Compactor Fastigheter AB
Sweden, Investment Holding

SCOPE BBB- Stable

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Total cost coverage	2.9x	1.2x	1.5x	1.3x
Scope-adjusted loan/value ratio (LTV)	12.4%	8.2%	<10%	

Rating rationale

The rating is driven by Compactor's good cost coverage, based on stable recurring dividend income and very limited mandatory costs, anticipated to remain around 1.3x going forward. The uncertainty about the ability of its core holdings to pay dividends - Compactor's source of income - has diminished. The rating is further supported by the low Scope-adjusted LTV, expected to remain below 10%, which provides additional headroom in these currently volatile times. These credit metrics result in an unchanged financial risk profile of BBB. Credit strengths include the liquidity of the company's assets, with 97% of gross asset values (GAV) being listed holdings, and its long-term buy-and-hold investment philosophy.

The rating is constrained by Compactor's limited diversification in terms of recurring income-providing holdings, and its concentrated portfolio that depends on a medium-cyclical real estate industry exposure. A further constraint is the company's modest geographical diversification with the majority of its income exposed to Sweden, albeit mitigated by the country's mature and stable economy. This results in an unchanged business risk profile of BB+.

Outlook and rating-change drivers

The Outlook for Compactor has been revised to Stable as risks related to Compactor's core Swedish commercial real estate holdings have diminished somewhat with a falling interest rate curve. The Outlook further incorporates our expectation that the company will maintain a total cost coverage of around 1.3x and will not engage in debt-financed increases in shareholdings.

The **upside scenario** for the ratings and Outlooks is:

1) A positive rating action is remote but could be warranted if the company's holdings diversified towards a larger share of non-commercial real estate.

The **downside scenario** for the ratings and Outlooks is:

1) Total cost coverage deteriorated towards 1.0x on a sustained basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 Sep 2024	Outlook change	BBB-/Stable
7 Sep 2023	Outlook change	BBB-/Negative
7 Sep 2022	Affirmation	BBB-/Stable
15 Sep 2021	Affirmation	BBB-/Stable

Ratings & Outlook

Issuer	BBB-/Stable
Short-term debt	S-3
Senior unsecured debt	BBB-

Analyst

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

Related Methodology and Related Research

Investment Holding Companies Methodology;
May 2024

Corporate Rating Methodology;
October 2023

Positive rating drivers	Negative rating drivers
• Strong cost coverage with expectation of a sustained total cost coverage around 1.3x • Modest loan/value ratio after repayment of bond at around 10%, despite the slump in real estate prices • Highly liquid assets as almost 100% of compactor's holdings by GAV are listed shares	• 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 which suffered from a downturn in the last 2 years, somewhat mitigated by underlying tenant/industry diversification of its holdings • Weak geographical diversification with most recurring income exposed to the Nordics

Positive rating-change drivers	Negative rating-change drivers
• Diversification of holdings, allowing for a larger share of non-real estate (remote).	• Total cost coverage to deteriorate towards 1.0x on a sustained basis

