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 35bn. 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	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA/interest cover (x)	3.7x	3.9x	4.2x	3.9x
Scope-adjusted debt (SaD)/EBITDA (x)	12.4x	12.4x	11.5x	11.1x
Scope-adjusted loan/value ratio (LTV) (%)	48%	47%	42%	43%

Rating rationale

Scope Ratings has today affirmed the issuer rating of Fastpartner AB at BBB-/Stable. The company's senior unsecured debt was affirmed at BBB- as was the S-2 rating of its short-term debt.

The rating action reflects Fastpartner's stable operations with an unchanged business risk profile (assessed at BBB-) as well as an improved financial risk profile (assessed at BBB) thanks to improved credit metrics anticipated to stabilize at new levels going forward.

The rating is supported by Fastpartner's market position in the Swedish real estate market, with improved market share in its core market of Stockholm. The company's weighted average unexpired lease term (WAULT) is above average for the Nordics at 4.7 years, and profitability is just shy of 70% as measured by its Scope-adjusted EBITDA margin. These support the rating further. Scope-adjusted interest coverage improved from 3.5x to over 4x and is expected to remain at this level, while LTV improved to 45% from around 50%. Both of these ratios are rating-supportive as well.

The rating is constrained somewhat by relatively high geographic concentration, with Stockholm accounting for 78% of assets by fair value. Relatively low but stable occupancy of 91% and a top-three tenant concentration of 9.5% somewhat hinders the rating. Fastpartner's exposure to floating-rate debt, with only 15% hedged, is seen as a risk factor, but this is partially mitigated by our expectation of continued zero interest rates in Sweden.

Ratings & Outlook

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

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Related Methodologies

Corporate Rating Methodology: July 2021

Rating Methodology: European Real Estate Corporates January 2021

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Bloomberg: RESP SCOP

Outlook and rating change drivers

The Outlook for Fastpartner is Stable and incorporates continued growth in its core market of Sweden, especially greater Stockholm. We assume such growth will be financed with debt and equity. In addition, it incorporates our expectation that the company's leverage, as measured by its LTV, will remain at levels of between 40%-50% and that debt protection will remain around 4x. Continued strong cash flow generation, as measured by Scope-adjusted free operating cash flow, is expected to cover dividend payments going forward.

A negative rating action is possible if Fastpartner's leverage, as measured by its LTV, reached above 55% on a sustained basis, or if debt protection weakened below 3x. This could be driven by a rise in interest-bearing debt through highly debt-financed acquisitions or unfavourable remortgaging. It could also be driven by more severe after-effects from the pandemic, leading to a stronger-than-expected revision of rental growth prospects and a downward adjustment to the company's asset values.

A positive rating action could be warranted by deleveraging that results in an LTV of around 40% on a sustained basis supported by a tightened financial policy. This could be achieved with less debt-funded capex, decreased financial debt requirements through stronger-than-anticipated cash generation from the portfolio, and continued strong demand for Fastpartner's properties, resulting in positive fair value adjustments.

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 sq m of lettable area under management • Moderate and stable profitability, with a Scope-adjusted EBITDA margin of around 70%, that 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	• Modest 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 issuers ability to keep the ratio stable

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• LTV of around 40% on a sustained basis supported by tightened financial policy	• Increase in LTV above 55% on a sustained basis or weakening of debt protection to below 3x

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA/interest cover (x)	3.7x	3.9x	4.2x	3.9x
Scope-adjusted debt/Scope-adjusted EBITDA (x)	12.4x	12.4x	11.5x	11.1x
Scope-adjusted loan/value ratio	48%	47%	42%	43%
Scope-adjusted EBITDA in SEK m	**2018**	**2019**	**2020E**	**2021E**
EBITDA	1,138	1,247	1,312	1,463
Operating lease payments in respective year	0	0	0	0
Other	0	0	0	0
Scope-adjusted EBITDA	**1,138**	**1,247**	**1,312**	**1,463**
Scope-adjusted funds from operations in SEK m	**2018**	**2019**	**2020E**	**2021E**
EBITDA	1,138	1,247	1,312	1,463
less: (net) cash interest as per cash flow statement	-310	-317	-314	-375
less: cash tax paid as per cash flow statement	-61	-72	-98	-107
Other	8	-3	0	0
Scope-adjusted funds from operations	**775**	**855**	**900**	**981**
Scope-adjusted debt in SEK m	**2018**	**2019**	**2020E**	**2021E**
Reported gross financial debt	14,413	15,638	15,222	16,471
less: cash and cash equivalents	-264	-147	-124	-166
add: cash not accessible	0	0	0	0
add: pension adjustment	0	0	0	0
add: operating lease obligations	0	0	0	0
Other	0	0	0	0
Scope-adjusted debt	**14,149**	**15,491**	**15,098**	**16,305**

