Compactor Fastigheter AB
Sweden, Investment Holding

SCOPE BBB- STABLE

Corporate profile

Compactor Fastigheter AB (Compactor), founded in 1988 by Sven-Olof Johansson, is a Swedish investment company specialising in direct and indirect real estate and equity investments. Compactor has two core shareholdings that are also publicly listed, 71.6% of Fastpartner AB and 3.3% of SBB i Norden, besides a diverse portfolio of listed Nordic blue-chip companies. The investment holding focuses on the receipt of recurring dividend payments from its different shareholdings.

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Total cost coverage (x)	2.6x	3.9x	1.9x	2.0x
Total cost coverage (recurring – mandatory expenses) (x)	12.7x	3.9x	3.3x	3.5x
Scope-adjusted loan/value ratio (%)	5.3%	7.2%	<10%	

Rating rationale

Scope affirms the issuer rating of Compactor Fastigheter AB at BBB-/Stable. The senior unsecured debt is affirmed at BBB- and the short-term debt rating at S-3.

The affirmation is supported by Compactor's stable operations with our assessments unchanged on the business risk profile (at BB) and the strong financial risk profile (A-). The financial risk profile benefits from a substantial total cost coverage of around 2x and a Scope-adjusted loan/value ratio of below 10%.

Compactor's core holdings, Fastpartner (BBB-/Stable) and SBB i Norden, were relatively unaffected by Covid-19 and contributed stable recurring dividend income during the last 12 months. In 2020, the company's other large liquid holdings, comprising several Swedish banks and retailer H&M, suspended dividends due to regulatory or business reasons. All the banks resumed dividend payments in 2021, and H&M is signalling a resumption later this year. In early September 2021, Fastpartner raised SEK 500m in D-share capital, in which Compactor participated pro-rata to maintain its roughly 72% shareholding. This underlines Compactor's commitment to its buy-and-hold core holdings and provides another layer of stable and favourable dividend income going forward.

The affirmation is driven by Compactor's high total cost coverage, based on stable recurring dividend income and very limited mandatory costs, anticipated to remain at around 2x going forward. The rating is further supported by the very modest Scope-adjusted loan/value ratio (LTV) of 7.2% as at end-June 2021. Credit strengths include the liquidity of the company's assets, with almost 100% of gross asset value (GAV) consisting of listed holdings, and its long-term buy-and-hold approach on its two core investments, Fastpartner and SBB i Norden.

The rating is constrained by Compactor's still limited diversification in terms of recurring-income-providing holdings and a concentrated portfolio that depends on a medium-cyclicality real estate exposure. A further constraint is the modest geographical diversification with the majority of income exposed to Sweden, albeit mitigated by the country's mature and stable economy.

Ratings & Outlook

Corporate rating	BBB-/Stable
Senior unsecured debt rating	BBB-
Short-term debt rating	S-3

Analyst

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

Related Methodology

Corporate Rating Methodology: July 2021

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 Compactor is Stable and incorporates the company continuing to hold its main long-term holdings (Fastpartner and SBB i Norden) and investments in liquid Nordic blue-chip stocks. It further incorporates our expectation that the company will not engage in further debt-financed increases in shareholdings and thereby keep its leverage, as measured by the Scope-adjusted LTV, below 10% while maintaining total cost coverage at around 2x going forward.

A negative rating action would be possible if Compactor's total cost coverage deteriorated below 1.3x on a sustained basis. This could be the result of an inability of main holding Fastpartner to pay dividends.

A positive rating action is remote but could be warranted if holdings diversified towards a larger share of non-commercial real estate. This could be the result of a more granular investment portfolio through either the organic growth of the exposure to non-commercial real estate or a reshuffle of investments.

