

Södra Skogsägarna ekonomisk förening

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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RATING RATIONALE

Our 'BBB' long-term issuer rating on Swedish forestry cooperative Södra Skogsägarna ekonomisk förening reflects the company's strong balance sheet, low financial leverage, and healthy cash flows. The rating also reflects Södra's robust long-term profitability, cost-efficient operations, and extensive geographic reach. We assess the company's liquidity as strong and believe that the current business model and ownership structure help to moderate risk.

The rating is constrained by the forestry sector's historical earnings volatility, which is mainly due to the cyclical markets for market pulp and sawn wood products. Although Södra's credit metrics are strong, its financial policy allows for higher leverage, which we reflect in our financial risk assessment. The rating is also constrained by Södra's exposure to homogenous end-products along with the large size of its customers, which effectively reduces the company's bargaining power. We view the company's relatively high customer concentrations, especially in its pulp sales, and its unhedged currency exposures as negative rating factors. Environmental, social and governance (ESG) factors are assessed as neutral even though Södra, like its industry peers, is subject to recurring media scrutiny due to concerns about unsustainable harvesting and possible changes in EU regulations. The company is also under investigation by the EU over the pricing of market pulp.

STABLE OUTLOOK

The outlook is stable, reflecting our expectations that Södra's financial profile will remain strong despite an anticipated economic slowdown. In our view, the company's balance sheet has sufficient strength to withstand weaker market conditions. We expect prices for market pulp and sawn wood products to decrease in 2023 but remain at high levels by historical standards, following exceptionally strong markets in recent years. The outlook further reflects our expectations that the investigation into market pulp prices will have no or limited repercussions.

POTENTIAL POSITIVE RATING DRIVERS

- Long-term improvement in operating conditions and stable, high margins.
- Increased diversity through investments in new value-added products.

POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating market fundamentals resulting in a long-term net debt/EBITDA ratio above 2x.
- Regulatory changes or substantial fines that have a negative effect on the business risk profile or weaken credit metrics.
- Unexpected long-term mill outages, impacting costs and volumes.

Figure 1. Södra key credit metrics, 2019-2025e

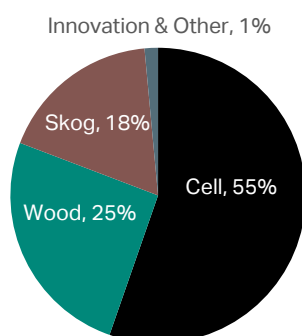
SEKm	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	23,183	20,351	27,060	33,367	28,467	27,289	27,407
NCR-adjusted EBITDA	3,824	2,195	6,752	8,819	3,385	2,952	3,869
NCR-adjusted EBITDA margin (%)	16.5	10.8	25.0	26.4	11.9	10.8	14.1
NCR-adjusted FFO	3,527	2,068	5,924	8,170	3,080	2,672	3,536
NCR-adjusted net debt	4,127	4,336	1,323	-2,172	-359	-372	-1,274
Total assets	29,337	29,253	33,429	41,433	40,836	41,443	42,962
NCR-adjusted net debt/EBITDA (x)	1.1	2.0	0.2	neg.	-0.1	-0.1	-0.3
NCR-adjusted EBITDA/net interest (x)	49.0	25.8	103.9	205.1	19.5	16.7	24.2
NCR-adjusted FFO/net debt (%)	85.5	47.7	447.8	neg.	neg.	neg.	neg.
NCR-adjusted FOCF/net debt (%)	68.5	22.1	202.4	neg.	neg.	neg.	neg.

Based on NCR estimates and company data. e=estimate. FFO=funds from operations. FOCF=free operating cash flow. neg.= net cash position, resulting in non-meaningful descriptors of the key metric. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

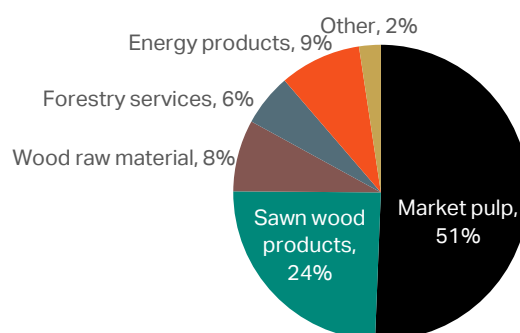
Södra is a leading Swedish forestry cooperative and exporter. It was founded in 1938 following a merger of regional forestry associations in southern Sweden, where its operations are still located. Södra is owned by more than 51,000 associate members, which own 2.8m hectares of forest land. The company is organised into four main segments: Cell, Wood, Skog (Forest), and Innovation, while some minor operations are bundled together as 'Other segments'. Cell, Wood and Innovation are manufacturing segments producing market pulp, sawn wood products, energy products, and biochemicals/biofuels. Skog is effectively a trading company, buying timber from associate members on behalf of the other three segments. The associate members operate in 19 regional units across southern Sweden and have an option to sell their timber to Skog. The segment also provides forestry and consulting services for its associate members.

