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7 October 2024

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RATINGS

Tornator Oyj

Domicile	Finland
Long Term Rating	Baa3
Type	Senior Secured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Tornator Oyj

New issuer report

Summary

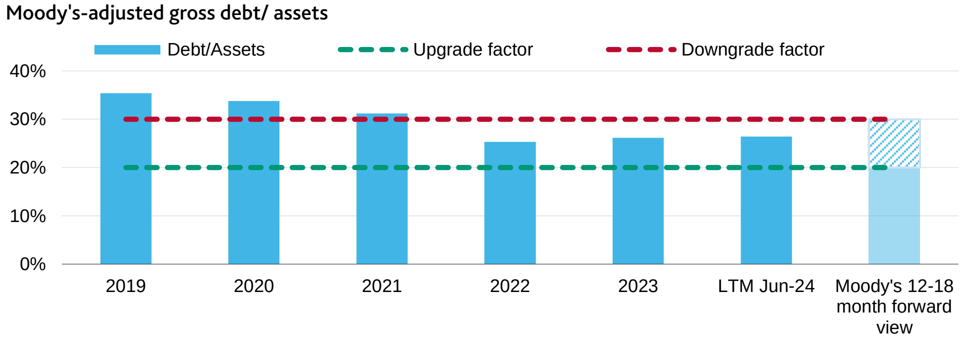
Tornator's Baa3 senior secured rating is mainly supported by (1) the company's market position as the largest private forest owner in Finland with over 770 thousand hectares forestland spread over Finland, Estonia and Romania and valued at €3.5 billion as of June 2024, which is broadly similar to its US-peers such as Rayonier LP (Baa3 stable) and PotlatchDeltic Corp (Baa3 negative); (2) strong timber asset coverage, with fair value of forest assets equal to 3.6x Moody's adjusted gross debt as of June 2024; (3) high predictability of selling volumes, underpinned by a long-term agreement with Stora Enso Oyj (Baa3 stable); (4) although the majority of Tornator's forest assets are pledged into secured debt instruments, approximately €500 million worth of assets are unencumbered and can be utilized to enhance liquidity if needed; (5) high profitability, with Moody's adjusted EBITDA margin of around 68% (LTM H1 2024). The company is not involved in manufacturing and Stora Enso performs most of the harvesting; and (6) the company's conservative financial policies including a commitment to an Investment Grade rating, with a track record of maintaining its Loan-to-Value ratio in a fairly narrow and conservative band over the past decade.

However, the rating is mainly constrained by (1) its small size as measured by revenues or earnings compared to most corporates rated under the Paper and Forest Products methodology, with merely €196 million in revenue in the past 12 months ending June 2024; (2) low diversification, with 90% of its forest assets located in Finland; (3) high dependency on Stora Enso, which not only owns 41% of the company's shares but also purchases 95% of its Finnish wood; (4) volatility of wood prices, which depends on the cyclical demand for wood; (5) a concentrated debt maturity profile, with the majority of the debt (€600 million) due in 2026.

Exhibit 1

We expect Tornator's Debt-to-Assets ratio to stay close to current levels going forward

Moody's-adjusted gross debt/ assets



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» Valuable and relatively stable asset base in form of forestland worth €3.5 billion as of June 2024

» Strong timber asset coverage of 3.6x Moody's adjusted debt and a moderate Debt/ Asset ratio of 26% as of June 2024

» Conservative financial management

Credit challenges

» High asset concentration with 90% of timberland located in Finland

» Volatility of wood prices because of the cyclical demand for wood

» Concentrated debt maturity profile

Rating outlook

The stable outlook on the ratings reflects our expectation that the company's operating performance and the asset base will remain fairly stable over the next 12-18 months. Furthermore, the rating and the outlook are conditional upon the company's conservative liquidity management, specifically its efforts to address the upcoming debt maturities at least 12 months prior to its maturity.

Factors that could lead to an upgrade

Positive rating pressure could arise if:

» Significant increase in the company's scale and diversification of assets;

» The value of forest assets to Moody's adjusted debt exceeds 5x (corresponding to a Debt/ Assets ratio of sustainably below 20%);

» Moody's-adjusted EBITDA to Interest ratio increases sustainably to above 7x.

