

NorgesGruppen

Industry (GICS): Food & Staples Retailing
Sector (Nordea): Consumer Goods

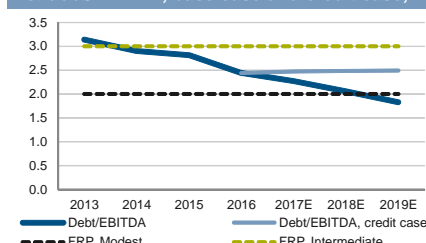
Key info

Country	Norway
Bloomberg debt	NORGRU
Bloomberg equity	3481382Z NO
Moody's	NR/---
S&P	NR/---
Market cap. (bn)	n.a.

Nordea Markets - Analysts

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Net debt/EBITDA, base case and credit case, x



Source: Company data and Nordea Markets

Recommendations on selected bonds

Security name	Recommendation (old)
NOK: NORGRU 0 6/15/18	Underperform ()
NOK: NORGRU 4.43 19	Underperform ()
NOK: NORGRU 3.8 20	Underperform ()
NOK: NORGRU 0 5/10/21	Underperform (Market perform)
NOK: NORGRU 0 3/15/22	Underperform ()
NOK: NORGRU 0 2/10/23	Underperform ()
NOK: NORGRU 3.25 24	Market perform ()

Source: Bloomberg and Nordea Markets

No worries on the credit horizon

NorgesGruppen finished 2016 with stable margins, stronger cash flow and a stronger credit profile. The future looks bright and we expect a continued credit profile improvement in the coming years. In our fair value model, we argue that the group's bonds look expensive, apart from NORGRU 2024.

Continued margin stability

NorgesGruppen posted full-year 2016 earnings marginally below our expectation, but again demonstrated significant margin stability, despite a very competitive market landscape. The group's turnover grew y/y by 5% to NOK 80.2bn (2015: NOK 76.2bn), while reported EBITDA increased by 2% to NOK 4,846m (2015: NOK 4,729m). The reported EBITDA margin weakened marginally to 6.0% (2015: 6.2%), missing our 6.3% expectation.

NorgesGruppen is a cash flow machine

Reported operating cash flow for the full year amounted to NOK 4,600m, up from NOK 3,665m in 2015 and above our estimate of NOK 3,755m. The sound operating cash flow was more than sufficient to cover net capex of NOK 2,669m, as well as the dividend of NOK 605m, thereby generating positive retained cash flow after capex and dividend.

Appealing credit, but bonds look expensive

Applying our fair spread model, we move to Underperform (Market Perform) on NORGRU 2021. At the same time, we initiate with Underperform recommendations on NORGRU 2018, 2019, 2020, 2022 and 2023. However, we initiate with a Market Perform recommendation on the long-dated NORGRU 2024, as the bond looks fairly priced in our model.

Key credit metrics and ratios (adjusted numbers)

NOKm	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
EBITDA	4,292	4,964	5,274	5,481	6,038	6,525	6,735	7,110	7,543	7,909
- margin	8%	8%	8%	8%	8%	9%	8%	8%	9%	9%
EBIT	2,274	2,660	2,685	2,833	3,270	3,523	3,700	3,918	4,190	4,456
- margin	4%	5%	4%	4%	5%	5%	5%	5%	5%	5%
Shareholders' equity	9,162	9,505	10,220	11,455	13,007	14,820	16,728	18,750	20,943	23,308
Debt	13,312	13,289	15,637	16,909	17,212	17,970	16,858	16,895	16,011	14,870
Debt/(Debt+Equity)	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4
FFO/Debt	27.3%	32.0%	28.7%	27.3%	29.9%	31.4%	34.7%	36.8%	41.5%	47.3%
FOCF/Debt	-13.3%	0.9%	-9.8%	-6.3%	-5.1%	-5.0%	3.1%	-3.8%	1.5%	3.8%
DCF/Debt	-15.9%	-2.2%	-12.5%	-9.0%	-6.6%	-7.9%	-0.5%	-7.5%	-2.7%	-1.0%
EBITDA interest coverage	6.6	6.9	6.7	6.3	6.8	7.4	7.6	8.0	8.4	9.1
Debt/EBITDA	3.1	2.7	3.0	3.1	2.9	2.8	2.5	2.4	2.1	1.9
ROC	10.5%	11.4%	10.7%	10.1%	10.8%	10.9%	10.9%	11.0%	11.3%	11.6%

Source: Company data and Nordea Markets

Relative value and recommendation

Applying our fair spread model, we move to Underperform (Market Perform) on NORGRU 2021. At the same time, we initiate with Underperform recommendations on NORGRU 2018, 2019, 2020, 2022 and 2023. However, we initiate with a Market Perform recommendation on the long-dated NORGRU 2024, as the bond looks fairly priced in our model.

