Nordea
Credit Research

Review
24 March 2015

Atea

BBB-
Stable

Industry (GICS): IT Services
Sector (Nordea): Telecom Equipment and IT

Key info	
Country	Norway
Bloomberg debt	ATEANO Corp
Bloomberg equity	ATEA NO
Moody's	NR/---
S&P	NR/---
Market cap.(bn)	EUR 0.99/NOK 8.81

Nordea Markets - Analysts

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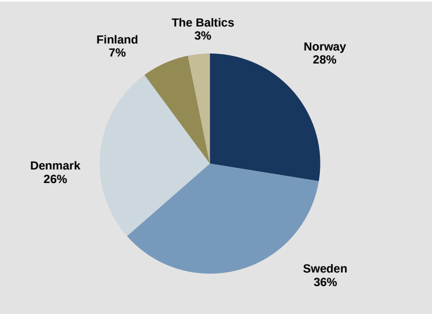
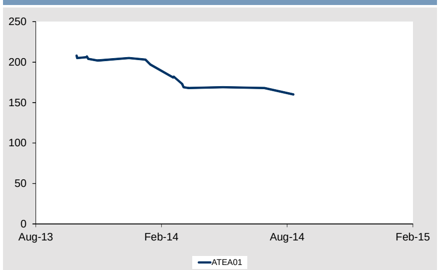
Sales by region - 2014



Source: Company data and Nordea Markets

Bond spreads (spread to swap)



Source: OSE and Nordea Markets

Stronger earnings in all major regions

Atea's full-year 2014 earnings demonstrated sound margin improvement in all geographical regions, as well as ample cash flow generation. However, the overall credit profile continued to slide slowly due to a high dividend and increased focus on business acquisitions.

Improved earnings y/y in 2014

Atea posted improved earnings y/y in 2014, positively affected by increased growth and product margins. Turnover increased by 11% y/y, reflecting revenue growth in all countries and across all of the group's major lines of business. Overall EBITDA jumped by 33% y/y and the overall EBITDA margin strengthened to 3.8% (2013: 3.2%). The improvement in profitability is mainly attributable to higher product margins.

Slightly higher leverage

The group's net debt (including pension liabilities) nearly doubled during 2014, ending the year at NOK 830m (2013: NOK 420m). The group's sound operating cash flow was more than offset by the dividend and cash payments for business acquisitions. Consequently, the net debt to EBITDA and total debt to capitalisation ratios weakened to 0.9x and 28% (2013: 0.6x and 25%), respectively.

Credit view

We maintain our view of Atea as a BBB- credit, reflecting our assessment of a Fair business risk profile and a Modest financial risk profile. The financial performance in 2014 was more than satisfactory, with improved margins in all major geographic segments. However, we argue that the group's financial flexibility has weakened owing to high dividend payments and increased focus on growth through acquisitions.

Key credit metrics and ratios (adjusted numbers)

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	541	501	648	858	809	701	929	1,043	1,089	1,158
- margin	4%	3%	4%	4%	4%	3%	4%	4%	4%	4%
EBIT	402	334	474	651	558	355	584	687	740	809
- margin	3%	2%	3%	3%	3%	2%	2%	3%	3%	3%
Shareholders' equity	2,858	2,813	3,355	3,869	3,835	3,533	3,549	3,298	3,089	2,936
Debt	1,262	417	755	240	135	1,165	1,413	1,413	1,413	1,413
Debt/(Debt+Equity)	0.3	0.1	0.2	0.1	0.0	0.2	0.3	0.3	0.3	0.3
FFO/Debt	37.3%	107.1%	89.5%	329.8%	586.0%	58.4%	54.9%	55.3%	57.8%	61.7%
FOCF/Debt	27.7%	139.3%	58.1%	346.1%	418.7%	54.2%	54.0%	41.9%	50.7%	54.6%
DCF/Debt	27.7%	117.3%	42.6%	263.1%	48.1%	-29.4%	10.0%	-5.9%	2.8%	6.8%
EBITDA interest coverage	4.3	6.7	9.4	12.6	9.9	7.9	8.8	9.8	10.3	10.9
Debt/EBITDA	2.3	0.8	1.2	0.3	0.2	1.7	1.5	1.4	1.3	1.2
ROC	10.9%	8.9%	12.5%	15.2%	13.2%	7.8%	11.5%	13.5%	15.2%	17.3%

Source: Company data and Nordea Markets

Stronger earnings in all major regions

Atea's full-year 2014 earnings demonstrated sound margin improvement in all major geographical regions, as well as ample cash flow generation. However, the overall credit profile continued to slide slowly due to high dividend and increased focus on business acquisitions.

