

NorgesGruppen

Norway, Consumer Goods

As liquid as they come

NorgesGruppen posted 2017 earnings above our expectations, with improved margins and a stronger credit profile. The outlook is rosy, and we raise our estimates to reflect this. We expect earnings and the credit profile to improve further going forward, with credit-adjusted leverage falling below 2x for 2018E. However, based on our fair value model, all bonds look fairly priced.

NorgesGruppen is a big fat cash cow

NorgesGruppen posted full-year 2017 earnings above our expectations while maintaining margins at stable levels, despite a very competitive marketplace. The group's turnover grew by 6.8% y/y to NOK 85,632m (2016: NOK 80,162m), while reported EBITDA increased more than expected to NOK 5,238m (2016: NOK 4,846m). The reported EBITDA margin has remained extraordinary stable in recent years, strengthening slightly to 6.1% in 2017 (2016: 6.0%).

Cash continues to pour in

Reported operating cash flow for the full year amounted to NOK 5,182m, up from NOK 4,600m in 2016 and above our estimate of NOK 4,270m. Operating cash flow comfortably exceeded net capex and dividend, which amounted to NOK 2,139m and NOK 648m, respectively, and the company thereby maintained positive cash flow after capex and dividend over the period.

Appealing credit, but don't expect a bargain

Applying our fair spread model, we move to Market Perform (Underperform) on NORGRU 2019, 2020, 2021 and 2023, as a result of the improved financial risk profile. We maintain a Market Perform recommendation on the long-dated NORGRU 2024, as the bond looks fairly priced in our model.

Nordea Markets - Analysts

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KEY INFO

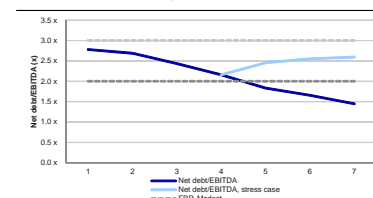
Country	Norway
Bloomberg debt	NORGRU
Bloomberg equity	3481382Z NO
Moody's	NR/---
S&P	NR/---
Market cap. (bn)	n.a.
Company website	0
Next report date	

BOND RECOMMENDATIONS

Security Name	Rec. (old)
NOK: NORGRU 1.12 18	No recommendation (Underperform)
NOK: NORGRU 4.43 19	Market perform (Underperform)
NOK: NORGRU 3.8 20	Market perform (Underperform)
NOK: NORGRU 0 5/10/21	Market perform (Underperform)
NOK: NORGRU 0 3/15/22	Market perform (Underperform)
NOK: NORGRU 0 2/10/23	Market perform (Underperform)
NOK: NORGRU 3.25 24	Market perform (Market perform)

Source: Bloomberg and Nordea estimates

NET DEBT/EBITDA, BASE AND STRESS CASES, x



Source: Company data and Nordea estimates

KEY CREDIT METRICS AND RATIOS NOKm

Reported	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total revenues	58,641	62,083	67,396	71,391	76,224	80,162	85,632	90,769	95,779	100,606
EBITDA	3,749	3,896	3,899	4,357	4,729	4,846	5,238	5,573	5,881	6,177
- margin	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Net debt	6,557	7,437	8,171	8,060	7,698	6,492	4,952	3,561	2,178	723
Net debt/EBITDA	1.7	1.9	2.1	1.8	1.6	1.3	0.9	0.6	0.4	0.1
Credit adjusted										
EBITDA	4,964	5,274	5,481	6,038	6,525	6,735	7,214	7,639	7,946	8,240
Debt	12,851	15,284	16,528	16,781	17,532	16,377	15,576	14,000	13,171	11,917
Debt/EBITDA	2.6	2.9	3.0	2.8	2.7	2.4	2.2	1.8	1.7	1.4
FFO/Debt	28.9%	25.7%	24.6%	27.2%	28.4%	31.5%	36.1%	43.2%	48.0%	55.1%
FOCF/Debt	-0.4%	-13.4%	-6.7%	-5.5%	-7.0%	2.9%	7.0%	6.6%	2.9%	7.0%
DCF/Debt	-3.6%	-16.2%	-9.4%	-7.0%	-10.0%	-0.8%	2.8%	2.7%	-2.3%	1.0%
EBITDA interest coverage	-6.9	-6.7	-6.3	-6.8	-7.4	-7.6	-8.2	-8.8	-9.3	-9.5

