Axfast AB (publ)

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'BBB' long-term issuer credit rating on Swedish-based commercial-property management company Axfast AB (publ) (Axfast) is supported by the company's long remaining lease terms, low vacancy rate and long-term strategic ownership. It also reflects the company's efforts to reduce single-name tenant exposure and increase diversification of tenants across sectors. In addition, our long-term rating reflects Axfast's strong financial position and low loan-to-value ratio (LTV), compared with Nordic real-estate peers. We expect the company's growth ambitions to be supported by its owners in order to maintain strong credit metrics.

These strengths are offset by Axfast's concentration of properties in the Stockholm region, as well as its relatively high exposure to single-name tenants and sector-specific tenants. Our assessment also reflects the company's smaller portfolio than those of peers, as well as a relatively short debt maturity profile.

STABLE OUTLOOK

The stable outlook reflects our view of stable revenues based on Axfast's steady base of primary tenants on long-term contracts. We expect Axfast to be able to manage what we believe to be the final phase of the pandemic without granting additional rebates to its tenants. Our outlook also factors in our expectation of decreasing vacancies as major projects are completed, despite the increase in the vacancy rate over the past year. We expect Axfast to continue to grow through the acquisition of new properties, increasing its net LTV.

POTENTIAL POSITIVE RATING DRIVERS

- Improved portfolio size and diversification of tenants and locations, while maintaining strong portfolio quality and credit metrics.

POTENTIAL NEGATIVE RATING DRIVERS

- Net LTV above 35% and interest coverage below 3.5x.
- An occupancy rate below 90% for a prolonged period.
- Acquisitions significantly above expectations that affect risk appetite.

Figure 1. Axfast key credit metrics, 2017–2023e

SEKm	2017	2018	2019	2020	2021e	2022e	2023e
Rental income	562	595	594	564	562	665	741
NCR-adj. EBITDA	427	404	389	383	380	454	503
NCR-adj. EBITDA margin (%)	76.0	67.9	65.5	67.9	67.6	68.3	67.8
NCR-adj. investment property	12,931	14,729	15,436	16,188	18,095	19,290	20,506
NCR-adj. net debt	3,602	3,840	3,204	3,315	4,750	5,659	6,563
Total assets	6,504	7,521	6,885	6,954	8,387	9,569	10,739
NCR-adj. net debt/EBITDA (x)	8.4	9.5	8.2	8.7	12.5	12.5	13.1
NCR-adj. EBITDA/net interest (x)	3.5	3.8	4.1	4.5	4.0	3.9	3.8
NCR-adj. net LTV (%)	27.9	26.1	20.8	20.5	26.3	29.3	32.0

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

ISSUER PROFILE

Axfast is a commercial-property management company focusing on centrally located properties in the Stockholm region. The company focuses on multi-purpose offices, hotels and retail buildings, with a complementary presence in other property segments such as logistics, and aims to grow via large one-off acquisitions and development projects in Stockholm's central business district. Axfast's property portfolio was valued at SEK 17.1bn as of 30 Jun. 2021. The portfolio consists of 20 properties totalling 182,190 sqm, comprising 147 tenants and generating annual rental revenues of nearly SEK 650m.

Axfast is a part of Axel Johnson Group and provides commercial properties for some entities within the group, although 95% of the company's tenants are from outside the group. Axfast has raised its growth ambitions and aims to double its portfolio value to SEK 30bn by 2030 following a change in strategy and top management.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bb+'

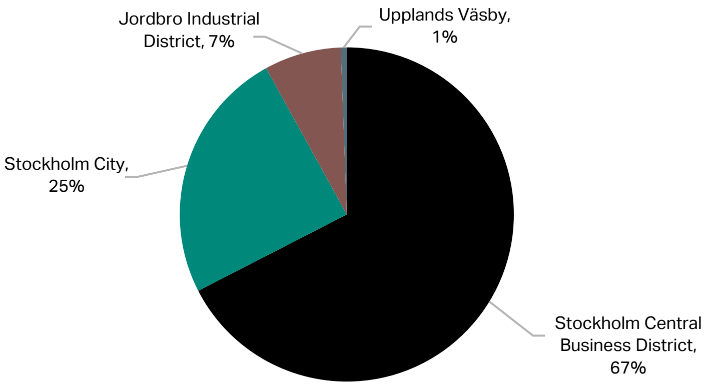
Our business risk assessment reflects the concentration of Axfast's properties in Stockholm city centre, a cyclical base of tenants and its extended lease maturity profile. Moreover, it takes account of the company's exposure to several sectors such as office, retail, hotel and logistics, albeit with significant concentrations on single-name tenants, which constrains our assessment. Our view of the portfolio and operating environment continues to be affected by the ongoing COVID-19 pandemic.

