Nordic Credit Rating

CORPORATE

Norway
3 Jun. 2021

Møller Mobility Group AS

Full Rating Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'BBB-' long-term issuer credit rating on Norway-based car importer and retailer Møller Mobility Group AS (Møller Mobility) reflects the company's strong position in its core market. It is further supported by the company's close relationship over almost 75 years with car manufacturer Volkswagen AG, which provides scale and diversification through a range of brands, and the joint venture Volkswagen Møller Car Finance. The rating is also underpinned by the company's moderate financial leverage and strong cash position, supported by unutilised credit facilities.

The rating is constrained by the company's operating environment. It is a cyclical industry undergoing rapid change through the development of low-emissions vehicles, which could potentially affect the industry's structure. The company's large off-balance-sheet repurchase portfolio, with a maturity profile of less than two years, could materially affect the company's short-term liquidity and potentially result in losses should the market experience rapid deterioration.

STABLE OUTLOOK

The stable outlook reflects our expectation that Møller Mobility will maintain its market-leading position in its geographical segments and benefit from an economic recovery on the back of increased vaccination against COVID-19 and the easing of pandemic-related restrictions by mid-2021 in its core markets. It also reflects our expectation that Volkswagen will continue to deliver popular models of cars in a timely matter.

POTENTIAL POSITIVE RATING DRIVERS

- Outperformance of our expectations reflected by adj. net debt/EBITDA below 2.0x and EBITDA/adj. net interest above 15x.
- Increased diversification of revenue and risk.
- Reduced risk appetite, including a more stringent financial policy.

POTENTIAL NEGATIVE RATING DRIVERS

- Loss or reduced number of licences from Volkswagen.
- Supply chain issues affecting Møller Mobility's revenue and brand.
- Long-term deterioration of market position.

Figure 1: Møller Mobility key credit metrics, 2018–2023e

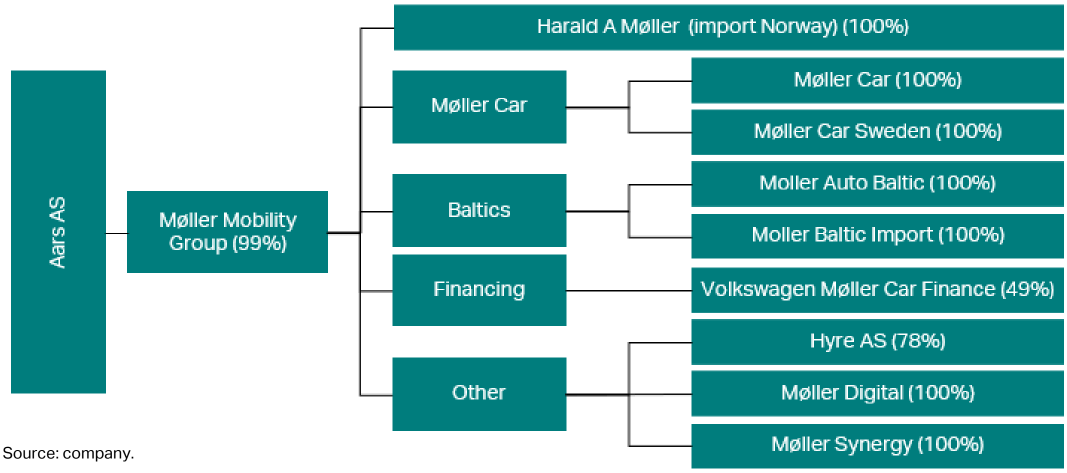
NOKm	2018	2019	2020	2021e	2022e	2023e
Revenue	26,173	30,561	33,017	34,692	36,427	37,156
NCR-adjusted EBITDA	1,632	2,126	2,246	2,182	2,082	1,927
NCR-adjusted net debt	4,454	6,030	3,064	4,112	4,568	5,090
Total assets	8,173	9,785	10,025	11,151	11,782	12,162
NCR-adjusted net debt/EBITDA (x)	2.7	2.8	1.4	1.9	2.2	2.6
NCR-adjusted EBITDA/net interest (x)	7.7	8.2	9.7	10.8	9.5	8.4
NCR-adjusted FFO/net debt (%)	27.6	26.2	53.4	40.1	34.1	28.1

Source: Based on NCR estimates and company data. e–estimate. FFO–funds from operations. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Møller Mobility is a Norwegian-based car retailer with operations in Norway, Sweden and the Baltic states of Estonia, Lithuania and Latvia. Founded in 1936 by Harald Aars Møller, the company remains majority owned by the Møller family through Aars AS. Møller Mobility imports, sells, services and finances the Volkswagen, Audi, Škoda and SEAT car brands through its Import, Dealership and Financial Services business segments. The import segment consists of Harald A. Møller AS (HAM) and Møller Baltic Import. HAM is the largest car importer in Norway, with one in four of Norway's car imports imported by HAM. The dealership segment has a total of 70 dealerships in its three markets. The financing segment, Volkswagen Møller Car Finance, is a joint-venture leasing and financing company in which Volkswagen own 51% and Møller Mobility owns 49%. Møller Mobility is the majority owner, with 78%, of Hyre AS, which provides short-term car rental using an app. Møller Mobility has a total of 4,078 employees, and imported 53,476 vehicles and sold 71,252 vehicles in 2020.

Figure 2. Overview of Møller Mobility Group reporting and ownership structure



Source: company.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bb+'

Our business risk assessment of Møller Mobility reflects the company's strong market position in Norway, supported by its long-term relationship with Volkswagen. It also reflects that the company's revenues stem from three different geographical markets; Norway, Sweden and the Baltics. Our view of the company's operations is further supported by Volkswagen Møller Car Finance, which provides leasing and finances cars purchased through the group. These factors are partly offset by the operating environment's cyclicality, regulatory and emissions-driven shifts in demand, and by growing competitive pressure.

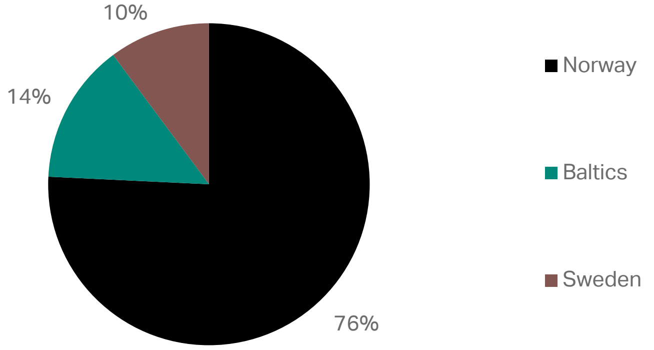
Operating environment strongly affected by macrotrends

Operating environment scores 'bb'

The automotive industry has long been characterised by large, stable brands and customer loyalty, especially for new cars, albeit in a cyclical market. The low interest rate and growth in housing prices has increased overall discretionary purchasing power, which supports the purchasing of cars and, in recent years, their leasing. Imports of new cars are regulated through licensing agreements between importers and car manufacturers, which increases barriers to entry. Møller Mobility holds several licensing contracts with Volkswagen AG covering brands such as Volkswagen, Audi, SEAT and Škoda. While there are no such requirements for the sale of used cars, the capital intensity of the industry limits new entrants from growing rapidly into large-scale operators. However, strong competition affects sales margins, and high inventory turnover in the segment is needed to ensure strong operating margins.