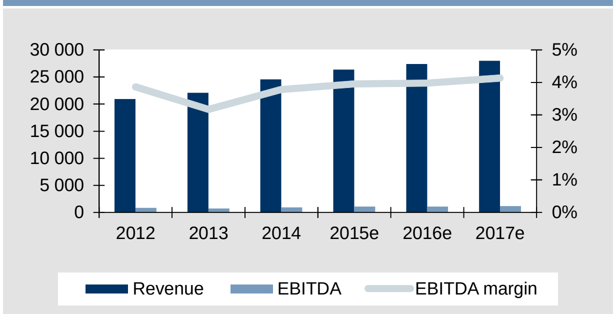
Improved earnings

Atea posted improved y/y earnings in 2014, positively affected by increased growth and higher product margins. Turnover increased by 11% y/y to NOK 24.6bn (2013: NOK 22.1bn), reflecting revenue growth across all countries and across all of the group's major lines of business. Overall EBITDA jumped by 33% y/y to NOK 929m (2013: NOK 701m) and the overall EBITDA margin strengthened to 3.8% (2013: 3.2%). The improvement in profitability is mainly attributable to higher product margins.

Stronger operating cash flow

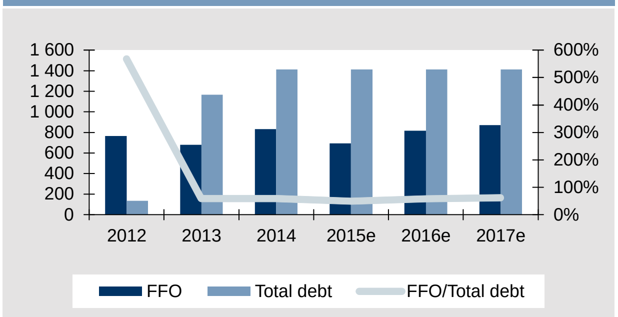
The group's FFO (funds from operations) grew by 22% y/y, while operating cash flow was in line with the level from last year. Atea's operating cash flow in 2014 was more than sufficient to cover net capex and dividends. However, free operating cash flow after investments turned negative, mainly owing to acquisitions of businesses amounting to NOK 457m.

Revenue and EBITDA, NOKm



Source: Company data and Nordea Markets

FFO and total debt, NOKm

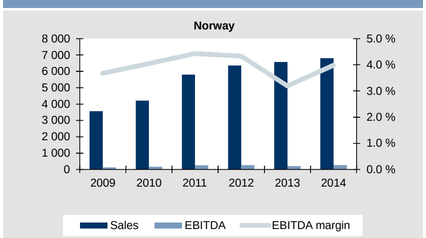


Source: Company data and Nordea Markets

Higher earnings in every major segment

Atea's segment reporting is divided geographically and the group posted higher earnings in every geographical segment, apart from the Baltic area. However, the Baltic region is a marginal segment for Atea, representing around 3% of group revenues.

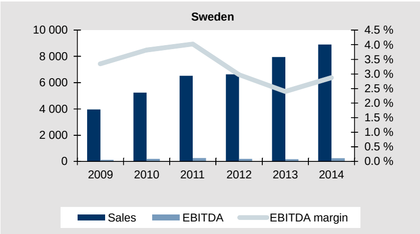
Segment Norway, NOKm



Source: Company data and Nordea Markets

Segment Norway (2014: 28% of group revenues) experienced higher sales of the product business, driven by growth in clients and client-related software. Furthermore, the segment's reported EBITDA margin strengthened to 4.0% (2013: 3.2%). The main drivers behind the stronger EBITDA margin were a combination of growth in product revenues and improved margin on the hardware products.

