Nortura SA

Full Rating Report

LONG-TERM RATING

BB+

OUTLOOK

Stable

SHORT-TERM RATING

N4

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EDITOR'S NOTE (17 Oct. 2023): The end date for Nortura's reporting period was corrected on page 9.

RATING RATIONALE

Our 'BB+' long-term issuer rating on Norway-based food producer Nortura SA reflects the company's weak financial metrics and continuous pressure on its margins. Nortura has taken a hard hit in the past year as a result of the high inflation and volatile energy prices. These factors have been exacerbated by reduced demand and limitations on the company's ability to adjust prices. Nortura's corporate structure reduces opportunities to achieve economies of scale due to a statutory obligation to take produce from farmers throughout Norway, which in turn impedes inventory management. The rating is constrained by increasing competition from producers, distributors, and retailers, as well as megatrends, such as public concern about emissions, animal welfare and health.

Nortura has a solid market position through its brands Prior and Gilde, with consumer demand met through a variety of distribution channels. The company's strong relationships with grocery retailers support its operations. The rating is further supported by Nortura's statutory role as market regulator, which creates barriers to entry and ensures the company's systemic importance in the Norwegian food market.

STABLE OUTLOOK

The outlook is stable, reflecting 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 the company's banks are likely to remain supportive in the event of covenant breaches, and that any waiver stipulations will have no materially negative impact on our assessment.

POTENTIAL POSITIVE RATING DRIVERS

- NCR-adjusted net debt/EBITDA sustainably below 3.5x and EBITDA/net interest sustainably above 4.5x.
- EBITDA margins excluding one-offs stabilising at around 3.5%.

POTENTIAL NEGATIVE RATING DRIVERS

- Debt covenant breaches leading to action by one or more of the company's banks.
- Insufficient support, or loss of regulatory role.
- Failure to improve key financial ratios in line with our forecast.

Figure 1. Nortura key credit metrics, 2019–2025e

NOKm	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	23,728	24,723	26,614	28,390	30,113	31,111	31,984
NCR-adjusted EBITDA	843	930	855	360	763	886	1,000
NCR-adjusted EBITDA margin (%)	3.6	3.8	3.2	1.3	2.5	2.8	3.1
NCR-adjusted FFO	702	804	706	181	597	660	782
NCR-adjusted net debt	3,057	2,755	2,335	3,554	4,134	4,195	4,373
NCR-adjusted total assets	9,889	9,845	9,438	10,576	11,320	11,224	11,531
NCR-adjusted net debt/EBITDA (x)	3.6	3.0	2.7	9.9	5.4	4.7	4.4
NCR-adjusted EBITDA/net interest (x)	7.9	8.8	8.2	2.6	4.1	4.4	4.9
NCR-adjusted FFO/net debt (%)	23.0	29.2	30.2	5.1	14.4	15.7	17.9
NCR-adjusted FOCF/net debt (%)	11.8	13.1	8.8	-10.8	-8.0	-3.3	-1.9

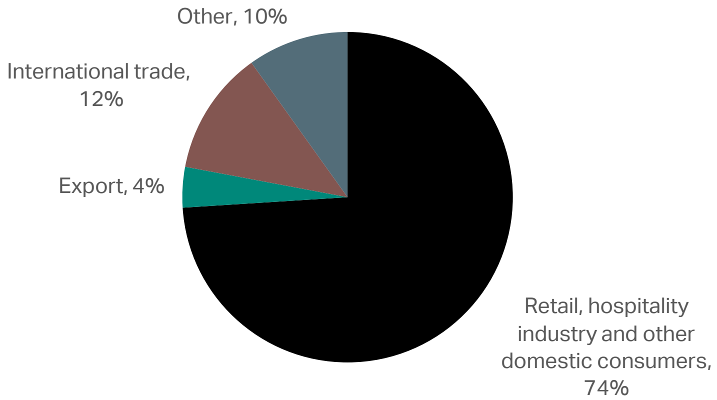
Based on NCR estimates and company data. e–estimate. FFO–funds from operations. FOCF–free operating cash flow. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Nortura is an agricultural cooperative established in 2006 by the amalgamation of the Prior and Gilde cooperatives, which previously focused on poultry and livestock, respectively. The company can trace its roots as far back as the establishment of Jæderen Poultry breeding association in 1896. Nortura is owned by about 17,000 Norwegian farmers and is one of the largest agricultural processing and distribution companies in northern Europe. The company is the market regulator for eggs and meat in Norway, with a statutory remit to facilitate a stable balance of supply and demand. It also provides stability of revenues for its owners and ensures availability of products for consumers.

Nortura's primary operations link farmers and consumers and include slaughtering, packaging, processing, wholesale, marketing, product development, and support for members. The company is organised into four main business areas: Retail, Hospitality Industry and other domestic consumers; Export; International Trade; and Other.

Figure 2. Nortura revenues by business segment, 30 Apr. 2023



Source: company.

BUSINESS RISK ASSESSMENT

Business risk assessment 'bbb-'

Our business risk assessment reflects Nortura's leading position in Norway's semi-protected meat and egg industry. The company has strong brand recognition and a diverse product offering within the food sector. Nortura has strong relationships with grocery retailers, which provide a significant share of its revenues, and the hospitality industry. In addition, the company's position as market regulator creates barriers to entry. These factors are partly offset by increasing competition in the food industry, an obligation to sell meat and eggs to competitors, and weak operating margins that remain under pressure.

Economic trends and trade regulations constrain supply and demand

Operating environment 'bbb-'

Historically, the Norwegian food industry has been stable and resilient to economic change. However, currently high inflation has led to unusually high food prices, which have outstripped rises in the consumer price index. Coupled with interest rate increases, this is likely to tighten consumer budgets and increase price awareness. While we believe these trends will have a limited impact on overall food consumption, changing dynamics could nonetheless impact consumer preferences. Positively, Nortura's broad selection of price categories, from premium to budget and white-label products, partly offsets this risk.