Source: Company data and Nordea estimates

Relative value and recommendation

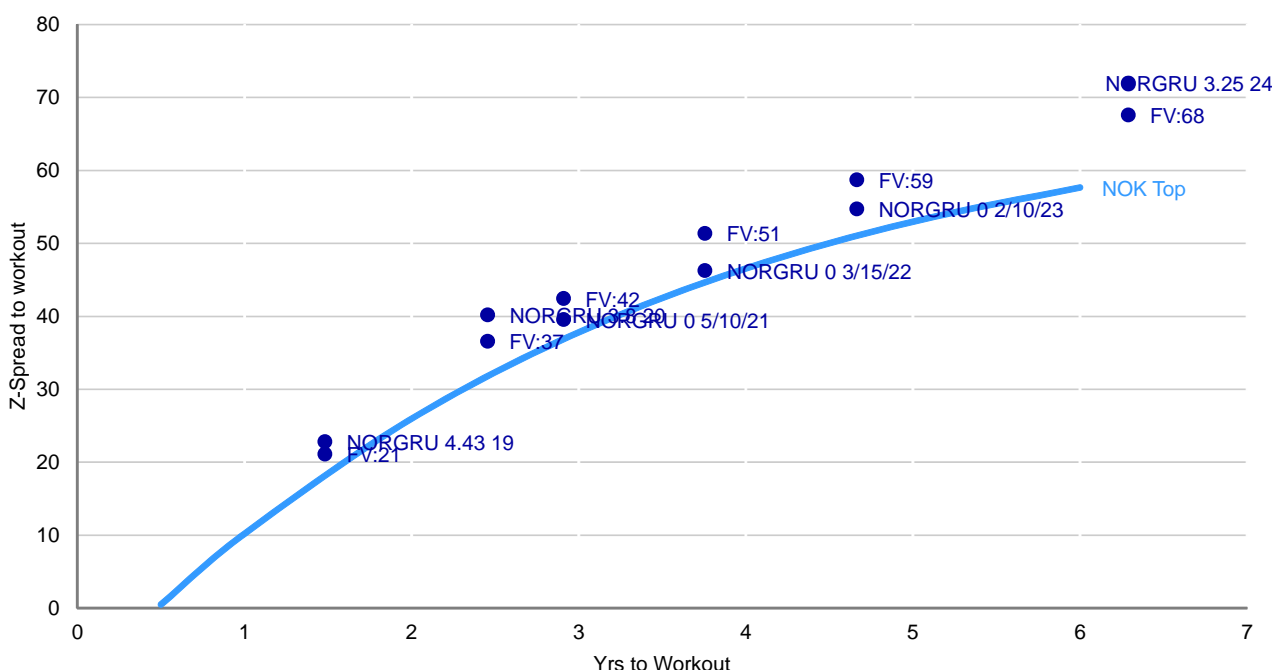
Based on our fair spread model, we move to Market Perform (Underperform) on NORGRU 2019, 2020, 2021 and 2023. We maintain a Market Perform recommendation on the long-dated NORGRU 2024, as the bond looks fairly priced in our model.

All bonds look fairly priced

Fair value model

In our fair value model, we argue that current market indications show a curve that is fairly priced. The fair spread calculation includes some modifying investment factors which we believe affect investment risk and hence the fair spread requirement. In NorgesGruppen's case, we add a premium of 15% to reflect its weaker credit quality compared with the reference curve.

NORGESGRUPPEN BONDS' FAIR SPREAD OVERVIEW, BP



The reference curve represents 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 estimates

RECOMMENDATION AND WALKTHROUGH OF THE FAIR SPREAD ESTIMATE

Bloomberg ticker	EJ446409	EJ953414	EK161498	JK212837	AM699143	EK503240
Security Name	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
Recommendation (old)	Market perform (Underperform)	Market perform (Underperform)	Market perform (Underperform)	Market perform (Underperform)	Market perform (Underperform)	Market perform (Market perform)
Curve spread	19	33	38	46	53	62
Credit quality vs reference	3	5	6	7	8	9
Issuer score vs reference	0	0	0	0	0	0
Rated/Unrated	0	0	0	0	0	0
Bond liquidity	0	0	0	0	0	0
Demand saturation	0	0	0	0	0	0
Ownership etc	0	0	0	0	0	0
Fair Value	22	38	44	53	62	71
Spread	21	39	40	47	55	68
Difference	-1	1	-4	-7	-6	-3

Source: Bloomberg and Nordea estimates

The general market trends are the main near-term spread risk factor...

Key near-term risks

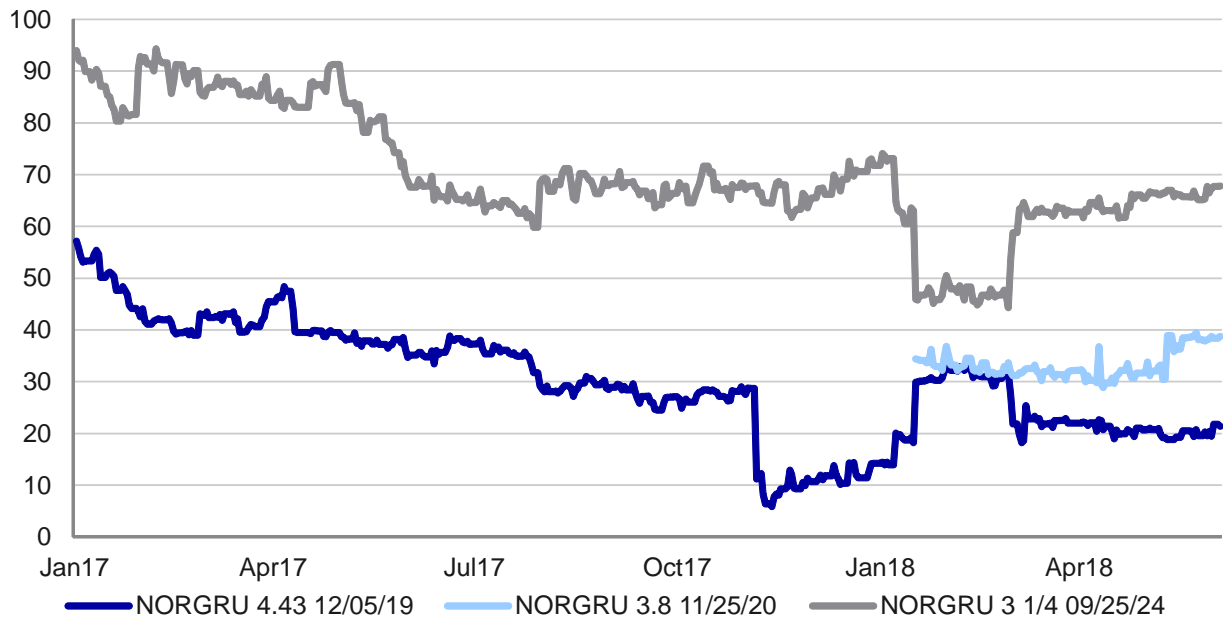
We believe the near-term risk is very low. Any adverse development in spreads is more likely to be a result of market sentiment, rather than company-specific operating or event risk.

...but long term, increased competition and/or inorganic growth could widen spreads

Key long-term risks

Long term, we argue that there is a moderate risk of a gradual widening of spreads as a result of increased competition and/or inorganic growth.

