

Rating Action: Moody's assigns Aa3 rating to Nestlé Hungária Kft.'s inaugural senior unsecured bonds guaranteed by Nestlé S.A.

21 May 2021

Milan, May 21, 2021 -- Moody's Investors Service ("Moody's") has today assigned a Aa3 backed senior unsecured rating to the inaugural up to HUF115 billion bonds (ISIN HU0000360458), to be issued by Nestlé Hungária Kft., a fully owned subsidiary of Nestlé S.A. (Nestlé), and guaranteed by Nestlé S.A. ("The Guarantor"). The outlook on the rating is stable.

RATINGS RATIONALE

The Aa3 rating assigned to Nestlé Hungária Kft.'s up to HUF115 billion backed senior unsecured bonds reflects the irrevocable guarantee in the form of a Swiss law joint and several suretyship from Nestlé S.A., which is rated Aa3 with stable outlook. The bonds have a 7-years tenor with bullet maturity and pay a fixed rate coupon of 1.75%, paid annually. Proceeds from the issuance will be used for general corporate purposes.

The Guarantor's Aa3 rating reflects Nestlé's superior business profile, underpinned by its position as the largest food and beverage company in the world; high degree of diversification by segment, product and geography; high-quality brand portfolio; and substantial assets that could be monetised, including its 23% stake in L'Oréal S.A. (L'Oréal, Prime-1 stable).

Nestlé's operating performance continues to be solid, with steady organic revenue growth and moderate profitability improvements. However, the acceleration in the company's acquisition strategy will add pressure to Nestlé credit ratios if not offset by other measures such as additional disposals or the postponement or reduction of the ongoing CHF20 billion (\$22 billion) share buyback programme to be completed by 2022. Absent any mitigating measure, Moody's expects that Nestlé's RCF/net debt will remain between 16% and 17% through 2022, which is weak for the current Aa3 rating. However, the company maintains substantial financial flexibility stemming from its solid operating cash flow generation.

For further information on the Guarantor's long-term issuer rating, please refer to Moody's credit opinion dated 28 April 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1275930

RATIONALE FOR STABLE OUTLOOK

The stable rating outlook reflects Moody's expectation that Nestlé will maintain its high financial flexibility stemming from solid cash flow generation over the next 18-24 months, which will allow it to finance the planned shareholder distribution and some bolt-on acquisitions, while maintaining a stable financial profile.

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

An upgrade of Nestlé's rating is unlikely over the next 12-18 months because of the group's financial policy and tolerance for higher leverage. However, the rating could be upgraded if: 1) Nestlé adopts a more conservative financial policy; 2) the company's RCF/net debt remains above 30% on a sustained basis; and 3) the company maintains a strong business profile.

Downward pressure on Nestlé's rating could develop from a combination of the following factors: 1) Nestlé's Moody's-adjusted RCF/net debt remaining below 20% for a prolonged period; 2) a deterioration in the company's operating profitability, with its Moody's-adjusted EBIT margin falling below 15%; 3) a significant decline in the company's very strong market positions in its main businesses.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Consumer Packaged Goods Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1202237. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Nestlé is the world's largest food company, and its global brands (for example, Nestlé, Purina, Nescafé, Maggi, Nespresso and Nido) cover a wide range of food and beverage products. The company's portfolio includes more than 2,000 brands. Although its largest market is the US, Nestlé is active in all the regions of the world, with a presence in 187 countries and more than 400 production plants globally. Nestlé generated revenues of CHF84.3 billion and EBITDA of CHF17.2 billion (as adjusted by Moody's) in 2020.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1263068.

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