

CA 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 and developer CA Fastigheter AB reflects the company's relatively low financial gearing, high occupancy, diversification benefits from the company's share of residential properties and low tenant concentrations in its commercial portfolio. It also reflects our expectations that the residential rental market will remain strong and that the company will continue to increase rental income from its commercial portfolio.

These strengths are offset by the company's active project and development activities, which create volatility in cash flows and have a higher risk than pure property management. We also view CA Fastigheter's intra-group lending and short debt maturity profile with large single-year maturities as credit weaknesses in our standalone assessment. We consider CA Fastigheter's market position to be modest, given the relatively small portfolio in most of its core geographic locations.

STABLE OUTLOOK

The stable outlook reflects our expectation that the investment properties will continue to generate stable cash flows, allowing the company to invest in future projects for its own portfolio. We also expect CA Fastigheter to complete the sale of its tenant-owned property projects at a profit, reducing the need for further gearing on its future investments.

POTENTIAL POSITIVE RATING DRIVERS

- Improved credit metrics, with EBITDA/net interest sustainably over 3.5x and net loan to value (LTV) permanently below 35%.
- Reduced risk appetite and extended debt maturity profile.
- Increased share of non-cyclical rental revenues.

POTENTIAL NEGATIVE RATING DRIVERS

- Increased financial gearing, with net LTV at levels sustainably over 50% and EBITDA/net interest below 2.2x over a protracted period.
- Deteriorating market fundamentals, affecting occupancy and/or profitability.
- Increased lending exposure to, or deteriorating credit quality of, CA Group.

Figure 1. CA Fastigheter key credit metrics, 2018–2024e

SEKm	2018	2019	2020	2021	2022e	2023e	2024e
Rental income	587	620	664	704	721	757	790
Total revenue	931	667	786	1,553	1,328	1,437	1,353
NCR-adj. EBITDA	339	316	364	482	462	522	497
NCR-adj. EBITDA margin (%)	36.4	47.3	46.3	31.1	34.8	36.4	36.7
NCR-adj. investment property	12,083	12,967	13,704	14,985	15,828	17,135	18,370
NCR-adj. net debt	3,894	5,304	5,424	5,518	6,010	6,946	7,849
Total assets	7,824	14,724	15,331	17,694	18,310	19,411	20,576
NCR-adj. net debt/EBITDA (x)	11.5	16.8	14.9	11.4	13.0	13.3	15.8
NCR-adj. EBITDA/net interest (x)	2.2	2.9	3.2	4.2	3.4	3.1	2.6
NCR-adj. net LTV (%)	32.2	40.9	39.6	36.8	38.0	40.5	42.7
NCR-adj. FFO/net debt (%)	4.8	3.6	4.4	6.3	5.3	4.9	3.6

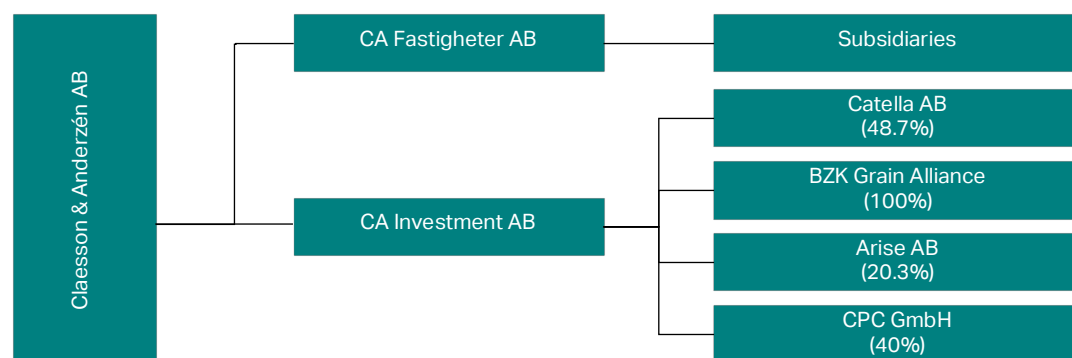
Based on NCR estimates and company data. e–estimate. FFO–funds from operations. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

CA Fastigheter is a Sweden-based property manager, with a mixed portfolio of residential and commercial properties in Sweden, Germany and Estonia. The Swedish portfolio is mostly concentrated on the regional cities of Borås, Jönköping, Kalmar, Malmö, Stockholm and Växjö, while the German portfolio is focused on Berlin, where CA Fastigheter has been active since the 1990s. As of 31 Dec. 2021, CA Fastigheter's portfolio comprised 157 properties, totalling 645,000sqm, valued at SEK 14.5bn.

CA Fastigheter was started in 1912 and is 100% owned by Claesson & Anderzén AB (CA Group). The company was founded by Claes Johansson, grandfather of the company's current principal owners, brothers Johan and Magnus Claesson. CA Fastigheter remains the primary revenue generator for CA Group. CA Group, via CA Investment, owns 48.7% of the shares in Swedish property services company Catella AB, 100% in Ukrainian agriculture business BZK Grain Alliance AB, as well as major stakes in Swedish wind power company Arise AB and German property developer CPC GmbH.

Figure 2. CA Group organisational structure



Source: CA Group.

BUSINESS RISK ASSESSMENT

Business risk
assessment 'bbb-'

Our business risk assessment reflects CA Fastigheter's diverse residential and commercial portfolio across Sweden and Berlin, stable and high occupancy rates and low tenant concentrations across the portfolio. These factors are partly offset by the relatively large project portfolio, a modest market position and relatively low operational efficiency.