Balancing tenant mix should mitigate geographical concentration

Operating environment scores 'bb+'

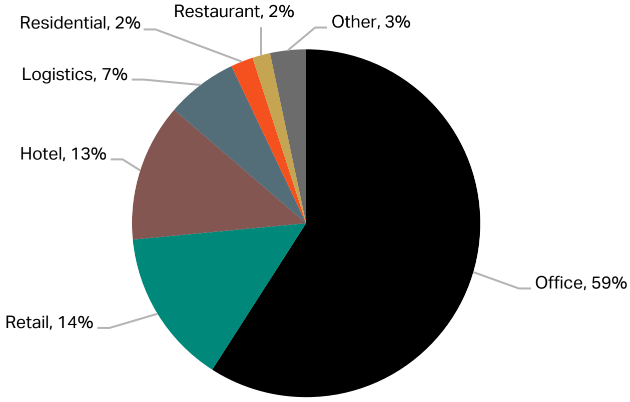
Axfast's property portfolio is geographically concentrated around the Stockholm region, with properties located in Stockholm Central Business District (CBD) accounting for the vast majority. Despite concentration in Stockholm city centre, Axfast aims to manage its geographical exposure through a balanced mix of tenants across a number of sectors.

Figure 2. Axfast rental value by management area, 30 Jun. 2021



Source: company.

Figure 3. Axfast rental value by property type, 30 Jun. 2021



Source: company.

In recent years, the commercial real-estate segment has benefited from benign economic conditions. Low interest rates, coupled with high rent levels and yield compression, continue to support increasing property values.

NCR expects Axfast to face uncertainty in the office segment. The economic impact of the pandemic has resulted in significantly reduced demand for many business services and lower demand for office space. As vaccine programmes continue to progress, we anticipate that the economy will stabilise towards the end of 2021. On 7 Jul. 2021, Statistics Sweden said that GDP has recovered to the level of February 2020. However, it remains unclear whether large-scale remote working will continue. If so, we expect more flexible contract structures, such as shorter lease terms or more flexible use of office space. NCR expects demand for offices designated for co-working to accelerate amongst smaller tenants as a means of cutting expenses. We see structural patterns suggesting that remote working will persist beyond the forecast period.

The pandemic remains an issue for hotels and restaurants. We expect business and leisure travel to pick up as the economy normalises through 2021, but recognise that the full effect will unfold through

2022. As for retailers, we anticipate more benign conditions as the pandemic comes to an end. In particular, we expect Axfast's exposure to the mid-level fashion industry to gradually return to pre-pandemic activity levels as footfall picks up. NCR assesses the outlook for the bricks-and-mortar retail segment as more stable than in 2020. However, increased competition from e-commerce remains a disruptive force.

Despite its adverse impact on bricks-and-mortar retail, e-commerce has increased demand for logistics properties. In the wake of the 2020 pandemic, Swedish e-commerce grew by 40%, according to Postnord AB. Although we recognise the pandemic is temporary, we expect this trend to persist due to structural factors.

Figure 4. Axfast rental value from municipal exposures, 30 Jun. 2021

Municipality	Share of rental value	Population, 2020	Expected population change among 16–64-year olds, 2018–2030	Unemployment, 2020
Stockholm	84.2%	975,551	12.0%	8.1%
Haninge	15.3%	93,690	3.2%	8.5%
Upplands Väsby	0.6%	47,184	6.5%	9.1%
Total/Sweden average	**100.0%**	**10,379,295**	**7.2%**	**8.5%**

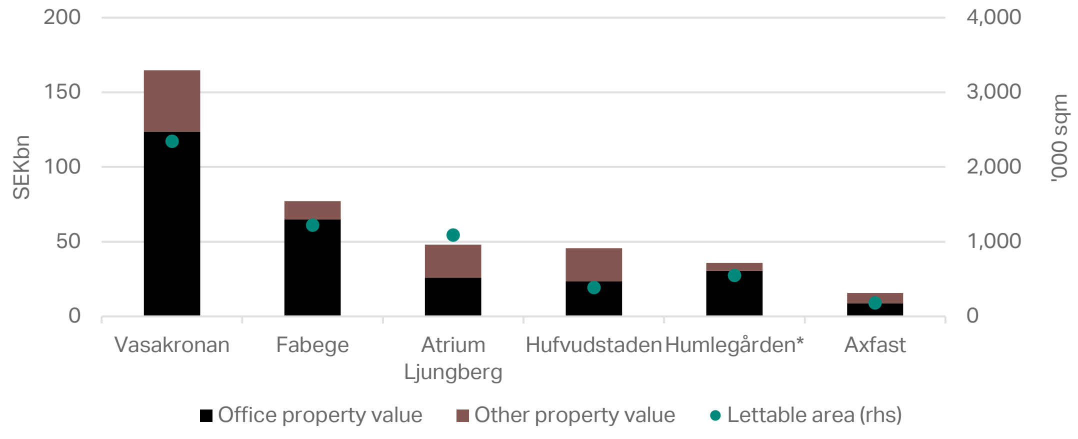
Source: company, Statistics Sweden, Arbetsförmedlingen (based on population forecast by Statistics Sweden), Ekonomifakta (based on data from Arbetsförmedlingen).

Modest market position affected by geographic conentration and single-name tenant exposure

Market position, size and diversification scores 'b'

As of June 2021, Axfast's property portfolio was valued at SEK 17.1bn. The portfolio consists of 20 properties totalling 182,190 sqm, comprising 147 tenants and generating annual rental revenues of nearly SEK 650m. By all measures, the company has a relatively minor position in the Nordic real-estate sector. Property companies with a comparable focus on the Stockholm region include Vasakronan, Fabege, Atrium Ljungberg, Hufvudstaden and Humlegården, all of which have considerably larger and more diverse property portfolios and materially lower tenant concentration.

