

Ilija Batljan Invest AB

Sweden, Investment Holding



Corporate profile

Ilija Batljan Invest AB (IB Invest), founded in 2016 by Ilija Batljan, is a Swedish investment company specialising in direct and indirect real estate and equity investments in sustainable impact and digital companies. IB Invest has four core holdings, the largest being 4.78% of stock-listed SBB i Norden, 26.7% of Odd Molly, a logistics portfolio and a portfolio of listed Swedish real estate companies, besides a diverse portfolio of growth companies.

IB Invest focuses on the receipt of recurring dividend payments from its mature shareholdings, rental income from its properties, and capital appreciation with a future dividend potential from its growth investments.

Key metrics

Scope credit ratios	2018	2019	Scope estimates	
			2020E	2021E
Total cost coverage	1.6x	1.4x	1.9x	2.1x
Total cost coverage (recurring – mandatory expenses)	1.6x	1.4x	2.3x	2.9x
Scope adjusted loan/value ratio	25%	32%	~32%	

Rating rationale

Scope Ratings has today assigned a first-time issuer rating of BBB-/Stable to Ilija Batljan invest AB. Scope has also assigned a first-time rating of BBB- to the company's senior unsecured debt.

The rating is driven by IB Invest's strong total cost coverage, which stood at 1.4x at year-end 2020. We expect cost coverage to improve to around 2x given the visibility on significantly increased dividends from SBB i Norden and the upcoming intended refinancing. The rating is further supported by the company's 'buy-and-hold' investment approach and the liquidity of holdings. The majority of IB Invest's financially relevant holdings (87% of gross asset value [GAV] and 78% income contribution) are publicly listed companies in well-developed markets. As such, they could provide cash inflows through partial liquidation if needed.

The rating is constrained by IB Invest's limited diversification. Only three core holdings represent 78% of GAV and four core holdings represent 86% of income. In addition, IB Invest has a highly concentrated portfolio in terms of industries (residential and commercial real estate) and within its main core holding SBB i Norden, which contributes 63% of GAV and 65% of income as of Q1 2021. This top holding concentration is mitigated by the underlying industry exposure to residential and defensive social infrastructure properties, which have low cyclicality. The company's Scope-adjusted loan/value ratio (LTV), assessed at 32% at year-end 2020, up from 25% the year before, burdens its financial risk profile.

Ratings & Outlook

Corporate ratings BBB-/Stable

Senior unsecured rating BBB-

Analysts

Thomas Faeh
+47 9305 3140
t.faeh@scoperatings.com

Related Methodology

Corporate Rating Methodology:
February 2020

Scope Ratings GmbH

Karenslyst allé 53

N-0279 Oslo

Phone +47 21 623142

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0

Fax +49 30 27891 100

info@scoperatings.com

www.scoperatings.com



Bloomberg: RESP SCOP

Outlook and rating-change drivers

The Outlook for IB Invest is Stable and incorporates a continuation of the company's main long-term holdings in SBB i Norden in addition to its direct and indirect investments in real estate in the Nordics and growth companies in sustainability and digital areas. The Outlook further incorporates our expectation that the company will not engage in further debt-financed increases in shareholdings, thus keeping leverage as measured by the Scope-adjusted LTV at around 30%, while total cost coverage remains at around 1.5-2x going forward.

A negative rating action would be possible if IB Invest's total cost coverage deteriorated below 1.5x on a sustained basis or the LTV increased above 35%. This could be the result of its main holding SBB i Norden not being able to pay dividends and/or the company engaging in debt-funded increases in shareholdings.

A positive rating action is unlikely but may be warranted if the company diversifies its income-generating holdings. This could be the result of a more mature investment portfolio through either the organic growth of its sustainable and digital portfolio or an investment reshuffle

Rating drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> Highly liquid assets as 87% of holdings by GAV are listed shares Long-term strategy of keeping core holding SBB i Norden in addition to direct/indirect exposure to real estate assures stable and recurring revenues Strong cost coverage with expectation of a sustained coverage above 2x Core holding SBB i Norden is exposed to low-risk residential real estate and community service properties benefitting from long tenancies with mostly government tenants ESG focus reduces potential regulatory risks and increases attractiveness (especially for real estate exposure) 	<ul style="list-style-type: none"> Limited diversification in terms of holdings that provide recurring revenues, somewhat mitigated by the company's ability to keep mandatory cost coverage above 1x without the income from SBB i Norden Limited geographical diversification with a home bias in Sweden Concentrated portfolio exposed to the real estate industry, which has low and medium cyclical, somewhat mitigated by the defensive characteristics of its dominant core holding Elevated LTV for the rating, mitigated financial policy limiting further indebtedness

