S&P Global Ratings

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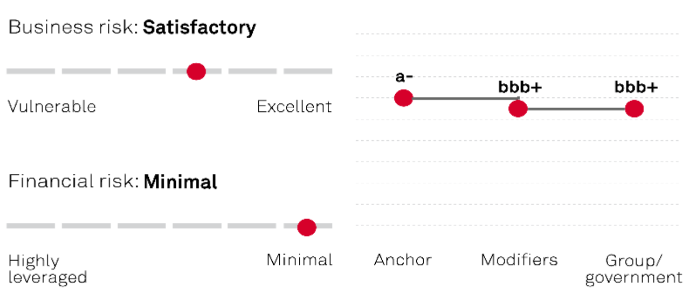
UPM-Kymmene Corp.

February 12, 2024

Ratings Score Snapshot



BBB+/Positive/A-2

Issuer credit rating

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Credit Highlights

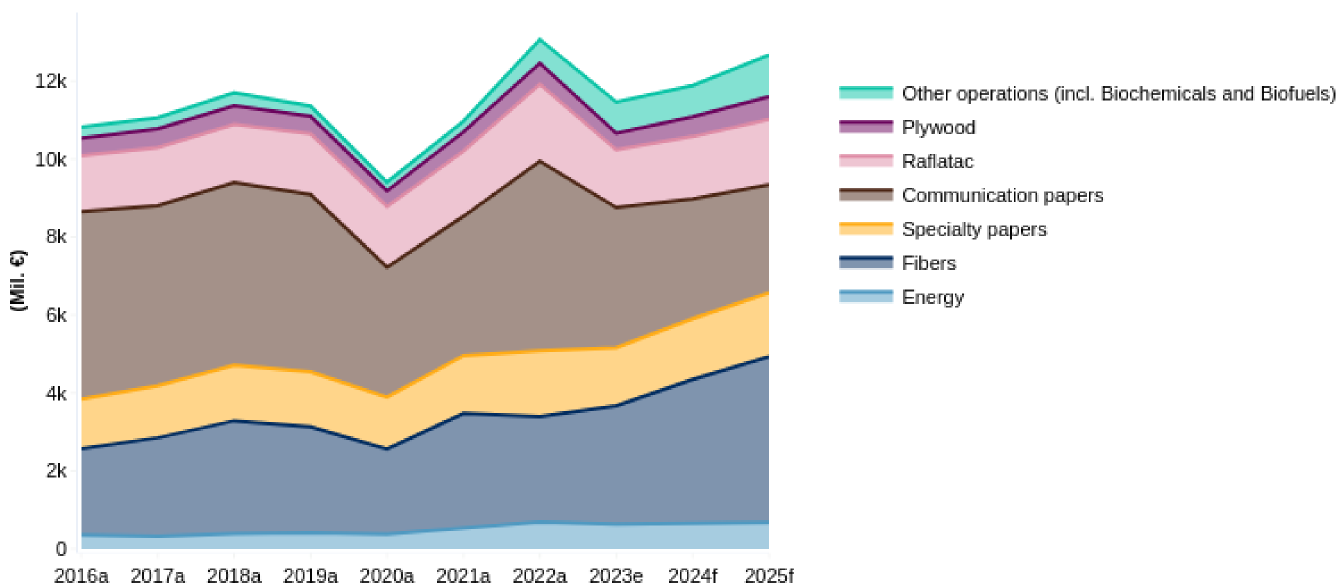
Overview

Key strengths	Key risks
Large and diversified operations, with €10.5 billion revenue in 2023 and an offering covering energy, pulp, papers, self-adhesives, plywood, and biofuels.	Cyclical nature of the paper and forest products industries, and large swings in volumes and prices.
Leading market positions across a variety of segments, with top 3 market shares in each of its relevant markets except for biofuels.	Still-large exposure to structurally declining graphic paper, which generated 34% of revenue and 35% of reported comparable EBITDA in 2023.
Cost efficiency underpinned by large scale and vertical integration, since UPM-Kymmene Corp. sources about a third of its needs in wood from its own forests, is mostly self-sufficient in terms of energy needs, and is a net seller of pulp.	Financial policy allowing for releveraging up to 2.00x on a reported basis, from 1.55x at year-end 2023.
Strong innovation and investment capacity underlined by massive investments in energy, pulp, and biochemicals.	Execution risk on nearly completed greenfield projects, such as the Leuna biochemicals mills in Germany.

We forecast modest (4%) revenue growth for 2024. In 2023, revenue declined 11% because weak consumer confidence and destocking undermined demand. In 2024, we expect revenue to increase, supported by additional pulp volumes (with the full-year contribution of the 2.1 million metrics ton Paso de los Toros pulp mill, which started operating in April 2023), somewhat higher energy sales (the full-year contribution of the 1,600 megawatt Olkiluoto 3 nuclear plant, where UPM has a 31% indirect share and which started commercial operations in May 2023), and higher prices and volumes (owing to improved consumer confidence). This will more than offset the ongoing decline in sales in its communications papers division, where demand remains in structural decline.

Fibers' revenue growth will more than offset communication papers' revenue decline