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 holds two core shareholdings, 71.6% of stock listed Fastpartner AB and 3.3% of stock listed SBB i Norden, besides a diverse portfolio of listed blue-chip companies in the Nordics. The investment holding focuses on the receipt of recurring dividend payments from its different shareholdings.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Total cost coverage	**2.9x**	**1.2x**	**1.5x**	**1.3x**	**1.3x**
Scope-adjusted LTV	**12.4%**	**8.2%**	**<10%**		
Total income in SEK m					
Dividends from Fastpartner	313.8	155.4	155.4	155.4	155.4
Income from associated companies	0.0	0.0	0.0	0.0	0.0
Dividends from investments	161.3	105.5	129.3	63.0	61.7
Interest received	0.0	0.0	0.0	0.0	0.0
Recurring income	475.1	260.9	284.7	218.4	217.2
Operating expenses	(1.0)	(1.3)	(1.3)	(1.4)	(1.4)
Scope-adjusted EBITDA	**474.1**	**259.6**	**283.4**	**217.1**	**215.8**
Total expensesTotal income in SEK m					
Operating expenses	1.0	1.3	1.3	1.4	1.4
Interest expenses	62.5	96.9	68.7	58.1	44.0
Dividend paid	80.0	80.0	80.0	80.0	80.0
Taxes paid	18.2	38.2	45.9	34.0	36.8
Operating expenses	**161.7**	**216.4**	**196.0**	**173.5**	**162.2**
Scope-adjusted debt Total income in SEK m					
Reported gross financial debt	1,782.5	978.7	878.7	828.7	828.7
less: subordinated (hybrid) debt	0.0	0.0	0.0	0.0	0.0
less: cash and cash equivalents	(364.2)	(165.7)	(152.7)	(152.5)	(207.6)
add: non-accessible cash	0.0	0.0	0.0	0.0	0.0
add: pension adjustment	0.0	0.0	0.0	0.0	0.0
add: operating lease obligations	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0
Scope-adjusted debt	**1,418.3**	**813.0**	**726.0**	**676.2**	**621.1**

Table of Content

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)	
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)	
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)	
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)	

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

The ESG focus of Compactor aligns with that of its core holding, Fastpartner. In the real estate sector, the company invests in holdings that seek to enhance the value of its real estate portfolio through reduced emissions and high levels of renewable energy. This increases the attractiveness of its properties to existing and potential new customers, ensuring continued high occupancy and related cash flows that provide Compactor with stable income. The same principles are applied to its non-real estate holdings, with adaptations made to reflect the specific characteristics of each industry.

[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: BB+

Weighted average industry risk: BBB-

Compactor is predominantly exposed to commercial real estate (industry risk: BB), which represented 85% of its net asset value (NAV) as of Q2 2024 and 55% of its expected income in 2024. The second largest exposure is to the real estate sector, specifically the residential and social infrastructure segments (industry risk: A), representing 3.3% of NAV and 23% of income. Consequently, 89% of the NAV is exposed to the real estate industry, representing 77% of the company's expected income. This level of exposure is considerably higher than that associated with other sectors, including banking and retail.

Figure 1: Industry risk

	Mvalue/ GAV	Income based	Cyclicality	Market entry barriers	Substitution risk	Industry rating
Commercial real estate	85.9%	57.3%	Medium	Medium	Medium	BB
Residential/social infrastructure real estate	3.0%	20.5%	Low	Medium	Low	A
Bank	3.0%	11.2%	na	na	na	na
Retail	5.7%	8.9%	Medium	Low	Low	BBB
Business services	0.0%	0.0%	Medium	Low	Low	BBB
IT	1.2%	1.5%	Medium	Medium	Medium	BBB
Capital Goods	0.0%	0.0%	Medium	Medium	Medium	BBB
Healthcare	0.0%	0.0%	Medium	Low	Low	A
FMCG	0.0%	0.0%	Medium	Low	Low	A
Forest, Pulp&Paper	0.4%	0.3%	Medium	Medium	Medium	BBB
Metals	0.6%	0.3%	High	High	Medium	BB
Weighted Industry risk	**BB+**	**BBB-**				

Sources: Company accounts, Bloomberg, Scope estimates

3 core holdings above 5% GAV threshold

Compactor portfolio comprises three core holdings that exceed the 5% hurdle on a GAV basis. The company's core holdings include Fastpartner (BB/Positive), SBB i Norden (CCC/Stable) and H&M. Compactor's largest core holding, Fastpartner, represents 83% of GAV and 54% of income, making it a dominant component. The next largest holdings are H&M with 6% of GAV and 9% of income in 2024 and SBB i Norden with only 3% of GAV and 23% of income. Despite falling below the 5% GAV threshold, SBB i Norden remains a core holding. The decline below the threshold was driven by a sharp and sustained deterioration in share values. Historically, the company has consistently maintained a valuation above the GAV threshold, and Compactor is committed to retaining its position in the holding.