Business risk profile: BBB-

Industry risk: BB

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

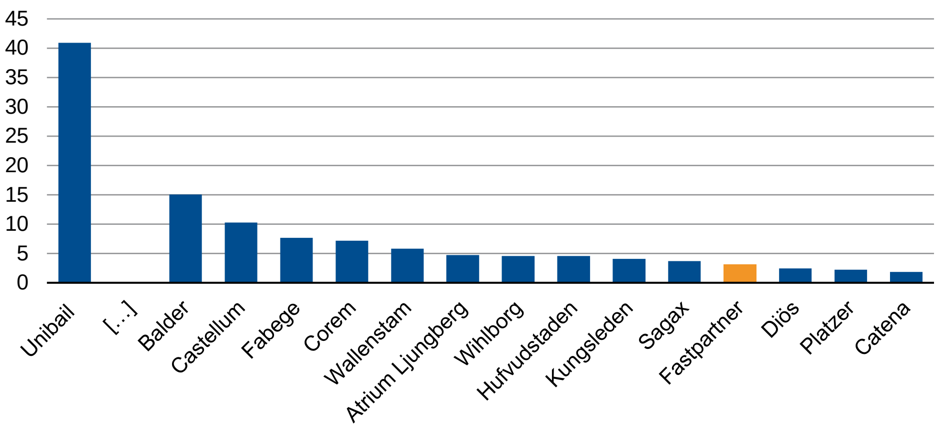
Credit outlook stable for 2021

The credit outlook for the European real estate sector is stable in 2021, though the retail sector remains a weak spot as it faces multi-layered disruption resulting from the Covid-19 crisis. This may have only a modest impact on credit quality in the short term, but the consequences will be more severe if a future recovery falters.

For more information, refer to our 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 35.2bn (EUR 3.4bn). Its total lettable area amounts to 1,516,737 sq m, in addition to which the company also owns unutilised building rights for 137,000 sq m of residential space and 298,000 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 5.7bn outstanding), as well as a SEK 2bn commercial paper programme and secured bank loans with all the major Nordic banks (SEK 7.9bn).

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



Source: Company accounts, Scope estimates

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

Fastpartner's strongest foothold, with assets worth SEK 25.9bn, is in Stockholm, where it holds a top-three position by square metres. The company is mostly in the top five in the other markets in which it operates except for Gothenburg and Malmö, where its exposure is too small to qualify as moderately dominant. Having a high share in most of its markets, including Sweden's capital Stockholm, is positive. It often translates into higher visibility to potential 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 and reduced capex needs linked to tenant fluctuation.

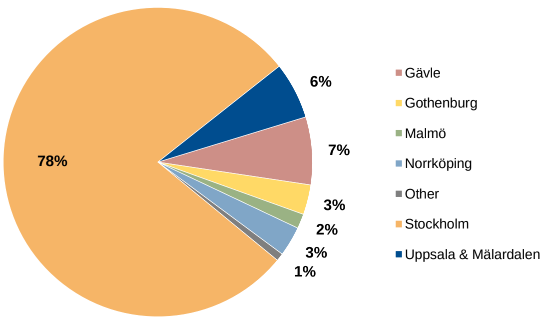
Fastpartner intends to grow within its current home territory, predominantly in Stockholm and the city of Norrköping. The company plans to do so by developing some of its building rights, while also acquiring properties that fit its portfolio.

Fastpartner's geographical diversification is moderate, with activities spread across Sweden, with a focus on Stockholm (78% of assets by fair value), allowing it to benefit from a broad range of tenants (from regional to multinational) and keep tenants with relocation/resizing needs. However, 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.

Moderate geographical diversification, with a strong Stockholm bias

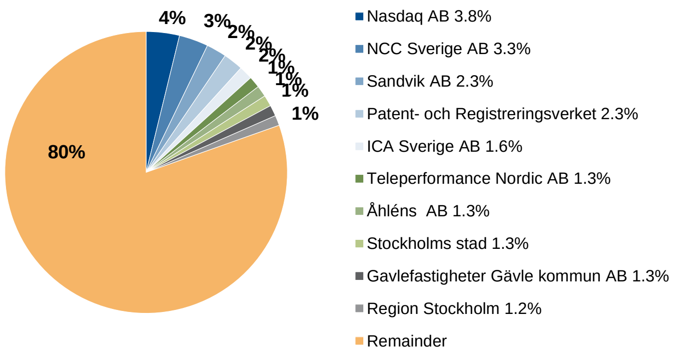
Fastpartner does not intend to broaden its exposure abroad. The company plans to focus on the markets it knows best and achieve further growth by acquiring properties and developing its building rights.

