

**CREDIT OPINION**

18 December 2024

Update



**RATINGS**

**Metsä Board Corporation**

Domicile	ESPOO, Finland
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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**Metsä Board Corporation**

Update

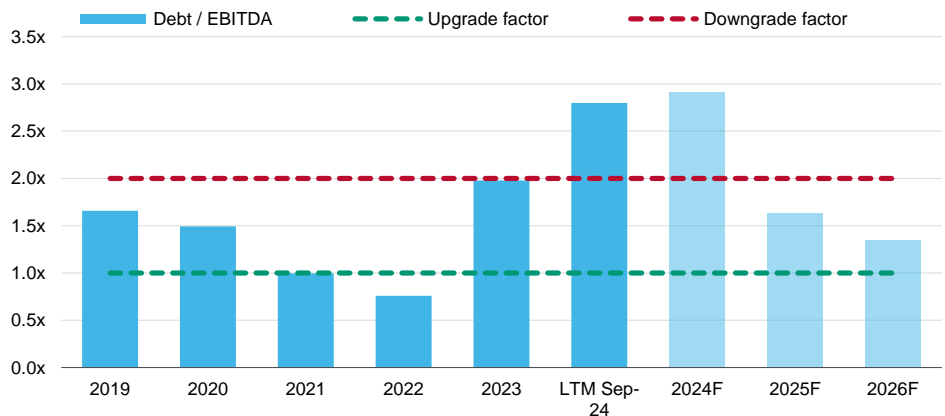
**Summary**

The Baa2 rating of [Metsä Board Corporation](#) (Metsä Board) is mainly supported by (1) the company's market leadership in high-quality, fresh fibre paperboard packaging in Europe; (2) its good level of vertical integration into energy and pulp; (3) structurally growing demand from largely non-cyclical end-markets; and (4) its integration into the wider and more diversified Metsä Group, including via the direct 25% ownership stake in Metsä Fibre.

However, the rating is primarily constrained by (1) its modest size and lower product diversification compared to most Investment Grade rated peers in paper packaging; (2) financial policy allowing net leverage to increase up to 2.5x from 2.0x in Q3 2024; (3) lack of rating commitment.

Exhibit 1

**After the spike in 2023 and 2024, we expect leverage ratio to revert swiftly into the appropriate range for the Baa2 rating category**  
Moody's adjusted gross debt/ EBITDA



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

## Credit strengths

- » Market leadership in Europe
- » High self-sufficiency in energy and pulp
- » Stability of underlying demand with mostly non-cyclical exposure, supported by plastic substitution

## Credit challenges

- » Narrow product focus and exposure to periodic supply and demand imbalances
- » Financial policy allowing significant re-leveraging
- » Large investment plans over the coming years

## Rating outlook

The stable outlook reflects Moody's expectation of an improvement in the company's profitability, with Moody's adjusted EBIT margin rising towards 10%, as the market recovers from the low levels experienced in 2023 and 2024 so far. We also anticipate a reduction in leverage below 2.0x debt/EBITDA.

## Factors that could lead to an upgrade

Positive rating pressure could arise if:

- » Metsä Board achieves further significant improvements in its business profile, scale and diversification;
- » Moody's adjusted EBIT margin sustainably above 15% (including contributions from Metsä Fibre);
- » Moody's adjusted retained cash flow (RCF)/ net debt sustainably above 45%;
- » Moody's adjusted gross debt/ EBITDA sustainably below 1.0x.

## Factors that could lead to a downgrade

Negative rating pressure could arise if:

- » Moody's adjusted EBIT margin below 10% on a sustained basis;
- » Moody's adjusted retained cash flow (RCF)/ net debt sustainably below 35%;
- » Moody's adjusted gross debt/ EBITDA sustainably above 2.0x;

