

NorgesGruppen ASA

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 NorgesGruppen ASA reflects the company's leading position in the Norwegian grocery market and its high levels of horizontal and vertical integration. It also reflects its relatively strong margins, which are largely due to economies of scale, and the company's strong bargaining position with suppliers. The rating further reflects the company's low sensitivity to economic recessions, most recently demonstrated by its strong performance since the onset of the COVID-19 pandemic.

The rating is constrained by NorgesGruppen's financial leverage, which is primarily driven by long-term leasing contracts but remains moderate thanks to stable cash flows. We believe the company has minimal risk appetite and a strong liquidity position, supporting our financial risk assessment. We also believe that the long-term owners will keep the company's risk appetite under control.

STABLE OUTLOOK

The outlook is stable, reflecting our expectations of moderate financial gearing over our forecast horizon. We expect capital investment levels to increase somewhat over the next few years, including investments to reduce the company's environmental footprint, but have not factored in major acquisitions or development projects. We expect no changes in legislation that might shrink the company's market position or margins. Our assessment of the company's financial position incorporates the prospective outcome of ongoing litigation (the so-called "price-hunter" case) by the Norwegian Competition Authority (NCA), which has alleged collusion in price fixing by major domestic grocery groups.

POTENTIAL POSITIVE RATING DRIVERS

- NCR-adjusted net debt/EBITDA falling below 2x.
- NCR-adjusted EBITDA margin close to the 2020 level of 10%.

POTENTIAL NEGATIVE RATING DRIVERS

- Major fines by the NCA.
- Lower profitability, leading to an NCR-adjusted EBITDA margin below 5%.
- NCR-adjusted net debt/EBITDA sustainably above 3x.

Figure 1. NorgesGruppen key credit metrics, 2017-2023e

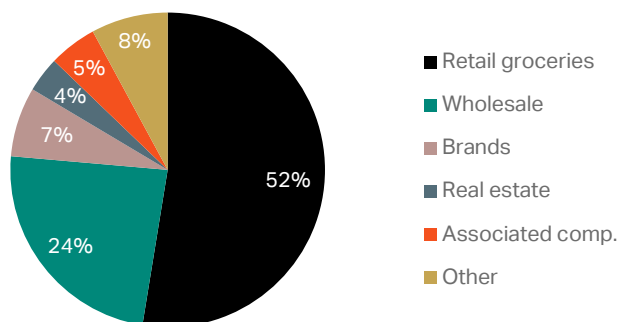
NOKm	2017	2018	2019	2020	2021e	2022e	2023e
Total revenue	85,632	87,813	90,326	101,385	100,705	100,999	104,029
NCR-adj. EBITDA	7,210	6,861	7,774	10,172	8,994	8,514	8,763
NCR-adj. EBITDA margin (%)	8.4	7.8	8.6	10.0	8.9	8.4	8.4
NCR-adj. FFO	5,459	5,126	5,964	7,926	6,860	6,439	6,624
NCR-adj. net debt	21,880	22,404	25,158	22,720	21,831	22,295	22,652
Total assets	37,678	39,171	59,961	62,950	64,558	65,534	66,731
NCR-adj. debt/EBITDA (x)	3.0	3.3	3.2	2.2	2.4	2.6	2.6
NCR-adj. EBITDA/interest (x)	6.7	6.3	6.8	8.8	7.8	7.3	7.4
NCR-adj. FFO/debt (%)	25.0	22.9	23.7	34.9	31.4	28.9	29.2
NCR-adj. FOCF/debt (%)	14.7	8.0	5.8	24.2	16.3	10.3	11.0

Based on NCR estimates and company data. e-NCR estimate. FFO=funds from operations, FOCF=free cash flow from operations All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

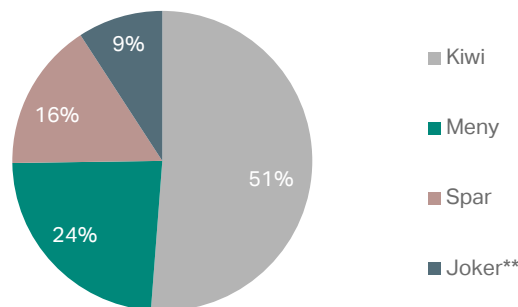
NorgesGruppen is a Norwegian grocery retail and wholesaling group which traces its origin back to 1866, when wholesaling company Joh. Johannson was established. The Johannson family still controls the company, with 74.4% of the shares and the votes. NorgesGruppen is the market leader in Norway. It had a 44% share of the domestic retail grocery market in 2020. The company has a countrywide presence, with stores in nine out of 10 municipalities. Its five grocery store chains are independent businesses which are competing with each other. Some 52% of the company's 1,820 grocery stores are retailer owned. NorgesGruppen also runs delicatessens, bakeries, coffee shops, and a fast-food chain. It has a total of 43,800 employees, including 14,200 employed at retailer-owned stores.

Figure 2. NorgesGruppen EBIT* by business area, 2020



Source: company. *As reported

Figure 3. NorgesGruppen revenues* from retail grocery chains, 2020



Source: company. *Including retailer owned stores. **Including Nærbutikken

Figure 4. NorgesGruppen brands and business overview

Brand name	Business	Concept	Gross revenues 2020 (NOKbn)
Retail			
Kiwi*	Grocery chain	Discount stores	46.3
Meny*	Grocery chain	Large supermarkets	21.3
Spar*	Grocery chain	Medium-sized supermarkets	14.5
Joker/Nærbutikken*	Grocery chain	Convenience stores	8.3
Total retail			90.4
Wholesale			
Asko	Wholesaler	Broad distribution	78.4
Brands			
Unil	Own brands	Distribution to own grocery chains	9.7
Joh. Johannson	Coffee wholesaler/brands	Broad distribution (~40% market share)	1.0
Matbørsen	Ready-made meals	Distribution to own grocery chains	0.7
Bakehuset	Bakery	Distribution to own grocery chains	1.7
Total brands			13.1
Outlets by brand and type			
Mix*	Kiosks/diners		0.9
Deli de Luca*	Kiosks/delicatessens		0.2
Tiger*	In-store petrol stations		1.2
Jafs*	Fast food chain		0.7
Kaffebrenneriet	Coffee shops		0.3
Big Horn*	Restaurants		0.1
Total other			3.4
Real estate			
Real estate related to grocery stores		Includes development projects	0.4

Source: company. *Including retailer owned stores.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'a-'