Direct distribution trends could pose a threat to Møller Mobility's business model. Carmakers are increasingly allowing buyers to customise and purchase cars directly online or via their own small showrooms, potentially challenging traditional car sales. Volkswagen AG is shifting away from traditional dealer contracts to agent (importer) contracts for new car sales and is streamlining the pricing of cars online, which could increase the pressure on margins. As Møller Mobility is both the dealership and the importer in Norway and the Baltics, the shift is expected to be neutral overall. It could, however, affect Møller Car Sweden, which is solely a dealership. Møller Mobility's Swedish peer Bilia Personbil recently had its contract terminated by Volvo as Volvo is aiming for direct online sales to account for 50% of all sales by 2025.

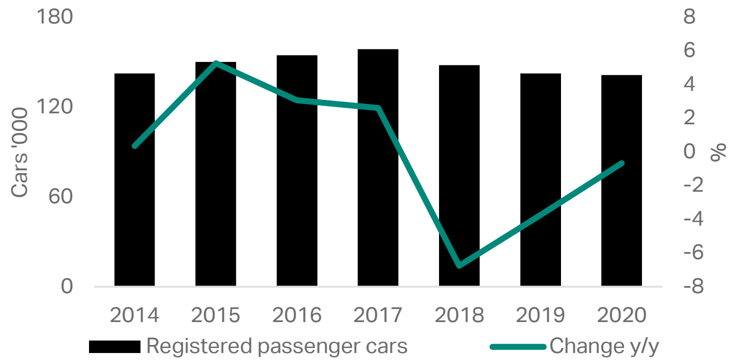
Figure 3. Møller Mobility revenues by country/region, 2020



Source: company.

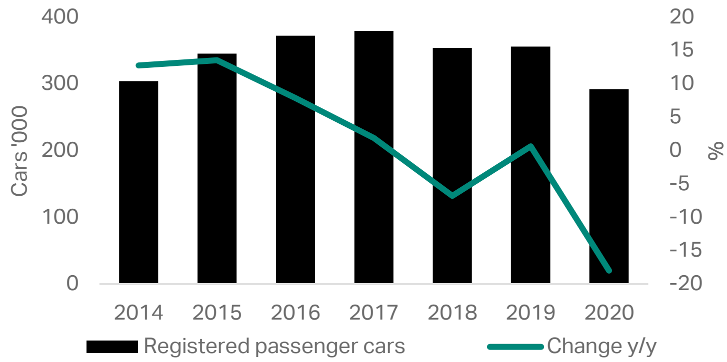
The COVID-19 pandemic led to a dramatic decrease in new-car registrations in both Sweden and the Baltics in 2020, but the Norwegian market has remained strong (see Figure 4-8). The Norwegian used-car market was also supported during the pandemic as a result of restrictions on travel abroad and limited public transport, increasing car usage, and for leisure purposes too. Used-car sales in Norway rose by 9.4% to 519,000 in 2020. However, a surge in demand for technological appliances as a result of the pandemic also increased global demand for semiconductors, which could result in supply chain delays and reduce the output of car factories in 2021.

Figure 4. Registered new cars, Norway 2014–2020



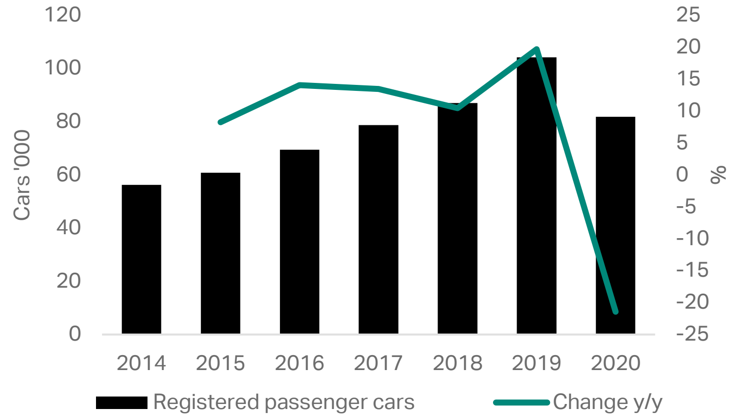
Source: Based on data from company, OFV and NCR.

Figure 5. Registered new cars, Sweden 2014–2020



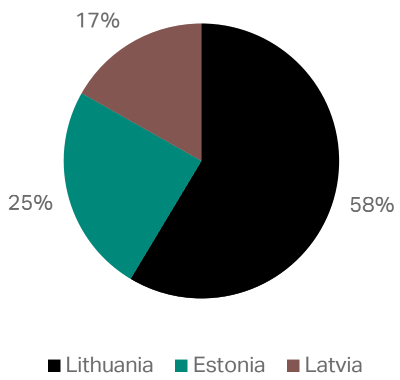
Source: Based on Bil Sweden and NCR data.

Figure 6. Registered new cars, Baltics 2010–2020



Source: Based on data from company and NCR.

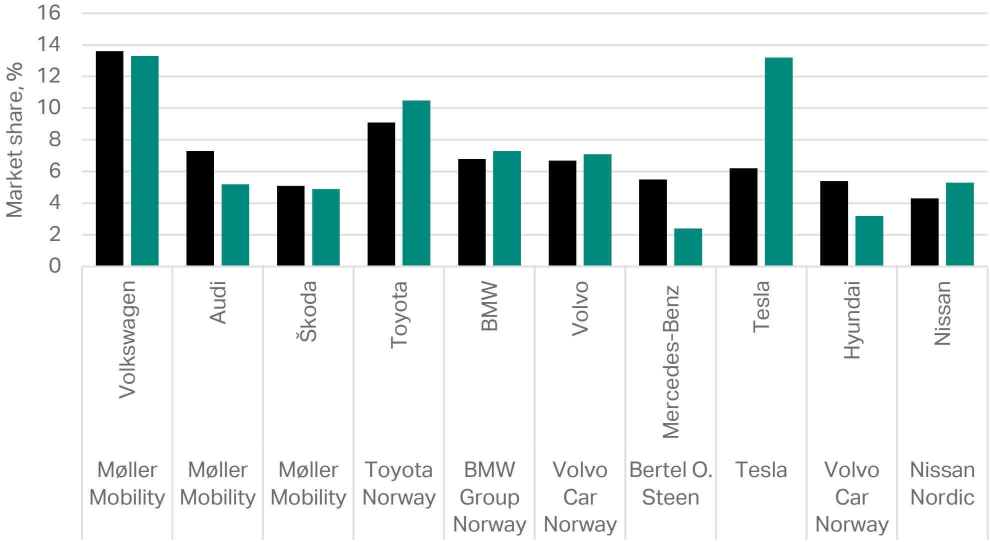
Figure 7. Share of registered cars in the Baltics, Q4-2020



Source: Baltic Auto Research.

