

Elopak ASA

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Elopak ASA 'BBB-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) has affirmed its 'BBB-' long-term issuer rating on Norway-based carton packaging producer and distributor [Elopak ASA](#). The outlook is stable. The 'N3' short-term issuer rating and 'BBB-' senior unsecured issue rating have also been affirmed.

Rating rationale

The affirmation reflects the company's solid position in the European carton packaging market, geographic diversity and broad customer base. It also factors in the company's sound credit metrics and moderate financial leverage. In addition, our assessment of the operating environment is positive, based on increasing demand for sustainable products and a likely transition to carton packaging from plastic.

Elopak's largest market is the US, contributing to approximately 21% of its total revenues in 2024. We expect tariffs on imports to the US will have only a limited impact on demand for Elopak's products as the cost of packaging is relatively low and we believe clients will absorb the tariffs under current contracts. In addition, Elopak's new facility in Little Rock, Arkansas, is set to commence production in the first half of 2025 and should enable the company to avoid tariffs on some of its production. In addition, customers have already invested in carton-specific filling machines from Elopak.

We have revised our assessment of Elopak's financial risk to reflect the company's improved credit metrics in 2024, despite high capital spending, which surpassed our estimates due to lower net debt and net interest costs. We expect further improvements over our forecast period through end-2027 based on our projection of stronger EBITDA as growth investments come into production. We expect the company to have a balanced growth strategy.

The rating is constrained by Elopak's small size compared with its main peers, Swedish multinational Tetra Pak and Swiss multinational SIG Group AG. The company has a relatively small share of the aseptic carton packaging market, which accounts for the bulk of the wider market for carton packaging of liquid products. A further rating constraint is the cyclical nature of the raw materials market, although contract stipulations and pricing mechanisms partially offset this cyclicity.

Stable outlook

The stable outlook reflects our expectation that Elopak will maintain its current market position in Europe while growing in the US and new markets. In addition, it reflects our belief that Elopak will maintain stable operating margins and stay committed to its medium-term leverage target of 2.0x (excluding off-balance-sheet financing). The outlook also takes into account the sustainability aspects of and growing potential for carton packaging of liquids.

We could raise the rating in response to NCR-adjusted net debt/EBITDA sustainably below 2.0x or NCR-adjusted EBITDA/net interest sustainably above 13x and improved operating efficiency, reflected in an NCR-adjusted EBITDA margin above 15% over a protracted period. We could also raise the rating to reflect a noticeable shift towards the use of carton packaging and an increasing share of the liquid packaging market.

We could lower the rating to reflect NCR-adjusted net debt/EBITDA above 3.0x and NCR-adjusted funds from operations/net debt below 20% over a protracted period. We could also lower the rating in response to increased substitution risk from alternative packaging solutions or loss of key customers, or to reflect increased risk appetite, indicated by rising dividend pay-outs or a more aggressive growth strategy.

Rating list

Long-term issuer credit rating:
 Outlook:
 Short-term issuer credit rating:
 Senior unsecured issue rating:

To	From
BBB-	BBB-
Stable	Stable
N3	N3
BBB-	BBB-

Figure 1. Elopak rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb-	bbb-
Market position	10.0%	bbb-	bbb-
Size and diversification	10.0%	bb+	bb+
Operating efficiency	10.0%	bbb-	bbb-
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		bbb	bbb-
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		N3	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 08 May. 2024.
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, 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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