Nordic Credit Rating

CORPORATE

Norway
7 Apr. 2021

Kongsberg Gruppen ASA

Full Rating Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'A-' long-term issuer credit rating on Kongsberg Gruppen ASA (Kongsberg Gruppen), a Norway-based defence and maritime technology supplier, is supported by the company's leading position in its niche markets, strong cash position and cash flow, and low gearing. It is constrained by cyclical weakness in the company's shipping and oil service operations, its small size in comparison with its peers, and its margins which are lower than those of its major peers, particularly in the maritime segment.

The maritime segment sells green technology to non-green industries (oil and shipping), which we see as neutral in the context of the company's environmental, social, and governance (ESG) performance. However, we lower our stand-alone credit assessment by one notch due to reduced availability of funding from investors adverse to defence industry activity. Conversely, we add back a notch to reflect the likelihood that the majority owner, the Norwegian government, would support the company if needed. In sum, the adjustment factors are neutral.

STABLE OUTLOOK

The stable outlook reflects our expectation that negative effects from the COVID-19 pandemic will diminish during 2021, leading to improved market conditions for the maritime segment. We also expect that spending on defence will remain at high levels and that demand for Kongsberg Gruppen's advanced solutions will remain high. In addition, we assume that Kongsberg Gruppen will make no significant debt-financed acquisitions over the next few years.

POTENTIAL POSITIVE RATING DRIVERS

- Improved conditions in most markets leading to stronger revenue growth.
- Increased share of income from defence at higher margins.

POTENTIAL NEGATIVE RATING DRIVERS

- Reduction in government commitment.
- Increased financial gearing, leading to NCR-adjusted debt/EBITDA above 2.5x, which is broadly equivalent to the company's reported net debt/EBITDA of above 1.5x.
- Lower profitability leading to an EBITDA margin of below 10%.

Figure 1. Kongsberg Gruppen key credit metrics, 2018–2023e

NOKm	2018	2019	2020	2021e	2022e	2023e
Revenue	14,381	24,081	25,612	27,296	30,096	32,007
NCR-adjusted EBITDA	1,298	2,302	3,111	3,116	3,749	4,150
NCR-adjusted net debt	2,899	1,300	-1,223	280	-70	-224
Total assets	27,658	39,022	39,230	40,433	42,771	44,985
NCR-adjusted debt/EBITDA (x)	2.2	0.6	-0.4	0.1	0.0	-0.1
NCR-adjusted EBITDA/interest (x)	6.7	18.0	12.8	12.6	13.9	14.2
NCR-adjusted FFO/debt (%)	33.9	154.3	-203.8	878.4	-4,205.6	-1,460.7

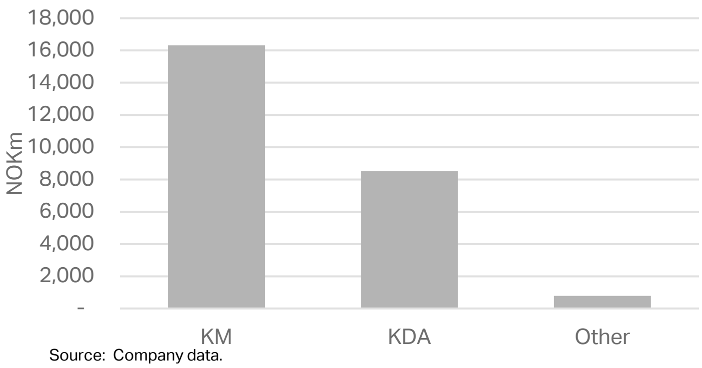
Based on NCR estimates and company data. e–estimate. FFO–funds from operations. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Kongsberg Gruppen provides high-tech systems and solutions to customers operating primarily in the shipping, oil and gas, fisheries, defence, aerospace and space industries. The company has three operating segments: Kongsberg Maritime (KM) delivers high tech products and systems for a large range of ocean-related activities; Kongsberg Defence & Aerospace (KDA) supplies advanced technology to customers in the defence, monitoring, space, and remote air traffic control; and Kongsberg Digital (KDI) is a small, high-growth business which supplies maritime training simulators and digitisation solutions to the energy sector, among others. The company has about 10,000 employees and operates in 40 countries.

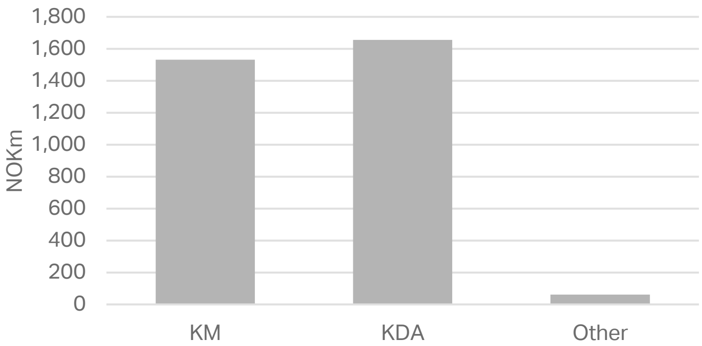
Kongsberg Gruppen has its roots in Kongsberg Våpenfabrikk, a defence company founded in 1814, and was previously wholly owned by the Norwegian government. It was partly privatised in 1993, when it was listed on the Oslo Stock Exchange. The government still holds 50.004% of the shares.

Figure 2. Kongsberg Gruppen revenues by business segment, 2020



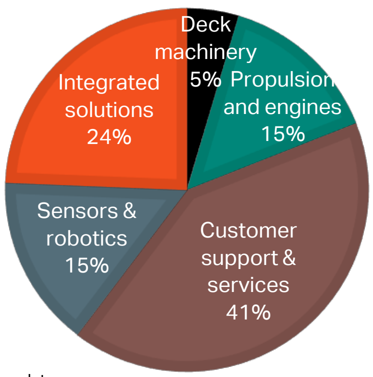
Source: Company data.

