

Update: SSAB AB

February 17, 2023

This report does not constitute a rating action.

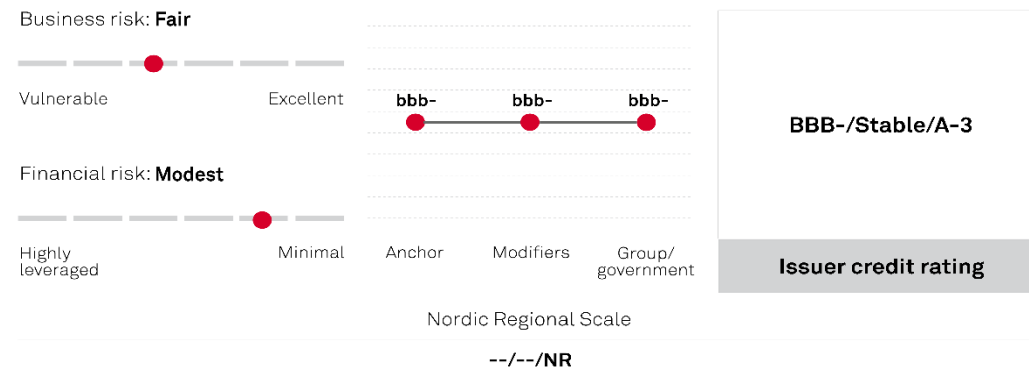
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Ratings Score Snapshot



Credit Highlights

Overview

Key strengths

Midsized steel producer (2022 crude steel production was 7.2 million tons) in a highly fragmented industry.

Good position in the Nordic region and the U.S. plate market, with some diversification through production of standard and special-grade steels via facilities in Europe and North America.

Key risks

Volatile earnings from exposure to the highly competitive and cyclical steel industry, which is sensitive to macroeconomic conditions, global trade flow of materials, and measures introduced by different governments.

High capital expenditure (capex) with potential for project delays and execution risks, mainly related to the environmental, social, and governance (ESG) strategy such as the Oxelösund arc furnace conversion.

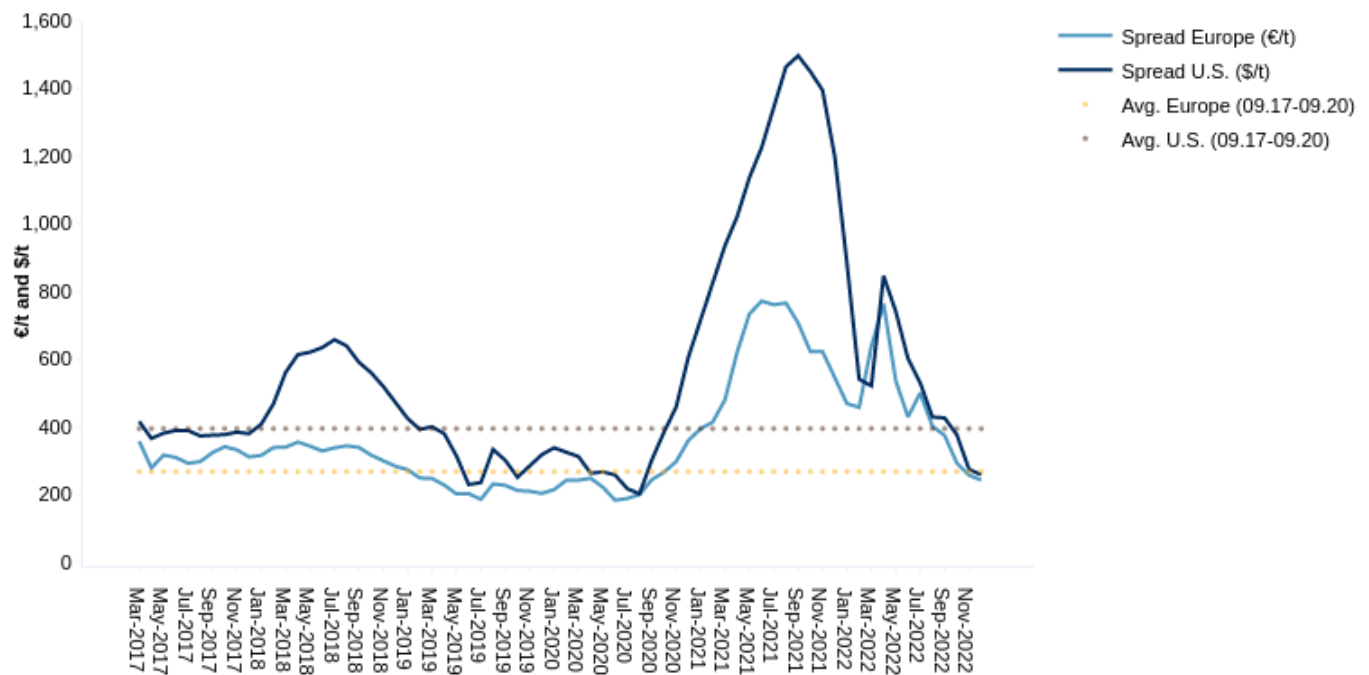
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Strong liquidity together with a reported net cash position of about Swedish krona (SEK) 14.3 billion (cash balance SEK24.9 billion).

