

## Bonnier Fastigheter AB

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 rating on Sweden-based property manager Bonnier Fastigheter AB reflects the company's high-quality property portfolio and its focus on office premises in central Stockholm and Uppsala. The rating also reflects the company's low financial gearing and strong operating margins, as well as the stable operating environment.

These strengths are offset by Bonnier Fastigheter's small and concentrated property portfolio comprising only 15 properties (as of 31 Aug. 2021) with the top 10 tenants accounting for 46% of rental income. The rating also reflects the company's large project development pipeline, which has speculative elements, and its ambition to expand the portfolio substantially and increase leverage towards 50%. The rating is constrained by large single-year debt maturities, which increase refinancing risk.

## STABLE OUTLOOK

The outlook is stable, reflecting our expectations that Bonnier Fastigheter's credit metrics will weaken from currently strong levels as the company pursues a portfolio value target of SEK 25bn by 2025. We expect this weaker financial position to be offset by a stronger business profile due to a larger and less concentrated property portfolio, possibly with meaningful residential exposure.

## POTENTIAL POSITIVE RATING DRIVERS

- Increased proportion of residential properties under management, combined with a financial risk profile that is significantly stronger than we currently expect.

## POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating market fundamentals, negatively affecting profitability.
- Substantially weaker credit metrics, including net loan to value (LTV) above 50% and net interest coverage below 5x over a protracted period.

Figure 1. Bonnier Fastigheter key credit metrics, 2017–2023e

| SEKm                             | 2017   | 2018   | 2019   | 2020   | 2021e  | 2022e  | 2023e  |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Rental income                    | 487    | 551    | 669    | 702    | 649    | 715    | 777    |
| NCR-adj. EBITDA                  | 330    | 379    | 476    | 497    | 463    | 507    | 548    |
| NCR-adj. EBITDA margin (%)       | 63.2   | 64.2   | 66.9   | 67.2   | 67.2   | 67.2   | 67.2   |
| NCR-adj. investment property     | 10,118 | 12,705 | 13,717 | 14,038 | 14,351 | 15,997 | 17,097 |
| NCR-adj. net debt                | 1,950  | 3,538  | 3,447  | 2,997  | 3,526  | 4,842  | 5,589  |
| Total assets                     | 10,432 | 12,782 | 13,972 | 14,540 | 15,441 | 17,087 | 18,210 |
| NCR-adj. net debt/EBITDA (x)     | 5.9    | 9.3    | 7.2    | 6.0    | 7.6    | 9.5    | 10.2   |
| NCR-adj. EBITDA/net interest (x) | 4.6    | 5.8    | 7.2    | 7.8    | 7.1    | 6.2    | 5.5    |
| NCR-adj. net LTV (%)             | 19.3   | 27.8   | 25.1   | 21.3   | 24.6   | 30.3   | 32.7   |

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

## ISSUER PROFILE

Bonnier Fastigheter is a Sweden-based property manager focusing on office properties in central Stockholm and Uppsala. The company is a long-term property owner; its history dates back to 1856 and eight of its 15 properties have been in the portfolio since 1990 or earlier. Bonnier Fastigheter is one of three legs of the Bonnier family's corporate holdings – the other two being media conglomerate Bonnier Group AB and investment company AB Boninvest. Initially, Bonnier Fastigheter was viewed as a buffer that could be realised in times of distress in the media industry, but since 2014, the company has been seen as one of the family's core businesses. As of 31 Aug. 2021, the property portfolio was valued at SEK 14.1bn (excluding properties held by joint ventures [JVs] HållBo AB and Fastighets AB Hemmaplan). The company aims to expand its portfolio to SEK 25bn by 2025 (including JVs), with residential properties accounting for 20%.

## BUSINESS RISK ASSESSMENT

Business risk assessment is 'bb+'

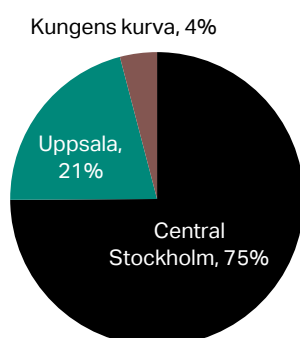
Our business risk assessment reflects Bonnier Fastigheter's high-quality property portfolio and focus on office premises in central Stockholm and Uppsala. It also reflects the company's long-term ownership and high occupancy, while taking into account its small portfolio size, which results in a high degree of tenant concentration. The assessment also reflects the company's large project development pipeline, which has speculative elements.

Operating environment scores 'bbb-'

### Operating environment supported by benign conditions for office premises in central Stockholm

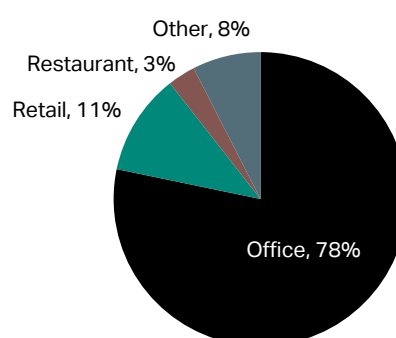
Bonnier Fastigheter owns and manages mainly office premises in central Stockholm and Uppsala, as well as a former printing factory undergoing conversion to retail premises at Kungens kurva. The company's properties are located in three municipalities, all of which have lower unemployment and stronger projected population growth than the Swedish average (see Figure 4).

Figure 2. Bonnier Fastigheter rental value by area, 31 Aug. 2021



Source: company.

