

## NP3 Fastigheter AB (publ)

Full Rating Report

## LONG-TERM RATING

BB

## OUTLOOK

Stable

## SHORT-TERM RATING

N-2

## PRIMARY ANALYST

Marcus Gustavsson  
+46700442775  
marcus.gustavsson@nordiccreditrating.com

## SECONDARY ANALYST

Mille O. Fjeldstad  
+4799038916  
mille.fjeldstad@nordiccreditrating.com

## RATING RATIONALE

Our 'BB' long-term issuer rating on Sweden-based commercial property manager NP3 Fastigheter AB (publ) (NP3) reflects the company's highly leveraged balance sheet as indicated by an adjusted loan-to-value (LTV) ratio of 63–66% and adjusted debt-to-EBITDA of around 11x over our forecast period (see Figure 1). The rating is constrained by below-average liquidity in NP3's main markets, the company's focus on properties outside city centres, and its ambitious growth plans. It is also constrained by the company's aim of paying out 50% of after-tax profit in dividends, limiting the prospects of deleveraging.

These weaknesses are offset by a highly cash-flow generative property portfolio, showcased by an adjusted net interest coverage ratio of 3.0–3.3x over our forecast period. Furthermore, the rating is supported by the company's strong position in its main markets, its long lease terms and its highly diverse revenue streams with the 10 largest tenants accounting for only 14% of rental income.

## STABLE OUTLOOK

The stable outlook reflects our expectation that NP3 will maintain its focus on highly cash-flow generative commercial properties in northern Sweden and the Karlstad–Västerås region. We expect the company to continue pursuing growth through acquisitions and keep its key credit metrics close to current levels. Furthermore, we expect the company to successfully refinance upcoming debt maturities.

## POTENTIAL POSITIVE RATING DRIVERS

- Improved credit metrics, with adjusted LTV below 60% and net interest coverage ratio over 3.5x over a protracted period.
- Significantly increased average debt maturity, together with a generally reduced risk appetite.
- Increased size and improved diversity, positively affecting economies of scale and profit margins.

## POTENTIAL NEGATIVE RATING DRIVERS

- Unsuccessful refinancing of debt maturities.
- Deteriorating market fundamentals negatively affecting occupancy and profitability.
- Increased risk appetite and weakened cash flows resulting in a net interest coverage ratio below 2.2x.

Figure 1. NP3 key credit metrics, 2016–2022e

SEKm	2016	2017	2018	2019	2020e	2021e	2022e
Total revenue	529	677	842	1,006	1,093	1,138	1,161
NCR-adj. EBITDA	347	436	546	668	725	756	771
NCR-adj. investment properties	6,165	7,732	10,496	11,474	12,476	12,735	12,991
NCR-adj. net debt	3,628	4,742	6,815	7,213	8,203	8,183	8,150
Total assets	6,413	7,959	10,677	11,937	13,073	13,359	13,659
NCR-adj. debt/EBITDA (x)	10.5	10.9	12.5	10.8	11.3	10.8	10.6
NCR-adj. EBITDA/interest (x)	3.9	3.8	3.5	3.3	3.0	3.2	3.3
NCR-adj. LTV (%)	58.8	61.3	64.9	62.9	65.8	64.3	62.7

Based on NCR estimates and company data. e–estimate. All metrics adjusted in line with NCR methodology

**ISSUER PROFILE**

NP3 is a Sweden-based property management company focusing on commercial properties in northern Sweden. As of 30 Sep. 2020, the portfolio comprised 382 properties totalling 1,406,000 sqm valued at SEK 12.1bn. The portfolio is mixed in terms of property types, with the two largest segments, industrial and retail properties, accounting for about two-thirds of rental value. The company has six management branches and is currently adding a seventh to manage newly acquired properties in the Karlstad–Västerås region. Lars Göran Bäckvall (24.0% of votes and 18.9% of capital) has been the main owner since the company was founded in 2010 through a spin-off from real estate developer Norrlandspojnkarna Aktiebolag. NP3's common and preferred stock are listed on the main market of the Nasdaq Stockholm exchange.

**BUSINESS RISK ASSESSMENT**

Business risk assessment is 'bb+'

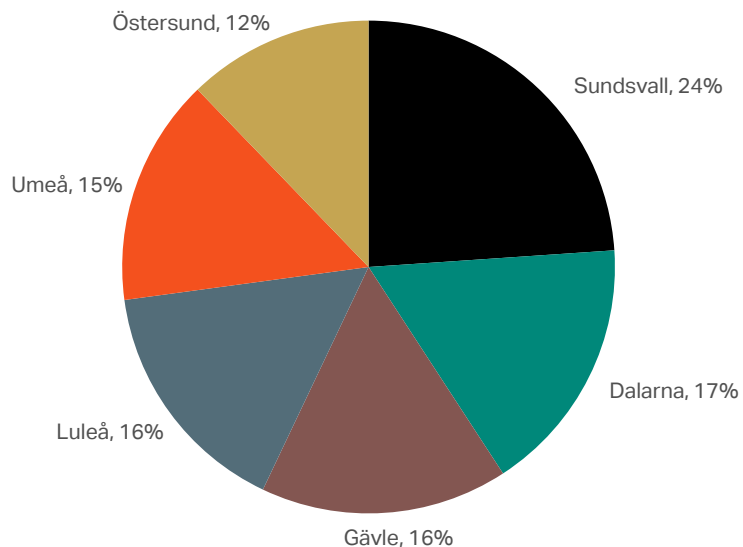
Our 'bb+' business risk assessment reflects NP3's solid position in its main markets, its diverse revenue streams and long lease terms. Our assessment further reflects the below-average liquidity of NP3's main markets, its focus on properties that are not in central locations, and declining populations in some of the larger municipalities where the company operates.

**Mixed property types in less liquid northern Sweden**

Operating environment scores 'bb'

NP3 divides its property portfolio into six areas in northern Sweden, each with separate management organisations. In the past two years, the company has acquired properties further south in the Karlstad–Västerås region and plans a seventh management area there.

Figure 2. NP3 rental value by management area, 30 Sep. 2020



Source: company.