Figure 2: Geographic diversification by value of assets



Source: Fastpartner, Scope estimates

Figure 3: Tenant diversification by rental income



Source: Fastpartner, Scope estimates

Moderately diversified by property type with 47% offices

Fastpartner's largest segment by rental value is offices, at 47%, followed by logistics and warehousing at 15% and shops/restaurants at 13%. Diversification into different asset types enables the company to dampen short-term effects like those triggered by the pandemic. While the shops/restaurants segment has been adversely affected during the past year, demand for the logistics segment has increased significantly. This increased demand has balanced out rental losses/bad debt impairments from shops/restaurants. In addition, Fastpartner's exposure to the healthcare and education segments and the residential segment acts as a low-risk, stabilising factor.

Nevertheless, we do expect tenants' behaviour to change, because efforts to limit the spread of Covid-19 have led to a worldwide experiment in remote work that has turned out to be largely successful. Companies look set to adjust down their real estate requirements in the medium term. That said, we expect the decline in demand for office space to be gentle rather than drastic for two main reasons.

First, employers will require significant amounts of office space to comply with new health and safety standards requiring less densely populated working space, even if more staff work remotely more often. Employers will also have to increase recreational areas and add meeting facilities to encourage a minimum of staff to return to the office. Secondly, companies will still want prestigious, high-quality buildings to impress clients and recruit and retain staff.[1]

Fastpartner's tenant diversification is moderate, with the top three tenants accounting for 9.5% of rental income and the top 10 tenants accounting for 19.5%. The largest tenant is Nasdaq AB, which provides 3.8% of rental income, followed by NCC Sverige AB with

[1] Europe office property: evolution, not revolution (https://scoperatings.com/#!search/research/detail/166638EN)

3.3% and Sandvik AB with 2.3%. We assess overall tenant quality, based on historical rental loss statistics over the last five years, as 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-related non-payment and rent relief/discounts.

Asset quality benefits from 83% of portfolio in 'A' metropolitan areas

Fastpartner's portfolio is concentrated around larger cities in southern Sweden, with Stockholm as the dominant exposure. 83% 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 9% as 'B' locations and 8% 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.

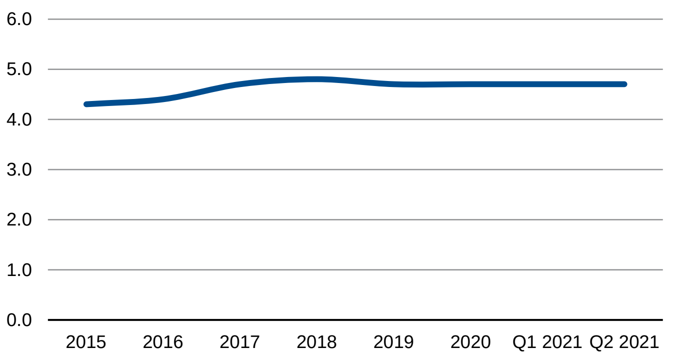
Above-average vacancy due to strategy

Fastpartner's strategy is to acquire 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 that has remained around 91%, a level relatively low compared to traditional buy-and-hold competitors. However, we view positively the stability of its occupancy rate, which remains within a narrow range of 88-92% and has shown resilience during the pandemic by staying above 90%.

Above-average WAULT by Nordic standards benefits the rating

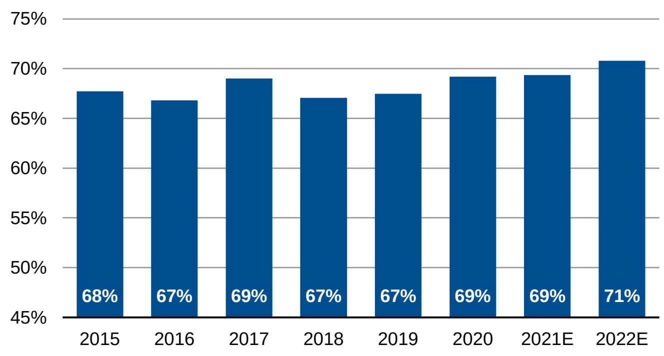
Fastpartner's WAULT of 4.7 years is average by European standards and exposes the company somewhat to ongoing re-letting risk. The company has managed to increase its lease terms slightly over the last few years and is comfortable with the current level, which has been stable since 2017. Compared to Nordic peers' rather short WAULT of four years, Fastpartner is above average. With an average of 17% of rental contracts maturing yearly for 2021-24, we view reletting risk as manageable.