Figure 3. Bonnier Fastigheter rental value by property type, 31 Aug. 2021



Source: company.

The lion's share of Bonnier Fastigheter's revenues come from office properties in central Stockholm; a market that in recent years has benefited from benign economic conditions, coupled with low interest rates and yield compression, resulting in rapidly increasing property values. Bonnier Fastigheter's properties are typically in central locations but outside the Central Business District (CBD), where both rental levels and property values are less volatile than in the CBD, which we deem positive from a credit perspective.

COVID-19 has raised questions about future demand for office space, as many employees have been working from home. We expect current economic conditions and the overall success of remote working to reduce demand for office space, in turn putting pressure on rental revenues in the sector. Lower demand could also lead to shorter contract maturities and increased vacancies. We believe that this more challenging climate will increase the importance of investment if properties are to remain attractive to tenants.

As 11% of the portfolio's rental value comes from retail premises, Bonnier Fastigheter is affected by the current challenges within this segment. Already under pressure from rising e-commerce, retail has been negatively affected as customers stay at home, reducing foot traffic and in-store sales.

We would view an increased proportion of residential properties in the portfolio as positive, due to currently favourable market conditions, such as favourable rental regulations and suppressed supply in Greater Stockholm coupled with strong demand for rental apartments. Currently the company has only minor exposure to the residential market through Hållbo AB.

**Figure 4. Bonnier Fastigheter rental value from municipal exposures, 31 Aug. 2021**

| Municipality                | Share of rental value | Population, 2020 | Expected population change among 16–64-year-olds, 2021–2040 | Unemployment, 2020 |
|-----------------------------|-----------------------|------------------|-------------------------------------------------------------|--------------------|
| Stockholm                   | 74.9%                 | 975,600          | 15.0%                                                       | 8.1%               |
| Uppsala                     | 21.0%                 | 233,800          | 17.4%                                                       | 7.6%               |
| Huddinge                    | 4.1%                  | 113,200          | 17.9%                                                       | 8.4%               |
| <b>Total/Sweden average</b> | <b>100%</b>           | <b>-</b>         | <b>8.9%</b>                                                 | <b>8.5%</b>        |

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

### Weak market position due to limited portfolio size and high concentration

As of 31 Aug. 2021, Bonnier Fastigheter's portfolio comprised 15 properties totalling 204,000 sqm valued at SEK 14.1bn. Due to the limited scale of the portfolio, the company has a relatively minor position in the Nordic real estate landscape. Most property managers with a comparable focus on office premises in Sweden (see Figure 5) have considerably larger and more diverse portfolios and materially lower tenant concentrations. Due to the highly competitive nature of regional markets, the company views project development as an effective way of sourcing business and generating value-adding opportunities.

**Figure 5. Bonnier Fastigheter peer group breakdown by property value and lettable area, 31 Aug. 2021**



Source: companies. Where office property values are not available, we base our figures on the respective proportion of rental value or lettable area within each property type. \*The Wihlborgs data include retail, due to a lack of precise breakdown. \*\*as of 31 Dec. 2020.

To increase the competitiveness of its properties, Bonnier Fastigheter offers a range of services to tenants through facility-management company Bonnier Service AB. These include project management, conference, reception, and janitorial services. Bonnier Fastigheter views its offering as a premium service that strengthens the attractiveness of the properties and thereby increases their average lease length.

Due to the limited size of Bonnier Fastigheter's portfolio, the largest property accounts for as much as 26% of rental value, while the five largest properties contribute 67% of rental value, underscoring the company's reliance on just a few properties. The 10 largest tenants account for 46% of rental income, again illustrating the concentration of the portfolio, which we view negatively in our overall assessment. However, we note that concentration risk is mitigated by a large number of creditworthy tenants, especially among the larger tenants (see Figure 6). Furthermore, we believe that the attractiveness of the company's properties decreases vacancy risk. In addition, 73% of total lettable

Market position, size and diversification scores 'b+'

area had obtained green building certification as of end-2020, strengthening the competitiveness of the portfolio.

**Figure 6. Bonnier Fastigheter tenant concentration, 31 Aug. 2021**

| Tenant                             | Type of tenant | Share of rental income |
|------------------------------------|----------------|------------------------|
| Öhrlings PricewaterhouseCoopers AB | Audit          | 13.9%                  |
| Bonnierförlagen AB                 | Media          | 6.0%                   |
| Bjerking AB                        | Engineering    | 4.1%                   |
| Kry International AB               | Health care    | 4.0%                   |
| Stockholm Regional Council         | Public         | 3.9%                   |
| BDO Mälardalen AB                  | Accounting     | 3.9%                   |
| Uppsala Municipality               | Public         | 3.3%                   |
| Swedish Public Employment Service  | Public         | 2.3%                   |
| K Kjellgren Livs AB                | Groceries      | 2.2%                   |
| Bonnier Group AB                   | Media          | 2.0%                   |
| <b>Top 10 tenants</b>              | <b>-</b>       | <b>45.5%</b>           |

Source: company.

As of 31 Aug. 2021, about 11% of Bonnier Fastigheter's rental revenues originated from tenants controlled by the Bonnier family. As the company aims to increase the size of its portfolio, we expect rental revenues from related companies to decrease, which would be in line with the company's intentions.