NP3 has a presence in 48 of Sweden's 290 municipalities. We view the company's diverse municipal exposure as positive but note that some of the municipalities in question have projected weak population growth and/or poor employment prospects, increasing the risk of declining demand for commercial properties. Among the company's 10 largest municipal exposures, the populations range from a low of 18,000 in Timrå to a high of 129,000 in Umeå. According to Arbetsförmedlingen (the Swedish Public Employment Service), the populations of the 10 municipalities are set to move in line with or below the national average over the next decade, with three experiencing a population decrease in that period. The unemployment level in the top 10 municipalities with NP3's largest exposures range from 5.1% in Falun to 9.6% in Gävle, compared with the national average of 7.0%.

**Figure 3. NP3 rental value from top 10 municipal exposures, 30 Sep. 2020**

Municipality	Share of rental value	Population, 2019	Expected population change among 16–64-year olds, 2018–2030	Unemployment, 2019
Sundsvall	16%	99,449	1.3%	7.5%
Östersund	12%	63,779	3.2%	5.7%
Gävle	12%	102,418	6.5%	9.6%
Umeå	10%	128,901	6.6%	5.1%
Luleå	8%	78,105	1.1%	6.2%
Borlänge	7%	52,590	6.9%	7.5%
Skellefteå	5%	72,589	-4.0%	5.3%
Falun	5%	59,406	4.8%	5.1%
Timrå	3%	17,979	-4.9%	6.6%
Sollefteå	3%	19,140	-10.1%	8.7%
<b>Total/Sweden average</b>	<b>80%</b>	<b>-</b>	<b>7.2%</b>	<b>7.0%</b>

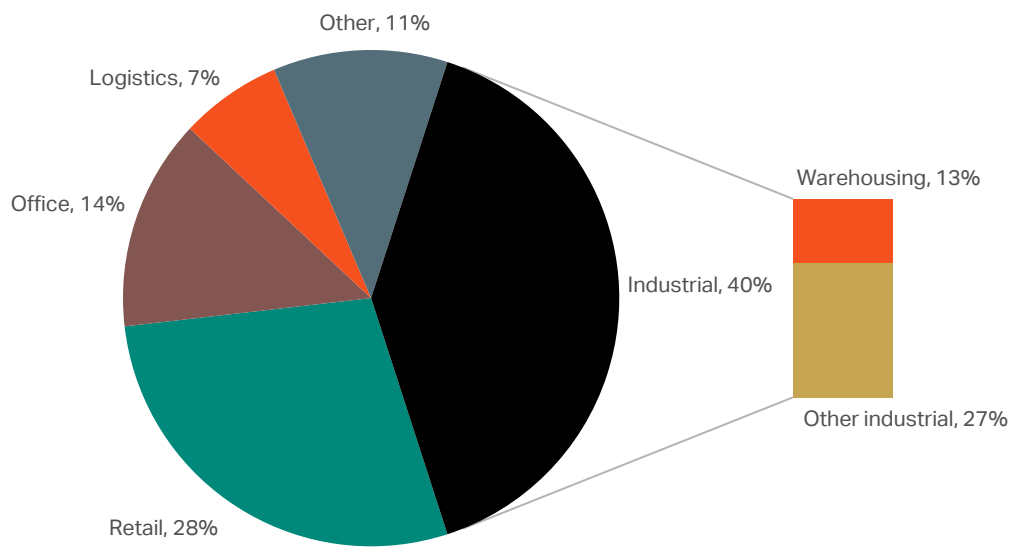
Source: company, Statistics Sweden, Arbetsförmedlingen (based on population forecast by Statistics Sweden), Ekonomifakta (based on data from Arbetsförmedlingen).

In contrast with the significant yield compression experienced in most Swedish regions, yield levels in the north of the country have remained relatively high, supporting cash flows. NP3's main markets make up about 10% of the wider Swedish property market by value but accounted for only 7% of total domestic transaction volumes during 2019 (according to Pangea Research), highlighting the below-average liquidity in these markets and relatively low investor numbers. This low liquidity affects our overall assessment of the operating environment, as it might negatively affect the company's prospects of disposing of assets in times of distress.

An important property segment for NP3 is retail, which has been adversely affected by rising e-commerce and the COVID-19 pandemic. However, NP3's retail exposure is predominantly related to less-affected subsegments such as discount retail and consumer discretionary. Tenants that are more likely to struggle (for example clothing stores, playgrounds and trampoline parks) contribute only 2% of rental value.

NP3's industrial and warehousing exposures are largely dependent on the overall condition of the Swedish economy. Although we view the operating environment for the two segments as stable, we consider that any protracted impact from COVID-19 could affect tenants' abilities to honour commitments. The pandemic has raised questions about future demand for office space, as many employees have been working from home (see [Swedish property managers face shift in customer demand](#), published 6 Nov. 2020). We expect the overall success of remote working to reduce demand for office space, in turn putting pressure on rental levels in the segment.

Figure 4. NP3 rental value by property type, 30 Sep. 2020



Source: company.

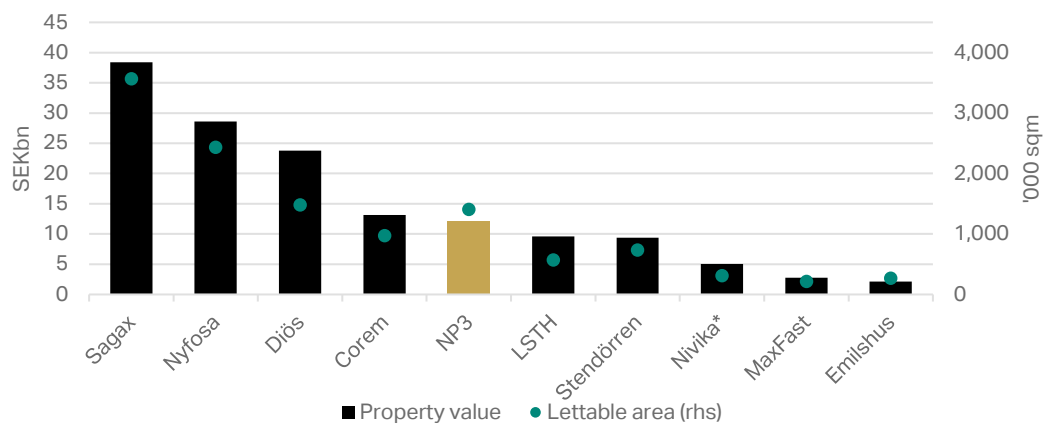
**Strong market position and solid tenant diversity despite limited size**

Market position, size and diversification scores 'bbb-'

As of 30 Sep. 2020, NP3's property portfolio comprised 382 properties totalling 1,406,000 sqm valued at SEK 12.1bn. Among listed Sweden-based property managers, NP3 is one of few focusing on the north of the country. This geographic focus leads to a lack of geographic diversity, but also a strong market presence in targeted markets.

