KEMIRA OYJ

0109823-0 CORPORATE

BBB+ ISSUER RATING
Long term

OUTLOOK
Stable

EF1 ISSUER RATING
Short-term

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Kemira Oyj's long-term rating at BBB+, maintaining its Stable Outlook. Concurrently, EthiFinance Ratings affirms Kemira Oyj's short-term rating at EF1.
- Our rating affirmation is founded on the company's solid financial risk profile (A+), supported by improved credit ratios (NFD/EBITDA < 1.5x; Equity/Debt > 150%; EBITDA/interest > 10.0x). In FY23, Kemira experienced a revenue decline of c. 6%, primarily driven by (i) lower volumes (-6%), due to unfavorable pulp & paper market conditions, (ii) negative FX impact (-2%), and (iii) limited pricing uplift of 3% (mainly in water treatment). We expect FY24's revenues to decline, negatively impacted by the divestment of the Oil & Gas segment (sales decrease of 12% between 9M23 and 9M24). The EthiFinance Ratings-adjusted net leverage ratio improved from 1.5x in FY22 to 0.9x in FY23 on the back of a strong FCF generation of €208m during the year (vs €91m in FY22). We anticipate further improvements in this ratio, projecting it to reach 0.5x by 2024 driven by consistent FCF generation boosted by the cash inflow of €143m related to the disposal of the Oil & Gas division, before returning to 0.9x again in 2025.
- Kemira is a well-established European player within the diversified chemicals industry, holding a leading position worldwide. It ranks 2nd globally in the pulp & paper industry, with around 16% of the market share, and 1st in water treatment across Europe and North America. The company' product portfolio, including polymers, coagulants, pulp & paper, serves as essential consumables in its customers industrial processes. Europe and the US together accounted for around 69% of FY23 total revenue, with contributions of 44% and 25%, respectively. Given the ongoing uncertainties surrounding the pulp & paper market recovery, which made up 52% of FY23 sales, Kemira is strategically prioritizing its water solutions segment (48.3% of FY23 sales), noted for its strong market growth potential and profitability.
- However, our ratings are constrained by the industry 'BB' risk profile, as well as Kemira's relatively modest size ('BB') compared to larger industry incumbents with sales averaging €11.6bn in FY23. Additionally, uncertainty and price volatility in pulp markets pose challenges to future revenue growth. For instance, the global pulp & paper industry is notably impacted by geopolitical factors, such as the Chinese government's stimulus measures, which can significantly influence market dynamics through significant low pricing compared to European-made paper pulp.
- Under our methodology, the materials & chemicals industry has high ESG risks (heatmap score of between 4 and 5) given its impact on the environment, which constrains our industry assessment. Regarding environmental factors, the industry has a high impact on climate and pollution, with high levels of GHG emissions and pollution generation risks (air, water, hazardous waste).
- We assign the company a positive ESG score (between 0 and 1), consistent with last year's score, driven primarily by ongoing enhancements in energy and carbon efficiency measured over a 3-year trend. Kemira has committed to a 51% cut in greenhouse gas emissions (validated by the SBTi) from its own operations (scope 1 and 2 emissions) by 2030, compared to a 2018 baseline (-17% reached as of FY23). Consequently, our company ESG assessment partially mitigates the negative impact from industry-related ESG considerations, though our overall ESG assessment remains slightly negative.

ISSUER DESCRIPTION

Kemira is a Finnish chemicals company serving customers within the pulp & paper and water-intensive industries. The company develops and commercializes pulp & paper as well as a range of products for paper wet-end, including packaging and board, and tissue products. Its Industry & Water segment offers coagulants, polymers, and other water treatment chemicals in the Oil & Gas sector. The company was founded in 1920 and is headquartered in Helsinki, Finland. It has a footprint in 36 countries with 57 manufacturing sites while it sells its products in over 100 countries. In FY23, the group reported revenues of €3.4bn with adjusted EBITDA of €666m and a net adjusted leverage ratio of 0.9x. Kemira's majority shareholder is Oras Invest, which holds a stake of 21.8%. Kemira's free float represents c. 73% of its total shareholding with a market capitalization of c. €3.0bn as of November 4, 2024.