BOND SPREADS, BP



Source: Bloomberg and Nordea estimates

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 to NOK 1,500m (equal to 4% of total assets as of year-end 2017).
- **No financial covenants.**
- **No limitations on shareholder distribution.**
- **No change-of-control protection.**

Performance and prospects

NorgesGruppen ended 2017 with stronger earnings and cash flow than expected, resulting in improved margins and a stronger credit profile. As a result, we raise our forecasts and anticipate continued credit improvements going forward.

INVESTMENT CASE SNAPSHOT

	View	Change	Comment
Headroom			NorgesGruppen has ample financial headroom to accommodate further growth
Performance trend			The group's operating performance has improved, despite operating in a highly competitive market
Performance outlook			Steady demand growth but competition continues to intensify
Strategy & Event risk			Low strategy and event risk
Fair price			The group's bonds fairly priced according to our fair value model

Source: Company data and Nordea Markets

Market development

Iceland has entered the Norwegian market in 2018

The online food market is growing at a brisk pace

Kiwi discontinued operations in Denmark in 2017

- The UK-based food retailer Iceland entered the Norwegian market in May 2018. The retailer has signalled its intention to grow rapidly to benefit from economies of scale.
- The online food market continues to grow at a brisk pace, amounting to 30% y/y in 2017, according to NorgesGruppen. However, all pure online retailers are currently operating at a loss.
- In April 2017, the Danish food retailer Dagrofa, of which NorgesGruppen owns 49%, decided to close down all 103 Kiwi stores in Denmark. Dagrofa will focus on the brands Meny and Spar going forward, and a total of 30 Kiwi stores have been transformed into the respective brands.

Earnings above expectations with improving margins

Earnings above expectations and stable increasing margins

NorgesGruppen posted earnings above our expectations for 2017, with margins at stable levels, despite a very competitive marketplace. The group's turnover grew by 6.8% y/y to NOK 85,632m (2016: NOK 80,162), while reported EBITDA increased by 8.1% to NOK 5,238m. The reported EBITDA margin rose to 6.1% (2016: 6.0%).

Operating cash flow exceeded capex and dividend

Operating cash flow comfortably exceeded capex and dividend

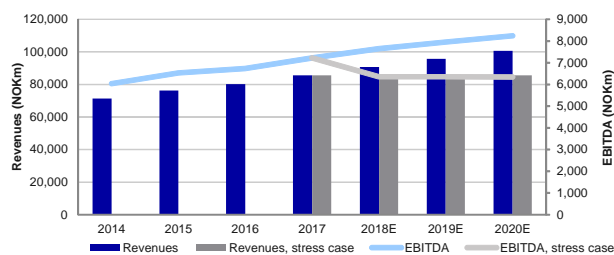
Reported operating cash flow for the full year amounted to NOK 5,182m, up from NOK 4,600m in 2016. Operating cash flow comfortably exceeded net capex and dividend, which amounted to NOK 2,173m (2016: NOK 2,922m) and NOK 648m (2016: NOK 605m), respectively, and the company thereby maintained positive cash flow after capex and dividend over the period.

Improving credit profile

Strengthened credit profile

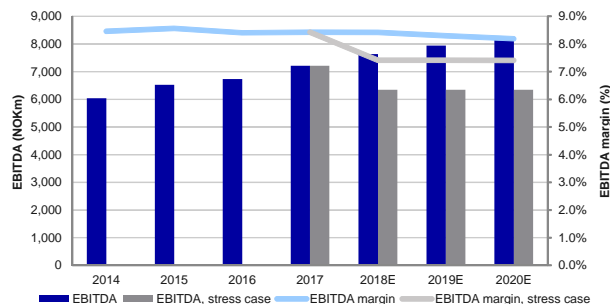
Credit-adjusted net debt (including operating leases) dropped by NOK 801m during 2017, ending the year at NOK 15,576m, down from NOK 16,377m as of year-end 2016, helped by larger cash reserves and lower debt levels. Net debt/EBITDA strengthened to 2.2x, below our estimate of 2.4x.

REVENUE AND EBITDA, NOKm



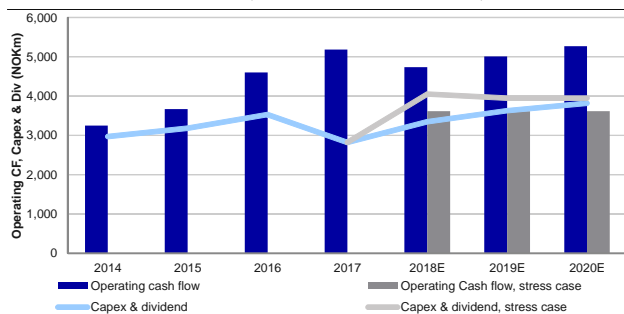
Source: Company data and Nordea estimates

EBITDA AND EBITDA MARGIN, NOKm and %



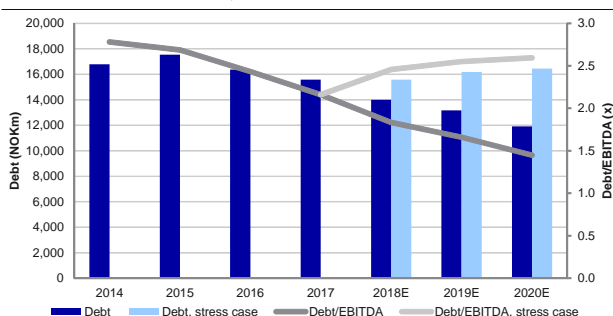
Source: Company data and Nordea estimates

OPERATING CASH FLOW, CAPEX AND DIVIDEND, NOKm



Source: Company data and Nordea estimates

NET DEBT AND EBITDA, NOKm



Source: Company data and Nordea estimates

Rock-solid liquidity

The liquidity reserve exceeds gross interest-bearing debt

At year-end 2017, NorgesGruppen's liquidity position was rock-solid, with the available liquidity reserve exceeding gross interest-bearing debt by close to NOK 2,000m. The consolidated liquidity reserve was NOK 6,574m, comprising cash at hand of NOK 1,090m and undrawn credit facilities of NOK 5,484m.

