

Tear Sheet:

SSAB AB

May 23, 2024

We expect SSAB AB's profit to further decline in 2024 yet remaining above mid-cycle levels.

After two years of extraordinary profitability (EBITDA of SEK33 billion in 2022 and SEK20 billion in 2023), we expect EBITDA to be in the range of Swedish krona (SEK) 13 billion-SEK14 billion in 2024. Still above the level of SEK8.5 billion that we consider as mid-cycle profitability. In the first quarter of 2024 the company delivered EBITDA of SEK4.1 billion.

Soft macro-conditions paired with lower prices could further dampen profitability. In the first quarter of 2024, total shipments for SSAB fell by 9% compared with the first quarter of 2023 with a more pronounced fall in SSAB Europe with negative 10% and negative 8% in the Americas division. The main drivers were political strikes in Finland and lower demand, excluding the strikes, volumes would have remained stable in Europe. Mixed macroeconomic signals, especially in Europe, pose downside risk with real GDP growth expectations diverging in the eurozone (0.7%) and the U.S. (2.5%) for the rest of 2024.

While we expect that U.S. economic growth and U.S. infrastructure investment programs will support SSAB's plate business overseas for 2024, we anticipate a soft-landing for the European macroeconomy, leading to a slow pick-up in demand for steel end-use products (i.e., automobiles, construction, and manufacturing). With year-to-date average steel prices still 30%-40% above the 2016-2020 average, we still assume that steel prices will revert to pre-Covid levels in the U.S. and Europe over the next two years, leading to a gradual profit normalization for SSAB. A further macroeconomic slowdown impacting volume and prices, especially in Europe, could accelerate this process.

SSAB's strong balance sheet should ensure limited pressure under the rating even during the trough of the cycle. With a reported net cash position reaching SEK18.2 billion (cash balance SEK27.5 billion) at the end of the first quarter of 2024 the company is well equipped to weather a slowdown, especially in the European markets, and handle upcoming maturities of about SEK1.2 billion in 2024. In our view, SSAB will maintain a strong balance sheet to meet its net gearing ratio target of between negative 20% and positive 20%, currently it stands with a better ratio at minus 25% (as of the end of the first quarter of 2024). With future cash flow not going toward major debt repayments, we expect that SSAB will allocate all its operating cash flow to increase capital expenditure (capex) and shareholder returns. On March 4, 2024, SSAB completed its SEK2.5 billion share buyback program and on April 24, 2024 at the annual general meeting it agreed on a dividend of SEK5 per share.

SSAB is taking steps toward fossil-free steel production. SSAB is progressing in its commitment to fossil-free steel production, which it aims to achieve by 2030 with first commercial scale production of fossil free steel during 2026. Next to the on-track conversion of its Oxelösund plant, the company announced in April 2024 that it will take steps to build a fossil-free mini mill in Lulea, Sweden with completion aimed for late 2028. The estimated price tag for the production complex, including two electric arc furnaces with 2.5 million metric tons per year

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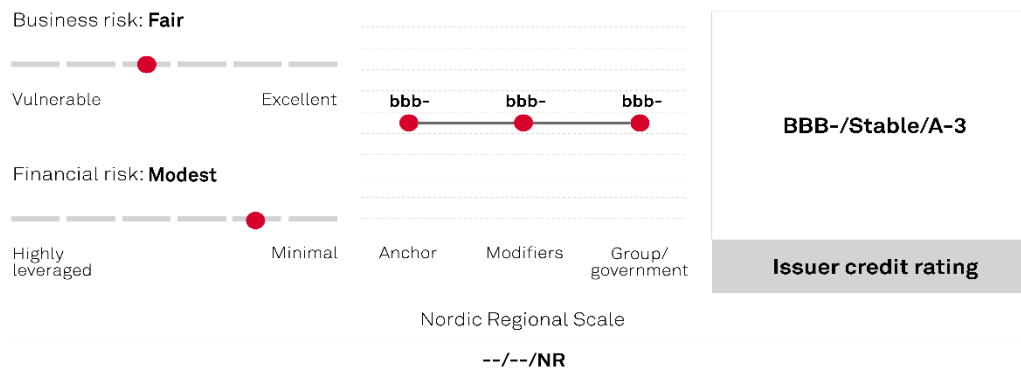
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capacity, will be about €4.5 billion, which the company is likely to fund through its own cash flows and within its financial targets. Major capex spending will start in 2025.

