

Södra Skogsägarna ekonomisk förening

Rating Action Report

Södra Skogsägarna ekonomisk förening 'BBB' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB' long-term issuer rating on Sweden-based forestry company [Södra Skogsägarna ekonomisk förening](#). The outlook is stable. The 'N3' short-term issuer rating and 'BBB' senior unsecured issue rating were also affirmed.

Rating rationale

The affirmation of the long-term rating reflects our expectations that Södra will maintain a strong balance sheet with low financial leverage in the face of weaker market conditions. Anticipated dividend payments and increased investments will likely not impact the company's key financial metrics in the near term. 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. We could, however, revise our view of the company's capital structure if we see increased evidence that its financial risk profile is likely to remain strong through currently weak market conditions.

Our long-term issuer rating 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 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 stable outlook reflects 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 investment levels. We expect market pulp prices to rebound and remain at high levels by historical standards whereas the market for sawn wood products is likely to recover by end-2024 due to lower supply and declining customer inventories.

We could raise the rating to reflect long-term improvement in operating conditions, with projected EBITDA margins above 12%. We could also raise the rating if the company maintains a strong financial risk profile throughout the current downturn. The rating could also be raised to reflect increased diversity through investments in new value-added products.

We could lower the rating to reflect a long-term net debt/EBITDA ratio above 2x. We could also lower the rating to reflect regulatory changes that have a negative effect on the company's business risk profile or weaken its credit metrics. Other negative rating factors include unexpected long-term mill outages that could negatively impact investments, costs and volumes.

Rating list

Long-term issuer credit rating:
Outlook:

To	From
BBB	BBB
Stable	Stable

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Rating list

Short-term issuer credit rating:

Senior unsecured issue rating:

To

N3

BBB

From

N3

BBB

Figure 1. Södra rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB	BBB

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 20 Apr. 2021.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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