Tear Sheet:

SSAB AB

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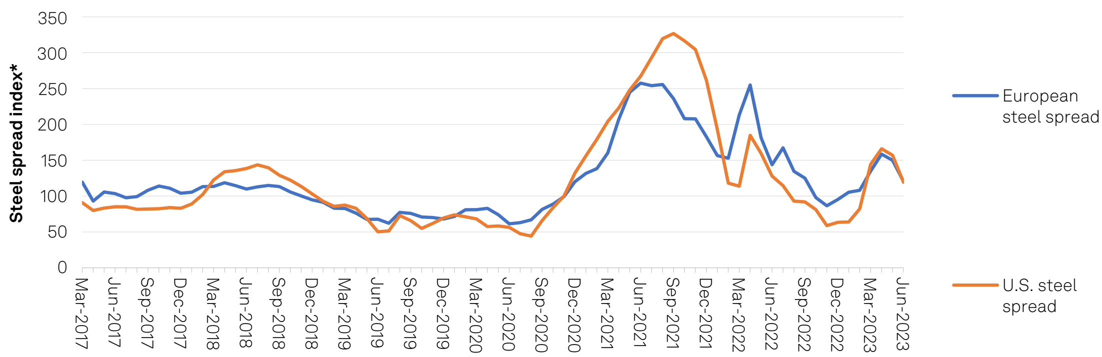
After record profits in 2022, S&P Global Ratings expect further profit normalization for SSAB AB on the back of a cooling European economic environment. Despite some earlier concerns, the Swedish steelmaker reported stronger-than-expected EBITDA of about Swedish krona (SEK) 11.4 billion in first-half 2023, after abnormal profitability of SEK20.4 billion in first-half 2022. As a result, we revised our expectations for full-year 2023 to SEK18 billion-SEK19 billion versus about SEK12 billion in our February 2023 publication. The first-half results reflect stable earnings in SSAB's Americas and special steels divisions, while softer demand in Europe led to lower shipments in construction-related products. In second-half 2023, we expect some cooling of the European economy, with steel spreads close to their pre-COVID-19 levels (see chart) will lead to further profit normalization. SSAB still benefits from higher realized prices, since softer spot prices affect the company only after a delay. We still anticipate that EBITDA will revert to mid-cycle conditions of about SEK8.5 billion in 2024. That said, mixed macroeconomic signals and downside risks, such as a deep recession or another energy price shock related to the Russia-Ukraine war, could weigh on European steel demand and prices into 2024.

A potential downturn will test SSAB's improved cost agility. Despite healthy market conditions, the company continued to take steps to improve its organizational structure and cost agility. Supported by an improved portfolio mix (special/premium steel was 48% of shipments in 2022) in recent years, SSAB expects to lift bottom-of-the-cycle profits from historical levels in an adverse economic scenario. SSAB has already implemented measures at the Ruukki construction division to achieve cost savings of about SEK150 million in 2023, given the weak European construction sector. In total, the company intends to reduce costs more than SEK500 million annually, including layoffs, use of work-hours banks, and restrictions on new hires and other fixed costs.

SSAB will maintain a strong balance sheet. With a reported net cash position of SEK11.7 billion (cash balance SEK24.5 billion) as of June 30, 2023, the company has ample headroom under our 'BBB-' rating and is well equipped to weather a potential downturn. In our view, SSAB will maintain a strong balance sheet to meet its revised net gearing ratio target of between negative 20% and positive 20%. Additionally, in second-quarter 2023, the company issued two five-year senior unsecured sustainability-linked bonds totaling SEK2.1 billion and due in June 2028. Post issuance, SSAB's gross debt was SEK9.6 billion, with a maturity profile of 5.6 years, and the average interest rate increased to 4.2% from 2.3%. With future cash flow no longer going toward major debt repayments, we expect that SSAB will allocate all its operating cash flow to increase capital expenditure (capex) and shareholder returns. In second-quarter 2023, the company paid dividends of SEK9 billion for 2022 at SEK 8.7 per share. We expect similar dividends to continue to 2024.

