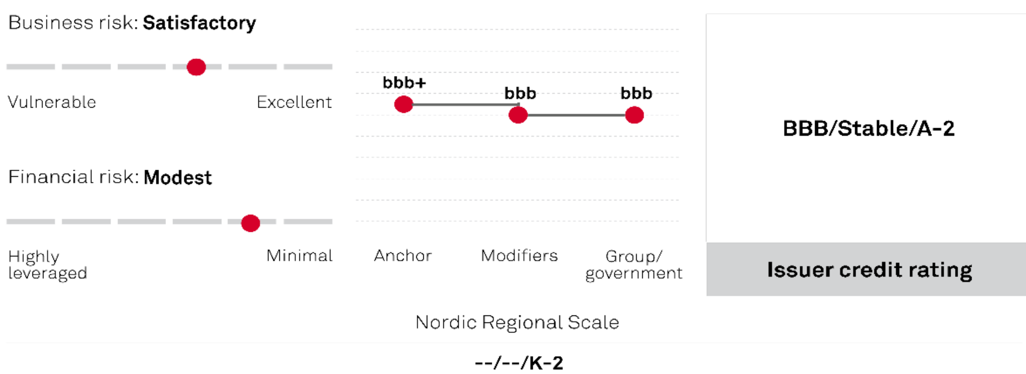
# Svenska Cellulosa Aktiebolaget SCA (publ)

**June 17, 2024**

## Ratings Score Snapshot

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## Credit Highlights

### Overview

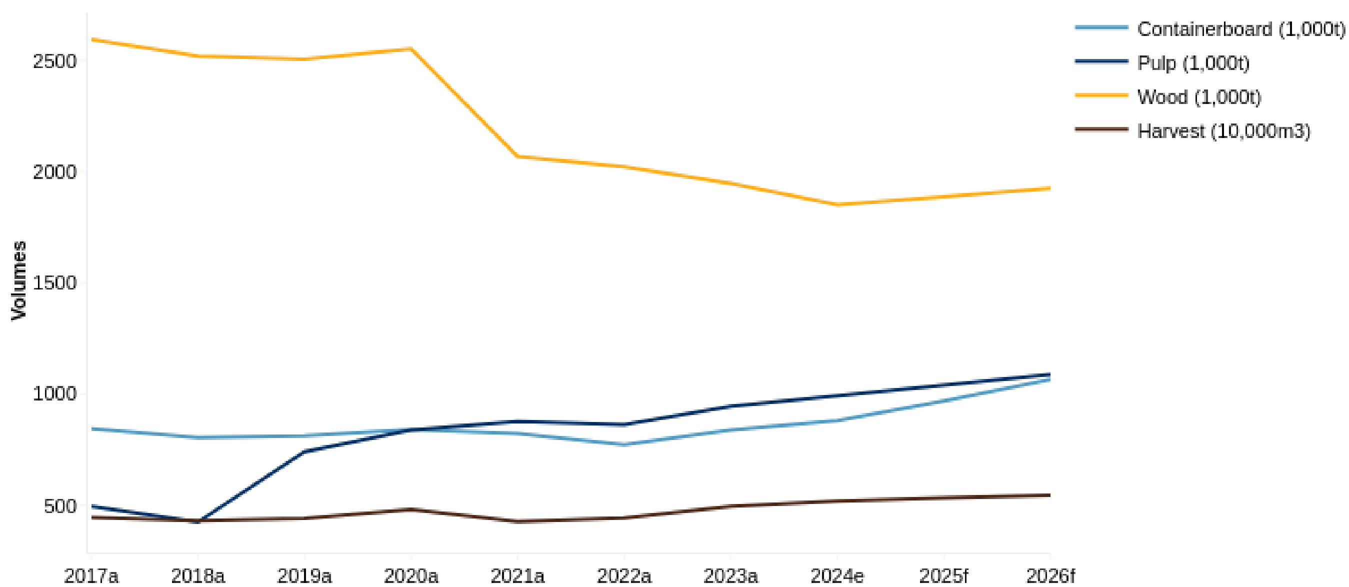
| Key strengths | Key risks |
|---|---|
| Extensive forestland holdings (2.7 million hectares), securing half of its wood supply and providing asset backing to lenders. | Credit metrics that are subject to oscillations in pulp, wood, and kraftliner prices; funds from operations (FFO) to debt declined to below 30% in 2023. |
| Well-invested asset base, energy self-sufficiency, and in-house logistics operations, which support above-average profitability, with S&P Global Ratings-adjusted EBITDA margins above 25% through the cycle. | Smaller size than larger peers with sales of Swedish krona (SEK) 18.1 billion, S&P Global Ratings-adjusted EBITDA of SEK4.4 billion in 2023, and assets concentrated in Sweden. |
| Incremental EBITDA and free operating cash flow (FOCF) from recent capacity expansions in pulp, kraftliner, and biofuels. | Execution risks associated with the ramp-up of the pulp and containerboard lines, and the biofuel plant. |

**We forecast a sharp recovery in SCA's revenue in 2024 as expansion projects start to yield higher volumes and prices rebound.** We expect revenue will increase by 12%, following a 13%

decline in 2023. This will primarily come from additional volumes from the progressive ramp-up of production at its new containerboard machine in Obbola and the extended chemi-thermomechanical pulp (CTMP) line at Ortviken. These volume increases will more than offset lower wood product sales. Sales growth in 2024 will also be driven by higher containerboard, pulp, and wood prices, driven by a recovery in demand and the passthrough of higher input costs.

