

Rating Action: Moody's upgrades Metsä Board to Baa3; stable outlook

23 Jan 2019

Frankfurt am Main, January 23, 2019 -- Moody's Investors Service ("Moody's") has today upgraded Metsä Board Corporation (Metsä Board), assigning it a Baa3 long-term issuer rating. Concurrently Moody's has withdrawn its Ba1 corporate family rating and Ba1-PD probability of default rating, as per the rating agency's practice for corporates with investment grade ratings. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moody's.com.

Moody's has also upgraded the rating of Metsä Board's Finnish bonds due 2019 to Baa3 from Ba1. Moody's has also changed Metsä Board's outlook to stable from positive. The complete list of the affected ratings is included in the end of this press release.

"Today's rating action recognises the continued strengthening of Metsä Board's business profile with our expectation that the company will be able to maintain credit metrics commensurate with an investment grade rating in the next 12-18 months", says Martin Fujerik, Moody's analyst for Metsä Board.

RATINGS RATIONALE

RATIONALE FOR THE UPGRADE TO Baa3

Today's upgrade reflects continuous improvement of Metsä Board's business profile through 2018, supported by ongoing ramp-up of the Husum mill that started operating in 2016. In a fairly challenging operating environment with substantial inflation of pulp prices, the company managed to protect its EBITDA generation and EBITDA margin at around 12% (as adjusted by Moody's, i.e. without equity accounted income pertaining to the around 25% stake in the pulp-producing sister company, Metsä Fibre). With the equity accounted income, which has increased significantly during the year, the company's EBITDA would have even increased.

In addition to that during 2018 Metsä Board continued to use generated cash flows to repay down its gross debt that reduced to around EUR500 million by the end of September 2018 from around EUR600 million in 2017 and around EUR1.2 billion in 2012. As such, the company's Moody's adjusted retained cash flows (RCF)/debt increased further to 34% for 12 months to September 2018 period from 24% in 2017, positioning Metsä Board fairly strongly in the Baa3 category on a point-in-time basis.

The rating agency also expects that Metsä Board's leverage and debt coverage credit metrics will remain fairly strong at least through 2019, supported by price increases that the company managed to negotiate in several rounds during 2018. In addition to that, even though the Husum mill has been largely ramped-up by now, the company believes that there is still further EBITDA upside that could come from the project. Metsä Board's management originally estimated a EUR100 million incremental EBITDA between 2016 and 2019, but revised this estimate in the fourth quarter of 2018 to up to EUR110 million - EUR120 million, commenting that the EBITDA increased achieved through 2018 was EUR90 million.

Metsä Board's cash flows will also benefit from an increased level of dividends from Metsä Fibre, where operational performance during 2018 materially benefited from increased volumes related to the ramp-up of its Äänekoski pulp mill as well as rising pulp prices that continue to hover around all-time highs. Moody's also understands that Metsä Board currently plans only moderate capacity debottlenecking and efficiency improving projects rather than larger greenfield investments. Hence, the agency expects that the company's capital spending through 2019 will continue to be comfortably covered from generated operating cash flows, leading to another year of positive free cash flows, which the company may use to retire additional debt maturing during the year.

However, the rating agency cautions that there is a releveraging risk that could potentially take a toll on Metsä Board's leverage, at least temporarily. This is because the company operates well below its self-imposed net leverage ceiling of 2.5x (as reported and defined by Metsä Board, i.e. including equity accounted income from Metsä Fibre; 1.0x for the 12 months to September 2018 period). However, Moody's does not expect that the company will use this capacity in 2019, given only moderate capital investments that are unlikely to materially weaken the company's balance sheet. In addition, given the healthy capital structure and well-invested asset

base of Metsäliitto Cooperative, the key shareholder owning a roughly 40% stake in Metsä Board, the agency currently does not see a major risk of the parent company taking excessive amounts of cash flows out of Metsä Board on top of ordinary dividends of at least 50% of net income.

While utilization of such a sizeable headroom may lead to a material weakening of the metrics, potentially even below expectations for a Baa3 rating initially, Moody's would consider a nature of the investments as well the company's willingness and ability to deleverage, also considering its good track of doing so in the past couple of years.

RATIONALE FOR A STABLE OUTLOOK

The stable outlook reflects Moody's expectation that in the next 12-18 months Metsä Board will retain a good operational performance and a healthy capital structure, with RCF/debt roughly around 30% and Moody's adjusted EBITDA margin (without equity accounted income) around 12%, which is in line with a Baa3 rating.

WHAT COULD CHANGE THE RATING UP/ DOWN

Positive rating pressure could develop if Metsä Board's further improved its business profile and diversification. It would also require sustained improvement in its Moody's adjusted EBITDA margin towards mid-teens in % terms (without contribution from Metsä Fibre) and an evidence of financial policies consistent with Moody's adjusted RCF/debt sustainably at least in high twenties in % terms.

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 10% and Moody's adjusted RCF/debt sustainably below 20%. It could also be triggered by a weakening of liquidity profile.

LIST OF AFFECTED RATINGS

..Issuer: Metsa Board Corporation

Assignments:

....LT Issuer Rating, Assigned Baa3

Upgrades:

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba1

Withdrawals:

.... LT Corporate Family Rating, Withdrawn , previously rated Ba1

.... Probability of Default Rating, Withdrawn , previously rated Ba1-PD

Outlook Actions:

....Outlook, Changed To Stable From Positive

The principal methodology used in these ratings was Paper and Forest Products Industry published in October 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Espoo, Finland, with revenue around EUR1.9 billion for 12 months to September 2018, Metsä Board is one the leading European fresh fibre paperboard producers for consumer and retail packaging, focusing on folding boxboard and white fresh fibre linerboard, including its own pulp production. Metsä Board employs a workforce of around 2,500 employees worldwide, with roughly two-thirds of sales generated in Europe and a growing presence, particularly, in the US market.

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