Corem Kelly AB
Sweden, Real Estate

SCOPE BBB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	2.4x	2.5x	2.3x	2.3x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA	17.0x	19.5x	19.2x	16.2x
Loan/value ratio (%)	54%	52%	51%	51%

Rating rationale

Following its acquisition by Corem Property AB and merger with that company in 2021, Corem Kelly's (previously known as Klövern) business and financial risk profiles remain in line with our previous assessment. The February 2022 announcement of Corem Property Group AB and ALM Equity AB forming a JV triggered a renaming of Klövern AB to Corem Kelly. It is our understanding that Corem Kelly will live on as a standalone company as long as it has listed bonds outstanding. Operationally, the company is fully merged with Corem Property Group AB.

Corem Kelly's business risk profile (assessed at BBB) remains the primary driver of the rating, with around 350 properties in predominantly 'A' cities. A relatively short WAULT of 3.5 years and a relatively low occupancy rate of 90% constrain the rating. But both ratios are somewhat mitigated by their stability over the last five years. Corem Kelly's financial risk profile (assessed at BB+) is driven by historically strong debt protection, projected to remain above 2.2x, and an a loan/value ratio of currently 51%, both of which are forecasted to remain at similar levels.

Outlook and rating-change drivers

The Outlook for Corem Kelly is Stable. This incorporates our view that Corem Kelly will be a fully consolidated and integrated subsidiary of Corem Property Group AB and that it will continue its developments in its core markets of Sweden, Copenhagen and New York, with capital expenditures amounting to SEK 2bn in 2022. Its Scope-adjusted loan/value ratio, currently at 51% (including 50% equity credit on its hybrid bond) is expected to be stable while interest coverage remains around 2.2x.

A negative rating action is possible if Corem Kelly's leverage, as measured by its loan/value ratio, increased towards 60% or interest cover dropped below 2.2x on a sustained basis, which naturally would also apply pressure on its parent's credit metrics. This could be driven by an increase in interest-bearing debt through highly debt-financed acquisitions or remortgaging and/or interest rate risk not being adequately hedged in future.

A positive rating action could be warranted by deleveraging with a loan/value ratio substantially below 50% on a sustained basis while keeping interest coverage around 2.2x, supported by break-even free operating cash flow, which would support the parent's credit metrics. This could be driven by less debt funded capex or a positive development in current development projects, resulting in positive fair value adjustments.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
9 June 2021	Unchanged	BBB-/Stable
8 June 2020	New	BBB-/Stable

Ratings & Outlook

Issuer BBB-/Stable

Analyst

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

Related Methodologies and Related Research

Corporate Rating Methodology; July 2021

European Real Estate Methodology; January 2022

Scope Ratings GmbH

Karenslyst allé 53
N-0279 Oslo

Phone +47 2162 3142

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Positive rating drivers	Negative rating drivers
• Medium-sized commercial real estate company with good access to capital markets • Moderate geographical diversification with a home bias in Sweden (38% Stockholm) complemented by Copenhagen and New York • Moderate tenant diversification with top 10 accounting for 19.7% of 2021 rental income; broad tenant-industry diversification • Property locations in large metropolitan areas, affording good liquidity • Solid debt protection levels	• Top three tenants relatively concentrated, with Ericsson accounting for 8.1% of 2021 rental income • Relatively short WAULT (although in line with Swedish market), exposing the company to ongoing re-letting risk • Relatively high vacancy, explained by company's acquisition strategy, somewhat mitigated by stability • Low profitability (60%-65%) relative to peers due to capital-intensive development strategy • High leverage (loan/value ratio) for the rating, mitigated by recent portfolio streamlining

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted loan/value ratio decreasing to significantly below 50% on a sustained basis	• Scope-adjusted loan/value ratio increasing towards 60% on a sustained basis

Corporate profile

Corem Kelly AB (previously known as Klövern AB) is one of the largest commercial property companies in Sweden. It focuses predominantly on office space, with a small exposure to retail (mixed-use office buildings to increase attractiveness) and logistics. The company owns and manages around 350 properties. In 2019, Klövern disposed most of its non-core portfolio to focus on good locations in large cities, which improved its financials. Today, Corem Kelly's strategy combines a traditional buy-and-hold portfolio with acquisitions of properties with sub-par occupancy, which it then develops through refurbishing and filling capacity. Klövern was acquired by Corem in H1 2021 and integrated in the group during H2 2021. A decision was reached at the AGM in April 2022 to rename Klövern to Corem Kelly, while the Klövern name will continue to be used in Corem's residential JV with ALM equity.

