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Alfa Laval AB

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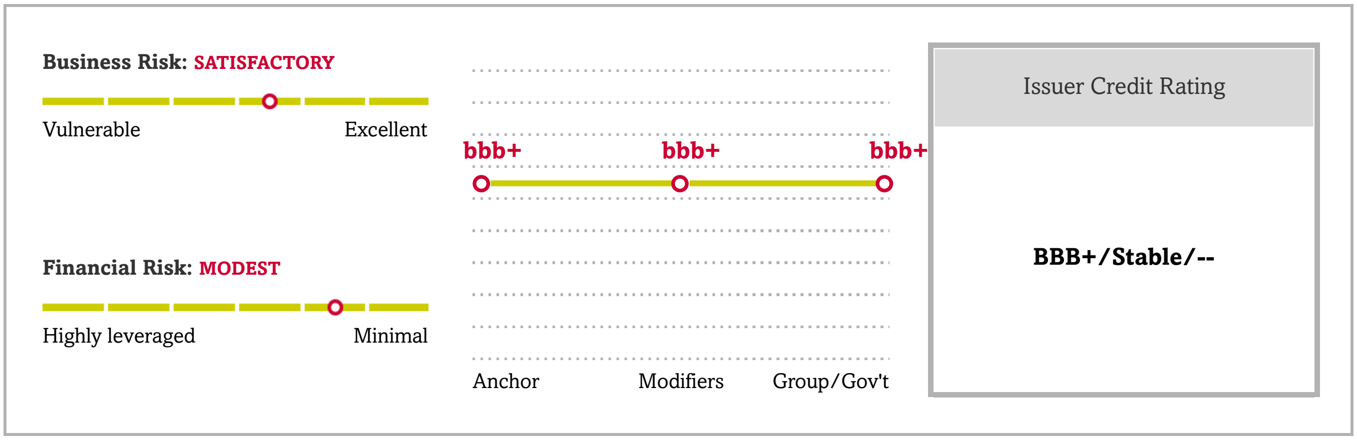
Alfa Laval AB



Credit Highlights

Overview

Key strengths	Key risks
Leading global market position, with the market shares of its key technologies--separation, heat transfer, and fluid handling--ranging between 10% and 35% in each product segment.	Exposure to cyclical end markets such as oil and gas (O&G) and shipping, making the top-line susceptible to volatility, especially in less supportive economic conditions. New equipment sales represent about 30% of the group's revenue.
Diverse earnings base, with about 60% of consolidated revenues from services or stable end markets such as food and water; and heating, vacuuming, and air conditioning (HVAC) and refrigeration.	Relatively small presence in the aftermarket, representing about 30% of sales, although improving.
Solid profitability track record, with expected S&P Global Ratings-adjusted EBITDA margins above 18% through the cycle.	Working capital buildup and its recent acquisitions have temporarily eroded the rating leeway.

Solid growth and order intake for the first nine months of 2022 will support Alfa Laval's revenue growth of 19%-21% in 2022, but the margin will slightly contract. Between January and September, Alfa Laval enjoyed a solid order intake, which increased by 26% (17% excluding currency effects), reaching Swedish krona (SEK) 42.9 billion. Its order backlog achieved a record high of SEK37.6billion (+64% if compared with SEK22.9 billion in September 2021). The acquisitions of Desmet and Scanjet meant that the order backlog increased by SEK5.6 billion and SEK95 million, respectively, when the transactions closed. Excluding currency effects and adjusted for acquisition and divestment of businesses, the order backlog was 28.4% higher if compared to one year ago. Revenues reached a record high of SEK35.6 billion in the first nine months of 2022, increasing by 22% (+9.9% organic) compared with the same period a year ago, notwithstanding ongoing supply chain issues. Operating profits in 2022 will moderate due to ongoing supply chain issues, high cost inflation, the acquisition of Desmet, and the recent restructuring program of SEK200 million. This year, we anticipate S&P Global Ratings-adjusted EBITDA margin will moderate to 17.5%-18.5%, with adjusted EBITDA at about 18.6% on a rolling-12-month basis ended Sept. 30, 2022.

