Neova Oy
Republic of Finland, Commodity-focused Chemicals

STABLE

BBB-

Key metrics

			Scope estimates	
Scope credit ratios	2021	2022	2023E	2024E
Scope-adjusted EBITDA/interest cover	5.6x	5.2x	9.5x	7.9x
Scope-adjusted debt/EBITDA	0.5x	3.2x	3.0x	2.9x
Scope-adjusted funds from operations/debt	114%	16%	23%	28%
Scope-adjusted free operating cash flow/debt	-192%	4%	1%	1%

Rating rationale

The BBB- issuer rating of Neova Oy is based on the moderate business risk and financial risk profiles (both assessed at BB+) paired with the group's status as a government-related entity, which guarantees public support if liquidity is ever needed. The Stable Outlook reflects our expectation that credit metrics will remain fairly stable over the next few years and that the group's ownership structure and its role in Finland's energy environment will not change.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Neova's financial risk profile will remain fairly stable over the next few years, with Scope-adjusted debt/EBITDA standing at around 3.0x despite the weak cash flow cover (Scope-adjusted free operating cash flow/debt only moderately positive). This is supported by our assumption that the company's EBITDA margin will be retained above 10%. The Outlook is also based on our view that the Finnish state will continue having a strategic interest in Neova based on the group's ownership structure and its role in the energy environment in Finland.

A positive rating action could be considered if Scope-adjusted debt/EBITDA moved to 2.5x or below on a sustained basis, along with a strengthening of cash flow cover (i.e. Scope-adjusted free operating cash flow/debt above 5%).

A negative rating action could be triggered by a deterioration of credit metrics, with Scope-adjusted debt/EBITDA sustained at around 3.5x, or by any change that negatively affects our view of Neova's GRE status as a company of strategic interest and thereby its potential for support from public authorities.

Rating history

Date	Rating action	Issuer rating & Outlook
22 Dec 2023	New	BBB-/Stable

Ratings & Outlook

Issuer	BBB-/Stable
Short-term debt	S-2
Senior unsecured debt	BBB-

Analyst

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Related Methodologies

General Corporate Rating Methodology; Oct 2023

Chemicals Rating Methodology; Apr 2023

Government Related Entities Rating Methodology, Jul 2023

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[1] The credit rating(s) and outlook(s) provided in this document may not be shared with any unauthorised third party.

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Solid market position in 'growing media', a type of organic fertiliser, with a 10%-12% market share globally and market leadership in Europe • Leadership in Finland for energy peat and pellets, though activity expected to be divested in coming years • Strong competitive advantage in core business defending market share in Europe • Government-related entity status: Finnish state is majority owner with a strategic interest in the group (public support potentially wide) • Blended industry risk profile at BBB-, with exposure to the food value chain (primary needs, low volatility) • Comfortable debt protection until 2022 at around 5.5x, expected to improve over the next years to around 8.0x • Neova products' role in ecological transition for clean and sustainable food production (positive ESG factor)	• Stable profitability over the past years of around 10% but weaker compared to chemicals peers and even deteriorating in 2022 and 2023 • Low diversification of product portfolio (no contribution from specialty chemicals) despite high capacity for customisation • Leverage still sustainable but deteriorated as at YE 2022 and expected to remain at around 3.0x • Positive contribution from new businesses (i.e. activated carbons) and real estate (wind and solar plants) expected only from 2024 or 2025 • Volatile cash flow generation, with cash flow cover expected to remain very weak in the coming years • Exposure to energy peat, a very polluting fossil fuel, posing regulatory, environmental and political risks (negative ESG factor), but limited due to the envisaged divestment

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA leverage sustained at 2.5x or below, along with Scope-adjusted free operating cash flow/debt of above 5%	• Scope-adjusted debt/EBITDA leverage sustained at around 3.5x • Any change affecting ownership structure and ultimately status as a company with strategic value for the state

Corporate profile

Neova Oy is an international conglomerate based in Finland (Jyväskylä). It operates in 12 countries with a focus on the Nordics and Europe. The company was founded in 1940 and was formerly known as Vapo Oy, changing its name to Neova Oy in May 2021. In 2017, the group started to transform its business model from an energy company mainly engaged in heat and power (energy peat, wood, wood pellets as fuels for burning to create heat and electricity) into an international player in 'growing media', which is a type of organic fertiliser for professional growers, home gardeners and landscapers, offering both the products and the services. This decision was driven by the need to reduce dependency on energy peat, whose demand is expected to irreversibly decrease (also due to ESG goals), and replace it with other high-potential businesses based on peat (i.e. substrates for professional greenhouse cultivation and activated carbons).

