO)	7,176	6,719	4,160	23,941	18,181
Interest	188	61	136	691	1,627
Cash interest paid	363	48	134	702	691
Operating cash flow (OCF)	6,163	5,484	2,491	5,437	15,508
Capital expenditure	5,799	1,391	2,962	16,232	6,317

Svenska Cellulosa Aktiebolaget SCA--Peer Comparisons

Free operating cash flow (FOCF)	364	4,093	(472)	(10,795)	9,191
Discretionary cash flow (DCF)	(1,918)	2,231	(2,309)	(18,816)	5,437
Cash and short-term investments	836	1,935	3,968	23,027	11,887
Gross available cash	836	1,935	3,968	23,027	11,887
Debt	11,699	2,346	1,181	38,212	12,523
Equity	96,358	56,950	25,125	143,467	69,673
EBITDA margin (%)	40.4	31.5	18.2	21.5	21.2
Return on capital (%)	6.8	12.8	22.6	13.8	20.7
EBITDA interest coverage (x)	44.7	137.8	36.9	40.7	12.9
FFO cash interest coverage (x)	20.8	141.0	32.0	35.1	27.3
Debt/EBITDA (x)	1.4	0.3	0.2	1.4	0.6
FFO/debt (%)	61.3	286.4	352.2	62.7	145.2
OCF/debt (%)	52.7	233.8	210.9	14.2	123.8
FOCF/debt (%)	3.1	174.5	(39.9)	(28.3)	73.4
DCF/debt (%)	(16.4)	95.1	(195.5)	(49.2)	43.4

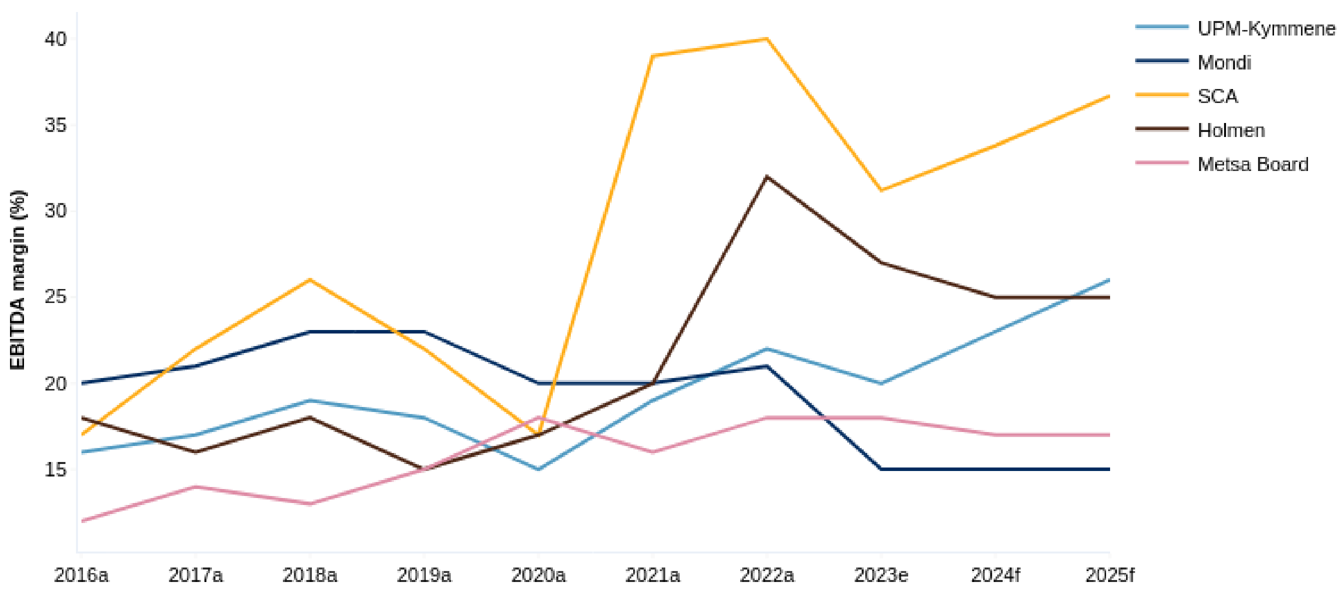
Business Risk

Our business risk assessment reflects SCA's leading market positions in the kraftliner and wood segments, its cost-efficient asset base and logistics operations, and its large forestland holdings.

