

NORGESGRUPPEN ASA

Strong position as market leader

NorgesGruppen's strong business risk profile is supported by its position as market leader. The company has strong bargaining power with suppliers, substantial economies of scale, and high barriers to entry. Given the company's low leverage and strong liquidity position, we view the financial risk profile as intermediate. Going forward, we estimate softer market growth due to continued pressure on the margins.

Decreased leverage from 2013 to 2016. Net interest-bearing debt adjusted for operational leases was NOK17.4bn at Q2 2017. NorgesGruppen's NIBD/EBITDA decreased from 3.0x at end-2013, to 2.5x at end-2016. If the company continues this trend, we estimate NIBD/EBITDA at 2.2x at end-2019.

Slower market growth and changing market dynamics. Together NorgesGruppen, Coop and Rema 1000 control 96% of the Norwegian grocery retail market. During H1 2017 NorgesGruppen continued to increase its market share (up 0.9%), while both Coop and Rema 1000 lost market share (down 0.2% and 0.7%, respectively), compared to market shares at end-2016. Overall retail chain industry growth was 1.2% during H1 2017, down from 3.6% in H1 2016 and 2.6% in H1 2015. Consumers are shopping for food through new channels such as online grocery and Matkasser (online portal for comparing food boxes and online foods), and this is changing the market dynamics. During 2016, 11.6% of Norwegians bought groceries online, compared to 5.6% in 2015, according to AC Nielsen.

Strong liquidity. NorgesGruppen has a strong liquidity position with NOK359m in cash and cash equivalents as of H1 2017. At end-2016 the company had undrawn credit facilities of NOK5,714m. According to our calculations, available sources of liquidity (cash, available undrawn facilities and cash flow from operations) are enough to cover the company's debt commitments.

Key financial figures - NorgesGruppen ASA (EOY in NOKm)

	2013	2014	2015	2016	2017e	2018e	2019e
Total revenues	67,396	71,391	76,224	80,162	82,567	85,044	87,596
EBITDA	3,899	4,357	4,729	4,846	4,991	5,141	5,295
TIBD	8,559	8,447	8,159	7,176	7,243	7,026	6,808
Cash & cash equivalents	403	400	505	707	1,204	1,287	1,422
Total assets	30,914	33,515	35,104	36,382	38,151	39,566	41,103
EBITDA margin (%)	8.1	8.5	8.6	8.5	8.6	8.5	8.5
TIBD/EBITDA (x)	3.1	2.8	2.8	2.6	2.5	2.4	2.4
TIBD/total capital (%)	59.6	56.9	54.8	51.3	49.4	47.4	45.3

Source: Company (historical figures), DNB Markets (estimates)

ISSUER RATING

Moody's	Not rated
S&P	Not rated
Fitch	Not rated

BLOOMBERG IDENTIFIERS

Equity ticker	
Bond ticker	NORGRU Corp

CAPITAL STRUCTURE

Market cap. (NOKm)	
NIBD (NOKm)	6,469
Enterprise value (NOKm)	
Bond debt outstanding (NOKm)	4,550

MANAGEMENT

CEO	Runar Hollevik
CFO	Mette Lier

RISK ASSESSMENT (1-6)

Country	Very low (1)
Industry	Low (2)
Country & Industry	Low (2)
Competitive position	Strong (2)
Business risk	Strong (2)
Financial risk	Intermediate (3)