Figure 2. Södra external revenues by segment, 31 Dec. 2022



Source: company.

Figure 3. Södra external revenues by product type, 31 Dec. 2022



Source: company.

BUSINESS RISK ASSESSMENT

Business risk
assessment 'bb+'

Our business risk assessment reflects the volatility of the operating environment as well as Södra's relative strengths in terms of scale, sector and regional concentrations. We also consider its role on behalf of its members and its robust operating efficiency.

Volatile market prices on pulp and sawn wood products sensitive to economic cycles

Operating environment
'bb'

Our assessment of the operating environment focuses on the external business conditions for market pulp and sawn wood products. This is because Södra Skog is mainly a facilitator for the Cell and Wood segments, while Södra Innovation is a minor contributor to overall revenues and profits.

Södra Cell produces pulp of varying qualities and sells it on the open market. The most common end-uses of Södra's pulp are tissue paper (44% of 2022 revenues), special products (25%), and publishing and writing paper (16%). We take a favourable view of the exposure to tissue paper and special products due to relatively strong trends within these product types. Södra Cell competes with dedicated and integrated producers located in the Nordic region and elsewhere. It is a price taker in a market strongly characterised by volatile pulp prices (see Figure 4). The segment's main pulp export markets are Europe and Asia, where China has a pronounced pricing impact. In addition to pulpwood, the Cell segment is dependent on the price of chemicals used in production, which account for about 10% of input costs.

The market for sawn wood products has lower barriers to entry than the pulp market, making Södra Wood a price taker. Market prices tend to be volatile and sensitive to economic cycles. The segment's main markets are the UK (29% of 2022 revenues), Sweden (23%), and the Netherlands (8%). Sawn wood prices declined substantially in the second half of 2022, following exceptionally strong prices through 2021, resulting in an operating loss for the segment in the fourth quarter of 2022.

Global economic activity is slowing as central banks seek to curb inflation. For this reason, we expect reduced demand for pulp and sawn wood products to translate into weaker prices over the next years. Inventory build-up among global pulp and sawn wood producers could amplify the negative impact on prices, although we expect them to remain high by historical standards. In our view, the weakening

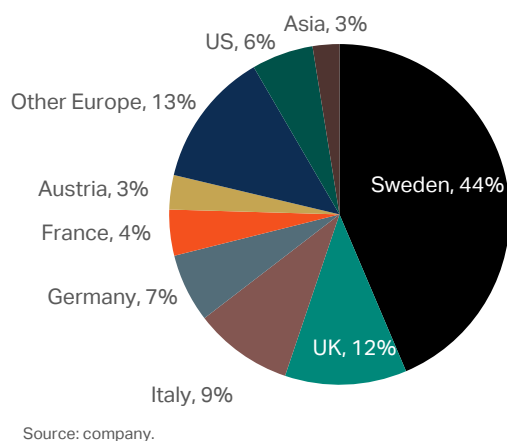
Swedish krona could cushion some of the negative impact on Södra's margins. However, adverse currency effects could negatively affect profits.

All four segments produce energy products, either as a main or by-product. Consequently, Södra is directly exposed to energy prices which have been rising sharply over the past year. Although the company is a net seller of electricity, customer demand is likely to be negatively impacted by high prices over the long term.

Figure 4. Bleached softwood pulp prices (per tonne), 2000–2022



Figure 5. Södra revenues by country/region, 31 Dec. 2022



Solid market position confined by product homogeneity

Market position 'bb+'

Södra's market position varies across its core markets and is supported by its internal wood sourcing, large and efficient mills, and strong logistics connections. The company has a competitive advantage over its peers because of its large membership and extensive area under forestation. In addition, it owns forest land in Latvia with a book value of SEK 3.9bn.

