Neova Oy
Republic of Finland, Commodity-focused Chemicals

STABLE
BBB-

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA interest cover	5.2x	4.4x	5.2x	6.0x
Scope-adjusted debt/EBITDA	3.2x	3.4x	2.6x	2.9x
Scope-adjusted funds from operations/debt	16%	19%	25%	26%
Scope-adjusted free operating cash flow/debt	4%	-1%	18%	-3%

Rating rationale

The BBB- issuer rating of Neova Oy is based on the moderate business risk and financial risk profiles (both assessed at BB+) coupled with a positive rating adjustment for the group's status as a government-related entity (GRE), which provides a one-notch uplift to the BB+ standalone credit assessment. The Stable Outlook reflects our expectation that leverage will remain stable below 3.0x 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 credit metrics will improve solidly over the next few years, with Scope-adjusted FFO/debt developing within a range of 25-30% despite weak cash flow cover (Scope-adjusted free operating cash flow/debt around breakeven). 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 to have a strategic interest in Neova due to the group's ownership structure and its role in the energy environment in Finland.

The **upside scenario** for the rating and Outlook is:

1) a stronger balance sheet, e.g. Scope-adjusted FFO/debt improving to above 35% on a sustained basis, supported by an improvement of cash flow cover (i.e. Scope-adjusted free operating cash flow/debt above 5%).

The **downside scenarios** for the rating and Outlook are (individually or collectively):

1) a sustained deterioration in the company's financial risk profile, as indicated by a Scope-adjusted FFO/debt deteriorating to below 25% on a sustained basis, paired with a weakening of cash flow cover (i.e. negative Scope-adjusted free operating cash flow/debt);
2) 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/monitoring review	Issuer rating & Outlook
19 Dec 2024	Affirmation	BBB-/Stable
22 Dec 2023	New	BBB-/Stable

Ratings & Outlook

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

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Related Methodologies

General Corporate Rating Methodology; October 2023

Chemicals Rating Methodology; April 2024

Government Related Entities Rating Methodology, December 2024

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Solid market positioning in Europe (leader in the growing media market) and globally, based on well-established presence in main countries • Leadership in Finland for the energy peat and pellet business, albeit expected to be scaled down in the medium term • Strong competitive advantage in the core business, defending the current market share in Europe • GRE status: Finnish state is the majority owner with a strategic interest in the group • Blended industry risk profile at BBB-, with exposure to the food value chain (primary needs, low volatility) • Comfortable debt protection at around 5.0x, expected to slightly improve over the next few years • Role of Neova's products (growing media) in ecological transition, for clean and sustainable food production (ESG factor)	• Stable profitability over the past years around 10%, but weaker compared to other peers in the chemical industry • Low diversification of product portfolio for growing media (no contribution of specialty chemicals), despite the high capacity of customisation • Leverage at good levels but deteriorated at YE 2023 and expected to remain in the range 2.5x-3.0x • Positive contribution from new businesses (i.e. activated carbons) and real estate (i.e. development of wind and solar plant projects) expected to occur only from 2025-2026 • Historically volatile cash generation, with a relatively weak cash flow cover in the coming years • Exposure to energy peat (very polluting fossil fuel) poses some regulatory, environmental and political risks (ESG factor), but still limited due to the envisaged ramp-down

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted FFO/debt improving to above 35% on a sustained basis, supported by improved cash flow cover (Scope-adjusted FOCF/debt above 5%)	• Scope-adjusted FFO/debt deteriorating to below 25% on a sustained basis, accompanied by weaker cash flow cover (negative Scope-adjusted FOCF/debt) • Any change affecting the ownership structure and ultimately the current status (i.e. company with a strategic interest for the Finnish State)

Corporate profile

Neova Oy is an international conglomerate based in Finland (Jyväskylä). It operates in 11 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 into an international player in 'growing media', which is a type of organic fertiliser for professional growers, home gardeners and landscapers. 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).

In accordance with the organisation at the start of 2024, Neova's reporting segments are:

- **Kekkilä-BVB (formerly '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.
- **Neova Terra (formerly 'Fuels&Real Estate Development' and 'New Businesses') –** includes the fuel businesses responsible for energy peat sales, energy pellet production and sales, supporting food and energy security of supply in Finland, Sweden and Estonia. The division also supplies its customers with growing media raw materials based on peat, moss and reed canary grass, as well as bedding peat, local peat and biofuels for energy production. Lastly, Neova Terra manages the company's land and real estate property and is responsible for developing wind and solar power projects and new businesses, such as activated carbons and bio stimulants.