Figure 3. Kongsberg Gruppen EBITDA by business segment, 2020



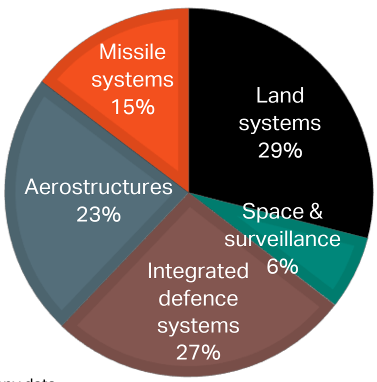
Source: Company data.

Figure 4. KM revenues by division, 2020



Based on company data.

Figure 5. KDA revenues by division, 2020



Based on company data.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bbb'

Kongsberg Gruppen's two largest business segments have different drivers and we discuss them separately below. KM has been negatively affected by COVID-19's effect on oil demand, cruises and the general economy but has enjoyed positive synergies since acquiring Rolls-Royce Commercial Marine in 2019. KDA is growing due to higher global spending on defence and upgrades of weapons platforms. KDI is a niche business with long-term growth opportunities. We expect margins at KM and KDA to remain solid, while KDI is likely to remain at the investment phase for some years to come.

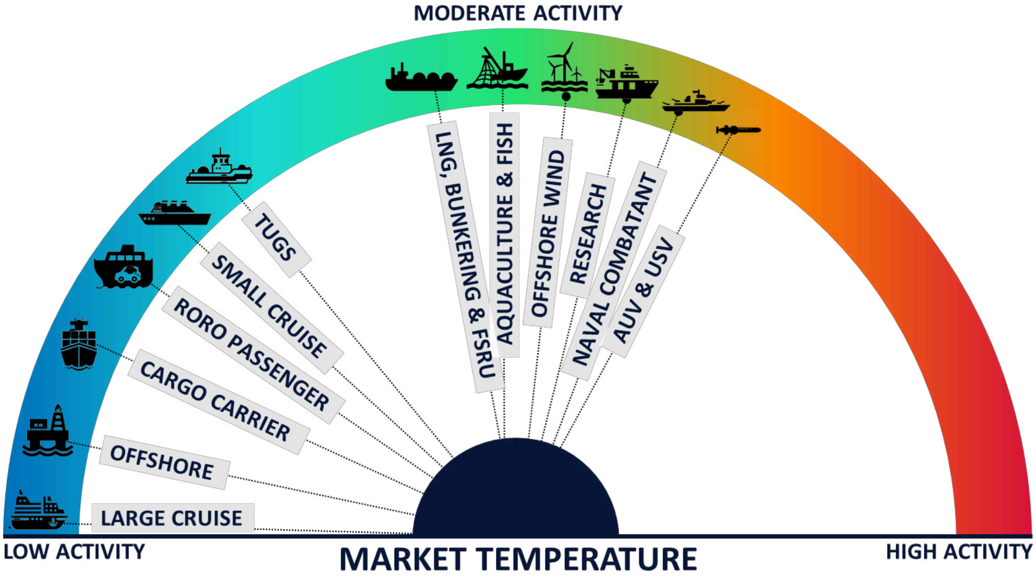
Growing global defence budgets offset challenging maritime markets

Operating environment scores 'bbb-'

KM accounts for about two-thirds of company revenues and the cyclical downturn in shipping and oil services is having a negative impact on our view of the segment's operating environment. Particularly weak is the new build market, which is at a 30-year low. New builds have historically accounted for about 50% of KM's revenues, but this fell to 40% in 2020. Kongsberg Gruppen's management expects this market to start rebounding in 2022-2023.

Offshore, goods and passenger transport are among the major sectors negatively impacted by the economic downturn. These sectors account for close to 60% of KM's revenues. However, some key sectors have remained strong in the current environment, including naval operations, offshore wind, and fisheries. The strongest growth is in demand for autonomous underwater vehicles and unmanned surface vessels, where KM is a market leader (see Figure 6).

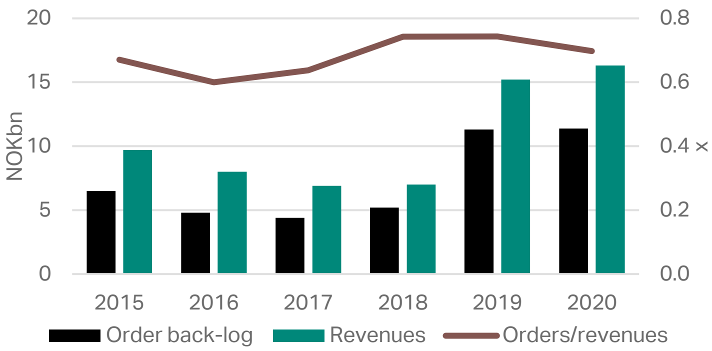
Figure 6. KM current market activity by customer type



LNG–liquified natural gas. FSRU–floating storage and regasification units. AUV–autonomous underwater vehicles. USV–unmanned surface vessels. Reprinted with permission from KM Market Research. Based on data from Clarksons, IHS Markit and other sources.

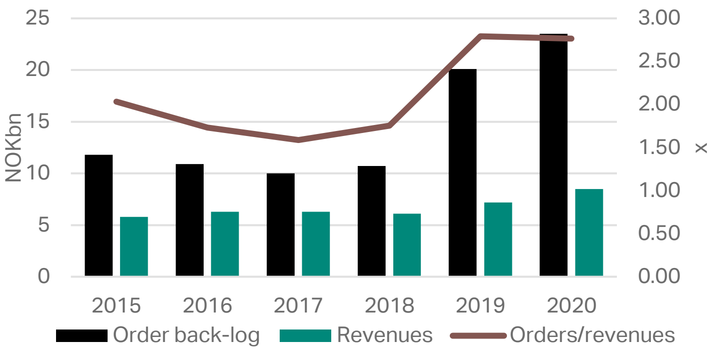
KM's markets are impacted by increased regulatory and investor focus on environmental issues. This is particularly the case for oil services (about 24% of segment revenues) but represents a challenge for shipping in general. However, KM offers a range of green technology products and services that provide its customers with tools to acquire green shipping credentials. These technologies help KM to sustain a relatively strong order back-log and we expect them to remain the segment's main growth drivers.

Figure 7. KM revenues and order back-log, 2015-2020



Based on company data.

