SalMar ASA

Full Rating Report

LONG-TERM RATING
A-

OUTLOOK
Stable

SHORT-TERM RATING
N-1+

PRIMARY ANALYST
Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

SECONDARY ANALYST
Mille O. Fjeldstad
+4799038916
mille.fjeldstad@nordiccreditrating.com

RATING RATIONALE

Our 'A-' long-term issuer credit rating on Norway-based salmon farmer SalMar ASA (SalMar) reflects the company's strong profitability relative to its peer group, which is due to its cost-efficient production and excellent farming locations. The rating further reflects the company's strong cash flow and moderate financial leverage. We believe that the current owner-manager structure will keep SalMar's risk appetite in check.

The rating is constrained by the sector's historical earnings volatility due to unstable prices as a result of variable supply. Moreover, we take into account environmental challenges and disease problems in our assessment of the operating environment. Positively, we note that salmon is a healthy food product, with a lower environmental footprint than other sources of protein.

STABLE OUTLOOK

The outlook is stable, reflecting our view that profitability will remain strong in the years ahead. We anticipate that a bounce-back of demand after the COVID-19 pandemic and lower supplies from Chilean producers will support prices over the next three years. Accordingly, we expect SalMar to maintain strong credit metrics after a period of high investment in new processing and smolt facilities as well as farming capacity. We believe that the company will keep adverse biological factors under control.

POTENTIAL POSITIVE RATING DRIVERS

- Lower volatility in supply leading to reduced price uncertainty and increased demand.
- Increased productivity due to better control of biological issues.

POTENTIAL NEGATIVE RATING DRIVERS

- Increased biological problems such as disease and sea lice.
- Higher financial leverage leading to debt/EBITDA above 2.5x due to higher-than-expected investments.
- Decreased demand for Norwegian and Atlantic salmon in general.

Figure 1. SalMar key credit metrics, 2018–2023e

NOKm	2018	2019	2020	2021e	2022e	2023e
Revenue	11,301	12,202	12,912	13,558	14,914	15,958
NCR-adjusted EBITDA	4,191	4,041	3,820	4,006	4,682	5,015
NCR-adjusted net debt	1,542	3,532	5,826	6,575	7,000	7,201
Total assets	15,136	17,986	21,998	22,856	24,759	26,515
NCR-adjusted debt/EBITDA (x)	0.4	0.9	1.5	1.6	1.5	1.4
NCR-adjusted EBITDA/interest (x)	26.5	19.5	27.4	23.8	25.5	25.4
NCR-adjusted FFO/debt (%)	221.2	91.7	53.5	48.0	53.1	55.1

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. FOCF–free operating cash flow. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

SalMar is one of the world's largest salmon farmers with farming operations in central and northern Norway. It also owns 51% of Iceland's largest salmon farmer, Icelandic Salmon AS, which is listed on the Oslo Stock Exchange's Euronext Growth market and owns 50% of UK salmon farmer Scottish Sea Farms Ltd. through a joint venture with Lerøy Seafood Group. The company sends a significantly higher proportion of its harvested volumes than its peers to secondary processing before shipping to customers in Europe, Asia and North America, but also sells whole fresh and frozen fish.

As part of its efforts to secure sustainable salmon farming growth, SalMar has a leading role in developing offshore fish farming. This is one of three new technologies designed to reduce the environmental impact of salmon farming on sensitive coastal waters as well as cutting biological costs; the others are closed containment farming and land-based farming.

SalMar was founded in 1991 by Gustav Witzøe, who still holds the position of CEO and owns a 52.5% stake through investment company Kverva Industrier AS (Kverva). The company is listed on the Oslo Stock Exchange and the remaining owners are financial investors.

Figure 2. SalMar's Ocean Farm 1: The world's first offshore farming facility

Source: SalMar.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bbb'

SalMar produces and sells whole fresh and processed salmon, a market characterised by increasing demand and limited, albeit volatile, supply growth. Historically, this has led to volatile but generally strong margins in the sector. We believe it will take years before new production methods alter the status quo. SalMar is among the largest salmon farmers globally and a leader in cost efficiency. We see long-term growth opportunities in offshore farming, but high investment requirements could mean that these operations will be divested.

Supply driven price volatility

Operating environment scores 'bb+'

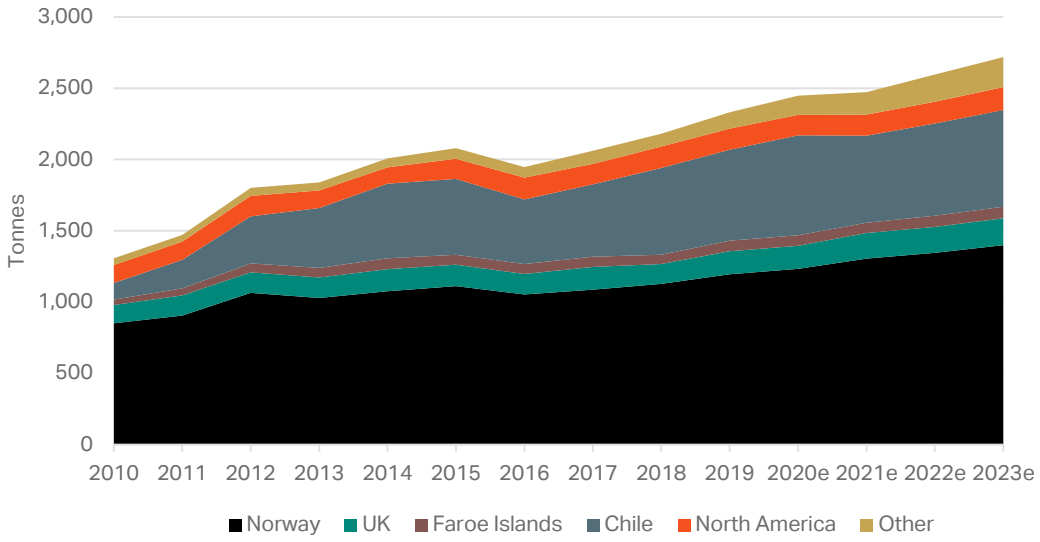
Supply of farmed Atlantic salmon underwent average annual growth of 8% in the 1995-2020 period and 6% since 2010. Slightly more than half of global salmon volume is farmed in Norway, while Chile is the second largest producer, with 29% in 2020. Chile has seen the strongest average annual growth in the past 10 years at 20% vs Norway's 4%, though greater biological challenges in Chile have historically led to more volatility in production. On the basis of discussions with sector analysts and available estimates, we expect average annual supply growth of 4% globally in the 2020-2023 period.

