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Summary:

SSAB AB

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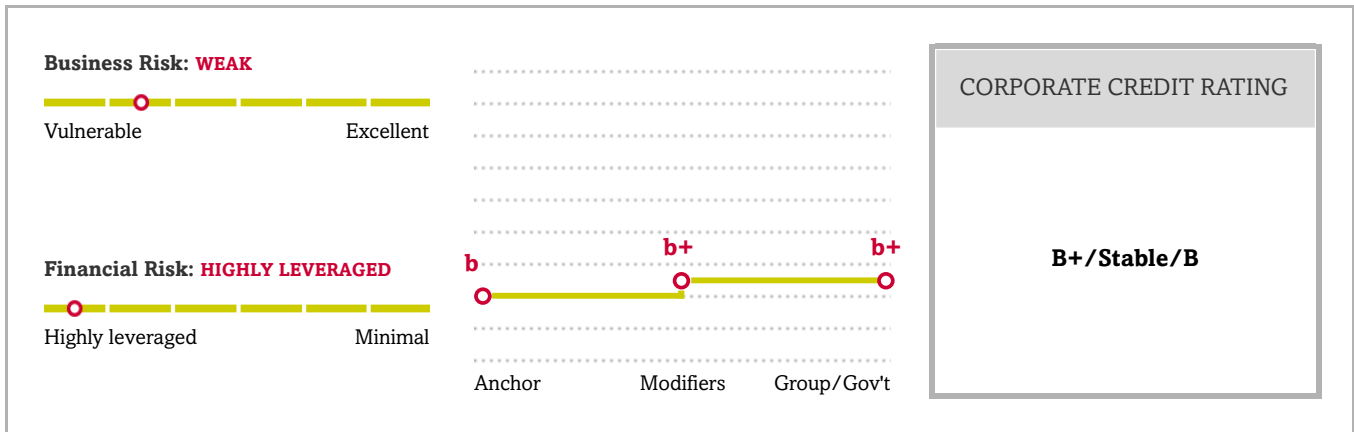
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Summary:

SSAB AB



Rationale

Business Risk: Weak	Financial Risk: Highly leveraged
<ul style="list-style-type: none"> • High cyclicality of the steel industry, with a focus on end-markets, such as heavy transportation, construction, machinery, and mining. • Strong market position in special-grade steel products, U.S. heavy plate, and the Nordic region. • Weak profitability track record. 	<ul style="list-style-type: none"> • Weak credit metrics for the rating. • Positive discretionary cash flow generation. • Strong liquidity position.

Outlook: Stable

The stable outlook on steel producer SSAB AB reflects S&P Global Ratings' expectation that, post the planned equity raise and debt refinancing, SSAB will maintain strong liquidity and an adjusted ratio of debt to EBITDA of about 5x. We also regard positively the improved market conditions in Europe and the U.S. in the first half of 2016, helped by antidumping measures taken by the relevant authorities.

Downside scenario

We could lower our ratings on SSAB if adjusted debt to EBITDA remains higher than 5x. This could occur if market conditions do not improve significantly, resulting in persistent stable or negative discretionary cash flow. Moreover, we could remove the one-notch uplift we currently factor into the ratings on SSAB for its strong liquidity if it weakened, potentially prompting a downgrade.

Upside scenario

We could consider an upgrade if SSAB were to sustainably maintain lower leverage than currently envisaged, with debt to EBITDA of less than 4x and funds from operations (FFO) to debt above 20%, in the current low- to mid-cycle environment. Stronger credit metrics would likely be a prerequisite for an upgrade in a more accommodating steel industry.

S&P Global Ratings' Base-Case Scenario**Assumptions**

- A marginal year-on-year improvement in EBITDA to about SEK4.0 billion (€435 million), with unlocked synergies in line with the company's public guidance offsetting the negative impact of expected weaker market conditions on average for 2016, compared with 2015.
- Capital expenditures (capex) of SEK1.5 billion in 2016 and SEK2.0 billion in 2017.
- No dividend payment in 2016, and only a token payout in 2017.
- SEK5 billion in proceeds from equity issuance.

Key Metrics

	2015a	2016e	2017e
Debt to EBITDA *	7.2x	5x-6x	4x-5x
DCF (bil. SEK)	2.256	Positive	Positive

*S&P Global Ratings' adjusted. DCF--Discretionary cash flow. a--Actual. e--Estimate.

Business Risk: Weak

SSAB operates in the highly cyclical steel industry, with end-markets such as heavy transportation, construction, machinery, and mining. Volumes typically move in line with GDP over the long term, and can be volatile in the short term.

