

Södra Skogsägarna ekonomisk förening

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

PRIMARY ANALYST

Gustav Nilsson
+46735420446
gustav.nilsson@nordiccreditrating.com

SECONDARY CONTACTS

Elisabeth Adebäck
+46700442775
elisabeth.adeback@nordiccreditrating.com

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

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.

STABLE OUTLOOK

The outlook is stable, reflecting our expectations that Södra's financial profile will remain strong. In our view, the company's balance sheet is sufficiently strong to withstand weaker market conditions than at present. The outlook also reflects our view that Södra will maintain its conservative capital structure while substantially increasing the level of its investments. We expect market pulp prices to rebound and remain at high levels by historical standard whereas the market for sawn wood products is likely to recover by end-2024 due to lower supply and declining customer inventories.

POTENTIAL POSITIVE RATING DRIVERS

- Long-term improvement in operating conditions, with projected EBITDA margins above 12%.
- Maintenance of a strong financial risk profile throughout the current downturn.
- Increased diversity through investments in new value-added products.

POTENTIAL NEGATIVE RATING DRIVERS

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

Figure 1. Key credit metrics, 2020-2026e

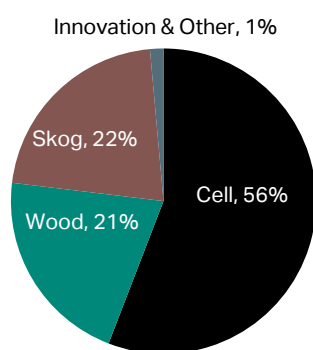
SEKm	2020	2021	2022	2023	2024e	2025e	2026e
Revenues	20,351	27,060	33,367	28,896	29,756	30,870	30,822
NCR-adjusted EBITDA	2,195	6,752	8,819	3,466	2,238	2,561	2,514
NCR-adjusted EBITDA margin (%)	10.8	25.0	26.4	12.0	7.5	8.3	8.2
NCR-adjusted FFO	2,068	5,924	8,170	3,399	2,142	2,414	2,386
NCR-adjusted net debt	4,114	911	-3,605	-820	-870	-1,442	-1,316
Total assets	29,253	33,429	41,433	40,494	41,421	42,096	42,474
NCR-adjusted net debt/EBITDA (x)	1.9	0.1	-0.4	-0.2	-0.4	-0.6	-0.5
NCR-adjusted EBITDA/net interest (x)	25.8	103.9	205.1	neg.	neg.	neg.	neg.
NCR-adjusted FFO/net debt (%)	50.3	650.3	neg.	neg.	neg.	neg.	neg.
NCR-adjusted FOCF/net debt (%)	23.3	294.0	neg.	neg.	neg.	neg.	neg.

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

ISSUER PROFILE

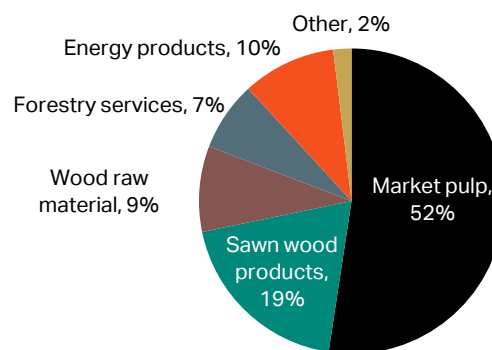
Södra is a leading Swedish forestry cooperative and exporter. It was founded in 1938 following a merger of regional forestry associations in southern Sweden, where its operations are still located. Södra is owned by more than 51,000 associate members, which own 2.8m hectares of forest land. The company 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. External revenues by segment, 31 Dec. 2023



Source: company.

Figure 3. External revenues by product type, 31 Dec. 2023



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. The company has satisfactory access to raw material from associate members and has robust operating efficiency. We consider the company's role on behalf of its members as a strength in terms of its business risk profile.

Operating environment
'bb'

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

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.