Adjustments to reported figures

We adjust the reported debt for operating leases

We adjust NorgesGruppen's reported debt for operating lease commitments. The minimum lease payments under non-cancellable operating leases amounted to NOK 10,352m as of 31 December 2017.

Further improvements ahead

We expect continued credit profile improvements in the coming years

We expect the credit profile to improve further going forward, supported by continued strong cash flow generation and lower debt levels. Consequently, we estimate that credit-adjusted debt/EBITDA will improve to 1.8x in 2018, with a further reduction to 1.7x and 1.4x in 2019 and 2020, respectively.

CREDIT-ADJUSTED METRICS

	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
FFO/Debt	25.7 %	24.6 %	27.2 %	28.4 %	31.5 %	36.1 %	43.2 %	48.0 %	55.1 %
Debt/EBITDA	2.9	3.0	2.8	2.7	2.4	2.2	1.8	1.7	1.4
FFO/Interest	5.0	4.7	5.2	5.7	5.8	6.4	7.0	7.4	7.6
EBITDA/Interest	6.7	6.3	6.8	7.4	7.6	8.2	8.8	9.3	9.5
CFO/Debt	22.0 %	17.3 %	19.4 %	20.9 %	28.1 %	33.3 %	33.8 %	38.0 %	44.2 %
FOCF/Debt	-13.4 %	-6.7 %	-5.5 %	-7.0 %	2.9 %	7.0 %	6.6 %	2.9 %	7.0 %
DCF/Debt	-16.2 %	-9.4 %	-7.0 %	-10.0 %	-0.8 %	2.8 %	2.7 %	-2.3 %	1.0 %

Source: Company data and Nordea estimates

AVERAGE CREDIT RATIOS 2016-18E, MAPPING TO S&P'S FINANCIAL RISK THRESHOLDS

Financial Risk Profile	CORE RATIOS		SUPPLEMENTARY COVERAGE RATIOS		SUPPLEMENTARY PAYBACK RATIOS		
	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 estimates

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 industry, and highly visible and stable operating cash flow. These factors are partly offset by risks related to increased competition, inorganic growth and geographical expansion.

OUR VIEW ON CREDIT FACTORS

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. NorgesGruppen thus benefits from the strong Norwegian economy.	- 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 2017, with a liquidity reserve of around NOK 6.6bn, compared with gross interest-bearing debt of NOK 6bn	- 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 estimates

Key credit risks

Increased competition

In our view, increased competition and inorganic growth represent the key credit risks for NorgesGruppen

The competitive pressures in the Norwegian retail market continue to increase, with fierce competition among established players, new entrants and pure online retailers. Further competitive pressures could start to squeeze margins. However, NorgesGruppen has signalled that it is competitive by growing sales more than its competitors in 2017.

Inorganic growth

Inorganic growth could raise leverage and/or increase the risk profile of NorgesGruppen. The most likely takeover candidates would be pure online food retailers or businesses operating in non-core areas. However, NorgesGruppen has already initiated its own online retailing capabilities and has no strategy in place to grow inorganically in non-core areas.

SUMMARY OF KEY CREDIT RISK EVENTS AND IMPACT ON BONDHOLDERS

Event / development	Implications for performance & financial position	Probability	Expected impact on bond holders	Comments
Increased competition	Increased competition may lead to margin squeeze	High	Moderate	NorgesGruppen managed to increase turnover y/y more than the industry as a whole, signalling the group is competitive
Inorganic growth	Inorganic growth will increase leverage, and/or business risk profile	Moderate	Moderate	NorgesGruppen has already initiated own online retailing capabilities and no strategy is in place to grow inorganically in non-core areas

Source: Nordea estimates

Peer comparison

We view NorgesGruppen's business risk profile as equal to those of Carrefour and Tesco but stronger than Ahold's. From a financial perspective, we view NorgesGruppen's credit as equal to those of Carrefour and Ahold but stronger than Tesco's.

Peer group with rated food retailers

Rated food retailers in Europe

In NorgesGruppen's peer group, we include publicly rated food retailers in Europe. The selection of companies includes France-based Carrefour, Netherlands-based Ahold and UK-based Tesco.

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

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 with larger peers with larger geographical footprints.
- 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 from a peer group perspective.

PEER GROUP COMPARISON: ASSESSED PEER POSITIONING COMPARED WITH NORGESGRUPPEN

	NorgesGruppen	Ahold Delhaize	Carrefour	Tesco
Moody's	NR\---	Baa1\Stable	Baa1\Stable	Baa1\Stable
S&P	NR\---	BBB\Stable	BBB+\Stable	BB+\Stable
Business risk profile	Strong	Satisfactory	Strong	Strong
Financial risk profile	Intermediate	Intermediate	Intermediate	Aggressive
Business Focus		Netherland-based international food retailer, offering supermarkets, online retailing and private label brands	France-based global player, operating chains of supermarkets, hypermarkets and cash and carry stores	UK-based international retailer, offering online retailing, brick and mortar supermarkets and private-label brands
RISK ASSESSMENT				
Country exposure/risk		Weaker	Weaker	Weaker
Industry exposure/risk		Weaker	Weaker	Weaker
Competitive position		Weaker	Equal	Equal
Diversification		Weaker	Equal	Equal
Business position overall		Weaker	Weaker	Weaker
Cash flow protection		Equal	Equal	Weaker
Capital structure		Equal	Equal	Weaker
Liquidity		Equal	Equal	Weaker
Financial position overall		Equal	Equal	Weaker
Performance trend		Equal	Equal	Equal
Performance prospects		Equal	Equal	Equal
Strategy/Event risk		Equal	Equal	Equal
OVERALL POSITION		Equal	Equal	Weaker
KEY FIGURES (2017)				
Total revenues (EUR m)	8,963	62,890	79,591	64,294
FFO/Debt (%)	36%	30%	35%	11%
FOCF/debt (%)	25%	19%	9%	7%
Debt/EBITDA (x)	2.0	2.6	2.2	5.4
Net debt/Capital (%)	22%	12%	43%	45%

