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Research Update:

Metsa Board Corp. Outlook Revised To Negative On Weakening Credit Metrics; 'BBB-/A-3' Ratings Affirmed

August 25, 2025

Rating Action Overview

- Weaker-than-expected demand for paperboard and pulp, higher wood costs, and negative foreign exchange movements will undermine Metsa Board Corp.'s S&P Global Ratings-adjusted EBITDA in 2025. We now forecast it will be €65 million-€75 million, down from €163 million in 2024. This will result in S&P Global Ratings-adjusted leverage of 4.5x-5x in 2025 (2.1x in 2024), which we do not consider as commensurate with the current 'BBB-' rating.
- We anticipate that Metsa Board's parent company, Metsa Group, will face a similar situation in 2025, as demand for wood products remains subdued. We forecast debt to EBITDA of about 4.0x for Metsa Group in 2025.
- However, both companies have launched measures to cut costs and improve profit, and we expect these to significantly boost EBITDA in 2026 and 2027. We assess that, together with expected capital expenditure (capex) reductions and working capital initiatives, this will support modest free operating cash flow (FOCF) over the next two years.
- We therefore revised the outlook on Metsa Board Corp. to negative from stable. We also affirmed our 'BBB-/A-3' ratings on Metsa Board and our 'BBB-' rating on its senior unsecured notes due 2027.
- The negative outlook indicates our view that Metsa Board and its parent company Metsa Group will face challenging market conditions in 2025-2026, threatening its recovery to leverage below 2x. In this context, the completion of the cost reduction program may not be sufficient, particularly if demand for paperboard weakens or pulp prices remain low.

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Rating Action Rationale

We now expect Metsa Board's adjusted debt to EBITDA will peak at about 4.5x-5.0x in 2025 (from 2.1x in 2024), versus our previous expectation of an improvement toward 1.4x. We now forecast that the company's S&P Global Ratings-adjusted EBITDA in 2025 will be €65 million-€75 million, down from €163 million in 2024 and our previous forecast of €212 million. This reflects the prolonged weak demand for paperboard in Europe and excess supply. The latter is explained by recent capacity additions in Europe and increased competition from Asian imports. Demand was particularly low in the first half of 2025 due to low consumer confidence, especially in the U.S. (accounting for about 25% of Metsa Board's sales in 2024) as a result of tariff-related uncertainties. Following the drop in pulp prices in the second quarter of 2025, we now also anticipate ongoing weak demand and prices for pulp for the remainder of the year. We now forecast leverage to peak at about 4.7x by year-end.

When calculating Metsa Board's adjusted EBITDA, we remove its share (negative €8.8 million in 2024) of Metsa Fibre's results from our EBITDA calculation and add the dividends it received from that entity (€9.8 million in 2024).

We expect a significant EBITDA recovery in 2026 as a result of cost reduction initiatives. We estimate that adjusted EBITDA will rebound to about €200 million in 2026 from the €67 million expected in 2025. We anticipate a €100 million EBITDA improvement from cost-saving initiatives, which are due to be implemented shortly. We also expect a €30 million EBITDA uplift from 2026 onward from the closure of the board mill in Tako, Finland in June 2025. Our base case does not assume any material improvement in market conditions.

Despite lower EBITDA expectations, our FOCF forecast for 2025 remains broadly unchanged as Metsa Board reduces its working capital needs and curbs expansionary capex. We forecast FOCF of about €40 million in 2025, compared with €50 million in our previous estimate. This will be supported by a €70 million working capital-related cash inflow--as Metsa Board plans to reduce working capital needs by €150 million in the second half of 2025, compensating for a €78 million outflow in the first half--and low capex of about €100 million, versus our previous forecast of €150 million. On top of the estimated annual maintenance capex of €50 million-€60 million, we assume that growth capex will remain about €40 million-€60 million over the next 24 months due to weak market conditions.

There is minimal headroom under our 'bbb-' assessment of Metsa Group's creditworthiness. We continue to assess Metsa Board as a highly strategic subsidiary of Metsa Group, given the close integration and strong commitment of support from the parent. As a result, our rating on Metsa Board is capped by Metsa Group's group credit profile. We estimate that Metsa Group's credit metrics will be hampered by weak demand in the paperboard, pulp and wood divisions. We forecast S&P Global Ratings-adjusted debt to EBITDA of about 3.5x-4.0x in 2025. We assume an improvement to below 2x in 2026, but believe this depends on the seamless delivery of announced cost-saving initiatives and an improvement in the pulp market.

We expect to reassess the negative outlook or the rating once we have a better understanding of 2026 market conditions. Our assessment will also include Metsa Board's strategy and financial policy and targets. We understand that the company plans to update these in early 2026.