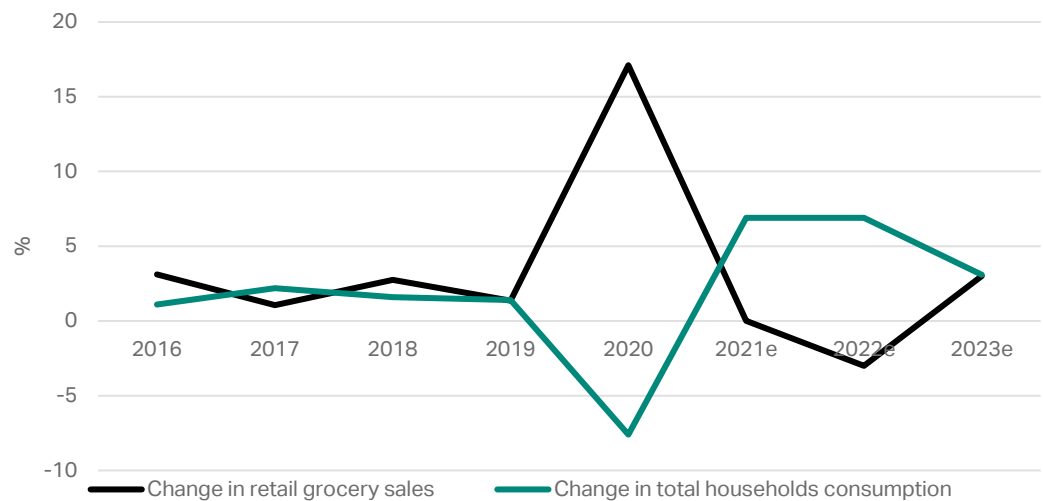
Our business risk assessment reflects NorgesGruppen's low exposure to cyclical fluctuations as a distributor of consumer staples. The COVID-19 pandemic has in fact boosted the company's revenues and margins. It is the leading Norwegian grocery wholesaler and retailer and has operating margins above those of most of its peers. We expect minimal margin erosion due to the likely normalisation of market conditions over the next few years. We note that the Norwegian retail grocery sector is under continuing scrutiny by the NCA.

Operating environment scores 'a-'

Retail grocers boosted by COVID-19

Household consumption recovered quickly after a decline at the outbreak of the COVID-19 pandemic and saw strong growth in the last three quarters of 2020. Increased working from home and reduced consumption in the vacation and services sectors effectively drove demand for groceries which the grocery supply chains met by continuing to function throughout the pandemic. Norwegian retail grocery stores increased their sales by 17.1% in 2020 (see Figure 5), compared with 1.3% in 2019. This excludes cross-border trade, which was down by 85% due to the closure of borders for most of the year. The domestic market for groceries (excluding cross-border trade) grew by 5.5% in 2020, while the total domestic market for groceries was estimated to have expanded by 2.4%, to about NOK 310bn. We assume that the opening of borders and normalisation of cross-border trading will lead to less buoyant figures in 2021 and 2022.

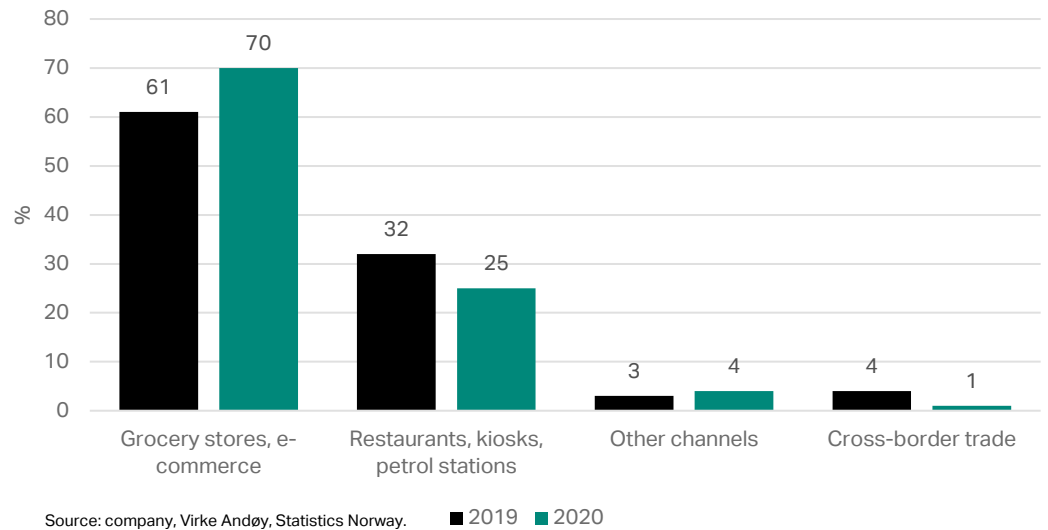
Figure 5. Norway consumption and retail grocery sales, 2016-2023e



Based on data from Statistics Norway and NielsenIQ. e-estimates (by Statistics Norway and NCR).

Grocery stores and e-commerce, NorgesGruppen's most important distribution channels by far, increased their share of the market in 2020 (see Figure 6), due to closures of restaurants and kiosks and a sharp rise in working from home, which left city centres and traffic hubs largely deserted. In our view, NorgesGruppen's retail, convenience store, and restaurant businesses are likely to see a rebound in the remainder of 2021 and 2022 as the operating environment improves.

Figure 6. Norway grocery market sales by distribution channel, 2019 and 2020



Recent studies suggest that Norwegian food and non-alcoholic beverage prices are 29% higher than in the EU area and 25% higher than in Sweden. The high price levels can be explained by protective tariffs, high domestic production costs, and higher distribution costs than in most European countries.

Earlier this year, the NCA closed an investigation into Orkla ASA, Mondelez International Inc. and NorgesGruppen as to whether differences in purchase prices violated the Competition Act and concluded that there were no grounds to continue the inquiry. The authority ruled that price differences occur as a result of negotiations, and tough negotiations between suppliers and grocery chains can give the chains lower purchase prices and, thereby, a basis for lowering their prices to consumers. The commission said this would benefit customers, even if differences between the grocery chains become considerable. We believe that the decision reduces the risk of government intervention to reduce NorgesGruppen's market share or bargaining power (see Financial Risk Assessment below).