Financial overview

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**LTM Sep2024**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	5.2x	4.4x	3.7x	5.2x	6.0x	7.2x
Scope-adjusted debt/EBITDA	3.2x	3.4x	2.8x	2.6x	2.9x	2.5x
Scope-adjusted funds from operations/debt	16%	19%	33%	25%	26%	31%
Scope-adjusted free operating cash flow/debt	4%	-1%	26%	18%	-3%	1%
Scope-adjusted EBITDA in EUR '000s						
EBITDA	46,890	29,200	41,200	44,776	52,955	58,465
Other items (incl. one-offs, non-recurring)	2,700	19,150	8,200	8,200	-	-
Scope-adjusted EBITDA	**49,590**	**48,350**	**49,400**	**52,976**	**52,955**	**58,465**
Funds from operations in EUR '000s						
EBITDA adjusted (for no cash movements)	35,140	39,600	54,060	44,776	52,955	58,465
less: net cash interest paid	(9,533)	(10,954)	(13,288)	(10,242)	(8,887)	(8,098)
less: cash tax paid per cash flow statement	(3,300)	(760)	(3,880)	(1,856)	(3,190)	(5,047)
Other non-operating charges before FFO	2,600	4,040	7,300	1,312	(942)	87
Funds from operations (FFO)	**24,907**	**31,927**	**44,193**	**33,989**	**39,937**	**45,407**
Free operating cash flow in EUR '000s						
Funds from operations	24,907	31,927	44,193	33,989	39,937	45,407
Change in working capital	18,500	3,560	21,840	26,366	(2,808)	(2,520)
Non-operating cash flow	(600)	1,350	1,350	-	-	-
less: capital expenditure (net)	(26,360)	(28,400)	(23,280)	(26,800)	(32,800)	(32,800)
less: lease amortisation	(9,800)	(9,300)	(9,300)	(9,070)	(9,070)	(9,070)
Free operating cash flow (FOCF)	**6,647**	**(864)**	**34,803**	**24,485**	**(4,741)**	**1,017**
Net cash interest paid in EUR '000s						
Net cash interest per cash flow statement	9,200	10,520	12,970	9,814	8,463	7,678
add: other interest (i.e. pensions, AROs)	333	434	318	428	424	420
Net cash interest paid	**9,533**	**10,954**	**13,288**	**10,242**	**8,887**	**8,098**
Scope-adjusted debt in EUR '000s						
Reported gross financial debt	360,635	307,510	302,900	210,830	201,730	193,430
less: cash and cash equivalents	(214,656)	(157,218)	(182,470)	(90,500)	(66,153)	(63,706)
add: pension adjustment	3,360	3,360	3,200	3,360	3,360	3,360
add: asset retirement obligations (AROs)	9,610	12,540	12,300	12,300	12,150	12,000
Scope-adjusted debt (SaD)	**158,949**	**166,192**	**135,930**	**135,990**	**151,087**	**145,084**

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Environmental, social and governance (ESG) profile[1]

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 strong commitment to ESG goals has been demonstrated through its results and strategies. The company aims to contribute to the transition to a sustainable economic system through all its businesses. In the food supply chain, Neova's substrates provide a more sustainable and greener alternative to traditional chemical fertilisers that pollute the environment. At the same time, the group is exploiting Finland's abundant land by developing renewable energy plants (i.e. wind and solar), thus actively contributing to Finland's clean energy transition. Neova's new businesses include the production of activated carbon, an important resource for both air and water purification, as well as bio-stimulants and other innovations to increase the sustainability of food production and promote the circular economy.

Exposure to energy peat deemed credit-neutral overall amid its planned ramp-down

As peat used for energy production is a fossil fuel responsible for significant carbon emissions and is to be phased out in Finland in the long term, the group decided to divest this business from 2017. However, the energy crisis in 2022 forced Neova to maintain part of this activity and postpone its termination. Overall, the potential regulatory, environmental and political risks are limited, given the company's current declining exposure for the planned ramp-down in the medium term.