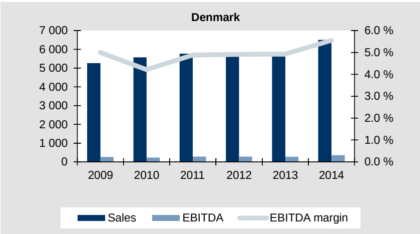
Segment Sweden, NOKm



Source: Company data and Nordea Markets

Segment Sweden (2014: 36% of group revenues) performed well in 2014, with growth in revenues from all business areas and regions. In addition, the segment's reported EBITDA margin improved to 2.9% (2013: 2.4%), reflecting increased gross margins on products. Growth in the latter years has primarily been driven by a deliberate strategy to take market shares in the public sector, through winning tendered public framework agreements. Pricing is an important parameter for winning such contracts and the strategy has therefore put gross margins under pressure. However, the negative margin trend was reversed in 2014.

Segment Denmark, NOKm



Source: Company data and Nordea Markets

Segment Denmark (2014: 26% of group revenues) generated stronger sales, helped by sound market conditions in the hardware market, which had a spill-over effect on services. Moreover, the segment's profitability improved owing to tight focus on operational costs. Consequently, the segment's reported EBITDA margin strengthened to 5.5% (2013: 4.9%).

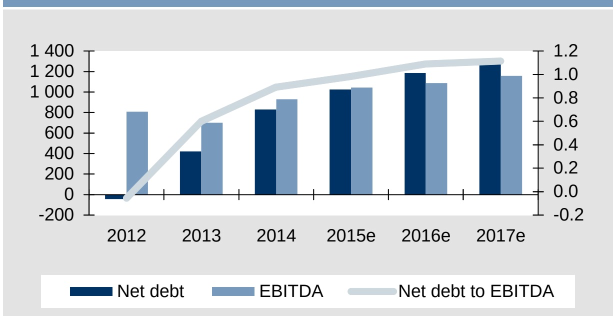
Higher leverage

The group's net debt (including pension liabilities) nearly doubled during 2014, ending the year at NOK 830m (2013: NOK 420m). The group's sound operating cash flow of NOK 959m was more than offset by a dividend of NOK 622m and acquisitions of businesses amounting to NOK 457m. Consequently, the net debt to EBITDA and total debt to capitalisation ratios weakened to 0.9x and 28% (2013: 0.6x and 25%), respectively.

Strong liquidity reserve

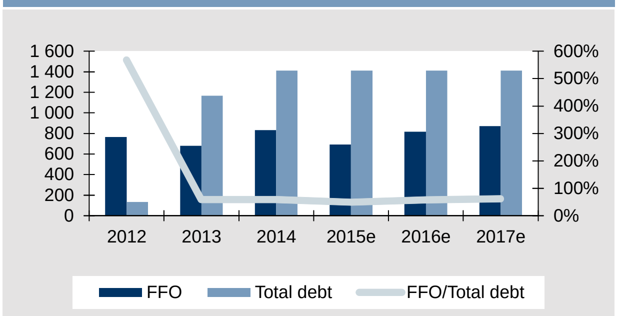
As of year-end 2014, Atea's aggregated liquidity reserve amounted to about NOK 2,443m, comprising cash at hand of NOK 583m and undrawn short-term credit facilities of NOK 1,860m. The available liquidity reserve, restricted by financial covenants, was around NOK 1,628m.

Net debt and EBITDA, NOKm



Source: Company data and Nordea Markets

Total debt and capitalisation, NOKm



Source: Company data and Nordea Markets

Proposed dividend

The board of directors proposes to the General Meeting a dividend of NOK 6.50 per share, to be paid in two equal installments of NOK 3.25 in May and October 2015. Based on the number of shares outstanding at the end of 2014, this corresponds to an aggregated dividend payment of NOK 676m.

Stable market growth

According to market estimates from IDC, the market for IT infrastructure and related services in the Nordic region grew at a rate of about 3% per year during 2007-14. Atea expects that the overall market for IT infrastructure will continue to grow in the years to come, driven by continued technological development and need for more advanced IT systems.

Credit profile considerations

Supportive business risk profile elements

The business risk profile is supported by:

- Strong market positions in the Nordic region
- Diversified client base
- One-stop IT infrastructure provider
- Relatively stable cash flow patterns.

Challenging business risk profile elements

The business risk profile is challenged by:

- Highly fragmented industry with intense price competition
- Risk of cost and salary inflation
- Low-margin business operations
- Significant amount of intangible assets on the balance sheet
- Risk of more aggressive dividend policy.

