

NORGESGRUPPEN ASA

Increased market share

NorgesGruppen is market leader in Norway's grocery retail and wholesale industry, and increased its grocery retail market share to 39.9% in 2014 despite fierce competition. In our view, the Norwegian grocery retail and wholesale industry is robust, and we believe NG's business will be resilient to the negative changes in the Norwegian economy.

Rating summary. Our corporate credit rating (A-) on NorgesGruppen ("NG" or "the company") reflects its market-leading position within grocery retail and wholesale in Norway. It has a powerful bargaining position with suppliers, enjoys substantial economies of scale, and increased its grocery retail market share by 0.5% to 39.9% in 2014. Capping the rating is low margins (adjusted EBITDA margin of 8.7% in H1 2015), which is characteristic of the competitive grocery retail industry. The company has a negative pledge strategy and its outstanding bonds are all senior unsecured. We calculate the recovery for bondholders to be 30–70% in the event of default. Hence, we have rated the bonds the same as the corporate credit rating (A-) in line with S&P's rating methodology.

Credit strengths: 1) number one market position within grocery retail and wholesale in Norway; 2) strong bargaining power with suppliers; 3) conservative financial risk profile; and 4) significant barriers to entry in the Norwegian grocery and wholesale industry due to intense price competition, economies of scale and protective toll policies.

Credit weaknesses: 1) low-margin business with fierce competition between retail chains in Norway; 2) limited growth possibilities in Norway; 3) capital-intensive industry that requires sizeable investments; and 4) large off-balance sheet liabilities related to operational leases (all financial ratios are adjusted for these leases).

Recent events: 1) Coop Handel Norge AS acquired ICA Norge AS in H1 2015 (approval from the Norwegian Competition Authority involved NorgesGruppen taking over 50 of ICA's stores in Norway); 2) NorgesGruppen has signed an agreement with ESSO to operate and develop its retail store concept in the owned stores; 3) NG completed the sale of Grorud Nærcenter, Rykkinn Nærcenter, Tangen Sentrum Nærcenter and Fagernes Shopping Centre to Scala Retail Property (51% owned by Fredriksborg AS and 49%-owned by NorgesGruppen) on 1 May 2015.

Issuer: A-/Stable

ISSUER RATING

DNB Markets	A-/Stable
Moody's	NR
S&P	NR
Fitch	NR

BLOOMBERG IDENTIFIERS

Equity ticker	
Bond ticker	NORGRU Corp

CAPITAL STRUCTURE

Market cap. (NOKm)	
NIBD (NOKm)	9,369
Enterprise value (NOKm)	
Bond debt outstanding (NOKm)	4,650

MANAGEMENT

CEO	Tommy Korneliussen
CFO	Sverre R. Kjær

RATINGS CRITERIA (1-6)

Country	Very low (1)
Industry	Low (2)
Country & Industry	Low (2)
Competitive position	Strong (2)
Business risk	Strong (2)
Financial risk	Intermediate (3)

BONDS OUTSTANDING

NOK300m Sr.unsec. 09/24	A-
NOK700m Sr.unsec. 05/21	A-
NOK650m Sr.unsec. 11/25	A-
NOK800m Sr.unsec. 06/18	A-
NOK900m Sr.unsec. 06/16	A-
NOK800m Sr.unsec. 09/17	A-
NOK500m Sr.unsec. 12/19	A-

Key financial figures - NorgesGruppen ASA (EOY in NOKm)

	2009	2010	2011	2012	2013	2014	2015e
Total revenues	53,232	55,675	58,641	62,083	67,396	71,391	71,956
EBITDA	2,861	3,161	3,749	3,896	3,899	4,357	4,334
TIBD	6,267	7,113	7,130	7,956	8,559	8,447	9,655
Total assets	22,110	25,063	26,355	28,105	30,914	33,515	33,728
EBITDA margin (%)	7.5	7.9	8.4	9.0	8.5	8.8	8.7
TIBD/EBITDA (x)	3.2	3.1	2.8	2.9	3.0	2.8	3.0
TIBD/total capital (%)	60.8	60.0	59.4	61.2	60.2	57.5	61.1

