Fastpartner AB
Sweden, Real Estate

SCOPE BBB- STABLE

Corporate profile

Fastpartner is a large commercial real estate company in Sweden, with a geographic focus on greater Stockholm. The company owns and manages a diversified portfolio across asset types of around 200 properties worth SEK 30bn. Fastpartner is listed on the Nasdaq Stockholm large cap market. Its largest shareholder, with 72%, is company CEO Sven-Olof Johansson.

Key metrics

			Scope estimates	
Scope credit ratios	2018	2019	2020F	2021F
Scope-adjusted EBITDA/interest cover (x)	3.5x	3.7x	3.4x	3.3x
Scope-adjusted debt (SaD)/EBITDA (x)	12.7x	12.4x	12.8x	12.8x
Scope-adjusted Loan/value ratio (%)	54%	48%	50%	49%

Rating rationale

Scope assigns a first-time issuer rating of BBB-/Stable to Fastpartner AB.

The rating is driven by Fastpartner's moderate credit metrics, with strong debt protection and a good market position in its home market of Stockholm providing visibility to tenants, and high profitability levels of 70%. The rating is further supported by moderate tenant concentration and average tenant exposure, assessed as low investment grade in addition to an above-average weighted average unexpired lease term (WAULT) for the Nordics of 4.7 years.

The rating is constrained by Fastpartner's moderate geographical diversification with 79% of assets based in greater Stockholm, a relatively high vacancy rate due to the company's acquisition strategy and fairly high leverage (loan/value – LTV) for the rating.

Outlook and rating-change drivers

The Outlook for Fastpartner is Stable and incorporates a continuation of the company's growth in its core market of Sweden, especially in the area of greater Stockholm, which we assume will be financed with debt and equity. It further incorporates our expectation that the company will keep leverage, as measured by the Scope-adjusted LTV ratio, at around 50% while debt protection remains above 3x going forward. Continued strong cash flow generation, as measured by Scope-adjusted free operating cash flow (FOCF), is expected to cover dividend payments going forward.

A negative rating action is possible if Fastpartner's leverage, as measured by its Scope-adjusted LTV ratio, increases towards 55% on a sustained basis or debt protection weakens to below 3x. This could be driven by a rise in interest-bearing debt through highly debt-financed acquisitions or remortgaging. It could also be driven by a more severe impact of Covid-19, leading to a stronger than expected revision of rental prospects and a revision of the company's asset values.

A positive rating action could be warranted by deleveraging, with a Scope-adjusted LTV ratio of around 40% on a sustained basis. This could be achieved with less debt-funded capex, decreased financial debt needs through stronger than anticipated cash generation from the portfolio and a less severe Covid-19 impact, resulting in positive fair value adjustments.

Ratings & Outlook

Corporate ratings	BBB-/Stable
Short-term rating	S-2
Senior unsecured rating	BBB-

Analysts

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Related Methodology

Corporate Rating Methodology, February 2020

Rating Methodology European Real Estate Corporates January 2020

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Rating drivers

Positive rating drivers	Negative rating drivers
• Medium-sized commercial real estate company with good access to capital markets and high visibility in the Swedish market thanks to 1.5m sqm lettable area under management • Moderate and stable profitability with SaEBITDA margin around 70% supports internal financing capabilities • Strong debt protection supported by stable operating cash flows • Moderate tenant diversification with top three/10 accounting for 9%/19% and good tenant industry diversification • Above-average WAULT for the Nordic market of 4.7 years	• Moderate geographic diversification with 79% of assets (fair value) located in Stockholm, somewhat mitigated by the economic power and liquidity the capital provides • Relatively high vacancy rate due to acquisition strategy, somewhat mitigated by the stability of the ratio • Relatively high leverage (LTV) for the rating, mitigated by the recent deleveraging trend and expected stricter financial policy

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• LTV of around 40% on a sustained basis	• Increase in LTV towards 55% on a sustained basis or weakening of debt protection to below 3x.