Source: Company data, Bloomberg and Nordea

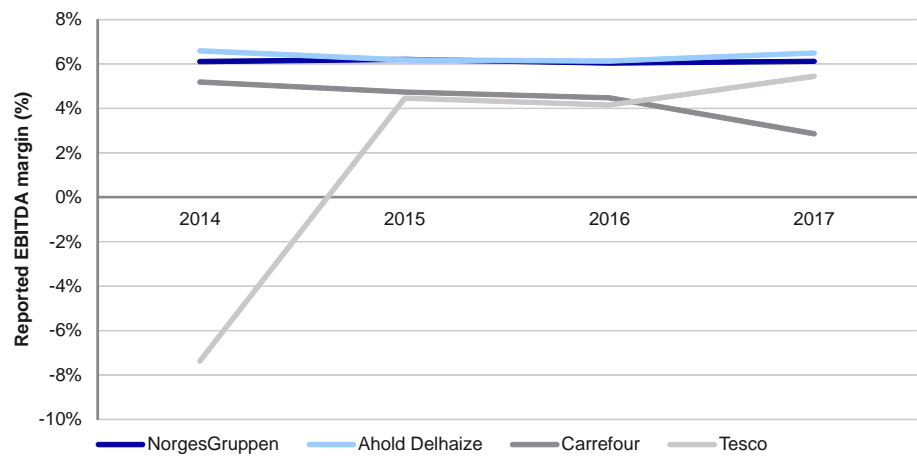
REPORTED EBITDA MARGIN (%)

	2014	2015	2016	2017
NorgesGruppen	6%	6%	6%	6%
Ahold Delhaize	7%	6%	6%	6%
Carrefour	5%	5%	4%	3%
Tesco	-7%	4%	4%	5%

Source: Company data, Bloomberg and Nordea

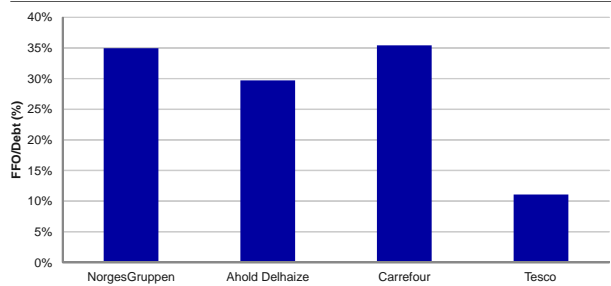
NorgesGruppen and Ahold Delhaize enjoy very stable EBITDA margins, while Carrefour's and Tesco's margins are far more volatile

REPORTED EBITDA MARGIN, %



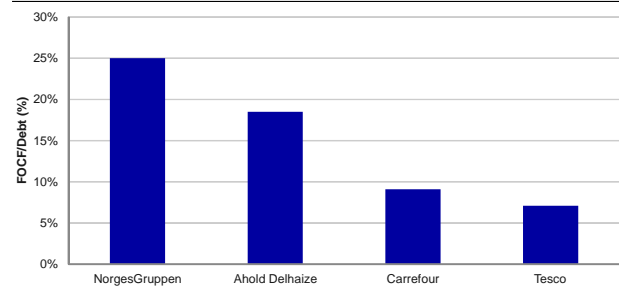
Source: Company data, Bloomberg and Nordea

FFO/DEBT (%)



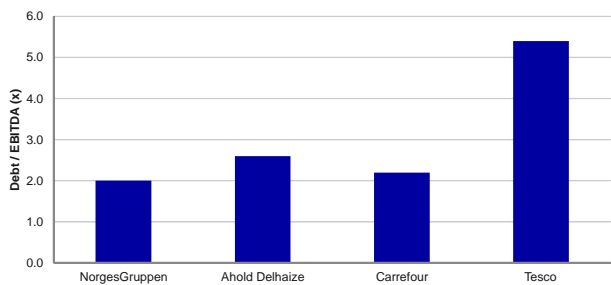
Source: Company data and Nordea

FOCF/DEBT (%)



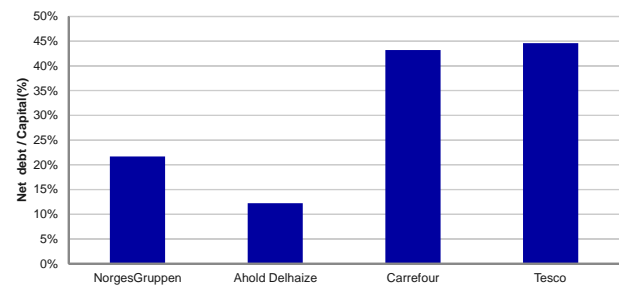
Source: Company data and Nordea

DEBT/EBITDA, (x)



Source: Company data and Nordea

DEBT/CAPITAL(%)



Source: Company data and Nordea

Credit scenarios

Our base-case scenario indicates a stronger financial performance and a continued credit profile improvement. In our stress case, in which we assume no sales growth, weaker margins and higher capex, the overall credit profile weakens moderately.

