

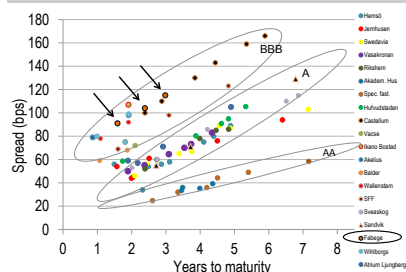
Please note: the statement at the rear of this report contains details of investment banking services recently provided by SEB which could be considered relevant to the subject matter of this report.

## Fabege

### Public ratings

Moody's:	N.R.
S&P:	N.R.
Fitch:	N.R.
Market cap (SEKm)	25,606

### Relative value SEK property bonds



Source: SEB and Bloomberg

## Powering on

- BBB- view with a positive outlook reiterated after a strong Q1**  
 Our BBB- view of Stockholm based real estate company Fabege is based on our view of its strong position and attractive property portfolio in the rapidly growing central and greater Stockholm area, as well as its sustainability focus and commitment to “green” buildings. Sweden, and Stockholm in particular, is one of the fastest growing regions in Europe (and compared with international mature economies). Strong economic and population growth, combined with a shortage of commercial properties, as well as relatively low growth of the office stock create a strong foundation for further strong operational performance, low vacancies, rent hikes, as well as stable growth in property values. The main restricting factors are the relatively high asset concentration as well as somewhat higher leverage than most BBB rated European peers, and relatively short funding profile (as with most Swedish property peers). The main risk to our assessment would be a severe economic downturn in Sweden or a significant rate hike in the short-term, none of which we see as very likely though.
- Bonds remain Overweight due to rapid strengthening of creditworthiness**  
 We retain our Overweight recommendations on Fabege’s SEK bonds (which we rate BB+ due to the high degree of secured bank lending on Fabege’s balance sheet), as we believe that the company’s creditworthiness will continue to strengthen over the coming years.
- A strong Q1 suggests a strong start to 2017**  
 Rental income in Q1 2016 of SEK 540m (up 5% y-o-y) and net operating income of SEK 379m (up 7% y-o-y) were both slightly better than our expectations. Unrealised value changes were SEK 833m, equivalent to 1.6% of the property value (we expected 1.4% or SEK 769m). Property yield declined from 4.53% at the end of 2016 to 4.48% at the end of Q1. The total property portfolio is now valued at SEK 50.8bn. For lease agreements that were renegotiated during Q1, rent levels increased by 20% on average.

### Analyst

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### Key credit metrics & ratios

	2013	2014	2015	2016	2017E	2018E	2019E
Revenues (SEKm)	2,059	2,087	1,998	2,105	2,241	2,518	2,886
EBITDA (SEKm)	1,349	1,418	1,364	1,437	1,571	1,787	2,073
EBITDA margin	65.5%	67.9%	68.3%	68.3%	70.1%	71.0%	71.8%
FOCF (SEKm)	-1,170	-3,490	-1,762	-2,329	-920.1	-485.0	-316.3
Adjusted EBITDA net int. cover. (x)	1.9	2.1	2.3	2.7	2.7	2.9	3.1
Adjusted net debt to EBITDA (x)	14.0	13.8	15.4	15.3	14.2	13.2	11.9
Adjusted FFO / Net debt	2%	-5%	3%	4%	4%	5%	6%

Source: SEB

The estimates in this research report have been produced in collaboration with SEB equity research analysts

## Credit strengths

- Attractive property portfolio in the rapidly growing, central and greater Stockholm area.
- Strong operational performance, low vacancies, stable cash flows.
- Relatively modest leverage.
- Strong sustainability and "green" focus.

## Credit concerns

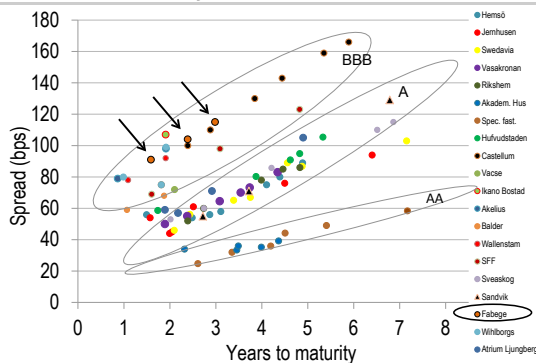
- Asset concentration.
- Low geographic diversification.
- Somewhat larger project development portfolio compared to peers.
- Relatively short funding profile.

