DNB MARKETS

Credit Research

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Bloomberg: DNBM <GO>

NorgesGruppen ASA

Sector: Retail

Issuer rating:
DNB Markets: A-
S&P: Not rated
Moody's: Not rated

Issue rating: A-

Company management:
CEO: Tommy Korneliussen
CFO: Sverre R. Kjær

Largest owners:

Joh. Johannson AS	69.2%
Brødrene Lorentzen AS	8.5%
PETT Kjede og Servicekontor	6%

Rating rationale

The corporate credit rating (A-) on NorgesGruppen ("NG" or "the Company") reflects the Company's strong business risk profile and intermediate financial risk profile in rating agency terminology. The Company has the number one market position within grocery retail and wholesale in Norway. The Company has a powerful bargaining position against its suppliers and enjoys substantial economies of scale. Revenue growth and return on capital was good in 2012. However, the EBITDA-margins from the operations are low (7 per cent in 2012) which is characteristic for the grocery retail industry.

The Company's outstanding bonds are senior unsecured with negative pledge. We believe that the recovery for bondholders is 30-70 per cent in the event of default and we have rated the bonds the same (A-) as the corporate credit rating.

Credit strengths

- Leading market position within grocery retail and wholesale in Norway
- Strong bargaining power against suppliers
- Low gearing and conservative financial risk profile
- High barriers to entry in the Norwegian food retailing industry
- Less cyclical subsectors of the retailing industry

Credit weaknesses

- Fierce competition between retail chains in Norway
- Concentration risk towards the Norwegian wholesale and retail market
- Limited growth possibilities in Norway
- Capital intensive industry which require large investments (NG's accumulated investments since 2008 amount to MNOK 16,152)

Financial figures

Key financial figures - NorgesGruppen ASA (in NOK million)

	2008	2009	2010	2011	2012
Total revenues	49,016	53,232	55,675	58,641	62,083
EBITDA	2,169	2,861	3,161	3,749	3,896
EBITDA (lease adj.)	2,511	3,228	3,539	4,138	4,383
Total assets	20,002	22,110	25,063	26,355	28,105
Total assets (lease adj.)	25,687	28,233	31,365	32,834	36,232
Total interest bearing debt	4,534	5,469	5,869	6,506	7,229
Total interest-bearing debt (lease adj.)	10,219	11,592	12,172	12,985	15,356
Total equity	7,146	8,165	9,162	9,505	10,220
CAPEX	(2,635)	(2,717)	(3,388)	(2,445)	(3,593)
Dividends paid	(348)	(222)	(339)	(415)	(420)
EBITDA interest coverage (x)	4.1	5.3	5.9	6.4	5.8
TIBD/EBITDA (x) (lease adj.)	4.1	3.6	3.4	3.1	3.5
NIBD/ EBITDA (x) (lease adj)	3.9	3.5	3.3	3.0	3.4

DNB Markets Credit Research (updated 17-10-2013)
TIBD = Total interest-bearing debt
NIBD= Net interest-bearing debt

Bonds outstanding

Ticker	Description	Amount (MNOK)	Maturity	Coupon (%)	Recovery*	DNB Markets**	Ratings
NORG04	Senior unsecured	750	05.03.2014	3mN + 2.50	30-70%	A-	n.a
NORG20	Senior unsecured	700	11.05.2015	3mN + 1.00	30-70%	A-	n.a
NORG37	Senior unsecured	900	15.06.2016	3mN + 0.85	30-70%	A-	n.a
NORG64	Senior unsecured	800	19.09.2017	3mN + 1.50	30-70%	A-	n.a
NORG65	Senior unsecured	500	05.12.2019	4.43	30-70%	A-	n.a
NORG73	Senior unsecured	500	15.06.2018	3mN + 1.05	30-70%	A-	n.a
Total		4,150					

*Estimated recovery in the event of default
**DNB Markets shadow issue rating
Source: Stamdata.no

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Commercial papers outstanding