Source: Company, DNB Markets

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Company description

Figure 1: Group overview



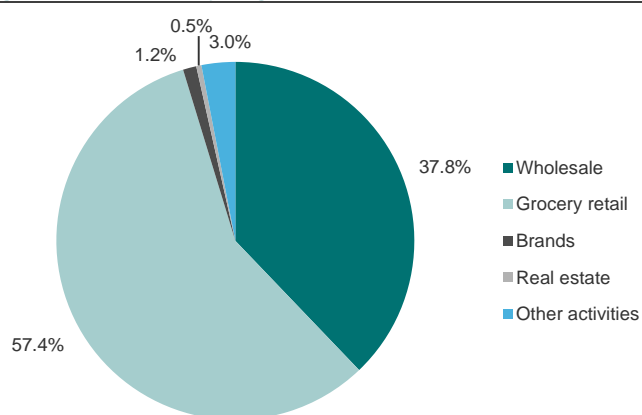
Source: Company

NorgesGruppen's core business is grocery retail and wholesale for consumer products. The company dates back to 1866 and has since then grown to become the market leader in grocery retail in Norway. During 2016, there were some changes in the management team: Runar Hollevik became the new group CEO and Mette Lier the new CFO. The company has four main operating segments – retail, wholesale, brands and real estate. NorgesGruppen owns several grocery retail concepts (see figure 3) and is the clear market leader in this segment with a 43.2% market share. The wholesale business involves ASKO and Storcash, which deliver goods and handle the cash and carry business to grocery retailers and convenience stores. Brands include NorgesGruppen's own brands sold in grocery retail stores. NorgesGruppen's real estate portfolio mainly consists of stores and storage space.

Market-leader in grocery retail in Norway

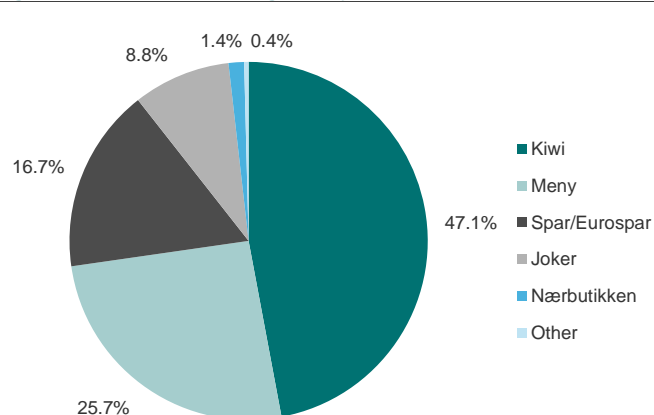
Increased market share to 43.2% in H1 2017

Figure 2: Revenue by segment (H1 2017)



Source: Company

Figure 3: Revenue from grocery retail concepts (end-2016)

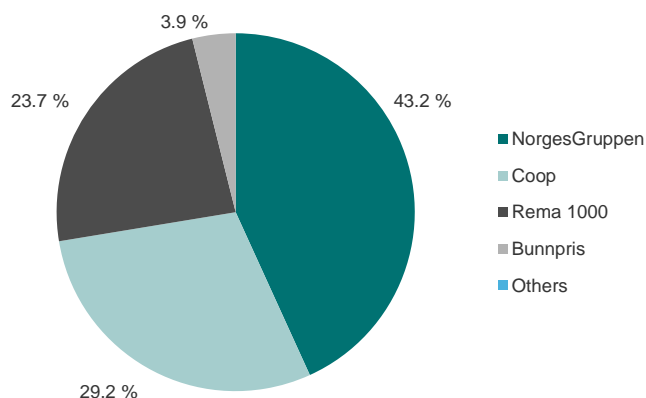


Source: Company

Increased market share

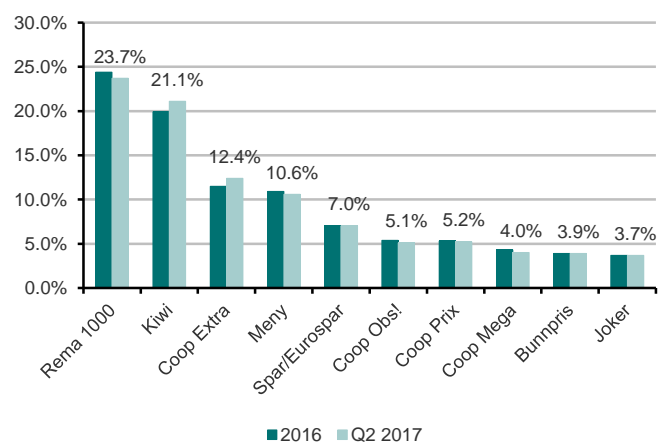
We consider NorgesGruppen's business risk profile to be 'strong' in rating terminology, reflecting its market-leading position, strong bargaining power with suppliers, and its substantial economies of scale. Furthermore, concentration in the industry gives the largest players control over distribution, and this combined with import protection in Norway lead to high barriers to entry. During H1 2017, NG continued to increase its market share (by 0.9%), while Coop's and Rema 1000's market share declined by 0.2% and 0.7%, respectively. Rema 1000 is the main competitor to NorgesGruppen's discount store chain Kiwi, which increased its market share by 1.0%. If this trend continues, Kiwi will surpass Rema 1000 to become the overall leading retail chain.