Figure 8. KDA revenues and order back-log, 2015–2020

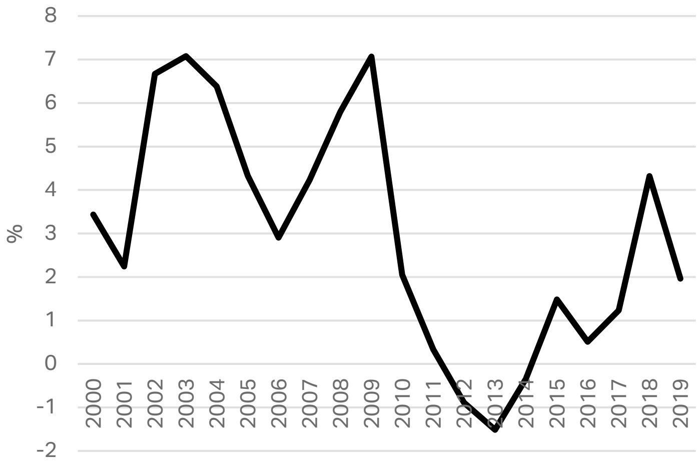


Based on company data.

KDA characteristically engages in long-term projects in a market dependent on government defence spending. The average compound annual growth rate in world defence expenditure has been 2.9%

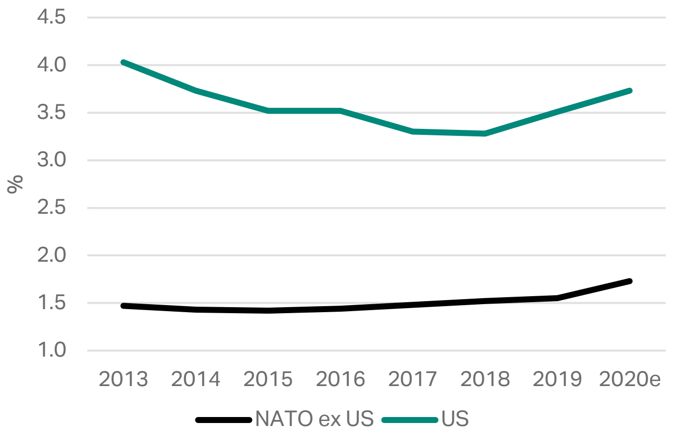
over the past 20 years but has been relatively volatile within that period (see Figure 9), with geopolitical conditions pointing to higher rather than lower defence spending over the longer term. Moreover, we see no signs that increased focus on ESG issues will impact demand for defence systems (unlike, for example, fossil fuel). However, increased government spending and lower tax revenues due to the COVID-19 pandemic could impact defence spending negatively in the short to medium term. The US has been pressuring its NATO allies to agree to increase defence spending to at least 2% of GDP, but there is still some way to go before that target is reached (see Figure 10). We expect that the new US government will keep up this pressure.

Figure 9. Annual real growth in world defence spending, 2000–2019



Source: Stockholm International Peace Research Institute.

Figure 10. Defence expenditure* by NATO countries, 2013–2020e



*As proportion of GDP. Source: NATO.

Despite some volatility in global defence spending, KDA expects that demand for technologically advanced weapons systems will remain strong. This represents an advantage for the segment, which specialises in hi-tech products, and has driven its strong order back-log. The segment has identified potential orders amounting to more than NOK 100bn in the next 10 years.

Focus on technology leadership

Market position scores 'bbb+'

Kongsberg Gruppen is a medium-sized player in the maritime technology market and a relatively small player in the defence and aerospace sector (see figures 12 and 13). We note that the company is a leader in high-end technology and a major player in its niche markets, with the ability to upgrade its products continually to meet customer requirements.

KM's market position improved after the acquisition of Rolls-Royce Commercial Marine, which effectively doubled business volumes; the segment is currently increasing its share of a subdued market through a broader offering of products and services. Due to the global scope of the maritime sector, the main competitors are major international companies that provide global service and support networks. One major competitor in several of KM's niche markets is Finnish company Wärtsilä.

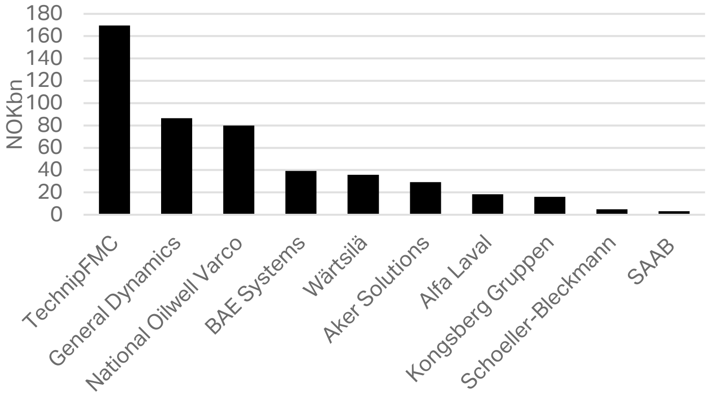
KDA has, we believe, an advantage as a government-controlled company from a NATO country. We also note that synergies between business units create cross selling opportunities and greater scope for delivery, for example in competition for naval contracts. There are significant barriers to entry in the defence and aerospace markets due to the advanced nature of the technologies involved and strict regulations restricting the export of weapons systems. KDA provides niche components for weapons platforms and encounters limited competition when customers choose a particular defence capability. The segment can, however, encounter local competition in some countries, particularly in the market for remote-controlled weapons stations. KDA has partnerships with some major defence companies, for example a strategic cooperation agreement with Raytheon for the NASAMS air defence system and with ThyssenKrupp Marine Systems on submarine combat systems.