Contribution to UPM's sales by division over 2016a-2025f

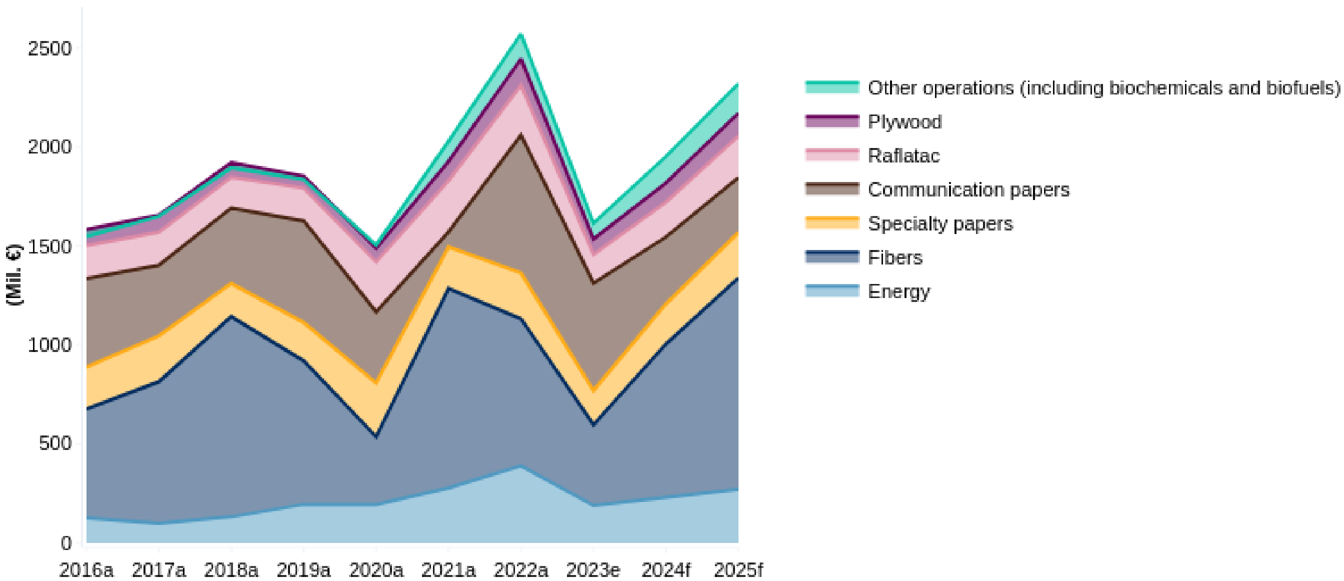


a--Actual. e--Estimate. f--Forecast. Source: Companies fillings and S&P Global Ratings.

We also forecast an improvement in profitability in 2024. We anticipate that S&P Global Ratings-adjusted EBITDA margins will increase to 18% in 2024 from 14% in 2023, supported by higher volumes with better fixed-cost absorption, price increases exceeding variable cost increases, and lower fixed costs based on initiatives taken in 2023. EBITDA margins will also be underpinned by low energy costs (from the OL3 nuclear plant, with an estimated cost of €40 per megawatt-hour [MWh]) and further efficiencies and economies of scale at the Paso de los Toros pulp mill with a low estimated cash cost per delivered ton of $280.

The fibers division will propel the bulk of EBITDA growth in 2024 and 2025

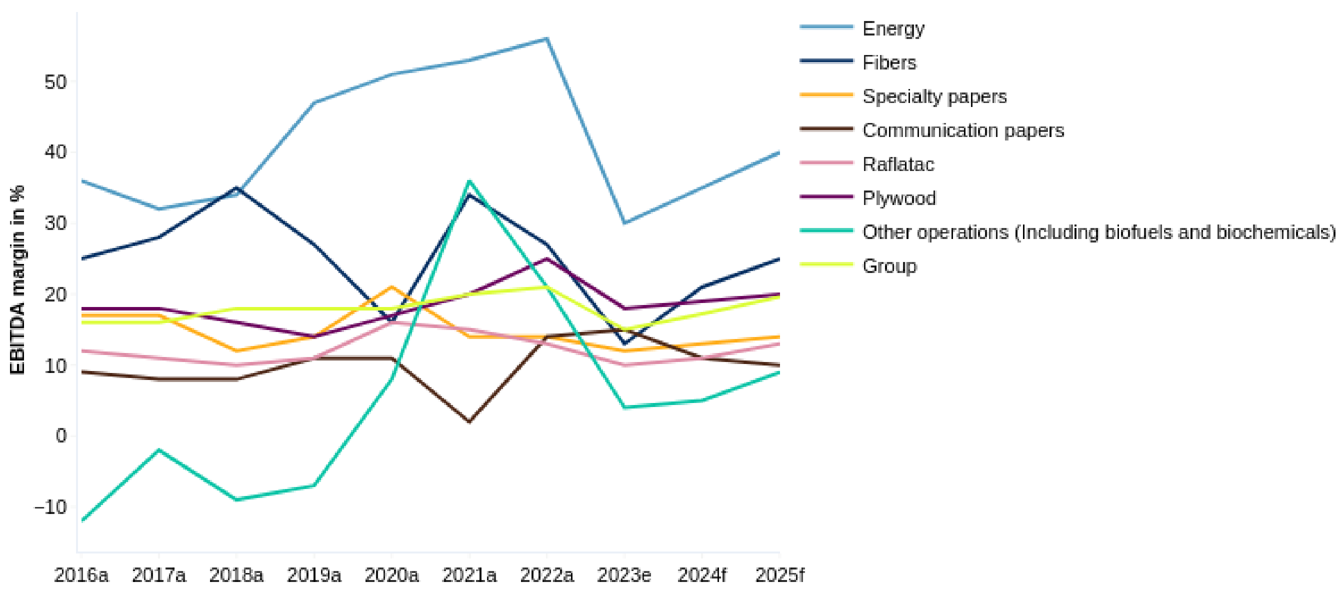
Contribution to UPM's EBITDA by division over 2016a-2025f



Source: Companies fillings and S&P Global Ratings.