The segment is undergoing a transformation due to increased environmental focus, electrification and increased mobility requirements, which is shifting demand towards more environmentally friendly options. This rapid transition has impacted, and led to alternatives to, traditional carmakers. High-profile makes have seen a shift in loyalty to brands such as Tesla, MG and Polestar. However, traditional car manufacturers are intensifying efforts to produce electric vehicles.

Figure 8. Market share of car brands in Norway and importing groups, 2019–2020



Source: OFV (Opplysningsrådet for Veitrafikken).

The transition to electric vehicles is also being boosted by government regulations, such as incentives and fines. The EU requirement for average CO_2 emissions from a manufacturer's cars to be no more than 95g of CO_2 per kilometre is incentivising the prioritisation of electric vehicle production. Furthermore, the Norwegian tax system favours electric vehicles, while the Swedish and German governments are providing cash subsidies to increase demand for electric cars. The different systems increase the risk of parallel import of nearly new electric cars, boosting competition for both new and used cars and potentially further increasing price pressure.

Rising demand for flexibility and a growing trend of regarding mobility as a service has led to new solutions such as car sharing and car subscriptions, and new modes of transport such as electric bicycles and kick bikes and other alternatives. Møller Mobility is meeting these challenges with a variety of ways of providing access to cars (Figure 17), but faces increasing competition from alternative means of transport.

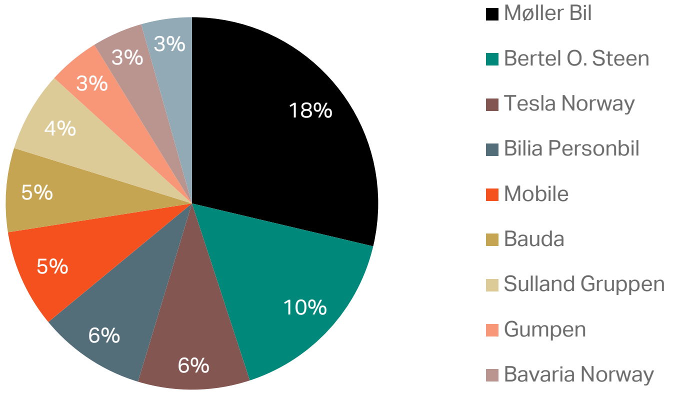
Solid market position in Norway, significant presence in Sweden and the Baltics states

Market position scores 'bbb'

The auto industry is characterised by a few strong importers and a concentrated new-car market, but a more fragmented used-car market. In Norway, the top three sellers of new cars account for 35% of the new-car market, while the top three account for 9% of the used-car segment. Møller Mobility has been the market leader in Norway for the past 11 years, with an 18% market share for new cars in 2020, as well as solid positions in Sweden and the Baltics. Volkswagen Møller Car Finance is the largest vehicle leasing company in Norway, with a 20% market share.

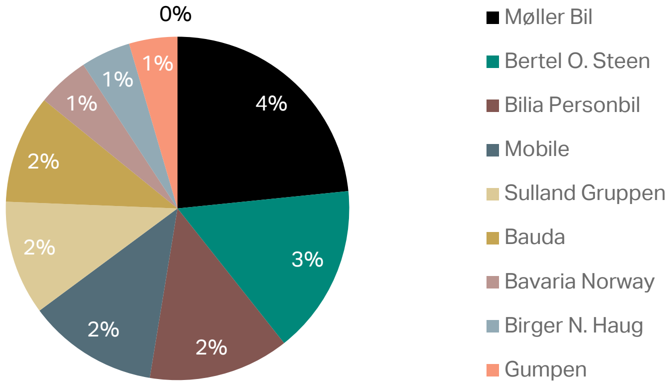
The company's market position was, however, negatively affected in the first quarter of 2021 by issues with certain models, resulting in the delay and recall of cars. Market positions are expected to be volatile in the shorter term due to deliveries and production plans, roll-out plans for new models and current demand at any given point in time. The ongoing shift in the car sector and the response from industry participants is highly significant for future market positions. In 2020, 69% of all new cars sold by Møller Mobility were electric, compared with 54% of all new cars in Norway. The company estimates that this share will increase to 85% in 2021 as it aims to maintain its market position.

Figure 9. Sale of new cars per retailer, Norway 2019–2020



Source: Bilnytt.no.

Figure 10. Sale of used cars per retailer, same top 10 in Norway 2019–2020

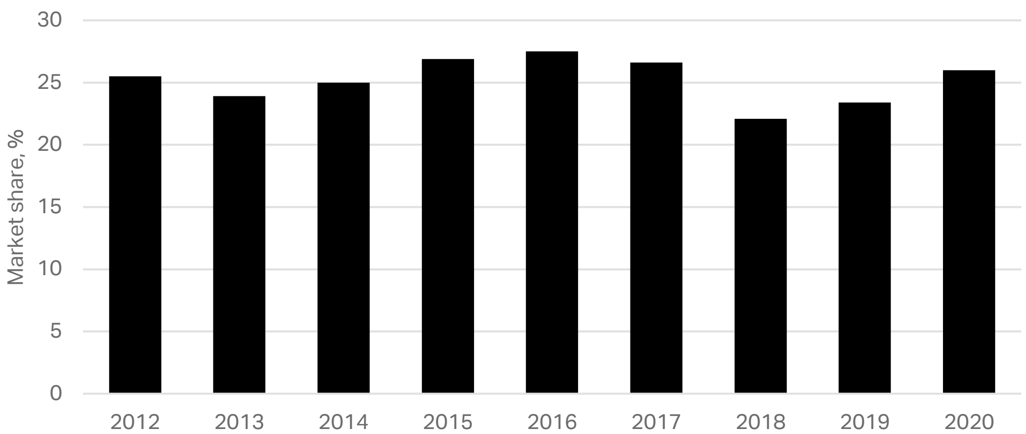


Source; Bilnytt.no.

