

## NorgesGruppen ASA

Food Retailing  
Norway

## Market Perform

### Key Data

Ticker	Not Listed
M Cap	-
Website	<a href="http://www.norgesgruppen.no">www.norgesgruppen.no</a>

### Nordea Markets – Analyst

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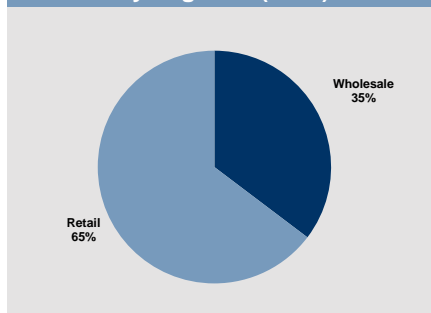
### Company Ratings

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

### Largest Shareholders

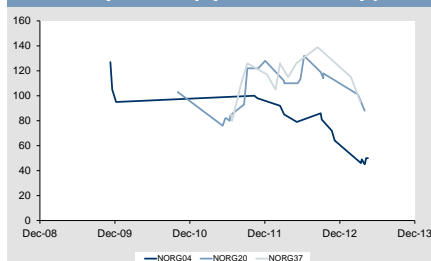
Joh. Johannson AS	69.24%
Brødrene Lorentzen AS	8.48%
PETT Kjede og Servicekontor	5.97%
Butikkdrift AS	2.06%
Drageset AS	1.00%

### EBITDA by Segment (2012)



Source: NorgesGruppen

### Bond Spreads (spread to swap)



Source: Nordea Markets

### Record-high cash flow generation

*NorgesGruppen posted strong earnings in 2012, demonstrating its continued positive growth story and strengthened market position. The group's overall credit profile remained strong, benefiting from ample operating margins and record-high operating cash flow generation.*

### Sound operating margins

NorgesGruppen posted strong earnings in 2012 and the group continues to strengthen its market position. Turnover and EBITDA grew year-on-year by 6% and 4% respectively, while the overall EBITDA margin ended at 6.3% (2011: 6.4%). The domestic food retail industry is a very competitive arena with considerable price pressure, but NorgesGruppen demonstrated sound organic growth.

### Further market penetration

According to the independent researcher Nielsen, NorgesGruppen increased its market share in the domestic food retailing market to 38.5% (2011: 37.4%). NorgesGruppen's turnover growth rate was higher than the market growth, which is estimated to 3.1%.

### Unchanged credit profile

The group's net debt grew by approximately NOK 800m, reflecting continued high level of investments. Nevertheless, the group's financial profile remained healthy with the net debt to EBITDA and total debt to capitalisation ratios ending the year at 2.0x and 45% respectively.

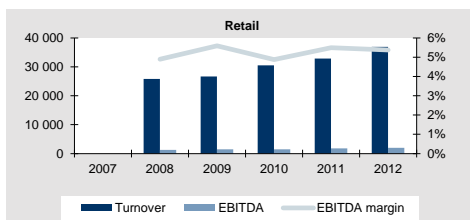
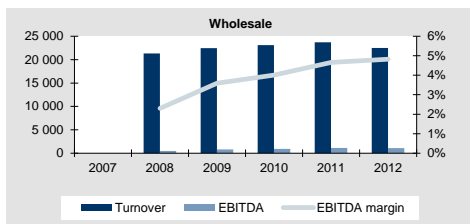
### We maintain our A- rating with stable outlook

We maintain our view of NorgesGruppen as an A- credit with stable outlook, reflecting continued sound financial performance and a very 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.

### Recommendations and trade levels

We maintain our market perform recommendations on the group's listed bonds (an overview of recent trading levels can be found on page 2).

## Segments



## Credit Update

NorgesGruppen posted strong earnings in 2012 and the group continues to strengthen its market position. Turnover and EBITDA grew year-on-year by 6% and 4% respectively, while the overall EBITDA margin ended at 6.3% (2011: 6.4%). The domestic food retail industry is a very competitive arena with considerable price pressure, but NorgesGruppen demonstrated sound organic growth.

According to the independent researcher Nielsen, NorgesGruppen increased its market share in the domestic food retailing market to 38.5% (2011: 37.4%). NorgesGruppen's growth rate was higher than the market growth, which is estimated to 3.1%.

The group's *Wholesale* operations benefited from continued focus on cost efficiency and the segment's EBITDA margin strengthened to 4.8% (2011: 4.7%).

The *Retail* operations posted growth in turnover, but intense price pressure negatively affected margins, and the segment's EBITDA margin weakened marginally to 5.4% (2011: 5.5%).

