

## CREDIT OPINION

2 May 2022

Update



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### RATINGS

#### Atrium Ljungberg AB

Domicile	Sweden
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Atrium Ljungberg AB

### Update to discussion of Key Credit Factors

#### Summary

[Atrium Ljungberg's](#) Baa2 issuer rating reflects (1) its strong market position as one of the leading commercial real estate companies in Sweden (Aaa stable); (2) its solid portfolio of mostly large office and retail mixed-use estates, concentrated in Stockholm, which is well-positioned for sustainable long-term growth with a controlled development programme; (3) moderate leverage of 39.9% as of March 2022 and strong fixed-charge coverage of 3.7x, and (5) an adequate liquidity covering 18 months of liquidity as of Q1 2022 and a comfortable level of unencumbered assets.

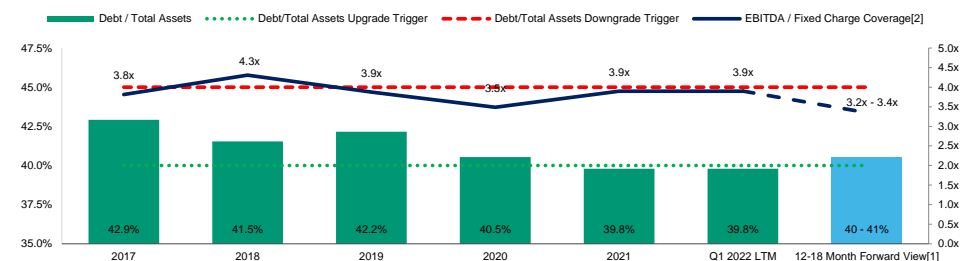
Counterbalancing these strengths are: (1) a competitive environment for shopping centers and its broader retail segment combined with the increasing penetration of e-commerce; (2) high net debt/EBITDA due to significant project development; (3) the company's short-dated debt maturity profile of 4.6 years; and (4) a significant but reduced reliance on commercial paper in its funding mix (8% of total debt as of March 2022, down from 30% in December 2016).

The coronavirus pandemic has so far not had any meaningful impact of tenant demand for office space from changing working models with more hybrid working. However, longer-term risks still exists. We also note potential negative effects on the broader Swedish economy from Russia's invasion of the Ukraine coupled with material inflation, which are broader-based risk factors for the real estate sector that can also affect the company's credit profile.

#### Exhibit 1

#### Debt/gross assets is in line with expectations

#### Moody's-adjusted debt/gross assets and EBITDA/fixed charge coverage ratio



[1] This represents Moody's forward view, not the view of the issuer.

[2] Fixed charges includes capitalised interest. Explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, revised August 2018.

Source: Moody's Financial Metrics, Moody's Estimates

## Credit strengths

- » Leading Swedish real estate company with a portfolio that is well-positioned for long-term growth
- » The company's controlled development programme and strong pipeline will enhance value
- » Moderate leverage and strong fixed-charge coverage

## Credit challenges

- » Further downside risks on the macro level driven by the current Ukraine/Russian crisis, potentially leading to reductions in rent levels, occupancy and lower market values
- » Controlling shareholders contribute to stability but could hamper access to equity capital
- » Significant exposure to retail

## Rating outlook

The stable outlook reflects our expectation that Atrium Ljungberg will continue to generate stable cash flow, improve its liquidity, and maintain or build further capacity in leverage, other debt ratios and coverage metrics while maintaining high occupancy levels and a balanced growth strategy.