Figure 4: Market shares, Norwegian retail chains (Q2 2017)



Source: AC Nielsen

Figure 5: Largest retail chain concepts in Norway by net revenue (Q2 2017)



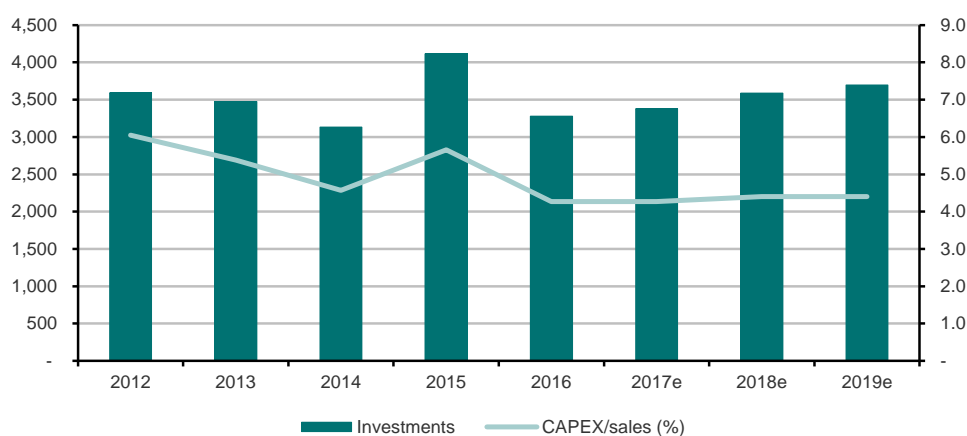
Source: AC Nielsen

Investments in associated companies

During H1 2017, NorgesGruppen invested NOK1,343m, mainly in stores, storage and logistics. To improve capacity in the wholesale business we estimate continued large investment of ~NOK3,600m p.a. giving a capex/sales of 4.4%.

We estimate investment of around NOK3.6bn p.a. going forward

Figure 6: Investments (NOKm)



Source: DNB Markets (forecasts), company (historical data)

NorgesGruppen has also invested in several associated companies, as listed below. The largest measured at book value are Bama Gruppen AS and Dagrofa ApS. In co-operation with Axfood, NG signed an agreement to buy 49% of Eurocash Food AB, and this deal was approved in August 2017.

NG acquired 49% of Eurocash Food in August 2017

Figure 7: Ownership in associated companies (end-2016, NOKm)

Company	Operating	Balance sheet		Share	Location
	revenues	Dividend	value		
BAMA Gruppen AS	16,503	125	780	45.50%	Oslo
Dagrofa ApS	23,402	-	173	48.90%	Ringsted, DK
Other		154	1,897		

Source: Company

Capital structure

Debt portfolio

In our view, NorgesGruppen's financial risk profile is 'intermediate' in rating terminology, reflecting the low leverage, strong liquidity and good access to funding. A large portion of NorgesGruppen's debt consists of unsecured bonds, totalling NOK3.8bn. NorgesGruppen also has large off-balance sheet liabilities related to operational leases. We have adjusted all the financial ratios for these operational leases.