UPM's group margins are relatively stable through time despite the volatility of its different business

Split of UPM's adjusted EBITDA margins by division over 2016a-2025f

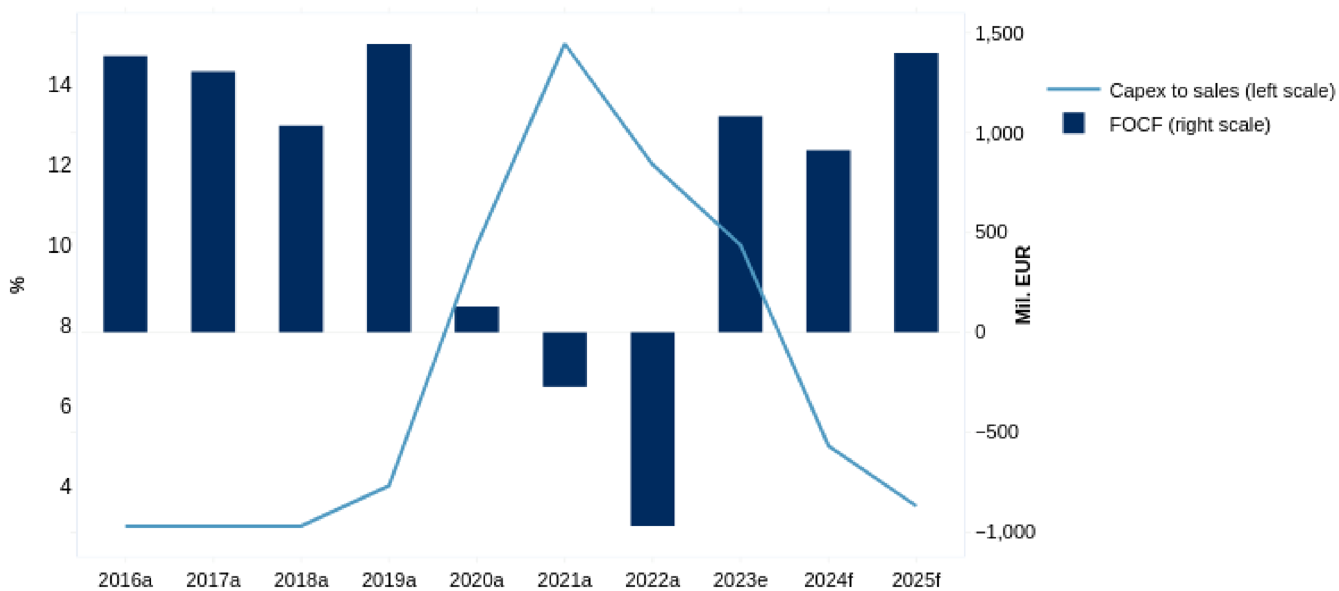


a-actual; e-expected; f-forecast. Source: Company reports.

S&P Global Ratings-adjusted free operating cash flow (FOCF) should remain strong in 2024, supported by EBITDA growth and materially lower growth capital expenditure (capex). In 2023, FOCF of €1.1 billion benefited from exceptional cash inflows (€983 million) from energy hedges margin calls, which we do not expect to recur in 2024. We estimate S&P Global Ratings-adjusted FOCF at €914 million for 2024, supported by a €500 million improvement in adjusted EBITDA and an approximately €525 million reduction in capex to €550 million. Lower expansion capex reflects reduced spendings in the nearly completed Leuna (biochemicals plant in Germany) and completed Paso de los Toros. We expect modest working capital requirements of €150 million in 2024, to support revenue growth.

We expect capex intensity to decline from 2024 and FOCF to remain strong

UPM's FOCF and capex to sales evolution over 2016a-2025f

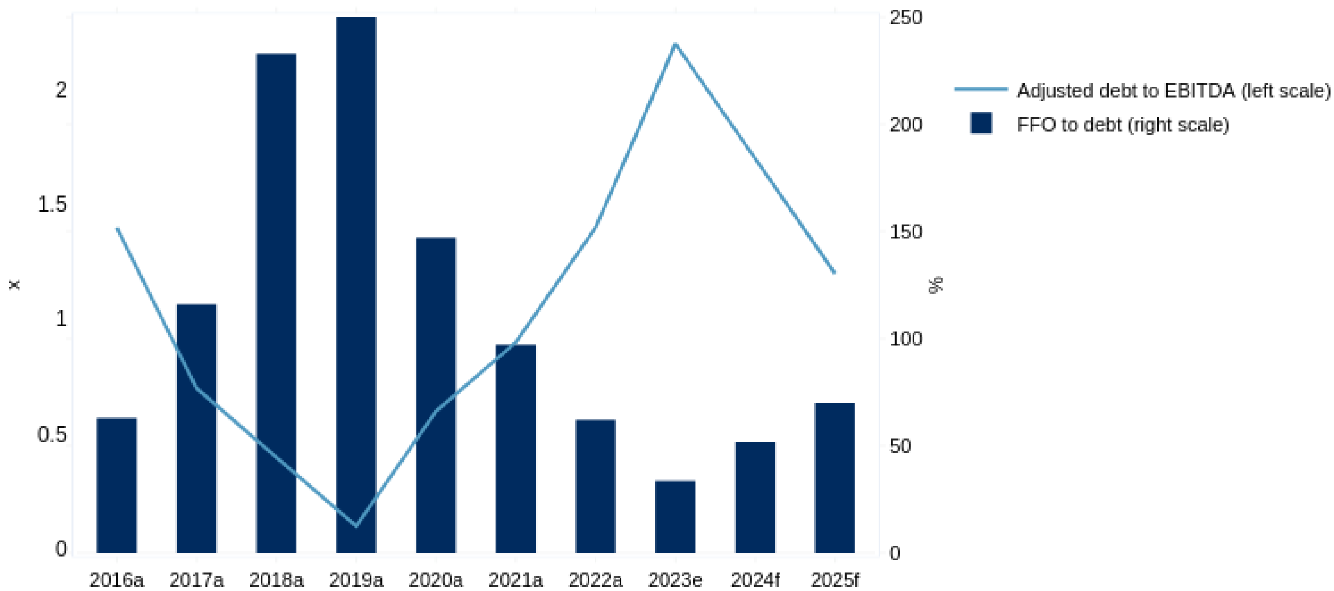


Capex--Capital expenditure. FOCF--Free operating cash flow. a--Actual. f--Forecast. Source: S&P Global Ratings.

