

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Norsk Hydro to Baa2; outlook stable

07 Jun 2024

London, June 07, 2024 -- Moody's Ratings (Moody's) has today upgraded the long term issuer rating of Norsk Hydro ASA (Norsk Hydro, the company) to Baa2 from Baa3. Concurrently, Moody's has upgraded the Baseline Credit Assessment (BCA) to baa2 from baa3 and the ratings of the EUR500 million and EUR300 million senior unsecured bonds due 2025 and 2029 to Baa2 from Baa3. The outlook has changed to stable from positive.

RATINGS RATIONALE

The rating action reflects Norsk Hydro's solid performance throughout a difficult operating environment in the last quarters. The company maintained a Moody's adjusted debt/EBITDA of 2.0x and 2.2x in 2023 and the last twelve months to March 2024. The recent recovery in market prices during the second quarter, if sustained, should support stronger metrics in 2024.

Norsk Hydro's performance remains volatile on the back of the volatile aluminium market and exposure to exchange rates. However, the company has also a track record of navigating this environment and mitigates volatility through combining cost-competitive upstream operations with integration into raw materials and energy, and its downstream market leadership position in its Extrusions segment. Its hedging programme also helps to mitigate volatility.

Cost inflation in recent years has led to structurally higher investment needs in an already capital-intensive industry. Norsk Hydro further ambitiously invests in growth, including through acquisitions, for example to capture green premiums over time from lower emissions aluminium, including the increasing use of recycled materials. However, the company is also moving through a multi-year improvement programme which, for example, has allowed for sustained margin improvements in its Extrusions segment and will likely yield further savings in the next years. In addition, its flexible shareholder return policy provides some flexibility to protect cash flow during times of weaker profitability while Moody's would also expect the company to invest in growth without weakening its balance sheet.

The company has also maintained a consistent financial policy for many years together with a strong liquidity profile. In 2022, it added company-adjusted net debt target of around NOK25 billion over the cycle (NOK22.5 billion as of Q1 2024), which adds further clarity and discipline. However, its maximum net leverage target of below 2.0x leaves some theoretical flexibility for temporarily weak metrics (1.1x as of Q1 2024).

Norsk Hydro is listed on the Oslo stock exchange, but a 34.3% stake is owned by the Government of Norway (Aaa, stable) although without uplift because of Moody's assessment of the low co-dependency and low support of the Norwegian government.

ESG CONSIDERATIONS

Norsk Hydro's CIS-3 indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. The score reflects significant environmental and social risks in line with the sector. This is mitigated by strong corporate governance and risk management policies, low financial leverage and a well-defined dividend policy.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that credit metrics are likely to remain within the expectations for the Baa2, specifically leverage below 2.5x, through a reasonable range of market conditions.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade would require maintaining an EBIT margin sustained around at least 10% and debt to EBITDA below 1.0x, with CFO minus dividends to debt above 40% and consistent positive FCF generation. Conversely, negative pressure would result from a prolonged deterioration in operating profitability and cash flow generation resulting in negative FCF, weakening liquidity and deterioration in leverage metrics. More specifically, CFO minus dividends to debt below 30% or debt to EBITDA rising above 2.5x would result in negative pressure. Any weakening of the company's conservative financial policy would also likely pressure the ratings.

The methodologies used in these ratings were Mining published in October 2021 and available at <https://ratings.moodys.com/rmc-documents/76085>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

COMPANY PROFILE

Headquartered in Oslo, Norway, Norsk Hydro is a fully integrated aluminium producer with operations throughout the aluminium value chain, including bauxite and alumina production. The company is also involved in a range of energy businesses, including hydropower production for its own energy-intensive operations and other renewable power, hydrogen and storage ventures.

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