

Jotun A/S

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N2

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Jotun A/S long-term issuer rating raised to 'A-'; Outlook stable

Nordic Credit Rating (NCR) has raised its long-term issuer rating on Norway-based paint and coatings manufacturer [Jotun A/S](#) to 'A-' from 'BBB+'. The outlook is stable. The 'N2' short-term issuer rating has been affirmed, and the senior unsecured issue rating was raised to 'A-' from 'BBB+'.

Rating rationale

The higher long-term rating reflects Jotun's strong financial metrics over time, its low financial gearing and growing net cash position. Both earnings and cash flow continue to be strong, and we project a negative net debt position in our forecast period through end-2026. In addition, we factor into our rating the resulting robust credit metrics, in both absolute terms and relative to the company's peer group.

The rating also incorporates the company's strong operational efficiency. We expect Jotun to maintain an NCR-adjusted EBITDA-margin exceeding 20% and believe that its increasing sales, supported by volume growth, will continue to be a positive contributor to its margins and solid cash generation.

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

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

Stable outlook

The stable outlook reflects our view that strong operating cash flows, despite investment requirements, will enable Jotun to maintain a net debt position below zero in the years ahead. We also believe Jotun has achieved a sustainable EBITDA margin exceeding 20% although we anticipate some increased margin pressure in coming years, 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 company to maintain its current prudent dividend policies.

An upgrade seems unlikely at this point given Jotun's current business profile with exposure to cyclical inputs and limited sector diversification.

We could lower the rating to reflect an economic downturn prompting slower demand; sluggish profitability, leading to an NCR-adjusted EBITDA margin below 20% over a prolonged period; or NCR-adjusted net debt/EBITDA sustainably above 1.0x.

Rating list

	To	From
Long-term issuer credit rating:	A-	BBB+
Outlook:	Stable	Positive
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	A-	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-	bbb-
Operating efficiency	10.0%	bbb+	bbb
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		aa	aa-
Risk appetite		a	a
Financial risk assessment	50.0%	a+	a+
Indicative credit assessment		a-	bbb+
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		Neutral	Neutral
Stand-alone credit assessment		a-	bbb+
Support analysis		Neutral	Neutral
Issuer rating		A-	BBB+
Outlook		Stable	Positive
Short-term rating		N2	N2

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	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:	NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 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, 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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