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Diversification of income-generating holdings, allowing for a broader spread by industries and geographies 	<ul style="list-style-type: none"> Fall in total cost coverage to below 1.5x on a sustained basis Increase in LTV to above 35% on a sustained basis



Financial overview

			Scope estimates	
Scope credit ratios	2019	2020	2021E	2022E
Total cost coverage	1.6x	1.4x	1.9x	2.1x
Total cost coverage (recurring – mandatory expenses)	1.6x	1.4x	2.3x	2.9x
Scope adjusted loan/value ratio	25%	32%	~32%	
Total income in SEK m	2018	2019	2020E	2021E
Dividends from core holdings	15	43	85	89
Rental income from properties	6	7	17	18
Interest income from short-term investments	13	31	18	18
Other income	0	0	0	0
Recurring income	34	81	121	124
Income from asset sales	0	0	0	0
Total income	34	81	121	124
Total expenses in SEK m	2018	2019	2020E	2021E
Operating expenses	-3	-5	-6	-6
Interest expenses	-18	-52	-56	-54
<i>Mandatory interest expenses</i>	-18	-52	-47	-37
<i>Hybrid bond interest expenses (includes 50% equity credit)</i>	0	0	-17	-34
Tax payments	0	0	0	0
Dividends paid	0	0	0	0
Total expenses	-22	-56	-62	-60
Scope-adjusted debt in EUR m	2018	2019	2020E	2021E
Reported gross financial debt	1,030	1,106	1,142	1,142
less: cash, cash equivalents	-96	-282	-247	-220
add: non-IB owner loan	0	123	123	123
add: hybrid (50% debt content)	0	0	250	250
Scope-adjusted debt	934	947	1,269	1,296

Weighted average industry risk:
BBB-

Business risk profile: BB+

IB Invest is predominantly exposed to the commercial real estate industry (industry risk: BB), which accounts for 60% of the company's net asset values (NAV) and 64% of income in 2021 (dividends/rent income). The second largest exposure is to residential real estate (industry risk: A), at 31% of NAV and 35% of income. As the largest holding SBB I Norden (63% of GAV/65% of income) is exposed to both commercial and real estate, we have spun out the representative shares, arriving at 45% of value associated with residential and 55% with commercial real estate. Hence, 91% of IB Invest's NAV or 89% of its income is exposed to the real estate industry, dwarfing its other exposures to renewable energy, business services and capital goods companies.

Figure 1: Industry risk assessment: IB Invest's portfolio companies

Industry	Mvalue/ NAV	Income based	Cyclicality	Market entry barriers	Substitution risk	Industry rating
Commercial RE	60,2%	63,9%	Medium	Medium	Medium	BB
Residential RE	31,2%	35,2%	Low	Medium	Low	A
Renewable energy	4,6%	0,0%	High	Medium	Medium	BB
Business service	2,7%	0,0%	Medium	Medium	Medium	BBB
Capital goods	0,5%	0,0%	Medium	Medium	Medium	BBB
Others	0,7%	0,9%				
Weighted industry risk	BBB-	BBB-				

Source: Scope estimates

We assess an investment holding company's competitive position based not only on its number of shareholdings but also on its diversification by the number of core holdings, income-generating assets, and geographical outreach. Furthermore, we assess income protection (of dividends and interest, among others) based on the concentration of income-producing assets and the underlying industry exposure. The quality (liquidity) of these assets indicates the company's ability to sell assets quickly if needed.

Buy- and-hold strategy providing
recurring income streams

IB Invest's main mission is a so-called 'buy-and-hold' investment approach, which focusses on: i) cash flows from recurring income from its core holding SBB i Norden and direct/indirect real estate investments; and ii) capital appreciation on the (currently) non-dividend paying remaining core holdings with the clear vision of these growth companies turning into dividend paying companies.