[1] 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 which are reflected by a blended industry risk profile. The company's activities are not clearly definable or attributable to one sector only. Considering the characteristics of the group's products related to its core business of growing media, which are somewhat comparable to chemical outputs such as fertilisers, we believe that the commodity-focused chemicals industry, assessed at BBB, represents an adequate benchmark.

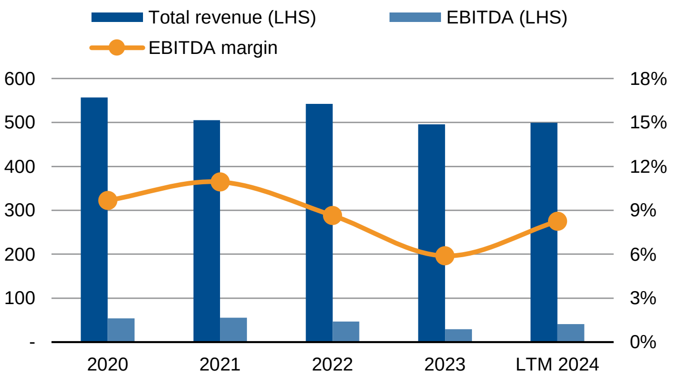
At the same time, we reflect the energy peat segment in the blended industry risk profile. This is because the company operates in an energy division assimilated to the oil and gas sector and within fuel (i.e. peat, wood and pellet). The division still generates around 20% of revenue, despite the strategic decision to scale down 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 oil and gas 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

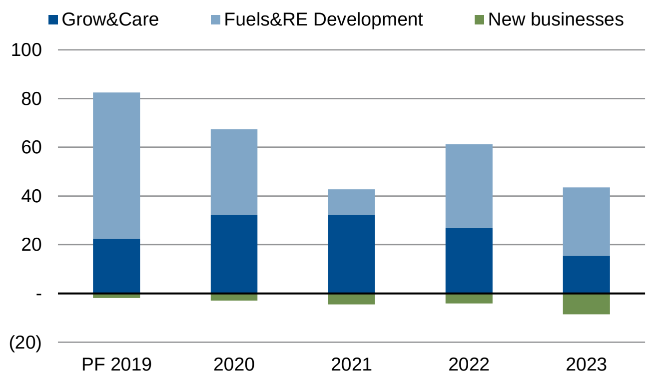
Kekkilä-BVB is the leading European player in growing media with a market share of almost 20%. The company is well established in several countries across Europe such as the Nordics, Netherlands, Germany, France and Italy. Neova has a wide geographical outreach as its products are exported to and used 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 2024 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
* based on the organisational structure of reporting segments until 2023
Sources: Neova, Scope

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.

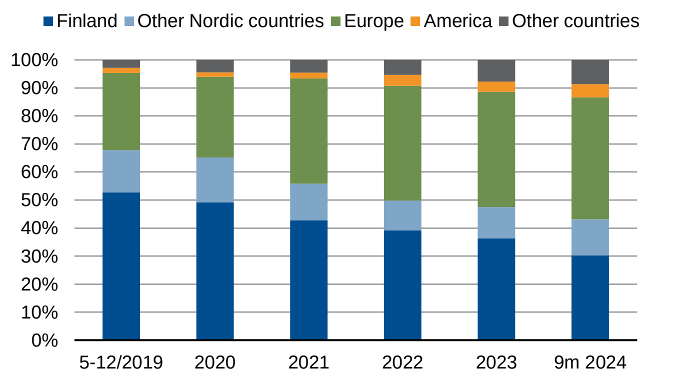
Leadership in Finland for energy peat, a business set to be scaled down

Although in autumn 2021 Neova decided to exit the energy peat business, the 2022 energy crisis across Europe 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 ramp-down of this fossil fuel in the medium term reduces the exposure to ESG-related risks.