Factors that could lead to a downgrade

Conversely, negative rating pressure could arise if:

» The value of forest assets to Moody's adjusted debt declines below 3x (corresponding to a Debt/ Assets ratio of sustainably well above 30%);

» Moody's-adjusted EBITDA to Interest ratio declines sustainably to below 4x;

» Aggressive liquidity management evidenced by issuance of commercial paper in the amount not covered by the undrawn RCF or addressing upcoming debt maturities in less than 12 months before coming due;

» Material deterioration in headroom under the existing loan-to-value (LTV) covenant.

Key indicators

Exhibit 2
Tornator Oyj

(in € millions)	2019	2020	2021	2022	2023	LTM Jun-24	2024F	2025F
Revenue	106	118	129	165	195	196	195	205
EBIT Margin %	70.8%	77.6%	79.4%	70.8%	68.4%	65.9%	70.3%	70.4%
Debt / EBITDA	8.3x	7.3x	7.1x	6.8x	7.0x	7.2x	7.4x	7.6x
EBITDA / Interest Expense	3.5x	4.5x	13.8x	13.8x	5.1x	4.0x	4.0x	3.9x
RCF / Net Debt	3.3%	2.7%	1.5%	0.2%	4.6%	6.6%	1.5%	1.7%
EBITA / Interest Expense	3.3x	4.4x	13.5x	13.4x	5.0x	3.9x	3.9x	3.8x
FCF / Debt	2.2%	6.6%	-6.9%	0.1%	4.4%	6.8%	1.0%	1.2%
EBITDA Margin %	73.8%	80.2%	81.9%	72.9%	70.0%	67.6%	72.0%	72.0%

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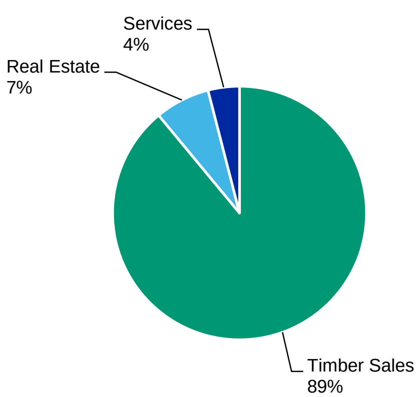
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

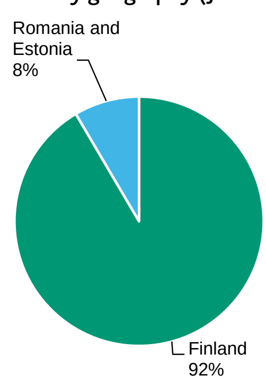
Headquartered in Imatra, Finland, Tornator Oyj (Tornator) is a pure-play timberland company with €3.5 billion worth of timberland assets. The group owns 774 thousand hectare forestland as of June 2024, of which 90% is located in Finland, 8% in Estonia and the remainder in Romania. In the last 12 months ended June 2024, the company generated €196 million of revenue, mostly by the sale of cutting rights, with Moody's adjusted EBITDA margin of 68%. All the group's forests are double-certified (PEFC™, FSC®), 70% is pine, 20% spruce. Since the demerger from Stora Enso in 2002, Tornator is a separate unlisted company. However, Stora Enso remains the largest shareholder with a 41% stake in the company while the rest is mostly owned by Finnish pension insurance companies and the OP Group.

Exhibit 3
Cash flow generation by division (2023)



Source: Company filings

Exhibit 4
Forest Assets breakdown by geography (June 2024)



Source: Company filings

Detailed credit considerations

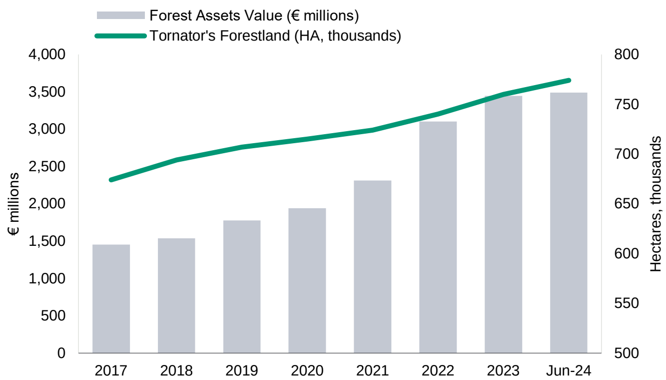
Business profile is underpinned by forestland assets

