UiT The Arctic University of Norway

Faculty of life science, fisheries, and economics

Corporate Finance – Orkla ASA

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1. Executive Summary

Orkla ASA, with a history dating back to 1904, has transformed into a major player in the branded consumer goods sector, with significant operations in the Nordic region, Eastern Europe, Asia, and the U.S. The company employs approximately 20,000 employees and had an operation revenue of 67.8 billion NOK, and a net profit of 5.42 billion NOK in 2023. Key financial ratios show improved liquidity and profitability, although the equity ratio slightly decreased. Orkla ASA demonstrates a reasonable valuation with a solid dividend yield. The stock's lower volatility makes it an appealing option for risk-averse investors.

The liquidity, profitability, financial leverage, shareholder performance, and return ratios reveal a complex picture of growth in revenues but challenges in maintaining profitability margins. The company's risk assessment reflects a comprehensive approach, considering market volatility, environmental risks, and political factors. The evaluation methods include company beta, WACC, CAPM, historical stock performance, and industry benchmark comparisons. These indicate Orkla as a reasonably valued company with a stable dividend yield and growth potential. Orkla has maintained a high dividend yield and stability with moderate growth. However, its high payout ratio might limit future dividend increases. Orkla's role in a diversified portfolio is significant, offering exposure to different industries and markets, thereby reducing overall risk and volatility. Orkla has integrated sustainability into its business strategy, focusing on ESG aspects, which enhances its long-term value and resilience. Key strengths include market leadership and a strong brand portfolio. Weaknesses involve sector concentration risks and underperformance in certain markets. Opportunities lie in health-conscious consumer trends and global food consumption growth.

Orkla ASA is a stable company with promising growth and value creation prospects for its shareholders, making it an attractive investment option. However, investors are advised to conduct thorough due diligence.

2. Introduction

The purpose of this report is to evaluate Orkla's financial performance and investment potential, using the latest available data and the methodologies outlined in the syllabus. The report will provide practical insights and recommendations for investors who are interested in the Norwegian stock market and Orkla's business segments.

3. Company Overview

Orkla ASA is a prominent industrial conglomerate based in Norway, with a history that dates to its foundation in 1904. The company has evolved from its early beginnings in mining to become one of the leading producers of consumer goods in the Nordic region. With approximately 20,000 employees and a revenue of around 67.8 billion NOK (approximately 6.4 billion USD) in 2023, Orkla operates across a wide range of sectors (Gram, T., et al. 2023).

The main operations of Orkla include the production and distribution of a variety of goods through its business areas: Orkla Foods (food products), Orkla Confectionery & Snacks (candy and snacks), Orkla Care (personal care and detergents), and Orkla Food Ingredients (bakery ingredients). These segments position the company as a significant supplier to grocery retail, specialty shops, the foodservice industry, and bakeries in the Nordics, the Baltic region, and Central Europe (Gram, T. et al. 2023).

In addition to its consumer goods operations, Orkla is involved in financial investments and is the largest shareholder in Jotun, a leading global producer of paint. Furthermore, the company has significant operations in power production, with power plants in Sarpsborg and Sauda. With a portfolio of well-known brands such as Grandiosa, Toro, Stabburet, and Nidar under its umbrella, Orkla has cemented its status as a key player in the consumer goods industry. The company is listed on the Oslo Stock Exchange and has its business address in Skøyen, Oslo (Gram, T., et al. 2023).

Orkla's management and corporate governance are based on the principles of transparency, accountability, fairness, and value creation. The company's Board of Directors consists of 11 members, of which seven are elected by the shareholders and four by the employees. The Board is chaired by Stein Erik Hagen, who is also the largest shareholder of Orkla with a 23.6% stake. The President and CEO of Orkla is Nils K. Selte, who has been in the position since 2022 (Orkla, n.d. -3). The company follows the Norwegian Code of Practice for Corporate Governance and has established policies and procedures for ensuring equal treatment of shareholders, transactions with related parties, risk management, internal control, corporate social responsibility, and sustainability (Orkla, 2019).

Orkla's business strategy is to create sustainable value through active ownership of brands and consumer-oriented companies. The company invests in companies where it can contribute to further value creation through its industry expertise, consumer insight and experience in building leading brands. The company also pursues industry-shaping moves through acquisitions, divestments, and partnerships, with a flexible approach to ownership structures. Orkla's portfolio companies are organized as autonomous entities, with clear mandates and targets, to ensure greater structural flexibility and agility. Sustainability is a pivotal element of Orkla's business strategy and in its portfolio companies. The company wants to contribute to making the necessary transition to sustainable production and consumption, and to leverage sustainability as a source of innovation and growth (Orkla, n.d. -4).

4. Financial Statement Analysis

The analysis of Orkla’s annual reports for 2020, 2021, 2022 and 2023 reveals the company’s financial performance and strategic movements over the past four years, indicating growth trends and business expansion efforts.

In 2020 Orkla reported operating revenues of 47.1 billion NOK, with an EBIT (operating profit) of 5.5 billion NOK. The EBIT margin was at 11.7%, which means that Orkla made 11.7 cents on the dollar, before interest and taxes. The company employed 18,110 people and earnings per share were 4.37 NOK. The total equity was 37.7 billion NOK (Orkla ASA, 2021, page. 160-162).

