

NorgesGruppen ASA

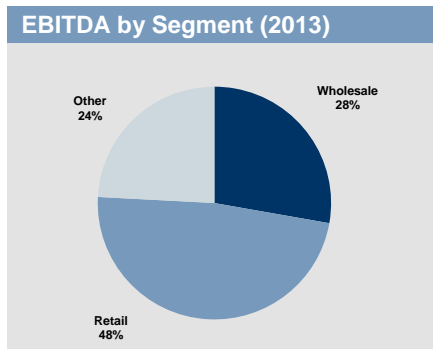
Food Retailing
Norway

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

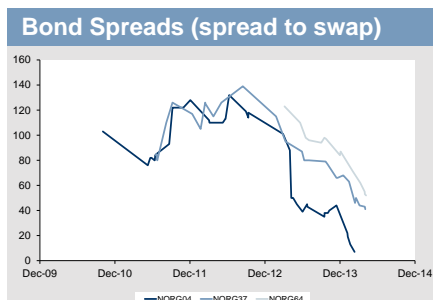
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lars.kirkeby@nordea.com	

Company Ratings	
Nordea	A-/Stable
S&P	-
Moody's	-
Fitch	-

Largest Shareholders	
Joh. Johannson AS	69.24%
Brødrene Lorentzen AS	8.48%
PETT Kjede og Servicekontor	5.97%
Butikkdrift AS	1.70%
Drageset AS	1.00%



Source: NorgesGruppen



Source: Nordea Markets

Strong and steady as usual

NorgesGruppen delivered once again in 2013, demonstrating continued sound growth with satisfactory margins. The group's overall credit profile remains attractive, benefiting from a strong business risk profile and sizeable cash flow generation.

Continued sound growth

NorgesGruppen posted another set of strong figures in 2013, demonstrating its sound growth story yet again. The group's turnover grew y-o-y by 7%, surpassing the 2.9% growth in the domestic food retail market. The adjusted group EBITDA increased y-o-y by 5%, while the overall adjusted EBITDA margin weakened to 8.3% (2012: 8.6%).

Further market penetration

According to the independent researcher Nielsen, NorgesGruppen increased its market share in the domestic food retailing market to 39.3% (2012: 38.5%). The overall market was characterised by intense price competition during 2013.

Very stable cash flow patterns

NorgesGruppen's cash flow generation is highly visible and stable. The adjusted FFO (funds from operations) grew y-o-y by 3% to NOK 4.3bn (2012: NOK 4.2bn), while the adjusted operating cash flow declined by 8% to NOK 4.0bn (2012: NOK 4.3bn).

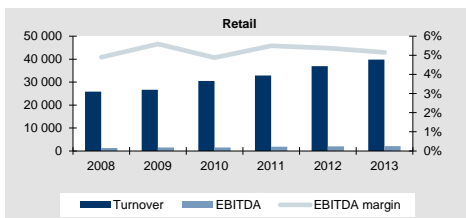
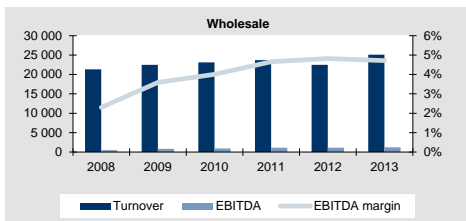
Healthy financial profile

The group's net debt (adjusted for operating leases and pension liabilities) increased by approximately NOK 2.1bn, reflecting continued high level of investments. Nevertheless, the group's financial profile remained healthy with the adjusted net debt to EBITDA and FFO to total debt ratios ending the year at 3.3x and 23% (2012: 3.1x and 25%) respectively.

We maintain our A- rating with stable outlook

We maintain our view of NorgesGruppen as an A- credit with stable outlook, reflecting continued sound financial performance and a healthy credit profile. The group continuously increases its market position in the domestic food retailer industry and benefits from a highly stable and visible cash flow generation.