Financial overview

			Scope estimates	
Scope credit ratios	**2018**	**2019**	**2020F**	**2021F**
Scope-adjusted EBITDA/interest cover (x)	3.5x	3.7x	3.4x	3.3x
Scope-adjusted debt/Scope-adjusted EBITDA (x)	12.7x	12.4x	12.8x	12.8x
Scope-adjusted loan/value ratio	54%	48%	50%	49%
Scope-adjusted EBITDA in SEK m	**2018**	**2019**	**2020F**	**2021F**
EBITDA	950	1,138	1,251	1,323
Operating lease payments in respective year	24	0	0	0
Other	0	0	0	0
Scope-adjusted EBITDA	973	1,138	1,251	1,323
Scope-adjusted funds from operations in SEK m	**2018**	**2019**	**2020F**	**2021F**
EBITDA	973	1,138	1,251	1,323
less: (net) cash interest as per cash flow statement	-235	-310	-365	-397
less: interest component, operating leases	-42	0	0	0
less: cash tax paid as per cash flow statement	-128	-61	-97	-101
Other	5	8	19	0
Scope-adjusted funds from operations	574	775	809	825
Scope-adjusted debt in SEK m	**2018**	**2019**	**2020F**	**2021F**
Reported gross financial debt	12,157	14,413	16,185	16,932
less: cash and cash equivalents	-676	-264	-141	-27
add: cash not accessible	0	0	0	0
add: pension adjustment	0	0	0	0
add: operating lease obligations	860	0	0	0
Other	0	0	0	0
Scope-adjusted debt	12,341	14,149	16,044	16,906

Business risk profile: BBB-

Industry risk: BB

Industry risk for Fastpartner is modest, with exposure to the highly cyclical commercial real estate industry (its main segments comprising the development, leasing and management of office buildings).

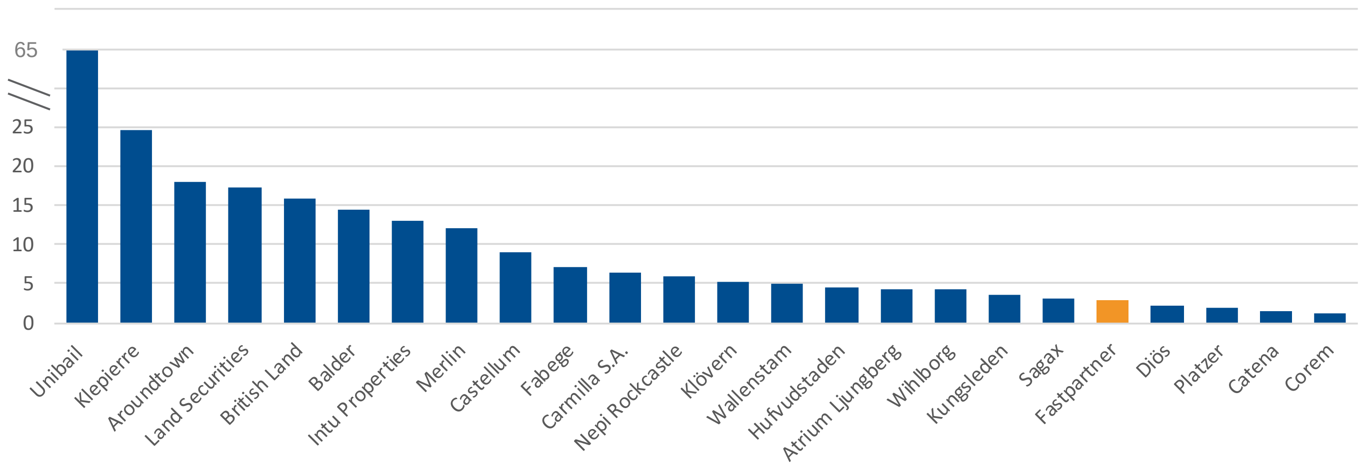
Credit outlook stable for 2020

Real estate companies face an evenly balanced set of risks in 2020. This outlook factors in some pressure on property prices as a result of: i) stable interest rates; ii) some easing of the supply-demand imbalance for most asset classes as development activity has picked up; iii) a further slowdown in economic growth, also as a consequence of the Covid-19 crisis; and iv) the uncertain development of international trade relations. We expect the impact of Covid-19 on the prime office market to be limited.

