



ISSUER RATING
Long term

OUTLOOK
Stable



ISSUER RATING
Short-term

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Rating Action and Rationale

- EthiFinance Ratings affirms KONE Oyj (KONE)'s long-term rating at A+, maintaining a Stable outlook. Concurrently, EthiFinance Ratings affirms KONE Oyj's short-term rating at EF1+.
- Our ratings affirmation is founded on the company's exceptional financial risk profile, rated AAA. The latter is characterized by (i) profitability margins exceeding the market average, with an EBITDA margin of approximately 14% in FY23. (ii) a strong operational cash flow generation in FY23 of €1.1bn (vs €0.5bn in FY22); and (iii) an EthiFinance Ratings-adjusted net cash position of €525m at end-September 2024, resulting in a negative adjusted net leverage ratio, which we expect will remain negative throughout our forecast period (2024-2026).
- KONE is a well-established leader in the global elevator and escalator (E&E) market, ranking among the world's four major manufacturers and service providers. The company holds an estimated market share of approximately 19% in the new building solutions segment as of FY23 and boasts a substantial maintenance portfolio of over 1.6 million units. The affirmation of our long-term rating is further supported by key growth drivers in the E&E market, including urbanization, aging populations, and increasingly stringent safety regulations imposed by local authorities. Additionally, we note that KONE's dividend payout ratio for FY23 stood at 114%, significantly higher than that of its primary competitors. However, this remains consistent with the group's robust adjusted net cash position, which underpins its financial flexibility.
- However, our rating is somewhat constrained by (i) the group's substantial exposure to the Chinese market, which accounted for 26% of FY23 sales. This market experienced a notable reduction in orders, with sales in the new building solutions segment declining by 16% YoY, driven by liquidity issues in the local construction sector that weighed on local demand; and (ii) the group's partial reliance on property construction cycles, particularly in the new building solutions segment, where the majority of clients are from the construction and infrastructure industries. In addition, despite its leadership position, KONE operates in a market dominated by a few but highly sizable competitors, including Otis, Schindler, and Thyssenkrupp Elevator. This concentrated competitive landscape exerts pressure on pricing power and intensifies competition.
- Under 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. 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 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 1.5), positively impacting our financial assessment, and more than offsetting the adverse impact of our industry assessment. The company's favorable ESG score is resulting from (i) an excellent governance framework, demonstrated by a high level of board independence (5 out of 9 members), the clear separation of the roles of chairman and CEO, and a strategic focus on prioritizing ESG issues. However, we note that the company's carbon intensity increased by 14% YoY, driven by higher scope 1 & 2 emissions.

Issuer Description

Based in Finland, KONE is one of the world's four leading companies in the E&E industry, holding an estimated market share of c.19% in the new building solutions segment. KONE's business operations are divided among three main segments: the manufacturing and installation of new equipment (41% of revenues in the twelve months ending September 2024), maintenance services for an installed base of over 1.6m units (41%), and modernization solutions for aging equipment (18%). The group employs more than 63k people and operates through 10 factories, 8 R&D centers, and a network of agents/distributors across 60 countries. Its largest shareholder is Antti Herlin, a member of the founding family and chairman of the board, who holds 23% of KONE's shares and controls 62% of its voting rights. KONE is publicly listed on the Nasdaq Helsinki stock exchange and had a market capitalization of c. €24bn as of 10 January 2025.

In FY23, KONE generated revenues of €10.95bn (+0.4% yoy), with EBITDA of €1.5bn, representing a margin of 13.9% (vs 12.2% in FY22), and an adjusted net cash position of €1.0bn. For the last twelve months to end-September 2024, the group reported revenues of €10.93bn and EBITDA of €1.56bn with a margin of 14.3%.

Credit Metrics Expected Evolution (CMEE)

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 €						
	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	10 907	10 952	11 062	11 441	11 853	0.4%
EBITDA	1 336	1 518	1 563	1 651	1 754	13.6%
EBITDA Margin	12.2%	13.9%	14.1%	14.4%	14.8%	1.6pp
EBIT	1 077	1 248	1 291	1 370	1 463	15.9%
EBIT Margin	9.9%	11.4%	11.7%	12.0%	12.3%	1.5pp
EBT	1 054	1 223	1 263	1 343	1 438	16.1%
Total Assets	9 090	8 731	8 791	8 868	8 987	-4.0%
Equity	2 837	2 752	2 824	2 885	2 958	-3.0%
Adj Total Financial Debt ⁽¹⁾	674	688	667	678	691	2.0%
Adj Net Financial Debt ⁽¹⁾	-1 296	-1 001	-945	-983	-1 022	22.8%
Equity/Adj TFD ⁽¹⁾	420.9%	400.2%	423.2%	425.3%	428.3%	-20.7pp
Adj NFD/EBITDA ⁽¹⁾	-1.0x	-0.7x	-0.6x	-0.6x	-0.6x	0.3x
Funds From Operations	1 101	1 116	1 275	1 346	1 430	1.3%
FFO/Adj NFD ⁽¹⁾	-84.9%	-111.5%	-134.9%	-136.9%	-139.9%	-31.2%
EBITDA/Interest	58.6x	60.0x	55.2x	61.2x	70.7x	1.4x

(1) The total adjusted debt includes the pension benefits.

Credit Rating

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

Rating Sensitivity

- Ratings positive factors (↑)

KONE's rating already reflects a very strong financial profile. Consequently, a rating upgrade would likely 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. In addition, an upgrade of the ESG rating below 1 could trigger a rating upgrade.

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

- Ratings 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.

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 Negative CMEE.

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>
 - 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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