S&P Global Ratings

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Update: UPM-Kymmene Corp.

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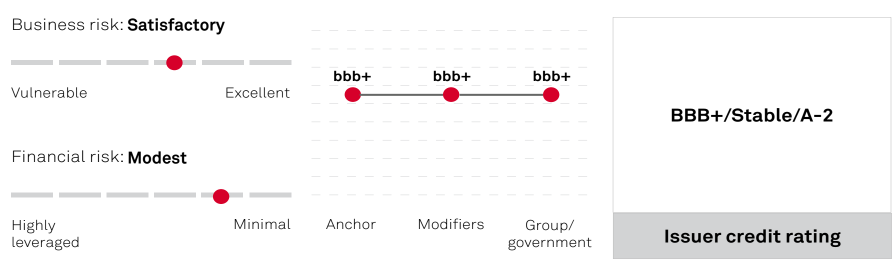
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Large and diversified operations across the globe, with revenue of €10.3 billion in 2024 and an offering covering energy, pulp, paper, self-adhesives, plywood, biofuels, and biochemicals.	Cyclical nature of the paper and forest products industries leads to large swings in volumes and prices. They can only be partially mitigated by measures, given UPM's high fixed cost base.
Leading market positions across a variety of segments, with top-three market share in each of its relevant markets except for biofuels.	High wood prices (due to sawlogs and pulpwood scarcity) have undermined profitability since 2023 and could continue to do so in the future.
Cost efficiency underpinned by large scale and some vertical integration. UPM sources about a third of its wood needs internally, is mostly self-sufficient in terms of energy needs, and is a net seller of pulp.	Still-large exposure to structurally declining graphic paper, which generated 26% of revenue and 20% of reported comparable EBITDA in 2024.
Strong innovation and investment capacity underlined by material recent investments in energy, pulp, and biochemicals.	Limited rating headroom following two relatively weak years, with S&P Global Ratings-adjusted leverage at 2.1x and funds from operations (FFO) to debt at 40% at year-end 2024.

UPM's 2024 results were broadly in line with our expectations. Revenue declined by 1.2% to €10.3 billion, due to lower demand for communication paper and weaker selling prices in some divisions. This was only partly compensated by the ramp-up of pulp production at Paso de los Toros in Uruguay and higher pulp prices, which led to a 22.4% increase in pulp revenues (33% of 2024 sales). S&P Global Ratings-adjusted EBITDA margins (unaudited) improved to 16.1% from 13.1% in 2023 due to additional pulp sales, which have higher margins than most other UPM products, and a reduction in variable costs.

At €776 million, free operating cash flow (FOCF) was weaker than in 2023, when it benefitted from €912 million in exceptional inflows linked to energy sale hedges. FOCF in 2024 was supported by lower expansion capital expenditures (capex) and more limited working capital outflows. Capex of €543 million was well below the €1.08 billion spent in 2023, as expansion capex was limited to the Leuna biochemicals plant in Germany. Working capital outflows were also minimal, at €80 million, given the marginal decline in revenue.

S&P Global Ratings-adjusted leverage decreased slightly to 2.1x at year-end 2024 from 2.2x 12 months earlier and FFO to debt increased to 40% from 35%.

We also forecast an improvement in performance in 2025. We expect revenue growth of 2%, with the Paso de los Toros pulp mill running at full capacity, and marginal volume and price growth in other divisions. We forecast that this will more than offset the further declines in communications paper revenues following the closure of about 600,000 tons of capacity in 2024 and a further price reduction. We anticipate that the positive mix effect will lead to a 270 basis point improvement in S&P Global Ratings-adjusted EBITDA margins to 18.8%.

We do not anticipate any expansion capex and expect capex to decline to €400 million in 2025. Combined with limited working capital outflows of €150 million, this should support FOCF growth to €1.1 billion in 2025.

Discretionary cash flow generation will remain minimal in 2025, given the stable dividend payment of €836 million, including dividends paid to minority shareholders, and a new share buyback program of €160 million.

Rating headroom could tighten further should UPM underperform our base case in 2025. Driven by growing EBITDA, S&P Global Ratings-adjusted leverage will likely decrease to 1.9x and FFO to debt will increase to 45% by year-end 2025, leaving limited headroom under our downside triggers of 2x and 45% respectively.

Outlook

The stable outlook reflects our expectation that gradually improving market conditions over the coming year will help UPM reduce S&P Global Ratings-adjusted leverage below 2.0x and strengthen FFO to debt above 45% by year-end 2025.

Downside scenario

We could take a negative rating action in the next 12 months if UPM's credit metrics did not recover as forecast. This would mean that we would no longer expect FFO to debt to exceed 45% and that adjusted leverage would not decline to below 2.0x by year-end 2025. This could happen if market conditions remained weak and UPM did not modify its financial policy via a reduction in capex, dividends, or share buybacks, to protect its credit metrics. Operational issues, such as unexpected maintenance shutdowns at UPM's main plants or social and political turmoil leading to lengthy strikes, could also impede UPM's ability to improve its credit metrics.