Ratings Score Snapshot



Recent Research

- Tear Sheet: SSAB AB, Aug. 16, 2023
- Industry Credit Outlook 2024: Metals and Mining, Jan. 9, 2024

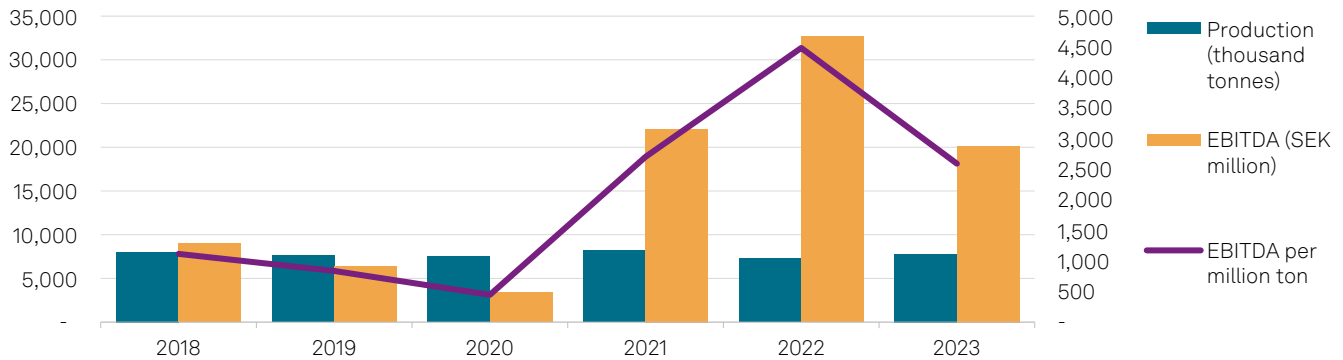
Company Description

SSAB produces high-strength steel; quenched and tempered steel; and strip, plate, and tube products; it also provides construction solutions. In 2023, it had sales of SEK119 billion and an annual production capacity of 8.8 million tons in Sweden, Finland, and the U.S. The company serves several end markets--such as industrial applications, auto, heavy transport, construction, and energy--and operates through five divisions:

- Special steels (about 37% of 2023 EBITDA);
- Europe (14%);
- Americas (48%);
- Tibnor (negative EBITDA); and
- Ruukki Construction (1%).

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 remainder are free float. Notable rated peers include U.S. Steel Corp., BlueScope Steel Ltd., and ArcelorMittal.

SSAB AB's EBITDA per ton has moderated after exceptional years



Source: S&P Global Ratings

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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 forecast EBITDA of about SEK13 billion–SEK14 billion in 2024 and SEK8.5 billion under normal industry conditions, which, together with limited reported net debt, would lead to funds from operations (FFO) to debt of 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 normalize but stay broadly supportive, which--alongside the current net cash position--should help SSAB maintain credit metrics in line with our benchmarks for the rating.

However, we could take a negative rating action if, over time, we saw a change in the company’s financial policy, namely through increasing dividends or significant acquisitions, resulting in a debt spike 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. However, ratings upside might build if the company shows material inorganic growth.

Key Metrics

Key Metrics

SSAB AB -- Key Metrics

	2022a	2023a	2024e	Midcycle steel industry conditions***
Iron ore price (\$/ton)	118	115	110	--
Eurozone GDP growth (%)	3.5	0.5	0.7	--
U.S. GDP growth (%)	1.9	2.5	2.5	--
Eurozone steel demand growth (%)	--	--	2.9	--
U.S. steel demand growth (%)	--	--	1.4	--
Adjusted EBITDA (bil. SEK)	32.4	20.2	13-14	8.5
Adjusted EBITDA margin (%)	25.1	16.9	12-13	--
Adjusted debt to EBITDA (x)	N.M.	N.M.	N.M.	<1.0
Adjusted FFO to debt (%)	N.M.	N.M.	N.M.	>60
Capex (bil. SEK)	4.9	6.6	5.5	5.5
FOCF (bil. SEK)	15.6	14.6	6.4-7.2	2.0-3.0
Dividends and Share buybacks (bil. SEK)*	5.4	10.3	6.5-8.5	40%
Adjusted debt (bil. SEK)	0	0	0	7.5
Cash position (bil. SEK)	24.9	28.9	>24	--
Reported net debt (includes leases) (bil. SEK)**	(14.2)	(18.3)	(16)-(17)	4.0

SEK--Swedish krona. FFO--Funds from operations. FOCF--Free operating cash flow. a--Actual. e--Estimate. N.M.--Not meaningful. *Announced dividend of SEK5 per share, resulting in SEK5.1 billion dividend payment in 2024 and SEK1.2 billion associated to the SEK2.5 billion share-buyback program, which was completed in March 2024. We assume furthermore a renewal of the share buyback program, leading to additional cash upstreaming between SEK1 billion-SEK2 billion in 2024. **Reported net debt = gross debt plus lease liabilities minus cash and cash equivalents. ***Midcycle steel industry condition: Under our estimation, SSAB can achieve FFO to debt higher than 60% under midcycle conditions and more than 45% during the bottom of the cycle, assuming a trough EBITDA level of SEK4.5 billion. This EBITDA level is based on the company's results in 2015-2016. In practice, the company's trough EBITDA could be much higher because improvements in its business model should result in better profitability and less volatility. Our estimated sustainable adjusted debt level given the mid-cycle conditions for the current rating level is about €7.5 billion. SSAB's green transformation over the coming decade will drive its capex, the current 2024 capex guidance is about SEK5.5 billion. Indicative investment volume is about SEK45 billion between 2022-2030 for the fossil-free mini-mill conversion at the Raahe and Lulea sites. The conversion of Oxelösund plant will come with a total price tag of about SEK6.2 billion until 2026. SSAB's dividend policy is 40% of the previous year's net income.

