

NorgesGruppen ASA

Food Retailing
Norway

Market Perform

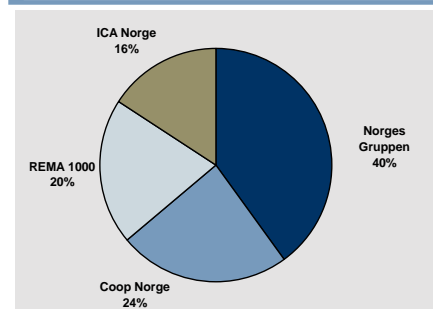
Key Data	
Ticker	Not Listed
M Cap	-
Website	www.norgesgruppen.no

Nordea Markets – Analyst	
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Company Ratings	
Nordea	A-/Stable
S&P	nr
Moody's	nr
Fitch	nr

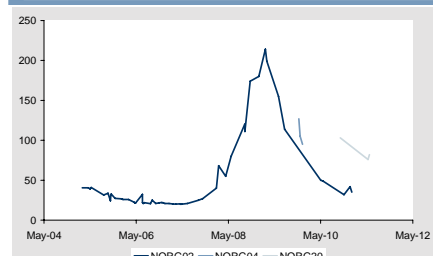
Largest Shareholders	
Joh. Johansson AS	69.24%
Brødrene Lorentzen AS	8.48%
PETT Kjede og Servicekontor	5.97%
AKA AS	5.29%
Butikkdrift AS	3.78%

Market Shares Grocery Retail (2009)



Source: NorgesGruppen

Bond Spreads (spread to swap)



Source: Nordea Markets

The domestic market leader in food retailing

NorgesGruppen remain the dominant market player within the domestic industries for food wholesale and food retailing. During 2010, the group continued its profitable trend, albeit high capital expenditures resulted in a slightly weaker credit profile.

Profitable growth in 2010

NorgesGruppen continued its profitable trend in 2010, with growth in both turnover and EBITDA. Turnover and EBITDA grew year-on-year by 5% and 10% respectively, while the overall EBITDA margin strengthened to 5.7% (2009: 5.4%). Net profit grew year-on-year by 22%, positively affected by higher contribution from associated companies.

Slightly weaker credit profile due to high capital expenditures

NorgesGruppen's adjusted net debt increased by approximately NOK 1.7bn during 2010, reflecting a high capital expenditure level in 2010. Among others, the group acquired the remaining shares (66%) in Kiwi Eiendom. Consequently, the overall credit profile developed negatively and the net debt to EBITDA and total debt to capitalisation ratios ended the year at 2.3x and 45% (2009: 1.9x and 42%) respectively.

Propose a dividend of NOK 403m

The Board of Directors propose a dividend of NOK 403m for the financial year 2010, corresponding to a dividend payout ratio (dividends to net profit) of approximately 29% (2009: 30%).

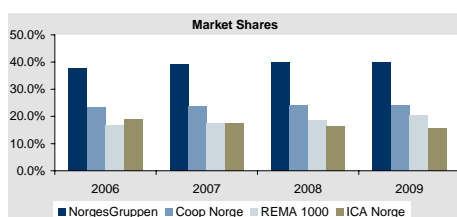
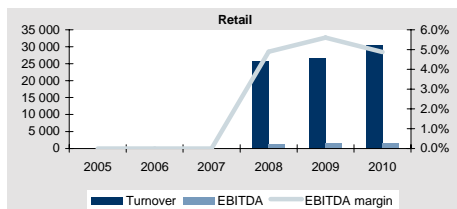
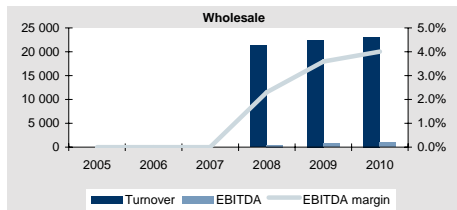
We maintain our A- rating with stable outlook

We maintain our view of NorgesGruppen as an A- credit with stable outlook, despite slight credit profile deterioration during 2010. The group continue to demonstrate a profitable growth and we are of the opinion that NorgesGruppen will remain a strong credit going forward.

Recommendations and trade levels

The 2014 (NORG04) bond has not traded on OSE since 2009, but the 2015 (NORG20) bond traded on OSE this week @ 100.65 (spread to swap +82bp).

Segments



Credit Update

NorgesGruppen continued its profitable trend in 2010, with growth in both turnover and EBITDA. Turnover and EBITDA grew year-on-year by 5% and 10% respectively, while the overall EBITDA margin strengthened to 5.7% (2009: 5.4%). Net profit grew year-on-year by 22%, positively affected by higher contribution from associated companies.