Outlook

The negative outlook reflects our view that Metsa Board and its parent company Metsa Group will face challenging market conditions in 2025-2026, threatening its recovery to leverage below

2x. In this context, the completion of the cost reduction program may not be sufficient, particularly if demand for paperboard weakens further or pulp prices remain low.

Downside scenario

We could lower our rating on Metsa Board if we revised down our group credit profile assessment of Metsa Group to 'bb+' or lower. We could also downgrade Metsa Board if its S&P Global Ratings-adjusted debt to EBITDA failed to recover to below 2.0x.

This could happen if Metsa Board's profitability did not improve as a result of the announced cost saving initiatives, or its operational performance continued to weaken, for example, due to sustained muted demand for paperboard products, a further increase in wood prices, or operational challenges.

Upside scenario

We could revise the outlook back to stable if Metsa Board successfully delivered on its cost reduction and efficiency program, materially strengthening EBITDA and funds from operations (FFO) generation. This should result in adjusted debt to EBITDA improving to below 2x on a sustained basis.

We would not revise the outlook to stable unless Metsa Group's financial performance also strengthened such that its credit metrics came back in line with its 'bbb-' assessment, including adjusted debt to EBITDA decreasing and staying below 2x.

Company Description

Finland-based paperboard and pulp producer Metsa Board generated €1.9 billion in sales in 2024, mostly from Europe and the U.S. The company produces folding boxboard (57% of sales), white kraftliner (25%), and market pulp (14%). Electricity sales and by-product sales from pulp production account for the remaining 4% of its revenue. Its paperboards are used in packaging applications in the consumer goods, retail, and food service industries. Metsa Board has the capacity to produce 2.1 million tons of paperboard and 1.7 million tons of pulp and bleached chemi-thermo mechanical pulp a year. The company has seven mills, located in Finland and Sweden, and about 2,300 employees. It is listed on Nasdaq Helsinki.

Our Base-Case Scenario

Assumptions

- Real GDP growth of 0.8% in 2025 and 1.1% in 2026 in Europe; 1.7% in 2025 and 1.6% in 2026 in North America; and 4.2% in 2025 and 4.2% in 2026 in Asia-Pacific.
- A decline in revenue of 3% in 2025 due to subdued paperboard demand on the back of weak consumer confidence, including due to uncertainties related to U.S. import tariffs. About 25% of Metsa Board's sales relate to the U.S. We anticipate broadly stable paperboard prices. The expected decline in revenue is also due to by lower pulp prices and volume as demand remains weak. In 2026, we forecast revenue growth of 5% thanks to some recovery in paperboard demand and prices. We assume a modest recovery in pulp prices and a marginal improvement in pulp volumes.

- S&P Global Ratings-adjusted EBITDA margin to decrease to 3.5%-4.0% in 2025 from 8.4% in 2024, due to weaker fixed cost absorption (lower paperboard volumes), and higher wood and logistic costs, which are not passed onto selling prices. Profitability will also be undermined by the depreciation of the U.S. dollar and the lack of dividends from Metsa Fibre (€10 million received in 2024). In 2026, we forecast that cost savings and benefits from the permanent shutdown of the Tako mill will support adjusted EBITDA margin improving to 10%-10.5%. We do not assume any dividends from Metsa Fibre in 2026.
- Capex of about €100 million in 2025, including €60 million for maintenance activities and about €40 million for the upgrade of paperboard machines in Simpele. Forecast capex of about €120 million in 2026 includes some payments for the modernization of Simpele's folding boxboard mill. We do not expect any major investment in 2026, due to weak market conditions.
- A €70 million working capital inflow in 2025 and a €10 million working capital outflow of in 2026.
- €25 million dividend payments in 2025, and €10 million in 2026.
- No acquisitions.

Key metrics

Metsa Board Corp.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2021a	2022a	2023a	2024a	2025e	2026f
Revenue	2,084	2,480	1,942	1,939	1,879	1,965
EBITDA (reported)	466	615	215	176	85	236
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--
Plus/(less): Other	(142)	(163)	(0)	(13)	(17)	(31)
EBITDA	324	452	214	163	67	204
Less: Cash interest paid	(15)	(12)	(13)	(17)	(21)	(24)
Less: Cash taxes paid	(31)	(67)	24	(17)	--	(21)
Plus/(less): Other	--	--	--	--	--	--
Funds from operations (FFO)	278	373	225	129	47	159
EBIT	347	476	72	39	(51)	116
Interest expense	11	12	14	17	21	24
Cash flow from operations (CFO)	326	224	341	38	134	181
Capital expenditure (capex)	210	266	216	164	96	116
Free operating cash flow (FOCF)	116	(42)	124	(126)	38	65
Dividends	92	157	230	89	25	10
Share repurchases (reported)	--	8	--	--	--	--
Discretionary cash flow (DCF)	24	(207)	(105)	(215)	13	55
Debt (reported)	431	437	425	510	660	648
Plus: Lease liabilities debt	16	20	17	20	20	20
Plus: Pension and other postretirement debt	1	3	3	1	1	1
Less: Accessible cash and liquid Investments	(524)	(356)	(292)	(183)	(369)	(437)
Plus/(less): Other	2	2	2	1	1	1