Figure 11. Kongsberg Gruppen by business segment

Business area	Description
Kongsberg Maritime	
Deck Machinery & Motion Control	Handling equipment for advanced offshore operations. Standard solutions for deck machinery for merchant and passenger vessels and tugs.
Propulsion and Engines	Propulsion systems. Thrusters, propellers, pods and waterjets.
Sensors & Robotics	Hydroacoustic technology and AUVs for various subsea applications.
Integrated Solutions	Integrated systems to improve efficiency of ships.
Global Support	Serves 30,000 vessels.
Kongsberg Defence & Aerospace	
Land Systems	Remote weapons stations used in 25 countries. Robust radios and radio communication and other network components used in advanced tactical communication systems in over 30 countries.
Space & Surveillance	Broad spectrum of systems and electronics for launch vehicles and spacecraft, as well as ground stations and services related to the processing of satellite data for space and maritime surveillance customers in over 40 countries.
Integrated Defence Systems	Air defence systems including the NASAMS missile system, monitoring systems and artillery firepower, as well as land- and vessel-based combat systems. Supplies to more than 15 countries.
Aerostructures	Manufactures complex composite structures and metallic alloy assemblies for use in, for example, F-35 aircraft and helicopters. Maintenance, repair and overhaul of fighter aircraft and helicopters.
Missile Systems	Products include the Penguin Missile, the Naval Strike Missile and the Joint Strike Missile launched from surface ships, helicopters and fighter aircraft. Sole supplier of 5th generation long-range precision strike missiles with stealth capabilities.
Kongsberg Digital	
Kognifai–Kongsberg digital platform	Digital, cloud-based ecosystem for industrial use.
Maritime Digital Ecosystem and Vessel Insight	Standardised ship-to-cloud infrastructure.
Kognifai dynamic digital twin for heavy asset industries	A digital replica of processes and devices.
Remote Drilling Operation for Oil & Gas	Increases drilling well safety and efficiency
Renewable Energy and Power Grid Optimisation	Dynamic digital twin and smart grid functionality for distribution network operators.
Maritime Simulation	For maritime training.

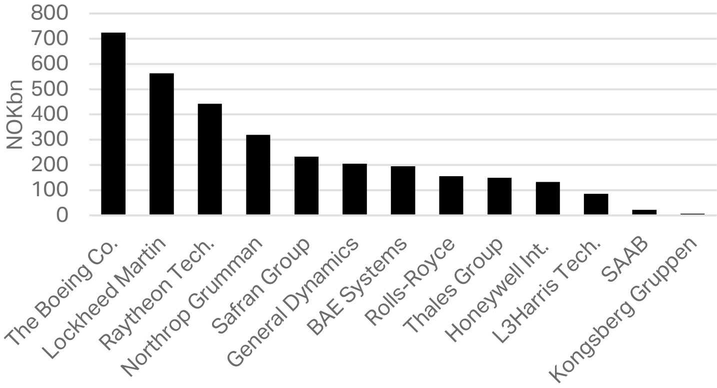
Source: Company.

Figure 12. KM peer group oil services and shipping revenues, 2019



Based on company data.

Figure 13. KDA peer group defence and aviation revenues, 2019



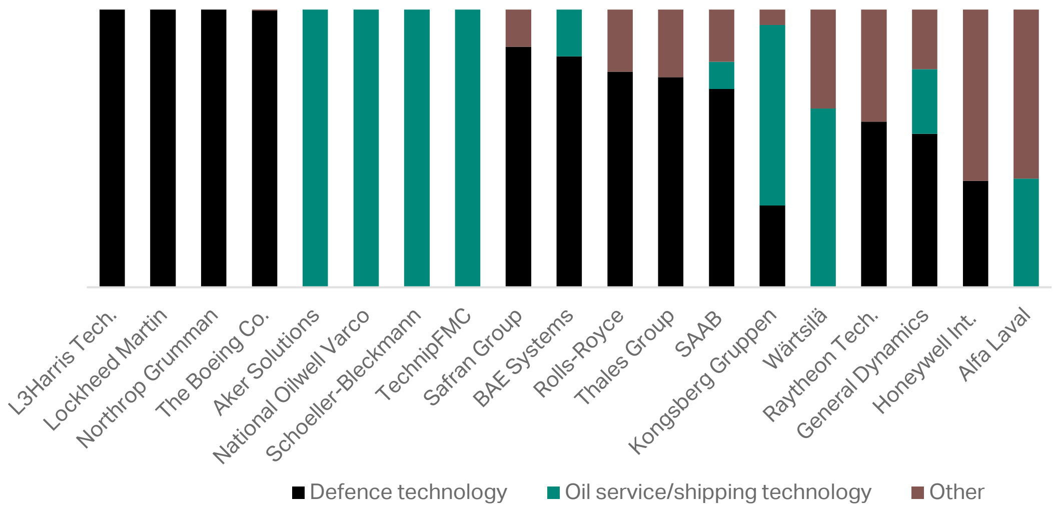
Based on company data.

Size and diversification scores 'bbb'

Niche player with global reach

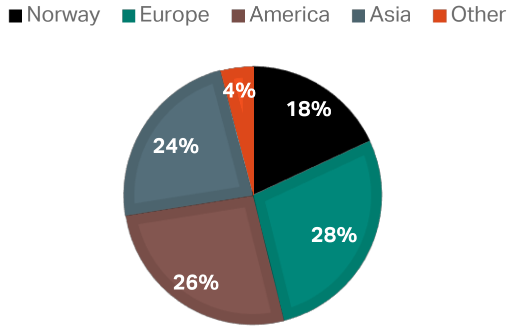
Although Kongsberg Gruppen is relatively small in comparison with major international competitors, particularly in the defence industry, it is still the 29th largest Norwegian corporation in terms of revenues. With three distinct business segments, it is more diverse than many of its peers (see Figure 14). The company also has significant diversity within its own business areas, and has a worldwide reach (see Figure 15). About one-quarter of revenues are generated in Norway, mainly due to the country's large oil services and shipbuilding industries as well as the company's position as a developer of advanced weapons systems for the Norwegian Armed Forces. We see it as a strength that defence contracts are mostly signed with government clients, which reduces cyclicality. An additional strength, in our view, is that about 50% of KM's revenues come from the relatively stable aftermarket.

Figure 14. Kongsberg Gruppen peer income distribution by business area, 2019



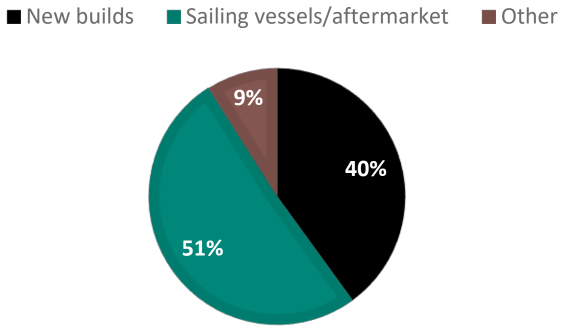
Based on company data.