## Factors that could lead to an upgrade

- » Maintains a Moody's-adjusted gross debt/total assets well below 40%, with financial policies that support that level, together with a declining trend of Moody's-adjusted net debt to EBITDA
- » Fixed-charge coverage above 4.5x on a sustained basis
- » Considerably reduced reliance on short-term funding and significantly extending debt maturities

## Factors that could lead to a downgrade

- » Moody's-adjusted leverage moving towards 45% with an increasing trend of net debt to EBITDA from current levels or Moody's-adjusted fixed-charge coverage sustained below 3.5x
- » Continued heavy reliance on short-term funding, particularly if no longer fully backed by undrawn long-dated credit facilities

## Key indicators

Exhibit 2

### Key indicators Atrium Ljungberg AB

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	Q1 2022 LTM	12-18 Month Forward View[1]
Total Assets (USD Billion)	\$5.2	\$5.1	\$5.5	\$6.0	\$6.0	\$6.1	\$6.9 - \$7.3
Unencumbered Assets %	39.1%	42.1%	46.5%	46.3%	49.1%	50.4%	52-54%
Debt / Total Assets	42.9%	41.5%	42.2%	40.5%	39.8%	39.9%	40-41%
Net Debt / EBITDA	11.7x	11.6x	12.9x	15.0x	13.4x	14.2x	14-15x
Secured Debt / Total Assets	21.1%	20.0%	17.8%	13.9%	13.0%	13.7%	11-12%
EBITDA / Fixed Charge Coverage[2]	3.8x	4.3x	3.9x	3.5x	3.9x	3.7x	3.2-3.4x

[1] This represents Moody's forward view, not the view of the issuer

Source: Moody's Financial Metrics

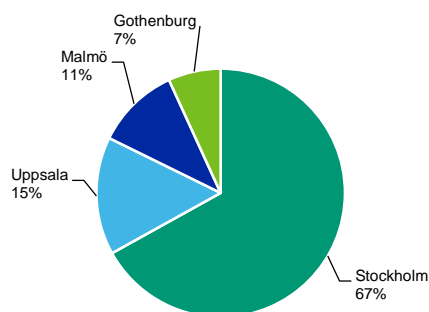
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Corporate profile

Atrium Ljungberg AB is a real estate company headquartered and listed in Stockholm with a market capitalisation of SEK24.6 billion as of 31 March 2022. The company owns, develops and manages an SEK53.0 billion retail- and office-focused portfolio across Sweden's major cities.

Exhibit 3

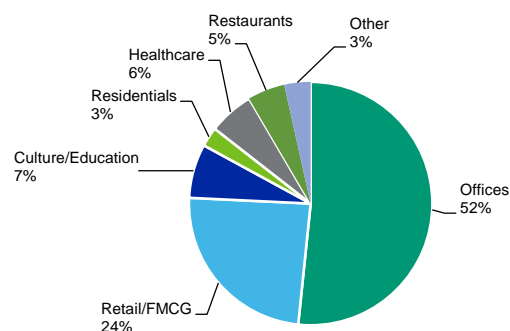
### Exposure to Sweden's four largest cities Rental value as of March 2022



Source: Atrium Ljungberg

Exhibit 4

### 75% exposure to offices and retail/FMCG\* Contracted annual rent, March 2022 (excluding project properties)



\*FMCG = fast-moving consumer goods  
Source: Atrium Ljungberg

## Detailed credit considerations

### Leading Swedish real estate company with stable portfolio, well-positioned for long-term growth

Atrium Ljungberg owns an SEK53.0 billion portfolio across Sweden's four largest and fastest growing cities. Its 66 properties spanning more than 875 thousand square metres (sqm) are 91% occupied and generate SEK2.3 billion in annual rent (LTM) as of end of March 2022.

The company focuses on the long-term ownership and development of large mixed-use districts within cities. Most of its mixed-use estates are office- and retail-led, but it also owns residential, cultural and educational facilities. Atrium Ljungberg's pure retail consisting of clothing and fashion exposure is 25% of the retail mix. The retail sector remains under pressure from online growth and because of ongoing structural changes in retail. Dominant shopping centres will benefit from sustained demand from tenants but secondary shopping centres, especially in secondary locations, will suffer declining footfall, falling retail sales and further value declines. In Sweden, the E-commerce share of total sales increased over the past years and the total market share is 15% as of 2021 and there are spots for more growth going forward. The dynamics in retail segment have been altered by the effect of corona virus pandemic, adding to the previously existing challenges. The negative impact of the corona virus shock has been more pronounced for [nonfood and apparel](#) sub-segments, while [food and grocery](#) retailers are more insulated.

