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eBulletin:

Essity's Agreement To Sell Its Vinda Stake Enhances Financial Flexibility

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This report does not constitute a rating action.

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MILAN (S&P Global Ratings) Dec. 15, 2023--S&P Global Ratings said today that Essity AB's agreement to sell its 51.59% shareholding in China-based personal hygiene company Vinda International Holdings Limited (Vinda) will enhance the company's financial flexibility.

In our base case for Essity (BBB+/Stable/A-2), we expect adjusted debt to EBITDA could temporarily reduce up to about 1.5x by Dec. 31, 2024, pro forma the full-year deconsolidation of Vinda and assuming the full proceeds are used for net debt reduction. However, we do not have visibility on the use of proceeds, which could be for a mix of activities including debt repayment, financing mergers and acquisitions (M&A) transactions, and shareholder remuneration. Although Essity does not have any public net leverage target, we acknowledge it has communicated its aim to maintain a solid-investment grade rating, which is consistent with the existing rating.

On Dec. 15, Essity announced that Isola Castle Ltd, a company owned by pulp and paper manufacturer Asia Pacific Resources International Ltd, planned to make a preconditional public offer to acquire 100% of Vinda's shares for Hong Kong dollar (HKD) 23.50 per share. Essity has signed an irrevocable undertaking to accept the offer for all its 51.59% shareholding in Vinda. The price of the public offer corresponds to an equity value for Vinda of roughly HKD28.3 billion (Swedish krona [SEK] 37.3 billion), meaning Essity should receive approximately SEK19 billion in cash proceeds for its stake.

As of today, Vinda is fully consolidated in Essity's results, which benefited from a revenue contribution of SEK25.1 billion (16% of Essity's 2022 sales) and EBITA of SEK 1.1 billion in 2022. Post-transaction, exposure to fast-expanding emerging markets will reduce to 25%-26% of total sales from the current 37%. Essity will continue its existing license agreements with Vinda, representing about 20% of Vinda's sales, although we do not have visibility on the quantum of the annual license income Essity will receive. We acknowledge the group's topline growth will benefit from its ongoing focus on fast-expanding product categories, such as health and medical, and adult incontinence products. Positively, the transaction aims to reduce exposure to price-volatile wood pulp and limit the group's capital intensity, resulting in more stable S&P Global Ratings-adjusted EBITDA margins. For pro forma 2024, we now expect an adjusted EBITDA margin of close to 17%, versus our previous assumptions of 15.5%-16.5%.

The launch of the offer is subject to approval by regulatory authorities in China and other relevant markets. The transaction is expected to be completed by mid-2024. In the meantime, Essity will classify the financial reporting of Vinda as discontinued operations. We understand that Essity will soon provide additional details regarding the pro forma figures related to the deconsolidation and update its financial targets, namely annual revenue growth and adjusted return on capital employed.

Essity has also concluded the strategic review of its European private label consumer tissue business, which it intends to retain and manage as a separate business unit. The company has indicated positive business performance and improved profitability within that business thanks to supportive service levels with customers, the resilience of the category in an inflationary environment, and well-executed efficiency measures.

Related Research

- Essity AB, Oct. 30, 2023