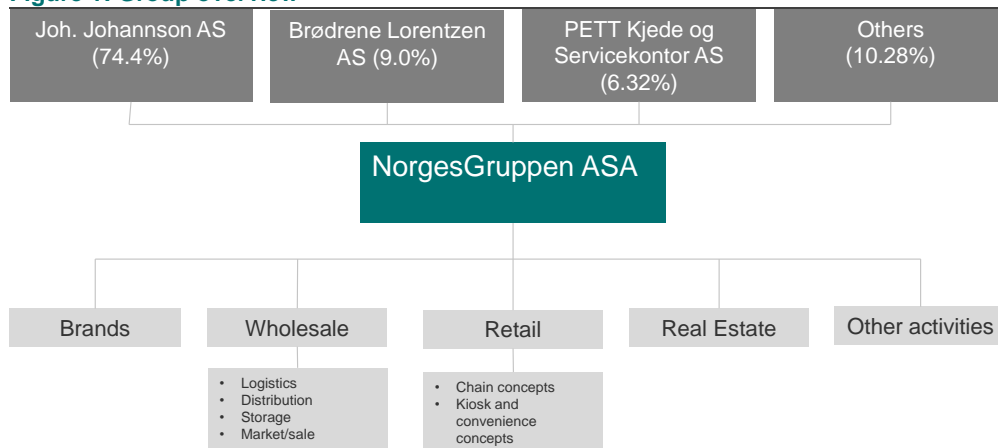
Source: Company, DNB Markets

ANALYSTS

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Please see the last two pages for important information

Figure 1: Group overview



Source: Company, DNB Markets

NorgesGruppen's core business is grocery retail and wholesale for consumer products. It owns several retail chain concepts and convenience/kiosk concepts. The ASKO companies deliver goods to NG's grocery and convenience stores, petrol stations and restaurants, while the Storcash sites are NG's cash and carry business. NG also owns some real estate, mainly storage and retail space, as well as shares in several associated companies (see page 5).

Business risk profile

We consider NG's business risk profile to be strong.

Retail – 60% of H1 2015 revenue

Grocery: NG is the number one player in the grocery retail sector in Norway, with a 39.9% market share in 2014, an increase of 0.5% from 2013 according to AC Nielsen's 2015 Grocery Report. The rest of the Norwegian grocery retail market is dominated by two other large players – Coop SA and ReitanGruppen – and combined, these three have 96.4% of the market. According to the AC Nielsen report, the total grocery market in Norway was worth NOK160.1bn in 2014. NorgesGruppen owns several retail concepts, namely Kiwi, Meny, Spar/Eurospar, Joker, Ultra, Centra, Jacobs, Nærbutikken, Safari and CC Dagligvare. Revenue comes from both the sale of goods in self-owned stores and from chain membership charges.

Service trade: NG also has a target of capturing a leading market share within kiosks and fast food in Norway. It has both self-operated and franchised retail outlets in attractive locations such as shopping centres and traffic hubs. NorgesGruppen's retail trade consists of the Mix, Deli de Luca, Jafs, Dolly Dimple's, Kaffebrenneriet (50%) and Big Horn Steak House (50%) chains.

Wholesale – 37% of H1 2015 revenue

ASKO: NG's wholesale business consists of 13 ASKO companies across Norway as well as the central warehouse and the joint loading terminal at Vestby in Akershus. ASKO delivers goods to grocery/food retail, convenience stores and the retail trade.

Storcash: NG's wholesale business has established the cash & carry concept Storcash in Oslo, Stavanger, Skien, Haugesund, Bergen, Fredrikstad, Trondheim and Kristiansand. It currently has c10,000 customers.

Real estate – 0.6% of H1 2015 revenue

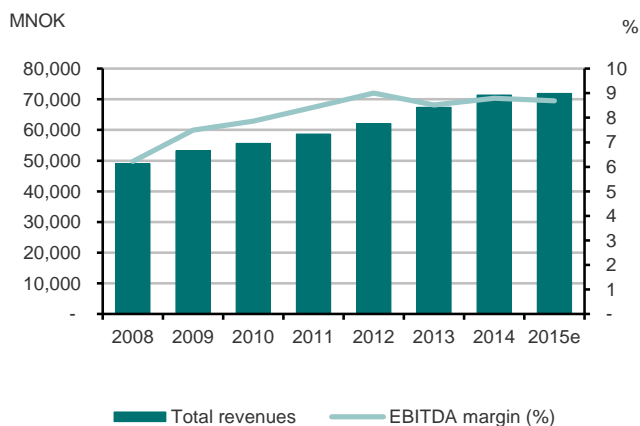
NG owns more than 800,000sqm of real estate spread across more than 200 properties, predominantly retail stores. In addition they own several warehouses, and have a 49% stake in Scala Retail Property (see table on page 5).