Segments



Credit Update

NorgesGruppen posted another set of strong figures in 2013, again demonstrating its sound growth story. The group's turnover grew y-o-y by 7% to NOK 67.4bn (2012: 62.1bn), surpassing the 2.9% growth in the domestic food retail market. The adjusted group EBITDA (excluding operating leases) increased y-o-y by 5% to NOK 5.6bn (2012: NOK 5.3bn), while the overall adjusted EBITDA margin weakened to 8.3% (2012: 8.6%).

According to the independent researcher Nielsen, NorgesGruppen increased its market share in the domestic food retailing market to 39.3% (2012: 38.5%). The overall market was characterised by intense price competition during 2013.

The group's *Wholesale* operations continued to grow organically, but also through new distribution agreements with Coca Cola, Hennig Olsen Is and Norfersk. The segment's EBITDA margin weakened marginally to 4.7% (2012: 4.8%).

The group's *Retail* operations posted growth in turnover, but intense price pressure negatively affected margins. Hence, the segment's EBITDA margin weakened to 5.1% (2012: 5.4%).

NorgesGruppen's cash flow generation is highly visible and stable. The adjusted FFO (funds from operations) grew y-o-y by 3% to NOK 4.3bn (2012: NOK 4.2bn), while the adjusted operating cash flow declined by 8% to NOK 4.0bn (2012: NOK 4.3bn).

The group's net debt (adjusted for operating leases and pension liabilities) increased by approximately NOK 2.1bn, reflecting continued high level of investments. Nevertheless, the group's financial profile remained healthy with the adjusted net debt to EBITDA and FFO to total debt ratios ending the year at 3.3x and 23% (2012: 3.1x and 25%) respectively.

The group distributed dividend of NOK 451m for the financial year 2012, corresponding to a dividend pay-out ratio of approximately 28% (2012: 27%). The group's average dividend pay-out ratio equals approximately 30%.

Ratings History

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

Our View and Recommendations

We maintain our view of NorgesGruppen as an A- credit with stable outlook, reflecting continued sound financial performance and a healthy credit profile. The group continuously increases its market position in the domestic food retailer industry and benefits from a highly stable and visible cash flow generation.

Our credit assessment reflects the group's leading position in the domestic food retailer industry, strong business risk profile, cash flow stability and a strong financial profile.

The group's listed bonds last traded on OSE at the below levels (the listed 2019 and 2020 bonds have never traded on OSE):

Ticker	Issuer	Corp	Bond	Issue	Maturity	Coupon	Size (m)	Level	Spread	Date	Rank
NORG20	NorgesGruppen ASA	A-	A-	2010-05-10	2015-05-11	N3M +100	NOK 700	100.75	32	02.04	Senior unsecured
NORG37	NorgesGruppen ASA	A-	A-	2011-06-15	2016-06-15	N3M +85	NOK 900	100.95	41	04.04	Senior unsecured
NORG64	NorgesGruppen ASA	A-	A-	2012-09-19	2017-09-19	N3M +150	NOK 800	103.28	52	08.04	Senior unsecured
NORG73	NorgesGruppen ASA	A-	A-	2013-06-17	2018-06-15	N3M +105	NOK 700	101.54	68	13.02	Senior unsecured
NORG65	NorgesGruppen ASA	A-	A-	2012-12-05	2019-12-05	4.43 %	NOK 500	-	-	-	Senior unsecured
NORG79	NorgesGruppen ASA	A-	A-	2013-11-25	2020-11-25	3.80 %	NOK 450	-	-	-	Senior unsecured
	NorgesGruppen ASA	A-	A-	2014-04-11	2021-05-10	N3M +79	NOK 300	-	-	-	Senior unsecured