Figure 5. Axfast peer group breakdown by property value and lettable area, 31 Mar. 2021



Source: companies. *All figures reported are derived from Q1 2021 with the exception of Humlegården (Q4 2020).

In addition to geographic concentration, Axfast has material concentrations on individual clients and sectors, with one-third of rental income associated with hotels, restaurants and retail. The company's 10 largest tenants account for more than 65% of total revenues (Figure 6), which we view as a material weakness, although mitigated by the quality of tenants. The company's entire hotel exposure is to Scandic Hotels, with two units in Stockholm CBD, generating 16% of revenues. However, we expect two relatively large contracts commencing in 2022 and 2023 to reduce some of the single-name concentration, while increasing the proportion of revenues from the 10 largest tenants.

Figure 6. Axfast tenant concentration, 30 Jun. 2021

Tenant	Type of tenant	Share of rental income
Scandic Hotels AB	Hotels	16.3%
Hennes & Mauritz (H&M) AB	Retail (office space)	13.0%
Swedish National Board of Health and Welfare	Public	7.9%
Deloitte AB	Professional services	6.5%
The Boston Consulting Group Nordic AB	Professional services	4.9%
Elekta Instrument AB	Private health	4.7%
Drinks Logistics Partner (DLP) AB	Logistics	4.2%
Dagab Inköp & Logistik AB*	Logistics	3.1%
Advokaten Törngren Magnell KB	Professional services	2.7%
Arcona AB	Real-estate development	1.9%
10 largest tenants	**-**	**65.1%**

Source: company. *Dagab is consolidated with Axfood AB, the sister company of Axfast.

On 30 Jun. 2021, the company announced its purchase of Lysbomben 5. The property, comprising 16,083 sqm of office space, is located in Stockholm city centre and includes the Swedish National Board of Health and Welfare as a tenant. The lease was secured on a long-term contract. We believe the addition of a government-backed tenant strengthens diversification.

Extended lease terms and central locations

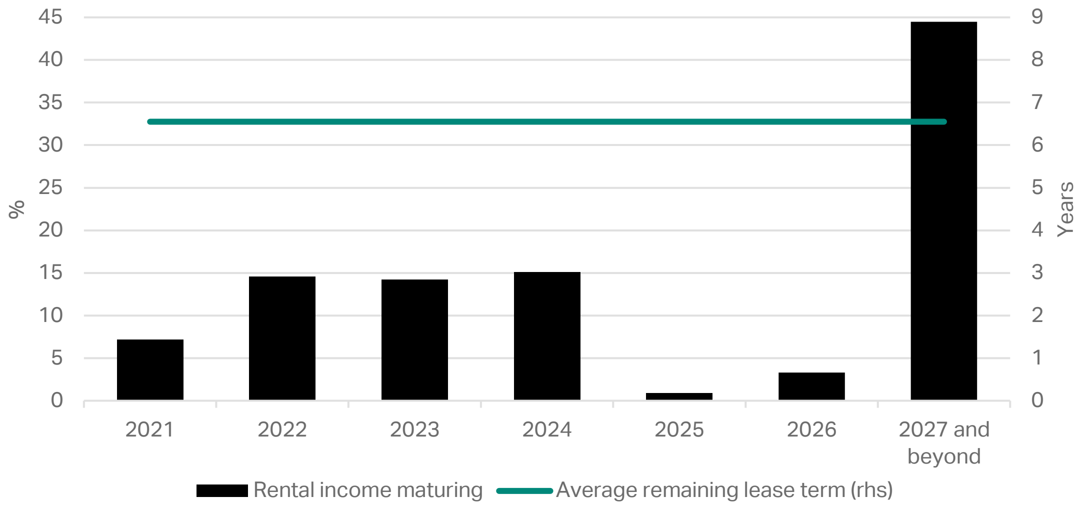
Portfolio assessment scores 'bbb+'

Despite a year affected by rebates and renegotiations due to the pandemic, the company underlined the strength of its portfolio by extending its average remaining lease term by 1.7 years. Including the acquisition of Lysbomben in June, Axfast had an average remaining lease term of 6.6 years, reflecting the attractiveness of the company's tier 1 properties and tenants' desire to extend leases.

Axfast claims that the company is no longer renegotiating existing contracts owing to the pandemic. However, the company remains careful to not rule out potential losses through 2021. Our base-case expectation is that some minor rebates for retail and offices will continue through 2021, before normalising in 2022.

As of June 2021, Axfast's logistics exposures are associated with two properties in Jordbro, an industrial area south of Stockholm, which serve four stable tenants. However, we note that 55% of logistics contracts, measured by square metres, expire within the next three years. NCR does not consider prolonged vacancies a significant risk, given the accelerated growth in e-commerce.

Figure 7. Axfast lease maturity profile, 30 Jun. 2021



Source: company.

Axfast's development portfolio accounts for less than 15% of the overall property portfolio measured by rental value and floor area. We assess the risk associated with development projects to be significant because of possible delays, unforeseen costs and the concentration on large projects. The company currently has two major refurbishment projects: Boken 6 and Jakob Mindre 11, which are mostly pre-let. We note that Boken 6 is expected to be finalised within 12 months and the majority of the investment has been made, mitigating some project risk.