Rating drivers

Positive rating drivers	Negative rating drivers
• Very strong cost coverage with expectation of total cost coverage sustained around 2x • Very modest LTV at currently 7%, which even under high market volatility (30% drop) would not rise above 10% • Highly liquid assets as almost 100% of holdings by GAV are listed shares • Long-term strategy regarding two core holdings, Fastpartner and SBB i Norden, assuring stable and recurring revenues	• Limited diversification in terms of holdings that provide recurring revenues, somewhat mitigated by the company's capacity to keep mandatory cost coverage above 1x even without income from core holdings • Concentrated portfolio dependent on the medium-cyclicality real estate industry, somewhat mitigated by underlying tenant/industry diversification • Weak geographical diversification with most recurring income exposed to Sweden

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Larger share of non-commercial real estate in the portfolio, improving diversification	• Total cost coverage deteriorating to below 1.3x on a sustained basis

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Total cost coverage	2.6x	3.9x	1.9x	2.1x
Total cost coverage (recurring – mandatory expenses)	12.7x	3.9x	3.5x	3.6x
Scope-adjusted loan/value ratio	5.3%	6.3%	<10%	
Total income in SEK m	**2019**	**2020**	**2021E**	**2022E**
Dividends from Fastpartner	209	249	271	301
Income from associated companies	0	0	0	0
Dividends from investments	44	16	62	83
Interest received	4	4	2	0
Recurring income	**257**	**269**	**335**	**384**
Income from asset sales	0	0	0	0
Total income	**257**	**269**	**335**	**384**
Total expenses in SEK m	**2019**	**2020**	**2021E**	**2022E**
Operating expenses	-1	-1	-1	-1
Interest expenses	-33	-39	-31	-31
Tax payments	13	-29	-64	-74
Dividend paid	-80	0	-80	-80
Total expenses	**-100**	**-69**	**-177**	**-187**
Scope-adjusted debt in SEK m	**2019**	**2020**	**2021E**	**2022E**
Reported gross financial debt	795	1,052	1,255	1,255
less: cash and cash equivalents	-14	-94	-95	-141
add: cash not accessible	0	0	0	0
add: pension adjustment	0	0	0	0
add: operating lease obligations	0	0	0	0
Other	-7	0	0	0
Scope-adjusted debt	**774**	**958**	**1,160**	**1,113**

Business risk profile: BB

Weighted average industry risk: BB+

Compactor is predominantly exposed to commercial real estate. This includes its social infrastructure property holdings (industry risk: BB), which represented 87% of its net asset value (NAV) and 85% of its income in 2020. The second largest exposure is also to real estate, but to the residential segment (industry risk: A), with 6% of NAV and 8% of income. In total, the real estate industry accounts for 92% of NAV and 93% of income, dwarfing the other exposures to banks and retail corporates. The increased share in 2020 compared to 2019 is explained by the pandemic's limited impact on the real estate sector, while banks and retail suspended dividends, among other actions.

Figure 1: Industry risk assessment: Compactor's portfolio companies

	Mvalue/ NAV	Income based	Cyclicality	Market entry barriers	Substitution risk	Industry rating
Commercial real estate	86.5%	85.3%	Medium	Medium	Medium	BB
Residential real estate	5.9%	7.8%	Low	Medium	Low	A
Bank	3.0%	1.8%	na	na	na	na
Retail	2.5%	2.9%	Medium	Low	Low	BBB
Business services	0.0%	0.0%	Medium	Medium	Medium	BBB
Trucks	0.1%	0.4%	High	High	Medium	BB
IT	0.1%	0.1%	na	na	na	na
Capital goods	0.0%	0.0%	Medium	Medium	Medium	BBB
Healthcare	1.8%	1.8%	Medium	Low	Low	A
FMCG	0.0%	0.0%	Medium	Low	Low	A
Oil & gas upstream	0.0%	0.0%	High	Medium	Low	BB
Weighted Industry risk	**BB+**	**BB+**				

Source: Company accounts, Bloomberg, Scope estimates

Long-term holding of core investments Fastpartner and SBB i Norden

Compactor's investment approach is buy-and-hold, which focuses on cash flows from recurring dividends through its investments in real estate corporates. We regard Compactor's investment approach to be rather conservative as it avoids pressure from market timing for investments and divestments stemming from fluctuations in the NAV of shareholdings. For its core investments, the company has been willing to participate in capital increases and grant shareholder loans, recently demonstrated through its participation in Fastpartner's D-share issuance on a pro-rata basis to defend its roughly 72% shareholding.