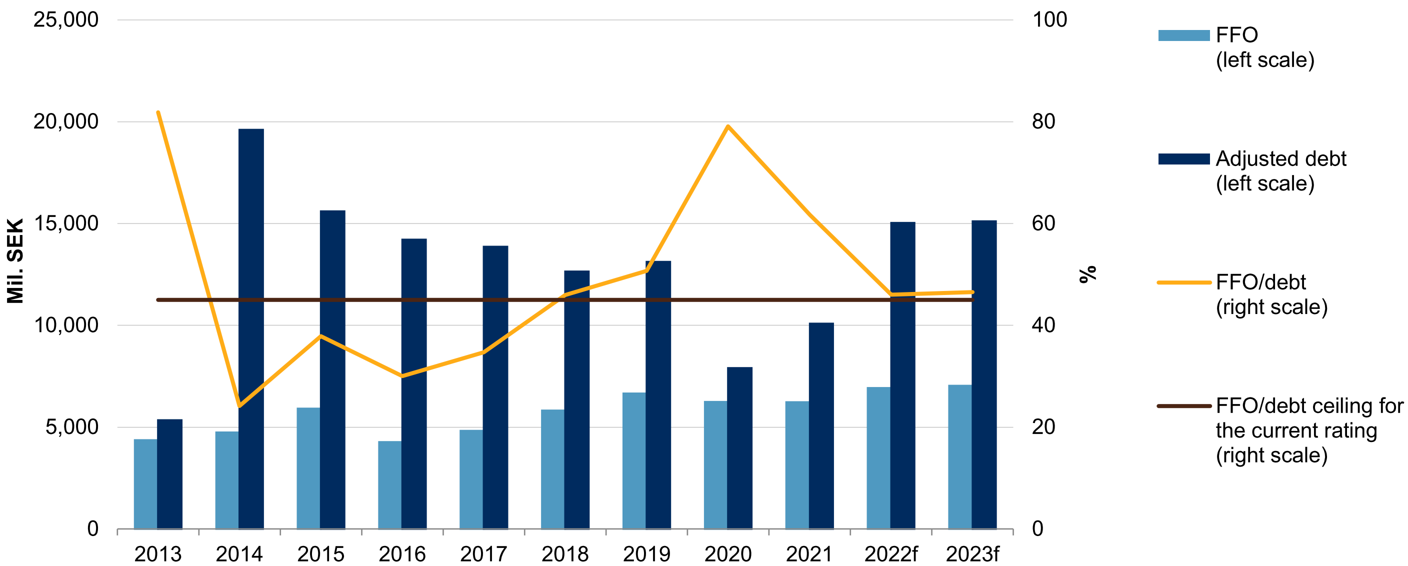
Adverse working capital dynamics will affect free operating cash flow (FOCF) this year and consequently Alfa Laval's rating leeway. Material working capital outflows, mainly driven by increased inventories and receivables, led to a cash absorption of SEK3.4 billion in the first nine months of 2022 as opposed to a negative balance of SEK828 million for the same period in 2021. For the full 2022, we now anticipate that challenging supply chain dynamics will continue to affect Alfa Laval's working capital. As a result, we believe that working capital outlays will be high for the company, with a negative balance ranging between SEK3.7 billion and SEK4.2 billion. We therefore now anticipate that Alfa Laval's FOCF, as adjusted by S&P Global Ratings, will reach about SEK1.0 billion-SEK1.5 billion in 2022 (SEK1.4 billion on a rolling-12-month basis ended Sept. 30, 2022). This compares with SEK3.9 billion in 2021 and SEK6.3 billion in 2020. Alongside the SEK3.7 billion acquisition in third-quarter 2022 (which won't contribute to EBITDA until the latter part of 2022), FOCF generation will lead to adjusted funds from operations (FFO) to debt just above 45.0% (from 61.7% in 2021), implying materially diminished headroom at the current rating level.

Alfa Laval could still accommodate a moderately less supportive macroeconomic environment. Alfa Laval's operating performance will continue to soften somewhat in 2023 based on our updated base case of moderating demand. Nevertheless, we perceive that there is currently elevated uncertainty about investment decisions, which could result in a sharper downturn in demand than we currently expect. At the same time, the recent Desmet acquisition will sustain top-line development. The company's ability to raise prices observed so far could moderate as demand softens, moreover lower volumes will lead to a moderate under absorption of costs. As such, we believe that Alfa Laval's revenues will increase by 0%-5% in 2023 (mostly due to acquisitions), as opposed to the 20%-21% we anticipate for 2022, reaching SEK50 billion-SEK55 billion in 2023. As a result, we anticipate EBITDA margins will decrease to 17.0%-18.0% in 2023, from 19.6% in 2021 and the 17.5%-18.5% expected in 2022.

Because energy and supply chain issues pose key risks for 2023, we continue to assume a moderate working capital buildup next year. We also believe that sustaining a healthy supply chain will be extremely important to effectively manage this downturn. We believe that this is one of the key risks for capital goods companies these days. Uncertainties around energy rationing and sky rocketing energy costs could further exacerbate the fragile supply chain environment. In addition, with the kaleidoscopic ramifications of global supply chains, it has become increasingly difficult to fully monitor the wealth of suppliers. As a result, unlike during other downturns where working capital releases typically sustained FOCF, for 2023 we assume negative working capital of up to SEK1 billion. Finally, assuming that Alfa Laval will not postpone investments, shareholder remuneration, and up to SEK1 billion acquisitions, we continue to believe that its FFO to debt will remain at about 45%-47%. We see this as commensurate with the current rating.

