

Nortura SA

Rating Action Report

Nortura SA 'BBB-' long-term issuer rating affirmed; Outlook negative

LONG-TERM RATING

BBB-

OUTLOOK

Negative

SHORT-TERM RATING

N3

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

Rating rationale

On 27 Oct. 2022 Nortura said in its second tertiary report that it had breached its net debt/EBITDA covenant and, at the same time, that it had received waivers from all affected counterparties for the covenant until year-end 2022.

Our rating affirmation reflects the fact that all affected counterparties have granted waivers for the covenant breach reported today and the expected covenant breach at year-end 2022, and that the covenants cover only 9.6% of outstanding debt at 31 Aug. 2022. Moreover, we believe that the breach will be temporary, and our earnings expectations for the full year 2023 and 2024 are unchanged. The breached covenant relates to outstanding term loans from the Nordic Investment Bank and Innovation Norway of NOK 235m, as well as the outstanding unutilised credit facilities of NOK 1.1bn, and we believe the waiver is indicative of these creditors' supportive stance towards the company. The covenant does not apply to Nortura's outstanding bonds, including the hybrid bonds, nor are there any cross-default clauses relating to covenant breaches. However, the breach, and the waiver, might impact financing costs going forward.

The breach of the net debt/EBITDA covenant is the result of weaker than expected EBITDA for the second tertiary period of 2022. High energy prices and lower sales volumes in the latter part of the period, due partly to higher cross-border trade, has led us to also revise down EBITDA expectations for the remainder of 2022. The company should be able to pass the bulk of the increased costs on to customers at its set dates for price adjustments in February and July. Nevertheless, given high energy prices and the seasonal build-up of working capital, we expect Nortura to need an extension of the covenant waiver for most of 2023. We believe the company's liquidity could come under significant pressure if unutilised credit facilities are discontinued.

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 improve margins, although we remain cautious on the outcome of these measures. The negative outlook also reflects our expectation that Nortura will need a covenant waiver extension for most of 2023, although we anticipate creditors remaining optimistic about Nortura's long-term ability to pass on higher operating costs to its customers.

We could lower the rating by one or several notches if the company fails to receive waivers of breached debt covenants in 2023 which could trigger cross-acceleration clauses on other debt. We could also lower the rating if NCR-adjusted net debt/EBITDA exceeds 4.0 or if EBITDA/net interest falls below 3.0x over a protracted period. The rating could also be lowered 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.

Rating list

Long-term issuer credit rating:

Outlook:

Short-term issuer credit rating:

Senior unsecured issue rating:

Subordinated issue rating:

To

BBB-

Negative

N3

BBB-

BB

From

BBB-

Negative

N3

BBB-

BB

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-	bb-
Financial risk assessment	50.0%	bb-	bb-
Indicative credit assessment		bb+	bb+
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		+1 notch	+1 notch
Stand-alone credit assessment		bbb-	bbb-
Support analysis		Neutral	Neutral
Issuer rating		BBB-	BBB-
Outlook		Negative	Negative
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 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, 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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