We forecast EBITDA growth to lower leverage materially in 2024. We anticipate S&P Global Ratings-adjusted leverage to fall to 1.7x by year-end 2024 from 2.2x in 2023, driven by EBITDA growth and below the level permitted under its financial policy. The latter allows for reported leverage of up to 2.0x (2.5x S&P Global Ratings-adjusted). The stable dividend payout of €836 million in 2024 (including dividends paid to noncontrolling interests) will further help deleveraging. As base interest rates begin to decrease in 2024, as well as with the debt repaid in 2023, cash interest payments should decline to €87 million from €129 million in 2023. We also anticipate an improvement in funds from operations (FFO) to debt to 52%, from 34% in 2023. We expect that UPM will focus on maintaining significant headroom under its financial policy. This is because we do not anticipate any major capex projects except for a potential €1 billion biofuels plant in Rotterdam, spread over several years. Instead, we understand that the company will focus on shareholders' returns through dividends and share buybacks.

We expect credit metrics to strongly rebound from 2024

UPM's S&P Global Ratings-adjusted leverage and FFO To debt evolution over 2016a-2025f



FFO--Funds from operations. a--Actual. f--Forecast. e--Estimate. FFO to debt was 706% in 2019. Source: S&P Global Ratings.

Outlook

The positive outlook reflects the potential of an upgrade in the next 18 months once UPM's remaining projects are running at full capacity and significantly contributing to earnings. We expect a strong recovery in volumes in 2024, combined with a modest increase in prices. We anticipate the group's FFO to debt will surpass 60% and adjusted leverage will decline below 1.5x by year-end 2025.

Downside scenario

We could lower the rating if:

- UPM's credit metrics deteriorated markedly such that the weighted-average ratio of adjusted FFO to adjusted debt fell below 45%.
- Its adjusted debt to adjusted EBITDA exceeded and stayed above 2.0x.

This could result from very large debt-funded acquisitions, substantial expansion capex, or higher-than-expected shareholder returns, alongside a sharp decline in business performance, and notably much weaker pulp prices.

Upside scenario

We could raise our rating in the next 18 months if the pulp mill reaches full production rates without any major delays or cost overruns and the Leuna biochemicals plant makes a positive contribution to earnings. In this scenario, we would expect FFO to debt to exceed 60% and adjusted leverage to be below 1.5x, both sustained.

Our Base-Case Scenario

Assumptions

- Europe GDP growth of 1.4% in 2024 and 2.0% 2025; U.S. GDP growth of 1.5% in 2024 and 1.4% in 2025; and Asia-Pacific GDP growth of 4.4% in 2024 and 4.7% in 2025.
- Revenue to increase 4% in 2024 driven by higher volumes (especially in pulp, given the full-year contribution from the Paso de los Toros plant), and improved pricing conditions in all divisions. Volumes will also benefit from better economic conditions and less destocking activity. We anticipate further declines in communication paper sales as the market continues its structural decline and UPM rationalizes its footprint. We further expect a 7% revenue increase in 2025 driven by higher volumes and prices and the ramp-up of biochemical production at Leuna.
- S&P Global Ratings-adjusted EBITDA margin improving to 18% in 2024 from 14% in 2023, supported by price increases above input cost inflation, higher volumes, and improved fixed-cost absorption. Profitability will also be supported by the full year contribution of Paso de los Toros (which is very cost-efficient) and OL3 (which supplies the group with energy at cost). We also expect EBITDA margins to expand in 2025 to 20%, helped by higher volumes and prices in all divisions except communication papers.
- Capex (including forest renewal costs) of about €550 million in 2024 and €400 million in 2025, including annual maintenance capex of about €200 million. Capex will remain well below the €1.1 billion spent in 2023 as Paso de los Toros and the bulk of Leuna have been built.
- Annual working capital outflow of €150 million in 2024 and 2025, driven by revenue growth.
- Annual dividend distributions of €836 million in 2024 and €889 million in 2025, which includes dividends paid to noncontrolling interests.
- Proceeds of €50 million from the sale of the Steyrermuhl site in Austria in 2024
- No acquisitions.
- No share repurchases.