Upside scenario

We currently view an upgrade as unlikely in the next 12 months. Ratings upside could stem from UPM's performance significantly exceeding our expectations, with FFO to debt above 60% and adjusted leverage below 1.5x on a sustained basis. We could envisage such a scenario if both the demand for pulp and pulp prices materially exceeded expectations, alongside our assumption that the global supply and demand balance should fundamentally support elevated prices for several years to come.

Our Base-Case Scenario

Assumptions

- Eurozone GDP growth of 1.2% in 2025 and 1.3% 2026; U.S. GDP growth of 2% in 2025 and in 2026; and Asia-Pacific GDP growth of 4.3% in 2025 and 4.2% in 2026.
- Revenue to increase by about 2.2% in 2025 driven by higher pulp sales due to the ramp-up of production at Paso de los Toros. We also expect marginal revenue growth, driven by volumes and prices, in other divisions as the economic environment improves. This will more than offset lower communication paper revenues due to recent capacity closures and weaker prices.
- In 2026, we anticipate revenue will increase by 5.1%, as rising pulp sales offset further declines in communication paper sales. In contrast to 2025, we forecast pulp prices will rise, as we do not anticipate any new capacity additions.
- The adjusted EBITDA margin will improve to 18.8% in 2025, from 16.1% in 2024. This will reflect a favorable change in the product mix (with higher pulp sales and lower communication paper sales), as well as cost-saving measures taken by UPM across the group. We expect the adjusted EBITDA margin to further improve to 20% in 2026, driven by an additional positive mix effect and revenue growth.
- Annual capex (including forest renewal costs) of about €400 billion in 2025 and 2026. We estimate annual maintenance capex at €200 million.
- Working capital outflow of €150 million in 2025 and €250 million in 2026, reflecting revenue growth.
- Dividends of €836 million in 2025, including €36 million to minority shareholders. We expect dividends to increase to €889 million in 2026.
- €160 million of share repurchases per annum from 2025.
- No acquisitions or divestments, except for the acquisition of Metamark in the U.K. for €175 million.

Key metrics

UPM-Kymmene Corp.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	8,580	9,814	11,720	10,460	10,338	10,567	11,111	11,219
EBITDA (reported)	1,328	1,966	2,485	1,371	1,653	1,969	2,199	2,342
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--

UPM-Kymmene Corp.--Forecast summary

Plus/(less): Other	(14)	(133)	40	(5)	13	13	13	13
EBITDA	1,314	1,833	2,525	1,366	1,666	1,982	2,212	2,355
Less: Cash interest paid	(41)	(35)	(63)	(116)	(133)	(122)	(120)	(105)
Less: Cash taxes paid	(145)	(275)	(313)	(181)	(144)	(204)	(247)	(277)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	1,128	1,523	2,149	1,069	1,389	1,656	1,846	1,973
EBIT	763	1,306	1,997	745	958	1,287	1,531	1,688
Interest expense	35	28	62	142	187	175	174	160
Cash flow from operations (CFO)	1,001	1,241	488	2,269	1,319	1,517	1,605	1,982
Capital expenditure (capex)	871	1,512	1,457	1,080	543	400	400	400
Free operating cash flow (FOCF)	130	(271)	(969)	1,189	776	1,117	1,205	1,582
Dividends	716	705	720	835	836	836	889	943
Share repurchases (reported)	--	--	--	--	--	160	160	160
Discretionary cash flow (DCF)	(586)	(976)	(1,689)	354	(60)	121	155	480
Debt (reported)	1,491	2,047	4,367	2,550	3,150	3,150	3,150	2,810
Plus: Lease liabilities debt	544	574	667	706	794	882	904	926
Plus: Pension and other postretirement debt	593	487	440	406	406	406	406	406
Less: Accessible cash and liquid Investments	(1,703)	(1,538)	(2,044)	(632)	(870)	(725)	(789)	(835)
Plus/(less): Other	(157)	--	--	2	2	2	2	2
Debt	768	1,570	3,430	3,032	3,482	3,714	3,673	3,310
Equity	9,513	11,106	12,878	11,531	11,372	11,353	11,484	11,702
FOCF (adjusted for lease capex)	65	(369)	(1,147)	1,028	606	939	1,091	1,466
Interest expense (reported)	47	47	63	59	132	120	119	105
Capex (reported)	875	1,521	1,477	1,080	543	400	400	400
Cash and short-term investments (reported)	1,720	1,560	2,067	632	893	748	812	858
Adjusted ratios								
Debt/EBITDA (x)	0.6	0.9	1.4	2.2	2.1	1.9	1.7	1.4
FFO/debt (%)	146.9	97.0	62.7	35.3	39.9	44.6	50.2	59.6
FFO cash interest coverage (x)	28.5	44.5	35.1	10.2	11.4	14.6	16.4	19.8
EBITDA interest coverage (x)	37.5	65.5	40.7	9.6	8.9	11.3	12.7	14.7
CFO/debt (%)	130.3	79.0	14.2	74.8	37.9	40.8	43.7	59.9
FOCF/debt (%)	16.9	(17.3)	(28.3)	39.2	22.3	30.1	32.8	47.8
DCF/debt (%)	(76.3)	(62.2)	(49.2)	11.7	(1.7)	3.3	4.2	14.5
Lease capex-adjusted FOCF/debt (%)	8.5	(23.5)	(33.4)	33.9	17.4	25.3	29.7	44.3
Annual revenue growth (%)	(16.2)	14.4	19.4	(10.8)	(1.2)	2.2	5.1	1.0
Gross margin (%)	100.0	100.0	100.0	100.0	102.9	105.5	106.7	107.8
EBITDA margin (%)	15.3	18.7	21.5	13.1	16.1	18.8	19.9	21.0
Return on capital (%)	7.4	11.4	13.8	4.8	6.5	8.6	10.1	11.2
Return on total assets (%)	5.2	8.0	10.0	3.7	5.1	6.8	8.0	8.8