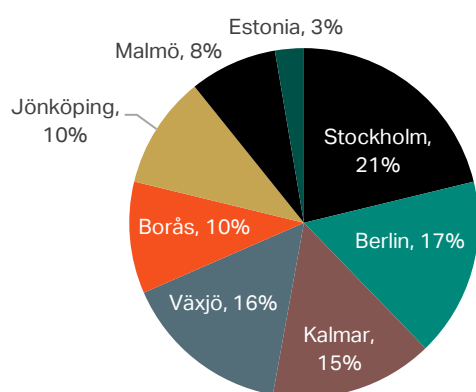
Residential portfolio stability supports risks in project and commercial portfolio

Operating environment
'bbb'

Our view of CA Fastigheter's operating environment reflects the mix of properties in its investment portfolio, as well as the volatility created by its portfolio of residential apartments, which it develops for sale. The company operates primarily in its seven core regions (see Figure 3), all of which are expected to continue to have increasing populations and growing economies for the foreseeable future, supporting demand for CA Fastigheter's properties.

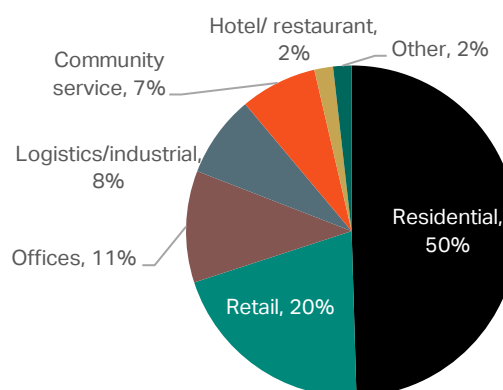
The company earns about 35% of its rental value from residential rental properties in its core markets in Sweden, with the exception of Stockholm, where high land prices lead to less attractive returns on rental properties. CA Fastigheter has maintained low vacancies in its residential portfolio, with most residential vacancies associated with property renovations of aging buildings. While rental revenues are predictable, rental controls in Sweden's cities prohibit material increases in rent levels unless accompanied by renovations to increase the property's standard.

Figure 3. CA Fastigheter rental value by area, 31 Dec. 2021



Source: company.

Figure 4. CA Fastigheter rental value by property type, 31 Dec. 2021



Source: company.

Figure 5. CA Fastigheter core markets, 31 Dec. 2021

Municipality	Population, 2021	Expected population change among 15–64-year-olds, 2021–2040	Unemployment, 2021
Stockholm	978,770	10.2%	6.6%
Kalmar	71,328	5.8%	6.5%
Växjö	95,995	8.5%	7.5%
Borås	114,091	7.5%	6.7%
Jönköping	143,579	10.2%	5.3%
Malmö	351,749	14.5%	13.3%
Total/Sweden average	10,452,326	5.9%	7.2%
Berlin*	3,567,000	7.3%	7.9%

Source: company, Statistics Sweden and the Swedish Public Employment Service. *Berlin data from the Federal Statistical Office of Germany.

About 15% of rental revenues and one-third of the residential portfolio, worth about SEK 3.2bn, are associated with apartments in central Berlin. Demand for apartments and rising rental costs led local officials to cap rents at June 2019 levels for five years in 2020. However, this rent cap was removed in the second quarter of 2021, which means that CA Fastigheter may return to the previously agreed rental levels and retroactively increase rental income from June 2019 levels.

The commercial portfolio is diversified across the core markets, as well as by property type. Around 40% of CA Fastigheter's commercial properties are associated with low-cyclical retail tenants. The company's office, logistics and community service properties have performed well, with limited impact from the pandemic on rental revenues. In addition to core markets, CA Fastigheter has a small commercial portfolio in Estonia and a minor joint venture in Russia.

In addition to managing its existing properties, the company is an active developer of tenant-owned properties in Sweden, with its largest current projects in Kalmar and Lomma (Malmö; see Figure 10). The risk associated with speculative residential apartment projects negatively affects our view of the company's operating environment, given the higher volatility and increased project risk compared with property management. However, we note that demand for housing in its core markets is high, which supports CA Fastigheter's ability to sell existing projects at profitable margins.

Diversified tenants and segments, despite modest portfolio size and market position

As of 31 Dec. 2021, CA Fastigheter's investment portfolio comprised 157 properties, totalling 645,000sqm, valued at SEK 14.5bn. In addition, the company has a substantial project portfolio, including projects for sale, and investments in and renovations of its own portfolio.