Currently, Neova operates in three divisions:

- **Grow&Care –** garden soils, mulches and fertilisers for professional growers, consumers and landscapers under the Kekkilä, Hasselfors Garden, and BVB Substrates brands; Kekkilä-BVB specialises in the sustainable development, production and marketing of high-quality growing media (substrates) and is Europe's leading operator.
- **Fuels&Real Estate Development –** energy producers of peat, wood and pellet fuels in Finland, Sweden and Estonia; development of land owned by Neova for uses such as wind and solar power; around half of turnover from renewable biofuels.
- **New Businesses –** activated-carbon production, and air and water purification solutions; commercial production since autumn 2023; R&D towards new products and innovations such as bio stimulants produced from organic wetland biomass, capable of reducing plants' need for water and fertilisers.

  We define Neova as a government-related entity in line with our Government Related Entity Rating Methodology. This is based on its ownership structure, characterised by the presence of the Finnish state as the majority shareholder (50.1% of the shares), as well as the importance in Finland of certain services provided by the group, which can also be underpinned by the classification as a company of strategic interest for the state.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	5.8x	5.6x	5.2x	9.5x	7.9x	9.2x
Scope-adjusted debt/EBITDA	5.6x	0.5x	3.2x	3.0x	2.9x	2.4x
Scope-adjusted funds from operations/debt	10%	114%	16%	23%	28%	34%
Scope-adjusted free operating cash flow/debt	7%	-192%	4%	1%	1%	2%
Scope-adjusted EBITDA in EUR '000s						
EBITDA	53,826	562,815	46,890	44,750	49,345	55,770
Disposal gains fixed assets	(1,300)	(507,600)	(2,000)	-	-	-
Restructuring costs (extraordinary)	7,300	2,100	4,700	6,500	-	-
Associate dividends	1	45	-	-	-	-
Scope-adjusted EBITDA	**59,827**	**57,360**	**49,590**	**51,250**	**49,345**	**55,770**
Funds from operations in EUR '000s						
EBITDA (as per cash flow statement)	47,601	47,216	35,140	44,750	49,345	55,770
less: (net) cash interest as per cashflow	(13,303)	(9,460)	(6,600)	(8,737)	(7,779)	(7,426)
less: cash tax paid as per cash flow statement	240	(4,637)	(3,300)	92	(1,397)	(3,553)
add: dividends from equity investments	1	45	-	-	-	-
less: pension interest	(26)	(46)	(46)	(39)	(39)	(39)
less: interest attributable to asset retirement obligations	(271)	(285)	(287)	(256)	(256)	(256)
Funds from operations	**34,241**	**32,833**	**24,907**	**35,811**	**39,875**	**44,497**
Free operating cash flow in EUR '000s						
Funds from operations	34,241	32,833	24,907	35,811	39,875	44,497
Change in working capital	43,079	(50,678)	18,500	1,192	5,186	739
Non-operating cash flow	3,221	478	(600)	700	-	-
less: capital expenditure (net)	(44,764)	(29,143)	(26,360)	(27,627)	(34,967)	(33,967)
less: lease amortisation	(11,145)	(8,676)	(9,800)	(8,750)	(8,750)	(8,750)
Free operating cash flow	**24,632**	**(55,186)**	**6,647**	**1,326**	**1,345**	**2,519**
Net cash interest paid in EUR '000s						
Net cash interest per cash flow statement	8,651	9,835	9,200	5,100	5,930	5,752
Interest on subordinated hybrid debt (50%)	1,393	-	-	-	-	-
Pension interest	26	46	46	39	39	39
Interest attributable to asset retirement obligations	271	285	287	256	256	256
Net cash interest paid	**10,341**	**10,166**	**9,533**	**5,394**	**6,225**	**6,046**
Scope-adjusted debt in EUR '000s						
Reported gross financial debt	318,494	234,753	360,635	297,086	292,086	282,086
less: cash and cash equivalents	(13,366)	(219,296)	(214,696)	(155,792)	(161,181)	(161,114)
add: asset retirement obligations (net of deferred tax assets)	8,685	9,108	9,610	8,555	8,555	8,555
add: pension adjustment	3,908	4,222	3,360	3,200	3,200	3,200
add: subordinated hybrid debt (50%)	14,940	-	-	-	-	-
Scope-adjusted debt	**332,661**	**28,788**	**158,909**	**153,049**	**142,661**	**132,727**

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Environmental, social and governance (ESG) profile[2]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Neova products' role in ecological transition is credit-positive

Neova's high commitment to ESG goals has been demonstrated by its results and strategies. The company aims to contribute to the transition towards a sustainable economic system through all its three business areas. In the food supply chain, Neova's substrates provide a more sustainable and greener alternative to traditional chemical fertilisers, which pollute the environment. At the same time, the group is exploiting the wide availability of land in Finland by developing renewable energy plants (i.e. wind and solar) and hence actively contributing to Finland's clean energy transition. Neova's new businesses include the production of activated carbons, an important resource for both air and water cleaning, as well as bio stimulants and other innovations towards increasing sustainability in food production and promoting the circular economy.