There are few obvious peers with a similar geographic focus. One such is Diös Fastigheter AB. However, NP3's portfolio is tilted towards industrial and retail premises outside city centres, while Diös tends to focus on office premises in central locations. The scarcity of obvious peers with a similar geographic focus demonstrates that many property owners favour markets other than NP3's target market, while underlining that a small company such as NP3 can have a solid market position despite its limited size. NP3 views its main competitors as local property owners and real estate funds, rather than other listed real estate companies. The company favours acquisitions with values of SEK 10–100m, which typically are too small to interest larger listed peers but too big for small local property managers. We view NP3's close ties with banks and the resulting good access to funding as a competitive advantage over local property managers.

Figure 5. NP3 peer group breakdown by property value and lettable area, 30 Sep. 2020



Source: company. \*as of 31 Aug. 2020. Sagax–AB Sagax (publ), Nyfosa–Nyfosa AB (publ), Diös–Diös Fastigheter AB (publ), Coreim–Coreim Property Group AB (publ), LSTH–LSTH Svenska Handelsfastigheter AB (publ), Stendörren–Stendörren Fastigheter AB (publ), Nivika–Nivika Fastigheter AB (publ), MaxFast–MaxFASTIGHETER i Sverige AB (publ), Emilshus–Fastighetsbolaget Emilshus AB (publ).

By establishing a presence in the Karlstad–Västerås region in central Sweden, NP3 is tapping into a property market that is more competitive than its established markets. In this new region of operation, NP3 expects that it might have to lower its yield requirements from some acquisitions to remain competitive.

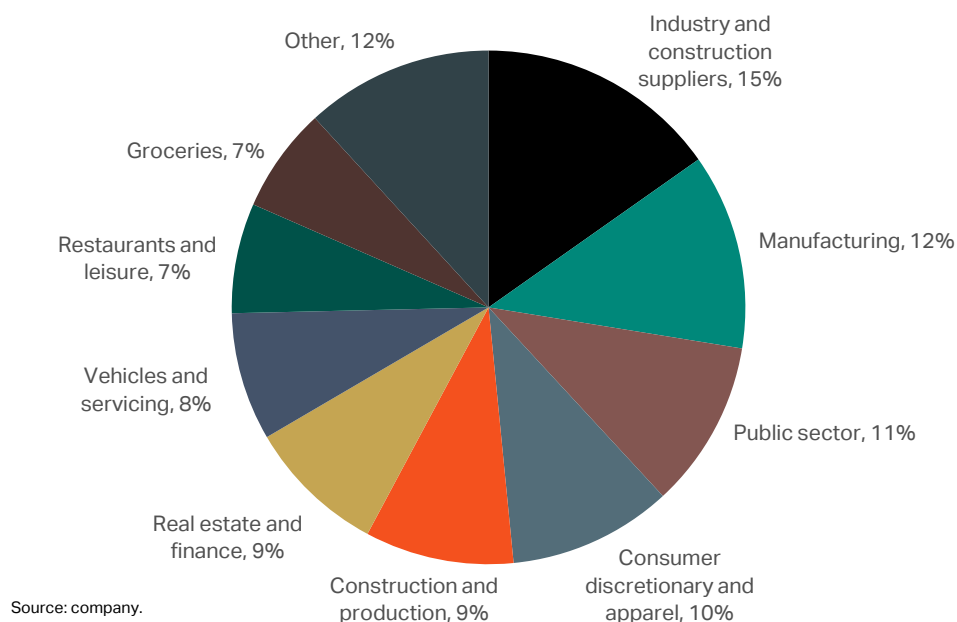
Despite the limited size of NP3's portfolio, the company's revenue streams are quite diverse with the 10 largest tenants accounting for only 14% of rental income (see Figure 6). Among NP3's tenants there is a wide mix of tenant types (see Figure 7), further demonstrating the diversity of revenues. The company has in total some 1,800 rental contracts, again underscoring the diversity of its revenue streams.

Figure 6. NP3 tenant concentration, 30 Sep. 2020

Tenant	Type of tenant	Share of rental income
Dagab Inköp & Logistik AB	Groceries	2.5%
Postnord	Public sector	1.8%
Plantagen Sverige AB	Consumer discretionary and apparel	1.5%
Assemblin EI AB	Construction and production	1.4%
Granngården AB	Industry and construction suppliers	1.4%
BYGGmax AB	Industry and construction suppliers	1.1%
Swedol AB	Industry and construction suppliers	1.1%
Arbetsförmedlingen	Public sector	1.0%
Mekonomen	Vehicles and servicing	1.0%
Sollefteå kommun	Public sector	1.0%
<b>Top 10 tenants</b>	-	<b>14.0%</b>

Source: company.

Figure 7. NP3 rental value by type of tenant, 30 Sep. 2020



Source: company.