**Containerboard and pulp deliveries will drive an increase in volumes**

SCA's volumes by division: Evolution over 2017a-2026f

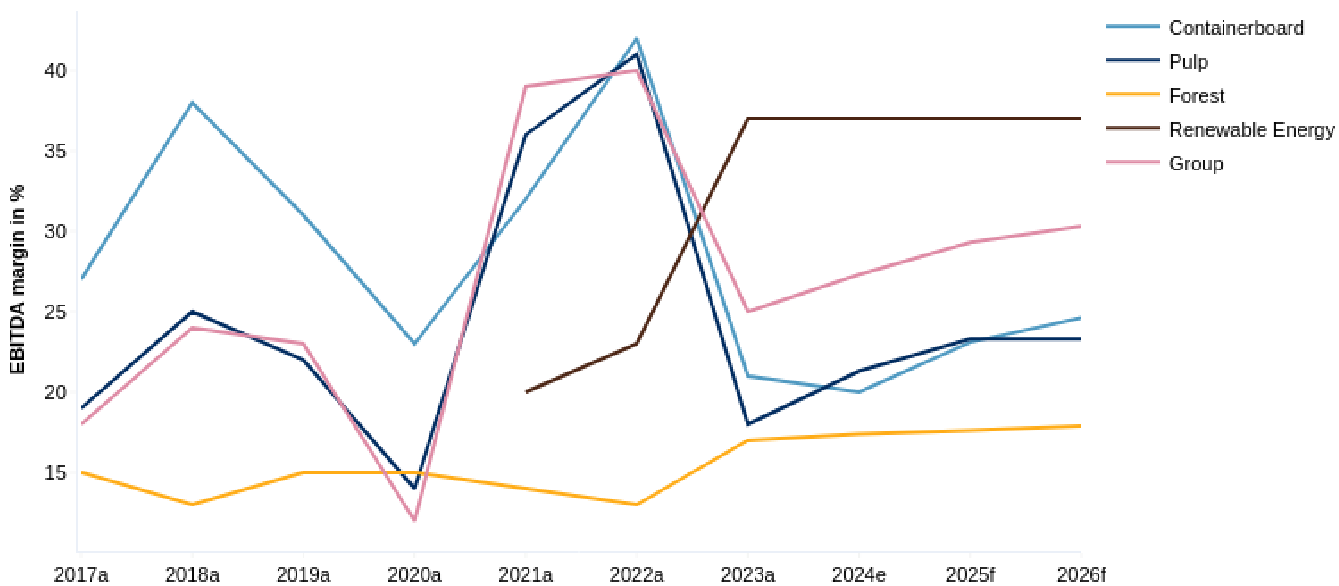



a-actual; e-expected; f-forecast. Source: Company reports. t--Tons. m3--cubic meters.


**SCA's profitability in 2024 will benefit from higher revenue**. We anticipate S&P Global Ratings-adjusted EBITDA margins will expand to 27.0%, from 24.6% in 2023. This will mainly come from higher prices and volumes (specifically, better fixed cost absorption). We expect a moderation in cost inflation. Wood costs will remain high, partly mitigated by SCA sourcing half of its wood from its own forest. The remainder is sourced from private forest owners in Sweden and the Baltics.

**SCA's group margins are volatile through time but we forecast a recovery from 2024**

Evolution of SCA's adjusted EBITDA margins by division over 2017a-2026f

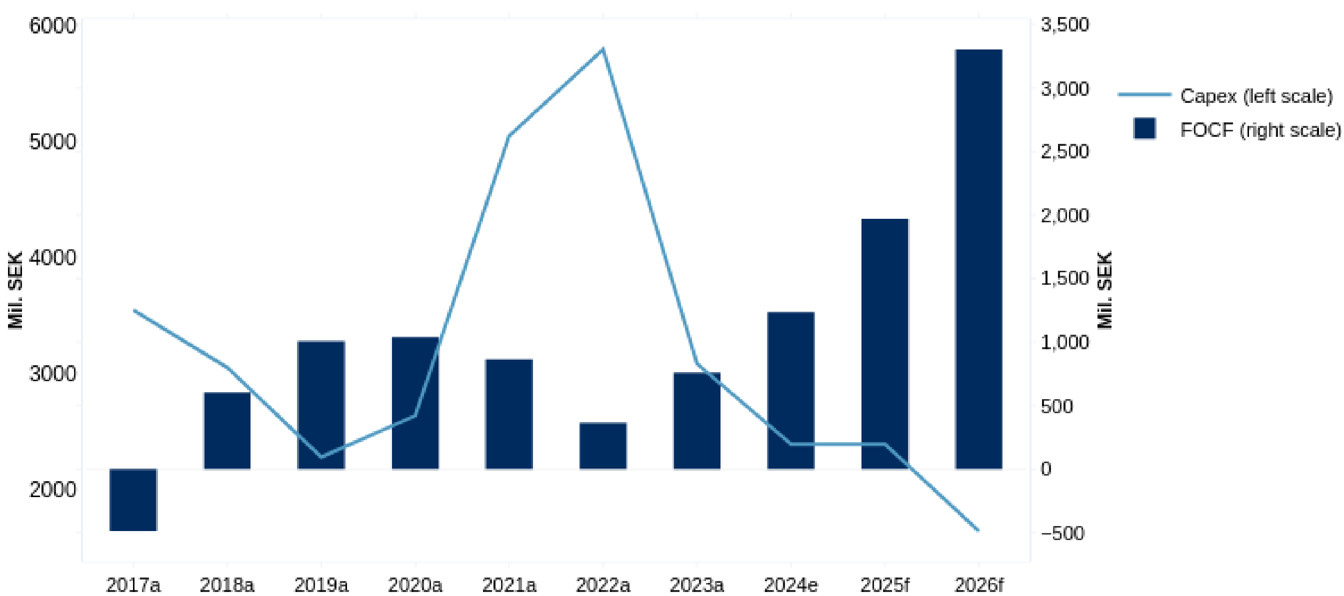



a-actual; e-expected; f-forecast. Source: Company reports.



**We anticipate a significant improvement in FOCF in 2024.** We forecast FOCF will exceed SEK1.2 billion in 2024, up from SEK759 million in 2023. This will be thanks to driven by higher EBITDA and lower capital expenditure (capex; SEK2.4 billion in 2024 versus SEK3.1 billion in 2023) as the expansion projects in Obbola and Ortviken and the biofuel plant in Gothenburg reach completion. This will only partly be offset by working capital outflows of about SEK1 billion (due to revenue growth).

**We expect FOCF to strongly improve from 2024, notably thanks to lower capex**
SCA's capex and FOCF evolution over 2017a-2026f