Metsa Board Corp.--Forecast summary

Debt	--	106	156	350	314	233
Equity	1,846	2,255	2,053	1,908	1,835	1,920
Cash and short-term investments (reported)	524	356	292	183	369	437
Adjusted ratios						
Debt/EBITDA (x)	--	0.2	0.7	2.1	4.7	1.1
FFO/debt (%)	NM	352.2	144.6	36.9	14.8	68.2
FFO cash interest coverage (x)	19.3	32.0	18.0	8.8	3.3	7.5
EBITDA interest coverage (x)	29.7	36.9	15.0	9.6	3.3	8.4
CFO/debt (%)	NM	210.9	218.8	10.8	42.7	77.3
FOCF/debt (%)	NM	(39.9)	79.8	(36.1)	12.1	27.7
DCF/debt (%)	NM	(195.5)	(67.7)	(61.4)	4.1	23.4
Annual revenue growth (%)	10.3	19.0	(21.7)	(0.2)	(3.1)	4.6
EBITDA margin (%)	15.6	18.2	11.0	8.4	3.6	10.4
Return on capital (%)	20.0	22.6	3.1	1.7	(2.3)	5.4

a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Metsa Board's liquidity as strong and believe that liquidity sources will cover uses by more than 1.5x in the 12 months started July 1, 2025, and by more than 1.0x in the subsequent 12 months. Our view on the company's liquidity is underpinned by an available cash balance of €234 million, forecast cash FFO of €126 million, access to loans from pension funds (about €217 million), and an undrawn revolving credit facility (RCF) of €200 million.

We include the €200 million RCF as a liquidity source in our assessment for the 12-months started July 1, 2025, and exclude it for the subsequent 12 months, as the facility is due to mature in January 2027.

Principal liquidity sources

- €234 million in cash on balance sheet includes about €231 million of short-term deposits with Metsa Group Treasury under a cash pooling arrangement that Metsa Board has access to at short notice;
- Forecast cash FFO of €126 million;
- Access to loans from pension funds of about €217 million; and
- €200 million under the undrawn RCF (until January 2026).

Principal liquidity uses

- Debt amortizations and repayments of about €160 million;
- Capex of €110 million; and
- Seasonal working capital outflows of €40 million.

Covenants

The documentation of the €200 million RCF specifies a maximum net gearing ratio of 100%, tested on a quarterly basis. We expect Metsa Board will comply with its covenant over 2025-2026.

Environmental, Social, And Governance

ESG factors are an overall neutral consideration in our credit rating analysis of Metsa Board Corp. The company's exposure to environmental and social risks is comparable with that of its industry peers. As a pure-play paperboard producer, Metsa Board has benefited from environmental trends, as paper packaging, which is recyclable, is gradually replacing plastic. Metsa Board owns a 24.9% stake in Metsa Fibre, which produces pulp, sawn timber, biochemicals, and bioenergy. It does not own any forest assets but is part of a group with extensive forest assets (Metsaliitto Cooperative, parent company of Metsa Group, is owned by 90,000 Finnish private forest owners). We see some environmental risks (notably pollution) in Metsa Board's operations, since the production of pulp and paper requires significant amounts of energy, water, and chemicals. We believe that pollution incidents could result in compensation and corrective action costs. The company continually monitors its emissions to air and water. Metsa Board did not report significant environmental effects, claims, or compensation related to the pollution of air, water, and soil in 2024.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2025, Metsa Board's debt comprised a €250 million senior unsecured bond due 2027, a €200 million bond due in 2031, and some bilateral bank loans due 2030--all issued by Metsa Board Oyj.

Analytical conclusions

We rate the €250 million senior unsecured fixed-rate notes due 2027 issued by Metsa Board Corp. 'BBB-', the same as the long-term issuer credit rating, as we have not identified any sources of significant subordination.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Negative/A-3
Local currency issuer credit rating	BBB-/Negative/A-3
Business risk	Fair
Country risk	Low
Industry risk	Moderately high
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list		
Ratings Affirmed; Outlook Action		
	To	**From**
Metsa Board Corp.		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Ratings Affirmed		
Metsa Board Corp.		
Senior Unsecured	BBB-	