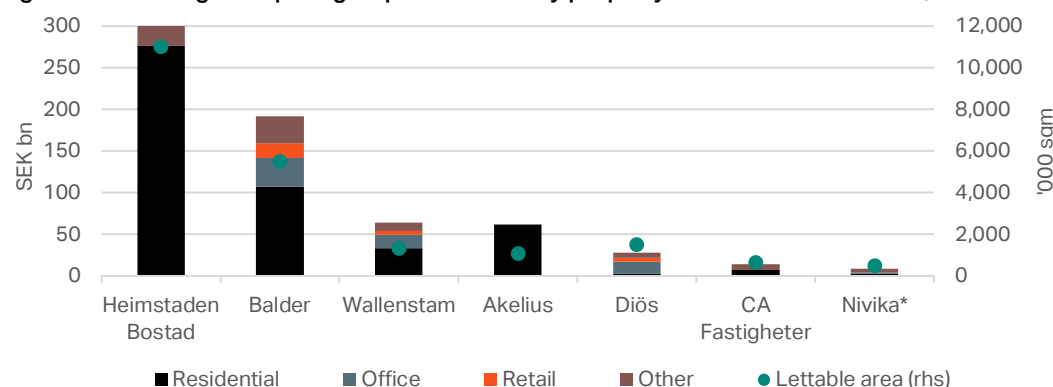
Market position, size and diversification
'bbb-'

CA Fastigheter's investment portfolio balances low-risk residential rental and community service properties with office, retail and logistics facilities. The Swedish portfolio, with about SEK 11bn in domestic assets, is relatively small for a Swedish real-estate company. However, given the company's diversity across property types and markets, we view CA Fastigheter's market position as modest at a national level but above average in its smaller core markets.

Few Nordic real-estate companies have both material commercial and residential exposures, with most focusing instead on specific segments. Fastighets AB Balder has a similar share of retail properties and approximately half of its portfolio outside Sweden, but it has a portfolio value of over SEK 190bn and over 5m sqm in lettable area. Wallenstam is another company with 50% residential exposure and a material focus on project development. Other property managers with some mix of commercial and residential management include Nivika Fastigheter (SEK 9bn in property assets), which has about 35% of its portfolio in residential properties in southern Sweden.

CA Fastigheter has more than SEK 3bn in property value, 23 properties and over 1,100 apartments in Berlin. This positions CA Fastigheter as a marginal residential property owner in Berlin, given the size and volumes of companies like Vonovia SE (SEK 998bn in total investment properties and over 45,000 apartments in the state of Berlin at year-end 2021) and Adler Group SA (SEK 133bn, 20,000 apartments in Berlin).

Figure 6. CA Fastigheter peer group breakdown by property value and lettable area, 31 Dec. 2021



Source: companies. If office property values are not available, these are based on the property type's share of rental value or lettable area. *Nivika as of Nov. 2021.

Given the high share of residential properties, tenant diversification is strong, despite the company's modest size. The 10 largest tenants together account for 42% of commercial rental income and 21% of total rental income (see Figure 7), given the large residential portfolio. Most of CA Fastigheter's major commercial tenants are on longer than average contracts.

Figure 7. CA Fastigheter tenant concentration, 31 Dec. 2021

Tenant	Type of tenant
Bauhaus (Sicklaallén Fastighets AB)	Building materials retailer
Berghs School of Communication AB	Private educational institution
Akademiklinken HJ AB	Private healthcare
Sandvik Machining Solutions AB	Manufacturer of industrial tools
Kalmar Kommun	Municipality
Coop Vardagshandel AB	Grocery retailer
Beijer Byggmaterial AB	Building materials retailer
Dagab Inköp & Logistik	Grocery retailer
Matvärlden Veddesta AB	Grocery retailer
NetOnNet AB	IT products retailer
Top 10 tenants' share of rental income	20.6%

Source: company.

Portfolio assessment
'bbb-'

Consistent residential occupancy, though some speculative project risk

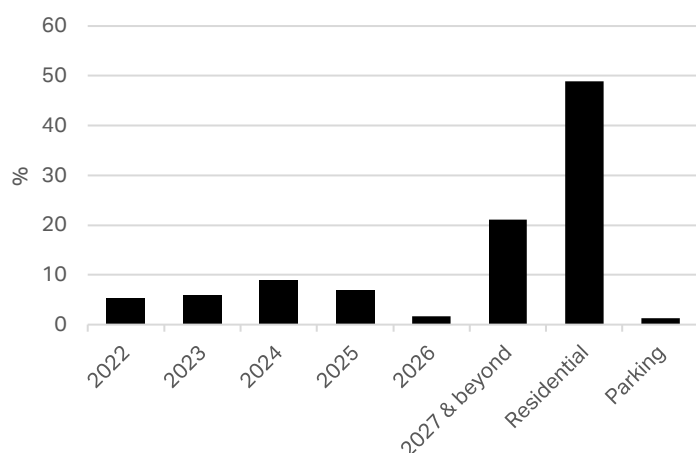
CA Fastigheter's property portfolio is primarily located in its seven core markets. Our view of the portfolio is supported by the high share of residential properties in the portfolio, which are likely to remain attractive given population growth in its markets. In addition, the customer base is diverse, with many relatively small commercial contracts and a large share of residential tenants, which reduces concentrations in lease maturities.

Historically, turnover in the residential portfolio has remained manageable, as evidenced by the low vacancy rates in the segments in Sweden and Berlin. The residential properties in Sweden are a mix of facilities built before 1970 that have been renovated or are undergoing refurbishment and newly produced buildings. We view the overall residential portfolio as being centrally located and attractive enough to maintain low vacancies (3% as of year-end 2021, reflecting current refurbishment activity).

As of 31 Dec. 2021, commercial properties accounted for 50% of rental revenue and the weighted average remaining lease term in CA Fastigheter's commercial portfolio was 6 years, reflecting the length of its largest contracts. In addition, contract maturities are well spread, with maturities in no single year exceeding 10% of total rental income. Nearly half of the commercial portfolio is located in Stockholm, with the remaining portfolio split evenly across its other Swedish core markets and 6% in Germany and Estonia.