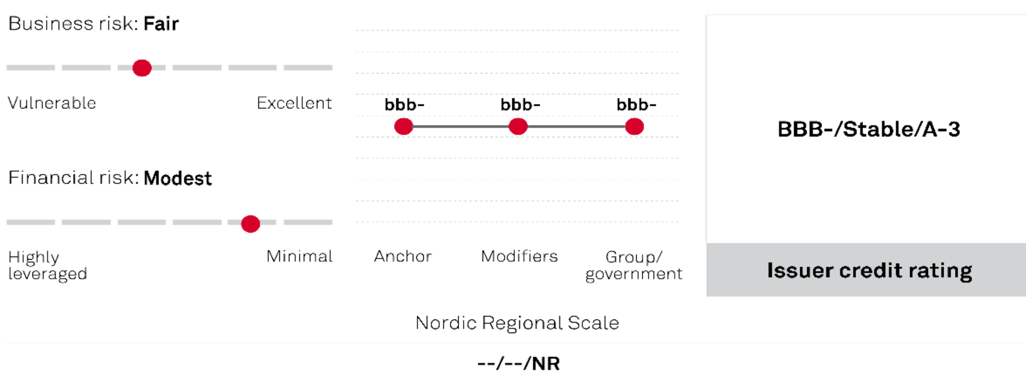
The company's ESG initiatives are progressing. SSAB aims to deliver fossil-free steel at a commercial scale during 2026 and eliminate carbon dioxide emissions around 2030 through the conversion of the Oxelösund plant--using an electric arc furnace (EAF) instead of a basic oxygen furnace--and the conversion of its production assets in Lulea and Raahe into fossil-free mini-mills. We understand that SSAB plans to finalize feasibility studies for the mini mills by early 2024 and move the HYBRIT technology from a pilot to a commercial trial by 2026. In line with this timeline, SSAB took the investment decision to convert its Oxelösund plant in June 2023, investing SEK6.2 billion. Furthermore, SSAB also recently launched completely new fossil free scrap-based steel, SSAB Zero, made from recycled steel and fossil-free electricity and biogas.

Steel spread



*Steel spread index 100 = average spread between August 2017-May 2021. Source: S&P Global Ratings.

Ratings Score Snapshot



Recent Research

- Industry Top Trends Update Europe: Metals and Mining, July 18, 2023
- Update: SSAB AB, Feb. 17, 2023

Company Description

SSAB produces high-strength steel, quenched and tempered steel, as well as strip, plate, and tube products, and provides construction solutions. In 2022, it had sales of SEK129 billion and annual production capacity of 8.8 million tons in Sweden, Finland, and the U.S. In first-half 2023, sales totaled SEK64 billion. The company serves several end markets--such as industrial applications, auto, heavy transport, construction, and energy--and operates through five divisions:

- Special Steels (about 28% of 2022 EBITDA);
- Europe (31%);
- Americas (37%);
- Tibnor (2%); and
- Ruukki Construction (2%).

SSAB is headquartered in Stockholm, and its shares are traded on NASDAQ Stockholm and Helsinki, with LKAB holding 11% and the government of Finland 6% of the shares. The remainder are free float. Notable rated peers include U.S. Steel Corp., BlueScope Steel Ltd., and ArcelorMittal.

Outlook

The stable outlook reflects the company's very comfortable debt position, resulting in ample headroom to address adverse industry conditions without putting pressure on the rating.

Under our current base case, we project EBITDA of about SEK18 billion–SEK19 billion in 2023 and SEK8.5 billion under normal industry conditions, which, together with limited reported net debt, would lead to funds from operations (FFO) to debt of above 60% (under normal market conditions), which we consider commensurate with the rating.

Downside scenario

We view rating pressure as remote in the coming 18-24 months. This is because we expect market conditions to normalize but stay broadly supportive, which alongside the current net cash position, should help SSAB maintain credit metrics in line with our benchmarks for the rating.

However, we could take a negative rating action if, over time, we saw a change in the company's financial policy, namely through increasing dividends or significant acquisitions, resulting in a debt spike and adjusted FFO to debt falling and remaining below 60%.

Upside scenario

We think an upgrade is unlikely in the near future, owing to SSAB's current business profile, but ratings upside might build if the company shows material inorganic growth.