Along with the buy-and-hold activities within real estate, the company has a small portion of assets (by GAV/market value) in liquid minority shareholdings. We consider financial support for such holdings to be very limited. These investments are considered mostly long-term by management and the aim is to receive recurring dividend income and benefit from potential improvements in the shareholdings' market values.

In addition, Compactor has a third pillar of strategic holdings. These include venture capital, among other investments, with limited (short-to-medium-term) financial performance expectations.

Buy-and-hold strategy providing recurring income streams improves credit quality

We regard a buy-and-hold investment strategy that focuses on cash flows from recurring dividend income to be positive for the credit quality of an investment holding, whereas a dependence on non-recurring income from well-timed asset disposals could create larger swings of cost coverage and lead to fire sales.

Real estate holdings

The two core holdings of Compactor are i) a 71.6% stake in Fastpartner (rated BBB-/Stable by Scope), a medium-sized commercial real estate company based in Sweden with property assets worth SEK 33bn; and ii) 3.3% of the capital and 7.3% of votes in SBB i Norden (Samhällsbyggnadsbolaget i Norden – 'social infrastructure company in the Nordics'), a residential and social infrastructure real estate company with properties worth SEK 117bn. These two holdings respectively translate into 80% and 12% of the portfolio's market value/GAV as of Q2 2021.

In addition, Compactor indirectly owns 18 investment properties with a value of SEK 221m through its subsidiary HS Fastigheter.

Shareholdings

While there is some level of trading activity, Compactor generally follows a long-term approach to investing. Also in 2021, Compactor re-invested its 2020 net profit, in addition to proceeds from the increased bond refinancing into existing and new investments. Retailer H&M remains the largest investment in the portfolio by GAV at end-June 2021, followed by new investment AstraZeneca and existing significant investments in banks (Nordea, Swedbank and Handelsbanken). The exposure to the banking sector (3.0%) is therefore larger than to the retail sector in terms of market capitalisation (2.6%). The stakes in the aforementioned companies as well as all other listed companies are held for purely financial reasons, with the company intending to gain recurring dividend income.

Limited diversification with only two core holdings

Compactor's two core holdings – those representing more than 5% of GAV – make up 92% of its total GAV. This limited diversification leads to higher volatility of the company's LTV, as a decline in value of one of its undertakings will have a more significant impact.

The remaining seven dividend-paying holdings are distributed across various sectors. The high number of income-generating undertakings benefits Compactor's ability to offset the impact of a missed dividend payment from one or several undertakings (except for the largest, Fastpartner) and hence leads to a more stable cost-coverage. The number of dividend-paying holdings has reduced since last year, from 12, as several companies postponed or cancelled dividends in response to Covid-related uncertainties.

Compactor's geographical diversification is modest, with 92% of income benefitting from a diverse spread across Sweden and a small amount from across the Nordics. The company's performance will therefore hinge on the macroeconomic development of Sweden and to a smaller degree on the Nordic countries. However, these countries have mature and stable economies with strong welfare and social systems. The latter softens the economic burden in times of distress (as can be seen during the current pandemic), with labour costs being partially borne by the state and subsidies provided for fixed costs like rent, resulting in negligible rental losses for commercial real estate owners. The remaining investments relate to Nordic or European activities through the large-cap banks (though with a bias on Sweden) and truly global activities through retailer H&M and pharmaceutical company AstraZeneca.

