

Tear Sheet:

## Svenska Cellulosa Aktiebolaget SCA

February 5, 2025

**Svenska Cellulosa Aktiebolaget SCA's (SCA's) profitability came in below our expectations in 2024 but cash flow beat our forecast, counterbalancing the credit impact.** S&P Global Ratings-adjusted EBITDA of Swedish krona (SEK) 5.25 billion (about €462 million) in 2024 was below our anticipated EBITDA of SEK5.45 billion. This was due to a more moderate-than-expected increase in selling prices and higher input costs (notably pulpwood and sawlogs). Nevertheless, free operating cash flow (FOCF) of SEK1.8 billion was better than our expected SEK1.25 billion due to limited working capital outflows (SEK440 million) and slightly lower capital expenditure (capex) of SEK2.2 billion versus our forecast of SEK2.4 billion. Some capex payments were postponed to 2025, explaining the lower capex. The overall negative impact of lower EBITDA on our credit metrics has therefore been counterbalanced, with expected S&P Global Ratings-adjusted leverage of 2.4x and funds from operations (FFO) to debt of 35% in December 2024, compared with our forecast of 2.5x and 33%, respectively.

**We expect moderate revenue growth of about 6.5% and adjusted EBITDA margin improvement of 140 basis points to 27.3% in 2025.** The main factor behind this will be higher volumes thanks to the further ramp-up of the containerboard line in Obbola, the pulp line in Ortviken, and the Gothenburg biofuel plant. We anticipate broadly slightly prices in 2025, mainly due to the continuous increase in wood costs.

**Ratings headroom remains adequate.** We forecast stable adjusted leverage of 2.4x in 2025 and stable FFO to debt of 35%. The increase in 2025 EBITDA should be offset by higher capex of SEK3.2 billion, notably due to the construction of a windmill in Fasikan. We also expect higher working capital outflows. In addition, the payment of a SEK2.1 billion dividend (subject to the general assembly vote) will further strain the cash position.

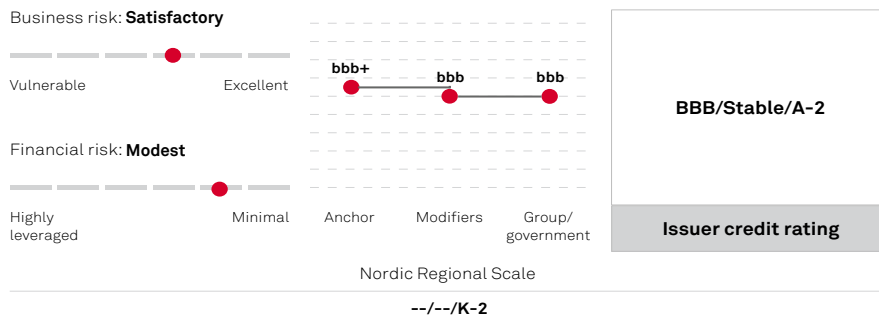
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## Ratings Score Snapshot



## Recent Research

- Svenska Cellulosa Aktiebolaget SCA (publ), June 17, 2024

## 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 SEK20.2 billion and adjusted EBITDA of SEK5.25 billion in 2024. Its sales came from its pulp (40%), containerboard (kraftliner; 32%), wood products (27%), and renewable energy segments. By region, Sweden contributed 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, with investment aiming to increase capacity by 275,000 metric tons (mt) to 1.14 million mt by 2026. Although prices for containerboard (made from virgin pulp) are volatile and somewhat correlated to those for testliner (made from recycled paper), we expect volume 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 2024, the group had 9.7 terawatt-hours (TWh) of wind power production on its land. For the year, SCA also produced about 11 TWh of bioenergy.

## Outlook

The stable outlook reflects our expectation that SCA will continue the ramp-up its expansion projects in 2025, supporting EBITDA growth and FFO to debt above 30%.

### 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 a lack of recovery in demand after two weak years, 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 its 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%.

## 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	Dec-31-2027
(Mil. SEK)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	18,410	18,822	20,794	18,081	20,232	21,573	23,402	24,529
Gross profit	11,237	13,838	16,134	13,460	15,199	16,484	18,080	19,255
EBITDA (reported)	2,131	7,356	8,369	4,609	5,303	5,932	6,634	7,257
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	1,083	(96)	29	(162)	(53)	(53)	(53)	(53)
EBITDA	3,214	7,260	8,398	4,447	5,250	5,879	6,581	7,204
Less: Cash interest paid	(133)	(179)	(363)	(533)	(561)	(594)	(585)	(509)
Less: Cash taxes paid	(35)	(538)	(859)	(330)	(311)	(435)	(608)	(671)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	3,046	6,543	7,176	3,584	4,377	4,851	5,389	6,024
EBIT	999	5,857	6,789	2,622	5,830	6,448	7,136	7,751
Interest expense	126	128	188	490	561	593	584	509
Cash flow from operations (CFO)	3,683	5,917	6,163	3,849	3,990	4,154	4,692	5,577
Capital expenditure (capex)	2,644	5,054	5,799	3,090	2,171	3,200	2,200	2,200
Free operating cash flow (FOCF)	1,039	863	364	759	1,819	954	2,492	3,377
Dividends	--	1,405	2,282	1,756	1,931	2,107	2,283	2,458
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	1,039	(542)	(1,918)	(997)	(113)	(1,153)	209	919
Debt (reported)	9,051	9,502	11,947	12,784	13,516	14,716	14,413	13,249

