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Research Update:

SSAB AB Liquidity Score Revised To 'Adequate'; Ratings Affirmed

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Overview

- We have reassessed SSAB's liquidity as "adequate" from "strong" due to its significant short-term debt maturities in 2015, but none of the ratings on SSAB are affected by the assessment change.
- We have affirmed our 'BB-' corporate credit rating on SSAB.
- The stable outlook reflects our expectation that SSAB's operating performance will improve in 2015 and 2016 as synergies from the merger with Ruukki are realized. The outlook also reflects our view that the merger should support a gradual strengthening of SSAB's key credit ratios--most notably FFO to debt to 15% or above in the course of 2015.

Rating Action

On May 29, 2015, Standard & Poor's Ratings Services affirmed its 'BB-' long-term corporate credit rating on Swedish steelmaker SSAB AB. The outlook remains stable.

At the same time, we affirmed our 'BB-' issue ratings on SSAB's senior unsecured debt. The recovery rating on this debt is unchanged at '3', indicating our expectation of meaningful (50%-70%) recovery in the event of a payment default.

Rationale

On May 29, 2015, Standard & Poor's revised its assessment of SSAB's liquidity to "adequate" from "strong" due to significant short-term debt maturities in 2015. None of the ratings on SSAB were affected by the assessment change.

SSAB had cash and cash equivalents of 1.8 billion Swedish krona (SEK) and availability under committed credit lines of SEK8.6 billion at the end of first-quarter 2015. Along with our estimated funds from operations of SEK4.5 billion-SEK5.0 billion over the coming 12 months, this covers liquidity uses of short-term debt of SEK7.3 billion, capex of about SEK2.5 billion, and peak working capital swings of about SEK500 million by about 1.5x. We expect the ratio to be stronger at the end of second-quarter 2015.

The rating on SSAB incorporates the inherent cyclicity of the steel industry, with end markets such as heavy transportation, construction, machinery, and mining, in which SSAB participates. SSAB's strength lies in its strong market position in special-grade steel products and the U.S. heavy

plate market as well as its position in the Nordic region, enhanced by the recent merger with Ruukki. SSAB's credit metrics are currently weak for the given financial risk score, though we view favorably the company's 30% net debt to equity target, which is significantly lower than the current 55%. We also believe that synergies with Ruukki should deliver a sustainable improvement to SSAB's profit margins.

Ratings Score Snapshot

Corporate credit rating: BB-/Stable/B

Business risk: Fair

- Country risk: Very low
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Neutral (no impact)

Recovery Analysis

Key analytical factors

- The various senior unsecured debts have an issue rating of 'BB-' and a 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 debt and substantial debt at the pari pasu level. The recovery rating is at the low end of the 50%-70% range and could come under downward pressure if SSAB incurs any additional debt.
- Our hypothetical payment default scenario is triggered by our view of the cyclical nature of the markets in which SSAB operates and by sustained weakness in steel demand leading to a drop in volumes and prices. This, in turn, reduces utilization rates as new capacity in global steel comes on stream.
- 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: SEK 3.3 billion
- Implied enterprise value multiple: 5.0x
- Jurisdiction: Sweden

Simplified waterfall

- Gross enterprise value at default: SEK 16.6 billion
 - Administrative costs: SEK 1.2 billion
 - Net value available to creditors: SEK 15.4 million
 - Priority claims: SEK0.7 billion*
 - Senior unsecured debt claims: SEK 28.5 billion*
 - --Recovery expectation: 50%-70% (lower half of range)
- *All debt amounts include six months' prepetition interest.

Related Criteria

- Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009

Ratings List

Ratings Affirmed

SSAB AB

Corporate Credit Rating BB-/Stable/B

SSAB AB

Senior Unsecured BB-
Recovery Rating 3L

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