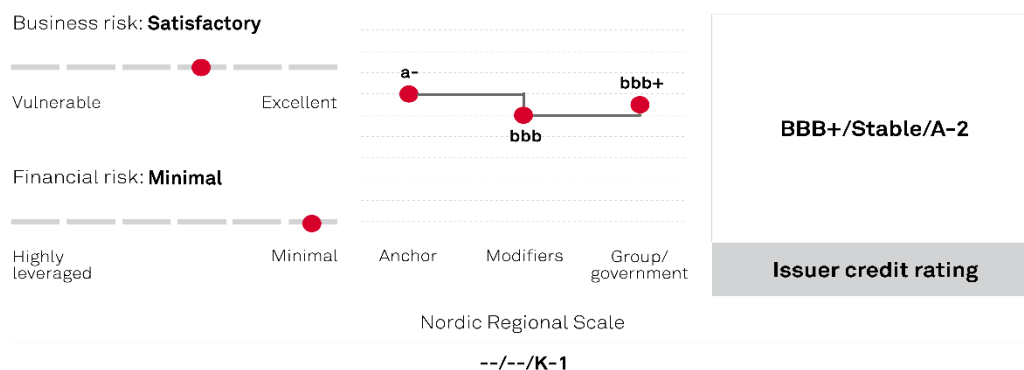


# Holmen AB

June 27, 2024

## Ratings Score Snapshot



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## Credit Highlights

### Overview

#### Key strengths

A solid track record of minimal leverage (less than 1.5x on a S&P Global Ratings-adjusted basis) and strong funds from operations (FFO) to debt of more than 60%, since 2018 (with the exception of 2020).

Vertical integration into forest and energy assets, provides greater cost control and resilience.

Track record of generating annual free operating cash flow (FOCF) of more than SEK1 billion (€90 million) since 2018.

Stable and committed controlling owner L E Lundbergföretagen AB (publ) (A+/Stable/A-1) adds one notch to the rating.

#### Key risks

Financial policy allows for significant increase in leverage, from 3% debt to equity at year-end 2023 up to 25%.

Small size compared with peers, with revenue of SEK24.8 billion and adjusted EBITDA of SEK5.5 billion.

Negligible long pulp position and large exposure to publication paper (in structural decline), mitigated by EBITDA margins greater than 30% generated by the paper segment in 2022 and 2023.

Limited geographical diversification since the vast majority of assets are in Sweden.

**We anticipate flat revenues for 2024 on the back of the mixed trends seen in Holmen AB's business divisions.**

We forecast a slight increase in board prices as destocking eases and consumer spending improves in 2024. Wood raw material prices will remain high, supported by constraints on Russian exports, and Holmen's higher harvesting rates compared to Central Europe and Canada. However, we assume lower paper prices in 2024, following two years of very high prices, as demand declines. Wood product prices will stay depressed as the construction industry remains undermined by high interest rates and weak consumer confidence. We also expect lower renewable energy prices as supply improves in Europe. Overall, we expect relatively unchanged volume evolution for each business division.

**We expect lower profitability for 2024.** We expect EBITDA margins will decline by 300 basis points to 19.3%, mainly due to lower prices in all business divisions except for forest and board, while input prices remain high. We expect ongoing low utilization rates for sawmills, penalizing the absorption of fixed costs. However, we note that Holmen benefits from its strong vertical integration into forest holdings and energy. This provides the company with a lower cost base and a competitive edge over smaller and non-vertically integrated competitors.

**We expect FOCF will remain strong in 2024.** We forecast FOCF of SEK2 billion in 2024, down from SEK4 billion in 2023, due to lower EBITDA and slightly higher tax and capital expenditure (capex). Tax payments were exceptionally low at SEK160 million in 2023 as advance payments were made to the tax authorities in 2022. We expect cash tax paid will normalize at about SEK420 million in 2024, with cash interest rates at about SEK80 million. We forecast capex at SEK2.2 billion in 2024, up from SEK1.7 billion in 2023, as Holmen invests in wood product and renewable energy production capacities. The company expects to increase wood product manufacturing capacity at their Iggesund sawmill by 25% by 2028. We forecast no material change in working capital, given our flat revenue assumption for 2024.

**We believe Holmen's credit metrics will remain very strong in 2024, albeit slightly weaker than in 2023.** We expect the company will make shareholder returns in the form of dividends (SEK1.8 billion) and share buy-backs (SEK1 billion) in 2024. We expect these will exceed FOCF and increase debt. This, combined with lower EBITDA, will increase adjusted leverage to 0.6x in 2024 (0.4x in 2023) and lower FFO to debt to 143% (256% in 2023).