## Selected outstanding bonds

Issuer	Sector	Public	Issue date	Maturity date	Cpn type	Cpn	Amount	Spread	Recommendation
Fabege	Property	N.R./N.R.	20/04/2017	20/04/2020	Floating	Sibor + 115	SEK 200m	115	Marketweight
Fabege	Property	N.R./N.R.	16/02/2017	16/09/2019	Floating	Sibor + 115	SEK 300m	104	Marketweight
Fabege	Property	N.R./N.R.	28/11/2016	28/11/2018	Floating	Sibor + 115	SEK 300m	91	Marketweight

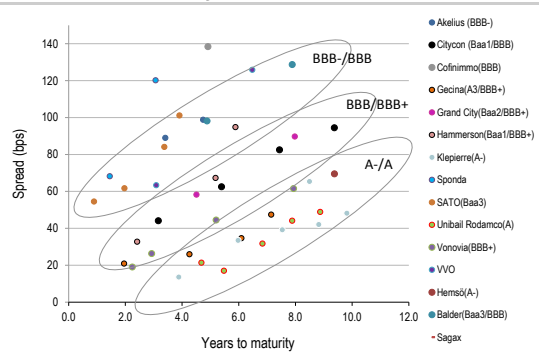
Source: Bloomberg and SEB

## Relative value SEK property bonds



Source: SEB and Bloomberg

## Relative value EUR property bonds



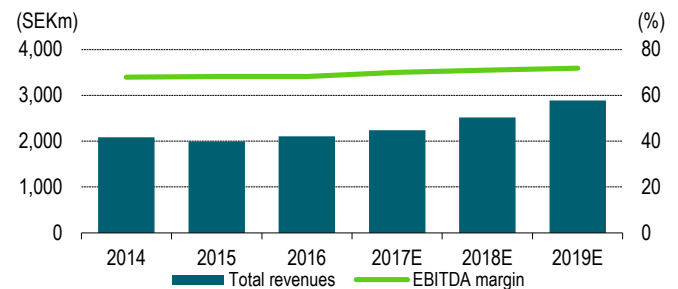
Source: SEB and Bloomberg

## Financial statement summary - Adjusted numbers (SEKm)

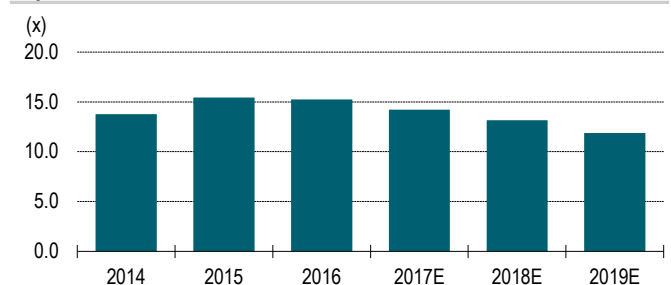
	2015	2016	2017E	2018E
<b>Income statement</b>				
Revenues	1,998	2,105	2,241	2,518
EBITDA	1,364	1,437	1,571	1,787
Net income (reported)	3,234	7,102	3,126	2,173
<b>Cash flow statement</b>				
Funds from operations (FFO)	690.0	803.0	993.9	1,107
Operating Cash Flow	1,593	731.0	993.9	1,429
Free Operating cash flow	-1,762	-2,329	-920.1	-485.0
Pre-financing cash flow	-799.1	-592.9	-397.6	-1,229
<b>Balance sheet</b>				
Cash (and equivalents)	32.0	62.0	62.0	62.0
Total debt	21,068	21,978	22,376	23,605
Net debt	21,036	21,916	22,314	23,543
Equity	16,479	23,002	25,467	26,896
Total assets (reported)	41,751	50,223	53,967	57,583
<b>Key credit metrics &amp; ratios</b>				
Net debt to EBITDA (x)	15.4	15.3	14.2	13.2
Net debt to capital	56%	49%	47%	47%
FFO / Net debt	3%	4%	4%	5%
Equity ratio	39%	46%	47%	47%