Fragmented customer base curtailing concentration risk

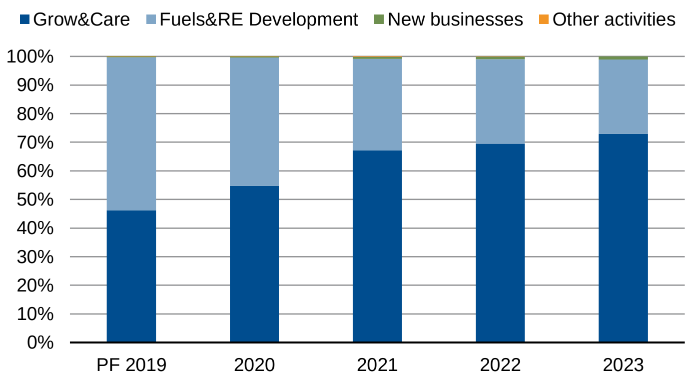
Neova is mainly exposed to B2B sales (professional clients), at around 65% of the total business. The remainder is related to the B2C channel (retail products for home garden), reached through big retailers such as OBI. A marginal part of its business includes landscaping (public entities, municipalities). 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* (%)



Note: PF 2019 represents full year EBITDA for 2019 on a pro-forma basis
* based on the organisational structure of reporting segments in force until 2023
Sources: Neova, Scope

Business diversification expected to increase only from 2026

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 around 70% of revenue and 60% of EBITDA. Contribution from new businesses is still negligible in terms of revenue, at just about 2% of total, and is even negative in terms of margins. From 2026, the growing weight of the real estate and activated carbon businesses will likely allow a progressive increase in business diversification.

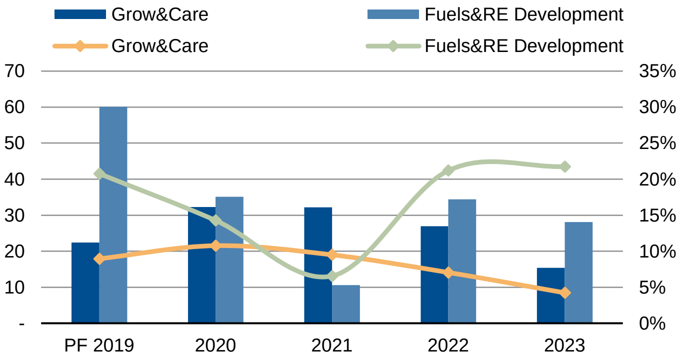
Limited geographical diversification outside Finland despite good penetration of certain European markets

Neova derives its revenue from many countries, demonstrating a moderate degree of diversification. Nevertheless, Finland remains by far the main market, accounting for about 40% of total revenues, even though this share has decreased over time, reaching about 30% in the first 9 months of 2024. The group is also clearly focused on Europe, which generates almost 90% of total revenues.

Macroeconomic headwinds weakening profitability in 2022 and 2023

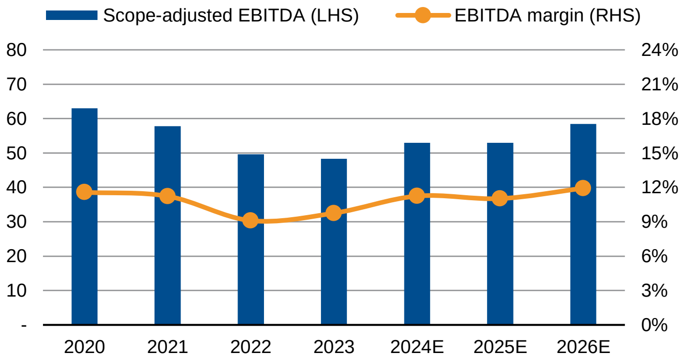
In the past years, profitability was stable with EBITDA margins at 10%-11%. In 2022 and 2023, despite the boost from energy peat amid the energy crisis, profitability worsened to around 9%. This was due to decreasing margins in Grow&Care, impacted by lower sales volumes amid a general decline in the growing media market, coupled with higher freight and material 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
* based on the organisational structure of reporting segments in force until 2023
Sources: Neova, Scope

