

24 April 2009

NorgesGruppen ASA

Market Perform

Full-Year Report 2008

Company Profile

NorgesGruppen ASA (NORG) is the largest food retail chain in Norway with a 39.8% market share and a turnover of approximately NOK 49bn (2008). Its wholesale operations are by far the largest in Norway and enjoy substantial economies of scale. As of year-end 2008 the group had 1,963 stores in Norway, of which 553 are majority owned and the remaining are retail-owned.

Credit Supportive

- Leading market player with excellent market positions
- High barriers to entry in the Norwegian food retailing industry
- Resilient industry characteristics as the industry's sensitivity to economic cycles is below average
- Very strong credit profile

Credit Concerns

- Earnings and cash flow are geographically undiversified
- Relatively low operating margins from the wholesale operations
- Limited growth opportunities in its core businesses and we see a risk of expansion in other, less profitable, business segments

Credit Update

NORG demonstrated continued growth during 2008, but its operating margins came under pressure due to increased competition. Turnover increased year-on-year by 15%, while the EBITDA and net profit declined by 5% and 37% respectively. The group's overall EBITDA margin weakened to 4.4% (2007: 5.3%). NORG guides that the cost of goods will continue to increase in 2009, but argue that the group is well positioned for future growth.

Net debt grew by NOK 2.0bn during 2008 and its key credit ratios weakened slightly. The net debt to EBITDA and total debt to capitalisation ratios ended 2008 at 2.7x and 46% (2007: 1.6 and 37%).

Our View

We view NORG as an A- credit with stable outlook. Our assessment reflects the group's leading position in the less than average cyclical Norwegian grocery retail industry. Despite recent margin pressure, we consider the operating profile to be above average. The group's financial profile is conservative with very low leverage and strong key credit ratios.

The group's 2012 (NORG02) bond last traded on the stock exchange in March @ 95.70, implying a spread to swap of +200bp. The 2014 (NORG04) is indicated @ par, spread to swap of +250bp.

Company Ratings

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

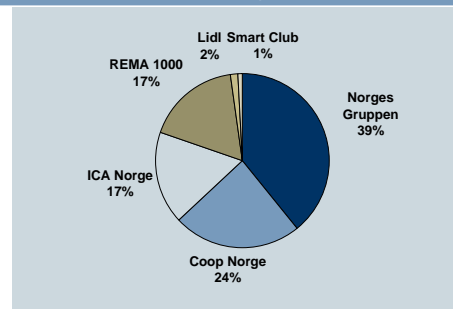
Key Data

Ticker	Not listed
Sector	Food Retailing
Country	Norway
M Cap	-
Web	www.norgesgruppen.no

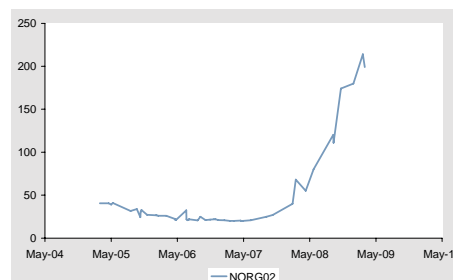
Largest Shareholders

Joh. Johannson AS	69.24%
Brødrene Lorentzen AS	8.48%
PETT Kjede og Servicekontor AS	5.97%
AKA AS	5.29%
Butikkdrift AS	3.78%

Market Shares Grocery Retail (2007)



Bond Spreads (Spread to Swap)



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Lars Kirkeby holds no shares in NorgesGruppen ASA

Ticker	Issuer	Corp	Bond	Issue	Maturity	Coupon	Size (m)	Rank
NORG02	NorgesGruppen ASA	A-	A-	2005-02-18	2012-02-20	N3M +40	NOK 600	Senior unsecured
NORG04	NorgesGruppen ASA	A-	A-	2009-03-05	2014-03-05	N3M +250	NOK 750	Senior unsecured

Financials

NorgesGruppen ASA

Income Statement, NOKm

	2001	2002	2003	2004	2005	2006	2007	2008
Revenue	23 358	24 814	26 919	28 148	31 531	36 620	42 678	49 016
EBITDA	1 043	1 138	1 203	1 459	1 812	2 096	2 282	2 169
EBITDA margin	4.5%	4.6%	4.5%	5.2%	5.7%	5.7%	5.3%	4.4%
EBIT	487	520	517	669	913	1 410	1 409	1 065
EBIT margin	2.1%	2.1%	1.9%	2.4%	2.9%	3.9%	3.3%	2.2%
Net profit	208	218	349	433	699	1 056	1 180	740