Chart 1

Alfa Laval's FFO-To-Debt Ratio Should Stay Rating Commensurate In 2022-2023



f-forecast. FFO--Funds from operations. SEK--Swedish krona. Source: S&P Global Ratings.

A gradual shift toward the food and water division, as well as the increasing share of environmentally friendly products, could result in a comparatively more resilient business in a downcycle. Because of the Desmet acquisition, we anticipate that Alfa Laval's food and water division could become the primary division of the group in 2023, marking a clear shift from the more cyclical energy and marine businesses. In addition, the company's gradual transition toward energy-efficiency solutions and the gradual rotation of group's end market could offer some more resilience compared with the 2015-2016 oil crisis. Based on our calculations, upstream O&G today represents about 10% of Alfa Laval's consolidated sales, while in 2015 it represented about 40%.

Outlook: Stable

The stable outlook reflects our expectation that Alfa Laval will continue to generate FOCF, supported by a gradual recovery in demand across the company's end markets and maintaining FFO to debt at 45%-50% in 2022. We expect that ongoing supply chain challenges will dent 2022 sales and that the company will maintain EBITDA margins of 18%-19% over 2022.

Downside scenario

We could lower the rating if Alfa Laval's credit ratios materially depart from our expectations, including FFO to debt below 45% with no prospects for short-term recovery. This could follow a material deterioration of the economic conditions going beyond what we currently envision. We could also lower the rating if Alfa Laval's profitability deteriorates from historical levels, specifically if its EBITDA margins drop significantly below 18% without near-term prospects for recovery. This could stem from further substantial restructuring expenses, or a sharper-than-expected weakening of end markets, resulting in declining sales volumes and order intake, and insufficient counterbalancing measures from the company.

Upside scenario

We see limited rating upside over the next two years. A positive rating action could stem from a material strengthening of credit ratios, including management's commitments to maintain a stronger balance sheet, leading to FFO to debt materially above 60% notwithstanding the business cycle.

Our Base-Case Scenario

Assumptions

- A sharp slowdown in eurozone growth is imminent. An unprecedented deterioration in the terms of trade has pushed inflation to record highs and confidence to record lows. As a result, we expect the eurozone economy to stagnate in 2023 at 0.3%, versus growth of 3.1% in 2022 and 5% in 2021. China's recovery should remain muted through the first quarter of 2023 amid a largely unchanged COVID-19 stance and weak property sector. Therefore, we now believe that the Asia-Pacific region will see 3.8% GDP growth in 2022 and 4.6% in 2023. In the U.S. we forecast 1.6% GDP growth for 2022 and 0.2% for 2023, as the economy falls into a shallow recession in the first half of the year.
- Despite the challenging macroeconomic environment, we expect revenue growth of 20%-21% in 2022, supported by strong order activity as demonstrated in the solid order backlog, reaching SEK37.6 billion, as of September 30, 2022 and inorganic growth. For 2023, we anticipate revenue growth to moderate, reaching 0%-5% (mostly coming from inorganic growth and a supportive foreign exchange environment). This compares with revenue decline of 1.3% in 2021, and revenue growth of 10.9% in 2020.
- For 2023, we expect lower adjusted EBITDA margins mainly weighed down by a less efficient price input mix and lower volumes.
- Working capital outlays will be high for the company, with a negative balance of SEK3.7 billion-SEK4.2 billion in 2022 and as much as negative SEK1 billion in 2023. This compares with negative SEK908 million in 2021.
- S&P Global Ratings-adjusted capital expenditure (capex) increasing to SEK1.5 billion-SEK2.0 billion in 2022 and to SEK2.0 billion-SEK2.5 billion in 2023, to support organic growth and the ecofriendly offering. This compares with capex of SEK1.2 billion in 2021. Earlier this year, Alfa Laval declared it plans to increase capex expansion and new products.
- Acquisition spending of about SEK3.7 billion in 2022, including Desmet, moderating to SEK1.0 billion in 2023, compared with SEK3.8 billion in 2021.
- Dividend payments of about SEK2.5 billion in 2022 and 2023 per year, compared with SEK2.3 billion in 2021.
- Share buybacks of SEK600 million-SEK700 million in 2022. None in 2023.