Exposure to energy peat deemed overall neutral amid planned exit from business

Since peat used for power production is a fossil fuel responsible for significant carbon emissions and is envisaged to be abandoned by Finland in the long term, the group decided to phase out this business from 2017. However, the 2022 energy crisis forced Neova to maintain part of this activity and postpone its termination. Given the current decreasing exposure of the company and the full divestment planned in the medium term, potential regulatory, environmental and political risks are overall limited.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BB+

Blended industry risk profile: BBB-

Neova is engaged in several businesses, Therefore, its activities are not clearly definable or attributable to specific sectors. Considering the characteristics of the group's products related to its current core business of growing media, which are comparable to a certain extent to chemical outputs such as fertilisers, we believe that the commodity-focused chemicals industry, assessed at BBB, represents an adequate benchmark.

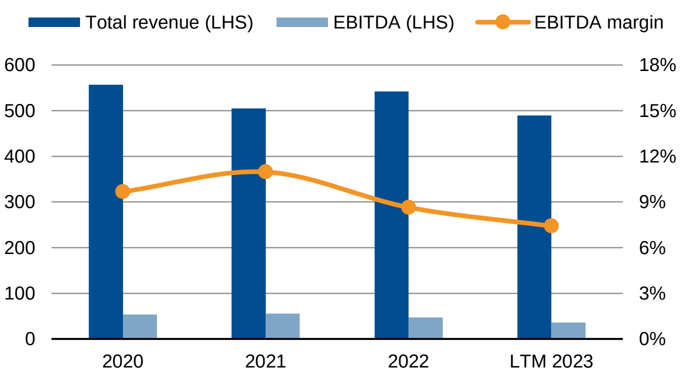
At the same time, we decided to consider the energy peat segment in the blended industry risk profile assessment. This is because the company operates in an energy division assimilated to the metals and mining sector and within fuel (i.e. peat, wood and pellet). The division also still generates around 25% of revenue, or about 40% of EBITDA, despite the strategic decision to divest the energy peat business in the medium term (the process slowed in 2022 to support Finland in the energy crisis).

The combination of the BBB integrated chemicals business (overweighted) and the BB metals and mining business (underweighted) results in a BBB- blended industry risk profile.

Leading position in Europe for growing media based on established presence across main countries of operation

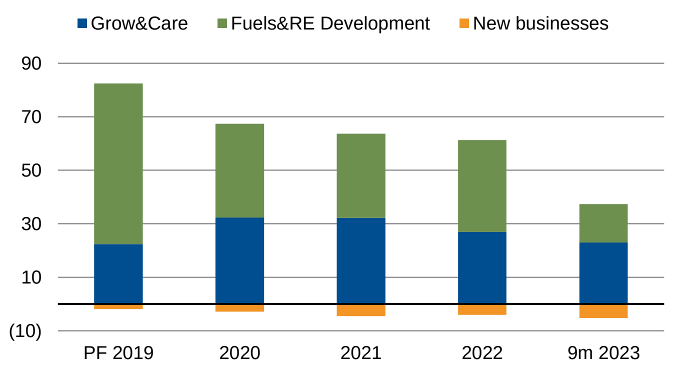
Kekkilä-BVB is the leading European player in growing media with a market share of almost 20%. The company is well established in several countries across Europe such as the Nordics, Netherlands, Germany, France and Italy. Neova has a wide geographical outreach as its products are exported to and used in more than 100 countries including the United States, Mexico and China. The group is one of the world's largest producers of peat for growing media.

Figure 1: Reported revenue and EBITDA (EUR m) vs reported EBITDA margin



Note: 2021 figures exclude one-off gain on Nevel's sale (EUR 507.4m). LTM 2023 as of September.
Sources: Neova, Scope

Figure 2: EBITDA breakdown by business segment (EUR m)



Note: PF 2019 represents full-year EBITDA for 2019 on a pro-forma basis
Sources: Neova, Scope estimates

Strong competitive advantage in the core business, defending current market share in Europe

Neova's leadership is based on a solid competitive advantage, deriving from i) the privileged access to raw materials resources, specifically regarding peat (which represents 70% of glass room professional growing); ii) the capacity to offer tailor-made and not easily replaceable products for any specific need (best substrate to grow a certain fruit/vegetable in specific climatic conditions), exploiting the high know-how developed in recent years; iii) customer trust, especially in the domestic market where the brand awareness of Kekkilä is high (above 90%); and iv) its geographical presence and proximity to clients (i.e. logistics), especially in Europe, with several production facilities across the continent, which allows better proximity to distribution channels and reduces logistics costs and times.

