

Metsä Board Corp.

August 14, 2024

We anticipate Metsä Board’s S&P Global Ratings-adjusted EBITDA will only exhibit minor growth in 2024. We slightly revised our forecast, since Metsä Board’s first-half 2024 results were below our expectations due to the negative impact of strikes in Finland and an explosion at the Kemi mill. We now expect Metsä Board’s adjusted EBITDA at about €219 million in 2024, from €214 million in 2023. Our base-case scenario assumes that the negative impact of the strikes and the explosion, and a lower dividend received from Metsä Fibre, will be mitigated by a recovery in volumes sold in 2024, lower chemicals and energy costs (compared to 2023), increasing pulp prices, and favorable foreign exchange rates. We exclude profits and losses from Metsä Fibre in our adjusted EBITDA calculations, but include the dividends received from that entity.

We forecast minimal free operating cash flow (FOCF) in 2024. Our revised base-case scenario assumes FOCF of about €10 million in 2024 (€124 million in 2023). This is above our previous forecast of negative €13 million, given the company’s lower capital expenditure (capex) guidance for 2024, and despite slightly higher working capital needs due to volume growth. We now forecast capex at about €150 million in 2024, down from €230 million in our previous base-case scenario, from €216 million in 2023.

We expect ample headroom under the rating in 2024. We expect adjusted debt to EBITDA will increase to about 1.1x in 2024, then reduce slightly toward 0.9x in 2025, from 0.7x in 2023. Funds from operations (FFO) to debt will remain robust at 77% in 2024 and 92% in 2025, from 145% in 2023. Liquidity will remain strong, with most debts maturing in 2026 (€100 million) and 2027 (€250 million). We expect these will be addressed in the next 24 months.

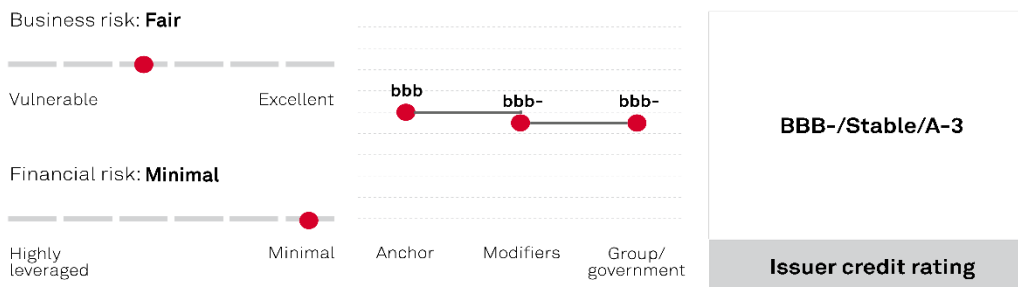
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Ratings Score Snapshot



Recent Research

- Metsä Board Oyj, March 21, 2024

Company Description

Metsä Board is a Finland-based paperboard and pulp producer. The company produces folding boxboards (59% of sales), white kraftliners (24%), and market pulp (13%). Electricity sales and by-product sales from pulp production account for the remaining 4%. Its paperboards are ultimately used in packaging applications in the consumer goods, retail, and food service industries. Metsä Board has the capacity to produce 2.3 million tonnes of paperboard and 1.7 million tonnes of pulp and bleached chemi-thermo mechanical pulp per year. The company has eight mills (in Finland and Sweden) and approximately 2,300 employees. It is listed on Nasdaq Helsinki.

Metsä Board generated €1.9 billion sales in 2023, most of which were in Europe, the Middle East, and Africa.

Outlook

The stable outlook indicates that we expect Metsä Board's leading market positions in Europe will support weighted-average adjusted leverage at below 2x over the next 24 months.

Downside scenario

We could lower the rating if we no longer anticipate that Metsä Board could maintain adjusted debt to EBITDA below 2.0x on a weighted-average basis over a sustained period. This could happen if Metsä Board's operational performance weakened, for example, due to a significant fall in paperboard prices, a material increase in wood prices, or operational issues that led to margin pressures.

Furthermore, we could downgrade Metsä Board if we revised Metsä Group's credit profile to 'bb+' or lower.

Upside scenario

We view an upgrade as unlikely, as it would require Metsä Board to publicly commit to a more-conservative financial policy, including capping adjusted debt to EBITDA at 1.5x. An upgrade would also require adjusted FFO to debt to exceed 60% on a sustainable basis.

We would not raise our rating on Metsä Board unless we revise Metsä Group's credit profile to 'bbb' or higher. This would imply a low risk of leverage increasing, for example, through major debt-funded investments. It would also imply that our current assessment of the business risk profile remains unchanged.

Key Metrics

Metsä Board Corp.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
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Metsä Board Corp.--Forecast summary

