

Nortura SA

Rating Action Report

LONG-TERM RATING

BB+

OUTLOOK

Stable

SHORT-TERM RATING

N4

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Nortura SA long-term issuer rating lowered to 'BB+'; Outlook stable

Nordic Credit Rating (NCR) said today that it had lowered its long-term issuer rating on Norway-based food producer [Nortura SA](#) to 'BB+' from 'BBB-'. The outlook is stable. At the same time, the short-term rating was lowered to 'N4' from 'N3'. The senior unsecured issue rating was lowered to 'BB+' from 'BBB-' and the subordinated debt issue rating was lowered to 'BB-' from 'BB'.

Rating rationale

The rating action on the long-term issuer rating reflects our view that Nortura's financial recovery from an extraordinarily weak 2022 will be slower, and more uncertain, than we previously anticipated. The company's financial metrics have been under pressure since 2022 and it has struggled to fully recover, largely due to limitations on its ability to adjust prices and rises in input costs due to inflation. We expect sales growth and margins to recover at a slower rate than we expected a year ago as a result of a lack of demand and rising inventory levels.

Positively, Nortura has received support, directly from its members and indirectly from the government, over the past year. We maintain our view that the company is likely to continue to receive some level of support due to its position as market regulator. We also view the efforts the company has taken so far this year to improve its financial and operational performance as positive.

However, we have revised our assessment of financial risk to reflect our expectation that ratios will worsen. We now expect NCR-adjusted net debt/EBITDA of 5.4x at end-2023 compared with our previous estimate of 4.6x. We expect the ratio to improve modestly through 2025 to 4.4x, which would be a slower improvement than we previously projected.

Nortura's business risk profile remains in line with our expectations. However, we have revised our assessment of operating efficiency to reflect a slower and more uncertain improvement in EBITDA margins than we previously expected. The company reported an NCR-adjusted EBITDA margin of 1.3% in 2022, compared with our expectation of 1.9% and we now expect EBITDA-margins to remain below 3% until 2025.

We believe a significant risk remains that Nortura will breach its bank covenants in full-year 2023. However, we believe that the company's banks retain a long-term perspective and are willing to adjust covenants further in the event of any future breach.

Stable outlook

The stable outlook reflects our view that Nortura will maintain its regulatory role and solid market position. We now expect financial risk to remain elevated for longer than we previously anticipated, but take the view that the company will slowly improve its operating margins and credit metrics through strategic efficiency investments, and recover from ongoing supply-demand imbalances. Nortura demonstrated an ability to offset higher costs through price increases earlier this year, but problems with rising inventories led to downward adjustments in August. The outlook also reflects our view that Nortura's banks are likely to remain supportive in the event of future covenant breaches, and that any waiver stipulations will have no materially negative impact on our assessment.

We could raise the rating to reflect NCR-adjusted net debt/EBITDA sustainably below 3.5x and EBITDA/net interest sustainably above 4.5x, or a stabilisation of EBITDA margins, excluding one-offs, at around 3.5%.

We could lower the rating to reflect debt covenant breaches leading to action by one or more of the company's banks, insufficient support, or loss of regulatory role. We could lower the rating to reflect failure to improve key financial ratios in line with our forecast.

Rating list	To	From
Long-term issuer credit rating:	BB+	BBB-
Outlook:	Stable	Negative
Short-term issuer credit rating:	N4	N3
Senior unsecured issue rating:	BB+	BBB-
Subordinated issue rating:	BB-	BB

Related publications

- (i) [Nortura SA 'BBB-' long-term rating unaffected by T1 2023 results](#), 13 Jun. 2023.
- (ii) [Nortura SA 'BBB-' long-term issuer rating affirmed; Outlook negative](#), 8 Mar. 2023.
- (iii) [Nortura SA 'BBB-' long-term issuer rating affirmed; Outlook negative](#), 27 Oct. 2022.
- (iv) [Nortura outlook revised to negative; 'BBB-' long-term issuer rating affirmed](#), 27 Sep. 2022.

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		b+	bb-
Risk appetite		b+	bb-
Financial risk assessment	50.0%	b+	bb-
Indicative credit assessment		bb	bb+
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		+1 notch	+1 notch
Stand-alone credit assessment		bb+	bbb-
Support analysis		Neutral	Neutral
Issuer rating		BB+	BBB-
Outlook		Stable	Negative
Short-term rating		N4	N3

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BB+	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:	<p>NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022</p> <p>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).</p>
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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