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



Sources: Neova, Scope estimates

Cost optimisation supporting EBITDA margin in coming years

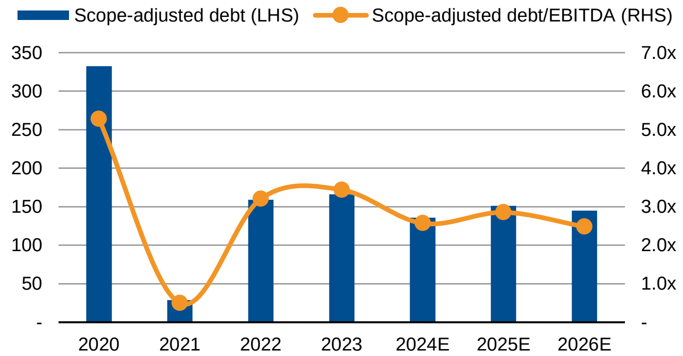
As profitability suffered from the higher incidence of overheads, due to lower revenue and then a worst absorption of fixed costs, Neova's management sought to preserve margins though measures such as downsizing production, selling price revisions and, most of all, cost savings including efficiency actions. Consequently, despite the still weak demand in the market and revenue remaining stable, profitability is expected to improve significantly in 2024, as already displayed by interim results for the first 9 months (EBITDA margin of 10.7%), benefitting from cost efficiency programs and productivity improvement actions. In the same way, we foresee EBITDA margin to remain solidly above 10% in the coming years, supported by lower fixed costs, an expected return to more favourable macroeconomic and market conditions (i.e. declining inflation and interest rates), a decreasing weight of low-profit energy peat and an increasing contribution from the high-profit real estate business on renewables.

Financial risk profile: BB+

Leverage deteriorated in 2022 and 2023, driven by increasing debt and weaker margins

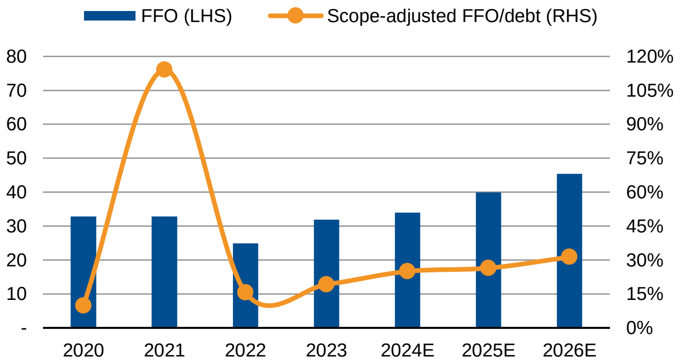
During 2022, Scope-adjusted debt rose significantly, mainly due to the acquisition of a 30% minority stake in subsidiary Kekkilä-BVB (making it fully owned) for EUR 72m and dividend payments of EUR 60m. As a result, leverage increased to 3.2x at YE 2022, also penalised by the weaker Scope-adjusted EBITDA. Even in 2023, leverage remained above 3.0x, given the weak EBITDA and the slightly increasing debt (up EUR 7.2m on December 2022) which was penalised by higher AROs and dividends paid for EUR 9.0m.

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 expected to stand below 3.0x from 2024 onwards

Based on interim results as of September 2024, Scope-adjusted debt is expected to significantly decrease by around EUR 30m at YE 2024 compared to YE 2023, due to a robust free operating cash flow and low dividend payments (EUR 4.0m). Given also the expected EBITDA growth, we forecast leverage to improve to 2.6x at YE 2024 (vs 3.4x at YE 2023). Conversely, in 2025 the relevant dividend distribution foreseen by the company (i.e. EUR 20m) should entail an increase of Scope-adjusted debt, leading to a higher leverage albeit remaining below 3.0x. From 2026 onwards, while we project internal financing capacity to remain relatively weak due to rising capex, we believe that Neova will manage to keep leverage below 3.0x, benefiting from increasing margins.

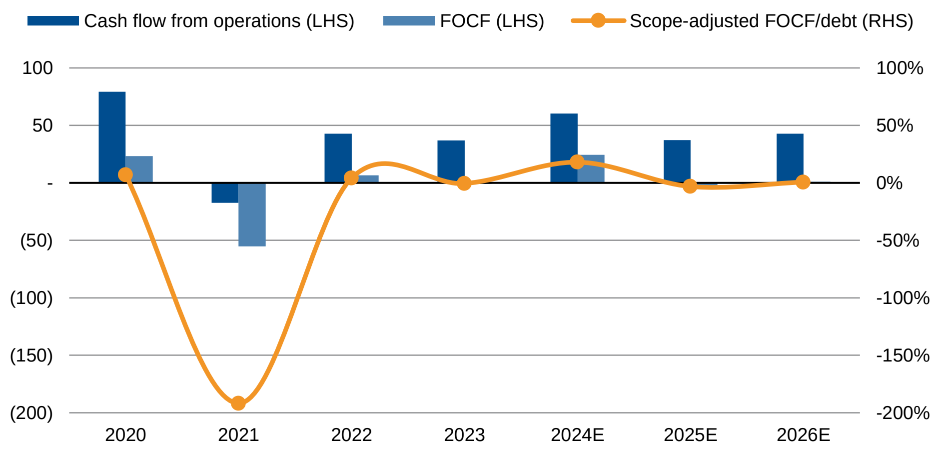
Scope-adjusted FFO/debt expected at around 25% to 30%, after historical lows