Largest player in the grocery retail business in Norway

Increased market share to 39.9% in 2014

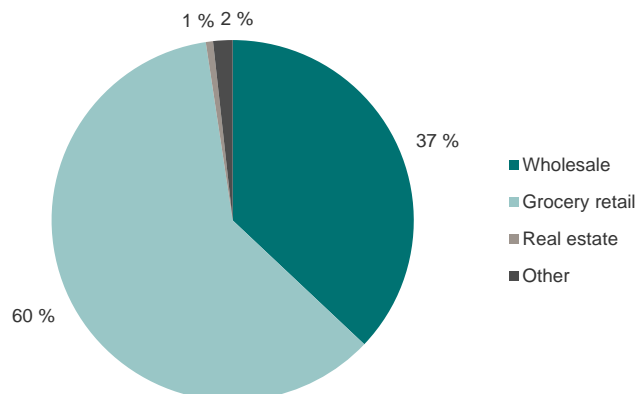
NG also has a strong position in the wholesale segment

Figure 2: Revenue and margins (NOKm)



Source: Company, DNB Markets

Figure 3: Revenue by segment 1H 2015



Source: Company, DNB Markets

Increased market share

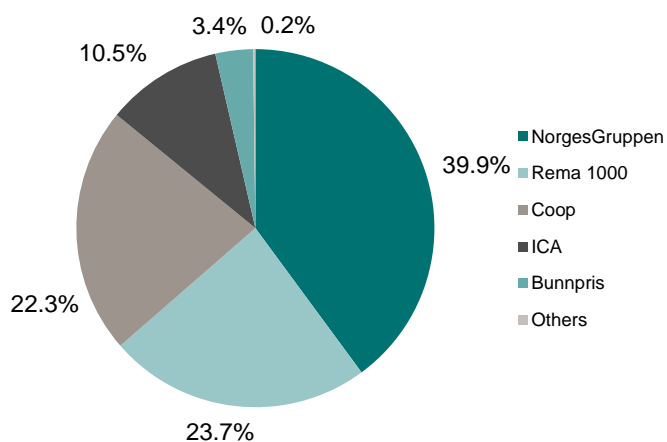
NG is the number one player in the retail grocery and wholesale segment in Norway, although the acquisition of ICA Norge in H1 2015 took Coop SA's market share from 23% to 34%, threatening NG's dominant position. However, NG still managed to maintain an adjusted EBITDA margin of 8.7% in 1H 2015 (compared to 8.8% in 2014). The relatively low margins make large volumes and economies of scale necessary to be profitable. This is a capital-intensive business, and many players are vertically integrated, making it difficult for new entrants. Its market-leading position and large volumes have also given NG significant bargaining power with suppliers – clients will generally strive to keep NG as a customer, and we believe many are willing to squeeze margins to maintain a good relationship.

According to the 2015 AC Nielsen report, annual revenue in the Norwegian grocery industry was worth NOK160bn in 2014, up from NOK154bn in 2013, implying growth of 4.3%, which is NG's highest annual growth rate since 2009. NG has the largest total market share in Norway when combining all its different stores, although Rema 1000 is the largest chain concept store with 23.7% of the market. NG's Kiwi concept is the second largest concept store in Norway with 17.7% of the market.