Balance Sheet

Total assets	9 716	9 525	10 836	11 755	12 442	14 560	17 545	20 002
Cash and cash equivalents	556	288	174	152	133	199	280	325
Shareholders equity	2 944	3 140	3 917	4 202	4 662	5 605	6 939	7 145
Total debt	3 051	2 552	3 060	3 376	2 604	2 696	3 678	5 683

Cash Flow

FFO	722	885	1 061	1 226	1 711	1 737	1 910	1 818
Operating cash flow	752	1 299	896	1 234	1 875	1 644	1 469	886
Capex	-184	-500	-1 333	-1 371	-958	-1 806	-2 759	-2 611
Free operating cash flow	568	799	-437	-137	917	-161	-1 289	-1 725
Dividend	-7	-4	-92	-123	-198	-255	-294	-348
Retained cash flow	561	796	-529	-259	719	-416	-1 583	-2 073

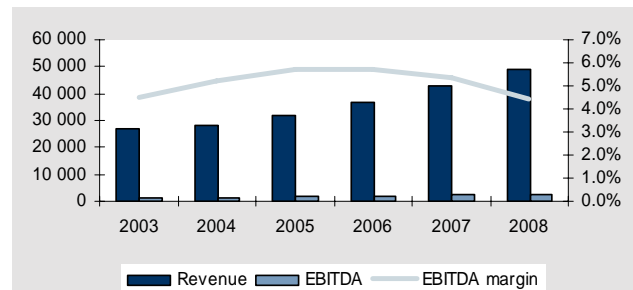
Adjusted key ratios

Net debt	2 545	2 308	2 932	3 270	2 529	2 780	3 727	5 777
Total debt	3 101	2 596	3 106	3 421	2 662	2 979	4 006	6 102
Total debt to capitalisation	51%	45%	44%	45%	36%	35%	37%	46%
Net debt to EBITDA (12 months rolling)	2.4	2.0	2.4	2.2	1.4	1.3	1.6	2.7
Interest coverage	1.9	2.6	3.1	4.4	7.6	12.1	8.5	4.2
EBITDA to interest expense	2.7	4.2	5.4	7.9	12.1	16.2	11.0	6.6
Capex to sales	1%	2%	5%	5%	3%	5%	6%	5%
FFO (12 months rolling)/total debt	23%	34%	34%	36%	64%	58%	48%	30%
Return on Equity	7%	7%	9%	10%	15%	19%	17%	10%

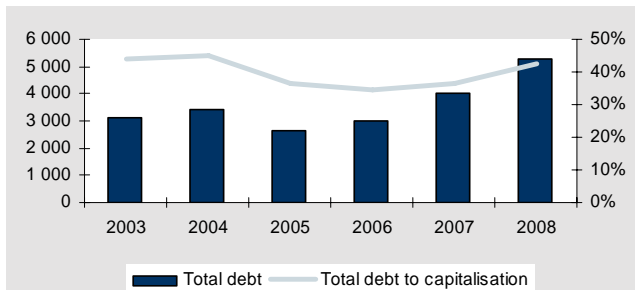
Adjusted for pension liabilities and operational leases

Nordea Credit Research estimates

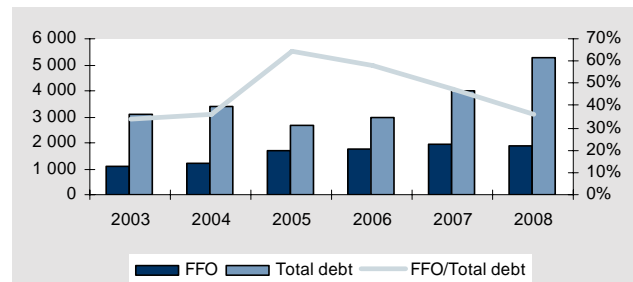
Sales and EBITDA



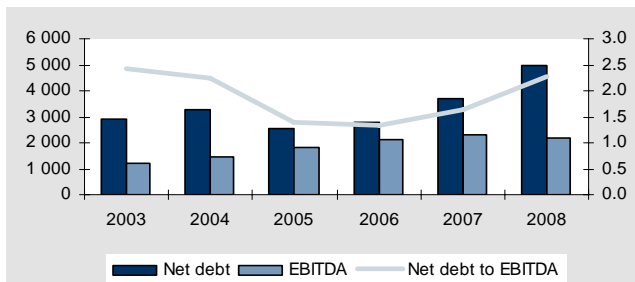
Total Debt to Capitalisation



FFO to Total Debt



Net Debt to EBITDA



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Outperform

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	34	17
Market perform	132	64
Underperform	40	19
Total	206	100

As of February 3, 2009

Credit products refer to both credit default swaps and bond issues for covered companies. For credit default swaps the 5 year maturity is included.

Analyst shareholdings

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