## Outlook

The stable outlook reflects our view that despite mixed trends in Holmen's end markets, credit metrics will remain in line with the current rating over the next two years, notably adjusted leverage below 2x and FFO to debt about 45%, supported by a strong balance sheet. Our outlook assumes that influence from controlling owner Lundberg will continue to provide a one-notch rating uplift.

### Downside scenario

We believe that the possibility of a downgrade is remote in the absence of any transformational events. Nevertheless, we could lower the rating if:

- Holmen increased its debt to EBITDA to above 2x over a sustained period or FFO to debt fell below 45% on a sustainable basis, for example, as a result of a debt-funded transformational acquisition; or
- Holmen pursued a more aggressive financial policy via, for instance, large debt-funded shareholder distributions.

## Upside scenario

We see the possibility of an upgrade as limited, due to Holmen's business risk profile positioning relative to peers. That said, we would consider raising the rating if Holmen's scale and geographical diversification improved in line with those of higher-rated peers, without deterioration of its financial policy.

## Our Base-Case Scenario

### Assumptions

- Real GDP growth in Europe of 1.3% in 2024 and 1.9% in 2025; real GDP growth in Sweden of negative 0.3% in 2024 and positive 2.0% in 2025; real GDP growth in Asia Pacific of 0.0% in 2023 and 0.9% in 2024.
- Flat revenues in 2024, as the weakness in paper prices is only partly compensated by a minimal recovery in wood product and board prices. We expect minimal changes in volumes delivered in 2024, but the forest division will continue to see high selling prices. We assume a minor recovery in revenue of 2% in 2025, as board and wood raw material prices increase with economic growth, while wood products also see higher deliveries. We expect the forest division will continue to perform strongly in terms of prices and volumes.
- Adjusted EBITDA margins of 19%-20% in 2024 (22.3% in 2023), reflecting lower volumes. We assume a recovery in EBITDA margins to 20%-21% in 2025, as volumes and fixed cost absorption improve.
- Capex of SEK2.2 billion in 2024, which includes maintenance capex of about SEK1.5 billion and expansion capex of SEK 700 million. The latter will fund the expansion of Holmen's paperboard capacity in Iggesund, new paper products, efficiency improvements at its Braviken mill, and new wind farms. We expect lower capex of SEK2 billion in 2025 as Holmen completes some of these expansionary investments.
- Flat working capital needs in 2024 due to limited revenue growth. We expect additional working capital needs of SEK250 million in 2025 as sales growth recovers.
- Dividend payments of SEK1.8 billion in 2024, reflecting an ordinary dividend of SEK8.5 per share and an extraordinary dividend of SEK3 per share. We assume similar dividend payments of SEK1.8 billion-SEK1.9 billion in 2025.
- Annual share buybacks estimated at SEK1 billion for 2024 and 2025.

## Key metrics

### Holmen AB--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. SEK)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	17,607	20,849	26,661	24,776	24,719	25,293	26,081
Gross profit	17,607	20,849	26,661	24,776	21,495	22,256	23,375