Key metrics

UPM-Kymmene Corp.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	10,238	8,580	9,814	11,720	10,460	10,845	11,560	11,812
EBITDA (reported)	1,808	1,328	1,966	2,485	1,365	1,866	2,272	2,650
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	24	(14)	(133)	40	75	75	75	75
EBITDA	1,832	1,314	1,833	2,525	1,440	1,941	2,347	2,725
Less: Cash interest paid	(33)	(41)	(35)	(63)	(129)	(87)	(85)	(82)
Less: Cash taxes paid	(176)	(145)	(275)	(313)	(244)	(188)	(262)	(332)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	1,623	1,128	1,523	2,149	1,067	1,667	2,001	2,311
EBIT	1,331	763	1,306	1,997	736	1,221	1,640	2,038
Interest expense	45	35	28	62	134	91	89	87
Cash flow from operations (CFO)	1,843	1,001	1,241	488	2,107	1,463	1,799	2,114
Capital expenditure (capex)	399	871	1,512	1,457	1,026	550	400	400
Free operating cash flow (FOCF)	1,444	130	(271)	(969)	1,081	913	1,399	1,714
Dividends	693	716	705	720	835	836	889	943
Share repurchases (reported)	--	--	--	--	(1)	--	--	--
Discretionary cash flow (DCF)	751	(586)	(976)	(1,689)	247	77	509	772
Debt (reported)	710	1,491	2,047	4,367	2,662	2,658	2,641	2,633
Plus: Lease liabilities debt	587	544	574	667	706	784	826	846
Plus: Pension and other postretirement debt	581	593	487	440	440	440	440	440
Less: Accessible cash and liquid Investments	(1,496)	(1,703)	(1,538)	(2,044)	(629)	(658)	(1,052)	(1,714)
Plus/(less): Other	(152)	(157)	--	--	--	--	--	--
Debt	230	768	1,570	3,430	3,180	3,224	2,855	2,205
Equity	10,174	9,513	11,106	12,878	12,495	12,559	12,917	13,552
FOCF (adjusted for lease capex)	1,369	65	(369)	(1,147)	957	742	1,258	1,593
Interest expense (reported)	45	47	47	63	129	86	84	82
Capex (reported)	403	875	1,521	1,477	1,026	550	400	400
Cash and short-term investments (reported)	1,536	1,720	1,560	2,067	652	681	1,075	1,737
Adjusted ratios								
Debt/EBITDA (x)	0.1	0.6	0.9	1.4	2.2	1.7	1.2	0.8
FFO/debt (%)	705.6	146.9	97.0	62.7	33.6	51.7	70.1	104.8
FFO cash interest coverage (x)	50.2	28.5	44.5	35.1	9.3	20.3	24.6	29.1
EBITDA interest coverage (x)	40.7	37.5	65.5	40.7	10.8	21.4	26.3	31.3
CFO/debt (%)	801.3	130.3	79.0	14.2	66.3	45.4	63.0	95.9
FOCF/debt (%)	627.8	16.9	(17.3)	(28.3)	34.0	28.3	49.0	77.7
DCF/debt (%)	326.5	(76.3)	(62.2)	(49.2)	7.8	2.4	17.8	35.0
Lease capex-adjusted FOCF/debt (%)	595.2	8.5	(23.5)	(33.4)	30.1	23.0	44.1	72.2
Annual revenue growth (%)	(2.3)	(16.2)	14.4	19.4	(10.8)	3.7	6.6	2.2
Gross margin (%)	100.0	100.0	100.0	100.0	91.8	96.0	98.5	101.2
EBITDA margin (%)	17.9	15.3	18.7	21.5	13.8	17.9	20.3	23.1
Return on capital (%)	12.7	7.4	11.4	13.8	4.6	7.8	10.4	12.9
Return on total assets (%)	9.1	5.2	8.0	10.0	3.5	6.1	8.1	9.8
EBITDA/cash interest (x)	55.5	32.0	52.4	40.1	11.2	22.4	27.7	33.2
EBIT interest coverage (x)	29.6	21.8	46.6	32.2	5.5	13.4	18.3	23.4
Debt/debt and equity (%)	2.2	7.5	12.4	21.0	20.3	20.4	18.1	14.0
Debt fixed-charge coverage (x)	40.7	37.5	65.5	40.7	0.8	20.5	22.1	28.7

UPM-Kymmene Corp.--Forecast summary

Debt/debt and undepreciated equity (%)	2.2	7.5	12.4	21.0	20.3	20.4	18.1	14.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Company Description

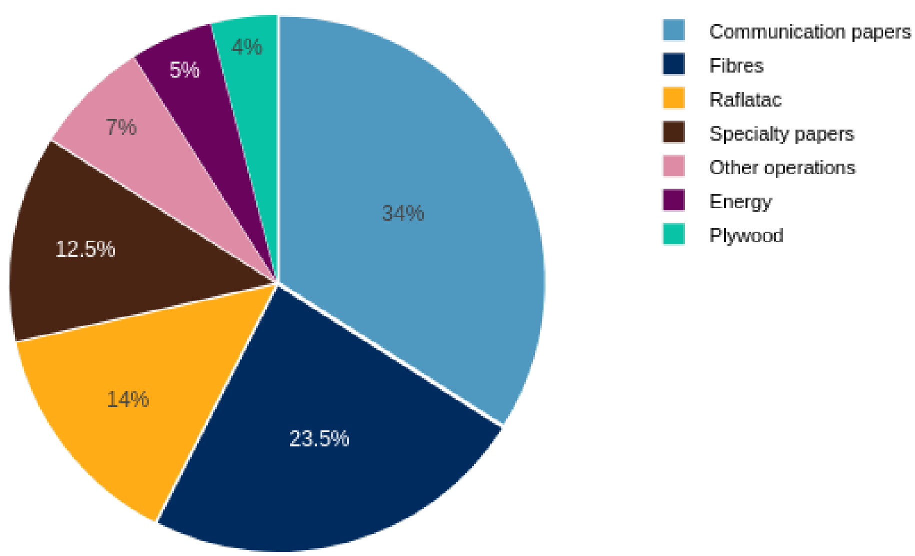
UPM is one of the largest and most diversified forest and paper products companies in the world, with over €10.5 billion in sales and €1.44 billion in S&P Global Ratings-adjusted EBITDA in 2023.

It has leading positions in European publications paper, fine paper, and self-adhesive label materials. It also has large pulp and energy operations, as well as sizable manufacturing operations for plywood and sawn timber. UPM's 55 production plants are spread over 11 countries, primarily in Europe and Uruguay. Also, the group produces pulp in Uruguay and has paper and label material plants in China and the U.S.

In 2022, Germany was UPM's largest market, accounting for 17% of its sales, followed by the U.S. (14%), China (10%) and Finland (8%); the remaining 53% was from the rest of the world.

Communication papers is UPM's largest business, unit followed by fibers and Raflatac

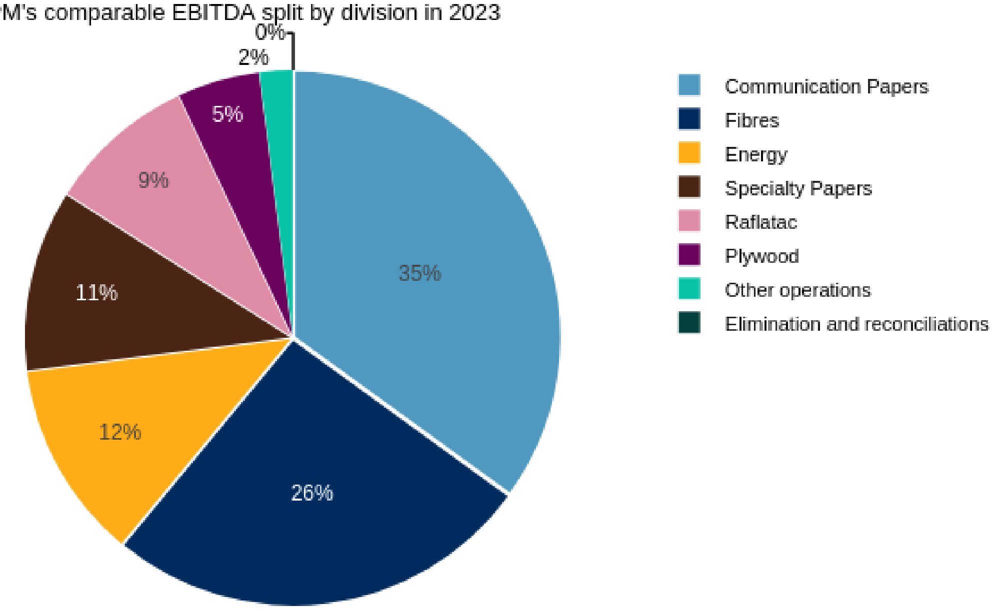
UPM's external sales by division in 2023