Portfolio assessment scores 'bb+'

**Long contract lengths at properties outside city centres**

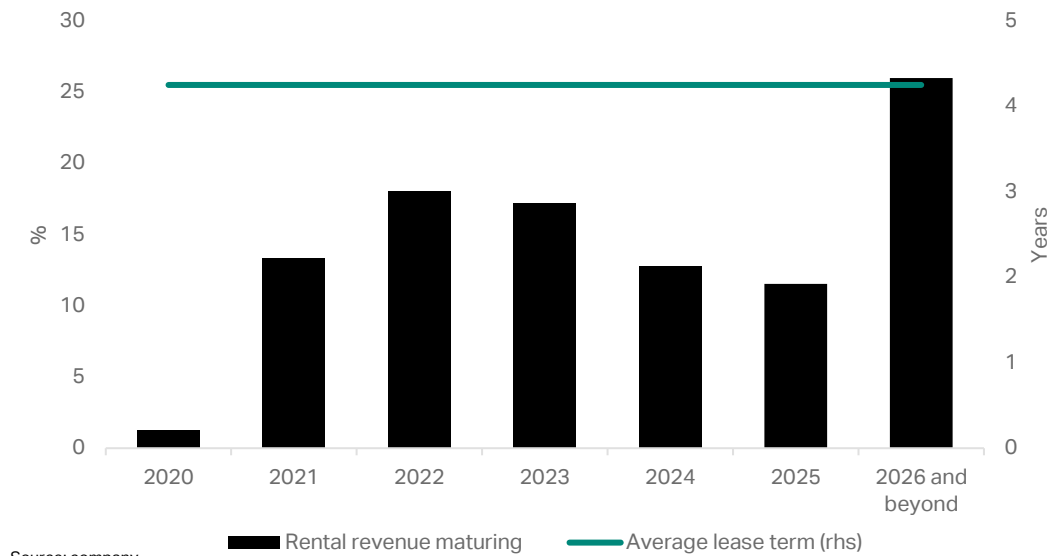
As of 30 Sep. 2020, NP3's property portfolio consisted of 382 properties. The portfolio contains a mix of property types with industrial, retail, office and warehousing premises accounting for 82% of rental value. Properties are typically located outside city centres but often near transport routes, transit hubs, or industrial areas. NP3 has a stated strategy of focusing on properties that are not in tier 1 locations, resulting in a reported average yield of 6.9%, which is substantially higher than that of most peers (typically between 5.5% and 6%). The higher yield on NP3's portfolio reflects both the higher-risk assets in the portfolio and the lower liquidity of the company's main markets. Consequently, the company enjoys stronger cash flows than most of its peers and we regard the higher yield as sufficient to compensate for the higher portfolio risk.

The average age of NP3's properties is about 20 years (measured either from construction or most recent significant refurbishment). The somewhat seasoned portfolio, together with NP3's focus on properties outside city centres, means that alternative usage of some of the properties could be limited. However, the low degree of specialisation in the portfolio means that it would be relatively easy to adapt the properties for new tenants. Nevertheless, we view limited alternative usage as an area of possible concern if vacancy rates were to rise.

In addition to its in-house property portfolio, NP3 has property exposure through associated company Fastighetsbolaget Emilshus AB (publ), a mixed real estate company focusing on the Swedish province of Småland. NP3 is the third-largest owner. Furthermore, in August 2020, NP3 signed a letter of intent to participate in a newly established 50/50 joint venture (JV) Sagax Ess AB together with AB Sagax (publ). The JV owns 37 properties, valued at SEK 1.4bn, with Beijer Byggmaterial AB as the sole tenant.

As of 30 Sep. 2020, the average lease term in NP3's portfolio was 4.2 years. Among the 10 largest tenants, representing 14% of rental income, the figure was 4.9 years. The maturity structure is quite well spread with maturities in no single year exceeding 20% of total rental value.

**Figure 8. NP3 lease maturity, 30 Sep. 2020**



As of 30 Sep. 2020, NP3 had a total of 70 ongoing projects. Most of these are rather small – only seven have budgeted investments exceeding SEK 5m and the development area of these seven projects corresponds to about 1% of NP3's total area. The risks associated with NP3's projects are generally low as projects typically are tenant-driven adaptations and non-speculative. Furthermore, construction is often contracted on turnkey contracts, reducing construction risk.

**Figure 9. NP3 project overview, 30 Sep. 2020**

Property	Property type	Estimated completion	Invested (SEKm)	Total investment (SEKm)
Ljusta 3:10	Sports facility	Q4/20	35	38
Vevstaken 9	Office	Q4/20	0	7
Banvakten 1	Industrial	Q1/21	0	9
Skotet 8	Retail	Q1/21	3	5
Gällivare 12:334	Logistics	Q1/21	2	5
Målås 4:3	Industrial	Q2/21	0	36
Björnjägaren 3	Retail	Q4/21	0	26
<b>Total</b>			<b>40</b>	<b>126</b>

Source: company.

### Local representation and strong margins support operating efficiency

Operating efficiency scores 'bbb+'

NP3 views local representation in its established markets as an essential part of the company's business model. Property management is carried out through regional management organisations with in-house personnel taking care of property management, while all technical maintenance is outsourced to local partners.

As of 30 Sep. 2020, the occupancy rate of NP3's portfolio amounted to 93%, broadly in line with that of sector peers. We expect the occupancy rate to remain at around current levels over our forecast period through 2022.

About 70% of NP3's rental contracts are either triple-net or contracts under which the company is compensated for incurred costs. The high proportion of triple-net leases affects NP3's EBITDA margin positively; the margin has historically averaged around 65%, and we expect it to remain close to this level.

So far, NP3 has experienced only minor effects as a result of COVID-19. The company has allowed some tenants to change from quarterly to monthly rental payments. NP3 has granted rental rebates to help tenants that have been significantly adversely affected by the pandemic despite having a healthy long-term business model. Over the first three quarters of 2020, NP3 granted about SEK 10m in rental rebates, compared with total yearly rental value of over SEK 1bn.

### FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bb-'

Our 'bb-' financial risk assessment reflects NP3's high financial gearing, as indicated by adjusted LTV of 63–66% and adjusted debt to EBITDA of around 11x over our forecast period through 2022. The assessment is supported by the high cash-flow generation of NP3's portfolio, resulting in an adjusted EBITDA to net interest ratio of 3.0–3.3x over our forecast period. Our ratio analysis is affected by our 50% equity treatment of the company's preferred stock. We assess NP3's risk appetite as somewhat higher than indicated by the ratio analysis, due to the company's short average debt maturity, its ambitious growth plans, and its target of paying out 50% of after-tax profit as dividends.