Södra competes in a global market, although most of its sales go to European customers. The Cell segment is the global No. 4 producer of bleached softwood market pulp, producing about 1.9m tonnes a year. In the Nordic region, Södra Cell competes with companies such as Stora Enso, UPM-Kymmene, Svenska Cellulosa (SCA), Billerud, and Holmen. The segment is also a niche provider of electricity in southern Sweden as pulp mill co-generation produces surpluses that can be sold. In municipalities near the mills, the segment has a strong presence in energy sales as it sells hot water to district heating networks. The Wood segment ranks among the top three producers of sawn wood products in Sweden. Globally, it is among the top 25 producers, which accounted for a quarter of total global production in 2021. The Wood segment is also a major exporter and has market shares of about 10% in the UK and the Netherlands.

Figure 6. Södra Cell global peers, 2022

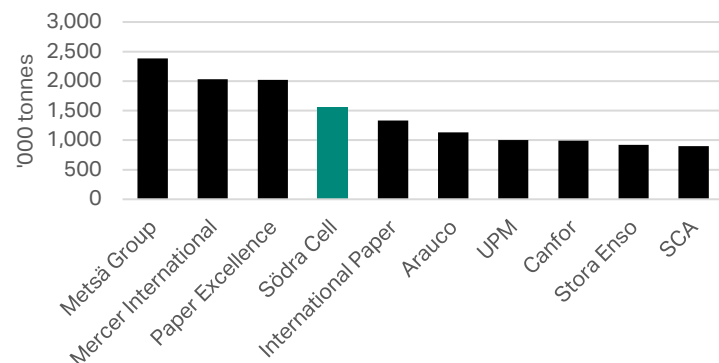
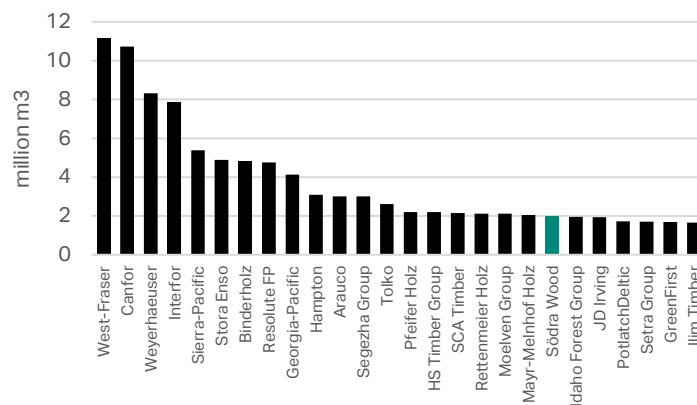


Figure 7. Södra Wood global peers, 2021



Most of Södra's output is homogenous and consists of bulk products. Brands and trademarks are consequently of less importance than those of competitors with end-market exposure to paper and packaging. We regard the company's long-lasting customer relationships, specifically among hygiene

and specialty product manufacturers, as offsetting some of the negative aspects of generic products. However, these customers have stronger negotiating position as they are typically larger than Södra.

Because Södra is the only pulp mill owner wholly located in southern Sweden, it has shorter transport distances to other parts of Europe and more logistics alternatives than its domestic competitors, which gives it a competitive advantage.

Economies of scale create competitive edge, but diversity limited

Much of Södra's competitive edge lies in its operational scale, not least in the Cell segment as pulp production is complex and energy intensive. Södra Cell operates three modern pulp mills which are among the 10 largest in the Nordic region. Scale is critical in the pulp industry and the Cell segment is markedly larger than most domestic competitors.

The Wood segment has streamlined its operations over the past few years by restructuring and closing sawmills. In 2022, the segment produced 1.8m cubic metres of sawn wood products and, as of end-2022, operated eight sawmills, making it larger than most of its domestic peers. Södra's largest sawmills are located at the sites of the Cell segment's pulp mill operations, enabling cross-utilisation of energy supply, manpower, warehousing, and transport, while reducing waste.

Södra's geographic diversity is limited given the locations of its forest assets and mills. We see this concentration as negative due to regional biological and/or weather-related risk and the possibility of unexpected mill outages. Customer concentrations differ by product line. The Cell segment's customers are large companies such as European and other international tissue manufactures with production units in western Europe where relatively little softwood pulp is produced. The segment's top five customers account for about 30% of revenues. Customer concentrations in the Wood segment are significantly lower than in the Cell segment. Revenues come from a mix of DIY customers, builders, and makers of wooden structures.

To increase product diversity and earn more from its existing processes, Södra has increased its focus on production of high-margin cross-laminate sawn wood products, biofuels, biochemicals, as well as value-added services such as in-forest monitoring for members. Although these operations remain relatively small, we believe they could improve product diversity over the long term.