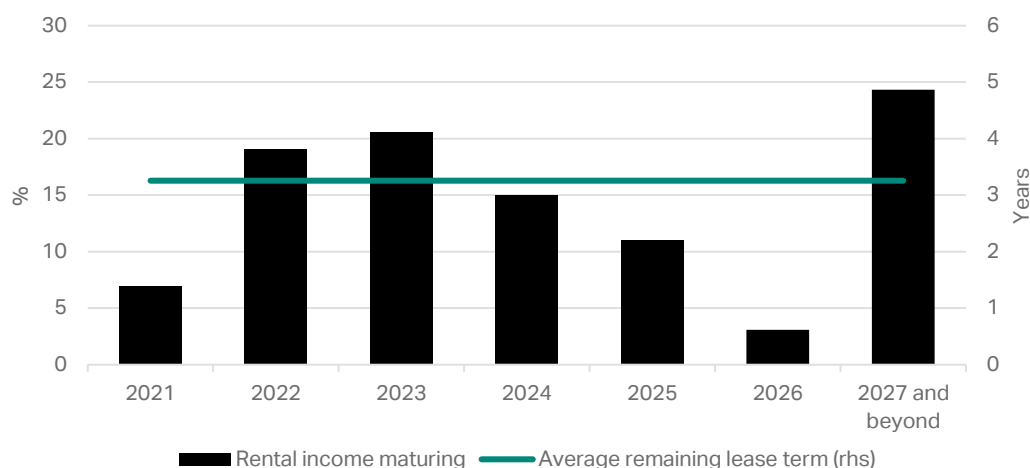
Bonnier Fastigheter plans to expand its portfolio value to SEK 25bn by 2025, with an increased level of residential premises. In our view, this would be positive from a credit perspective as it would result in more diverse revenue streams, both in terms of tenants and property segments.

#### Large project development pipeline increases risk in an attractive portfolio

Bonnier Fastigheter's portfolio is mainly comprised of attractive office properties in central Stockholm and Uppsala. About 78% of the company's rental income comes from office premises, while the remainder comes from supporting premises on the ground floors of buildings, as well as one shopping centre on Södermalm in Stockholm and a former printing factory undergoing conversion to retail premises at Kungens kurva. Most properties are in central locations, but outside the CBD, strengthening the possibility of finding new tenants if an existing tenant moves out.

As of 31 Aug. 2021, the average remaining lease term of Bonnier Fastigheter's portfolio stood at 3.3 years. Among the 10 largest contracts, representing 41% of rental revenue, the figure was 4.3 years, mitigating vacancy risk. The maturity structure is quite well spread with maturities in no single year exceeding 21% of total rental revenue.

**Figure 7. Bonnier Fastigheter lease maturity profile, 31 Aug. 2021**



Source: company.

Portfolio assessment scores 'bbb-'

In recent years, Bonnier Fastigheter has added JV exposures to complement its in-house property portfolio. As of 31 Aug. 2021, the company had investments in two JVs; HållBo AB (with ByggVesta AB) and Fastighets AB Hemmaplan (with Brunswick Real Estate). HållBo AB owns and develops residential properties in the Greater Stockholm region, while Fastighets AB Hemmaplan currently has a single investment; 50% of the Rosengård Centrum development in Malmö. In October 2021 Bonnier Fastigheter acquired an 11.5% stake in property manager Eastnine AB (publ), adding exposure to Estonia, Lithuania and Latvia. We view Bonnier Fastigheter's recent investments as positive from a diversification standpoint but note that they increase overall risk as the financial and/or business risk profiles of the investments are greater than that of the company itself.

Bonnier Fastigheter has a history of running large development projects and currently has an ambitious project pipeline with the largest project located in Värtahamnen in Stockholm, where the company has received a land allocation to develop about 60,000 sqm of office and retail space in three different zoning plans. In its development projects, Bonnier Fastigheter makes a case-by-case judgement when deciding an appropriate amount of pre-letting ahead of construction. In some cases, construction can start without or with a low level of pre-letting, substantially increasing the associated risk.

In addition to in-house development projects, Bonnier Fastigheter has a large pipeline of residential projects through 50%-owned HållBo AB. In addition to 353 apartments under management, the JV has 489 apartments in production and 1,860 in its pipeline, with estimated completion ranging from 2021 to 2026.

**Figure 8. Bonnier Fastigheter larger projects in progress, 31 Aug. 2021**

| Project                 | Municipality | Property type | Occup. rate | Lettable area (sqm) | Invested (SEKm) | Total investment (SEKm) | Estimated completion |
|-------------------------|--------------|---------------|-------------|---------------------|-----------------|-------------------------|----------------------|
| Munin NXT               | Uppsala      | Commercial    | 66%         | 3,600               | 54              | 183                     | 2022 Q2/Q3           |
| Cykelfabriken, Hermes   | Uppsala      | Commercial    | 65%         | 2,500               | 8               | 38                      | 2022 Q2              |
| Cykelfabriken, Vega     | Uppsala      | Commercial    | 100%        | 7,400               | 0               | 196                     | 2022 Q2              |
| Properties by HållBo AB | Several      | Residential   | n/a         | n/a                 | n/a             | n/a                     | 2021 to 2026         |
| Kv. Hangö (Portalen)    | Stockholm    | Commercial    | n/a         | 13,200              |                 |                         | 2025 Q4              |
| Kv. Neapel (Pirhuset)   | Stockholm    | Commercial    | n/a         | 40,000              | 73              | 3,480                   | 2027 Q2              |
| Kv. Bristol             | Stockholm    | Commercial    | n/a         | 5,000               |                 |                         | 2028 Q2              |
| <b>Total</b>            | <b>-</b>     | <b>-</b>      | <b>-</b>    | <b>71,700</b>       | <b>135</b>      | <b>3,897</b>            | <b>-</b>             |

Source: company. Kv-Kvarter.n/a-not applicable.

