ANDRITZ AG

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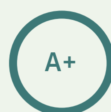
CORPORATE



ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings upgrades the long-term rating of ANDRITZ AG (ANDRITZ) from A to A+, maintaining its Stable outlook.
- Based in Austria, ANDRITZ is a leading global supplier of equipment, plants and systems for the Hydropower, Pulp & Paper, Metals, and Separation industries. The company also offers a comprehensive range of aftermarket services, including maintenance, repairs, advisory, inspections, and audits.
- Our rating upgrade for ANDRITZ is driven by its AAA rated financial profile, supported by a strong net cash position, which is expected to persist throughout our forecast period, reinforcing its financial resilience. Thanks to a lower debt intake in 9M24 along with decreasing interest rates, the interest coverage is averaging above 25.0x level over our analysis period (vs 20.9x in our last review). The capitalisation ratio has exceeded 150%, as projected in our previous review, thanks mainly to accumulated profits along with the repayment of Schuldscheindarlehen and other bank debt, accounting for 40% of total gross debt over FY23 and 9M24. The FCF (without considering the cash inflow from financial assets) in FY23 was negative at €66m, a decrease from €301m in FY22, but is expected to remain around €175m on average in our forecast period, further reinforcing the group's net cash position. We consider that ANDRITZ has strong liquidity, making it one of the most liquid companies among its peers with a cash in hand of €1.5bn, allowing it to withstand economic downturns and market shocks.
- Most of Andritz's 14.8% revenue growth in FY23 was attributed to pulp & paper and metals divisions, accounting for 52% and 20% of the overall growth, respectively. However, the revenue declined by 3% in 9M24 compared to 9M23, primarily due to some headwinds in the pulp & paper segment, which has been impacted by weak market sentiment and lower volumes, affecting asset utilization rates. This has led to CapEx reductions as manufacturers cut spending in response to market conditions and that in turn resulted in the absence of large orders for Andritz's capital business (Paper & Textile and Pulp & Power). Nonetheless, a recovery trend is under way, especially in specialty paper products, where manufacturers are looking to increase their investment allocations. Looking ahead, we anticipate the company to report a 2.8% revenue decline in FY24 when it releases its annual financial statements in a few weeks, in line with management guidance following the Q3 earnings call, alongside stable profitability margins of 8% EBIT and 10.6% EBITDA. For FY25, considering a lower order backlog with a high degree of visibility, revenue is expected to slightly decrease, reflecting the ongoing softness in pulp & paper. Strong growth recovery at a level of 8% is projected from FY26 onwards, contingent upon the full recovery of the pulp & paper sector and a greater order share in ANDRITZ's green portfolio (Hydropower, Environment & Energy), which is expected to benefit from EV transition and sustainability initiatives.
- However, our rating is constrained by the energy-intensive nature of the capital goods sector, which is rated BB+ and negatively impacted by our industry ESG assessment. Additionally, macroeconomic headwinds in the automotive industry pose a challenge, as the metals order intake is highly dependent on European OEMs' CapEx cycles. Furthermore, a full recovery in the pulp & paper segment remains crucial to maintain current margins in the long run.
- Under our methodology, the capital goods industry has medium-to-high ESG risks (heatmap score between 3.5 and 4), given its impact on the environment. Consequently, the sector's ESG rating is downgraded by one notch due to these industry-specific ESG concerns. Heavy industries inherently consume substantial quantities of raw materials, leading to environmental degradation from extraction and transportation. Additionally, the production processes in this industry often result in significant waste generation. While greenhouse gas emissions and heavy water usage are a primary concern, the sectors also face challenges in advancing recycling technologies and processes.
- 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 and the separation of the roles of chairman and CEO; and (ii) a very good social score, factoring in the yoy decreases in employee turnover and accident frequency rates. Despite significant progress in reducing GHG emissions and energy intensity - achieving a 36% reduction in Scope 1 and 2 emissions in 2023 (compared to 2019) and targeting a 50% reduction by 2025 - the environmental score remains low. This is primarily due to high (and increasing) water intensity, a trend also observed among close peers.

Issuer Description

As of end-September 2024, ANDRITZ had around 30k employees and operated in more than 280 locations across 80 countries. The group is present in Europe (28% of FY23 revenues), the Americas (38%, of which 24% in North America) and Asia (30%). Between 2020 and 2023, ANDRITZ's order backlog steadily grew across all business segments, achieving a 13% CAGR (2020-23) while reaching a record €10.4bn by end-September 2023. However, by end-September 2024, the order backlog declined by 9.4% yoy, primarily due to a significant downturn in the pulp & paper sector (representing 47.3% of FY23 sales). ANDRITZ has been publicly listed on the Vienna Stock Exchange since 2001, with a free float of 68.5% of outstanding shares and a market capitalisation of €5.4bn as of 6 February 2025.

In FY23, ANDRITZ generated revenues of €8.6bn (+14.8% yoy), with EBITDA of €910m (10.5% margin vs 10.9% in FY22), and an EthiFinance Ratings-adjusted net cash position of €343m. For the last twelve months (LTM) to end-September 2024, the group reported revenues of €8.5bn and EBITDA of €912m (10.8% margin).

Liquidity

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

Main Financial Figures

Main financial figures. Millions of €.

	FY22	FY23	FY24e	FY25e	FY26e	23v22%
Revenues	7 543	8 660	8 418	8 291	8 955	14.8%
EBITDA	826	910	892	864	896	10.3%
EBITDA Margin	10.9%	10.5%	10.6%	10.4%	10.0%	-0.4pp
EBIT	573	685	673	656	646	19.6%
EBIT Margin	7.6%	7.9%	8.0%	7.9%	7.2%	0.3pp
EBT	540	636	633	629	622	17.7%
Total Assets	8 492	8 497	8 439	8 554	8 738	0.1%
Equity	1 835	2 158	2 364	2 604	2 840	17.6%
Adj Total Financial Debt (1)	1 610	1 500	1 185	1 074	983	-6.9%
Adj Net Financial Debt (1)	-493	-343	-510	-711	-837	30.5%
Equity/TFD (1)	114.0%	143.9%	199.4%	242.4%	289.0%	29.9pp
Adj NFD/EBITDA (1) (2)	-0.6x	-0.4x	-0.6x	-0.8x	-0.9x	0.2x
Funds From Operations	559	712	773	706	743	27.4%
FFO/Adj NFD (1) (2)	-113.5%	-207.9%	-151.7%	-99.4%	-88.8%	-94.5pp
EBITDA/Interest	25.6x	18.6x	22.5x	31.4x	37.3x	-6.9x

(1) The total adjusted debt includes employee benefits

(2) The "NFD/EBITDA" and "FFO/NFD" ratios are negative due to the group's net cash position

Credit Rating

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

Rating Sensitivity

- **Long-term rating positive factors (↑)**

ANDRITZ's rating already reflects a AAA rated financial profile. Consequently, a rating upgrade is unlikely to occur given its current industry risk profile, which is by nature rather stable throughout our analysis period.

- **Long-term rating negative factors (↓)**

A rating downgrade could result from a sustained deterioration in ANDRITZ's financial profile, potentially driven by a less conservative financial policy. This risk is particularly relevant in the case of a transformative, debt-funded acquisition or a substantial share buyback program. If the group were to undertake such expansion operations on a large scale while maintaining the same business risk profile, it could lead to a positive net adjusted leverage, ultimately triggering a downgrade.

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 - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- 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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