Operating margins average in a homogenous industry

Södra's output mostly consists of homogenous bulk products with prices set by the market, which results in a strong focus on lowering costs and improving operational efficiencies to drive profitability. All of the company's segments sell energy products, often waste products from production to maximise the use of raw materials. The company is subject to significant working capital fluctuations as input prices and production are adjusted to meet prevailing market conditions.

As a major Nordic operator, Södra generates economies of scale in its two key areas of production. Efficiency is added by the proximity of premises to supplies of pulpwood and sawn timber, and sources of energy. Both the Cell and Wood segments operate at close to full capacity and generate high revenues and output per employee in comparison with their domestic peers.

Södra's profitability margins vary from year to year but are typically close to its peer group average. Over the past five years, Södra's EBITDA margin (excluding fair value changes) has averaged 20%. Margins are volatile due to the cyclical nature of the operating environment combined with Södra's significant earnings in euro and US dollars. The company's high fixed-cost base results in substantial dependence on volumes to meet its financial profitability targets, requiring high utilisation rates as inadequate production volumes could quickly translate into losses and negative cash flows.

Size and diversification
'bbb-'

Operating efficiency
'bb+'

Figure 8. Södra Cell peer EBITDA margins, 2017–2022

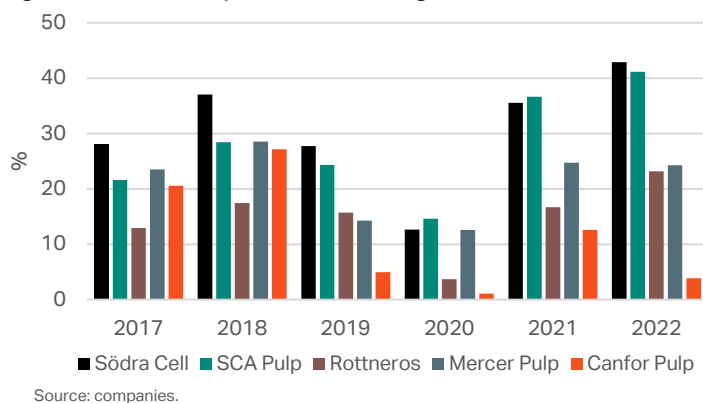
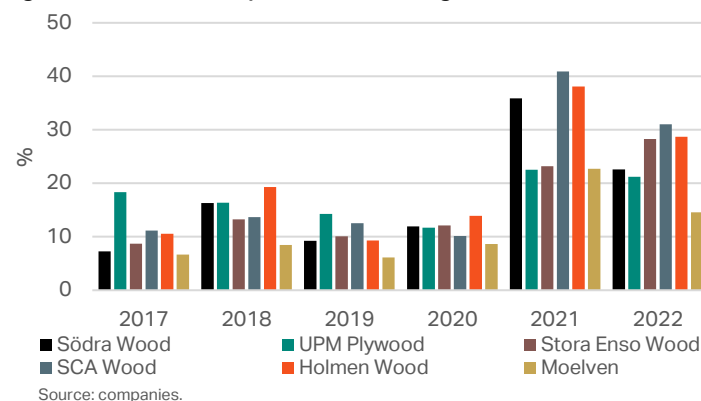


Figure 9. Södra Wood peer EBITDA margins, 2017–2022



FINANCIAL RISK ASSESSMENT

Financial risk
assessment 'a'

Our financial risk assessment reflects Södra's low leverage, strong cash flow, debt servicing, and interest coverage. We assess Södra's financial risk appetite as greater than warranted by our ratio analysis, reflecting the cyclical nature of the company's operations, as well as its financial policy, which allows for higher future leverage even though the current capacity for equity injections is limited.

Ratio analysis 'aa-'

Net cash position enables Södra to deal with operational headwinds

Due to the cyclicity of the operating environment, Södra's key credit metrics (and profitability margins) tend to vary due to prevailing market conditions. Exceptionally strong prices for pulp and sawn wood products in 2021 and 2022, alongside strong appreciation of the US dollar against the Swedish krona (15.3% in 2022) has boosted the company's financial profile, enabling it to end 2022 with a net cash position. We expect prices to decline from their recent highs and normalise, but at above historical levels. Södra's credit metrics will likely continue to show volatility and a global recession could impact demand adversely. However, we expect the company to retain its net cash position over our forecast period as it faces limited investment needs in relation to its cash generation.

