Södra Skogsägarna ekonomisk förening

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Södra Skogsägarna long-term issuer rating raised to 'BBB+'; Outlook stable

Nordic Credit Rating said today that it had raised its long-term issuer rating on Sweden-based forestry cooperative Södra Skogsägarna ekonomisk förening to 'BBB+' from 'BBB'. The outlook is stable. The short-term issuer rating was raised to 'N2' from 'N3' and the senior unsecured issue rating was raised to 'BBB+' from 'BBB'.

Rating rationale

The higher long-term rating reflects our view that Södra has emerged in good financial health from a cyclical low. The company's performance this year has been stable and it has a growing net cash position. Both earnings and cash flow have been stronger than we expected earlier in the year, and we now project EBITDA margins of around 11% through 2026 compared with around 8% previously. In addition, we now forecast EBITDA will remain stable at SEK 3.2 - 3.4bn annually through 2026 compared with our earlier expectations of SEK 2.2bn in 2024 to SEK 2.5bn in 2026. The company has stepped up investment, and we now expect free operating cash flows to exceed SEK 1bn annually through 2026.

In addition to the company's strong balance sheet and growing net cash position, the rating also reflects Södra's robust long-term profitability, cost-efficient operations, and extensive geographic reach.

The rating is constrained by the forestry sector's historical earnings volatility, which is mainly due to the cyclical markets for pulp and sawn wood products. It is also constrained by Södra's exposure to commoditised end-products along with the large size of its customers, which effectively reduces the company's bargaining power.

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 robust to withstand weaker market conditions than at present. The outlook also reflects our view that Södra will maintain its conservative capital structure and high levels of investment. We also expect market pulp prices, which have recovered strongly in 2024, to remain high. We believe construction activity has reached a cyclical low, and that recovery in demand for sawn wood products will support product prices.

We could raise the rating to reflect increased diversity through investments in new value-added products or long-term improvements in operating conditions, with EBITDA margins approaching 20% and a continued strong financial risk profile.

We could lower the rating to reflect long-term net debt/EBITDA above 1x, regulatory changes that have a negative effect on the business risk profile, or weakened credit metrics. We could also lower the rating in the event of unexpected long-term mill outages that negatively impact investment, costs, and volumes.

Rating list	To	From
Long-term issuer credit rating:	BBB+	BBB
Outlook:	Stable	Stable
Short-term issuer credit rating:	N2	N3
Senior unsecured issue rating:	BBB+	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		a-	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		**N2**	**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
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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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