Fair business risk profile

We are of the opinion that the overall business risk profile associated with Atea can be considered Fair, according to the below "expanded rating matrix" from Standard & Poor's. Our assessment reflects Atea's smaller size, lower level of diversification (both operational and geographical) and weaker margins compared to industry peers.

Expanded Rating Matrix

		- Financial Risk Profile -				
Business Risk Profile	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A+/A	A-	BBB	BBB-/BB+
Strong	AA/AA-	A+/A	A-/BBB+	BBB	BB+	BB
Satisfactory	A/A-	BBB+	BBB/BBB-	BBB-/BB+	BB	B+
Fair	BBB/BBB-	BBB-	BB+	BB	BB-	B
Weak	BB+	BB+	BB	BB-	B+	B/B-
Vulnerable	BB-	BB-	BB-/B+	B+	B	B-

	Core ratios		Supplementary coverage ratios		Supplementary payback ratios		
	FFO/Debt (%)	Debt/EBITDA (x)	FFO/Interest (x)	EBITDA/Interest (x)	CFO/Debt (%)	FOCF/Debt (%)	DCF/Debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Standard & Poor's

Modest financial risk profile

Our opinion is that the financial risk profile associated with Atea can be considered as Modest. According to the guidelines from S&P, we evaluate credit ratios on a time series basis, and we consider the group's credit ratios for the previous two years, as well as the current year's forecast.

Adjusting reported debt for pension liabilities

We adjust Atea's reported debt by adding pension liabilities.

Bond details

Ticker	Issuer	Corp	Bond	Issue	Maturity	Coupon	Size (m)		Rank
ATEA01	Atea ASA	BBB-	BBB-	2013-06-19	2018-06-19	N3M +210	NOK	300	Senior unsecured

Last trade level(s)

The 2018 (ATEA01) bond last traded on the OSE on 18 August 2014 at 101.85 (spread to swap +160 bp).

Key bond details

- Senior unsecured
- Subordinated secured bank debt
- Negative pledge, with carve-out for a secured credit facility up to a maximum limit of NOK 1,250m
- Put option at 101% if a change of control event occurs
- The change of control event is triggered if anyone gains control of at least 50.1% of the shares
- Maximum leverage ratio of 2.5x.

Factoring facility agreement

- Factoring facility agreement, with a limit of NOK 1,000m
- The group can borrow up to a maximum of 80% of the outstanding trade receivables
- Trade receivables in Atea AS, Atea Sverige AB and Atea A/S up to NOK 1,250m are pledged as security for the factoring facility.

Long-term bank debt

- DKK 500m long-term bank loan
- Maturity in June 2018
- Secured by a down-stream guarantee from Atea ASA.

Acquisition facility

- NOK 200m acquisition facility
- Established in 2013, classified as short-term
- Secured by a down-stream guarantee from Atea ASA.

Overdraft facility

- NOK 860m overdraft facility
- Classified as short-term
- Secured by a down-stream guarantee from Atea ASA.

Reported numbers and forecasts

Income statement										
NOKm	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Total revenue	14,768	14,589	17,131	20,228	20,930	22,096	24,588	26,380	27,395	28,010
- growth	11.8%	-1.2%	17.4%	18.1%	3.5%	5.6%	11.3%	7.3%	3.8%	2.2%
Gross profit	3,526	3,592	4,002	4,855	5,098	5,374	5,717	6,067	6,301	6,442
- margin	23.9%	24.6%	23.4%	24.0%	24.4%	24.3%	23.3%	23.0%	23.0%	23.0%
EBITDA	541	501	648	858	809	701	929	1,043	1,089	1,158
- margin	3.7%	3.4%	3.8%	4.2%	3.9%	3.2%	3.8%	4.0%	4.0%	4.1%
EBITA	541	501	648	858	809	701	929	1,043	1,089	1,158
- margin	3.7%	3.4%	3.8%	4.2%	3.9%	3.2%	3.8%	4.0%	4.0%	4.1%
EBIT	402	334	474	651	558	355	584	687	740	809
- margin	2.7%	2.3%	2.8%	3.2%	2.7%	1.6%	2.4%	2.6%	2.7%	2.9%
Net finance	-67	-55	-25	-39	-38	-49	-74	-156	-156	-156
Pre-tax profit	335	279	449	613	520	306	510	531	584	653
Taxes	98	103	49	-12	-11	34	-82	-106	-117	-131
Net profit, continuing operations	433	383	499	601	509	340	429	425	467	523
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit to equity	431	382	497	593	506	339	429	425	467	523
EBITDA (credit adj)	541	501	648	858	809	701	929	1,043	1,089	1,158
EBIT (credit adj)	402	334	474	651	558	355	584	687	740	809
Interest expense (credit adj)	-127	-75	-69	-68	-82	-89	-106	-106	-106	-106