In our base case for the forecast period through 2025 we assume:

- a revenue decline of 15% in 2023 followed by a decrease of 4% in 2024 and growth of about 0.5% in 2025;
- an EBITDA margin of 11–14%;
- increased market interest rates, raising interest on member loans;
- capital spending of SEK 2.0bn per year;
- yearly pulp production of 2.0 million tonnes;
- yearly production of sawn wood products amounting to 1.9 million cubic metres;
- yearly dividends amounting to 50% of the previous year's pre-tax profit; and
- effective retention of about 50% of cash dividends paid to members in the form of new member loans to the company.

On the basis of these assumptions, we estimate the following metrics for 2023–2025:

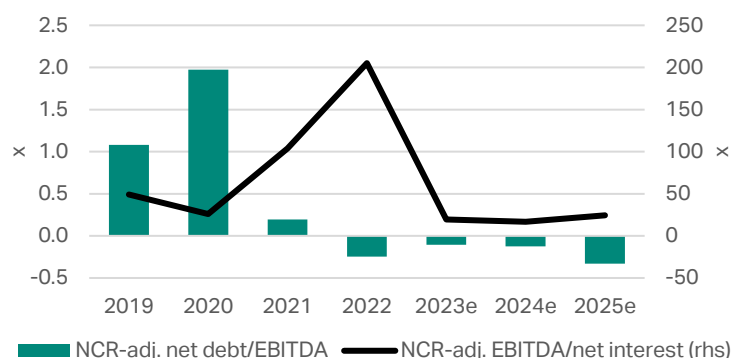
- NCR-adjusted net debt/EBITDA of minus 0.1x to minus 0.3x; and
- NCR-adjusted EBITDA/net interest of 16–24x.
- In addition, we expect a net cash position, resulting in non-meaningful NCR-adjusted FFO/net debt and NCR-adjusted FOCF/net debt.

Figure 10. NCR's adjustments to Södra's credit metrics, 2019-2025e

SEKm	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	3,897	2,164	6,811	9,136	3,331	2,865	3,782
Non-EBITDA income/expenses	-38	-87	-12	-238	30	62	62
Share of profit in JVs and associates	-35	118	-47	-104			
Dividends from associated companies				25	25	25	25
NCR-adj. EBITDA	3,824	2,195	6,752	8,819	3,385	2,952	3,869
Net interest including leasing	-59	-64	-44	-20	-152	-155	-138
Interest on retirement benefit obligations	-10	-7	-5	-5	-5	-5	-5
Other financial costs	-9	-14	-16	-18	-17	-17	-17
NCR-adj. net interest	-78	-85	-65	-43	-174	-177	-160
NCR-adj. EBITDA	3,824	2,195	6,752	8,819	3,385	2,952	3,869
NCR-adj. net interest	-78	-85	-65	-43	-174	-177	-160
Current tax	-219	-42	-763	-606	-132	-103	-173
NCR-adj. FFO	3,527	2,068	5,924	8,170	3,080	2,672	3,536
NCR-adjusted FFO	3,527	2,068	5,924	8,170	3,080	2,672	3,536
Changes in working capital	429	439	-1,416	-639	292	185	57
Capital spending	-1,128	-1,549	-1,830	-1,924	-2,000	-2,000	-2,000
NCR-adj. FOCF	2,828	958	2,678	5,607	1,372	857	1,593
Cash and cash equivalents	2,072	2,300	3,674	5,004	4,574	4,807	5,854
Short-term liquidity placements	938	887	1,648	5,733	5,733	5,733	5,733
Less 25% short-term liquidity placements	-235	-222	-412	-1,433	-1,433	-1,433	-1,433
NCR-adj. cash and equivalents	2,776	2,965	4,910	9,304	8,874	9,107	10,153
Gross interest-bearing debt	6,097	6,483	5,785	6,896	8,279	8,500	8,643
Leasing liabilities	328	215	205	212	212	212	212
Retirement benefit obligations	477	463	243	24	24	24	24
Leasing liabilities in assets held for sale		140					
NCR-adj. cash and equivalents	-2,776	-2,965	-4,910	-9,304	-8,874	-9,107	-10,153
NCR-adj. net debt	4,127	4,336	1,323	-2,172	-359	-372	-1,274

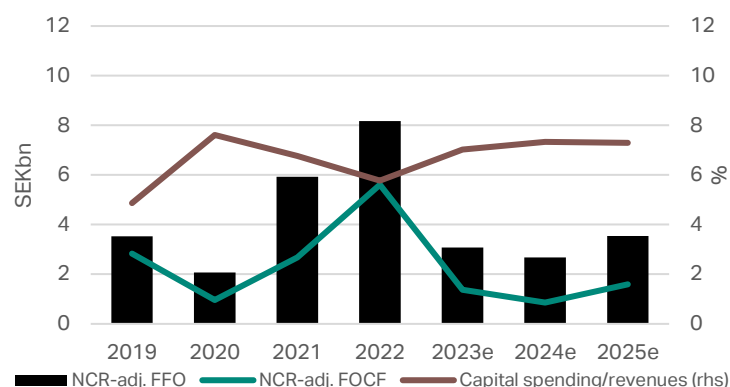
Based on NCR estimates and company data. e-estimate. JVs-joint ventures.

