FitchRatings

# Fitch Ratings: Carlsberg's Share Buyback Will Not Impact Leverage Trend

Fitch Ratings-Moscow-06 February 2019: The recent announcement by the world's third-largest international brewer, Carlsberg A/S, to initiate a share buyback programme, should have no negative impact on the rating of its 100%-owned subsidiary, Carlsberg Breweries A/S (BBB+/Stable), Fitch Ratings says. The decision is in line with the company's capital allocation principles. It follows three years of deleveraging and strong free cash flow generation, which we reflected in our rating upgrade to 'BBB+' from 'BBB' in June 2018.

On 6 February 2019, Carlsberg A/S announced a share buyback programme of DKK4.5 billion to be conducted over the next 12 months. The company also announced that the Supervisory Board will recommend a 13% increase in dividend per share, leading to total cash returns to shareholders for the year of DKK7.2 billion.

Fitch expects that these distributions to shareholders will be largely funded by internally generated cash flow and therefore will not lead to material re-leveraging in 2019. We project that despite these disbursements Carlsberg Breweries A/S will retain sufficient headroom within its internal leverage target of net debt-to-EBITDA of below 2x and Fitch's negative rating sensitivity of funds from operations-(FFO) adjusted net leverage of 3.0x (2017: 2.1x; our 2018 preliminary calculations: under 2.0x). This will allow the company to continue pursuing bolt-on M&A to capture growth opportunities in Asia, where beer consumption is increasing.

Our rating case also continues to incorporate the assumption that Carlsberg Breweries A/S would increase its stake in Vietnamese brewer Habeco by end-2020, which would solidify its position in the region. Under these assumptions, we expect Carlsberg Breweries A/S's FFO adjusted net leverage to remain below 2.5x over 2019-2020.

Carlsberg Breweries A/S's 'BBB+' rating remains underpinned by our expectation that the company will maintain a conservative financial policy and will be able to sustain the stronger levels of profit and cash flow generation achieved over 2016-2018. We assume modest organic revenue and profit growth but good flexibility to react to industry challenges, such as currency movements, increases in raw materials costs and rising competition in the company's markets of operation.

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