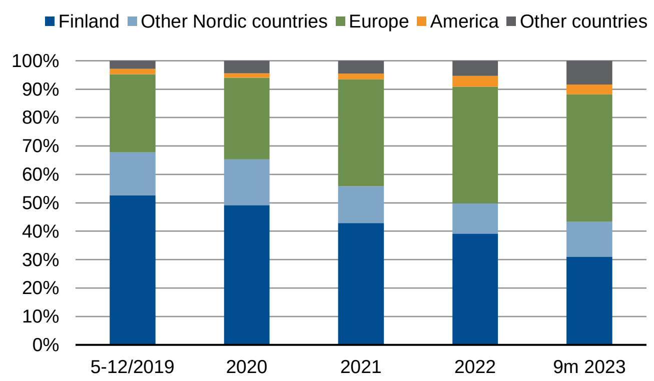
Leadership in Finland for energy peat, a business set to be divested

Although in autumn 2021 Neova decided to exit the energy peat business, the 2022 energy crisis forced the company to postpose these plans in the interest of national energy security. Energy peat boomed in 2022 because of the need for alternative power generation fuels, supporting the group's margins in the year. Neova closed highly profitable contracts for the sale of energy peat until 2028, as this fuel will remain in the Finnish energy mix portfolio for the next 10 years. The group is still the leader in Finland with a market share of around 60%, which is expected to be maintained in the coming years. As already mentioned, the planned abandonment of this fossil fuel in the medium term reduces the exposure to ESG-related risks.

Fragmented customer base curtailing concentration risk

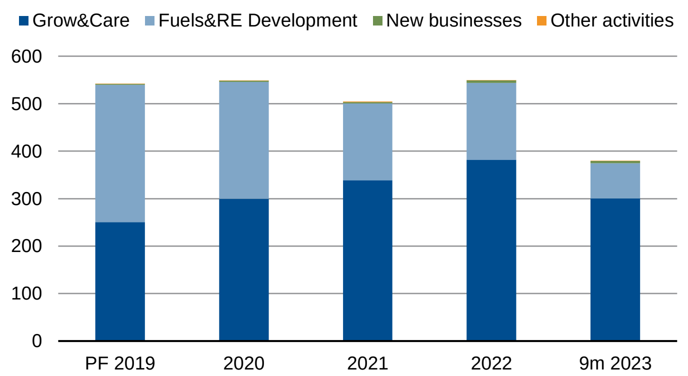
Neova is mainly exposed to B2B (professional clients), at around 65% of the total business. The remainder is related to the B2C channel (retail products for home garden), reached through big retailers such as OBI. A marginal part of its business includes landscaping (public entities, municipalities). Due to the nature and size of the clients, which are mainly represented by small growers, the customer base is quite fragmented, reducing concentration risk. If we considered end-customers for the served retail channel, the client portfolio would be even more fragmented. For these reasons, Neova's customer base is overall quite diversified.

Figure 3: Revenue breakdown by geography (%)



Sources: Neova, Scope

Figure 4: Revenue breakdown by business segment (EUR m)



Note: PF 2019 represents full year EBITDA for 2019 on a pro-forma basis
Sources: Neova, Scope

Business diversification expected to increase only from 2025

Whilst the contribution from energy peat remains significant, especially in terms of EBITDA (more than 30% of total), segment diversification is low due to the focus on becoming a global leader in growing media, which now accounts for more than 75% of revenue and around 70% of EBITDA. Contribution from new businesses is still negligible in terms of revenue, at just about 1% of total, and is even negative in terms of margins. From 2025, the growing weight of the real estate and activated carbon businesses will likely allow a progressive increase in business diversification.

Limited geographical diversification outside Finland despite good penetration of certain European markets

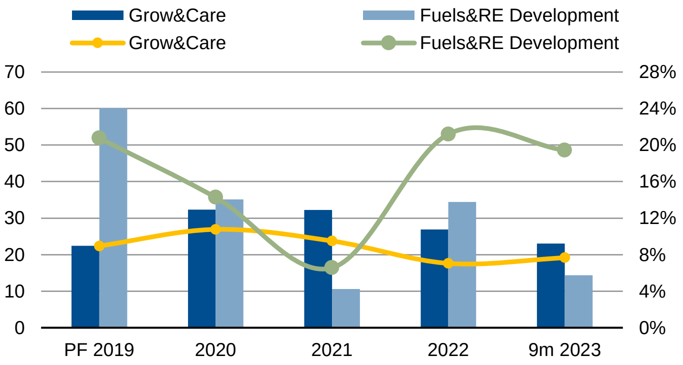
Neova derives its revenue from many countries, demonstrating a degree of diversification. Nevertheless, Finland remains by far the main market, accounting for about 40% of total revenue, even though this share has decreased over time, reaching about 30% in 9M 2023. The group is also clearly focused on Europe, which generates around 90% of total revenues.