NorgesGruppen's cash flow generation is highly visible and stable. FFO (funds from operations) grew year-on-year by 10% to NOK 3.2bn (2011: NOK 3.0bn), while the operating cash flow increased by 18% to NOK 3.4bn (2011: NOK 2.8bn).

The group's net debt (adjusted for pension liabilities) grew by approximately NOK 800m, reflecting continued high level of investments. Nevertheless, the group's financial profile remained healthy with the net debt to EBITDA and total debt to capitalisation ratios ending the year at 2.0x and 45% (2011: 1.9x and 44%) respectively.

The group distributed dividend of NOK 419m for the financial year 2011, corresponding to a dividend pay-out ratio of approximately 27% (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 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, low business risk associated with its core business operations, cash flow stability and a very strong financial profile.

We maintain our market perform recommendations on the group's bonds, which last traded on OSE at the below levels (the listed 2019 bond has never traded on OSE):

Ticker	Issuer	Corp	Bond	Issue	Maturity	Coupon	Size (m)	Level	Spread	Date	Rank
NORG04	NorgesGruppen ASA	A-	A-	2009-03-05	2014-03-05	N3M +250	NOK 750	101.75	50	18.04	Senior unsecured
NORG20	NorgesGruppen ASA	A-	A-	2010-05-10	2015-05-11	N3M +100	NOK 700	100.25	88	02.04	Senior unsecured
NORG37	NorgesGruppen ASA	A-	A-	2011-06-15	2016-06-15	N3M +85	NOK 900	99.67	95	12.03	Senior unsecured
NORG64	NorgesGruppen ASA	A-	A-	2012-09-19	2017-09-19	N3M +150	NOK 800	101.15	123	07.03	Senior unsecured
NORG65	NorgesGruppen ASA	A-	A-	2012-12-05	2019-12-05	4.43 %	NOK 500	-	-	-	Senior unsecured

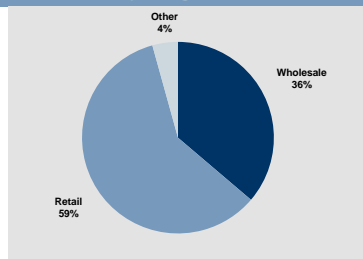
**Company Data**

CEO Tommy Korneliussen  
 CFO Sverre R. Kjær  
 Chairman Knut Hartvig Johansson  
 Employees 9,185

**Company Profile**

NorgesGruppen is the largest food retail chain in Norway with a 38% market share and a turnover of approximately NOK 62bn (2012). Its wholesale operations are by far the largest in Norway and enjoy substantial economies of scale. As of year-end 2012 the group had 1,692 stores in Norway within the chain concepts Meny, SPAR, Kiwi, Joker and Ultra.

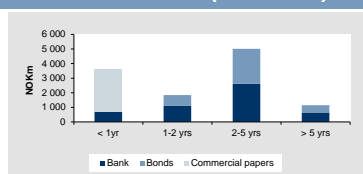
**Revenue by Segment (2012)**



**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 2012)**



**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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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 900	Senior unsecured
NORG64	NorgesGruppen ASA	A-	A-	2012-09-19	2017-09-19	N3M +150	NOK 800	Senior unsecured
NORG65	NorgesGruppen ASA	A-	A-	2012-12-05	2019-12-05	4.43 %	NOK 500	Senior unsecured

**Bond Loan Details**

- |   |   |
|---|---|
| <p><b>NORG04 and NORG20</b></p> <ul style="list-style-type: none"> <li>• Senior unsecured</li> <li>• Ranks pari passu with unsecured bank debt</li> <li>• Negative pledge with carve-out limited up to a total of NOK 300m</li> </ul> | <p><b>NORG37, NORG64 and NORG65</b></p> <ul style="list-style-type: none"> <li>• Senior unsecured</li> <li>• Ranks pari passu with unsecured bank debt</li> <li>• Negative pledge with carve-out limited up to a total of NOK 750m</li> </ul> |
|---|---|

Financials

NorgesGruppen ASA

Income Statement, NOKm

	2005	2006	2007	2008	2009	2010	2011	2012
Revenue	31 531	36 620	42 678	49 016	53 232	55 675	58 641	62 083
EBITDA	1 812	2 096	2 282	2 169	2 861	3 161	3 749	3 896
EBITDA margin	5.7%	5.7%	5.3%	4.4%	5.4%	5.7%	6.4%	6.3%
EBIT	913	1 410	1 409	1 065	1 665	1 870	2 235	2 200
EBIT margin	2.9%	3.9%	3.3%	2.2%	3.1%	3.4%	3.8%	3.5%
Net profit	699	1 056	1 180	740	1 147	1 395	1 527	1 625