Bonds account for ~21% of NIBD adjusted for operational leases

Figure 8: Bonds and commercial paper outstanding (28 November 2017, NOKm)

Facility description	FX	Facility size	Current amount outst.	Final maturity date	Coupon	Ranking
Bond, NORG73	NOK	800	800.0	15-Jun-18	3mN+1.05%	Unsecured
Bond, NORG65	NOK	500	500.0	05-Dec-19	4.43%	Unsecured
Bond, NORG79	NOK	650	650.0	25-Nov-20	3.80%	Unsecured
Bond, NORG84	NOK	700	700.0	10-May-21	3mN+0.79%	Unsecured
Bond, NORG110	NOK	500	500.0	15-Mar-22	3mN+1.50%	Unsecured
Bond, NORG111	NOK	300	300.0	10-Feb-23	3mN+0.75%	Unsecured
Bond, NORG92	NOK	300	300.0	25-Sep-24	3.25%	Unsecured

Source: DNB Markets (forecasts), company (historical data)

Covenants

The bonds are not subject to covenants, but the following covenants apply to some of the group's bank facilities. According to our estimates, NorgesGruppen has substantial headroom for the covenants.

No financial covenants on senior unsecured bonds

Figure 9: Financial covenants related to bank facilities

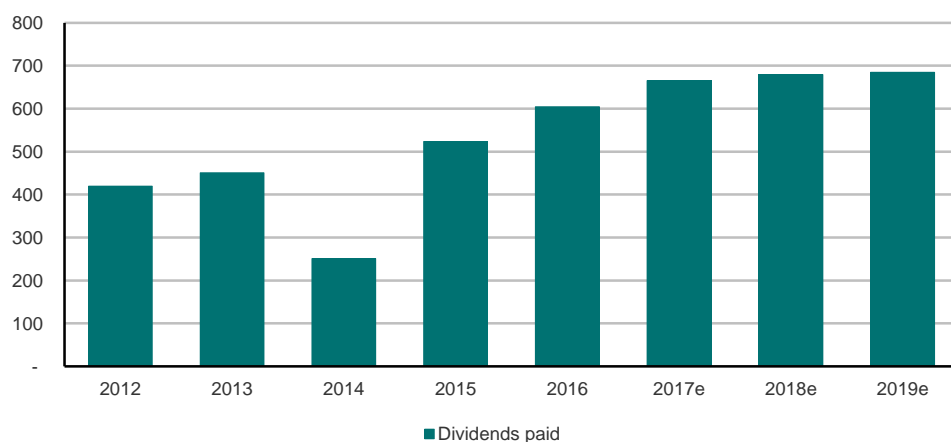
	2014	2015	2016	2017e	2018e	2019e
Maximum NIBD/EBITDA (x)	3.5	3.5	3.5	3.5	3.5	3.5
Model output (adj. figures)	2.8	2.7	2.5	2.3	2.3	2.2
Model output (unadj. figures)	1.8	1.6	1.3	1.2	1.1	1.0
Minimum interest coverage (x)	3.0	3.0	3.0	3.0	3.0	3.0
Model output (adj. figures)	7.4	8.1	8.3	8.5	8.5	8.8
Minimum equity ratio (%)	24%	24%	24%	24%	24%	24%
Model output (adj. figures)	31%	33%	36%	37%	39%	41%

Source: DNB Markets (forecasts), company (historical data)

Dividends

NorgesGruppen has a dividend policy of a minimum 25%. In 2016, NOK605m was paid in dividends (~26% of net income), and NOK642m has already been paid to shareholders in 2017. We believe dividends in 2017 and 2018 will be above NOK650m per year reflecting the growth in income.

Figure 10: Dividends (NOKm)



Source: DNB Markets (forecasts), company (historical data)

Shareholders

Figure 11: Largest shareholders (end-2016)

Company	Share	Number of shares
Joh. Johannson Handel AS	74.40%	29,760,242
Brødrene Lorentzen AS	9.00%	3,600,000
PETT Kjede og Servicekontor AS	6.32%	2,529,965
Butikkdrift AS	1.81%	722,133
Drageset AS	1.12%	447,048
Kråtun AS	1.05%	421,306
Others	6.30%	2,519,306