## Holmen AB--Forecast summary

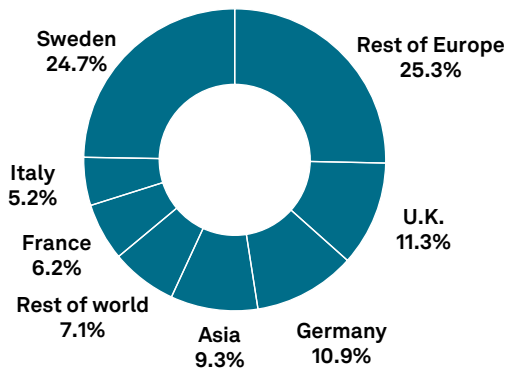
EBITDA (reported)	3,072	4,528	8,450	5,553	4,768	5,140	5,725
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--
Plus/(less): Other	(53)	(385)	(44)	(21)	--	--	--
EBITDA	3,019	4,143	8,406	5,532	4,768	5,140	5,725
Less: Cash interest paid	(42)	(45)	(48)	(83)	(81)	(79)	(77)
Less: Cash taxes paid	(569)	(662)	(1,639)	(160)	(419)	(456)	(513)
Plus/(less): Other	--	--	--	--	--	--	--
Funds from operations (FFO)	2,408	3,436	6,719	5,289	4,268	4,605	5,136
EBIT	1,852	2,891	7,083	4,227	3,532	3,876	4,422
Interest expense	43	49	61	82	81	79	77
Cash flow from operations (CFO)	2,455	3,223	5,484	5,802	4,248	4,335	4,866
Capital expenditure (capex)	1,165	1,707	1,391	1,702	2,200	2,000	1,700
Free operating cash flow (FOCF)	1,290	1,516	4,093	4,100	2,048	2,335	3,166
Dividends	567	1,741	1,862	2,592	1,831	1,862	2,105
Share repurchases (reported)	--	--	--	1,119	1,000	1,000	1,000
Discretionary cash flow (DCF)	723	(225)	2,231	389	(783)	(527)	61
Debt (reported)	4,505	4,618	3,934	2,920	2,920	3,427	3,496
Plus: Lease liabilities debt	287	244	247	251	256	264	272
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(246)	(407)	(1,835)	(1,102)	(196)	(50)	(50)
Plus/(less): Other	--	--	--	--	--	--	--
Debt	4,546	4,455	2,346	2,069	2,980	3,641	3,718
Equity	42,516	46,992	56,950	56,923	57,247	57,812	58,568
FOCF (adjusted for lease capex)	1,128	1,448	4,001	3,983	1,920	2,201	3,028
Interest expense (reported)	41	43	61	79	81	79	77
Capex (reported)	1,167	1,713	1,391	1,705	2,200	2,000	1,700
Cash and short-term investments (reported)	346	507	1,935	1,202	296	150	150
<b>Adjusted ratios</b>							
Debt/EBITDA (x)	1.5	1.1	0.3	0.4	0.6	0.7	0.6
FFO/debt (%)	53.0	77.1	286.4	255.6	143.2	126.5	138.1
FFO cash interest coverage (x)	58.3	77.4	141.0	64.7	53.8	59.1	67.9
EBITDA interest coverage (x)	70.2	84.6	137.8	67.5	59.0	64.9	74.7
CFO/debt (%)	54.0	72.3	233.8	280.4	142.5	119.1	130.9
FOCF/debt (%)	28.4	34.0	174.5	198.2	68.7	64.1	85.1
DCF/debt (%)	15.9	(5.1)	95.1	18.8	(26.3)	(14.5)	1.6
Lease capex-adjusted FOCF/debt (%)	24.8	32.5	170.5	192.5	64.4	60.5	81.4
Annual revenue growth (%)	(3.9)	18.4	27.9	(7.1)	(0.2)	2.3	3.1
Gross margin (%)	100.0	100.0	100.0	100.0	87.0	88.0	89.6
EBITDA margin (%)	17.1	19.9	31.5	22.3	19.3	20.3	22.0
Return on capital (%)	4.1	5.9	12.8	7.1	5.9	6.4	7.1
Return on total assets (%)	3.0	4.4	9.5	5.2	4.4	4.8	5.3
EBITDA/cash interest (x)	71.9	92.1	175.1	66.7	58.9	64.8	74.6
EBIT interest coverage (x)	43.1	59.0	116.1	51.5	43.7	48.9	57.7
Debt/debt and equity (%)	9.7	8.7	4.0	3.5	4.9	5.9	6.0
Debt fixed-charge coverage (x)	70.2	84.6	137.8	67.5	59.0	64.9	74.7
Debt/debt and undepreciated equity (%)	6.1	8.7	4.0	3.5	4.9	5.9	6.0

## Company Description

Holmen is a Sweden-based diversified player mainly operating in the forest, paper, and paperboard industry. It owns 1.3 million hectares of forest land in Sweden, of which over 1.0 million hectares are productive. Holmen generated adjusted revenue of SEK25 billion and adjusted EBITDA of SEK5.5 billion in 2023.

### Holmen's sales by geography in 2023

Company-reported figures

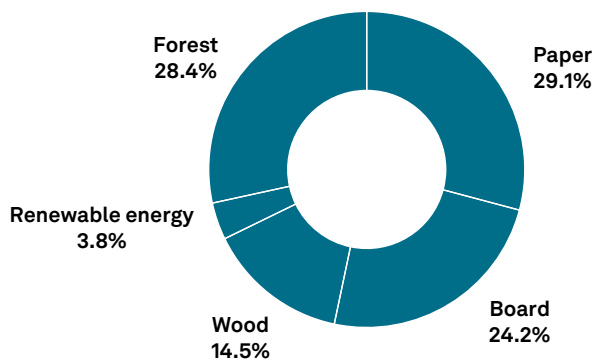


Sources: Company filings and S&P Global Ratings.