(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f
Revenue	1,890	2,084	2,480	1,942	1,978	2,161
Adjusted EBITDA	332	324	452	214	219	316
Less: Cash interest paid	(12)	(15)	(12)	(13)	(15)	(15)
Less: Cash taxes paid	(45)	(31)	(67)	24	(27)	(46)
Funds from operations (FFO)	275	278	373	225	178	256
Capital expenditure (capex)	154	210	266	216	146	246
Free operating cash flow (FOCF)	154	116	(42)	124	10	41
Dividends	85	92	157	230	99	105
Share repurchases (reported)	--	--	8	--	--	--
Discretionary cash flow (DCF)	68	24	(207)	(105)	(89)	(64)
Debt (reported)	432	431	437	425	444	432
Plus: Lease liabilities debt	20	16	20	17	17	17
Plus: Pension and other postretirement debt	4	1	3	3	3	3
Less: Accessible cash and liquid Investments	(214)	(524)	(356)	(292)	(234)	(174)
Plus/(less): Other	3	2	2	2	2	2
Debt	246	--	106	156	231	279
Equity	1,384	1,846	2,255	2,053	2,074	2,179
FOCF (adjusted for lease capex)	147	112	(68)	119	3	37
Adjusted ratios						
Debt/EBITDA (x)	0.7	--	0.2	0.7	1.1	0.9
FFO/debt (%)	112.1	NM	352.2	144.6	76.8	91.6
FFO cash interest coverage (x)	24.7	19.3	32.0	18.0	13.2	18.5
EBITDA interest coverage (x)	29.4	29.7	36.9	15.0	14.9	21.3
FOCF/debt (%)	62.5	NM	(39.9)	79.8	4.4	14.7
DCF/debt (%)	27.8	NM	(195.5)	(67.7)	(38.5)	(22.8)
Annual revenue growth (%)	(2.2)	10.3	19.0	(21.7)	1.9	9.3
EBITDA margin (%)	17.6	15.6	18.2	11.0	11.1	14.6

Financial Summary

Metsa Board Corp.--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.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,944	1,932	1,890	2,084	2,480	1,942
EBITDA	244	282	332	324	452	214
Funds from operations (FFO)	210	247	275	278	373	225
Interest expense	19	15	11	11	12	14

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Metsa Board Corp.--Financial Summary

Cash interest paid	18	16	12	15	12	13
Operating cash flow (OCF)	154	201	308	326	224	341
Capital expenditure	68	94	154	210	266	216
Free operating cash flow (FOCF)	87	106	154	116	(42)	124
Discretionary cash flow (DCF)	12	3	68	24	(207)	(105)
Cash and short-term investments	110	134	214	524	356	292
Gross available cash	110	134	214	524	356	292
Debt	355	319	246	0	106	156
Common equity	1,323	1,338	1,384	1,846	2,255	2,053
Adjusted ratios						
EBITDA margin (%)	12.5	14.6	17.6	15.6	18.2	11.0
Return on capital (%)	14.7	10.1	13.0	20.0	22.6	3.1
EBITDA interest coverage (x)	12.7	18.5	29.4	29.7	36.9	15.0
FFO cash interest coverage (x)	12.6	16.2	24.7	19.3	32.0	18.0
Debt/EBITDA (x)	1.5	1.1	0.7	0.0	0.2	0.7
FFO/debt (%)	59.1	77.7	112.1	NM	352.2	144.6
OCF/debt (%)	43.4	62.9	125.2	NM	210.9	218.8
FOCF/debt (%)	24.4	33.3	62.5	NM	(39.9)	79.8
DCF/debt (%)	3.4	1.0	27.8	NM	(195.5)	(67.7)

Peer Comparison

Metsa Board Corp.--Peer Comparisons

	Metsa Board Corp.	Holmen AB	Svenska Cellulosa AB SCA	UPM-Kymmene Corp.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Positive/A-2
Local currency issuer credit rating	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	1,942	2,229	1,627	10,460
EBITDA	214	498	400	1,366
Funds from operations (FFO)	225	476	322	1,069
Interest	14	7	44	142
Cash interest paid	13	7	48	116
Operating cash flow (OCF)	341	522	346	2,269
Capital expenditure	216	153	278	1,080
Free operating cash flow (FOCF)	124	369	68	1,189
Discretionary cash flow (DCF)	(105)	35	(90)	354
Cash and short-term investments	292	108	45	632

Metsa Board Corp.--Peer Comparisons

Gross available cash	292	108	45	632
Debt	156	186	1,159	3,032
Equity	2,053	5,121	9,382	11,531
EBITDA margin (%)	11.0	22.3	24.6	13.1
Return on capital (%)	3.1	7.1	2.3	4.8
EBITDA interest coverage (x)	15.0	67.5	9.1	9.6
FFO cash interest coverage (x)	18.0	64.7	7.7	10.2
Debt/EBITDA (x)	0.7	0.4	2.9	2.2
FFO/debt (%)	144.6	255.6	27.8	35.3
OCF/debt (%)	218.8	280.4	29.9	74.8
FOCF/debt (%)	79.8	198.2	5.9	39.2
DCF/debt (%)	(67.7)	18.8	(7.7)	11.7

Environmental, Social, And Governance

Environmental, social and governance factors are an overall neutral consideration in our credit rating analysis of Metsä Board. Its exposure to environmental and social risks is comparable with that of its industry peers. Metsä Board as a pure-play paperboard producer has benefitted from the environmental trend of paper packaging, which is recyclable, progressively replacing plastic packaging. Metsä Board owns a 24.9% stake in Metsä Fibre, which produces pulp, sawn timber, biochemicals, and bioenergy. It does not own any forest assets but is part of a group with extensive forest assets (Metsäliitto Cooperative, parent company of Metsä Group, is owned by 90,000 Finnish private forest owners). We see some environmental (notably pollution) risks from Metsä Board's operations, since the production of pulp and paper requires significant amounts of energy, water, and chemicals. We believe that pollution incidents could result in compensation and corrective actions costs. The company monitors its emissions into air and water. Metsä Board did not report any significant environmental effects, claims, or compensation related to the pollution of air, water, and soil in 2023.

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Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Fair
Country risk	Low
Industry risk	Moderately High
Competitive position	Fair
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- General Criteria: 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
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

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