The company's market position is linked to the success of Volkswagen, both in terms of brand recognition and the development of its models of car. Volkswagen's aim to reach net-zero emissions in all areas by 2050 in accordance with the Paris agreement has resulted in an increased focus on electric vehicles. Emissions controversies, such as the revelation that nitrogen oxide (NOx) emissions were significantly above levels reported for some Volkswagen models, resulting in Volkswagen incurring fines of approximately USD 33.3bn as of June 2020, could not only significant damage brand reputation but also affect the funding needed for new developments and technological change. However, although the emissions controversy dented the brand's reputation, current demand for new Volkswagen cars suggests that its reputation has recovered. Although the shift from brand loyalty to cars' capabilities reduces the risk of negative effects on one model impacting demand for another model, overall brand recognition could negatively affect all models. However, it is expected that brand loyalty will be more relevant once traditional car producers expand and diversify their electric-vehicle offerings.

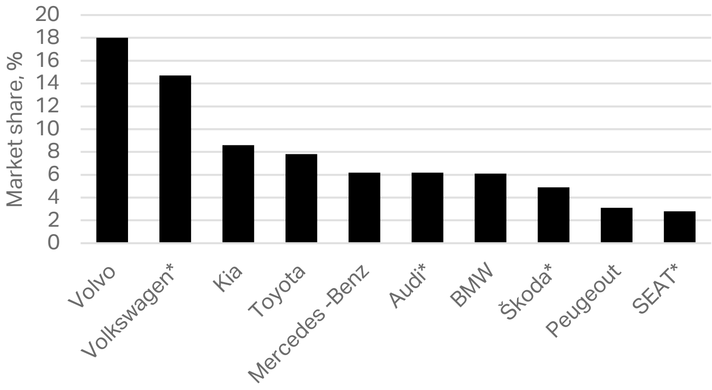
Historically, strong brand loyalty within the industry, coupled with favourable financing for new cars through Volkswagen Møller Car Finance and servicing offered through dealerships, has ensured a stable market position over the years, and we expect Møller Mobility's market position to remain stable over our forecast period.

Figure 11. Møller Mobility brands' market share of new car sales*, 2012–2020



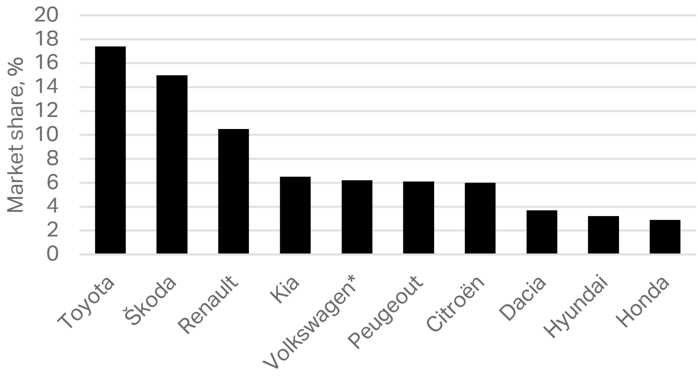
Source: company. *Approximately 40% of imported cars are sold to dealerships outside the Møller Mobility Group.

Figure 12. Market share by car brands, Sweden 2020



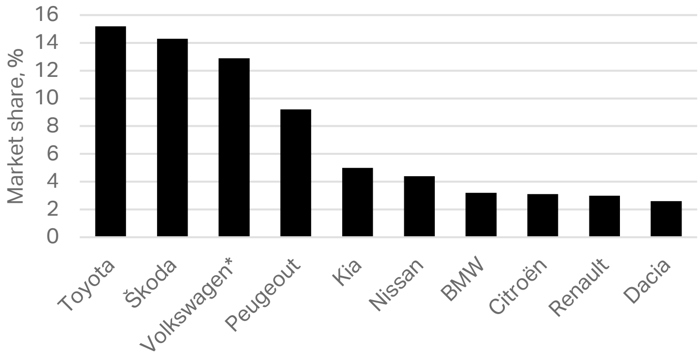
Source: company. *Møller Mobility brand.

Figure 13. Market share by car brands, Estonia 2020



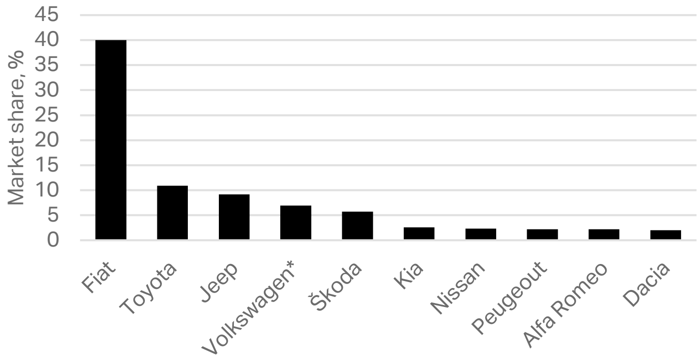
Source: company. *Møller Mobility brand.

Figure 14. Market share by car brands, Latvia 2020



Source: company. *Møller Mobility brand.

Figure 15. Market share by car brands, Lithuania 2020



Source: company. *Møller Mobility brand.

Strong diversification within the auto industry

Size and diversification score 'bbb'

Møller Mobility is one of the largest car retailers in the Nordic region, with 71 dealerships across its three geographical segments. However, three-quarters of its revenues are generated in Norway, narrowing its geographical diversification. Nevertheless, 40% of all cars imported by Harald A. Møller into Norway are sold to dealerships outside the group, mitigating the concentration risk. In addition, the company is the largest used-car retailer in Norway, albeit only marginally. Møller Mobility added SEAT to its portfolio in 2018 and we expect the company to continue developing its offering through new brands in the current geographical segment.

Figure 16. Møller Mobility offerings across countries

Country	Brands	Service
Norway	Volkswagen, Audi, Škoda, SEAT, VW commercial vehicles, Hyre AS, Volkswagen Møller Car Finance	Import, sales, leasing, car rental, servicing
Sweden	Volkswagen, Audi, Škoda, SEAT, Porsche, VW commercial vehicles	Sales and servicing
Lithuania	Volkswagen, Audi	Import, sales and servicing
Latvia	Volkswagen, Audi	Import, sales and servicing
Estonia	Volkswagen	Import, sales and servicing

Source: company.

Møller Mobility holds licensing agreements with Volkswagen AG, ensuring a monopoly of the brands covered by the licences. These contracts are mutually cancellable at two years' notice, which is short but standard for the market. However, the relationship between Volkswagen and Møller Mobility dates back to 1948, which suggests it is strong. Our assessment is further supported by the joint-venture structure of Volkswagen Møller Car Finance, which financed 28,000 cars and insured 40,000 cars in 2020, funded through Volkswagen channels, with Volkswagen Møller Car Finance operating from the same headquarters as Møller Mobility. Volkswagen Møller Car Finance financed 42% of new

Volkswagen cars, including Audi, Škoda, SEAT and Volkswagen commercial vehicles, sold through Møller Car and external dealerships in Norway during 2020.