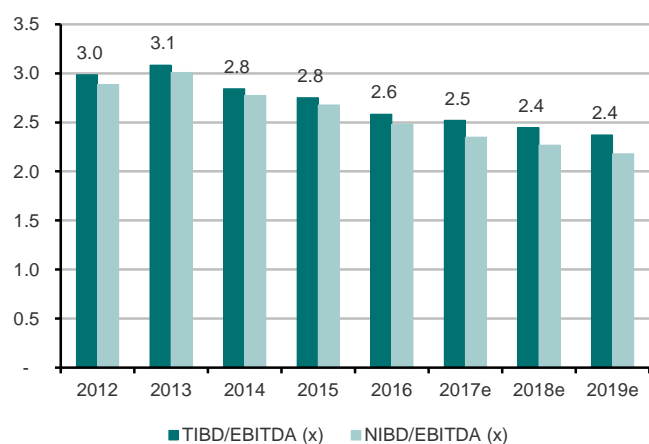
Source: Company

Credit considerations

Leverage

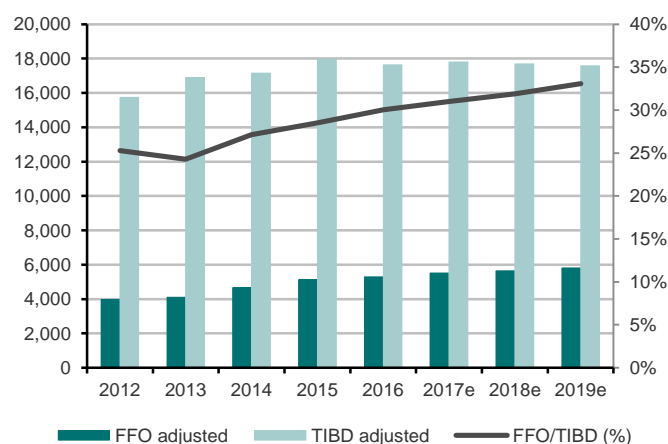
NorgesGruppen's net interest-bearing debt (NIBD) was NOK17.4bn at end-Q2 2017. Following three years of deleveraging, NIBD/EBITDA has decreased from 3.0x at end-2013 to 2.5x at end-2016. We believe the company will continue this trend, albeit at a somewhat slower pace, and estimate a NIBD/EBITDA at 2.2x at end-2019e.

Figure 12: Financial leverage (x)



Source: DNB Markets (forecasts), company (historical data)

Figure 13: FFO/debt (% , NOKm)



Source: DNB Markets (forecasts), company (historical data)

Strong liquidity position

In our view, NorgesGruppen's liquidity position is strong in the context of upcoming instalments and the current investment level. The company had NOK359m in cash and cash equivalents as of Q2 2017. At end-2016 it had undrawn credit facilities of NOK5,714m. According to our calculations, available sources of liquidity (cash, available undrawn facilities and cash flow from operations) are enough to cover the company's debt commitments.

Recovery

NorgesGruppen's bonds are senior unsecured and rank pari passu with the unsecured bank debt. The company has declared a negative pledge in loan agreements with external creditors, with a small carve out that involves an insignificant share of pledged assets relative to the company's total assets. We estimate that holders of the senior unsecured bonds will achieve a recovery of 30–70% in an event of default.

Peering

There are no direct competitors of NorgesGruppen in Norway or Scandinavia with an official rating. Compared to European and Australian peers in the retail industry with a rating from S&P, NorgesGruppen is significantly smaller in terms of EBITDA, since the other retailers have much larger domestic markets, and some have international operations. Compared to the peer group, NorgesGruppen is the clear market leader in the Norwegian grocery retail and wholesale market. Given the barriers to enter the Norwegian market, we view NG's market-leading position as strong.

NG is smaller than its officially rated peers; however, it has a more dominant position and more robust domestic market, in our view

Figure 14: Peering analysis (LTM at Q2 2017)