### Strong operating efficiency supported by solid margins

Bonnier Fastigheter manages its property portfolio through an in-house organisation with personnel covering both property management and technical maintenance. The company's EBITDA margin has historically averaged around 65%, roughly in line with those of its peers. Over our forecast period, we expect an EBITDA margin of 67%, in line with full-year 2020 margins.

In the first eight months of 2021, Bonnier Fastigheter's occupancy ratio fell to 93% as premises which were previously undergoing refurbishment were reclassified as lettable. Over our forecast period through 2023, we expect occupancy to decrease slightly but remain above 90%.

Bonnier Fastigheter has experienced only minor effects as a result of COVID-19. However, the company's facility-management arm, Bonnier Service AB, has yet to achieve profitability as the pandemic has lowered tenant demand for value-add services such as conferences.

Operating efficiency scores 'bbb+'

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

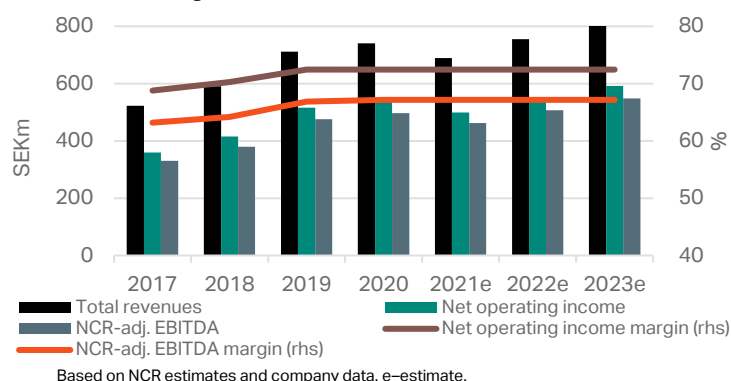
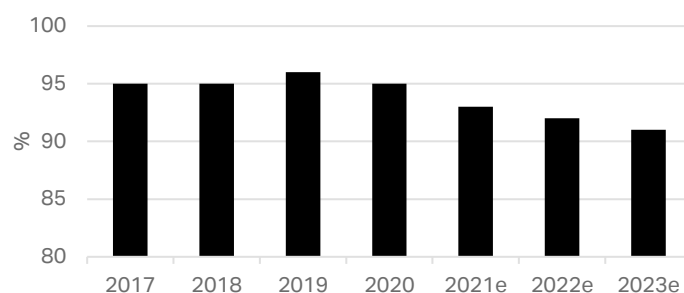


Figure 10. Bonnier Fastigheter occupancy rate, 2017–2023e



## FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bbb+'.

Our financial risk assessment reflects our expectation that credit metrics will weaken from strong levels as Bonnier Fastigheter pursues its ambitious growth plans.

In our ratio analysis we include some acquisitions, but note that if Bonnier Fastigheter is to reach its target portfolio value of SEK 25bn by 2025, it will have to make substantial acquisitions that are not included in our forecast. Accordingly, we acknowledge that the company's credit metrics are likely to be weaker than indicated by our current ratio analysis. To take this into account, we score the company's risk appetite 'bbb', two notches lower than the ratio analysis score of 'a-'.

### Strong financial metrics to weaken as company pursues ambitious growth plan

Ratio analysis scores 'a-'.

In the past few years, Bonnier Fastigheter has run its operations with very low financial gearing, as demonstrated by the company's NCR-adjusted net LTV of 19–28% and net interest coverage of 4.6–7.8x during 2017–2020. Rental income has decreased in 2021 following the divestment of a property in Akalla in Dec. 2020. Adjusting for the reduced portfolio composition, rental income has increased slightly in the year to date compared with the previous corresponding period. Over our forecast period to 2023, we expect rental income, as well as interest costs and interest-bearing debt, to increase as the investment property portfolio grows.

In calculating Bonnier Fastigheter's credit metrics, we include right-of-use assets in investment property values, and long-term leasing liabilities in net debt, before deducting 100% of cash and equivalents (see Figure 11). We view Bonnier Fastigheter's recent acquisition of an 11.5% stake in Eastnine as a long-term investment, but take a conservative approach to future dividends. We note that dividends from the Eastnine investment could have a positive impact on Bonnier Fastigheter's interest coverage without affecting our current view of financial risk.

In our base-case forecast of Bonnier Fastigheter's future performance, we assume:

- a decline in rental income of 8% in 2021 due to portfolio reductions, followed by growth of 10% in 2022 and 9% in 2023;
- an EBITDA margin of 67% in 2021–2023;
- investments in properties through development and refurbishment of SEK 170m in 2021, SEK 170m in 2022, and SEK 100m in 2023;
- acquisitions of investment property (including land) of SEK 130m in 2021, SEK 1.48bn in 2022, and SEK 1bn in 2023;
- no other non-investment property acquisitions other than already communicated investments; and
- no valuation changes in investment properties.