The group's wholesale operations posted strong margin improvement, helped by efficiency measures and cost focus, generating an EBITDA margin of 4.0% (2009: 3.6%). The retail operations are still negatively affected by the effects of the financial crisis, as well as high competitive environment. Consequently, the business area's EBITDA margin weakened to 4.9% (2009: 5.6%).

NorgesGruppen's adjusted net debt increased by approximately NOK 1.7bn during 2010, reflecting a high capital expenditure level in 2010. Among others, the group acquired the remaining shares (66%) in Kiwi Eiendom. Consequently, the overall credit profile developed negatively and the net debt to EBITDA and total debt to capitalisation ratios ended the year at 2.3x and 45% (2009: 1.9x and 42%) respectively.

The Board of Directors propose a dividend of NOK 403m for the financial year 2010, corresponding to a dividend payout ratio (dividends to net profit) of approximately 29% (2009: 30%).

Ratings History

2004-01	Assigned a BBB+ rating
2005-09	Upgrade to A-

Our View and Recommendations

We maintain our view of NorgesGruppen as an A- credit with stable outlook, despite slight credit profile deterioration during 2010. The group continue to demonstrate a profitable growth and we are of the opinion that NorgesGruppen will remain a strong credit going forward.

Our credit view reflects the group's leading position in the domestic food retailer industry, low business risk in its core operations and a very healthy credit profile.

The 2014 (NORG04) bond has not traded on OSE since 2009, but the 2015 (NORG20) bond traded on OSE this week @ 100.65 (spread to swap +82bp).

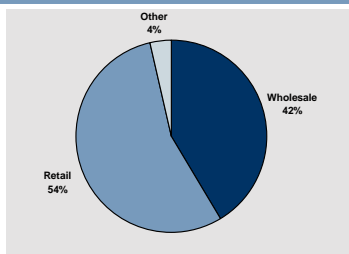
Company Data

CEO Tommy Korneliussen
 CFO Sverre R. Kjær
 Chairman Knut Hartvig Johansson
 Employees 7,875

Company Profile

NorgesGruppen ASA is the largest food retail chain in Norway with a 37% market share and a turnover of approximately NOK 56bn (2010). Its wholesale operations are by far the largest in Norway and enjoy substantial economies of scale. As of year-end 2009 the group had 1,960 stores in Norway within the chain concepts Meny, SPAR, Kiwi, Joker and Ultra.

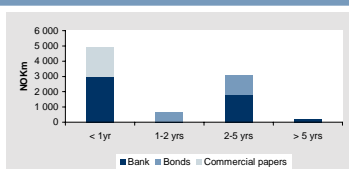
Revenue by Segment



Credit Supportive

- Leading market player with excellent market positions
- High barriers to entry in the domestic food retailing industry
- Resilient industry characteristics as the industry's sensitivity to economic cycles is below average
- Very strong credit profile

Debt Distribution



Credit Concerns

- Earnings and cash flow are geographically undiversified
- Relatively low operating margins from the wholesale operations
- Limited growth opportunities in its core markets and we see a risk of expansion into non-core business segments with higher inherent risk

Ticker	Issuer	Corp	Bond	Issue	Maturity	Coupon	Size (m)	Rank
NORG02	NorgesGruppen ASA	A-	A-	2005-02-18	2012-02-20	N3M +40	NOK 600	Senior unsecured
NORG04	NorgesGruppen ASA	A-	A-	2009-03-05	2014-03-05	N3M +250	NOK 750	Senior unsecured
NORG20	NorgesGruppen ASA	A-	A-	2010-05-10	2015-05-11	N3M +100	NOK 500	Senior unsecured

Bond Loan Details

For all bond loans

- Senior unsecured
- Ranks pari passu with unsecured bank debt
- Negative pledge with carve-out limited up to a total of NOK 300m