Source: SEB and Fabege financial reports

## Revenues and EBITDA margin



## Adjusted net debt / EBITDA



Source: SEB and Fabege financial reports

**Profit & loss statement**

(SEKm)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total revenues	2,066	2,214	2,194	2,007	1,804	1,869	2,059	2,087	1,998	2,105	2,241	2,518	2,886
Total expenses	-814	-836	-791	-721	-640	-669	-710	-669	-634	-668	-671	-731	-812
<b>EBITDA</b>	<b>1,252</b>	<b>1,378</b>	<b>1,403</b>	<b>1,286</b>	<b>1,164</b>	<b>1,200</b>	<b>1,349</b>	<b>1,418</b>	<b>1,364</b>	<b>1,437</b>	<b>1,571</b>	<b>1,787</b>	<b>2,073</b>
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>1,252</b>	<b>1,378</b>	<b>1,403</b>	<b>1,286</b>	<b>1,164</b>	<b>1,200</b>	<b>1,349</b>	<b>1,418</b>	<b>1,364</b>	<b>1,437</b>	<b>1,571</b>	<b>1,787</b>	<b>2,073</b>
Associated companies	0	-8	0	18	0	137	-30	-72	-94	-425	-60	-60	-60
Net interest expenses	-609	-804	-560	-522	-609	-644	-705	-664	-582	-541	-577	-621	-676
Value changes	1,363	-1,908	-158	1,147	853	1,339	1,378	1,185	3,545	8,209	3,074	1,680	0
Other financial items	60	2	-5	0	0	0	0	0	0	0	0	0	0
<b>Reported pre-tax profit</b>	<b>2,066</b>	<b>-1,340</b>	<b>680</b>	<b>1,929</b>	<b>1,408</b>	<b>2,032</b>	<b>1,992</b>	<b>1,867</b>	<b>4,233</b>	<b>8,680</b>	<b>4,008</b>	<b>2,786</b>	<b>1,337</b>
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes	-254	829	-255	-232	-276	-2,120	-462	-129	-1,001	-1,573	-882	-613	-294
<b>Net profit</b>	<b>1,812</b>	<b>-511</b>	<b>425</b>	<b>1,697</b>	<b>1,132</b>	<b>-88</b>	<b>1,530</b>	<b>1,751</b>	<b>3,234</b>	<b>7,102</b>	<b>3,126</b>	<b>2,173</b>	<b>1,043</b>
EBITDA margin	60.6	62.2	63.9	64.1	64.5	64.2	65.5	67.9	68.3	68.3	70.1	71.0	71.8
EBIT margin (%)	60.6	62.2	63.9	64.1	64.5	64.2	65.5	67.9	68.3	68.3	70.1	71.0	71.8
Tax rate (%)	12.3	61.9	37.5	12.0	19.6	104.3	23.2	6.9	23.6	18.1	22.0	22.0	22.0
<b>Growth rates y-o-y (%)</b>													
Total revenues	(11.8)	7.2	(0.9)	(8.5)	(10.1)	3.6	10.2	1.4	(4.3)	5.4	6.5	19.6	28.8
EBITDA	n.a.	10.1	1.8	(8.3)	(9.5)	3.1	12.4	5.1	(3.8)	5.4	9.3	13.8	16.0
EBIT	(3.1)	10.1	1.8	(8.3)	(9.5)	3.1	12.4	5.1	(3.8)	5.4	9.3	13.8	16.0
Pre-tax profit	10.9	0.0	0.0	183.8	(27.0)	44.3	(2.0)	(6.3)	126.7	105.1	(53.8)	(30.5)	(52.0)