External sales means that internal sales between different divisions are eliminated. Source: Company reports.

Communication papers is the largest contributor to EBITDA, followed by fibers and energy

UPM's comparable EBITDA split by division in 2023



Source: Company reports.

UPM is listed on the Finland Stock Market Index (OMX Helsinki 25). Its capital is fully floating, and it does not have one controlling shareholder.

Business Risk

Our assessment of UPM's business risk profile is supported by the company's leading market positions, large scale, well-invested asset base, diversified operations and customer base. It also reflects UPM's vertical integration and cost leadership in pulp, graphic paper, and energy.

The group has a high degree of vertical integration and a broad product offer, with exposure to multiple grades of paper, pulp, wood products, biochemical products, energy, and label materials. UPM has leading market positions in almost all its markets:

- No. 3 global bleached pulp producer
- No. 2 electricity producer in Finland
- No. 2 globally in self-adhesive papers and film products (via Raflatac)
- No. 1 globally for labelling materials and release liner base papers (the specialty papers division)
- No. 1 in China for high quality office paper
- No. 1 in Europe in graphic paper (via the communication papers division).

- No. 1 in Europe, the Middle East, and Africa for the high and mid segments (UPM Plywood)
- No. 1 for LNG plywood globally

We see the group's vertical integration and product diversity as credit positive. UPM sourced about 20% of its wood from its own forests in Finland and Uruguay in 2022, reducing its exposure to the spikes in wood prices and supply shortages. This percentage will increase when accounting for the Paso de los Toros pulp mill. The group is a net seller of pulp. UPM pulp's external sales are approximately 50% of its production when including Paso de los Toros' output. Its dual pulp exposure (the group is both a seller and a consumer of pulp) somewhat protects UPM from declines in pulp prices. The company was 82% self-sufficient in terms of energy in 2022. We estimate the group will be fully self-sufficient in terms of energy in 2024, as the OL3 nuclear plant and Pasos de los Toros pulp plants (which recovers and sells the heat created from the pulp fabrication process) are fully operational. UPM is a net seller of electricity, due to its indirect shareholding in the Olkiluoto 3 (OL3) nuclear power plant. This stake allows it to buy electricity from Pohjolan Voima Oy (PVO) at cost (about €40/MW), which is very competitive compared with other energy sources. The group is well placed to weather potential energy shortages or price hikes.

The company continuously invests into its asset base to remain one of the most cost-efficient players. It started operating a new pulp mill in Pasos de los Toros (Uruguay) in April 2023 and is finalizing a biochemical plant in Leuna (Germany). The latter is expected to start operations in fourth-quarter 2024. Paso de los Toros can produce 2.1 million tons of pulp per year, increasing UPM's total annual pulp production capacity to 5.8 million metric tons (from 3.7 million metric tons in 2019). Once ramped up, the mill is expected to have a cash cost to $280 per delivered ton and be in the top quartile of the world's most efficient plants. Also, UPM owns and leases over 500,000 hectares of eucalyptus plantations in Uruguay and has long-term wood supply agreements with local forest owners. In 2024, only about 40% of its pulp will be produced from northern hardwood and softwood. The plant in Leuna will produce biochemicals (as an alternative to fossil materials) for various consumer-driven end-uses. Management expects it to generate return on capital employed of 14% once fully up and running.

The Uruguay pulp mill geographically diversifies UPM's asset base. As of year-end 2022, 56% of its assets were in Finland, 24% in Uruguay, 9% in Germany and the remainder in other countries (including China). The company's revenue base is relatively well diversified--in 2022 Germany accounted for 17% of sales, followed by the U.S. (14%) and China (10%). The rest of its sales relates mainly to other countries in Europe but also in emerging markets. The group exited Russia in 2023, where it had some plywood operations.

Our assessment is partially constrained by UPM's exposure to graphic paper, which accounted for about 34% of revenue and 35% of EBITDA in 2023. The segment is in structural decline, with all players (including UPM) reducing capacity. In 2023, segment revenue declined 26% but the company reported comparable EBITDA margins increased by 80 basis points to 15.1%, underlining its strong capacity to reduce costs. This business is therefore strongly cash positive.

In our view, the growing exposure to pulp, which we expect to represent 34% of revenue and 42% of EBITDA in 2024 (compared with 23% and 29%, respectively, in 2022), could lead to higher volatility in terms of revenue and margins.

UPM has a limited pricing power due to the commoditized nature of its products. It is also exposed to the inherent cyclicality of the pulp and paper industry, for which demand is largely linked to GDP growth but also dynamics specific to various consumer products industries. We think prices will most likely modestly recover in all segments (except communication papers) in 2024 as economic conditions improve and destocking ends.

Financial Risk

UPM's financial risk profile is supported by the group's strong operating cash flow and contained leverage. In 2023, UPM finished a substantial investment in Uruguay and is about to finish another one in Germany in 2024. The two projects will have led to more than €3.5 billion capex over 2020-2024. We expect FOCF to remain at very strong levels of €914 million in 2024 and €1.4 billion in 2025, supported by higher EBITDA and lower capex of €550 million and €400 million, respectively.