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Metsä Board Corporation

(in € billions)	2019	2020	2021	2022	2023	LTM Sep-24	2024F	2025F	2026F
Revenue	1.9	1.9	2.1	2.5	1.9	1.9	2.0	2.1	2.2
EBITDA Margin %	14.3%	16.5%	22.2%	24.7%	11.7%	9.6%	8.9%	14.5%	16.4%
EBIT Margin %	9.4%	11.5%	17.9%	21.3%	6.8%	3.8%	3.5%	9.6%	11.2%
Debt / EBITDA	1.7x	1.5x	1.0x	0.8x	2.0x	2.8x	2.9x	1.6x	1.3x
EBITDA / Interest Expense	17.6x	26.9x	41.1x	47.8x	15.6x	10.6x	10.5x	18.6x	22.6x
(RCF-CAPEX) / Debt	9.1%	5.6%	-10.8%	-9.4%	-57.1%	-26.0%	-30.2%	11.7%	11.0%
RCF / Debt	31.2%	40.4%	36.4%	53.4%	-7.3%	9.6%	6.2%	37.7%	43.2%
RCF / Net Debt	44.1%	74.8%	-262.8%	231.1%	-20.8%	13.9%	11.0%	58.4%	65.9%

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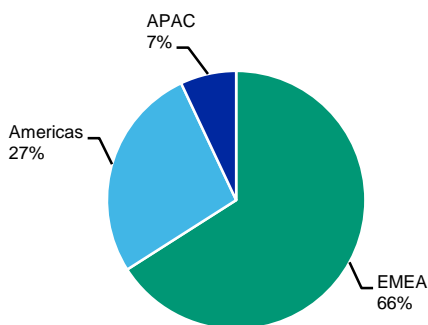
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

## Profile

Headquartered in Espoo, Finland, Metsä Board Corporation (Metsä Board) is one of the leading European fresh fibre paperboard producers for consumer and retail packaging, focusing on folding boxboard and white kraftliners, including its own pulp production. In the last 12 months ended September 2024, the company generated €1.9 billion of revenue. Metsä Board has around 2,400 employees worldwide and while its production is located in Finland and Sweden, the company delivers paperboard to approximately 100 countries around the world. Metsä Board's shares are listed on Nasdaq Helsinki, with a current market capitalisation of around €1.6 billion.

Exhibit 3

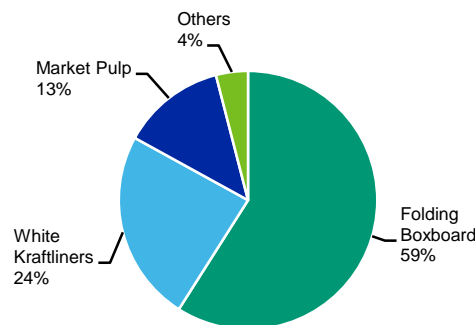
### Sales breakdown by geography (YTD Sep-24)



Source: Company filings

Exhibit 4

### Sales breakdown by product (YTD Sep-24)



Source: Company filings

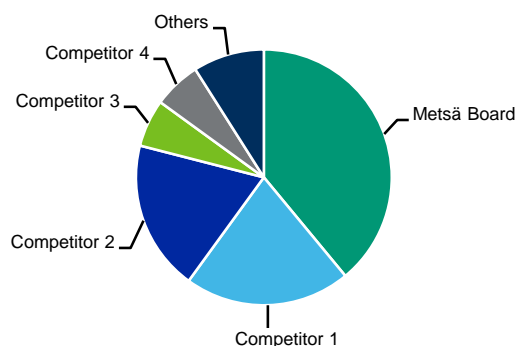
## Detailed credit considerations

### Narrow product focus compared to larger peers, but market leadership and integrated business model support the rating

Metsä Board's rating is constrained by its modest size, with revenue of around €1.9 billion, and its lower diversification compared to larger Investment Grade rated peers in the paper packaging sector, such as [Smurfit Westrock plc](#) (Baa2 positive), [Stora Enso Oyj](#) (Baa3 stable) and [Mondi Plc](#) (Baa1 stable). However, the company has a strong market position as the European market leader in fresh fibre folding boxboard and white kraftliner. Metsä Board estimates to have approximately 35% market share based on reported capacity in folding boxboard (FBB), where it competes notably with Stora Enso, and 32% market share in white kraftliner (WKL), where its main competitors are Smurfit Kappa, Billerud and Stora Enso, in fairly consolidated markets (Exhibit 5 & 6). The company's recent capacity expansions - 200k t/a of FBB in Husum (start-up in Q4 2023) and 40k t/a of WKL in Kemi (started up in Q3 2023) - are expected to further enhance its market lead.