For more information, refer to the corporate outlook for real estate (click here)

Fastpartner is a medium-sized commercial real estate company based in Sweden with Scope-adjusted total assets of SEK 31.7bn (EUR 3.1bn). Its total lettable area amounts to 1,534,681 sq m, in addition to which the company also owns unutilised building rights for 140,000 sq m of residential space and 215,000 sq m of commercial buildings, some of which it plans to develop over the coming years. The company's size translates into decent diversification in terms of tenants and locations, which should enhance its resilience to cash flow volatility caused by economic cycles, industry developments, regulatory changes and the loss/default of single tenants. It also affords good access to capital markets, proven by the regular issuance of class A shares, class D shares and preference shares, the issuance of unsecured bonds in Swedish markets (SEK 4.4bn outstanding), a SEK 2bn commercial paper programme and secured bank loans with all significant Nordic banks (SEK 8.1bn).

Figure 1: European peers, assets under management in EUR bn



Source: Cpmpany accounts, Scope estimates

Large Swedish CRE, with top five position in home market of Stockholm

Fastpartner's strongest foothold, with assets worth SEK 23.6bn, is in Stockholm, where it is ahead of peer Klövern in terms of market value (SEK 22bn), assuming a top five position in Sweden's capital by market value. The company is mostly in the top five in the other markets in which it operates, with the exception of Gothenburg and Malmö where its exposure is too small to qualify as moderately dominant. The high share in most of its markets, including Sweden's capital Stockholm, is positive. This often translates into higher visibility to potential new tenants and offers more flexibility to accommodate the changing needs of existing tenants. Thus, high market shares increase tenant retention and lead to more stable occupancy in addition to reduced capex needs linked to tenant fluctuations.

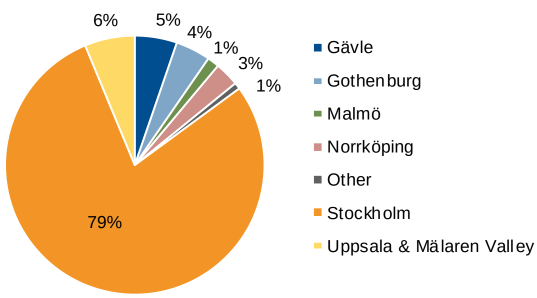
Fastpartner's intention is to grow within its current home turf, predominantly in Stockholm. The company plans to do so by developing some of its building rights, while also acquiring properties that fit its portfolio.

Moderate geographical diversification, with a strong Stockholm bias

Fastpartner's geographical diversification is moderate, as it is purely active in Sweden and focused on Stockholm (79% of assets by fair value). The company's total exposure is spread over six 'Nuts 2' regions, as classified by Eurostat, allowing it to benefit from a broad range of tenants (from regional to multinational) and keep tenants with relocation/resizing needs. Fastpartner's performance hinges on the macroeconomic development of Sweden, a mature and stable economy with a strong welfare/social system in place. The latter softens the economic burden in times of distress (as can be seen during the current crisis), with labour costs being partially borne by the state and subsidies provided for fixed costs like rent, resulting in decreased rental losses for commercial real estate owners.