Figure 4: WAULT



Source: Fastpartner, Scope

Figure 5: Profitability



Source: Fastpartner, 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 the 17 goals into its business plan. Some 31% of its assets by property value are certified as environmentally friendly and sustainable. It aims to increase this ratio by at least 10% yearly to reach 80% by 2025. The company reduced its greenhouse emissions by 45% between 2019-20 by switching to 100% renewable energy, and its vision is to become 100% carbon neutral in 2030. Fastpartner's social and environmental efforts not only make its portfolio more attractive to tenants, but may 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 and shows an improving trend. We forecast a slight increase in 2021 and beyond to 69%-70% with continued improvement driven by economies of scale and positive reletting contributions.

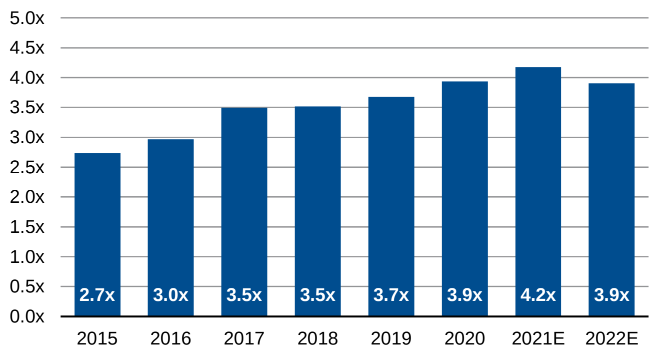
Financial risk profile: BBB

Debt protection improved over the last twelve months

Fastpartner's debt protection has been historically strong, at levels above 3.5x. Like most other Nordic players, record-low interest rates in combination with a preference for floating rates have resulted in comparatively low cash interest payments. In the 12 months since our initial rating, Fastpartner has improved its financing profile by achieving more favourable interest rates. We forecast that the company's interest coverage will remain around 4.0x (Year-end-June 2021: 4.1x) based on continued low floating rates, while we highlight the potential threat of rising rates to this metric given the company's current low hedging rate of 15%. Management is aware of this risk and follows interest rate developments closely in order to quickly react with swaps if the wind turns. However: i) they see no macroeconomic indication of rising rates currently (a view we share; the Swedish central bank recently communicated that it would not raise rates in the next three years[2]); and ii) they view their strong debt protection as a buffer that would allow them to react before uncomfortable levels are reached.

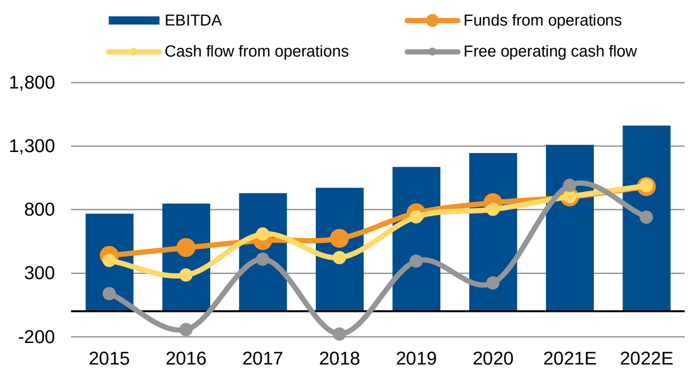
Fastpartner also updated its financial policy during the last 12 months to keep its interest coverage ratio above at least 3.0x (previously 2.0x). This tightened ratio gives us further cause to believe that the company will stick to its current interest coverage.

Figure 6: EBITDA interest coverage (x)



Source: Fastpartner, Scope estimates

Figure 7: Cash flows



Source: Fastpartner, Scope estimates

Fastpartner's Scope-adjusted EBITDA has grown continuously to SEK 1,247m in 2020 from SEK 770m in 2015, 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 1.6bn in 2023. Funds from operations have developed in tandem with EBITDA, reaching their highest level so far in 2020, at SEK 855m. We expect continued growth to SEK 1.2bn in 2023 due to already signed uplettings and reduced vacancies in addition to acquiring new properties.