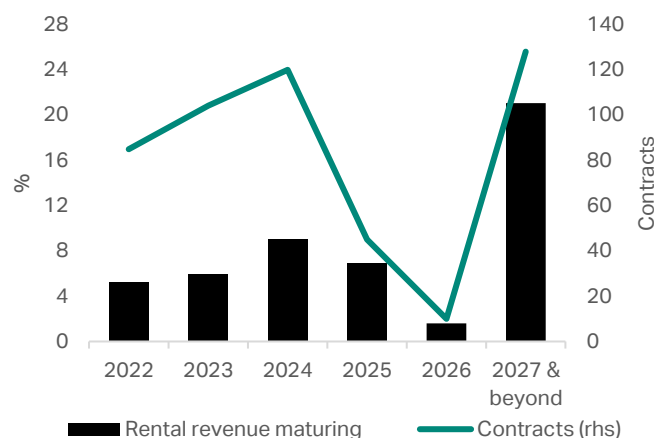
CA Fastigheter also has some direct exposure to Russia, which raises concerns following that country's invasion of Ukraine. Via a joint venture with the Swedish government, the company owns a property with a book value of SEK 55m that houses the Swedish consulate in St. Petersburg, as well as a separate plot of land worth SEK 15m.

Figure 8. CA Fastigheter lease maturity profile for all properties, 31 Dec. 2021



Source: company.

Figure 9. CA Fastigheter lease maturity profile for commercial properties, 31 Dec. 2021



Source: company.

Our assessment of the company's property portfolio considers the risks in CA Fastigheter's projects. The company has several ongoing projects; both development of projects for sale and projects developed for own management. Ongoing development of sales properties are mainly related to new-build tenant-owned apartments in Kalmar and Malmö, with an investment requirement of nearly SEK 1bn through 2024 (see Figure 10). The company also has a number of refurbishment projects in its residential and commercial portfolio, totalling nearly SEK 600m through 2024. In addition, the company is expected to make more than SEK 3.5bn in investments in its Gasverket project as part of Stockholm's revitalisation of Norra Djurgården by 2029.

The project risk in CA Fastigheter's development portfolio weighs on our assessment of the overall portfolio. While the investment in Gasverket is for the long term, there are also speculative elements to such a long-term commercial property project. In addition, the company's investments in sales properties are, by nature, speculative, given that projects start without being fully sold.

Figure 10. CA Fastigheter selected large projects in progress, 31 Dec. 2021

Project	Location	Property type	Lettable area (sqm)	Total investment (SEKm)	Estimated completion
Tampen phase 1-3	Kalmar	Tenant-owned	9,383	459	Q2 2022-Q2 2023
Strand phase 3	Malmö	Tenant-owned	2,188	140	Q1 2022
Trident Row	Malmö	Residential	1,554	88	Q2 2024
Kvirkelhusen	Malmö	Tenant-owned	6,000	303	Q3 2024
Araby 6:69	Växjö	Residential	8,240	219	Q2 2024
Växjö 6:69 phase 2	Växjö	Refurbishment	7,041	68	Q2 2022
Total			34,406	1,277	

Source: company.

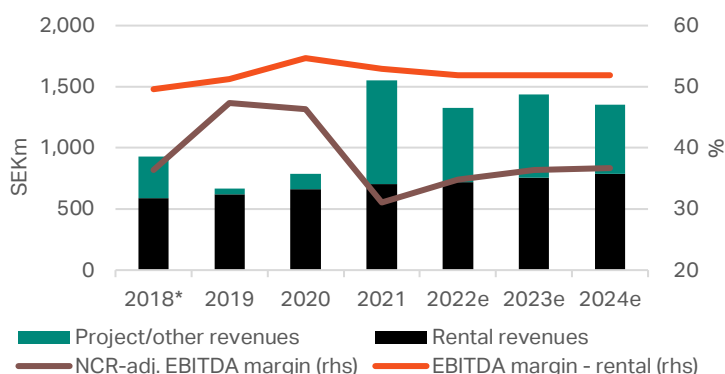
Stable occupancy offsets sales revenue volatility

Operating efficiency
'bbb-'

The company has a decentralised organisation, allowing for local management to make decisions affecting their own portfolio. As of 31 Dec. 2021, CA Fastigheter had 95 employees. In addition, the company outsources the management of its German and Estonian properties. Most of CA Fastigheter's contracts with tenants are double-net leases, under which maintenance costs are paid by the company and typically linked to the consumer price index, reducing the impact of inflation on earnings.

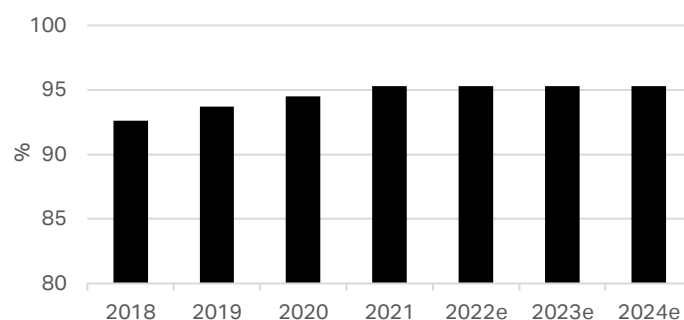
Given the relatively large organisation for the portfolio and a preference to be hands-on and local, CA Fastigheter's EBITDA margins from its rental portfolio are in line with those of many Swedish residential real-estate peers. Including only rental revenues and related costs in our forecast, the company's margins are expected to be around 52%. Including the company's project and other revenues in our forecast brings higher volatility and reduces the average projected margin to 35%, demonstrating a meaningful impact from property sales. Over the past few years, the occupancy rate of CA Fastigheter's portfolio has improved towards 95%, and as of 31 Dec. 2021, it stood at 95.3%. We expect the occupancy rate to remain around 95% within our forecast period.