Exhibit 5

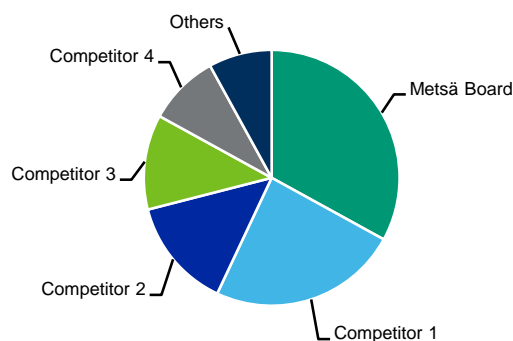
#### Metsä Board is the market leader in the European folding boxboard Market share based on capacity



Source: Company filings

Exhibit 6

#### Metsä Board is also the market leader in the European white kraftliner Market share based on capacity



Source: Company filings

The demand for fresh fibre paperboard generally demonstrates resilience largely due to its extensive use in the non-cyclical food & beverage sector, even though the restocking/ destocking pattern observed in 2022/23 shows that the sector can still experience periods of significant volatility. We expect an annual growth rate of approximately 3-4% through 2030, driven by the substitution of plastic and the rise of e-commerce. Metsä Board's paperboard, characterized by its superior brightness and smoothness, facilitates excellent printability, enhancing the brand experience for e-commerce customers.

Metsä Board's vertical integration into energy and pulp is beneficial. The company is largely self-sufficient in electricity, with its own generation and purchases through PVO, a non-listed public limited company supplying electricity to its shareholders at cost price, as well as from the associated company Metsä Fibre. Only 14% of electricity and 9% of heat fuels are externally sourced.

Wood, accounting for 25% of Metsä Board's total costs, including the wood used in pulp production purchased from Metsä Fibre, is primarily sourced from the members of Metsäliitto Cooperative in Finland, Metsä Board's main shareholder. In Sweden, the company has a long-term supply agreement with Norra Skog, which acquired a 30% stake in Metsä Board's Husum pulp mill for €260 million in January 2021. At Husum, the company produces around 730 thousand t/a of pulp, a vital raw material for its 1,360 thousand t/a of folding boxboard and 675 thousand t/a white kraftliner production. Metsä Board's 25% shareholding in the associated company Metsä Fibre, with a pulp capacity of around 4.0 million t/a, places it in a net long position in pulp. Metsä Fibre's pulp capacity includes the recent capacity increase in Kemi, where capacity rose from 610 thousand t/a to 1.5 million t/a, a result of an over €2 billion investment that started up in Q3 2023. However, capacity expansions in FBB and WKL will also increase pulp consumption, but the group will maintain a large net long position in pulp in the coming years.

Metsä Board's strategy primarily aims to maintain its market leadership in Europe through efficient production in Northern Europe and exports to the rest of Europe and increasingly outside of Europe, with a particular focus on North America. In 2023, approximately 27% of group sales were generated in the Americas and another 7% in APAC (Exhibit 3). Despite the higher transport costs that put Metsä Board at a competitive disadvantage compared to local producers, the company asserts its ability to manufacture fresh fibre paperboard that is up to 30% lighter than rival grades, while maintaining equivalent stiffness, as a significant competitive edge.

**Metrics weakened in 2023 and 2024 / Plans to invest in a new folding boxboard mill stopped**

Following a period of robust earnings growth in recent years (Moody's adjusted EBITDA increased by 121% in 2019-2022 to €611 million), Metsä Board encountered a substantial drop in 2023 and 2024 to €184 million for the twelve months that ended September 2024. This downturn, while anticipated, was more severe and prolonged than what we had expected. In the first nine months of 2024, Moody's adjusted EBITDA fell by 23% due to a combination of lower paperboard prices, increased wood costs, political strikes in Finland, and a further reduced earnings contribution from the associated company Metsä Fibre. Moody's-adjusted free cash flow for the twelve months that ended September 2024 was €-163 million (2023: €-112 million) leading to a €63 million increase in debt and a €61 million lower cash position.