Increased grocery retail market share to 39.9% in 2014

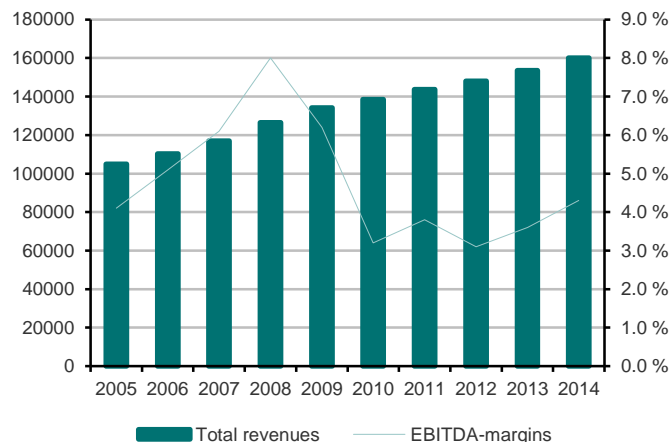
Growth in Norway's grocery industry increased to 4.6% in 2014.

Figure 4: Market shares – Norwegian retail chains, 2014



Source: AC Nielsen

Figure 5: Total revenue, Norwegian grocery retail sector (NOKm)



Source: AC Nielsen

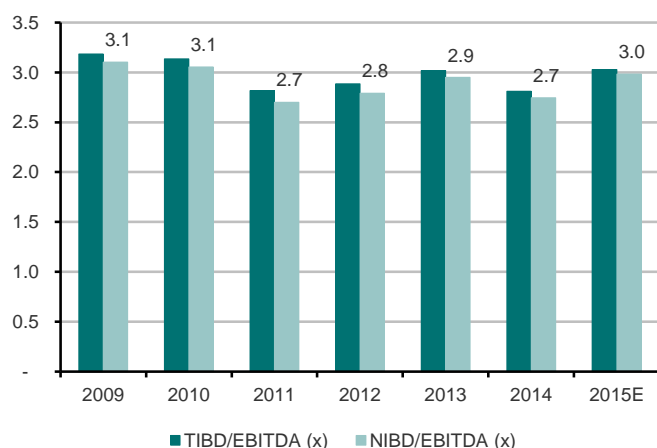
Financial risk profile

We consider NG's financial risk profile to be intermediate.

Debt and financial leverage

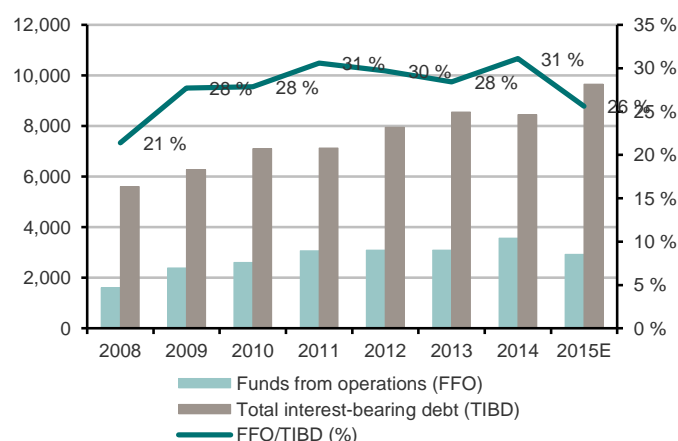
Net interest-bearing debt at end-Q2 2015 was NOK9,369m. A large part of the company's debt consists of bonds and commercial paper in addition to bank loans – by mid-November 2015, NG had NOK4,650m in bonds and NOK900m in commercial paper outstanding. It also had large off-balance sheet liabilities related to operational leases. We have adjusted all the financial ratios for both operational leases and pension liabilities.

Figure 6: Financial leverage (adjusted ratios)



Source: Company, DNB Markets

Figure 7: FFO/debt (adjusted ratios, NOKm)



Source: Company, DNB Markets

All the company's bonds are senior unsecured and rank pari passu with the unsecured bank debt. NG has a negative pledge strategy with an insignificant carve out.