In 2021 there was a noticeable growth with operating revenues increasing to 50.4 billion NOK and a net profit of 4.9 billion NOK. The EBIT rose to 6.1 billion NOK, improving the EBIT margin to 12.2%. The number of employees grew to 21,423, which reflects expansion and acquisitions. The earnings per share increased to 4.82 NOK and the total equity rose to 39.4 billion NOK (Orkla ASA, 2022, page. 214-216).

In 2022 Orkla continued its trajectory of growth, reporting operating revenues of 58.4 billion NOK and a net profit of 5.27 billion NOK. The EBIT rose further to 7.4 billion NOK, improving the EBIT margin again to 12.8%. The number of employees declined to 20,420, and the earnings per share rose to 5.04 NOK. The total equity rose once more to 43.2 billion NOK (Orkla ASA, 2023, page. 174-176).

Last year in 2023 Orkla reported operation revenues of 67.8 billion NOK and a net profit of 5.42 billion NOK. The EBIT declined to 6.9 billion NOK, which affected the EBIT margin negatively to 10.18%. The number of employees declined further to 19,671 and the earnings per share rose to 5.21 NOK. The total equity rose to 46.7 billion NOK (Orkla ASA, 2024 -1, page. 73-76)

While the provided data covers only four years, it still offers valuable insights. Notably the operating revenue have displayed a clear upward trajectory, surging from NOK 47.1 billion in 2020 to NOK 67.8 billion in 2023. This could suggest expansion or increased market demand for Orkla ASA's products. However, the net profit is not as significant, indicating possibly higher costs. Also, the decline in EBIT and EBIT margin between 2022 to 2023 further indicates that while revenues grew, the costs grew at a faster rate. The variety in the number of employees from 2020 to 2023 could indicate restructuring or improvement in efficiency. The earnings per share increase from 4.37 NOK in 2020 to 5.21 NOK in 2023 suggests that Orkla managed its capital structure effectively or reduced the number of shares outstanding, and further improving shareholders value per share. The rise in total equity from 37.7 billion NOK to 46.7 billion NOK in four years indicates that Orkla has strengthened its financial position, possibly through retained earnings or additional investments.

5. Descriptive Statistics

In this chapter we will analyse Orkla's descriptive statistics which can help us understand the company's history, and its future as a potential investment option. The company's beta measures the risk of Orkla's stock relative to the market. A beta higher than 1 indicates that the stock is more volatile than the market, while a beta lower than 1 indicates that the stock is less volatile than the market. A negative beta means that the stock moves in the opposite direction of the market (Hillier, et al. 2020, page. 277-279). The calculations for Orkla's beta are based on daily historical stock prices between 2019 - 2023.

Table 5.1: Orkla's Beta

Beta ORKLA	0.30717814

Orkla’s beta has been calculated to approximately 0.3072, which means that Orkla’s stock is less volatile than the Oslo stock exchange (OSEBX). This could make Orkla a good asset for portfolio diversification, as it potentially reduces the overall risk without significantly diminish returns. This option will be discussed further in chapter 10.

Table 5.2: Orkla's Descriptive statistics

Statistic	*ORKLA SR*	*OSEBX SR*
Mean	0.036%	0.046%
Mean Annualized	9.138%	11.534%
Standard Error	NULL	NULL
Median	0.028%	0.077%
Mode	0.000%	NULL
Standard deviation (SD)	1.305%	1.154%
SD Annualized	20.721%	18.317%
Sample Variance	0.02%	0.01%
Kurtosis	7.66	6.55
Skewness	-0.19	-0.94
Range	15.34%	14.37%
Minimum	-7.86%	-8.77%
Maximum	7.47%	5.61%
Sum	0.45147	0.56983
Count	1245	1245

The data from table 5.2 is based on Orkla’s Q4 report (Orkla ASA, 2024 -2). The most important findings from table 5.2 is that Orkla has both a lower mean and mean annualized compared to the OSEBX, which can indicate that Orkla has a lower growth potential, then the rest of the market. Despite this, Orkla’s standard deviation is higher, which can indicate higher volatility than the OSEBX. This contradicts the low Beta from table 5.1. This indicates that although Orkla’s own price movement may vary, they fluctuate less with the market, which can indicate lower systematic risk. This means that the standard deviation indicates the total volatility, while the beta is an indicator for how the stock reacts to the market’s movement. Figure 5.1 shows Orkla’s annualized standard deviation and the data is gathered from.

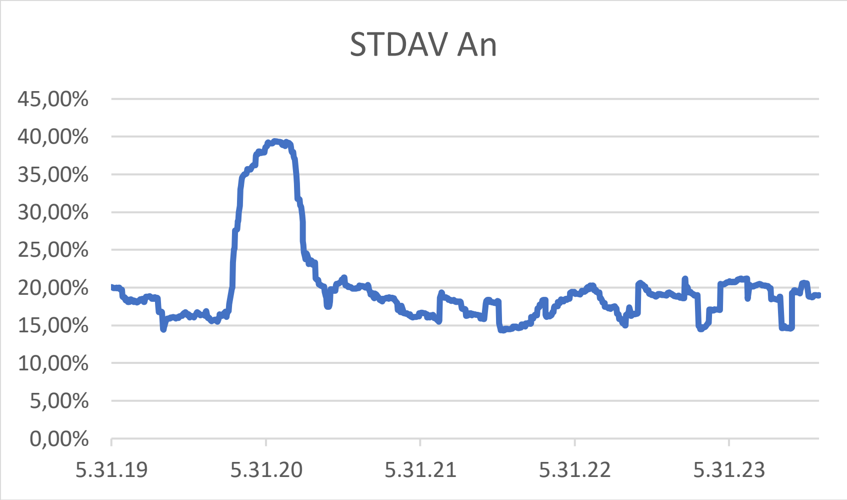

Figure 5.1: Orkla's Standard deviation

Orkla's standard deviation is relatively stable between 15-20% as indicated by figure 5.1. But in 2020 the standard deviation spiked, with a high of approximately 40%. This indicates that Orkla's volatility was higher in 2020, which can be a consequence of the corona pandemic, change in consumer habits or a general uncertainty in the market.