UPM has significant headroom under the rating. However, its cash flow is prone to volatility because of its exposure to pulp and graphic paper, where recurring spells of overcapacity can weigh on prices.

We expect adjusted leverage to decrease to about 1.7x by year-end 2024 (from 2.2x at year-end 2023) and 1.2x by year-end 2025. The group's financial policy caps reported net debt to EBITDA at 2.0x (about 2.5x after S&P Global Ratings' adjustments). Given that net debt to EBITDA was 1.55x at year-end 2023, the financial policy allows UPM to make further shareholder returns (via dividend payments or share buybacks), or large debt-funded investments, although we do not forecast the company will use this headroom.

UPM has an indirect share in nuclear power plants operated by Teollisuuden Voima Oyj (TVO) through its shareholding in PVO, from which it buys electricity at cost. UPM's indirect share is 33% in Olkiluoto 1 and 2 and 31% in Olkiluoto 3.

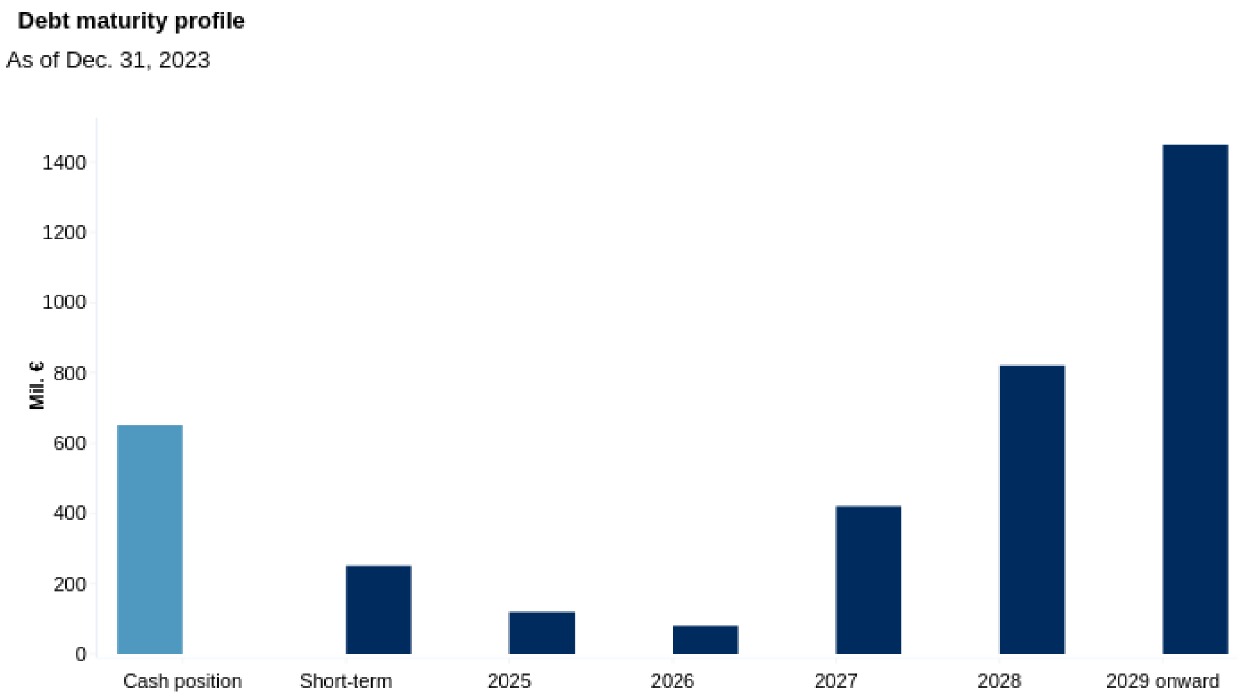
Although UPM does not guarantee any of TVO's debt, all shareholders in TVO are obliged to cover their proportionate share of TVO's fixed and variable costs related to energy generation (including interest expense). Also, UPM has indirectly provided funding to TVO (in the form of shareholder loans) help fund Olkiluoto 3.

Despite some ambiguities in TVO's and PVO's articles of association, UPM considers that its liabilities do not extend beyond the generation costs of the electricity it purchases from PVO.

Amid skyrocketing energy prices, UPM benefits from a key competitive advantage as it has a stable source of electricity, bought at nuclear production cost that is markedly below recent market prices. The group further benefits from the start of commercial production at OL3 in Finland in May 2023.

Although we do not adjust UPM's debt for any of TVO's liabilities, we continue to monitor the benefit for UPM of its indirect shareholding in TVO versus its obligations, and factor the cost of its electricity (corresponding to its proportional share of fixed and variable costs) into our base-case forecasts.

Debt maturities



Figures includes lease liabilities. Sources: Company filings and S&P Global Ratings.

UPM-Kymmene Corp.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	10,010	10,483	10,238	8,580	9,814	11,720
EBITDA	1,691	1,971	1,832	1,314	1,833	2,525
Funds from operations (FFO)	1,419	1,675	1,623	1,128	1,523	2,149
Interest expense	79	61	45	35	28	62
Cash interest paid	56	43	33	41	35	63
Operating cash flow (OCF)	1,610	1,385	1,843	1,001	1,241	488
Capital expenditure	304	350	399	871	1,512	1,457
Free operating cash flow (FOCF)	1,306	1,035	1,444	130	(271)	(969)
Discretionary cash flow (DCF)	799	422	751	(586)	(976)	(1,689)
Cash and short-term investments	716	888	1,536	1,720	1,560	2,067
Gross available cash	716	888	1,536	1,720	1,560	2,067
Debt	1,221	720	230	768	1,570	3,430
Common equity	8,664	9,797	10,174	9,513	11,106	12,878