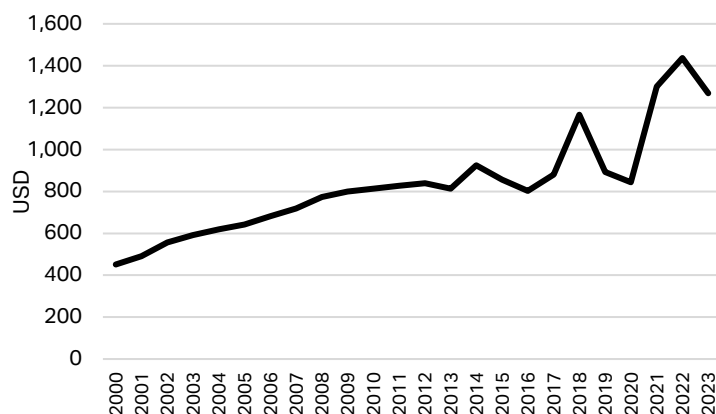
Södra Cell produces pulp of varying qualities and sells it on the open market. The most common end-uses of Södra's pulp are tissue paper (39% of 2023 revenues), special products (29%), and publishing and writing paper (15%). We take a favourable view of the exposure to tissue paper and special products 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. 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 typically 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, with recurring periods of low profitability and closure of less efficient sawmills. The segment's main markets are the UK (34% of 2023 revenues), Sweden (23%), and the Netherlands (8%). A slowdown in construction and generally weaker economic conditions has lowered demand for sawn wood products, with prices having declined markedly in recent years, resulting in an operating loss for Södra Wood in 2023.

Global economic activity has been slowing as central banks seek to curb inflation. We believe that major central banks are likely to start cutting interest rates in 2024, but that challenging market conditions are likely to persist for sawn wood products through the first half of 2024 before improving

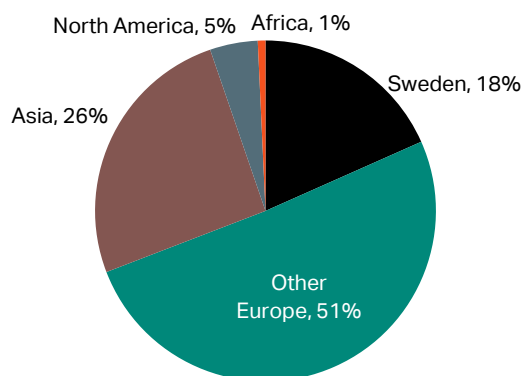
in the second half. The market for sawn wood products has, however, lower revenue visibility than the pulp market, where prices have rebounded since the end of the third quarter of 2023. We expect global pulp prices to increase slightly and remain at higher than historical levels. The closure of mills in North America, replete customer inventories and reduced access to raw materials are likely to keep pulp prices at elevated levels. The currently weak Swedish krona provided a cushion against the negative impact of lower market prices on Södra's margins through 2023, enabling the company to remain competitive against producers with other main currencies. However, we are cautious about the company's currency exposure as adverse currency effects could negatively affect profits.

Figure 4. Bleached softwood pulp prices (per tonne), 2000–2023



Source: company.

Figure 5. Revenues by location of end customer, 31 Dec. 2023



Source: company.

Solid market position confined by product homogeneity

Södra's market position varies across its core markets and is supported by wood sourcing from members, 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 4.8bn.

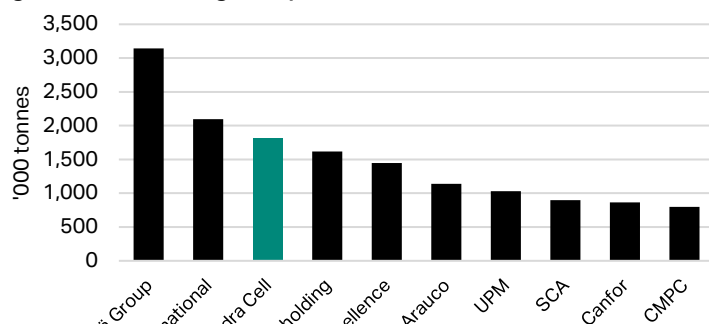
Södra competes in a global market, although most of its sales go to European customers. The Cell segment is the global No. 3 producer of bleached softwood market pulp, producing about 1.9m tonnes a year. In the Nordic region, Södra Cell competes with companies such as Stora Enso, UPM-Kymmene, Svenska 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 is one of the leading producers of sawn wood products in Sweden and among the largest in Europe. However, it is dwarfed by the world's largest producers. The market for sawn wood is fragmented, with the top 25 producers globally typically accounting for about a quarter of global production.

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 generally have stronger negotiating positions 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.