While the company is highly dependent on discretionary consumption in its markets to grow, developments such as Hyre, its app-based service, and cars subscriptions diversify the target customer by lowering the customer purchasing power required. We expect further investments in new solutions over our forecast period and the development of existing solutions to increase diversification. The company sold its investment in electric bicycles in 2020 due to intensified competition from the rapid growth in electric kick bikes.

Figure 17. Møller Mobility diversification of cash intensity

Type of transaction	Company	Level of cash intensity
App-based car rental	Hyre AS	Very low, pay as you go
Car subscription (flexible leasing)	Volkswagen Møller Car Finance	Low and shorter commitment period than leasing
Leasing	Volkswagen Møller Car Finance	Usually three-year commitment but low initial cash payment
Purchase of cars	Harald A. Møller, Møller Car	Cash payment upfront, but usually lower for used cars

Source: company.

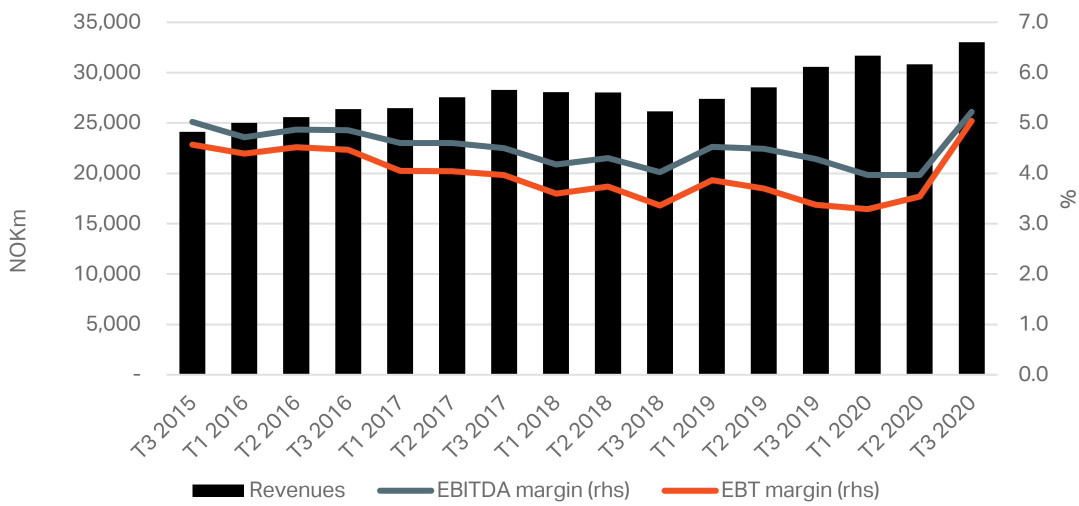
Margins under pressure

Operating efficiency scores 'bb+'

While the new-car segment is a cyclical industry, used cars and servicing are much less cyclical. However, all segments are under price pressure due to strong competition and reduced brand loyalty. We expect service margins to decline from current levels as the shift in technology requires adaptation and thus more servicing hours. Once initial issues with newly released electric vehicles are resolved, we expect the demand for vehicle servicing to decrease as electric cars reduce the role of the internal combustion engine and require less maintenance.

Although the group's sales have increased over the past five years, EBITDA and earnings before tax (EBT) margin have trended downwards (see Figure 18). The average EBT margin for Norwegian car dealers was 4% for 2020, up from 2.6% in 2019. By comparison, the EBT margin for Møller Car was 3.9%. For the group as a whole, the margin was 5%, driven by increased sales of used cars and servicing.

Figure 18. Møller Mobility's reported revenues, EBITDA margin and EBT margin, rolling 12 months 2015–2020

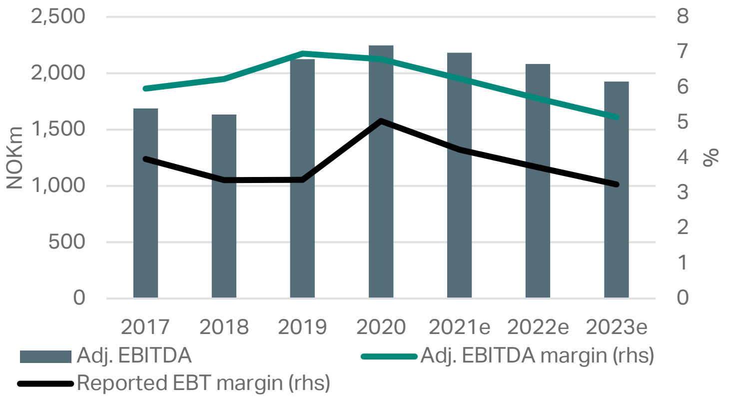


Souce: Based on company data. EBT–earnings before tax.

During 2020, Møller Mobility reduced its staff by 8% through a reorganisation due to the COVID-19 pandemic. The company also cut marketing costs, although the reduction in costs was offset by increased warranty expenses and costs for business premises. We expect the company's margins to come under pressure over our forecast period and expect EBITDA and EBT margins to decrease.

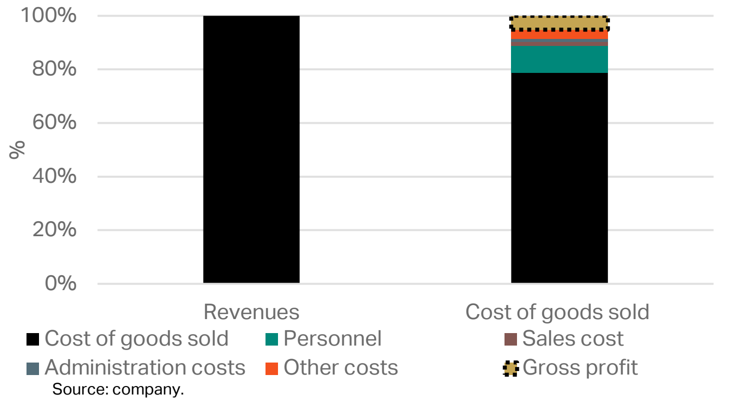
The main adjustment to our EBITDA estimates relates to leases for the company's operating premises.

Figure 19. Møller Mobility adjusted EBITDA and margin, 2017–2023e



Source: company. e–estimates.

Figure 20. Breakdown of Møller Mobility's costs in relation to revenues, 2020



Source: company.

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bbb-'

Our financial risk assessment reflects the company's strong financial metrics, driven by moderate gearing and a strong cash balance. Our credit metrics are adjusted for the company's financial leasing through property leases and cash adjustments due to the capital intensity of the industry. Our overall risk assessment is also affected by the large off-balance-sheet repurchasing commitment for leasing cars, volatile cash position and the company's dividend policy.