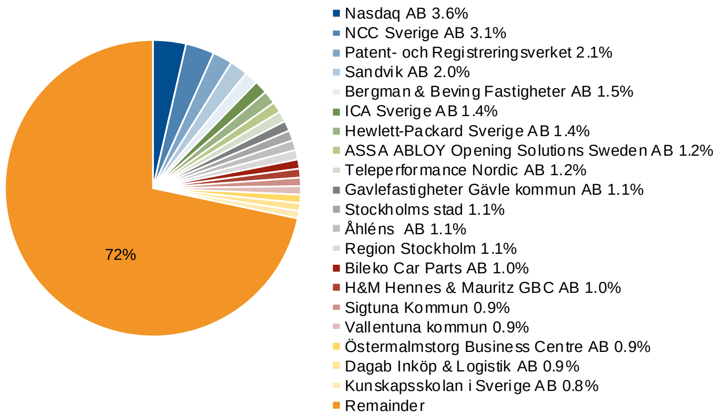
Fastpartner does not intend to broaden its exposure abroad. The company plans to focus on the markets it knows best and achieve further growth through the acquisition of properties and the development of its building rights.

Figure 2: Geographic diversification by value of assets



Source: Fastpartner, Scope

Figure 3: Tenant diversification by rental income



Source: Fastpartner, Scope

Moderately diversified by property type with 50% offices

Fastpartner's largest segment by rental value is offices, at 49%, followed by logistics and warehousing at 16% and shops/restaurants at 12%. The diversification into different asset types allows the company to dampen short-term effects, like those triggered by the current Covid-19 crisis. While retail/restaurants are affected adversely, the demand for logistics has increased significantly, balancing out potential rental losses in the first segment. In addition, Fastpartner's exposure to the healthcare & education and residential areas acts as a low-risk, stabilising factor.

Nevertheless, we expect the biggest-ever remote-working experiment caused by the current Covid-19 pandemic to have a lasting effect on employer behaviour. Companies may adjust their real estate needs downwards in the medium term. In this case we expect a gentle dip in demand for office space rather than a sharp drop, since companies will still need high-quality properties to bolster their image and attract employees.

Moderate tenant diversification with high quality tenants leading to stable cash flows

Fastpartner's tenant diversification is moderate, with the top three tenants accounting for 8.9% of rental income and the top 10 tenants for 18.6%. The largest tenant is Nasdaq AB which provides 3.6% of rental income, followed by NCC Sverige AB with 3.1% and the Swedish patent registration office (government agency; the Swedish state is rated AAA by Scope). We assess Fastpartner's top 20 tenants as good investment grade. However, we assess overall tenant quality, based on historical rental loss statistics over the last five years, as low investment grade. We therefore view the risk of a significant deterioration in cash flows due to single tenant defaults/delayed payments as marginal.

Tenant industry diversification benefits the rating, with the state/municipality as the largest single industry and no industry larger than 10% of rental income. This is underpinned by a limited negative impact on rental income of around 2% due to Covid-19 related non-payments or rent relief/discounts.

Asset quality benefits from 89% of portfolio in 'A' metropolitan areas

Fastpartner's portfolio is concentrated around larger cities in southern Sweden, with Stockholm as the dominant exposure. 89% of the portfolio, as measured by the fair value of its assets, is located in metropolitan regions with more than 1m inhabitants (Stockholm, Gothenburg, Malmö). These are classified as 'A' cities as per our methodology. The rest of the portfolio is divided among smaller cities, of which we classify 6% as 'B' locations and 5% as 'C' locations. The high share in large liquid markets results in good fungibility in times of financial distress, which would result in limited haircuts on its portfolio. This is, however, a remote scenario given Fastpartner's investment grade financial risk profile.