Key Metrics

SSAB AB--Key Metrics

	2021a	2022a	2023e	Midcycle steel industry conditions
Iron ore price ($/ton)	160	120	110	90
Eurozone GDP growth (%)	5.3	3.6	0.6	--
U.S. GDP growth (%)	5.9	2.1	1.7	--
Eurozone steel demand growth (%)	--	--	(0.4)	--
U.S. steel demand growth (%)	--	--	1.6	--
Adjusted EBITDA (bil. SEK)	22.1	32.4	18-19	8.5
Adjusted EBITDA margin (%)	23.0	25.1	17-18	--
Adjusted debt to EBITDA (x)	0.2	N.M.	N.M.	<1.0
Adjusted FFO to debt (%)	>60	N.M.	N.M.	>60
Capex (bil. SEK)	3.4	4.9	5.0	3.2***
FOCF (bil. SEK)	10.2	15.6	12-13	3.0-4.0
Dividends and Share buybacks (bil. SEK)	0.0	5.4	9-11*	40%**
Adjusted debt (bil. SEK)	4.6	0.0	0.0	7.5*****
Cash position (bil. SEK)	13.8	24.9	>20.0	--
Reported net debt (includes leases) (bil. SEK)****	(1.3)	(14.2)	(12)-(13)	4.0*****

SEK--Swedish krona. FFO--Funds from operations. FOCF--Free operating cash flow. a--Actual. e--Estimate. N.M.--Not meaningful.

*In addition to the paid dividend of about SEK9 billion in 2023, we assume a cash outflow of SEK3 billion-SEK4 billion associated with the repurchase of about 5%-6% of outstanding shares at about SEK65 per share until year-end 2023.

**Dividend policy: 40% of the previous year's net income.

***Average capex over 2018-2022 was about SEK3.2 billion per year. Over the coming decade, capex will be driven by SSAB's green transformation. Indicative investment volume is about SEK45 billion between 2022-2030 for the fossil-free mini-mill conversion at the Raahe and Lulea sites. The confirmed conversion of Oxelösund plant will come with a price tag of about SEK6.2 billion until 2026. SSAB's 2023 capex guidance is about SEK5 billion.

**** Reported net debt = gross debt plus lease liabilities minus cash and cash equivalents.

*****Sustainable adjusted debt and sustainable reported net debt over the medium term for the current rating level. Under our estimation, SSAB can achieve funds from operations (FFO) to debt higher than 60% under midcycle conditions and more than 45% during the bottom of the cycle, assuming a trough EBITDA level of SEK4.5 billion. This EBITDA level is based on the company's results in 2015-2016. In practice, the company's trough EBITDA could be much higher because improvements in its business model should result in better profitability and less volatility.

Peer Comparison

SSAB AB--Peer Comparisons

	SSAB AB	ArcelorMittal	United States Steel Corp.	Steel Dynamics Inc.	Nucor Corp.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB-/Positive/A-3	BB-/Stable/NR	BBB/Stable/--	A-/Stable/A-1
Local currency issuer credit rating	BBB-/Stable/A-3	BBB-/Positive/A-3	BB-/Stable/NR	BBB/Stable/--	A-/Stable/A-1
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	SEK	SEK	SEK	SEK	SEK
Revenue	128,745	903,765	219,580	232,045	432,723

SSAB AB--Peer Comparisons

EBITDA	32,364	155,128	41,258	57,873	122,883
Funds from operations (FFO)	25,943	117,774	36,320	45,524	92,904
Interest	476	6,731	2,655	1,161	2,316
Cash interest paid	474	6,451	2,415	1,260	2,564
Operating cash flow (OCF)	20,594	119,914	36,622	46,535	105,100
Capital expenditure	4,948	41,654	17,825	9,310	20,305
Free operating cash flow (FOCF)	15,646	78,260	18,797	37,225	84,795
Discretionary cash flow (DCF)	10,233	40,734	9,947	15,981	46,304
Cash and short-term investments	24,900	96,943	36,525	23,523	50,637
Gross available cash	24,900	96,943	36,525	23,523	50,637
Debt	0	169,637	45,219	9,638	22,124
Equity	67,190	613,701	107,481	84,390	203,995
EBITDA margin (%)	25.1	17.2	18.8	24.9	28.4
Return on capital (%)	40.5	17.7	23.0	59.1	53.3
EBITDA interest coverage (x)	68.0	23.0	15.5	49.8	53.1
FFO cash interest coverage (x)	55.7	19.3	16.0	37.1	37.2
Debt/EBITDA (x)	0.0	1.1	1.1	0.2	0.2
FFO/debt (%)	NM	69.4	80.3	472.3	419.9
OCF/debt (%)	NM	70.7	81.0	482.8	475.0
FOCF/debt (%)	NM	46.1	41.6	386.2	383.3
DCF/debt (%)	NM	24.0	22.0	165.8	209.3

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Fair
Country risk	Very Low
Industry risk	Moderately High
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- 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: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011