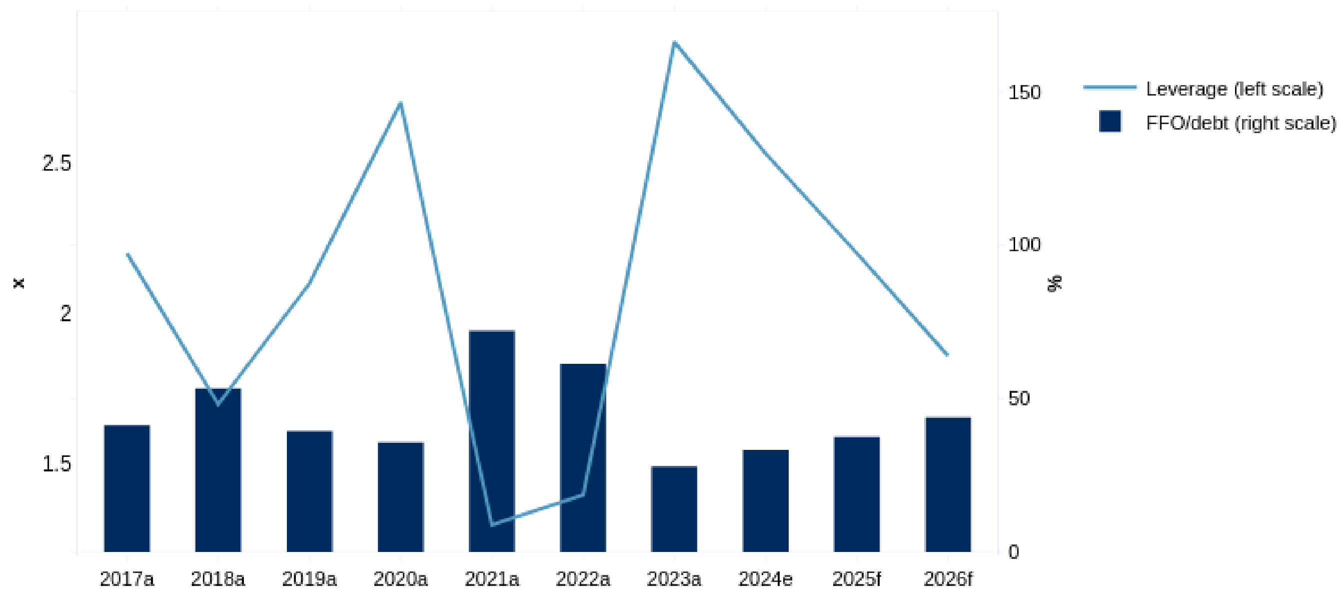



FFO--Funds From Operations. a--Actual. e--Expected. f--Forecast. Source: S&P Global Ratings.


**Following a weak 2023, we expect a recovery in credit metrics 2024, but ratings headroom remains tight.** We forecast FFO to debt will increase to 33% by year-end 2024 from 28% at year-end 2023, fueled by a recovery in EBITDA. We anticipate an increase in net debt as SCA's cash balance will fund SEK1.9 billion in dividends. Similarly, we expect S&P Global Ratings-adjusted leverage to decline to 2.5x by year-end 2024 from 2.9x in 2023. With no significant investments forecast for the next couple of years, we expect credit metrics to improve.

**We expect credit metrics to strongly improve from 2024**

SCA's adjusted leverage and FFO to debt evolution over 2017a-2026f




FFO--Funds from operations. a--Actual. e--Expected. f--Forecast. Source: S&P Global Ratings.



# Outlook

The stable outlook reflects our expectation that SCA will ramp up its expansion projects over the next 24 months. We expect these higher volumes to fuel higher sales, alongside a modest increase in prices. Higher EBITDA will drive FFO to debt above 30% in the next 24 months.

## 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 as 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 look long-term, 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 1.3% in 2024 and 1.9% in 2025; in Sweden, of 0.3% in 2024 and 2.0% in 2025; in the U.S., of 2.5% in 2024 and 1.5% in 2025; and in Asia Pacific, of 4.5% in 2024 and 4.7% in 2025.
- Revenue growth of 12% in 2024, as higher volumes and prices in pulp and containerboard more than compensate for lower wood volumes. We assume some recovery in wood prices, and forecast sales growth of about 10% in 2025 from further volumes and price increases in all divisions.
- S&P Global Ratings-adjusted EBITDA margins improving to 27.0% in 2024 (24.6% in 2023) as the pace of price increases exceeds that of input cost increases and fixed cost absorption improves with volumes. In 2025, we expect a further improvement toward 29% as production at the new plants ramps up and prices continue to increase, supported by stronger economic growth.
- Annual working capital outflows of about SEK1 billion in 2024 and 2025 following the revenue increase.
- Annual capex of about SEK2.4 billion in 2024 and 2025. This will include maintenance capex of about SEK1.4 billion, and minor expansion projects.
- About SEK200 million of forestland acquisitions in 2024, offset by an equal amount of divestments, In 2025, we expect forestland acquisitions to exceed divestments by SEK100 million.
- Annual dividend payments of SEK1.9 billion in 2024 and SEK2.1 billion in 2025.

