

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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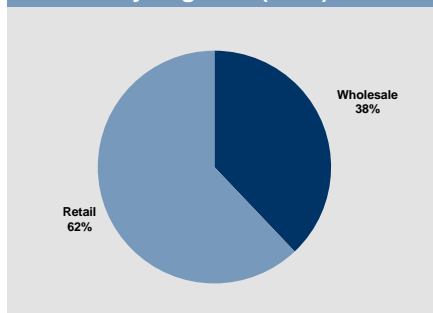
Company Ratings

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

Largest Shareholders

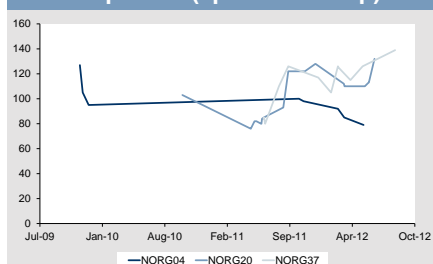
Joh. Johannson AS	69.24%
Brødrene Lorentzen AS	8.48%
PETT Kjede og Servicekontor	5.97%
Butikkdrift AS	2.06%
Drageset AS	1.00%

EBITDA by Segment (2011)



Source: NorgesGruppen

Bond Spreads (spread to swap)



Source: Nordea Markets

Continued profitable growth

NorgesGruppen once again demonstrated its positive growth story during the first half of 2012, generating improved turnover and operating margins. The group's overall credit profile remained more or less unchanged, despite higher capital expenditures, helped by stronger operating cash flow.

Continued sound growth in earnings and margins

NorgesGruppen continued to grow its business in a positive manner during the first half of 2012. Turnover grew year-on-year, positively affected by continued organic growth, acquisitions and establishment of new stores. Group EBITDA jumped even more year-on-year and the overall EBITDA margin strengthened, demonstrating cost discipline and efficient operations.

Unchanged credit profile

NorgesGruppen's net debt (adjusted for pension liabilities) increased moderately during the first half of 2012, mainly reflecting increased capital expenditures in the group's wholesale operations. The group's credit profile nevertheless remain very healthy with the net debt to EBITDA (12-months rolling) and total debt to capitalisation ratios ending the first half at 1.9x and 47% (2011: 1.9x and 44%) respectively.

Distributed dividends of NOK 420m in the first half

The group distributed dividends of NOK 420m for the financial year 2011, corresponding to a dividend pay-out ratio (dividends to net profit) of approximately 28% (2011: 30%).

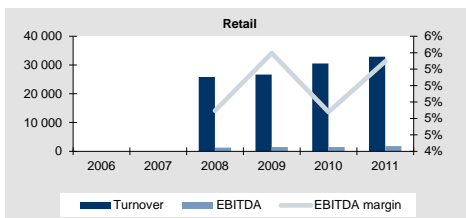
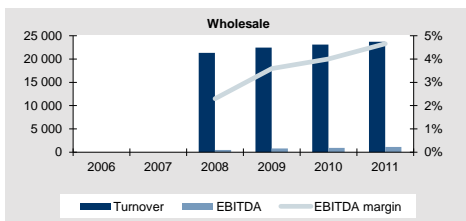
We maintain our A- rating with stable outlook

We maintain our view of NorgesGruppen as an A- credit with stable outlook, reflecting continued sound financial performance and a very healthy credit profile. The group continuously increases its market position in the domestic food retailer industry and we are of the opinion that NorgesGruppen will remain a strong credit for the years to come.

Recommendations and trade levels

The 2014 (NORG04) bond last traded on OSE early-May @ 103.11 (spread to swap +80bp), the 2015 (NORG20) bond last traded on OSE mid-June @ 99.14 (spread to swap +130bp) and the 2016 (NORG37) bond traded on OSE two weeks ago @ 98.10 (spread to swap +140bp). We maintain our market perform recommendations on the group's bonds.

Segments



Credit Update

NorgesGruppen continued to grow its business in a positive manner during the first half of 2012. Turnover grew year-on-year by 5% to NOK 29.7bn (H1-11: NOK 28.2bn), positively affected by continued organic growth, acquisitions and establishment of new stores. Group EBITDA jumped year-on-year by 17% to NOK 2.0bn (H1-11: NOK 1.7bn), while the overall EBITDA margin strengthened to 6.8% (H1-11: 6.1%). Net profit grew year-on-year, positively affected by higher contribution from associated companies.

