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Ratings

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Research Update:

Sweden-Based SSAB Upgraded To 'BBB-' On Net Debt-Free Balance Sheet; Outlook Stable

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S&PGR Upgrades Steelmaker SSAB To 'BBB-'; Outlook Stable

PRIMARY CREDIT ANALYST

Stefan Bauerschafer
Paris
(33) 6-1717-0491
stefan.bauerschafer
@spglobal.com

SECONDARY CONTACTS

Elad Jelasko, CPA
London
+ 44 20 7176 7013
elad.jelasko
@spglobal.com

Lena Liacopoulou Staad
Paris
+ 33 14 420 6739
lena.liacopoulou
@spglobal.com

Rating Action Overview

- Thanks to record high steel prices in 2021, SSAB reported EBITDA of Swedish krona (SEK) 22 billion, beating our projection of SEK 16 billion, which allowed the company to generate solid cash flow and end the year with a net cash position.
- We understand SSAB aims to maintain a very robust balance sheet, with a material cushion to accommodate volatility in the steel industry, while increasing capital expenditure (capex) and shareholder returns somewhat.
- We have therefore raised our long-term issuer credit rating on SSAB to 'BBB-' from 'BB+'.
- The stable outlook reflects the company's very comfortable debt position, resulting in ample headroom to address adverse industry conditions with limited pressure on the rating.

Rating Action Rationale

Extraordinary industry conditions in 2021 allowed SSAB to deleverage much faster than expected. Due to extraordinary industry conditions fueled by the recovery of demand and steel prices, SSAB posted unprecedented profitability, with EBITDA at SEK22 billion in 2021, compared with our July projection of SEK16 billion when we revised the outlook to positive. With free cash flow of about SEK11 billion, the company was able to speed up deleveraging, closing the year debt free; as of Dec. 31, 2021, SSAB's cash exceeded debt by SEK2.3 billion.

SSAB's balance sheet should ensure limited pressure under the rating even during the trough of the cycle. Although the company has not revised its financial policy, with the leverage still targeted at below 35%, we understand it intends to maintain a very robust balance sheet in the future. Under our calculations, SSAB can achieve funds from operations (FFO) to debt higher than 60% under midcycle conditions and more than 45% during the bottom the cycle.

SSAB's Averages

Bil. SEK	Midcycle	Bottom of the cycle
EBITDA	About 8	About 4.5 [1]
Sustainable reported net debt over the medium term	4	4
Sustainable adjusted debt over the medium term	7.5	7.5
S&P Global Ratings-adjusted funds from operations to debt (%)	>60	50-55

[1]This EBITDA level is based on the company's results in 2015-2016. In practice, the company's trough EBITDA could be much higher as improvements in its business model should result in better profitability and less volatility.

With future cash flow no longer going toward debt repayments (or at least to a lesser extent), we expect that SSAB will allocate all its operating cash flows to increase capex and returns to shareholders. As part of its announced results, the company has already communicated that:

- Capex will increase to SEK5.0 billion in 2022, compared with our previous assumption of SEK4.0 billion.
- It will pay dividends of SEK5.4 billion, in line with its financial policy of 30%-50% of the previous year's net income over the cycle.

With favorable conditions in 2022 and no debt, the company's focus will shift to environmental, social, and governance (ESG) factors. In addition to the ongoing conversion of the Oxelösund plant--to using an electric arc furnace instead of a basic oxygen furnace--the company announced a feasibility study to expand green production in its Nordic steel making facilities. It plans to convert production assets in Lulea and Raahe into fossil-free mini-mills in order to meet the strong demand for green steel. The project is strategic for SSAB but also has considerable political importance. SSAB, as one of the biggest contributors to Sweden's emissions, will be able to reduce CO2 emissions more quickly than originally expected, about 15 years ahead of plan (2030 instead of 2045). The project is expected to be completed over the next 10 years, with the cost of approximately SEK45 billion to be financed from cash flows, replacing the capex that would have been allocated to the existing assets. For now, the company's capex projection (maintenance and strategic investment) for 2022 is SEK5 billion, compared with SEK2.9 billion in 2021, with the increase primarily related to the Oxelösund conversion. We understand that delays in getting some permits and installing high voltage electricity lines could postpone the completion date at Oxelösund, where commercial production is planned for 2026. We expect revamping the Nordic plants will also face similar challenges. Yet, we believe the new project will further strengthen SSAB's position as a first mover in fossil-free steel.

