

NorgesGruppen ASA

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

A-
Stable

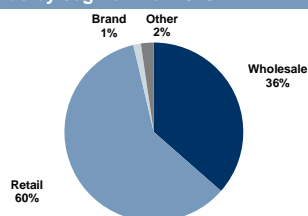
Key info

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

Nordea Markets - Analysts

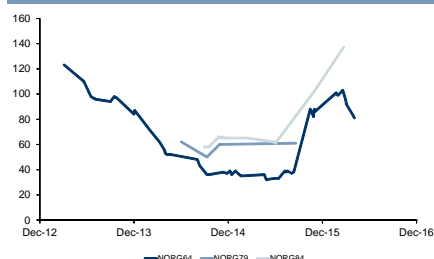
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Revenue by segment for 2015



Source: Company data and Nordea Markets

Bond spreads – spread to swap, bp



Source: OSE and Nordea Markets

Steady as she goes

NorgesGruppen's sound growth story continued in 2015. The group increased its market share in the domestic food retailing market, while at the same time preserving operating margins. The group's bond issues look slightly cheap compared with the latest credit curve from Nordic Bond Pricing, but we note the scarce liquidity, in particular with respect to the longer-dated bonds.

Stable margins, as usual

NorgesGruppen posted stronger margins in 2015, once again demonstrating its ability to grow its operations while preserving profitability. The group's reported turnover and EBITDA grew y/y by 7% and 9%, respectively, while the overall EBITDA margin strengthened to 6.2% (2014: 6.1%).

Strong and stable cash flow, supporting growth

The group's reported operating cash flow grew by 13% y/y to NOK 3,665m (2014: NOK 3,248m), helped by stronger earnings and lower working capital buildup. Operating cash flow was more than sufficient to cover net capex and investments of NOK 3,212m, illustrating the group's ability to support growth through its cash flow generation.

Credit view

We maintain our shadow rating on NorgesGruppen at A- with a Stable outlook, reflecting our assessment of a *Strong* business risk profile and an *Intermediate* financial risk profile. The credit is supported by the company's position as Norway's largest food retailer, generating highly stable and visible cash flow.

Key credit metrics and ratios (adjusted numbers)

NOKm	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
EBITDA	3,402	4,292	4,964	5,274	5,481	6,038	6,525	6,931	7,268	7,626
- margin	6%	8%	8%	8%	8%	8%	9%	9%	9%	9%
EBIT	1,860	2,274	2,660	2,685	2,833	3,270	3,523	3,847	4,157	4,490
- margin	3%	4%	5%	4%	4%	5%	5%	5%	5%	5%
Shareholders' equity	8,165	9,162	9,505	10,220	11,455	13,007	14,820	16,484	18,368	20,489
Debt	11,429	13,580	13,726	16,038	17,211	17,512	18,349	18,250	17,951	17,652
Debt/(Debt+Equity)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
FFO/Debt	25.7%	26.8%	30.9%	28.0%	26.8%	29.4%	30.8%	32.9%	35.3%	37.9%
FOCF/Debt	-5.6%	-17.9%	-4.4%	-14.5%	-11.3%	-10.1%	-9.7%	-6.2%	-5.5%	-4.7%
DCF/Debt	-7.6%	-20.4%	-7.4%	-17.1%	-13.9%	-11.5%	-12.6%	-9.4%	-8.8%	-8.0%
EBITDA interest coverage	7.3	6.6	6.9	6.7	6.3	6.8	7.4	7.5	7.8	8.2
Debt/EBITDA	3.4	3.2	2.8	3.0	3.1	2.9	2.8	2.6	2.5	2.3
ROC	11.0%	10.4%	11.2%	10.5%	10.0%	10.7%	10.8%	11.1%	11.4%	11.8%

Source: Company data and Nordea Markets

Business as usual

NorgesGruppen's sound growth story continued in 2015. The group increased its market share in the domestic food retailing market, while at the same time preserving operating margins.