Figure 11. CA Fastigheter revenues and margins, 2018–2024e



Based on NCR estimates and company data. e—estimate. *2018 based on GAAP accounting.

Figure 12. CA Fastigheter occupancy rate, 2018–2024e



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

FINANCIAL RISK ASSESSMENT

Financial risk
assessment 'bb+'

Our financial risk assessment reflects CA Fastigheter's low net LTV and high net debt/EBITDA. It also reflects our expectation that interest coverage will decrease from strong levels in the next few years due to generally higher interest rates. Furthermore, it reflects a financial risk appetite that, in our view, is higher than indicated by our ratio analysis, given the company's short debt maturity profile and intra-group loans to its parent and investment holding sister companies.

Ratio analysis 'bbb-'

Credit metrics expected to weaken due to project activities

CA Fastigheter's leverage has been stable in recent years, with net LTV below 40% while interest coverage has been relatively modest at between 2.7x and 4.2x. Over our forecast period, we expect leverage to rise modestly, as the company increases capital expenditure, which will also drive growth in the investment property portfolio.

We expect revenues to grow steadily as the company delivers on its development project pipeline. The one-off nature of tenant-owned property sales adds some volatility to our EBITDA forecast, depending on the full revenue and cost accounting upon the sale of the property.

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

- rental revenue growth of 2.5–5% for 2022–2024;
- an EBITDA margin of around 52% for rental revenues;
- an average EBITDA margin of 36% for 2022–2024, but likely to be volatile in view of expected sales revenues;
- investments in the development and refurbishment of own properties amounting to SEK 750m, SEK 520m and 420m in 2022, 2023 and 2024, respectively;
- a property valuation increase equal to 10% of capital spending upon completion of development projects for own management;
- no further valuation changes in investment properties; and
- investments in sales properties of SEK 550m, SEK 1.3bn and SEK 1.3bn in 2022, 2023 and 2024, respectively.

On the basis of these assumptions, we estimate the following metrics for 2022–2024:

- NCR-adjusted net LTV between 38% and 43%;
- NCR-adjusted EBITDA/net interest between 2.6x and 3.4x; and
- NCR-adjusted net debt/EBITDA between 13.0x and 15.8x.

Figure 13. NCR's adjustments to CA Fastigheter's credit metrics, 2018–2024e

SEKm	2018*	2019	2020	2021	2022e	2023e	2024e
EBITDA (property management)	291	318	363	373	375	393	410
EBITDA (projects and other activities)	48	-2	1	110	88	129	87
NCR-adj. EBITDA	339	316	364	482	462	522	497
Net financial items	-151	-108	-113	-115	-138	-171	-194
NCR-adj. net interest	-151	-108	-113	-115	-138	-171	-194
NCR-adj. EBITDA	339	316	364	482	462	522	497
Adjusted net interest	-151	-108	-113	-115	-138	-171	-194
Current taxes	-3	-15	-11	-18	-9	-12	-18
NCR-adj. FFO	185	193	240	350	316	340	286
Investment property	5,182	12,249	12,729	14,460	15,275	15,831	16,297
Invest. property under development*	62	0	0	0	0	0	0
Properties for sale	421	715	968	519	547	1,298	2,068
Non-current right-of-use assets**	0	3	7	6	6	6	6
Other property adjustments*	6,418	0	0	0	0	0	0
NCR-adj. investment property	12,083	12,967	13,704	14,985	15,828	17,135	18,370
Cash and cash equivalents	78	78	94	559	332	126	56
Liquid assets	493	222	255	381	381	381	381
Less 25% liquid asset adjustment	-123	-56	-64	-95	-95	-95	-95
NCR-adj. cash and equivalents	447	245	285	844	617	412	341
Gross debt	4,341	5,225	5,385	6,026	6,291	7,022	7,854
Long-term lease liabilities	0	260	257	270	270	270	270
Short-term lease liabilities	0	1	4	3	3	3	3
Committed earn out (<i>tilläggsköpeskilling</i>)	0	63	63	63	63	63	63
NCR-adj. cash and equivalents	-447	-245	-285	-844	-617	-412	-341
NCR-adj. net debt	3,894	5,304	5,424	5,518	6,010	6,946	7,849

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. *2018 reflects GAAP reporting; from 2019 the figures reflect IFRS reporting. **Majority of right-of-use assets included in reported investment property.

In assessing CA Fastigheter's financial risk profile, our calculation of investment property values includes right-of-use assets that are not already included in the company's investment properties. Our calculation of net debt includes lease liabilities and an earn-out commitment associated with Gasverket. Net debt is reduced by cash and equivalents and a 25% liquidity haircut on the company's short-term holdings. We view the short-term investments as reasonably convertible to cash, given the broad range of equity, fund and fixed-income investments. However, we do not consider the company's long-term investments to be liquid. Our EBITDA forecast for the sales portfolio uses sales revenue estimates based on CA Fastigheter's expected pricing for apartments under construction. We have adjusted the company's expected sales revenues for pipeline projects by 5% in our ratios to reflect the potential need to adjust future pricing.