Highly concentrated income stream by industry

The portfolio is highly concentrated by industry: two industries (commercial and residential real estate) represented 92% of NAV and 94% of recurring income in 2020. As commercial real estate, the largest industry of its holdings by far, is exposed to medium cyclicality, Compactor's recurring income could be affected by a weakening in the Swedish economy .

The high concentration in terms of holding industries is somewhat mitigated by moving one layer below. Fastpartner, accounting for 80%/77% by GAV/income and therefore a driver of the concentration, is exposed to a varied mix of industries through its tenants, with the largest accounting for only 9% of rental income (government). Supporting the industry spread is the quality of tenants in Fastpartner. The top 20 tenants are good investment grade (blue chips/government agencies) and the overall tenant portfolio is assessed as BBB-. In addition, tenant diversification is moderate with the top 10 accounting for 19.5%.

The same level of industry diversification also applies for the second largest exposure, SBB i Norden, whose portfolio is split into low-risk residential real estate (45%) and social infrastructure real estate (55%), of which 64% is exposed to defensive industries like elderly care, hospitals and government infrastructure.

Liquidity is a strength thanks to all holdings being stock-listed

All of Compactor's financially relevant holdings in terms of GAV or income are publicly listed companies. Compactor holds most of its real estate through either Fastpartner or SBB i Norden, both of which are stock-listed companies in well-developed markets with high trading volumes. As such, these holdings could provide cash inflows through partial liquidation if needed.

Given the dominant shareholding of Fastpartner (72%), the company enjoys a relatively limited free-float. Smaller blocks of shares could be sold on the stock exchange, but larger blocks would need a trade sale. Recent transactions in the Swedish real estate market, such as Vonovia's acquisition of Hembla and Victoria Park and SBB i Norden's acquisition of Hemfosa and the majority of Offentliga Hus, prove that this is an option. However, Compactor's strong financial risk profile and mission statement to be an owner in Fastpartner mean it is unlikely to resort to such an action.

The remainder of Compactor's holdings are in large Nordic blue-chip stocks, which provide a daily trading volume that exceeds Compactor's shareholdings. As such, we view liquidity as a strength for Compactor's business risk profile assessment.

Financial risk profile: A-

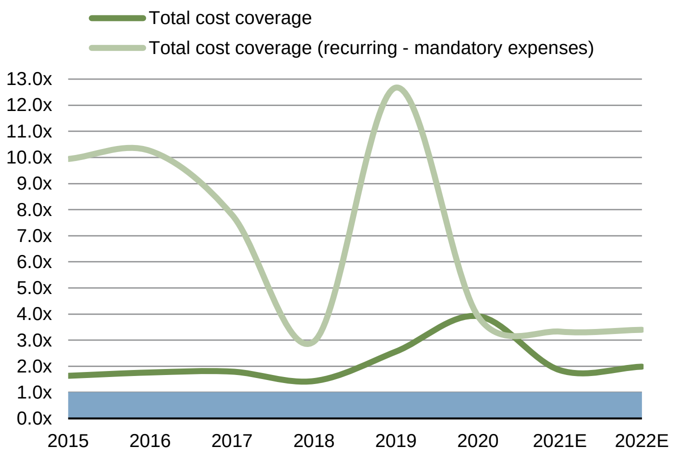
Strong total cost coverage

For an investment-grade-rated holding, we expect a total cost coverage from recurring income streams of well above 1.0x. Compactor has been well above 1.0x in the past, with a low point at 1.4x in 2018 due to significant tax payments. In general, the company has very limited overhead costs of around SEK 1m due to its buy-and-hold approach, with no interference in its holdings. Its operating expenses consist of salaries, auditor fees, interest payments for its low amount of debt, and tax payments. In October 2020, a maturing SEK 500m bond was refinanced with a SEK 750m bond (since tapped twice to reach the maximum allowed SEK 1,000m) at a more favourable spread (down by 150bps), reducing the interest burden. Compactor distributes a discretionary dividend to its shareholders, which has been SEK 80m yearly for the past five years. The company suspended dividends in Q1 2020 in light of the unfolding pandemic but resumed in 2021 at previous years' levels. Excluding the discretionary dividend, the company's cost coverage was 3x at the lowest point.