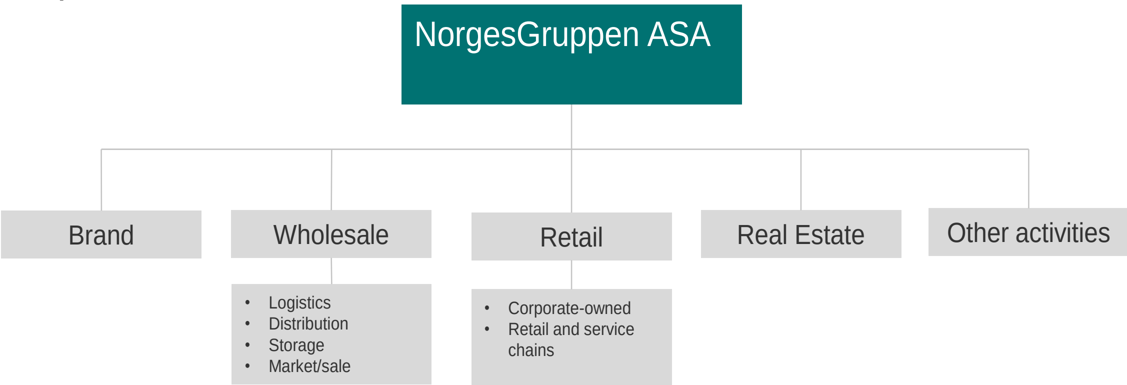
Ticker	Amount (MNOK)	Interest acrual date	Maturity	Coupon (%)
NORG74	200	11.10.2013	11.08.2014	2.33
NORG75	300	17.10.2013	18.08.2014	2.34
NORG77	300	04.11.2013	04.09.2014	2.37
NORG71	200	11.06.2013	11.06.2014	2.37
NORG72	200	14.06.2013	14.03.2014	2.38
NORG68	200	11.04.2013	13.01.2014	2.40
NORG76	300	25.10.2013	24.10.2014	2.40
NORG69	200	19.04.2013	16.04.2014	2.43
NORG67	200	26.03.2013	23.12.2013	2.45
NORG66	200	22.03.2014	21.03.2014	2.48
NORG62	250	18.01.2013	17.01.2014	2.50
NORG63	200	25.01.2013	24.01.2014	2.55
	2,750			

Source: Stamdata

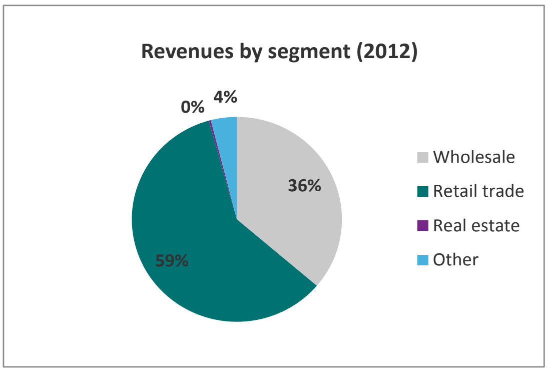
Brief company overview

NorgesGruppen is Norway's largest trading enterprise. The core business is retail and wholesale operations for consumer products. According to the grocery Report 2013 by the Nilson Company NG's retail chains represent 38.5 per cent of the Norwegian grocery retail market. NG owns several retail chain consepts and convenience/kiosk concepts as listed in the figure below. NG's wholesale operations include Asko and Storcash companies. The Asko companies deliver goods to NG's grocery and convenience stores, petrol stations and restaurants. The Storcash stores are NG's cash and carry business. The Company also owns some real estate, mainly storages and retail space. In addition NG has owner interests in several other companies in Norway, Denmark and Sweden. NG had a turnover of NOK 62 bn and EBITDA of NOK 4.4 bn (lease adjusted) in 2012.