After having divested several retail properties in 2018, Atrium Ljungberg has slightly increased its exposure to the retail sector in 2019. In March 2020, the company sold Farsta Centrum for almost SEK 4 billion and this transaction was closed on June 1, 2020. After the sale of Farsta Centrum, Atrium Ljungberg has three regional retail hubs, Sickla in the greater Stockholm area, Uppsala and Mobilia in Malmö. The retail part in Atrium Ljungberg's portfolio is not a pure shopping centre setup with the exception of Mobilia, but it is rather mixed-use estates which benefit from footfall from both the office estates during working hours and residential estates after working-hours.

Atrium Ljungberg's properties are in well-connected locations and provide good services and facilities. The company will invest around SEK1.5 billion per annum over the next two years on redevelopment and refurbishment projects within its existing portfolio that we believe will enhance the portfolio's overall value. The potential to organically grow the current portfolio by more than a quarter from

identified projects provides the company with a degree of stability and predictability, and makes it less reliant on acquisitions in a competitive investment market.

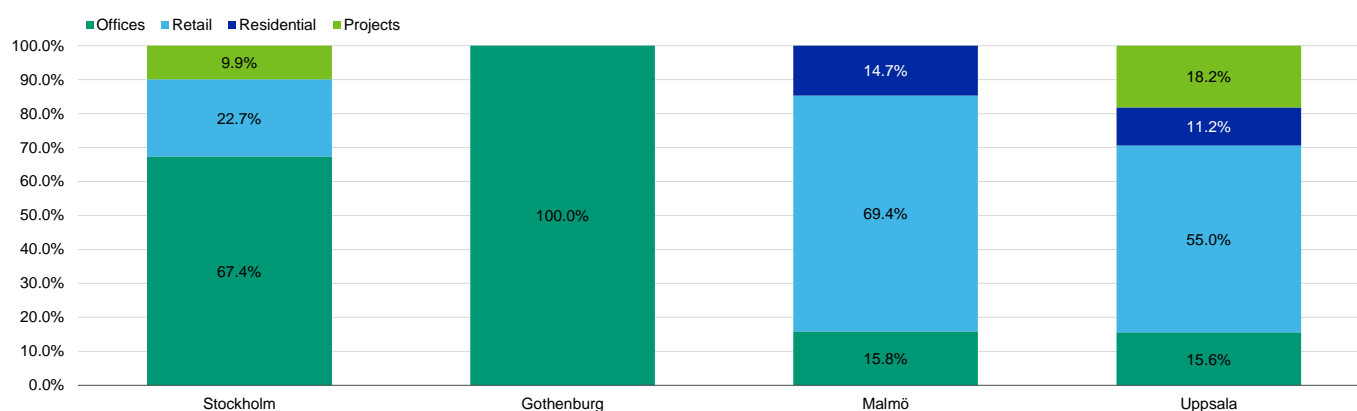
Several positive aspects to Atrium Ljungberg's strategy of controlling large estates will help sustain cash flows and asset values over the longer term. Control over large estates provides greater flexibility to create the right mix between retail/leisure, office and residential in responding to ever-changing market demands. In addition, critical mass in certain locations puts the company in a better position to work with local municipalities through the often long and difficult planning process that is a key driver of value.

An inevitable consequence of the company's approach is a higher micro-location concentration than we typically see with other real estate companies. However, this concentration risk is largely offset by the company's geographic diversification and exposure to varied underlying economic drivers.