SSAB AB benefited from extraordinary industry conditions in 2022, which was another record year. Due to extraordinary market dynamics leading to all-time-high steel prices in Europe and the U.S., SSAB closed its financial year 2022 with reported EBITDA reaching SEK33 billion versus SEK22 billion in 2021. After peak demand for steel, the industry experienced midcycle conditions in the second half (see chart below). However, the lag between SSAB's backlog and spot prices protected the company's earnings, with EBITDA of SEK12.2 billion in second-half 2022, and should also support a relatively strong first-half 2023. Although conditions could be slightly less robust in second-half 2023 depending on the severity of recessions in key markets. Under S&P Global Ratings' calculations, SSAB will achieve EBITDA of about SEK12 billion in 2023. With limited visibility starting 2024, we use our multiyear average of SEK8.5 billion.

Steel Spread*

In Europe and the U.S.



*S&P Global Ratings estimation. \$/t - Per ton.

SSAB's manageable net debt position and strong liquidity should allow it to weather adverse macroeconomic conditions in 2023.

With a reported net cash position reaching SEK14.3 billion (cash balance SEK24.9 billion) the company is well equipped to weather a potential slowdown, especially in European markets, and handle upcoming maturities of about SEK1.7 billion in 2023 and about SEK2.0 billion in 2024. In our view, the company will maintain a very strong balance sheet, although we view its financial policy as a benchmark over the long term and less of a constant concrete objective. In our assumptions, we incorporate the recent track record, current market conditions, and its transformation plans to become a fossil-free steel producer. In turn, we assume a multi-year average EBITDA of about SEK8.5 billion, which should allow funds from operations (FFO) to debt of higher than 60% under midcycle conditions. As the company continues to improve its portfolio (including tackling its ESG strategy), multi-year average EBITDA is expected to further increase.