Figure 11. Södra NCR-adj. net debt/EBITDA and EBITDA/net interest, 2019-2025e



Based on company data and NCR data. e-estimate.

Figure 12. Södra NCR-adj. FFO and FOCF, 2019-2025e



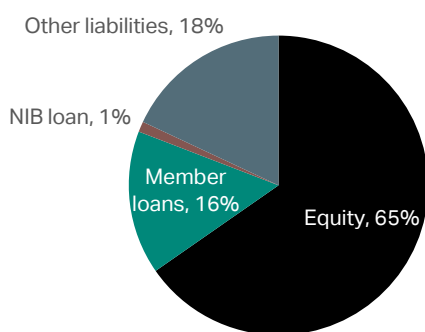
Based on company data and NCR data. e-estimate.

Cyclicality and volatile metrics constrain financial risk assessment

Södra finances its operations through a mix of equity, member loans, and a loan from the Nordic Investment Bank NIB. As of end-2022, the company's equity amounted to SEK 27.1bn, consisting of SEK 5.8bn in member capital and SEK 21.3bn in other equity. As of 31 Dec. 2022, gross interest-bearing debt stood at SEK 6.9bn, of which SEK 5.8bn was comprised of cancellable short-term member loans. These loans could appear to be a significant contributor to refinancing risk, but historically have been held well beyond their maturity dates. To meet the unlikely event of substantial withdrawals, Södra maintains a total of SEK 4bn in unutilised credit facilities. As of 31 Dec. 2022, Södra had no outstanding market loans. We expect the company to return to the debt capital markets if necessary.

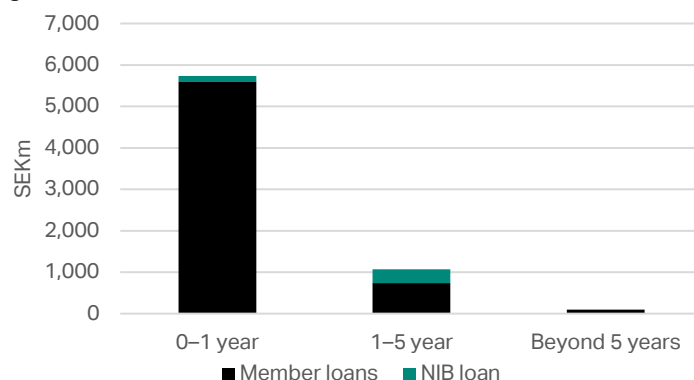
Risk appetite 'bbb+'

Figure 13. Södra funding profile, 31 Dec. 2022



Source: company.

Figure 14. Södra debt maturities, 31 Dec. 2022



Source: company.

Södra's interest-bearing debt is governed by two covenants; we note that the company has historically maintained healthy covenant headroom. Corporate financial policy stipulates profitability, equity ratio and dividend targets (see Figure 15). In our assessment, the minimum 55% equity ratio target is adequate given the cyclical nature of the sector. However, we note that the financial policy allows for significantly higher leverage than current levels and that Södra, as a member association, has no clearly outlined procedures for equity injections, reducing its ability to restore the equity ratio should it fall below target.

Figure 15. Södra financial covenants, policies and reported metrics

Metric	Common covenants	Financial policy targets	Reported 31 Dec. 2022
Net debt/equity ratio	≤0.7x	-	-0.1x
Equity ratio	≥40%	≥55%	65%
Return on capital employed	-	≥10%	35%
Dividend, as percentage of profit before tax		≥50%	42%

Source: company.

Södra aims to pay 50% of pre-tax profit in dividends to members over the long term and has historically paid substantial dividends, even following years of reported losses. Dividends consist of three parts: interest on member capital; compensation for wood deliveries; and new issues of member capital. The latter is a form of value transfer, converting collectively owned equity to individually owned equity, and has no effect on liquidity. Dividends on member capital and wood deliveries are paid into member accounts with favourable interest rates. Members have an option to leave their dividends in their member accounts, thereby reducing any negative impact on cash flow. Typically, about 50% of dividends paid into member accounts remain there, effectively becoming loans to the company.