Financial overview

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	2.4x	2.5x	2.3x	2.3x
SaD/Scope-adjusted EBITDA	17.0x	19.5x	19.2x	16.2x
Scope-adjusted loan/value ratio	54%	52%	51%	51%
Scope-adjusted EBITDA in SEK m				
EBITDA	1,951	1,885	1,970	2,325
Operating lease payments	0	0	0	0
Other items	0	0	0	0
Scope-adjusted EBITDA	1,951	1,885	1,970	2,325
Funds from operations in SEK m				
Scope-adjusted EBITDA	1,951	1,885	1,970	2,325
less: (net) cash interest paid	-772	-728	-818	-970
less: cash tax paid per cash flow statement	-44	-21	0	0
add: dividends from associates	0	0	0	0
Change in provisions	0	0	0	0
Funds from operations	1,167	1,158	1,152	1,356
Free operating cash flow in SEK m				
Funds from operations	1,167	1,158	1,152	1,356
Change in working capital	111	-124	0	0
Non-operating cash flow	391	610	785	0
less: capital expenditure (net)	-5,043	-4,845	-1,415	-1,000
less: operating lease payments	0	0	0	0
Free operating cash flow	-3,374	-3,529	194	28
Net cash interest paid in SEK m				
Net cash interest per cash flow statement	772	728	818	970
add: interest component, operating leases	0	0	0	0
Add: interest component hybrids	40	39	39	39
Net cash interest paid	**812**	**767**	**857**	**1,009**
SaD in SEK m				
Reported gross financial debt	33,036	36,597	37,771	37,971
add: subordinated (hybrid) debt	631	631	631	631
less: cash and cash equivalents	571	555	687	858
add: operating lease obligations	0	0	0	0
Other items	86	31	31	0
SaD	33,182	36,704	37,746	37,744

Table of contents

Environmental, social and governance (ESG) profile[1]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	Grey leaf
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	Grey leaf
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

Legend
Green leaf (ESG factor: credit-positive)
Red leaf (ESG factor: credit-negative)
Grey leaf (ESG factor: credit-neutral)

ESG profile

Corem Kelly follows UN Global Sustainability Goals and is targeting all-renewable energy consumption, climate neutrality by 2025 and a 50% reduction in energy consumption by 2030 (compared to 2018). Increased resource efficiency in terms of renovation and recycling are top priorities, with the company using environmental certification systems (Swedish Green Building Council's Miljöbyggnad Silver/Gold level or a corresponding level of BREEAM and LEED) for every new construction/refurbishment. These efforts in the social and environmental realm enhance not only the attractiveness of its portfolio but also its profitability because the improvements increase the net rent ratio (rent excluding service charges) by maintaining gross rental levels.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB

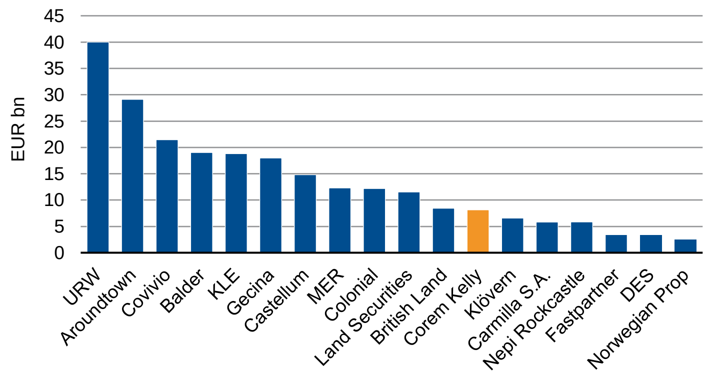
Industry risk profile: BB

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

Good access to capital markets going forward through parent company Corem Property Group