Figure 15. Kongsberg Gruppen geographic distribution of revenues, 2019



Based on company data.

Figure 16. KM revenue distribution, 2019



Based on company data.

Improved operating efficiency

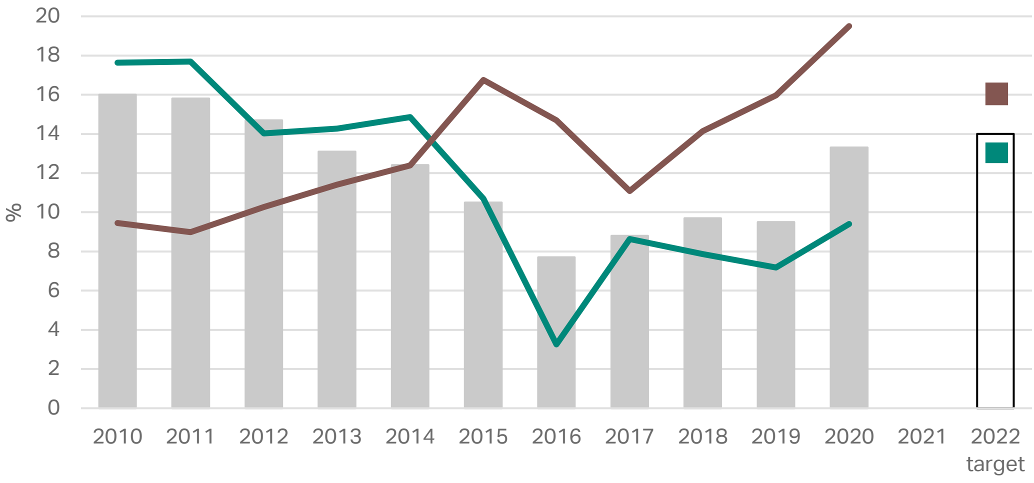
Operating efficiency scores 'bbb'

While KM has a relatively cyclical business operation, KDA has low cyclicality but is more dependent on large contracts. The profitability of each segment has historically had little correlation and this increases the company's general resilience to market turbulence. We note that Kongsberg Gruppen's last negative annual result was as long ago as 2000.

KM saw a negative trend in margins in the first half of the last decade before rising to levels of 5-10% in recent years. KDA had stronger margins in the period, peaking at 19.5% in 2020. In 2019, both KM and KDA's margins were close to the median of their respective industry peers (see figures 18 and 19). In 2020, KM's EBITDA margin rose sharply to 9.4% from 6.6% a year earlier thanks to synergies obtained from the acquisition of Rolls-Royce Commercial Marine as part of the company's internal "value capture programme". The programme was completed two years ahead of schedule in 2020, generating NOK 640m in cost savings (compared with the NOK 500m target), and NOK 700m in increased cross-sales to the combined customer base. In 2022, KM is targeting an ambitious 13% margin. In the same year, KDA has an EBITDA target of 16%, which should be obtainable in view of the levels of recent years, even if relatively high sales to the Norwegian Armed Forces over the next few years will, according to the company, create a negative margin mix effect. Including KDI and real estate investments, Kongsberg Gruppen is targeting NOK 30bn in revenues and a 14% EBITDA margin in 2022.

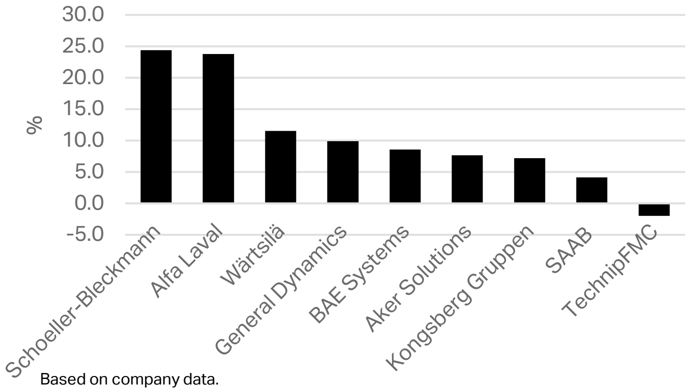
We believe that Kongsberg Gruppen's margin targets will be supported by the continuing effect of the value capture programme in 2021, increased economies of scope following the acquisition of Rolls-Royce Commercial Marine and an expected cyclical upturn for KM. Other positive factors include the company's strong order book and the scalability of KDA's operations. In addition, the relatively weak Norwegian krone should prove an advantage, since about two-thirds of value creation and employee numbers are located in Norway, compared with only 18% of revenues. While cost levels are comparatively high in Norway due to high wages, salaries of skilled engineers are relatively moderate. We note that the labour market in Norway is more flexible than that in most other European countries, which is an advantage when large contracts make activity levels volatile.

Figure 17. Kongsberg Gruppen unadjusted EBITDA margin by main business area



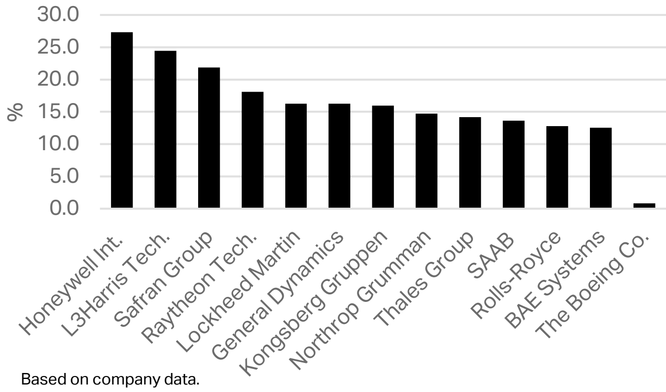
Source: Company data.

Figure 18. KM peer group's EBITDA margins, 2019



Based on company data.

Figure 19. KDA peer group's EBITDA margins, 2019



Based on company data.

