FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Royal FrieslandCampina at 'BBB+'; Outlook Stable

Thu 05 Nov, 2026 - 09:45 ET

Fitch Ratings - Madrid - 05 Nov 2026: Fitch Ratings has affirmed Royal FrieslandCampina NV's (RFC) Long-Term Issuer Default Rating (IDR) at 'BBB+' with Stable Outlook. A full list of ratings is below.

The rating is underpinned by the group's large scale and strong position in the global dairy market, good product mix and balanced geographic footprint across developed and emerging markets, as well as by a conservative capital structure. This is balanced against lower operating margin than the broader packaged food sector and exposure to commoditised dairy products and its inherent volatility stemming from raw milk prices.

The Stable Outlook reflects our expectation that net leverage will remain within rating sensitivities following the planned Ultrajaya transaction in 2027, supported by recovering profitability, positive free cash flow (FCF) generation, due to stabilising dairy prices, cost-saving initiatives and a continued change in business mix towards higher value- added products.

KEY RATING DRIVERS

Conservative Financial Policy: We expect EBITDA net leverage to peak at 1.2x in 2027 following the Ultrajaya transaction, which the group expects to complete in 1Q27, reducing RFC's rating headroom under its leverage negative sensitivity of 1.5x. We project leverage to decline to 1.0x in 2028, supported by earnings growth from management initiatives and stabilising dairy commodity prices. Further dairy price volatility could put pressure on leverage metrics.

RFC has demonstrated its commitment to a conservative capital structure through non-core asset disposals, capex reductions and the issuance of hybrid securities. We do not foresee any material changes to profit allocation in 2026 and 2027. We expect RFC to take measures to mitigate any further commodity-price pressures on its credit metrics.

Steady Operating Margins: We project resilient EBITDA margin at 7.1% in 2026 (2025: 7.2%), reflecting expected stabilisation in dairy markets in 2H26 and RFC's cost-saving programme. The latter should partly offset the negative effects of the gap between sourcing and selling prices in 1H26, as well as persistent inflation in packaging, other commodity inputs and labour. We project margins to improve from 2027 onwards as RFC continues to deliver cost savings, enhances its business mix and realises synergies from its merger with Milcobel and Ultrajaya transaction. We estimate the EBITDA margin will reach 7.7% by 2029, assuming mid-cycle raw milk prices.

Neutral to Positive FCF: The rating is supported by RFC's expected sustained positive FCF generation in 2026-2029. In 2026 it will be driven by improved working-capital management, offsetting a decline in EBITDA. In subsequent years, we expect FCF generation to be supported by earnings growth and further improvements in working-capital management, particularly inventory turnover; FCF will cover supplementary payments, which we treat as dividends. We assume RFC will refrain from distributing supplementary cash payments to member farmers if operating profits come under greater pressure, as in 2021 and 2024, when no such payments were made.

Milk Payment Subordination: The mechanism of subordination of milk payments to senior creditors, which the cooperative introduced in its statute in July 2020, is a confirmation of members' commitment to protecting the credit quality of the cooperative. This does not result in rating uplift at the 'BBB+' senior unsecured rating, as the subordination mechanism is designed to come into effect only in liquidation. Fitch would consider an uplift to the senior unsecured debt rating only if RFC's IDR was much lower than the current level, reflecting close to default risk.

Cooperative Neutral to Rating: Fitch assesses RFC's ownership by a cooperative as neutral for the rating. We recognise the benefits of a reliable and stable supply of high-quality raw materials from cooperative members, but this is balanced by RFC's obligation to collect and purchase all the milk produced by member farmers. Milk supplies in excess of production capacity may lead to an inability to fully process milk into value-added products. However, RFC has been able to maintain a balance between its capacity and supplies from member farmers.

Global Diversified Dairy Producer: RFC benefits from a wide range of dairy-based products from commoditised cheese and butter to high value-added specialised nutrition. It is geographically diverse across emerging markets, especially in Asia and Africa, where the supply of products of reliable quality is a competitive advantage and long-term growth fundamentals are strong. This is credit-positive, even though profits from these countries can be volatile.

Uncertain Agricultural Policy: The Dutch government is developing legislative changes aimed at reducing greenhouse gas and nitrogen emissions, including nitrogen-emission targets for 2035. The measures have not yet been enacted but are expected to directly affect milk producers. The credit impact remains unclear, although we do not expect an immediate increase in risk. Strong political opposition to the proposed changes is likely to complicate their implementation.

PEER ANALYSIS

The inherently volatile dairy market leads to instability in dairy companies' profits and working capital. RFC's high share of value-added products in sales helps it achieve greater control over selling prices and stronger profit margins than some of its closest peers but does not fully isolate it from high sector risks. Consequently, Fitch expects RFC to adhere to a more conservative capital structure than similarly rated peers in the broader packaged food sector.

RFC is similar in its business model to Fonterra Co-operative Group Limited's and has a similar market position to the other packaged food company The Kraft Heinz Company (Kraft Heinz; BBB/Negative Outlook). Fonterra's operations, like RFC's, are concentrated on dairy products produced under a cooperative. The companies have similar business scales. However, Fonterra benefits from a stronger mechanism of subordination of milk payments to the companies' principal and interest obligations (and other costs), as specified in their by-laws, allowing them to operate under higher leverage than RFC.

