

Jotun A/S

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Positive

SHORT-TERM RATING

N2

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Jotun A/S outlook revised to positive; 'BBB+' long-term issuer rating affirmed.

Nordic Credit Rating (NCR) said today that it had revised the outlook on its 'BBB+' long-term issuer rating on Norway-based paint and coatings manufacturer Jotun A/S to positive from stable. The long-term rating was affirmed, as was the N2 short-term issuer rating.

Rating rationale

The outlook revision reflects our assessment that Jotun's size and diversity have improved relative to the rest of its peer group. It also reflects higher margins achieved in the course of 2023 and expectations of strong margins and cash flow going forward.

The long-term issuer rating continues to reflect Jotun's low financial gearing and strong operational efficiency. It also reflects the resulting robust credit metrics, which are strong both in absolute terms and relative to the company's peer group.

Jotun has a leading position in the market for marine coatings. In the decorative paint market, Jotun is a major player in Scandinavia, the Middle East, and South East Asia.

The rating is constrained by Jotun's small size in comparison with the biggest players in the global paint and coatings market, which is dominated by large US companies. We also note the historical cyclicity of the company's margins, which mainly results from volatile raw material prices but also reflects cyclical demand in certain market segments. However, Jotun's diversification across market segments and regions has allowed the company to sustain relatively strong margins through economic cycles. In addition, the company has proven ability to increase prices to reflect higher raw material costs.

Positive outlook

The positive outlook reflects our view that strong operating cash flows and moderate investment requirements will enable Jotun to maintain a net debt position of close to zero in the years ahead. However, we see the risk for more margin pressure than anticipated, due to competition or slowing demand. Jotun's global diversity and exposure to growth markets in Asia partly offset its exposure to cyclical fluctuations. We expect the current prudent dividend policies to remain in place, but believe that the company could from time to time pay out excess cash through extraordinary dividends.

We could raise the rating to reflect an NCR-adjusted EBITDA margin sustainably above 20%, commitment to net debt/EBITDA sustainably below 1.0x, or a more diverse product portfolio.

We could revise the outlook to stable to reflect an economic downturn leading to lower demand, lower profitability leading to an NCR-adjusted EBITDA margin below 20%, or NCR-adjusted net debt/EBITDA sustainably above 1.0x.

Rating list

	To	From
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Positive	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	BBB+	BBB+

Figure 1. Jotun rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bb+	bb+
Market position	10.0%	bbb-	bbb-
Size and diversification	10.0%	bbb-	bb+
Operating efficiency	10.0%	bbb	bbb-
Business risk assessment	50.0%	bbb-	bb+
Ratio analysis		aa-	aa-
Risk appetite		a	a
Financial risk assessment	50.0%	a+	a+
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		Positive	Stable
Short-term rating		N2	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 11 Feb. 2022.
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</p> <p>NCR's Rating Principles published on 24 May 2022</p> <p>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.</p> <p>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, 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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