Stronger margins

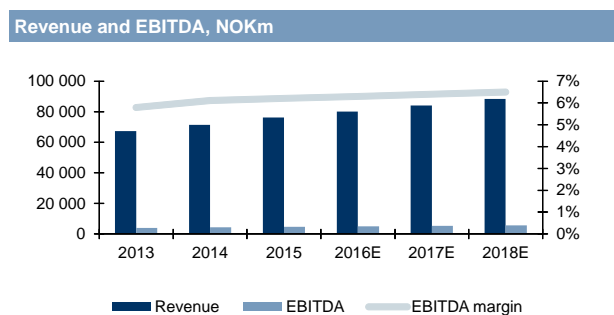
NorgesGruppen posted stronger margins in 2015, once again demonstrating its ability to grow operations while preserving profitability. The group's reported turnover and EBITDA grew y/y by 7% and 9%, respectively, while the overall EBITDA margin strengthened to 6.2% (2014: 6.1%).

Increased market share

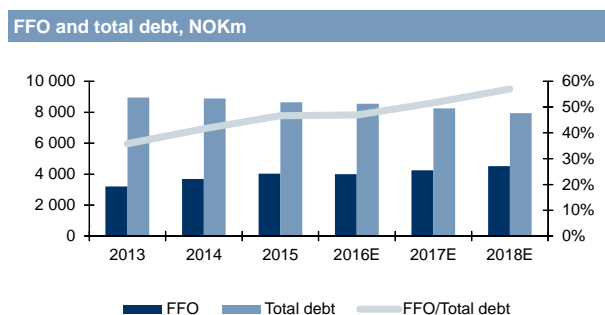
According to independent researcher Nielsen, NorgesGruppen increased its market share in domestic food retailing to 41.2% in 2015 (39.9% in 2014).

Stronger cash flow

The group's reported operating cash flow grew by 13% y/y to NOK 3,665m (2014: NOK 3,248m), helped by stronger earnings and lower working capital buildup. Operating cash flow was more than sufficient to cover net capex and investments of NOK 3,212m, illustrating the group's ability to support growth by means of cash flow generation.



Source: Company data and Nordea Markets



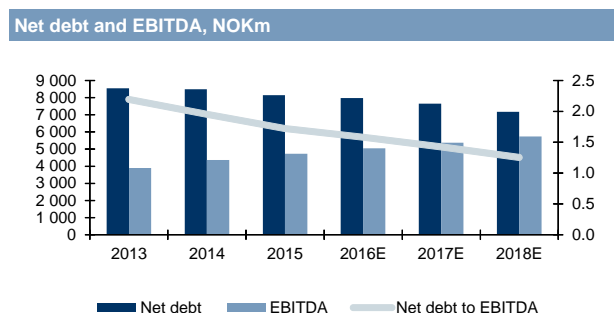
Source: Company data and Nordea Markets

Strong liquidity reserve

NorgesGruppen's liquidity reserve as of year-end 2015 amounted to NOK 5,788m, comprising cash at hand of NOK 505m and undrawn committed credit facilities of NOK 5,283m.

Improved credit metrics

The group's net debt (adjusted for operating leases and pension liabilities) increased by approximately NOK 0.7bn during 2015, ending the year at NOK 17.8bn (2014: NOK 17.1bn). However, net debt/EBITDA and FFO/total debt strengthened to 2.7x and 31% (2014: 2.8x and 29%), respectively.



Source: Company data and Nordea Markets



Source: Company data and Nordea Markets

Conservative dividend policy

NorgesGruppen distributed dividends of NOK 524m in 2015, corresponding to a dividend payout ratio (dividend to previous year's net profit) of 27% (2014: 14%). The proposed dividend for financial-year 2015 is NOK 587m, equal to a dividend payout ratio of 25%.

Credit profile considerations

Supportive business risk profile elements

The business risk profile is supported by:

- Leading market position as Norway's largest food retail player, as well as Norway's largest food wholesale player
- Significant barriers of entry in the domestic food retailing industry on account of intense price competition and protective toll barriers
- Resilient industry characteristics, as the sensitivity to economic cycles is below average.

