FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Carlsberg's IDR at 'BBB+'; Outlook Negative; Off Watch Negative

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Fitch Ratings - Madrid - 20 Jan 2025: Fitch Ratings has affirmed Carlsberg Breweries A/S's (Carlsberg) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB+', and downgraded the Short-Term IDR to 'F2' from 'F1'. The Outlook on the Long-Term IDR is Negative. The ratings have also been removed from Rating Watch Negative.

The rating actions follow Carlsberg's completion of its acquisition of UK soft drinks producer Britvic plc. The Negative Outlook reflects the impact on Carlsberg's financial profile from the fully debt-funded acquisition for GBP3.3 billion, as well as a weaker consumer environment. Fitch expects the Britvic transaction to raise EBITDA net leverage to 3.2x in 2025, with only gradual deleveraging towards 2.7x by 2027, leaving minimal headroom to absorb market risks.

The 'BBB+' rating considers Carlsberg's more resilient business profile, with greater product diversification and a stronger portfolio of brands after adding Britvic, and the new agreement with the PepsiCo bottler in Kazakhstan and Kyrgyzstan. This more resilient business profile and the assumed adherence to conservative financial policy increases Carlsberg's debt capacity, which supports the rating affirmation.

KEY RATING DRIVERS

Significant Releveraging Post-Acquisition: We estimate that the additional DKK31.6 billion of debt for the Britvic acquisition and the purchase of the remaining 40% JV stake in Marston's plc for around DKK2 billion will drive EBITDA net leverage to 3.2x from an estimated 2.0x in 2024. We project net leverage to fall below 3.0x only from 2027, assuming Carlsberg maintains its dividend policy but refrains from share buybacks until reaching its updated target leverage of 2.5x. The Britvic acquisition will add about DKK2.6 billion to Carlsberg's EBITDA in 2025 and should generate operational synergies of DKK880 million.

The Britvic acquisition comes atop of a Fitch-estimated leverage increase to 2.0x in 2024 following Carlsberg's purchase of the 33% remaining stake in Indian and Nepalese brewer CSAPL for DKK5 billion net of our assumption of DKK2.3 billion inflow from Russian divestment. Carlsberg managed to sell its shares in Baltika Breweries (already written-off due to the authorities' temporary management). The agreement includes the handover of its shares in Carlsberg Azerbaijan and Kazakhstan to Carlsberg, plus our assumption of a cash payment.

Enhanced Business Profile: In Fitch's view, the Britvic acquisition and PepsiCo's agreement strengthen Carlsberg's position in soft drinks, which will represent more than 30% of total sales volume (16% in 2023). We also expect the group's brand portfolio to benefit from increasing sales of PepsiCo's and Britvic's strong local brands. The new license agreement for Carlsberg to become PepsiCo's bottler in Kazakhstan and Kyrgyzstan will start in 2026.

Both transactions are likely to improve Carlsberg's competitive position and operating efficiency in the important UK market. We assume limited integration risks, as Carlsberg operates in the soft drinks segment in some markets in Northern Europe. Pro forma for the transaction, Fitch estimates combined EBITDA to rise to DKK18.9 billion and DKK19.5 billion for 2025 and 2026, respectively, versus around DKK15 billion for standalone Carlsberg.

Temporary Pressure on Profitability: We expect the Britvic acquisition will put moderate pressure on group EBITDA margin of up to 40bp due to Britvic's lower profitability. We estimate EBITDA margin to return to 20% by 2027 due to sales mix growth and post-acquisition synergies. For the existing businesses, we project EBITDA margin to widen from ongoing cost reduction and stronger demand in the more profitable on-trade channel and non-alcoholic drinks. This will likely offset inflationary pressure and increased marketing spending, while we assume slower price increases.

Moderated FCF: We project free cash flow (FCF) to fall about 2% of sales per year post-acquisition from 4% to 6% historically, due to higher interest expenses from additional debt for the acquisition and slightly higher capex. Carlsberg's working capital continues to benefit from long reported average payment terms. However, the reported trade payables are inflated by inclusion of capex-related payments, other costs and retrospective rebates to customers, so we estimate actual payment terms to suppliers at around 100 days. We still assess the payment terms at above industry average. If these reduce, it could have a substantial adverse impact on working capital.

Revised Financial Policy and Debt Capacity: Carlsberg has revised its capital structure target to 2.5x net debt/EBITDA from 2.0x (management-calculated). The target aligns with our sensitivities for a 'BBB+' rating, which reflect higher debt capacity following a more resilient business profile. The group confirmed its commitment to maintaining an investment-grade rating and deleveraging. It is suspending share buybacks until it reaches the updated leverage target, and we do not rule out debt reduction to support it. The downgrade of the Short-Term IDR reflects our revised financial flexibility assessment.

