S&P Global Ratings

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Metsa Board Corp.

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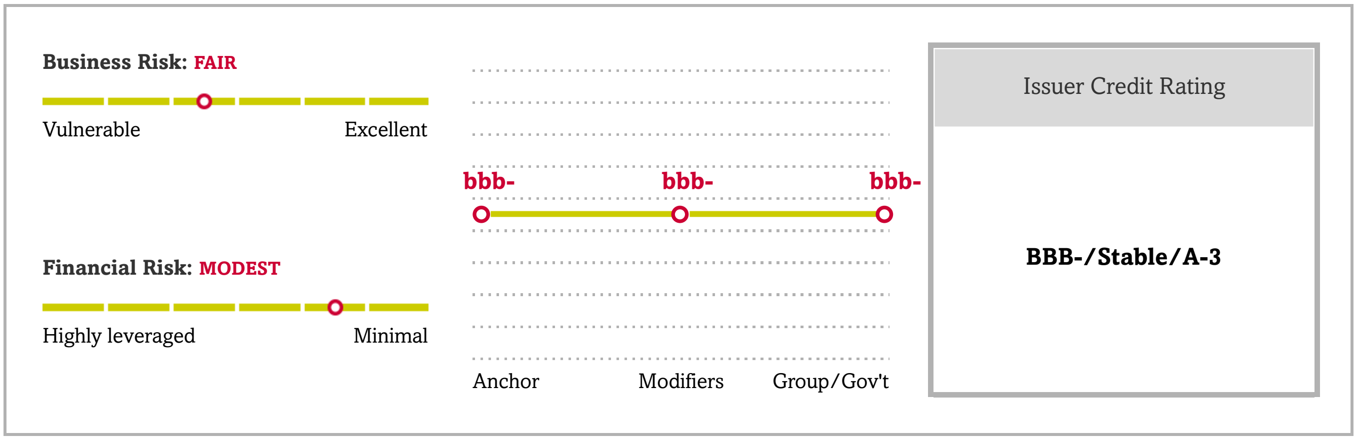

Credit Highlights

Overview

Key strengths	Key risks
Leading market positions in folding boxboards (FBB) and white kraftliner.	Cyclical and capital intensive nature of pulp and paper industry.
Vertical integration into pulp and energy.	Financial policy allows for additional leverage.
Premium positioning.	Rating capped by Metsa Group.
	Concentrated asset base, product portfolio, and geographical exposure.

With its leading market positions and premium positioning in paperboard, Metsa Board is well placed to benefit from trends in the packaging market. Metsa Board is the leading FBB and white kraftliner producer in Europe with market shares in excess of 30% in each of these segments. It focuses on premium fresh fiber boards and is expected to benefit from the ongoing trend toward lightweight packaging, as well as increased demand for FBB in the U.S. The fresh fiber nature of its products make them very suitable for the food industry, which has specific purity and safety requirements.

Paperboard and pulp prices are volatile by nature. In 2020, we expect white kraftliner prices to increase and pulp prices to stabilize. The group has a long position in pulp (mainly chemical long-fiber pulp) of around 600,000 tonnes. This mainly reflects its 24.9% stake in Metsa Fibre, in addition to some own pulp production.

We expect its large capital investments to be neutral for the rating. Metsa Board is planning to fund part of its upcoming capital investments (including €320 million related to the first phase of the Husum mill renewal) via additional debt. We thereby expect S&P Global Ratings-adjusted debt to EBITDA will increase to 1.8x-2.0x in 2020 and 2021. These credit metrics are commensurate with our current rating category.

Outlook: Stable

The stable outlook reflects our expectation that Metsa Board's leading market positions in Europe support a weighted average adjusted leverage of below 2.0x over the next 24 months.

Downside scenario

We could lower our rating if Metsa Board's operational performance weakened, for example due to a significant fall in prices for paperboard or a material increase in wood prices. A downgrade could also result if operational issues led to pressure on margins. We could lower the rating if we no longer anticipated that Metsa Board could maintain net debt to EBITDA below 2.0x on a weighted average basis over a sustained period.

We could also downgrade Metsa Board if we revised Metsa Group's group credit profile to 'bb+' or lower.

Upside scenario

We view an upgrade as unlikely, as it would require Metsa Board to publicly commit to a more conservative financial policy that includes a cap on debt to EBITDA of 1.5x. In addition to this, we would expect funds from operations (FFO) to debt to exceed 60% on a sustainable basis for an upgrade.