RFC has a similar business profile to Kraft Heinz, characterised by good diversification and strong market positions in its respective markets, although Kraft Heinz is much larger. This is offset by RFC's more conservative capital structure, with Fitch-defined net leverage about 2.0x lower than Kraft Heinz's and stronger interest coverage. This, alongside Kraft Heinz's difficulty in preserving its market position over the past decade, supports a one-notch difference in the ratings.

FITCH'S KEY RATING-CASE ASSUMPTIONS

--Revenue flat in 2026, followed by growth of 6.5% in 2027, driven by the full integration of Ultrajaya. Low- to mid-single-digit revenue growth in 2028 and 2029, supported by a recovery in milk prices and the integration of bolt-on acquisitions

--EBITDA margin to decline to 7.1% in 2026 from 7.2% in 2025, due mainly to lower raw milk prices. This is followed by a gradual increase to 7.7% by 2029, supported by the stabilisation and recovery of raw milk prices, as well as cost-savings that offset inflationary pressures

--Trade working capital outflow to remain at about 9% of revenue during 2026-2029

--Capex at EUR400 million in 2026, before rising to an average of EUR460 million a year over 2027-2029

--Supplementary cash payments to total EUR125 million in 2026 before, gradually increasing to EUR140 million a year by 2029

CORPORATE RATING TOOL INPUTS AND SCORES

Fitch scored the issuer as follows, using our Corporate Rating Tool (CRT) to produce the Standalone Credit Profile (SCP):

Business and financial profile factors (assessment, relative importance): management ('bbb+', Lower), sector characteristics ('bbb', Moderate), market and competitive positioning ('bbb-', Higher), diversification and asset quality ('bbb', Moderate), company operational characteristics ('bbb', Moderate), profitability ('bb-', Moderate), financial structure ('aa-', Higher), and financial flexibility ('bbb+', Moderate).

The quantitative financial subfactors are based on standard CRT financial period parameters: 20% weight for the historical year 2025, 40% for the forecast year 2026 and 40% for the forecast year 2027.

The governance assessment of 'good' has no impact.

The operating environment assessment of 'a+' has no impact.

The SCP is 'bbb+'.

To derive the Long-Term IDR:

Fitch made no adjustments to the SCP, resulting in an IDR of 'BBB+'.

RATING SENSITIVITIES

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

-- Evidence that the earning profile is subject to sustained higher volatility, adverse trends linked to regulatory pressure, or consumer demand trends affecting supply and demand for dairy products

-- Weak operating performance and inability to maintain stable operating profitability

-- Aggressive financial policy leading to negative FCF margins in the low single digits for more than two years and EBITDA net leverage above 1.5x on a sustained basis

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

-- An increase in scale and improved product and geographic diversification, with reducing contribution from the more volatile trading division

-- A leaner cost structure supporting higher operating profitability and FCF margins consistently above 2%

-- EBITDA net leverage sustainably below 0.5x

LIQUIDITY AND DEBT STRUCTURE

At end-2025, RFC had approximately EUR0.8 billion Fitch-defined readily available cash and an undrawn EUR1 billion credit facility maturing in October 2029. We restricted EUR5 million year-end cash that was not freely available in other countries.

We project that RFC will generate positive FCF over 2026-2029, primarily driven by earnings growth and effective working-capital management. RFC has also demonstrated its ability to refinance debt on a timely basis, supported by its historically strong access to debt capital markets.

ISSUER PROFILE

RFC is the eighth-largest dairy company globally (after Nestle, Lactalis, Danone and Fonterra). It is wholly owned by the dairy co-operative Zuivelcoöperatie FrieslandCampina, which has 13,972 member dairy farmers and 8,781 member dairy farms in the Netherlands, Germany and Belgium.

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 Sector Forecasts Monitor 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.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for RFC.

ESG CONSIDERATIONS

RCF has an ESG Relevance Score of '4' for GHG Emissions and Air Quality due to increasing attention from governments and consumers on the environmental impact of the emissions of dairy cattle, which has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

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 TYPE	RATING	RATING ACTION	PRIOR
Royal FrieslandCampina NV	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
senior unsecured	LT	BBB+	Affirmed	BBB+
subordinated	LT	BBB-	Affirmed	BBB-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Claudio Cultrera
Associate Director

Primary Rating Analyst

claudio.cultrera@fitchratings.com
Fitch Ratings Ireland Spanish Branch, Sucursal en España
Pza de Pablo Ruiz Picasso 1 Torre Picasso 19th floor Madrid 28020

Tatiana Bobrovskaya, CFA
Senior Director
Secondary Rating Analyst
+44 20 3530 1513
tatiana.bobrovskaya@fitchratings.com

Elena Stock
Managing 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

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

Corporate Hybrids Treatment and Notching Criteria (pub. 08 Apr 2025)

Corporate Rating Criteria (pub. 09 Jan 2026) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 09 Jan 2026)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Royal FrieslandCampina NV	EU Issued, UK Endorsed

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