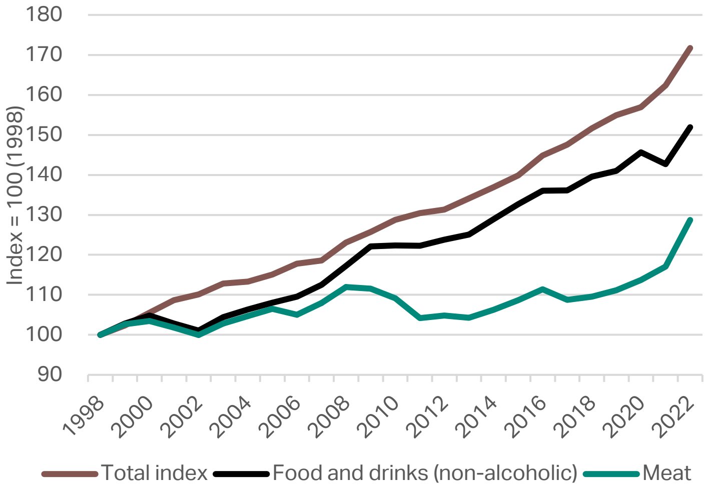
Domestic food price inflation is partly offset by significant public transfers to agriculture which touched record highs last year, and market practices that restrict suppliers' ability to change prices to set dates twice a year. This restricts Nortura's ability to adjust prices to reflect increasing costs, a major factor in the company's poor earnings last year.

As the COVID-19 pandemic has receded, consumption has increased in the hospitality sector, while retail has eased back to more normal levels. These sectors account for most of Nortura's sales. Limits on domestic household budgets amid rising inflation rates could hamper further growth in the hospitality sector.

About 85% of Nortura's revenues come from the Norwegian domestic market. Consumption is largely channelled through three grocery chains – NorgesGruppen, Coop and Rema 1000 – and the hospitality industry. At the height of the COVID-19 pandemic, cross-border trade was limited, but has returned to pre-pandemic levels, increasing competition for Nortura.

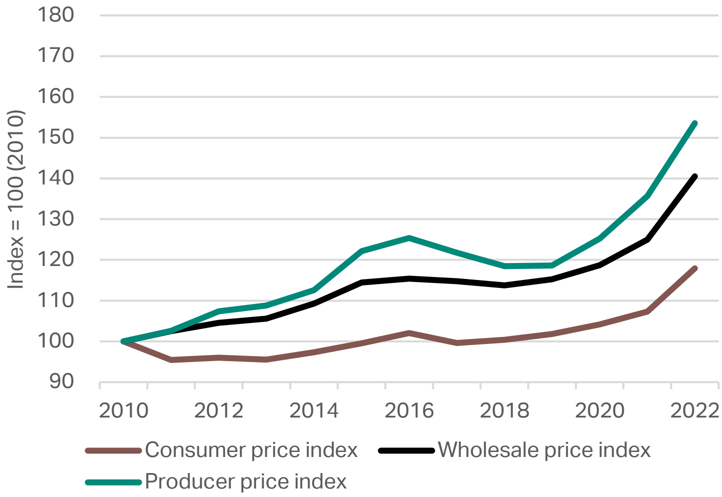
While Norwegian consumer prices and the price of other food and non-alcoholic drinks have steadily increased over the past 20 years, changes in meat product prices have been more subdued. However, the gap has narrowed in recent years. Production costs and the wholesale price index have rapidly outpaced the consumer price index, indicating significant pressure on the price of meat products.

Figure 3. Norway consumer prices, 1998–2022



Source: Norwegian institute of Bioeconomy Research.

Figure 4. Norway meat prices, 2010–2022



Source: Norwegian institute of Bioeconomy Research.

The Norwegian food production industry is heavily protected by the government, which places a strong emphasis on self-sustaining domestic food production policies by limiting imports and creating trade barriers. This focus has strengthened since Russia's invasion of Ukraine. In our view, provided that these policies remain in place, there should be no immediate risk of foreign producers entering the Norwegian market.

Food producers face an increased global focus on sustainability issues, including health, animal welfare, energy use and greenhouse gas emissions, especially from cattle. As a result, demand for meat, particularly red meat, is sliding. In an attempt to offset the impact of reduced demand for red meat, Nortura has sharpened its focus on other products, such as white meat and eggs. The agricultural sector is also likely to be negatively affected by climate change-induced weather events and climate volatility. So far this year, Norway has experienced volatile weather conditions, with both drought and flood conditions. This has had a direct impact on Nortura's operations with increased slaughter volumes and elevated inventory levels.

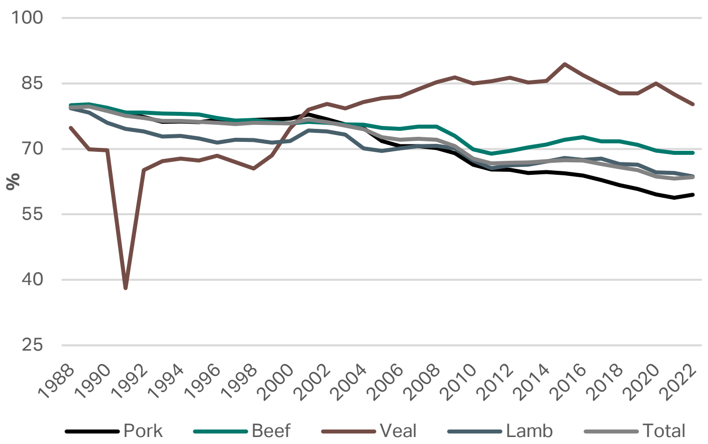
Strong brand names and regulatory role create solid market position

Market position 'a-'

Nortura has a solid position in the domestic meat and egg market through its leading brands, Gilde and Prior. The company's role as market regulator gives it a favourable market position and considerable power within the industry. Domestic regulations require market regulators to be organised as cooperatives. Nortura is owned by a significant number of Norwegian farmers, effectively barring the way for prospective new entrants. However, pricing regulations, competition rules and the presence of strong retail groups constrain the company's pricing and bargaining power within the value chain. Competition for shelf space is fierce; the retail grocery sector is largely characterised by high volumes and narrow operating margins, and new producers offering niche selling points such as sustainability and local sourcing add to the challenge. As sales through grocery retailers represent a significant amount of Nortura's total sales volumes, strong relationships are important. Conversely, retailers are dependent on food producers for consistent supply of sellable volumes.