With just €196 million of revenue in the last twelve months ending June 2024, Tornator is significantly smaller than the majority of corporates we rate under the Paper and Forest Products industry methodology. However, since it operates solely as a timberland owner without any manufacturing facilities, we believe that measuring its scale by revenue alone is misleading. The company's credit profile is significantly bolstered by Tornator being the largest private forest owner in Finland, with 697,000 hectares of forest comprising 92% of the group's forest assets, in addition to 65,000 hectares of timberland in Estonia and 12,000 hectares in Romania. Tornator's forests are both PEFC- and FSC-certified, which proves that the wood has been produced sustainably. With €3.5 billion worth of forest assets (€3.6 billion in total assets), the company is comparable to US-based timber REITs such as Rayonier LP (Baa3 stable), which is also a pure-play forest owner, and PotlatchDeltic Corp (Baa3 negative), which, in addition to its approximately 850,000 hectares of forest in the US, also has a related wood product business. Based on assets, the company is even comparable to smaller but still investment-grade rated paper-producing corporates such as the Finnish paper packaging manufacturer Metsa Board Corp (Baa2 stable).

Tornator's main source of revenue and earnings is the sale of cutting rights (c. 90% of group revenue), though it also provides forest management and silviculture services. With very limited operational costs, its profitability is very high, with Moody's adjusted EBITDA margin of 68% in the last twelve months ending June 2024. We exclude the changes in fair value of biological assets from our calculation of EBITDA, which is in line with the company's own reporting practices. At the same time, the value of its forest assets has been constantly growing in recent years (Exhibit 5). This growth was partially driven by the change in forest valuation method in 2022, when the company switched from the discounted cash flow to the market transaction-based approach. However, the company believes that the new method is more transparent, given that more than a thousand forestland transactions (with over 2 hectares each) occur in Finland every year and can better capture the current value of its forest assets. On the other side, this method is more volatile and dependent on market fluctuations. The wood prices in Finland have been on a long-term growth trend but experienced a significant increase in the last two years because of the ban on the import of Russian wood since 2022. Given the structural imbalance between the supply and demand for wood in Finland, we expect prices to remain high in the coming years, especially in case of the revival of economic activity in both the paper and construction industries, which have experienced weak market environments in recent quarters.

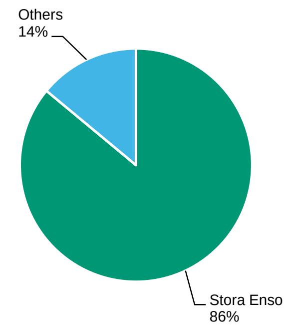
Since the demerger from Stora Enso Oyj (Baa3 stable) in 2002, Tornator entered into a wood sale and purchase agreement with Stora. In its recent extension, the companies have agreed to increase the volume of wood sold to Stora to 95% of Finnish wood, up from 80% previously. The agreement is valid until 2037. Tornator's wood supply is of high strategic importance to Stora, accounting for approximately 10% of Stora's total wood demand in Finland. This wood is a key input material for Stora's own pulp, paper, and wood products manufacturing. In contrary, Tornator could potentially find other customers for its wood supply, which represents approximately 5% of Finnish domestic consumption. While Tornator's sales volumes are largely secured through this agreement, its revenues and earnings still depend on fluctuations in market prices for wood. Theoretically, Tornator could increase harvesting in selective years to compensate for lower prices with higher volumes. However, it would then need to reduce harvesting in subsequent years to ensure felling rates remain below the natural growth rate, adhering to sustainable forest management principles. The growth in the value of Tornator's forest assets has also reflected an increase in the quantity of forestland in recent years, as felling remained below the growth of the forest, and the company was fairly active in acquiring new forestland. Despite being the largest private forest owner in Finland, Tornator owns only 3% of the Finnish forest.