Demand for Atlantic salmon is growing, helped by rising demand for healthy food worldwide and a growing middle class in developing countries. Europe remains, however, the main market for Norwegian salmon. Salmon is sold both to the hotel, restaurant and catering industries (the HoReCa

market) and to households as fresh, frozen or processed products. The HoReCa market, which primarily buys whole, fresh salmon, has been strongly affected by the COVID-19 pandemic. In Europe, this has meant that greater volumes are being sold to secondary processors which distribute salmon products to the retail market.

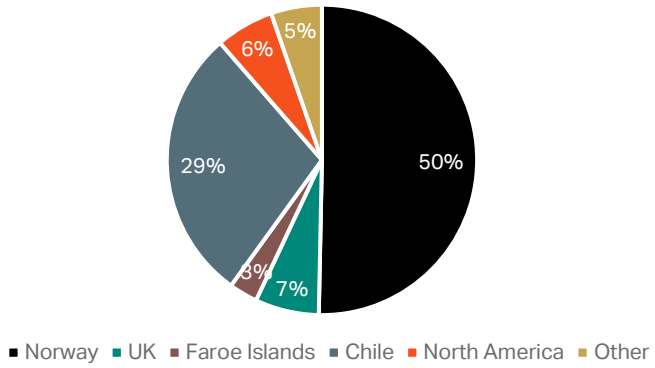
Salmon is an acceptable raw material in most food cultures. Other salmonids, such as rainbow trout and coho, are farmed and other species are caught wild, but cannot compete in terms of volume, quality, and stability of delivery. Negative media reports due to biological issues (disease, sea lice), pollution and escapes by farmed salmon leading to genetic changes in wild salmon, have had limited effect on demand. These issues are, however, among the drivers for the development of new farming methods and technologies.

Figure 3. Global salmon harvest, head-on gutted (HOG), 2010-2023



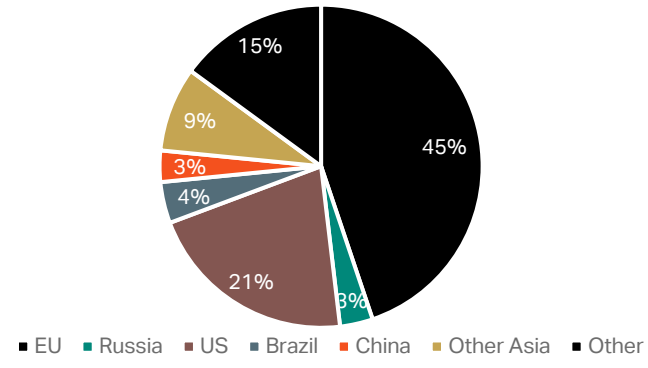
Based on data from Kontali Analyse, Mowi, and NCR estimates

Figure 4. Global salmon supply, 2020



Source: Mowi.

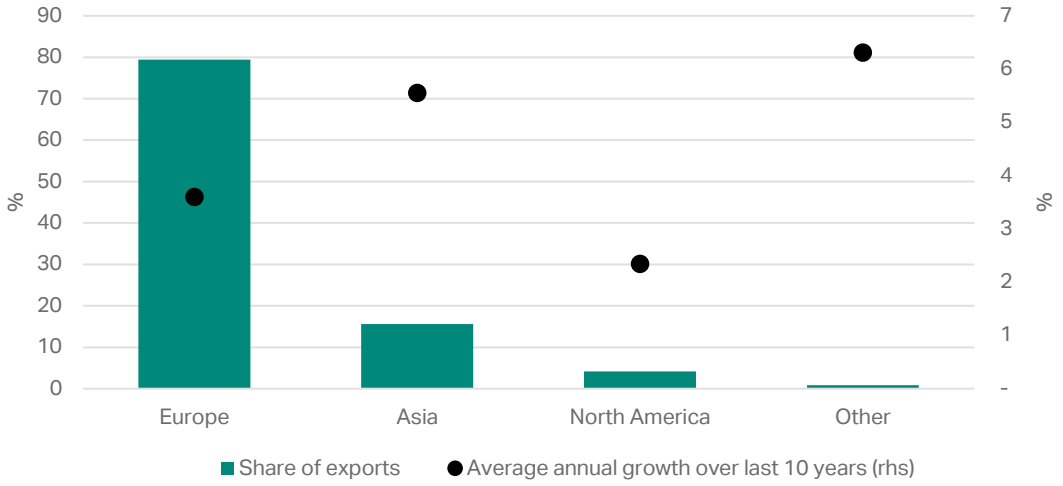
Figure 5. Global salmon demand, 2019



Source: Mowi.