Challenging business risk profile elements

The business risk profile is challenged by:

- Limited geographical diversification
- The wholesale operation is a low-margin business
- Risk of future expansion into non-core business segments with higher inherent risk owing to limited growth opportunities in its core business operations.

Strong business risk profile

We are of the opinion that the overall business risk profile associated with NorgesGruppen can be considered *Strong*, according to the Expanded Rating Matrix below from Standard & Poor's.

Expanded Rating Matrix – medial volatility								
2014-2016E Business Risk Profile	Minimal		- Financial Risk Profile - Modest		Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+		AA		A+/A	A-	BBB	BBB-/BB+
Strong	AA/AA-		A+/A		A-/BBB+	BBB	BB+	BB
Satisfactory	A/A-		BBB+		BBB/BBB-	BBB-/BB+	BB	B+
Fair	BBB/BBB-		BBB-		BB+	BB	BB-	B
Weak	BB+		BB+		BB	BB-	B+	B/B-
Vulnerable	BB-		BB-		BB-/B+	B+	B	B-
	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	> 50	< 1.75	> 10.5	> 14	> 40	> 30	> 18	
Modest	35-50	1.75-2.5	7.5-10.5	9-14	27.5-40	17.5-30	11-18	
Intermediate	23-35	2.5-3.5	5-7.5	5-9	18.5-27.5	9.5-17.5	6.5-11	
Significant	13-23	3.5-4.5	3-5	2.75-5	10.5-18.5	5-9.5	2.5-6.5	
Aggressive	9-13	4.5-5.5	1.75-3	1.75-2.75	7-10.5	0-5	(11)-2.5	
Highly Leveraged	< 9	> 5.5	< 1.75	< 1.75	< 7	< 0	< (11)	

Source: Standard & Poor's

Intermediate financial risk profile

Our view is that the financial risk profile associated with NorgesGruppen can be considered *Intermediate*. According to the guidelines from S&P, we evaluate credit ratios on a time series basis. We consider the group's credit ratios for the previous two years, as well as the current year's forecast.

We adjust reported debt figures

We adjust NorgesGruppen's reported debt for pension liabilities and operational lease commitments. The minimum lease payments under the group's operating lease arrangements amounted to NOK 13.1bn as of 31 December 2015.

Bond details

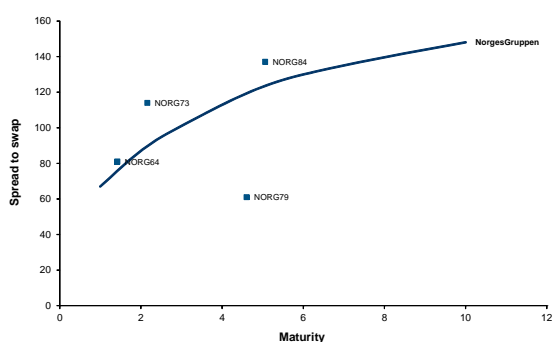
Last trade level(s)

The table below shows the last reported trades in the group's listed bonds on the OSE (the 2019 and 2024 bonds have never traded on the OSE).

Last trade levels on the OSE, sorted by maturity date										
Ticker	Issuer	Corp	Bond	Maturity	Coupon	Size (m)	Level	Spread	Date	Rank
NORG37	NorgesGruppen ASA	A-	A-	2016-06-15	N3M +85	NOK 900	100.09	43	07.04.16	Senior unsecured
NORG64	NorgesGruppen ASA	A-	A-	2017-09-19	N3M +150	NOK 800	101.00	81	04.04.16	Senior unsecured
NORG73	NorgesGruppen ASA	A-	A-	2018-06-15	N3M +105	NOK 800	99.76	114	18.12.15	Senior unsecured
NORG65	NorgesGruppen ASA	A-	A-	2019-12-05	4.43 %	NOK 500				Senior unsecured
NORG79	NorgesGruppen ASA	A-	A-	2020-11-25	3.80 %	NOK 650	109.09	61	21.08.15	Senior unsecured
NORG84	NorgesGruppen ASA	A-	A-	2021-05-10	N3M +79	NOK 700	97.13	137	22.02.16	Senior unsecured
	NorgesGruppen ASA	A-	A-	2022-03-15	N3M +150	NOK 500				Senior unsecured
NORG92	NorgesGruppen ASA	A-	A-	2024-09-25	3.25 %	NOK 300				Senior unsecured