CREDIT SCENARIOS

	Business Risk profile	Financial Risk profile	Comment
Base case	Strong	Modest to intermediate	Sales growth of 6%, 5.5% and 5%, respectively, in 2018, 2019 and 2020. Capex growth in line with sales and dividend payout ratio of 27%, over the period
Stress case	Strong	Intermediate to significant	No sales growth, lower EBITDA margin, moderately higher capex and dividend payout ratio of 27% for 2018, 2019 and 2020

Source: Nordea estimates

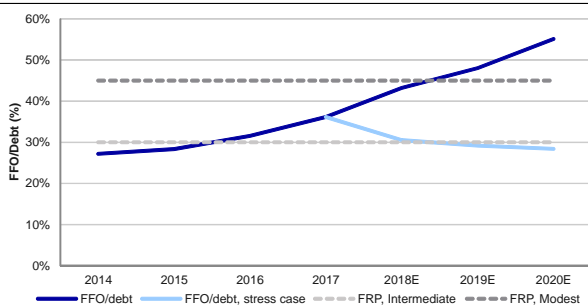
Key assumptions – base case

- Annual sales growth of 6%, 5.5% and 5% in 2018E, 2019E, 2020E, respectively, reflecting increasing competition going forward
- Stable profitability, with unadjusted EBITDA margins of 6.1%
- Annual capex of 3.1% of sales
- Dividend payout ratio (dividend relative to the previous year's net profit) of 27%

Key assumptions – stress case

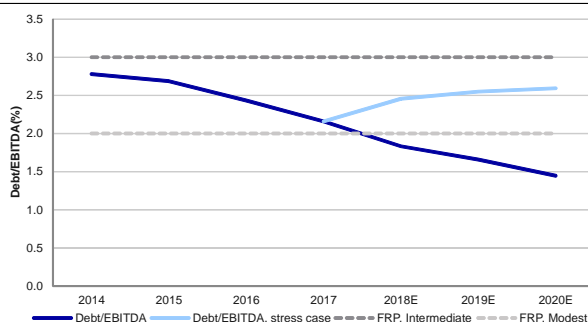
- No sales growth
- Lower unadjusted EBITDA margins of 5%
- Increase in annual capex to NOK 3.5bn
- Dividend payout ratio (dividend relative to the previous year's net profit) of 27%

FFO/DEBT, BASE CASE AND CREDIT CASE FORECASTS, %



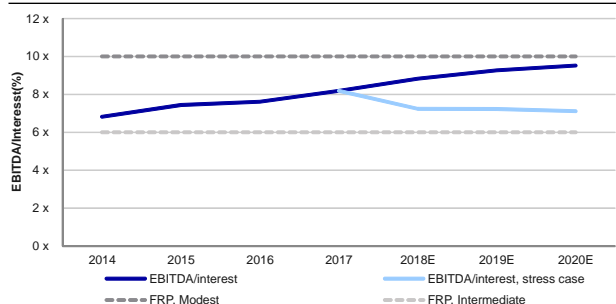
Source: Company data and Nordea estimates

DEBT/EBITDA, BASE CASE AND CREDIT CASE FORECASTS, X



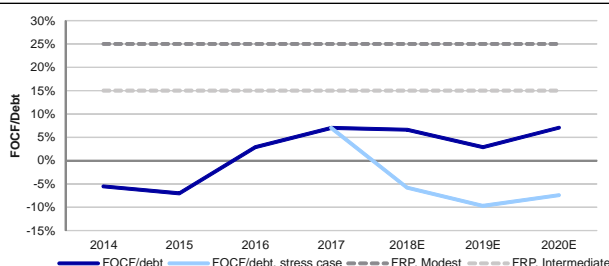
Source: Company data and Nordea estimates

EBITDA/INTEREST, BASE CASE AND CREDIT CASE (X)



Source: Company data and Nordea estimates

FOCF/DEBT, BASE CASE AND CREDIT CASE (%)



Source: Company data and Nordea estimates

FORECAST SUMMARY – CREDIT-ADJUSTED FIGURES

NOK(m)	Base case										Stress case		
	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2018E	2019E	2020E	
Revenues	62,083	67,396	71,391	76,224	80,162	85,632	90,769	95,779	100,606	85,632	85,632	85,632	
Adj. EBITDA	5,274	5,481	6,038	6,525	6,735	7,214	7,639	7,946	8,240	6,347	6,347	6,344	
- margin	8.5 %	8.1 %	8.5 %	8.6 %	8.4 %	8.4 %	8.4 %	8.3 %	8.2 %	7.4 %	7.4 %	7.4 %	
Capex	-2,953	-2,395	-2,719	-2,658	-2,922	-2,173	-2,792	-2,945	-3,093	-3,500	-3,500	-3,500	
Debt	15,284	16,528	16,781	17,532	16,377	15,576	14,000	13,171	11,917	15,584	16,181	16,446	
Equity	9,505	10,220	11,455	13,007	14,820	16,728	20,148	22,188	24,331	19,237	20,442	21,645	
FFO	3,930	4,067	4,563	4,971	5,167	5,628	6,049	6,322	6,566	4,758	4,722	4,671	
Change in N'	121	121	-346	-448	-363	291	0	0	0	-1	0	0	
OCF	3,361	2,852	3,248	3,665	4,600	5,182	4,736	5,008	5,268	3,616	3,616	3,614	
Capex	-5,412	-3,961	-4,173	-4,899	-4,131	-4,091	-3,811	-4,631	-4,431	-4,519	-5,186	-4,838	
FOCF	-2,051	-1,109	-925	-1,234	468	1,091	926	377	837	-903	-1,570	-1,224	
Net acquisiti	-195	-872	-265	-555	253	-335	0	0	0	0	0	0	
Dividends	-419	-451	-251	-524	-605	-648	-553	-680	-720	-549	-446	-446	
FFO/debt	25.7 %	24.6 %	27.2 %	28.4 %	31.5 %	36.1 %	43.2 %	48.0 %	55.1 %	30.5 %	29.2 %	28.4 %	
FOCF/debt	-13.4 %	-6.7 %	-5.5 %	-7.0 %	2.9 %	7.0 %	6.6 %	2.9 %	7.0 %	-5.8 %	-9.7 %	-7.4 %	
DCF/debt	-16.2 %	-9.4 %	-7.0 %	-10.0 %	-0.8 %	2.8 %	2.7 %	-2.3 %	1.0 %	-9.3 %	-12.5 %	-10.1 %	
Debt/EBITD/	2.9	3.0	2.8	2.7	2.4	2.2	1.8	1.7	1.4	2.5	2.5	2.6	
EBITDA/intei	6.7	6.3	6.8	7.4	7.6	8.2	8.8	9.3	9.5	7.2	7.2	7.1	
FFO/Interest	5.0	4.7	5.2	5.7	5.8	6.4	7.0	7.4	7.6	5.4	5.4	5.2	
CFO/Debt	22%	17%	19%	21%	28%	33%	34%	38%	44%	23%	22%	22%	