Figure 14. CA Fastigheter NCR-adj. investment properties, net debt, and net LTV, 2018–2024e

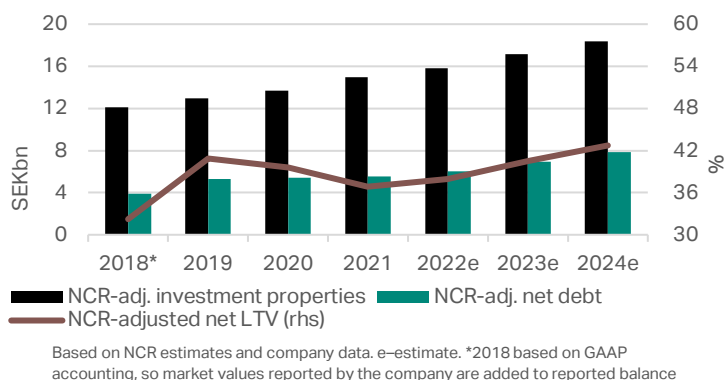
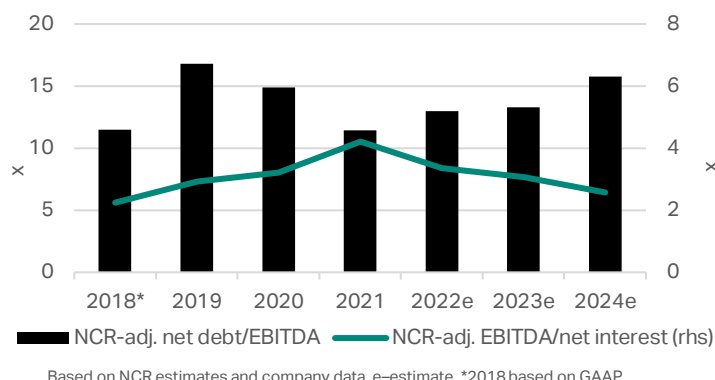


Figure 15. CA Fastigheter NCR-adj. net debt/EBITDA and EBITDA/net interest, 2018–2024e



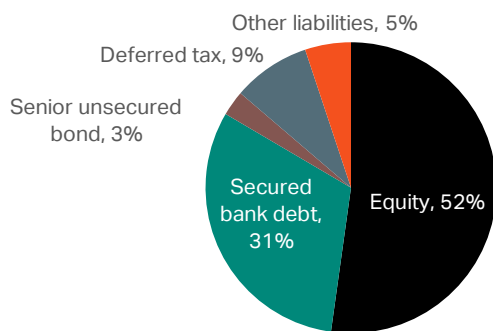
Internal loans and short debt maturity increase financial risk

Risk appetite 'bb'

We view CA Fastigheter's financial risk appetite as greater than warranted by the company's financial ratios. Specifically, the company's increasing amount of intra-group lending adds complexity and, despite strong banking relationships, we view the short debt maturity profile, with significant near-term maturities, as a credit weakness.

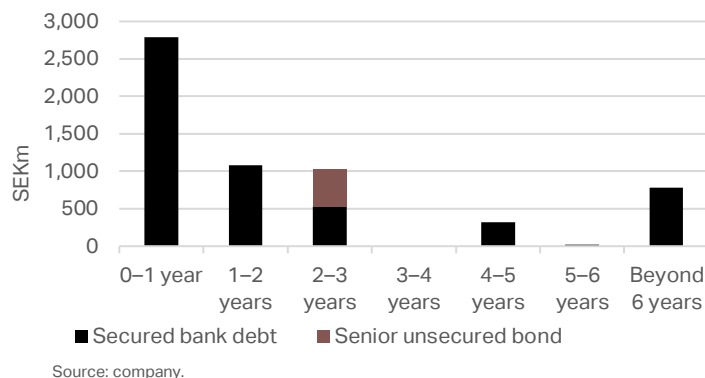
CA Fastigheter reported around 35% of its debt as maturing after 5 years as of 31 Dec. 2021, reflecting its expectations and track record of refinancing its bank loans. However, actual maturities demonstrate a high refinancing need over the next 12 months. We therefore view CA Fastigheter's short debt maturity profile as indicative of a somewhat higher overall financial risk profile. We note, however, that CA Fastigheter is prudent in its management of interest rate risk, with average interest fixing of 3.5 years, while the average interest on the company's loans was 2.0% as of 31 Dec. 2021. In addition to secured bank debt and a senior unsecured bond, the company has a SEK 200m revolving credit facility, which was unutilised as of year-end 2021.

Figure 16. CA Fastigheter funding profile, 31 Dec. 2021



Source: company.

Figure 17. CA Fastigheter debt maturity profile, 31 Dec. 2021



CA Fastigheter's dividend policy is dependent on the performance of the investment portfolio of CA Investment. We understand that CA Group aims to pay an annual dividend of SEK 40m and that there is no interest-bearing debt in CA Group beyond a bond and bank loans to CA Fastigheter. However, CA Group uses CA Fastigheter's balance sheet to provide financing for other parts of the company. In our view, this adds complexity and financial risk to CA Fastigheter when evaluated on a standalone basis, given the potential for losses or investment needs in CA Group's investment companies. As of year-end 2021, the company had SEK 1.2bn in internal loans to its parent and sister investment companies, which are consolidated in CA Group reporting. We note that these internal loans are larger than the SEK 850m a year ago and could increase at short notice to address financing needs within the group. We also note that CA Fastigheter reports additional claims totalling over SEK 100m due from non-consolidated investment companies and other related parties that are not consolidated in CA Group reporting.