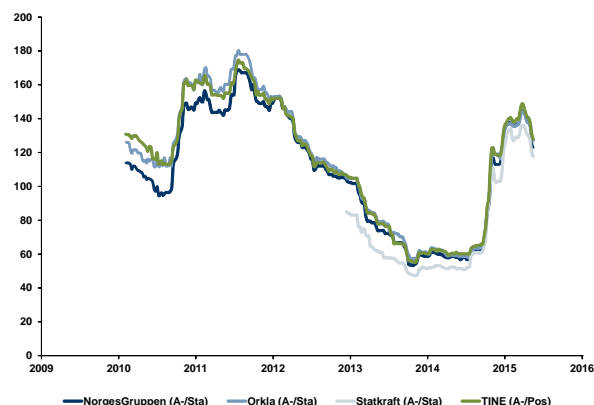
Source: OSE and Nordea Markets

Last trade levels on the OSE and NBP curve, bp



Source: Nordic Bond Pricing and Nordea Markets

Five-year indicative spread levels from NBP, bp



Source: Nordic Bond Pricing and Nordea Markets

Key details for all bond issues

- Senior unsecured.
- Ranked pari passu with unsecured bank debt.

Negative pledge language NORG37/64/65 and 73

- Negative pledge with carve-out limited up to NOK 750m.

Negative pledge language NORG79/84 and 92

- Negative pledge with carve-out limited up to NOK 1,500m.

Selected bank debt details

The following covenants apply to some of the group's bank facilities:

- Minimum equity ratio of 24%
- Maximum net debt to EBITDA of 3.5x
- Minimum interest coverage of 3.0x.

Reported numbers and forecasts

Income statement										
NOKm	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Total revenue	53,232	55,675	58,641	62,083	67,396	71,391	76,224	80,035	84,037	88,238
- growth	8.6%	4.6%	5.3%	5.9%	8.6%	5.9%	6.8%	5.0%	5.0%	5.0%
Gross profit	12,311	13,054	14,404	16,627	17,786	18,756	20,061	20,809	21,850	22,942
- margin	23.1%	23.4%	24.6%	26.8%	26.4%	26.3%	26.3%	26.0%	26.0%	26.0%
EBITDA	2,861	3,161	3,749	3,896	3,899	4,357	4,729	5,042	5,378	5,735
- margin	5.4%	5.7%	6.4%	6.3%	5.8%	6.1%	6.2%	6.3%	6.4%	6.5%
EBITA	2,861	3,161	3,749	3,896	3,899	4,357	4,729	5,042	5,378	5,735
- margin	5.4%	5.7%	6.4%	6.3%	5.8%	6.1%	6.2%	6.3%	6.4%	6.5%
EBIT	1,665	1,870	2,235	2,200	2,274	2,679	2,882	3,167	3,478	3,810
- margin	3.1%	3.4%	3.8%	3.5%	3.4%	3.8%	3.8%	4.0%	4.1%	4.3%
Net finance	-78	-4	-80	68	131	-63	119	0	0	0
Pre-tax profit	1,587	1,866	2,156	2,268	2,405	2,616	3,001	3,167	3,478	3,810
Taxes	-415	-456	-599	-614	-612	-686	-640	-887	-974	-1,067
Net profit, continuing operations	1,172	1,411	1,556	1,654	1,793	1,930	2,361	2,280	2,504	2,743
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit to equity	1,147	1,395	1,527	1,625	1,769	1,907	2,333	2,251	2,471	2,708
EBITDA (credit adj)	3,402	4,292	4,964	5,274	5,481	6,038	6,525	6,931	7,268	7,626
EBIT (credit adj)	1,860	2,274	2,660	2,685	2,833	3,270	3,523	3,847	4,157	4,490
Interest expense (credit adj)	-465	-655	-717	-789	-868	-885	-877	-930	-930	-930

