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Svenska Cellulosa AB – 4Q23 Update

Svenska Cellulosa published its interim report for the fourth quarter of 2023, and what caught everyone's eye was that despite alleged billions in profits, cash on hand has fallen. However, SCA's reported net debt ratio only increased by 0.2 times as the company maintained its absurd and opaque method of calculating net debt. Fortunately for SCA, the company's pension surplus increased by SEK 530m in 2023, offsetting the decrease in cash on hand.¹ In our opinion, SCA's net debt ratio is misstated by not including hidden debt of several billion and by subtracting non-current assets from its gross debt.

The company is still trying to conceal its true indebtedness by not consolidating its credit facilities and commercial paper. Ulf Larsson, Svenska Cellulosa's CEO rejected our findings without any explanation:²

"It's not serious. Our issued corporate certificates, our used loan promises, they are reported in our net debt. It's the easiest thing to deal with,"

If it's the easiest thing to deal with, why don't you break it down for the last three years? Every debt issuance and repayment, line item by line item, counterparty by counterparty.

SCA reported bilateral loans with maturities of less than one year of SEK 1,311 million (current financial liabilities) and there was only one credit facility that matures in the same time period.^{3 4} However, that specific bilateral credit facility is reported at SEK 1,938 million.⁵

How can a SEK 1.9bn credit facility that matures within one year be larger than the line item (bilateral loans with maturities of less than one year) in which it is allegedly included?

In addition, commercial paper regularly matures within one year and is included in the current financial liabilities.⁶ So, if investors were to take management at its word, the current financial liabilities would amount to SEK 2,538 million: a bilateral credit facility of SEK 1,938 million and commercial paper of SEK 600 million. It's basic arithmetic. In our opinion, SCA's management didn't learn basic arithmetic in high school.

SCA reported in its 4Q23 interim report that the "unutilized credit facilities and cash and cash equivalents" amounted to SEK 6,751 million (see Figure 1).⁷ In the 3Q23 report, Svenska Cellulosa reported that the unutilized credit facilities amounted to SEK 6.3 billion (see Figure 2).⁸

At December 31, 2023, gross debt amounted to SEK 13,726m (12,785), with an average maturity of 3.7 years (including the lease liability). The loan structure consists of bilateral bank loans, bonds and commercial paper. **Unutilized credit facilities and cash and cash equivalents amounted to SEK 6,751m at December 31, 2023.**

Figure 1 Extract from SCA's 4Q23 interim report, source: NINGI Research, company filings

¹ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2024/20240126-year-end-report-2023-en-0-4733636.pdf>, pg. 19

² <https://www.di.se/nyheter/sca-s-vd-slar-tillbaka-oseriost-gymnasiearbete/>

³ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 119

⁴ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

⁵ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

⁶ <https://www.sca.com/siteassets/investors/reports-and-presentations/interim-reports/2023/2024-01-26-q4-presentation.pdf>, pg. 27

⁷ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2024/20240126-year-end-report-2023-en-0-4733636.pdf>, pg. 3

⁸ <https://www.sca.com/siteassets/media/press-releases-and-reports/documents/2023/20231027-interim-report-q3-2023-en-0-4665917.pdf>, pg. 3

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At September 30, 2023, gross debt amounted to SEK 13,423m with an average maturity of 3.9 years (including the lease liability). The loan structure consists of bilateral bank loans and bonds. **Unutilized credit facilities amounted to approximately SEK 6.3bn at September 30, 2023.**

Figure 2 Extract from SCA's 3Q23 interim report, source: NINGI Research, company filings

Easy enough to subtract the reported cash balance of SEK 502 million, the unutilized credit facilities stand at SEK 6,069 million. Slightly lower than in the third quarter. We believe that's because SCA had to repay its bilateral credit facility totaling SEK 1,938 million that matured at the end of 2023.⁹ However, the total available credit facilities still amount to SEK 8.3 billion, so SCA still utilized SEK 2,271 million (see Figure 3).¹⁰

2022 credit facilities, in SEKm	Nominal	Maturity	Total	Utilized	Unutilized
Bilateral credit facility	2,507	2023	2,507	1,938	569
Bilateral credit facility	3,340	2024	3,340	1,113	2,227
Syndicated credit facility	5,000	2026	5,000		5,000
Total	10,847		10,847	3,051	7,796

2023 credit facilities, in SEKm	Nominal	Maturity	Total	Utilized	Unutilized
Bilateral credit facility	2,507	2023	2,507	1,938	569
Bilateral credit facility	3,340	2024	3,340	2,271	1,069
Syndicated credit facility	5,000	2026	5,000		5,000
Total	8,340		8,340	2,271	6,069

Figure 3 2022 reported facilities and 2023 estimated facilities, source: NINGI Research, company data

Because Svenska Cellulosa doesn't report the total amount available from its credit facilities in its interim reporting, we don't know yet if the company just added new credit facilities and borrowed even more money that is not consolidated. Even giving SCA the benefit of the doubt, the company's Net Debt/EBITDA ratio is still understated. With the declining EBITDA, the ratio even increased to 3.42x versus the reported 1.60x (see Figure 4).

Net debt/EBITDA, in SEKm	2023	2022	2021	2020	2019
Credit facilities (undisclosed)	2,271	3,051	348	341	-
Commercial paper (undisclosed)	600	600	-	-	-
Financial liabilities	13,400	12,540	10,139	9,824	9,618
Cash and cash equivalents	502	836	1,056	1,273	454
Estimated Net debt	15,769	15,355	9,431	8,892	9,164
Delta Estimated Net Debt vs. Reported Net Debt	5,003	5,366	1,679	1,221	567
EBITDA (excl. Revaluations)	4,609	8,369	7,356	3,178	5,319
Estimated Net debt/EBITDA	3.4x	1.8x	1.3x	2.8x	1.7x
Reported Net Debt/EBITDA	1.6x	1.0x	0.9x	1.7x	1.6x

Figure 4 Estimated Net debt and Net debt/EBITDA ratio, source: NINGI Research, company data

We stand by our findings and for all information we are short Svenska Cellulosa AB.

⁹ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120

¹⁰ <https://www.sca.com/siteassets/investors/reports-and-presentations/annual-reports/2022/sca-annual-report-2022.pdf>, pg. 120