### High leverage but solid interest coverage due to strong cash-flow generation

Ratio analysis scores 'bb-'

In our calculations of NP3's credit metrics, we treat the company's preferred stock as 50% debt. Consequently 50% of preferred dividends are treated as interest costs. The debt treatment reflects an option to defer preferred dividends with an obligation to pay a 10% penalty interest rate on the deferred amount. We view the 10% interest penalty as sufficiently high to be considered a deterrent to deferral. As of 30 Sep. 2020, NP3 had 27.95m preferred shares, which, according to our calculations, based on a liquidation value of SEK 30 per share, entitle their holders to SEK 838.5m of the equity on the company's balance sheet.

In our calculations, we adjust cash holdings by deducting 25%, reflecting cash needed for operations which is not freely available for repayment of debt. In our adjustments of investment property, we do not account for JVs and associated companies, since these currently form a comparatively small part of the portfolio. As these exposures become larger, we expect to consolidate NP3's share of material JVs and associated companies in the company's financials.

At the end of our forecast period, we expect unadjusted investment properties of SEK 12.9bn (see Figure 10). We project this increase on the basis of expected or already committed acquisitions, the company's development pipeline, and our expectations of capital spending.

**Figure 10. NCR's adjustments to NP3's credit metrics, 2016–2022e**

SEKm	2016	2017	2018	2019	2020e	2021e	2022e
EBITDA	347	436	546	668	725	756	771
NCR-adjusted EBITDA	347	436	546	668	725	756	771
Cash and cash equivalents	151	150	71	192	50	77	122
25% cash and equivalents	-38	-38	-18	-48	-12	-19	-30
NCR-adjusted cash and equivalents	113	113	53	144	37	58	91
Gross interest-bearing debt	3,741	4,854	6,542	6,914	7,751	7,751	7,751
Preferred stock (50 % equity treatment)	0	0	326	373	419	419	419
Long-term leasing liabilities	0	0	0	71	71	71	71
NCR-adjusted cash and equivalents	-113	-113	-53	-144	-37	-58	-91
NCR-adjusted net debt	3,628	4,742	6,815	7,213	8,203	8,183	8,150
Net interest	-90	-116	-149	-177	-215	-205	-205
Financial costs from leasing	0	0	0	-2	-2	-2	-2
Dividends paid on preferred stock (50% equity treatment)	0	0	-8	-23	-26	-28	-28
NCR-adjusted net interest	-90	-116	-157	-202	-244	-234	-234
Investment property	6,165	7,732	10,496	11,402	12,396	12,655	12,911
Non-current right-of-use assets	0	0	0	72	80	80	80
NCR-adjusted investment property	6,165	7,732	10,496	11,474	12,476	12,735	12,991

Based on NCR estimates and company data. e-estimate

In our base case, we assume:

- rental income growth of 9% in 2020, 4% in 2021, and 2% in 2022;
- an EBITDA margin of 66% in 2020–2022;
- investments in properties through acquisitions, development and refurbishment of SEK 945m in 2020, SEK 259m in 2021, and SEK 256m in 2022;
- no acquisitions other than committed or highly likely acquisitions; and
- no valuation changes in investment properties.

On the basis of these assumptions, we estimate the following metrics for 2020–2022:

- Adjusted LTV of 63–66%;
- Adjusted EBITDA to net interest of 3.0–3.3x; and
- Adjusted debt to EBITDA of around 11x.

**Figure 11. NP3 credit metrics, unadjusted and NCR-adjusted, 2016–2022e**

Credit metrics	2016	2017	2018	2019	2020e	2021e	2022e
Reported debt/ EBITDA (x)	8.9	9.8	9.7	9.4	10.6	10.2	9.9
Reported EBITDA/interest (x)	3.7	3.6	3.3	3.6	3.3	3.6	3.7
Reported LTV (%)	58.3	60.8	61.7	58.8	62.1	60.6	59.1
NCR-adjusted debt/EBITDA (x)	10.5	10.9	12.5	10.8	11.3	10.8	10.6
NCR-adjusted EBITDA/interest (x)	3.9	3.8	3.5	3.3	3.0	3.2	3.3
NCR-adjusted LTV (%)	58.8	61.3	64.9	62.9	65.8	64.3	62.7