Macroeconomic headwinds weakening profitability in 2022

In the past years, profitability was quite stable with EBITDA margins at 10%-11%. In 2022, despite the boost from energy peat amid the energy crisis, profitability worsened to around 9%. This was due to declining margins in Grow&Care after inflation affected raw materials and freight costs. Indeed, the company could only partially compensate for the higher costs incurred through price increases, especially to its B2B clients (i.e.

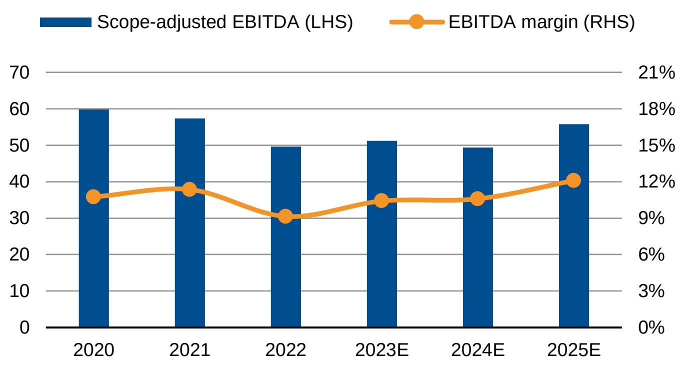
professional growers), whilst in the retail channel yearly agreements with big retailers prevented a timely review of pricing.

Figure 5: EBITDA (columns, EUR m) vs EBITDA margin (lines, %) by main business segments



Note: PF 2019 represents full-year EBITDA for 2019 on a pro-forma basis
Sources: Neova, Scope

Figure 6: Scope-adjusted EBITDA (EUR m) and EBITDA margin



Sources: Neova, Scope estimates

Cost optimisation supporting EBITDA margin in coming years

Even in 2023, profitability was under pressure, mainly due to lower sales volumes in Grow&Care (around -20% YoY) amid general declining demand for growing media. Given this, we expect revenues to reduce by about 10% YoY, which will entail higher overheads (i.e. worse absorption of fixed costs). For this reason, Neova’s management sought to preserve margins though measures such as downsizing production, selling price revisions and, most of all, cost savings including efficiency actions. While the impact of these measures will be seen mostly in 2024 and 2025, some benefit is expected already in 2023, allowing the EBITDA margin to slightly recover and return to around the historical average of 10%. For 2024 and 2025, thanks to these measures and the increasing contribution from new businesses (e.g. activated carbons) and real estate (wind and solar plants), profitability will likely improve, especially in 2025, when we estimate the EBITDA margin will reach around 12%.

Financial risk profile: BB+

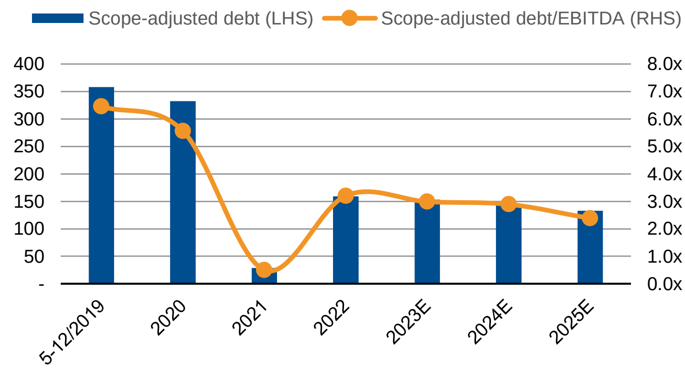
Temporary drop of net debt in 2021, benefitting from one-off cash inflows

In January 2021, Neova sold the greater part of its energy business, previously incorporated in NewCo Nevel, for around EUR 650m (with a net gain of EUR 508m), which created significant cash inflow. Half of the proceeds went to extraordinary dividends (EUR 250m). The other half was invested in marketable funds (including securities, deposits and commercial paper), used to refund loans and hybrid capital securities, and held as cash for future acquisitions. This caused Scope-adjusted debt to dramatically decline to EUR 28.8m as of December 2021 (down from EUR 332.7m at YE 2022), leading to a solid leverage of 0.5x.