Figure 8: Bonds and commercial paper outstanding at 25 Nov 2015

Description	Amount (MNOK)	Maturity	Coupon (%)	Ranking	DNB Markets
Bond	900	15-Jun-16	3mN + 0.85	Sr. unsecured	A-
Bond	800	19-Sep-17	3mN + 1.50	Sr. unsecured	A-
Bond	500	05-Dec-19	4.43	Sr. unsecured	A-
Bond	800	15-Jun-18	3mN + 1.05	Sr. unsecured	A-
Bond	300	25-Sep-24	3.25	Sr. unsecured	A-
Bond	700	10-May-21	3mN + 0.79	Sr. unsecured	A-
Bond	650	25-Nov-20	3.80	Sr. unsecured	A-
Commercial papers	900	2016		Sr. unsecured	
Total	4,650				

Source: Company, DNB Markets, Stamdata

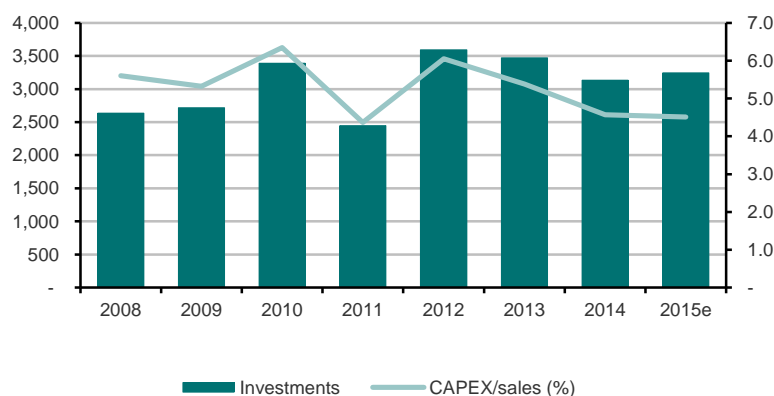
Cash and cash equivalents were NOK286m at Q2 2015. At end-2014, the company had NOK7,015m in undrawn credit facilities.

Significant investments

The wholesale industry is capital-intensive and capacity additions require substantial investments. During H1 2015, the company invested NOK1,622m, mainly in stores, storage and logistics (over 2008–2014 it invested between NOK2,500–3,500m annually). To improve capacity in the wholesale business we estimate continued large investments of ~NOK3,000m p.a. The company had a capex/sales ratio of 4.6% in 2014, and we estimate 4.5% for 2015.

We estimate investments of around NOK3bn per year going forward

Figure 9: Investments (NOKm)



Source: Company, DNB Markets

NorgesGruppen has also invested in several associated companies, listed below. The largest as measured by book value are Bama Gruppen AS and Dagrofa aps. All the associated companies have operations in Norway except Dagrofa, which has its operations in Denmark.

Figure 10: Ownership in associated companies at end-2014 (NG's five largest stakes)

Companies	Total revenues (NOKm)	Dividend (NOKm)	NG's share
BAMA Gruppen AS	12,510	112	46 %
Dagrofa aps	23,038		49 %
H. I. Giørtz Sønner AS	2,758	3	35 %
Norse-Trade AS		49	49 %
Scala Retail Property AS	133		49 %

Source: Company, DNB Markets

The bonds are not subject to covenants, but 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.

Dividends

Annual dividends have been around NOK400m–450m since 2011. In 2014 NOK251m was paid in dividends in addition to 432,867 of NG's shares. NOK523m has already been paid to shareholders in 2015. We believe dividends in 2016 and 2017 will be on the upside of NOK500m per year.

Shareholders

NG's largest shareholder is Joh. Johansson AS (74.4%) which is owned by the Johansson family. Between 2013 and 2015 it increased its stake in NG from 69.2%, and a change in controlling ownership in the medium-term is unlikely in our view.

No financial covenants on senior unsecured bonds

Figure 11: Shareholders, end-2014

Company	Share
Joh. Johansson AS	74.40%
Brødrene Lorentzen AS	9.00%
Pett Kjede og Servicekontor AS	6.32%
Butikkdrift AS	1.81%
Drageset AS	1.08%
Krätun AS	1.05%
Others	6.34%

Source: Company, DNB Markets

Peer analysis

There are no direct competitors of NorgesGruppen in Norway or in Scandinavia with an official rating. Compared to European and Australian peers in the retail industry with a rating from S&P, NorgesGruppen is significantly smaller in terms of revenue and EBITDA, since the other retailers have much larger domestic markets, and some have international operations. However, NorgesGruppen has a dominant position in the Norwegian grocery retail and wholesale market, which we consider robust relative to other European markets.