Based on NCR estimates and company data. e-estimate



Figure 12. NP3 adjusted investment properties, net debt and LTV, 2016–2022e

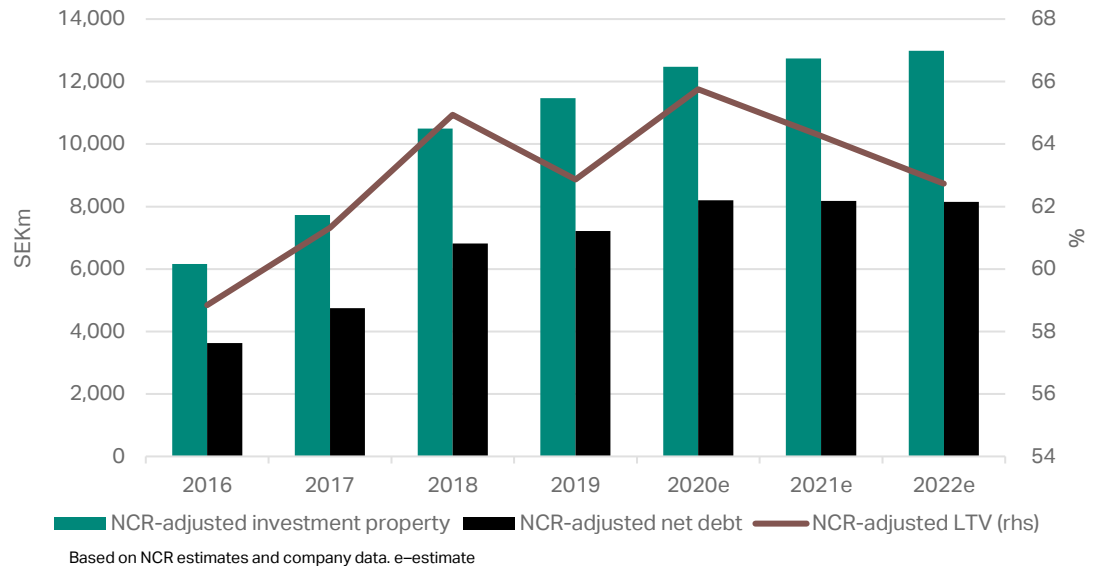
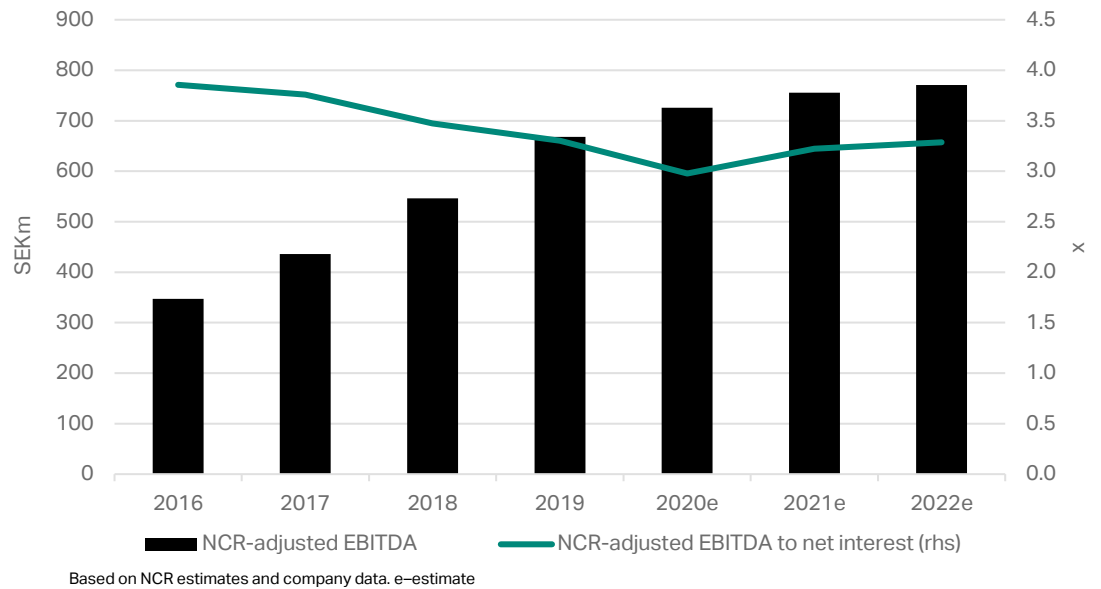


Figure 13. NP3 adjusted EBITDA and EBITDA to net interest, 2016–2022e

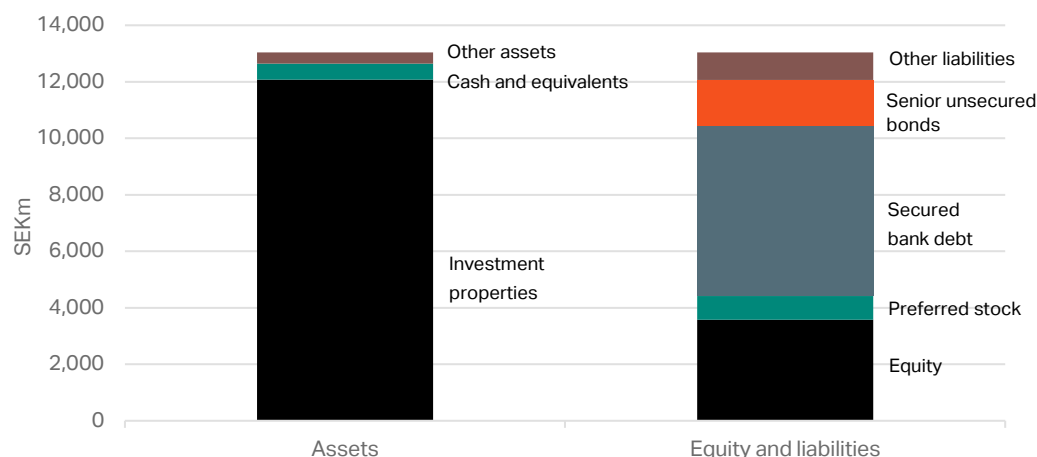


**Short average debt maturity and rapid growth demonstrate high risk appetite**

Risk appetite scores 'b+'

NP3 finances its operations through a mix of common equity, preferred stock, secured bank debt, and senior unsecured bonds. The company typically targets an 80/20 relationship between bank debt and bonds. As of 30 Sep. 2020, NP3 had four outstanding senior unsecured bonds. Of these one was set to mature in 2021 but was redeemed in full in October 2020. The company is a recurring issuer in the bond market and has historically been proactive in refinancing bonds prior to maturity, which in our view is an adequate strategy to limit refinancing risk.

Figure 14. NP3 balance sheet, 30 Sep. 2020



Source: company.

NP3 has a history of rapid growth; the property portfolio has more or less doubled in size since end-2016. We expect the company to continue its acquisitive strategy to achieve a targeted recurring annual increase of 12% in profit from property management and a return on equity of over 15% per annum measured over a five-year horizon. Despite NP3's ambitious growth plans, the company aims to pay out 50% of profit after tax as dividends, promoting a leveraged balance sheet while limiting the prospects of deleveraging.

NP3 has set out financial targets stipulating that the company should maintain an interest coverage ratio of at least 2.0x and that the long-term net LTV should be between 55% and 65% (both metrics calculated in accordance with the company's calculations). According to its bond covenants, LTV should be no more than 70% while interest coverage should be at least 1.8x. We note that reported levels as of 30 Sep. 2020 left significant headroom.