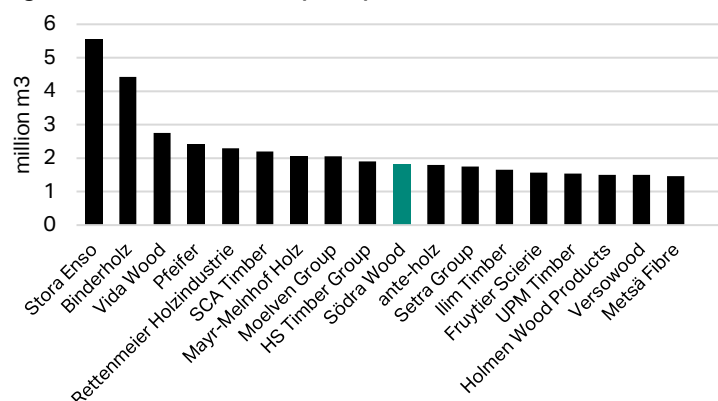
Market position 'bb+'

Figure 6. Södra Cell global peers, 2023



Source: companies.

Figure 7. Södra Wood European peers, 2022



Source: Timber-Online.

Economies of scale create competitive edge, but diversity is 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 2023, the segment produced 1.8m cubic metres of sawn wood products and, as of end-2023, operated eight sawmills, making it larger than most of its domestic peers. In early 2024, Södra announced the closing of its Åtvidaberg, Ramkvilla and Klevshult sawmills and aims to redistribute volumes to more cost-efficient and modern sawmills to ensure profitability amid challenging market conditions. 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. 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. In 2023, the company increased production of cross-laminate sawn wood products to 190,000 cubic metres from 6,300 a year earlier.

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. In the fourth quarter of 2023, Södra prepaid a large proportion of its trade payables to accommodate changes in its enterprise resource planning systems, resulting in large cash outflows and a decline in its payables balance by 44% from 2022 levels. We expect the company to rebuild the balance to historical levels and reverse the negative cash impact during 2024 as there are no changes in supplier terms.

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

Size and diversification
'bbb-'

Operating efficiency
'bb+'

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 four years, Södra's EBITDA margin (excluding fair value changes) has averaged 20%, driven by an exceptionally strong market in 2021 and 2022. Margins, which reverted to historical levels in 2023, are volatile due to the cyclical nature of the operating environment combined with 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. Competitive pressure in the industry results in high investment needs for modernising factories and increasing efficiency, limiting flexibility and alternative uses of cash.

Figure 8. Södra Cell peer EBITDA margins, 2017–2023

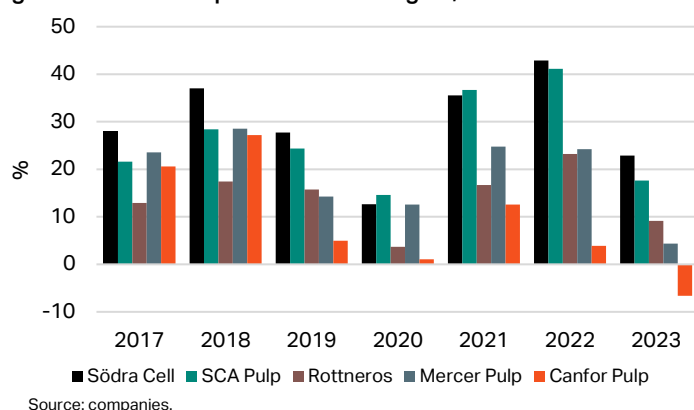
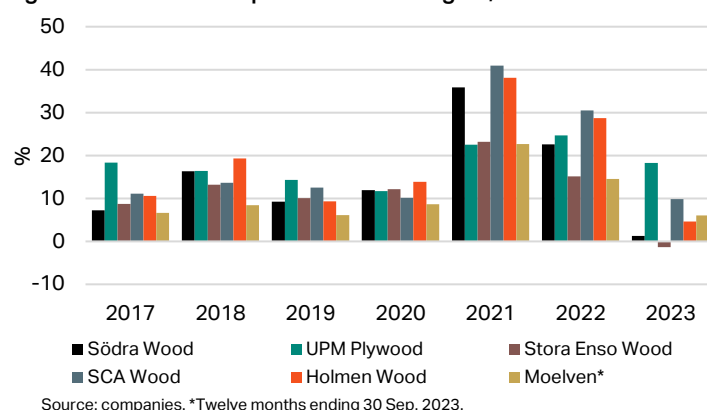


Figure 9. Södra Wood peer EBITDA margins, 2017–2023



FINANCIAL RISK ASSESSMENT

Financial risk
assessment 'a'

Our financial risk assessment reflects Södra's low leverage, strong cash flow and debt servicing capabilities. 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 cyclical nature 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 have boosted the company's financial profile. The company has maintained a net cash position since end-2022. Over the next few years, we expect higher capital spending than over the past five as the company has revised its investment plans. We believe that high investment needs to remain competitive, and the volatile operating environment could impact the company's credit metrics adversely in the face of a deeper recession than at present. We do not discount the possibility that the company could decide to pay extraordinary dividends to support associate members or that market prices could collapse.