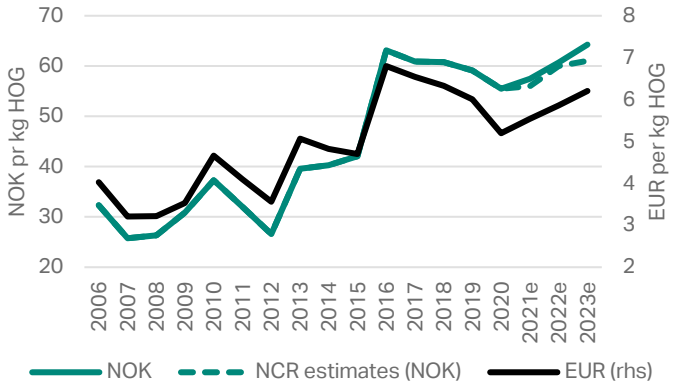
Prices of Atlantic salmon have historically been volatile, mainly driven by changes in supply. Price vs volume regression (see Figure 8) (the coefficient of determination is 59%) indicates that an historical 7% annual increase in supply has meant a zero effect on prices. In 2020, worldwide supply of salmon increased by about 6%, which should have had a small positive impact on prices. However, prices for Norwegian salmon were down by 13% year on year, which can be explained by the impact of the COVID-19 pandemic. Consequently, in our price forecasts we are more conservative than the regression model, which predicts annual price growth of about 6% over the coming three-year period. Our forecast of 3.2% average annual price growth is, we believe, closer to the most recent consensus among industry analysts.

Figure 6. Norwegian salmon exports, 2020



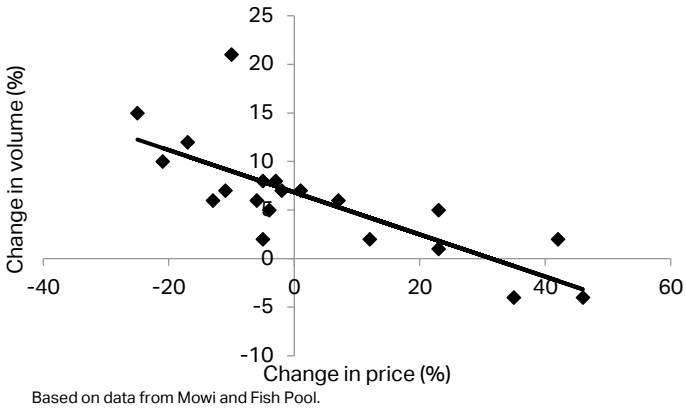
Source: Statistics Norway.

Figure 7. Norwegian salmon prices, 2006–2023e



Based on data from Fish Pool and NCR estimates.

Figure 8. Regression changes in salmon volume and price



Based on data from Mowi and Fish Pool.

Market position scores 'bbb-'

Company among the world's largest salmon farmers

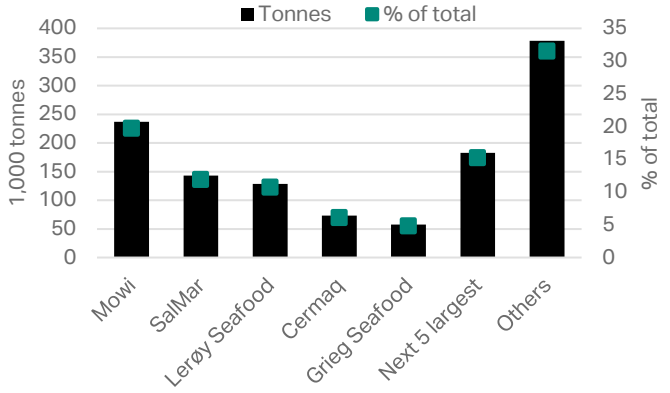
SalMar harvested 150,300 tonnes of salmon in Norway in 2020, of which 100,400 tonnes came from central Norway and 49,900 tonnes from northern Norway. This makes SalMar the country's second-largest Atlantic salmon farmer with 12% of total volumes. Including 11,200 tonnes harvested in Iceland and 50% of Scottish Sea Farms' production (12,000 tonnes), SalMar is the second largest farmer also globally. SalMar has a share of 7% while the 10 largest salmon farmers account for about 60% of the global Atlantic salmon harvest. We note, however, that Lerøy Seafood is a somewhat larger producer when production of rainbow trout is included. Mowi is the largest producer in the industry with about 20% of both Norwegian and global harvesting volumes.

While there are many salmon farmers globally, there are also increasing barriers of entry due to limitations on the number of licences in regions suitable for salmon farming and limits on maximum biomass per licence. Moreover, high investments are required to scale up production, while positive cash flows usually take about three years to emerge. These barriers, partly biological, partly regulatory, and partly financial, explain the sector's high profitability. We believe that the increasing costs and investments needed to satisfy environmental requirements and improve salmon welfare (the sea lice problem in particular) will lead to increasing consolidation in the sector.

In Norway, there are currently 1,051 seawater salmon farming licenses, of which SalMar owns 109. A licence permits a maximum biomass depending on the biological conditions in the region. SalMar has a total maximum biomass of 102,289 tonnes. Average capacity utilisation was 87% in 2019 according to Mowi, while SalMar had above 90% capacity utilisation. In 2020, the Directorate of Fisheries auctioned 27,189 tonnes of new capacity in regions deemed to have good biological status, of which

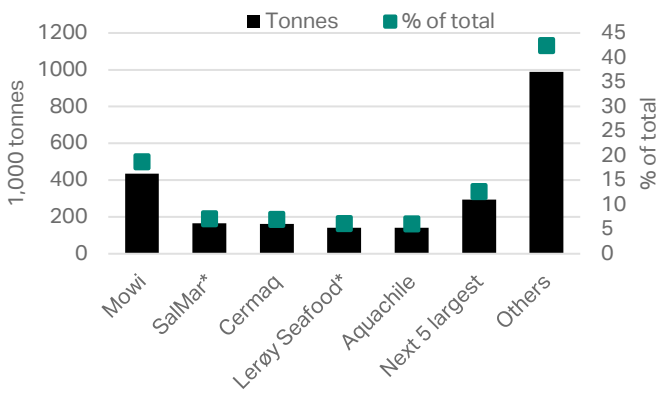
SalMar bought 8,057 tonnes. The country's semi-annual auctions are the only opportunity for industry players to grow, except by buying up other farmers or improving capacity utilisation.