Figure 8. Axfast projects in progress, 30 Jun. 2021

Project	Location	Property type	Lettable area (sqm)	Invested (SEKm)	Total investment (SEKm)	Estimated completion
Boken 6	Stockholm CBD	Offices	10,000	295	350	2022
Jakob Mindre 11	Stockholm CBD	Offices	7,903	21	342	2023
Riddaren 16	Stockholm CBD	Offices	2,771	14	25	2021
Torgvågen 7	Stockholm CBD	Retail	4,000	4	30	2021
Other				8	39	
Total	-	-	**26,674**	**342**	**786**	-

Source: company.

Axfast remains determined for 15 of its 20 properties to achieve BREEAM In-Use certification by the end of 2021, including development properties. The most recent property, Lysbomben 5, matches the sustainability profile of the portfolio, but was acquired in 2021 and will be eligible for certification in 2022.

Stable profitablility and low vacancy rate

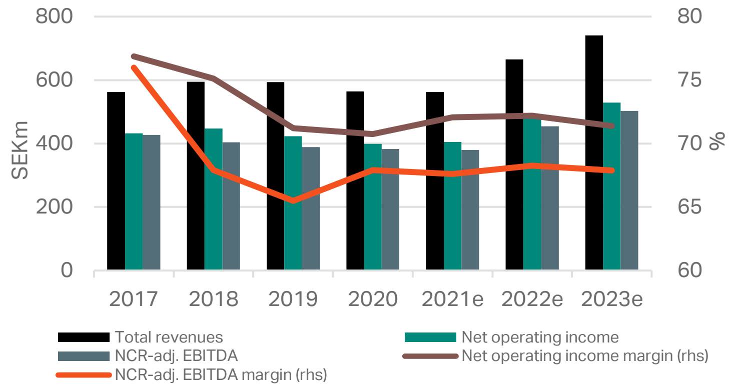
Operating efficiency scores 'bbb+'

Axfast's average remaining lease term of 6.6 years ensures stability in earnings, despite the potential short-term rebates or renegotiations related to COVID-19. The majority of Axfast's contracts are linked to the Swedish consumer price index, which mitigates some inflation risk.

Our expectations of stable EBITDA margins throughout the forecast period are based on the pre-let contracts of the company's project portfolio and the recent acquisition of Lysbomben. Despite uncertainties relating to the pandemic, earnings are expected to increase, as Axfast has pre-let the majority of Boken 6 and Jakob Mindre 11, its two major project properties. It is estimated that these properties will account for 20% of total rental income once they are completed and could increase economic occupancy towards 95%.

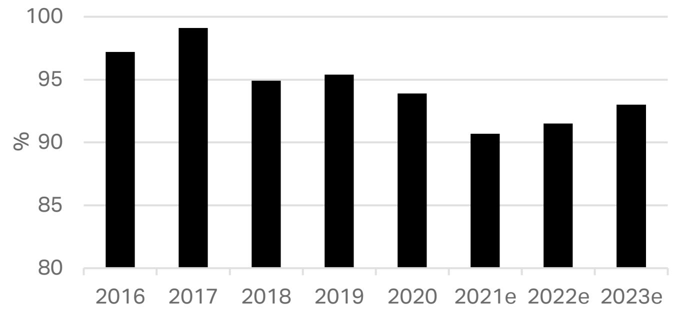
Along with retail and restaurants, hotels were granted rebates of SEK 16m by Axfast due to the fall in business during the pandemic, at a net loss of SEK 11m after government stimulus and relief measures. Rebates are also being granted for 2021 and 2022 to one of Axfast's main tenants, while extending the contract by five years. We do not believe tenants operating in these segments are as prone to liquidity shortages as they were in 2020, despite weak operating conditions at present. Our expectations are that these sectors align with our projection of a recovering economy through 2022.

Figure 9. Axfast revenues, net operating income, EBITDA, and margins, 2017–2023e



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

Figure 10. Axfast occupancy rate, 2016–2023e



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

Axfast's occupancy rate as of June was 86.5%, or 96.2% including new contracts commencing during our forecast period. We note that this is the lowest level in its recent history, reflecting the uncertainty of the office and retail segment. The current vacancy rate is due to the departure of a relatively large retailer and two relatively large office tenants. However, we expect the occupancy rate to rise once pre-let project properties are finalised. Our stable outlook assumes that the company will find tenants for projects that are not pre-let, prior to completion.

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bbb+'

Our financial risk assessment reflects Axfast's manageable interest coverage and strong net LTV. It also reflects the relatively recent increase in net debt/EBITDA, which constrains the overall assessment of the company's financial ratios. Our view of the financial risk profile reflects the company's short debt maturity profile and anticipated higher leverage, but also our expectation that the owners will help to maintain solid credit metrics as the company grows its portfolio.