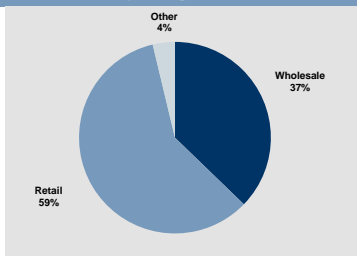
Company Data

CEO Tommy Korneliussen
 CFO Sverre R. Kjær
 Chairman Knut Hartvig Johansson
 Employees 9,304

Company Profile

NorgesGruppen is the largest food retail chain in Norway with a 39% market share and a turnover of approximately NOK 67bn (2013). Its wholesale operations are by far the largest in Norway and enjoy substantial economies of scale. As of year-end 2013 the group had 1,716 stores in Norway within the chain concepts Kiwi, Meny, Ultra, Centra, Jacobs, Spar, Eurospar, Joker and Nærbutikkene.

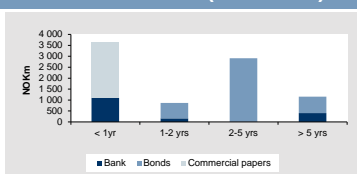
Revenue by Segment (2013)



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 (Dec 2013)



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

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NORG37	NorgesGruppen ASA	A-	A-	2011-06-15	2016-06-15	N3M +85	NOK 900	Senior unsecured
NORG64	NorgesGruppen ASA	A-	A-	2012-09-19	2017-09-19	N3M +150	NOK 800	Senior unsecured
NORG73	NorgesGruppen ASA	A-	A-	2013-06-17	2018-06-15	N3M +105	NOK 700	Senior unsecured
NORG65	NorgesGruppen ASA	A-	A-	2012-12-05	2019-12-05	4.43 %	NOK 500	Senior unsecured
NORG79	NorgesGruppen ASA	A-	A-	2013-11-25	2020-11-25	3.80 %	NOK 450	Senior unsecured
	NorgesGruppen ASA	A-	A-	2014-04-11	2021-05-10	N3M +79	NOK 300	Senior unsecured

Bond Loan Details

NORG20	NORG37/64/73 and 65	NORG79 & NOK 300m 2021 FRN
<ul style="list-style-type: none"> • Senior unsecured • Ranks pari passu with unsecured bank debt • Negative pledge with carve-out limited up to a total of NOK 300m 	<ul style="list-style-type: none"> • Senior unsecured • Ranks pari passu with unsecured bank debt • Negative pledge with carve-out limited up to a total of NOK 750m 	<ul style="list-style-type: none"> • Senior unsecured • Ranks pari passu with unsecured bank debt • Negative pledge with carve-out limited up to a total of NOK 1,500m

Financials

NorgesGruppen ASA

Income Statement, NOKm

	2006	2007	2008	2009	2010	2011	2012	2013
Revenue	36 620	42 678	49 016	53 232	55 675	58 641	62 083	67 396
EBITDA	2 794	3 106	3 009	3 918	4 296	4 898	5 313	5 583
EBITDA margin	7.6%	7.3%	6.1%	7.4%	7.7%	8.4%	8.6%	8.3%
EBIT	1 643	1 684	1 345	2 018	2 248	2 618	2 672	2 835
EBIT margin	4.5%	3.9%	2.7%	3.8%	4.0%	4.5%	4.3%	4.2%
Net profit	1 056	1 180	740	1 147	1 395	1 527	1 625	1 769

Balance Sheet

Total assets	14 560	17 545	20 002	22 110	25 063	26 355	28 105	30 914
Cash and cash equivalents	199	280	325	324	357	583	534	403
Shareholders equity	5 605	6 939	7 145	8 165	9 162	9 505	10 220	11 455
Total debt	2 696	3 678	5 683	5 493	7 128	7 141	7 971	8 573

Cash Flow

FFO	2 203	2 459	2 377	3 272	3 600	3 720	4 185	4 321
Operating cash flow	2 110	2 019	1 446	2 570	3 192	3 609	4 306	3 975
Capex	-2 504	-3 583	-3 450	-3 699	-4 283	-3 189	-4 565	-4 951
Free operating cash flow	-394	-1 564	-2 004	-1 129	-1 091	420	-259	-976
Dividend	-255	-294	-348	-222	-339	-415	-419	-451
Retained cash flow	-649	-1 858	-2 352	-1 352	-1 430	5	-679	-1 426