SSAB's key strength is its strong market position in special-grade steel products. For example, the company has a global market share of about 40% in quenched and tempered steels, along with about 5% in some advanced high strength steels, and 20%-25% market share in heavy plates in North and South America, according to its own estimates. Following the merger with Ruukki, it also commands a 40%-50% share in the flat carbon steels and tubes market in the Nordic region.

In our opinion, the main challenges for SSAB are the risk of new specialty grade steel capacity from competitors and the pace of take-up of special-grade steel products by equipment manufacturers.

S&P Global Ratings' Base-Case Operating Scenario

SSAB expects somewhat higher shipments and prices in the second quarter of 2016 than in the previous quarter. As such, we continue to anticipate 2016 full-year EBITDA of about SEK4 billion.

Financial Risk: Highly leveraged

We continue to view favorably SSAB's 30% net debt-to-equity target, which is significantly lower than 53% on March 31, 2016. The company has generated positive discretionary cash flow over the past three years, accomplishing this in 2015 through positive working capital movements and not paying dividends. Shareholders have supported lower dividend payments, and continue to do so--by underwriting the company's planned SEK5 billion share issuance--when cash generation is weak.

S&P Global Ratings' Base-Case Cash Flow And Capital Structure Scenario

The comprehensive debt refinancing package helps to underpin our assessment of SSAB's liquidity as strong, reduce short term-debt maturities, and increase the average debt duration to 5.1 years from 4.3 years currently. We also regard positively SSAB's plan to reduce debt by another SEK5 billion through divestment of noncore assets and own cash flow generation by the end of 2017.

Liquidity: Strong

We assess SSAB's liquidity as strong, based on our projection that the company's liquidity sources will cover its uses by more than 2x over the next 24 months. Underpinning our assessment is the company's revised debt maturity profile, with an average term of 5.1 years. SSAB also has considerable undrawn committed long-term bank lines. Furthermore, the company passes the new net debt to equity covenant of 60% comfortably in this assessment.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • Cash and cash equivalents of SEK2.6 billion on March 31, 2016. • Availability under long-term committed credit lines of SEK6.9 billion, pro forma the contemplated refinancing. • Underwritten share issuance of SEK5 billion. • FFO of about SEK3.2 billion over the coming 12 months, by our estimate. 	<ul style="list-style-type: none"> • Short-term debt of SEK6.0 billion on March 31, 2016. • Capex of about SEK1.5 billion in 2016. • A small dividend in 2017, taking into account that shareholders have demonstrated willingness to forego dividends when needed.

Debt maturities: (on Dec. 31, 2015)

- 2016: SEK6.0 billion (including commercial paper)
- 2017: SEK5.8 billion
- 2018: SEK3.5 billion
- 2019: SEK4.9 billion
- 2020: SEK2.7 billion
- Thereafter: SEK3.8 billion

Ratings Score Snapshot**Corporate Credit Rating**

B+/Stable/B

Business risk: Weak

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Weak

Financial risk: Highly leveraged

- **Cash flow/Leverage:** Highly leveraged

Anchor: b

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (+1 notch)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Recovery Analysis

Key Analytical Factors

- SSAB's senior unsecured debt has an issue rating of 'B+' and recovery rating of '3'. The recovery rating is underpinned by SSAB's substantial asset base and minimal prior-ranking liabilities, offset by the unsecured nature of the debt and substantial debt at pari-passu level. Recovery is in the lower half of the 50%-70% range, and may come under downward pressure if SSAB incurs additional debt.
- In our hypothetical payment default scenario, we take into account our view of the cyclical nature of the markets in which SSAB operates, and sustained weakness in steel demand that leads to a drop in volumes, utilization rates, and prices.
- We value SSAB as a going concern, given its strong position in the heavy plate market in North America, its dominant market position in special-grade steel products, and its highly competitive assets.

Simulated Default Assumptions

- Year of default: 2018
- EBITDA at emergence: SEK3.3 billion
- Implied enterprise value multiple: 5.0x
- Jurisdiction: Sweden

Simplified Waterfall

- Gross enterprise value at default: SEK16.6 billion
- Administrative costs: SEK1.2 billion
- Net value available to creditors: SEK15.4 million
- -----
- Priority claims: SEK0.7 billion *
- Senior unsecured debt claims: SEK28.5 billion *
- --Recovery expectation: 50%-70% (lower half of range)

*All debt amounts include six months of prepetition interest.

Related Criteria And Research

- Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Recovery: Revised Revolver Usage Assumptions For Recovery Analysis In Corporate Ratings, Nov. 20, 2014
- Key Credit Factors For The Metals And Mining Upstream Industry, Dec. 20, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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