Exhibit 5
Tornator's forest assets have been steadily growing



Periods are financial year-end unless indicated.
Source: Company filings

Exhibit 6
Revenue breakdown by customer (2023)



Source: Company filings

Moderate balance sheet leverage, cash generation is mostly used for paying dividends

The revenue metric can be misleading when assessing a company's size and scale. Similarly, the debt/EBITDA ratio does not fully capture the extent of financial leverage, in our view. As of June 2024, Moody's adjusted gross debt/EBITDA ratio was very high at 7.2x, staying around this level over the last five years. However, when comparing the level of debt to the company's assets, the balance sheet leverage appears much more moderate. With a debt-to-assets ratio of 26% as of June 2024, we believe this ratio is sufficiently strong for the Baa3 rating category and anticipate it will remain around this level in the coming years (Exhibit 1). Additionally, the timberland coverage ratio, defined as the value of timberland assets to Moody's adjusted gross debt, stands at around 3.6x. This ratio is not only comparable to that of rated US timber REITs but is also significant enough to justify a maximum possible two-notch uplift under the Paper and Forest Products methodology (Exhibit 11).

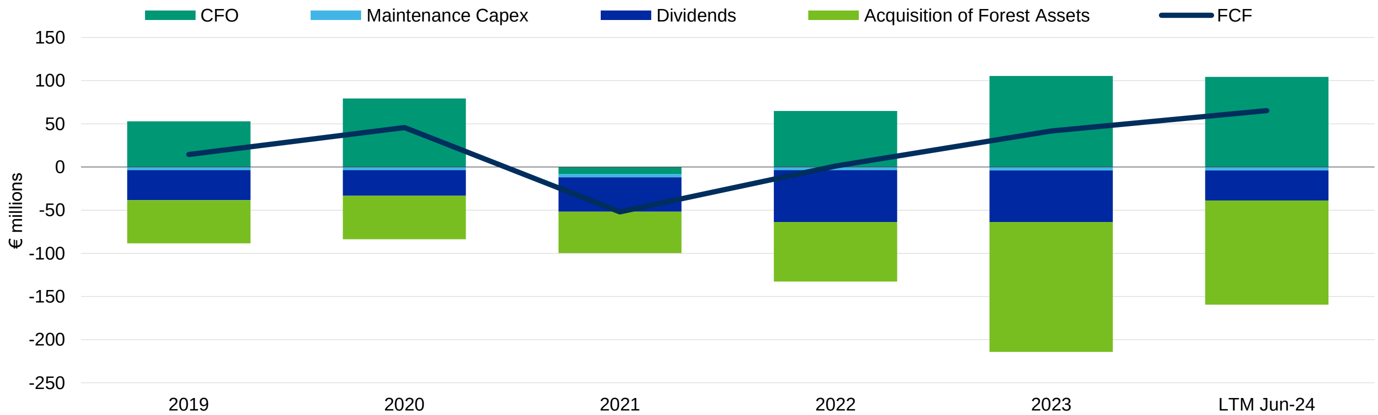
Despite relatively low levels of earnings in absolute terms, they are clearly sufficient to service Tornator's debt, as evidenced by its EBITDA/Interest Coverage Ratio of around 4x as of June 2024. However, the increase in interest rates has already been visible in the company's P/L and in the deterioration of the interest coverage ratio, which was close to 14x in 2022. We expect the ratio to stabilize around its current level, with a moderate increase in interest expenses in the coming years being offset by a moderate increase in earnings. In 2023, the company restructured its interest rate hedging strategy by replacing its interest rate swap with interest cap options, which have a nominal value of €170 million and an average cap rate of 0.2%. As of June 2024, these interest rate options exhibited a positive fair value of €37 million.

The company has generated sustainably positive free cash flow, as defined by Moody's, in the past. Its cash flow from operations in 2021 was impacted by exceptionally high financial expenses due to the termination of interest rate hedges with very long durations. Excluding this, the company generated approximately €60-80 million in operating cash flow in recent years while incurring only €3-4 million in maintenance capex. Consequently, the vast majority of the generated cash flow was distributed to shareholders in the form of dividends (Exhibit 7). In 2023, Tornator generated a record-high amount of €106 million in cash flow from operations (as defined by Moody's), but spent €4 million on capex and €60 million on dividends, resulting in a free cash flow (as defined by Moody's) of €42 million.