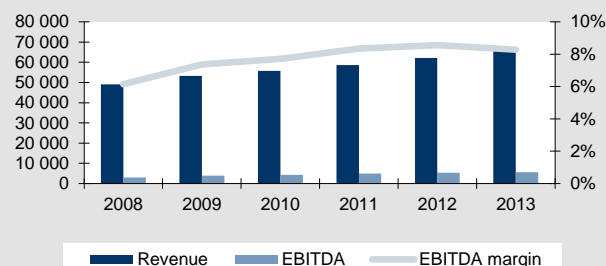
Adjusted key ratios

Net debt	7 065	9 262	11 472	11 753	13 692	13 379	16 343	18 420
Total debt	7 264	9 542	11 797	12 076	14 049	13 962	16 877	18 823
Total debt to capitalisation	56 %	58 %	62 %	60 %	61 %	59 %	62 %	62 %
Net debt to EBITDA (12 months rolling)	2.5	3.0	3.8	3.0	3.2	2.7	3.1	3.3
Interest coverage	12.1	8.5	4.2	6.9	8.4	8.4	8.5	8.8
EBITDA to interest expense	21.6	15.0	9.2	14.5	17.1	16.7	17.5	18.1
Capex to sales	7 %	8 %	7 %	7 %	8 %	5 %	7 %	7 %
FFO (12 months rolling)/total debt	30 %	26 %	20 %	27 %	26 %	27 %	25 %	23 %
Return on Equity	19 %	17 %	10 %	14 %	15 %	16 %	16 %	15 %

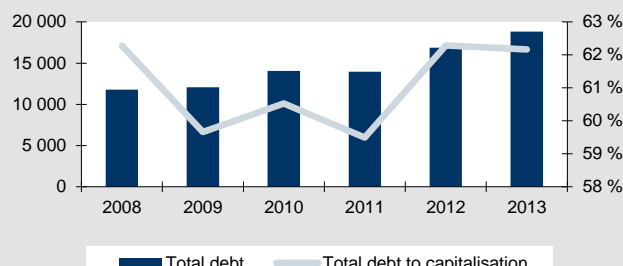
Adjusted for pension liabilities and operational leases

Nordea Credit Research estimates

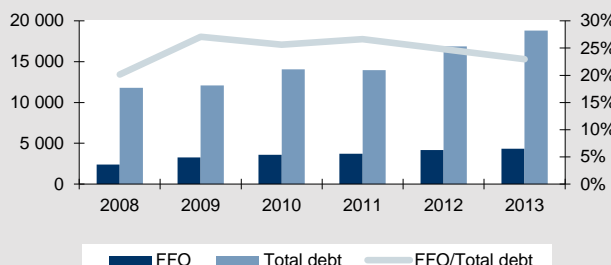
Sales and Adjusted EBITDA



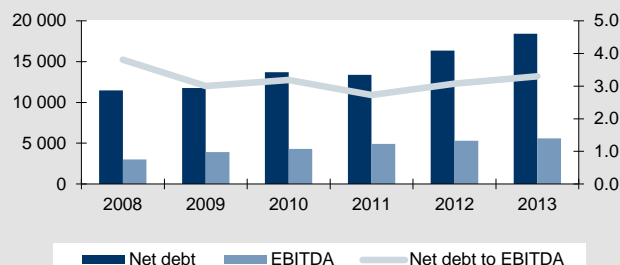
Adjusted Total Debt to Capitalisation



FFO to Adjusted Total Debt



Adjusted Net Debt to EBITDA



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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	35	27
Market perform	70	54
Underperform	24	19
Total	129	100

As of October 18, 2011

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