**Cash flow**

(SEKm)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
FFO	696	579	738	761	748	752	347	-893	690	803	994	1,107	1,397
Changes in working capital	67	-1,071	-237	-845	1,198	-247	519	-1,259	903	-72	0	322	287
<b>Operating cash flow</b>	<b>763</b>	<b>-492</b>	<b>501</b>	<b>-84</b>	<b>1,946</b>	<b>505</b>	<b>866</b>	<b>-2,152</b>	<b>1,593</b>	<b>731</b>	<b>994</b>	<b>1,429</b>	<b>1,684</b>
Net capital expenditures	-4,984	-2,164	-1,419	-940	-1,986	-2,191	-2,036	-1,338	-3,355	-3,060	-1,914	-1,914	-2,000
<b>Free operating cash flow</b>	<b>-4,221</b>	<b>-2,656</b>	<b>-918</b>	<b>-1,024</b>	<b>-40</b>	<b>-1,686</b>	<b>-1,170</b>	<b>-3,490</b>	<b>-1,762</b>	<b>-2,329</b>	<b>-920</b>	<b>-485</b>	<b>-316</b>
Dividend paid	-761	-670	-329	-329	-489	-487	-496	-496	-538	-579	-662	-744	-786
Acquisitions, divestments net	2,777	1,942	1,160	3,777	459	930	870	3,159	1,500	2,315	1,184	0	0
<b>Pre-financing cash flow</b>	<b>-2,205</b>	<b>-1,384</b>	<b>-88</b>	<b>2,424</b>	<b>-70</b>	<b>-1,243</b>	<b>-796</b>	<b>-827</b>	<b>-799</b>	<b>-593</b>	<b>-398</b>	<b>-1,229</b>	<b>-1,102</b>
Net loan proceeds	2,235	1,691	88	-2,463	109	1,280	1,003	514	1,737	2,310	398	1,229	1,102
Share issue	-543	-361	0	-61	-38	89	122	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net change in cash</b>	<b>-513</b>	<b>-54</b>	<b>0</b>	<b>-100</b>	<b>1</b>	<b>126</b>	<b>329</b>	<b>-313</b>	<b>938</b>	<b>1,717</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capex/sales (%)	241.2	97.7	64.7	46.8	110.1	117.2	98.9	64.1	167.9	145.4	85.4	76.0	69.3

**Balance sheet**

(SEKm)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash and liquid assets	75	54	173	73	74	200	98	23	32	62	62	62	62
Other current assets	464	391	704	1,504	362	474	365	34	70	114	114	136	156
Long-term financial assets	387	586	622	714	1,124	1,398	1,584	3,401	1,369	2,203	2,143	2,143	2,083
Fixed tangible assets	30,829	29,511	29,193	26,972	29,151	31,637	33,384	32,560	40,280	47,844	51,648	55,242	57,242
Intangibles	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total assets</b>	<b>31,755</b>	<b>30,542</b>	<b>30,692</b>	<b>29,263</b>	<b>30,711</b>	<b>33,709</b>	<b>35,431</b>	<b>36,018</b>	<b>41,751</b>	<b>50,223</b>	<b>53,967</b>	<b>57,583</b>	<b>59,543</b>
Interest bearing debt	17,210	18,902	19,109	16,646	16,755	18,035	19,038	19,551	21,068	21,978	22,376	23,605	24,707
Other liabilities	3,130	1,767	1,614	1,436	2,066	4,270	3,842	2,684	4,204	5,243	6,125	7,083	7,683
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	11,415	9,873	9,969	11,181	11,890	11,404	12,551	13,783	16,479	23,002	25,467	26,896	27,153
<b>Total liabilities and equity</b>	<b>31,755</b>	<b>30,542</b>	<b>30,692</b>	<b>29,263</b>	<b>30,711</b>	<b>33,709</b>	<b>35,431</b>	<b>36,018</b>	<b>41,751</b>	<b>50,223</b>	<b>53,967</b>	<b>57,583</b>	<b>59,543</b>
Net debt (m)	17,135	18,848	18,936	16,573	16,681	17,835	18,940	19,528	21,036	21,916	22,314	23,543	24,645
Net debt/equity (%)	150.1	190.9	189.9	148.2	140.3	156.4	150.9	141.7	127.7	95.3	87.6	87.5	90.8
Equity/total assets (%)	35.9	32.3	32.5	38.2	38.7	33.8	35.4	38.3	39.5	45.8	47.2	46.7	45.6
Net debt/EBITDA (x)	13.7	13.7	13.5	12.9	14.3	14.9	14.0	13.8	15.4	15.3	14.2	13.2	11.9
EBITDA Interest cover	2.1	1.7	2.5	2.5	1.9	1.9	1.9	2.1	2.3	2.7	2.7	2.9	3.1