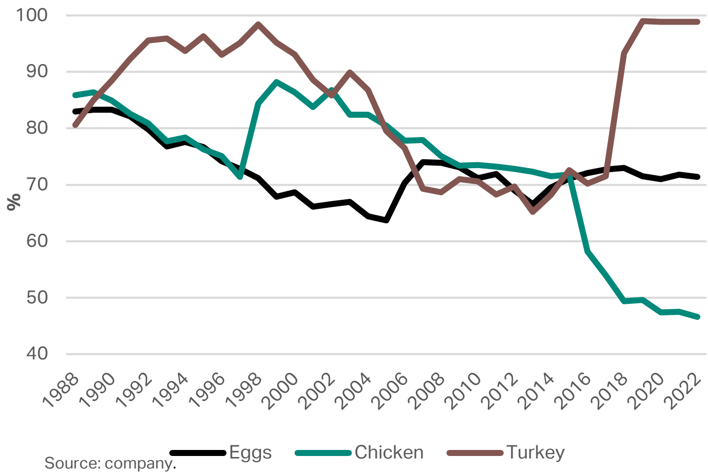
Competition also comes from retailers' own-brand products; according to Nielsen IQ, 18.2 % of the groceries market consisted of own-brand products in 2022, up from 17.6 % in 2021. In Norway, the proportion of grocery retailers' own brands is much lower than in other European countries, and we expect domestic supermarkets to aim for similar levels, thereby intensifying competition with suppliers such as Nortura. Higher food prices could accelerate this trend, as own-brand products are often cheaper. Nortura itself has a foothold in the own-brand segment through Norfersk AS, a wholly owned producer that supplies NorgesGruppen. In this respect, Norfersk provides some protection for Nortura's market position but, in our view, Nortura's overall market share remains under pressure. Due to the company's role as market regulator, it is required to supply meat to other producers at prices similar to those it would pay its own processing companies.

Figure 5. Nortura's position in Norwegian meat market, 1988–2022



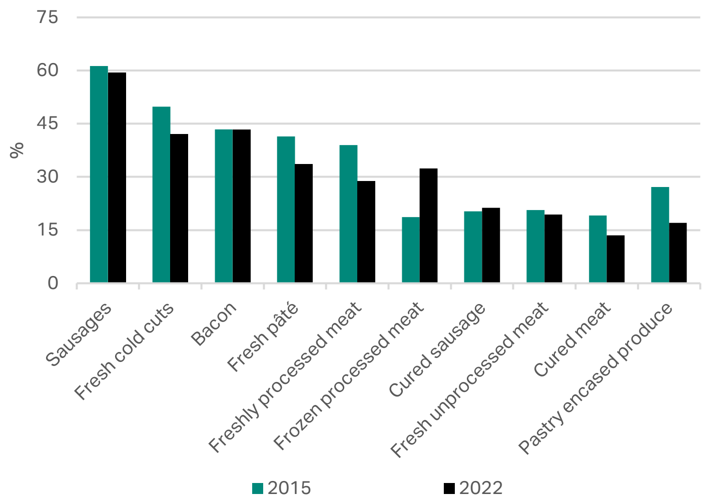
Source: company.

Figure 6. Nortura's position in Norwegian egg and poultry markets, 1988–2022



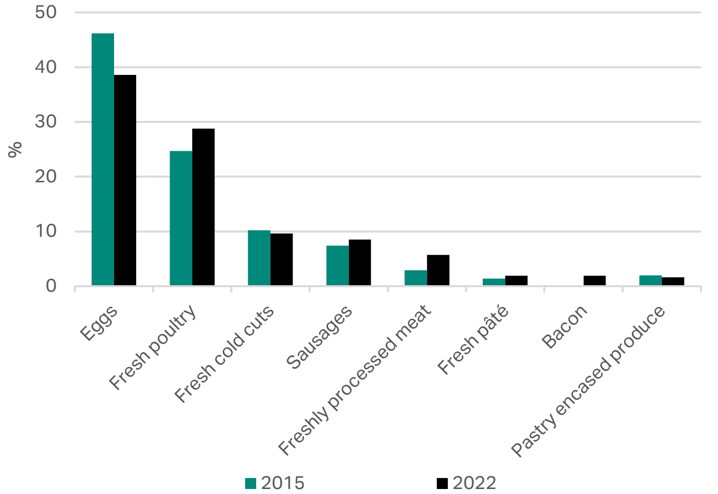
Source: company.

Figure 7. Nortura Gilde market position by product, 2015 vs 2022



Source: company.

Figure 8. Nortura Prior market position by product, 2015 vs 2022



Source: company.

Competitors such as Fatland Group AS and Nordfjord Kjøtt AS, which mostly distribute through Coop and Rema 1000 respectively, have increased their market share at Nortura's expense in recent years. However, grocery retailer NorgesGruppen has by far the largest market share in the domestic market, and Nortura benefits from its role as NorgesGruppen's main distributor of red and white meat. Nortura's market share is under pressure from factors such as increasing competition from both domestic and international meat and egg producers. While an increased global focus on sustainability and animal welfare is likely to impact overall market size, we expect it to be more beneficial than harmful to Nortura's market position.

Norway's largest distributor of meat and eggs

Size and diversification 'bbb-'

Nortura is the largest distributor of meat and eggs in Norway. Its 17,000 farmer members provide significant diversity of supply. Non-members are guaranteed equal treatment with members, increasing the incentive for them to supply the cooperative. The diversity of suppliers ensures that Nortura has secure supplies of livestock. However, the statutory obligation to sell meat and eggs to other producers could affect Nortura's ability to expand and the stability of the company's sales through its own distribution channels.

Nortura's revenues are more diverse than those of peers such as Fatland and Nordfjord, but less diverse than those of distributors and producers supplying multiple foodstuffs. The domestic market accounts for 85% of Nortura's revenues, with a large proportion generated by grocery chains. Customer diversity is low, as the country's three main grocery chains control 97% of the market. Nortura's contracts with grocery store distributors vary, but are typically based on targeted volumes and prices.