On the basis of these assumptions, we estimate the following metrics for 2021–2023:

- NCR-adjusted net LTV increasing to 33%;
- NCR-adjusted EBITDA to net interest of 5–7x; and

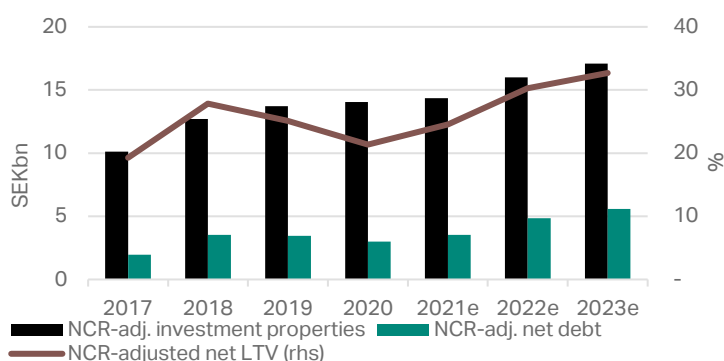
- NCR-adjusted net debt to EBITDA of 8–10x.

Figure 11. NCR's adjustments to Bonnier Fastigheter's credit metrics, 2017–2023e

| SEKm                                                  | 2017   | 2018   | 2019   | 2020   | 2021e  | 2022e  | 2023e  |
|-------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| EBITDA                                                | 330    | 379    | 476    | 497    | 463    | 507    | 548    |
| NCR-adj. EBITDA                                       | 330    | 379    | 476    | 497    | 463    | 507    | 548    |
| Cash and cash equivalents                             | 186    | 13     | 68     | 12     | 68     | 68     | 91     |
| NCR-adj. cash and equivalents                         | 186    | 13     | 68     | 12     | 68     | 68     | 91     |
| Gross interest-bearing debt                           | 2,136  | 3,551  | 3,453  | 3,001  | 3,588  | 4,905  | 5,675  |
| Leasing liabilities                                   | 0      | 0      | 61     | 8      | 5      | 5      | 5      |
| NCR-adj. cash and equivalents                         | -186   | -13    | -68    | -12    | -68    | -68    | -91    |
| NCR-adj. net debt                                     | 1,950  | 3,538  | 3,447  | 2,997  | 3,526  | 4,842  | 5,589  |
| Net interest (incl. financial cost from leasing)      | -73    | -65    | -66    | -64    | -65    | -81    | -99    |
| NCR-adj. net interest                                 | -73    | -65    | -66    | -64    | -65    | -81    | -99    |
| Investment property                                   | 10,093 | 12,663 | 13,608 | 13,969 | 14,272 | 15,918 | 17,018 |
| Investment property under construction or development | 25     | 42     | 48     | 62     | 74     | 74     | 74     |
| Non-current right-of-use assets                       | 0      | 0      | 62     | 7      | 5      | 5      | 5      |
| NCR-adj. investment property                          | 10,118 | 12,705 | 13,717 | 14,038 | 14,351 | 15,997 | 17,097 |

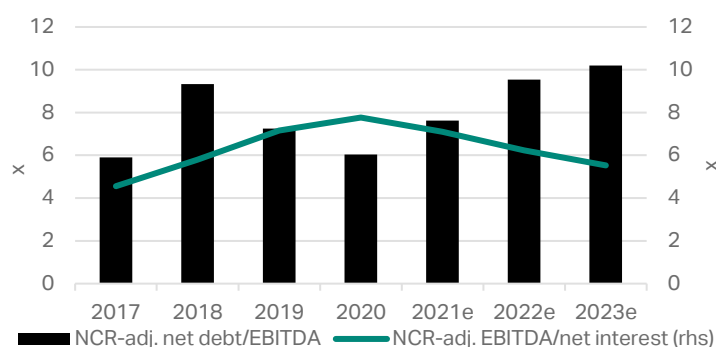
Based on NCR estimates and company data. e–estimate.

Figure 12. Bonnier Fastigheter NCR-adj. investment properties, net debt, and net LTV, 2017–2023e



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

Figure 13. Bonnier Fastigheter NCR-adj. net debt/EBITDA and EBITDA/net interest, 2017–2023e



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

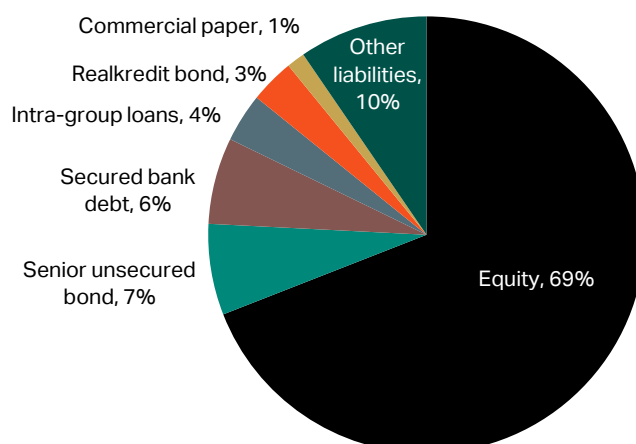
### Higher risk appetite than reflected by credit metrics

Risk appetite scores  
'bbb'

Bonnier Fastigheter aims to achieve a portfolio value of SEK 25bn by 2025. To reach its stated goal, the company aims to increase LTV to just below 50%. The prospective increase is contingent on the company completing acquisitions not included in our forecast. We view the ambitious growth plans and the expected weakening of credit metrics as negative for the company's overall financial risk profile.

Bonnier Fastigheter finances its operations primarily through common equity, secured bank loans, commercial paper, realkredit bonds, and senior unsecured bonds. In addition, as of 31 Aug. 2021, the company had a SEK 535m short-term loan from sister company AB Bonnier Finans, which was deemed mutually beneficial at the time of lending.