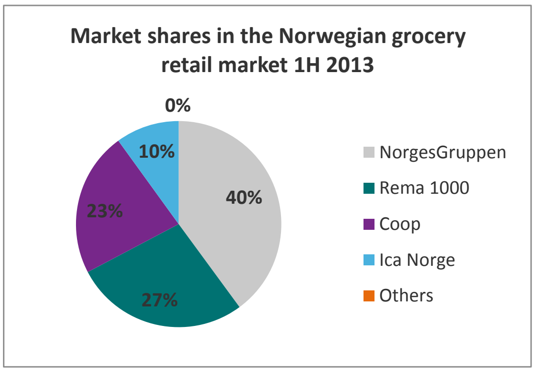
Group structure



Source: NorgesGruppen ASA



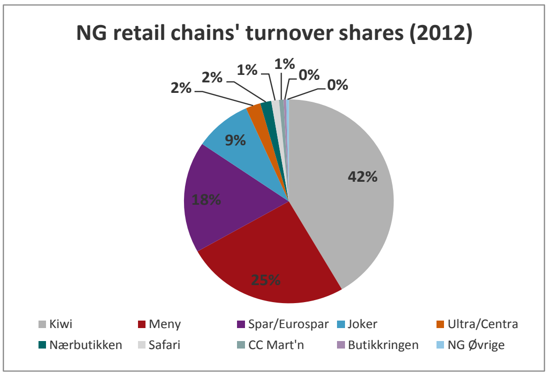
Source: NorgesGruppen ASA

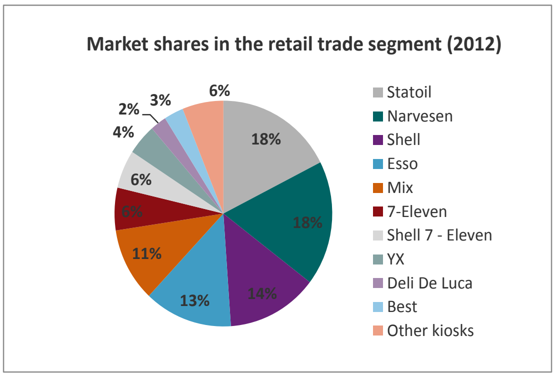


Source: The Nielsen Company

Retail

The total grocery market in Norway comprises NOK 148.1 bn, a percentage growth of 3.1 from 2011. The Norwegian grocery market is dominated by four large players; Reitangruppen, Coop Norge, ICA Norge and NorgesGruppen. Together they have 96 per cent of the market. The Grocery Report 2013 by the Nilson Company shows that NG is the biggest player with a 38.5 per cent market share, an increase of 1.1 per cent from 2011. This is significantly larger than Coop which is the second largest player with a market share of 23 per cent. NorgesGruppen and Rema 1000 have increased their market shares the last years while the other chains have been experiencing a negative trend. NorgesGruppen's retail operations cover four concept chains (Kiwi, Spar/Eurospar, Nærbutikken and Meny). Revenues come from both sale of goods in self-owned stores and from chain membership charges.





Source: The Nielsen Company

NG's also has a goal to obtain a leading market share within kiosks and fast food in Norway. They have both self-operated and franchised retail outlets in attractive marketplaces such as shopping centers and traffic hubs. NorgesGruppen retail trade consists of the chains: Mix, Fresh, Deli de Luca, Kaffebrenneriet, Le Café, JaFs, Dolly Dimple's and Big Horn Steak House (50 per cent).

Wholesale

The wholesale business comprises 14 ASKO companies all over Norway as well as the cash & carry concept Storcash in the largest cities. It also comprises the central warehouse and the joint loading terminal at Vestby in Akershus. NG's wholesale business delivers goods to the market segments; groceries/food retail, convenience stores and retail trade.

The retail and wholesale segments accounted for more than 95 per cent of the Company's revenues in 2012.

Other activities

Other activities accounted for approximately 4 per cent of total revenues in 2012. This segment consists of businesses that are not a part of NG's core activities such as for example Thanke (Libris) and Eurosko.

Real estate

Finding good locations for the retail stores is very important for NG's business. The Company owns more than 600.000 sq.m of real estate in Norway. The market value of the Company's investment property is estimated to MNOK 1,609 at year-end 2012. The Company has valued the properties without external valuators. The net yield used to estimate the value of the different properties was between 6.0 and 14.2 per cent. Please note that the Company also leases more than 1.000.000 sq.m. The real estat segment accounted for only 0.3 per cent of total revenues in 2012.

BUSINESS RISK PROFILE

We consider the business risk profile of the Company to be strong reflecting our view that the business risk is low (See table 3 page 7 for an overview of the different rating categories) The most important factor in this assessment is the Company's leading market position, vertical integration and strong bargaining power against suppliers. The Company's stable and experienced majority ownership is also credit positive for the Company.

Leading market position and strong bargaining power

NorgesGruppen has a significant market leading position in the Norwegian grocery market. The relatively low margins make large volumes and economies of scale necessary to be profitable. It is a capital intensive business and many of the players are vertically integrated which makes it difficult for new competitors to enter the industry. The leading market position and large volumes have given Norgesgruppen significant bargaining power against suppliers. To lose NorgesGruppen as a customer can be critical and many are willing to squeeze margins to maintain a good relationship.

Ownership

NorgesGruppen is owned by Joh. Johannson AS (69.2 per cent). The industrial and stable ownership through the Johannson family is a credit strength for the Company.

Largest owners (at year end 2012)	Share
Joh. Johannson AS (Knut Hartvig Johannson)	69.24%
Brødrene Lorentzen AS (Sverre Lorentzen)	8.48%
PETT Kjede og Servicekontor AS	5.97%
Butikkdrift AS	2.06%
Drageset AS	1.00%
SUM> 1% eierandel	86.74%
Sum øvrige	13.26%

Table 1, Source: NorgesGruppen ASA annual report 2012

Concentration risk and limited growth possibilities in Norway

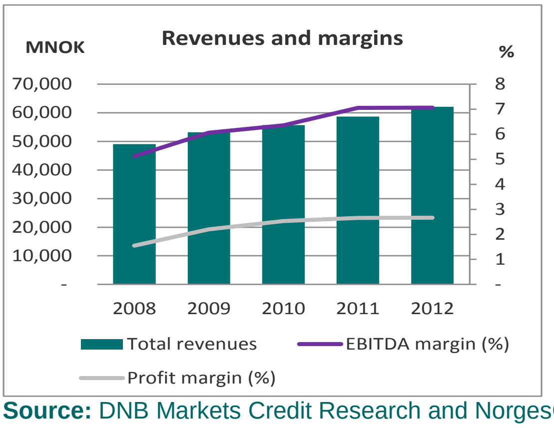
The Company mostly has exposure towards the Norwegian grocery and retail trade market. This is an industry associated with minimal risk as the demand for groceries is relatively non-cyclical compared to the rest of the retailing industry. In addition, the Company has some diversification with different chain concepts.