### Key metrics

**Svenska Cellulosa Aktiebolaget SCA--Forecast summary**

| Period ending | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 | Dec-31-2023 | Dec-31-2024 | Dec-31-2025 | Dec-31-2026 |
|---|---|---|---|---|---|---|---|
| (Mil. SEK) | 2020a | 2021a | 2022a | 2023a | 2024e | 2025f | 2026f |
| Revenue | 18,410 | 18,822 | 20,794 | 18,081 | 20,162 | 22,230 | 24,096 |
| Gross profit | 11,237 | 13,838 | 16,134 | 13,460 | 15,358 | 17,379 | 19,082 |
| EBITDA (reported) | 2,131 | 7,356 | 8,369 | 4,609 | 5,496 | 6,506 | 7,297 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Plus: Operating lease adjustment (OLA) rent | -- | -- | -- | -- | -- | -- | -- |
| Plus (less): Other | 1,083 | -96 | 29 | -162 | -53 | -53 | -53 |
| EBITDA | 3,214 | 7,260 | 8,398 | 4,447 | 5,443 | 6,453 | 7,244 |
| Less: Cash interest paid | -133 | -179 | -363 | -533 | -564 | -599 | -589 |
| Less: Cash taxes paid | -35 | -538 | -859 | -330 | -297 | -536 | -753 |
| Plus (less): Other | -- | -- | -- | -- | -- | -- | -- |
| Funds from operations (FFO) | 3,046 | 6,543 | 7,176 | 3,584 | 4,583 | 5,318 | 5,902 |
| EBIT | 999 | 5,857 | 6,789 | 2,622 | 6,023 | 7,023 | 7,808 |
| Interest expense | 126 | 128 | 188 | 490 | 564 | 598 | 589 |
| Cash flow from operations (CFO) | 3,683 | 5,917 | 6,163 | 3,849 | 3,636 | 4,371 | 4,955 |
| Capital expenditure (capex) | 2,644 | 5,054 | 5,799 | 3,090 | 2,400 | 2,400 | 1,650 |
| Free operating cash flow (FOCF) | 1,039 | 863 | 364 | 759 | 1,236 | 1,971 | 3,305 |
| Dividends | -- | 1,405 | 2,282 | 1,756 | 1,931 | 2,107 | 2,283 |
| Share repurchases (reported) | -- | -- | -- | -- | -- | -- | -- |
| Discretionary cash flow (DCF) | 1,039 | -542 | -1,918 | -997 | -696 | -136 | 1,023 |
| Debt (reported) | 9,051 | 9,502 | 11,947 | 12,784 | 13,654 | 14,854 | 14,551 |
| Plus: Lease liabilities debt | 751 | 636 | 588 | 600 | 612 | 624 | 637 |
| Plus: Pension and other postemployment debt | -- | -- | -- | -- | -- | -- | -- |
| Less: Accessible cash and liquid Investments | -1,273 | -1,056 | -836 | -502 | -500 | -1,289 | -1,733 |
| Plus (less): Other | -- | -- | -- | -- | -- | -- | -- |
| Debt | 8,529 | 9,082 | 11,699 | 12,882 | 13,766 | 14,189 | 13,454 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Equity | 72,163 | 83,055 | 96,358 | 104,284 | 106,724 | 109,754 | 113,238 |
| FOCF (adjusted for lease capex) | 965 | 821 | 306 | 610 | 1,048 | 1,783 | 3,118 |
| Interest expense (reported) | 105 | 71 | 26 | 445 | 564 | 598 | 589 |
| Capex (reported) | 2,665 | 5,111 | 5,961 | 3,135 | 2,400 | 2,400 | 1,650 |
| Cash and short-term investments (reported) | 1,273 | 1,056 | 836 | 502 | 500 | 1,289 | 1,733 |
| **Adjusted ratios** | | | | | | | |
| Debt/EBITDA (x) | 2.7 | 1.3 | 1.4 | 2.9 | 2.5 | 2.2 | 1.9 |
| FFO/debt (%) | 35.7 | 72 | 61.3 | 27.8 | 33.3 | 37.5 | 43.9 |
| FFO cash interest coverage (x) | 23.9 | 37.6 | 20.8 | 7.7 | 9.1 | 9.9 | 11 |
| EBITDA interest coverage (x) | 25.5 | 56.7 | 44.7 | 9.1 | 9.7 | 10.8 | 12.3 |
| CFO/debt (%) | 43.2 | 65.2 | 52.7 | 29.9 | 26.4 | 30.8 | 36.8 |
| FOCF/debt (%) | 12.2 | 9.5 | 3.1 | 5.9 | 9 | 13.9 | 24.6 |
| DCF/debt (%) | 12.2 | -6 | -16.4 | -7.7 | -5.1 | -1 | 7.6 |
| Lease capex-adjusted FOCF/debt (%) | 11.3 | 9 | 2.6 | 4.7 | 7.6 | 12.6 | 23.2 |
| Annual revenue growth (%) | -6 | 2.2 | 10.5 | -13 | 11.5 | 10.3 | 8.4 |
| Gross margin (%) | 61 | 73.5 | 77.6 | 74.4 | 76.2 | 78.2 | 79.2 |
| EBITDA margin (%) | 17.5 | 38.6 | 40.4 | 24.6 | 27 | 29 | 30.1 |
| Return on capital (%) | 1.3 | 6.8 | 6.8 | 2.3 | 5.1 | 5.7 | 6.2 |
| Return on total assets (%) | 1 | 5.3 | 5.3 | 1.8 | 4 | 4.5 | 4.9 |
| EBITDA/cash interest (x) | 24.2 | 40.6 | 23.1 | 8.3 | 9.6 | 10.8 | 12.3 |
| EBIT interest coverage (x) | 7.9 | 45.8 | 36.1 | 5.4 | 10.7 | 11.7 | 13.3 |
| Debt/debt and equity (%) | 10.6 | 9.9 | 10.8 | 11 | 11.4 | 11.4 | 10.6 |
| Debt fixed-charge coverage (x) | 25.5 | 56.7 | 44.7 | 9.1 | 6.5 | 10.8 | 8.1 |
| Debt/debt and undepreciated equity (%) | 10.6 | 9.9 | 10.8 | 11 | 11.4 | 11.4 | 10.6 |

# 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 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 pulp (38%), containerboard (kraftliner) (32%), wood products (29%), and renewable energy segments. By region, Sweden contributed 18% of sales, the U.S. 11%, Germany 11%, the U.K. 8%, the rest of Europe 32%, Asia 14%, and the rest of the world 6%.

The company is the third-largest containerboard manufacturer in Europe, with investments aiming to increase capacity by a further 275,000 metric tons (mt) to 1.14 million 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 focuses mainly on Northern Bleached Softwood Kraft, used for packaging, tissue, filter, and publication paper applications. The new production line in Ortviken started operations in May 2023 and will increase SCA's pulp production capacity to 300,000 tons from 100,000 tons once fully ramped up.

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 2023, 9.0 terawatt-hours (TWh) of wind power production was installed on the company's land. In 2023, SCA also produced 11.1 TWh of bioenergy, of which 9.3 TWh was used in the group's own plants and 1.8 TWh was delivered to external customers.

# 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, because it maintains exposure to the lower-margin publication paper sector. Like SCA, Holmen also does not have any long pulp position, which usually yields higher margins. Holmen's size in terms of revenue is similar to that of SCA, with all its assets also in Sweden. It is additionally vertically integrated into forest assets and wood operations. However, Holmen's investment strategy is more prudent than SCA's. Holmen focuses 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, the rating also reflects the support from its owner (L E Lundbergforetagen). The latter results in an issuer credit rating one notch above that on SCA, at 'BBB+'.

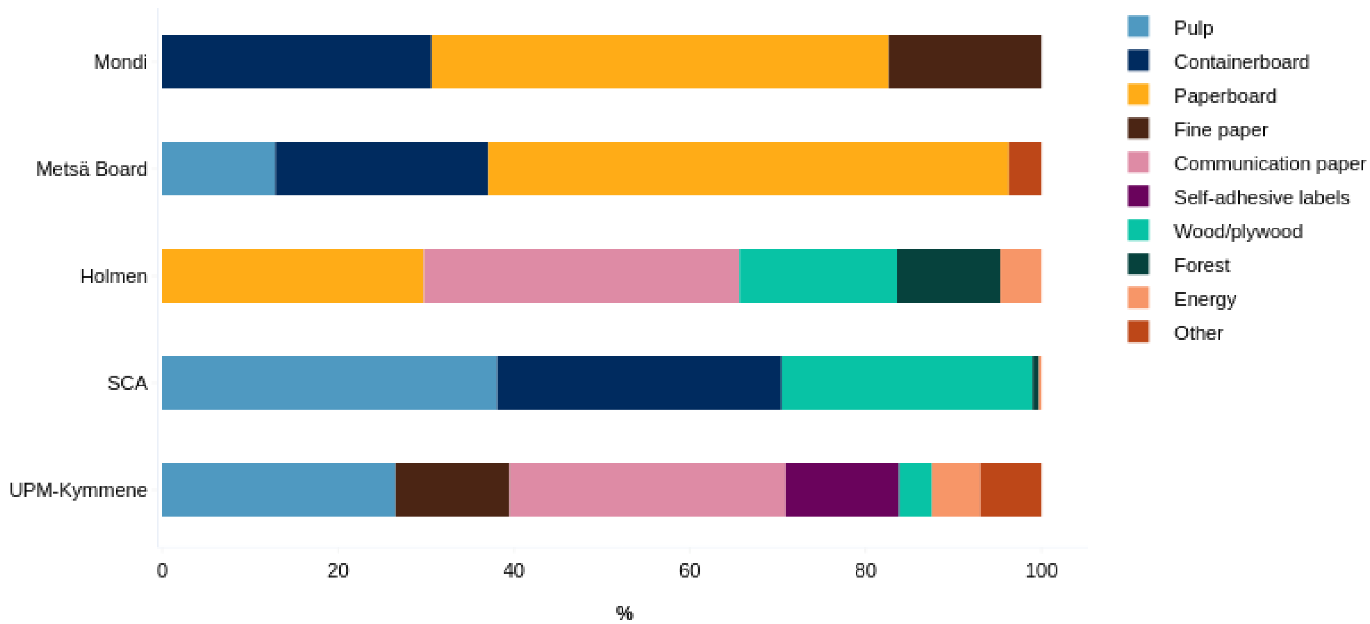
UPM's sales were 6x larger than SCA's in 2023. UPM had a more diverse product range and asset base, with material operations outside of Finland--notably in Germany and Uruguay. Nevertheless, UPM displays lower margins, particularly due to its material exposure to publication paper. UPM's vertical integration into forestland ownership is below that of SCA's, but it is fully self-sufficient in terms of electricity and energy. Our rating on UPM is constrained by the company's financial policy, which allows for higher leverage.