Ratio analysis scores 'bbb+'

Strong metrics affected by off-balance-sheet leasing

We expect Møller Mobility to increase investments in new areas of business, implying capital expenditure, to remain a market leader in a changing environment. We do not foresee any rapid shifts in revenues over the next couple of years, but expect both Volkswagen and Møller Mobility to focus more on ensuring stable revenues in the longer term, i.e. beyond our forecast period.

Møller Mobility operates according to a financial target of an unadjusted equity-to-total assets ratio of 40%, paying dividends to its owners as a means of keeping this metric in line. We expect the company to increase external funding during our forecast period, reflecting new investments, strong cash holdings and dividend pay-outs.

Møller Mobility has a high share of contracted purchases for 2021, which increases revenue transparency, assuming deliveries go ahead as scheduled.

Our base-case scenario includes the following:

- revenue growth by 5% in 2021, 5% in 2022 and 2% in 2023;
- an adjusted EBITDA margin of 6.3%, 5.7% and 5.2% for 2021, 2022 and 2023 respectively;
- increased negative net working capital in 2021 due to investments and the build-up of inventories and receivables, and to a lesser extent in 2022 and 2023.
- capital expenditure of NOK 300m annually on maintenance, and growth ambitions requiring capital expenditure of a similar amount; and
- a dividend payment of NOK 700–800m a year.

Based on these assumptions, we arrive at the following projected metrics for 2021–2023:

- NCR-adjusted net debt/EBITDA of 1.9–2.6x;
- NCR-adjusted EBITDA/net interest of 8.4–10.8x
- NCR-adjusted FFO/debt of 28–40%

Although our estimates deteriorate over our forecast period, we believe investments over the next few years will be visible beyond our forecast period, due to the long lead time for investments, the shifting operating environment and the capital intensity of the segment.

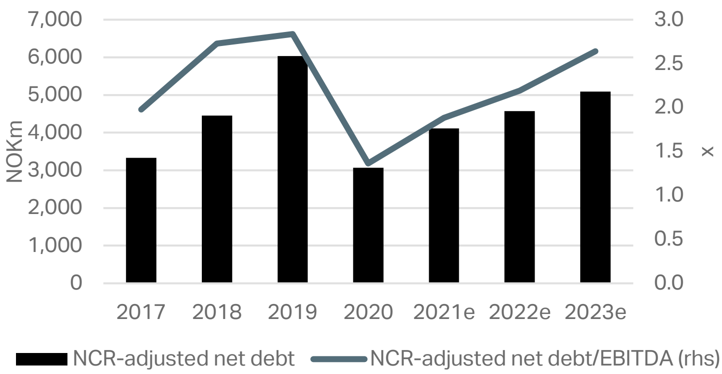
As Møller Mobility reports according to GAAP, we adjust manually for financial leasing, pension costs and non-recurring items such as the estimated gain/loss on the repurchasing of leased cars.

Figure 21. NCR adjustments for Møller Mobility's credit metrics, 2018–2023e.

NOKm	2018	2019	2020	2021e	2022e	2023e
Reported EBITDA	1,179	1,416	1,877	1,812	1,711	1,557
Profit from JVs and associates	-126	-108	-153	-153	-153	-153
Interest expense on pensions	1	1	2	1	1	2
Leasing costs	420	472	497	522	522	522
Non-recurring items	158	345	23	0	0	0
NCR-adjusted EBITDA	1,632	2,126	2,246	2,182	2,082	1,927
Cash and cash equivalents	261	234	1,545	826	870	648
NCR-adjusted cash and equivalents	261	234	1,545	826	870	648
Gross interest-bearing debt	808	1,700	509	1,309	1,809	2,109
Pension obligations	53	50	57	57	57	57
Leasing liabilities	3,854	4,514	4,043	3,572	3,572	3,572
NCR-adjusted cash and equivalents	-261	-234	-1,545	-826	-870	-648
NCR-adjusted net debt	4,454	6,030	3,064	4,112	4,568	5,090
Net interest	-17	-31	-27	-22	-39	-49
Interest cost on pensions	-1	-1	-2	-1	-1	-2
Financial cost from leasing	-193	-226	-202	-179	-179	-179
NCR-adjusted net interest	-211	-258	-231	-202	-219	-230
Adjusted EBITDA	1,632	2,126	2,246	2,182	2,082	1,927
Adjusted interest	-211	-258	-232	-202	-219	-230
Current taxes	-191	-287	-378	-331	-305	-267
NCR-adjusted FFO	1,230	1,581	1,637	1,649	1,558	1,430

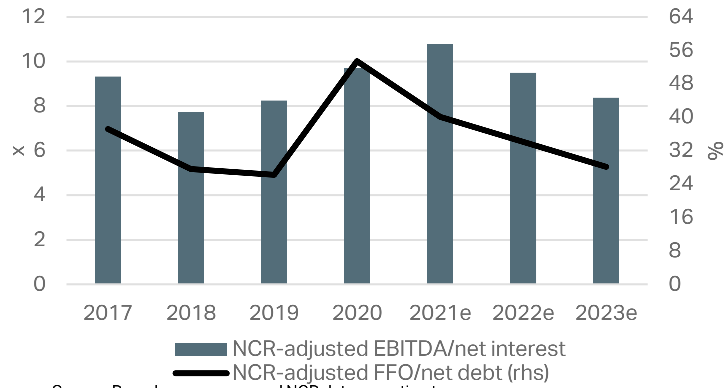
Source: Based on company and NCR data. e–estimate. FFO–funds from operations.

Figure 22. Møller Mobility's NCR-adjusted net debt and net debt/EBITDA, 2017–2023e



Source: Based on company and NCR data. e –estimate.

Figure 23. Møller Mobility's NCR-adjusted EBITDA/net interest and FFO/net debt, 2017–2023e



Source: Based on company and NCR data. e –estimate.

Repurchase portfolio and dividend policy could potentially affect ongoing liquidity

Risk appetite scores 'bb'

We assess Møller Mobility's risk appetite to be higher than indicated by its metrics. While we deduct cash from our net debt metrics, we note that there is high volatility in the company's cash holdings throughout the year. This negatively affects our overall view of the company's financial risk profile.

