

Nortura SA

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Negative

SHORT-TERM RATING

N3

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Nortura outlook revised to negative; 'BBB-' long-term issuer rating affirmed

Nordic Credit Rating (NCR) said today that it had revised its outlook on Norway-based food producer Nortura SA to negative from stable. At the same time, the 'BBB-' long-term and 'N3' short-term issuer ratings on Nortura were affirmed. The 'BBB-' senior unsecured issue rating and 'BB' subordinated debt issue rating were also affirmed.

Rating rationale

The outlook revision reflects the significant worsening of Nortura's financial metrics, both so far in 2022 and in NCR's forecast. The downturn in credit metrics is largely connected to Nortura's limitations in adjusting prices in accordance with the steeply rising costs seen so far in 2022, as it can only change prices twice a year at set dates. Due to its position as market regulator, and the requirements that come with that, Nortura has historically operated with very low margins. Combined with its price adjustment inflexibility, this makes the company particularly vulnerable to periods of rapid change, such as rising energy prices and inflation.

However, Nortura's solid market position and the relatively lower impact of decreased consumption on the food sector leads us to believe there is potential for Nortura to turn its financial performance around. We believe Nortura is strongly positioned to raise prices as required in 2023, although we are somewhat cautious about the effect this will have on sales volumes, as household budgets are increasingly constrained. In addition, we expect inflation to be lower next year in Norway, including on energy prices.

We adjust our standalone credit assessment up by one notch for peer calibration to reflect Nortura's position as market regulator, which adds stability that is not fully captured in our indicative credit assessment. Furthermore, Nortura is in the final phase of its ambitious investment plan, aimed at boosting operating efficiency, which should contribute to further improvements to margins over the next few years. In our view, the current high capital expenditure is transitional, supporting the company's market role and profitability over time.

Negative outlook

The negative outlook reflects the adverse impact on Nortura's financial metrics from the steep inflation and high energy prices of 2022, resulting in decreasing gross and EBITDA margins. We believe the company is highly likely to offset higher costs through price increases in 2023 and that the roll-out of its strategic efficiency investments will boost margins, but we remain cautious on the outcome of these measures.

We could lower the rating if the company is in impending or actual breach of its debt covenants. We could also lower the rating if NCR-adjusted net debt/EBITDA exceeds 4.0x or EBITDA/net interest falls below 3.0x over a protracted period, or if Nortura faces losing its regulatory role and a decline in market position.

We could revise the outlook to stable if NCR-adjusted net debt/EBITDA falls sustainably below 4.0x and EBITDA/net interest sustainably exceeds 3.0x.

Figure 1. Nortura rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb-	bbb-
Market position	10.0%	a-	a-
Size and diversification	10.0%	bbb-	bbb-
Operating efficiency	10.0%	bb	bb
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		bb-	bb+
Risk appetite		bb-	bbb-
Financial risk assessment	50.0%	bb-	bb+
Indicative credit assessment		bb+	bbb-
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		+1 notch	Neutral
Stand-alone credit assessment		bbb-	bbb-
Support analysis		Neutral	Neutral
Issuer rating		BBB-	BBB-
Outlook		Negative	Stable
Short-term rating		N3	N3

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB-	BBB-
Subordinated	BB	BB

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 08 Sep. 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 24 May 2022 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, External market reports, 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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