Key metrics

Alfa Laval AB--Key Metrics*

	--Fiscal year ends Dec. 31--			
(Mil. SEK)	**2020a**	**2021a**	**2022f**	**2023f**
Revenue	41,468	40,911	48,000-53,000	50,000-55,000
EBITDA	8,045	8,036	8,500-9,500	9,000-9,500
Capex	1,232	1,229	1,500-2,000	2,000-2,500
Free operating cash flow (FOCF)	6,290	3,909	1,000-1,500	2,000-2,500
Dividends	0	2,309	About 2,500	About 2,500
Discretionary cash flow (DCF)	6,290	261	(2,000)-(1,500)	1,200-1,700

Alfa Laval AB--Key Metrics* (cont.)

	--Fiscal year ends Dec. 31--			
(Mil. SEK)	**2020a**	**2021a**	**2022f**	**2023f**
Debt	7,902	10,088	14,800-15,300	14,800-15,300
Annual revenue growth (%)	(10.9)	(1.3)	20.0-21.0	0.5
EBITDA margin (%)	19.4	19.6	17.5-18.5	17.0-18.0
Debt/EBITDA (x)	1.0	1.3	1.5-2.0	1.5-2.0
FFO/debt (%)	79.1	61.7	45.0-47.0	45.0-47.0
FOCF/debt (%)	79.6	38.7	5.0-10.0	25.0-30.0

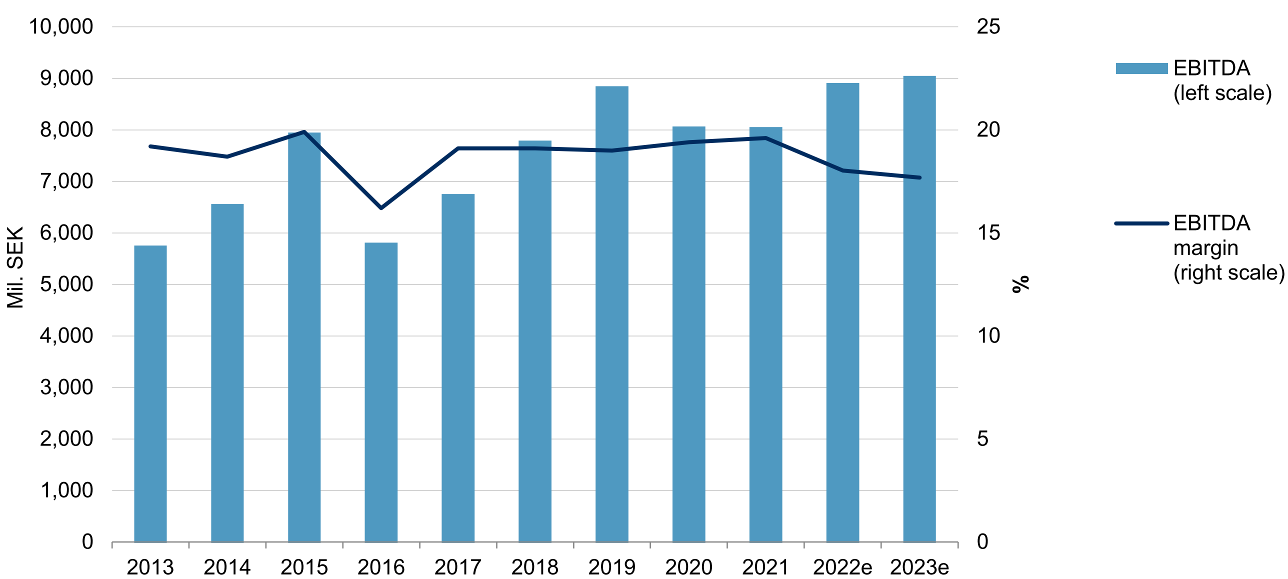
*All figures are S&P Global Ratings-adjusted. SEK--Swedish krona. a--Actual. f--Forecast.

Company Description

Alfa Laval is a leading global supplier of products and solutions for heat transfer, separation, and fluid handling. For 2021, the group reported revenue of SEK40.9 billion, down 1.3% against 2020. Its EBITDA margin, adjusted by S&P Global Ratings, stood at 19.6% in 2021, compared with 19.4% in 2020 and the historical trend of 18.0%-21.0%.

Chart 2

Alfa Laval's EBITDA And EBITDA Margin Are In Line With Historical Levels



e--Estimate. SEK--Swedish krona. Source: S&P Global Ratings.

Alfa Laval's main products are:

- Heat transfers used in heating, cooling, and ventilation systems, representing 30%-35% of market share and 40% of the group's revenue in 2021.
- Separators and decanters to separate liquids from other liquids or solids, representing 25%-30% of market share and 17% of 2021 revenue.
- Sanitary fluid-handling equipment, including pumps, valves, and fittings, representing a 10%-15% market share and 23% of the group's consolidated 2021 revenue.