However, one of the main risks for its credit profile presents the acquisition of new forestland, on which the company has spent €45-€120 million annually in the last five years. Those acquisitions are often not covered by the company's cash generation and are financed with additional debt. In order to maintain its investment grade rating the company needs to remain prudent in terms of structuring those acquisitions that we believe will continue in coming years with respect to its debt-to-asset ratio, maintaining a headroom to its LTV covenant and retaining a good amount of liquidity cushion.

While the majority of the company's assets are pledged as collateral for its secured debt instruments, it has €500 million in unencumbered assets. These assets offer flexibility, allowing the company to enhance its liquidity, reduce its debt load, or both. This flexibility is significant, considering the company's total outstanding gross debt stands at €957 million as of June 2024.

Exhibit 7
Tornator's cash flows are used to pay dividends, while CAPEX is limited and acquisitions of new forest assets are discretionary



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Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Track record of conservative financial management that we expect to remain in the future

Tornator's financial policy aims to increase its forest value while providing its owners with a steady dividend flow, paying out 70% of its operating cash flow as dividends. However, unlike its REIT peers, Tornator can adjust its dividend distribution to enhance its capacity for meeting debt service obligations. The company's largest shareholders have agreed that maintaining an investment-grade rating is crucial to Tornator's risk management and financial strategy.

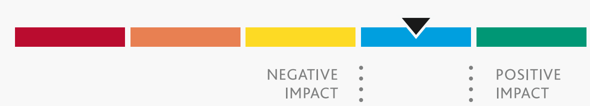
Over the past decade, the company has maintained its Loan-to-Value (LTV) ratio— as defined by its debt documentation—within a relatively narrow range of 35% to 45% (42% in 2023). This strategy ensures a comfortable margin below the sole financial covenant in its debt instruments, which is set at 70%. Since last year, Tornator also aims to keep its equity ratio above 50% (60% in 2023), having raised this target from the previous 40%.

ESG considerations

Tornator Oyj's ESG credit impact score is CIS-2

Exhibit 8
ESG credit impact score

CIS-2

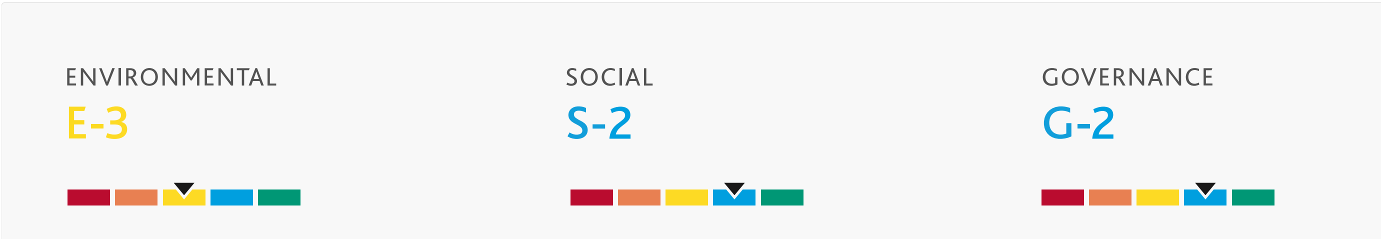


ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Tornator's **CIS-2** indicates that ESG considerations are not material to the rating because of the company's low social and governance risks and strong carbon transition score due to its pure-play timberland ownership

Exhibit 9
ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3 reflects the company's strong reliance on natural capital. Wildfires and insect infestations could negatively impact the growth and harvesting of the company's timberland operations. The absence of manufacturing facilities makes Tornator less exposed to physical climate, water management and pollution risks than other rated companies in the Paper and Forest Products industry.

Social

S-2 reflects the absence of manufacturing facilities and associated risks and low headcount of just around 190 employees. Tornator's forests are both PEFC- and FSC-certified, which proves that the wood has been produced sustainably.

Governance

G-2 score reflects Tornator's commitment to an investment grade credit profile. The company has demonstrated a conservative financial management, with a moderate level of financial leverage (defined as Debt to Asset ratio), in the past while maintaining a relatively solid level of liquidity. Nonetheless, as an unlisted company, its Board of Directors is fairly concentrated and lacks independent directors.