Acquisitions are expected to increase net LTV

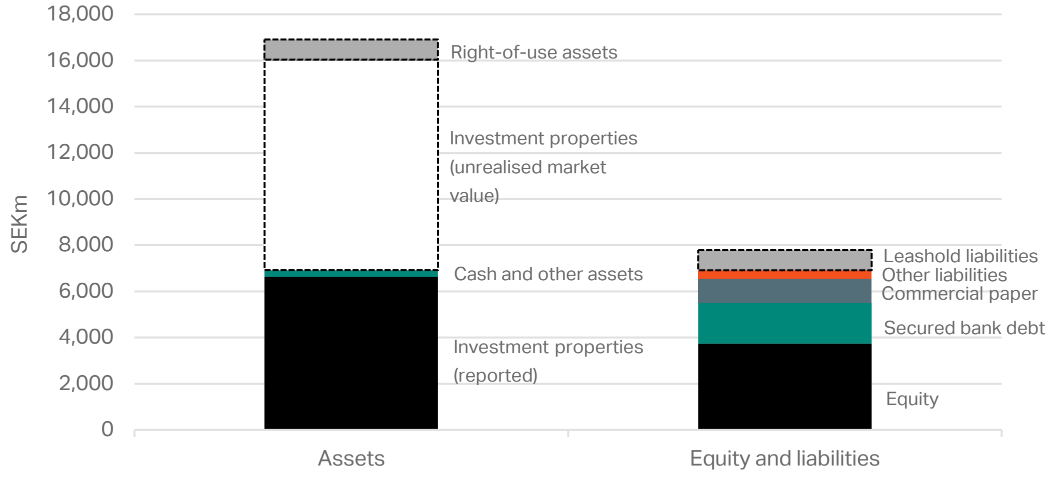
Ratio analysis scores 'bbb+'

Axfast retains a strong financial position and low leverage, compared with Nordic real-estate peers. The company financed its latest property acquisition with nearly 90% debt, raising overall net LTV to 26% by 30 Jun. 2021. We expect a further increase in leverage over the forecast period as Axfast expands its portfolio and refurbishes existing properties. Going forward, we assess the impact of COVID-19 to be less severe than in 2020. However, valuations of existing properties could decline if travel and retail fail to recover.

NCR adjusts Axfast's investment properties according to external valuations to reflect fair value. Axfast does not report the fair market value of properties according to International Financial Reporting Standards (IFRS), instead reporting assets according to acquisition cost and depreciated over time. The company's reported balance sheet and off-balance sheet market value of its investment properties in Figure 11 include the acquisition of Lysbomben in June 2021. Adjusted for the market value of its investment portfolio, Axfast's adjusted balance sheet exhibits less leverage than peers.

We also adjust assets and liabilities for right-of-use leasehold contracts by assuming perpetual leasehold and a 3.25% discount rate. Moreover, we reclassify property lease expenses as net interest income. This differs from Axfast's public reporting under Swedish Generally Accepted Accounting Principles (GAAP), which includes lease expenses as cost of goods sold and does not include right-of-use assets or liabilities.

Figure 11. Axfast balance sheet, 30 Jun. 2021



Source: company.

Our base-case forecast of Axfast's future performance assumes:

- unchanged revenues in 2021, followed by growth of 19% in 2022 and 12% in 2023;
- an EBITDA margin adjusted for lease expenses of 68% through 2023;
- no further acquisitions through 2021;

- investment in properties through acquisitions, development and refurbishment of SEK 1.2bn in 2022 and SEK 1.2bn in 2023;
- no divestments;
- no valuation changes in investment properties;
- adjusted net interest costs of SEK 95–134m, including lease expenses;
- acquisition and ongoing projects financed by at least 70% external debt; and
- an annual dividend fixed at SEK 4m.

Based on these assumptions, we estimate the following metrics for 2021–2023:

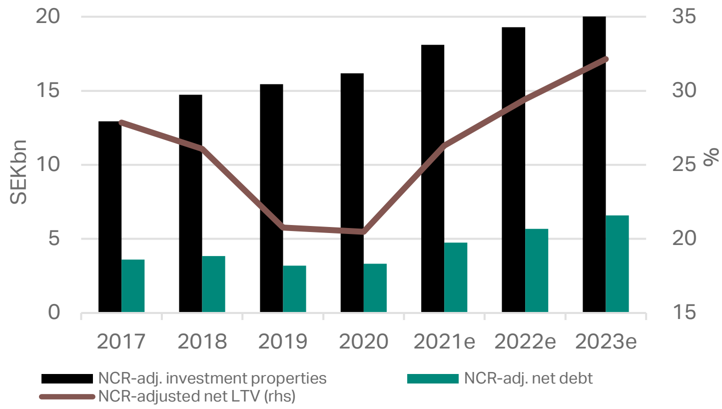
- NCR-adjusted net LTV of 26–32%;
- NCR-adjusted EBITDA/net interest of 3.8x–4.0x; and
- NCR-adjusted net debt/EBITDA of 12–13x.

Figure 12. NCR's adjustments to Axfast's credit metrics, 2017–2023e

SEKm	2017	2018	2019	2020	2021e	2022e	2023e
EBITDA	411	387	368	358	351	426	474
Lease adjustment: GAAP to IFRS	16	18	21	25	28	28	28
NCR-adj. EBITDA	427	404	389	383	380	454	503
Cash and cash equivalents	190	359	182	253	152	139	147
NCR-adj. cash and equivalents	190	359	182	253	152	139	147
Gross interest-bearing debt	3,290	3,659	2,745	2,814	4,031	4,927	5,839
Long-term lease liabilities	502	540	642	754	871	871	871
NCR-adj. cash and equivalents	-190	-359	-182	-253	-152	-139	-147
NCR-adj. net debt	3,602	3,840	3,204	3,315	4,750	5,659	6,563
Net interest	-106	-89	-74	-60	-67	-88	-105
Financial costs from leases	-16	-18	-21	-25	-28	-28	-28
NCR-adj. net interest	-122	-107	-95	-84	-95	-116	-134
Investment property	6,273	7,110	6,642	6,634	8,154	9,349	10,565
Market value adjustment	6,157	7,079	8,152	8,790	9,070	9,070	9,070
Non-current right-of-use assets	502	540	642	754	871	871	871
NCR-adj. investment property	12,931	14,729	15,436	16,188	18,095	19,290	20,506