We are concerned, however, that the Company has limited possibilities when it comes to growth opportunities in Norway. The Norwegian Competition Authority will most likely deny acquisitions and collaborations involving NG within this industry. Currently, there is a significant risk for Norgesgruppen associated to the process with ICA Norge. It can potentially change the market share dynamics between the four largest chains.

In august 2009, NorgesGruppen opened its first Kiwi store abroad. In collaboration with the Danish grocery wholesaler Dagfrosa they launched the Kiwi concept in Denmark. Kiwi Denmark had 76 stores primarily in Jylland and in Fyn at year-end 2012. As mentioned earlier, discount retail demands financially strong owners because large volumes are needed to achieve positive results. From the experience of other retail chains we know that it can take up to ten years before the concept is profitable in a new market. We believe that increased investments abroad could deteriorate the Company's credit quality in spite of more geographical diversification.

Low, but increasing margins

Low and stable EBITDA-margins characterize the grocery retail and wholesale industry. The EBITDA margin has been between 5 and 7 per cent since 2007. Total revenues have grown continuously since 2007 and the Company had 6 per cent yearly growth in 2012.



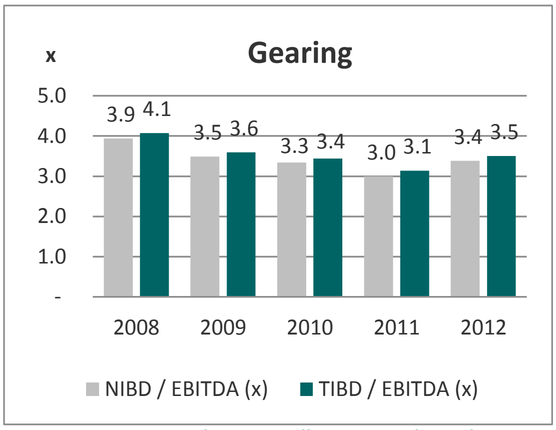
Source: DNB Markets Credit Research and NorgesGruppen ASA

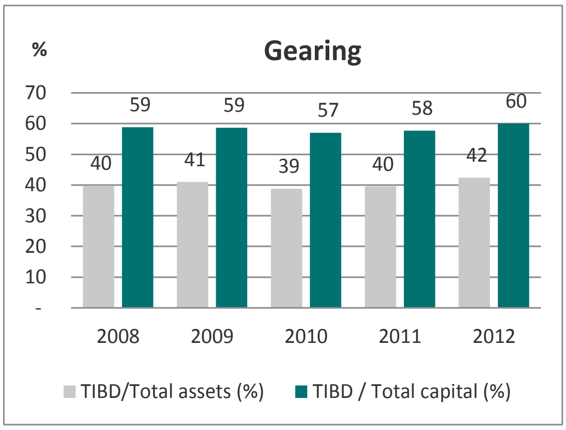
FINANCIAL RISK PROFILE

We consider NG's financial risk profile to be intermediate in rating agency terminology (See table 3 page 7 for an overview of the different rating categories). This means that we consider the financial risk less risky than average compared to companies across all industries. The most important factors in this assessment is the Company's low and stable gearing level, solid interest rate coverage and predictable financial profile.

Debt facilities and financial gearing

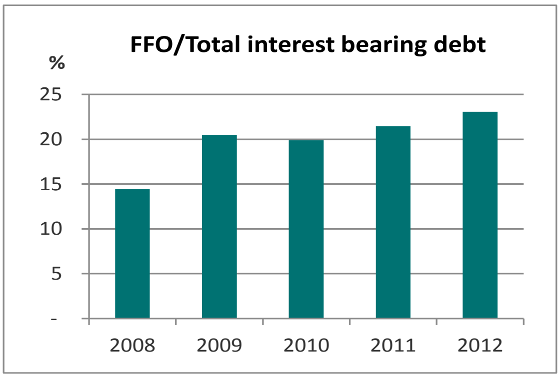
NG has a financial department located under the parent Company that acts as the internal bank. This department monitors and manages the Group's liquidity and funds the subsidiaries in the Group. All bonds and commercial papers are issued at the parent company level in addition to almost all bank debt. NG's gearing is low and the debt service ability is high. The Company's total interest-bearing debt relative to EBITDA was 3.5x at year end 2012 (3.1x) when accounting for the Company's substantial off-balance-sheet liabilities. EBITDA compared to interest rate costs was 5.8 at year end 2012. The Company has a historical track record of stable gearing metrics and we believe this will continue going forward.