Industry Sector: Retail	NorgesGruppen	Koninklijke Ahold N.V.	Carrefour S.A.	Kingfisher PLC	Next PLC	Woolworths Ltd.
Business risk profile	Strong	Satisfactory	Strong	Satisfactory	Satisfactory	Strong
Financial risk profile	Intermediate	Intermediate	Intermediate	Intermediate	Intermediate	Significant
S&P rating	n.a	BBB/Stable	BBB+/Stable	BBB/Stable	BBB/Negative	BBB/Stable
Moody's	n.a	Baa2/Positive	Baa1/Stable	Baa2/Stable	Baa2/Stable	Baa2/Negative
Currency	NOKm	GBPm	GBPm	GBPm	GBPm	AUDm
Revenues	80,162	20,961	66,176	11,225	3,884	55,669
EBITDA	7,261	2,847	3,679	1,473	1,019	5,607
Adjusted ratios						
EBITDA margin (%)	9.1	13.6	5.6	13.1	26.3	10.1
EBITDA interest coverage (x)	11.6	7.9	6.8	7.8	9.5	4.2
Debt/EBITDA (x)	2.5	1.8	2.2	1.4	1.5	3.4
FFO/debt (%)	31.0	44.7	35.4	50.4	52.0	18.7
Cash flow from operations/debt (%)	31.9	33.5	38.7	48.5	55.0	21.4
Free operating cash flow/debt (%)	12.5	24.1	9.2	30.3	44.6	11.4

Source: Companies, Standard & Poor's, Moody's
The financial ratios are based on S&P's adjusted figures

Summary of financial accounts - NorgesGruppen ASA (EOY in NOKm)

Profit & Loss	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Total operating revenues	55,675	58,641	62,083	67,396	71,391	76,224	80,162	82,567	85,044	87,596
Total operating costs	-52,514	-54,892	-58,187	-63,497	-67,034	-71,495	-75,316	-77,576	-79,903	-82,300
EBITDA	3,161	3,749	3,896	3,899	4,357	4,729	4,846	4,991	5,141	5,295
Depreciation & amortisation	-1,291	-1,514	-1,696	-1,625	-1,678	-1,847	-1,825	-1,935	-2,051	-2,174
EBIT	1,870	2,235	2,200	2,274	2,679	2,882	3,021	3,057	3,090	3,121
Income from associates	235	224	372	362	266	289	245	267	267	267
Sale of assets										
One-offs, write-downs, impairments										
Net interest	-226	-262	-270	-256	-241	-164	-137	-128	-136	-124
Net other financials	-14	-42	-34	25	-87	-5	36	36	36	36
Pre-tax profit	1,866	2,155	2,268	2,405	2,616	3,001	3,164	3,232	3,257	3,300
Tax	-456	-599	-614	-612	-686	-640	-699	-714	-720	-729
Net profit	1,411	1,556	1,653	1,793	1,930	2,361	2,465	2,517	2,537	2,570

Balance sheet	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
Tangible fixed assets	10,813	10,835	11,790	12,669	13,756	14,587	15,778	16,725	17,728	18,792
Investments in associates	1,636	1,953	1,947	2,556	2,600	2,966	2,851	2,851	2,851	2,851
Intangible assets	4,367	4,343	4,885	4,813	4,760	4,905	4,895	4,895	4,895	4,895
Other non-current assets	571	599	663	1,131	1,500	1,678	1,515	1,515	1,515	1,515
Cash & cash equivalents	357	583	534	403	400	505	707	1,204	1,287	1,422
Other current assets	7,319	8,042	8,285	9,342	10,499	10,463	10,636	10,960	11,289	11,627
Total assets	25,063	26,355	28,105	30,914	33,515	35,104	36,382	38,151	39,566	41,103
Interest-bearing long-term debt	3,925	3,261	4,329	4,914	5,610	6,163	6,002	6,226	5,808	5,941
Other non-current liabilities	1,362	1,422	1,335	1,371	1,598	1,474	1,518	1,533	1,548	1,563
Interest-bearing short-term debt	3,188	3,869	3,627	3,644	2,837	1,997	1,175	1,018	1,218	868
Other current liabilities	7,426	8,299	8,594	9,529	10,463	10,651	10,959	11,156	11,333	11,519
Total liabilities	15,901	16,851	17,885	19,459	20,508	20,284	19,654	19,932	19,906	19,890
Equity	9,162	9,505	10,220	11,455	13,007	14,820	16,728	18,218	19,659	21,213
Total equity and liabilities	25,063	26,355	28,105	30,914	33,515	35,104	36,382	38,151	39,566	41,103
Net interest-bearing debt	6,756	6,547	7,422	8,156	8,047	7,654	6,469	6,039	5,739	5,386
Total interest-bearing debt	7,113	7,130	7,956	8,559	8,447	8,159	7,176	7,243	7,026	6,808