IB Invest's investment process centres on spotting trends and investing in market-leading growth companies in their niche at a relatively early stage. The company uses inhouse knowledge on the real estate side, supplemented with external advisors especially on the sustainable/digital side. The selection process requires commitment and resources to assure that long-term winners are chosen. This translates into a long-term holding period, underpinned by no divestments so far. IB Invest aims to achieve a sizeable position in its holdings, preferably as one of the top five shareholders. If it is able to do so, the company supports its holdings with knowledge, advice and capital, where needed, without demanding an active role in return, e.g. through a board mandate. The aim is to turn growth companies into dividend paying ones in the future, with no exit strategy in mind. IB Invest has been willing to participate in capital increases and grant shareholder loans for its core holdings.

Besides these investments, the company also builds up its cash flow-providing core holdings in logistics as well as SBB i Norden.

IB Invest's investment strategy rests on four pillars:

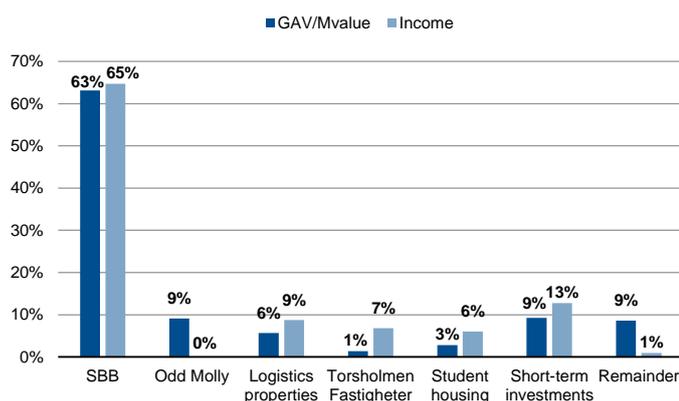
1. Long-term core holdings in SBB i Norden: via A, B and D share classes in addition to a convertible, IB Invest holds 4.78% of capital and 20% of votes in the company.
2. Real estate and logistics: the company owns properties directly (one student house, two logistics buildings) and indirectly through Odd Molly (logistics) and Torsholm (logistics).
3. Sustainable impact investments: currently six holdings in biogas, wind turbines, solar panels, hydrogen fuel and waste-heat power generation, which will significantly contribute to limiting climate change. This pillar currently amounts to only 5% as measured by NAV, but is expected to grow most in the coming years, financed by cash flows from core holding SBB i Norden.
4. Digital investments: three holdings that are well-positioned to capture the strong digitalisation trends, amounting to 2.7% as measured by NAV.

Besides the buy-to-hold activities in real estate, sustainable impact and digital investments, the company has a small portion of its assets (9% of NAV) in minority stakes in Swedish liquid real estate corporates. This minority portion can best be described as a trading/excess liquidity portfolio, with very limited financial support to such holdings.

Limited diversification with only three to four core holdings

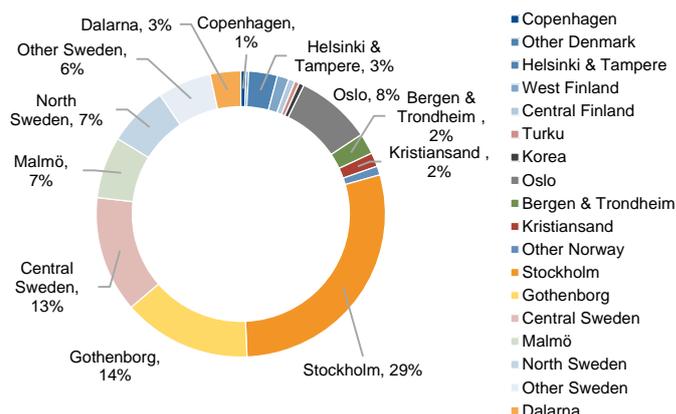
The three core holdings – holdings with a share in excess of 5% of the company's total GAV – represent 78% its total GAV. The core holdings are dominated by SBB i Norden with 63% of total assets, followed by Odd Molly with 9%, and the logistics portfolio with 6%. By extending the metrics to recurring dividend income, the core group improves slightly to four holdings representing 86% of income, with Odd Molly dropping out (no dividends) and its student housing property and the share in Torsholmen Fastigheter climbing above the 5% hurdle. In addition, the company's liquidity portfolio contributes 9% of GAV and 13% of income.