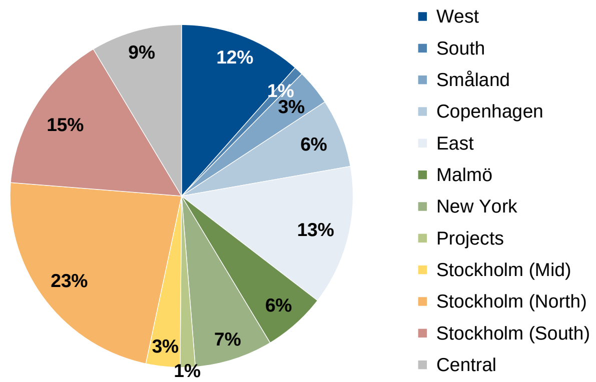
Klövern is a medium-sized commercial real estate company based in Sweden, with total assets of SEK 68bn (EUR 6.6bn) and a lettable area of 2,477,000 sq m. The company's size translates into decent diversification in terms of tenants and locations, which should enhance its resilience to cash flow volatility caused by economic cycles, industry developments, regulatory changes and the loss or default of single tenants. It also affords good access to capital markets, proven by the regular issuance of secured and unsecured bonds in Sweden, a SEK 4bn commercial paper programme (to be replaced at the parent company level by Corem Property's SEK 5 bn commercial paper programme at maturity on 30.06.2022), and bank loans/private placements with all significant Nordic banks denominated in either Swedish, Danish or US currency.

Figure 1: European peers, AUM in EUR bn



Sources: Corem Kelly, company accounts, Scope

Figure 2: Geographic diversification



Sources: Corem Kelly, Scope

One of the largest Swedish commercial real estate companies

In Sweden, Corem Kelly ranks mostly first or second in regional capitals and within the top 10 in Stockholm and Gothenburg. Its moderate or dominant position in most areas and high market share in the Swedish capital city are credit-positive, often providing higher visibility to potential tenants and more opportunities to adapt to the changing needs of existing ones. Thus, its high market shares increase tenant retention and yield more stable occupancy in addition to reducing capex needs linked to tenant fluctuations.

Moderate geographical diversification, with a home country bias

Corem Kelly's geographical reach is moderate, with a strong foothold across Sweden (80% of assets by fair value) and two international exposures in Copenhagen (11%) and New York (9%). Most of Corem Kelly's performance thus hinges on macroeconomic developments in Sweden and Denmark, two mature and stable economies with a strong welfare/social system. This softens the impact of economic shocks, which in turn reduces rental losses.

Moderate tenant diversification

Corem Kelly's tenant diversification is assessed as moderate, with the top three accounting for 12.3% and the top 10 accounting for 19.7%. The concentration among the top three is due to Ericsson, which accounts for 8.1% of total rent. Corem Kelly's top 20 tenants are investment-grade, eight of which are government agencies/companies (AA to AAA) plus two speculative-grade exceptions (parking companies). The average credit quality of the company's roughly 3,700 tenants is low investment-grade based on the company's historical credit losses. As a result, we expect only a marginal risk of a significant deterioration in cash flows due to a single tenant's default or delayed payments.

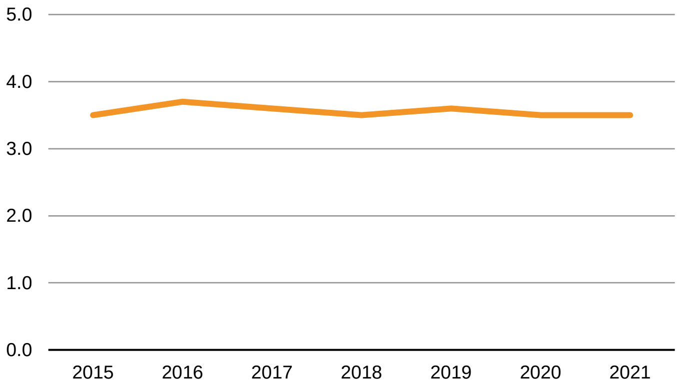
Asset quality benefits from 'A' locations

Asset quality benefits from the large share (70%) of the property portfolio of 'A' cities according to our methodology. During 2019, Corem Kelly streamlined its portfolio, disposing of non-core 'B' and 'C' locations and concentrating on 10 cities within Sweden. Metropolitan regions with more than 1m inhabitants now account for 75% of the portfolio. The portfolio has been streamlined around modern offices through divestments of warehouse and logistics premises. The high share in large liquid markets is likely to result in good fungibility should the company fall into financial distress, meaning any haircuts on its portfolio would be limited. However, a scenario of financial distress is remote given the decent financial risk profile.