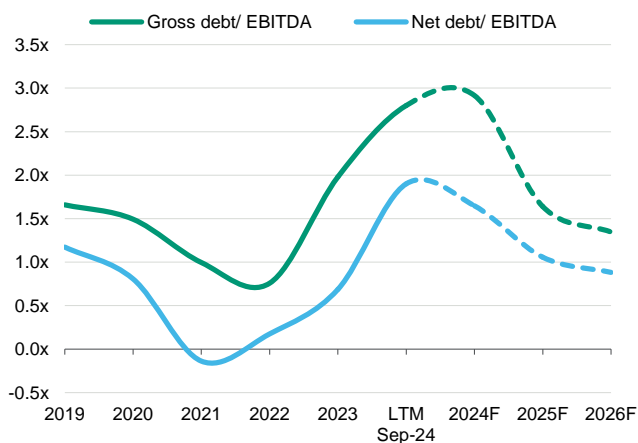
Given lower funds from operations and still high capex and €89 million dividend distribution for 2023, we expect 2024 free cash flow (as defined by Moody's) to remain significantly negative, ranging between €170-200 million. However, the group's liquidity position remains robust and we expect a considerably lower dividend distribution in 2025 due to the weak earnings performance this year and the company's revised dividend policy to pay out 50% of net income. We also foresee a further reduction in investments next year as the investment phase that started in 2021 largely concluded in 2024.

We expect that Metsä Board will continue to manage its balance sheet conservatively, taking into account the volatility of its earnings and carefully planning capacity expansions, considering their potential effects on market equilibriums. However, the rating could face negative rating pressure if the company opts for a more aggressive growth strategy, with largely debt-funded investments increasing gross leverage beyond our quantitative downgrade trigger for longer than 24 months. We think that Metsä Board's strong market position and competitive cost structure will ultimately bolster its profitability recovery.

Exhibit 7

**Leverage is expected to peak in the next 1-2 quarters with a swift reduction thereafter**

Moody's adjusted gross and net leverage



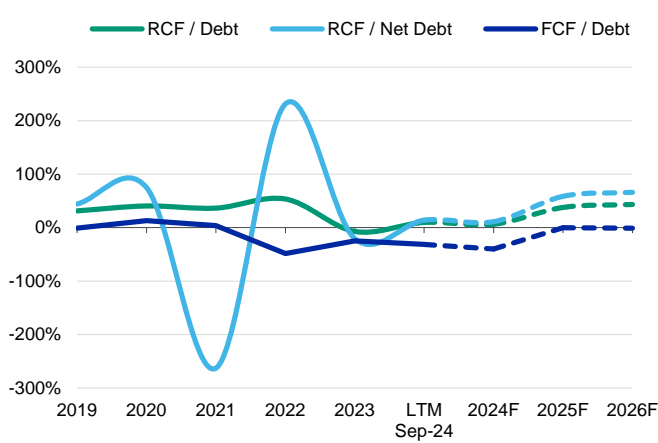
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Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Exhibit 8

**Large investments and high dividends depressed the cash generation lately**

Moody's adjusted cash flow based credit metrics



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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

After careful consideration, management stopped plans to invest in a new folding boxboard (FBB) mill in Kaskinen which, with 800,000 tonnes capacity, would have boosted the company's existing FBB capacity by 60%. The investment, originally estimated to exceed €1

billion, would have significantly increased the company's leverage. During the pre-engineering phase it became clear, that the cost of the project would have been significantly higher than expected, no longer meeting financial objectives. Instead, the company decided to focus on growth and development investments in the existing mills.

We positively note that Metsä Board could opt for a conservative financial approach by utilizing a portion of its 25% stake in Metsä Fibre (the balance sheet value of investments in associated companies as of September 2024 was €530 million) to fund high investments similar to the Kaskinen project. It could also reduce other investments to maintenance level (€50-60 million) and use its current liquidity to minimize additional debt. The company has demonstrated financial prudence in the past, and we acknowledge its flexibility regarding the timing and scale of new investments.