Figure 2: Core investments by GAV/income as of April 2021



Source: IB Invest, Scope

Figure 3: Geographic spread of income from core holdings



Source: Scope

This comparatively limited diversification of GAV leads to higher LTV volatility, as a decline in the value of one undertaking will have a more significant impact. IB Invest benefits from some diversity with regard to income-generating holdings (rental income, dividends, interest) with five holdings. Furthermore, the liquidity portfolio includes real estate properties that generate recurring rental income. This helps IB Invest to offset the impact of a lack of dividend payments from one or several undertakings (except for the largest, SBB i Norden), leading to more stable cost coverage. The remaining portfolio



Diversification across the Nordics, with a home bias in Sweden

predominantly consists of growth companies without the capacity to provide cash flows at present.

IB Invest's geographical diversification is moderate, with the majority of income from its core holdings benefitting from a diverse spread across Sweden (79%), followed by Norway at 13%, Finland at 6%, and Denmark and South Korea at 1% each. Thus, the company's performance will hinge on the macroeconomic development of Sweden and, to a smaller degree, all the Nordics. However, these countries have mature and stable economies with a strong welfare/social system in place. The latter softens the economic burden in times of distress (as has been evident 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 residential and commercial real estate owners alike.

IB Invest's smaller holdings' geographical spread in the digital & sustainable growth segments is on a global scale. They could potentially broaden diversification in the future, but income streams from these holdings are negligible at present.

High concentration, mitigated by industry exposure and tenant quality

Concentration of investments is relatively high, with IB Invest's largest holding SBB i Norden contributing 63% of GAV and 65% of income as of Q1 2021. SBB i Norden is a mix of commercial (55%) and residential (45%) properties. Traditional commercial properties (offices/industrial/retail) are exposed to medium cyclicalities and could therefore impact the holding company's recurring income stream if the Nordic economies weaken. However, we believe cyclicalities are lowered by the community property characteristics of SBB i Norden's commercial real estate portfolio. Two-thirds of rental income from the top 20 tenants come from government/municipality tenants; tenant quality implied by (non-existing) bad debt impairments is of a very high investment grade and the weighted average unexpired lease term is nine years. We thus assess SBB i Norden's commercial real estate portfolio as lower risk than a typical commercial real estate portfolio. From a usage point of view, 64% stems from very defensive industries (elderly care, government-funded housing for special needs, government infrastructure, hospitals and public offices) and the remainder is exposed to education with partial private and government counterparties.

The next largest holdings in terms of income (excluding the short-term liquidity portfolio) are IB Invest's direct exposure to its two logistics properties, followed by its share in Torsholmen Fastigheter and its direct ownership of the student housing property in Eskilstuna. These exposures amplify income-generating industry concentration on commercial and residential real estate (91% of GAV). At the same time, the associated cash flow risks are somewhat mitigated by long rental contracts with solvent tenants in subsegments with a positive outlook (logistics and student housing).

Overall, we believe the company's exposure to industries with low/medium cyclicalities and the defensive characteristics of SBB i Norden's community service properties mitigate the downside volatility of cash flows from rents and dividends. Negative economic developments and shocks, as proven by the ongoing pandemic, should have a less pronounced impact on cash generation and the dividend potential of IB Invest's core holdings.

Liquidity of holdings is a strength thanks to high share of listed holdings

The majority of IB Invest's financially relevant holdings in terms of GAV (87%) and income contribution (78%) are publicly listed companies in well-developed markets, benefitting from high trading volumes. As such, they could provide cash inflows through partial liquidation if needed. The remainder are either direct or indirect real estate holdings with decent liquidity or unlisted shares in growth companies. The growth companies are unlikely to provide liquidity in times of distress, but at 3.6% of GAV and

0.9% of income, they are insignificant from a liquidity point of view in the holding structure.