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. Mondi has extensive containerboard and sack kraft paper operations, but no wood sales. Mondi has significantly less forestland than SCA but is largely self-sufficient in terms of electricity and energy. Mondi's EBITDA margins are lower than SCA's, due to its lower margin product positioning and lower vertical integration. Our rating on Mondi is also constrained by the company's 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 primarily sells paperboard and pulp and its production assets are only in Finland. It has no forest assets, and is significantly short in terms of electricity and energy consumption. The company has lower leverage than SCA but the rating on Metsa includes a one-notch deduction for our assessment of the company's financial policy.

**SCA is less diversified than most of its peers**

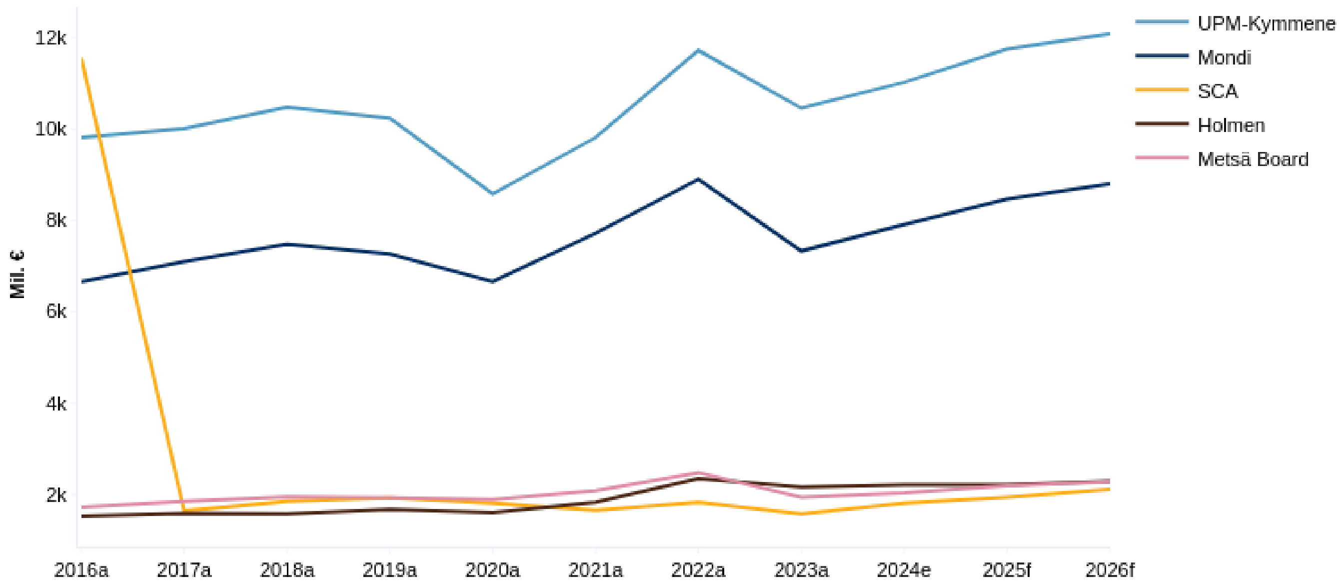
Forest companies' external sales by type of product in 2023




Source: Companies fillings and S&P Global Ratings. 

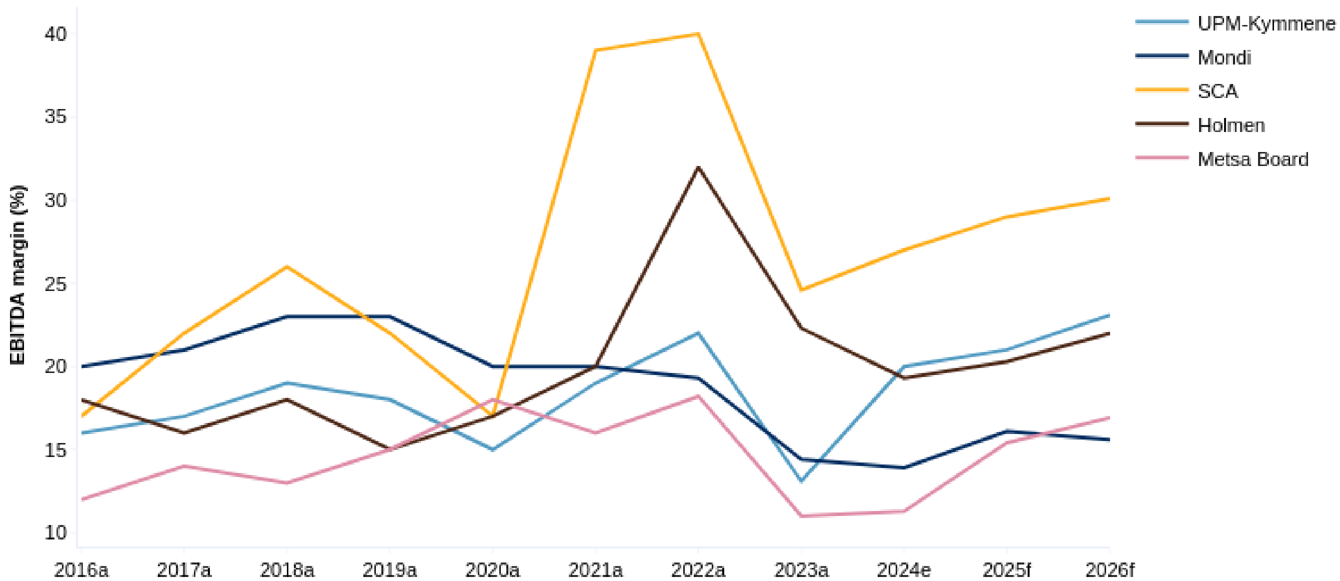
**SCA is significantly smaller than larger peers UPM and Mondi**