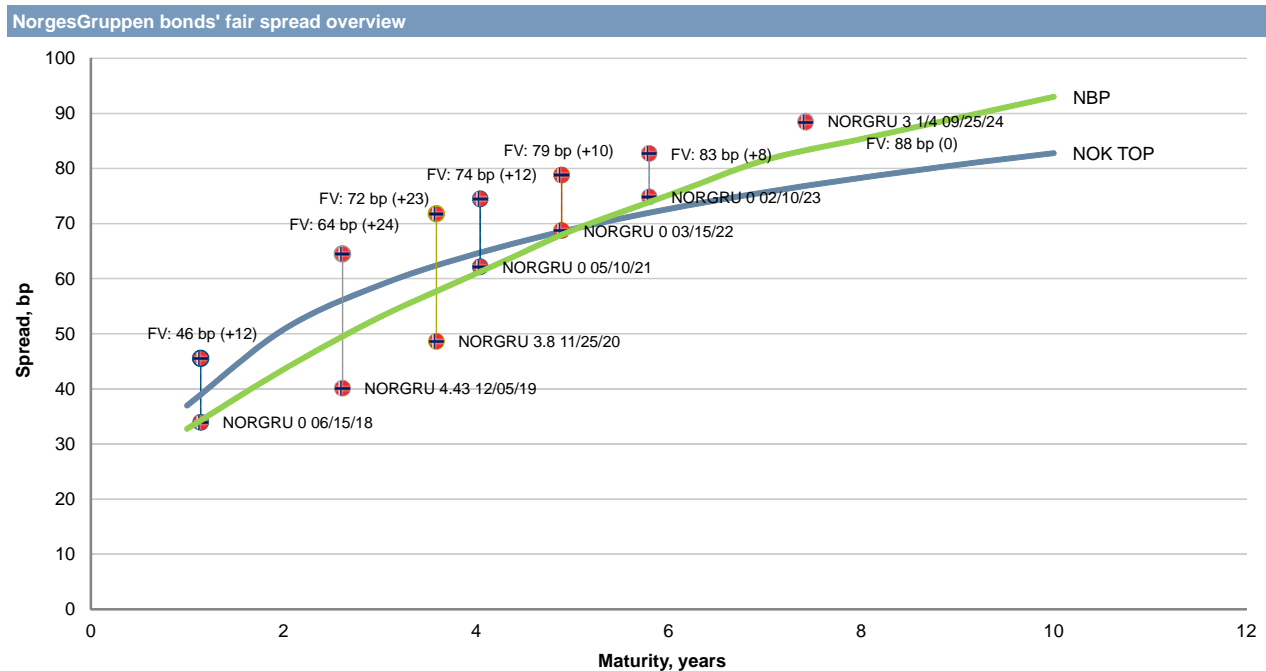
Bond overview and recommendation							
Issuer	Bond	Maturity	Amount (m)	Rank	Estimated current		Current (old)
					price (mid)	spread (mid)	Nordea recommendation
NORGESGRUPPEN ASA	NORGRU 0 06/15/18	15/06/2018	NOK 800MM	Sr Unsecured	100.81	34	Underperform ()
NORGESGRUPPEN ASA	NORGRU 4.43 12/05/19	05/12/2019	NOK 500MM	Sr Unsecured	107.11	40	Underperform ()
NORGESGRUPPEN ASA	NORGRU 3.8 11/25/20	25/11/2020	NOK 650MM	Sr Unsecured	106.88	49	Underperform ()
NORGESGRUPPEN ASA	NORGRU 0 05/10/21	10/05/2021	NOK 700MM	Sr Unsecured	100.67	62	Underperform (Market Perform)
NORGESGRUPPEN ASA	NORGRU 0 03/15/22	15/03/2022	NOK .00	Sr Unsecured	103.86	69	Underperform ()
NORGESGRUPPEN ASA	NORGRU 0 02/10/23	10/02/2023	NOK 300MM	Sr Unsecured	100.01	75	Underperform ()
NORGESGRUPPEN ASA	NORGRU 3 1/4 09/25/24	25/09/2024	NOK 300MM	Sr Unsecured	104.76	88	Market Perform ()

Source: Bloomberg and Nordea Markets

Shorter-dated bonds look expensive at current market indications

Fair value model

In our fair value model, we argue that current market indications lead to a curve that is too steep and that the shorter-dated bonds look expensive. The fair spread calculation includes some modifying investment factors that we believe affect investment risk, and hence the fair spread requirement. In NorgesGruppen's case, we add a premium to reflect its weaker credit quality compared with the reference curve.



The reference curve represent a regression of bond spreads from a selection of NOK-denominated corporate bonds and we estimate the average credit quality of the bonds composing the reference curve to be A.

Source: Bloomberg, Nordic Bond Pricing and Nordea Markets

Our fair spread for a specific bond is calculated by: 1) determining a reference bond curve for the bond, based on average spreads on bonds that we deem are relevant investment alternatives; 2) determining the spread of the reference curve for the same maturity as the specific bond; and 3) modifying that spread by adjusting for investment risk factors, including difference in credit quality, issuer performance trends and event risk, issuer rating status (publicly rated or unrated), bond liquidity, demand saturation, and ownership and other soft factors that we deem relevant to determine fair spread. The modification is made by adding or deducting spread elements to the reference curve spread as we deem applicable to reflect the relative investment risk. See the Appendix for further information.

Recommendation and walk-through of the fair spread estimate

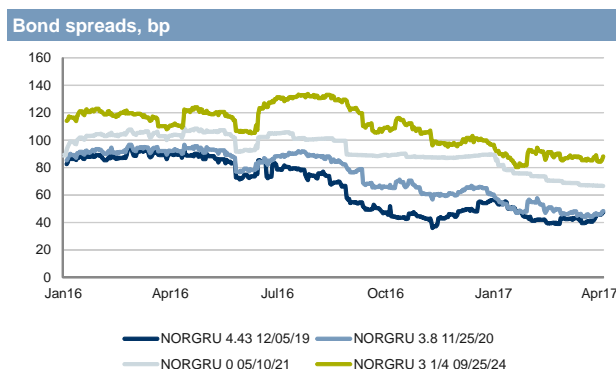
Bloomberg ticker	EJ715866	EJ446409	EJ953414	EK161498	JK212837	AM699143	EK503240
Short name	NORGRU 0 6/15/18	NORGRU 4.43 19	NORGRU 3.8 20	NORGRU 0 5/10/21	NORGRU 0 3/15/22	NORGRU 0 2/10/23	NORGRU 3.25 24
Currency	NOK	NOK	NOK	NOK	NOK	NOK	NOK
New recommendation	Underperform	Underperform	Underperform	Underperform	Underperform	Underperform	Market perform
(old)	()	()	()	(Market perform)	()	()	()
Curve spread	40	56	62	65	69	72	77
Credit quality vs reference	6	8	9	10	10	11	12
Issuer score vs reference	0	0	0	0	0	0	0
Rated/Unrated	0	0	0	0	0	0	0
Bond liquidity	0	0	0	0	0	0	0
Demand saturation	0	0	0	0	0	0	0
Ownership etc	0	0	0	0	0	0	0
Total adjustments	6	8	9	10	10	11	12
Fair value spread	46	64	72	74	79	83	88
Actual spread	34	40	49	62	69	75	89
Difference	12	24	23	12	10	8	0
Bid/Ask spread	8	16	14	4	2	0	13

Source: Bloomberg and Nordea Markets

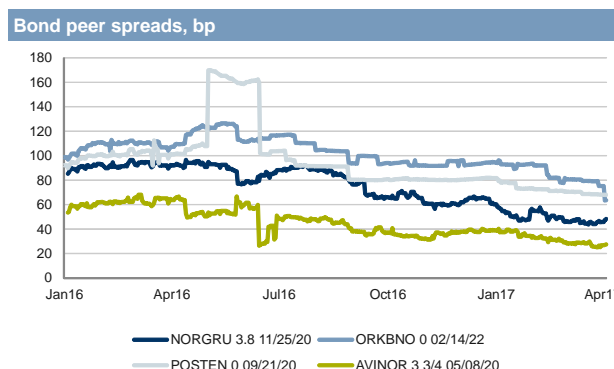
Key near-term risks

We believe that the key risk of an adverse spread development in the NorgesGruppen bonds is a potential worsening of market sentiment rather than company-specific operating or event risk.