Financial Summary

SSAB AB--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	74,941	76,485	65,396	95,891	128,745	119,489
EBITDA	9,246	6,082	3,342	22,056	32,364	20,157
Funds from operations (FFO)	7,765	4,073	2,631	20,187	25,943	15,502
Interest expense	789	634	505	442	476	763
Cash interest paid	853	694	655	512	474	776
Operating cash flow (OCF)	6,907	5,064	4,092	13,571	20,594	21,214
Capital expenditure	2,451	2,939	2,204	3,382	4,948	6,567
Free operating cash flow (FOCF)	4,456	2,125	1,888	10,189	15,646	14,647
Discretionary cash flow (DCF)	3,423	573	1,879	10,180	10,233	4,387
Cash and short-term investments	2,598	3,591	7,051	13,796	24,900	28,916
Gross available cash	4,842	3,591	7,051	13,796	24,900	28,916
Debt	12,601	14,996	14,010	4,592	0	0
Common equity	59,515	60,417	54,096	73,509	67,190	67,948
Adjusted ratios						
EBITDA margin (%)	12.3	8.0	5.1	23.0	25.1	16.9
Return on capital (%)	9.2	4.1	0.2	26.2	40.5	26.1
EBITDA interest coverage (x)	11.7	9.6	6.6	49.9	68.0	26.4
FFO cash interest coverage (x)	10.1	6.9	5.0	40.4	55.7	21.0
Debt/EBITDA (x)	1.4	2.5	4.2	0.2	0.0	0.0
FFO/debt (%)	61.6	27.2	18.8	439.7	NM	NM
OCF/debt (%)	54.8	33.8	29.2	295.6	NM	NM
FOCF/debt (%)	35.4	14.2	13.5	221.9	NM	NM
DCF/debt (%)	27.2	3.8	13.4	221.7	NM	NM

Peer Comparison

SSAB AB--Peer Comparisons

	United States Steel				
	SSAB AB	ArcelorMittal	Corp.	Steel Dynamics Inc.	Nucor Corp.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB-/Positive/A-3	BB-/Watch Pos/NR	BBB/Stable/--	A-/Stable/A-1

SSAB AB--Peer Comparisons

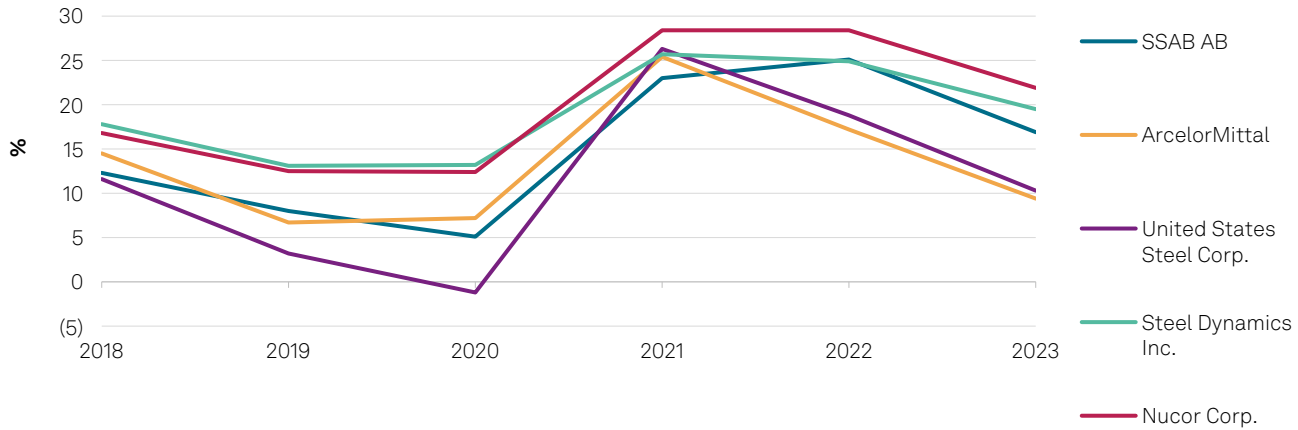
Local currency issuer credit rating	BBB-/Stable/A-3	BBB-/Positive/A-3	BB-/Watch Pos/NR	BBB/Stable/--	A-/Stable/A-1
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2022-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	SEK	SEK	SEK	SEK	SEK
Revenue	119,489	903,765	181,548	189,013	349,092
EBITDA	20,157	155,128	18,614	36,926	76,352
Funds from operations (FFO)	15,502	117,774	15,342	29,042	63,064
Interest	763	6,731	2,699	1,153	2,516
Cash interest paid	776	6,451	2,407	1,421	2,628
Operating cash flow (OCF)	21,214	119,914	20,089	35,295	71,779
Capital expenditure	6,567	41,654	24,276	16,341	22,266
Free operating cash flow (FOCF)	14,647	78,260	(4,187)	18,954	49,512
Discretionary cash flow (DCF)	4,387	40,734	(5,947)	1,622	23,840
Cash and short-term investments	28,916	96,943	29,646	21,341	71,710
Gross available cash	28,916	96,943	29,646	21,341	71,710
Debt	0	169,637	44,318	10,832	0
Equity	67,948	613,701	112,028	88,894	222,485
EBITDA margin (%)	16.9	17.2	10.3	19.5	21.9
Return on capital (%)	26.1	17.7	6.3	34.9	29.8
EBITDA interest coverage (x)	26.4	23.0	6.9	32.0	30.3
FFO cash interest coverage (x)	21.0	19.3	7.4	21.4	25.0
Debt/EBITDA (x)	0.0	1.1	2.4	0.3	0.0
FFO/debt (%)	NM	69.4	34.6	268.1	NM
OCF/debt (%)	NM	70.7	45.3	325.8	NM
FOCF/debt (%)	NM	46.1	(9.4)	175.0	NM
DCF/debt (%)	NM	24.0	(13.4)	15.0	NM