In 2023, Scope-adjusted funds from operations (FFO)/debt slightly improved to 19% (versus 16% in 2022), driven by the strengthening of FFO (up EUR 7m YoY), while remaining relatively moderate. From 2024 onwards, the progressive improvement of economic performance with more robust margins will likely sustain a strengthening of cash flow generation, reflected in increasing funds from operations. Given that and considering also the foreseen stable net debt, we project the ratio FFO/debt to gradually grow, while stably standing in the range 25% to 30%.

Internal financing capacity still weak in 2023, while rebounding this year

In 2023, despite the higher FFO, Scope-adjusted free operating cash flow (FOCF) turned slightly negative (EUR -0.1m), burdened by the increasing net capex in the period (up EUR 2.0m). Conversely, for this year we expect a significant rebound of cash flow generation, driven by the stronger margins and especially by the relevant release of cash from working capital (estimated at around EUR 26.0m), related to the reduction of inventory. Indeed, during 2023 and continuing this year, efforts have been made to reduce Kekkilä-BVB's inventory levels and, correspondingly, the level of Neova Terra's energy peat stocks. In light of that. FOCF is expected to be robust above EUR 20m in 2024, leading to a FOCF/debt estimated at 18%.

Figure 9: Cash flow from operations and Free operating cash flow (EUR m) versus Scope-adjusted FOCF/debt



Sources: Neova, Scope estimates

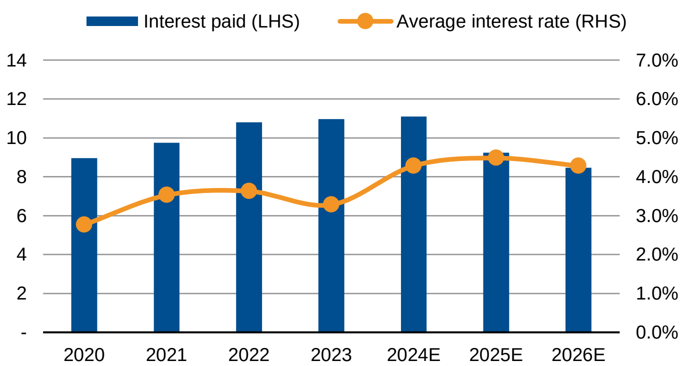
Increasing investments putting pressure on cash flow in the next two years

For 2025 and 2026 the company plans to accelerate on investments, especially regarding development projects of RES and business expansion worldwide (mainly in Asia and America). Due to that, we expect internal financing capacity to return relatively weak, with FOCF around break-even, despite the foreseen higher margins sustaining more robust FFO. FOCF/debt is then projected to stand around 0%. 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 cover net capex with internally generated resources.

Interest cover falling below 5.0x in 2023, burdened by increasing net interest paid and weak margins

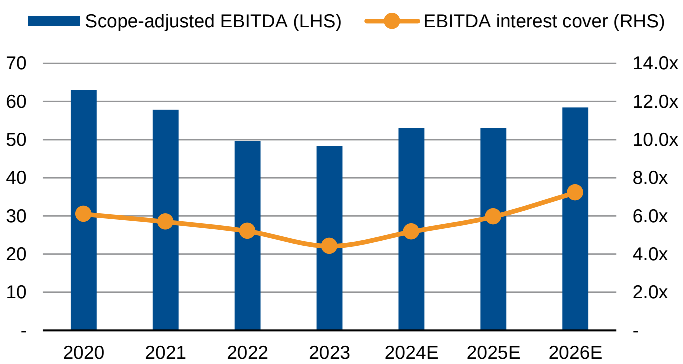
Over the past years Neova's debt protection was affected by high financial debt determining significant amounts of interest paid. Scope-adjusted EBITDA interest cover constantly stood in the range 5.0x to 6.0x over the period 2019-2022, burdened by increasing interest paid amid the rising interest rates environment, coupled with a slight weakening of margins (especially in 2022). In 2023, interest cover further deteriorated to 4.4x, due to the weaker EBITDA and the higher net interest paid (up EUR 1.4m YoY), penalised by the decreasing interest income.