The company's products are used in industrial applications for heating, cooling, separation, and transporting products such as oil, water, chemicals, beverages, food, pharmaceuticals, and starch.

Alfa Laval reports under three main business divisions with a shared supply chain:

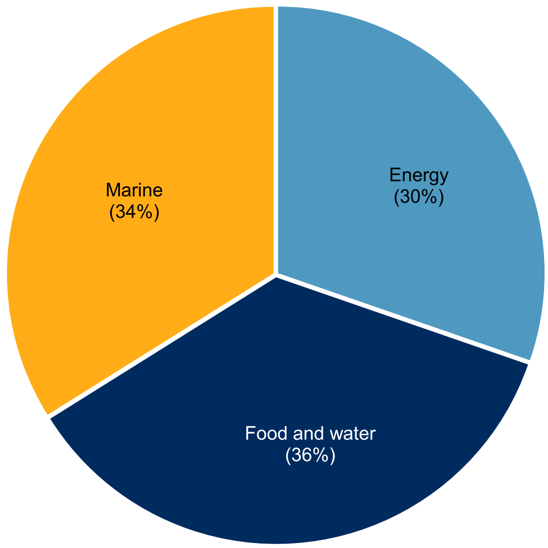
- The energy division serves clients focused on O&G, heating, vacuuming and air conditioning, and refrigeration. Sales in 2021 totaled SEK12.4 billion, or 30.0% of consolidated revenue.
- The food and water division offers food, pharmaceuticals, biotech, vegetable oils, breweries, dairy, and body care products. In addition, it focuses on public and industrial water and wastewater treatment. Sales in 2021 totaled SEK14.6 billion, or 36.0% of consolidated revenue.
- The marine segment targets ship owners, shipyards, manufacturers of diesel and gas engines, and companies that specialize in offshore extraction of oil and gas. Total sales in 2021 amounted to SEK13.6 billion, or 34% of consolidated revenue.

Alfa Laval's customers operate in the sanitary, food and brewery, ship manufacturing, utility, pharmaceutical, forest products, O&G, chemical, and original equipment manufacturing industries. The group has a diversified geographical span. Europe accounted for about 37% of consolidated revenue in 2021 and the remainder stemmed from the North America (16%), China (17%), and the rest of Asia, Africa, and Latin America (30%).

Alfa Laval first listed on the Stockholm Stock Exchange in 1901. It remained there for 90 years until Tetra Pak bought the company in 1991. Alfa Laval returned to the stock exchange on May 17, 2002. As of June 30, 2022, Tetra Laval B.V., ultimately owned by Tetra Pak, controls 29.5% of Alfa Laval's capital. Free float represented about 69% of shares outstanding. The company's market capitalization as of Sept. 29, 2022, was about SEK108 billion (€9.9 billion).

Chart 3

Alfa Laval AB--Consolidated Sales Breakdown By Division



Source: S&P Global Ratings.

Peer Comparison

Table 1

Alfa Laval AB--Peer Comparison					
Industry sector: Capital goods/diversified					
	Alfa Laval AB	**Sandvik AB**	**Atlas Copco AB**	**Epiroc AB**	**Danfoss A/S**
Ratings as of Nov. 15, 2022	BBB+/Stable/--	A-/Stable/A-2	A+/Stable/A-1	BBB+/Stable/--	BBB/Stable/A-2
(Mil. SEK)					
Revenue	40,911.0	99,105.0	110,912.0	39,645.0	77,527.7
EBITDA	8,036.0	23,902.0	27,727.0	10,419.0	12,515.1
Funds from operations (FFO)	6,227.0	18,784.0	22,516.0	8,273.0	9,676.8
Interest expense	248.0	1,066.0	382.0	151.0	637.6
Cash interest paid	210.0	964.0	0.0	168.0	689.0
Cash flow from operations	5,138.0	13,452.0	22,546.0	7,100.1	8,617.6
Capital expenditure	1,229.0	3,853.0	2,253.0	647.0	3,928.3
Free operating cash flow (FOCF)	3,909.0	9,599.0	20,293.0	6,453.1	4,689.3
Discretionary cash flow (DCF)	261.0	1,459.0	10,988.0	(472.9)	4,092.9

Table 1

Alfa Laval AB--Peer Comparison (cont.)