SCA’s margins are significantly stronger than those of its European peers. Its high degree of vertical integration (into forests, energy, and logistics) partly insulates it from cost increases. Half of SCA's wood logs are internally sourced from its own forests and 30% are covered by long-term agreements with private forest owners in Sweden. Wood prices have been on the rise since the start of 2022, due to reduced supply from Russia. SCA is well placed to cope with rising energy prices. It is fully self-sufficient in terms of electricity because of generation via its pulp activities and from wind turbines installed on its forest lands. The situation is similar regarding solid biofuels where the company is a net seller, thanks to logging residue and wood fuel. Furthermore, SCA's own transport and long-term agreements with freight companies cover about 40% of its freight needs.

Forest companies' S&P Global Ratings-adjusted EBITDA margins over 2016a-2025f

SCA's margins are largely superior to the ones of peers

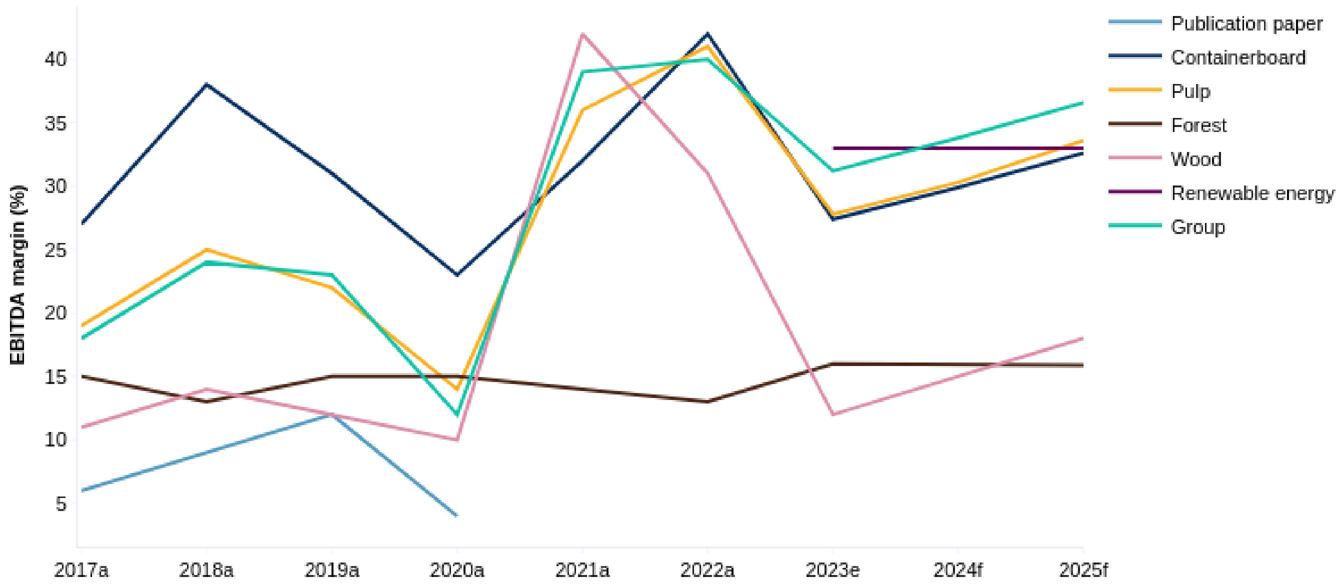


a--Actual. e-Estimate. f--Forecast. Source: Company reports. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

These strengths are partly mitigated by the volatility of its products (kraftliner, wood, and pulp). Demand for wood is very cyclical (and linked to the construction industry). Pulp and kraftliner prices have been declining since second-half 2022 due to weaker macroeconomic conditions. We therefore expect SCA's S&P Global Ratings-adjusted EBITDA margins to drop to 33.8% in 2023 from 40.4% in 2022.