Nortura's role as the market regulator for meat and eggs is generally positive, ensuring the company's consumer reach, political influence and market position. However, it also reduces flexibility and cost efficiency, given the need for a country-wide presence and a requirement to purchase produce at low margins.

Figure 9. Nortura's main grocery distributors

	NorgesGruppen	Coop	Rema 1000
Main distributor of red meat	Norfersk (Nortura)	Fatland	Nordfjord
Secondary distributor of red meat	Gilde (Nortura)	Gilde (Nortura)	Gilde (Nortura)
Main distributor of white meat	Prior (Nortura)	Den Stolte Hane	Solvinge
Secondary distributor of white meat	-	Prior (Nortura)	-

Source: company.

Nortura has numerous associated companies, which provide geographic and market diversity. They account for 32% of group revenue, contribute to the company's circular business model and reduce waste. Most of the associated companies are held for strategic reasons and operate in Norway, Denmark, Sweden and the UK. They help to fully utilise slaughtered animals (hides, wool, intestines), provide animal welfare, and offer sustainability oversight. They also facilitate international trade and ensure that meat imports and exports meet regulatory approval. Including associated companies, 16% of Nortura's revenue up to 30 Apr. 2023 was export-related, of which approximately 7% was from outside Europe.

Continued improvements likely as investment programme progresses

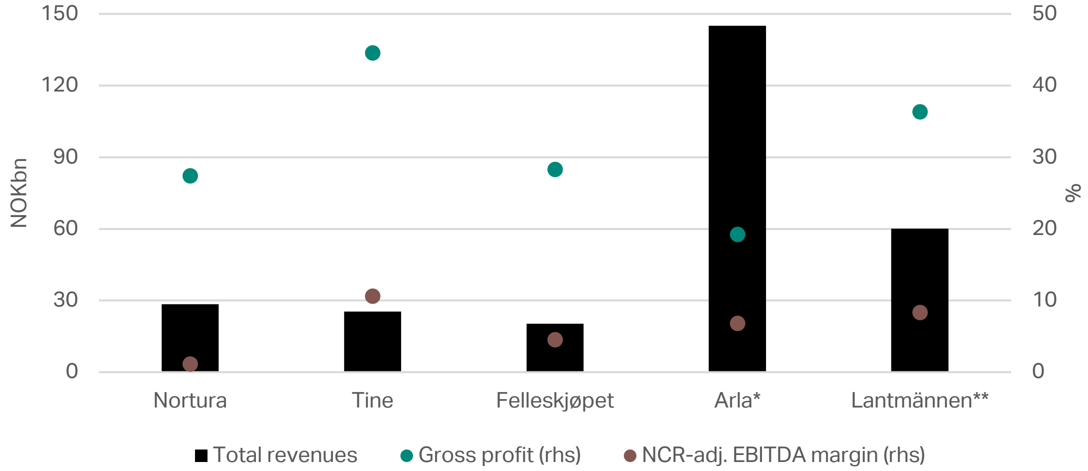
Operating efficiency 'bb-'

Due to Nortura's cooperative structure and role as market regulator, the company has narrow, but consistently positive, EBITDA margins. Production facilities are spread across Norway, limiting economies of scale, while a legal requirement to balance supply and demand limits pricing power and its ability to manage inventories efficiently. The company is making headway on its strategy to reduce the number of facilities and improve cost efficiency, and we believe this will have a positive effect within the next few years.

Since Russia's invasion of Ukraine, Nortura has faced high energy and transport costs, including higher animal feed costs, which has put additional pressure on already slim margins. Normally the company adjusts its prices twice a year. In 2023, it completed a second price adjustment in July, effectively offsetting recent cost growth to a large extent. However, due to stagnant sales volumes and increased inventory levels, the company has had to reduce pork and beef prices to boost sales volumes. We expect operating margins to remain under pressure until year-end, before rising slowly over the next two years.

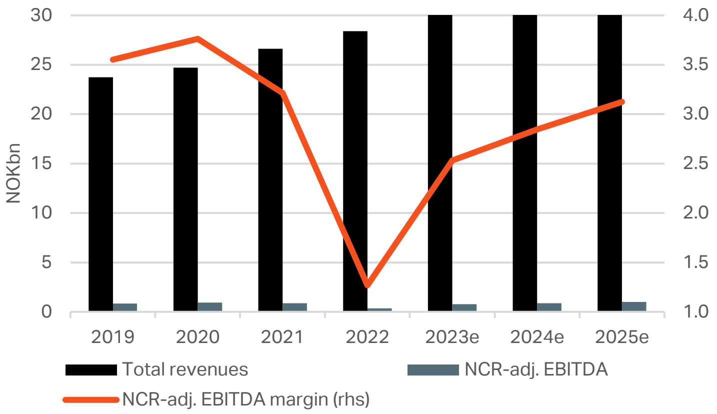
Due to its ownership structure, Nortura has some influence over input costs, but its margins are weaker than comparable companies and cooperatives in the Nordic region (see Figure 10). As market regulator, Nortura is responsible for encouraging production and absorbing oversupply when needed. The company holds a large inventory of processed, frozen, and fresh meat, with all member farmers contributing to the related storage costs. Nortura cannot swiftly reduce its inventories due to the regulated nature of the market, already tight margins, and the relative inflexibility of its product prices. In August, the company demonstrated its ability to make extraordinary price adjustments (in this instance downward). However, we see this as a short-term measure in highly unusual circumstances.