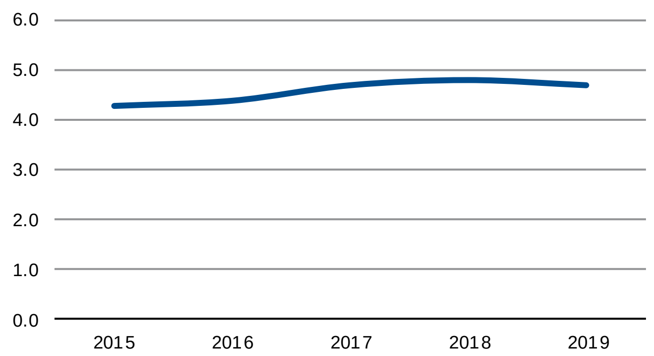
Above-average vacancy due to strategy

Fastpartner has a similar strategy to peer Klövern when it comes to acquiring properties in near-city locations with good transportation links but below par occupancy that allows them to develop the property. After acquisition, Fastpartner implements a refurbishing process and establishes mixed usage to increase attractiveness, with the goal of reducing vacancy to below 10%. This results in an average occupancy rate of around 91% at present. While the company's vacancy is relatively high compared to traditional buy-and-hold competitors, we acknowledge the logic behind Fastpartner's strategy. We also view positively the stability of its vacancy rate, which remains within a narrow range of 88%-92%.

Above average WAULT by Nordic standards benefits the rating

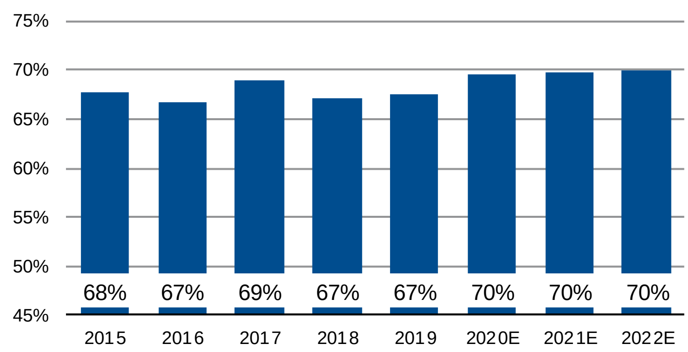
Fastpartner's WAULT of 4.7 years is average by European standards and exposes the company somewhat to ongoing re-letting risk. The company has managed to increase its lease terms slightly over the last few years and is comfortable with the current level. Compared to Nordic peers' rather short WAULT of 4 years, Fastpartner is above average and benefits from reduced risk due to re-letting. With an average of 14% of rental contracts maturing per annum for 2020-2023, we view reletting risk as manageable.

Figure 4: WAULT



Source: Fastpartner, Scope estimates

Figure 5: Profitability



Source: Scope estimates

High share of certified green buildings and 100% use of renewable energy boosts net rent ratio

Fastpartner adheres to the UN sustainability development goals and has written 10 of those 17 overall goals into its business plan. Fastpartner already has 33% of its properties certified as green by Cicero. Its short-term goal is to increase this ratio to 50% within 2-3 years and its long-term goal is to have all of its properties certified as green by 2030. The company reduced its greenhouse emissions by 22% between 2018 and 2019 by switching to 100% renewable energy. Fastpartner's social and environmental efforts not only increase the attractiveness of its portfolio to tenants, but also boost profitability through higher net rent ratios.

Stable profitability in line with peers

Fastpartner's profitability as measured by its Scope-adjusted EBITDA margin is in the middle of its peer group. The margin is stable over time with very little volatility. We forecast a slight increase in 2020 and beyond to 69%-70% with continued improvement.

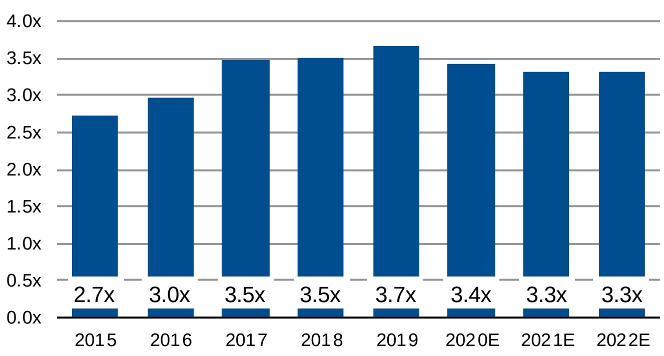
Financial risk profile: BBB-

Strong debt protection

Fastpartner's debt protection has been historically strong, at levels above 3.5x. Similar to most other Nordic players, record low interest rates in combination with a preference for floating rates have resulted in comparatively low cash interest payments. Our projections assume a continuation of the low floating rates profile, resulting in sustained high debt protection. However, rising rates could threaten this metric, given the currently low hedging rate of 14%. This risk is mitigated by: i) the macro-economic environment, which will probably lead to an extended period of zero or negative interest rates; and ii) the company's headroom with debt protection levels acting as a buffer, allowing them to react without reaching uncomfortable levels.