Financials

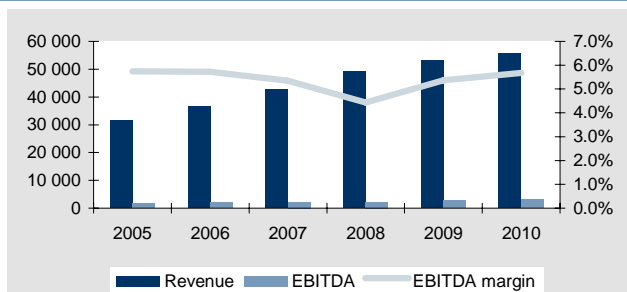
NorgesGruppen ASA

Income Statement, NOKm	2003	2004	2005	2006	2007	2008	2009	2010
Revenue	26 919	28 148	31 531	36 620	42 678	49 016	53 232	55 675
EBITDA	1 203	1 459	1 812	2 096	2 282	2 169	2 861	3 161
EBITDA margin	4.5%	5.2%	5.7%	5.7%	5.3%	4.4%	5.4%	5.7%
EBIT	517	669	913	1 410	1 409	1 065	1 665	1 870
EBIT margin	1.9%	2.4%	2.9%	3.9%	3.3%	2.2%	3.1%	3.4%
Net profit	349	433	699	1 056	1 180	740	1 147	1 395
Balance Sheet								
Total assets	10 836	11 755	12 442	14 560	17 545	20 002	22 110	25 063
Cash and cash equivalents	174	152	133	199	280	325	324	357
Shareholders equity	3 917	4 202	4 662	5 605	6 939	7 145	8 165	9 162
Total debt	3 060	3 376	2 604	2 696	3 678	5 683	5 493	7 128
Cash Flow								
FFO	1 061	1 226	1 711	1 737	1 910	1 818	2 567	2 844
Operating cash flow	896	1 234	1 875	1 644	1 469	886	1 865	2 435
Capex	-1 333	-1 371	-958	-1 806	-2 759	-2 611	-2 642	-3 148
Free operating cash flow	-437	-137	917	-161	-1 289	-1 725	-777	-713
Dividend	-92	-123	-198	-255	-294	-348	-222	-339
Retained cash flow	-529	-259	719	-416	-1 583	-2 073	-999	-1 052
Adjusted key ratios								
Net debt	2 932	3 270	2 529	2 780	3 727	5 777	5 541	7 243
Total debt	3 106	3 421	2 662	2 979	4 006	6 102	5 865	7 600
Total debt to capitalisation	44%	45%	36%	35%	37%	46%	42%	45%
Net debt to EBITDA (12 months rolling)	2.4	2.2	1.4	1.3	1.6	2.7	1.9	2.3
Interest coverage	3.1	4.4	7.6	12.1	8.5	4.2	6.9	8.4
EBITDA to interest expense	5.4	7.9	12.1	16.2	11.0	6.6	10.6	12.6
Capex to sales	5%	5%	3%	5%	6%	5%	5%	6%
FFO (12 months rolling)/total debt	34%	36%	64%	58%	48%	30%	44%	37%
Return on Equity	9%	10%	15%	19%	17%	10%	14%	15%

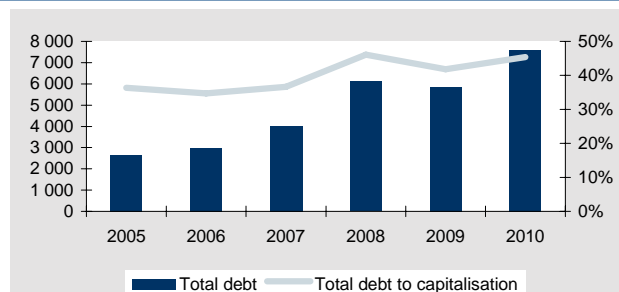
Adjusted for pension liabilities and operational leases

Nordea Credit Research estimates

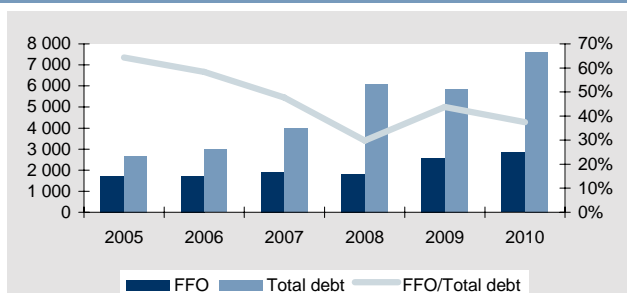
Sales and EBITDA



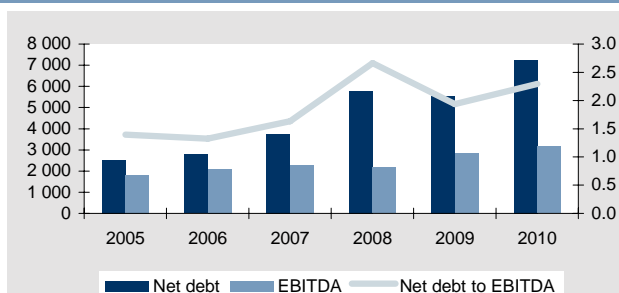
Total Debt to Capitalisation



FFO to Total Debt



Net Debt to EBITDA



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Recommendation definitions

Outperform

Over the next three months, the fixed income instrument's total return is expected to exceed the total return of the relevant benchmark.

Market perform

Over the next three months, the fixed income instrument's total return is expected to be in line with the total return of the relevant benchmark.

Underperform

Over the next three months, the fixed income instrument's total return is expected to be below the total return of the relevant benchmark.

All research is produced on an ad hoc basis and will be updated when the circumstances require it.

Distribution of recommendations

Recommendation	Count	% of total
Outperform	20	11
Market perform	122	65
Underperform	46	24
Total	188	100

As of October 26, 2010

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