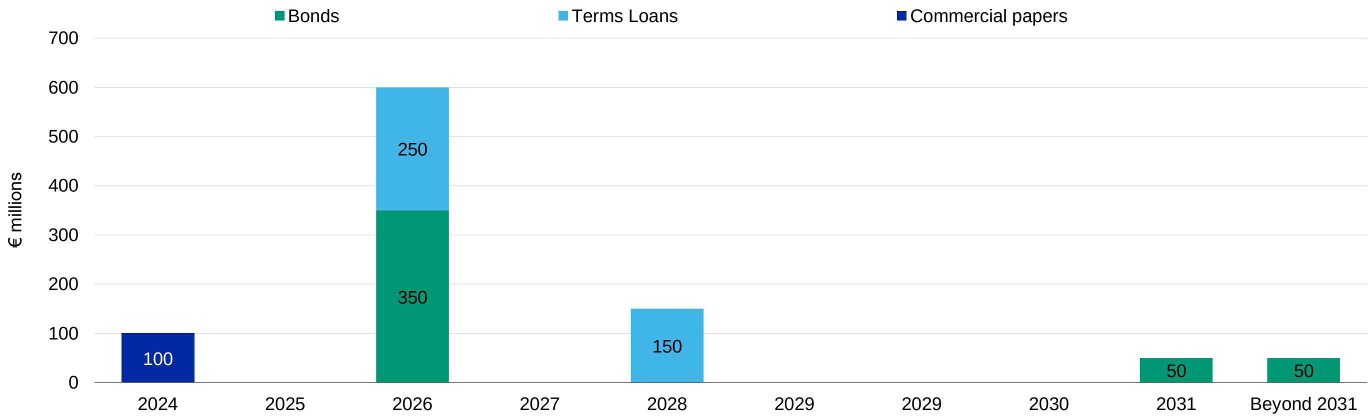
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Tornator's liquidity profile is solid. The company had only €7 million of cash on balance sheet as of the end of June 2024 but had access to a €200 million undrawn revolving credit facility (RCF), which maturity has recently been extended to September 2029. We expect the company to continue generating sufficient cash flow in coming years to cover its own capex and dividend payments, while the acquisition of new forest assets will likely require additional debt financing. In doing so, we assume that the amount of short-term debt, including commercial paper (€107 million outstanding as of the end of June 2024), will remain comfortably below Tornator's liquidity sources, including the undrawn RCF.

The company needs to proactively manage its upcoming debt maturities well before it becomes current. Tornator's debt maturity profile is highly concentrated, with approximately two-thirds of its outstanding debt (€600 million) coming due in 2026. However, the upcoming bond issuance should help extend and spread the company's debt maturity profile. Moreover, the assumed repayment of the outstanding commercial paper would also enhance the short-term liquidity profile.

Exhibit 10
Debt maturity profile
As of September 2024



Periods are financial year-end unless indicated.
Source: Company filings

Methodology and scorecard

We use our Paper and Forest Products Industry rating methodology, as the primary methodology for analysing Tornator, even though its business profile show similarities with a real estate company. The scorecard indicated outcomes based on the most recent financials and based on our 12-18 months expectations are in line with the actual assigned rating. Tornator's rating includes two notches uplift due to the flexibility provided by the timberland ownership.

Exhibit 11
Rating factors
Tornator Oyj

Paper and Forest Products Industry Grid	Current LTM Jun-24		Moody's 12-18 month forward view	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue ($ billions)	0.2	Ca	0.2	Ca
Factor 2 : Business Profile (35%)				
a) Product Line Diversification	B	B	B	B
b) Geographic and Operational Diversification	Ba	Ba	Ba	Ba
c) Market Characteristics	Ba	Ba	Ba	Ba
d) Fiber and Energy Cost Profile	Aa	Aa	Aa	Aa
Factor 3 : Profitability and Efficiency (10%)				
a) EBIT Margin	65.9%	Aaa	70.0% - 72.0%	Aaa
Factor 4 : Leverage and Coverage (30%)				
a) Debt / EBITDA	7.2x	Caa	7.2x - 7.6x	Caa
b) EBITDA / Interest	4.0x	Ba	4.0x - 4.5x	Ba
c) RCF / Net Debt	6.6%	Caa	1.0% - 3.0%	Ca
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
Indicated Outcome before Notching Adjustments		Ba2		Ba2
Notching Adjustments		2		2
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Baa3