Even in the dominant shareholding SBB i Norden (63% by GAV/65% by income), IB Invest as the largest shareholder 'only' holds 8.5% of capital, with the top 20 shareholders sharing 55%. The daily trading volume of SBB i Norden's B shares over the last 12 months has been 5.7m shares (0.4% of outstanding shares) translating into SEK 200m at the current share price. To put this figure into perspective, it would cover IB Invest's annual total costs by 3x. As such, we view liquidity as a key strength of IB Invest's business risk profile.

Focus on sustainability and environment

We positively note the company's focus on sustainability and investments in solutions targeting climate change mitigation and adaptation. IB Invest's sustainable and digital segments focus on these factors. Similarly, its core holding SBB i Norden aims to achieve climate neutrality by 2030 and engages in social issues. IB Invest's efforts are exemplified by its green bond framework and procurement of a second opinion from Cicero on its ESG efforts.

Financial risk profile: BBB-

We use cost coverage ratios as the main indicator to assess the financial risk profile of an investment holding company. We define cost coverage ratios as the relation of cash inflows versus non-discretionary cash outflows at the investment holding company level. We believe that historic or normalised cost coverage ratios can be misleading as they might not be representative of the future situation, due to portfolio changes and shifts in the dividend policy of subsidiaries. Consequently, our forward-looking analysis incorporates projected cash inflows relative to non-discretionary cash outflows.

Strong total cost coverage...

For an investment-grade rated holding company, we expect the total cost coverage from recurring income streams to be well above 1.0x. IB Invest has been well above 1x in the past, with a 'low point' of 1.4x in 2020 due to an increased debt load in 2019 (issuance of a SEK 1bn bond in Sept 2019), resulting in a sharp rise in interest payments in 2020. The company had very limited corporate expenses of around SEK 1m (EUR 98,000) in 2020, thanks to its buy-and-hold approach with no interference in its holdings. Operating expenses result from property-related expenses of around SEK 3.6m in 2020 and interest payments predominantly for bond debt (SEK 1bn) in addition to limited amounts of bank debt (SEK 132m). IB Invest has not distributed dividends in the past and does not intend to do so in the future.

...to improve further with upcoming intended refinancing

With the upcoming intended refinancing of the outstanding SEK 1bn bond through a new SEK 1bn bond loan at more favourable conditions, the company will significantly improve its cost coverage. The positive effect is somewhat dampened by the proposed issuance of a subordinated perpetual note, carrying a 50% equity content under our methodology, resulting in half of its coupon being included in our interest costs. Besides decreasing the cost side, the dividend from SBB (YoY growth of 66%) and increased rental income from refurbished properties will lift total cost coverage to an estimated 1.9x in 2021, which we foresee increasing to 2.2x in 2023.

Total cost coverage of mandatory expenses benefits from the issuance of the hybrid instrument, as its coupon payments are deferrable at the sole discretion of the issuer and therefore not a mandatory expense in this ratio. Excluding the hybrid coupon, we estimate total cost coverage from recurring income minus mandatory expenses at 2.3x in 2021 and expect it to increase to 3x by 2023.

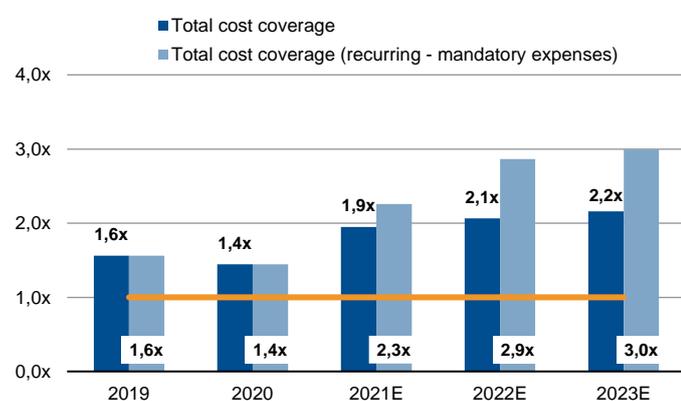
The main contributor on the income side is the strongly growing dividend from SBB i Norden, which contributed 78% in 2020 and is forecasted to contribute 65% in 2021.