The Australian company Woolworths Ltd. is the only one in the peer group with an A- rating from S&P, and ranks number one in the Australian supermarket segment and number two in the New Zealand supermarket segment. We find its adjusted financial ratios comparable to NorgesGruppen's, although NG has a stronger liquidity position.

NG is smaller than its officially rated peers. However, it has a more dominant position and more robust domestic market, in our view

Figure 12: Peer analysis

Industry Sector: Retail	NorgesGruppen	Koninklijke Ahold N.V.	Carrefour S.A.	Kingfisher PLC	Next PLC	Woolworths Ltd.
S&P rating	n.a	BBB/Stable	BBB+/Stable	BBB/Stable	BBB/Stable	A-/stable
Moody's rating	n.a	Baa2/Stable	Baa1/Stable	Baa2/Stable	Baa2/Stable	Baa1/Stable
Currency	NOKm	GBPm	GBPm	GBPm	GBPm	AUDm
Revenue	71,391	25,633	58,896	10,966	3,833	58,822
EBITDA	4,357	2,263	3,183	1,409	1,020	6,310
Adjusted ratios						
EBITDA margin (%)	8.8	8.8	5.4	12.8	26.6	10.7
EBITDA interest coverage (x)	7.4	5.7	6.3	6.7	10.4	5.2
Debt/EBITDA (x)	2.8	2.2	2.2	1.7	1.2	2.7
FFO/debt (%)	31.1	33.8	31.0	42.4	62.0	23.7
Cash flow from operations/debt (%)	28.0	34.6	29.9	38.4	59.7	22.6
Free operating cash flow/debt (%)	12.4	23.1	3.0	26.9	50.8	11.0
Discretionary cash flow/debt (%)	11.0	16.6	0.6	13.0	16.5	2.6

Source: Standard & Poor's, DNB Markets. The financial ratios are based on S&P's adjusted figures

Recovery

NG has declared a negative pledge in loan agreements with external creditors, which has a small carve out that involves an insignificant share of pledged assets relative to the company's total assets. NG has also communicated that all debt will be issued by the parent company with certain exceptions.

Strategy of negative pledge

We estimate that holders of the senior unsecured bonds will achieve a recovery of 30–70% in an event of default. According to S&P's notching criteria, the rating on the senior unsecured bonds should be equal to the corporate credit rating (A-).

Summary of financial accounts - NorgesGruppen ASA (EOY in NOKm)

Profit & Loss	2008	2009	2010	2011	2012	2013	2014	2015e
Total operating revenues	49,016	53,232	55,675	58,641	62,083	67,396	71,391	71,956
Total operating costs	-46,846	-50,371	-52,514	-54,892	-58,187	-63,497	-67,034	-67,622
EBITDA	2,170	2,861	3,161	3,749	3,896	3,899	4,357	4,334
Depreciation & amortisation	-1,104	-1,195	-1,291	-1,514	-1,696	-1,625	-1,678	-1,663
EBIT	1,065	1,665	1,870	2,235	2,200	2,274	2,679	2,671
Income from associates	138	163	235	224	372	362	266	156
Sale of assets								
One-offs, write-downs, impairments								
Net interest	-277	-236	-226	-262	-270	-256	-241	-237
Net other financials	126	-5	-14	-42	-34	25	-87	0
Pre-tax profit	1,053	1,587	1,866	2,155	2,268	2,405	2,616	2,590
Tax	-294	-415	-456	-599	-614	-612	-686	-686
Net profit	759	1,172	1,411	1,556	1,653	1,793	1,930	1,904