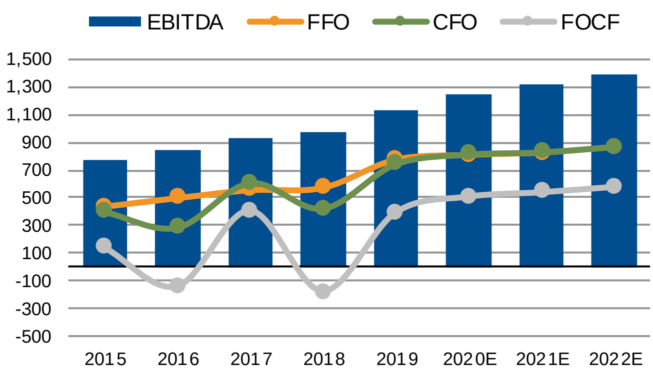
Fastpartner has a stated financial policy of keeping its interest coverage ratio above 2.0x at least. We understand that this ratio may be tightened as the company is working on new financial targets.

Figure 6: EBITDA interest coverage (x)



Source: Scope estimates

Figure 7: Cash flows



Source: Scope estimates

Fastpartner's Scope-adjusted EBITDA has grown continuously from SEK 770m in 2015 to SEK 1,140m in 2019, in line with its growing asset base. Given the company's continued growth plan and indexed rental income, we expect further EBITDA growth to SEK 1.4bn in 2022. Funds from operations have developed in tandem with EBITDA, reaching their highest level so far in 2019, at SEK 775m. We expect continued growth to SEK 870m in 2022.

Maintenance capex and internal development projects covered by FOCF going forward

Scope-adjusted FOCF (excluding discretionary capex such as acquisitions) is impacted by the significant investments in Fastpartner's own portfolio, which took the metric below zero in 2016 and 2018. Going forward, we expect maintenance capex and internal development projects to be covered by internal cash flows in 2021 and 2022. We assume that any additional forecasted acquisitions will be financed through either share/D-share/preference share issues, external debt or a combination of both.

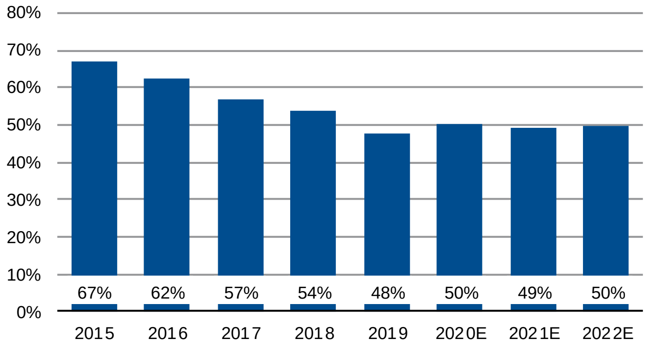
Discretionary cash flows have been heavily impacted by the acquisition of properties over the last five years, with very few disposals during the time period. While most of the acquisitions were debt financed, Fastpartner also increased its equity in 2016 (SEK 760m through an A-share increase), 2019 (SEK 701m through a D-share increase) and 2020 (SEK 221m through an A-share increase).

Fastpartner is not classified as a real estate investment trust and is therefore under no pressure to pay out dividends. The company has three different share classes with different voting rights (including a preference share class) and its target is to pay out a long-term dividend level of 33% of the profit generated by property management (on average 38% was paid out in the last five years). Preference share dividends are also set/adjusted at the annual general meeting and can be postponed if necessary. Management (which includes the main shareholder) is open to cutting dividends if the current situation requires such action, providing a safety cushion for cash flows.