Leverage deteriorated in 2022, driven by increasing debt

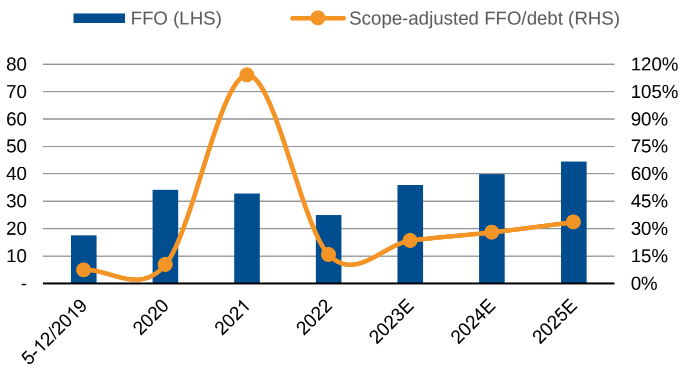
During 2022, Scope-adjusted debt rose significantly, reaching EUR 158.9m (up EUR 130.1m on December 2021), mainly due to the acquisition of a 30% minority stake in subsidiary Kekkilä-BVB (making it fully owned) for EUR 72m and dividend payments of EUR 60m. As a result, leverage increased to 3.2x at YE 2022, also penalised by the weaker Scope-adjusted EBITDA (down EUR 7.8m YoY).

Figure 7: Scope-adjusted debt (EUR m) vs Scope-adjusted/EBITDA



Sources: Neova, Scope estimates

Figure 8: Scope-adjusted funds from operations (FFO) in EUR m vs Scope-adjusted FFO/debt



Sources: Neova, Scope estimates

Scope-adjusted debt/EBITDA remaining around 3.0x in 2023-2024

On the basis of interim results as of September 2023, Scope-adjusted debt is expected to slightly decrease by around EUR 6m at year-end compared to December 2022, due to a still solid free operating cash flow (FOCF) and low dividend payments (EUR 9m). Given a Scope-adjusted EBITDA estimated to be fairly stable on the 2022 value, leverage is then likely to slightly improve at YE 2023, while remaining at around 3.0x. In 2024 a similar dynamic is envisaged, with a stable margin that will prevent leverage from decreasing significantly and despite the expected further decline of Scope-adjusted debt, driven by positive free operating cash flow and no dividend payments (nil profit in 2023). Conversely, in 2025 the expected growth of EBITDA, paired with lower Scope-adjusted debt, should result in leverage moving towards 2.5x.

Scope-adjusted FFO/debt expected at around 25% to 30%, after historical lows

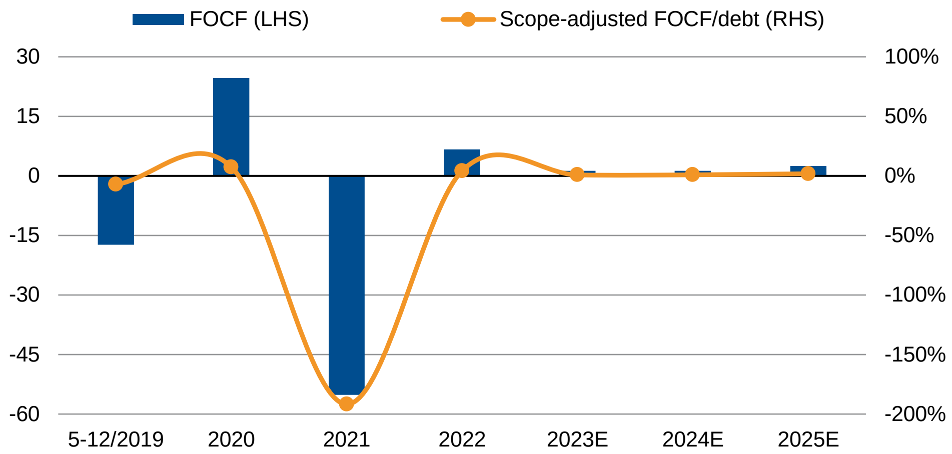
Scope-adjusted funds from operations (FFO)/debt had been low, averaging 12%, but peaked at 114% in 2021 due to the drop of Scope-adjusted debt. In 2022, this ratio returned to historical levels with 16% due to the sharp increase in net debt and lower Scope-adjusted FFO (EUR 24.9m vs EUR 32.8m in 2021). For 2023 we expect Scope-adjusted FFO/debt to improve slightly and exceed 20%, supported by higher FFO estimated at around EUR 36m and the expected decline of net debt. In 2024 and 2025 the progressive strengthening of margins and consequently of FFO, coupled with the envisaged decline of Scope-adjusted debt, will likely lead to a ratio of around 30%.

FOCF returning to positive in 2022 after drop of previous year

Historically, the company's capacity to generate positive and robust FOCF was volatile, partially affected by its transition phase over the last six years. In 2021, FOCF turned negative for EUR 55.2m, strongly penalised by high working capital absorption (almost

EUR 51m). In 2022 it returned to positive for EUR 6.6m, mainly thanks to the significant working capital release of EUR 18.5m driven by lower inventory due to increased sales of stocked energy peat. As a consequence, Scope-adjusted FOCF/debt stood at 4%.