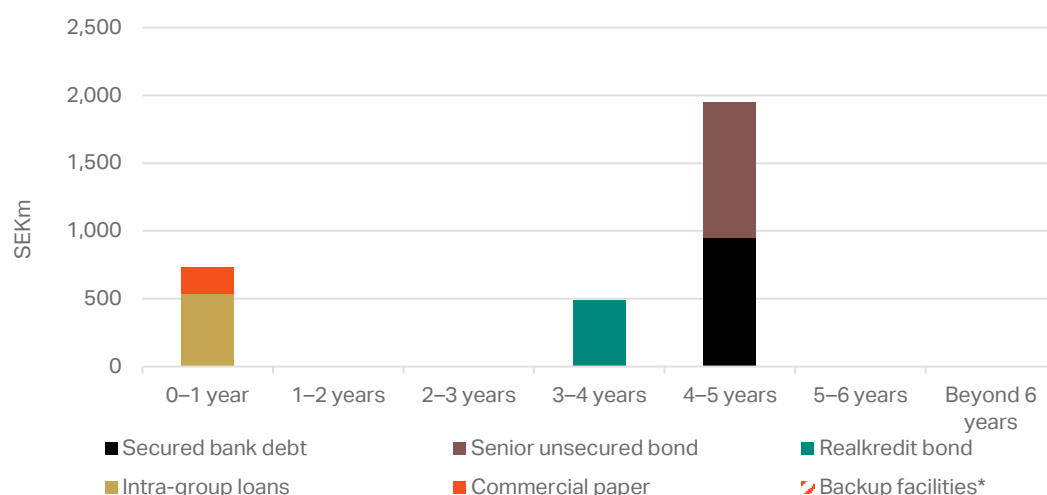
Figure 14. Bonnier Fastigheter funding profile, 31 Aug. 2021



Source: company.

As of 31 Aug. 2021, the average debt maturity was 3.5 years, with 23% of debt, totalling SEK 735m, maturing within the next 12 months. Over the past year, Bonnier Fastigheter has improved its debt maturity profile, although we note that single-year debt maturities in 4–5 years remain substantial. This is mitigated by large unutilised credit facilities, which amounted to SEK 2.35bn as of 31 Aug. 2021.

Figure 15. Bonnier Fastigheter debt maturity profile, 31 Aug. 2021



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

Bonnier Fastigheter's debt is governed by covenants based on its interest coverage ratio and LTV levels at certain encumbered properties and across the wider portfolio. The company's prudent financial metrics result in significant covenant headroom, and we expect such headroom to remain at manageable levels despite the increased growth rate of the portfolio.

Figure 16. Bonnier Fastigheter financial covenants, policies and reported metrics

| Metric                                        | Common loan covenants | Financial policy/targets | Reported* 31 Aug. 2021 |
|-----------------------------------------------|-----------------------|--------------------------|------------------------|
| Gross LTV                                     | 65–75%                | <70%                     | 23%                    |
| Interest coverage ratio                       | 1.5–2.0x              | ≥2x                      | 8.6x                   |
| Debt maturities in the 12 months to Aug. 2022 | -                     | ≤40%                     | 23%                    |

Source: company. \*calculated on the overall portfolio.



Bonnier Fastigheter has a history of paying dividends to its shareholders and we expect this to continue. In our forecast, we expect the yearly dividend to remain broadly in line with current levels (SEK 88m during 2021).

### ADJUSTMENT FACTORS

Adjustment factors are neutral

Adjustment factors are assessed as neutral and have no effect on our stand-alone credit assessment.

Liquidity assessed as adequate

#### Liquidity

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to 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 coming 12 months (on a rolling basis).

We assess Bonnier Fastigheter's liquidity profile as adequate because funding sources exceed uses in the 12 months ending 31 Aug. 2022. In our liquidity analysis we do not include our projections of future acquisitions or uncommitted development projects.

We estimate the following primary funding sources for the 12 months ending 31 Aug. 2022, totalling SEK 2.3bn:

- SEK 126m in cash and equivalents, as of 31 Aug. 2021;
- SEK 300m from funds from operations, equalling 75% of estimated adjusted funds from operations over the next four quarters; and
- SEK 1.85bn in unutilised credit facilities maturing in more than 12 months.

We estimate the following uses of funds for the 12 months ending 31 Aug. 2022, totalling SEK 2.0bn:

- SEK 735m in maturing debt;
- SEK 610m in committed acquisitions;
- SEK 510m in financial investments and JV equity contributions; and
- SEK 170m in expected capital spending.

#### Environmental, social and governance factors

ESG factors assessed as adequate

Bonnier Fastigheter identifies, measures and reports several environmental, social and governance (ESG) indicators such as CO<sub>2</sub> emissions, energy usage, and customer satisfaction. Since end-2020, the company's reporting has been based on European Public Real Estate Association (EPRA) standards, increasing transparency. It has adopted seven of the UN's Sustainable Development Goals and targets environmental certification of all properties by 2025. We view certification as an adequate approach to secure the attractiveness of the company's properties, as tenants increasingly demand sustainable workspaces. Furthermore, a focus on green buildings can lead to more cost-efficient management and improve access to debt financing. As of 31 Aug. 2021, the company had a SEK 1bn green bond issued under a medium-term note programme rated Medium Green by climate research agency CICERO.

Bonnier Fastigheter has a history of developing large projects with the ambition of contributing to attractive and sustainable neighbourhoods. Such projects include a development at Hornstull on Södermalm, the Värtahamnen project and projects carried out through the Hemmaplan JV.