Peers

SSAB's profitability, as measured by the S&P Global Ratings-adjusted EBITDA margin, is average for the sector. Its average EBITDA margin was about 15% over 2018-2023, which is better when compared with peers like--such as ArcelorMittal and United States Steel Corp. But this is somewhat lower than the about 19%-20% posted by Steel Dynamics and Nucor Corp, which have a high level of vertical integration and relatively low fixed costs.

SSAB AB's profit margins are in line with industry average

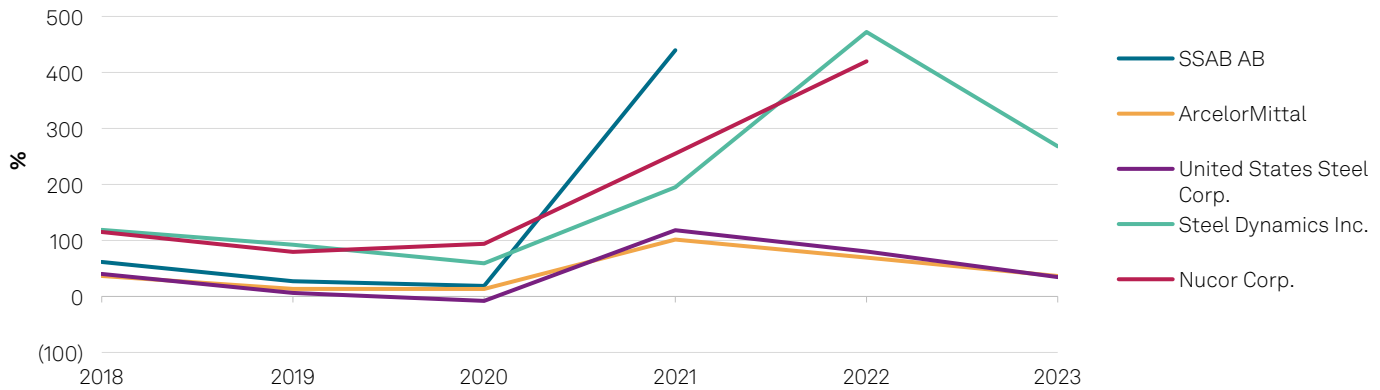
S&P Global Ratings-adjusted EBITDA margin



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SSAB's FFO to debt is better than similarly rated peers, supported by beneficial market conditions and lower net debt. SSAB, unlike its peers, is at net cash position in 2022 and 2023. Following SSAB is Nucor Corp with steep reduction in its net debt owing to strong liquidity. In our view, this debt level indicates that FFO to debt will remain in line with the 'BBB-' long-term issuer credit rating, even during weaker points of the cycle.

Steelmakers' FFO to debt remains healthy



No data means the company is in a net cash position or have comparatively very high FFO/Debt. FFO--Funds from operations.Source: S&P Global Ratings.

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Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Fair
Country risk	Very Low
Industry risk	Moderately High
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

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