Figure 10. Nortura regional peer comparison by revenue and EBITDA margin, 31 Dec. 2022



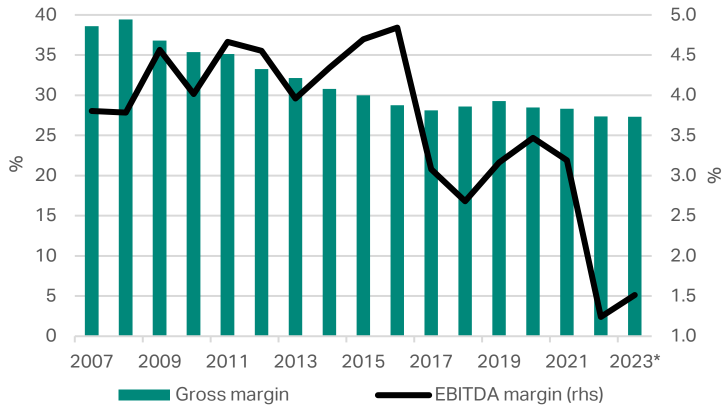
Source: company data. *EUR-NOK 10.51 **SEK-NOK 0.95 as of 31 Dec. 2022

Figure 11. Nortura revenues and adjusted EBITDA margin, 2019–2025e



Based on NCR estimates and company data. e–estimate.

Figure 12. Nortura reported gross margin and EBITDA margin, 2007–30 Apr. 2023



Source: company. *four months ending 30 Apr. 2023.

FINANCIAL RISK ASSESSMENT

Financial risk assessment 'b+'

Our financial risk assessment reflects Nortura's slim margins, significant financial leverage, high investment requirements, and challenging inventory management issues. These factors have a material negative impact on the company's finances. Positively, we expect the company's finances to improve as the cost benefits of an ongoing restructuring plan to improve operating efficiency materialise. We also expect inventory levels to reflect demand better over time. However, are now likely to take longer than we thought previously.

Ratio analysis 'b+'

Metrics improve, but recovery remains slow

We expect Nortura to continue to make investments in line with the restructuring plan. We expect relatively high sales growth in full-year 2023, despite the negative price adjustments in the third quarter, thanks to upward price adjustments in February and July. In our base case projections through 2025, we expect market demand for Nortura's products to return to its long-term trend, compared with the sharp fluctuations of recent years. This implies more moderate but solid growth. Nortura is structured to provide its members with any profits, while operating as a support unit for customers and suppliers alike.

Nortura's financial metrics have been under pressure for some time, as the company struggles to fully recover from a weak financial performance in 2022. However, we do not view this as indicative of a change in its financial risk appetite. The effects of the company's major restructuring should start to have a positive effect on its metrics within in our forecast period, but the impact should be even greater in subsequent years.

Nortura reports every four months under Norwegian Generally Accepted Accounting Principles. We adjust our calculations by adding factoring and unfunded pension liabilities to debt. We apply 50% equity treatment to a NOK 750m hybrid bond and its corresponding interest costs due to its long maturity, the 5-year gap between the call date and step-up date, and the possibility of deferring interest costs. We have historically included non-recurring adjustments in EBITDA.

Our base-case forecast of Nortura's future performance assumes:

- revenue growth of 6.5%, 3% and 3.5% in 2023, 2024 and 2025 respectively;
- an unadjusted EBITDA margin of 2.4–3.2%;
- capital spending of NOK 650m in 2023, NOK 750m in 2024, and NOK 750m in 2025; and
- an increase in inventories and factoring driven by higher prices.

On the basis of these assumptions, we estimate the following metrics for 2023–2025:

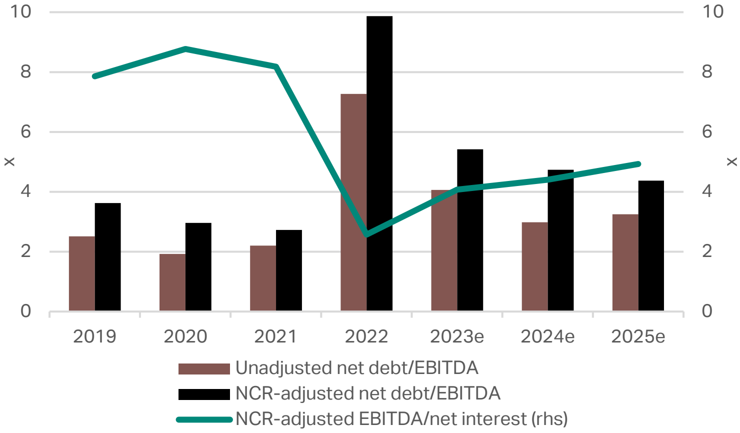
- NCR-adjusted net debt/EBITDA of 4.4–5.4x.
- NCR-adjusted EBITDA/net interest of 4.1–4.9x;
- NCR-adjusted FFO/net debt of 14.4–17.9%; and
- NCR-adjusted FOCF/net debt of minus 8.0%–minus 1.9%.

Figure 13. NCR's adjustments to Nortura's credit metrics, 2019–2025e

NOKm	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	751	858	849	352	723	996	960
Dividends from associated companies	25	47	58	40	40	40	40
Non-recurring items	67	25	-52	-32	0	-150	0
NCR-adj. EBITDA	843	930	855	360	763	886	1,000
Net interest (incl. hybrid and factoring)	-118	-117	-116	-165	-226	-232	-228
Hybrid interest adjustments, 50 % equity	11	11	11	25	39	31	25
NCR-adj. net interest	-107	-106	-105	-140	-187	-201	-203
NCR-adj. EBITDA	843	930	855	360	763	886	1,000
NCR-adj. net interest	-107	-106	-105	-140	-187	-201	-203
Current tax	-33	-20	-45	-39	21	-24	-14
NCR-adj. FFO	702	804	706	181	597	660	782
Changes in working capital	105	127	-377	-323	-232	-26	-87
Capital spending	-394	-516	-581	-799	-650	-750	-750
Factoring adj. to working capital	-51	-54	457	556	-47	-23	-28
NCR-adj. FOCF	362	362	204	-384	-332	-139	-82
Cash and cash equivalents	766	817	209	183	276	240	192
Money market fund	0	305	409	200	0	0	0
NCR-adj. cash and equivalents	766	1,121	618	383	276	240	192
Gross interest-bearing debt	2,818	2,820	2,371	2,710	3,210	3,210	3,310
Hybrid bond, 50% equity treatment	250	250	250	450	375	375	375
Retirement benefit obligations	49	58	55	55	55	55	55
Member exit pay-outs*	0	0	0	0	1	4	6
Adjustment for factoring	707	748	276	722	769	792	820
NCR-adj. cash and equivalents	-766	-1,121	-618	-383	-276	-240	-192
NCR-adj. net debt	3,057	2,755	2,335	3,554	4,134	4,195	4,373
Stress: Maximum inventory facilities**	n.a.	n.a.	n.a.	n.a.	200	200	200
Stress: NCR-adj. net debt**	3,057	2,755	2,335	3,646	4,334	4,395	4,573