In our base case for the forecast period through 2026 we assume:

- revenue growth of 3% in 2024 and 2% in 2025 followed by a slight decline in 2026;
- an EBITDA margin of about 8%;
- declining market interest rates, with interest rates on member loans and financial placements declining;
- capital spending of SEK 2.4bn in 2024, SEK 1.4bn in 2025 and SEK 2.0bn in 2026;
- yearly pulp production of 1.9-2.0 million tonnes;
- yearly production of sawn wood products amounting to about 1.8-1.9 million cubic metres;
- yearly dividends amounting to 50% of the previous year's pre-tax profit.

On the basis of these assumptions, we estimate the following metrics for 2024–2026:

- NCR-adjusted net debt/EBITDA of minus 0.4x to minus 0.6x, caused by a net cash position;

- non-meaningful NCR-adjusted EBITDA/net interest due to interest income on commercial paper and other deposits exceeding interest expenses on member loans; and
- non-meaningful descriptors of NCR-adjusted FFO/net debt and NCR-adjusted FOCF/net debt caused by the net cash position.

Figure 10. NCR's adjustments to credit metrics, 2020-2026e

SEKm	2020	2021	2022	2023	2024e	2025e	2026e
EBITDA	2,164	6,811	9,136	3,677	2,238	2,561	2,514
Non-EBITDA income/expenses	-87	-12	-238	-206			
Share of profit in JVs and associates	118	-47	-104	-30			
Dividends from associated companies			25	25			
NCR-adj. EBITDA	2,195	6,752	8,819	3,466	2,238	2,561	2,514
Net interest including leasing	-64	-44	-20	135	49	44	53
Interest on retirement benefit obligations	-7	-5	-5	-8	-8	-8	-8
Other financial costs	-14	-16	-18	-18	-18	-18	-18
NCR-adj. net interest	-85	-65	-43	109	23	18	27
NCR-adj. EBITDA	2,195	6,752	8,819	3,466	2,238	2,561	2,514
NCR-adj. net interest	-85	-65	-43	109	23	18	27
Current tax	-42	-763	-606	-176	-118	-165	-154
NCR-adj. FFO	2,068	5,924	8,170	3,399	2,142	2,414	2,386
NCR-adj. FFO	2,068	5,924	8,170	3,399	2,142	2,414	2,386
Changes in working capital	439	-1,416	-639	-244	1,381	-77	4
Capital spending	-1,549	-1,830	-1,924	-1,887	-2,379	-1,398	-2,004
NCR-adj. FOCF	958	2,678	5,607	1,268	1,144	939	386
Cash equivalents and liquid placements	3,187	5,322	10,737	9,723	9,778	10,254	10,115
NCR-adj. cash and equivalents	3,187	5,322	10,737	9,723	9,778	10,254	10,115
Gross interest-bearing debt	6,483	5,785	6,896	8,655	8,660	8,564	8,551
Leasing liabilities	215	205	212	223	223	223	223
Retirement benefit obligations	463	243	24	25	25	25	25
Leasing liabilities in assets held for sale	140						
NCR-adj. cash and equivalents	-3,187	-5,322	-10,737	-9,723	-9,778	-10,254	-10,115
NCR-adj. net debt	4,114	911	-3,605	-820	-870	-1,442	-1,316

Source: company and NCR. e-estimate. JVs-joint ventures.