Kemira's four core product areas are (i) polymers, (ii) coagulants, (iii) sizing chemicals, and (iv) bleaching and pulping chemicals.

LIQUIDITY

We assess the liquidity profile of Kemira Oyj as "Superior" reflecting its strong refinancing profile and its high level of liquidity.

CREDIT METRICS EXPECTED EVOLUTION (CMEE)

Our CMEE is Stable as we expect credit metrics to remain broadly stable in a year's time, on the back of steady FCF generation along with a prudent financial policy.

MAIN FINANCIAL FIGURES

Main financial figures. €m	2022	2023	2024E	2025E	2026E	23vs22
Turnover	3570	3384	2964	2928	2999	-5.2%
Adj EBITDA [(1)]	563	666	571	491	473	18.2%
Adj EBITDA margin [(1)]	15.8%	19.7%	19.3%	16.8%	15.8%	3.9pp
EBIT	347	336	364	286	263	-3.2%
EBIT Margin	9.7%	9.9%	12.3%	9.8%	8.8%	0.2pp
Interest expenses	(42)	(49)	(44)	(34)	(30)	16.5%
Total Assets	3 651	3 489	3 362	3 278	3 346	-4.4%
Equity	1 685	1 684	1 812	1 725	1 799	0.0%
Total Financial Debt [(2)]	1 091	975	780	788	772	-10.7%
Net Financial Debt [(2)]	841	572	310	426	393	-31.9%
Equity/TFD [(2)]	154.4%	172.8%	232.2%	218.9%	232.9%	18.4pp
NFD/ Adj EBITDA [(1) (2)]	1.5x	0.9x	0.5x	0.9x	0.8x	-0.6x
Funds From Operations	495	523	448	397	388	5.6%
FFO/NFD [(2)]	58.9%	91.4%	144.7%	93.1%	98.7%	32.5pp
Adj EBITDA/Interest [(1)]	13.3x	13.5x	13.1x	14.6x	15.9x	0.2x

(1) Adj EBITDA is adjusted for the loss on divestment of the oil & gas business unit and other disposals

(2) The total adjusted debt is inclusive of factoring, pension benefits and bonds adjustments

RATING SNAPSHOT

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

RATING SENSITIVITY

- List of ratings:

LT Rating: BBB+

ST Rating: EF1

Factors that may (individually or collectively) impact the ratings:

- **Positive factors which would influence the ratings (↑).**

We could upgrade our long-term rating should credit metrics improve, in line with our projections. A trigger for such an upgrade could be an adjusted net leverage below 0.6x coupled with an interest coverage ratio equal to or exceeding 20.0x, on a sustainable basis. An upgrade is also subject to the market environment, which is quite seasonal and exhibits some demand fluctuations.

For the same CMEE and liquidity profile, an upgrade of the short-term rating to EF1+ would need at least a 2-notch upgrade of the long-term rating used as a reference.

- **Negative factors which would influence the ratings (↓).**

A downgrade of the long-term rating is likely to be entailed by a deterioration in Kemira's financial profile; this could happen if our net adjusted leverage ratio was to deteriorate over a sustained period of time over c. 1.7x. In our view, this scenario would be entailed by the following: (i) further lower demand in the pulp & paper segment, which would significantly impact the utilization rate and profitability, (ii) the end of the decline in variable costs which used to offset price drops, leading to pressure from rising raw material costs or iii) in the event of a strategic debt-funded acquisition. Furthermore, a deterioration of the business risk profile to BB+ would also entail a capping of the rating to BBB, something which we do not anticipate at present.

A downgrade of short-term rating to EF2 would derive from one-notch downgrade of the long-term reference rating, assorted with either a Negative CMEE or a Stable CMEE and change to a 'Weak' liquidity risk assessment.

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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