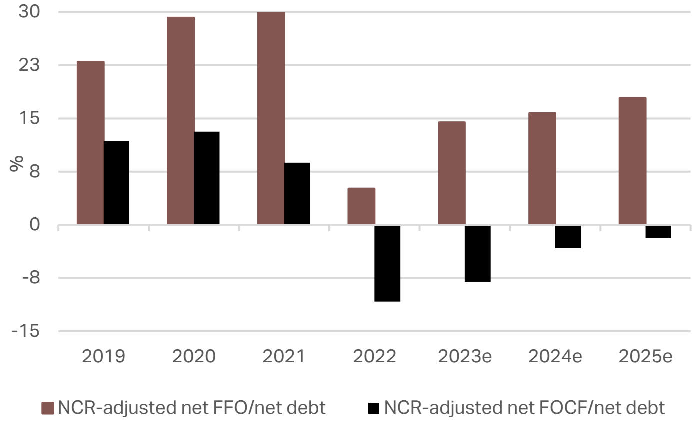
Based on NCR estimates and company data. e–estimate. *reflecting a continuous decline of about 100 members annually. **see Risk Appetite. n.a.–applicable.

Figure 14. Nortura net debt/EBITDA and interest coverage, 2019–2025e



Based on NCR estimates and company data. e–estimate.

Figure 15. Nortura NCR-adjusted FFO/net debt and FOCF/net debt, 2019–2025e



Based on NCR estimates and company data. e–estimate.

Cooperative structure and hedging offset financial weaknesses

Risk appetite 'b+'

We assess Nortura's risk appetite as commensurate with our assessment of its financial ratios. While the company has actively sought to improve its financial position, its ratios worsened significantly through 2022, and in our view are likely to improve at a slower pace than we expected last year. The company has an ambitious debt-financed investment plan, which is likely to improve its margins. However, this implies continuously elevated leverage, especially given Nortura's historically low margins and difficulty issuing new equity due to its membership structure. This risk is offset by the strength of the company's cooperative structure and the financial support of its member farmers, as well as its flexibility in making payments and paying dividends to its owners. We classify the company's cooperative capital as shareholder loans and apply 100% equity treatment as we expect no sharp fall in the number of member farmers. Cooperative capital is locked in for seven years and dividend distributions require board approval.

Nortura's balance sheet reflects high inventory levels, which have risen further as a result of oversupply and inflation. Part of Nortura's inventory is a so-called market regulator inventory, which is mostly funded by annual fees paid by farmer members to a dedicated fund. In addition, Nortura has an earmarked facility to help fund additional inventory volumes. This stood at NOK200m at end-2022. We do not include utilised portions of this facility in net debt in our base-case assessment, but given that Nortura has formal responsibility for this debt and we expect inventory levels to remain high, we incorporate this facility as a stress factor in our forecast net debt metrics.

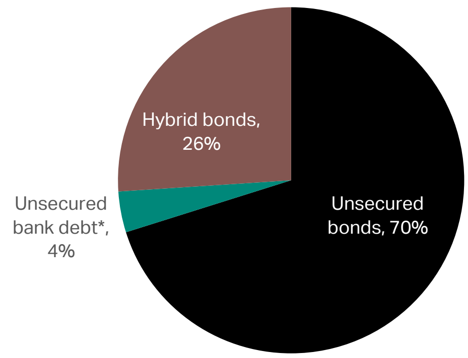
Nortura operates predominantly within Norway, keeping the need for currency hedging low. Its operations in the UK, Denmark and Sweden are financially secured through currency hedges. The company has a policy of keeping 50% of interest-bearing debt secured through hedging.

Nortura's financial policy targets net debt/EBITDA of 2–3x and its financial covenants on bank loans and facilities stipulate average net debt/EBITDA of below 3.5x on a rolling 12-month basis (although the figure varies throughout the year). The company also has a minimum equity ratio of 26% for senior unsecured bonds and 28% for bank loans. Nortura breached the initial net debt/EBITDA covenant in the four months to August 2022, leading to creditors agreeing to raise the covenant levels for the remainder of the year. However, the higher levels were breached again at year-end 2022. The company's creditors agreed early in 2023 to raise covenant levels yet again for the remainder of the year, with the levels gradually decreasing to 4x by year-end from 3.5x originally. The hybrid instrument is excluded from these calculations.

We believe that Nortura has continued and strong support from its banks. Nonetheless, we are wary that further covenant breaches could lead creditors to refuse additional waivers or that creditors' demands could become more severe. We believe that a breach of its net debt/EBITDA covenant is possible by end-2023, but far from certain. We note that the company's equity ratio provided some headroom as of 30 Apr. 2023, and expect no breach of either covenant in the rolling 12 months to 31 Aug. 2023.

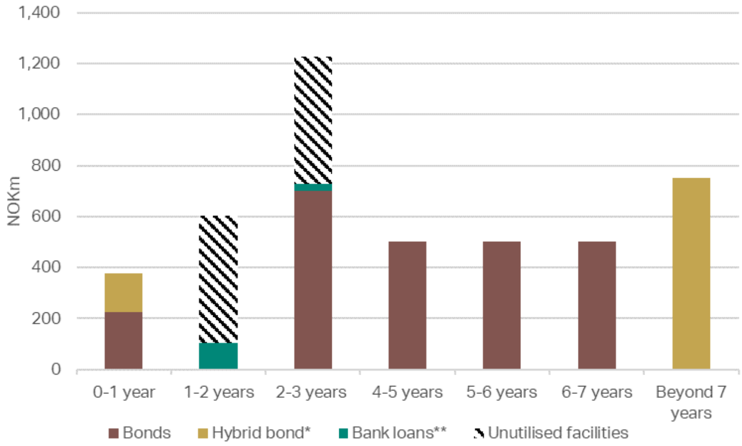
Nortura has a diverse maturity profile, with an average debt maturity of 3.4 years (excluding NOK 900m in hybrid bonds). The company called a NOK 150m hybrid bond on its first call date in May 2023. A remaining hybrid, which matures in 2047 (first call date in 2027), represents 23% of the company's outstanding debt.