Despite the 66% growth in the dividend from SBB i Norden, real shares are declining in 2021 thanks to a broadening of cash flow-generating holdings. The second largest contributors are the direct property investments in two wholly owned logistics properties, providing 9% of income, followed by a partial ownership in another logistics project at 7% and a fully owned student housing property at 6%. In addition to these and some smaller holdings, a joint venture structure with a liquidity portfolio of investments in listed Swedish real estate companies should contribute 13% to 2021 forecasted revenue in the form of interest payments.

All cash flow is reinvested in holdings, no dividends are paid out

Given the growth characteristics of IB Invest, free operating cash flow has been negative historically and is forecasted to remain negative in 2021. The company intends to invest all its income (after servicing debt and operating expenses) in its holdings. We therefore assume that free operating income will be around zero to slightly negative going forward. Excluding discretionary investments in its holdings, free operating cash flow should be positive going forward.

Figure 4: Total cost coverage



Source: IB Invest, Scope estimates

Figure 5: Sensitivity of Scope-adjusted LTV

Scope-adjusted debt (SEK bn)	Portfolio market value (SEKbn)								
	4.30	4.11	3.91	3.72	3.52	3.33	3.13	2.94	
	10%	5%	0%	-5%	-10%	-15%	-20%	-25%	
1.23	0.0%	28.6%	30.0%	31.5%	33.2%	35.0%	37.1%	39.4%	42.0%
1.39	12.5%	32.2%	33.8%	35.5%	37.3%	39.4%	41.7%	44.3%	47.3%
1.54	25.0%	35.8%	37.5%	39.4%	41.5%	43.8%	46.3%	49.2%	52.5%
1.70	37.5%	39.4%	41.3%	43.3%	45.6%	48.1%	51.0%	54.2%	57.8%
1.85	50.0%	43.0%	45.0%	47.3%	49.8%	52.5%	55.6%	59.1%	63.0%
2.00	62.5%	46.6%	48.8%	51.2%	53.9%	56.9%	60.2%	64.0%	68.3%
2.16	75.0%	50.1%	52.5%	55.2%	58.1%	61.3%	64.9%	68.9%	73.5%
2.31	87.5%	53.7%	56.3%	59.1%	62.2%	65.7%	69.5%	73.9%	78.8%

Source: Scope

We calculate an investment holding company's leverage by taking into account the market value of the portfolio of shareholdings, loans granted and fixed-income products relative to the debt position (Scope-adjusted debt) at the holding company level (LTV). Such market gearing can be very volatile due to the fluctuation of share prices and changing valuation multiples depending on current market conditions.

Relatively high leverage burdens the rating

We assess IB Invest's LTV as of YE 2020 to be 32% up from 25% in 2019. This leverage ratio represents a weakness in the company's financial risk profile. Going forward, we expect IB Invest to remain at current LTV levels or to deleverage somewhat, based on its publicly stated financial policy of remaining within an LTV of 15%-30% (based on its own calculations). While the company's calculations offset the liquidity portfolio from interest-bearing debt, the difference to our calculation is not that large. The Scope-adjusted LTV would be around 35%, at the upper end of the company's guidance. We understand that the company also intends to keep nominal debt levels unchanged, despite the proposed issuance of an additional hybrid instrument, by keeping cash on the balance sheet (or as short-term investments in liquid positions). Nevertheless, this financial policy is not committed through covenants.

Adequate liquidity

We assess IB Invest's liquidity as adequate given: i) around zero Scope-adjusted free operating cash-flow; ii) the undrawn portion of loan facilities worth SEK 447m; iii) unrestricted cash of SEK 90m; iv) a highly liquid portfolio of Nordic real estate shares that could be unwound at short notice, worth SEK 350m (as of April 2021); and v) bond debt of SEK 1bn maturing in September 2022 (to be refinanced early in June 2021).



Long-term and short-term debt ratings

Senior unsecured debt: BBB-

As of April 2021, IB Invest had SEK 130m in unsecured bank debt (ranking structurally ahead of the bond) in addition to SEK 1bn in unsecured bonds outstanding. Senior unsecured debt benefits from unencumbered assets worth SEK 3.9bn, providing a large pool of collateral to debtholders. We therefore rate senior unsecured debt at BBB-, the level of the issuer rating.



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

111 Buckingham Palace Road
London SW1W 0SR

Phone +44020-7340-6347

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2021 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Analysis GmbH, Scope Investor Services GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.