In its most recent Capital Markets Day in November 2022, Metsä Board reiterated its financial policy of maintaining net leverage below 2.5x. Since 2017, the company had kept the ratio at less than half that level. In 2024, however, due to a 50% EBITDA decline in H1 2024, it increased to a peak of 2.2x after Q2. Supported by €23 million insurance compensation received for a gas explosion at Kemi Fibre mill the ratio declined to 2.0x in Q3 2024. Looking ahead, we expect a recovery in 2025 reducing it well below 2x. Potential investments could increase leverage in 2026-27, but we believe the company will avoid reaching the leverage ceiling, which is a max level in any scenario.

### Integration into the wider Metsä Group is beneficial

Metsä Board is a public company, but approximately 50% of its shares (69% of votes) are owned by Metsäliitto Cooperative, which is owned by more than 90,000 Finnish forest owners. Apart from its share in Metsä Board, Metsäliitto Cooperative holds majority shares in Metsä Fibre (50.1%), which primarily produces pulp and in which Metsä Board also owns a 24.9% stake. Additionally, the cooperative has a 100% ownership in Metsä Tissue, Metsä Wood and Wood Supply and Forest Services. The entire Metsä Group, with all five businesses fully consolidated, generated a consolidated turnover of around €6.1 billion in 2023.

We generally view Metsä Board's integration into the wider Metsä Group as credit positive. During its business transformation, Metsä Group acted as a supportive shareholder, supporting Metsä Board, for instance, through asset sales from Metsä Board to Metsä Group or through the suspension of dividend payments between 2009 and 2012. In addition, given its healthy capital structure and well-invested asset base, we do not see a major risk of Metsä Group taking excessive amounts of cash flow out of Metsä Board on top of ordinary dividends. At the end of 2023, Metsä Group's consolidated cash position was €1.5 billion and its net leverage (Moody's adjusted) was 0.9x, gross leverage at 2.7x debt/EBITDA.

Exhibit 9

### Organisational structure and shareholding of Metsä Group

<b>METSÄ GROUP</b> FY2023: Sales EUR 6.1 billion   ROCE 7.2%   Personnel 9,500				
Parent company: <b>METSÄLIITTO COOPERATIVE</b> owned by over 90,000 Finnish forest-owners				
<b>METSÄ FOREST</b> WOOD SUPPLY AND FOREST SERVICES Sales EUR 2.2 bn Personnel 700 Holding: Metsäliitto Cooperative 100%	<b>METSÄ WOOD</b> WOOD PRODUCTS Sales EUR 0.6 bn Personnel 1,700 Holding: Metsäliitto Cooperative 100%	<b>METSÄ FIBRE</b> PULP AND SAWN TIMBER Sales EUR 2.5 bn Personnel 1,600 Holding: Metsäliitto Cooperative 50.1% Itochu Corporation 25.0% <b>Metsä Board 24.9%</b>	<b>METSÄ BOARD</b> PAPERBOARD Sales EUR 1.9 bn Personnel 2,250 Holding: <b>Listed in Nasdaq Helsinki</b> Metsäliitto Cooperative 52%	<b>METSÄ TISSUE</b> TISSUE AND GREASEPROOF PAPERS Sales EUR 1.3 bn Personnel 2,500 Holding: Metsäliitto Cooperative 100%
<b>METSÄ SPRING</b> INNOVATION COMPANY				