Relatively low but highly stable WAULT

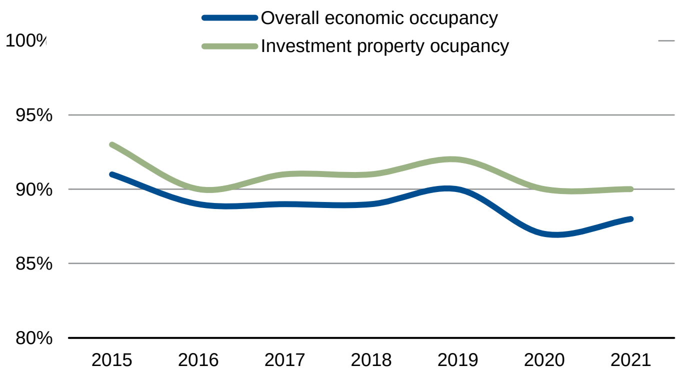
Corem Kelly's WAULT of 3.5 years is short and exposes the company to ongoing re-letting risk. Over the last seven years, the company's WAULT has been remarkably stable at between 3.5-4 years, mitigating the somewhat low figure. Management aims for rental contracts with a duration of 3-5 years to enable rent to be renegotiated regularly to reflect market conditions, tying well into the strategy of developing properties as described above. Corem Kelly's WAULT is in line with the Nordic market average, which is rather short at four years.

Figure 3: WAULT in years



Sources: Company name, Scope (estimates)

Figure 4: Economic occupancy rate



Sources: Company name, Scope (estimates)

Relatively high vacancy, mitigated somewhat by stability

One of the company's strategic property management goals is an economic occupancy rate of at least 90%, with an optimal vacancy rate through the cycle of 8-12% across the portfolio (including development). While these vacancy levels are high compared to those of traditional buy-and-hold competitors, we acknowledge the logic behind the company's strategy of developing properties. The stability of the company's occupancy, which moves within a very narrow corridor, is credit-positive.

Profitability between 60%-65%

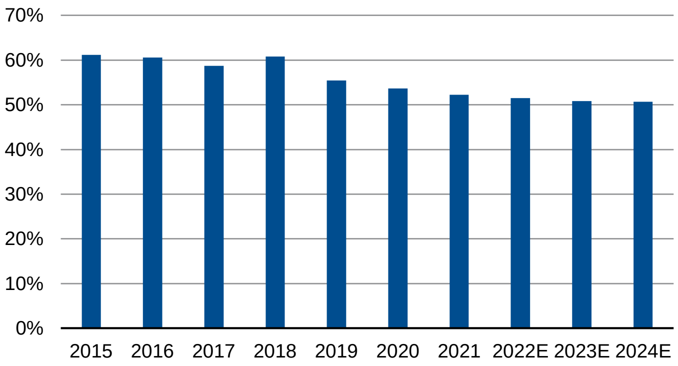
Profitability of 60-65%, as measured by the Scope-adjusted EBITDA margin, is at the lower end of the peer group. This is explained by the acquisition strategy, which focuses on well-located properties with development potential, i.e. properties with higher non-recoverable service charges and higher investment/maintenance expenses. The stability of profitability somewhat mitigates the low figure.

Financial risk profile: BB+

Leverage (loan/value ratio) at 51%

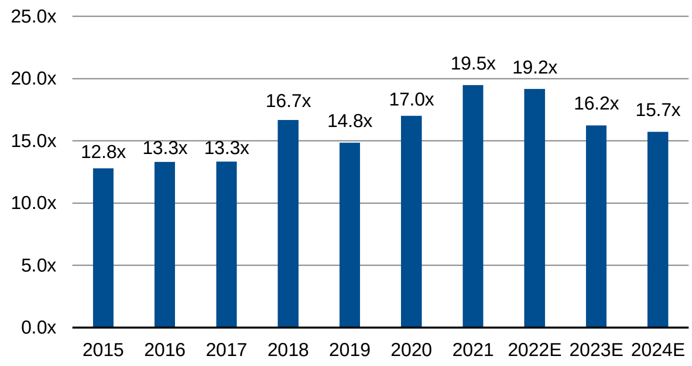
Corem Kelly's leverage as measured by the Scope-adjusted LTV has reduced significantly due to portfolio streamlining during 2019, from the high 50s (%) to the mid-low 50s, levels the company intends to keep. We forecast LTV to remain stable in the coming years, factoring in that debt refinanced at mother company level Corem Property Group is related to Corem Kelly's portfolio.

