Nordic Credit Rating

CORPORATE

Norway
25 Oct. 2021

NorgesGruppen ASA

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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NorgesGruppen ASA assigned 'BBB+' long-term issuer rating; Outlook stable

Nordic Credit Rating (NCR) said today that it had assigned a 'BBB+' long-term issuer credit rating to NorgesGruppen ASA. The outlook is stable. An 'N-1+' short-term rating was also assigned. NCR has also assigned 'BBB+' issue ratings to NorgesGruppen's senior unsecured bonds.

Rationale

The rating reflects NorgesGruppen's leading position in the Norwegian grocery market and its high levels of horizontal and vertical integration. It also reflects the company's relatively strong margins, which are largely due to economies of scale, and strong bargaining position with suppliers. The rating further reflects NorgesGruppen'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 stable outlook reflects 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. We could raise the rating to reflect NCR-adjusted net debt/EBITDA below 2x or an NCR-adjusted EBITDA margin close to the 2020 level of 10%. We could lower the rating to reflect the imposition of major fines by the NCA, lower profitability, leading to an NCR-adjusted EBITDA margin below 5%, or NCR-adjusted net debt/EBITDA sustainably above 3x.

Rating list	Rating
Long-term issuer credit rating:	BBB+
Outlook:	Stable
Short-term issuer credit rating:	N-1+
Senior unsecured issue rating:	BBB+

Figure 1. 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 2. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 25 Oct. 2021.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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