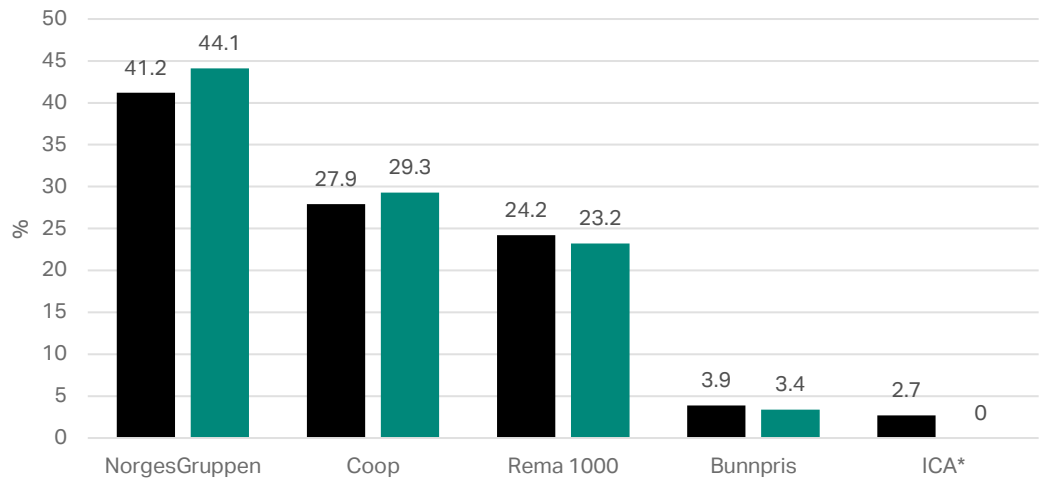
Market leader in groceries

The Norwegian grocery market is dominated by three large retail groups of which NorgesGruppen is by far the largest. The company accounted for 31% of the country's total food market in 2020. NorgesGruppen has also had the strongest growth in the sector in recent years. This can largely be explained by strong purchasing power with suppliers, enabling the company to offer lower prices than its competitors. We expect NorgesGruppen's strong purchasing power and distribution network to enable the company to sustain its leading market position. Moreover, we believe the incumbent grocery chains will likely increase their share of sales through e-commerce as this channel grows.

International grocery chains have had little success in their efforts to enter the Norwegian market. We believe that this is due to the consolidated structure of the Norwegian grocery sector, tough domestic market regulations, and high tariffs on imported food. Sweden-based ICA bought retail grocery chain Rimi in the 1990s but lack of purchasing power relative to the larger Norwegian chains forced it to exit the market in 2015, when most of its stores were sold to Coop Norge's Extra chain. ICA's share of the market was picked up by NorgesGruppen and Coop Norge (see Figure 7). Germany-based Lidl also made a short-lived effort to enter the Norwegian market but sold out to Reitangruppen (Rema 1000) in 2008. UK retailer Iceland Foods Ltd. currently operates four stores in the Oslo region, but with a limited product offering.

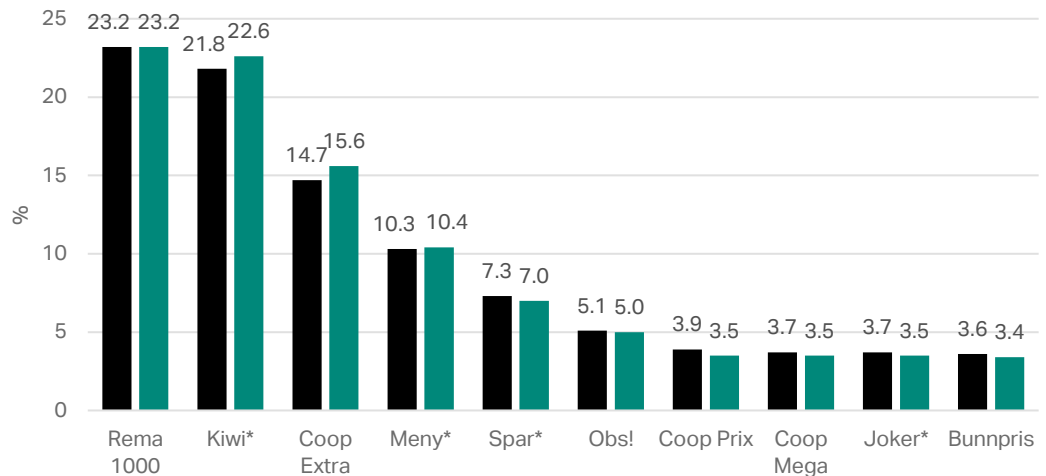
Market position scores
'a'

Figure 7. Norwegian grocery chain market shares, 2015 and 2020



Source: NielsenIQ. *Exited Norwegian market in 2015. ■ 2015 ■ 2020

Figure 8. Norwegian grocery chain concept market shares, 2019 and 2020



Source: NielsenIQ. *NorgesGruppen companies. ■ 2019 ■ 2020

In 2020, NorgesGruppen's grocery sales grew by 16.7%, compared with the average 15.8% growth recorded by its competitors. The discount store chain Kiwi in particular performed strongly. The company's e-commerce turnover was NOK 770 million in 2020, up 116% year on year compared with 56% growth in 2019. This level of growth was strong compared with total e-commerce growth of 8% in the wider retail grocery sector. E-commerce accounts for 2.7% of the retail market in Norway but only 1.2% of NorgesGruppen's retail sales. All of the major retail groups operate bonus and benefit card schemes which aim to keep customers loyal. NorgesGruppen's Trumf card has 2.5m members (75% of customers) who saved NOK 1.45bn in bonuses in 2020. The company reports approximately 30% growth in trade from individual customers after they enrol as Trumf card holders.

The three largest Norwegian retail grocery groups each have an in-house full-range supplier of groceries. NorgesGruppen's wholesaler, Asko, also supplies the independent retail grocery chain Bunnpris, retail convenience stores, hotels, restaurants and office operations. Asko's deliveries to the catering industry declined by 19% in 2020, but strong growth in groceries meant that its total revenues were up by 13.3% before and 3.6% after eliminations.

Big in a Nordic context

NorgesGruppen is the sixth-largest corporation in Norway and the second-largest retail grocery group in the Nordic region. However, compared with its rated international peers, it is relatively small with somewhat lower revenues than UK-based Marks & Spencer Group.

Size and diversification scores 'bbb+'

The group is well-spread across the Norwegian retail grocery sector, with different chain concepts and brands (see Figures 2-4). Moreover, its integrated wholesaler-retailer operation reduces margin volatility to some extent. However, most revenues come from retail and wholesale groceries and business diversity is limited. The company has a limited international presence, mainly through associate companies in other Nordic countries.

While the Norwegian grocery market is characterised by a small number of retail chain groups, it has a relatively small number of large suppliers. Although NorgesGruppen has about 1,100 suppliers, only 10 of these account for 50% of volumes. Nevertheless, NorgesGruppen's position as the market leader gives it a strong bargaining position with suppliers, and we believe that this position, and the company's efficient operations, are the main reason that it has better margins than most regional and international peers (see Figures 15 and 16).