General market trends are the main spread risk factor



Source: Bloomberg and Nordea Markets



Source: Bloomberg and Nordea Markets

Bond documentation

We consider the bond documentation relatively weak, but offering some protection for bondholders.

Key bond loan features

- **Restrictions on secured debt.** Negative pledge with carve-out limited up to NOK 1,500m (equal to 4% of total assets as of year-end 2016).
- **No financial covenants.**
- **No limitations on shareholder distribution.**
- **No change-of-control protection.**

Performance and prospects

NorgesGruppen finished 2016 with stable margins, stronger cash flow and a stronger credit profile. The future looks bright and we expect continued credit profile improvement in coming years.

Investment case snapshot			
	View	Change	Comment
Headroom	●	→	NorgesGruppen has ample financial headroom to accommodate further growth
Performance trend	●	→	The group's operating performance is stable and sound
Performance outlook	●	→	Stable market outlook with steady demand growth, albeit with intense price competition
Strategy & Event risk	●	→	Medium to low event risk, expect smaller bolt-on acquisitions
Relative credit trend	●	→	Exposure to a very resilient business industry
Fair price	●	↘	The group's bonds look expensive according to our fair value model, apart from NORGRU 2024

Source: Company data and Nordea Markets

Slightly lower profitability in 2016, but excellent margin stability

Continued margin stability

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Strong and visible cash flow generation

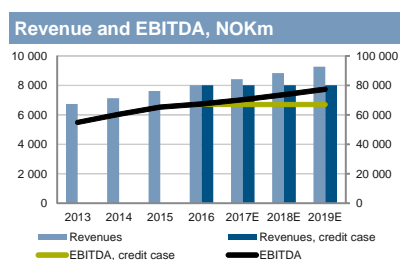
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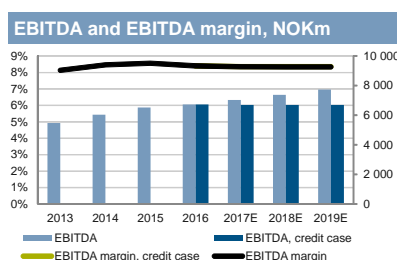
Strengthened credit profile

Lower adjusted leverage and stronger credit profile

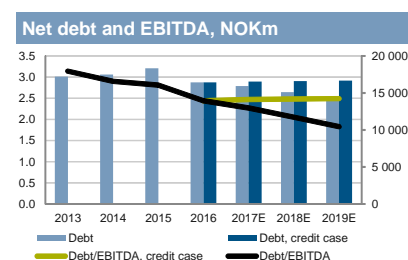
Credit adjusted net debt (including operating leases and pension liabilities) dropped by NOK 1.1bn during 2016, ending the year at NOK 16.9bn, down from NOK 18.0bn as of year-end 2015, helped by higher earnings and cash flow. The credit adjusted net debt/EBITDA strengthened to 2.5x, moderately below our full-year estimate of 2.6x.



Source: Company data and Nordea Markets



Source: Company data and Nordea Markets



Source: Company data and Nordea Markets

The liquidity reserve exceeds gross interest-bearing debt

Excellent liquidity position

NorgesGruppen enjoyed an excellent liquidity position as of year-end 2016, as the available liquidity reserve exceeded gross interest-bearing debt. The consolidated liquidity reserve was around NOK 6.4bn, comprising cash at hand of NOK 707m and undrawn committed credit facilities of NOK 5.7bn.

We adjust the reported debt for operating leases

Adjustments to reported figures

We adjust NorgesGruppen's reported debt for operating lease commitments and pension liabilities. The minimum lease payments under non-cancellable operating leases amounted to NOK 13.9bn as of 31 December 2016.

Moderate credit profile improvement in our base case

No worries on the credit horizon

We expect a sound credit profile, strengthening in the coming years, supported by margin stability and continued strong cash flow generation. Consequently, we estimate that credit adjusted net debt/EBITDA will improve to 2.4x in 2017, with a further reduction to 2.1x in 2018.

Expect continued credit profile improvement in the coming years									
Credit adjusted metrics	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
FFO/Debt	32.0 %	28.7 %	27.3 %	29.9 %	31.4 %	34.7 %	36.8 %	41.5 %	47.3 %
Debt/EBITDA	2.7	3.0	3.1	2.9	2.8	2.5	2.4	2.1	1.9
FFO/Interest	5.9	5.7	5.3	5.8	6.4	6.6	7.0	7.4	8.1
EBITDA/Interest	6.9	6.7	6.3	6.8	7.4	7.6	8.0	8.4	9.1
CFO/Debt	21.4 %	21.5 %	16.9 %	18.9 %	20.4 %	27.3 %	25.3 %	28.6 %	33.0 %
FOCF/Debt	0.9 %	-9.8 %	-6.3 %	-5.1 %	-5.0 %	3.1 %	-3.8 %	1.5 %	3.8 %
DCF/Debt	-2.2 %	-12.5 %	-9.0 %	-6.6 %	-7.9 %	-0.5 %	-7.5 %	-2.7 %	-1.0 %

Source: Company data and Nordea Markets

We consider NorgesGruppen's current financial profile as very healthy, albeit with weak lease adjusted payback ratios

Average credit ratios 2015-17E, mapping to S&P's financial risk thresholds							
2015-17E	FFO/ debt (%)	Debt/ EBITDA (x)	FFO/ interest (x)	EBITDA/ interest (x)	CFO/ debt (%)	FOCF/ debt (%)	DCF/ debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Company data and Nordea Markets

Key issuer risks affecting bond spreads

We believe the pricing of NorgesGruppen's bonds should be supported by the issuer's leading market position in Norway's food retail industry, exposure to a very resilient business industry, and highly visible and stable operating cash flow. These factors are partly offset by the risk of expansion into non-core business operations with higher inherent business risk, as well as higher capex.

Summary of credit factors affecting NorgesGruppen	
Credit supportive factors	Credit constraining factors
- NorgesGruppen has a leading market position as Norway's largest food retailer, as well as Norway's largest food wholesale player	- Limited geographical diversification, with high exposure to Norway and hence more exposed to changes in customer relationships compared with global players
- The Norwegian food retailing industry has high barriers to entry, due to protective toll barriers and intense price competition	- The Norwegian agricultural policy is under long-term political pressure from other countries and trade forums
- NorgesGruppen operates in a resilient business industry, as the sensitivity to economic cycles is below average	- Low-margin business operations, with weak payback ratios
- Strong and proven track record, with experienced management	- Medium to low event risk, but smaller bolt-on acquisitions may materialise
- Excellent liquidity as of 31 December 2016, with a liquidity reserve of around NOK 6.4bn, compared with gross interest-bearing debt of NOK 6.3bn	- Increasing risk of expansion into non-core business segments with higher inherent risk, owing to limited growth opportunities in the food retail operations

Source: Company data and Nordea Markets

In our view, risk of expansion into non-core business operations and higher capex represent the major concerns for bondholders

Major risks for bondholders

- **Expansion into non-core business operations.** Continued expansion into non-core food retail operations may negatively impact the business risk profile assessment.
- **Risk of higher capex.** NorgesGruppen's operations are rather capital intensive due to on-going investments in retail stores and logistics property. However, the capital intensity is mitigated by the group's very stable and visible cash flow generation.