Split of SCA's adjusted EBITDA margins by division over 2017a-2025f

The containerboard and pulp divisions are driving the group's margins

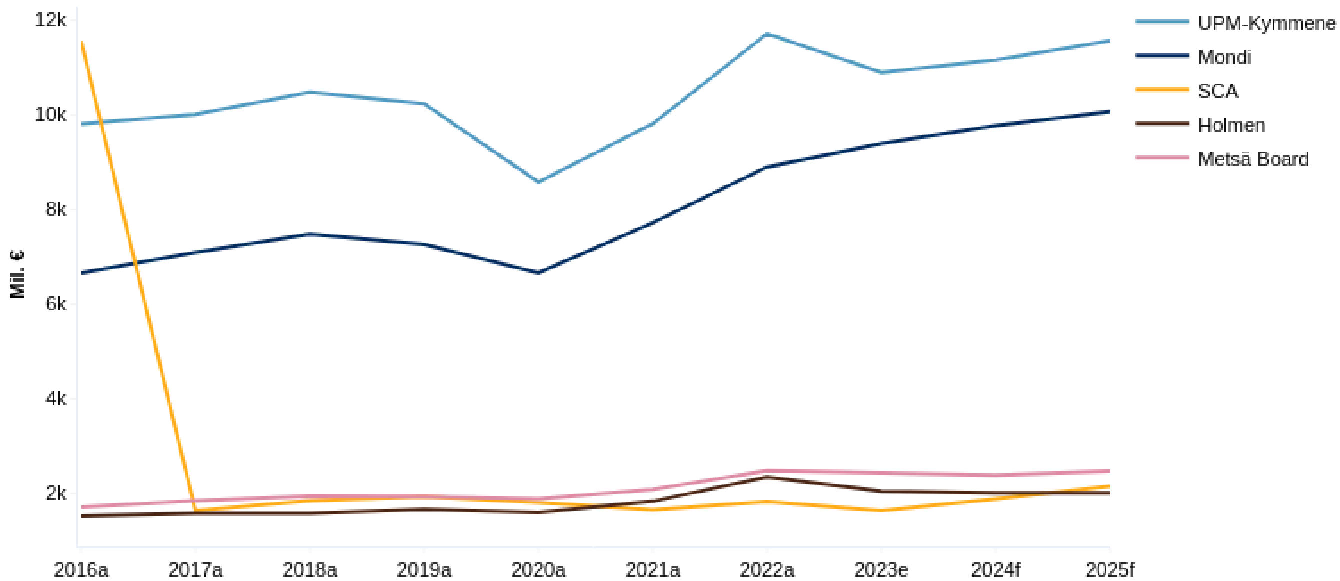


a--Actual. e--Estimate. f--Forecast. Source: Company reports.

SCA has a smaller scale (SEK20.8 billion of turnover in 2022), narrower product range, and more concentrated asset base (high reliance on Sweden) than UPM (SEK130.6 billion) or Mondi (SEK99.2 billion).

Sales by forest products company over 2016a-2025f

SCA is significantly smaller than larger peers UPM and Mondi.



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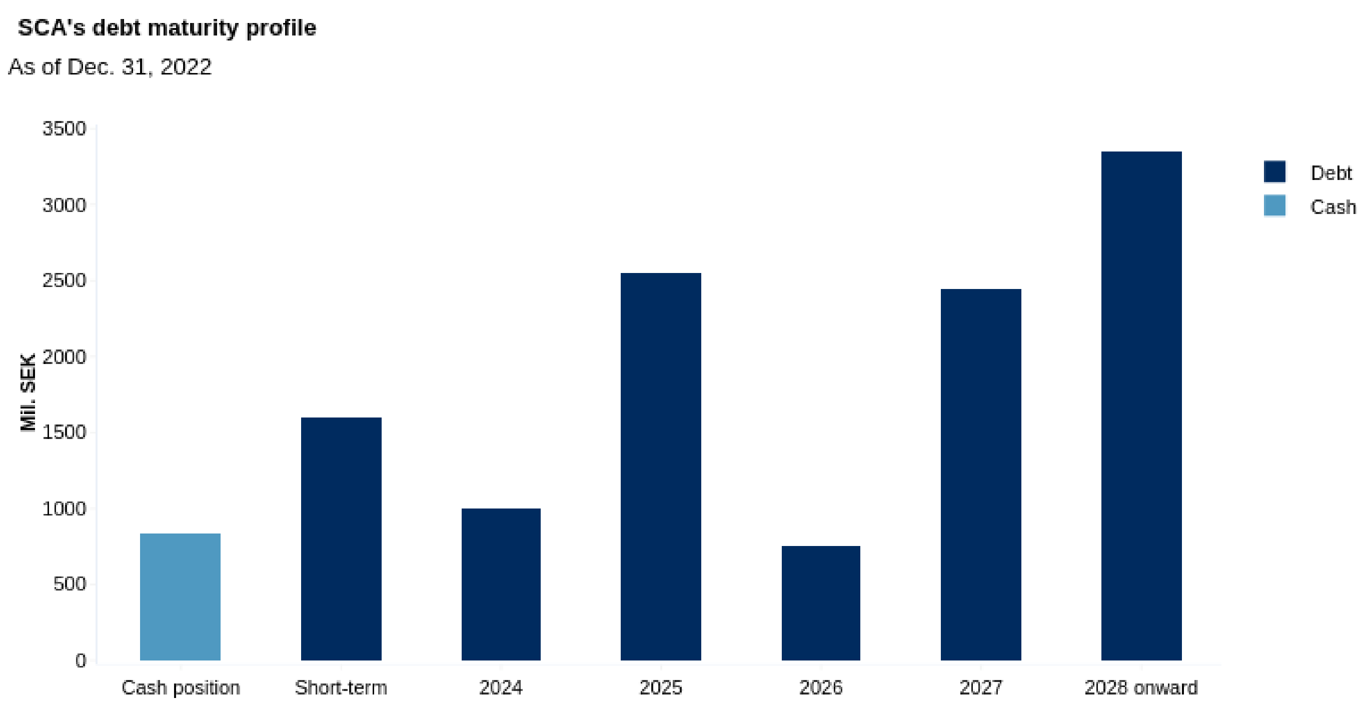
Financial Risk

