

Rating Action: Moody's assigns Prime-2 short-term issuer rating to Carlsberg, Baa2 ratings affirmed

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Milan, March 28, 2019 -- Moody's Investors Service (Moody's) has today assigned a first-time Prime-2 (P-2) short-term issuer rating to Carlsberg Breweries A/S (Carlsberg), a P-2 short-term rating to the new EUR750 million Euro Commercial paper ("ECP"); and affirmed the existing Baa2 long-term issuer and senior unsecured ratings, and the (P)Baa2 EMTN program rating. The outlook is stable.

RATINGS RATIONALE

The P-2 rating reflects Carlsberg's good liquidity, underpinned by (1) a cash balance of around DKK5.6 billion as of the end of December 2018; (2) the company's access to a committed bank facility of EUR2.01 billion (fully undrawn at December 2018), due in February 2021 and not subject to any financial covenants; and (3) Moody's expectation of continued positive free cash flow generation (before extraordinary shareholder distributions).

Moody's assessment of liquidity assumes that the company will address pending debt maturities in a timely manner, including the EUR750 million bond maturing in July 2019, as well as the refinancing of the EUR2.01 billion bank facility; and that it will retain sufficient resources to cover any other potential liquidity outflows. This includes the DKK6.2 billion contingent considerations related to the group's subsidiaries in the event that they were to become payable, as well as any short-term debt under the proposed ECP in case the markets were to become inaccessible.

Moody's analysis of Carlsberg's liquidity factors in an element of seasonality with stronger cash flow generation in the second and third quarter driven by stronger earnings and lower working capital needs, whilst first quarter is normally weaker due to the build-up in inventories and lower earnings.

The Baa2 long-term rating is supported by the company's (1) large scale as the world's third-largest international brewer by volume, with leading positions in some of its key European and Asian markets, including Russia; (2) increasing geographical diversification; and (3) strong cash flow generation and modest leverage with Moody's adjusted debt of EBITDA of 2.5x at December 2018. The rating is constrained by the company's (1) exposure to volatility in emerging markets, (2) low growth in developed markets, and (3) potential for ongoing material shareholder distributions and sizable M&A activity.

In 2019-20 Moody's expects Carlsberg to record mid-single digit organic growth of profits, driven by stronger volumes and price mix, and tight cost control. However, the rating agency notes that further margin progression in 2019 will be more difficult because 2018 was the last year of the multiyear "Funding the Journey" cost efficiency process. On this basis, Moody's expects operating cash flow to remain steady at around DKK12 billion in 2019. However, in light of the planned DKK4.5 billion share buy-back programme, and capex and dividend payments which are also expected to amount to about DKK4.5 billion, Moody's expects a funding deficit of around DKK500 million -- DKK 1 billion in 2019. Nevertheless, Moody's believes that the impact on leverage will be modest with Moody's adjusted gross debt to EBITDA remaining broadly stable at around 2.5x, leaving Carlsberg adequately positioned in the Baa2 rating category.

RATIONALE FOR STABLE OUTLOOK

Carlsberg is adequately positioned in the Baa2 category, with additional steady profit growth and cash flow generation in the next 12-18 months.

WHAT COULD CHANGE THE RATING UP/DOWN

Despite ongoing positive free cash flow (FCF) generation, the ratings remain constrained by the potential for increased shareholder distributions or more M&A, or possibly both. Quantitatively, an upgrade over time is possible if Carlsberg maintains a retained cash flow (RCF)/net debt around 30% and debt/EBITDA towards 2.0x. Carlsberg's ratings could come under downward pressure if RCF/net debt falls below 20% or debt/EBITDA rises above 3.0x on a sustained basis.

The principal methodology used in these ratings was Global Alcoholic Beverage Industry published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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