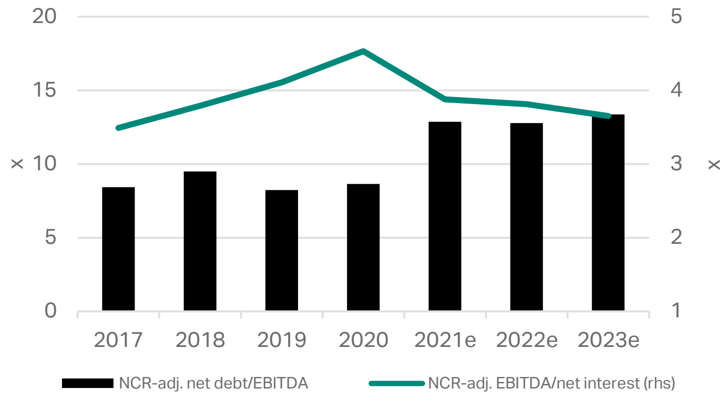
Based on NCR estimates and company data. e–estimate.

Figure 13. Axfast NCR-adj. investment properties, net debt, and net LTV, 2017–2023e



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

Figure 14. Axfast NCR-adj. net debt/EBITDA and EBITDA/net interest, 2017–2023e



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

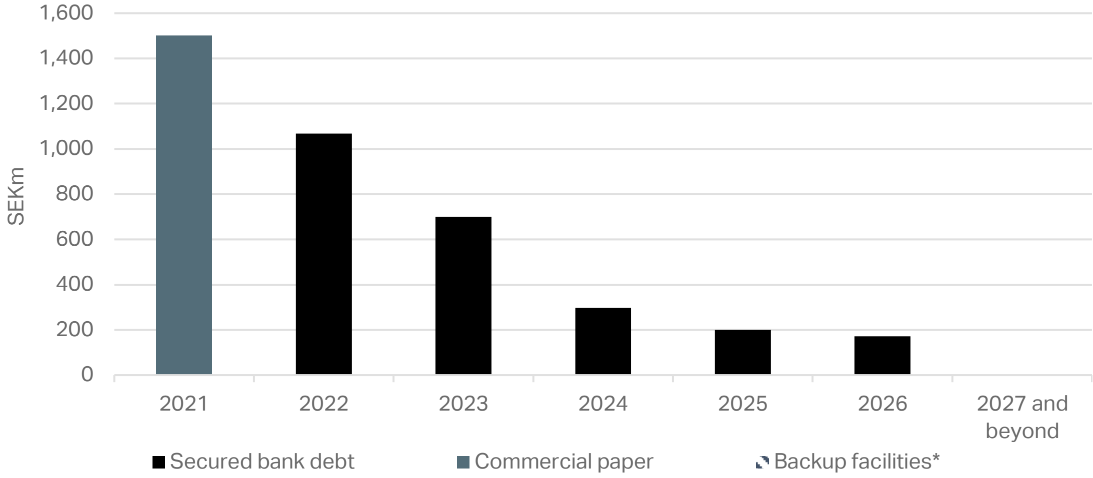
Growth ambitions and short debt maturity profile increase risk appetite

Risk appetite scores 'bbb+'

Our overall assessment of Axfast's financial risk profile also considers the company's short debt maturity profile, which exhibits significant single-year maturity concentration. Given the long-term nature of the assets, NCR views the debt maturity profile as a credit weakness, albeit mitigated by the low financial gearing. We also consider equity contributions from the owners to be likely, if needed, to maintain credit metrics as the portfolio grows.

In total, Axfast has about SEK 3.9bn in outstanding debt, SEK 2.4bn of which is secured bank debt. The company has SEK 1.5bn in commercial paper obligations due in 2021 and it has three bank loans totalling SEK 1.1bn maturing towards the end of 2022. We note that the company has stable access to backup facilities across three banks, maturing from 2022 through 2025, which could extend its short-term financing if necessary. As of 30 Jun. 2021, Axfast reported average debt maturity of 2.6 years, reflecting the maturity of its backup facilities for commercial paper. We view the company's longstanding network of strong domestic banks as supportive of our overall assessment of Axfast's financial risk appetite.

Figure 15. Axfast debt maturity profile, 30 Jun. 2021



Source: company. *Unutilised credit facilities related to outstanding commercial paper.

Axfast engages in interest rate swaps with strong financial institutions as counterparties. We note that fixed rates paid on interest rate swaps extend the average interest rate maturity profile to 2.6 years and the average interest rate to 1.8% as of 30 Jun. 2021. Covenants on bank loans are rather modest, reflecting Axfast's current financial position and expected performance.

Figure 16. Axfast financial covenants, policies and reported metrics

Metric	Common loan covenants	Financial policy/targets	Reported 30 Jun. 2021
Equity ratio	>40%	>30%	69%
Net LTV	≤65%	N.A.	23%
Interest coverage ratio	≥1.7x	2x	5.3x
Average debt maturity (years)*	N.A.	1–4	2.6
Debt maturities within a 12-month period**	N.A.	<50%	9%
Average interest rate maturity (years)	N.A.	1–4	2.2

Source: company. *Including commercial paper. **Excluding commercial paper. N.A.–Not applicable.