**Main shareholders**

Name	(%)	Votes	Capital	Title	Name	Contact
Erik Paulsson fam		15.3	15.3	COB	Erik Paulsson	Internet www.fabege.se
BlackRock		3.9	3.9	CEO	Christian Hermelin	Phone number +46 8 555 148 00
Öresund		3.3	3.3	CFO	Åsa Bergström	

**Company description:** Fabege is one of Sweden's largest listed property companies, with a portfolio size of 1.1m sqm and a market value of SEK 45bn. Fabege's portfolio is focused on commercial properties in central Stockholm, mainly in the city centre and Solna and more specifically in Arenastaden. The quality of the properties is generally high. Fabege is active in developing office properties in Arenastaden, an area that has become increasingly attractive especially after Mall of Scandinavia opened its doors in late 2015. The investments made in Arenastaden have had very high development gains and has further valuation upside.

**Please note:** The data in several tables and charts in this document have been adjusted in line with common practice in the field of credit research. This mainly refers to adjustments of operating leases, pensions, derivatives and other contingent liabilities. For a detailed breakdown of the adjustments, please contact the author of this report.

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SEB or its affiliates is, or has within the last 12 months been or expects in the next 3 months to be, party to an agreement relating to the provision of investment banking services to Fabege or an affiliate, or has received from it fees or the promise of fees in respect of such services.

The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Fabege and do(es) not have holdings in other instruments related to the company.

**Explanation of Credit Research recommendations:**

SEB derives its Recommendations from its appraisal of the Credit Rating of the issuer (itself derived from business risk profile and financial risk profile and from other factors).

SEB uses the following recommendation system for the corporate bond market:

**Overweight** – over the next six months we expect a position in this instrument to exceed the relevant index, sector or benchmark.

**Marketweight** – over the next six months we expect a position in this instrument to perform in line with the relevant index, sector or benchmark.

**Underweight** – over the next six months we expect a position in this instrument to underperform the relevant index, sector or benchmark.

SEB uses the following recommendation system for CDS spreadsheets:

**Buy** – we expect the CDS to outperform the sector performance

**Neutral** – we take a neutral view on the CDS, and do not recommend either a buy or sell

**Sell** – we expect the CDS spreads to underperform the sector performance.

**Credit Watch Negative** – When an identifiable event or short term trend has occurred and when additional information is needed to evaluate the impact on the current rating but the likely outcome is a negative rating change.

**Credit Watch Positive** - When an identifiable event or short term trend has occurred and when additional information is needed to evaluate the impact on the current rating but the likely outcome is a positive rating change.

**Credit Watch Developing** – When an identifiable event or short term trend has occurred and when additional information is needed to evaluate the impact on the current rating and the likely outcome is uncertain

SEB also assigns credit ratings, definitions of which can be found on our website: <https://taz.vv.sebank.se/cgi-bin/pts3/mc6/MB/research.nsf?opendatabase&login>

**Methodology**

SEB's Credit Research assigns its credit rating to an issuer based on the assessment of an issuer's business risk profile as well as its financial risk profile. The business risk profile includes country risk, industry risk, competitive position, and profitability. The financial risk profile includes financial policies, accounting, cash flow adequacy, capital structure and liquidity. The outcome of the assessment of the two risk profiles is weighed together for a final overall rating.

In addition to SEB's credit rating assessment, other factors considered in a particular issuer include the credit ratings assigned to a specific issuer by independent agencies, the value and market price of its securities, macroeconomic factors such as interest rates, promised coupon or yield of the specific instruments, and historical spread developments.

**Credit Research Distribution (as of 1 Mar 2017)**

	A*	B*
Overweight	21.4%	10.1%
Marketweight	66.4%	32.0%
Underweight	12.2%	3.7%

A\* denotes recommendations for all companies covered

B\* denotes recommendation for companies to which SEB has provided investment banking services in the last 12 months.

**Recommendation History**

Instrument	Recommendation	Date
FABGSS STIB+115 28/11/2018	Overweight	9 Dec 2016
FABGSS STIB+130 23/05/2018	Overweight	9 Dec 2016
FABGSS STIB+115 09/16/2019	Overweight	28 Apr 2017
FABGSS STIB+115 04/20/2020	Overweight	29 Apr 2017

Recommendation changes by SEB Credit Research Analysts in the subject company over the past 12 months. If no recommendation changes were made in that period, the most recent change is stated.

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