Figure 9. Norway's largest salmon farmers, 2019



*Includes 50% of Scottish Sea Farms. Source: Mowi (Salmon farming industry handbook 2019).

Figure 10. Largest global salmon farmers, 2019



*Includes 50% of Scottish Sea Farms Source: Mowi (Salmon farming industry handbook 2019).

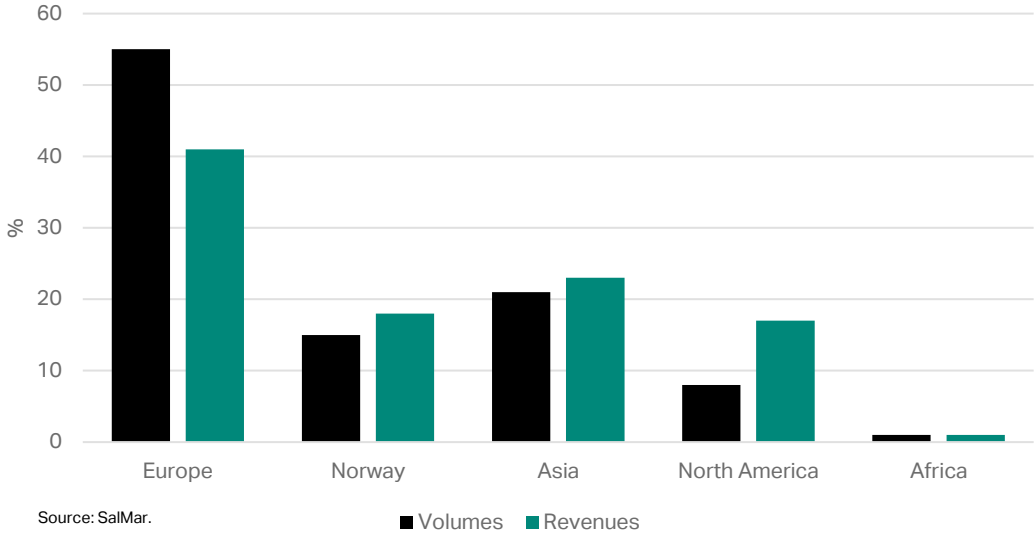
While we expect supply growth to be limited in the next few years, technology could lead to stronger growth from a longer-term perspective. To have a real impact on supply, however, significant investments are needed in production facilities and working capital. We note that the production cycle for Atlantic salmon takes three years from spawning to harvesting.

Diverse customer base

Size and diversification scores 'a-'

SalMar is a large player in a relatively small industry. It is heavily dependent on salmon prices internationally, and particularly in Europe, but also exports a significant amount of production to Asia and North America. The salmon market is relatively efficient in that volumes tend to move where prices are higher, and major markets in both Asia and North America can be served by air freight. Transport costs to these destinations from Chile and Norway are broadly similar.

Figure 11. SalMar's volumes and revenues by geographic market, 2019



Source: SalMar.

SalMar is a fully integrated salmon farmer, and a significant proportion of its production is processed at its processing plant in central Norway (InnovaMar). A new processing plant (InnovaNor) is under construction in northern Norway and is scheduled to enter production in the second half of 2021. Secondary processing (filleting, portioning, slicing, marinating, and coating) adds little value to the bottom line due to the fragmented and competitive nature of the international processing industry but increases flexibility in production and offers some protection against low prices. Moreover, it reduces the company's environmental footprint by reducing the volumes transported to end-customers by 30-

40%. The broad and fragmented customer base of secondary processors, HoReCa customers, and retailers means that individual customers more or less act as price takers.

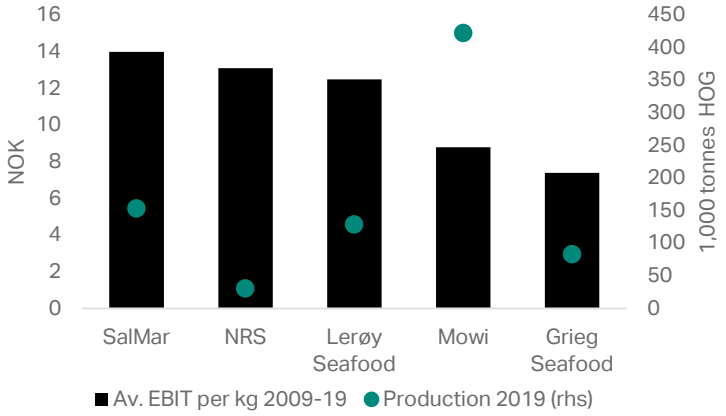
Leading cost efficiency drives high EBITDA margins

Operating efficiency scores 'aa-'

SalMar's farming operations are located in central and northern Norway, in areas with historically fewer biological issues than further south. The company reported an annual survival rate of 95.3% in 2019. This is significantly above the industry average of 83.8% recorded in that year. The main reasons for mortality in farmed salmon are the smolt quality, infectious diseases and delousing operations.

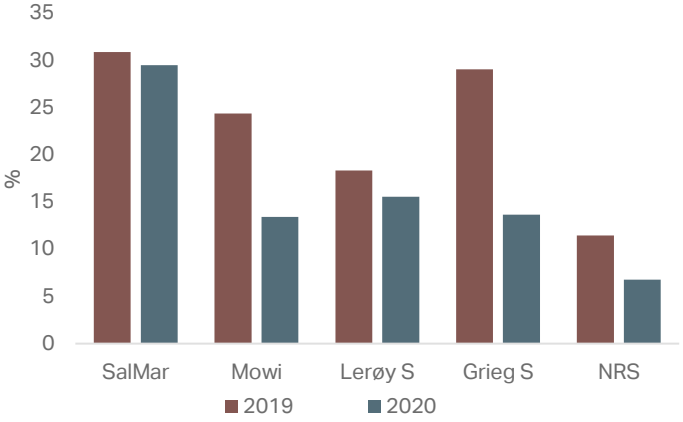
These factors, together with a strong operational focus, have enabled SalMar to outperform its peers over time, including in the difficult market environment of 2020 (see figures 12 and 13). The company has reported consistent double-digit EBITDA margins over the past 10 years and revenues and margins trended upward in this period, driven by strong prices. We believe that the recent weakness in prices brought about by the COVID-19 pandemic will prove transient. SalMar tends to have fixed price contracts covering about 25% of volumes, including forward contracts traded through Fish Pool. The contracted level is currently lower, at 20%, due to uncertainty among customers as a result of COVID-19.