The above demonstrates the concentration of income to its top holding (54%) and top three holdings (86%), which is viewed as concentrated in a sustainability context. The company's reliance on Fastpartner's dividend for cost coverage is viewed as a potential credit risk.

The high share of income-generating portfolio, representing 97% of GAV, serves to mitigate the concentration aspects. This indicates a maturation in the Compactor's portfolio, with a low number of start-up companies (as measured by GAV). These companies are typically assumed to require capital injections rather than contributing to the investment holding through dividends. Accordingly, we consider the investment requirements to be minimal. When considered alongside the fungibility, which is discussed in more detail below with regard to liquidity, this reinforces the resilience of Compactor's business model.

Moderate geographical diversification benefitting the company's recurring income stream

The company's geographical diversification is moderate, with the majority of earnings (81%) benefiting from a diverse spread across Sweden and, to a lesser extent, the Nordic countries. The company's performance is influenced by macro-economic developments in Sweden and, to a lesser extent, the Nordic countries, which are mature economies with robust welfare and social systems. The latter alleviates the economic burden in times of hardship, as labour costs are partially covered by the state and fixed costs such as rent are subsidised, resulting in lower rental losses for commercial property owners.

The remaining investments are geographically diverse, with the large-cap banks (which have a home bias) operating across the Nordic and European markets. In contrast, H&M, Ericsson and SCA have a truly global reach.

Highly concentrated portfolio by industry, mitigated by underlying industries of dominant investment

Compactor portfolio is highly concentrated by industry, with two sectors representing 89% of the company's NAV and 78% of its recurring income: commercial and residential/social infrastructure real estate. The top three holdings account for 92% of the company's total gross asset value. We believe that this comparatively limited diversification results in a higher volatility of the company's loan/value ratio, as a decline in value of one of its undertakings will have a more significant impact.

The high concentration risk is somewhat offset by the diverse range of industries represented by the tenants of Compactor's dominant holding, Fastpartner. The quality of tenants is also a positive factor, with the top 20 tenants assessed as good investment grade (blue chips/government agencies). Furthermore, tenant diversification is moderate, with the top 10 tenants accounting for 18.6%.

The company benefits from a diverse income-generating portfolio, comprising rental income, dividends and interest. Three holdings own real estate properties that generate recurring rental income. The remaining six dividend-paying holdings are distributed across various sectors, demonstrating Compactor's ability to offset the impact of an absent dividend payment from one or several undertakings (except for the largest Fastpartner). This leads to a more stable coverage, which is beneficial for the company.

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. Most of Compactor's real estate holdings are held through either Fastpartner or SBB i Norden, both of which are stock-listed companies in well-developed markets with high trading volumes. Consequently, these holdings offer the potential for cash inflows through partial liquidation, should this be required.

Given its dominant shareholding in Fastpartner (72%), the company has a relatively limited free float. Smaller blocks of shares could be sold on the stock exchange, but larger blocks would require a trade sale. A review of real estate market transactions over the last few years, such as Vonovia's acquisition of Hembla and Victoria Park and SBB i Norden's acquisition of Hemfosa and the majority of Offentliga Hus, supports this as a viable option. Nevertheless, Compactor's robust financial risk profile and commitment to being an owner in Fastpartner make it an unlikely candidate for such an action.

The remainder of Compactor's holdings comprise significant positions in large Nordic blue-chip stocks, which generate a daily trading volume that exceeds Compactor's shareholdings. This provides Compactor with a high level of portfolio liquidity, which is viewed as a key strength in terms of the company's overall business risk profile.

We view Compactor's buy-and-hold investment philosophy, with a long-term investment perspective and emphasis on recurring dividend payments, as a positive factor for enhancing the credit quality of a given investment holding. Conversely, relying on one-off income from well-timed asset sales may lead to greater volatility in cost coverage.