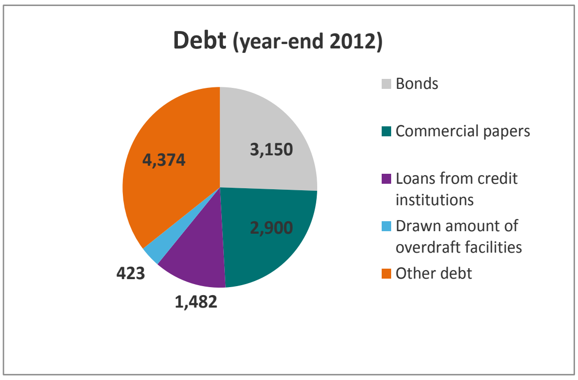
Source: DNB Markets Credit Research and NorgesGruppen ASA

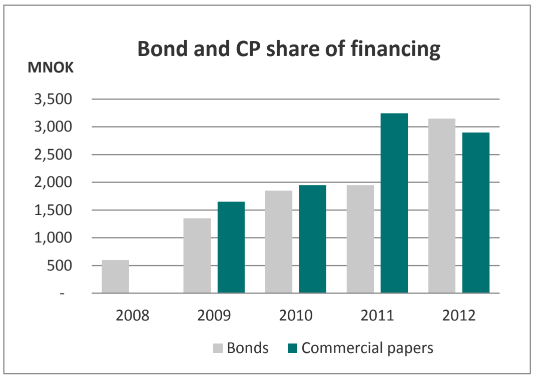
The ratio of funds from operations (FFO) relative to net debt illustrates how many years it will take for a company to repay all debt under the unrealistic assumption that the Company's operations are constant. The Company does not engage in any new investments and the generated funds are restricted to the repayment of debt. NG's FFO relative to total interest bearing debt was 23 percent in 2012 (21 per cent). This means it will take the Company only 4.3 years to pay back all debt under this assumption.



Source: DNB Markets Credit Research and NorgesGruppen ASA

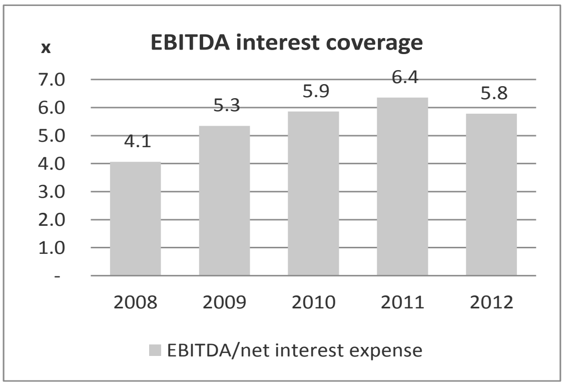
The Company has MNOK 7,229 as interest-bearing debt at year end 2012. When adjusted for substantial off-balance-sheet liabilities the Company's liabilities amounted to MNOK 15,356 at year end 2012. The average interest rate on the loans to credit institutions was 3.94 per cent in 2012.

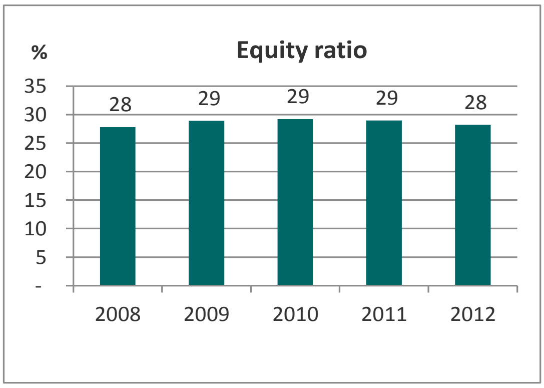




Source: NorgesGruppen's annual report 2012

NorgesGruppen has a strategy of having a strong financial risk profile. The Group has a diversified credit structure with bonds, certificates and revolving credit facilities in several banks. Please note that there is a clear trend towards more bonds and commercial paper financing in the Company as illustrated in the graph above to the right. The short term financing in commercial papers are rolled constantly. To mitigate the refinancing risk this represents, the Company has large undrawn credit facilities and back-stop facilities. At year-end 2012 undrawn credit facilities amounted to NOK 6.3 bn.