Summary of key credit risk events and impact for bondholders				
Event / development	Implications performance & financial position	Probability	Expected impact on bond holders	Comments
Expansion into non-core business areas with higher inherent business risk	Moderate May negatively impact the business risk profile	High	Moderate	NorgesGruppen has limited growth opportunities within its core business operations
Risk of higher capex	Moderate Capex exceeding operating cash flow increases leverage	Moderate	Moderate	NorgesGruppen's operating cash flow is highly stable and visible, supporting the group's investment levels
Increased competition	Moderate The domestic food retailing industry is characterised by intense price competition	Moderate	Low	The Norwegian food retailing industry is protected by high toll barriers, reducing the attractiveness for foreign competitors
LBO	Significant Acquisition by a private equity firm through a LBO may increase leverage	Low	High	Limited LBO risk, given the majority ownership by the Johannson family
Debt-financed acquisitions	Low to Moderate Likely to increase leverage, albeit balanced by improved operating cash flow	Low	Moderate	Ample financial headroom to accommodate further growth, including smaller bolt-on acquisitions
Increase in secured debt	Low to Moderate NorgesGruppen normally incurs debt on a negative pledge basis	Low	Low	Minor exceptions from the negative pledge basis may occur, however limited up to maximum NOK 1,500m
Geographical expansion	Low to Moderate Expansion into less developed countries may constrain the business risk profile	Low	Low	NorgesGruppen has no stated strategy of expanding its operations into new countries

Source: Company data and Nordea Markets

Peer comparison

We view NorgesGruppen's business risk profile as equal to those of Carrefour and Tesco, but stronger than those of Ahold, Metro and Whole Foods Market. From a financial perspective, we see NorgesGruppen as an equal credit compared with Carrefour, Ahold and Whole Foods Market, but stronger than Metro and Tesco.

Peer group with rated food retailers

NorgesGruppen is smaller than international peers, but has an excellent market position as the largest food retailer in Norway

Rated food retailers in Europe and the US

In the peer group for NorgesGruppen, we include publicly rated food retailers in Europe and the US. The selection of companies includes France-based Carrefour, Netherlands-based Ahold, Germany-based Metro, UK-based Tesco and US-based Whole Foods Market.

Size, business diversification and geographical footprint

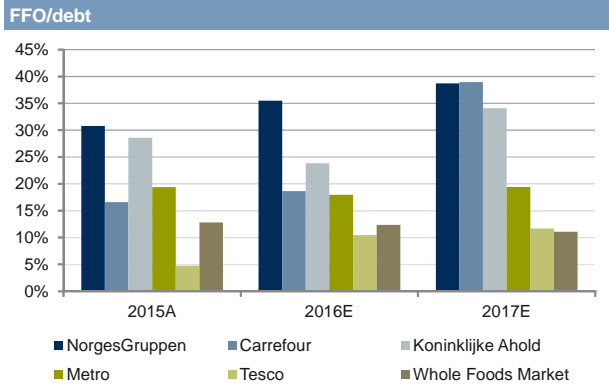
The peers are not directly comparable to NorgesGruppen due to size, business diversification and geographical footprint. However, we make the following observations:

- NorgesGruppen is smaller in terms of turnover, compared to larger peers with larger geographical footprint.
- NorgesGruppen enjoys a very strong competitive position as the largest food retailer in Norway, operating in a resilient industry in a very low risk country.
- NorgesGruppen's financial profile is considered strong in a peer group perspective.

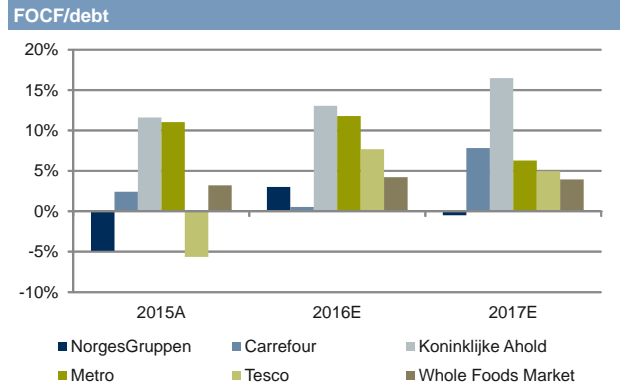
Peer group comparison: Assessed peer positioning compared with NorgesGruppen

	NorgesGruppen	Carrefour	Koninklijke Ahold	Metro	Tesco	Whole Foods Market						
Moody's	NRI---	Baa1/Stable	Baa2/Positive	Baa3/Watch Neg	Ba1/Stable	Baa3/Stable						
S&P	NRI---	BBB+/Stable	BBB/Stable	BBB-/Stable	BB+/Stable	BBB-/Negative						
Business risk profile	Strong	Strong	Satisfactory	Satisfactory	Strong	Satisfactory						
Financial risk profile	Intermediate	Intermediate	Intermediate	Significant	Aggressive	Intermediate						
Business focus		France-based global player, operates chains of supermarkets, hypermarkets and cash and carry stores.	Netherlands-based operator of retail stores that offer food and non-food products in the US and Europe.	Germany-based operator of supermarkets, hypermarkets and other non-food retail stores.	UK-based food retailer offering online retailing, brick and mortar supermarkets and private-label brands.	US-based, owns and operates a chain of natural food supermarkets in the US.						
RISK ASSESSMENT												
Country exposure/risk		Weaker	Weaker	Weaker	Weaker	Weaker						
Industry exposure/risk		Weaker	Weaker	Weaker	Weaker	Weaker						
Competitive position		Equal	Weaker	Weaker	Equal	Weaker						
Diversification		Equal	Weaker	Weaker	Equal	Weaker						
Business position overall		Weaker	Weaker	Weaker	Weaker	Weaker						
Cash flow protection		Equal	Equal	Weaker	Weaker	Equal						
Capital structure		Equal	Equal	Weaker	Weaker	Equal						
Liquidity		Equal	Equal	Weaker	Weaker	Equal						
Financial position overall		Equal	Equal	Weaker	Weaker	Equal						
Performance trend		Equal	Equal	Equal	Equal	Equal						
Performance prospects		Equal	Equal	Equal	Equal	Equal						
Strategy/Event risk		Equal	Equal	Equal	Equal	Equal						
OVERALL POSITION		Weaker	Weaker	Weaker	Weaker	Weaker						
KEY FIGURES	2015A	2016-17E	2015A	2016-17E	2015A	2016-17E	2015A	2016-17E	2015A	2016-17E	2015A	2016-17E
Total revenues 2015 (EURm)	8 330		79 409		38 203		59 219		48 679		16 373	
FFO/debt 15A and 16-17E	31%	35%-37%	17%	19%-39%	29%	24%-34%	19%	18%-19%	5%	10%-12%	13%	11%-12%
FOCF/debt 15A and 16-17E	-5%	-4%-3%	2%	1%-8%	12%	13%-16%	11%	6%-12%	-6%	5%-8%	3%	4%-4%
Debt/EBITDA 15A and 16-17E, x	2.8	2.4-2.5	3.3	1.9-3.4	2.7	2.4-3.1	3.8	3.8-4.8	12.7	7.4-8.5	6.2	6.8-7.4
Debt/capital 15A and 16-17E	54%	45%-48%	48%	26%-45%	54%	37%-38%	68%	63%-65%	78%	67%-69%	69%	72%-75%