Raising the rating would also depend on us revising Metsa Group's group credit profile to 'bbb' or higher. This could occur if we saw only a low risk of leverage increasing from current levels--for example, through major new investments--and our current assessment of the business risk profile remained unchanged. In light of the upcoming large capital investments of Metsa Fibre, we view such an upward revision as unlikely.

Our Base-Case Scenario

Assumptions

- For 2020, we forecast flat or slightly decreasing revenues because we expect a further decline in pulp prices and stable white kraftliner prices. We also forecast FBB prices to remain stable and anticipate stable volumes across all three product lines. For 2021, we anticipate low single-digit revenue growth, backed by a recovery in pulp prices, higher volumes, and slightly more favorable pricing in paperboard.
- We expect S&P Global Ratings-adjusted EBITDA to decrease in 2020 due to lower dividends from Metsa Fibre amid lower pulp prices in 2019, and the

Key Metrics

	2018A	2019A	2020E
EBITDA Margin (%)*	12.5	14.6	12-13
FFO/Debt (%)	59.6	77.7	44-50
Debt/EBITDA (x)	1.5	1.1	1.8-2.0

*Among other adjustments, our adjusted measure of EBITDA includes dividends received from Metsa Fibre and excludes its share of results from associated companies (mainly Metsa Fibre). A--Actual. E--Estimate.

negative effect from the Finnish paper industry strike in first-quarter 2020. In 2021, we expect some recovery in adjusted EBITDA margin as prices improve and as long as the strike does not recur. Among other adjustments, the company's reported EBITDA differs from our adjusted EBITDA in that we exclude the share of Metsa Fibre's net income (under our criteria); our adjusted EBITDA only includes the dividends received from Metsa Fibre. We expect these dividends to amount to €20 million-€25 million in 2020 and 2021.

- Working capital outflows of about €10 million in 2020 and about €20 million in 2021.
- Annual capital expenditure (capex) of around €210 million-€220 million in 2020 and 2021. This will largely reflect investments in the first phase of the Husum plant renewal.
- €85 million of dividends and capital distributions in 2020. We assumed €85 million-€90 million dividends for 2021. This reflects the group's dividend policy, which states that Metsa Board aims to pay at least 50% of result in dividends.
- No acquisitions.

Base-case projections

We expect lower EBITDA for 2020. EBITDA margins were exceptionally high in 2019 due to high dividends from Metaa Fibre (on the back of very favorable pulp prices in 2018). Given the weaker pulp price environment in 2019, we expect lower dividends from Metaa Fibre in 2020. This, combined with lower revenues (due to lower pulp price sales) and around €20 million losses in EBITDA as a result of a strike (launched by the Finnish Paper Union) in first-quarter 2020, is likely to lead to a lower adjusted EBITDA of about €240 million in 2020 (compared to about €280 million in 2019).

Leverage is likely to increase in the short term. The company is likely to make substantial investments (around €210 million-€220 million annually) in 2020 and 2021. A large portion of these investments will relate to the renewal of its pulp mill in Husum. The first phase consists of a new recovery boiler and new turbine at the pulp mill. We expect Metsa Board to fund part of its capex with new debt. Given the expected decline in EBITDA (see above), we expect debt to EBITDA to increase to 1.8x-2.0x by December 2020 and December 2021.

Company Description

Metsa Board is a Finland-based paperboard and pulp producer. The group produces folding boxboards (57% of sales), white kraftliners (25%), and market pulp (13%). Other operations account for the remaining 5%. Its paperboards are ultimately used in packaging applications in the consumer goods, retail, and food service industries.

The group generated €1.9 billion sales in 2019. Around 71% of these related to EMEA, with the remainder from the Americas (21%) and Asia-Pacific (8%). The group has eight mills (in Finland and Sweden) and approximately 2,250 employees. The company is listed on the Nasdaq Helsinki.

Business Risk: Fair

Our business risk assessment reflects Metsa Board's leading positions in fresh fiber boards, its premium positioning, and its vertical integration into pulp. The group is the leading producer of white kraftliners and folding boxboards in Europe with market shares in excess of 30% in both. Metsa Board is vertically integrated into pulp via its 24.9% stake in Metsa Fibre and its own pulp production. In 2019, the group had 600,000 tonnes of excess pulp.