Balance sheet	2008	2009	2010	2011	2012	2013	2014	2015e
Tangible fixed assets	8,228	8,891	10,813	10,835	11,790	12,669	13,756	13,793
Investments in associates	1,173	1,484	1,636	1,953	1,947	2,556	2,600	2,600
Intangible assets	3,700	4,364	4,367	4,343	4,885	4,813	4,760	5,083
Other non-current assets	488	496	571	599	663	1,131	1,500	1,339
Cash & cash equivalents	325	324	357	583	534	403	400	286
Other current assets	6,089	6,552	7,319	8,042	8,285	9,342	10,499	10,627
Total assets	20,002	22,110	25,063	26,355	28,105	30,914	33,515	33,728
Interest-bearing long-term debt	4,461	3,389	3,925	3,261	4,329	4,914	5,610	6,746
Other non-current liabilities	1,081	1,113	1,362	1,422	1,335	1,371	1,598	1,348
Interest-bearing short-term debt	1,150	2,878	3,188	3,869	3,627	3,644	2,837	2,909
Other current liabilities	6,164	6,565	7,426	8,299	8,594	9,529	10,463	10,663
Total liabilities	12,857	13,945	15,901	16,851	17,885	19,459	20,508	21,666
Equity	7,146	8,165	9,162	9,505	10,220	11,455	13,007	12,062
Total equity and liabilities	20,002	22,110	25,063	26,355	28,105	30,914	33,515	33,728
Net interest-bearing debt	5,286	5,944	6,756	6,547	7,422	8,156	8,047	9,369
Total interest-bearing debt	5,612	6,267	7,113	7,130	7,956	8,559	8,447	9,655

Cash flow	2008	2009	2010	2011	2012	2013	2014	2015e
EBITDA	2,170	2,861	3,161	3,749	3,896	3,899	4,357	4,334
Dividends from associates								
Net cash tax	-291	-234	-326	-419	-531	-555	-546	-1,164
Net cash interest	-277	-236	-226	-262	-270	-256	-241	-237
Funds from operations (FFO)	1,602	2,391	2,610	3,068	3,094	3,088	3,570	2,933
Changes in working capital	-664	-494	77	85	-215	205	184	310
Other cash flow from operations	-126	-15	-189	-280	449	-852	-743	-471
Cash flow from operations (CFO)	813	1,882	2,498	2,873	3,328	2,442	3,011	2,772
Investments	-2,635	-2,717	-3,388	-2,445	-3,593	-3,473	-3,131	-3,244
Divestments								
Other cash flow investments	97	59	178	374	479	617	385	1,487
Free operating cash flow (FOCF)	-1,724	-776	-713	803	214	-415	265	1,015
Debt instalments	-437	-2,599	-6	-1,003	-895	-634	-2,154	-5,394
Debt principal								
Dividends	-348	-222	-339	-415	-420	-451	-251	-523
Funding surplus	-2,510	-3,598	-1,058	-615	-1,101	-1,499	-2,140	-4,902
New debt	2,753	1,520	545	700	1,639	1,454	2,185	4,500
New equity	0	0	0	0	0	0	0	0
Other cash from financing	-198	2,076	546	141	-587	-86	-48	288
Net cash flow	46	-2	33	226	-49	-131	-3	-114
Other adjustments								
Change in cash	46	-2	33	226	-49	-131	-3	-114

Source: Company, DNB Markets

Key credit metrics - NorgesGruppen ASA (EOY)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015e
FFO/TIBD (%)			21.4	27.7	27.9	30.6	29.7	28.4	31.1	25.6
TIBD/EBITDA (x)			3.8	3.2	3.1	2.8	2.9	3.0	2.8	3.0
NIBD/EBITDA (x)			3.7	3.1	3.1	2.7	2.8	2.9	2.7	3.0
EBITDA/interest (x)			4.9	6.6	7.2	7.6	6.8	6.8	7.4	7.4
CFO/TIBD (%)			14.6	23.7	27.1	29.2	31.1	24.7	28.0	24.8
FOCF/TIBD (%)			-7.3	2.8	3.6	14.3	11.8	8.2	12.4	15.5
DCF/TIBD (%)			-10.3	1.0	1.2	11.3	9.2	5.6	11.0	12.7
TIBD/total capital (%)			61.9	60.8	60.0	59.4	61.2	60.2	57.5	61.1

Source: Company, DNB Markets

Profitability - NorgesGruppen ASA (EOY)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015e
EBITDA margin (%)			6.2	7.5	7.9	8.4	9.0	8.5	8.8	8.7
EBIT margin (%)			4.0	5.2	5.5	5.8	6.3	6.1	6.4	6.4
Profit margin (%)			1.5	2.2	2.5	2.7	2.7	2.7	2.7	2.6
EBIT/assets (%)			7.5	9.8	9.7	10.3	10.7	10.4	10.8	10.7

Source: Company, DNB Markets

*All financial ratios are adjusted for financial leases and pension liabilities

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