Figure 12. Norwegian salmon farmers' average EBIT/kg and volumes



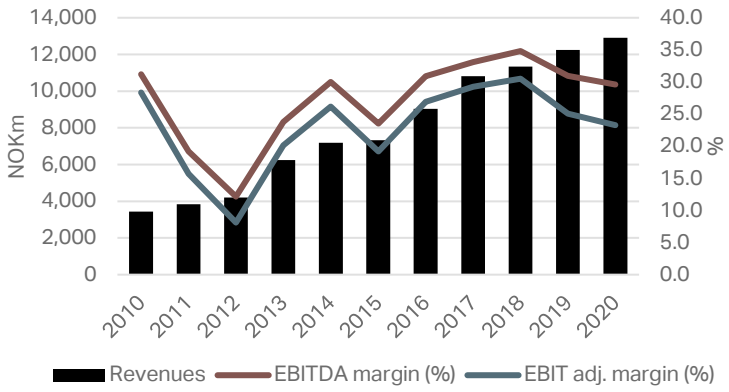
Source: Handelsbanken, Mowi.

Figure 13. Norwegian salmon farmers' EBITDA margins, 2019–20



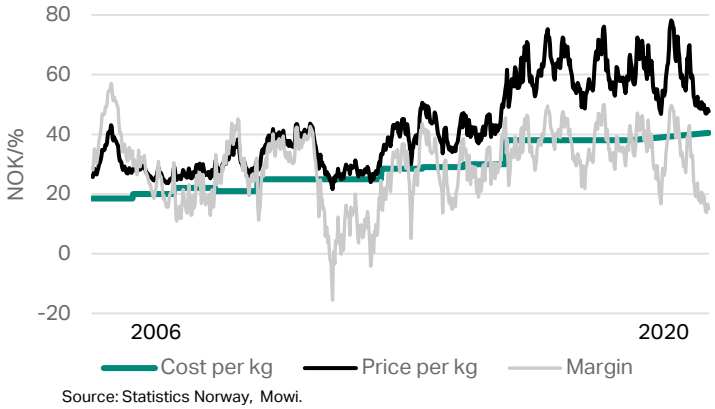
Based on company data.

Figure 14. SalMar's revenues and margins, 2010–2020



Source: Company data.

Figure 15. Weekly salmon export price and industry cost per kg, 2006–2020



Source: Statistics Norway, Mowi.

In 2019, SalMar bought a majority stake in Icelandic Salmon, Iceland's largest salmon farmer, which harvested 11,200 tonnes in 2020. Biological issues led to a negative profit contribution from Iceland last year, and we expect margins to be significantly lower than the rest of the group over our forecast horizon. SalMar, however, sees long-term upside through applying best practices and imposing branding. The operations in central and northern Norway reported EBIT margins of 38% and 32% respectively in 2020. (Note that we do not include fair value adjustments of biomass in EBIT, except in

Figure 23.) Sales and processing contributed 2.3%, generating a total margin of 23%. Scottish Sea Farms, which is not included in these figures, reported an EBIT margin of 18% in 2020.

Industry operating costs per kg of harvested salmon have increased by an average of about 5% annually over the past decade. Feed, which is the most important cost element (close to 50%), consists of vegetable meal (~50%), vegetable oil (~20%), fish meal (~14%), fish oil (~11%), and other substances (~5%). Fish meal and oil are about 50% more expensive than vegetable raw materials. Feed prices are currently about 8% higher than 12 months ago, mainly due to higher prices for vegetable meal. We assume that operating costs will continue to increase in line with historical levels in the years ahead.

Besides volatile salmon prices, the main risk for a salmon farmer is biological, primarily in the form of disease and sea lice. In Norway, disease outbreaks often lead to premature culling of salmon stocks, entailing lost revenues. Antibiotics are rarely used in Norwegian salmon farming due to extensive vaccination programs for treatable diseases. SalMar has historically had fewer biological issues than its peers due to its excellent farming locations and production focus. However, sea lice cost the company NOK 3-5 per kg of harvested salmon due to cost of treatment, increased mortality, and slower growth.

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'a'

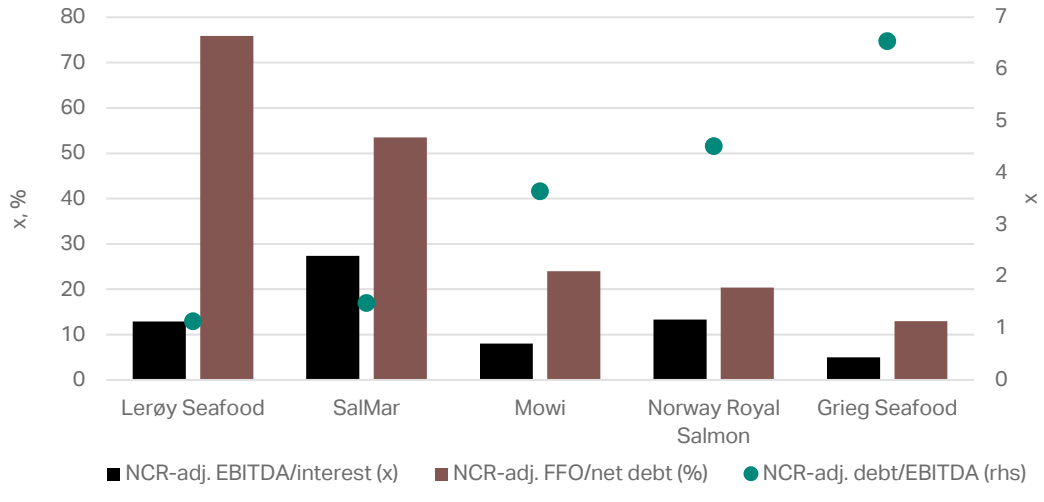
Our financial risk assessment reflects SalMar's strong cash flow and interest coverage, and moderate leverage. We believe, however, that the company's risk appetite is somewhat higher than reflected by its current credit metrics, but expect that Kverva, as the majority owner, will continue to seek to keep financial risk in check.