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

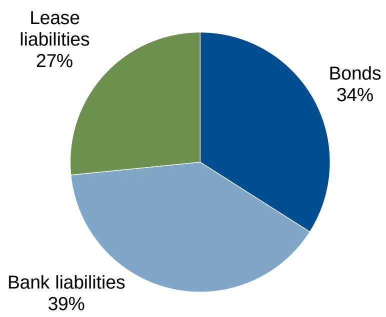
Lower net interest paid supporting debt protection in the next few years

In 2024, the likely recovery of operating margins, with Scope-adjusted EBITDA expected to grow by around EUR 5m, is expected to bring interest cover back to the 2022 level, namely above 5.0x. For 2025 and 2026, we expect a reduction in net interest paid, deriving from the decrease of gross financial liabilities already visible in 2024 (following the repayment of maturing EUR 110m bond). At the same time, the estimated growth of margins could further support debt protection, leading to an interest cover ratio gradually approaching 7.0x.

Solid albeit weakening liquidity profile in 2023 and 2024, expected to be confirmed in next two years

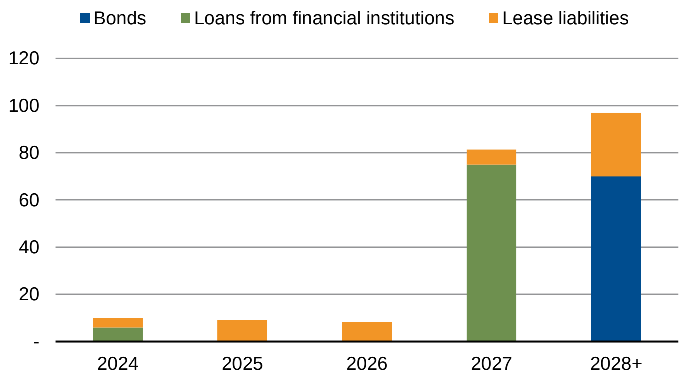
In 2023, liquidity ratio significantly declined, albeit remaining at very comfortable levels (above 200%), due to the pressure of large maturing debt (EUR 86.8m), given the higher recourse to short-term debt in 2022. In 2024, liquidity ratio is expected to fall below 200%, due to the pressure of EUR 100m bond maturing in October, however remaining above 110%, still supported by large cash and cash equivalents amount (around EUR 90m forecasted at YE 2024) as well as the estimated positive FOCF (around EUR 24.0m). Besides that year, in 2025 and 2026 liquidity will likely remain solid, mainly benefitting from the relief given by lower short-term debt compared to the recent past, coupled with still large amounts of available cash. Neova also relies on financial support by banks. When considering committed unused bank facilities, raised from EUR 50m to EUR 75m during 2024, the company's overall liquidity profile is even more reassuring, with liquidity ratios always far above 110%.

Figure 12: Debt composition as of October 2024



Sources: Neova, Scope

Figure 13: Maturity profile as of October 2024 (EUR m)



Sources: Neova, Scope

Balance in EUR '000s	2023	2024E	2025E
Unrestricted cash (t-1)	214,656	157,218	90,500
Committed unused credit lines (t-1)	30,000	75,000	75,000
Free operating cash flow (t)	(864)	24,485	(4,741)
Short-term debt (t-1)	86,825	148,310	37,470
Coverage	**> 200%**	**173%**	**> 200%**

Supplementary rating drivers: +1 notch

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&A 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 bond, 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 credit assessment of BB+ on the one hand and the Republic of Finland's sovereign credit rating of AA+/Stable on the other, the capacity of the controlling shareholder 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. The upnotching is limited to one notch, taking into account that Neova is not 100% directly owned by the government (but also indirectly by municipalities/communities) and that an important portion of its activities is outside of Finland. However, we believe that state support could fade in the medium term with the planned disposal of the energy-related business.

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB-

The BBB- rating on senior unsecured debt issued by Neova Oy is at 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 (fully undrawn as of November 2024). The programme is usually renewed every year on a rolling basis as it provides useful and cheap resources for working capital requirements and treasury optimisation. Based on the underlying BBB-/Stable issuer rating and the solid liquidity profile, coupled with good access to external funding from banks, the capital market and other funding channels, the short-term debt rating is at S-2.

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