Source: Company data and Nordea Markets

Balance Sheet										
NOKm	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Goodwill	2,788	2,555	3,099	3,169	3,163	3,458	3,957	3,957	3,957	3,957
Other intangibles	0	0	0	0	0	0	0	0	0	0
Tangible assets	148	115	158	196	331	520	613	457	308	159
Shares associates	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	219	318	470	506	573	558	546	546	546	546
Other non-interest bearing non-current assets	74	57	50	33	1	0	9	9	9	9
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Non-current assets	**3,229**	**3,046**	**3,777**	**3,903**	**4,067**	**4,536**	**5,125**	**4,969**	**4,820**	**4,671**
Inventory	420	393	497	557	509	463	632	632	632	632
Accounts receivable	3,645	3,211	4,368	4,615	4,438	4,751	5,496	5,496	5,496	5,496
Other current assets	420	341	601	647	609	692	788	788	788	788
Cash and cash equivalents	568	195	404	485	180	746	583	388	228	124
Current assets	**5,053**	**4,140**	**5,869**	**6,304**	**5,736**	**6,651**	**7,499**	**7,304**	**7,144**	**7,040**
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	**8,282**	**7,186**	**9,646**	**10,208**	**9,803**	**11,187**	**12,624**	**12,273**	**11,964**	**11,711**
Shareholders equity	**2,855**	**2,809**	**3,354**	**3,866**	**3,835**	**3,533**	**3,549**	**3,298**	**3,089**	**2,936**
Minority interest	**4**	**4**	**1**	**4**	**0**	**0**	**0**	**0**	**0**	**0**
Deferred tax	91	74	165	173	211	221	246	246	246	246
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	15	12	21	15	65	1,019	1,121	1,121	1,121	1,121
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	3	1	13	7	4	1	1	1	1	1
Other long-term provisions	48	50	64	66	10	9	3	3	3	3
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Non-current liabilities	**157**	**137**	**263**	**261**	**289**	**1,249**	**1,371**	**1,371**	**1,371**	**1,371**
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	2,245	2,162	3,120	3,593	3,616	3,847	4,681	7,312	7,212	7,113
Other current liabilities	1,778	1,670	2,186	2,266	1,996	2,412	2,731	0	0	0
Short term interest bearing debt	1,244	404	721	218	67	146	291	291	291	291
Current liabilities	**5,267**	**4,237**	**6,028**	**6,077**	**5,679**	**6,405**	**7,704**	**7,603**	**7,503**	**7,404**
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**8,282**	**7,186**	**9,646**	**10,208**	**9,803**	**11,187**	**12,624**	**12,272**	**11,963**	**11,711**
Cash and cash eq (credit adj)	568	195	404	485	180	746	583	388	228	124
Total assets (credit adj)	8,282	7,186	9,646	10,208	9,803	11,187	12,624	12,273	11,964	11,711
Shareholders equity (credit adj)	2,858	2,813	3,355	3,869	3,835	3,533	3,549	3,298	3,089	2,936
Debt (credit adj)	1,262	417	755	240	135	1,165	1,413	1,413	1,413	1,413