Ratio analysis scores 'a+'

Strong cash flow and low gearing

With best-in-class margins and moderate gearing, SalMar's credit metrics are strong and the company's EBITDA/interest is outstanding compared with its peer group.

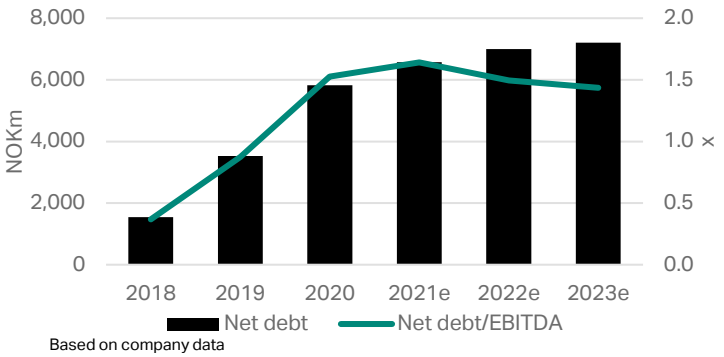
Figure 16. Adjusted credit metrics peer group, 2020



Based on company data

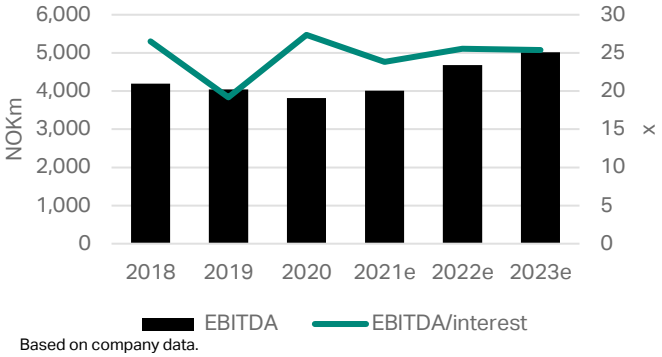
Our forecasts (see figures 1 and 17), imply that SalMar's debt/EBITDA ratio will hover just below the middle of the 1.0-2.5x target range set by the company. This is assuming NOK 1.6bn in investments in 2021, in line with guidance, and that annual investments will remain at this level in the years ahead. Arguably, investment will fall, since large projects such as the InnovaNor plant and a new smolt facility in Senja in northern Norway will be completed in 2021. However, we believe that SalMar will continue to invest in capacity both in Norway and Iceland. Moreover, the actual investment level will depend on the pace of investments in offshore farming and whether or not the company opts to divest this operation.

Figure 17. NCR-adj. net debt and net debt/EBITDA, 2017–2023e



Based on company data

Figure 18. NCR-adj. EBITDA and EBITDA to net interest, 2018–2023e



Based on company data.

Figure 19. Adjusted and unadjusted credit metrics

Credit metrics	2018	2019	2020	2021e	2022e	2023e
Reported debt/ EBITDA (x)	0.3	0.7	1.3	1.4	1.3	1.2
Reported EBITDA/interest (x)	40.0	24.8	45.8	37.0	37.0	35.6
Reported FFO/debt (%)	230.4	91.1	57.3	52.8	53.7	51.8
NCR-adj. debt/EBITDA (x)	0.4	0.9	1.5	1.6	1.5	1.4
NCR-adj. EBITDA/interest (x)	26.5	19.2	27.4	23.8	25.5	25.4
NCR-adj. FFO/debt (%)	221.2	91.7	53.5	48.0	53.1	55.1

Based on NCR estimates and company data. e–estimate.

Figure 20. NCR's adjustments to SalMar's reported credit metrics, 2018–2023e

NOKm	2018	2019	2020	2021e	2022e	2023e
EBITDA	4,202	3,905	3,862	4,176	4,743	5,075
Dividends from JVs and associates	242	255	0	34	163	179
Share of profit in associated companies	-253	-119	-42	-203	-224	-239
NCR-adjusted EBITDA	4,191	4,041	3,820	4,006	4,682	5,015
Cash and cash equivalents	240	231	223	274	550	1,048
NCR-adjusted cash and equivalents	240	231	223	274	550	1,048
Gross interest-bearing debt	1,438	3,133	5,116	5,916	6,616	7,316
Leasing liabilities	344	630	934	934	934	934
NCR-adjusted cash and equivalents	-240	-231	-223	-274	-550	-1,048
NCR-adjusted net debt	1,542	3,532	5,826	6,575	7,000	7,201
Net interest	-105	-158	-84	-113	-128	-143
Financial costs from leasing	-53	-53	-55	-55	-55	-55
NCR-adjusted net interest	-158	-211	-140	-168	-183	-198
Adjusted EBITDA	4,191	4,041	3,820	4,006	4,682	5,015
Adjusted Interest	-158	-211	-140	-168	-183	-198
Current taxes	-621	-590	-563	-681	-783	-848
NCR-adjusted FFO	3,412	3,240	3,117	3,157	3,716	3,969

Based on company data. JVs–joint ventures.