Financial risk profile: BBB

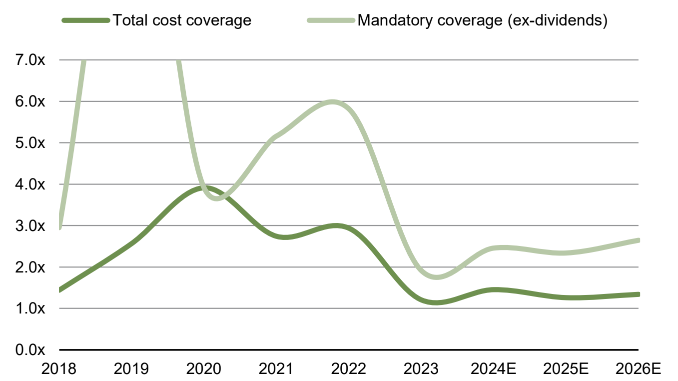
For an investment-grade-rated holding, we expect total cost coverage from recurring income streams of well above 1.0x. Historically, Compactor has consistently performed above the 1.0x threshold, with a notable period between 2019 and 2022 where it exceeded 2x. The company's overhead costs are minimal, at approximately SEK 1.3m, due to its buy-and-hold approach, which allows for hands-off management of its holdings. The company's operating expenses comprise salaries, auditor fees, interest payments resulting from a minimal debt burden, and tax disbursements. In line with its dividend policy, Compactor has distributed an annual discretionary dividend of SEK 80m to its shareholders for the past five years. In light of the unfolding pandemic, the company suspended dividends in Q1 2020. However, payments were resumed in 2021 at levels similar to previous years. Excluding the discretionary dividend, the company's cost coverage was 2x at its lowest point.

Total cost coverage of 1.3x expected going forward

The main contributor to recurring income is the predictable dividend from Fastpartner, with additional dividend income from Nordic blue-chip companies. When the Swedish central bank started to raise interest rates in the second half of 2022, property companies were hit hard as interest costs rose while rising yield requirements compressed asset values. Compactor's core holdings Fastpartner and SBB i Norden were naturally affected: Fastpartner halved its dividend for 2022 (paid as income in Compactor in 2023; kept stable since), while SBB was forced to postpone its already granted and partially paid (monthly) dividends from June 2023 to June 2024 at the latest. The postponed dividends were received by Compactor at the end of June 2024; we do not expect any further dividend income from SBB i Norden in the short to medium term.

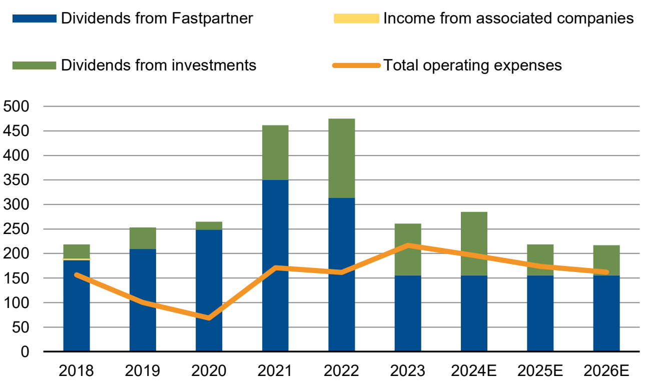
Despite the dividend cuts at its two largest core holdings, Compactor maintains an expected total cost coverage of 1.3x. Excluding dividends paid by Compactor, mandatory coverage is 2.1x for 2023 and 2.7x thereafter.

Figure 2: Total cost coverage



Sources: Compactor, Scope estimates

Figure 3: Cash inflows and outflows (SEK m)



Sources: Compactor, Scope estimates

Mandatory cost coverage is highly resilient to vanishing income streams

We assess 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 80% in the scenario of unchanged outcome for the coverage of mandatory costs (excluding dividends) to fall below 1.0x and necessitate the conversion of liquid assets. This also excludes cash on the balance sheet, which would still fully cover costs.