Balance Sheet

Total assets	12 442	14 560	17 545	20 002	22 110	25 063	26 355	28 105
Cash and cash equivalents	133	199	280	325	324	357	583	534
Shareholders equity	4 662	5 605	6 939	7 145	8 165	9 162	9 505	10 220
Total debt	2 604	2 696	3 678	5 683	5 493	7 128	7 141	7 971

Cash Flow

FFO	1 711	1 737	1 910	1 818	2 567	2 844	2 954	3 240
Operating cash flow	1 875	1 644	1 469	886	1 865	2 435	2 843	3 361
Capex	-958	-1 806	-2 759	-2 611	-2 642	-3 148	-2 040	-3 148
Free operating cash flow	917	-161	-1 289	-1 725	-777	-713	803	213
Dividend	-198	-255	-294	-348	-222	-339	-415	-419
Retained cash flow	719	-416	-1 583	-2 073	-999	-1 052	388	-206

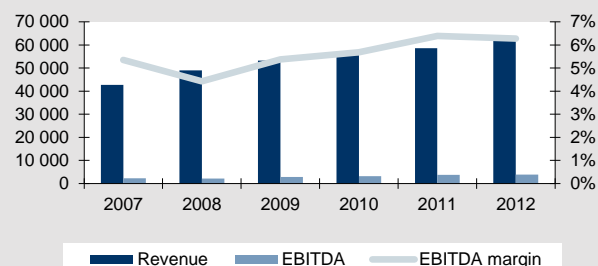
Adjusted key ratios

Net debt	2 529	2 780	3 727	5 777	5 541	7 243	6 995	7 790
Total debt	2 662	2 979	4 006	6 102	5 865	7 600	7 578	8 324
Total debt to capitalisation	36 %	35 %	37 %	46 %	42 %	45 %	44 %	45 %
Net debt to EBITDA (12 months rolling)	1.4	1.3	1.6	2.7	1.9	2.3	1.9	2.0
Interest coverage	7.6	12.1	8.5	4.2	6.9	8.4	8.4	8.5
EBITDA to interest expense	12.1	16.2	11.0	6.6	10.6	12.6	12.8	12.8
Capex to sales	3 %	5 %	6 %	5 %	5 %	6 %	3 %	5 %
FFO (12 months rolling)/total debt	64 %	58 %	48 %	30 %	44 %	37 %	39 %	39 %
Return on Equity	15 %	19 %	17 %	10 %	14 %	15 %	16 %	16 %

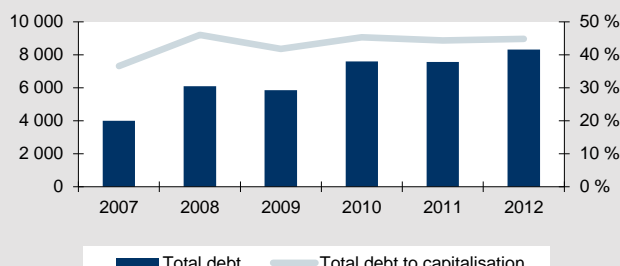
Adjusted for pension liabilities and operational leases

Nordea Credit Research estimates

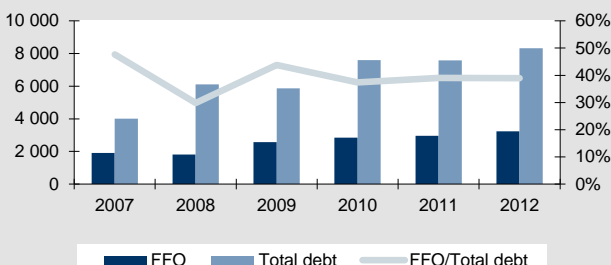
Sales and EBITDA



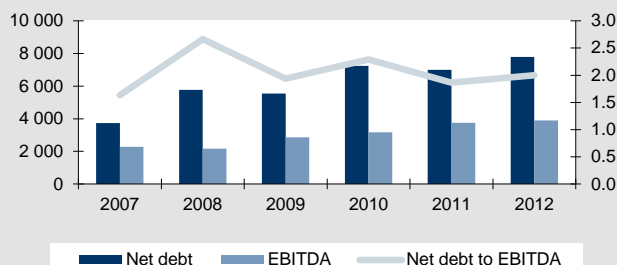
Total Debt to Capitalisation



FFO to Total Debt



Net Debt to EBITDA



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**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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<b>Recommendation</b>	<b>Count</b>	<b>% of total</b>
Outperform	35	27
Market perform	70	54
Underperform	24	19
<b>Total</b>	<b>129</b>	<b>100</b>

As of October 18, 2011

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