Risk appetite scores 'a'

Risk appetite kept in check by owner-manager structure

SalMar is currently investing heavily in new capacity both in its farming and processing operations. Significant investments are also required in offshore farming, and we see it as likely that this operation will be split from the group as a separate business. In this light, we believe that the company's target debt/EBITDA ratio of 1.0-2.5, which was announced in its third-quarter 2020 report, will remain valid. We also believe that Kverva, as the majority owner, is keeping SalMar's risk appetite in check (see Ownership analysis below).

SalMar also announced an updated dividend policy in its third-quarter 2020 report. The intention is to pay out surplus liquidity in the form of cash dividends and/or share buybacks. We do not believe that the new policy implies any real change, as the company has a history of distributing most of its profit to shareholders and we assume a 75% dividend in our forecast. However, the proposed dividend for 2020 is higher, at 113% of profit. We believe that this represents compensation for the lower dividend paid in respect of 2019, at 64% of profit.

The most important financial covenants in respect of SalMar's long-term financing are a solvency requirement, which stipulates an equity ratio in excess of 30% (50% at year-end 2020), and a profitability requirement, which stipulates that the interest coverage ratio (EBITDA/net finance charges) should not fall below 4.0x.

SalMar has made few acquisitions in the past 10 years. The most notable has been a gradual increase in its ownership of Icelandic Salmon (formerly Arnarlax). Icelandic Salmon was listed on the Oslo Stock Exchange's Euronext Growth market in October 2020 together with a NOK 647m private placement. This is intended to support overall investments of more than EUR 70m over the next few years.

In 2019, 72% of SalMar's operating revenues were denominated in foreign currencies, the largest being the US dollar (32%) and the euro (30%). The company hedges currency exposure in its sales contracts, but not expected sales. Feed costs are mostly incurred in US dollars and euro, and are not hedged, while Icelandic Salmon's functional currency is the euro. About 25% of net interest-bearing debt is denominated in euro. We do not see currency risk as a significant factor in the short term.

In 2019, the European Commission launched an inquiry into SalMar and a number of other Norwegian aquaculture companies over alleged price fixing. Subsequently, similar investigations were launched in the US and Canada, and a class action suit was filed against salmon farming companies in the US. SalMar has made no provisions in respect of these actions, maintaining that it has not engaged in any form of price fixing.

ADJUSTMENT FACTORS

Adjustment factors are neutral

Adjustment factors are assessed as neutral and have no effect on our stand-alone credit assessment.

Liquidity

Liquidity assessed as neutral

We assess SalMar's liquidity position as adequate, despite a shortfall of NOK 0.4bn in our liquidity analysis. The company has good standing with banks, and good access to the capital markets. SalMar has strong cash flow generation capacity and we take into account only 75% of FFO. Moreover, the company can withhold dividends (expected payout in June 2021), if necessary.

Total drawn loans and credit facilities amounted to NOK 3.5bn as at end-2020. Unused credit facilities are NOK 2.0bn. This includes a secured sustainability-linked revolving credit facility of NOK 4.0bn utilised to refinance a previous revolving credit facility of NOK 3.5bn.

We estimate the following primary liquidity sources for 2021, totalling NOK 4.6bn:

- NOK 0.2bn, reflecting 75% of cash;
- NOK 2.0bn in committed available credit facilities; and
- NOK 2.4bn, reflecting 75% of FFO over the period.

This compares with the following estimated uses of liquidity, totalling 5.0bn:

- NOK 0.1m in amortisation of secured debt;
- NOK 2.3bn in dividend payments; and
- NOK 1.6bn in committed capital expenditure.

Environmental, social and governance factors

ESG factors assessed as adequate

SalMar's environmental, social and governance (ESG) efforts are supportive of the company's overall competitive position. The company recognises the industry's effect on the environment and understands the importance of fish welfare. To this end it has sought to reduce sea lice and disease

and promote the safe handling of fish. It also recognises its responsibility to Norwegian coastal communities.

SalMar publishes an annual sustainability report on the environmental impact of its operations following the principles of the Global Reporting Initiative and the Carbon Disclosure Project. In our view, transparency is of high importance in the livestock industry, as consumers become increasingly aware of issues such as animal welfare, use of medicines and antibiotics on animals, and the composition of nutrients in food products. The fish farming industry is highly regulated, and consistent reporting ensures regulatory compliance and reduces the risk of regulatory action.

Early in 2021, the Norwegian Labour Inspection Authority (Arbeidstilsynet) identified potential health issues facing workers at SalMar's InnovaMar plant as a result of poor air quality. This finding could result in daily fines for the company as of 30 Jun. 2021. We note that Salmar is taking active steps to adapt the plant to ensure compliance. If the company fails to comply, the daily fines would amount to NOK 3m for 2021.

Figure 21. SalMar ESG considerations

Issue	Risks	Mitigating efforts	Results
Sea lice	Loss of revenue through early harvesting or mortality. Increased costs due to treatment. Reduced revenue potential due to lower volume growth.	Separation, fallowing and use of cleaner fish against sea lice. Mechanical delousing to reduce stress on fish.	For 2019, the company reported observations 3.3% above the legal requirement in its Norwegian operations.
Disease	Loss of revenue due to mortality. Increased costs of treatment. Could affect consumer perception of salmon as a healthy protein source.	Vaccination. Aim to use zero antibiotics, but emphasis on fish welfare in line with relevant legislation.	Only 0.0022kg of antibiotics used in 2019 in Norwegian operations, equalling 0.0001 gram per tonne of biomass produced.
Escapes	Loss of revenues and increased costs. Escapes impact the local environment and negatively affect wild salmon. They are thoroughly monitored by non-governmental organisations.	Continuous work on quality of pens. Close cooperation with local fishermen to catch escaped fish.	Only six escapes in Norway and one (fry) in Iceland in 2019.
CO_2 emissions	Any increase in related regulation and taxation could reduce operating efficiency and access to funding.	Increased use of renewable energy through greater use of power from shore and electrical and hybrid transportation.	Volatile but reduced Scope 1&2 emissions in 2018-2019. Significantly reduced Scope 3 emissions in 2017-2018.
Fish feed ingredients	Use of both plant-based ingredients and marine products could attract regulatory scrutiny and negatively affect consumer perceptions.	Use of suppliers with sustainability certifications. Use of ingredients that are not genetically modified or sourced from areas threatened by deforestation. Avoidance of ingredients based on marine products from non-regulated fisheries. Cooperation with suppliers on new, more sustainable ingredients.	Ratios of fish oil and fish flour per kilo of salmon produced in 2019 were well within levels approved by the ASC*. Some 99% of marine ingredients certified. ASC* certification for 39% of fish farms and continuous work to increase this level, keeping levels of fish oil and fish flour low.