Figure 11. NCR-adj. total debt/EBITDA and EBITDA/interest, 2020-2026e

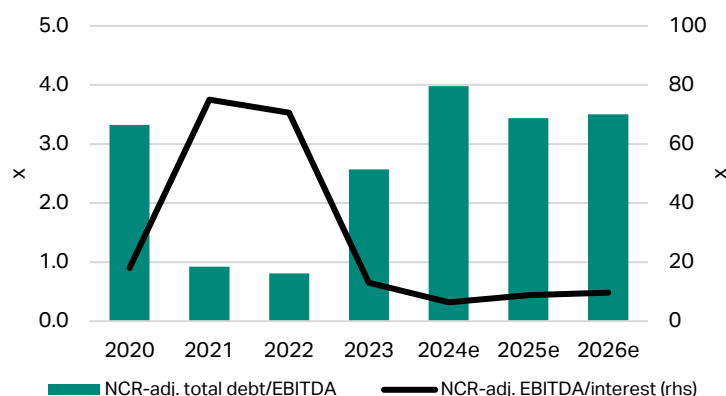
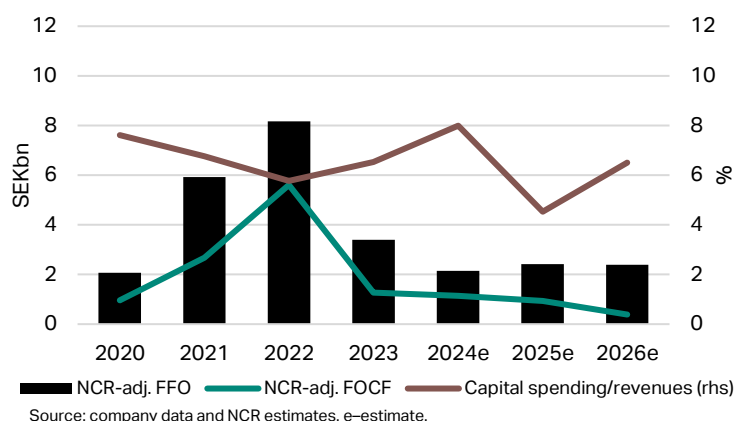


Figure 12. NCR-adj. FFO, FOCF and capital spending/revenues, 2020-2026e



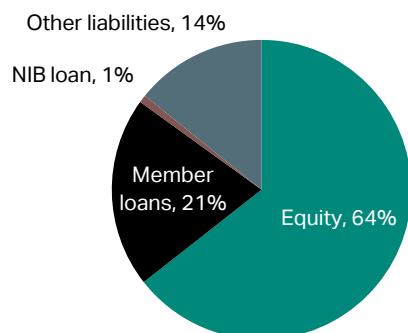
Cyclicality and volatile metrics constrain financial risk assessment

Risk appetite 'bbb+'

Södra finances its operations through a mix of equity, member loans, and a loan from the Nordic Investment Bank (NIB). As of end-2023, the company's equity amounted to SEK 26bn, consisting of SEK 6bn in member capital and SEK 20bn in other equity. As of 31 Dec. 2023, gross interest-bearing debt stood at SEK 8.7bn, of which SEK 7.5bn 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

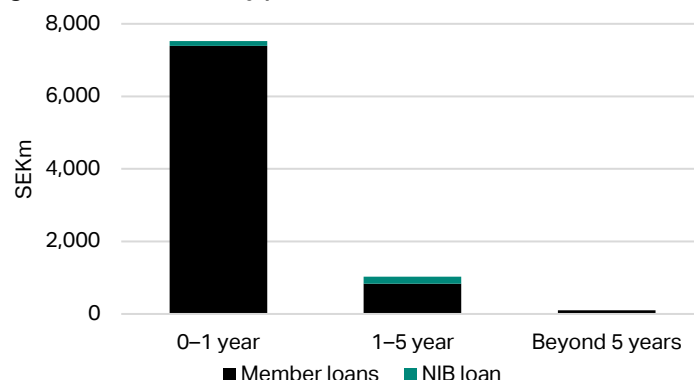
well beyond their maturity dates. To meet the unlikely event of substantial withdrawals, Södra maintains a total of SEK 3bn in unutilised credit facilities. As of 31 Dec. 2023, Södra had no outstanding market loans. We expect the company to return to the debt capital markets if necessary.

Figure 13. Funding profile, 31 Dec. 2023



Source: company.

Figure 14. Debt maturity profile, 31 Dec. 2023



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.

Södra aims to keep a liquidity buffer equivalent to 15% of revenues expected over the next 12 months. In our view, this could result in increased debt financing if markets deteriorate beyond our current expectations. We do not currently expect the company's net cash position to become a permanent feature of its capital structure given its long-term financial targets. Södra's total gross leverage relative to earnings is relatively high and its interest coverage ratio (excluding interest income) is moderate (see Figure 11).