Pulp prices are denominated in US dollars, but many of Södra's paper-manufacturing customers are located in the euro area. Consequently, both currencies have a major impact on the company's financial performance. As the UK is an important market for sawn wood, Södra also has considerable exposure to sterling. Despite its significant currency exposure, the company does not typically hedge currency risk, other than as part of its regular translation exposure. In addition, price exposure to pulp and sawn wood products is also unhedged, which is common among most of the company's integrated peers. We view these currency and end-product price exposures as risks but believe that they are mitigated by Södra's strong balance sheet.

ADJUSTMENT FACTORS

Adjustment factors are assessed as neutral and have no effect on the rating.

Liquidity

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect an investment grade company to cover all liquidity needs over the coming 12 months.

Adjustment factors
neutral

Liquidity adequate

We assess Södra's liquidity as adequate given the company's sources to uses ratio of 7.6x. Liquidity is supported by the company's strong cash position following an exceptionally strong performance in 2021 and 2022, as well as large unutilised credit facilities. We believe that substantial withdrawals from member accounts in 2023 are unlikely despite theoretical short-dated maturities of SEK 5.6m in member loans. Accordingly, we exclude member loans from our calculation of uses of liquidity for the year. In the unlikely event of a run on member accounts, we consider that Södra's strong cash position and large credit facilities offer adequate protection.

We estimate the following primary liquidity sources for the 12 months ending 31 Dec. 2023, totalling SEK 15.9bn:

- SEK 5.0bn in cash and cash equivalents;
- SEK 4.3bn in adjusted short-term liquid placements, equal to 75% of balance-sheet items;
- SEK 2.3bn, equal to 75% of FFO;
- SEK 292m in working capital; and
- SEK 4.0bn in unutilised credit facilities.

This compares with the following uses of liquidity, totalling SEK 2.1bn:

- SEK 0.1bn in amortisation; and
- SEK 2.0bn in capital spending.

Environmental, social and governance factors

ESG factors adequate

The main ESG issues that could affect our overall assessment of Södra's creditworthiness are factors that might contribute to increased regulation, negative media attention, fines, or loss of production (see Figure 16).

Södra publishes an annual externally audited sustainability report that follows the principles of the Global Reporting Initiative. Transparency is a major focus because of the high risk of direct environmental impact, especially in terms of sustainable forestry and resource efficiency.

Forestry is part of the EU taxonomy for sustainable activities, for which reporting requirements have been implemented for some of Södra's peers. The screening criteria have encountered objections from the industry given their narrow scope and definitions, resulting in few activities classified as green or within the scope of the taxonomy. The impact on Södra remains unclear as the details of four technical screening criteria are unpublished and given the company's currently low reliance on capital markets and external capital. In our view, changes in EU regulations on deforestation and nature protection could negatively affect Södra's business profile through the resulting impact on its members.

Södra sources certified wood according to defined standards and carries out sustainable harvesting at levels that are well within approved limits. The company generally scores well in terms of its impact on soil and water, while other parameters such as energy use have improved. Södra's own energy use generates net zero CO₂ emissions although external emissions such as those from transport are increasing. Importantly, Södra is a net producer and seller of fossil-free energy. In addition, the company's handling of residuals is becoming more efficient due to an increased focus on circularity.

We expect limited or no repercussions for Södra from the EU's ongoing investigation into the pricing of market pulp.