Bonnier Fastigheter has adequate governance policies, including policies on whistleblowing, equal treatment, and anti-corruption measures, and codes of conduct for both employees and suppliers.

The main ESG issues that could affect our overall assessment of Bonnier Fastigheter's creditworthiness are factors that might contribute to loss of revenues, increased costs, higher capital spending, or worsened financing possibilities (see Figure 17).

**Figure 17. Bonnier Fastigheter ESG considerations**

| Issue                                              | Risk                                                                                                                              | Mitigating efforts                                                                                                    | Result                                                                                                                                                                                                                                                                            |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CO <sub>2</sub> emissions                          | Increased costs due to regulatory and/or taxation changes                                                                         | Efforts to increase energy efficiency and reduce CO <sub>2</sub> emissions. Environmental certification of properties | Energy usage decreased by 10% in 2020, compared with 2019. Scope 1 CO <sub>2</sub> emissions increased by 167% (from very low levels). Scope 2 emissions decreased by 17%. Scope 3 emissions are currently not measured but likely to account for a large proportion of emissions |
| Impact of climate change on operations             | Loss of revenues or increased capital spending                                                                                    | Environmental certification of properties. Ongoing efforts to identify climate risk at properties                     | Some 74% of lettable area had obtained environmental certification as of 31 Aug. 2021, TCFD reporting to be implemented in 2022                                                                                                                                                   |
| Increased environmental focus on financial markets | Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO <sub>2</sub> dependence | Efforts to increase energy efficiency and reduce CO <sub>2</sub> emissions. Reporting under EPRA standards            | Improving ESG reporting, increased certification, in time possibly leading to a competitive advantage rather than greater risk                                                                                                                                                    |
| Delayed zoning plans                               | Reduced efficiency due to municipalities' slow processing of zoning plans                                                         | Strong financial position, limiting dependence on single projects                                                     | Zoning plans taking longer than anticipated. This should not have a marked impact on credit quality                                                                                                                                                                               |

Source: company. TCFD–Task Force on Climate-Related Financial Disclosures.

## OWNERSHIP ANALYSIS

Ownership assessed as neutral

Bonnier Fastigheter is 100% owned by about 90 members of the Bonnier family, either directly or indirectly through Albert Bonnier AB. No single shareholder controls more than 10% of the capital or votes. To ensure that the company remains fully owned by the family, shareholder agreements exist extending over 30 years (the next expiry being 2030) between the owners stating that family members are allowed to sell shares only back to the company or to other members of the family. Although the company is owned by one of the wealthiest families in Sweden, we do not expect it to receive any ownership support in an event of distress. As of 31 Aug. 2021, the company had a SEK 535m loan from sister company AB Bonnier Finans, which was deemed mutually beneficial and should not be viewed as an indication of support.

## ISSUE RATINGS

Bonnier Fastigheter issues senior unsecured bonds via wholly owned subsidiary AB Bonnier Fastigheter Finans (publ). The bonds are fully guaranteed by Bonnier Fastigheter.

We typically rate senior unsecured bonds one notch below the long-term issuer rating on an investment-grade issuer if secured debt accounts for more than 50% of outstanding debt. However, due to Bonnier Fastigheter's low NCR-adjusted net LTV (22% as of 31 Aug. 2021), we would expect meaningful recovery prospects in an event of distress. For this reason, we rate senior unsecured bonds issued by the company 'BBB', in line with the long-term issuer rating. If net LTV were to increase above 40%, with secured debt accounting for more than 50% of outstanding debt at the same time, we would likely lower the ratings on the company's senior unsecured obligations by one notch.