## Svenska Cellulosa Aktiebolaget SCA--Forecast summary

Plus: Lease liabilities debt	751	636	588	600	612	624	637	649
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(1,273)	(1,056)	(836)	(502)	(1,616)	(1,388)	(1,019)	(500)
Plus/(less): Other	--	--	--	--	--	--	--	--
Debt	8,529	9,082	11,699	12,882	12,512	13,952	14,030	13,399
Equity	72,163	83,055	96,358	104,284	106,695	109,409	112,516	116,010
FOCF (adjusted for lease capex)	965	821	306	610	1,631	767	2,304	3,190
Interest expense (reported)	105	71	26	445	561	593	584	509
Capex (reported)	2,665	5,111	5,961	3,135	2,171	3,200	2,200	2,200
Cash and short-term investments (reported)	1,273	1,056	836	502	1,616	1,388	1,019	500
<b>Adjusted ratios</b>								
Debt/EBITDA (x)	2.7	1.3	1.4	2.9	2.4	2.4	2.1	1.9
FFO/debt (%)	35.7	72.0	61.3	27.8	35.0	34.8	38.4	45.0
FFO cash interest coverage (x)	23.9	37.6	20.8	7.7	8.8	9.2	10.2	12.8
EBITDA interest coverage (x)	25.5	56.7	44.7	9.1	9.4	9.9	11.3	14.1
CFO/debt (%)	43.2	65.2	52.7	29.9	31.9	29.8	33.4	41.6
FOCF/debt (%)	12.2	9.5	3.1	5.9	14.5	6.8	17.8	25.2
DCF/debt (%)	12.2	(6.0)	(16.4)	(7.7)	(0.9)	(8.3)	1.5	6.9
Lease capex-adjusted FOCF/debt (%)	11.3	9.0	2.6	4.7	13.0	5.5	16.4	23.8
Annual revenue growth (%)	(6.0)	2.2	10.5	(13.0)	11.9	6.6	8.5	4.8
Gross margin (%)	61.0	73.5	77.6	74.4	75.1	76.4	77.3	78.5
EBITDA margin (%)	17.5	38.6	40.4	24.6	25.9	27.3	28.1	29.4
Return on capital (%)	1.3	6.8	6.8	2.3	4.9	5.3	5.7	6.1
Return on total assets (%)	1.0	5.3	5.3	1.8	3.9	4.2	4.5	4.8
EBITDA/cash interest (x)	24.2	40.6	23.1	8.3	9.4	9.9	11.3	14.1
EBIT interest coverage (x)	7.9	45.8	36.1	5.4	10.4	10.9	12.2	15.2
Debt/debt and equity (%)	10.6	9.9	10.8	11.0	10.5	11.3	11.1	10.4
Debt fixed-charge coverage (x)	25.5	56.7	44.7	9.1	6.3	9.9	7.4	8.9
Debt/debt and undepreciated equity (%)	10.6	9.9	10.8	11.0	10.5	11.3	11.1	10.4

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

## Financial Summary

## 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
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK

## Svenska Cellulosa Aktiebolaget SCA

### Svenska Cellulosa Aktiebolaget SCA--Financial Summary

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
<b>Adjusted ratios</b>						
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)

## Peer Comparison

### 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+/Stable/A-2	A-/Stable/--
Local currency issuer credit rating	BBB/Stable/A-2	BBB+/Stable/A-2	BBB-/Stable/A-3	BBB+/Stable/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

## 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 2023. Although SCA's forests could be exposed to adverse effects of climate change (as with other forest and paper companies), we think this risk decreases owing to the location of its forest assets (Northern Sweden) and because the company will benefit from higher temperatures leading to higher forest growth. 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 the company's exit from graphic paper (in 2020) and diversification into higher-growth fiber-based products, strategic decisions we think were timely and pertinent. The overall governance architecture follows Swedish corporate practices and is largely in line with large Swedish companies' standards.

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>BBB/Stable/A-2</b>
<b>Local currency issuer credit rating</b>	<b>BBB/Stable/A-2</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Modest</b>
Cash flow/leverage	Modest
<b>Anchor</b>	<b>bbb+</b>
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)
<b>Stand-alone credit profile</b>	<b>bbb</b>

## 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
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024

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