Figure 16. Södra ESG considerations

Issue	Risk	Mitigating efforts	Result
Direct impact on biodiversity and climate due to large-scale harvesting	Increased regulation or negative media attention affecting business opportunities.	Working actively with members and external forest owners towards sustainable harvesting (targets 95% approved "green" harvest sites) through codes of conduct and targets sourcing only certified wood (FSC and PEFC). Active role in public debates.	High proportion of approved "green" harvest sites (above 75%). About two-thirds of wood sourced from members is certified.
Emissions from processes	Increased regulation, loss of licence to operate, or worsened relationships with stakeholders.	Investment, new processes, products and technology. Goal to reduce overall emissions and environmental impact.	Accounting for carbon reserves in member forests and substitution effects of end-customers using wood instead of e.g. plastic or concrete. Södra is net fossil fuel free, even though it emits about 0.7m tonnes of CO ₂ annually.
Other direct regulatory risk including governance matters	Regulatory breaches and cancellation of approvals, certification, or licences, resulting in fines or negatively impacting production and exports.	Active dialogue with members and other stakeholders. Codes of conduct to mitigate conflicts of interest. External audits. Whistle blowing function.	Ongoing investigation into the pricing of market pulp. Södra is co-operating with authorities and expects no repercussions.
Incident and other health and safety risk	Fatal accidents and incidents which could halt production, increasing costs, possibly closing units, and lowering volumes.	Targets a lost time/accident rate of less than 5 by 2025.	The lost time/accident rate has decreased steadily but has been about 10 over the past three years.
Biological and weather-related risk	Insect infestation and unpredictable weather events, such as major storms, affecting timber supply and quality.	Actively works to help members counter serious infestation through selection of plants, monitoring, mechanical measures, and specific harvesting techniques.	Spruce beetle infestation remains an issue, although risks are mostly borne by members. Major storms continue to affect supply of timber.

Source: company. See [ESG factors in corporate ratings](#). FSC–Forest Stewardship Council. PEFC–Programme for the Endorsement of Forest Certification.

OWNERSHIP ANALYSIS

Ownership neutral

We view Södra's ownership as supportive of the company's relatively low-risk strategy and solid financial position. In our view the cooperative structure generates solid financial results for the associate members while maintaining a balanced approach to risk. Generally, many of the associate members have little debt and a significant part of their wealth is tied up in forest assets with limited alternative use, suggesting there would be mutual benefit to supporting Södra should a need for new equity arise. However, as a member association, Södra does not have clearly outlined procedures for equity injections, clearly reducing its ability to obtain new equity if needed.

ISSUE RATINGS

As of 31 Dec. 2022, Södra had no outstanding debt instruments. If the company were to issue senior unsecured debt, we would likely rate such instruments in line with the 'BBB' long-term issuer rating, reflecting Södra's flat debtor hierarchy and large proportion unsecured debt.

METHODOLOGIES USED

- (i) [Corporate Rating Methodology](#), 18 Feb. 2022.
- (ii) [Rating Principles](#), 24 May 2022.
- (iii) [Group and Government Support Rating Methodology](#), 18 Feb. 2022.

Figure 17. Södra key financial data, 2019–2022

SEKm	2019	2020	2021	2022
INCOME STATEMENT				
Revenue	23,183	20,351	27,060	33,367
Cost of goods sold	-14,204	-13,459	-14,131	-17,001
Sales, general & admin. expenses	-5,082	-4,728	-6,118	-7,230
EBITDA	3,897	2,164	6,811	9,136
Depreciation & amortisation	-1,315	-1,273	-1,495	-1,331
Net financial items	-87	-145	-83	-81
Pre-tax profit	2,495	746	5,233	7,724
Net profit	2,172	142	4,483	6,835
BALANCE SHEET				
Property, plant and equipment	17,708	18,385	19,075	20,151
Intangible assets and goodwill	393	107	66	68
Total non-current assets	18,805	19,150	19,764	21,179
Cash and cash equivalents	2,072	2,300	3,674	5,004
Total current assets	10,532	10,103	13,665	20,254
Total assets	29,337	29,253	33,429	41,433
Total equity	17,382	16,759	21,088	27,065
Long-term interest-bearing loans	2,368	1,248	1,246	1,163
Total non-current liabilities	4,787	3,581	3,668	3,874
Total current liabilities	7,168	8,913	8,673	10,494
Total equity and liabilities	29,337	29,253	33,429	41,433
CASH FLOW STATEMENT				
Pre-tax profit	2,495	746	5,233	7,724
Operating cash flow	3,343	2,317	5,190	7,652
Cash flow from investment activities	-1,116	-1,671	-1,998	-1,832
Cash flow from financing activities	-1,036	-404	-1,828	-4,530
Cash and cash equivalents at beginning of year	873	2,072	2,300	3,674
Cash flow for year	1,199	228	1,374	1,330
Cash and cash equivalents at end of year	2,072	2,300	3,674	5,004

Source: company.

Figure 18. Södra rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bb
Market position	10.0%	bb+
Size and diversification	10.0%	bbb-
Operating efficiency	10.0%	bb+
Business risk assessment	50.0%	bb+
Ratio analysis		aa-
Risk appetite		bbb+
Financial risk assessment	50.0%	a
Indicative credit assessment		bbb
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		bbb
Support analysis		Neutral
Issuer rating		BBB
Outlook		Stable
Short-term rating		N3

Figure 19. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB

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