Bulletin:

Essity's New Committed Credit Facility Supports Its Liquidity Profile

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This report does not constitute a rating action.

MILAN (S&P Global Ratings) March 11, 2024--S&P Global Ratings said today that Essity AB (BBB+/Stable/A-2) has strengthened its liquidity to handle liquidity risk arising from a potential action by a group of bondholders to ask for the early redemption of Essity's outstanding notes.

On Dec. 15, 2023, Essity signed an irrevocable undertaking to accept the offer to sell all of its 51.59% shareholding of Hong Kong-listed personal hygiene company Vinda International Holdings Ltd. (Vinda) to Isola Castle Ltd. This will likely result in gross cash proceeds of about Swedish krone (SEK)19 billion (about €1.7 billion). On March 4, 2024, the required regulatory approvals for the public offer for the shares in Vinda have been obtained, representing a major step toward the conclusion of the deal, expected by mid-2024.

We understand that a group of Essity AB's bondholders is claiming early repayment of Essity' s outstanding notes at par, along with accrued interests. This is because they believe Essity has breached the "cessation of business" clause in the EMTN program, by agreeing to sell its 51.59% stake in Vinda. That said, we understand as of today the company has not received any formal notice regarding the early repayment. Essity received legal advice, leading to a conclusion that a divestment of its shares in Vinda does not constitute cessation of business.

We do not have visibility into the likelihood this event could materialize and the related timing for any possible early debt redemption. However, as part of group's prudent financial policy, Essity has taken some mitigating liquidity actions through the signing of a new SEK44.4 billion (€4 billion) committed credit facility maturing in December 2024 with extension options until June 2026 at the company's discretion. At the end of fiscal-year 2023, the company had about SEK71.4 billion (€6.4 billion) total available liquidity, including SEK66.3 billion (€6 billion) committed credit facilities maturing beyond 12 months, and SEK5.1 billion (€460 million) in cash and cash equivalents.

This enables the group to face risks related to the potential early redemption on its outstanding notes, amounting to about SEK40 billion at the end of 2023. The extension option embedded in the revolving credit facility documentation provides sufficient time for the group to implement a new capital structure, if needed and ensure appropriate maturity profile of its capital structure.

Overall, Essity's credit metrics remain solid for the current 'BBB+' rating. For the fiscal-year-ended Dec. 31, 2023, the group's S&P Global Ratings'-adjusted debt to EBITDA was 2.3x (excluding Vinda, reported as discontinued operations). We expect further deleveraging in 2024 with adjusted debt to EBITDA temporarily falling to up to 1.5x, primarily because we expect the company will use part of the cash proceeds from the Vinda disposal for debt repayment. In the medium term, we continue to assume Essity will keep leverage within the 2x-3x range, commensurate with the current rating, as it remains active on merger and acquisition (M&A) activities.

Related Research

- Essity's Agreement To Sell Its Vinda Stake Enhances Financial Flexibility, Dec. 15, 2023
- Essity AB, Oct. 30, 2023