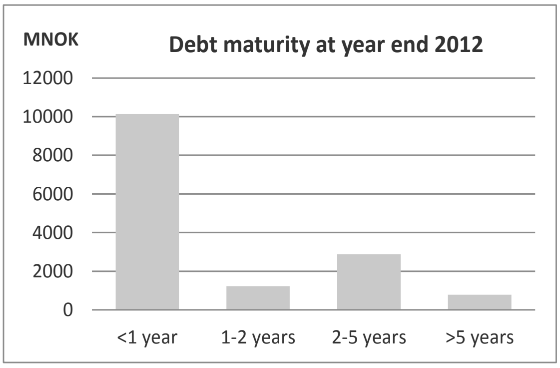


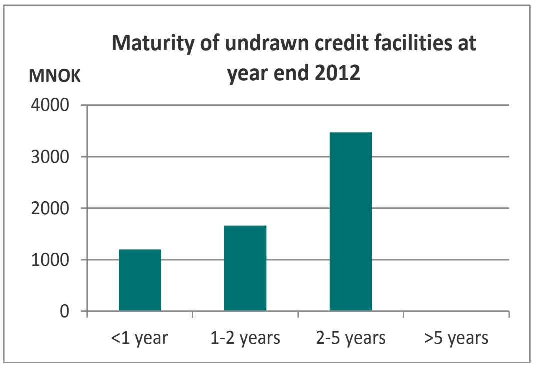
Source: DNB Markets Credit Research and NorgesGruppen ASA

The Company's solidity remains stable and strong with an equity ratio of 28 per cent at year-end 2012 (adjusted for off-balance-sheet liabilities). The corresponding book value was 36 per cent at year-end 2012 and 35 per cent at 1. half 2013. The adjusted equity ratio has remained stable around 27 – 29 per cent since 2003.

Liquidity and debt maturity

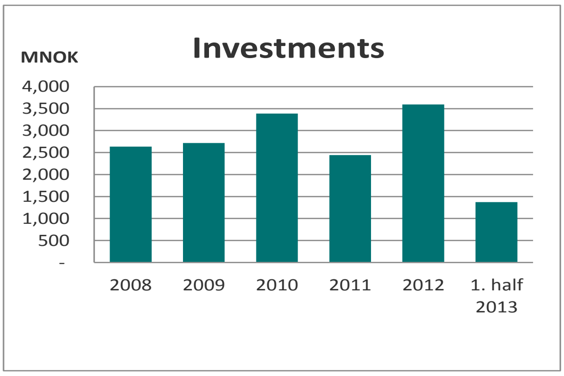
The liquidity reserves (Cash and cash equivalents + undrawn credit facilities) amounted to NOK 6.9 bn at year-end 2012. In the graphs below the maturity of outstanding debt and undrawn credit facilities at year-end 2012 are illustrated. Because of the Company's large working capital liabilities it has a relatively large share of short term debt maturing in less than a year. However, the Company's access to financing in the banking and capital market is considered to be very good. We do not believe the Company will have any problems refinancing its debt going forward.

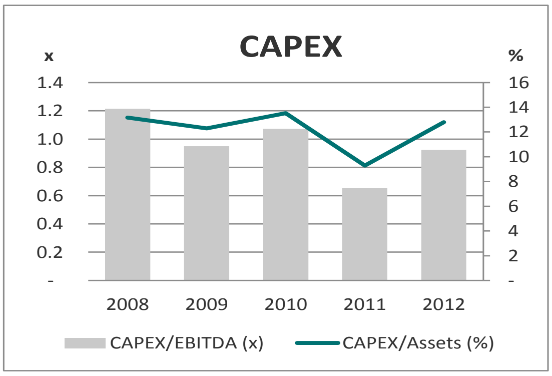




Investments

NG has a track record of investing operating cash flow to support its growth. The wholesale industry is capital intensive and capacity additions require substantial CAPEX. Accumulated investments since 2008 amount to MNOK 16,152 (including 1.half 2013). In 2012, NorgesGruppen made significant investments in new establishments, the renovation of existing stores, and the acquisition of stores and real estate. The total number of stores increased by 50 in 2012 compared to 2011. Total investments in 2012 accounted for 13 per cent of total assets (not adjusted for off-balance-sheet liabilities). This is equal to the investment level in 2007. When measured against EBITDA the investments are relatively smaller than in 2007.