Sales by forest products company over 2016a-2026f




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

**SCA's margins are largely superior to the ones of peers**
Forest companies' S&P Global Ratings-adjusted EBITDA margins over 2016a-2026f




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


## 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 | 2023-12-31 | 2023-12-31 | 2023-12-31 | 2023-12-31 | 2023-12-31 |
| Mil. | SEK | SEK | SEK | SEK | SEK |
| Revenue | 18,081 | 24,776 | 21,586 | 116,271 | 81,478 |
| EBITDA | 4,447 | 5,532 | 2,381 | 15,184 | 11,772 |
| Funds from operations (FFO) | 3,584 | 5,289 | 2,502 | 11,883 | 9,115 |
| Interest | 490 | 82 | 159 | 1,578 | 1,445 |
| Cash interest paid | 533 | 83 | 147 | 1,289 | 678 |
| Operating cash flow (OCF) | 3,849 | 5,802 | 3,787 | 25,222 | 14,851 |

### Svenska Cellulosa Aktiebolaget SCA--Peer Comparisons

| | | | | | |
|---|---|---|---|---|---|
| Capital expenditure | 3,090 | 1,702 | 2,405 | 12,005 | 9,815 |
| Free operating cash flow (FOCF) | 759 | 4,100 | 1,381 | 13,217 | 5,035 |
| Discretionary cash flow (DCF) | (997) | 389 | (1,172) | 3,935 | 1,034 |
| Cash and short-term investments | 502 | 1,202 | 3,241 | 7,025 | 17,696 |
| Gross available cash | 502 | 1,202 | 3,241 | 7,025 | 17,696 |
| Debt | 12,882 | 2,069 | 1,731 | 33,703 | 6,056 |
| Equity | 104,284 | 56,923 | 22,816 | 128,176 | 67,762 |
| EBITDA margin (%) | 24.6 | 22.3 | 11.0 | 13.1 | 14.4 |
| Return on capital (%) | 2.3 | 7.1 | 3.1 | 4.8 | 9.6 |
| EBITDA interest coverage (x) | 9.1 | 67.5 | 15.0 | 9.6 | 8.1 |
| FFO cash interest coverage (x) | 7.7 | 64.7 | 18.0 | 10.2 | 14.4 |
| Debt/EBITDA (x) | 2.9 | 0.4 | 0.7 | 2.2 | 0.5 |
| FFO/debt (%) | 27.8 | 255.6 | 144.6 | 35.3 | 150.5 |
| OCF/debt (%) | 29.9 | 280.4 | 218.8 | 74.8 | 245.2 |
| FOCF/debt (%) | 5.9 | 198.2 | 79.8 | 39.2 | 83.1 |
| DCF/debt (%) | (7.7) | 18.8 | (67.7) | 11.7 | 17.1 |

# Business Risk

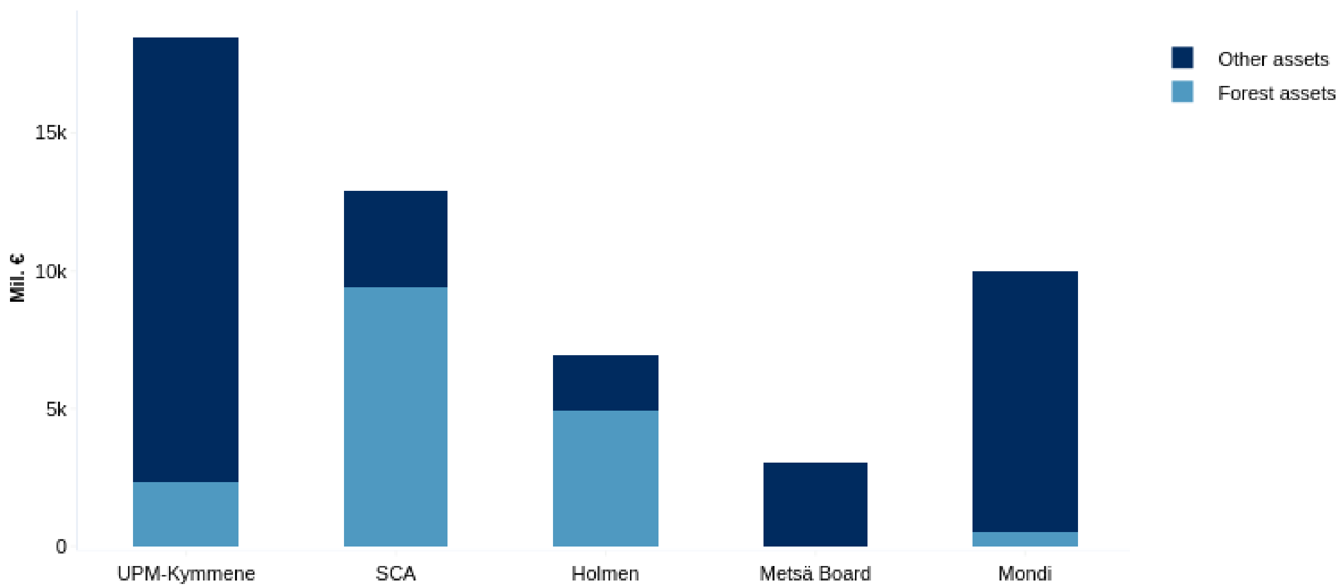
Our business risk assessment reflects SCA's leading market positions in the kraftliner and wood segments, its cost-efficient asset base and logistics operations, and its large forestland holdings.

SCA’s EBITDA 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. Of SCA's wood logs, 55% are sourced from its own forests and sawmills (chips) and

30% are covered by long-term agreements with private forest owners in Sweden. Wood prices have been rising dramatically since the start of 2022, in part due to the ban on Russian exports.