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### Holmen's revenue by division in 2023

Company-reported figures



Sources: Company filings and S&P Global Ratings.

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Holmen has been listed on the Stockholm Stock Exchange (Nasdaq Stockholm) since 1936. Its main shareholder is L E Lundbergforetagen (Lundberg; A+/Stable/A-1), which held 34.7% of Holmen's capital and 62.6% of the votes as of April 30, 2024. Lundberg is a Swedish investment holding company.

## Peer Comparison

Holmen's closest rated peers include UPM-Kymmene Corp (UPM; BBB+/Positive/A-2), Svenska Cellulosa AB SCA (SCA; BBB/Stable/A-2), Mondi PLC (Mondi; A-/Stable/--), and Metsa Board Corp. (Metsa; BBB-/Stable/A-3).

Despite its lower EBITDA margins in 2023 compared to Holmen, UPM is significantly larger and has broader product diversification. Like Holmen, UPM remains exposed to the structurally declining graphic paper segment. Both companies are vertically integrated with significant forest assets, although UPM is a net seller of electricity whereas Holmen is not.

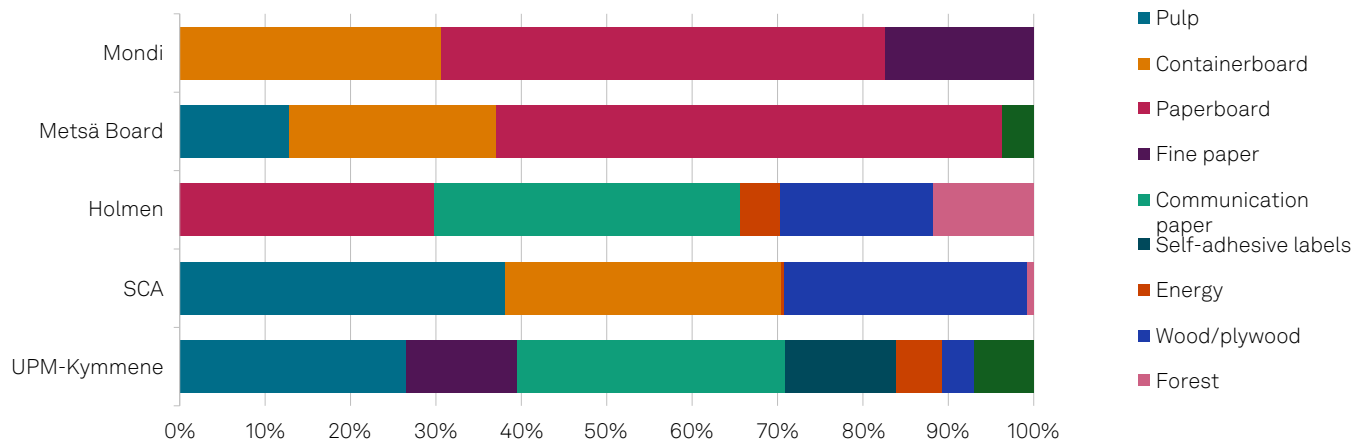
Metsa Board has a broadly similar size (in terms of revenue) to Holmen, but lower EBITDA margins due to its end market exposure to lower margin products. Metsa Board is also integrated into pulp but has narrower product diversification; it mainly produces folding boxboards, white kraftliners, and pulp.

SCA is a significant forest owner, similar to Holmen. SCA's stronger EBITDA margins reflect its strong vertical integration, efficient asset base, and long pulp position. SCA exited the less profitable publication paper segment in 2021.

Mondi is significantly larger and geographically more diverse than Holmen. It also remains exposed to graphic paper. Mondi's business model is characterized by strong margins due to a low-cost structure and high degree of vertical integration.

### Holmen is relatively well diversified in terms of product offering

Forest companies' external sales by type of product in 2023

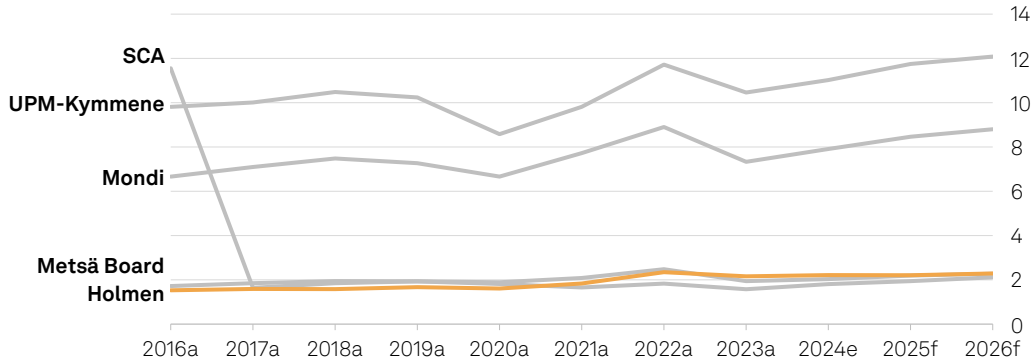


Sources: Company filings and S&P Global Ratings.