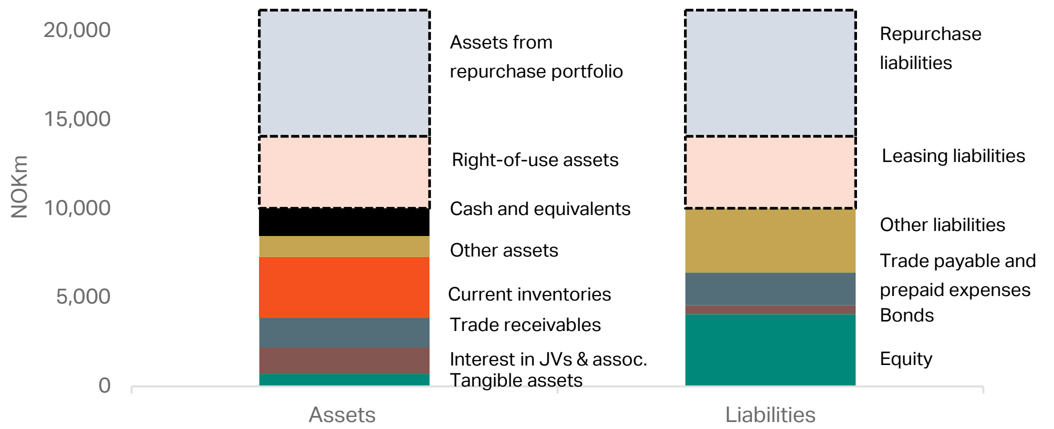
Our assessment of risk appetite also considers the company's large off-balance-sheet commitments to repurchase vehicles in the leasing portfolio in Volkswagen Møller Car Finance. Møller Car sell cars to Volkswagen Møller Car Finance with a commitment to repurchase them after the leasing period at a given sales price. The rapid changes that the car industry is undergoing could result in a loss of value by certain brands or types of cars over the leasing period. The repurchase portfolio has followed the overall market, and approximately half the portfolio now consists of electric or plug-in hybrid cars.

Due to the short-term contracts for leasing, the maturity profile of the portfolio is quite short, with an average remaining term of less than two years. The repurchase price is typically around 50–70% of the original sales value, with the aim of mitigating some risk. However, we still see some liquidity risk if the inventory turnover period increases and results in a build-up of inventory.

The company reports according to Norwegian GAAP on a tertiary basis, resulting in financial leasing being off balance sheet. Including leasing and assets in the repurchase portfolio, the total balance sheet would have more than doubled as of 31 Dec. 2020 to around NOK 21bn, compared with the reported NOK 10bn (see Figure 24). The majority of acquisitions of new cars are payable in EUR, but agreements with the factories eliminate most of the risk related to currency fluctuations. The local prices are discussed and agreed with the factories, based on market competition, sales targets and agreed profit margins for both the importer and retailer. This arrangement means that the factories carry most of the long-term foreign-exchange risk. Møller Mobility seeks to mitigate the remaining settlement risk through hedging, and we note that there is still some volatility in cash flow from currency fluctuations.

The company's financial policy aims to maintain an unadjusted equity-to-total-assets ratio of around 40%, with dividends calculated and paid three times a year. The company's covenants are also linked to the unadjusted equity ratio, at 30%. We note that the company's financial policy does not reflect key aspects of our financial risk analysis, including the off-balance-sheet risks associated with the leasing portfolio and right-of-use assets that we consider in our assessment of leverage.

Figure 24. Møller Mobility balance sheet as of 31 Dec. 2020



Source: company. Dashed line–off-balance-sheet items.

The company has grown through acquisitions of dealerships, adding new brands to its portfolio and expanding geographically into new markets. We expect the company to continue its acquisitive strategy, financed both by cash and debt financing.

ADJUSTMENT FACTORS

Adjustment factors are neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

Sufficient liquidity following bond issue in March 2021

Liquidity assessed as neutral

Our liquidity analysis assesses Møller Mobility's liquidity position as adequate. The company has strong cash flow from operations and access through credit facilities both via syndicates and revolving credit facilities, as well as good access to capital markets. Møller Mobility issued NOK 600m in senior unsecured bonds in the first quarter of 2021. Our analysis includes expected dividend payments, as we believe the company will endeavour to meet its financial policy of an equity ratio of 40% and due to dividends being paid out quarterly. We do not expect the company to roll over its NOK 1.1bn of revolving credit facilities, which mature in the first half of 2021 (highlighted in Figure 25), and exclude these from our liquidity analysis.

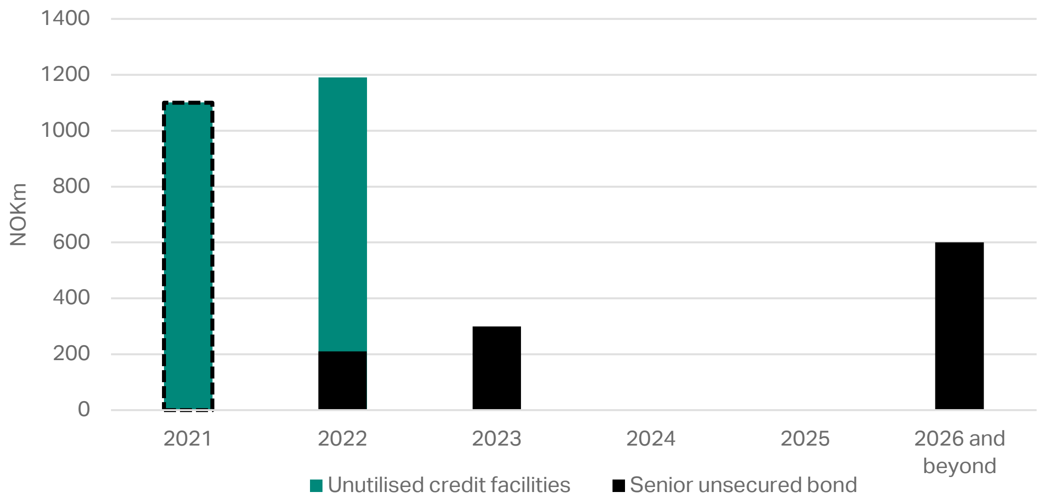
We estimate the following primary liquidity sources for 2021, totalling NOK 4bn:

- NOK 1.2bn, reflecting 75% of cash holding;
- NOK 600m from the bond issued in the first quarter of 2021;
- NOK 1bn in committed available credit facilities; and
- NOK 1.2bn, reflecting 75% of funds from operations over the period.

This compares with the following estimated uses of liquidity, totalling NOK 2.6bn:

- NOK 1.4bn in the committed repurchase portfolio;
- NOK 700m in dividend payments; and
- NOK 500m in capital expenditure.

Figure 25. Møller Mobility's debt maturity profile and available facilities, as of 31 Dec. 2020



Source: company. Dashed line shows maturing credit facilities unlikely to be renewed.