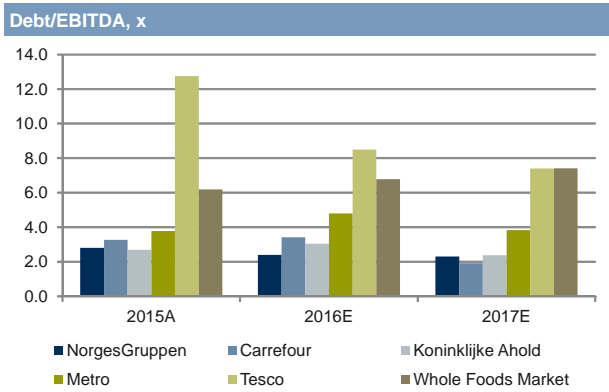
Source: Company data, Bloomberg and Nordea Markets



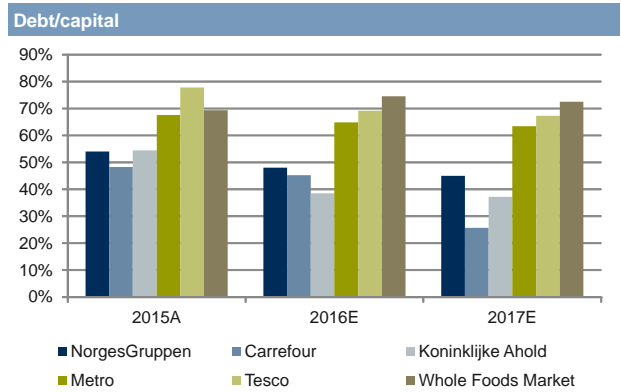
Source: Company data and Nordea Markets



Source: Company data and Nordea Markets



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Credit scenarios

Our base-case scenario points to a stronger financial performance and continued credit profile improvement. In our credit case, where we assume no sales growth and higher capex, the overall credit profile weakens moderately. The relatively unlikely stress-case scenario is weak and would lead to further credit profile deterioration.

Credit scenarios			
	Business Risk profile	Financial Risk profile	Comment
Base case	Strong	Intermediate	Sales growth of 5%, steady margin improvement, moderate capex and dividend payout ratio of 25%
Credit case	Strong	Intermediate to Significant	No sales growth, flat EBITDA margin, moderately higher capex and dividend payout ratio of 25%
Stress case	Strong	Significant	Sales decline of 5%, steady margin deterioration, higher capex and dividend payout ratio of 25%

Source: Nordea Markets

[Write here...](#)

Key assumptions – base case

- Annual sales growth of 5%.
- Steady profitability improvement, with unadjusted EBITDA margins of 6.1%, 6.2% and 6.3% for 2017, 2018 and 2019, respectively.
- Annual, unadjusted capex of NOK 3.0bn.
- Dividend payout ratio (dividend to previous years' net profit) of 25%.

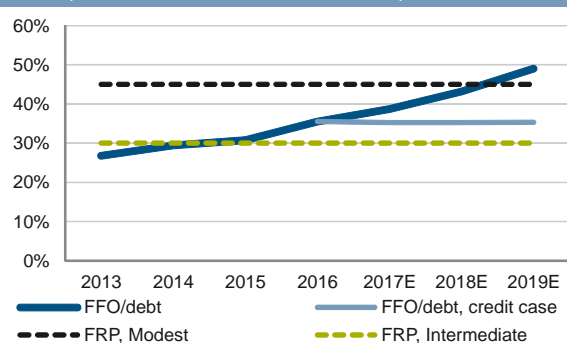
Key assumptions – credit case

- No sales growth.
- Flat unadjusted EBITDA margin of 6.0%.
- Annual, unadjusted capex of NOK 3.5bn.
- Dividend payout ratio (dividend to previous years' net profit) of 25%.

Key assumptions – stress case

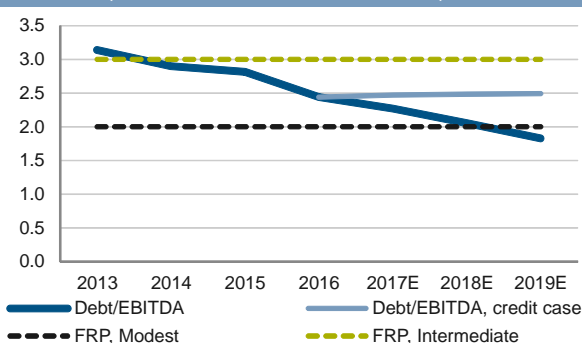
- Annual sales decline of 5%.
- Slowly deteriorating profitability, with unadjusted EBITDA margins of 5.8%, 5.6% and 5.4% for 2017, 2018 and 2019, respectively.
- Annual, unadjusted capex of NOK 4.0bn.
- Dividend payout ratio (dividend to previous years' net profit) of 25%.