UPM-Kymmene Corp.--Forecast summary

EBITDA/cash interest (x)	32.0	52.4	40.1	11.8	12.5	16.3	18.5	22.4
EBIT interest coverage (x)	21.8	46.6	32.2	5.2	5.1	7.3	8.8	10.6
Debt/debt and equity (%)	7.5	12.4	21.0	20.8	23.4	24.7	24.2	22.0
Debt fixed-charge coverage (x)	37.5	65.5	40.7	9.6	8.9	11.3	12.7	14.7
Debt/debt and undepreciated equity (%)	7.5	12.4	21.0	20.8	23.4	24.7	24.2	22.0

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 €10.3 billion in sales and €1.7 billion in S&P Global Ratings-adjusted EBITDA in 2024.

The company has leading positions across the publications paper, fine paper, and self-adhesive label materials industries in Europe. 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, followed by the U.S., Uruguay, and Asia.

In 2023, China was UPM's largest market, accounting for 15% of its sales, followed by Germany (14%), the U.S. (13%), and Finland (12%); the rest of the world accounted for the remaining 46%.

In 2024, external sales (before eliminations and reconciliations) were split between fiber pulp (33%); communication papers (26%); specialty papers (13%); Raflatac self-adhesive labels for consumer goods (10%); energy (10%); plywood (4%) and other operations (5%).

In 2024, EBITDA was split between fiber pulp (48%); communication papers (20%); specialty papers (12%); Raflatac self-adhesive labels for consumer goods (10%); energy (11%); plywood (5%); and other operations (-4%).

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

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 resulting greenhouse gas emissions.

In our view, the forest and paper product industry has an 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 the 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 87% of the wood it used in 2023 came from certified forests (that is, they 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-emissions energy generation via the production of hydropower, nuclear power, and biomass-based energy at its mills. About 70% of the fuels UPM uses are renewable. The company is also increasingly focusing on sustainable substitutes for fuels and chemicals, and, following a total investment of €1.275 billion, it is approaching completion of its new biochemical refinery in Leuna, having initiated commissioning and start-up in late 2024. This gives UPM first-mover advantage in the untapped market for renewable and sustainable substitutes for global glycols, carbon black and silica, which have 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, May 2022, and August 2024 the company issued green bonds of €750 million, €500 million, €500 million and €600 million, respectively. UPM also signed a green finance framework under which it agreed to invest in sustainable projects.

Our positive governance assessment reflects management's experience and expertise, governance in line with best practices, and the balance of different stakeholders' interests. Management has successfully managed several complex projects, including Paso de los Toros, in recent years, with strong execution and marginal cost overruns. Half of UPM's forest assets are now in Uruguay. The company is also a frontrunner in the biochemicals market sourced from wood, and is on the path to become 100% energy self-sufficient by 2025. All these initiatives position UPM for superior growth and margins in the future.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
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	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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

Related Research

- UPM-Kymmene Corp. Outlook Revised To Stable From Positive On Weaker Market Conditions; Ratings Affirmed At 'BBB+/A-2',Oct. 31, 2024

Ratings Detail (as of February 10, 2025)*	
UPM-Kymmene Corp.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
31-Oct-2024	BBB+/Stable/A-2
06-Jun-2023	BBB+/Positive/A-2
07-Jul-2022	BBB/Positive/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.