Our assessment also reflects its relatively small size and narrow product and geographical scope compared with larger forest and paper groups such as Mondi Group and UPM-Kymmene. The group's production units are concentrated in Finland and Sweden.

In 2019, the group's adjusted EBITDA margins increased compared to 2018 as a result of the exceptionally high dividends received from Metsa Fibre. Our adjusted EBITDA margin calculation excludes Metsa Board's share of Metsa Fibre's income and includes the dividends received. The latter had an exceptionally good performance in 2018, given the high pulp prices. As a result of the low pulp prices in 2019, which we expect to persist in the near future, we anticipate lower dividends from Metsa Fibre over 2020 and 2021, amounting to €20 million-€25 million.

Metsa Board is planning to install a new recovery boiler and turbine in its Husum mill to increase its self-sufficiency and reduce operating costs, benefitting efficiency.

Peer comparison

Table 1

Metsa Board Corp.--Peer Comparison

Industry sector: Paper/Forest products

	Metsa Board Corp.	Holmen AB	Svenska Cellulosa Aktiebolaget SCA	UPM-Kymmene Corp.
Ratings as of March 13, 2020	**BBB-/Stable/A-3**	**BBB+/Stable/A-2**	**BBB/Stable/A-2**	**BBB/Stable/A-2**
	--Fiscal year ended Dec. 31, 2019--			
(Mil. €)				
Revenue	1,931.8	1,747.0	1,868.8	10,238.0
EBITDA	281.8	265.6	422.5	1,832.0
Funds from operations (FFO)	247.4	248.3	346.2	1,623.0
Interest expense	15.2	4.6	10.8	61.0
Cash interest paid	16.3	3.2	14.1	33.0
Cash flow from operations	200.5	274.8	314.4	1,843.0
Capital expenditure	94.3	99.6	218.3	399.0
Free operating cash flow (FOCF)	106.2	175.2	96.2	1,444.0
Discretionary cash flow (DCF)	3.1	(69.3)	(21.1)	751.0

Table 1

Metsa Board Corp.--Peer Comparison (cont.)

Industry sector: Paper/Forest products

	Metsa Board Corp.	Holmen AB	Svenska Cellulosa Aktiebolaget SCA	UPM-Kymmene Corp.
Ratings as of March 13, 2020	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2
Cash and short-term investments	134.2	46.1	43.3	1,536.0
Debt	318.5	407.4	874.0	394.8
Equity	1,338.0	3,826.1	6,535.1	10,174.0
Adjusted ratios				
EBITDA margin (%)	14.6	15.2	22.6	17.9
Return on capital (%)	10.1	4.6	4.4	12.5
EBITDA interest coverage (x)	18.5	58.0	39.2	30.0
FFO cash interest coverage (x)	16.2	77.6	25.5	50.2
Debt/EBITDA (x)	1.1	1.5	2.1	0.2
FFO/debt (%)	77.7	60.9	39.6	411.1
Cash flow from operations/debt (%)	62.9	67.5	36.0	466.8
FOCF/debt (%)	33.3	43.0	11.0	365.8
DCF/debt (%)	1.0	(17.0)	(2.4)	190.2

Metsä Board's closest rated peers include Holmen AB (Holmen; BBB+/Stable/A-2), Svenska Cellulosa Aktiebolaget SCA (SCA; BBB/Stable/A-2), and UPM-Kymmene Corp. (UPM; BBB/Stable/A-2).

Holmen has stronger EBITDA margins and higher product diversification. These factors offset its exposure to the structurally declining printing paper segment.

SCA is larger and has stronger EBITDA margins due to a very efficient asset base. On the other hand, it is also exposed to the declining publication paper segment.

UPM is much larger and much more diversified in terms of products and geographies, and has stronger EBITDA margins. However, it also still has a large exposure to the declining communication papers segment.

Financial Risk: Modest

Our assessment of Metsa Board's financial risk profile reflects its moderate leverage and high upcoming capex. Adjusted FFO to debt was slightly below 80% in 2019 and we expect it decline to slightly below 50% in 2020. We expect annual capex of €210 million-€220 million in 2020 and 2021, mainly related to the new recovery boiler and turbine in Husum. We anticipate that higher investment spending and lower overall profitability will lead to slightly negative free operating cash flow generation in 2020, turning positive again in 2021. Although we do not rule out aacquisitions, we have not assumed any in our base case.