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'a'

Our financial risk assessment reflects Kongsberg Gruppen's strong cash position and cash flow, and low gearing. We note that the strong cash position is partly due to NOK 3-4bn in prepayments of contracts. We take into account the fact that the company's risk appetite appears to be somewhat higher than reflected by its current credit metrics. This is illustrated by its relatively wide target range for debt/EBITDA of 0–2x.

Ratio analysis scores 'aa-'

Improved credit metrics give capital flexibility

We expect that Kongsberg Gruppen will achieve its margin and revenue targets by 2022 and that net debt will remain relatively stable over our forecast horizon, in the absence of major acquisitions. Prepayments of large defence contracts, normally resulting in a pool of NOK 3-4bn, should also help Kongsberg Gruppen to expand its revenues without increasing financial gearing. A prospective NOK

10bn vehicle contract from Qatar could be an exception, but we do not expect the contract to require any large build-up of working capital. In fact, the company is likely to have a net cash position over our forecast horizon, assuming no significant acquisitions or extraordinary dividends. We note, however, that the company's financial policy indicates a more aggressive approach. This is taken into account in our assessment of risk appetite.

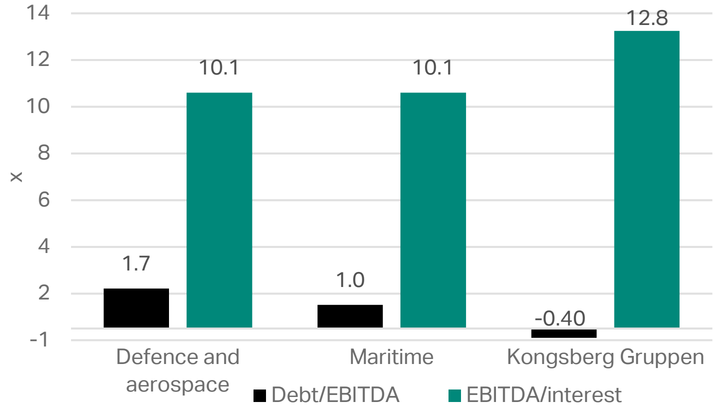
Kongsberg Gruppen's credit metrics have shown moderate historical volatility, despite a decline in 2016, when oil prices declined significantly. We believe that the company's focus on green technology in the maritime segment will contribute to increased stability.

In our base case we assume that the company will:

- meet its NOK 30bn revenue target in 2022;
- meet its 14% EBITDA margin in 2023, one year behind target;
- make capital investments of 95% of annual depreciation (NOK 1.2-1.3bn annually); and
- distribute NOK 1.2-1.3bn in annual dividends in the period 2021-2023, equivalent to about two-thirds of net profit.

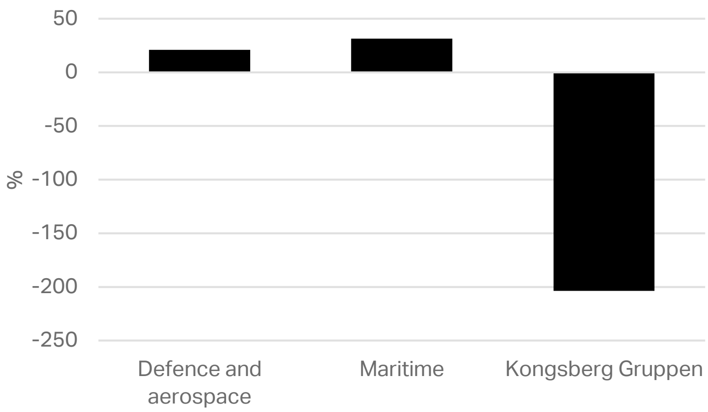
Kongsberg Gruppen's credit metrics are strong in comparison with its peer group average (see figures 20 and 21) thanks to its strong cash flow generation and cash position. Kongsberg Gruppen is funded by NOK 3.45bn in bonds with a balanced maturity profile and an undrawn NOK 2.3bn syndicated revolving credit facility maturing in 2023. The facility's covenants stipulate a net interest-bearing debt/EBITDA ratio of less than 4.0x (a level that may increase to 4.5x, but in no more than four individual or three consecutive quarters). The company also has an undrawn NOK 500m overdraft credit facility.

Figure 20. Kongsberg Gruppen peer comparison of key credit metrics (company data from 2020, peer data from 2019)



For maritime peers see Figure 18. For Defence and aerospace peers see Figure 19. Based on company data. All metrics adjusted in line with NCR methodology. Company data from

Figure 21. Kongsberg Gruppen peer comparison of FFO/net debt (company data from 2020, peer data from 2019)



For maritime peers see Figure 18. For Defence and aerospace peers see Figure 19. Based on company data. All metrics adjusted in line with NCR methodology

Figure 22. Adjusted and unadjusted credit metrics

Credit metrics	2018	2019	2020	2021e	2022e	2023e
Reported debt/ EBITDA (x)	-4.1	-0.7	-1.1	-0.7	-0.6	-0.6
Reported EBITDA/interest (x)	34.0	-126.6	33.7	33.9	33.2	30.9
Reported FFO/debt (%)	-22.3	-135.5	-71.1	-111.9	-117.2	-123.6
NCR-adj. debt/EBITDA (x)	2.2	0.6	-0.4	0.1	0.0	-0.1
NCR-adj. EBITDA/interest (x)	6.6	17.5	12.8	12.6	13.9	14.2
NCR-adj. FFO/debt (%)	33.9	154.3	-203.8	878.4	-4,205.6	-1,460.7

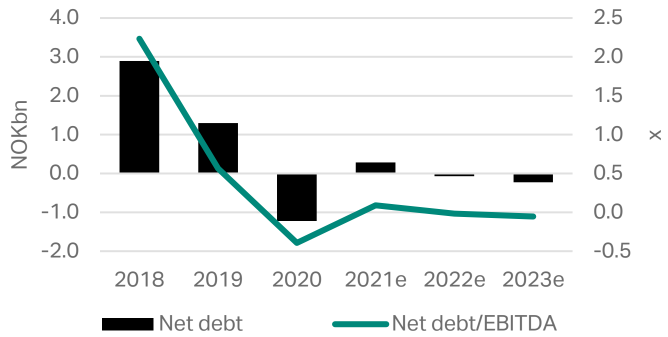
Based on NCR estimates and company data. e–estimate.