NorgesGruppen's most important associate companies are Danish retail grocery corporation Dagrofa, with DKK 17.2bn in revenues in 2020 (48.9% ownership share) and Norwegian fruit and vegetable wholesaler Bama, with NOK 19bn in revenues (45.5% ownership share). Dagrofa has reported negative pre-tax profits since 2012 and is undergoing restructuring.

Figure 9. Nordic retail grocery group revenues, 2020

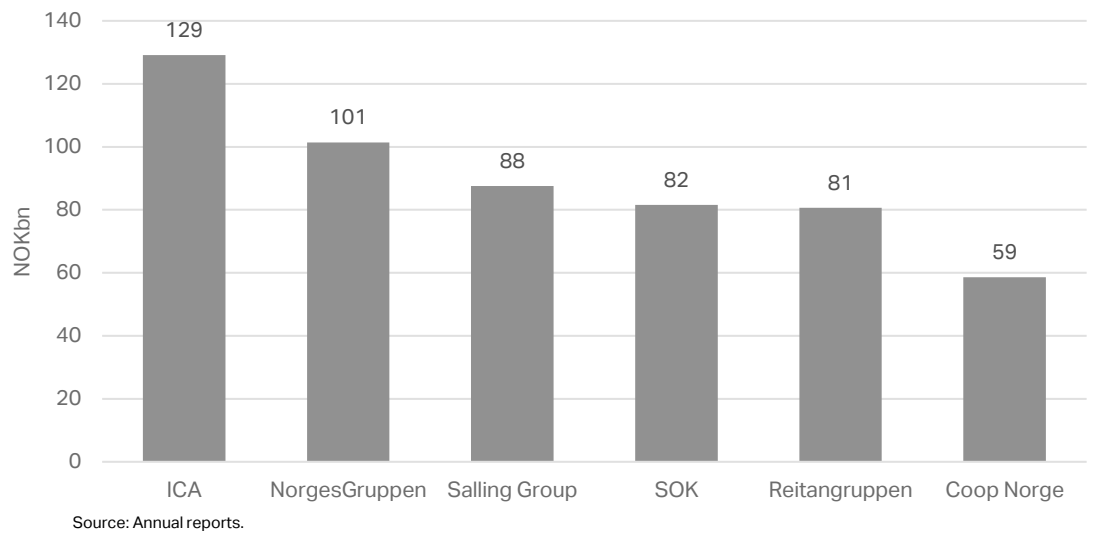
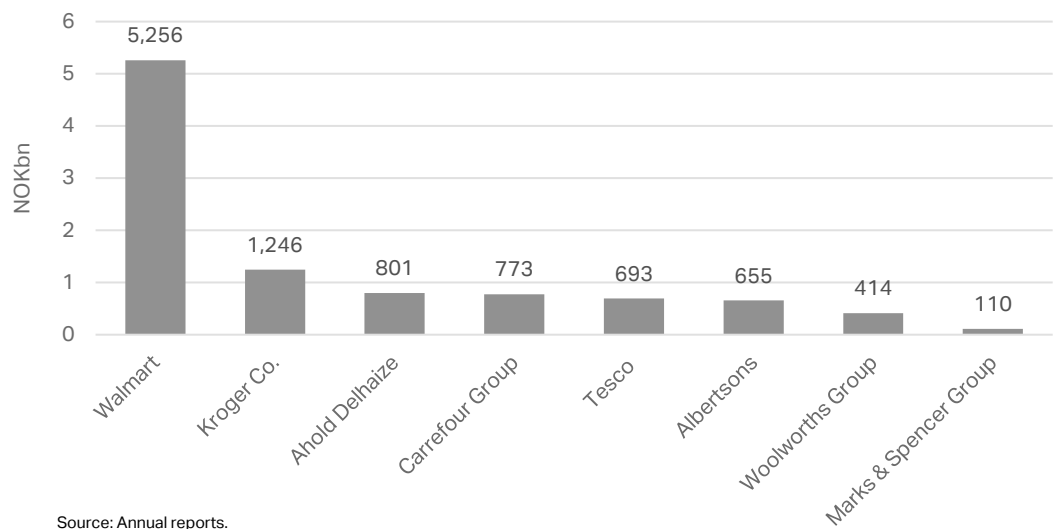


Figure 10. Rated international retail grocery group revenues, 2020



Operating efficiency scores 'a-'

Margins above international peers'

We expect that increased cross-border trade and competition as well as higher food raw material prices will contribute to a decline in margins as COVID-19 recedes. However, we expect that NorgesGruppen's strong bargaining position and cost focus will enable the company to stabilise margins at close to 2019 levels. We expect the company to increase investment to reduce the environmental impact of its distribution network (see Environmental, social and governance factors below)

NorgesGruppen's primary costs are cost of goods (78% of operating costs in 2020) and wages (12%). Food raw material prices have increased by more than the consumer price index in recent years (see Figures 11 and 12). The company's gross margins have, however, been remarkably stable (see Figure 13), indicating that it has been able to pass the higher input cost on to customers. We believe that volume growth played an important role in the company's ability to raise EBITDA margins in 2020, indicating economies of scale in the business model, despite higher costs due to challenges with product supply, changes in shopping patterns, and efforts to contain COVID-19 infection. We note, though, that the company's report for the first half of 2021 shows some margin pressure, mainly due competition and price reductions in Kiwi.

