

Nortura SA

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Negative

SHORT-TERM RATING

N3

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

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 and 'BB' subordinated debt issue ratings were also affirmed.

Rating rationale

On 8 Mar. 2023 Nortura reported that it had exceeded the extended net debt/EBITDA covenant level as of year-end 2022. At the same time, the company stated that creditors had agreed to a further revision of the covenant as of year-end 2022 and to new covenants for each tertiary period (T) in 2023. In addition, the company confirmed that it had refinanced maturing credit facilities and added an additional bank creditor. Nortura stated that the covenant breach in T3 2022 was due to both lower EBITDA than expected and a larger volume of utilised inventory facility debt. In our view, the development during the second half of 2022 highlights Nortura's vulnerability to changes in external factors, due to its limited ability to raise prices outside bi-annual price setting dates.

Our affirmation of the rating at this point reflects the fact that all counterparties affected have accepted an additional increase in the net debt/EBITDA covenant for the third tertiary of 2022. It takes account of the covenant remaining at an increased level throughout 2023, but also the fact that the covenant level decreases through the year in anticipation of improved performance. Moreover, it reflects our projection of significant improvements from the third tertiary of 2023 as Nortura implements its cost reduction programme, is expected to increase revenues, and makes targeted divestments.

Due to cross-acceleration clauses in Nortura's bond terms, the potential for further covenant breaches would increase the risk to bondholders. At this point, we believe that creditors will continue to support Nortura during 2023, even with further covenant breaches, particularly given the addition of a new bank creditor. However, we believe a further breach would increase both the risk of creditors not accepting more covenant changes and the risk of creditor demands. Consequently, we would be likely to downgrade the long-term issuer rating if Nortura were to breach its new net debt/EBITDA covenants during 2023.

In addition, the negative outlook reflects our concern that the decline in financial performance in late 2022, compared with already weak expectations, could affect the improvement of future metrics. Persistently high inflation is putting a strain on household finances, and we are concerned about sales volumes and inventory levels going forward. Therefore, we could downgrade the issuer rating if earnings performance over the forthcoming tertiary periods falls below our expectations. For the full year 2022, NCR-adjusted EBITDA was NOK 352m, versus our expectation from last autumn of NOK 534m, net debt/EBITDA was 10.1x vs 5.8x, and the interest coverage ratio was 4.9x vs 3.8x.

Negative outlook

The negative outlook reflects the risk that Nortura will be unable to turn its financial performance around to a satisfactory degree within the short to medium term. It also reflects the risk that failing to perform in line with expectations in each tertiary period in 2023 is likely to cause a breach of the revised net det/EBITDA covenant. Additional covenant breaches could impact Nortura's access to and cost of financing. The negative outlook also reflects credit metrics that are currently weaker than warranted by the rating level.

We could lower the rating by one notch if Nortura fails to meet its new net debt/EBITDA covenant, or if it requests additional extensions on the covenant. We could lower the rating by several notches if one or more creditors do not accept additional increases to the covenant, depending on the

consequences for Nortura and its other creditors. We could also lower the rating if NCR-adjusted net debt/EBITDA remains above 4.0x or if EBITDA/net interest remains below 3.0x over a protracted period.

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. We could also revise the outlook to stable if there is a significant and permanent shift in Nortura's financial risk profile, for example through a large capital injection, or if Nortura receives support (or indication of support) from the government that positively impacts its debt servicing ability.

Related rating actions

- (i) [Nortura outlook revised to negative; 'BBB-' long-term issuer rating affirmed](#), 27 Sep. 2022.
- (ii) [Nortura SA 'BBB-' long-term issuer rating affirmed; Outlook negative](#), 27 Oct. 2022.

Rating list	To	From
Long-term issuer credit rating:	BBB-	BBB-
Outlook:	Negative	Negative
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB-	BBB-
Subordinated issue rating:	BB	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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