Source: Company data and Nordea estimates

BASE CASE, 2018E-20E

Financial Risk Profile	CORE RATIOS		SUPPLEMENTARY COVERAGE RATIOS		SUPPLEMENTARY PAYBACK RATIOS		
	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 estimates

STRESS CASE, 2018E-20E

Financial Risk Profile	CORE RATIOS		SUPPLEMENTARY COVERAGE RATIOS		SUPPLEMENTARY PAYBACK RATIOS		
	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 estimates

Reported numbers and forecasts

INCOME STATEMENT

NOKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	58,641	62,083	67,396	71,391	76,224	80,162	85,632	90,769	95,779	100,606
- growth	5.3%	5.9%	8.6%	5.9%	6.8%	5.2%	6.8%	6.0%	5.5%	5.0%
Gross profit	14,404	16,627	17,786	18,756	20,061	21,566	22,333	23,990	25,315	26,590
- margin	24.6%	26.8%	26.4%	26.3%	26.3%	26.9%	26.1%	26.4%	26.4%	26.4%
EBITDA	3,749	3,896	3,899	4,357	4,729	4,846	5,238	5,573	5,881	6,177
- margin	6.4%	6.3%	5.8%	6.1%	6.2%	6.0%	6.1%	6.1%	6.1%	6.1%
EBITA	3,749	3,896	3,899	4,357	4,729	4,846	5,238	5,573	5,881	6,177
- margin	6.4%	6.3%	5.8%	6.1%	6.2%	6.0%	6.1%	6.1%	6.1%	6.1%
EBIT	2,235	2,200	2,274	2,679	2,882	3,021	3,122	3,404	3,592	3,773
- margin	3.8%	3.5%	3.4%	3.8%	3.8%	3.8%	3.6%	3.8%	3.7%	3.7%
Net finance	-80	68	131	-63	119	144	-344	-113	-105	-102
Pre-tax profit	2,156	2,268	2,405	2,616	3,001	3,164	2,778	3,291	3,486	3,671
Taxes	-531	-555	-546	-590	-677	-683	-704	-724	-767	-808
Net profit, continuing operations	1,624	1,712	1,859	2,027	2,324	2,481	2,074	2,567	2,719	2,863
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit to equity	1,595	1,684	1,835	2,003	2,296	2,455	2,032	2,518	2,668	2,809
EBITDA (credit adj)	4,964	5,274	5,481	6,038	6,525	6,735	7,214	7,639	7,946	8,240
EBIT (credit adj)	2,660	2,685	2,833	3,270	3,523	3,700	3,824	4,117	4,305	4,497
Interest expense (credit adj)	-717	-789	-868	-885	-877	-884	-882	-865	-858	-866

Source: Company data and Nordea estimates

BALANCE SHEET

NOKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Goodwill	0	0	0	0	0	0	0	0	0	0
Other intangibles	4,343	4,885	4,813	4,760	4,905	4,895	4,832	4,832	4,832	4,832
Tangible assets	10,835	11,790	12,669	13,756	14,587	15,778	16,102	16,725	17,381	18,069
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	304	339	333	371	267	325	341	341	341	341
Other non-interest bearing non-current	1,966	1,956	2,629	2,761	3,057	2,944	3,140	3,140	3,140	3,140
Other non-current assets	282	315	725	968	1,319	1,097	776	776	776	776
Non-current assets	17,730	19,286	21,169	22,616	24,136	25,039	25,191	25,814	26,470	27,158
Inventory	4,318	4,414	4,766	5,191	5,682	6,099	6,249	6,249	6,249	6,249
Accounts receivable	3,702	3,864	4,567	5,245	4,715	4,530	5,125	5,125	5,125	5,125
Other current assets	22	7	9	64	66	7	23	23	23	23
Cash and cash equivalents	583	534	403	400	505	707	1,090	1,681	2,564	3,368
Current assets	8,625	8,819	9,745	10,899	10,968	11,343	12,487	13,078	13,961	14,766
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	26,355	28,105	30,914	33,515	35,104	36,382	37,678	38,892	40,431	41,924
Shareholders equity	9,403	9,994	11,221	12,763	14,574	16,476	17,875	19,888	21,928	24,071
Minority interest	102	226	235	244	245	252	260	260	260	260
Deferred tax	817	827	876	948	808	903	905	905	905	905
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	3,275	4,344	4,929	5,622	6,206	6,025	4,661	3,861	3,361	2,711
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	437	353	381	431	438	481	521	521	521	521
Other long-term provisions	153	139	100	206	184	111	89	89	89	89
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Non-current liabilities	4,682	5,663	6,285	7,207	7,637	7,520	6,177	5,377	4,877	4,227
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	3,849	3,678	4,338	5,162	4,671	5,543	6,095	6,095	6,095	6,095
Other current liabilities	4,453	4,917	5,191	5,301	5,980	5,415	5,892	5,892	5,892	5,892
Short term interest bearing debt	3,866	3,626	3,644	2,837	1,997	1,175	1,380	1,380	1,380	1,380
Current liabilities	12,168	12,222	13,173	13,300	12,648	12,133	13,367	13,367	13,367	13,367
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	26,355	28,105	30,914	33,515	35,104	36,382	37,678	38,892	40,431	41,924
Cash and cash eq (credit adj)	146	134	101	100	126	177	272	420	641	842
Total assets (credit adj)	32,066	35,417	38,869	41,837	44,433	45,560	47,213	47,650	48,861	49,750
Shareholders equity (credit adj)	9,505	10,220	11,455	13,007	14,820	16,728	18,135	20,148	22,188	24,331
Debt (credit adj)	12,851	15,284	16,528	16,781	17,532	16,377	15,576	14,000	13,171	11,917