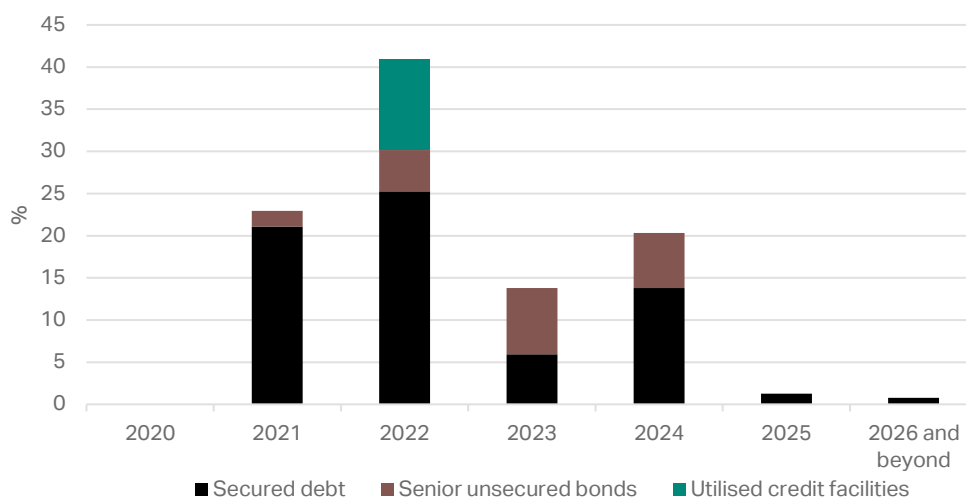
Figure 15. NP3 financial covenants, policies and reported metrics

Metric	Bond covenants	Financial policy	Reported 30 Sep. 2020
LTV ratio	≤70%	55–65%	58.3%
Interest coverage ratio	≥1.8x	≥2.0x	3.5x

Source: company.

NP3's financial policy stipulates that the average debt maturity should be at least two years while a maximum 40% of debt can mature within the next 12 months on a rolling basis. As of 30 Sep. 2020, the average debt maturity was 2.1 years, which in our view is quite short, while debt maturities over the next 12 months amounted to 17% of total debt. We expect the average debt maturity to increase somewhat in the first quarter of 2021 as NP3 extends most of its 2021 maturities. In its report for the third quarter of 2020, the company reported short-term debt of SEK 322m despite maturities within the next 12 months amounting to SEK 1.1bn (excluding the 2021 bond redeemed early).

Figure 16. NP3 debt maturity profile, 30 Sep. 2020



Source: company.

According to its financial policy, NP3's average interest fixing should be at least one year while at least 30% of debt should have an interest fixing exceeding one year. As of 30 Sep. 2020, the average interest fixing of NP3's loan portfolio was 1.9 years with 38% of debt having fixed interest. The company hedges interest risk through interest rate swaps, and as of 30 Sep. 2020, the average interest on NP3's loans was 2.7% (excluding the 2021 bond redeemed early).

#### ADJUSTMENT FACTORS

Adjustment factors are neutral

The adjustment factors are assessed as neutral and have no effect on our stand-alone credit assessment of the company.

#### Liquidity

Liquidity assessed as adequate

We assess NP3's liquidity profile as neutral despite funding uses exceeding sources in the 12 months ending 30 Sep. 2021. The company is currently negotiating the extension of most of its bank loans maturing within the next 12 months. We expect these negotiations to be successful and therefore assess liquidity as adequate.

In our liquidity analysis we do not include our projections of future acquisitions or uncommitted development projects. In our calculation of adjusted funds from operations we incorporate 50% of the dividend paid on preferred stock. The remaining 50% of the preferred stock dividend is listed in uses of funding.

We estimate the following primary funding sources for the 12 months ending 30 Sep. 2021, totalling SEK 1.3bn:

- SEK 420m in cash and equivalents, reflecting 75% of cash and equivalents as of 30 Sep. 2020;
- SEK 370m from funds from operations, equalling 75% of estimated adjusted funds from operations over the next four quarters;
- SEK 220m in proceeds from borrowings;
- SEK 220m in unutilised credit facilities; and
- SEK 40m in other funding sources.

We estimate the following uses of funds for the 12 months ending 30 Sep. 2021, totalling SEK 2.0bn:

- SEK 144m in already completed bond repurchases;
- SEK 1.1bn in maturing debt;
- SEK 162m in amortisation;
- SEK 505m in completed or committed acquisitions;
- SEK 92m in paid common share dividends; and
- SEK 28m corresponding to the remaining 50% dividend payable to preferred shareholders not included in adjusted funds from operations.

ESG factors assessed as adequate

### Environmental, social and governance factors

NP3's environmental, social and governance (ESG) policies support our view of the company's overall business risk and competitive position. The company is relatively new to both ESG reporting and integrating ESG into its operations. NP3 identifies, measures and reports ESG indicators such as carbon dioxide emissions and energy usage. It has adopted seven of the UN's Sustainable Development Goals and aims to purchase only CO<sub>2</sub>-neutral electricity by 2021. To reduce energy usage, the company often signs leases where the tenant pays for the electricity, incentivising tenants to reduce electricity costs.

NP3 is currently reviewing its property portfolio to determine which properties are to be considered green and in which properties green investments might be of interest. As of 30 Sep. 2020, the company had five environmentally certified properties with a market value of SEK 299m, corresponding to about 2.5% of the portfolio's total market value. In addition, properties valued at SEK 1.1bn had energy performance certificates of A or B, bringing the market value of properties eligible for green financing through NP3's green bond framework (rated Medium Green by CICERO) to SEK 1.4bn, corresponding to 12% of the total market value of the portfolio. NP3 is considering obtaining environmental certifications for all major renovations and newly built properties with the aim of increasing its eligible green assets by 15% a year. We view certification as an adequate approach to secure the attractiveness of the company's properties, as an increasing number of tenants demand sustainable workspaces. Furthermore, a focus on green buildings can lead to more cost-efficient property management and increase the likelihood of obtaining green financing.

NP3 has adequate governance policies in place, including a code of conduct to guide employees, business partners, and other stakeholders. The company follows Swedish governance guidelines (Svensk kod för bolagsstyrning) and its board of directors consists of five board members, among which three are independent in relation to both the company and its largest shareholders.

### Ownership analysis

Ownership assessed as adequate

NP3's common and preferred stock have been publicly listed since 2014 and 2018 respectively. Lars Göran Bäckvall through company Poularde AB is the largest owner, holding 18.9% of the capital and 24.0% of votes. The second largest owner, AB Sagax (publ) (through Satrap Kapitalförvaltning AB), is a Sweden-based commercial property manager focusing on warehousing and light industrial properties. NP3 and AB Sagax (publ) collaborate through associated company Fastighetsbolaget Emilshus AB (publ) and a newly established JV, Sagax Ess AB, that recently acquired a SEK 1.4bn property portfolio. At present, we see no major concerns or conflicts of interest arising from the close ties between NP3 and AB Sagax (publ).