**Figure 18. Bonnier Fastigheter key financial data, 2017–T2 2021**

| SEKm                                                                         | FY            | FY            | FY            | FY            | LTM           |
|------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Period-end                                                                   | 31 Dec. 2017  | 31 Dec. 2018  | 31 Dec. 2019  | 31 Dec. 2020  | 31 Aug. 2021  |
| <b>INCOME STATEMENT</b>                                                      |               |               |               |               |               |
| Rental income                                                                | 487           | 551           | 669           | 702           | 661           |
| Other income                                                                 | 36            | 40            | 43            | 38            | 38            |
| Total costs from operations                                                  | -163          | -176          | -196          | -204          | -196          |
| <b>Net operating income</b>                                                  | <b>360</b>    | <b>415</b>    | <b>515</b>    | <b>536</b>    | <b>503</b>    |
| Administrative expenses                                                      | -29           | -36           | -40           | -39           | -42           |
| Administrative expenses, project portfolio                                   | –             | –             | –             | –             | –             |
| <b>EBITDA</b>                                                                | <b>330</b>    | <b>379</b>    | <b>476</b>    | <b>497</b>    | <b>460</b>    |
| Share of profit in associated companies and joint ventures                   | –             | –             | 6             | 29            | 30            |
| Interest expenses                                                            | -65           | -58           | -58           | -55           | -53           |
| Interest income                                                              | 1             | 1             | 0             | 1             | 6             |
| Interest expenses, shareholder loans                                         | –             | –             | –             | –             | –             |
| Financial costs from leasing                                                 | -9            | -9            | -9            | -10           | -6            |
| Other financial costs                                                        | –             | –             | –             | –             | –             |
| Changes in investment property                                               | 1,331         | 749           | 827           | 679           | 681           |
| Gain (loss) on financial assets held at fair value                           | –             | –             | –             | –             | –             |
| Depreciation and amortisation                                                | –             | –             | –             | –             | –             |
| Restructuring activities                                                     | –             | –             | –             | –             | –             |
| <b>Pre-tax profit</b>                                                        | <b>1,589</b>  | <b>1,063</b>  | <b>1,242</b>  | <b>1,141</b>  | <b>1,118</b>  |
| Current taxes                                                                | -4            | -21           | -3            | -16           | -141          |
| Deferred taxes                                                               | -356          | -15           | -235          | -125          | –             |
| <b>Net profit</b>                                                            | <b>1,230</b>  | <b>1,027</b>  | <b>1,004</b>  | <b>1,000</b>  | <b>976</b>    |
| <b>BALANCE SHEET</b>                                                         |               |               |               |               |               |
| Investment property                                                          | 10,093        | 12,663        | 13,608        | 13,969        | 14,075        |
| Other non-current assets                                                     | 29            | 42            | 117           | 226           | 315           |
| <b>Total non-current assets</b>                                              | <b>10,122</b> | <b>12,705</b> | <b>13,725</b> | <b>14,195</b> | <b>14,390</b> |
| Cash and cash equivalents                                                    | 186           | 13            | 68            | 12            | 126           |
| Other current assets                                                         | 124           | 63            | 179           | 333           | 319           |
| <b>Total current assets</b>                                                  | <b>310</b>    | <b>77</b>     | <b>247</b>    | <b>345</b>    | <b>445</b>    |
| <b>Total assets</b>                                                          | <b>10,432</b> | <b>12,782</b> | <b>13,972</b> | <b>14,540</b> | <b>14,835</b> |
| <b>Total equity</b>                                                          | <b>7,303</b>  | <b>8,282</b>  | <b>9,222</b>  | <b>10,064</b> | <b>10,245</b> |
| Non-current borrowings                                                       | 2,136         | 2,337         | 1,645         | 1,943         | 2,442         |
| Non-current borrowings, shareholder loans                                    | –             | –             | –             | –             | –             |
| Deferred tax liabilities                                                     | 746           | 715           | 950           | 1,016         | 1,015         |
| Other non-current liabilities                                                | 50            | 32            | 108           | 69            | 75            |
| <b>Total non-current liabilities</b>                                         | <b>2,932</b>  | <b>3,084</b>  | <b>2,703</b>  | <b>3,028</b>  | <b>3,532</b>  |
| <b>Total current liabilities</b>                                             | <b>196</b>    | <b>1,416</b>  | <b>2,047</b>  | <b>1,448</b>  | <b>1,058</b>  |
| <b>Total equity and liabilities</b>                                          | <b>10,432</b> | <b>12,782</b> | <b>13,972</b> | <b>14,540</b> | <b>14,835</b> |
| <b>CASH FLOW STATEMENT</b>                                                   |               |               |               |               |               |
| Pre-tax profit                                                               | 1,589         | 1,063         | 1,242         | 1,141         | 1,118         |
| ... of which changes in investment property                                  | 1,331         | 749           | 827           | 679           | 681           |
| Depreciation and amortisation                                                | 0             | 0             | 1             | 1             | -1            |
| Tax paid                                                                     | –             | –             | –             | -3            | -10           |
| Adjustment for items not in cash flow                                        | -1,331        | -752          | -836          | -714          | -728          |
| <b>Cash flow from operating activities before changes in working capital</b> | <b>259</b>    | <b>311</b>    | <b>406</b>    | <b>425</b>    | <b>378</b>    |
| Changes in working capital                                                   | -7            | -50           | 73            | -47           | -210          |
| <b>Cash flow from operating activities</b>                                   | <b>251</b>    | <b>261</b>    | <b>479</b>    | <b>378</b>    | <b>168</b>    |
| <b>Cash flow from investment activities</b>                                  | <b>-42</b>    | <b>-1,788</b> | <b>-255</b>   | <b>167</b>    | <b>864</b>    |
| <b>Cash flow from financing activities</b>                                   | <b>-120</b>   | <b>1,354</b>  | <b>-170</b>   | <b>-601</b>   | <b>-974</b>   |
| Cash and cash equivalents at beginning of period                             | 96            | 186           | 13            | 68            | 13            |
| Cash flow for period                                                         | 90            | -172          | 54            | -56           | 58            |
| <b>Cash and cash equivalents at end of period</b>                            | <b>186</b>    | <b>13</b>     | <b>68</b>     | <b>12</b>     | <b>126</b>    |

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

Figure 19. Bonnier Fastigheter rating scorecard

| Subfactors                                | Impact | Score       |
|-------------------------------------------|--------|-------------|
| Operating environment                     | 20.0%  | bbb-        |
| 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                            |        | a-          |
| Risk appetite                             |        | bbb         |
| Financial risk assessment                 | 50.0%  | bbb+        |
| <b>Indicative credit assessment</b>       |        | <b>bbb</b>  |
| Liquidity                                 |        | Adequate    |
| ESG                                       |        | Adequate    |
| Peer comparisons                          |        | Neutral     |
| <b>Stand-alone credit assessment</b>      |        | <b>bbb</b>  |
| Support analysis                          |        | Neutral     |
| <b>Issuer rating</b>                      |        | <b>BBB</b>  |
| Outlook                                   |        | Stable      |
| <b>Short-term rating</b>                  |        | <b>N-1+</b> |

Figure 20. Capital structure ratings

| Seniority        | Rating |
|------------------|--------|
| Senior unsecured | BBB    |

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