Source: DNB Markets Credit Research and NorgesGruppen AS

*Assets and EBITDA are not adjusted for off-balance sheet liabilities in this graph

NorgesGruppen also owns substantial shares in the Companies listed below:

Investments associated companies (2012)	Share	Revenues (MNOK)
Bama Gruppen AS	46%	10,740
Validus AS	49%	4,237
H I Giørtz Sønner AS	35%	2377.9
Scala Retail Property AS	49%	85.3
Norli Libris AS	49%	994.2
Søndre Viken AS	49%	44.7
Gro Eiendom AS	41%	13.4
Dagligvare Gruppen Tromsø AS	39%	141.8
K Ekrheim AS	33%	962.3

Financial policy

The Company is subject to covenants concerning the equity share, gearing and debt service ability of the Company:

- The equity ratio can be minimum 24 per cent
- Net interest-bearing debt/EBITDA can be maximum 3.5x
- Interest rate coverage can be minimum 3x.

The Company wants to communicate a predictable and stable dividend policy. Minimum 23 per cent of net profit per share is paid as dividends as long as the Company's future capital need is adequately covered.

Recovery assumptions

The Company has declared a negative pledge in loan agreements with external creditors. The negative pledge agreement has a small carve out which involves an insignificant proportion of pledged assets relative to the Company's total assets (0.65 per cent).

We estimate that bond holders of the senior unsecured bonds will achieve a recovery of 30-70 per cent in an event of default. According to S&P's notching criteria, the rating on the senior unsecured bonds should be equal to the corporate credit rating (A-).

Rating Rationale	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly Leveraged
Excellent	AAA	AA	**A**	A-	BBB	-
Strong	**AA**	**A**	**A-**	**BBB**	**BB**	**BB-**
Satisfactory	A-	BBB+	**BBB**	BB+	BB-	B+
Fair	-	BBB-	**BB+**	BB	BB-	B
Weak	-	-	**BB**	BB-	B+	B-
Vulnerable	-	-	**-**	B+	B	CCC+

Table 3

Key credit metrics - NorgesGruppen ASA (In MNOK)

	2008	2009	2010	2011	2012
Growth in total revenues (%)	15	9	5	5	6
EBITDA margin (%)	5	6	6	7	7
EBIT margin (%)	3	4	4	4	4
Profit margin (%)	2	2	3	3	3
Equity ratio (%)	28	29	29	29	28
EBITDA interest coverage (x)	4.1	5.3	5.9	6.4	5.8
EBIT interest coverage (x)	2.3	3.4	3.7	4.0	3.5
FFO / TIBD (%)	14	20	20	21	23
FFO/NIBD (%)	15	21	20	22	24
FOCF/TIBD (%)	-	-	-	6.2	1.4
TIBD / EBITDA (x)	4.1	3.6	3.4	3.1	3.5
NIBD / EBITDA (x)	3.9	3.5	3.3	3.0	3.4
TIBD / Total capital (%)	59	59	57	58	60
TIBD/Total assets (%)	40	41	39	40	42

DNB Markets Credit Research (updated 14-10-2013)

FFO= Funds from operations

FOCF= Free operating cash flow

TIBD = Total interest-bearing debt

NIBD= Net interest-bearing debt

Total capital = TIBD + Equity

Key financial figures - NorgesGruppen ASA (in NOK million)

Profit & loss	2008	2009	2010	2011	2012
Sales revenues	47,047	51,078	53,411	56,031	59,409
Other revenues	1,968	2,154	2,264	2,610	2,674
Total revenues	**49,016**	**53,232**	**55,675**	**58,641**	**62,083**
Cost of goods	38,016	40,921	42,621	44,237	45,456
General & administrative costs (G&A)	5,166	5,590	5,834	6,140	7,268
Other operating expenses	3,664	3,861	4,059	4,514	5,464
EBITDA	**2,169**	**2,861**	**3,161**	**3,749**	**3,896**
EBITDA (lease adj.)	**2,511**	**3,228**	**3,539**	**4,138**	**4,383**
Depreciation & amortization	1,104	1,195	1,291	1,514	1,696
EBIT	**1,065**	**1,665**	**1,870**	**2,235**	**2,200**
EBIT (lease adj.)	**1,406**	**2,032**	**2,248**	**2,624**	**2,687**
Contribution from associated	138	163	235	224	372
Interest expense (net)	**277**	**236**	**226**	**262**	**270**
Interest expense (lease adj.)	**618**	**604**	**604**	**651**	**758**
Other financial costs (net)	(126)	5	14	42	34
Profit before tax	**1,053**	**1,587**	**1,866**	**2,155**	**2,268**
Tax	294	415	456	599	614
Net income	**759**	**1,172**	**1,411**	**1,556**	**1,653**