CA Fastigheter's financial policy provides the company with additional headroom for higher leverage. Our forecasts anticipate that the company will increase its LTV, but we do not expect the company to take full advantage of its internal 55% net LTV limit (debt net of 100% of current financial assets and cash) over our three-year forecast horizon.

Figure 18. CA Fastigheter financial covenants, policies and reported metrics

Metric	Common loan covenants	Financial policy/ targets	Reported levels 2017–21
Equity ratio	≥25%	N.A.	50%–52%*
Interest coverage ratio	≥1.2x	≥2.0x	2.0x–3.2x
EBITDA/net financial costs	≥1.5x	N.A.	3.0x–4.2x*
Interest fixing	N.A.	≥3 years	3.5–4.5 years
Net LTV	≤60%	≤55%	34%–42%
Return on equity	N.A.	≥10%	9%–16%

Source: company. *NCR estimate for 2019–2021 based on IFRS accounting. N.A.—not applicable.

ADJUSTMENT FACTORS

Adjustment factors
neutral

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

Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario under 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 a company with an investment grade rating ('BBB-' and above) to cover all liquidity requirements, with limited need for external funding over the next 12 months.

We assess CA Fastigheter's liquidity profile as neutral, despite the company having a high volume of refinancing during the 12 months ending 31 Mar. 2023, resulting in a funding deficit in the period. In our view, this is mitigated by most of CA Fastigheter's maturing debt consisting of secured bank debt and the company having a strong track record and longstanding relationships with many of the leading Nordic banks.

We estimate the following primary funding sources for the 12 months ending 31 Mar. 2023, totalling SEK 1.0bn:

- SEK 277m in cash and equivalents, 100% of reported value;
- SEK 292m in current financial assets, 75% of outstanding value;
- SEK 241m from funds from operations, equalling 75% of estimated adjusted funds from operations over the period; and
- SEK 200m in an unutilised credit facility.

We estimate the following uses of funds for the 12 months ending 31 Mar. 2023, totalling SEK 4.2bn:

- SEK 2.7bn in maturing secured bank debt;
- SEK 100m in amortisation; and
- SEK 1.4bn in expected capital spending for investment and project properties.

Environmental, social and governance factors

ESG factors adequate

In 2021, CA Fastigheter published a green bond framework that has been classified as Light Green in a second opinion from Norway-based climate research agency CICERO. Within this framework, the company issued a senior unsecured green bond of SEK 500m. CA Fastigheter publishes a sustainability report annually that is based on the GRI (Global Reporting Initiative) definition of core reporting requirements. In January 2022, the company was environmentally certified to the ISO 14001:2015 standard. The certification demonstrates the company's commitment to working with environmental issues.

The company is a member of the Sweden Green Building Council, a non-profit organisation aiming to reduce the environmental impact of the real-estate sector. The company began certifying its properties

to Miljöbyggnad standards in 2020, with the aim of certifying the majority of its properties to at least Miljöbyggnad Silver standard and building new projects to at least that standard.

The table below highlights the main environmental, social and governance (ESG) issues that we believe could affect our overall assessment of CA Fastigheter and factors that could contribute to the loss of revenues, increased costs, higher capital spending or a deterioration in financing possibilities (see Figure 19).

Figure 19. CA Fastigheter 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 of properties. Aims to reduce energy consumption by 1.5% per year (like-for-like portfolio). Aims to use 75% renewable energy by 2025.	Reported 8.6% reduction in energy consumption in 2021 compared with 2020. Started reporting Scope 1–3 emissions in 2021. Began certifying properties in 2020 with aim of achieving Miljöbyggnad Silver standard.
Political risk	Political action affecting residential rental revenues and reducing property values. Cross-border ownership risks. Uncertainty related to Russian business.	Diversification of the investment portfolio. Cost management of affected properties.	The company received a positive ruling in Germany in April 2021 but the potential for alternative political solutions remains. Low financial contribution of Estonian and Russian businesses.
Impact of climate change on operations	Loss of revenues or increased capital spending.	Environmental certification of properties, appropriate insurance and evaluation of impact on each property.	The company concludes that no properties in the investment portfolio are likely to be directly affected by, e.g., rising water levels or landslides. Residential properties for sale along coastal areas follow guidelines for minimum height above sea level.
Increased environmental focus of financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO ₂ dependence.	Published green bond framework in 2021. Increased sustainability focus and undergoing second-opinion review.	Improving ESG reporting and measurement. Access to green financing; issued green bond in 2021.

Source: company.

OWNERSHIP ANALYSIS

Ownership neutral

CA Fastigheter is 100% owned by Claesson & Anderzén AB (which we define as a holding company) and was established by Claes Johansson, grandfather of the company's current primary owners, brothers Johan and Magnus Claesson (via Wellsford S.A.). Johan Claesson also owns 100% of Fastighets AB Bremia, which owns the remaining shares and votes in CA Group.