[2] https://www.riksbank.se/en-gb/press-and-published/notices-and-press-releases/press-releases/2021/monetary-policy-decision-asset-purchases-and-zero-interest-rate-support-the-recovery-and-inflation/

Maintenance capex and internal development projects covered by free operating cash flow

Scope-adjusted free operating cash flow (excluding discretionary capex such as for acquisitions) has been impacted by Fastpartner's significant investments in its portfolio, which pushed 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 2021-23. We assume that any additional forecasted acquisitions will be financed either through share/D-share/preference share issues, external debt or a combination of both.

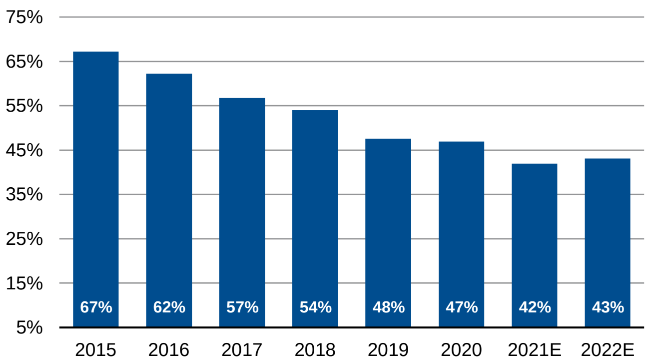
Discretionary cash flows have been heavily impacted by the acquisition of properties over the last five years, with very few disposals during that period. While most of the acquisitions were debt-financed, Fastpartner also increased its equity in 2016 (SEK 760m through an A-share increase), 2019 (SEK 701m through a D-share increase) and 2020 (SEK 221m through an A-share increase). The company is currently raising SEK 500m in D shares to strengthen its balance sheet.

The company has three different share classes with different voting rights (including a preference share class), and its target is to pay a long-term dividend of 33% of the profit generated by property management (on average, 39% was paid during 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 situation requires such an action, providing a safety cushion for cash flows.

Historical deleveraging trend with expected LTV of below 45% going forward

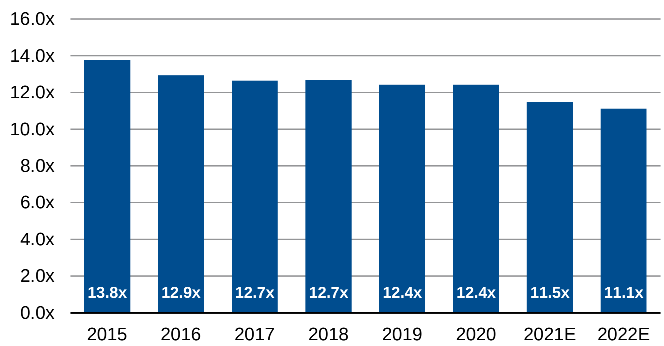
Fastpartner's leverage, as measured by its LTV, has fallen significantly from the high 50s to the low 50s and below (2019: 48%), thanks to fair value adjustments and occasional equity issuances. At YE 2020, Scope-adjusted LTV stood at 47%. The company's target LTV was updated last autumn, along with other financial policy ratios, to below 48% (previously: below 50%) as calculated by net debt to property values. Last year's forecasts with the pandemic in mind expected Fastpartner to fluctuate slightly around a 50% leverage ratio. Given an LTV of 45% as of H1 2021, the current, ongoing capital raising of SEK 500m in D shares, and the company's intention to use part of the proceeds to repay secured debt, we expect LTV to drop further by YE 2021. Assuming a fully debt-funded acquisition plan in 2022 and 2023, we forecast that LTV will increase slightly again but not significantly beyond current levels.

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



Source: Fastpartner, Scope estimates

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



Source: Fastpartner, Scope

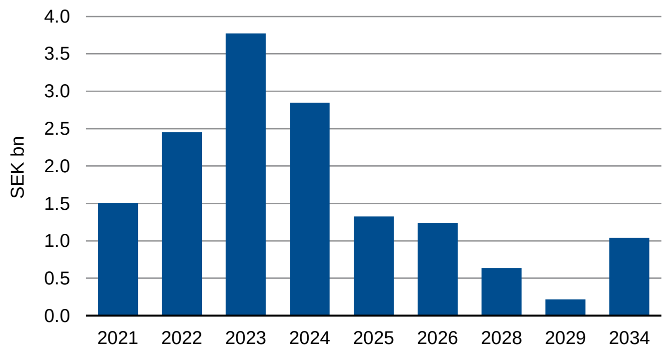
The Scope-adjusted debt/EBITDA ratio has remained at very stable levels of between 12-13x in the last few years. Our rating case expects slight deleveraging going forward.