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

NOKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA	3,749	3,896	3,899	4,357	4,729	4,846	5,238	5,573	5,881	6,177
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	-80	68	131	-63	119	144	-344	-113	-105	-102
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	-487	-590	-621	-642	-553	-693	-667	-724	-767	-808
Other	-228	-134	-211	43	-267	12	264	0	0	0
Operating cash flow before NWC	2,954	3,240	3,198	3,695	4,028	4,309	4,491	4,736	5,008	5,268
Change in NWC	-111	121	-346	-448	-363	291	690	0	0	0
Operating cash flow	2,843	3,361	2,852	3,248	3,665	4,600	5,182	4,736	5,008	5,268
CAPEX	-1,932	-2,953	-2,395	-2,719	-2,658	-2,922	-2,173	-2,792	-2,945	-3,093
Free Operating cash flow	911	408	458	529	1,008	1,678	3,009	1,944	2,063	2,175
Dividends paid	-415	-419	-451	-251	-524	-605	-648	-553	-680	-720
Share issues / buybacks	-198	-587	-86	-48	-16	-8	-56	0	0	0
Discretionary cash flow	299	-599	-79	230	468	1,065	2,305	1,391	1,383	1,455
Other investments / divestments	-108	-195	-872	-265	-555	253	-335	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/repaym	36	829	633	-114	-256	-238	-1,589	-800	-500	-650
Other	383	388	748	146	448	-878	0	0	0	0
Change in cash	609	423	430	-3	105	202	382	591	883	805
Adjusted metrics										
Funds from operations (FFO) (adj)	3,716	3,930	4,067	4,563	4,971	5,167	5,628	6,049	6,322	6,566
Operating cash flow (OCF) (adj)	2,843	3,361	2,852	3,248	3,665	4,600	5,182	4,736	5,008	5,268
Free operating cash flow (FOCF) (adj)	-48	-2,051	-1,109	-925	-1,234	468	1,091	926	377	837
Discretionary cash flow (DCF) (adj)	-463	-2,470	-1,559	-1,176	-1,757	-136	443	372	-303	117

Source: Company data and Nordea estimates

KEY RATIOS

Profitability	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
ROC	11.6%	10.8%	10.3%	11.0%	11.0%	11.0%	11.1%	11.8%	12.1%	12.3%
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	17.3%	17.4%	17.3%	16.7%	16.8%	15.8%	11.8%	13.3%	12.8%	12.2%
Debt & Interest coverage	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
FFO/Debt	28.9%	25.7%	24.6%	27.2%	28.4%	31.5%	36.1%	43.2%	48.0%	55.1%
FOCF/Debt	-0.4%	-13.4%	-6.7%	-5.5%	-7.0%	2.9%	7.0%	6.6%	2.9%	7.0%
DCF/Debt	-3.6%	-16.2%	-9.4%	-7.0%	-10.0%	-0.8%	2.8%	2.7%	-2.3%	1.0%
EBITDA interest coverage	-6.9	-6.7	-6.3	-6.8	-7.4	-7.6	-8.2	-8.8	-9.3	-9.5
FFO cash interest coverage	-5.2	-5.0	-4.7	-5.2	-5.7	-5.8	-6.4	-7.0	-7.4	-7.6
Leverage	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Debt/EBITDA	2.6	2.9	3.0	2.8	2.7	2.4	2.2	1.8	1.7	1.4
Equity ratio	35.7%	35.6%	36.3%	38.1%	41.5%	45.3%	47.4%	51.1%	54.2%	57.4%
Debt/(Debt+Equity)	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.3
Capital expenditure	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
CAPEX/Depreciation and amor	1.28	1.74	1.47	1.62	1.44	1.60	1.03	1.29	1.29	1.29
CAPEX/Sales	-0.03	-0.05	-0.04	-0.04	-0.03	-0.04	-0.03	-0.03	-0.03	-0.03
Working capital ratios	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Inventory turnover (days)	27	26	26	27	27	28	27	25	24	23
Receivables turnover (days)	23	23	25	27	23	21	22	21	20	19
Days sales outstanding (days)	24	22	23	26	22	25	26	25	23	22
Per share data	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
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	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
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.

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Nordea Markets analysts do not hold shares in the companies that they cover. No holdings or other affiliations by analysts or associates.

Recommendation definitions**Outperform**

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

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

Underperform

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

The relevant benchmark is set at the individual bond level, and determined by factors such as the currency, time to maturity and the credit quality of the bond. All research is produced on an ad hoc basis and will be updated when the circumstances require it.

Distribution of recommendations

Recommendation	Count	% Distribution
Outperform	130	29%
Market perform	199	44%
Underperform	123	27%
Total	452	100%

As of 1 April 2018

Market-making obligations and other significant financial interest

Nordea Markets has no market-making obligations in NorgesGruppen.

Investment banking transactions

In view of Nordea's position in its markets readers should assume that the bank may currently or may in the coming three months and beyond be providing or seeking to provide confidential investment banking services to the company/companies

Distribution of recommendations (transactions)*

Recommendation	Count	% Distribution
Outperform	79	33%
Market perform	99	41%
Underperform	61	26%
Total	239	100%

As of 1 April 2018

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

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Issuer Review

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