Exhibit 5

**Good mix across asset types**

Share of rental value per location as of March 2022



Excludes garage and other space

"Other" includes healthcare, culture, education and restaurants

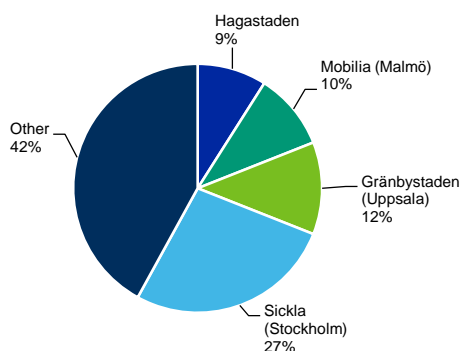
Source: Atrium Ljungberg

Another consequence of the company's strategy is the higher concentration of its office portfolio in suburbs as opposed to more central districts. While neither a major nor immediate concern, values of less central office locations tend to underperform in a downturn. As of 31 December 2021, average prime office yields in Stockholm in central locations were 3.0%, compared with a historical eight-year high of 5.6%, while the average prime office yields for less central Stockholm offices were between 3.5-5.2% compared with a eight-year high of 6.9%. Rental growth for central Stockholm offices has outperformed less central locations over the past five years, with a 8.0% compound annual growth rate (CAGR) compared with around 3.7% for less central locations.<sup>1</sup>

We are comfortable with the company's 69% concentration in Stockholm, which generates around a third of Sweden's GDP, because we do not believe this concentration will lead to a material divergence from overall economic and property trends. Stockholm is also likely to outperform other Swedish regions in respect of population and economic growth. Stockholm is one of Sweden's strongest property markets and benefits from diverse corporate demand for office space. It is also Sweden's largest and most liquid commercial real estate investment market, attracting 26% of the €28 billion investment volume in 2021.<sup>2</sup> Stockholm also attracts consumers with disposable incomes above the national average that will help sustain the company's shopping centres as an attractive place for retailers to locate.

The company's SEK2.3 billion in annual rent (March 2022 has an average remaining lease length of around 3.9 years and is spread across approximately 1,900 tenants that are well-diversified across industries. The 10 largest tenants account for 22% of the company's rental income. Positively, around 11% of rent is from government-related entities that we view as ultimately the credit risk of the government of Sweden. Around 13% of current contracted rental income will be renegotiated in 2022. We expect the company to maintain its strong reletting record and keep its occupancy rate around 95%.

Exhibit 6  
**Four largest clusters**  
 Rental value as of March 2022



Source: Company data

Exhibit 7  
**Description of five largest clusters**

	Property Description
<b>Sickla</b>	The estate represents 26% of total rental value. The shopping area has 131 stores spanning 66,800 m <sup>2</sup> attracting 13 million visitors annually and generates more than SEK 3.2 billion in retail sales. The office area spans 103,000 m <sup>2</sup> .
<b>Gränbystaden</b>	A retail-centric portfolio in Uppsala spanning 96,800 m <sup>2</sup> and representing 12% of total rental value. It consists of 154 stores with SEK 2.8 billion in sales.
<b>Kista</b>	A northern district in Stockholm containing a large cluster of ITC (Information, technology and communication) companies. Atrium Ljungberg's letting area span 82,000 m <sup>2</sup> and represents 8% of total rental value. Tenants include IBM, Fujitsu Sweden and Stockholm Science & Innovation School.
<b>Mobilia</b>	A vibrant city district located in Malmö's southern part. The portfolio spans 102,000 m <sup>2</sup> representing 9% of total rental value.

Source: Company data

### Property market fundamentals may face more challenges by a difficult macroeconomic environment<sup>3</sup>

Atrium Ljungberg reported a 2.6% like-for-like rental growth in Q1 2022 compared with a 0.2% decline in 2020, with the office retail portfolio demonstrating a growth of 1.7% and 4.0% respectively. The impact of corona virus weighed on the operating performance in 2020 and 2021 but the office part of the portfolio to some extent balanced the negative pressure arising from the downturn in retail. The office part will not be immune as there are uncertainties how work from home will develop in the longer term, which can lead to increasing yields, lower rents and higher vacancy.

The Swedish economy entered 2022 with very strong momentum and high-frequency and sentiment indicators pointed to a sustained recovery before the start of the military conflict in Ukraine. The impact of the conflict on the Swedish economy is uncertain and will depend on how the conflict develops. Against this backdrop, we have lowered our real GDP forecast from 3.5% to 3.1% for 2022, with risks tilted to the downside.

Inflation was accelerating already before the military conflict in Ukraine. Price growth reached 4.4% year-on-year in February due to a broad-based acceleration as both food and non-food prices rose rapidly. To date, prices in Sweden have exhibited a similar pattern as in the euro area, with a strong increase in energy prices.

