

SalMar ASA

Rating Action Report

**SalMar ASA long-term issuer rating lowered to 'BBB+';
Outlook stable**

Nordic Credit Rating (NCR) said today that it had lowered its long-term issuer rating on Norway-based salmon farmer [SalMar ASA](#) to 'BBB+' from 'A-'. The outlook is stable. At the same time, the short-term issuer rating was lowered to 'N3' from 'N2' and the senior unsecured issuer rating was lowered to 'BBB' from 'BBB+'.

Rating rationale

The rating action reflects our view that SalMar's leverage will increase following its recent merger with NTS ASA (NTS) due to NTS' higher leverage. We consider SalMar's current leverage to be moderate and estimate pro-forma NCR-adjusted net debt/EBITDA at around 2.5x at the time of the merger. However, we project that the metric will fall below 2x in the course of 2023. In addition, we expect the likely increase in debt to have an even larger impact on SalMar's NCR-adjusted EBITDA/net interest, which we project will fall to 8x in 2023 compared with our previous expectation of 24x, partly in combination with higher interest rates. We also expect SalMar's NCR-adjusted funds from operations/net debt to fall to about 40% from our earlier expectation of 62%. Norway's implementation of a planned "resource rent" tax in 2023 will add additional pressure to this metric when payments begin in 2024. In our forecast, we assume that SalMar will pay no dividend in respect of 2022 and reduce leverage by selling non-strategic assets, in addition to the previously announced sale of NTS subsidiary Arctic Fish.

While we expect SalMar to reduce leverage over the longer term, we believe that the debt-financed NTS merger reflects an increase in the company's financial risk appetite. We also expect the merger to reduce operating efficiency, given NTS' lower EBITDA, particularly at subsidiary Norway Royal Salmon.

Positively, we expect the merger to increase SalMar's harvest volumes by about 30% and give SalMar a clear position as the second-largest salmon company in the world. We expect further benefits of the merger as SalMar introduces operational best practice, reducing costs and increasing margins in the acquired companies.

Stable outlook

The stable outlook reflects our view that low supply growth will support global salmon prices over the next three years. We expect average prices of around NOK 75 per kg over this period, albeit with marked seasonality. In addition, we believe that SalMar will successfully integrate NTS into its operations and thereby create synergies. From 2023 our forecasts reflect our estimates of the effect of the Norwegian government's proposed "resource rent" tax. We generally believe that shareholders will bear the brunt of the impact, as the company reduces dividend payments to mitigate the impact on cash flows and reconsiders its long-term investment plans.

We could raise the rating to reflect lower leverage, resulting in NCR-adjusted EBITDA/net interest above 15x and NCR-adjusted net debt/EBITDA below 1.5x for a protracted period, combined with a continued strong outlook for salmon prices.

We could lower the rating if higher leverage becomes permanent, for example if EBITDA/net interest remains below 10x or NCR-adjusted net debt/EBITDA remains above 2x for a protracted period. In addition, we could lower the rating to reflect increasing biological problems, such as disease and sea lice, or a general fall in demand for Atlantic salmon.

Rating list	To	From
Long-term issuer credit rating:	BBB+	A-
Outlook:	Stable	Negative

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Rating list

Short-term issuer credit rating:

Senior unsecured issue rating:

To

N3

BBB

From

N2

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%	a	aa-
Business risk assessment	50.0%	bbb	bbb
Ratio analysis		a-	a+
Risk appetite		bbb	a-
Financial risk assessment	50.0%	bbb+	a
Indicative credit assessment		bbb+	a-
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		Neutral	Neutral
Stand-alone credit assessment		bbb+	a-
Support analysis		Neutral	Neutral
Issuer rating		BBB+	A-
Outlook		Stable	Negative
Short-term rating		N3	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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NORDIC CREDIT RATING AS

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