Figure 11. Norwegian price indices meat products, 2010-2020

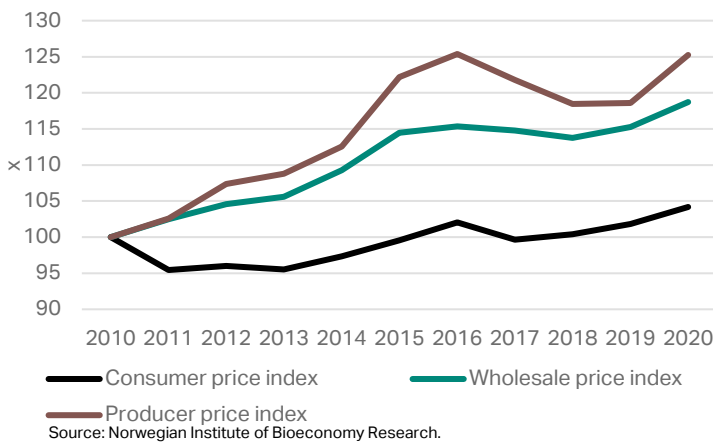


Figure 12. Norwegian price indices dairy products, 2013-2020

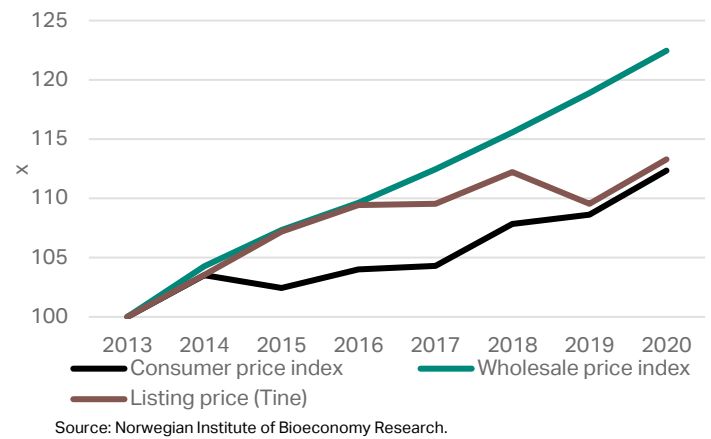


Figure 13. NorgesGruppen margins, 2017-2023e

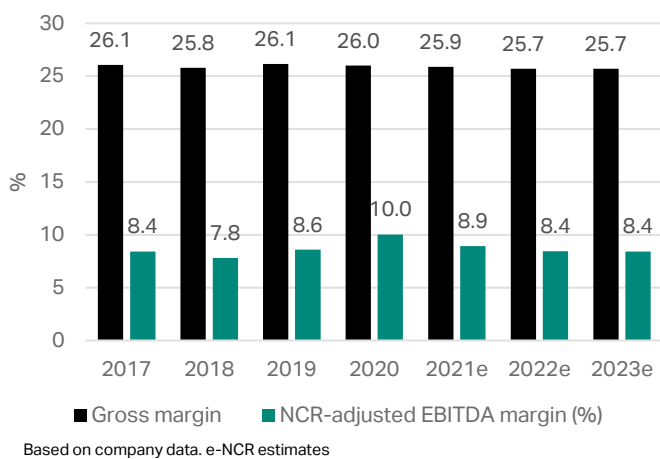


Figure 14. NorgesGruppen EBIT and margins by main business areas, 2019-2020

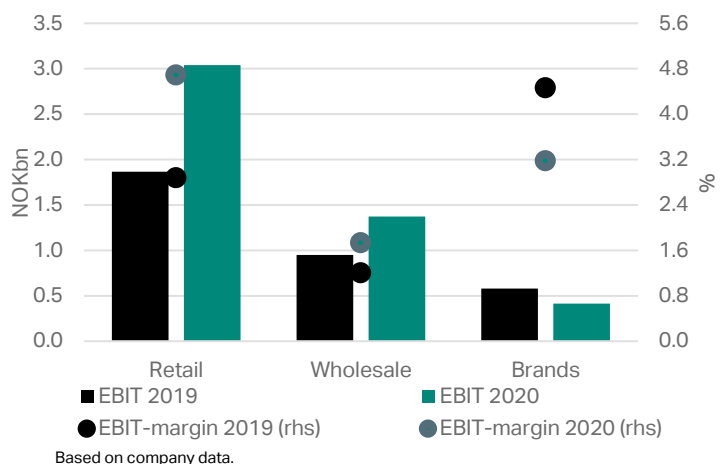


Figure 15. Major Nordic retail grocery groups – NCR adjusted EBITDA margin, 2019-2020

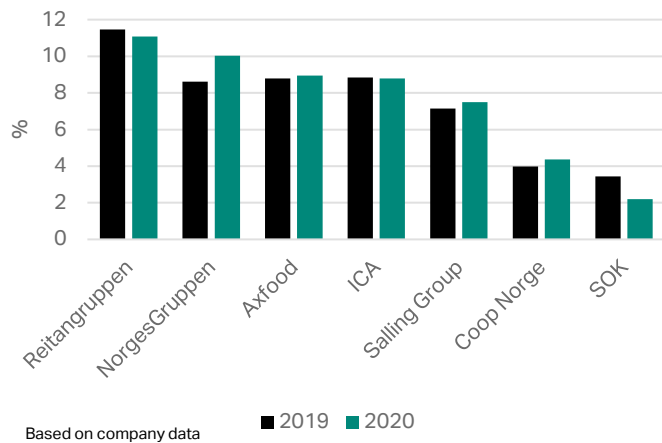
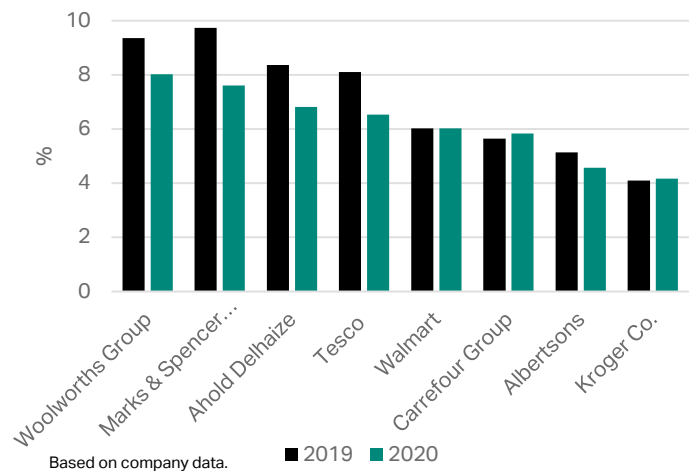


Figure 16. Rated international retail grocery groups – NCR adjusted EBITDA margin, 2019-2020



FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bbb-'