Additional table 5.2 tells us that both Orkla and OSEBX has a negative skewness, which can indicate negative returns, especially in the long run. Further they also have a high kurtosis, with Orkla having slightly higher values, which suggests that the return distribution has "thicker tails" than the normal distribution, which indicates a higher risk of extreme returns. Extreme returns, or excess returns are returns on an investment that exceeds what is expected based on risk and market conditions (CFI team, n.d.). This means that Orkla with relatively high skewness and kurtosis may be exposed to the risk of both positive and negative extreme returns.

Figure 5.2 illustrates Orkla's stock price over time (adj. close). It shows trends and fluctuations, providing us with insight into Orkla's historical performance. The figure also shows us the daily return and provides information about the stock's volatility and risk. A lot of fluctuation can imply higher volatility, and less fluctuation can imply lower volatility. In Orkla's case its relatively little fluctuation, with a couple of exceptions. By comparing the two graphs, it can give insight into how Orkla's stock price (adj. close) correlates with Orkla's volatility and risk.

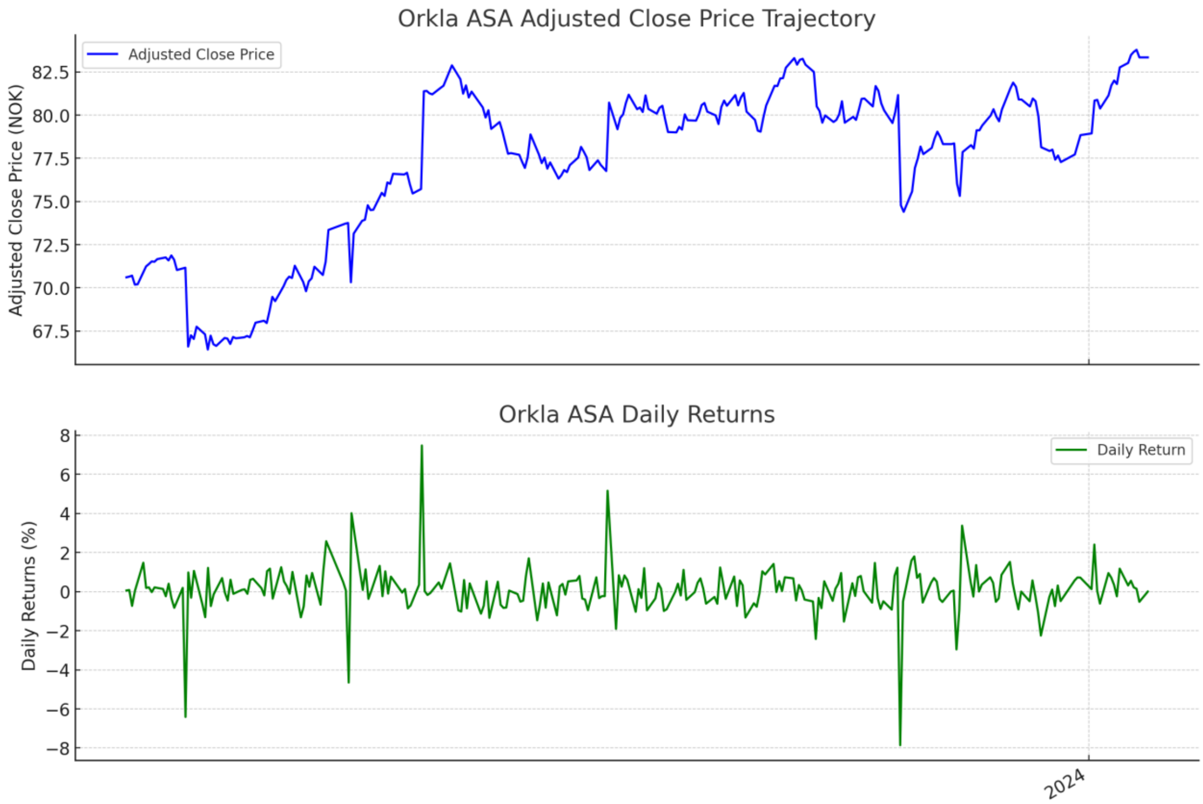

Figure 5.2: Orkla's adjusted close and daily returns

To conclude Orkla appears to be a more "defensive" investment with lower average returns and higher volatility compared to OSEBX. The risk profile, characterized by high kurtosis and skewness, suggests that while Orkla may offer some protection when the market is down, it may also involve a risk of extreme returns.