Figure 9: Free operating cash flow (EUR m), Scope-adjusted FOCF/debt



Sources: Neova, Scope estimates

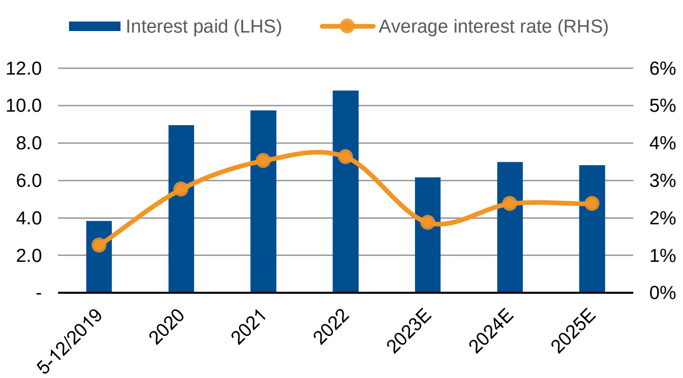
Internal financing capacity still weak in 2023-2025

For 2023, we again expect positive but declining FOCF at about EUR 1.3m despite stronger FFO. Working capital will likely show an additional release of cash, albeit minor, still determined by solid sales of energy peat inventory, while net capex should remain fairly aligned with the average of last two years of around EUR 27.5m. Given this expected low amount, Scope-adjusted FOCF/debt is likely to weaken and decline to around 1%. Also in the next two years, we project positive FOCF, benefitting from the cut back on the original, more ambitious investment plan. However, cash flow cover is expected to remain weak at around 1% to 2%, given the low amount of estimated FOCF. Overall, based on the above considerations, we believe that cash flow cover still represents the major constraint for Neova's financial risk profile, despite the confirmed capacity to fully finance net capex with internally generated resources.

Interest cover of around 5.0x to 6.0x until 2022, burdened by increasing interest payments

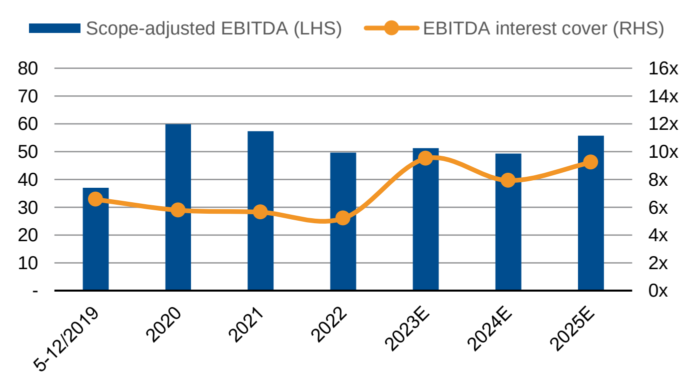
Over the past years Neova's debt protection was affected by high financial debt leading to high interest payments. Scope-adjusted EBITDA/interest cover constantly stood in the range 5.0x to 6.0x over 2019-2022, burdened by increasing interest payments amid the rising interest rates paired with a slight weakening of margins, especially in 2022.

Figure 10: Interest paid (EUR m) vs average interest rate



Sources: Neova, Scope estimates

Figure 11: Scope-adjusted EBITDA (EUR m) vs debt protection



Sources: Neova, Scope estimates

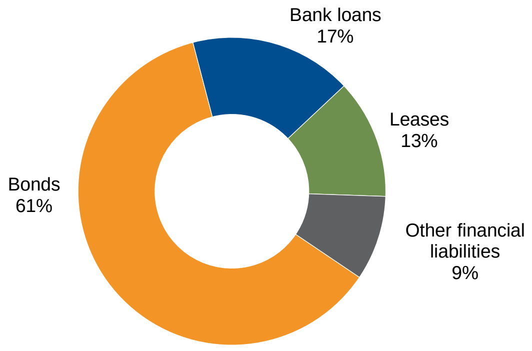
Lower interest payments supporting debt protection in next years

During 2023 Neova strongly reduced the recourse to short-term debt such as working capital facilities, from EUR 96m at December 2022 to around EUR 30m expected at YE 2023, also due to the slowdown of business. This should cause interest payments to significantly reduce by around EUR 4m, as already observed from Q3 interim results. As a result, given a stable Scope-adjusted EBITDA, we expect the interest cover ratio to improve considerably, towards 9x. Also for 2024 and 2025 this ratio is expected to remain comfortable in the range of 8.0x-9.0x, benefitting from the reduction of interest for decreasing debt and EBITDA growth (mainly in 2025).