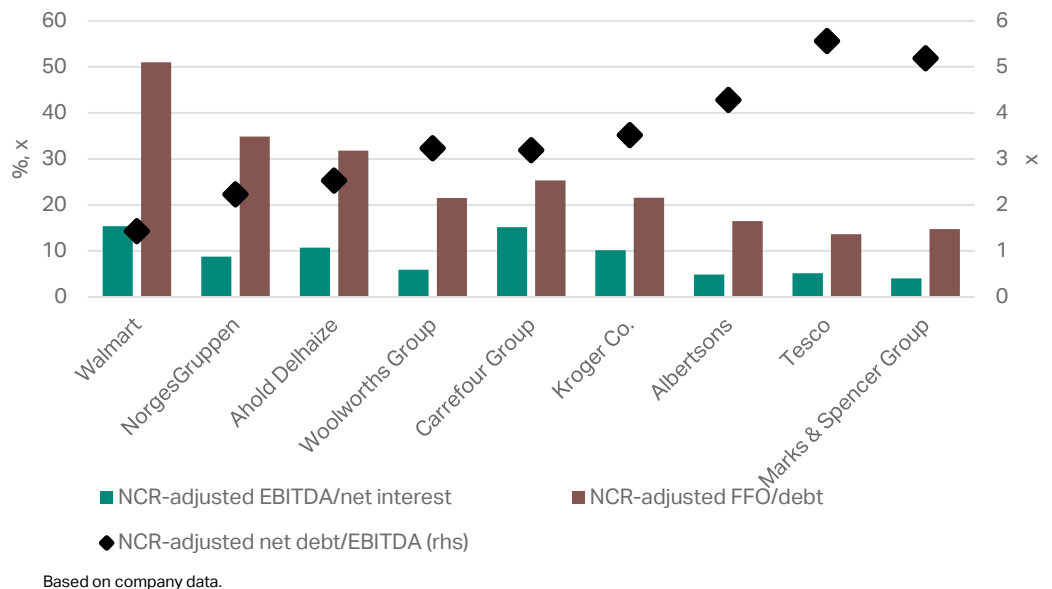
Our financial risk assessment reflects our view that NorgesGruppen will maintain relatively moderate gearing and stable credit metrics over the next few years. This is based on our expectations of a relatively stable level of capital investment and despite the fact that we see some margin erosion in our forecast horizon. We believe that NorgesGruppen's risk appetite is moderate in view of the company's family-controlled status.

Strong credit metrics compared with rated peers

Ratio analysis scores 'bbb-'

NorgesGruppen has among the strongest credit metrics in its international peer group (see Figure 17) and is surpassed only by Walmart. We expect its credit metrics to remain relatively stable over the next few years (Figures 19 and 20).

Figure 17. NorgesGruppen international rated peer groups' adjusted credit metrics, 2020



We base our adjusted EBITDA on the company's IFRS 16 accounting and adjust for one-off items such as a NOK 220m extraordinary bonus payment in 2020. We also add dividends from associate companies. We have adjusted the 2017 and 2018 figures to enable comparability with IFRS 16 reporting. Net interest-bearing debt is adjusted for unfunded pension benefit obligations, but we do not adjust for options to extend leasing contracts given that the company is likely to incur similar costs in new contracts or lose revenues by closing stores (see Figure 18).

The NCA is currently investigating the largest domestic grocery chains' openness about prices towards competitors (the so-called "price-hunter" case), and whether collusion might have led to higher grocery prices. The authority has announced possible fines of NOK 8.8bn for NorgesGruppen, NOK 7.4m for Rema 1000 and NOK 4.8bn for Coop. NorgesGruppen's position is that the NCA does not have a case. However, the case could take years to conclude and consensus thinking among analysts points to significantly lower fines, if any. We note that the announced fine is currently equal to about one year's EBITDA for NorgesGruppen. While a fine from NCA is not incorporated in our forecasts, we believe that our scoring of the company's credit metrics adequately anticipates this risk factor.

In our base-case forecast of NorgesGruppen's future performance, we assume:

- revenue growth of minus 0.5%, 0.0% and 3.0% in 2021, 2022 and 2023 respectively;
- an unadjusted EBITDA margin (based on IFRS 16) of 9.0% in 2021, falling to 8.5% thereafter;
- annual capital spending of NOK 3.0-4.0bn;
- a moderate increase in working capital relative to sales;
- distribution of about 30% of net profit in dividends; and
- no change in corporate structure.

On the basis of these assumptions, we estimate the following metrics for 2021-2023:

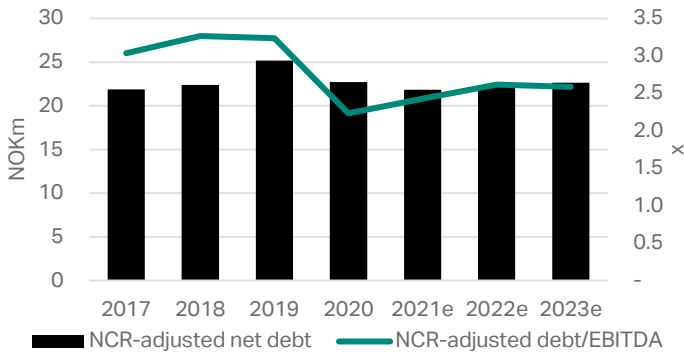
- NCR-adjusted net debt/EBITDA of 2.4–2.6;
- NCR-adjusted EBITDA/net interest of 7.4–7.8; and
- NCR-adjusted FFO/net debt of 29%–31%.

Figure 18. NCR's adjustments to NorgesGruppen's credit metrics, 2017–2023e

NOKm	2017	2018	2019	2020	2021e	2022e	2023e
EBITDA	5,169	5,292	8,019	10,010	9,063	8,585	8,842
Share of profit in associated companies	69	-300	-472	-284	-282	-282	-291
Dividends from associated companies	266	256	291	226	213	212	212
Fixed lease payments (GAAP)	1,905	1,814					
Other EBITDA adjustments	-200	-200	-64	220			
NCR-adjusted EBITDA	7,210	6,861	7,774	10,172	8,994	8,514	8,763
Gross debt	6,041	6,315	7,066	4,574	4,774	5,574	6,374
Long-term leasing liabilities			16,669	17,933	18,292	18,670	19,066
Short-term leasing liabilities			2,454	2,069	2,069	2,069	2,069
Retirement benefit obligations	521	560	601	669	737	805	873
Debt adjustment for non-IFRS 16 leases	16,407	17,307					
NCR-adjusted total debt	22,970	24,182	26,789	25,245	25,872	27,117	28,382
NCR-adjusted cash and equivalents	1,090	1,778	1,631	2,524	4,041	4,823	5,729
NCR-adjusted net debt	21,880	22,404	25,158	22,720	21,831	22,295	22,652
Net financial items	-274	-83	-1,225	-1,182	-1,152	-1,164	-1,182
Dividends (net financial item)	-14	-18	-3	-4			
Other financial income	-51	-52	-158	-410			
Interest adjustment for leasing (GAAP)	-950	-1,003	0	0			
Other financial costs	214	64	234	434			
NCR-adjusted net interest	-1,075	-1,092	-1,151	-1,162	-1,152	-1,164	-1,182
Adjusted EBITDA	7,210	6,861	7,774	10,172	8,994	8,514	8,763
Adjusted Interest	-1,075	-1,092	-1,151	-1,162	-1,152	-1,164	-1,182
Current taxes	-675	-644	-658	-1,084	-982	-911	-957
NCR-adjusted FFO	5,459	5,126	5,964	7,926	6,860	6,439	6,624
Changes in working capital	690	-176	-297	867	-296	-138	-123
Capital expenditures in tangible assets	-2,892	-3,053	-4,145	-3,284	-3,000	-4,000	-4,000
Capital exp. in intangible assets	-34	-101	-64				
NCR-adjusted FOCF	3,224	1,795	1,457	5,509	3,564	2,301	2,501

