

Kongsberg Gruppen ASA

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Positive

SHORT-TERM RATING

N2

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Kongsberg Gruppen ASA outlook revised to positive; 'A-' long-term issuer rating affirmed

Nordic Credit Rating has revised the outlook on its 'A-' long-term issuer rating on Norway-based defence and maritime technology supplier [Kongsberg Gruppen ASA](#) to positive from stable. The long-term rating and 'N2' short-term issuer rating have been affirmed, as has the 'A-' issuer rating on the company's senior unsecured debt.

Rating rationale

The outlook revision reflects our view that Kongsberg Gruppen is well positioned to benefit from currently strong global demand for defence products, which combined with sound maritime profitability has led to rapidly increasing earnings and cash flows. Although investors have been traditionally cautious about funding the defence industry, the Russian war on Ukraine and pressure on NATO countries to improve defence spending have given increasing numbers cause to rethink their position. Due to improving investor sentiment, we could raise the rating if investor reluctance reduces further and the impact of recession concerns to the maritime segment recede.

The long-term issuer rating reflects the company's leading position in its niche markets, strong cash position and cash flows, and low financial gearing. It also reflects our view that the company represents a strategic investment for the Norwegian government, which is likely to provide support, if needed. The rating is constrained by Kongsberg Gruppen's small size in comparison with its global peers. In addition, geopolitical and economic uncertainty is high, which could negatively affect the company's maritime segment and partly offset the impact of improved investor sentiment on the defence segment.

Positive outlook

The positive outlook reflects improving investor sentiment toward the defence industry. Negatively, the current international economic turmoil, volatile oil prices, and increased risk of recession could adversely affect the maritime segment, which is more cyclical than the defence business. However, we expect new regulations and energy requirements to drive demand for the company's green maritime technology. We also expect demand to remain high for defence products and advanced technologies, which should support the company's strong credit metrics.

We could raise the rating to reflect an absence of negative economic conditions (such as disrupted trade flows) on the maritime segment, improved demand for green maritime products, or further evidence of positive investor sentiment toward defence companies.

We could revise the outlook to stable to reflect reduced government support, increased investor aversion to defence-related funding, worsening economic conditions affecting the maritime segment (leading to an EBITDA margin below 12% on a protracted basis), or increased financial leverage leading to net debt/EBITDA above 1x over a protracted period.

Rating list	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Positive	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	A-	A-

Figure 1. Kongsberg Gruppen rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb	bbb
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-	a-
Liquidity		Adequate	Adequate
ESG		Negative	Negative
Peer calibration		Neutral	Neutral
Stand-alone credit assessment		bbb+	bbb+
Support analysis		+1 notch	+1 notch
Issuer rating		A-	A-
Outlook		Positive	Stable
Short-term rating		N2	N2

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	A-

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 07 Apr. 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?	Yes. The key driving ESG-factors, and why they were material to the credit rating, are explained in the rating rationale in the rating report. Guidance explaining how ESG-factors are considered as part of NCRs credit ratings can be found here.
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, 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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