6. Ratio Analysis

Based on Orkla's annual report for 2023 (Orkla ASA, 2024 -1) and Q4 report (Orkla ASA, 2024 -2), a detailed analysis of the company's financial performance can be divided into several key areas which include: liquidity, profitability, and long-term solvency measures.

The liquidity of a company refers to the ease and speed with which assets can be converted to cash, without significant loss in value (Hillier et al., 2020, page. 60). In Orkla's case, the cash flow statement (Orkla, 2024, page. 75) provides insight into its liquidity. The cash flow from operating activities was higher in 2023 compared to 2022, primarily due to increase in profit from associates and joint ventures and net interest costs. This indicates that Orkla has had successful partnerships and investments and could offer strategic benefits such as market expansion and stronger business relations. The cash flow statement suggests that Orkla's ability to convert assets to cash has been increased, implying a stronger liquidity. To further analyse Orkla's liquidity we can look at the net working capital, current ratio, and quick ratio. The numbers from the following ratios are gathered from Orkla's 2023 annual report (Orkla, 2024 -1), and are in NOK (millions).

Net working capital (NWC):

$$4\ 545 = 21\ 594 - 17\ 049 = Current\ assets - Current\ liabilities$$

Current ratio:

$$1.27 \approx \frac{21\ 594}{17\ 049} = \frac{Current\ assets}{Current\ liabilities}$$

Quick ratio:

$$0.67 \approx \frac{21\ 594 - 10\ 135}{17\ 049} = \frac{Curren\ assets - Invetory}{Curren\ liabilities}$$

The net working capital (NWC) is calculated as the difference between the company's current assets and current liabilities. A NWC equal to 4 545 million NOK means that Orkla has 4 545 million NOK more in short term-assets than it does in short-term liabilities.

The current ratio is a liquidity ratio that measures a company's ability to pay off its short-term liabilities with its short-term assets. A current ratio of 1.27 means that for every NOK 1 of current liabilities, the company has NOK 1.27 in current assets. This suggests that Orkla is in a relatively stable liquidity position and can cover its short-term obligations.

The quick ratio is a measure of a company's ability to meet its short-term obligations with its most liquid assets. It excludes inventory from current assets because inventory can take longer to convert into cash. A quick ratio of 0.67 means that when inventory is removed, Orkla has NOK 0.67 in liquid assets for every NOK 1 of current liabilities. This indicates that Orkla may not be able to meet its short-term obligation without relying on the sale of inventory.

Overall Orkla seems to be in a stable position, but the liquidity ratios suggest that they may face challenges if it need to liquidate assets quickly to meet its short-term obligations, particularly in case of a downturn or a sudden need for cash.

Profitability ratios are intended to measure how efficiently a firm uses its assets and how efficiently the firm manages its operations (Hillier et al., 2020, page. 72). To analyse the profitability ratios, it may be useful to take a closer look at the profit margin, return on assets and return on equity ratios. The numbers from the following ratios are gathered from Orkla's 2023 annual report (Orkla, 2024 -1), and are in NOK (millions).

Profit margin:

$$0.08 \approx \frac{5\,421}{67\,797} = \frac{Net\ income}{Revenues}$$

Return on assets:

$$0.06 \approx \frac{5\,421}{86\,592} = \frac{Net\ income}{Total\ assets}$$

Return on equity:

$$0.12 \approx \frac{5\,421}{46\,748} = \frac{Net\ income}{Total\ equity}$$

The profit margin measures how much out of every dollar of sales a company generates in earnings. A profit margin of 0.08 means that Orkla makes a net profit of 0.08 NOK for every 1 NOK of revenue. This means that Orkla retains approximately 8% of its revenue as profit.

The return on assets (ROA) indicates how effectively a company uses its assets to generate profit, which means it measures how profitable a company is relative to its total assets. A ROA of 0.06 means that Orkla generates 0.06 NOK for every 1 NOK of assets they own.

The return on equity (ROE) indicates how well a company is generating profits from its equity. A ROE of 0.12 means that Orkla generates 0.12 NOK for every 1 NOK of equity held by shareholders.

These three ratios provide us with information into Orkla's financial position, and they show us that Orkla is efficient in using its resources to generate earnings, effective in converting those earnings into profits, and providing returns to its investors.

Long-term solvency ratios are intended to address the firm's long-run ability to meet its obligations, or more generally its financial leverage (Hillier et al., 2022, page. 69). To analyse the long-term solvency ratios, its useful to analyse the total debt ratio, total equity ratio and the debt - equity ratio. The numbers from the following ratios are gathered from Orkla's 2023 annual report (Orkla, 2024 -1), and are in NOK (millions).

Total debt ratio:

$$0.46 \approx \frac{86\,592 - 46\,748}{86\,592} = \frac{Total\ assets - Total\ equity}{Total\ assets}$$

Total equity ratio:

$$0.54 \approx \frac{46\,748}{86\,592} = \frac{Total\ equity}{Total\ assets}$$

Debt - equity ratio (2022):

$$0.85 \approx \frac{39\,844}{46\,748} = \frac{Total\ Debt}{Total\ equity}$$

The total debt ratio measures the proportion of a company's assets that are financed by debt. A total debt ratio of 0.46 means that 46% of the Orkla's assets are financed through debt.

The total equity ratio measures the proportion of a company's assets that are financed by equity. A total equity ratio of 0.54 means that 54% of Orkla's assets are financed through equity. This complements the total debt ratio, and together they equal 100%.

