

Jotun A/S

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Jotun A/S assigned 'BBB+' long-term issuer rating; Outlook stable

Nordic Credit Rating (NCR) said today that it had assigned a 'BBB+' long-term issuer rating to Norway-based paint and coatings manufacturer [Jotun A/S](#) (Jotun). The outlook is stable. At the same time NCR assigned an 'N-1+' short-term issuer rating. NCR has also assigned 'BBB+' issue ratings to Jotun's senior unsecured bonds.

Rating rationale

The long-term rating reflects Jotun's moderate debt and strong operational efficiency. It also reflects the resulting robust credit metrics, which are strong in both absolute terms and relative to the company's peer group. Jotun has a leading position in the market for marine coatings. It also holds the No. 1 position in the market for decorative paint in Scandinavia, the Middle East, India and Africa, and occupies the No. 2 position in South East Asia.

The rating is constrained by Jotun's small size in comparison with the biggest players in the global paint and coatings market, which is dominated by large US companies. We also note the cyclical nature of the company's margins, which mainly results from volatile raw material prices but also reflects cyclical demand in certain market segments. However, Jotun's diversification across market segments and regions has allowed the company to sustain relatively strong margins through economic cycles. In addition, we note that the decorative paint market has been resistant to the wider economic downturn associated with COVID-19.

Stable outlook

The stable outlook reflects our view that strong operating cash flows and moderate investment requirements will enable Jotun to maintain strong credit metrics in the years ahead. We believe demand will increase as COVID-19 recedes, as we expect, and anticipate that higher raw material prices will be reflected in higher product prices over time. But we note that margins could be affected negatively over both the short and medium term if product prices fail to keep pace. We expect Jotun to make no significant changes to its currently conservative investment and prudent dividend policies.

We could raise the rating to reflect reduced EBITDA margin volatility through, for example, an increased proportion of revenues from decorative paint or an NCR-adjusted EBITDA margin sustainably above 20%.

We could lower the rating to reflect continuing increases in raw material prices combined with an economic downturn, lower profitability (leading to an NCR-adjusted EBITDA margin below 10%), or NCR-adjusted net debt/EBITDA sustainably above 1.5x.

Rating list

Long-term issuer credit rating:

Outlook:

Short-term issuer credit rating:

Senior unsecured issue rating:

Rating

BBB+

Stable

N-1+

BBB+

Figure 1. Jotun A/S rating scorecard

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

Figure 2. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 11 Feb. 2022.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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