

Lerøy Seafood Group ASA

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

SECONDARY ANALYST

Gustav Nilsson
+46735420446
gustav.nilsson@nordiccreditrating.com

Lerøy Seafood Group ASA 'BBB+' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB+' long-term issuer rating on Norway-based Lerøy Seafood Group ASA. The outlook is stable. The 'N2' short-term issuer rating and 'BBB' senior unsecured issue rating were also affirmed.

Rating rationale

NCR has reviewed the ratings on Lerøy in view of a government proposal for a 40% "resource rent" tax on the production of salmon and trout from 1 Jan. 2023. In our view, the proposed tax would be slightly credit negative but the likely impact on cash flow metrics would be moderate and could be mitigated by lower dividend payments to shareholders.

A portion of the proposed tax would come from an increase in a production fee introduced in 2021, which we consider an operating cost that directly reduces EBITDA. Most of the impact would come from a new cash flow tax compensating society for the exploitation of natural resources, similar to taxes already imposed on domestic oil and energy companies.

The levy would be based on revenues and net of investments associated with sea-based farming operations. Consequently, the likely actual impact on cash flow is currently unclear. In addition, we see a risk that the proposal, in its current form, would be based on spot prices, which can be higher or lower than contracted prices. The discrepancy could negatively affect Lerøy's ability or willingness to sign long-term customer contracts.

We expect that the proposed increase in the production fee would have only a modest impact on EBITDA. However, we anticipate that the cash flow levy would likely reduce Lerøy's funds from operations (FFO) and free operating cash flow metrics. Previously we projected NCR-adjusted FFO/net debt of more than 100% in both 2023 and 2024. We now believe the ratio could fall by as much as one-third due to higher tax payments, though uncertainty surrounds the actual level. We believe that shareholders will shoulder the brunt of the impact as the company reduces dividend payments in mitigation and possibly reconsiders its long-term investment plans.

Stable outlook

The stable outlook reflects our view that demand for salmon and low supply growth will support global prices over the next three years. We expect stable annual average salmon prices for the 2022–2024 period, albeit with considerable seasonal variations. In addition, we believe that Lerøy will keep adverse biological factors under control. We expect that any cash flow reduction as a result of the proposed tax will be primarily offset by lower dividends, supporting continued strong credit metrics. However, the company's investment planning and business model could change if the tax is approved as currently proposed.

We could raise the rating to reflect greater stability of supply leading to reduced price uncertainty, or reduced costs and improved margin stability due to reduction of biological problems. We could lower the rating to reflect increased biological problems such as disease and sea lice, worsened credit metrics (net debt/EBITDA above 1.5x, interest coverage ratio below 15x, or net debt/EBITDA below 45% over a protracted period), or lower general demand for Norwegian and Atlantic salmon.

Rating list

	To	From
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Stable	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	BBB	BBB

Figure 1. Lerøy rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bb	bb
Market position	10.0%	bbb	bbb
Size and diversification	10.0%	a-	a-
Operating efficiency	10.0%	bbb	bbb
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		a+	a+
Risk appetite		bbb+	bbb+
Financial risk assessment	50.0%	a-	a-
Indicative credit assessment		bbb+	bbb+
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		Neutral	Neutral
Stand-alone credit assessment		bbb+	bbb+
Support analysis		Neutral	Neutral
Issuer rating		BBB+	BBB+
Outlook		Stable	Stable
Short-term rating		N2	N2

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB	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 02 Jul. 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.
Primary analyst:	Geir Kristiansen, +4790784593, geir.kristiansen@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
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 Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 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, 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.
Legal exemption from liability:	Disclaimer © 2022 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

NORDIC CREDIT RATING AS
nordiccreditrating.com