The debt – equity ratio compares the company's total debt to its total equity. A debt-equity ratio of 0.85 means that for every 1 NOK of equity, Orkla has 0.85 NOK of debt. This suggests that Orkla has a balanced mix of debt and equity, indicating moderate leverage and financial risk.

7. Risk Assessment

Orkla's risk management process includes routine risk assessments in all entities, which are consolidated to create an overall risk picture for the company. This includes a long-term systematic risk assessment. The management team and the Board of directors review this risk picture, which is crucial for understanding the company's future prospects (Orkla ASA, 2022, page 32).

The capital asset pricing model (CAPM) describes the relationship between systematic risk, or the general perils of investing, and expected return for assets, particularly stocks. It is a finance model that establishes a linear relationship between the required return on an investment and risk. The model is based on the relationship between an asset's beta, the risk-free rate, and the equity risk premium, or the expected return on the market minus the risk-free rate (Kenton, 2023). The formula for the CAPM is given as:

$$CAPM = R_f + \beta_i \times \left(ER_m - R_f\right)$$

Where R_f equals the risk-free rate (FRED, n.d.), β_i equals the beta of the investment, and ER_m equal the market risk premium (PWC, 2023). With the given figures, Orkla's CAPM is calculated to:

$$CAPM = 0.0329 + 0.30 \times 0.05$$

$$CAPM = 0.0479 \times 100 = 4.79\%$$

A CAPM of 4.79% indicates that an investor should expect to earn a return of 4.79% on their investment, considering its risk relative to the overall market. The return compensates for the time value of money, via the risk-free rate, and the investment's risk, via the risk premium.

To analyse the probability of Orkla going bankrupt and an investor losing their entire investment, the Altman Z-score can be analysed. The Altman Z-score is a formula for determining whether a company, notably in the manufacturing space, is headed for bankruptcy (Kenton, 2024). The formula for Altman Z-score is given as:

$$Zscore = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

Where A equals working capital / total assets, B equals retained earnings / total assets, C equals earnings before interest and tax / total assets, D equals market value of equity / total liabilities and E equals sales / total assets. Based on the numbers from Orkla's annual report 2023 and yahoo finance, Orkla's Z-score equal to (Orkla ASA, 2024 -1), (Yahoo Finance, n.d.):

$$Zscore = 1.2\left(\frac{4\,545}{86\,592}\right) + 1.4\left(\frac{43\,298}{86\,592}\right) + 3.3\left(\frac{5\,421}{86\,592}\right) + 0.6\left(\frac{78\,429}{86\,592}\right) + 1.0\left(\frac{67\,215}{86\,592}\right)$$

$$Zscore = 3.08$$

A Z-score > 2.99 means that the company is probably not going bankrupt in the near future, A Z-score > 1.81 and < 2.99 means that the company's probability of going bankrupt is uncertain, and a Z-score < 1.82 means that the company has a high probability of bankruptcy (Kenton, 2024). A Z-score of 3.08 would suggest that the company is likely in a financially stable and safe position, with a low probability of going bankrupt in the near future. It suggest that Orkla is managing its debt well, has a good balance between assets and liabilities, and operates effectively.

8. Company Valuation

To analyse Orkla's valuation and market position there are several key ratios and figures, which include earnings per share (EPS), price-earnings ratio (PE ratio), market value per share (MVPS), book value per share (BVPS), market – to – book ratio, and the weighted average cost of capital (WACC). The numbers for the following ratios are gathered from Yahoo finance 21. March 2024 (19:12 UTC) and are in NOK.

Earnings per share (EPS):

$$5.421 = \frac{5\ 421}{1\ 000} = \frac{Net\ income}{Shares\ outstanding}$$

Earnings per share (EPS) is a company's net income subtracted by preferred dividends and then divided by the average number of common shares outstanding. The resulting number serves as an indicator of a company's profitability (Fernando, 2024). An EPS of 7 NOK means that for each share of the company, 7 NOK is earned, indicating profitability.

Price-earnings ratio (PE ratio):

$$13.92 \approx \frac{75.49}{5.421} = \frac{Price\ per\ share}{Earnings\ per\ share\ (EPS)}$$

The PE ratio measures how much investors are willing to pay per unit of current earnings, higher PEs are often taken to mean that the firm has significant prospects for future growth (Hillier et al., 2022, page. 73). A PE ratio of 13.92 indicates that investors are willing to pay 13.92 for every 1 of earnings. The PE ratio on its own doesn't explain much, but needs to be compared to the market, industry, or the company's previous PE ratio. For example, the S&P 500 PE ratio as of March 2024 is 28.32 (Multpl, n.d.), which means that Orkla has a relatively low PE ratio, which indicates that Orkla is undervalued compared to the S&P 500.

Market value per share (MVPS):

$$75.49 = Price\ per\ share$$

The market value per share is the price available on the stock market and is determined by the most recent transaction in the market.

Book value per share (BVPS):

$$46.748 = \frac{46\ 748}{1\ 000} = \frac{Total\ equity}{Shares\ outstanding}$$

Book value per share (BVPS) is the ratio of equity available to common shareholder divided by the number of outstanding shares. This figure represents the minimum value of a company's equity and measures the book value of a form on a per-share basis (Hayes, 2022).