Cash flow	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
EBITDA	3,161	3,749	3,896	3,899	4,357	4,729	4,846	4,991	5,141	5,295
Dividends from associates										
Net cash tax	-326	-419	-531	-555	-546	-590	-677	-683	-714	-720
Net cash interest	-226	-262	-270	-256	-241	-164	-137	-128	-136	-124
Funds from operations (FFO)	2,610	3,068	3,094	3,088	3,570	3,975	4,032	4,180	4,291	4,451
Changes in working capital	77	85	-215	205	184	-1,054	394	158	157	162
Other cash flow from operations	-189	-280	449	-852	-743	387	396	0	0	0
Cash flow from operations (CFO)	2,498	2,873	3,328	2,442	3,011	3,308	4,822	4,339	4,448	4,613
Investments	-3,388	-2,445	-3,593	-3,473	-3,131	-4,115	-3,281	-3,379	-3,588	-3,696
Divestments	182	291	415	243	165	1,106	251	0	0	0
Other cash flow investments	-5	83	64	374	220	153	138	128	128	128
Free operating cash flow (FOCF)	-713	803	214	-415	265	452	1,931	1,088	988	1,045
Debt instalments	-6	-1,003	-895	-634	-2,154	-5,319	-7,306	-470	-218	-718
Debt principal	0	0	0	0	0	0	0	-1,248	-800	-500
Dividends	-339	-415	-420	-451	-251	-524	-605	-666	-680	-685
Funding surplus	-1,058	-615	-1,101	-1,499	-2,140	-5,391	-5,979	-1,295	-709	-857
New debt	545	700	1,639	1,454	2,185	5,512	6,190	1,800	800	1,000
New equity	0	0	0	0	0	0	0	0	0	0
Other cash from financing	546	141	-587	-86	-48	-16	-8	-8	-8	-8
Net cash flow	33	226	-49	-131	-3	105	202	497	83	135
Other adjustments										
Change in cash	33	226	-49	-131	-3	105	202	497	83	135

Source: Company (historical figures), DNB Markets (estimates)

Key credit metrics - NorgesGruppen ASA (EOY)

	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
FFO/TIBD (%)	22.7	28.9	25.3	24.3	27.1	28.5	30.1	31.0	31.9	33.1
TIBD/EBITDA (x)	3.5	2.7	3.0	3.1	2.8	2.8	2.6	2.5	2.4	2.4
NIBD/EBITDA (x)	3.4	2.6	2.9	3.0	2.8	2.7	2.5	2.3	2.3	2.2
EBITDA/interest (x)	266.3	-29.9	-24.0	-17.7	-17.0	-13.5	-11.9	-11.6	-11.9	-11.8
CFO/TIBD (%)	21.9	27.4	26.8	20.5	23.9	24.8	34.5	31.9	32.8	34.0
FOCF/TIBD (%)	-2.5	11.9	7.0	3.6	7.9	8.9	18.1	13.6	13.2	13.7
DCF/TIBD (%)	-5.1	8.8	4.3	0.9	6.4	6.0	14.7	9.9	9.4	9.8
TIBD/total capital (%)	58.9	58.4	60.6	59.6	56.9	54.8	51.3	49.4	47.4	45.3

Source: Company (historical figures), DNB Markets (estimates)

Profitability - NorgesGruppen ASA (EOY)

	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
EBITDA margin (%)	6.7	8.5	8.5	8.1	8.5	8.6	8.5	8.6	8.5	8.5
EBIT margin (%)	3.7	4.5	4.3	4.2	4.6	4.6	4.7	4.6	4.5	4.4
Profit margin (%)	2.5	2.7	2.7	2.7	2.7	3.1	3.1	3.0	3.0	2.9
EBIT/assets (%)	6.7	8.2	7.5	7.2	7.8	7.9	8.0	7.8	7.6	7.5

Source: Company (historical figures), DNB Markets (estimates)

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