



ISSUER RATING
Long term

OUTLOOK
Stable



ISSUER RATING
Short-term

Initiation date 29/11/2022
Rating date 29/01/2024

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term rating of KONE Oyj (KONE) at A+, maintaining its Stable outlook, and the short-term rating at EF1+.
- This rating is mainly supported by (i) KONE's position as one of the world's four major manufacturers and services providers in the elevator and escalator (E&E) market, with an estimated market share of c. 19% of the global new equipment market and a sizable maintenance base of over 1.5m units; (ii) the long-term growth drivers of the E&E market such as urbanization, aging populations, as well as stricter safety requirements imposed by local regulators; and (iii) a very strong financial profile, with profitability slightly above its main competitors, solid cash flow generation, and an EthiFinance Ratings-adjusted net cash position of €774m at end-September 2023, resulting in a negative adjusted net leverage ratio that we expect to remain so over our projection period (2023-2025). We note that KONE's dividend pay-out ratio (c.106% of net income in FY22) is considerably higher than that of its main competitors, nonetheless, it is in line with the group's comfortable adjusted net cash position.
- However, the rating is slightly constrained by (i) the group's substantial exposure to the Chinese market (31% of Kone's sales in FY22), which may pose a risk in the event of a sustained downturn in China's construction sector; and ii) the group's slight dependence on property construction cycles, particularly relevant for new installations business where the majority of clients are from the construction and infrastructure industries. In addition, despite its leadership position, KONE is in a market with just a few but quite sizable E&E manufacturers (Otis, Schindler, and Thyssenkrupp Elevator), which means a highly competitive environment that affects pricing power.
- In line with our methodology, the capital goods industry has medium-to-high ESG risks (heatmap score between 3.5 and 3.9), given its impact on the environment, which slightly constrains our industry assessment. Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), positively impacting our financial assessment, and more than offsetting the effect of our industry assessment. The company's favorable ESG score stems from: (i) an excellent governance assessment, particularly benefiting from a good level of board independence, the separation of the roles of chairman and CEO and a good analysis of ESG issues; and (ii) its significant efforts in reducing scope 1 & 2 GHG emissions (-17% in 2022 compared to 2018), water usage and waste production. Nonetheless, the social score remains low, negatively affected by the year-on-year increase in the employee turnover rate as well as the unfavorable three-year trend regarding the injury frequency rate, and average number of training hours per employee.

Issuer Description

Based in Finland, KONE is one of the world's four leading companies in the E&E industry, with an estimated market share of c.19% in the global new equipment market. KONE's business is split between manufacturing and installation of new equipment (46.6% of revenues in the twelve months to end-September 2023), maintenance services for an installed base of over 1.5m units (36.9%), as well as modernization solutions for aging equipment (16.6%). The group has about 63k employees spread over 10 factories, and 8 R&D centers, as well as a network of agents/distributors across 60 countries. The group's largest shareholder is Antti Herlin, a member of the founding family and chairman of the board, who controls 23% of KONE's shares and 62% of its voting rights. KONE has been listed on the Nasdaq Helsinki since 2005, and had a market cap of €20.6bn (market close on 10 January, 2024).

For 2022, KONE generated revenues of €10.9bn (3.7% yoy), with adj. EBITDA of €1.3bn (12.2% margin vs 14.8% in FY21), and an adjusted net cash position of €1.3bn at YE22. For the twelve months to end-September 2023, the group reported revenues of €11.1bn, and an adjusted EBITDA of €1.5bn (13.7% margin).

Credit Metrics Expected Evolution

Our Stable CMEE reflects our expectation that KONE's credit metrics will remain broadly unchanged over the next twelve months.

Liquidity

We assess the liquidity profile of KONE as "Superior", reflecting the company's strong refinancing profile as well as its high liquidity level.

Main Financial Figures

Main financial figures. Millions of €						
	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Turnover	10 514	10 907	11 008	11 271	11 654	3,7%
EBITDA	1 554	1 336	1 496	1 592	1 704	-14,0%
EBITDA Margin	14,8%	12,2%	13,6%	14,1%	14,6%	-2,5pp
EBIT	1 310	1 077	1 235	1 324	1 427	-17,8%
EBIT Margin	12,5%	9,9%	11,2%	11,7%	12,2%	-2,6pp
EBT	1 289	1 054	1 210	1 297	1 400	-18,3%
Total Assets	9 720	9 090	8 886	8 930	8 948	-6,5%
Equity	3 174	2 837	2 857	2 871	2 847	-10,6%
Total Financial Debt	724	674	664	672	683	-6,9%
Net Financial Debt	-2 162	-1 296	-1 040	-1 101	-1 027	40,0%
Equity/TFD	438,7%	420,9%	430,5%	427,6%	416,9%	-17,8pp
NFD/EBITDA (1)	-1,4x	-1,0x	-0,7x	-0,7x	-0,6x	0,4x
Funds From Operations	1 295	1 067	1 187	1 300	1 388	-8,4%
FFO/NFD (1)	-59,9%	-82,3%	-114,2%	-118,0%	-135,2%	-37,4%
EBITDA/Interest	74,0x	58,6x	61,1x	59,0x	62,4x	-15,4x

(1) The "NFD/EBITDA" and "FFO/NFD" ratios are negative due to the group's negative net adjusted debt position.

Credit Rating

Credit Rating	
Business Risk Profile	BBB-
Industry risk assessment	BB+
Industry's ESG	Negative
Competitive Positioning	BBB-
Governance	BBB+
Financial Risk Profile	AAA
Cash flow and leverage	AAA
Solvency	AAA
Company's ESG	Positive
Anchor Rating	A+
Modifiers	
Rating	A+

Rating Sensitivity

• Long-term rating positive factors (↑)

KONE's rating already reflects a strong financial profile. Consequently, a rating upgrade would probably be entailed by an improvement in KONE's competitive positioning, in particular in terms of geographical diversification, mainly by progressively reducing its high exposure to the Chinese market.

The group's short-term rating of EF1+ is already the highest in our short-term rating grid.

• Long-term rating negative factors (↓)

A rating downgrade could be entailed by a sustained deterioration in KONE's financial profile, which could be a consequence of a more aggressive financial policy, particularly in the case of a transformative debt-funded acquisition. For the same business risk profile, an increase in the group's EthiFinance Ratings-adjusted net leverage ratio above 0.5x for a sustained period of time could entail a long-term rating downgrade to A.

A downgrade of the short-term rating to EF1 would be driven by a downgrade of the long-term rating to A, coupled with a change to a Negative CME.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
 - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA_190_V3.Corporate_Rating_Methodology_Long_Term_FR.pdf
 - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA_191.Corporate_Rating_Methodology_Short_Term.pdf
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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