When calculating our adjusted credit ratios, we remove the results of the associated company (€43 million share in 2019) from reported EBITDA and add the dividends (€63 million in 2019) received from Metsa Fibre. We estimate dividends received from Metsa Fibre to amount to €20 million-25 million in 2020 and 2021, based on lower pulp prices. Other adjustments to EBITDA are less material and highlighted in table 3 below.

When calculating our adjusted credit ratios, we also include in our adjusted debt as of Dec. 31, 2019, around €22 million of leases and minimal adjustments for pension liabilities. Our debt calculations are net of the company's cash balances.

We estimate adjusted debt to EBITDA at 1.1x at year-end 2019 and expect this ratio to increase to above 1.8x by year-end 2020.

Although Metsa Board's publicly communicated financial leverage tolerance allows for an increase in reported leverage to 2.5x (2.5x-3.0x on an S&P Global Ratings-adjusted basis), we do not anticipate it to utilize this additional headroom beyond what we would still view as consistent with its current financial risk profile.

Financial summary

Table 2

Metsa Board Corp.--Financial Summary

Industry sector: Paper/Forest products					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. €)					
Revenue	1,931.8	1,944.1	1,848.6	1,720.3	2,007.5
EBITDA	281.8	243.5	263.5	211.2	242.1
Funds from operations (FFO)	247.4	210.1	217.4	162.6	195.6
Interest expense	15.2	19.2	34.7	26.5	26.9
Cash interest paid	16.3	18.2	36.4	22.8	25.2
Cash flow from operations	200.5	154.4	239.5	79.7	248.9
Capital expenditure	94.3	67.7	64.7	133.5	175.0
Free operating cash flow (FOCF)	106.2	86.7	174.8	(53.8)	73.9
Discretionary cash flow (DCF)	3.1	12.0	107.3	(114.2)	34.5
Cash and short-term investments	134.2	109.7	215.1	220.6	321.8
Gross available cash	134.2	109.7	215.1	220.6	321.8
Debt	318.5	355.4	379.9	483.5	353.8
Equity	1,338.0	1,322.9	1,167.4	1,052.5	1,028.9
Adjusted ratios					
EBITDA margin (%)	14.6	12.5	14.3	12.3	12.1
Return on capital (%)	10.1	14.7	12.5	8.6	12.6
EBITDA interest coverage (x)	18.5	12.7	7.6	8.0	9.0
FFO cash interest coverage (x)	16.2	12.6	7.0	8.1	8.8
Debt/EBITDA (x)	1.1	1.5	1.4	2.3	1.5
FFO/debt (%)	77.7	59.1	57.2	33.6	55.3

Table 2

Metsa Board Corp.--Financial Summary (cont.)					
Industry sector: Paper/Forest products					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
Cash flow from operations/debt (%)	62.9	43.4	63.0	16.5	70.3
FOCF/debt (%)	33.3	24.4	46.0	(11.1)	20.9
DCF/debt (%)	1.0	3.4	28.2	(23.6)	9.7

Liquidity: Strong

We assess Metsa Board's liquidity as strong, supported by €134 million cash on balance sheet, €200 million available under a revolving credit facility (RCF), our expectation of solid operational cash flow generation, and very limited debt repayments due in 2020. We think that the company's liquidity sources comfortably cover liquidity uses by 1.5x in the next 12 months. The company has access to numerous funding sources, has well-established relationship with banks, and a satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
About €134 million cash and cash equivalents as of Dec. 31, 2019. This includes around €127 million of short-term deposits with Metsa Group Treasury, under a cash-pooling arrangement. We understand that Metsa Board has access to these funds at short notice. A fully available €200 million RCF, which matures in 2025. Metsa Board also has access to a €150 million credit facility provided by Metsa Group Treasury, though this depends on cash deposits from other group companies and would therefore be an uncertain source of liquidity under a stress scenario. Access to loans from pension funds of about €190 million. Expected FFO of €190 million-€200 million in 2020.	• Capex of about €215 million. • Dividend (including capital distribution) payments of about €85 million. • Debt maturities of around €24 million. • Working capital outflows of about €10 million, in addition to intra-year working capital needs of around €20 million.