Source: Company filings

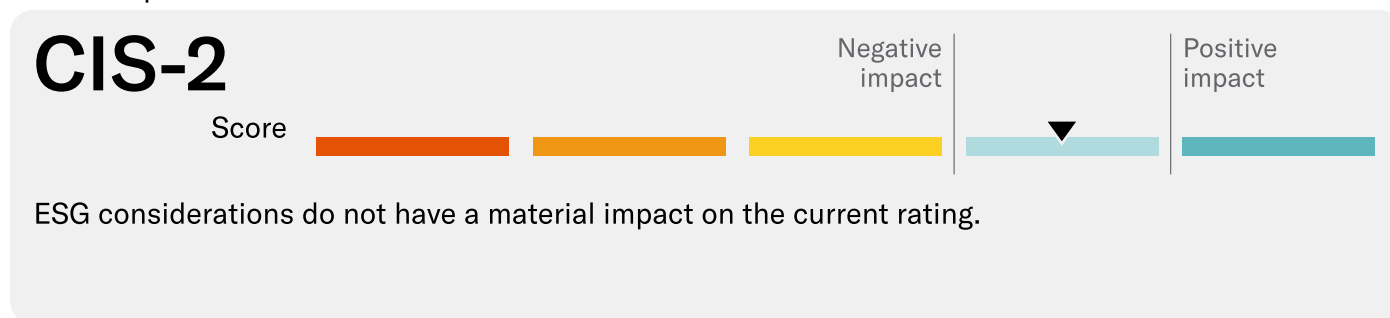
### Liquidity analysis

We view Metsä Board's liquidity profile as robust. As of September 2024, its liquidity consisted of €160 million of cash and cash equivalents plus the €200 million undrawn revolving credit facility (RCF) maturing in 2027. Furthermore, it had an internal short-term credit line of €150 million from the Metsä Group. We view the company's cash sources to be more than adequate to cover projected cash uses over the next 12-18 months.

### ESG considerations

Metsä Board Corporation's ESG credit impact score is CIS-2

Exhibit 10  
ESG credit impact score



Source: Moody's Ratings

Metsä Board's **CIS-2** indicates that ESG considerations are not material to the rating. As a manufacturing company, Metsä Board is more exposed to environmental and social risks with a moderate exposure to physical climate, natural capital, pollution risks and health and safety issues. However, these risks present a limited impact on the current rating and are further mitigated by its conservative financial management.

Exhibit 11  
ESG issuer profile scores



Source: Moody's Ratings

#### Environmental

Metsä Board's **E-3** score reflects its exposure to environmental risks tied to manufacturing processes with potential future investments needed to reduce emissions and improve water management efficiency.

#### Social

Metsä Board's **S-3** score reflects health & safety risks given the use of heavy equipment and machinery in its manufacturing facilities.

#### Governance

Metsä Board's **G-2** score reflects its conservative financial policies and a track-record of maintaining strong balance sheet over the recent years. Metsä Board is a public company, though 67% of its voting shares are held by Metsäliitto Cooperative (an association of Finish forest owners) that also owns Metsä Tissue, Metsä Wood, Metsä Forest and the majority of shares in Metsä Fiber. We generally view Metsä Board's integration into the wider Metsä Group as credit positive, as Metsä Group acted as a supportive shareholders in the past.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

We used our Paper and Forest Products Industry rating methodology as the primary methodology for analysing Metsä Board. The scorecard-indicated outcome has remained unchanged at Ba2 as of September 2024. Assuming a mild recovery in profitability over the next 12-18 months, the grid outcome improves to Baa3. However, the scorecard does not capture the benefits of Metsä Board being a part of a larger and more diversified group.

Exhibit 12

### Rating factors

#### Metsä Board Corporation

Calibration Proposed Paper and Forest	Current LTM Sep-24		Moody's 12-18 month forward view	
Factor 1 : SCALE (10%)	Measure	Score	Measure	Score
a) Revenue (\$ billions)	\$2	Ba	\$2	Ba
<b>Factor 2 : BUSINESS PROFILE (35%)</b>				
a) Product Diversification	B	B	B	B
b) Geographic Diversification	B	B	B	B
c) Market Characteristics	Baa	Baa	Baa	Baa
d) Fiber and Energy Cost Profile	Baa	Baa	Baa	Baa
<b>Factor 3 : PROFITABILITY AND EFFICIENCY (10%)</b>				
a) EBIT Margin %	3.8%	Caa	9.6% - 11.2%	Ba
<b>Factor 4 : LEVERAGE AND COVERAGE (30%)</b>				
a) Debt / EBITDA	2.8x	Baa	1.3x - 1.6x	A
b) EBITDA / Interest Expense	10.6x	A	18.5x - 22.5x	Aa
c) RCF / Net Debt	13.9%	B	58% - 66%	Aa
<b>Factor 5 : FINANCIAL POLICY (15%)</b>				
a) Financial Policy	Baa	Baa	Baa	Baa
<b>Rating:</b>				
Indicated Outcome before Notching Adjustments		Ba2		Baa3
Notching Adjustments		0		0
a) Scorecard-Indicated Outcome		Ba2		Baa3
b) Actual Rating Assigned				Baa2