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**Holmen is significantly smaller than peers UPM and Mondi**

Sales by forest products companies (bil. €)

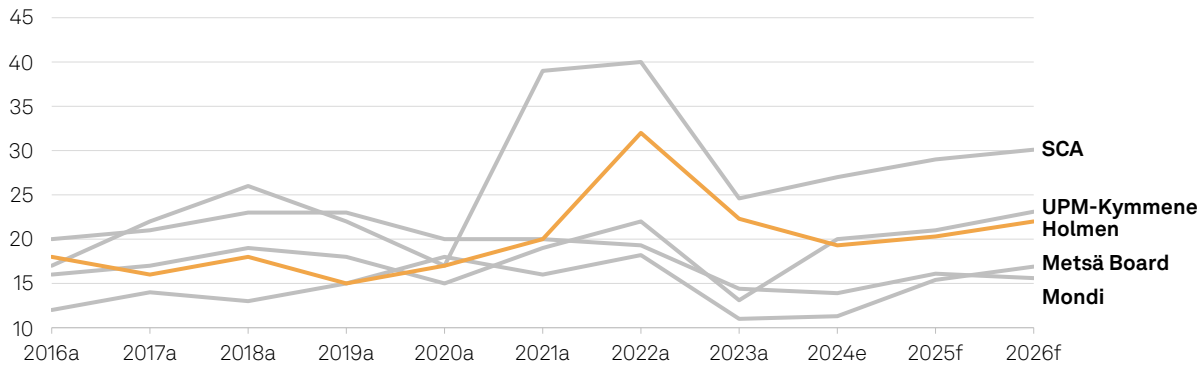


a--Actual. e--Estimate. f--Forecast. Source: Company reports.

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**SCA's margins are largely superior to peers'**

S&P Global Ratings-adjusted EBITDA margin (%)

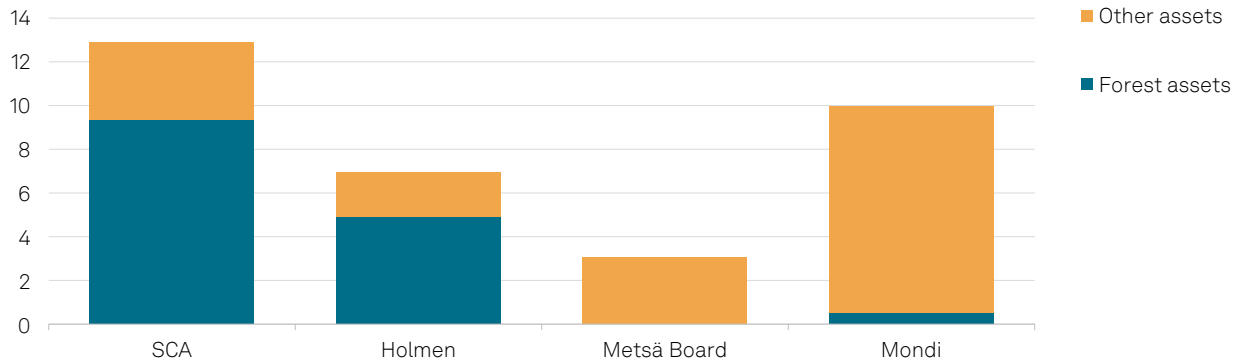


a--Actual. e--Estimate. f--Forecast. Source: Company reports.