The group's cash flow generation is highly visible and stable. FFO (funds from operations) grew year-on-year by 18% to NOK 1.5bn (H1-11: NOK 1.2bn), while the operating cash flow jumped by 28% to NOK 1.7bn (H1-11: NOK 1.3bn).

NorgesGruppen's net debt (adjusted for pension liabilities) increased by approximately NOK 730m during the first half of 2012, mainly reflecting increased capital expenditures in the group's wholesale operations. The group's credit profile nevertheless remain very healthy with the net debt to EBITDA (12-months rolling) and total debt to capitalisation ratios ending the first half at 1.9x and 47% (2011: 1.9x and 44%) respectively.

The group distributed dividends of NOK 420m for the financial year 2011, corresponding to a dividend pay-out ratio (dividends to net profit) of approximately 28% (2011: 30%). 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 very healthy credit profile. The group continuously increases its market position in the domestic food retailer industry and we are of the opinion that NorgesGruppen will remain a strong credit for the years to come.

Our credit assessment reflects the group's leading position in the domestic food retailer industry, low business risk associated with its core business operations and a very strong financial profile.

The 2014 (NORG04) bond last traded on OSE early-May @ 103.11 (spread to swap +80bp), the 2015 (NORG20) bond last traded on OSE mid-June @ 99.14 (spread to swap +130bp) and the 2016 (NORG37) bond traded on OSE two weeks ago @ 98.10 (spread to swap +140bp). We maintain our market perform recommendations on the group's bonds.

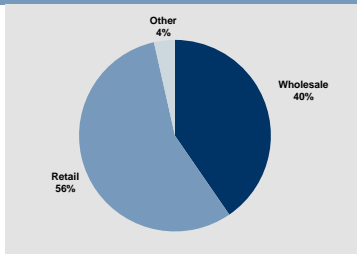
Company Data

CEO Tommy Korneliussen
 CFO Sverre R. Kjær
 Chairman Knut Hartvig Johannson
 Employees 7,584

Company Profile

NorgesGruppen ASA is the largest food retail chain in Norway with a 37% market share and a turnover of approximately NOK 59bn (2011). Its wholesale operations are by far the largest in Norway and enjoy substantial economies of scale. As of year-end 2011 the group had 1,642 stores in Norway within the chain concepts Meny, SPAR, Kiwi, Joker and Ultra.

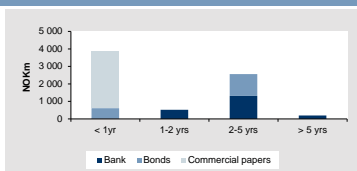
Revenue by Segment (2011)



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 2011)



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
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 700	Senior unsecured
NORG37	NorgesGruppen ASA	A-	A-	2011-06-15	2016-06-15	N3M +85	NOK 700	Senior unsecured

Bond Loan Details

- | NORG04 and NORG20 | | NORG37 | |
|--|---|--|---|
| • Senior unsecured | • Ranks pari passu with unsecured bank debt | • Senior unsecured | • Ranks pari passu with unsecured bank debt |
| • Negative pledge with carve-out limited up to a total of NOK 300m | | • Negative pledge with carve-out limited up to a total of NOK 750m | |

Financials

NorgesGruppen ASA

Income Statement, NOKm

	2006	2007	2008	2009	2010	2011	H1-12	2012e
Revenue	36 620	42 678	49 016	53 232	55 675	58 641	29 746	57 566
EBITDA	2 096	2 282	2 169	2 861	3 161	3 749	2 012	4 039
EBITDA margin	5.7%	5.3%	4.4%	5.4%	5.7%	6.4%	6.8%	7.0%
EBIT	1 410	1 409	1 065	1 665	1 870	2 235	1 184	2 383
EBIT margin	3.9%	3.3%	2.2%	3.1%	3.4%	3.8%	4.0%	4.1%
Net profit	1 056	1 180	740	1 147	1 395	1 527	912	1 832