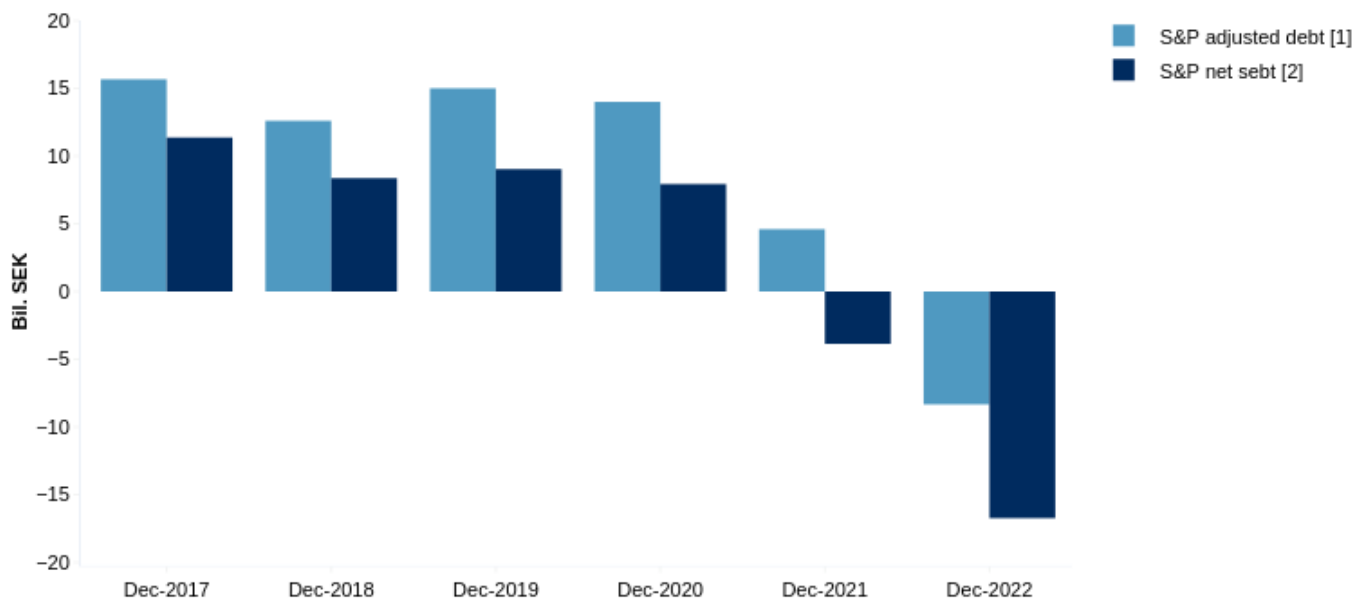
SSAB's Averages

Bil. SEK	Midcycle	Bottom of the cycle
EBITDA	About 8.5	About 4.5*
Sustainable reported net debt over the medium term	4	4
Sustainable adjusted debt over the medium term	7.5	7.5
S&P Global ratings-adjusted funds from operations to debt (%)	>60	50-55

*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. SEK--Swedish krona.

The company's free cash flow will benefit shareholders. With future cash flow no longer going toward debt repayments (or at least to a lesser extent), we expect that SSAB will allocate all its operating cash flows to increase capex and returns to shareholders.

S&P Global Ratings Reported And Adjusted Net Debt



[1] S&P Adjustments include receivables securitization, lease liabilities, asset retirement obligations, pensions and guarantees. Adjustments for 2022 are not available yet, the 2022 adjustments are rolled over 2021 figures. [2] Net debt = Gross debt minus cash. SEK--Swedish krona.

SSAB's ample net cash position means it can focus on its ESG transformation. The company, one of the biggest single contributors to Sweden's greenhouse gas (GHG) emissions, announced an acceleration of its green transition with an additional SEK45 billion

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zero-emissions initiative last year. SSAB's transition strategy aims to deliver on-scale fossil-free steels to the market from 2026 and largely 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. SSAB progressed on the implementation of its strategy over 2022, notable obtaining approval from the local authorities for the necessary high-voltage power line at Oxelösund. We understand that the company plans to finalize feasibility studies for the planned mini-mills in Lulea and Raahe and move the HYBRIT technology from a pilot to a commercial trial by 2026. The company's 2023 capex projection (maintenance and strategic investment) is SEK5 billion, versus SEK4.1 billion in 2022, and mainly related to the ramp-up of the Oxelösund conversion. We understand that court appeals could postpone the completion date for the Oxelösund plant and expect similar challenges to revamp the Nordic plants. Yet, we believe the new project will further strengthen SSAB's position as a first mover in fossil-free steel.

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 SEK12 billion in 2023 and SEK8.5 billion under normal industry conditions, which, together with limited reported net debt, would lead to 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.

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. 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 EBITDA);
- Europe (31%);
- Americas (37%);
- Tibnor (2%); and
- Ruukki Construction (2%).

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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.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- Climate transition risks - Waste and pollution					- N/A					- N/A				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit analysis of SSAB, similarly to its steel-making peers. Steel production is a very energy-intensive process, emitting large amounts of carbon dioxide. The company is currently investing in the conversion of its basic oxygen furnace in Oxelösund (others will follow) and has started a hydrogen pilot with a commercial trial in 2026, which would cut SSAB's emissions in Sweden by 25% (SSAB is one of the biggest contributors), becoming the first fossil-free steel producer in the world, if successful.

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

Related Research

Ratings Detail (as of February 17, 2023)*

SSAB AB

Issuer Credit Rating	BBB-/Stable/A-3
<i>Nordic Regional Scale</i>	--/--/NR

Issuer Credit Ratings History

28-Jan-2022	BBB-/Stable/A-3
23-Jul-2021	BB+/Positive/B
26-Feb-2021	BB+/Stable/B
23-Nov-2020	BB+/Watch Neg/B
31-Mar-2020	BB+/Negative/B
27-May-2019	BB+/Stable/B
25-Jun-2018	BB/Positive/B
14-Apr-2011	--/--/NR
06-Dec-2010	--/--/K-4
12-Nov-2010	--/Watch Neg/K-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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