

SalMar ASA

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Negative

SHORT-TERM RATING

N2

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SalMar ASA 'A-' long-term issuer rating affirmed; Outlook negative

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

Rating rationale

The affirmation reflects SalMar's continuing operational and financial performance, which is in line with our expectations, while the negative outlook reflects the potential for weaker credit metrics if the company's prospective acquisition of Norwegian salmon farmer NTS ASA goes ahead. We anticipate a final ruling from the European authorities in the fourth quarter; this is necessary if the transaction is to proceed. SalMar has reiterated its commitment to its long-term financial policy if the NTS acquisition proceeds but expects that the transaction could result in net debt/EBITDA exceeding 2x for up to two years. In its interim report SalMar stated that the transaction would also depend on positive due diligence findings and an absence of any material adverse change. In our view, a new government proposal to impose a 40% "resource rent" tax on the sea-based production of salmon and trout from 1 Jan. 2023 could qualify as such a change. Consequently, the negative outlook also reflects the likely impact the proposed tax on SalMar's cash flow metrics.

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 (in 2021, SalMar reported a NOK 68.5m charge for this fee). 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, is based on spot prices, which can be higher or lower than contracted prices. The discrepancy could negatively affect SalMar'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 erode SalMar's funds from operations (FFO) and free operating cash flow (FOCF) metrics. Previously we projected NCR-adjusted FFO/net debt of about 60% in 2023 and 2024 and NCR-adjusted FOCF/net debt of about 35% in 2023 and 2024. We now believe these ratios 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.

Negative outlook

The negative outlook reflects our view that SalMar's financial leverage could increase substantially and net interest coverage weaken upon completion of the NTS acquisition. We believe the transaction could permanently weaken the company's financial ratios, effectively offsetting any operational benefits such as increased scale. 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 lower the rating to reflect deteriorating credit metrics (net debt/EBITDA above 2.0x, interest coverage below 15x, or FFO/net debt below 45%) over a protracted period, or a more aggressive financial risk appetite. We could revise the outlook to stable if SalMar were actively to commit to keeping NCR-adjusted net debt/EBITDA permanently below 2.0x after the acquisition of

NTS, while maintaining strong interest coverage ratios above 15x and FFO/net debt above 45% over a protracted period.

Rating list

Long-term issuer credit rating:
 Outlook:
 Short-term issuer credit rating:
 Senior unsecured issue rating:

To	From
A-	A-
Negative	Negative
N2	N2
BBB+	BBB+

Figure 1. SalMar 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%	aa-	aa-
Business risk assessment	50.0%	bbb	bbb
Ratio analysis		a+	a+
Risk appetite		a-	a-
Financial risk assessment	50.0%	a	a
Indicative credit assessment		a-	a-
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		Neutral	Neutral
Stand-alone credit assessment		a-	a-
Support analysis		Neutral	Neutral
Issuer rating		A-	A-
Outlook		Negative	Negative
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 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 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, 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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