Source: Company data, Mowi (Salmon Farming Industry Handbook 2019), Aquaculture Stewardship Council* (ASC).

Fish farming is not yet incorporated into the EU Taxonomy, which we expect to increase transparency into sustainable investments. However, its environmental footprint is significantly smaller than that of beef, at 7.9 kg carbon equivalent per kilo of edible product compared with 39 kg. In our view,

ongoing efforts to include the industry in the EU Taxonomy are likely to succeed given its potential for classification as a climate change mitigating activity.

The main ESG issues that could affect our credit rating on SalMar are factors that could contribute to loss of revenue, increased operational costs, increased capital expenditure, loss of value of assets, decreased access to funding, or loss of operating rights. In this context, the main credit risks are fish health and emissions and their potential impact on the social perception of fish farming and fish as a source of protein. Early in 2021, SalMar obtained a sustainability-linked revolving credit facility tied to survival rates, feed conversion ratios, energy emissions, and the level of local processing in Norway.

Ownership analysis

Ownership reflected in low risk appetite

We view SalMar's ownership structure as supportive of the company's low-risk strategy and solid financial position, which we factor into our assessment through the financial risk profile and overall rating on the company. Kverva, the majority shareholder, is a family office controlled by SalMars' founder and CEO Gustav Witzøe. SalMar represents about 80% of Kverva's total assets. The remaining 20% is a mix of illiquid investments, listed shareholdings and cash (NOK 1.1bn at end-2019). The company is virtually debt free. Board chairman Atle Eide, a former CEO of Mowi, is an associate partner in Kverva. We believe that Kverva aims to remain in control of SalMar in the near future and will ensure a relatively conservative financial strategy combined with dividend payouts.

Figure 22. SalMar ownership structure, 31 Dec. 2020

Owner	Share of votes and capital
Kverva Industrier AS	52.5%
Folketrygdfondet	6.4%
State Street Bank and Trust Co.*	2.3%
State Street Bank and Trust Co.*	1.9%
BNP Paribas Securities Services	1.4%
Other	35.5%
Total	**100.0%**

*Two separate nominees. Source: Company.

ISSUE RATINGS

SalMar is financed primarily by secured bank debt and long-term leasing liabilities. For this reason, long-term senior unsecured obligations will be rated one notch below the issuer rating, unless the secured debt as a percentage of total debt falls below 50%, in line with our criteria. Currently, the company has no outstanding bond debt.

Figure 23. SalMar key financial data, 2017–2020

NOKm	2017	2018	2019	2020
INCOME STATEMENT				
Revenue	10,755	11,301	12,202	12,912
Gross profit	6,095	6,757	6,468	7,042
EBITDA	3,790	4,202	3,905	3,862
EBIT	3,371	3,714	3,186	3,050
Net financial items	-145	-107	-231	-299
Pre-tax profit	2,856	4,453	2,932	2,572
Net Profit	**2,298**	**3,579**	**2,319**	**2,008**
BALANCE SHEET				
Property, plant and equipment	3,605	3,591	4,370	5,554
Intangible assets	2,925	3,404	4,742	6,826
Other non-current assets	1,081	1,216	1,384	1,700
Non-current assets	7,611	8,211	10,496	14,080
Cash and cash equivalents	177	240	231	223
Other current assets	5,139	6,685	7,259	7,695
Total current assets	5,316	6,925	7,490	7,918
Total assets	**12,926**	**15,136**	**17,986**	**21,998**
Total equity	7,668	9,140	9,740	10,987
Long-term borrowings	811	690	2,752	3,678
Long-term leasing liabilities	345	329	489	769
Deferred tax liabilities	1,362	1,541	1,758	1,828
Non-current liabilities	2,518	2,561	4,998	6,275
Current liabilities	2,740	3,435	3,248	4,736
Total equity and liabilities	**12,926**	**15,136**	**17,986**	**21,998**
CASH FLOW STATEMENT				
Pre-tax profit	2,856	4,453	2,932	2,572
Adjustments not in cash flow	175	-1,139	-78	361
Cash flow before changes in working capital	3,031	3,313	2,854	2,933
Changes in working capital	343	-532	-50	239
Operating cash flow	3,374	2,782	2,804	3,172
Cash flow from investment activities	-758	-834	-1,317	-3,748
Cash flow from financing activities	-2,717	-1,890	-1,720	561
Cash and cash equivalents at beginning of year	274	177	466	231
Cash flow for year	**-97**	**62**	**-235**	**-8**
Cash and cash equivalents at end of year	177	240	231	223

Source: Company.

Figure 24. SalMar rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bb+
Market position	10.0%	bbb-
Size and diversification	10.0%	a-
Operating efficiency	10.0%	aa-
Business risk assessment	50.0%	bbb
Ratio analysis		a+
Risk appetite		a
Financial risk assessment	50.0%	a
Indicative credit assessment		**a-**
Peer comparisons		Neutral
ESG		Adequate
Liquidity		Adequate
Stand-alone credit assessment		**a-**
Support analysis		Neutral
Issuer rating		**A-**
Outlook		Stable
Short-term rating		**N-1+**

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OSLO
Biskop Gunnerus' gate 14A
0185 Oslo
Norway

STOCKHOLM
Norrlandsgatan 10
111 43, Stockholm
Sweden