Figure 5: Loan/value ratio (%)



Sources: Corem Kelly, Scope (estimates)

Figure 6: SaD/EBITDA ratio



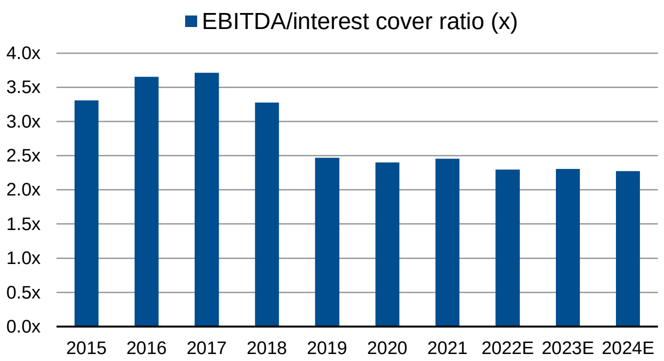
Sources: Corem Kelly, Scope (estimates)

Scope-adjusted debt to EBITDA has remained above 13x in the period analysed, and our rating case does not expect a significant reduction in this ratio going forward. The stark increase observed in 2018 is due to debt-financed acquisitions, including a hybrid bond issuance of SEK 1.3bn, of which 50% is considered equity under our methodology. Given that the company predominantly manages buy-and-hold properties, we do not apply a weight on this ratio.

Solid debt protection, expected to remain above 2.2x

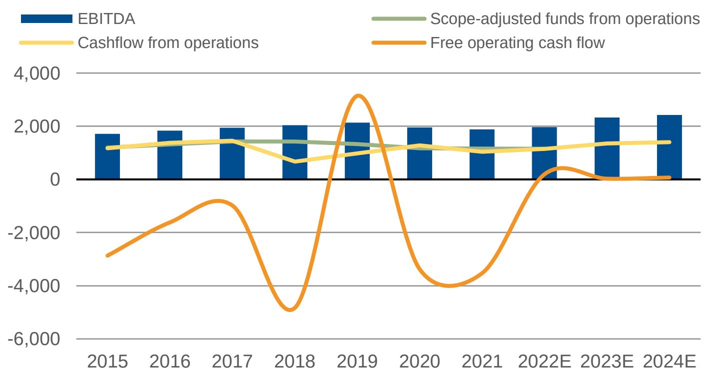
Debt protection is historically strong, at above 3x in 2018, lowered since 2019, but still with interest coverage expected to be sustained above our 2.2x rating threshold going forward. This is supported by the company's hedging policy mitigating the risk of floating rates and its financial goal of keeping an interest coverage ratio of at least 2x at any time.

Figure 7: EBITDA/interest cover ratio (x)



Sources: Company name, Scope (estimates)

Figure 8: Cash flows



Sources: Company name, Scope (estimates)

Scope-adjusted free operating cash flow is impacted by property acquisitions and disposals, with the significant asset growth in 2018 and 2020-2021 through acquisitions and developments, financed through external debt. In 2019, Klövern streamlined its portfolio and disposed of many assets in non-core locations, resulting in significantly positive cash flow. Capex for development projects are expected to be covered by internal cash flows in 2022 and 2023; any additional acquisitions (if at all) will be financed through either share share issues, external debt, or a combination of both.