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### Holmen has the second largest forest assets of the peer group

Forest companies' share of forest assets in total assets in 2023 (bil. €)

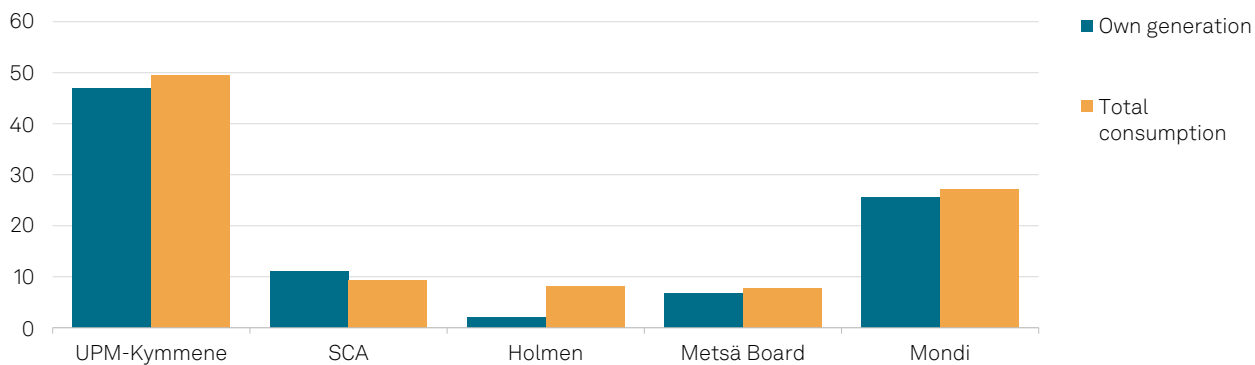


Sources: Company filings and S&P Global Ratings.

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### Holmen is short in terms of its energy needs

Forest companies' energy generation and consumption in 2023 (terawatt hours)



Sources: Company filings and S&P Global Ratings.

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### Holmen AB--Peer Comparisons

	Holmen AB	Metsä Board Corp.	Mondi PLC	UPM-Kymmene Corp.	Svenska Cellulosa AB SCA
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB-/Stable/A-3	A-/Stable/--	BBB+/Positive/A-2	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	BBB-/Stable/A-3	A-/Stable/--	BBB+/Positive/A-2	BBB/Stable/A-2



**Holmen AB--Peer Comparisons**

Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	SEK	SEK	SEK	SEK	SEK
Revenue	24,776	21,586	81,478	116,271	18,081
EBITDA	5,532	2,381	11,772	15,184	4,447
Funds from operations (FFO)	5,289	2,502	9,115	11,883	3,584
Interest	82	159	1,445	1,578	490
Cash interest paid	83	147	678	1,289	533
Operating cash flow (OCF)	5,802	3,787	14,851	25,222	3,849
Capital expenditure	1,702	2,405	9,815	12,005	3,090
Free operating cash flow (FOCF)	4,100	1,381	5,035	13,217	759
Discretionary cash flow (DCF)	389	(1,172)	1,034	3,935	(997)
Cash and short-term investments	1,202	3,241	17,696	7,025	502
Gross available cash	1,202	3,241	17,696	7,025	502
Debt	2,069	1,731	6,056	33,703	12,882
Equity	56,923	22,816	67,762	128,176	104,284
EBITDA margin (%)	22.3	11.0	14.4	13.1	24.6
Return on capital (%)	7.1	3.1	9.6	4.8	2.3
EBITDA interest coverage (x)	67.5	15.0	8.1	9.6	9.1
FFO cash interest coverage (x)	64.7	18.0	14.4	10.2	7.7
Debt/EBITDA (x)	0.4	0.7	0.5	2.2	2.9
FFO/debt (%)	255.6	144.6	150.5	35.3	27.8
OCF/debt (%)	280.4	218.8	245.2	74.8	29.9
FOCF/debt (%)	198.2	79.8	83.1	39.2	5.9
DCF/debt (%)	18.8	(67.7)	17.1	11.7	(7.7)

## Business Risk

Our business risk assessment is supported by Holmen's strong level of vertical integration. The company is fully self-sufficient in pulp, and to some degree in wood raw material and energy. This results in a competitive cost position, somewhat insulates Holmen from input cost volatility, and secures its access to key raw materials (ie. wood and energy).

Our assessment is also underpinned by Holmen's leading position in virgin fiber-based premium paperboard (largely used for the packaging of consumer products). We view demand for these products as resilient and supported by sustainability concerns. In the food segment, paperboard is often considered a suitable alternative to plastic packaging. However, its demand does change with the economic cycle and consumer spending habits. Holmen remains exposed to the structurally declining, but still profitable, publishing paper segment. In addition, wood products manufactured by Holmen are sold to the construction and building materials industries, which are highly cyclical by nature. Since mid-2022, demand for wood products has been undermined by the weaker economic cycle and high interest rates.