Figure 15. Financial covenants, policies and reported metrics

Metric	Common covenants	Financial policy targets	Reported 31 Dec. 2023
Net debt/equity ratio	≤0.7x	-	0.0x
Equity ratio	≥40%	≥55%	64%
Return on capital employed	-	≥10%	9%
Dividend, as percentage of profit before tax		≥50%	65%

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
neutral

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

Liquidity adequate

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.

We assess Södra's liquidity as adequate given the company's sources to uses ratio of 5.6x. Liquidity is supported by the company's strong net cash position following exceptionally strong performances in 2021 and 2022, as well as large unutilised credit facilities. We believe that substantial withdrawals from member accounts are unlikely despite theoretical short-dated maturities of SEK 7.4bn in member loans. Accordingly, we exclude member loans from our calculation of uses of liquidity. 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. 2024, totalling SEK 14.1bn:

- SEK 8.1bn in cash and cash equivalents, including short-term liquid placements;
- SEK 1.6bn from FFO, equalling 75% of estimated NCR-adjusted funds from operations over the period;
- SEK 1.4bn in working capital, reflecting a recovery in the trade payables balance; and
- SEK 3.0bn in unutilised credit facilities.

This compares with the following uses of liquidity, totalling SEK 2.5bn:

- SEK 0.1bn in amortisation; and
- SEK 2.4bn 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. Södra will not be affected by these requirements until its annual report for 2025 is published. All technical screening criteria were finalised in 2023. The screening criteria have been criticised by the industry because of their narrow scope and definitions, with few activities being classified as green or within the scope of the taxonomy. We expect the impact on Södra to be limited 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.

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 the company emits about 8.8m tonnes of CO ₂ (Scope 1, 2, and 3) 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.	During 2023, an EU investigation into the pricing of market pulp was closed, with no impact on Södra.
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 four years and 7 in 2023.
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. 2023, 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 of unsecured debt.

SHORT-TERM RATING

The 'N3' short-term rating reflects the company's liquidity profile relative to the 'BBB' long-term issuer rating.

METHODOLOGIES USED

- (i) [Corporate Rating Methodology](#), 8 May 2023.
- (ii) [Rating Principles](#), 14 Feb. 2024.
- (iii) [Group and Government Support Rating Methodology](#), 14 Feb. 2024.

Figure 17. Key financial data, 2020–2023

SEKm	2020	2021	2022	2023
INCOME STATEMENT				
Revenue	20,351	27,060	33,367	28,896
Cost of goods sold	-13,459	-14,131	-17,001	-18,791
Selling, general & admin. expenses	-4,728	-6,118	-7,230	-6,428
EBITDA	2,164	6,811	9,136	3,677
Depreciation and amortisation	-1,273	-1,495	-1,331	-1,451
Net financial items	-145	-83	-81	46
Pre-tax profit	746	5,233	7,724	2,272
Net profit	142	4,483	6,835	2,121
BALANCE SHEET				
Property, plant and equipment	18,385	19,075	20,147	20,930
Intangible assets and goodwill	107	66	68	68
Other non-current assets	291	367	630	457
Total non-current assets	19,150	19,764	21,179	21,794
Cash and cash equivalents	2,300	3,674	5,004	3,362
Other current assets	7,803	9,991	15,250	15,338
Total current assets	10,103	13,665	20,254	18,700
Total assets	29,253	33,429	41,433	40,494
Total equity	16,759	21,088	27,065	26,083
Long-term interest-bearing liabilities	1,248	1,246	1,163	1,131
Other long-term liabilities	2,333	2,422	2,711	2,625
Total non-current liabilities	3,581	3,668	3,874	3,756
Short-term interest-bearing liabilities	5,235	4,539	5,733	7,524
Total current liabilities	8,913	8,673	10,494	10,655
Total equity and liabilities	29,253	33,429	41,433	40,494
CASH FLOW STATEMENT				
Pre-tax profit	746	5,233	7,724	2,272
Adjustments for items not in cash flow	1,132	1,373	567	-138
Changes in working capital	439	-1,416	-639	-244
Operating cash flow	2,317	5,190	7,652	1,890
Cash flow from investment activities	-1,671	-1,998	-1,832	-1,811
Cash flow from financing activities	-404	-1,828	-4,530	-1,703
Cash and cash equivalents at beginning of year	2,072	2,300	3,674	5,004
Cash flow for year	228	1,374	1,330	-1,642
Cash and cash equivalents at end of year	2,300	3,674	5,004	3,362

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 calibration		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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