**SCA has the largest forest assets of the peer group**

Forest companies' share of forest assets in total assets in 2023



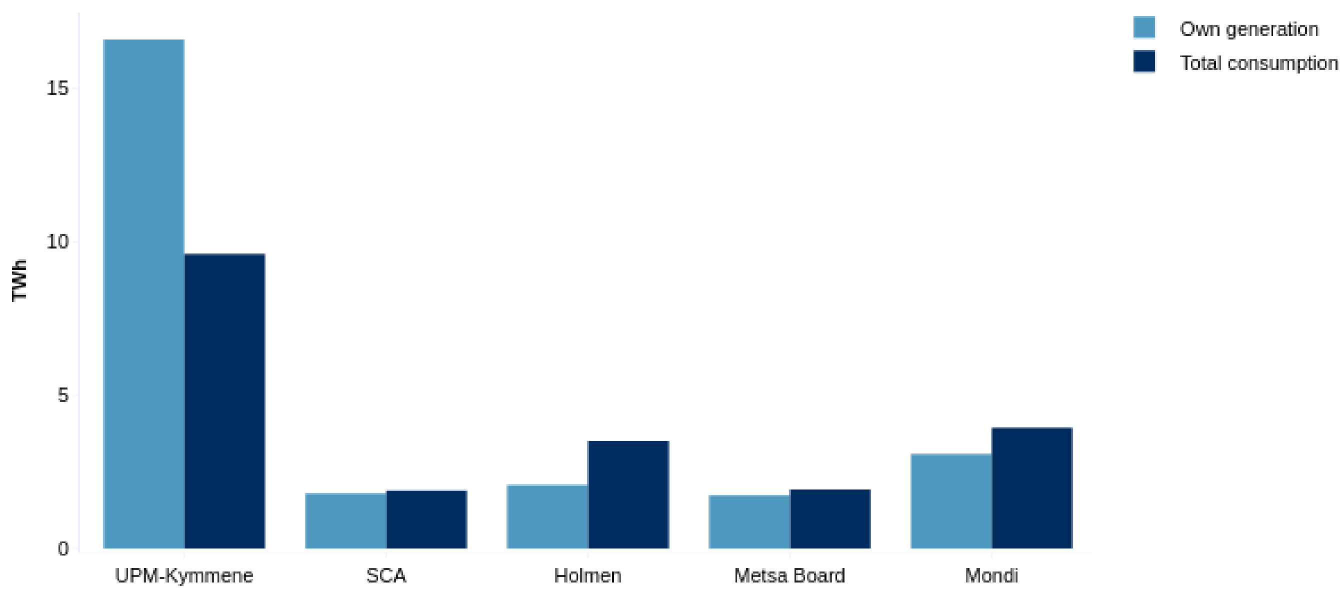

Source: Companies fillings and S&P Global Ratings.



SCA is fully self-sufficient in terms of electricity--it generates electricity via its pulp production, own wind power production, and wind turbines installed on its forest lands. The company is also a net seller of biofuels. Furthermore, SCA's own transport and long-term agreements with freight companies cover about 45% of its freight needs.

**SCA is alsmost fully self sufficient in terms of electricity generation**

Forest issuers' electricity generation and consumption in 2023




TWh--Terawatt-hour. Source: Companies fillings and S&P Global Ratings.


These strengths are partly mitigated by the volatility of its products (kraftliner, wood, and pulp). Demand for wood is very cyclical (as linked to the construction industry). Pulp and kraftliner prices could recover somewhat in 2024, after a sharp decline in 2023 due to weaker economic conditions.

SCA has a smaller scale (SEK18 billion of turnover in 2023), narrower product range, and more concentrated asset base (high reliance on Sweden) than UPM (SEK116 billion) or Mondi (SEK82 billion).

# Financial Risk

We expect SCA's credit metrics to recover modestly in 2024 and 2025, with adjusted leverage at about 2.5x at year-end 2024 and 2.2x at year-end 2025 (from 2.9x at year-end 2023) and adjusted FFO to debt of 33% and 38%, respectively (from 28%), supported by EBITDA growth.

SCA expects to increase wood harvesting by 1.1 million cubic meters to 5 million cubic meters per year by 2025. In our view, this will improve EBITDA and cash flow. Moreover, FOCF will be supported by declining capex, as investments in Obbola (SEK7.5 billion) and Ortviken (SEK1.45

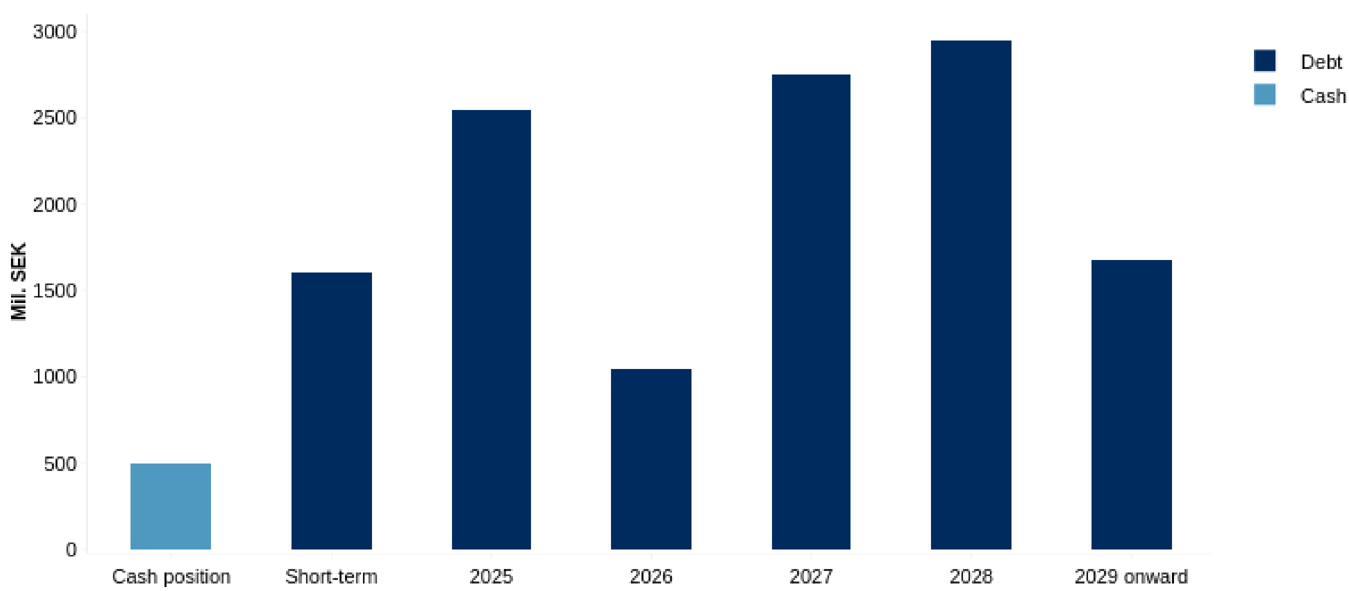
billion) were finalized. In our view, SCA will remain a net acquirer of forestland in the Baltics, resulting in minor cash outflows of about SEK100 million per year. As a result, we forecast strong FOCF of SEK1.1 billion in 2024 and SEK2.0 billion in 2025.