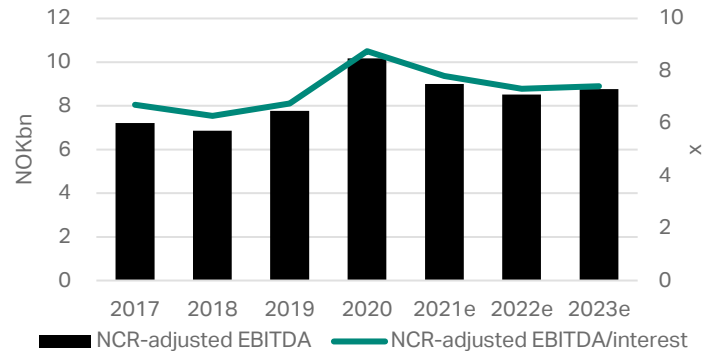
Based on company and NCR data. e – NCR estimates. GAAP-Norwegian Generally Accepted Accounting Principles.

Figure 19. NorgesGruppen NCR-adjusted net debt and net debt/EBITDA, 2017-2023e



Based on company data and NCR. e- NCR estimates.

Figure 20. NorgesGruppen NCR-adjusted EBITDA and EBITDA to net interest, 2017-2023e



Based on company data and NCR. e- NCR estimates.

Low volatility in profitability and capital spending

Risk appetite scores 'bbb'

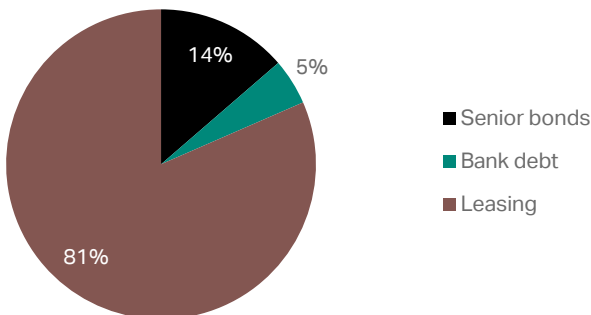
We believe that NorgesGruppen's risk appetite is more moderate than reflected by the financial ratios we expect over our forecast horizon. The company has reduced its gearing in recent years (see Figure 19) and we believe that its family ownership structure contributes to its stable risk appetite. The grocery business is resilient to economic cycles and the company has traditionally reported strong FOCF. In addition, capital spending has historically been relatively stable.

NorgesGruppen targets a minimum dividend payout ratio of 25%, providing the company's future capital needs are covered. In the past five years, the payout ratio has been between 25% and 31%. The general meeting has authorized the board to increase the company's share capital by issuing up to 2 million additional shares (a 5% increase) and to buy back up to 10% of the currently outstanding shares. NorgesGruppen retains right of first refusal when the company's shares are traded.

The company has demonstrated a prudent acquisition strategy, and in recent years has mostly focused on small bolt-on acquisitions. Investments on the fringe of its core business areas have mostly been carried out through associate companies. NorgesGruppen invests in real-estate development projects as a minority partner to obtain access to attractive locations for grocery stores, and this could lead to fluctuations in cash flows as well as periods of volatility in gearing.

NorgesGruppen has a straightforward capital structure, consisting of ordinary equity with a single share class. Its funding consists of senior bonds, bank debt, and leasing. The main covenants and historical metrics are shown in Figure 22. These are based on pre-2019 accounting standards (Norwegian Generally Accepted Accounting Principles).

Figure 21. NorgesGruppen funding structure, 31. Dec. 2020



Source: company.

Figure 22. NorgesGruppen debt covenants and reported credit metrics*

	Covenant	2017	2018	2019	2020
EBITDA/Net interest (x)	≥3	42	56	122	271
NIBD/EBITDA (x)	≤3.5	0.8	0.8	0.8	0.3
Equity ratio (%)	≥24	49	53	55	59

Source: company. *Not based on IFRS16. NIBD-net interest-bearing debt.

NorgesGruppen has limited currency risk. Its foreign exchange exposure is mainly to the Danish krone and the euro. It uses hedging instruments to reduce the impact of changes in currency rates. Funding is mainly at floating interest rates and NorgesGruppen does not assess its operations as interest-rate sensitive. The average time to maturity of the company's bond debt is about 3.5 years. NorgesGruppen faces credit risk in connection with lending and guarantees provided to associate companies,

wholesale customers, and franchisees, totalling about NOK 2bn. Customer credit, mainly to wholesale customers, was down by 16% in 2020 at NOK 1.9bn, while write downs increased to NOK 32m from NOK 25m, due to COVID-19.

Subsidiary NorgesGruppen Finans AS has a license to operate as a finance and payment company and issues credit, loans and guarantees to other companies. In 2020, the company launched Trumf Visa credit cards for private individuals.

ADJUSTMENT FACTORS

Adjustment factors are assessed as neutral and have no effect on our stand-alone credit assessment.

Adjustment factors
neutral

Liquidity

We assess NorgesGruppen's liquidity position as adequate, thanks to the company's strong cash position and unutilised credit facilities that significantly outweigh its committed financial obligations over the next 12 months.

Liquidity assessed as
adequate

We estimate the following primary liquidity sources for the 12 months ending June 2022, totalling NOK 13.7bn:

- NOK 2.8bn in cash holdings (as of 30 Jun. 2021);
- NOK 5.0bn, reflecting 75% of FFO over the period; and
- NOK 5.9bn in committed available credit facilities.

This compared with the following uses of liquidity over the period, totalling NOK 3.0bn:

- NOK 2.7bn in amortisation of senior bonds, bank debt, and lease instalments; and
- NOK 0.3bn in committed capital spending.

Environmental, social and governance factors

The main environmental, social and governance (ESG) issues that could affect our credit rating on NorgesGruppen are factors that could contribute to loss of revenue, increased operational costs, increased capital spending, loss of value of assets, decreased access to funding, or loss of operating rights. In this context, we believe that the main credit risks are related to fair competition, CO₂ emissions, food waste and employee relations. Fair competition is an ongoing area of discussion with the NCA, which we discuss elsewhere in this report (see also Figure 23).