Figure 16. Nortura debt profile, 30 Apr. 2023



Source: company.*Nordic Investment Bank and Innovasjon Norge.

Figure 17. Nortura debt maturity profile, 30 Apr. 2023



Source: company. *Nordic Investment Bank and Innovasjon Norge.

Nortura provides financial guarantees to its members through a common guarantee pool, established in 1967, to support the wider Norwegian agricultural industry. The company holds about 50% of the pool's total guarantee obligations. In 2022, Nortura's guaranteed obligations totalled NOK 772m, divided between its member farmers. Losses on guaranteed obligations have been negligible in recent years. We do not include this in our adjustments to net debt, but consider these guarantees as increasing the company's risk appetite.

Nortura uses factoring to mitigate counterparty risk and finance working capital, effectively reducing the company's responsibilities after the point of sale. Although the resulting adjustments increase the complexity of the balance sheet, we believe factoring reduces cash volatility and improves corporate stability.

ADJUSTMENT FACTORS

Adjustment factors positive

Adjustment factors are assessed as positive. Under our criteria, we apply a one-notch positive adjustment to our standalone credit assessment to reflect peer calibration (see Peer calibration below).

Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We assess Nortura's liquidity position as adequate in view of its ample coverage of liquidity uses over the next 12 months, also including two issues of commercial paper totalling NOK 500m, which mature in November and December this year.

We estimate the following primary liquidity sources for the 12 months to 30 Apr. 2024, totalling NOK 1.9bn:

- NOK 453m in cash holdings as of 30 Apr. 2023;
- NOK 463m, corresponding to 75% of NCR-adjusted FFO in the 12 months to 30 Apr. 2024; and
- NOK 1.0bn in unutilised credit facilities.

This compares with the following uses of liquidity, totalling NOK 1.3bn:

- NOK 437m for the repayment of debt;
- NOK 649m in committed capital spending; and
- NOK 175m in estimated working capital in the 12 months to 30 Apr. 2024.

Environmental, social and governance factors

ESG factors adequate

We assess Nortura's environmental, social and governance (ESG) efforts as adequate. The company operates in an industry facing major ESG issues such as emissions and energy use, animal welfare, waste and resource management, but aims to be Norway's most sustainable food producer by 2030. Nortura has a long history of reporting on sustainability issues, but its efforts are not yet externally validated by independent agencies. The company is governed by Animalia AS, a research and development company focusing on supporting animal welfare, food safety and production, but we note that Nortura is the main owner with a stake of 66%.

Nortura published its first sustainability report in 2022. The strategy contains clear, concise and measurable targets for both 2030 and 2050, improving the legitimacy of the company's sustainability efforts. We believe Nortura stands to gain from its efforts. For example, part of the reason behind decreasing red meat consumption is climate awareness among consumers, implying that Nortura's work on lowering methane emissions from cattle might counter some of this downward trend. Additionally, lower transport emissions generally reduce costs.

In our view, the main ESG risk factors likely to affect Nortura's credit quality in the short term are negative media reports on animal welfare and food safety, which could reduce demand and harm operating margins. We do not believe that the company would enjoy its strong market position without widespread consumer satisfaction with its overall food safety standards.

In the longer term, we see energy use, emissions and resource management as factors that could reduce operating efficiency and increase funding costs. As most of these issues lie outside Nortura's direct control and are in the hands of its individual member farmers, the company seeks to influence and assist its members in this transition. Investments to reduce emissions in the sector could increase farmers' capital spending and costs in the short term, which could have a negative impact on Nortura's operating margins.

Figure 18. Nortura ESG considerations

Issue	Risk	Mitigating efforts	Result
Animal welfare	Lower demand, reducing sales revenues and operating margins.	Animalia is employed to monitor animal health and welfare. Strong focus on educating members.	Problems in recent years have required investigation.
Food safety	Loss of revenues or operating licences, decreasing access to funding and increasing funding costs.	IT systems track food through the value chain. Recall procedures are in place if needed.	Virtually no problems involving food safety. When issues arise, products are rapidly recalled.
Physical climate risk	Supply chain disruptions and operational risk.	Investment in new technology. Supply-redundancy.	Increased volatility and magnitude of weather events are likely to disturb supply balance.
Changes in consumer preferences	Plant-based diets. Governmental dietary recommendations gaining foothold and consequently lower demand.	Analysis from independent third-party to address the methodology behind the recommendations. Industry collaboration.	Norwegian recommendations will not incorporate climate change in diet recommendations. Nortura is working actively to highlight the lower impact of Norwegian meat to global averages.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO_2 dependence.	New sustainability strategy likely to include tangible emission targets to comply with investor and bank expectations.	Unutilised bank facilities are currently sustainability-linked. Targets for 2030 include a reduction in methane (30%) and other greenhouse gases (80%).
Employee safety and relations	Reduced operating efficiency due to loss of key personnel or sick leave.	Consistent monitoring of sick leave. Whistleblowing procedures. Corporate health services.	Only 129 cases of sick leave in 2022 (approx. 5,000 employees).

Source: company.

Peer calibration

Peer calibration positive

According to our criteria, we can apply a 'peer calibration' factor when either a direct peer group comparison adjustment is needed or if uncertainties exist that could affect the rating either positively or negatively.

We have adjusted our standalone credit assessment upward by one notch from our initial rating assessment to reflect Nortura's position as market regulator, which makes the company a critical part of Norway's food production chain. Our adjustment also reflects the transitionary nature of Nortura's ongoing and extensive investment programme, which should help improve operating efficiency and profitability.