We expect SCA's credit metrics to deteriorate in 2023, with adjusted leverage at about 2.1x (1.4x in 2022) and adjusted FFO to debt of 39.5% by year end (61.3% in 2022). Despite an increase in pulp and kraftliner deliveries driven by the respective ramp up of production at Ortviken and Obbola, we expect price decreases to weigh on profitability, with S&P Global Ratings-adjusted EBITDA margins dropping to 33.8% in 2023 (from 40.4% in 2022). In 2024, we forecast a modest recovery in selling prices, supported by a rebound in economic activity.

In the coming years, SCA expects to increase harvesting by 1.1 million cubic meters to 5 million cubic meters per year by 2025. In our view, this will support EBITDA and cash flow. Moreover, FOCF will be supported by declining capex from 2023, as the investments in Obbola (SEK7.5 billion invested) and Ortviken (SEK1.45 billion) near completion, which is expected for year-end 2023. In our view, SCA will remain a net acquirer of forestland in the Baltic countries, resulting in minor cash outflows of about SEK150 million per year. As a result, we forecast strong FOCF of SEK1.7 billion in 2023 and SEK2.5 billion in 2024. This should improve credit metrics, with adjusted debt to EBITDA declining to 1.5x and adjusted FFO to debt of about 52% by year-end 2024.

The value of the company's extensive forestland assets is fully incorporated in our 'bbb+' anchor. We view SCA's 2.7 million hectares of forestland as credit enhancing, because it could provide a liquidity buffer. Although SCA views its forestland as core and does not intend to sell it, we believe it could be readily monetized at significant value in a distressed situation.

Debt maturities



SEK--Swedish krona. Source: Company's fillings and S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Svenska Cellulosa Aktiebolaget SCA--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	16,664	18,755	19,591	18,410	18,822	20,794
EBITDA	3,662	4,800	4,369	3,214	7,260	8,398
Funds from operations (FFO)	3,365	4,421	3,614	3,046	6,543	7,176

Svenska Cellulosa Aktiebolaget SCA--Financial Summary

Interest expense	234	117	113	126	128	188
Cash interest paid	267	150	103	133	179	363
Operating cash flow (OCF)	3,067	3,663	3,296	3,683	5,917	6,163
Capital expenditure	3,555	3,058	2,288	2,644	5,054	5,799
Free operating cash flow (FOCF)	(488)	605	1,008	1,039	863	364
Discretionary cash flow (DCF)	(4,702)	(449)	(221)	1,039	(542)	(1,918)
Cash and short-term investments	538	648	454	1,273	1,056	836
Gross available cash	538	648	454	1,273	1,056	836
Debt	8,152	8,304	9,163	8,529	9,082	11,699
Common equity	36,753	39,062	68,510	72,163	83,055	96,358
Adjusted ratios						
EBITDA margin (%)	22.0	25.6	22.3	17.5	38.6	40.4
Return on capital (%)	2.7	7.3	4.3	1.3	6.8	6.8
EBITDA interest coverage (x)	15.6	41.2	38.7	25.5	56.7	44.7
FFO cash interest coverage (x)	13.6	30.6	36.1	23.9	37.6	20.8
Debt/EBITDA (x)	2.2	1.7	2.1	2.7	1.3	1.4
FFO/debt (%)	41.3	53.2	39.4	35.7	72.0	61.3
OCF/debt (%)	37.6	44.1	36.0	43.2	65.2	52.7
FOCF/debt (%)	(6.0)	7.3	11.0	12.2	9.5	3.1
DCF/debt (%)	(57.7)	(5.4)	(2.4)	12.2	(6.0)	(16.4)