ESG factors assessed as
adequate

NorgesGruppen is making efforts to reduce direct emissions and emissions generated by purchased electricity (Scope 1 and 2). It is still working on ways to measure and report the wider category of indirect Scope 3 emissions that occur across the company's entire value chain. Nevertheless, its stated target is to be climate neutral by 2030. Wholesaler Asko's distribution of groceries is a major source of direct emissions. Asko has ordered 55 electric trucks and four hydrogen-fueled trucks. It is also building electric sea drones to transport goods across the Oslo Fjord from January 2022. NorgesGruppen has invested in nine land-based windmills and is exploring ocean-based windmill projects. The aim is to fully compensate for CO₂ emissions through production of clean energy.

NorgesGruppen has for many years worked systematically to reduce food waste and aims to halve such waste by 2025. The company is working to reduce waste in all product groups and eliminate waste meat entirely by 2025 to cut climate gases.

As one of Norway's largest employers, NorgesGruppen has a focus on training young people and immigrants, and on creating opportunities for those with low levels of education. In addition, Asko offers a bachelor's degree programme in logistics to employees. Absence due to illness stood at 7.5% in 2020, which is higher than the retail sector average (5.9%). The figure was up from 6.0% in 2019 due to COVID-19.

Figure 23. NorgesGruppen ESG considerations

Issue	Risk	Mitigating efforts	Result
Fair competition	Fines, changes in business model.	Open discussions with the NCA. No longer discloses price list to competitors.	Most cases closed by the NCA without action. "Price-hunter" case still open.
CO ₂	New regulations and increased taxation could reduce operating efficiency. Regulatory requirements could increase capital spending.	Increased focus on electric vehicles. Phasing out of hydrofluorocarbons. Efforts to have climate-neutral operations by 2030.	Green bond issues with dark green shading from Cicero. Produced 97.5 GWh or 12% of own energy usage in 2020. Greenhouse gas emissions down by 5% in 2020.
Food waste	New regulations could reduce operating efficiency and capital spending. Increased consumer focus on waste.	Targeting 50% reduction of food waste from 2015 to 2025. Co-operation with suppliers. Discounts on food close to expiry date. Use of food waste for biogas and animal feed.	Food waste down by 38% from 2015 to 2020.
Employee safety and relations	Reduced operating efficiency due to loss of key personnel or sick leave. Headline risk.	Consistent monitoring of sick leave. Whistleblowing procedures. Creating jobs and education programmes for unskilled workers.	More than 50% of employees are below 30. Some 545 employees participated in an apprenticeship programme in 2020.

Source: company.

OWNERSHIP ANALYSIS

Ownership assessed as neutral

NorgesGruppen is controlled by the influential Johannson family, which holds 74.4% of the shares. Knut Hartvig Johannson is currently board chairman. The family also has real estate and other investments through investment vehicle Joh Johannson Invest AS. We believe that the family takes a long-term perspective of its ownership in NorgesGruppen and that it fully backs the company's current strategy, while keeping a firm rein on risk appetite.

Figure 24. NorgesGruppen ownership structure, 31 Dec. 2020

Owner	Share of votes and capital
Joh. Johannson Handel AS	74.40
Brødrende Lorenzen AS	9.00
PETT Kjede og Servicekontor AS	6.32
Butikkdrift AS	1.81
Drageset AS	1.13
Kråtun AS	1.05
Other	6.29
Total	100.00

Source: company.

ISSUE RATINGS

NorgesGruppen is largely funded through senior unsecured debt, bank debt and leasing. The company's holdings of bank debt represent about 26% of its external funding excluding leasing. NorgesGruppen's long-term senior unsecured bonds are rated at the same level as the issuer rating, reflecting the company's relatively flat debtor hierarchy.

Figure 25. NorgesGruppen key financial data

NOKm	2017	2018	2019	2020	LTM to Jun. 2020
INCOME STATEMENT					
Total revenue	85,632	87,813	90,326	101,385	103,833
Gross profit	22,333	22,664	23,619	26,375	na
EBITDA	5,169	5,292	8,019	10,010	9,747
EBIT	3,052	3,140	4,265	5,765	6,080
Net financial items	-274	-83	-1,225	-1,182	-1,309
Pre-tax profit	2,778	3,057	3,040	4,583	4,923
Net profit	2,090	2,410	2,427	3,526	3,939
BALANCE SHEET					
Property, plant and equipment	15,405	16,249	17,954	18,924	19,565
Intangible assets	4,832	4,873	5,238	5,007	4,947
Interests in associates	3,042	3,436	3,593	4,020	na
Other non-current assets	1,913	2,201	20,072	20,772	na
Non-current assets	25,191	26,759	46,956	48,724	48,654
Cash and cash equivalents	1,090	1,778	1,631	2,524	2,798
Other current assets	11,397	10,634	11,373	11,702	13,757
Total current assets	12,487	12,412	13,004	14,226	16,555
Total assets	37,678	39,171	59,961	62,950	65,209
Total equity	18,135	19,843	21,610	23,735	24,505
Long-term borrowings	4,661	4,333	5,129	5,380	5,561
Long-term leasing liabilities			16,669	17,933	18,133
Retirement benefit obligations	521	560	601	669	na
Deferred tax liabilities	905	921	714	923	na
Other long-term liabilities	89	44	8	50	na
Non-current liabilities	6,177	5,859	23,121	23,312	23,694
Current liabilities	13,367	13,470	15,230	15,903	17,009
Total equity and liabilities	37,678	39,171	59,961	62,950	65,209
CASH FLOW STATEMENT					
Pre-tax profit	2,778	3,057	3,040	4,583	3,939
Adjustment for items not in cash flow	1,714	1,368	1,826	2,349	2,457
Cash flow before changes in working capital	4,492	4,425	4,867	6,932	6,396
Changes in working capital	690	-176	-297	867	801
Operating cash flow	5,182	4,249	4,569	7,799	7,197
Cash flow from investment activities	-2,507	-3,638	-3,760	-3,432	-3,265
Cash flow from financing activities	-2,293	78	-957	-3,473	-3,375
Cash and cash equivalents at start of period	707	1,090	1,778	1,631	1,967
Cash flow for period	382	689	-147	893	557
Cash and cash equivalents at end of period	1,090	1,778	1,631	2,524	2,524

Based on company data and NCR estimates. LTM—last 12 months. na—not available.

Figure 26. NorgesGruppen rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	a-
Market position	10.0%	a
Size and diversification	10.0%	bbb+
Operating efficiency	10.0%	a-
Business risk assessment	50.0%	a-
Ratio analysis		bbb-
Risk appetite		bbb
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 27. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

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