Nortura's currently weak financial performance is closely connected with limitations on its ability to adjust prices, while its position as a key distributor for Norwegian farmers and as market regulator adds stability that is not fully reflected in our indicative credit assessment. We would expect Nortura to be supported in a critical financial situation by stakeholders, such as member farmers and, potentially indirectly, through beneficial regulatory change.

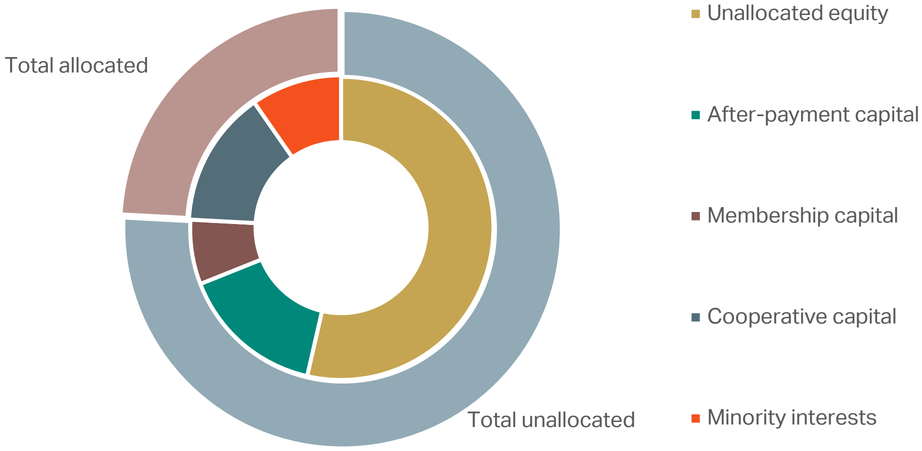
OWNERSHIP ANALYSIS

Ownership neutral

Nortura is owned by about 17,000 farmers across Norway. As a cooperative, the company is limited in its ability to raise equity easily when needed. Cooperatives can be subject to conflicts of interests among members or pay out surplus profits, leaving themselves sensitive to cash volatility. Nortura was, however, able to raise NOK 170m in an equity issue in 2011 and withhold surplus profits in 2017 to support itself financially.

Members can leave the cooperative and withdraw their cooperative and membership capital. However, membership capital is locked in for one year, and cooperative capital is locked in for seven, providing Nortura with reasonable time to make good any prospective shortfall. Payments are made to suppliers on the basis of each farmer's contribution after the accounts for the respective fiscal year are settled. Should the company choose to withhold payments, the funds in question are allocated to an after-payment capital fund. Most of Nortura's equity is unallocated, providing an incentive for members to remain within the company.

Figure 19. Nortura equity structure, 30 Apr. 2023



Source: company.

ISSUE RATINGS

Nortura is largely funded through senior unsecured debt, a subordinated hybrid bond, and cash payments. The company has a flat debt hierarchy and we expect it to maintain only unsecured debt, ensuring that gross secured debt to NCR-adjusted EBITDA remains well below 2.0x. The company's senior unsecured bonds are rated 'BB+', in line with the long-term issuer rating, reflecting the relatively flat debtor hierarchy, while the subordinated hybrid bond is rated two notches lower, at 'BB-', in accordance with our criteria.

METHODOLOGIES USED

(i) Corporate Rating Methodology, 8 May 2023.
(ii) Rating Principles, 24 May 2022.
(iii) Group and Government Support Rating Methodology, 18 Feb. 2022.

RELEVANT RESEARCH

(i) Nordic Credit Rating's view on corporate hybrid bonds, 3 Oct. 2019

Figure 20. Nortura key financial data, 2019– 30 Apr. 2023

NOKm	2019	2020	2021	2022	LTM to 30 Apr. 2023
INCOME STATEMENT					
Revenue	23,728	24,723	26,614	28,390	29,424
Cost of goods sold	-16,797	-17,679	-19,082	-20,617	-21,388
Sales, general & admin. expenses	-6,181	-6,185	-6,683	-7,421	-7,581
EBITDA	751	858	849	352	455
Interest costs	-148	-138	-131	-195	-303.5
Pre-tax profit	110	265	170	-356	-97
Net profit	99	238	179	-275	-50
BALANCE SHEET					
Property, plant and equipment	3,180	3,050	3,035	3,274	3,274
Intangible assets and goodwill	890	988	991	1,012	1,012
Total non-current assets	5,268	5,251	5,283	5,639	5,639
Cash and cash equivalents	766	817	209	183	183
Total current assets	4,048	3,970	3,989	4,215	4,215
Total assets	9,316	9,221	9,272	9,854	9,854
Total equity	3,085	3,255	3,289	3,007	3,007
Long-term interest-bearing loans	2,621	2,639	2,357	2,608	2,608
Total non-current liabilities	3,360	3,360	3,058	3,706	3,706
Total current liabilities	2,870	2,606	2,925	3,142	3,142
Total equity and liabilities	9,316	9,221	9,272	9,854	9,854
CASH FLOW STATEMENT					
Pre-tax profit	110	265	170	-356	-356
Operating cash flow	712	839	112	-259	-259
Cash flow from investment activities	-340	-715	-362	-450	-450
Cash flow from financing activities	-285	-27	-300	721	721
Cash and cash equivalents at beginning of year	632	719	759	170	170
Cash flow for year	88	97	-550	12	12
Cash and cash equivalents at end of year	719	817	209	183	183

LTM–last 12 months.

Figure 21. Nortura rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bbb-
Market position	10.0%	a-
Size and diversification	10.0%	bbb-
Operating efficiency	10.0%	bb-
Business risk assessment	50.0%	bbb-
Ratio analysis		b+
Risk appetite		b+
Financial risk assessment	50.0%	b+
Indicative credit assessment		**bb**
Liquidity		Adequate
ESG		Adequate
Peer calibration		+1 notch
Stand-alone credit assessment		**bb+**
Support analysis		Neutral
Issuer rating		**BB+**
Outlook		Stable
Short-term rating		**N4**

Figure 22. Capital structure ratings

Seniority	Rating
Senior unsecured	BB+
Subordinated	BB-

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