Outlook

The stable outlook reflects the company's very comfortable debt position, resulting in ample headroom to address adverse industry conditions without putting pressure on the rating.

Under our current base case, we project EBITDA at around SEK13 billion-SEK15 billion in 2022 and SEK8.5 billion under normal industry conditions, which, together with limited reported net debt, would lead to FFO to debt above 60% (under normal market conditions), which we consider commensurate with the rating.

Downside scenario

We view rating pressure as remote in the coming 18-24 months. This is because we expect market conditions to remain broadly supportive, which alongside limited debt on the balance sheet should help SSAB maintain credit metrics in line with our benchmarks for the rating.

However, we could take a rating action if m, over time, we saw a change in the company's financial policy, namely through increasing dividends or significant acquisitions, resulting in a spike of debt and adjusted FFO to debt falling and remaining below 60%.

Upside scenario

We think an upgrade is unlikely in the near future, owing to SSAB's current business profile, but ratings upside might build if the company shows material inorganic growth.

Company Description

SSAB produces high-strength steel, quenched and tempered steel, as well as strip, plate, and tube products, and provides construction solutions. In 2021, it had sales of SEK96 billion and annual production capacity of 8.8 million tons in Sweden, Finland, and the U.S. The company serves a number of end markets, such as industrial applications, automotive, heavy transport, construction, and energy, and operates through five divisions:

- Special Steels (about 25% of EBITDA);
- Europe (44% of EBITDA);
- Americas (25% of EBITDA);
- Tibnor (8% of EBITDA); and
- Ruukki Construction (3% of EBITDA).

SSAB is headquartered in Stockholm, and its shares are traded on NASDAQ Stockholm and Helsinki, with LKAB holding 11% and the government of Finland holding 6%of the shares. The remaining shares are free float. Notable rated peers include U.S. Steel Corp., BlueScope Steel Ltd., ArcelorMittal, and Evraz PLC.

Our Base-Case Scenario

After the company reported 2021 EBITDA of SEK22 billion due to the extraordinary industry conditions, we forecast EBITDA at around SEK13 billion-SEK15 billion in 2022. The decline this year is explained by prices softening after reaching their peak in September 2021. Moreover, raw material prices, such as for coking coal and iron ore, are rising, while some logistics challenges also persist due to COVID-19 supply disruptions. We assume industry conditions will return to normal by the end of 2022, with SSAB's profits returning to the multiyear average of of SEK8.5 billion in 2023.

Assumptions

- Revised capex of SEK5.0 billion annually, compared with SEK2.9 billion in 2021, with the increase primarily related to the Oxelösund conversion.

- Working capital inflow of up to SEK2.0 billion in 2022.
- Dividend distribution of 30%-50% of the previous year's net income, in line with the company's dividend policy, with the potential for special dividends if reported net debt remains low.
- No mergers or acquisitions.

Key metrics

SSAB AB--Key Metrics

	2021a	2022e	Midcycle steel industry conditions
Iron ore price ($/ton)	160	100	--
Eurozone GDP growth (%)	5.1	4.4	--
U.S. GDP growth (%)	5.6	4.3	--
Eurozone steel demand growth (%)	12.7	5.5	--
U.S. steel demand growth (%)	13.7	5.4	--
Adjusted EBITDA (bil. SEK)	22.1	13-15	8.5
Adjusted EBITDA margin (%)	23	14-16	--
Adjusted debt to EBITDA (x)	0.1	<0.5	<1.0
Adjusted FFO to debt (%)	>60	>60	>60
Capex (bil. SEK)	3.4	5	2.5
FOCF (bil. SEK)	11.5	7-9	4.0-5.0
Dividends (%)*	0	50	30-50
Adjusted debt (bil. SEK)	2.4	<5.0	4.0-8.0
Cash position (bil. SEK)	13.8	>10.0	--
Reported net debt (includes leases) (bil. SEK)	(1.2)	<2.0	0.0-4.0*

*Based on the company's financial policy of maximum gearing of 35% over the cycle. Expressed as a percentage of the previous year's net income. SEK--Swedish krona. FFO--Funds from operations. FOCF--Free operating cash flow. a--Actual. e--Estimate.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/--

Business risk: Fair

- Country risk: Very Low
- Industry risk: Moderately High
- Competitive position: Fair

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral/Undiversified
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Strong
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile: bbb-

ESG Credit Indicators: E-3 S-2 G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded; Outlook Action

	To	From
SSAB AB		
Issuer Credit Rating	BBB-/Stable/A-3	BB+/Positive/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.