Solid liquidity profile in 2022 and 2023, expected to be confirmed in next two years

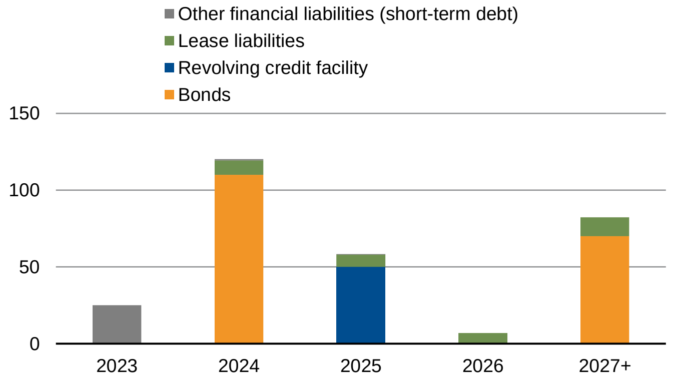
In 2022 the liquidity ratio was very comfortable at above 1,000%, benefitting from the large cash balance (and cash equivalents) available from the proceeds of Nevel's sale, which contributed to the significant liquidity headroom of above EUR 200m. At the same time, short-term debt to be refunded in the year lowered significantly compared to the past years, thanks to the repayment of financial debt (bilateral loans, hybrid bond), which reduced pressure on treasury management. The positive FOCF contributed to this result. In 2023, the liquidity ratio is expected to decline significantly, albeit remaining high at above 200%, due to large debt maturities (EUR 95.9m) given the higher recourse to short-term debt in 2022. Besides that year, in 2024 and 2025 liquidity will likely remain solid, still supported by the large amounts of cash and cash equivalents as well as positive FOCF. We highlight that the EUR 110m bond maturing in November 2024 is expected to be largely refinanced through a bond issuance, likely within a sustainable finance framework. Neova also relies on financial support by banks. When considering committed unused bank facilities, Neova's overall liquidity profile is even more reassuring, with liquidity ratios always far above 110%.

Figure 12: Debt composition as of October 2023



Sources: Neova, Scope

Figure 13: Maturity profile as of October 2023 (EUR m)



Sources: Neova, Scope

Balance in EUR '000s	2022	2023E	2024E
Unrestricted cash (t-1)	219,296	214,696	155,792
Committed unused credit lines (t-1)	50,000	30,000	50,000
Free operating cash flow (t)	6,647	1,326	1,345
Short-term debt (t-1)	20,184	95,925	120,100
Coverage	**> 200%**	**> 200%**	**172%**

Supplementary rating drivers: +1 notches

Credit-neutral financial policy

Management's appetite for discretionary spending is moderate and reflects a prudent approach, as demonstrated by its dividend policy and M&A activity. The payment of an extraordinary dividend of EUR 250m in 2021 was exceptional and strictly related to the ample liquidity available after Nevel's sale. The dividend policy in the coming years will envisage a pay-out ratio of 50% of net income, but this will depend on actual results and liquidity optimisation. The acquisitions conducted over the last years, mainly Kekkilä and BVB, are functional for the group's business transformation. Certain future investments will likely be subordinated to the preservation of a sound financial structure, to prevent debt-funded capex or M&As from excessively burdening leverage. Furthermore, the target leverage for future years is set at around 2.5x, or within 2x-3x, to meet covenants on outstanding bonds, demonstrating management's commitment to keeping credit metrics under control and the financial profile at investment grade.

One-notch rating uplift due to possible public support from Finnish authorities

Neova is considered a government-related entity in line with our Government Related Entity Rating Methodology. This is based on the public ownership by the Finnish state (50.1% of the shares) and the public importance of certain services provided in Finland by the group, signalled by its status as a company of strategic interest for the state. Given the positive differential between Neova's standalone issuer rating of BB+ on the one hand and the Republic of Finland's sovereign credit rating of AA+/Stable on the other, the capacity to provide financial support is high. In light of the strategic role played by Neova in Finland, especially in the context of national energy security, we deem the willingness of Finnish authorities to provide support as medium, as demonstrated by Neova's classification as a company of strategic interest for the state. Based on the above arguments, we grant a one-notch uplift to the standalone rating. However, we believe that state support could fade with the disposal of the energy-related business.

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB-

We have assigned a BBB- rating to senior unsecured debt issued by Neova Oy, the same level as the issuer rating.

Short-term debt rating: S-2

Neova regularly uses Commercial Paper, under a Euro Commercial Paper programme with a maximum of EUR 150m (about EUR 32m used as of November 2023). The programme is usually renewed yearly on a rolling basis as it provides useful and cheap resources for working capital requirements and treasury optimisation. We have assigned an S-2 short-term debt rating, based on the underlying BBB-/Stable issuer rating and an overall solid liquidity profile signalled by robust expected liquidity and good access to external funding from banks, the capital market and other funding channels.

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