

SalMar ASA

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

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SalMar 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 [SalMar ASA](#). The outlook is stable. At the same time NCR affirmed the 'BBB' senior unsecured issue rating. NCR raised the short-term rating to 'N2' from 'N3' reflecting our assessment that the company's liquidity situation has improved and will remain strong.

Rating rationale

The long-term rating reflects SalMar's strong profitability in relation to its peers. This is attributable to cost-efficient production, favourable farming locations, strong cash flow, and moderate financial leverage. In 2022, Salmar acquired Norwegian fish farmers NTS ASA and Norway Royal Salmon ASA, effectively cementing the company's position as the world's second-largest salmon farmer. Significant synergies have already been achieved and more are expected, leading to a likely improvement in the company's credit metrics.

The rating is currently constrained by the sector's historical earnings volatility due to unstable prices as a result of variable supply and the fact that salmon farmers are effectively price takers, particularly in recurring periods of oversupply. It is also constrained by environmental challenges and disease problems, which we take into account in our assessment of the operating environment. In addition, a proposed new "resource rent" tax on major fish farmers, which has still to be passed by parliament, points to significant political risk. Positively, we note that salmon is a healthy food product, with a lower environmental footprint than many other sources of protein.

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 90 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 further synergies. Our forecasts reflect our estimates of the effect of the government's proposed resource rent tax. We generally believe that shareholders will bear the brunt of the impact as dividend payments could be reduced to mitigate the impact on cash flows. Moreover, the company could reconsider its long-term investment plans.

We could raise the rating to reflect NCR-adjusted funds from operations/net debt above 60% for a protracted period or lower cost levels achieved by sustainable improvements in biological performance.

We could lower the rating to reflect NCR-adjusted EBITDA/net interest below 10x for a protracted period or NCR-adjusted net debt/EBITDA above 2x for a protracted period. We could also lower the rating to reflect an increase in biological problems, such as disease and sea lice.

Rating list	To	From
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Stable	Stable
Short-term issuer credit rating:	N2	N3
Senior unsecured issue rating:	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%	a+	a
Business risk assessment	50.0%	bbb	bbb
Ratio analysis		a-	a-
Risk appetite		bbb	bbb
Financial risk assessment	50.0%	bbb+	bbb+
Indicative credit assessment		bbb+	bbb+
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		Neutral	Neutral
Stand-alone credit assessment		bbb+	bbb+
Support analysis		Neutral	Neutral
Issuer rating		BBB+	BBB+
Outlook		Stable	Stable
Short-term rating		N2	N3

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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