Nordic Credit Rating

CORPORATE

Norway
23 Feb. 2022

Kongsberg Gruppen ASA

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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Kongsberg Gruppen ASA 'A-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'A-' long-term issuer rating on Norway-based Kongsberg Gruppen ASA (Kongsberg Gruppen). The outlook is stable. At the same time NCR affirmed the 'N-1+' short-term rating. The issuer ratings are no longer under criteria review.

Rating rationale
On 18 Feb. 2022, NCR published its new Group and Government Support Methodology and placed the issuer rating on Kongsberg Gruppen under criteria review. Kongsberg Gruppen is 50.004% owned by the Norwegian government. We view Kongsberg Gruppen as of 'strategic interest' to the government, which maintains a 'controlling ownership' stake under our definition. According to the Government Support definitions in the new criteria, this allows a one- or two-notch increase from our 'bbb+' standalone credit assessment of Kongsberg Gruppen. We have opted to maintain the one notch increase we attribute for government support, which is reflected in the 'A-' long-term issuer rating on the company, which we now affirm.

Even with an established willingness and ability to support Kongsberg Gruppen's strategy, the company's relationship with the government has a material impact on our standalone credit assessment. For example, the company's large contracts and orderbook with the government are, in our view, a strong driver of business risk and market position. While we believe that the Norwegian government is likely to support Kongsberg Gruppen in an event of distress, we also believe that in the event of corporate bankruptcy, the Norwegian state would retain ownership of the defence technology that the group develops on behalf of the Norwegian Armed Forces. Furthermore, we believe that situations could arise in which it is deemed politically imprudent to support the company.

Stable outlook
The stable outlook reflects our expectation that Kongsberg Gruppen will maintain its position as a strategic investment for the Norwegian government and that the government will maintain its controlling interest. In addition, we expect reduced impact from the COVID-19 pandemic, leading to improved market conditions for the company's maritime division. We also expect spending on defence to remain at high levels and demand for Kongsberg Gruppen's advanced solutions to remain strong. In addition, we assume that Kongsberg Gruppen will make no significant debt-financed acquisitions over the next few years. We could raise the rating to reflect improved conditions in most markets, leading to stronger revenue growth or an increased level of income from the defence business at higher margins. We could lower the rating to reflect any reduction in government commitment, or increased financial gearing, leading to NCR-adjusted net debt/EBITDA of above 2.5x, which would be broadly equivalent to the company's own reported net debt/EBITDA of above 1.5x. We could also lower the rating if profitability declines and leads to an EBITDA margin of less than 10%.

Rating list	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N-1+	N-1+

Figure 1. Kongsberg rating scorecard

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

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 07 Apr. 2021.
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 Rating Methodology published on 18 Feb. 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 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, 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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