Balance Sheet

Total assets	14 560	17 545	20 002	22 110	25 063	26 355	27 205	27 551
Cash and cash equivalents	199	280	325	324	357	583	605	1 029
Shareholders equity	5 605	6 939	7 145	8 165	9 162	9 505	9 476	10 396
Total debt	2 696	3 678	5 683	5 493	7 128	7 141	7 893	7 293

Cash Flow

FFO	1 737	1 910	1 818	2 567	2 844	2 954	1 470	2 712
Operating cash flow	1 644	1 469	886	1 865	2 435	2 843	1 700	2 942
Capex	-1 806	-2 759	-2 611	-2 642	-3 148	-2 040	-1 659	-2 409
Free operating cash flow	-161	-1 289	-1 725	-777	-713	803	41	533
Dividend	-255	-294	-348	-222	-339	-415	-420	-420
Retained cash flow	-416	-1 583	-2 073	-999	-1 052	388	-379	113

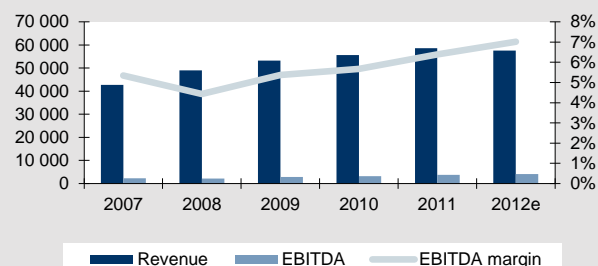
Adjusted key ratios

Net debt	2 780	3 727	5 777	5 541	7 243	6 995	7 725	6 701
Total debt	2 979	4 006	6 102	5 865	7 600	7 578	8 330	7 730
Total debt to capitalisation	35 %	37 %	46 %	42 %	45 %	44 %	47 %	43 %
Net debt to EBITDA (12 months rolling)	1.3	1.6	2.7	1.9	2.3	1.9	1.9	1.7
Interest coverage	12.1	8.5	4.2	6.9	8.4	8.4	9.5	9.6
EBITDA to interest expense	16.2	11.0	6.6	10.6	12.6	12.8	13.2	13.3
Capex to sales	5 %	6 %	5 %	5 %	6 %	3 %	6 %	4 %
FFO (12 months rolling)/total debt	58 %	48 %	30 %	44 %	37 %	39 %	36 %	35 %
Return on Equity	19 %	17 %	10 %	14 %	15 %	16 %	10 %	18 %

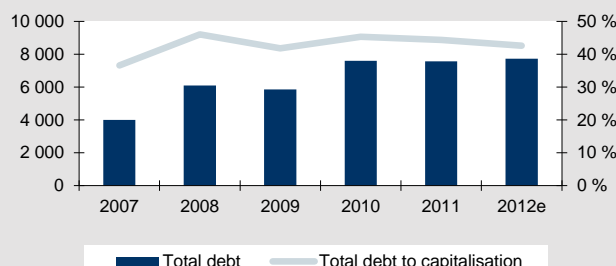
Adjusted for pension liabilities and operational leases

Nordea Credit Research estimates

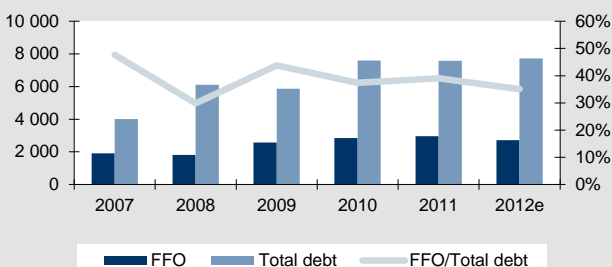
Sales and EBITDA



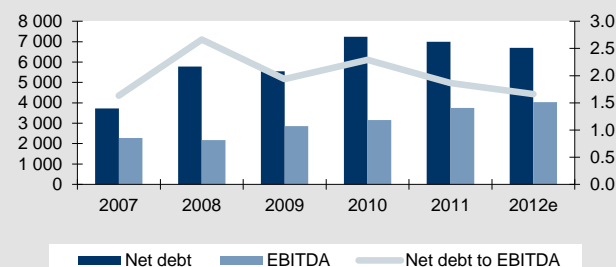
Total Debt to Capitalisation



FFO to Total Debt



Net Debt to EBITDA



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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.

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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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