Covenant Analysis

Compliance expectations

We expect Metsa Board to comfortably comply with its covenant over the forecast horizon.

Requirements

The facility agreement of the €150 million term loan and the €200 million RCF specifies a maximum net gearing ratio of 100%, tested on a quarterly basis.

Group Influence

Given Metsa Board's close integration with its parent Metsa Group, we consider that Metsa Board cannot be rated higher than our assessment of the creditworthiness of Metsa Group--currently 'bbb-'. We assess Metsa Board to be a highly strategic subsidiary for Metsa Group, the parent company of which is Metsaliitto Cooperative. This is because:

- Metsa Group is unlikely to sell Metsa Board in the near term, in our view, given that it provides forward integration in the forest and paper products value chain;
- Metsa Group's senior management has a track record and long-term commitment of support for Metsa Board;
- Metsa Board accounts for about 33% of group sales; and
- Metsa Board's reputation, brand, name, and treasury management are closely tied to those of Metsa Group.

We assess Metsa Group's GCP as 'bbb-'. This is supported by currently moderate consolidated leverage, modest growth prospects among its paperboard and pulp segments, and strong product diversification. However, we think that these strengths are offset by exposure to cyclical and volatile pulp and sawn timber segments, tissue operations with below-average profitability, and the fact that there are large minority shareholders across the Metsa Group structure, which somewhat distorts the consolidated financials.

The GCP is further constrained by the large investment plans of Metsa Fibre in Kemi and Rauma and Metsa Board in Husum, which we expect to lead to somewhat increased leverage on the group level.

Environmental, Social, And Governance

Environmental and social factors are relevant to paper producers. Metsa Board has a good track record in sustainable wood sourcing, ensuring that its paperboards meet the food industry's purity and safety requirements, focusing on recyclability, and limiting the consumption of energy, water, and raw materials. The group has an adequate health and safety track record.

The margin of Metsa Board's €200 million RCF is linked to sustainability targets, such as water and energy consumption.

In the medium to long term, we believe that the company could benefit from the increased substitution of plastic packaging by paper packaging. This follows heightened consumer awareness and stricter EU regulations, which aim to reduce single-use plastic consumption.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2019, the majority of Metsa Board's reported outstanding debt comprised €250 million of unsecured notes due in 2027 and a €150 million unsecured term loan due 2025, both issued by Metsa Board Oyj. We view them as subordinated to around €24 million in pension loans and some finance lease liabilities.

Analytical conclusions

The €250 million unsecured fixed-rate notes due 2027 issued by Metsa Board Corp. are rated 'BBB-', the same as the issuer credit rating, as no sources of significant subordination have been identified.

Reconciliation

Table 3

Reconciliation Of Metsa Board Corp. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2019--			
Metsa Board Corp. reported amounts				
	Debt	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**
Reported	423.1	294.6	180.9	281.8
S&P Global Ratings' adjustments				
Cash taxes paid	--	--	--	(18.1)
Cash taxes paid: Other	--	--	--	--
Cash interest paid	--	--	--	(16.3)
Reported lease liabilities	21.8	--	--	--

Table 3

Reconciliation Of Metsa Board Corp. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)				
Postretirement benefit obligations/deferred compensation	1.1	--	--	--
Accessible cash and liquid investments	(127.5)	--	--	--
Dividends received from equity investments	--	63.3	--	--
Income (expense) of unconsolidated companies	--	(43.1)	--	--
Nonoperating income (expense)	--	--	0.9	--
EBITDA: Gain/(loss) on disposals of PP&E	--	(33.0)	(33.0)	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	19.1	--
Total adjustments	(104.6)	(12.8)	(13.0)	(34.4)
S&P Global Ratings' adjusted amounts				
	Debt	**EBITDA**	**EBIT**	**Funds from operations**
Adjusted	318.5	281.8	167.9	247.4

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/A-3

Business risk: Fair

- **Country risk:** Low
- **Industry risk:** Moderately high
- **Competitive position:** Fair

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Group credit profile:** bbb-

- **Entity status within group:** Highly strategic (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Forest And Paper Products Industry, Feb. 12, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	**bbb-**	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 26, 2020)*

Metsa Board Corp.	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
28-Feb-2018	BBB-/Stable/A-3
24-Feb-2016	BB+/Positive/B
18-Feb-2015	BB/Stable/B

*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.