We see Holmen's relatively small size with SEK25 billion in revenue and SEK5.5 billion adjusted EBITDA in 2023 as a constraint to our business risk assessment. The company's product scope is limited, with no external sales of pulp or any exposure to self-adhesive labels. Its geographic

footprint is limited to Sweden where all its forests and industrial assets are located. Its diversification is satisfactory with 24% of sales in Sweden followed by the U.K. (11%) and Germany (10%). Non-European sales only account for 16% of revenue, which is low.

In recent years, Holmen expanded into renewable energy. It leases some of its land to wind farm operators and also builds and operates its own wind farms (on its forest land). As such, in 2023 it produced 1,502 gigawatt hours (GWh) of its own wind and hydro power and 566 GWh at its mills through the recovery of energy. We understand that the company will continue to invest in renewable energy.

## Financial Risk

Our financial risk assessment reflects Holmen’s low leverage and strong cash flow generation. We expect a minor increase in adjusted leverage to 0.6x by year-end 2024 (0.4x in 2023), due to lower EBITDA of about SEK800 million, and higher debt. In addition, we forecast FFO to debt will reduce to 143% in 2024, from 256% in 2023, due to significantly higher cash taxes of SEK420 million. We forecast broadly stable cash interest payments of SEK81 million as Holmen continues to benefit from its interest rate hedging strategy, and from the lower interest rates set by the Swedish Central bank in 2024.

We anticipate FOCF will remain strong and positive in 2024. That said, we expect FOCF will decline to SEK2.0 billion in 2024, from SEK4.1 billion in 2023, due to lower EBITDA, and higher cash taxes and growth capex.

Holmen has a policy of returning large amounts of cash to its shareholders as ordinary and extra dividends, and share buy backs. As such, it paid out about SEK1.8 billion in April 2024, and we expect about SEK1 billion of shares to be bought back in 2024. Over 2014-2023, dividend payments accounted for about 50% of retained earnings, on average.

All in all, credit metrics remain comfortably in line with our minimal financial risk profile category.

Holmen publicly states that it aims for a debt-to-equity ratio below 25% and its ratio has consistently been well below this threshold, (3% at year-end 2023). The available headroom allows Holmen to make large (potentially debt-funded) investments, dividend payments, acquisitions, or share buybacks. We do not factor any of these into our base-case scenario and understand that they are unlikely to happen in the next few years. That said, we view this financial policy as relatively loose and thereby apply a negative assessment (-1 notch) to Holmen's financial policy.

## Debt maturities

Holmen's debt structure at March 31, 2024, mainly consisted of about SEK2.9 billion bonds, of which about SEK1 billion is due 2024, SEK1 billion due 2025, SEK500 million due 2026, and SEK500 million due 2027.

The revolving credit facility (RCF) of SEK4 billion maturing in 2027 is currently undrawn.

## Holmen 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

**Holmen AB--Financial Summary**

Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	17,339	18,314	17,607	20,849	26,661	24,776
EBITDA	3,062	2,784	3,019	4,143	8,406	5,532
Funds from operations (FFO)	2,626	2,603	2,408	3,436	6,719	5,289
Interest expense	50	48	43	49	61	82
Cash interest paid	40	34	42	45	48	83
Operating cash flow (OCF)	2,333	2,881	2,455	3,223	5,484	5,802
Capital expenditure	1,134	1,044	1,165	1,707	1,391	1,702
Free operating cash flow (FOCF)	1,199	1,837	1,290	1,516	4,093	4,100
Discretionary cash flow (DCF)	107	(727)	723	(225)	2,231	389
Cash and short-term investments	278	483	346	507	1,935	1,202
Gross available cash	278	483	346	507	1,935	1,202
Debt	3,527	4,271	4,546	4,455	2,346	2,069
Common equity	23,453	40,111	42,516	46,992	56,950	56,923
<b>Adjusted ratios</b>						
EBITDA margin (%)	17.7	15.2	17.1	19.9	31.5	22.3
Return on capital (%)	7.7	4.6	4.1	5.9	12.8	7.1
EBITDA interest coverage (x)	61.5	58.0	70.2	84.6	137.8	67.5
FFO cash interest coverage (x)	67.0	77.6	58.3	77.4	141.0	64.7
Debt/EBITDA (x)	1.2	1.5	1.5	1.1	0.3	0.4
FFO/debt (%)	74.4	60.9	53.0	77.1	286.4	255.6
OCF/debt (%)	66.1	67.5	54.0	72.3	233.8	280.4
FOCF/debt (%)	34.0	43.0	28.4	34.0	174.5	198.2
DCF/debt (%)	3.0	(17.0)	15.9	(5.1)	95.1	18.8