Figure 23. NCR's adjustments to Kongsberg Gruppen's reported credit metrics, 2018-2023e

NOKm	2018	2019	2020	2021e	2022e	2023e
EBITDA	1,394	2,279	3,434	3,548	4,213	4,641
Restructuring activities	215	217	86	0	0	0
Profit from JVs and associates	-181	-21	-186	-198	-219	-232
Capitalised research & development	-130	-173	-223	-234	-246	-258
NCR-adjusted EBITDA	1,298	2,302	3,111	3,116	3,749	4,150
Cash and cash equivalents	10,038	5,654	7,420	6,693	7,857	8,872
Adjustment for acquisition	-5,770	0	0	0	0	0
NCR-adjusted cash and equivalents	4,268	5,654	7,420	6,693	7,857	8,872
Gross interest-bearing debt	4,332	4,089	3,471	4,277	5,121	6,013
Leasing liabilities	2,297	2,198	2,092	2,092	2,092	2,092
Retirement benefit obligations	538	667	634	604	574	544
NCR-adjusted cash and equivalents	-4,268	-5,654	-7,420	-6,693	-7,857	-8,872
NCR-adjusted net debt	2,899	1,300	-1,223	280	-70	-224
Net interest	-41	18	-102	-105	-127	-150
Financial costs from leasing	-156	-149	-142	-142	-142	-142
NCR-adjusted net interest	-197	-131	-244	-247	-269	-292
Adjusted EBITDA	1,298	2,302	3,111	3,116	3,749	4,150
Adjusted Interest	-197	-131	-244	-247	-269	-292
Current taxes	-119	-165	-374	-409	-526	-591
NCR-adjusted FFO	982	2,006	2,493	2,460	2,954	3,267

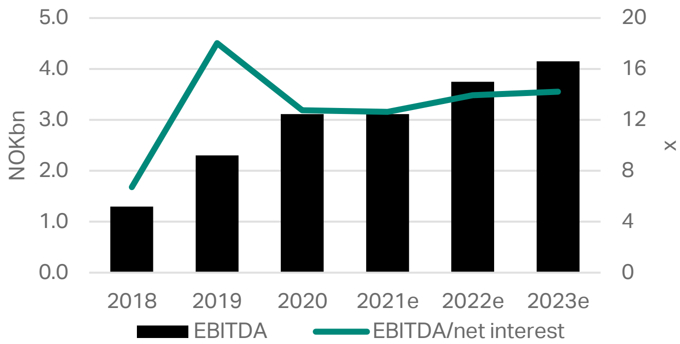
NCR estimates and company data. JVs–joint ventures. FOCF–free operating cash flow.

Figure 24. Kongsberg Gruppen's NCR-adjusted net debt and net debt/EBITDA, 2018-2023e



Based on company data. e–estimate. All metrics adjusted in line with NCR methodology.

Figure 25. Kongsberg Gruppen's NCR-adjusted EBITDA and EBITDA to net interest, 2018-2023e



NCR estimates and company data. e–estimate. All metrics adjusted in line with NCR methodology.

New financial strategy prevents capital build-up

Risk appetite scores 'a-'

The company's strong cash position is partly due to NOK 3.6bn in prepayments of contracts. These prepayments reduce the company's need for interest-bearing debt for capital investment and have a material impact on its credit metrics. We also expect material dividend payments in light of the target debt/EBITDA ratio of 0–2x. Prior to 2020, Kongsberg Gruppen had a dividend policy that stipulated dividends amounting to 40–50% of the company's annual profit after tax. Currently, the company seeks to pay an ordinary dividend per share that is either stable or grows year on year, while special dividends and/or share buybacks can supplement ordinary dividends. Accordingly, we expect Kongsberg Gruppen to pay out extraordinary dividends or buy back shares if the ratio falls excessively below target, which excludes leases, unlike NCR's adjusted metrics.

Kongsberg Gruppen also has a history of bolt-on acquisitions and disposals of businesses deemed to be non-core or sub-scale. In 2020, it sold underwater technology company Hydroid to Huntington Ingalls Industries for an enterprise value of USD 350m. In 2019, it acquired AIM Norway, a state-owned company engaged in maintenance, repair and overhaul services within the aviation industry, for an enterprise value of NOK 151m. Rolls-Royce Commercial Marine was acquired in 2019 for an enterprise value of GBP 500m and financed by a NOK 5bn equity issue in 2018. We believe that Kongsberg Gruppen could continue to make significant transactions as the opportunity arises.

We see customer credit risk as a possible issue for both KM and KDI, as most of their customers operate in the highly cyclical energy and shipping businesses. Conversely, KDA acts mostly as a supplier or sub-supplier to governments whose ability to pay is virtually guaranteed. Contractual currency flows are hedged, while tenders can be currency hedged if final contracts are highly probable. The company's excess liquidity is placed with highly rated banks or investment grade money market funds.

ADJUSTMENT FACTORS

Adjustment factors are overall neutral

We adjust our stand-alone credit assessment by one notch due to a negative assessment of ESG factors. However, we accord one notch of adjustment to reflect expected support from the majority owner, the Norwegian state, in an event of distress.

Liquidity

Liquidity assessed as neutral

We assess Kongsberg Gruppen's liquidity position as adequate, supported by the company's strong cash position and cash flow, good standing with banks, and good access to the capital markets.

We estimate the following primary liquidity sources for the 12 months from end-2020, totalling NOK 12.4bn:

- NOK 1.7bn, reflecting 75% of FFO;
- NOK 0.5bn in debt issuance year-to-date;
- NOK 3.6bn in prepayments;
- NOK 3.8bn in other cash; and
- NOK 2.8bn through the revolving credit and overdraft facilities.

This compares with the following uses of liquidity, totalling NOK 5.2bn:

- NOK 2.4bn in dividends and share buybacks;
- NOK 1.5bn in debt maturities; and
- NOK 1.3bn in capital investments and research & development.