Source: Company data and Nordea Markets

Cash flow statement

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	541	501	648	858	809	701	929	1,043	1,089	1,158
Adj due to change in group structure	0	0	0	0	0	0	0	0	0	0
Change in Provisions	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	0	0	0	0	0	0	0	0
Net financials	-67	-55	-25	-39	-38	-49	-74	-156	-156	-156
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	106	104	76	10	-36	33	-26	-195	-117	-131
Other	-101	-103	3	-16	31	-5	1	0	0	0
Operating cash flow before NWC	**479**	**447**	**702**	**813**	**766**	**680**	**831**	**692**	**816**	**872**
Change in NWC	22	269	-138	196	46	231	128	100	100	100
Operating cash flow	**501**	**717**	**564**	**1,009**	**812**	**912**	**959**	**792**	**916**	**972**
CAPEX	-151	-136	-125	-178	-247	-280	-196	-200	-200	-200
Free operating cash flow	**350**	**581**	**439**	**831**	**565**	**631**	**763**	**592**	**716**	**772**
Dividends paid	0	-92	-117	-199	-500	-974	-622	-676	-676	-676
Share issues / buybacks	-71	18	21	147	50	80	48	0	0	0
Discretionary cash flow	**280**	**507**	**343**	**779**	**114**	**-262**	**189**	**-84**	**40**	**96**
Other investments / divestments	-253	-42	-372	-180	-149	-79	-457	-200	-200	-200
Other	0	0	0	0	0	0	0	0	0	0
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0
Net change to group borrowing/repayments	270	0	326	-509	-101	1,033	247	0	0	0
Other	-113	-839	-88	-9	-170	-126	-142	0	0	0
Change in cash	**184**	**-374**	**209**	**81**	**-305**	**566**	**-163**	**-284**	**-160**	**-104**
Adjusted metrics										
Funds from operations (FFO) (adj)	471	447	675	791	791	681	775	781	816	872
Operating cash flow (OCF) (adj)	501	717	564	1,009	812	912	959	792	916	972
Free operating cash flow (FOCF) (adj)	350	581	439	831	565	631	763	592	716	772
Discretionary cash flow (DCF) (adj)	350	489	322	632	65	-342	141	-84	40	96

Source: Company data and Nordea Markets

Key ratios

Profitability	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
ROC	10.9%	8.9%	12.5%	15.2%	13.2%	7.8%	11.5%	13.5%	15.2%	17.3%
ROIC after tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE after tax	17.4%	13.5%	16.1%	16.4%	13.1%	9.2%	12.1%	12.4%	14.6%	17.3%
Debt & Interest coverage	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
FFO/Debt	37.3%	107.1%	89.5%	329.8%	586.0%	58.4%	54.9%	55.3%	57.8%	61.7%
FOCF/Debt	27.7%	139.3%	58.1%	346.1%	418.7%	54.2%	54.0%	41.9%	50.7%	54.6%
DCF/Debt	27.7%	117.3%	42.6%	263.1%	48.1%	-29.4%	10.0%	-5.9%	2.8%	6.8%
EBITDA interest coverage	4.3	6.7	9.4	12.6	9.9	7.9	8.8	9.8	10.3	10.9
FFO cash interest coverage	-3.7	-6.0	n.m.	n.m.	n.m.	-7.7	-7.3	-7.4	-7.7	-8.2
Leverage	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Debt/EBITDA	2.3	0.8	1.2	0.3	0.2	1.7	1.5	1.4	1.3	1.2
Equity ratio	34.5%	39.1%	34.8%	37.9%	39.1%	31.6%	28.1%	26.9%	25.8%	25.1%
Debt/(Debt+Equity)	0.3	0.1	0.2	0.1	0.0	0.2	0.3	0.3	0.3	0.3
Capital expenditure	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
CAPEX/Depreciation and amortisation	1.08	0.81	0.72	0.86	0.98	0.81	0.57	0.56	0.57	0.57
CAPEX/Sales	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Working capital ratios	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Inventory turnover (days)	10	10	11	10	9	8	9	9	8	8
Receivables turnover (days)	90	80	93	83	77	78	82	76	73	72
Days sales outstanding (days)	55	54	66	65	63	64	69	101	96	93
Per share data	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
EPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS (adj.)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity valuation and yield	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Market cap.	0	0	0	0	0	0	0	0	0	0
Enterprise value	691	222	338	-253	-49	419	829	1,024	1,184	1,288
P/E	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
P/BV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	1.3	0.4	0.5	n.m.	n.m.	0.6	0.9	1.0	1.1	1.1
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio	0.0%	24.0%	23.6%	33.6%	98.8%	287.5%	145.1%	159.0%	144.7%	129.3%

Source: Company data and Nordea Markets

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Market perform
Over the next three months, the fixed income instrument's total return is expected to be in line with the total return of the relevant

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Market perform	284	56%
Under perform	140	27%
Total	512	100%

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