The company finances operations through a mix of equity, secured bank debt and commercial paper. We expect the company to operate with significant covenant headroom over the forecast period, despite its growth objectives. NCR understands that the company's long-term business strategy of narrow investments concentrated solely around the Stockholm region has been relaxed with the change in strategy. A broader investment strategy could increase the company's risk appetite as Axfast faces a wider choice of investment opportunities.

ADJUSTMENT FACTORS

Adjustment factors are neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

Liquidity

Liquidity assessed as adequate

Our 12-month liquidity analysis is based on a stressed scenario under which the company cannot access the capital market or extend bank loans and therefore must rely on internal or committed external funding sources to cover its liquidity needs. We typically expect an investment grade company to cover all liquidity needs over the next 12 months.

We assess Axfast's liquidity profile as adequate, despite estimated uses exceeding the company's immediate funding sources in the 12 months ending 30 Jun. 2022. Axfast has strong bank relations to assist it in the event of a short-term liquidity shortfall, which we consider a financial strength. In addition, our calculations do not include any access to equity. We assess equity holders' commitment to Axfast as strong, supporting our verdict of the company's adequate liquidity profile. In general, we consider that dividend payments can be deferred in situations in which liquidity is strained and therefore exclude them from our liquidity analysis. Moreover, unidentified projects, acquisitions or other commitments are excluded from our calculations.

We estimate the following primary funding sources for the 12 months ending 30 Jun. 2022, totalling SEK 2.0bn:

- SEK 240m in cash and cash equivalents as of 30 Jun. 2021, representing 100% of the estimated NCR-adjusted cash and cash equivalents over the period
- SEK 197m in funds from operations (FFO), representing 75% of the estimated NCR-adjusted FFO over the period; and
- SEK 1.6bn from unutilised credit facilities, if needed.

We estimate the following uses of funds for the 12 months ending 30 Jun. 2022, totalling SEK 2.2bn:

- SEK 1.9bn for the repayment of borrowings;
- SEK 338m in committed capital expenditures; and
- approximately SEK 22m in estimated working capital.

Environmental, social and governance factors

ESG factors assessed as adequate

We assess Axfast's environmental, social and corporate governance (ESG) policies to be adequate, supporting our view of the company's overall business risk and competitive position.

Axfast continues to work on the company's environmental and sustainability programme with the aim of obtaining recognised certification for its property portfolio. Properties are certified by building certification agency BREEAM, according to its in-use criteria. NCR understands that the company expects to have 75% of its property portfolio certified by the end of 2021.

In development projects, Axfast focuses on choosing sustainable materials to reduce the company's carbon footprint. Moreover, we note that Axfast engages in green infrastructure through urban rooftop beekeeping on properties in Stockholm city centre.

The company's board comprises six members, three of which are independent of the Axel Johnson Group, effectively minimising the risk to minority interests. The company is yet to publish any information on equality regarding remuneration, hiring or gender diversity. It currently has 12 employees. It has no policy on whistleblowing or ensuring fairness in contracts with subcontractors.

Figure 17. Axfast's ESG considerations

Issue	Risk	Mitigating efforts	Result
CO_2 emissions	Increased costs due to regulatory and/or taxation changes	Efforts to increase energy efficiency and reduce CO_2 emissions. Environmental certification (BREEAM) of properties.	The company does not report Scope 3 emissions, which generally represent the largest proportion of emissions for real-estate companies. These emissions are often difficult to estimate and reduce.
Impact of climate change on operations	Loss of revenues or increased capital spending	Environmental certification of properties, materiality evaluations, tenant engagement and compliance with stakeholders' demands for project properties.	BREEAM In-Use certification of properties. By 30 Jun. 2021, 50% of the property portfolio had been certified.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transition to lower CO_2 dependence	Efforts to increase energy efficiency and reduce CO_2 emissions. Overall sustainability focus throughout business operations.	Continues to improve ESG reporting, provide more comprehensive mapping of emissions and achieve property certifications.

Source: company.

OWNERSHIP ANALYSIS

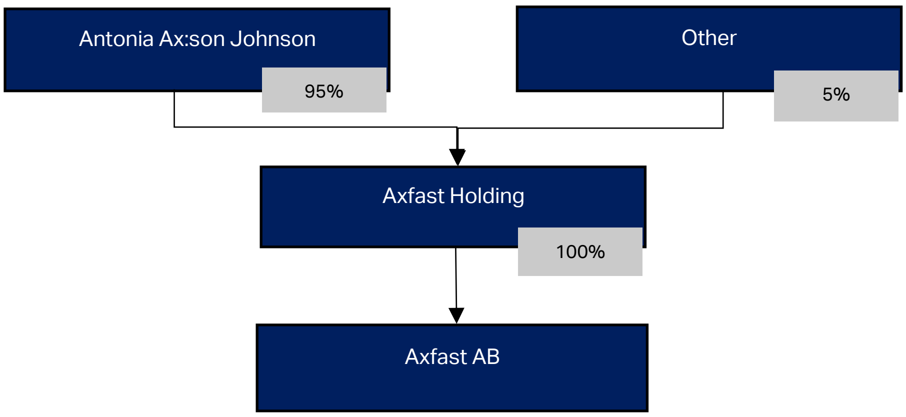
Ownership assessed as neutral

Axfast is one of four entities in the Axel Johnson Group. The group comprises Nordic-focused investment holding company Axel Johnson AB, US investment holding company Axel Johnson Inc. and asset management company AltoCumulus AB. In addition, the group owns a portion of investment holding company Nordstjernan.