Our 'bbb+' anchor fully incorporates the value of the company's extensive forestland assets. 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

**SCA's debt maturity profile**

As of Dec. 31, 2023




SEK--Swedish krona. Source: Company's fillings and S&P Global Ratings.


### Svenska Cellulosa Aktiebolaget SCA--Financial Summary

| Period ending | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 | Dec-31-2023 |
|---|---|---|---|---|---|---|

## Svenska Cellulosa Aktiebolaget SCA--Financial Summary

| Reporting period | 2018a | 2019a | 2020a | 2021a | 2022a | 2023a |
|---|---|---|---|---|---|---|
| Display currency (mil.) | SEK | SEK | SEK | SEK | SEK | SEK |
| Revenues | 18,755 | 19,591 | 18,410 | 18,822 | 20,794 | 18,081 |
| EBITDA | 4,800 | 4,369 | 3,214 | 7,260 | 8,398 | 4,447 |
| Funds from operations (FFO) | 4,421 | 3,614 | 3,046 | 6,543 | 7,176 | 3,584 |
| Interest expense | 117 | 113 | 126 | 128 | 188 | 490 |
| Cash interest paid | 150 | 103 | 133 | 179 | 363 | 533 |
| Operating cash flow (OCF) | 3,663 | 3,296 | 3,683 | 5,917 | 6,163 | 3,849 |
| Capital expenditure | 3,058 | 2,288 | 2,644 | 5,054 | 5,799 | 3,090 |
| Free operating cash flow (FOCF) | 605 | 1,008 | 1,039 | 863 | 364 | 759 |
| Discretionary cash flow (DCF) | (449) | (221) | 1,039 | (542) | (1,918) | (997) |
| Cash and short-term investments | 648 | 454 | 1,273 | 1,056 | 836 | 502 |
| Gross available cash | 648 | 454 | 1,273 | 1,056 | 836 | 502 |
| Debt | 8,304 | 9,163 | 8,529 | 9,082 | 11,699 | 12,882 |
| Common equity | 39,062 | 68,510 | 72,163 | 83,055 | 96,358 | 104,284 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 25.6 | 22.3 | 17.5 | 38.6 | 40.4 | 24.6 |
| Return on capital (%) | 7.3 | 4.3 | 1.3 | 6.8 | 6.8 | 2.3 |
| EBITDA interest coverage (x) | 41.2 | 38.7 | 25.5 | 56.7 | 44.7 | 9.1 |
| FFO cash interest coverage (x) | 30.6 | 36.1 | 23.9 | 37.6 | 20.8 | 7.7 |
| Debt/EBITDA (x) | 1.7 | 2.1 | 2.7 | 1.3 | 1.4 | 2.9 |
| FFO/debt (%) | 53.2 | 39.4 | 35.7 | 72.0 | 61.3 | 27.8 |
| OCF/debt (%) | 44.1 | 36.0 | 43.2 | 65.2 | 52.7 | 29.9 |
| FOCF/debt (%) | 7.3 | 11.0 | 12.2 | 9.5 | 3.1 | 5.9 |
| DCF/debt (%) | (5.4) | (2.4) | 12.2 | (6.0) | (16.4) | (7.7) |

## 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-31-2023 | | | | | | | | | |
| Company reported amounts | 12,784 | 104,284 | 18,081 | 4,609 | 4,857 | 445 | 4,447 | 3,894 | 1,756 | 3,135 |
| Cash taxes paid | - | - | - | - | - | - | (330) | - | - | - |
| Cash interest paid | - | - | - | - | - | - | (488) | - | - | - |
| Lease liabilities | 600 | - | - | - | - | - | - | - | - | - |
| Postretirement benefit obligations/ deferred compensation | - | - | - | (53) | (53) | - | - | - | - | - |
| Accessible cash and liquid investments | (502) | - | - | - | - | - | - | - | - | - |

**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 | - | - | - | - | - | 45 | (45) | (45) | - | (45) |
| Income (expense) of unconsolid. cos. | - | - | - | (53) | - | - | - | - | - | - |
| Nonoperating income (expense) | - | - | - | - | 72 | - | - | - | - | - |
| EBITDA - Gain/(loss) on disposals of PP&E | - | - | - | (56) | (56) | - | - | - | - | - |
| D&A: Asset valuation gains/(losses) | - | - | - | - | (2,198) | - | - | - | - | - |
| Total adjustments | 98 | - | - | (162) | (2,235) | 45 | (863) | (45) | - | (45) |
| **S&P Global Ratings adjusted** | **Debt** | **Equity** | **Revenue** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from Operations** | **Operating cash flow** | **Dividends** | **Capital expenditure** |
| | 12,882 | 104,284 | 18,081 | 4,447 | 2,622 | 490 | 3,584 | 3,849 | 1,756 | 3,090 |

# Liquidity

The short-term rating on SCA is 'A-2', reflecting the long-term issuer credit rating and our strong liquidity assessment for the company. We expect that liquidity sources will cover uses by more than 1.5x over the 12 months started March 31, 2024. Our view of SCA's liquidity is supported by the group's well-established relationships with banks and high standing in the credit markets.

## Principal liquidity sources

- Cash balances of about SEK2.5 billion as of March 31, 2024.
- SEK5 billion available under committed credit facilities.
- Cash FFO of about SEK4.6 billion.

## Principal liquidity uses

- Debt maturities of about SEK1.9 billion.
- Working capital outflows of SEK1 billion.
- Capex of about SEK2.4 billion.
- Dividends of about SEK1.9 billion.

# Covenant Analysis

## Requirements

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 forest land bound 5.7 billion tons of carbon dioxide in 2023. 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 the company 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 offset by the carbon dioxide sequestration in its growing forests and 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. The company is also expanding its renewable energy activities. In addition to biofuels production, SCA leases out forestland for wind power projects and (since 2023) also owns some wind turbines.

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

# Issue Ratings--Subordination Risk Analysis

## Capital structure

The SEK17.0 billion debt as of March 31, 2024, included bank loans, bonds, leases, and a decided, but not yet paid, dividend of SEK1.9 billion. Except for the SEK646 million in leases, all of the debt is unsecured.

## Analytical conclusions

With no contractual subordination and an intermediate 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 | Neutral (no impact) |
| Comparable rating analysis | Neutral (no impact) |
| **Stand-alone credit profile** | bbb |

# Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Methodology: Management And Governance Credit Factors For Corporate Entities, 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 Detail (as of June 17, 2024)*

| | | |
|---|---|---|
| **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.