Adequate liquidity

Corem Kelly has historically relied on short-term funding and kept a low cash balance. The company's strategy for short-term liquidity needs was to draw on revolving/cheque credit facilities or issue commercial paper under the SEK 4bn programme (to be replaced by Corem Property's SEK5bn programme soon). Afterwards, those short-term instruments were replaced with secured bank loans/bonds with a pledge in real estate. Given a low secured LTV, this gives ample room to increase debt on existing properties, based on the usual framework of a maximum 60% LTV on bank loans in case the short-term market stops and prevents further refinancing. In addition, the company's revolving credit facilities cover the unsecured part of upcoming maturities; we consider the likelihood of banks not refinancing the company's secured loans to be low. The company enjoys good relationships with all major Nordic banks and has close ties through roughly 100 loans at various maturities.

Given the above, liquidity is judged to be adequate.

Balance in SEK m	2022E	2023E
Unrestricted cash (t-1)	555	687
Open committed credit lines (t-1)	3,545	3,545
Free operating cash flow	527	28
Short-term debt (t-1)	5,809	7,300
Coverage	**80%**	**58%**

Corem Kelly's commercial paper programme is being replaced by Corem Property Group's and further refinancing shall happen on group level, further supporting our perception of its strong integration into the group.

Supplementary rating drivers: +/- 0 notches

Corem Kelly's BBB- issuer rating incorporates no adjustments for parent support under supplementary rating drivers. The standalone credit quality of Corem Kelly is equal to the issuer rating of its parent, Corem Property Group AB (BBB-/Stable rating by Scope). We continue to rate Corem Kelly as a separate entity as it has no explicit guarantee from its parent and still acts as a financing entity with outstanding bonds in the market.

Appendix: Peer comparison (as at last reporting date)

	Corem Kelly	Corem Property Group	Norwegian Property ASA	Fastpartner	Globe Trade Centre S.A.
	BBB-/Stable	BBB-/Stable	BBB-/Stable	BBB-/Stable	BBB-/Stable/--
As of reporting date	31 March 2022	31 March 2022	31 Mar 2022	30 Jun 2021	30 Sep 2021
Business risk profile					
Scope-adjusted total assets (EUR m)	6,906	8,907	2,806	3,450	2,596
Portfolio yield	5.1%	5.1%	3.7%	4.6%	6.9%
Gross lettable area (‘000s sq m)	2,477	3,479	505	1,517	
No. of residential units	na	na	n/a	n/a	854
					n/a
No. of countries active in	3	3	1	1	
Top three tenants (%)	12.3%	9%	32%	9.5%	6
Top 10 tenants (%)	19.7%	15%	48%	19.5%	9%
Office (share NRI)	73%	47%	67%	47%	22%
Retail (share NRI)	13%	11%	8%	13%	70%
Residential (share NRI)	0%	na	0%	1%	30%
Hotel (share NRI)	3%	na	0%	6%	n/a
Logistics (share NRI)	11%	24%	6%	15%	n/a
Others (share NRI)	0%	18%	19%	18%	n/a
					n/a
Property location	‘A’ and ‘B’	‘A’ and 'B'	'A'	‘A’	'B'
EPRA occupancy rate (%)	88%	89.0%	93%	91%	91%
WAULT (years)	3.5	3.7	5.1	4.7	3.4
Tenant sales growth (%)	na	na	n/a	n/a	n/a
Like-for-like rent growth (%)	na	na	n/a	n/a	n/a
Occupancy cost ratio (%)	na	na	n/a	n/a	n/a
Scope-adjusted EBITDA margin[2]	60%	61%	81%	69%	85%
EPRA cost ratio (incl. vacancy)	na	na	n/a	n/a	n/a
EPRA cost ratio (excl. vacancy)	na	na	n/a	n/a	n/a
Financial risk profile					
Scope-adjusted EBITDA interest cover (x)[8]	2.5x	2.7x	2.3x	4.1x	3.4x
Loan/value ratio (%)	51%	53%	44%	45%	54%
SaD/Scope-adjusted EBITDA (x)[8]	19.5x	28.3x	15.8x	12.8x	13.5x
Weighted average cost of debt (%)	2.1%	2.7%	2.8%	1.70%	2.1%
Unencumbered asset ratio (%)	na	na	n/a	220%	155%
Weighted average maturity (years)	4.1	na	4.2	3.3	5.0

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

[2] Includes all GLA surfaces, above and below ground

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

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

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

Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, Scope Innovation Lab GmbH, Scope ESG Analysis GmbH and Scope Hamburg 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.