FFO/debt, base case and credit case forecasts, %



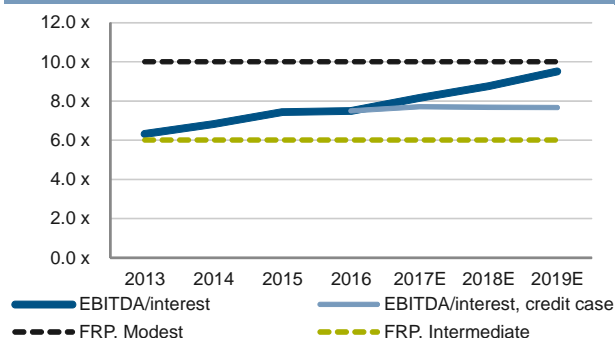
Source: Company data and Nordea Markets

Debt/EBITDA, base case and credit case forecasts, x



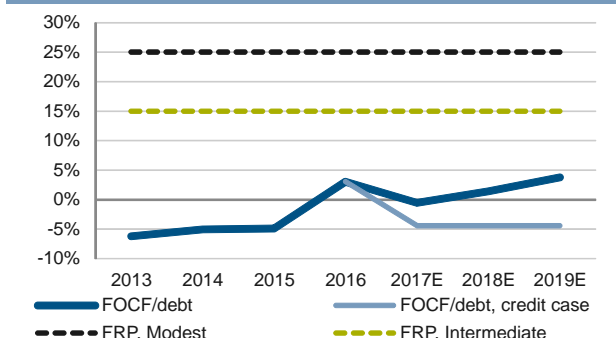
Source: Company data and Nordea Markets

EBITDA/interest, base case and credit case forecasts, x



Source: Company data and Nordea Markets

FOCF/debt, base case and credit case forecasts, %



Source: Company data and Nordea Markets

Nordea Markets' forecast summary

Credit adjusted figures							Base case			Credit case			Stress case		
NOK(m)	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Revenues	58 641	62 083	67 396	71 391	76 224	80 162	84 171	88 379	92 798	80 162	80 162	80 162	76 154	72 347	68 729
EBITDA	4 964	5 274	5 481	6 038	6 525	6 735	7 110	7 543	7 909	6 785	6 872	6 872	6 393	6 114	5 774
- margin	8.5 %	8.5 %	8.1 %	8.5 %	8.6 %	8.4 %	8.4 %	8.5 %	8.5 %	8.5 %	8.6 %	8.6 %	8.4 %	8.5 %	8.4 %
Debt	13 289	15 637	16 909	17 212	17 970	16 858	16 895	16 011	14 870	17 643	17 708	17 774	18 485	19 649	21 056
Equity	9 505	10 220	11 455	13 007	14 820	16 728	18 750	20 943	23 308	18 242	19 832	21 421	18 009	19 198	20 226
FFO	4 247	4 486	4 613	5 152	5 648	5 850	6 221	6 648	7 039	5 896	5 978	6 002	5 503	5 219	4 904
Change in NWC	-111	121	-346	-448	-363	291	-250	-250	-250	0	0	0	-16	-15	-15
OCF	2 843	3 361	2 852	3 248	3 665	4 600	4 270	4 574	4 902	3 968	3 966	3 965	3 626	3 309	3 008
Capex	-2 723	-4 897	-3 921	-4 133	-4 570	-4 075	-4 918	-4 338	-4 338	-5 418	-4 838	-4 838	-5 918	-5 338	-5 338
FOCF	120	-1 536	-1 069	-886	-905	525	-648	236	564	-1 450	-872	-874	-2 292	-2 029	-2 330
Net acquisitions	-276	-709	-912	-304	-883	197	0	0	0	0	0	0	0	0	0
Dividends	-415	-419	-451	-251	-524	-605	-627	-662	-714	-610	-531	-530	-610	-473	-415
FFO/debt	32.0 %	28.7 %	27.3 %	29.9 %	31.4 %	34.7 %	36.8 %	41.5 %	47.3 %	33.4 %	33.8 %	33.8 %	29.8 %	26.6 %	23.3 %
FOCF/debt	0.9 %	-9.8 %	-6.3 %	-5.1 %	-5.0 %	3.1 %	-3.8 %	1.5 %	3.8 %	-8.2 %	-4.9 %	-4.9 %	-12.4 %	-10.3 %	-11.1 %
DCF/debt	-2.2 %	-12.5 %	-9.0 %	-6.6 %	-7.9 %	-0.5 %	-7.5 %	-2.7 %	-1.0 %	-11.7 %	-7.9 %	-7.9 %	-15.7 %	-12.7 %	-13.0 %
Debt/EBITDA	2.7	3.0	3.1	2.9	2.8	2.5	2.4	2.1	1.9	2.6	2.6	2.6	2.9	3.2	3.6
EBITDA/interest	6.9	6.7	6.3	6.8	7.4	7.6	8.0	8.4	9.1	7.6	7.4	7.4	7.0	6.4	5.8

Source: Company data and Nordea Markets

Base case indicates improved credit ratios in the coming years

Base case - mapping to S&P's financial risk thresholds							
Base case 2017E-19E	FFO/debt (%)	Debt/EBITDA (x)	FFO/interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Company data and Nordea Markets

Credit case points to an unchanged financial risk profile

Credit case - mapping to S&P's financial risk thresholds							
Credit case 2017E-19E	FFO/debt (%)	Debt/EBITDA (x)	FFO/interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Company data and Nordea Markets

Stress case sees moderate pressure on key credit ratios

Stress case - mapping to S&P's financial risk thresholds							
Stress case 2017E-19E	FFO/debt (%)	Debt/EBITDA (x)	FFO/interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Company data and Nordea Markets