Industry sector: Capital goods/diversified					
	Alfa Laval AB	**Sandvik AB**	**Atlas Copco AB**	**Epiroc AB**	**Danfoss A/S**
Cash and short-term investments	3,647.0	13,585.0	18,990.0	10,792.0	2,560.6
Debt	10,088.0	23,598.6	10,597.0	0.0	30,473.2
Equity	32,344.0	76,986.5	67,634.0	25,547.9	40,630.3
Adjusted ratios					
EBITDA margin (%)	19.6	24.1	25.0	26.3	16.1
Return on capital (%)	15.7	22.5	30.1	36.6	15.1
EBITDA interest coverage (x)	32.4	22.4	72.6	69.0	19.6
FFO cash interest coverage (x)	30.7	20.5	N.M.	50.2	15.0
Debt/EBITDA (x)	1.3	1.0	0.4	0.0	2.4
FFO/debt (%)	61.7	79.6	212.5	N.M.	31.8
Cash flow from operations/debt (%)	50.9	57.0	212.8	N.M.	28.3
FOCF/debt (%)	38.7	40.7	191.5	N.M.	15.4
DCF/debt (%)	2.6	6.2	103.7	N.M.	13.4

N.M.--Not meaningful. SEK--Swedish krona.

Alfa Laval's scale is somewhat comparable to that of Epiroc, but it is smaller than other investment-grade rated peers. However, broad end-market diversity counterbalances the group's moderate size to an extent. In our view, Alfa Laval's diversity is still moderate when compared with peers in the wider capital goods industry, such as Atlas Copco, ABB, and Siemens.

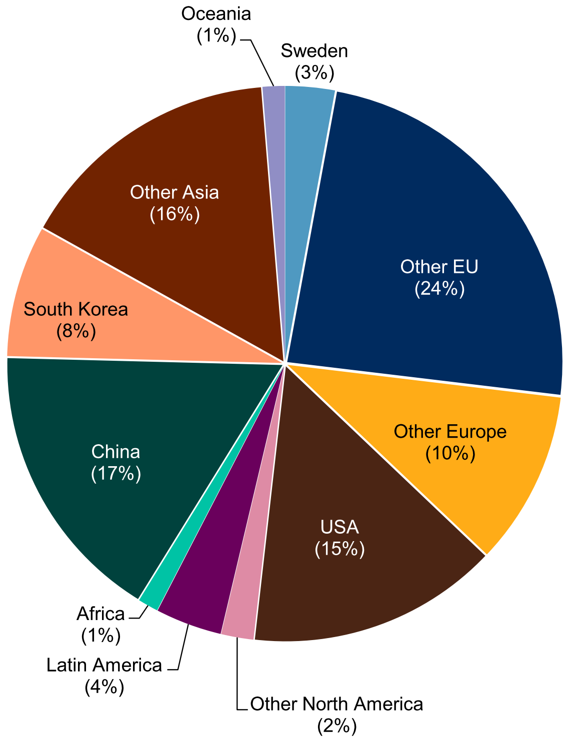
Business Risk: Satisfactory

Robust position in its core businesses. In our view, Alfa Laval boasts a solid position in its core businesses. According to its 2021 results, it holds market-leading positions in heat transfer (30%-35% market share), separation (25%-30% market share), and fluid handling (10%-15% market share) through key products like heat exchangers, separators, pumps, and valves. The group's record as a reliable supplier of quality products, and its global service network, underpins its strong brand name. Alfa Laval is also well positioned to benefit from its environmental product for ballast water treatment and for scrubbers, which gained importance in 2016 after the International Maritime Organization introduced stricter norms on sulfur emissions. We believe the company will continue to benefit from the demand for energy-efficient solutions.

Wide customer base and balanced geographic presence. Alfa Laval enjoys a diverse customer base with no single customer accounting for more than 10% of net sales. The company's largest customer is Tetra Laval Group, which represented about 4.7% of Alfa Laval's sales in the financial year 2021 (ending dec. 31, 2021). Furthermore, the company's geographic diversity reduces the effects of regional cyclicality. In 2021, the group derived about 41.0% of its sales from Asia, 37% from Europe, 21% from Americas, and 1% from others.

Chart 4

Alfa Laval AB--Consolidated Sales Breakdown By Geography



Source: S&P Global Ratings.

We expect Alfa Laval will maintain EBITDA margins above 18% over the cycle. In our view, Alfa Laval's strong profitability for the industries it operates in supports its business risk. Thanks to the company's efforts to streamline its energy and marine divisions, its EBITDA margin has held up well. Despite a challenging operating environment affected by the COVID-19 pandemic, the company's adjusted EBITDA margin remained solid, at 19.6% in 2020, followed by 19.4% in 2021. We view the company's flexible cost structure positively, as it enabled the group to sustain its EBITDA margin of 18%-19%, despite its exposure to the volatile O&G and shipping sectors where investment levels fell materially over 2014-2017. Investment levels in the O&G and marine divisions are the largest risk for Alfa Laval's margin.