However, the current situation in Ukraine / Russia represents uncertainties in the macro environment, interest rates and inflation. Even though the property companies' rents are CPI linked, this may not be sufficient to offset potential increase in interest rates. Given the circumstances, risks are clearly tilted to the downside and could lead to market values decline.

### Controlled development programme with strong pipeline will enhance value

The company's SEK6 billion (SEK 2.7 billion remaining to be spent) development pipeline of ongoing projects that is high at around 11% of total assets. In addition, the company plans for longer-term SEK36 billion of potential development projects. Investments in new residential, office, and retail space are likely to increase footfall and make its large estates more attractive to potential tenants.

We expect the company to maintain its roughly 2-3% exposure to residential properties over the next few years, but believe the asset class diversification benefit is higher than the 2-3% suggests. We expect the company to increasingly develop and sell residential units into the undersupplied housing market, and to generally only keep residential units it wants to rent or which are designated as rental stock under planning regulations.

The company wholly owns TL Bygg, a building contractor with 119 employees and around SEK781 million in annual sales that is experienced in costing, purchasing and project management. TL Bygg performs work for both Atrium Ljungberg and external third parties. Atrium Ljungberg provides parent guarantees to TL Bygg that are normally 10% of the contract amount during construction, falling to 5% during the subsequent five-year warranty period.

We believe TL Bygg provides Atrium Ljungberg with valuable in-house expertise in planning and executing its development projects, helping it to extract maximum value from its portfolio. We expect the company to continue to manage TL Bygg in a disciplined and controlled manner, and to not take on risks with the potential to create a material financial liability for the whole group.

### Moderate leverage and strong fixed-charge coverage

The company's financial policy is to keep its gearing ratio as measured by debt to the fair value of investment properties below 45%. The most recent leverage as measured by Moody's adjusted gross debt/assets was 39.9% and we expect the company to maintain its established track record of keeping leverage as measured by Moody's gross debt/assets within the range of 40-45%. However, net debt/EBITDA rose to 14.2x as of March 2022 from 9.4x in 2015 reflecting sizeable development activities but also leveraging of compressed yields. Unsecured creditors are adequately covered with unencumbered assets providing 2.0x coverage. The fixed charge coverage is currently at solid 3.7x, but we expect a decline following higher cost of funding over the next 12-18 months.

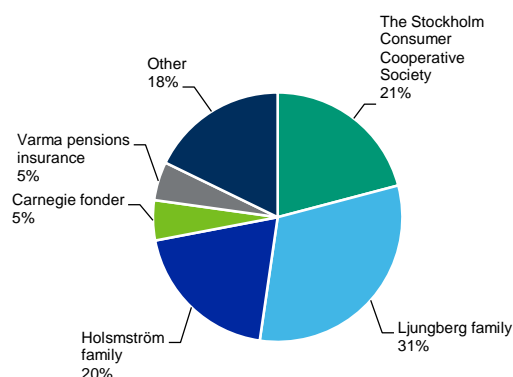
### Controlling shareholders contribute to stability but could hamper access to equity capital

We believe the three largest shareholders, who together control around 82% of the company's votes, contribute to the company's stability and allow management the time and space to build long-term value. Furthermore, we believe the controlling shareholders are a key influence in keeping the company's leverage well below most of its Swedish real estate peers.

Counterbalancing these positives is our view that the current shareholder structure somewhat limits liquidity because it reduces the free float and may make it more difficult to raise equity if needed. However, we do not envisage the company needing to raise capital in the near future. Moreover, the company pays out less cash to shareholders than many of its European peers, and unlike real estate investment trusts (REITs) has no legal obligation to pay a high proportion in dividends. This gives it more leeway to use funds from operations to reduce leverage if needed.