Historic deleveraging trend with expected LTV of 50% going forward

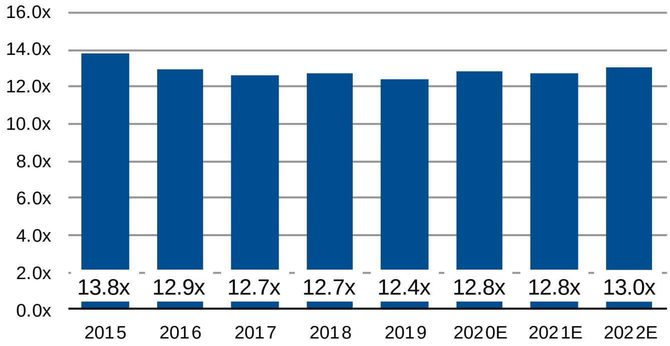
Fastpartner's leverage as measured by its LTV has come down significantly from levels in the high 50s to the low 50s and below (2019: 48%) thanks to fair value adjustments and occasional equity issuances. The company's current target LTV is below 50% as calculated by net debt to property values (although lower levels could be communicated at the upcoming ratio review). Based on our forecasts, Fastpartner hovers around the 50% ratio.

Figure 8: Scope-adjusted Loan/value ratio (%)



Source: Scope estimates

Figure 9: Scope-adjusted debt/EBITDA (x)



Source: Scope estimates

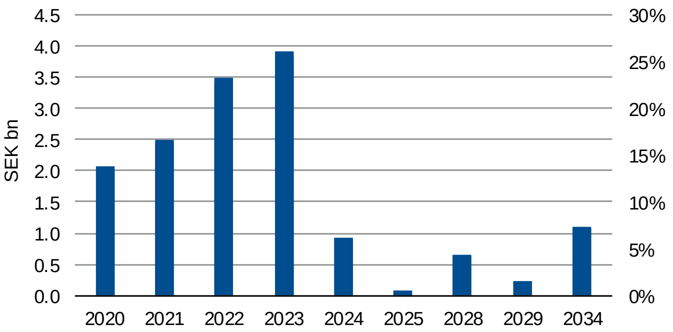
Scope-adjusted debt (SaD)/EBITDA has remained at very stable levels above 12x in the last few years. Our rating case expects this to continue going forward. Given the nature of the company, which predominantly manages buy-and-hold commercial properties, we do not apply a weight to this ratio. The current crisis is accelerating changes in demand for commercial real estate, as outlined in the business risk profile section of this report. This could affect the importance of Fastpartner's relatively high SaD/EBITDA ratio in the medium to long term.

Adequate liquidity

Like its peer Klövern, Fastpartner has historically relied on relatively short-term funding and keeping cash on the balance sheet low. The company's strategy is to draw on revolving credit facilities/check credit facilities once short-term liquidity needs arise or, alternatively, to issue commercial papers under its SEK 2bn programme. In a second step, the company then replaces these short-term instruments with secured bank loans/bonds with a pledge on real estate. At Q2 2020, Fastpartner's secured LTV was at 36%. This would give the company ample room to increase debt on existing properties within its limit of up to a 70% LTV on bank loans, if the short-term market no longer allowed it to refinance. In addition, the company has a back-up revolving credit facility to cover the full SEK 2bn commercial paper programme and additional revolving credit facilities, which cover the unsecured part of upcoming maturities. We assess the likelihood that banks will not refinance secured loans as low. Fastpartner has good relationships with all the large Nordic banks and has loans with various maturities.

Given the above, liquidity is judged to be adequate.