Financial Risk: Modest

In our view, Alfa Laval's financial risk profile is supported by adequate leverage for the rating. As of June 30, 2022, S&P Global Ratings-adjusted FFO to debt was about 55.1%, and the adjusted debt-to-EBITDA ratio was 1.5x.

Alfa Laval's has a positive track record in retaining a defensive level of leverage, but utilizing the full flexibility of its leverage target could lead our S&P Global Ratings-adjusted FFO to debt to plummet. Alfa Laval targets reported net debt (including leases) to EBITDA of lower than 2.0x. Based on the company's financial accounts, its debt to EBITDA in 2020 reached 0.87x (1.3x as adjusted by S&P Global Ratings), and 0.48x in 2021 (1.0x under our adjustments). According to the group, the average of its reported net debt to EBITDA over the past eight years was 1.29x. We estimate that utilizing in full the flexibility under the company's net debt to EBITDA threshold of 2.0x, would result in an S&P Global Ratings-adjusted FFO to debt ratio of about 30%-35% all else being equal in terms of shareholder remuneration and acquisitions. This is below our 45% threshold that we see commensurate with our 'BBB+' rating on Alfa Laval.

At the same time the company has a positive track record for fast deleverage following larger acquisitions. Alfa Laval has occasionally embarked on big material acquisitions. For example, the 2014 debt-financed acquisition of Frank Mohn tripled the company's debt and materially weakened its credit ratios. In 2014, Alfa Lava's S&P Global Ratings-adjusted FFO to debt decreased to 24.2% from 82.1% in 2013, with a fast-deleveraging path improving toward 40% in 2015. In 2020, Alfa Laval tried to buy all of Finland-based flow control company Neles for about SEK19.0 billion; eventually the takeover plans were halted.

Financial summary

Table 2

Alfa Laval AB--Financial Summary

Industry sector: Capital goods/diversified

	--Fiscal year ended Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
(Mil. SEK)					
Revenue	40,911.0	41,468.0	46,517.0	40,666.0	35,314.0
EBITDA	8,036.0	8,045.0	8,830.0	7,770.5	6,736.0
Funds from operations (FFO)	6,227.0	6,248.0	6,648.0	5,810.4	4,814.9
Interest expense	248.0	301.0	347.0	382.1	413.1
Cash interest paid	210.0	260.0	281.0	318.1	338.1
Cash flow from operations	5,138.0	7,522.0	5,062.0	5,183.4	4,733.9
Capital expenditure	1,229.0	1,232.0	1,337.0	1,490.0	675.0
Free operating cash flow (FOCF)	3,909.0	6,290.0	3,725.0	3,693.4	4,058.9
Discretionary cash flow (DCF)	261.0	6,290.0	1,628.0	1,910.4	2,261.9
Cash and short-term investments	3,647.0	7,768.0	6,467.0	4,912.0	4,345.0
Gross available cash	3,647.0	7,768.0	6,467.0	4,912.0	4,345.0
Debt	10,088.0	7,901.5	13,111.9	12,636.4	13,862.9
Equity	32,344.0	29,071.0	27,747.0	23,599.0	20,500.0
Adjusted ratios					
EBITDA margin (%)	19.6	19.4	19.0	19.1	19.1
Return on capital (%)	15.7	14.7	18.4	17.0	14.4
EBITDA interest coverage (x)	32.4	26.7	25.4	20.3	16.3
FFO cash interest coverage (x)	30.7	25.0	24.7	19.3	15.2
Debt/EBITDA (x)	1.3	1.0	1.5	1.6	2.1
FFO/debt (%)	61.7	79.1	50.7	46.0	34.7
Cash flow from operations/debt (%)	50.9	95.2	38.6	41.0	34.1
FOCF/debt (%)	38.7	79.6	28.4	29.2	29.3

Table 2

Alfa Laval AB--Financial Summary (cont.)

Industry sector: Capital goods/diversified					
	--Fiscal year ended Dec. 31--				
	2021	2020	2019	2018	2017
DCF/debt (%)	2.6	79.6	12.4	15.1	16.3

SEK--Swedish krona.