Since it was founded in 2010, NP3 has completed several issuances of common and preferred stock, the most recent being a directed issuance of preferred stock earlier in 2020, which increased the company's equity by SEK 90m. We take a favourable view of NP3's history of successful share issuance and access to the equity market, which enhances the company's ability to strengthen the balance sheet when needed.

**Figure 17. NP3 ownership structure, 30 Sep. 2020**

Owner	Share of capital	Share of votes
Lars Göran Bäckvall (Poularde AB)	18.9%	24.0%
AB Sagax (publ) (Satrap Kapitalförvaltning AB)	14.1%	20.2%
Fjärde AP-fonden	8.0%	7.0%
Länsförsäkringar Fondförvaltning AB	6.3%	9.0%
Försäkringsaktiebolaget Avanza Pension	3.6%	1.6%
SEB Investment Management	3.0%	4.2%
Erik Selin Fastigheter AB	2.7%	2.8%
RBC Investor Services Bank S.A.	2.1%	0.8%
Patrik Brummer (PPB Holding AB)	2.0%	0.3%
J.A. Göthes AB	1.8%	1.9%
Other	37.5%	28.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: company.

**Figure 18. NP3 key financial data, 2016-Q3 2020**

SEKm	2016	2017	2018	2019	LTM to Q3 2020
<b>INCOME STATEMENT</b>					
Total revenue	529	677	842	1,006	1,076
Total costs from operations	-146	-201	-252	-289	-285
Administrative expenses	-36	-40	-44	-49	-50
<b>EBITDA</b>	<b>347</b>	<b>436</b>	<b>546</b>	<b>668</b>	<b>741</b>
Net financial items	-93	-122	-163	-188	-222
Share of profit in associated companies and JVs	0	0	0	14	23
Changes in investment property	243	245	212	448	374
Gain (loss) on financial assets held at fair value	3	-5	-22	-8	18
<b>Pre-tax profit</b>	<b>500</b>	<b>554</b>	<b>572</b>	<b>934</b>	<b>934</b>
Current taxes	-21	-16	-25	-38	-34
Deferred taxes	-72	-91	-79	-107	-122
<b>Net Profit</b>	<b>407</b>	<b>447</b>	<b>468</b>	<b>789</b>	<b>778</b>
<b>BALANCE SHEET</b>					
Investment property	6,165	7,732	10,496	11,402	12,079
Other non-current assets	20	24	20	244	277
<b>Non-current assets</b>	<b>6,185</b>	<b>7,756</b>	<b>10,516</b>	<b>11,645</b>	<b>12,356</b>
Cash and cash equivalents	151	150	71	192	560
Other current assets	77	53	90	99	123
<b>Current assets</b>	<b>228</b>	<b>203</b>	<b>161</b>	<b>291</b>	<b>683</b>
<b>Total assets</b>	<b>6,413</b>	<b>7,959</b>	<b>10,677</b>	<b>11,937</b>	<b>13,039</b>
<b>Total equity</b>	<b>2,266</b>	<b>2,584</b>	<b>3,464</b>	<b>4,140</b>	<b>4,413</b>
Long-term borrowings	3,643	4,508	6,216	6,720	7,301
Long-term leasing liabilities	0	0	0	71	79
Other long-term liabilities	191	277	374	486	575
<b>Non-current liabilities</b>	<b>3,833</b>	<b>4,785</b>	<b>6,590</b>	<b>7,277</b>	<b>7,956</b>
Short-term borrowings	98	346	326	193	322
Other short-term liabilities	216	244	296	326	348
<b>Current liabilities</b>	<b>314</b>	<b>590</b>	<b>622</b>	<b>519</b>	<b>671</b>
<b>Total equity and liabilities</b>	<b>6,413</b>	<b>7,959</b>	<b>10,677</b>	<b>11,937</b>	<b>13,039</b>
<b>CASH FLOW STATEMENT</b>					
Pre-tax profit	500	554	572	934	934
Adjustment for items not in cash flow	-271	-262	-218	-479	-468
<b>Cash flow before changes in working capital</b>	<b>229</b>	<b>292</b>	<b>355</b>	<b>455</b>	<b>466</b>
Changes in working capital	-203	58	-79	-34	8
<b>Operating cash flow</b>	<b>26</b>	<b>350</b>	<b>276</b>	<b>422</b>	<b>474</b>
Cash flow from investing activities	-710	-784	-1,750	-637	-993
Cash flow from financing activities	547	433	1,396	336	760
Cash and cash equivalents at beginning of year	288	151	150	71	319
<b>Cash flow for year</b>	<b>-137</b>	<b>-1</b>	<b>-79</b>	<b>121</b>	<b>241</b>
Cash and cash equivalents at end of year	151	150	71	192	560

Source: company. LTM—last 12 months

**Figure 19. NP3 Fastigheter AB (publ) rating scorecard**

<b>Subfactors</b>	<b>Impact</b>	<b>Score</b>
Operating environment	20.0%	bb
Market position, size and diversification	12.5%	bbb-
Portfolio assessment	12.5%	bb+
Operating efficiency	5.0%	bbb+
<b>Business risk assessment</b>	<b>50.0%</b>	<b>bb+</b>
Ratio analysis		bb-
Risk appetite		b+
<b>Financial risk assessment</b>	<b>50.0%</b>	<b>bb-</b>
<b>Indicative credit assessment</b>		<b>bb</b>
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
<b>Stand-alone credit assessment</b>		<b>bb</b>
Support analysis		Neutral
<b>Issuer rating</b>		<b>BB</b>
Outlook		Stable
<b>Short-term rating</b>		<b>N-2</b>

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[nordiccreditrating.com](http://nordiccreditrating.com)

### OSLO

Biskop Gunnerus' gate 14A  
0185 Oslo  
Norway

### STOCKHOLM

Engelbrektsgatan 9-11  
114 32, Stockholm  
Sweden