The main contributor to recurring income is the predictably growing dividend from Fastpartner, with additional dividend income from SBB i Norden and Nordic blue-chip companies. In 2020, the contribution from listed Nordic shares dipped compared to that in previous years due to pandemic-induced dividend suspensions. H&M paid no dividends in 2020 and is hinting for a resumption in autumn 2021. The Nordic banks postponed payments in 2020 due to regulatory pressure. Nordea, Swedbank and Handelsbanken resumed dividend payments in 2021, including previously postponed payments.

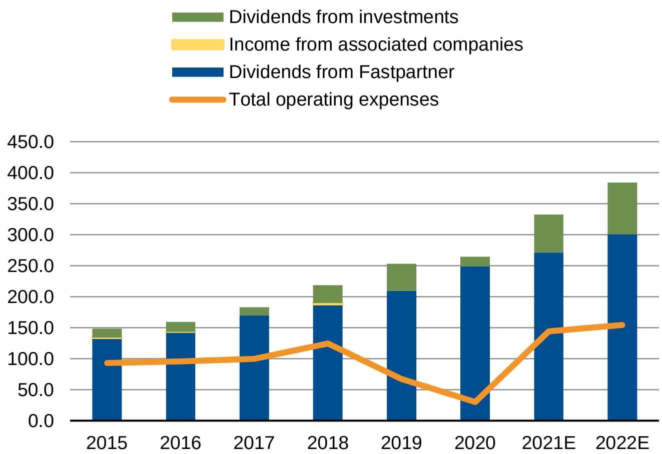
Scope-adjusted free operating cash flow excluding discretionary investments in its share portfolio, was impacted negatively in 2016 when Compactor participated fully in Fastpartner's capital increase with cash outflows of SEK 550m. Since then, Compactor had only minor investments into majority owned Fastpartner until its participation in the D-share issuance in September 2021. Therefore, apart from in 2016, Scope-adjusted free operating cash flow has been positive and is expected to remain so for 2021, demonstrating good earnings capacity.

Figure 2: Total cost coverage



Source: Compactor, Scope estimates

Figure 3: Cash inflows and outflows (SEK m)



Source: Compactor, Scope estimates

Mandatory cost coverage is highly resilient to vanishing income streams

We found Compactor's total cost coverage to be highly resilient to a reduction in income streams. In our stress test, recurring dividend income had to reduce by 90% in our scenario (unchanged outcome) for the coverage of mandatory costs (excluding dividends) to fall below 1.0x in 2022 and necessitate the conversion of liquid assets. This even ignores cash on the balance sheet, which would still fully cover costs.

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

We calculated Compactor's Scope-adjusted LTV at end-June 2021 at 7.2%, adequate for its strong investment grade financial risk profile. On our calculation, LTV has been between 2% and 9.5% over the last six years, which demonstrates Compactor's conservative risk profile.

Low LTV is a credit strength in the current uncertain environment

The low LTV is credit-positive, particularly in the current environment. While the LTV remains strongly exposed to the volatility of its underlying holdings' share prices, our sensitivity analysis shows that share prices as at June 2021 would need to decrease by 30% (debt unchanged) to take LTV above 10% (a still very low level). Since the reporting date at end-June, Compactor's shareholdings have rallied, increasing on average by 34% at end-August 2021, thereby reducing the assumed LTV to 5.4%.