Focus on Improving Beer Volumes: Fitch expects Carlsberg's organic beer revenue growth to be driven by its strategic focus on premiumisation and expansion in the "beyond the beer" category (including alcohol-free beers) while also supporting mainstream products, which still represent the core of the business. Carlsberg also plans to continue expanding in Asia, particularly in China, Vietnam and India, which should support its mid-term revenue growth. We consequently project low-to-mid organic revenue growth, becoming more balanced in terms of price and sales volume contribution.

Third-Largest International Brewer: Carlsberg's ratings reflect its market position and scale as the third-largest international brewing company globally by volume, with operations in Europe and Asia. Efforts to increase geographical diversification allowed it to withstand the permanent exit from Russia and loss of licences that were also commercialised in other countries without a material impact on its credit profile.

DERIVATION SUMMARY

Carlsberg is smaller and less geographically diversified than Anheuser Busch InBev NV/SA and Heineken NV. Its scale, including EBITDA and profitability, is comparable with that of Molson Coors Beverage Company.

Carlsberg is rated one notch above Becle, S.A.B. de C.V. (BBB/Stable). We view the business profile of Becle (the world's largest tequila producer, complemented by a smaller portfolio of spirits in the whiskey, rum, vodka and mixers category) as weaker than Carlsberg's due to more limited geographic and product diversification.

We view the business profile of Thai Beverage Public Company Limited (BBB-/Stable) as weaker than Carlsberg's due to more limited geographic diversification. Its profitability, with an EBITDA margin of 15% in the financial year to end-June 2023, is also lower than Carlsberg's.

KEY ASSUMPTIONS

Our Key Assumptions Within our Rating Case for the Issuer

- Acquisition of Britvic for DKK29 billion plus around DKK6 billion of its debt

- Acquisition of 40% of Marston's for around DKK2 billion

- Divestment of Baltika Breweries for around DKK2.3 billion

- Low-to-mid-single digit revenue growth in 2024-2027

- EBITDA margin at around 20% in 2024, decreasing post-acquisition towards 19% but improving again towards 20% by 2027 driven by synergies of around DKK800 million and premiumisation of product portfolio

- Capex at 7%-7.5% of sales a year over 2024-2027

- Dividend pay-out remaining at 50% of net income and annual dividend disbursements growing over the rating horizon toward DKK4 billion

- Annual share-buyback disbursements close to DKK2 billion in 2024, suspended from 2025

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Weakening performance or increased M&A appetite, causing EBITDA net leverage to increase above 3.0x for a sustained period

- Erosion of the FCF margin to below 3% for a sustained period

- EBITDA margin below 18%

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Maintenance of leading positions in core markets and mid-single-digit organic revenue growth

- EBITDA margin improving towards 23% and FCF margin towards 4%

- Adherence to the conservative financial policy supporting EBITDA net leverage below 2.0x for a sustained period

LIQUIDITY AND DEBT STRUCTURE

Carlsberg's liquidity was strong at end-September 2024 with DKK10.7 billion of cash on balance, as well as access to undrawn committed long-term credit lines of DKK14.9 billion (including a EUR2 billion revolving credit facility that was refinanced in December 2024 to 2029). Although around 45% of debt matures in 2024-2027, maturities are well spread within this period, and we do not forecast any difficulties for Carlsberg in refinancing debt at maturity or repaying it from existing cash flow.

In September 2023, the company issued EUR700 million and EUR600 million of bonds that will mature in 2028 and 2033, respectively.

ISSUER PROFILE

Carlsberg is the third-largest international beer company globally by volume with operations in Europe and Asia.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Carlsberg Breweries A/S	LT IDR	BBB+ Rating Outlook Negative	Affirmed	BBB+ Rating Watch Negative
	ST IDR	F2	Downgrade	F1 Rating Watch Negative
senior unsecured	LT	BBB+	Affirmed	BBB+ Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Rosa Alvaro
Director
Primary Rating Analyst
+34 91 076 1982
rosa.alvaro@fitchratings.com
Fitch Ratings Ireland Spanish Branch, Sucursal en España
Pza de Pablo Ruiz Picasso 1 Torre Picasso 19th floor Madrid 28020

Jana Litovcenko
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1182
jana.litovcenko@fitchratings.com

Elena Stock
Senior Director
Committee Chairperson
+49 69 768076 135
elena.stock@fitchratings.com

MEDIA CONTACTS

Pilar Perez
Barcelona
+34 93 323 8414
pilar.perez@fitchratings.com

Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Carlsberg Breweries A/S	EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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