Balance sheet	2008	2009	2010	2011	2012
Fixed assets	8,228	8,891	10,813	10,835	11,790
Intangible assets	3,700	4,364	4,367	4,343	4,885
Deferred tax assets	93	116	244	304	339
Other non-current assets	1,567	1,864	1,963	2,248	2,272
Tot. w orking capital assets	6,089	6,552	7,319	8,042	8,285
Cash and cash equivalents	325	324	357	583	534
Total assets	**20,002**	**22,110**	**25,063**	**26,355**	**28,105**
Total assets (lease adj.)	**25,687**	**28,233**	**31,365**	**32,834**	**36,232**
Total interest bearing debt	4,534	5,469	5,869	6,506	7,229
Total interest-bearing debt (lease adj.)	10,219	11,592	12,172	12,985	15,356
Other non-current liabilities	1,105	1,123	1,368	1,422	1,336
Obligations under capital leases (ST)	-	-	-	-	-
Tot. w orking capital liabilities	6,982	7,026	8,243	8,392	8,762
Other current liabilities	234	326	419	531	555
Other financial liabilities	2	1	3	-	4
Total equity	7,146	8,165	9,162	9,505	10,220
Total equity and liabilities	**20,002**	**22,110**	**25,063**	**26,355**	**28,105**
Total equity and liabilities (lease adj.)	**25,687**	**28,233**	**31,365**	**32,834**	**36,232**

Cash flow	2008	2009	2010	2011	2012
EBITDA	**2,169**	**2,861**	**3,161**	**3,749**	**3,896**
EBITDA (lease adj.)	**2,511**	**3,228**	**3,539**	**4,138**	**4,383**
Other cash flow	(125)	(15)	(190)	(280)	449
Tax paid	(291)	(234)	(326)	(419)	(531)
Net interest paid	(277)	(236)	(226)	(262)	(270)
Net interest paid (lease adj.)	(618)	(604)	(604)	(651)	(758)
Funds from operations (FFO)	**1,477**	**2,376**	**2,420**	**2,788**	**3,543**
Changes in w orking capital	(664)	(494)	77	85	(215)
Operating cash flow (OCF)	**814**	**1,882**	**2,497**	**2,873**	**3,328**
Investments	(2,635)	(2,717)	(3,388)	(2,445)	(3,593)
Maintenance capex	-	-	-	-	-
Increase in other non-current assets	73	(17)	(62)	(31)	33
Increase in restricted cash	-	-	-	-	-
Other cash flow from investments	24	76	240	405	446
Free operating cash flow (FOCF)	**(1,724)**	**(776)**	**(714)**	**802**	**214**
Debt installments	(437)	(2,599)	(6)	(1,003)	(875)
Debt principal	-	-	-	-	-
Dividends paid	(348)	(222)	(339)	(415)	(420)
Funding surplus (shortfall)	**(2,509)**	**(3,598)**	**(1,059)**	**(615)**	**(1,081)**
New debt	2,753	1,520	545	700	1,639
New equity	-	-	-	-	-
Other funding	(53)	(34)	576	339	(20)
Other cash flow from financing activities	(145)	2,110	(30)	(198)	(587)
Change in cash	**46**	**(2)**	**33**	**226**	**(49)**

DNB Markets Credit Research (updated 10-10-2013)

Profit & loss	1. half 2012	1. half 2013
Total revenues	29,746	32,012
Total operating costs	27,734	30,234
EBITDA	**2,012**	**1,778**
Depreciation & amortization	828	734
EBIT	**1,184**	**1,044**
Contribution from associated	251	161
Financial costs (net)	137	101
Profit before tax	**1,298**	**1,104**
Tax	363	309
Net income	**935**	**795**

Balance sheet	1. half 2012	1. half 2013
Property, plant & equipment	11,576	12,249
Intangible assets	4,644	5,191
Other non-current assets	2,312	2,503
Tot. w orking capital assets	8,068	9,308
Cash and cash equivalents	605	459
Total assets	**27,205**	**29,710**
Long-term debt	4,880	5,587
Short-term debt	12,849	13,642
Total equity	9,476	10,481
Total equity and liabilities	**27,205**	**29,710**

Cash flow	1. half 2012	1. half 2013
EBITDA	**2,012**	**1,778**
Other cash flow	97	(34)
Taxes paid	(503)	(546)
Interest paid	(137)	(101)
Funds from operations (FFO)	**1,469**	**1,097**
Changes in w orking capital	230	(60)
Operating cash flow (OCF)	**1,699**	**1,037**
Investments	(1,739)	(1,373)
Other cashflow from investments	80	123
Free operating cash flow (FOCF)	**40**	**(213)**
Debt installments	(586)	(343)
Dividends paid	(419)	(451)
Funding surplus (shortfall)	**(965)**	**(1,007)**
New debt	788	847
New equity		
Other funding		
Other cash flow from financing activities	199	85
Change in cash	**22**	**(75)**
Net change in cash	**22**	**(75)**

DNB Markets Credit Research (updated 15-10-2013)

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