Environmental, social and governance factors

ESG factors assessed as adequate

Møller Mobility's environmental, social and governance (ESG) efforts are supportive of the company's overall competitive position. However, the major environmental impact arises from the products that Volkswagen produces, and Møller Mobility is dependent on Volkswagen producing and supplying cars that comply with international and local regulations and match consumer preferences. Møller Mobility's Scope 1 and 2 emissions account for 0.56% of the company's total emissions, while Scope 3 emissions, indirect emissions from its value chain, account for 99.5%, or 1,684,961.9 tonnes CO_2 equivalent. Scope 3 emissions have been reduced by 18% since 2019 and this net decrease is expected to continue as electric cars increase in the portfolio, as higher emissions in the production phase are more than mitigated by decreased emissions in the use of the cars. From 1 Jan. 2021, for each gram/km emitted above the level of 95g/CO_2 equivalent per kilometre, the manufacturer must pay a €95 penalty, which could have a significant financial impact on car manufacturers, but also create incentives for incorrect reporting. This could be difficult for Møller Mobility to discover, but could affect the overall brand reputation of its products. Møller Mobility publishes an annual sustainability report, which covers the environmental impact of its operations based on the principles of The Greenhouse Gas Protocol.

In 2015, Volkswagen was found guilty of having manipulated emission tests by adding a technical device aimed at ensuring compliance with US emissions regulations. The risk of similar issues is high, not only for Volkswagen but for the industry as a whole, as manufacturers race to become the lowestemitting car producer. However, we expect the risk to be reduced as manufacturers focus on electric vehicles at the expense of internal combustion engine-based cars.

The main ESG issues that could affect our credit rating on Møller Mobility are factors that could contribute to loss of revenue, increased operating costs, higher capital expenditure, loss of value in inventories, loss of operational rights, or reputational damage. In this context, the main credit risks are emissions and a lack of compliance with regulations, which could severely affect the company. The main risk is therefore outside Møller Mobility's control.

Figure 26. Møller Mobility ESG considerations

Issue	Risks	Mitigating efforts	Results
Emissions regulations	Increased regulatory controversies could lead to loss of revenues, increased costs, fines and loss of operating licence.	Increased focus on electric vehicles, although the company is dependent on Volkswagen's efforts and compliance with regulations.	65% of Møller Mobility's new cars sold in 2020 were electric, with 85% expected for 2021.
Increased environmental focus by customers	Demand could shift from cars to other modes of transport, where relevant, and result in the loss of revenues, and losses related to the repurchase portfolio.	Focus on electric vehicles in the portfolio and entry into repurchasing agreements at 30–50% discount.	The repurchase portfolio comprises close to 50% electric or similar lower-emissions vehicles.
Waste management	Increased regulations and controversies could impact demand and cause a loss of revenues, increased costs or fines.	Møller Mobility reports on waste and levels of waste recycling for operations in Norway. It started providing training on this in Sweden in 2019. There are local regulations and reporting in the Baltics.	Norway: total waste of 3.4 tonnes in 2020, 80% of which was sorted. Sweden: CO_2 emissions reduced by 518.7 tonnes through sorting and reuse of materials, focus on reducing purchases of one-time batteries.
Reporting	Non-IFRS reporting could result in non-comparable key metrics for covenants and investors, and could present a risk of larger off-balance-sheet items being hidden.	Møller Mobility's annual report is audited by a respected auditing company.	We see the risk as low, but relevant.

Source: company

OWNERSHIP ANALYSIS

Ownership assessed as adequate

We assess the company's ownership structure as supporting the company's brand reputation and strategy, building on its 85-year history. Møller Mobility Group is majority-owned by the founding family through Aars AS. Møller Mobility Group MI AS represents those senior executives who can invest in the company. Jan H. Møller owns A shares that are guaranteed to generate NOK 5m in total dividends from Møller Mobility Group and sister company Møller Eiendom Holding AS. The remaining shareholders own B shares. There are no restrictions on voting. We note that the owners have several investments such as Møller Eiendom AS, a real-estate company, Katalysator AS, an investment holding company, and Møller Medvind. However, these companies are the result of the strong development in Møller Mobility, and we do not expect these to become a financial burden on the company, but rather to provide financial support.

Figure 27. Møller Mobility ownership as of 31 Dec. 2020

Owner	Share of votes and capital
Aars AS	97.8%
Møller Mobility Group MI AS	2.8%
Jan H. Møller	0.4%
Total	**100.0%**

Source: company.

ISSUE RATINGS

Møller Mobility is financed primarily through senior unsecured bonds, credit facilities and cash. The company's long-term senior unsecured obligations are rated at the same level as the issuer rating, reflecting the flat debtor hierarchy.

Figure 28. Møller Mobility key financial data

NOKm	2017	2018	2019	2020
INCOME STATEMENT				
Revenue	28,273	26,173	30,561	33,017
Cost of goods sold	-22,225	-20,377	-23,954	-26,018
Selling, general & admin. expenses	-2,812	-2,829	-3,097	-3,288
Other operating expenses	-1,964	-1,914	-2,202	-1,987
Depreciation and amortisation	-234	-291	-308	-331
EBIT	1,038	762	1,000	1,393
Interest costs	83	119	30	272
Pre-tax profit	1,121	881	1,030	1,665
Net Profit	**861**	**690**	**825**	**1,305**
BALANCE SHEET				
Property, plant and equipment	628	632	672	695
Intangible assets and goodwill	309	281	244	173
Interest in associates and JVs	888	1,287	1,410	1,491
Total non-current assets	2,083	2,484	2,709	2,771
Cash and cash equivalents	774	261	234	1,545
Total current assets	5,967	5,689	7,076	7,254
Total assets	**8,050**	**8,173**	**9,785**	**10,025**
Total equity	3,226	3,286	3,705	4,055
Long-term interest-bearing loans	797	799	400	509
Total non-current liabilities	926	1,072	904	1,047
Total current liabilities	3,898	3,814	5,178	4,924
Total equity and liabilities	**8,050**	**8,172**	**9,787**	**10,026**
CASH FLOW STATEMENT				
Pre-tax profit	1,121	881	1,030	1,665
Operating cash flow	1,787	584	-300	3,132
Cash flow from investing activities	-366	-526	-304	-284
Cash flow from financing activities	-671	-516	588	-1,540
Cash and cash equivalents at beginning of the year	32	774	250	237
Cash flow for the year	**742**	**-513**	**-16**	**1,308**
Cash and cash equivalents at the end of the year	774	261	234	1,545

Source: company.

Figure 29. Møller Mobility rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bb
Market position	10.0%	bbb
Size and diversification	10.0%	bbb
Operating efficiency	10.0%	bb+
Business risk assessment	50.0%	bb+
Ratio analysis		bbb+
Risk appetite		bb
Financial risk assessment	50.0%	bbb-
Indicative credit assessment		**bbb-**
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		**bbb-**
Support analysis		Neutral
Issuer rating		**BBB-**
Outlook		Stable
Short-term rating		**N-1+**

Figure 30. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB-

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