Axfast is fully owned by Axfast Holding. The primary owner of Axfast Holding, Antonia Ax:son Johnson, holds a 95% ownership stake and is a descendant of the company's original founder, demonstrating a tradition of long-term financial commitment to Axfast. We view Axfast's ownership as supportive of the company's long-term strategy and solid financial position. We factor this into our assessment via the financial risk profile and overall rating on the company. The owner is represented on the board of directors through two members.

We note that the relatively modest annual dividend payment of SEK 4m allows for a high level of reinvestment and results in what our financial risk assessment deems to be a strong financial position.

Figure 18. Axfast's ownership structure, 30 Jun. 2021



Source: company.

ISSUE RATINGS

Axfast is funded by secured bank debt, commercial paper and equity. Secured debt accounts for some 62% of total outstanding debt. The company's unsecured debt is currently limited to its commercial-paper programme. Should Axfast issue long-term senior unsecured debt, we are unlikely to lower the rating on such instrument by one notch from the issuer rating due to the company's low LTV, in line with our criteria.

Figure 19. Axfast key financial data, 2017–Q1 2021

SEKm	FY	FY	FY	FY	LTM
Period-end	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Mar. 2021
INCOME STATEMENT					
Rental income	562	595	594	564	550
Other income	–	–	–	–	–
Total costs from operations	-147	-166	-192	-190	-188
Net operating income	**415**	**430**	**402**	**374**	**362**
Administrative expenses	-5	-43	-34	-16	-23
Administrative expenses, project portfolio	–	–	–	–	–
EBITDA	**411**	**387**	**368**	**358**	**339**
Share of profit in associated companies and joint ventures	–	–	–	–	–
Interest expenses	-106	-89	-74	-60	-63
Interest income	0	0	0	0	–
Interest expenses, shareholder loans	–	–	–	–	–
Financial costs from leasing	–	–	–	–	–
Other financial costs	–	-35	0	–	–
Changes in investment property	281	603	236	0	0
Gain (loss) on financial assets held at fair value	–	–	-16	–	–
Depreciation and amortisation	-238	-274	-235	-224	-232
Restructuring activities	–	–	–	–	–
Pre-tax profit	**347**	**591**	**280**	**75**	**43**
Current taxes	-14	-7	-17	-11	-14
Deferred taxes	-11	2	1	–	–
Net profit	**323**	**586**	**263**	**64**	**29**
BALANCE SHEET					
Investment property	6,254	7,088	6,527	6,436	6,372
Other non-current assets	25	26	120	213	273
Total non-current assets	**6,279**	**7,114**	**6,647**	**6,649**	**6,645**
Cash and cash equivalents	190	359	182	253	205
Other current assets	35	47	56	52	66
Total current assets	**225**	**406**	**238**	**305**	**271**
Total assets	**6,504**	**7,521**	**6,885**	**6,954**	**6,916**
Total equity	**2,826**	**3,428**	**3,687**	**3,741**	**3,742**
Non-current borrowings	2,609	2,072	1,138	1,686	1,686
Non-current borrowings, shareholder loans	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–
Other non-current liabilities	149	174	167	188	180
Total non-current liabilities	**2,758**	**2,246**	**1,305**	**1,874**	**1,866**
Total current liabilities	**920**	**1,846**	**1,892**	**1,339**	**1,308**
Total equity and liabilities	**6,504**	**7,521**	**6,885**	**6,954**	**6,916**
CASH FLOW STATEMENT					
Pre-tax profit	347	591	280	75	43
... of which changes in investment property	281	603	236	0	0
Depreciation and amortisation	–	–	–	–	–
Tax paid	–	-15	–	–	–
Adjustment for items not in cash flow	-48	-299	-6	205	207
Cash flow from operating activities before changes in working capital	**299**	**277**	**273**	**280**	**250**
Changes in working capital	-1	347	139	-52	-10
Cash flow from operating activities	**298**	**624**	**413**	**228**	**240**
Cash flow from investment activities	**150**	**-340**	**230**	**-222**	**-282**
Cash flow from financing activities	**-458**	**-116**	**-820**	**65**	**65**
Cash and cash equivalents at beginning of period	201	190	359	182	139
Cash flow for period	-11	168	-177	71	23
Cash and cash equivalents at end of period	**190**	**359**	**182**	**253**	**205**

Source: company. FY–full year. LTM–last 12 months.

Figure 20. Axfast rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bb+
Market position, size and diversification	12.5%	b
Portfolio assessment	12.5%	bbb+
Operating efficiency	5.0%	bbb+
Business risk assessment	50.0%	bb+
Ratio analysis		bbb+
Risk appetite		bbb+
Financial risk assessment	50.0%	bbb+
Indicative credit assessment		**bbb**
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		**bbb**
Support analysis		Neutral
Issuer rating		**BBB**
Outlook		Stable
Short-term rating		**N-1+**

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