Market – to – book ratio:

$$1.61 \approx \frac{75.49}{46.748} = \frac{Market\ value\ per\ share}{Book\ values\ per\ share}$$

The market – to -book ratio compares the market values of the firm's investments to their costs. A value less than 1 could mean that the firm has not been successful overall in creating value for its shareholders (Hillier et al., 2022, page. 73). When the market value per share (75.49) and book value per share (46.748) is compared it shows that investors are willing to pay more for Orkla's shares than what its equity per share is. This can indicate growth expectations.

Weighted average cost of capital (WACC) represents a company's average after tax cost of capital from all sources, including common stock, preferred stock, bond, and other forms of debt. As such, WACC is the average rate that a company expects to pay to finance its business (Hargrave, 2024). The formula for the WACC is given as:

$$WACC = \left(\frac{E}{V} \times R_E\right) + \left(\frac{D}{V} \times R_D \times (1 - T_C)\right)$$

Where E equals the market value of the firm's equity, D equals the market value of the firm's debt, V equals the equity (E) plus debt (D), R_E equals the cost of equity, R_D equals the cost of debt, and T_C equals corporate tax rate (Trading Economics, n.d.). With the numbers given by the Q4 report (Orkla ASA, 2024 -2), Orkla's WACC is calculated to:

$$WACC = \left(\frac{78.65}{97.45} \times 0.0482\right) + \left(\frac{18.8}{97.45} \times 0.0529 \times (1 - 0.22)\right)$$

$$WACC = 0.0469 \times 100 = 4.69\%$$

A WACC of 4.69% indicates that Orkla likely has efficient and effective capital management practices, allowing it to fund its operations and future growth at a relatively low cost. This further indicates that Orkla is in a good position to create value for its shareholders, provided it pursues projects with returns exceeding this threshold. In conclusion theses financial ratios suggests that Orkla is currently profitable, potentially undervalued by the market, and capable of financing its growth efficiently.

9. Dividend Analysis

To analyse the dividend policy of Orkla ASA we will look at dividend payout history, future dividend prospects, dividend- yield and stability. The dividend payout history shows the amount and frequency of dividends paid by Orkla to its shareholders over the past five years, from 2018 to 2022 (Orkla ASA, n.d. -1). Table 9.1 summarises the dividend payout history of Orkla.

Table 9.1: Dividend payout history of Orkla.

Year	*Dividend (NOK)*	*Dividend basis date*	*Dividend paid out*
2022	3.00	13. April 2023	27. April 2023
2021	3.00	20. April 2022	03. May 2022
2020	2.75	15. April 2021	25. April 2021
2019	2.60	15. April 2020	27. April 2020
2018	2.60	25. April 2019	07. May 2019

As we can see from the dividend payout history Orkla has paid out dividends to its investors every year for the last five years, around late April to early May. We can also see that the dividend has increased or stayed the same every year. This could suggest growth and a optimistic view of the future for the company. It's important to note that an increase in dividend does not mean that the company is growing, it could be the use of *dividend signalling* (Hillier et al., 2020, p. 565-566). However, as we have seen from the financial statement analysis, the company has had a steady growth the past years, further cementing their position as a healthy growing company. We can analyse this further by looking at the dividend yield.

The dividend yield (%) measures the annual dividend per share (DPS) divided by the current share price. A higher dividend yield indicates that the company pays a higher dividend relative to its share price, while a lower dividend yield indicates the opposite. Dividend stability reflects the consistency and reliability of the dividend payments over time. A stable dividend indicates that the company has a predictable and sustainable dividend policy, while an unstable dividend indicates that the company has a volatile and uncertain dividend policy. According to Yahoo Finance (n.d.) Orkla's forward annual dividend yield as of 21. February 2024 is 3.96%, which is higher than the S&P 500 average of 1.37% (Gurufocus, n.d.).

According to DividendMax (n.d.) Orkla's dividend stability score is 90%, which indicates that the company has a high degree of dividend stability and predictability.

The future dividend prospect evaluates the potential growth and sustainability of the dividend payment in the future, based on the company's earnings, cash flow, payout ratio, and dividend policy. The earnings and cash flow reflect the ability of the company to generate sufficient income and cash to pay dividends, while the payout ratio reflects the proportion of earnings that is distributed as dividends. The dividend policy reflects the intention and commitment of the company to pay dividends to its shareholder. According to the company's website (Orkla ASA. I.D.), Orkla's dividend policy is to increase the dividend, normally to within 50-70% of earnings per share. According to Yahoo Finance (n.d.), Orkla's earnings per share (EPS) the trailing twelve months (TTM.) is 5.37 NOK, which with the DPS of 3 NOK, implies a payout ratio of approximately 55.86% $\left(\frac{DPS}{EPS} = \frac{3}{5.87} = 0.5586\right)$. This means that 55.86% of Orkla's net income is paid out as dividends to shareholders. These ratios indicate that Orkla has a relatively high dividend payout, but also has enough income and cash flow to cover the dividend payments. According to DividendStocks (n.d.), Orkla's forecast dividend as of 21st of February 2024 looks like table 9.2.

Table 9.2: Orkla's forecast dividend.