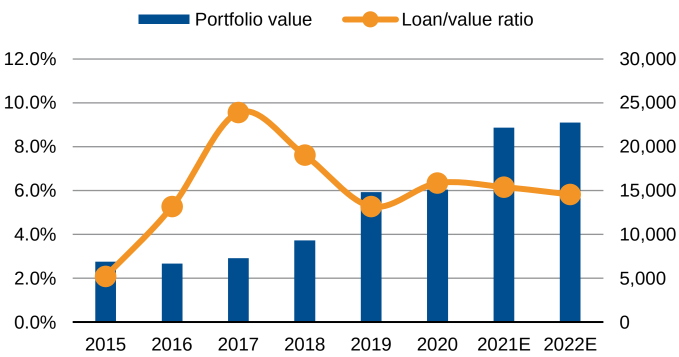
Several of Compactor's largest blue-chip investments suspended dividend payments in 2020, stress testing its business model to a certain degree. Its largest exposures, Fastpartner and SBB i Norden, have demonstrated the resilience of Compactor's business model, which showed only negligible impacts from the current pandemic.

Figure 4: Sensitivity of Scope-adjusted loan/value

Scope-adjusted debt (SEK bn)		Portfolio market value (SEK bn)							
		21.09	19.47	17.84	16.22	14.60	12.98	11.36	9.73
		30%	20%	10%	0%	-10%	-20%	-30%	-40%
1.17	0.0%	5.6%	6.0%	6.6%	**7.2%**	8.0%	9.0%	10.3%	12.0%
1.32	12.5%	6.2%	6.8%	7.4%	8.1%	9.0%	10.2%	11.6%	13.5%
1.46	25.0%	6.9%	7.5%	8.2%	9.0%	10.0%	11.3%	12.9%	15.0%
1.61	37.5%	7.6%	8.3%	9.0%	9.9%	11.0%	12.4%	14.2%	16.6%
1.76	50.0%	8.3%	9.0%	9.8%	10.8%	12.0%	13.5%	15.5%	18.1%
1.90	62.5%	9.0%	9.8%	10.7%	11.7%	13.0%	14.7%	16.8%	19.6%
2.05	75.0%	9.7%	10.5%	11.5%	12.6%	14.0%	15.8%	18.1%	21.1%
2.20	87.5%	10.4%	11.3%	12.3%	13.5%	15.0%	16.9%	19.3%	22.6%

Source: Compactor, Scope estimates

Figure 5: Loan/value and portfolio market value (SEK m)



Source: Scope estimates

We assess Compactor's liquidity to be adequate given i) the positive Scope-adjusted free operating cash flow of SEK 234m, even during the pandemic; ii) the undrawn portion of loan facilities worth SEK 145m; iii) the unrestricted cash of SEK 83m (as at end-June 2021); iv) a highly liquid portfolio of blue-chip shares that could be unwound at short notice, worth SEK 3.1bn (as at end-June 2021); and v) the only short-term debt being bank debt of currently 255m outstanding, part of a framework agreement which is rolled over under normal circumstances.

Figure 6: Liquidity in SEK m

Position	2021E		2022E	
Unrestricted cash (t-1)	SEK	94	SEK	191
Open committed credit lines (t-1)	SEK	208	SEK	145
Free operating cash flow (t)[1]	SEK	234	SEK	271
Short-term debt (t-1)	SEK	302	SEK	255
Coverage		**1.8x**		**2.4x**

[1] excluding discretionary investments into liquid shares

Source: Scope estimates

Long-term and short-term debt ratings

Senior unsecured debt: BBB-

At the end of Q2 2021, Compactor had SEK 255m in senior unsecured bank debt in addition to SEK 1,000m in senior unsecured bonds. Senior unsecured debt benefits from a relatively high unencumbered asset ratio of more than 1,200%, according to our calculations, providing a high pool of collateral to debtholders.

We therefore rate senior unsecured debt at the issuer's level of BBB-.

Short-term debt: S-3

The S-3 short-term rating is supported by adequate liquidity, good banking relationships, and adequate access to diverse funding sources.

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

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

Phone +49 69 66 77 389 0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 6 62 89 35 12

Oslo
Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

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

Phone +34 914 186 973

Milan
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London
52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com