Adequate liquidity

Fastpartner has historically relied on relatively short-term funding and keeping cash on the balance sheet low. The company's strategy is to either draw on revolving credit facilities/cheque credit facilities once short-term liquidity needs arise or issue commercial papers under its SEK 2bn programme. In a second step, the company replaces these short-term instruments with secured bank loans/bonds with a pledge on real estate. At Q2 2021, Fastpartner's secured LTV stood at 24%. This gives the company ample room to increase debt on existing properties within its limit of 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: Fastpartner, Scope estimates

Figure 11: Liquidity in SEK m

Position	2021E		2022E	
Unrestricted cash (t)	SEK	147	SEK	124
Open committed credit lines (t)	SEK	2,388	SEK	2,180
Free operating cash flow (t+1)	SEK	993	SEK	742
Short-term debt (t)	SEK	3,451	SEK	2,451
Coverage		**1.0**		**1.2**

Source: Scope

Long-term and short-term debt ratings

Senior unsecured debt: BBB-

Fastpartner has SEK 7.2bn of senior unsecured debt outstanding, consisting of SEK 1.5bn in commercial paper and SEK 5.7bn in senior unsecured bonds (of which SEK 3.3bn was issued under its green framework). These senior unsecured obligations benefit from a property pool of SEK 9.2bn in truly unencumbered assets in addition to SEK 6.4bn in unencumbered parts of secured properties (difference in secured LTV of up to 60%). We calculate that the pool of unencumbered assets stands at SEK 15.7bn, providing around 220% coverage of unsecured assets. We therefore rate senior unsecured debt at the issuer's level of BBB-.

Short-term debt: S-2

Our 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	Corem Property Group AB	Globe Trade Centre S.A.	Fastighets AB Balder	Deutsche Konsum REIT-AG
	BBB-/Stable	BBB-/Stable	BBB-/Stable/--	----/----/----*	BB+/Stable/--
As of reporting date	2021-06-30	2021-03-31	2021-06-30	2020-12-31	2021-06-30
Business risk profile		proforma merged			
Scope-adjusted total assets (EUR m)	3,450	8,044	2,511	17,419	1026.8121
Portfolio yield	4.6%	5.8%	6.9%	4.5%	5.9%
Gross lettable area (‘000s sq m)	1,517	3,432	829	5.1	989
No. of residential units	na	na	na	41,300	na
No. of countries active in	1	3	6	7	1
Top 3 tenants (%)	9.5%	9%	14%	8%	33%
Top 10 tenants (%)	19.5%	15%	26%	14%	51%
Office (share of net rental income or NRI)	47%	47%	69%	19%	na
Retail (share NRI)	13%	11%	31%	10%	100%
Residential (share NRI)	1%	na	na	59%	na
Hotel (share NRI)	6%	na	na	8%	na
Logistics (share NRI)	15%	24%	na	na	na
Others (share NRI)	18%	18%	na	6%	na
Property location	A	‘A’ and 'B'	'B'	‘A’	‘B’
EPRA occupancy rate (%)	91%	89%	91%	96%	96.6%
WAULT (years)	4.7	3.7	3.5	6.7	5.6
Tenant sales growth (%)	na	na	na	na	na
Like-for-like rent growth (%)	na	na	na	1.0%	0.9%
Occupancy cost ratio (%)	na	na	na	na	na
Scope-adjusted EBITDA margin[3]	69%	65%	86%	67%	63%
EPRA cost ratio (incl. vacancy)	na	na	na	na	28.3%
EPRA cost ratio (excl. vacancy)	na	na	na	na	25.8%
Financial risk profile		proforma merged			
Scope-adjusted EBITDA interest cover (x)[8]	4.1x	2.5x	2.8x	4.9x	4.1x
Loan/value ratio (%)	45%	55%	53%	49%	55%
Scope-adjusted debt/Scope-adjusted EBITDA (x)[8]	12.8x	15.5x	12.8x	15.7x	13.4x
Weighted average cost of debt (%)	1.7%	2.5%	2.2%	1.5%	1.9%
Unencumbered asset ratio (%)	220%	na	364%	>200%	190%
Weighted average maturity (years)	3.3	na	5.0	5.9	3.8

* Subscription ratings available on ScopeOne

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

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