Figure 10: Maturity profile



Source: Scope estimates

Figure 11: Liquidity in mSEK

Position	2020E		2021E	
Unrestricted cash (t)	SEK	141	SEK	27
Open committed credit lines (t)	SEK	2'388	SEK	2'388
Free operating cash flow (t+1)	SEK	544	SEK	583
Short-term debt (t)	SEK	2'453	SEK	3431
Coverage		1.25		0.87

Source: Scope estimates

Long-term and short-term debt ratings

Senior unsecured debt: BBB-

Fastpartner has SEK 5.6bn of senior unsecured debt outstanding, consisting of SEK 1.2bn in commercial paper and SEK 4.4bn in senior unsecured bonds (of which SEK 1.3bn were issued under its green framework). These senior unsecured obligations benefit from a property pool of SEK 4bn in truly unencumbered assets in addition to SEK 6.2bn in unencumbered parts of secured properties (difference of secured LTV up to 60%). We assess that the pool of unencumbered assets stands at SEK 10.2bn, providing a 185% coverage of unsecured assets. We therefore rate senior unsecured debt at the issuer level of BBB-.

Short-term debt: S-2

The S-2 short-term rating is supported by adequate liquidity, good banking relationships, and strong access to diverse funding sources with regular issuances to various equity share classes and bonds.

Appendix I: Peer comparison

	Fastpartner AB		Klövern AB	Inmobiliaria Colonial SOCIMI S.A..	Merlin Properties SOCIMI S.A.	WingHolding ZRT
	BBB-/Stable		BBB-/Stable	--/--/--*	--/--/--*	B+/Stable/--
As of reporting date	30 June 2020		31 December 2019	31 December 2019	31 December 2019	31 December 2019
Business risk profile						
Scope-adjusted total assets (EUR m)	3,018		6,014	12,285	13,051	1,500.0
Portfolio yield	4.6%		5.4%	2.8%	4.0%	6.8%
Gross lettable area (thousand sq m)	1,535		2,549	1,614.4	3,300	600
No. of residential units			N/A	N/A	1.2	0.4
No. of countries active in	1		3	2	2	3
Top 3 tenants (%)	9%		11%	9%	22%	34%
Top 10 tenants (%)	19%		19%	24%	33%	44%
Office (share of net rental income or NRI)	49%		76%	83%	46%	85%
Retail (share NRI)	12%		13%	9%	24%	10%
Residential (share NRI)	1%		0%	0%	0%	0 %
Hotel (share NRI)	2%		0%	0%	0%	0%
Logistics (share NRI)	16%		11%	5.%	10%	5%
Others (share NRI)	20%		0%	3.%	19%	0%
Property location	A		A	A	A	B
EPRA occupancy rate (%)	91.0%		90.0%	97.3%	94.8%	88.0%
WAULT (years)	4.7		3.6	4.0	5.6	5.7
Tenant sales growth (%)	N/A		N/A	N/A	N/A	N/A
Like-for-like rent growth (%)	N/A		N/A	4.0%	5.2%	N/A
Occupancy cost ratio (%)	N/A		N/A	N/A	N/A	N/A
Scope-adjusted EBITDA margin[1]	68%		63%	78.7%	18.7%	37.0%
EPRA cost ratio (incl. vacancy)	N/A		N/A	20.4%	18%	N/A
EPRA cost ratio (excl. vacancy)	N/A		N/A	19.1%	N/A	N/A
Financial risk profile						
Scope-adjusted EBITDA interest cover (x)[8]	3.7x		2.5x	3.2x	3.7x	4.6x
Loan/value ratio (%)	49%		55%	38%	41%	63%
Scope-adjusted debt/Scope-adjusted EBITDA (x)[8]	12.4x		14.8x	16.7x	13.2x	13.9x
Weighted average cost of debt (%)	2.0%		2.3%	1.6%	2.1%	2.4%
Unencumbered asset ratio (%)	190%		182%	289%	N/A	220%
Weighted average maturity (years)	3.2		4.1	4.9	6.4	na

* Subscription ratings available on ScopeOne

[1] includes all GLA surfaces, above and below ground

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