UPM-Kymmene Corp.--Financial Summary

Adjusted ratios						
EBITDA margin (%)	16.9	18.8	17.9	15.3	18.7	21.5
Return on capital (%)	11.6	14.1	12.7	7.4	11.4	13.8
EBITDA interest coverage (x)	21.4	32.1	40.7	37.5	65.5	40.7
FFO cash interest coverage (x)	26.4	39.6	50.2	28.5	44.5	35.1
Debt/EBITDA (x)	0.7	0.4	0.1	0.6	0.9	1.4
FFO/debt (%)	116.1	232.5	705.6	146.9	97.0	62.7
OCF/debt (%)	131.8	192.3	801.3	130.3	79.0	14.2
FOCF/debt (%)	106.9	143.7	627.8	16.9	(17.3)	(28.3)
DCF/debt (%)	65.4	58.6	326.5	(76.3)	(62.2)	(49.2)

Reconciliation Of UPM-Kymmene Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	4,367	12,502	11,720	2,485	1,975	63	2,525	508	720	1,477
Cash taxes paid	-	-	-	-	-	-	(313)	-	-	-
Cash interest paid	-	-	-	-	-	-	(43)	-	-	-
Lease liabilities	667	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	440	-	-	61	61	5	-	-	-	-
Accessible cash and liquid investments	(2,044)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	20	(20)	(20)	-	(20)
Share-based compensation expense	-	-	-	16	-	-	-	-	-	-
Dividends from equity investments	-	-	-	3	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	(4)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	9	-	-	-	-	-
Noncontrolling/ minority interest	-	376	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(36)	(36)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(12)	-	-	-	-	-
Interest: Derivatives	-	-	-	-	-	(26)	-	-	-	-
Total adjustments	(937)	376	-	40	22	(1)	(376)	(20)	-	(20)

Reconciliation Of UPM-Kymmene Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	3,430	12,878	11,720	2,525	1,997	62	2,149	488	720	1,457

Liquidity

The short-term rating on UPM is 'A-2', reflecting the long-term issuer credit rating and our assessment of the group's liquidity as strong. We project that liquidity sources will cover uses by more than 1.5x over the 12 months ending Dec. 31, 2024, and sources to uses will be more than 1.0x in the ensuing 12 months. UPM's liquidity is supported by low debt maturities and our view of its high standing in credit markets.

Principal liquidity sources

- Available cash balance of about €651 million on Dec. 31, 2023;
- About €2.9 billion available under committed credit facilities; and
- Our forecast of cash FFO of about €2.20 billion.

Principal liquidity uses

- About €197 million of debt repayment, including commercial paper;
- Capex of about €550 million;
- Working capital outflows of approximately €150 million; and
- Dividend payments of about €836 million, including dividends paid to noncontrolling interests.

Covenant Analysis

Requirements

UPM's loan documentation does not include any covenants.

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors are an overall neutral consideration in our credit rating analysis of UPM. Like other forest and paper companies, UPM faces the long-term risk that climate change could affect its forests. We believe that Finnish and Uruguayan forests are less exposed to this risk, because they are relatively far from the equator. An increase in temperature could result in higher yields while fire and disease risks remain limited. Forest activities might generally benefit the environment, but we see risks arising from pulp and paper production given the use of chemicals and resultant greenhouse gas emissions.

In our view, the forest and paper product industry has significant and above-average environmental exposure. Nevertheless, we think UPM is better positioned than the sector average, given its focus on forest ownership, low-carbon energy generation, and its ramp-up of production of sustainable substitutes for fuels and chemicals.

UPM focuses on sustainable forest management and plants about 50 million seedlings every year. All its forests are certified and 86% of the wood it used in 2022 came from certified forests (that is, it met the requirements set by an independent third party for sustainable forest management). Wood harvesting levels are exposed to changes in weather conditions, even though the Finnish forest holdings would benefit from higher temperatures, which would result in higher yields but could also increase the risk of disease.

UPM emphasizes energy efficiency and low-emission energy generation via the production of hydro power, nuclear power, and biomass-based energy at its mills. Currently, about 70% of the fuels UPM uses are renewable. The company also increasingly focuses on sustainable substitutes for fuels and chemicals, with the ongoing construction of Leuna for a total investment of €1.18 billion and that is scheduled to start operating at end-2024. This will give UPM a first-mover advantage in the untapped market for renewable and sustainable substitutes for global glycols and carbon black and silica markets, with applications in a wide range of industries.

In 2020, UPM signed a €750 million revolving credit facility (RCF) with a margin tied to two sustainability indicators, involving biodiversity in its Finnish forests and the reduction of carbon dioxide emissions from fuels and purchased electricity. The group also has bilateral facilities with margins tied to the same sustainability indicators. In November 2020, March 2021, and May 2022, the company issued green bonds of €750 million, €500 million, and €500 million, respectively. UPM also signed a green finance framework where it agreed to invest in sustainable projects.

Issue Ratings--Subordination Risk Analysis

Capital structure

On Dec. 31, 2023, the capital structure composed $375 million 7.45% unsecured notes due November 2027; €750 million 0.125% unsecured notes due November 2028; €500 million 2.25% unsecured notes due May 2029; and €500 million 0.5% unsecured notes due March 2031, all issued by UPM. It also included about €700 million of lease obligation and about €530 million of loan liabilities.

Analytical conclusions

We rate the $375 million 7.45% unsecured notes due 2027 and €750 million 0.125% unsecured notes due November 2028 'BBB+', in line with our long-term issuer credit rating. This is because we have not identified any sources of significant structural subordination. We do not rate the €500 million 0.500% unsecured notes due March 2031 and the €500 million 2.25% unsecured notes due May 2029.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Positive/A-2
Local currency issuer credit rating	BBB+/Positive/A-2
Business risk	Satisfactory
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Strong (no impact)
Management and governance	Positive (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
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Ratings Detail (as of February 09, 2024)*

UPM-Kymmene Corp.

Issuer Credit Rating	BBB+/Positive/A-2
Senior Unsecured	BBB+

Issuer Credit Ratings History

06-Jun-2023	BBB+/Positive/A-2
07-Jul-2022	BBB/Positive/A-2
24-Jul-2018	BBB/Stable/A-2

*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.