Environmental, social and governance factors

ESG factors assessed as negative

We reduce our stand-alone credit assessment by one notch to reflect the possibility of reduced access to funding as a consequence of the group's defence business role. An increasing proportion of funding is allocated away from sectors and companies regarded as anti-social, including defence companies. While strong external regulation and internal governance could arguably outweigh such concerns, we nonetheless believe that increasing investor focus on ESG issues could represent a challenge for Kongsberg Gruppen in terms of funding. We note that issues such as unethical use of products or illegal weapons sales in secondary markets could increase the risk of sanctions, increased regulation, loss of clients, and even loss of operational rights. We do not, however, in this respect take the government's ownership into account (see ownership analysis below).

Kongsberg Gruppen's environmental efforts are, we believe, supportive of the company's overall competitive position, due to its focus on environmentally friendly products and optimisation tools.

The main ESG considerations likely to affect our credit rating on Kongsberg Gruppen are factors that could contribute to loss of revenue, increased operational costs, increased capital expenditure, loss of value of assets, decreased access to funding, or loss of operating rights. In this context, we assess issues such as KM's non-green customer base, regulatory risk and compliance issues facing KDA, and CO_2 emissions as relevant.

Figure 26. Kongsberg Gruppen ESG considerations

Issue	Risks	Mitigating factors	Results
KM's non-green customer base	Oil services and shipping could be negatively affected by transition away from fossil fuels, negatively affecting revenue base.	Focus on products which help the shipping industry to reduce emissions and acquire green credentials.	KM increased its order backlog in 2020.
Defence out of favour with investors	Reduced access to or more costly funding.	The Norwegian government's role as majority owner.	Able to lift the Rolls-Royce Commercial Marine acquisition in 2019 through an equity issue where the government participated.
Regulatory risk	Weapon sales to regimes under sanction could affect revenues or result in financial penalties or loss of operating rights	KDA is compliant with UN conventions and is not engaged in the production of cluster bombs, nuclear weapons or land mines.	No major regulatory risk in recent years.
Breach of export regulations	Breach of US weapons export regulations in particular could prove extremely costly and lead to loss of contracts.	Monitoring of and strict adherence to current export regulations and internal code of ethics and business conduct. Majority owner has focus on compliance.	No breaches since a 1987 restructuring.
CO_2 emissions	Any increase in related regulation and taxation could reduce operating efficiency and access to funding.	Increasing focus on sustainability and the circular economy.	Unable to achieve 20,000-tonne annual target (excluding recent acquisitions) in 2020. The trend is downward, though.

Source: Company.

OWNERSHIP ANALYSIS

Ownership assessed as positive

Like many defence companies, Kongsberg Gruppen has a government majority owner. The rationale for the Norwegian government's ownership is to maintain a leading technology and industrial company and defence industry supplier with head office functions in Norway. At the same time, the government's goal as owner is the highest possible return over time. The Norwegian government's willingness and ability to support the company's strategy was underlined when it contributed NOK 2.5bn of a total NOK 5bn in new equity when Kongsberg Gruppen bought Rolls-Royce Commercial Marine in 2019. We note, however, that this was not a distressed situation.

We believe that the Norwegian government will continue to attach importance to a secure national defence industry and that it is likely to support Kongsberg Gruppen in an event of distress. However, we also believe that in an event of bankruptcy, the Norwegian state would retain ownership of the defence technology which the company develops on behalf of the Norwegian Armed Forces. Furthermore, situations could arise in which it is deemed politically imprudent to support the company. Accordingly, we cap the likelihood of support from the majority owner at one notch.

Figure 27. Kongsberg Gruppen ownership structure, 31 Dec. 2020

OWNER	SHARE OF VOTES AND CAPITAL
Ministry of Trade, Industry and Fisheries	50.0%
The Government Pensions Fund Norway	6.4%
MP Pensjon PK	3.0%
Must Invest AS	2.4%
Danske Bank AS	1.8%
Other	36.4%
Total	**100%**

Based on company data.

Figure 26. Kongsberg Gruppen key financial data, 2017–2020

NOKm	2017	2018	2019	2020
INCOME STATEMENT				
Revenue	14,490	14,381	24,081	25,612
Gross profit	10,073	10,084	14,753	4,189
EBITDA	1,279	1,394	2,279	3,434
EBIT	772	945	1,183	2,091
Net financial items	-117	-101	-216	-236
Pre-tax profit	654	844	967	1,855
Net Profit	**559**	**704**	**717**	**1,481**
BALANCE SHEET				
Property, plant and equipment	2,658	2,531	3,924	3,665
Intangible assets	2,803	2,889	6,487	5,196
Interests in associates	3,358	3,400	3,247	3,465
Other non-current assets	204	188	2,521	2,482
Non-current assets	9,023	9,008	16,179	14,808
Cash and cash equivalents	2,956	10,038	5,654	7,420
Other current assets	8,864	8,612	17,189	17,002
Total current assets	11,820	18,650	22,843	24,422
Total assets	**20,843**	**27,658**	**39,022**	**39,230**
Total equity	7,365	12,626	12,810	13,301
Long-term borrowings	3,340	4,020	3,469	1,971
Long-term leasing liabilities			1,850	1,753
Other long-term liabilities	2,080	1,970	2,482	2,509
Non-current liabilities	5,420	5,990	7,801	6,233
Current liabilities	8,058	9,042	18,411	19,696
Total equity and liabilities	**20,843**	**27,658**	**39,022**	**39,230**
CASH FLOW STATEMENT				
Pre-tax profit	654	844	967	1,855
Adjustments not in cash flow	522	431	1,132	1,270
Cash flow before changes in working capital	1,176	1,275	2,099	3,125
Changes in working capital	1,723	914	-216	-317
Operating cash flow	2,899	2,189	1,883	2,808
Cash flow from investing activities	-528	-382	-5,051	2,392
Cash flow from financing activities	-1,319	5,250	-1,258	-3,531
Cash and cash equivalents beginning of the year	1,888	2,956	10,038	5,654
Cash flow for the year	**1,068**	**7,082**	**-4,426**	**1,669**
Cash and cash equivalents at the end of the year	2,956	10,038	5,654	7,420

Based on company data and NCR estimates. e–estimate.

Figure 28. Kongsberg rating scorecard

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

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