**Reconciliation Of Holmen AB Reported Amounts With S&P Global Ratings-Adjusted Amounts (Mil. SEK)**

Financial year	Shareholder		Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	Debt	Equity								
Dec-31-2023										
Company reported amounts	2,920	56,923	24,791	5,553	4,755	79	5,532	5,805	2,592	1,705
Cash taxes paid	-	-	-	-	-	-	(160)	-	-	-
Cash interest paid	-	-	-	-	-	-	(80)	-	-	-
Lease liabilities	251	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(1,102)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	3	(3)	(3)	-	(3)
Income (expense) of unconsolid. cos.	-	-	-	(6)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	49	-	-	-	-	-

## Reconciliation Of Holmen AB Reported Amounts With S&P Global Ratings-Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Revenue: Profit on disposals	-	-	(15)	(15)	(15)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(562)	-	-	-	-	-
Total adjustments	(851)	-	(15)	(21)	(528)	3	(243)	(3)	-	(3)

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	2,069	56,923	24,776	5,532	4,227	82	5,289	5,802	2,592	1,702

## Liquidity

We assess Holmen's liquidity as strong and anticipate that sources of liquidity will exceed uses by more than 2.0x in the 12 months started March 31, 2024, and more than 1.5x in the subsequent 12 months, supported by cash balance, availability under RCFs, and FFO generation. Holmen has a track record of liquidity sources exceeding uses by more than 1.5x in the past three years, significant cash accumulated in recent years, and a decreased reliance on commercial paper, which reduces its recourse to short-term funding.

### Principal liquidity sources

- SEK1.15 billion of cash on the balance sheet;
- Availability of about SEK4.0 billion under committed credit facilities; and
- Our forecast of FFO of about SEK4.2 billion.

### Principal liquidity uses

- SEK1.3 billion of debt maturities;
- About SEK50 million of working capital requirements;
- About SEK2.2 billion in capex over the next 12 months;
- About SEK1.9 billion for the payment of dividends based on net income in 2023; and
- About SEK1.0 billion for repurchases of shares.

## Covenant Analysis

### Requirements

Holmen's debt is not subject to any covenants.

## Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of Holmen. We believe Holmen benefits from its extensive forest assets in Sweden. Its 1.2 million hectares of forest land bound 1.6 billion tons of carbon dioxide in 2023; additionally, about 200 thousand hectares are destined for nature conservation. Although Holmen faces the same long-term risks as its peers in relation to climate change, we believe

that this risk is lessened by the location of its forest assets (mainly in Northern Sweden) and that it will benefit from higher temperatures leading to higher forest growth rates. We see environmental risks from Holmen’s pulp and paper operations, since these require significant amounts of energy, water, and chemicals. These risks are partly compensated by the carbon dioxide sequestration in its tree plantations and its use of fossil-free energy sources.

## Group Influence

We view Holmen as a moderately strategic subsidiary of its majority shareholder, Lundberg. Lundberg is a Swedish investment holding company that held 34.7% of Holmen's capital and 62.6% of the votes as of March 31, 2024.

Lundberg has a significant influence over Holmen's financial policy and strategic plans. We believe that this has resulted in a track record of strong credit metrics, even when market conditions have been weak. This assessment results in a one-notch uplift from the stand-alone credit profile of 'bbb' to arrive at the 'BBB+' issuer credit rating.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

We do not rate any of Holmen’s outstanding debt.

### Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB+/Stable/A-2</b>
<b>Local currency issuer credit rating</b>	<b>BBB+/Stable/A-2</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Minimal</b>
Cash flow/leverage	Minimal
<b>Anchor</b>	<b>a-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	<b>bbb</b>

## Related Criteria

## Holmen AB

- 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: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Forest Products Group Holmen AB 'BBB+/A-2' Ratings Affirmed; Outlook Stable, July 12, 2023

### Ratings Detail (as of June 27, 2024)\*

#### Holmen AB

Issuer Credit Rating	BBB+/Stable/A-2
<i>Nordic Regional Scale</i>	--/--/K-1

#### Issuer Credit Ratings History

10-Jul-2017		BBB+/Stable/A-2
14-Jul-2016		BBB/Positive/A-2
01-Oct-2014		BBB/Stable/A-2
10-Jul-2017	<i>Nordic Regional Scale</i>	--/--/K-1
09-Dec-2009		--/--/K-2
09-Nov-2009		--/Watch Neg/K-1

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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