MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Metsä Board to Ba1; stable outlook

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Frankfurt am Main, August 18, 2017 -- Moody's Investors Service, ("Moody's") has today upgraded Metsä Board Corporation's (Metsä Board) Corporate Family Rating (CFR) to Ba1 from Ba2 and the group's Probability of Default Rating (PDR) to Ba1-PD from Ba2-PD. Concurrently, Moody's has upgraded Metsä Board's EUR225 million Senior Unsecured Notes to Ba1 from Ba2. The outlook on all ratings is stable.

"Today's rating action primarily reflects our expectation that over the next 12-18 months Metsä Board's credit metrics will improve to levels commensurate with its Ba1 rating as its Husum mill continues to ramp up", says Martin Fujerik, Moody's lead analyst for Metsä Board.

RATINGS RATIONALE

Today's upgrade primarily reflects the rating agency's expectation of an sustainable improvement of Metsä Boards' credit metrics over the next 12-18 months, such as Moody's adjusted retained cash flow (RCF)/debt well above 20% and Moody's adjusted EBITDA margin (without contribution from Metsä Fibre) towards mid-teens in percentage terms, which is in line with a higher rating. The improvement will primarily come from the continuing ramp up of the Husum mill that started production in February 2016. It initially faced some operational issues in the first year of operation, and with a 70% utilization rate as of June 2017 still generates negative EBIT. Metsä Board's management believes there is potential for around EUR100 million incremental EBITDA until 2019 (vs 2016), coming from 120 thousand tons of lost pulp production in 2016, efficiency improvements and, most importantly, an increasing utilisation rate of the folding boxboard machine and with normalized sales price in paperboard deliveries. Metsä Board expects utilization to be around 75% in 2017, with almost full production by the end of 2018.

While the rating agency cautions that there is a still some execution risk with regards to volumes sold as well as geographical mix -- so far the proportion of the sales to the primarily targeted profitable US market has been below expectations - Moody's still sees a high likelihood of credit metrics improvement even if the ramp-up is not fully in line with the company's original expectations.

In addition, there are other factors that will support the improvement in credit metrics going forward. Firstly, 2017 will mark the first full year without its legacy, margin-dilutive paper business weighing on profitability. Secondly, after exceptionally high capex spending in 2015 and 2016 related to the expansion of the Husum mill (on average around EUR170 million p.a. vs. roughly EUR50 million maintenance capex needs), Moody's expects Metsä Board's capex to decline towards maintenance levels in 2017 and 2018, which will help the company to return to positive free cash flow generation. While there is a risk of re-leveraging in the medium term, considering that Metsä Board operates below its internal leverage ceiling of net leverage of 2.5x (as defined by Metsä Board, 2.0x for the last 12-month to June 2017 period), the rating agency does not foresee Metsä Board utilising this headroom before Husum is fully ramped up.

Thirdly, Metsä Board guides for a further reduction of gross debt in the second half of 2017 to around EUR600 million (around EUR640 million as per end of June 2017). Finally, in the medium term there is potential to receive higher dividend payments from its 25% stake in sister company Metsä Fibre, once its sizeable Äänekoski pulp mill, which is currently starting its production, is fully operational. In this respect Moody's also recognises the substantial value of Metsä Board's stake in Metsä Fibre, although the rating agency does not foresee Metsä Board to reduce its stake under normal business conditions.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the group's paperboard operations will continue to perform solidly during the next 12-18 months with further improvements from ongoing efficiencies, exit from unprofitable paper business and upward potential from Husum ramp-up, with Moody's adjusted EBITDA margin (without contribution from Metsä Fibre) will move towards mid-teens in % terms and Moody's adjusted retained cash flow to debt (RCF/Debt) around 25%.

WHAT COULD CHANGE THE RATING UP/ DOWN

Positive rating pressure could develop if Metsä Board's builds a track record of RCF/debt (as adjusted by Moody's) sustainably around 25% and Moody's adjusted EBITDA margin (without contribution from Metsä Fibre) were to increase above 16% terms on a sustained basis.

Moody's could consider downgrading Metsä Board if the group's profitability were to come under pressure resulting in Moody's adjusted EBITDA margin (without contribution from Metsä Fibre) falling towards the low teens percentages and Moody's adjusted RCF/debt failing to improve above 20%.

The principal methodology used in these ratings was Global Paper and Forest Products Industry published in October 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Espoo, Finland, with revenues of €1.7 billion in 2016 Metsä Board is a leading European fresh fibre paperboard producer, including its own pulp production. Metsä Board employs a workforce of around 2.5 thousand employees and is majority owned by parent company Metsäliitto Cooperative, which itself is owned by more than 104,000 Finnish Forest owners. Within Metsä Group, Metsäliitto Cooperative also holds majority shares in Metsä Fibre (50.2%) as well as 100% ownership in Metsä Tissue, Metsä Wood and Metsä Forest. Metsä Group generated a consolidated turnover of €4.7 billion in 2016.

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Martin Fujerik
Vice President - Senior Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Anke Rindermann
Associate Managing Director
Corporate Finance Group

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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