Appendix 1: Fair spread calculation explained

Key principles of Nordea Markets model

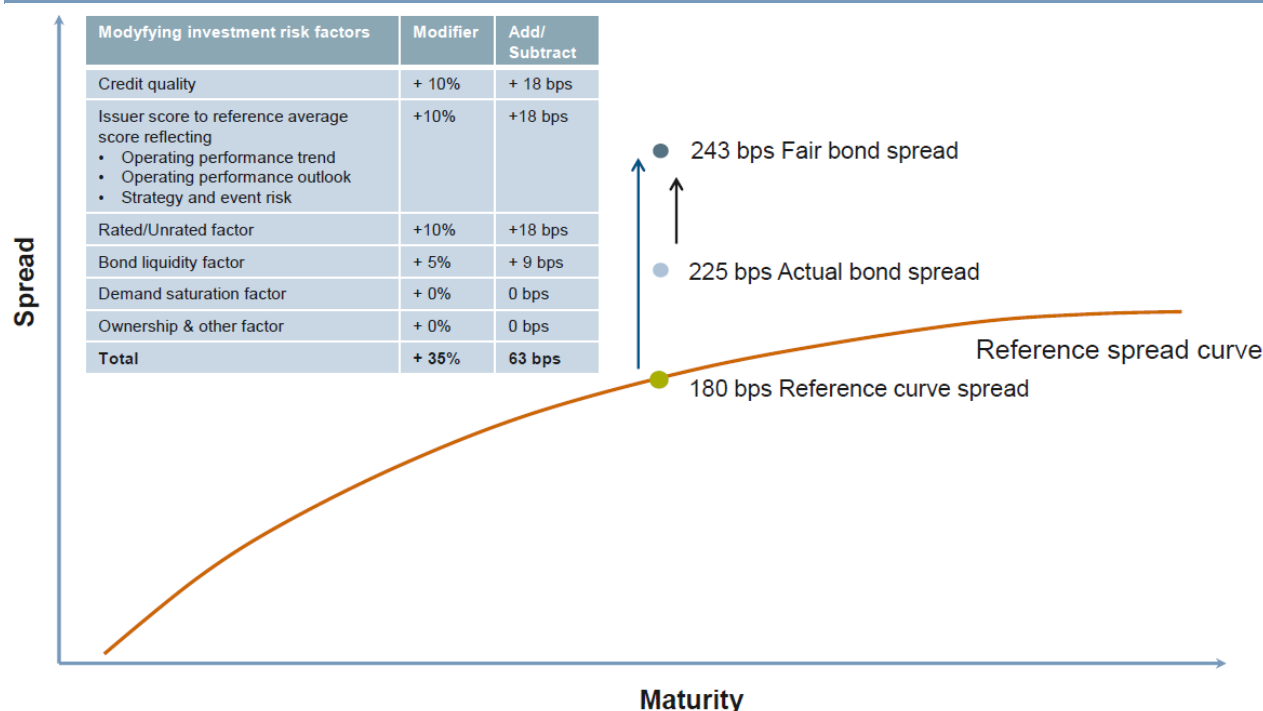
Our fair spread model is described schematically in the chart below. In principle, the fair spread level for a specific bond is achieved by:

- **Determining a reference bond curve for the specific bond;**
- **Determining the reference curve spread;** that is the spread of the reference curve at the same maturity as the specific bond (actual or call maturity as deemed relevant by the analyst) ;
- **Calculate fair bond spread** by adding/subtracting percentage-based spread elements to reflect the analyst's view on the impact from individual modifying investment risk factors.

Reference spread curve. The reference spread curve is based on a regression calculation based on spreads of bonds that we consider to be relevant investment alternatives to the bond being evaluated. The exact composition will depend on the issuer, type of bond, currency denomination, and underlying credit quality.

Modifying investment risk factors. The modifying factors include a number of factors that we deem affect investment risk in a bond, and hence the fair spread requirement. These factors include differences in credit quality, issuer performance trends and event risk, issuer rating status (publicly rated or unrated), bond liquidity in the market, demand saturation for the issuer, and ownership. The modifiers will depend on issuers, type of bond, market segments, and market conditions.

Nordea Markets Fair spread calculation model – Illustrative example resulting in an Underperform recommendation



Source: Nordea Markets

Reported numbers and forecasts

Income statement										
NOKm	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total revenue	55,675	58,641	62,083	67,396	71,391	76,224	80,162	84,171	88,379	92,798
- growth	4.6%	5.3%	5.9%	8.6%	5.9%	6.8%	5.2%	5.0%	5.0%	5.0%
Gross profit	13,054	14,404	16,627	17,786	18,756	20,061	21,566	21,884	22,979	24,127
- margin	23.4%	24.6%	26.8%	26.4%	26.3%	26.3%	26.9%	26.0%	26.0%	26.0%
EBITDA	3,161	3,749	3,896	3,899	4,357	4,729	4,846	5,135	5,480	5,847
- margin	5.7%	6.4%	6.3%	5.8%	6.1%	6.2%	6.0%	6.1%	6.2%	6.3%
EBITA	3,161	3,749	3,896	3,899	4,357	4,729	4,846	5,135	5,480	5,847
- margin	5.7%	6.4%	6.3%	5.8%	6.1%	6.2%	6.0%	6.1%	6.2%	6.3%
EBIT	1,870	2,235	2,200	2,274	2,679	2,882	3,021	3,216	3,465	3,731
- margin	3.4%	3.8%	3.5%	3.4%	3.8%	3.8%	3.8%	3.8%	3.9%	4.0%
Net finance	-4	-80	68	131	-63	119	144	215	233	257
Pre-tax profit	1,866	2,156	2,268	2,405	2,616	3,001	3,164	3,431	3,698	3,988
Taxes	-456	-599	-614	-612	-686	-640	-699	-755	-814	-877
Net profit, continuing operations	1,411	1,556	1,654	1,793	1,930	2,361	2,465	2,676	2,884	3,111
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit to equity	1,395	1,527	1,625	1,769	1,907	2,333	2,440	2,649	2,855	3,079
EBITDA (credit adj)	4,292	4,964	5,274	5,481	6,038	6,525	6,735	7,110	7,543	7,909
EBIT (credit adj)	2,274	2,660	2,685	2,833	3,270	3,523	3,700	3,918	4,190	4,456
Interest expense (credit adj)	-655	-717	-789	-868	-885	-877	-884	-890	-895	-870