Source: Company data and Nordea Markets

Balance Sheet										
NOKm	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Goodwill	0	0	0	0	0	0	0	0	0	0
Other intangibles	4,364	4,367	4,343	4,885	4,813	4,760	4,905	4,905	4,905	4,905
Tangible assets	8,891	10,813	10,835	11,790	12,669	13,756	14,587	15,462	16,412	17,437
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	116	244	304	339	333	371	267	267	267	267
Other non-interest bearing non-current assets	1,657	1,657	1,966	1,956	2,629	2,761	3,057	3,057	3,057	3,057
Other non-current assets	207	306	282	315	725	968	1,319	1,319	1,319	1,319
Non-current assets	15,234	17,387	17,730	19,286	21,169	22,616	24,136	25,011	25,961	26,986
Inventory	3,554	3,929	4,318	4,414	4,766	5,191	5,682	5,682	5,682	5,682
Accounts receivable	2,985	3,358	3,702	3,864	4,567	5,245	4,715	4,715	4,715	4,715
Other current assets	13	32	22	7	9	64	66	66	66	66
Cash and cash equivalents	324	357	583	534	403	400	505	573	590	771
Current assets	6,876	7,676	8,625	8,819	9,745	10,899	10,968	11,036	11,053	11,234
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	22,110	25,063	26,355	28,105	30,914	33,515	35,104	36,047	37,014	38,220
Shareholders equity	8,046	9,057	9,403	9,994	11,221	12,763	14,574	16,238	18,123	20,243
Minority interest	119	105	102	226	235	244	245	245	245	245
Deferred tax	622	773	817	827	876	948	808	808	808	808
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	3,402	3,941	3,275	4,344	4,929	5,622	6,206	6,106	5,806	5,506
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	372	472	437	353	381	431	438	438	438	438
Other long-term provisions	106	100	153	139	100	206	184	184	184	184
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Non-current liabilities	4,502	5,287	4,682	5,663	6,285	7,207	7,637	7,537	7,237	6,937
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	2,931	3,431	3,849	3,678	4,338	5,162	4,671	4,671	4,671	4,671
Other current liabilities	4,421	3,997	4,453	4,917	5,191	5,301	5,980	5,359	4,741	4,126
Short term interest bearing debt	2,091	3,186	3,866	3,626	3,644	2,837	1,997	1,997	1,997	1,997
Current liabilities	9,443	10,615	12,168	12,222	13,173	13,300	12,648	12,027	11,409	10,794
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	22,110	25,063	26,355	28,105	30,914	33,515	35,104	36,047	37,014	38,220
Cash and cash eq (credit adj)	324	357	583	534	403	400	505	573	590	771
Total assets (credit adj)	27,675	31,043	32,503	35,818	39,171	42,137	44,812	45,756	46,724	47,931
Shareholders equity (credit adj)	8,165	9,162	9,505	10,220	11,455	13,007	14,820	16,484	18,368	20,489
Debt (credit adj)	11,429	13,580	13,726	16,038	17,211	17,512	18,349	18,250	17,951	17,652