Reconciliation Of Svenska Cellulosa Aktiebolaget SCA Reported Amounts With S&P Global Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	11,947	96,358	20,794	8,369	8,642	26	8,398	6,325	2,282	5,961
Cash taxes paid	-	-	-	-	-	-	(859)	-	-	-
Cash interest paid	-	-	-	-	-	-	(201)	-	-	-
Lease liabilities	588	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	-	-	-	1	1	-	-	-	-	-
Accessible cash and liquid investments	(836)	-	-	-	-	-	-	-	-	-

Reconciliation Of Svenska Cellulosa Aktiebolaget SCA Reported Amounts With S&P Global Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Capitalized interest	-	-	-	-	-	162	(162)	(162)	-	(162)
Dividends from equity investments	-	-	-	56	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	23	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	22	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(51)	(51)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(1,825)	-	-	-	-	-
Total adjustments	(248)	-	-	29	(1,853)	162	(1,222)	(162)	-	(162)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	11,699	96,358	20,794	8,398	6,789	188	7,176	6,163	2,282	5,799

Liquidity

SCA's liquidity remains strong, supported by available cash of SEK874 million, fully available revolving credit facilities (RCFs; SEK7.3 billion), and our expectation of strong operational cash flow. We anticipate that the company's liquidity sources will exceed liquidity uses by at least 1.5x in the next 12 months and by 1.0x in the consequent 12 months. We also expect SCA to maintain a conservative financial policy and ensure strong liquidity coverage.

Principal liquidity sources

- Available cash balance of SEK874 million as of March 31, 2023;
- Access to SEK7.3 billion under undrawn committed lines; and
- Forecast FFO of about SEK4.9 billion.

Principal liquidity uses

- Debt maturities of SEK1.4 billion;
- Working capital outflows of SEK400 million-SEK500 million;
- Capex of SEK2.7 billion; and
- Dividends of SEK1.8 billion.

Covenant Analysis

Requirements

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

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG 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 2.6 million hectares of forest land bound 5.4 billion tons of carbon dioxide (CO_2) in 2022. Like other forest and paper companies, SCA faces long-term risks from climate change potentially affecting its forests. Nevertheless, we see SCA's Swedish forests as less exposed to this risk given its position in the country's north. We see environmental risks from SCA's pulp and paper operations, since these require significant amounts of energy, water, chemicals, and fossil fuels to be delivered to clients. These risks are partially compensated by the CO_2 sequestration in its tree plantations and its use of fossil-free energy sources.

SCA also continuously invests in improving the energy efficiency of its industrial assets. The Ostrand pulp mill, for example, is a net seller of green electricity and heating.

SCA is seeking to expand its renewable energy generation. In addition to biofuels production, the company leases out forestland for wind power projects and in 2023 started to buy its windmills to keep ownership of them. Its purpose is notably to repower them, by replacing old and less powerful wind turbines with new and more powerful ones.

We view governance as satisfactory, reflecting management's experience and expertise, the following of best practices, and the balance of different stakeholders' interests.

Issue Ratings--Subordination Risk Analysis

Capital structure

SCA's capital structure has no significant prioritized obligations and a modest financial risk profile. Therefore, we consider there is little risk that any lender will be significantly disadvantaged compared with other lenders.

The SEK14.3 billion debt at March 31, 2023, included bank loans, bonds, and leases. Except for the SEK557 million in leases, all the debt is unsecured.

Analytical conclusions

With no contractual subordination a modest financial risk profile, we rate SCA's unsecured obligations 'BBB', in line with the issuer credit rating.

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	Satisfactory (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
- 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

Ratings Detail (as of June 08, 2023)*

Svenska Cellulosa AB SCA		
Issuer Credit Rating		BBB/Stable/A-2
Nordic Regional Scale		--/--/K-2
Senior Unsecured		BBB
Issuer Credit Ratings History		
06-Aug-2021		BBB/Stable/A-2
17-May-2021		BBB-/Positive/A-3
07-Sep-2020		BBB-/Stable/A-3
06-Aug-2021	*Nordic Regional Scale*	--/--/K-2
07-Sep-2020		--/--/K-3
07-Apr-2017		--/--/K-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.