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Source: Moody's Financial Metrics™ and Moody's Ratings forecasts



## Appendix

Exhibit 13

## Peer comparison

## Metsä Board Corporation

(in \$ millions)	Metsä Board Corporation			Mondi Plc			Packaging Corporation of America			International Paper Company			Stora Enso Oyj			Sappi Limited		
	Baa2 Stable			Baa1 Stable			Baa2 Positive			Baa2 Stable			Baa3 Stable			Baa2 Stable		
	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM
	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Jun-24	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24	Dec-22	Dec-23	Sep-24	Sep-22	Sep-23	Jun-24
Revenue	2,613	2,100	2,077	9,382	7,927	7,775	8,478	7,802	8,175	21,161	18,916	18,640	11,680	9,396	8,900	7,296	5,809	5,375
Operating Profit	388	105	83	1,521	826	684	1,492	1,129	1,127	1,832	686	248	1,896	245	521	956	548	348
EBITDA	644	245	199	1,968	1,316	1,182	2,007	1,677	1,666	3,067	2,443	2,102	2,628	929	1,106	1,269	901	690
Total Debt	494	495	578	2,395	2,300	2,233	2,905	3,240	2,821	6,313	6,360	6,317	4,282	6,131	6,034	2,146	1,921	1,901
Cash & Cash Equivalents	380	322	179	1,480	1,759	445	320	648	677	804	1,113	1,159	1,917	2,464	1,999	780	601	365
EBIT / Interest Expense	41.3x	9.1x	4.2x	10.1x	6.2x	5.6x	15.8x	14.0x	17.1x	4.3x	1.9x	1.0x	14.2x	2.0x	3.1x	7.4x	4.7x	3.0x
Debt / EBITDA	0.8x	2.0x	2.8x	1.2x	1.7x	1.9x	1.4x	1.9x	1.7x	2.1x	2.6x	3.0x	1.6x	6.6x	5.5x	1.7x	2.1x	2.8x
RCF / Net Debt	231.1%	-20.8%	13.9%	158.8%	154.4%	-10.4%	48.6%	37.5%	46.4%	32.4%	25.8%	19.5%	67.3%	-0.5%	14.6%	82.9%	36.5%	4.2%
FCF / Debt	-48.5%	-25.2%	-31.6%	21.1%	3.8%	-51.5%	9.7%	13.4%	5.5%	8.9%	0.6%	2.4%	8.9%	-13.0%	-6.8%	24.9%	10.9%	-13.2%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 14

## Moody's-adjusted debt reconciliation

## Metsä Board Corporation

(in € millions)	2019	2020	2021	2022	2023	LTM Sep-24
<b>As reported debt</b>	<b>444.9</b>	<b>452.4</b>	<b>447.1</b>	<b>453.0</b>	<b>438.1</b>	<b>507.8</b>
Pensions	13.5	13.1	13.4	10.3	9.9	9.9
<b>Moody's-adjusted debt</b>	<b>458.4</b>	<b>465.5</b>	<b>460.5</b>	<b>463.3</b>	<b>448.0</b>	<b>517.7</b>

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 15

## Moody's-adjusted EBITDA reconciliation

## Metsä Board Corporation

(in € millions)	2019	2020	2021	2022	2023	LTM Sep-24
<b>As reported EBITDA</b>	<b>294.5</b>	<b>317.9</b>	<b>462.9</b>	<b>611.8</b>	<b>226.7</b>	<b>184.0</b>
Pensions	(0.3)	(0.1)	(0.4)	(0.5)	0.1	0.1
Unusual Items	(17.8)	(6.1)	-	-	-	-
<b>Moody's-adjusted EBITDA</b>	<b>276.4</b>	<b>311.7</b>	<b>462.5</b>	<b>611.3</b>	<b>226.8</b>	<b>184.1</b>

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Source: Moody's Financial Metrics™

## Ratings

Exhibit 16

Category	Moody's Rating
<b>METSA BOARD CORPORATION</b>	
Outlook	Stable
Issuer Rating - Dom Curr	Baa2

Source: Moody's Ratings

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