Source: Company data and Nordea Markets

Cash flow statement										
NOKm	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
EBITDA	2,861	3,161	3,749	3,896	3,899	4,357	4,729	5,042	5,378	5,735
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	-78	-4	-80	68	131	-63	119	0	0	0
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	-323	-362	-487	-590	-621	-642	-553	-887	-974	-1,067
Other	107	49	-228	-134	-211	43	-267	-150	-150	-150
Operating cash flow before NWC	2,567	2,844	2,954	3,240	3,198	3,695	4,028	4,005	4,254	4,518
Change in NWC	-702	-409	-111	121	-346	-448	-363	-250	-250	-250
Operating cash flow	1,865	2,435	2,843	3,361	2,852	3,248	3,665	3,755	4,004	4,268
CAPEX	-1,695	-3,068	-1,764	-2,439	-2,355	-2,679	-2,329	-2,750	-2,850	-2,950
Free Operating cash flow	170	-633	1,079	922	497	569	1,336	1,005	1,154	1,318
Dividends paid	-222	-339	-415	-419	-451	-251	-524	-587	-587	-587
Share issues / buybacks	-34	-30	-198	-587	-86	-48	-16	0	0	0
Discretionary cash flow	-86	-1,002	467	-84	-40	269	797	418	567	731
Other investments / divestments	-947	-80	-276	-709	-912	-304	-883	-250	-250	-250
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	1,031	1,634	36	829	633	-114	-256	-100	-300	-300
Other	354	-141	383	388	748	146	448	0	0	0
Change in cash	352	411	609	423	430	-3	105	68	17	181
Adjusted metrics										
Funds from operations (FFO) (adj)	2,937	3,638	4,247	4,486	4,613	5,152	5,648	6,002	6,338	6,697
Operating cash flow (OCF) (adj)	1,400	1,781	2,126	2,572	1,984	2,362	2,788	2,826	3,074	3,338
Free operating cash flow (FOCF) (adj)	-641	-2,430	-597	-2,325	-1,937	-1,771	-1,782	-1,135	-987	-824
Discretionary cash flow (DCF) (adj)	-863	-2,769	-1,012	-2,744	-2,388	-2,022	-2,306	-1,722	-1,574	-1,411

Source: Company data and Nordea Markets

Key ratios										
Profitability	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
ROC	11.0%	10.4%	11.2%	10.5%	10.0%	10.7%	10.8%	11.1%	11.4%	11.8%
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	15.1%	16.3%	16.5%	16.8%	16.7%	15.9%	17.1%	14.6%	14.4%	14.1%
Debt & Interest coverage	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
FFO/Debt	25.7%	26.8%	30.9%	28.0%	26.8%	29.4%	30.8%	32.9%	35.3%	37.9%
FOCF/Debt	-5.6%	-17.9%	-4.4%	-14.5%	-11.3%	-10.1%	-9.7%	-6.2%	-5.5%	-4.7%
DCF/Debt	-7.6%	-20.4%	-7.4%	-17.1%	-13.9%	-11.5%	-12.6%	-9.4%	-8.8%	-8.0%
EBITDA interest coverage	7.3	6.6	6.9	6.7	6.3	6.8	7.4	7.5	7.8	8.2
FFO cash interest coverage	-6.3	-5.6	-5.9	-5.7	-5.3	-5.8	-6.4	-6.5	-6.8	-7.2
Leverage	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Debt/EBITDA	3.4	3.2	2.8	3.0	3.1	2.9	2.8	2.6	2.5	2.3
Equity ratio	36.4%	36.1%	35.7%	35.6%	36.3%	38.1%	41.5%	45.0%	49.0%	53.0%
Debt/(Debt+Equity)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Capital expenditure	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
CAPEX/Depreciation and amortisation	1.42	2.38	1.17	1.44	1.45	1.60	1.26	1.47	1.50	1.53
CAPEX/Sales	0.03	0.06	0.03	0.04	0.03	0.04	0.03	0.03	0.03	0.03
Working capital ratios	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Inventory turnover (days)	24	26	27	26	26	27	27	26	25	24
Receivables turnover (days)	20	22	23	23	25	27	23	22	20	20
Days sales outstanding (days)	20	22	24	22	23	26	22	21	20	19
Per share data	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
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	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
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	19.4%	24.3%	27.2%	25.8%	25.5%	13.2%	22.4%	26.1%	23.8%	21.7%

Source: Company data and Nordea Markets

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Market perform	209	52%
Under perform	116	29%
Total	400	100%

As of 1 October 2015

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Under perform	40	14%
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As of 1 October 2015

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