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Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 12

Peer Comparison

Tornator Oyj

	Tornator Oyj			Weyerhaeuser Company			Rayonier Inc.			PotlatchDeltic Corporation		
	Baa3 Stable			Baa2 Stable			Baa3 Stable			Baa3 Negative		
(in $ millions)	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24
Revenue	165	195	196	10,184	7,674	7,531	879	815	768	1,331	1,024	1,069
Operating Profit	122	135	129	3,084	1,284	1,195	154	112	110	472	78	121
EBITDA	120	137	132	3,599	1,872	1,780	341	370	335	570	201	245
Total Debt	820	950	957	5,449	5,587	5,590	1,619	1,470	1,468	1,115	1,110	1,112
Cash & Cash Equivalents	19	41	7	1,581	1,164	997	114	208	142	344	230	200
EBIT / Interest Expense	13.4x	4.9x	3.9x	10.7x	4.5x	4.2x	4.6x	3.8x	3.5x	15.2x	2.8x	4.2x
Debt / EBITDA	6.8x	7.0x	7.2x	1.5x	3.0x	3.1x	4.7x	4.0x	4.4x	2.0x	5.5x	4.5x
RCF / Net Debt	0.2%	4.6%	6.6%	36.5%	5.6%	15.8%	7.1%	9.7%	4.9%	36.6%	5.2%	8.3%
FCF / Debt	0.1%	4.4%	6.8%	8.1%	-8.4%	-1.1%	-28.0%	1.9%	-1.0%	8.5%	-10.0%	-10.6%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13

Overview on selected historical Moody's-adjusted financial data

Tornator Oyj

(in € millions)	2019	2020	2021	2022	2023	LTM Jun-24
INCOME STATEMENT						
Revenue	106	118	129	165	195	196
EBITDA	78	95	105	120	137	132
EBIT	75	92	102	117	133	129
Interest Expense	23	21	8	9	27	33
BALANCE SHEET						
Cash & Cash Equivalents	19	57	17	19	41	7
Total Debt	651	691	751	820	950	957
Net Debt	632	634	734	801	909	949
CASH FLOW						
Funds from Operations (FFO)	56	47	51	62	102	98
Cash Flow From Operations (CFO)	53	79	(8)	65	106	104
Capital Expenditures	(4)	(4)	(4)	(4)	(4)	(4)
Dividends	(35)	(30)	(40)	(60)	(60)	(35)
Retained Cash Flow (RCF)	21	17	11	2	42	63
Free Cash Flow (FCF)	14	46	(52)	1	42	65
Acquisition of forest assets	(50)	(50)	(48)	(69)	(150)	(121)
RCF / Debt	3.2%	2.5%	1.4%	0.2%	4.4%	6.5%
(RCF - CAPEX) / Debt	2.7%	2.0%	0.9%	-0.3%	4.0%	6.1%
FFO / Debt	8.6%	6.8%	6.8%	7.5%	10.7%	10.2%
FCF / Debt	2.2%	6.6%	-6.9%	0.1%	4.4%	6.8%
RCF / Net Debt	3.3%	2.7%	1.5%	0.2%	4.6%	6.6%
PROFITABILITY						
% Change in Sales (YoY)	N/A	11.6%	8.8%	28.1%	18.4%	
EBIT margin %	70.8%	77.6%	79.4%	70.8%	68.4%	65.9%
EBITDA margin %	73.8%	80.2%	81.9%	72.9%	70.0%	67.6%
INTEREST COVERAGE						
EBIT / Interest Expense	3.3x	4.4x	13.4x	13.4x	4.9x	3.9x
EBITDA / Interest Expense	3.5x	4.5x	13.8x	13.8x	5.1x	4.0x
LEVERAGE						
Debt / EBITDA	8.3x	7.3x	7.1x	6.8x	7.0x	7.2x
Net Debt / EBITDA	8.1x	6.7x	7.0x	6.7x	6.7x	7.2x
Debt / Assets	35.4%	33.8%	31.2%	25.3%	26.2%	26.4%

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Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
TORNATOR OYJ	
Outlook	Stable
Senior Secured -Dom Curr	Baa3

Source: Moody's Ratings

REPORT NUMBER 1420853