CA Group has two business areas: real estate, via CA Fastigheter; and investments, via CA Investment AB. The real-estate business remains the cornerstone of the group, accounting for the majority of the company's revenues. We note that CA Fastigheter has about SEK 1.2bn in internal loans to group parent and sister companies CA Plusinvest AB and Movesex Fastigheter AB. These loans demonstrate the group's aim to use proceeds from CA Fastigheter to diversify the investments of the family-owned company. In our view, CA Fastigheter could be supported by sales of the investment assets in CA Investment, but the positions held by the investment operations are of a higher-risk nature than CA

Fastigheter's real-estate operations. While the intra-group loans demonstrate the importance of CA Fastigheter in the future development and strategy of CA Group, they also limit our view of further support available to CA Fastigheter from its owner.

In addition to CA Fastigheter's own properties in Russia, CA Fastigheter's owner, CA Group, owns the Ukraine-based agriculture business BZK Grain Alliance AB. We note that Grain Alliance and CA Group have very low external debt and that Grain Alliance has historically reinvested its own generated cash flows. In our view, this reduces the likelihood that CA Fastigheter could suffer spill-over effects as a result of falling cash flows to its parent company.

Figure 20. CA Fastigheter ownership structure, 31 Dec. 2021

Owner	Share of capital and votes
Johan Claesson	44.73%
Wellsford S.A.	44.73%
Fastighets AB Bremia (100% owned by Johan Claesson)	10.54%

Source: CA Group 2021 annual report.

ISSUE RATINGS

We do not assign issue ratings to CA Fastigheter's outstanding debt. In line with our methodology, we typically anticipate a higher loss for holders of senior unsecured instruments in the event of default where there is a high proportion of secured debt. As of 31 Dec. 2021, 92% of the company's interest-bearing debt was secured, reducing recovery prospects for senior unsecured bondholders.

Figure 21. CA Fastigheter key financial data, 2017–2021

SEKm	FY	FY	FY	FY	FY
Period-end	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021
Accounting standard	Swedish GAAP	Swedish GAAP	IFRS	IFRS	IFRS
INCOME STATEMENT					
Rental income	601	587	620	664	704
Other income	462	344	47	122	849
Total costs from operations	-596	-522	-275	-349	-986
Net operating income	467	409	392	437	567
Administrative expenses	-68	-70	-76	-73	-85
Administrative expenses, project portfolio	–	–	–	–	–
EBITDA	400	339	316	364	482
Share of profit in associated companies and joint ventures	19	6	-39	2	3
Interest expenses	-148	-172	-129	-133	-138
Interest income	22	21	23	22	26
Interest expenses, shareholder loans	–	–	–	–	–
Financial costs from leasing	–	–	-2	-3	-3
Other financial costs	-9	0	21	-9	53
Changes in investment property	–	–	222	420	1,107
Gain (loss) on financial assets held at fair value	–	–	67	5	43
Disposals of investment properties	184	265	74	-14	6
Gain (loss) on derivatives	–	–	17	-5	122
Depreciation and amortisation	-106	-101	–	–	–
Restructuring activities	–	–	–	–	–
Income (expense) on discontinued operations	–	–	–	–	–
Pre-tax profit	362	358	569	648	1,701
Current taxes	-8	-3	-15	-11	-18
Deferred taxes	-13	-45	-26	-26	-311
Net profit	341	310	528	611	1,372
BALANCE SHEET					
Investment property	5,455	5,182	12,249	12,729	14,460
Other non-current assets	442	799	759	724	787
Total non-current assets	5,897	5,981	13,008	13,453	15,248
Cash and cash equivalents	86	78	78	94	559
Other current assets	1,632	1,765	1,637	1,784	1,887
Total current assets	1,718	1,843	1,715	1,878	2,446
Total assets	7,616	7,824	14,724	15,331	17,694
Total equity	2,825	3,168	7,378	7,835	9,237
Non-current borrowings	5,023	4,302	5,169	5,329	5,964
Non-current borrowings, shareholder loans	–	–	–	–	–
Deferred tax liabilities	–	–	1,202	1,217	1,527
Other non-current liabilities	5	–	550	541	460
Total non-current liabilities	5,029	4,302	6,921	7,087	7,951
Total current liabilities	364	355	425	409	506
Total equity and liabilities	8,218	7,824	14,724	15,331	17,694
CASH FLOW STATEMENT					
Pre-tax profit	362	358	569	648	1,701
... of which changes in investment property	–	–	222	420	1,107
Depreciation and amortisation	107	101	–	–	–
Tax paid	-8	-3	-2	-5	-19
Adjustment for items not in cash flow	-198	-277	-338	-393	-1,278
Cash flow from operating activities before changes in working capital	263	179	228	250	404
Changes in working capital	-333	168	54	-163	32
Cash flow from operating activities	-70	347	282	87	436
Cash flow from investment activities	-282	453	-1,189	-190	-585
Cash flow from financing activities	319	-809	904	121	613
Cash and cash equivalents at beginning of period	–	86	78	78	94
Cash flow for period	-33	-8	0	16	465
Cash and cash equivalents at end of period	86	78	78	94	559

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

Figure 22. CA Fastigheter rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bbb
Market position, size and diversification	12.5%	bbb-
Portfolio assessment	12.5%	bbb-
Operating efficiency	5.0%	bbb-
Business risk assessment	50.0%	bbb-
Ratio analysis		bbb-
Risk appetite		bb
Financial risk assessment	50.0%	bb+
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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