Source: Company data and Nordea Markets

Balance Sheet										
NOKm	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Goodwill	0	0	0	0	0	0	0	0	0	0
Other intangibles	4,367	4,343	4,885	4,813	4,760	4,905	4,895	4,895	4,895	4,895
Tangible assets	10,813	10,835	11,790	12,669	13,756	14,587	15,778	16,859	17,844	18,728
Shares associates	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	244	304	339	333	371	267	325	325	325	325
Other non-interest bearing non-current assets	1,657	1,966	1,956	2,629	2,761	3,057	2,944	2,944	2,944	2,944
Other non-current assets	306	282	315	725	968	1,319	1,097	1,097	1,097	1,097
Non-current assets	17,387	17,730	19,286	21,169	22,616	24,136	25,039	26,120	27,105	27,989
Inventory	3,929	4,318	4,414	4,766	5,191	5,682	6,099	6,099	6,099	6,099
Accounts receivable	3,358	3,702	3,864	4,567	5,245	4,715	4,530	4,530	4,530	4,530
Other current assets	32	22	7	9	64	66	7	7	7	7
Cash and cash equivalents	357	583	534	403	400	505	707	851	963	1,151
Current assets	7,676	8,625	8,819	9,745	10,899	10,968	11,343	11,486	11,599	11,786
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	25,063	26,355	28,105	30,914	33,515	35,104	36,382	37,607	38,704	39,776
Shareholders equity	9,057	9,403	9,994	11,221	12,763	14,574	16,476	18,498	20,691	23,056
Minority interest	105	102	226	235	244	245	252	252	252	252
Deferred tax	773	817	827	876	948	808	903	903	903	903
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	3,941	3,275	4,344	4,929	5,622	6,206	6,025	5,525	4,725	3,725
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	472	437	353	381	431	438	481	481	481	481
Other long-term provisions	100	153	139	100	206	184	111	111	111	111
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Non-current liabilities	5,287	4,682	5,663	6,285	7,207	7,637	7,520	7,020	6,220	5,220
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	3,431	3,849	3,678	4,338	5,162	4,671	5,543	5,543	5,543	5,543
Other current liabilities	3,997	4,453	4,917	5,191	5,301	5,980	5,415	5,119	4,823	4,530
Short term interest bearing debt	3,186	3,866	3,626	3,644	2,837	1,997	1,175	1,175	1,175	1,175
Current liabilities	10,615	12,168	12,222	13,173	13,300	12,648	12,133	11,837	11,541	11,248
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	25,063	26,355	28,105	30,914	33,515	35,104	36,382	37,607	38,704	39,776
Cash and cash eq (credit adj)	89	146	134	101	100	126	177	213	241	288
Total assets (credit adj)	30,775	32,066	35,417	38,869	41,837	44,433	45,560	47,321	48,334	49,265
Shareholders equity (credit adj)	9,162	9,505	10,220	11,455	13,007	14,820	16,728	18,750	20,943	23,308
Debt (credit adj)	13,312	13,289	15,637	16,909	17,212	17,970	16,858	16,895	16,011	14,870

Source: Company data and Nordea Markets

Cash flow statement										
NOKm	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	5,135	5,480	5,847
Adj due to change in group structure	0	0	0	0	0	0	0	0	0	0
Change in Provisions	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	0	0	0	0	0	0	0	0
Net financials	-4	-80	68	131	-63	119	144	215	233	257
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	-362	-487	-590	-621	-642	-553	-693	-755	-814	-877
Other	49	-228	-134	-211	43	-267	12	-75	-75	-75
Operating cash flow before NWC	2,844	2,954	3,240	3,198	3,695	4,028	4,309	4,520	4,824	5,152
Change in NWC	-409	-111	121	-346	-448	-363	291	-250	-250	-250
Operating cash flow	2,435	2,843	3,361	2,852	3,248	3,665	4,600	4,270	4,574	4,902
CAPEX	-3,068	-1,764	-2,439	-2,355	-2,679	-2,329	-2,866	-3,000	-3,000	-3,000
Free Operating cash flow	-633	1,079	922	497	569	1,336	1,734	1,270	1,574	1,902
Dividends paid	-339	-415	-419	-451	-251	-524	-605	-627	-662	-714
Share issues / buybacks	-30	-198	-587	-86	-48	-16	-8	0	0	0
Discretionary cash flow	-1,002	467	-84	-40	269	797	1,122	643	912	1,188
Other investments / divestments	-80	-276	-709	-912	-304	-883	197	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0
Net change to group borrowing/repayments	1,634	36	829	633	-114	-256	-238	-500	-800	-1,000
Other	-141	383	388	748	146	448	-878	0	0	0
Change in cash	411	609	423	430	-3	105	202	143	112	188
Adjusted metrics										
Funds from operations (FFO) (adj)	3,638	4,247	4,486	4,613	5,152	5,648	5,850	6,221	6,648	7,039
Operating cash flow (OCF) (adj)	2,435	2,843	3,361	2,852	3,248	3,665	4,600	4,270	4,574	4,902
Free operating cash flow (FOCF) (adj)	-1,776	120	-1,536	-1,069	-886	-905	525	-648	236	564
Discretionary cash flow (DCF) (adj)	-2,115	-295	-1,956	-1,520	-1,137	-1,428	-80	-1,275	-426	-150

Source: Company data and Nordea Markets

Key ratios										
Profitability	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
ROC	10.5%	11.4%	10.7%	10.1%	10.8%	10.9%	10.9%	11.0%	11.3%	11.6%
ROIC after tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE after tax	16.3%	16.5%	16.8%	16.7%	15.9%	17.1%	15.7%	15.1%	14.6%	14.1%
Debt & Interest coverage	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
FFO/Debt	27.3%	32.0%	28.7%	27.3%	29.9%	31.4%	34.7%	36.8%	41.5%	47.3%
FOCF/Debt	-13.3%	0.9%	-9.8%	-6.3%	-5.1%	-5.0%	3.1%	-3.8%	1.5%	3.8%
DCF/Debt	-15.9%	-2.2%	-12.5%	-9.0%	-6.6%	-7.9%	-0.5%	-7.5%	-2.7%	-1.0%
EBITDA interest coverage	6.6	6.9	6.7	6.3	6.8	7.4	7.6	8.0	8.4	9.1
FFO cash interest coverage	-5.6	-5.9	-5.7	-5.3	-5.8	-6.4	-6.6	-7.0	-7.4	-8.1
Leverage	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Debt/EBITDA	3.1	2.7	3.0	3.1	2.9	2.8	2.5	2.4	2.1	1.9
Equity ratio	36.1%	35.7%	35.6%	36.3%	38.1%	41.5%	45.3%	49.2%	53.5%	58.0%
Debt/(Debt+Equity)	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4
Capital expenditure	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
CAPEX/Depreciation and amortisation	2.38	1.17	1.44	1.45	1.60	1.26	1.57	1.56	1.49	1.42
CAPEX/Sales	-0.06	-0.03	-0.04	-0.03	-0.04	-0.03	-0.04	-0.04	-0.03	-0.03
Working capital ratios	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Inventory turnover (days)	26	27	26	26	27	27	28	26	25	24
Receivables turnover (days)	22	23	23	25	27	23	21	20	19	18
Days sales outstanding (days)	22	24	22	23	26	22	25	24	23	22
Per share data	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
EPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS (adj.)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity valuation and yield	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/BV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Payout ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company data and Nordea Markets

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Over the next three months we expect the performance of this fixed income instrument to exceed the performance of the relevant index, sector or benchmark

Market perform

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Recommendation	Count	% Distribution
Outperform	113	27%
Market perform	212	52%
Underperform	87	21%
Total	412	100%

As of 1 April 2017

Distribution of recommendations (transactions)*

Recommendation	Count	% Distribution
Outperform	52	28%
Market perform	106	57%
Underperform	28	15%
Total	186	100%

As of 1 April 2017

* Companies under coverage with which Nordea has ongoing or completed public investment banking transactions.

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Issuer Review

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