Year	*Dividend (NOK)*	*Change from last year (%)*
2023	3.00	0%
2024	3.68	22.66%
2025	3.41	-7.33%
2026	3.60	5.57 %
2027	3.93	9.16%

As we can see from table 9.2 Orkla's dividends is expected to increase in 2024, before taking a small dip, and then further increasing. Based on the above data and metrics, we can conclude that Orkla is a dividend-paying company, with a high dividend yield, a high dividend stability, and has a moderate dividend growth. However, the company has a high payout ratio, which may limit its ability to invest and further increase the dividend in the future. Therefore, investors should be aware of the trade-off between dividend income and dividend growth considering Orkla as a potential dividend stock.

10. Portfolio Investment Strategy Evaluation

To evaluate Orkla ASA's role in a diversified portfolio we can first investigate what role the company will have in a diversified portfolio. This will assess the contribution of Orkla to the overall performance and risk of a portfolio, as well as the potential benefits of diversification. Diversification is the process of combining different assets or investments so that the exposure to any one type of asset is limited. This practice is designed to help reduce the volatility of the portfolio over time. A well-diversified portfolio should have a mix of assets that have different risk-return profiles, market exposures, and growth drivers (Fidelity, n.d.). As we know from this report Orkla operates in various sectors, regions, and consumer segments, which can provide a diversified revenue base and growth potential. Orkla also owns 42.6% of Jotun (Orkla, n.d. -2), a global leader in painting, which adds further diversification to the portfolio.

Furthermore, we can analyse the correlation with the Oslo Stock Exchange (OSEBX). This measures the degree of association between Orkla's stock returns and the returns of other stocks on the OSEBX. Correlation ranges from -1 to 1, where -1 indicates a perfect negative relationship, 0 indicates no relationship, and 1 indicates a perfect positive relationship. A negative correlation indicates that the stocks move in the opposite direction, while a positive correlation indicates that the stocks move in the same direction. The correlation between Orkla and the OSEBX the last five years is visualised in figure 10.1.

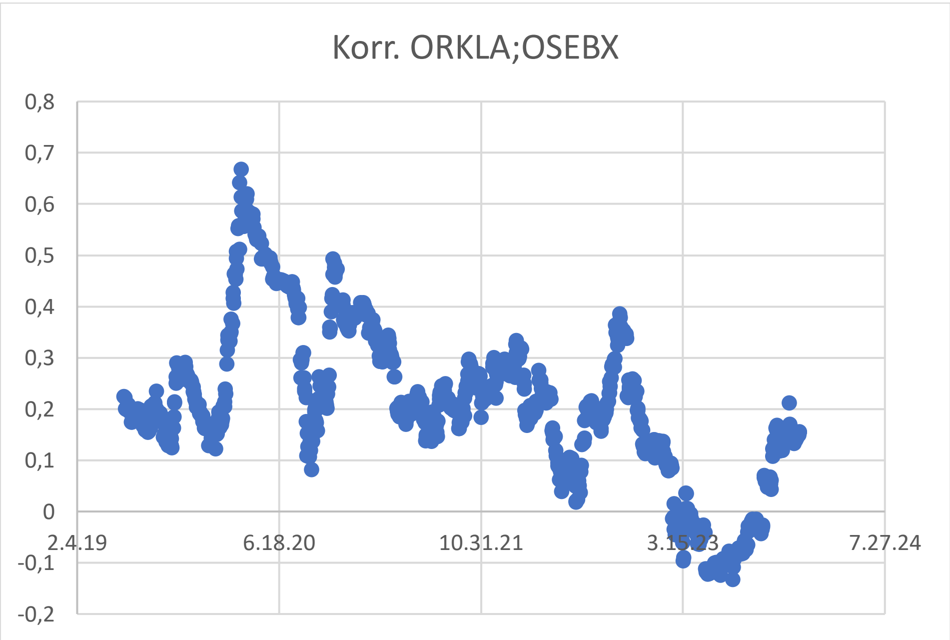

Figure 10.1: Correlation between Orkla and OSEBX, 2019-2024

It’s important to note that correlation and company beta is not the same. Beta gives us the magnitude of the move, while correlation tells us about the directional relationship. As we have concluded previously in this report, Orkla’s beta is approximately 0.31, which implies that Orkla has very low volatility and is not sensitive to market movements. According to Yahoo Finance (n.d.), Orkla’s annualized total return for the past five years is 10.5%, which is higher than the OSEBX annualized total return of 8.8% for the same period. This indicates that Orkla has outperformed the Norwegian market and has a relatively low correlation with it. According to Finbox (n.d.), Orkla’s EV/EBITA ratio the trailing twelve months (TTM) is 10.1, which is higher than the industry (consumer staples) average of 8.2 and the OSEBX average of 6.47. This implies that Orkla is overvalued compared to its competitors and the market. This could be the result of investors being optimistic about the company’s future growth, and further positions Orkla as a company that’s not impacted to from the market. This further strengthens Orkla’s position as a diversification benefit for a portfolio.