Reconciliation

Table 3

Alfa Laval AB--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. SEK)

	--Fiscal year ended Dec. 31, 2021--						
Alfa Laval AB reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	8,244.0	32,096.0	8,101.0	6,126.0	217.0	8,036.0	5,264.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(1,599.0)	--
Cash interest paid	--	--	--	--	--	(210.0)	--
Trade receivables securitizations	12.0	--	--	--	--	--	5.0
Reported lease liabilities	2,427.0	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	1,837.0	--	23.0	23.0	31.0	--	--
Accessible cash and liquid investments	(2,432.0)	--	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	(76.0)	--	--	--	--
Nonoperating income (expense)	--	--	--	86.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(131.0)
Noncontrolling interest/minority interest	--	248.0	--	--	--	--	--
EBITDA: Business divestments	--	--	(12.0)	(12.0)	--	--	--
Total adjustments	1,844.0	248.0	(65.0)	97.0	31.0	(1,809.0)	(126.0)
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	10,088.0	32,344.0	8,036.0	6,223.0	248.0	6,227.0	5,138.0

SEK--Swedish krona.

Liquidity: Strong

We consider Alfa Laval's liquidity as strong, with a sources-to-uses ratio of about 1.8x over the coming 12 months and 1.5x over the next 24 months. We also believe that the group's geographic and end-market diversity should enable it to absorb high-impact, low-probability events in some sectors without refinancing. Other supportive factors include Alfa Laval's solid relationships with banks, its high-standing in credit markets, underpinned by its repeated access to capital markets, and the solid investment-grade rating. Although not included in our liquidity analysis, SEK2.5 billion under Alfa Laval's SEK4.0 billion commercial paper programs is available, as of Sept. 30, 2022.

Below, we list our estimates for Alfa Laval's principal liquidity sources and uses for the 12 months started Sept. 30, 2022.

Principal liquidity sources	Principal liquidity uses
• Cash and liquid investments of about SEK2.7 billion; • Cash FFO of SEK6.5 billion-SEK6.7 billion, and SEK6.9 billion-SEK7.2 billion for the 12 months starting end-September 2023; and • A fully undrawn bank line of €700 million (about SEK7.4 billion) maturing in 2027.	• Debt maturities of about SEK1.8 billion and SEK4.2 billion for the 24 months starting November 2023. • Working capital outlay of SEK1.5 billion-SEK2.0 billion, and SEK0.5 billion-SEK1.0 billion over the 24 months starting November 2023. • Intra-seasonal working capital swings of up to SEK1 billion per year. • Reported capex of about SEK2.0 billion-SEK2.5 billion per year over the next two years. • Dividends of SEK2.0 billion-SEK2.5 billion per year.

Debt maturities

Debt maturity profile as of Sept. 30, 2022, is as follows:

- €138 million of commercial paper maturing over the next 12 months started Sept. 30, 2022;
- €400 million maturing in June 2024;
- €300 million maturing in February 2026;
- €100 million maturing in June 2027;
- €100 million maturing in June 2028; and
- €300 million maturing in February 2029.

Covenant Analysis

The company does not have any financial maintenance covenants.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5
- Climate transition risks					- N/A					- N/A				

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are currently a moderately negative consideration in our credit rating analysis on Alfa Laval. The company has considerable exposure (about 45% of sales) to industries that carry above-average environmental risk, such as O&G, chemicals, shipping, energy downstream, and power generation. We view positively that the company is rapidly developing its product offering to facilitate the energy transition in its end markets both organically and inorganically. It also has a medium-term strategy to reduce the exposure to fossil fuel-dependent end markets or customers. Nevertheless, this will require higher investments in the next few years, and we believe that there is some uncertainty around those future profit pools. We note that Alfa Laval has dedicated substantial efforts toward the reduction of fuel consumption and the energy efficiency of its products over the past few years. For example, between product improvements, upgrades, and entirely new products, Alfa Laval launched approximately 100 products in 2021, having increased annually over the past few years. Its research and development activities currently represent about 2.5% of its sales. In addition, it has planned capex of about SEK2.0 billion-SEK2.5 billion per year over the next three years. Alfa Laval's public disclosure and governance framework is consistent with the accepted standards and there are no governance-related issues, in our view.

Issue Ratings - Subordination Risk Analysis

Capital structure

Alfa Laval's capital structure consists of senior unsecured debt issued at its financing subsidiary, Alfa Laval Treasury International AB.

Analytical conclusions

We rate Alfa Laval's debt at 'BBB+', in line with the issuer credit rating, because no significant elements of subordination risk are present in the capital structure. This is also supported by the group's low leverage and our view of modest financial risk.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Top Trends Update: Capital Goods EMEA, July 14, 2022
- Bulletin: Alfa Laval Can Absorb Acquisition Of Belgium-Based Desmet, April 1, 2022
- Alfa Laval AB, Oct. 20, 2021

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of November 15, 2022)*

Alfa Laval AB	
Issuer Credit Rating	BBB+/Stable/--
Issuer Credit Ratings History	
17-Nov-2020	BBB+/Stable/--
14-Jul-2020	BBB+/Watch Neg/--
01-Apr-2020	BBB+/Negative/--
23-May-2018	BBB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.