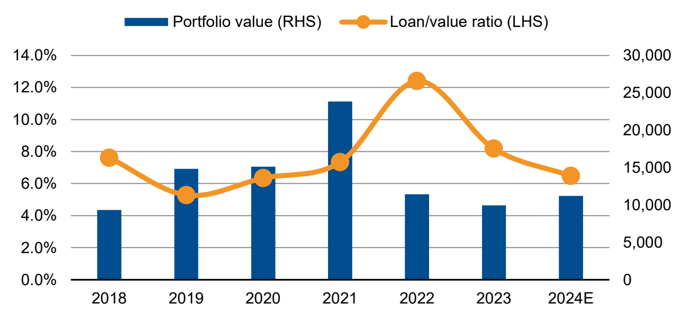
We calculate an investment holding's leverage by taking into account the market value of the portfolio of shareholdings, loans granted and fixed-income products relative to debt

(Scope-adjusted debt) at the holding level (LTV). It is noted that such market gearing can be very volatile due to the volatility of share prices and changing valuation multiples, depending on current market conditions.

Loan/value of below 10% expected

The loan/value at the end of 2023 was 8.2%. Since then, equity markets have rallied, and indications of lower interest rates have had a positive impact on equities in general and real estate equities in particular. Last year, Compactor had a bond maturity of SEK 1bn in September 2023, which the company repaid largely in cash. Although Compactor had enough cash on the balance sheet to repay the bond in full, it issued a small bond of SEK 350m to remain active in the bond markets. However, by repaying 2/3 of the bond, the total debt was significantly reduced by the end of 2023. Compactor further reduced its interest-bearing debt by refinancing its SEK 600m bond with a new SEK 500m bond in July 2024. This has maintained the loan/value below 10%, which is also our forecast for 2024-2026.

Figure 4: Loan/value and portfolio market value (SEK m)



Sources: Compactor, Scope estimates

Figure 5: Sensitivity of Scope-adjusted loan/value

Scope-adjusted debt (SEK bn)		Portfolio market value (SEKbn)							
		12.93	11.93	10.94	9.94	8.95	7.96	6.96	5.97
		30%	20%	10%	0%	-10%	-20%	-30%	-40%
0.81	0.0%	6.3%	6.8%	7.4%	**8.2%**	9.1%	10.2%	11.7%	13.6%
0.91	12.5%	7.1%	7.7%	8.4%	9.2%	10.2%	11.5%	13.1%	15.3%
1.02	25.0%	7.9%	8.5%	9.3%	10.2%	11.4%	12.8%	14.6%	17.0%
1.12	37.5%	8.6%	9.4%	10.2%	11.2%	12.5%	14.1%	16.1%	18.7%
1.22	50.0%	9.4%	10.2%	11.1%	12.3%	13.6%	15.3%	17.5%	20.4%
1.32	62.5%	10.2%	11.1%	12.1%	13.3%	14.8%	16.6%	19.0%	22.1%
1.42	75.0%	11.0%	11.9%	13.0%	14.3%	15.9%	17.9%	20.4%	23.8%
1.52	87.5%	11.8%	12.8%	13.9%	15.3%	17.0%	19.2%	21.9%	25.5%

Sources: Compactor, Scope estimates

Adequate liquidity

We assess Compactor's liquidity as adequate given: i) the positive Scope-adjusted free operating cash flow of SEK 170m forecast for 2024; ii) the undrawn portion of credit facilities of SEK 590m; iii) unrestricted cash of SEK 452m; iv) a highly liquid portfolio of blue-chip equities that could be liquidated at short notice of SEK 1.9bn as at the end of June 2024. Short-term debt of SEK 600m with original maturity in September 2024 has already been repaid in July 2024, the remaining SEK 97m is covered by sources.

Balance in Total income in SEK m	2024E	2025E
Unrestricted cash (t-1)	166	153
Open committed credit lines (t-1)	590	590
Free operating cash flow	167	130
Short-term debt (t-1)	634	384
Coverage	**146%**	**227%**

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB-

At the end of July 2024, Compactor had SEK 845m in senior unsecured bonds outstanding. The senior unsecured debt rating is affirmed at BBB-, the same level as the issuer rating. Senior unsecured debt benefits from a relatively high unencumbered asset ratio of more than 1000%, 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

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

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