The final metric to evaluate Orkla ASA’s role in a diversified portfolio is the risk-return profile relative to portfolio objectives. The risk-return profile evaluates the potential returns and the associated risks of investing in Orkla and compares them with the portfolio objectives (Chen, 2023, 7. November). Portfolio objectives are the specific goals and constraints of the portfolio, such as the target return, the risk tolerance, the time horizon, and the liquidity needs (Chen, 2023, 3. July). The risk-return profile of an investment reflects the trade-off between the potential returns and the risk of losing money. Higher returns typically come with higher risk, and investors must determine the level of risk they are willing to take on to achieve their desired returns (Chen, 2023, 7. November). From the dividend analysis we know that Orkla pays 55.86% of their net income as dividends to shareholders and they want to increase the dividend, to within 50-70% of earnings per share. This indicates that Orkla has a high dividend, which can appeal to investors who seek stable and predictable returns. However, as we also have seen Orkla’s EV/EBITDA ratio indicates that Orkla is overvalued compared to its competitors and the market, and this may be a challenge in maintaining its growth and margins in the future. We have also looked at Orkla’s beta, which indicated that the company has very low volatility and is not sensitive to market movements. This indicates that Orkla is a low risk, but also low return potential, which may suit investors who seek higher returns and growth opportunities. Therefore, Orkla's risk-return profile may or may not match the portfolio objectives, depending on the investor's preferences and expectations.

Based on the analysis above, we can conclude that Orkla can play a role in a diversified portfolio by providing exposure to different industries and markets, as well as reducing the overall risk and volatility of the portfolio. However, Orkla also has a low correlation with other Norwegian stocks and international markets, which can enhance the diversification benefits of a portfolio.

11. Sustainability

To analyze the sustainability performance and prospects of Orkla ASA, we use the environmental, social and governance (ESG) framework, which covers the key aspects of how a company creates long-term value for its stakeholders and society. ESG factors are increasingly important for investors, customers, regulators, and employees, as they reflect the company's ability to manage risks, seize opportunities, and contribute to the United Nations sustainable development goals (Investopedia, 2024). A strong ESG proposition can enhance the company's reputation, competitiveness, and resilience, as well as create positive impacts on the environment and society.

Orkla has a long-standing commitment to sustainability and responsible business practices and has integrated ESG intro its strategy and operations. The company has established clear goals, polices, and procedures for ensuring sustainability across its companies. They also engage with their stakeholders and reports on their progress and performance in a transparent and accountable manner.

11.1 Environmental

Orkla aims to reduce its environmental footprint and promote circular economy principles in its production and consumption and have a target of net zero emission by 2045. In 2018 the company set an ambitious target to reduce its greenhouse gas emissions, energy consumption, water usage and waste generation for the period up to 2025. This target includes science-based targets for reducing greenhouse gas emissions to limit global warming to 1.5 degrees. To reach this goal they also want to increase the use of renewable energy and recyclable materials. Orkla also invest in innovation and production development to offer more sustainable solutions to its customers, such as plant-based foods, biodegradable packaging, and eco-friendly production. Furthermore, they also support environmental initiatives and projects in the communities where it operates, such as reforestation, biodiversity conservation, and climate adaptation (Orkla, 2023, page. 87-123).

11.2 Social

Orkla wants to use its presence in many countries and sectors to make a difference. They want to promote equal opportunities, equal worth and human rights, and to epitomise the change they want to see. The company also fosters a diverse, inclusive, and engaging work culture, and want to provide learning and development opportunities for its employees. Orkla also has a goal to contribute to social welfare and development in the markets they operate in, through various initiatives and programs, such as supporting local farmers, improving nutrition and wellness, promoting education and skill, and enhancing community resilience. (Orkla, 2023, page. 138-147).

11.3 Governance

Unfortunately, the latest available report from Orkla concerning their corporate governance is from 2019, but we will assume that much remains unchanged. Orkla's principle for good corporate governance aim to lay the foundation for long-term value creation, to the benefit of shareholders, employees, and society at large. Openness, transparency, accountability, and equal treatment underpin confidence in the Orkla Group, both internally and externally, and constitute key elements in Orkla's effort to foster a sound corporate business culture (Orkla, 2019, page. 1). From the report we figure out that Orkla adheres to high standards of corporate governance and ethical conduct and ensures compliance with the laws and regulations in the countries where it operates. The company has a robust governance structure, with clear roles and responsibilities for the board of directors, the management, and the portfolio companies. The company also has a comprehensive set of policies and codes of conduct, covering topics such as anti-corruption, anti-competitive practices, data protection, and stakeholder engagement (Orkla, 2019).

11.4 Conclusion

Orkla has a long-standing commitment to sustainability and responsible business practices and has integrated ESG intro its strategy and operations. The company has established clear goals, polices, and procedures for ensuring sustainability across its companies. They also engage with their stakeholders and reports on their progress and performance in a transparent and accountable manner.

12. Conclusion and Investment Recommendation

Orkla ASA has demonstrated a strong financial performance and growth in its core business areas. The company has delt with market challenges effectively, maintaining a solid position in its key markets. The financial analysis reveals a robust upward trend in revenues and profits, supported by expansion and operational efficiencies. Key financial ratios indicate solid liquidity and profitability, though a slight decrease in the equity ratio suggests a need for caution when observing debt levels.

This report concludes that Orkla ASA is an attractive option with a reasonable valuation, stable dividend yield, and potential for stock price growth. The company's proactive approach to sustainability and risk management, particularly in addressing climate change, reflects a forward-thinking strategy. In summary, Orkla ASA appears to be a strong and stable company in its sector, with promising prospects for future growth and value creation for its shareholders. This report concludes that Orkla is a good investment, as a safer option as part in a broader portfolio. However, investors are advised to conduct thorough due diligence, considering their investment goals and risk tolerance, before making any decisions.

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