Exhibit 8

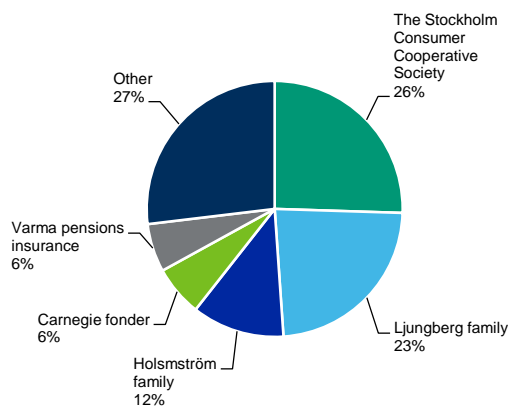
#### Share of votes As of March 2022



Source: Company data

Exhibit 9

#### Share of capital As of March 2022



Source: Company data

### Short-dated debt maturity profile and heavy reliance on short-term debt

The company's average debt maturity was 4.6 years as of 31 March 2022, up from three years in 2013, somewhat dragged down by the 8% reliance on commercial paper in its funding mix. 12 percent of its debt matures in 2022. Positively, the company's SEK5 billion commercial paper programme is fully backed by undrawn revolving credit facilities (RCFs) with a staggered maturity profile until 2028. The average cost of debt was low at 1.7% as of March 2022 which has benefited the company's fixed-charge coverage ratio.

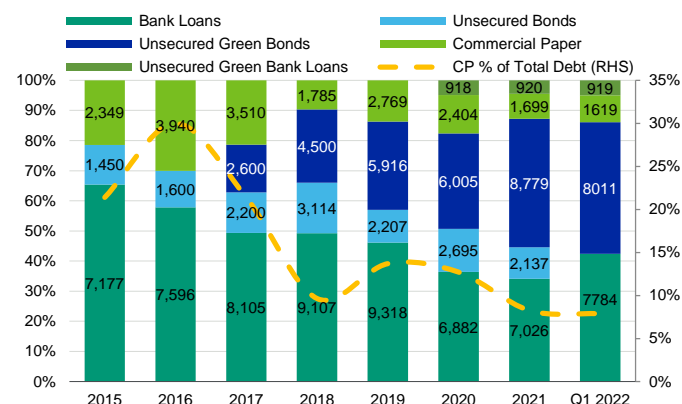
Secured bank lending amounts to 34% of the company's outstanding debt. For the most part it contains cross default provisions and benefits from parent guarantees.

The company's average interest rate fixing period is 4.7 years. As of 31 December 2021, it held SEK14.7 billion in interest and currency swaps covering 77% of outstanding debt with various maturity dates until 2030. The company booked a SEK388 million unrealised gain on its derivatives portfolio in 2021.

Exhibit 10

### Reliance on commercial paper has reduced (8% of total debt as of March 2022)

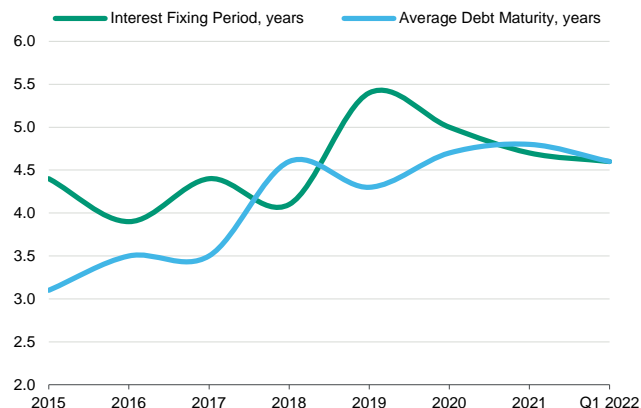
Debt structure, 2015 - Q1 2022



Source: Atrium Ljungberg

Exhibit 11

### Average debt maturity has increased



Source: Company reporting

## Liquidity analysis

The company has adequate liquidity, underpinned by:

- » Cash position of SEK645 million as of 31 March 2022
- » SEK300 million of an undrawn on-demand overdraft credit facility
- » SEK6.5 billion of undrawn RCFs, mainly backing its commercial paper programme but which could be used for general corporate purposes. The RCFs are spread across several facilities with well-staggered maturities between November 2023 and June 2028.
- » SEK28.6 billion pool of unencumbered assets as of end March 2022

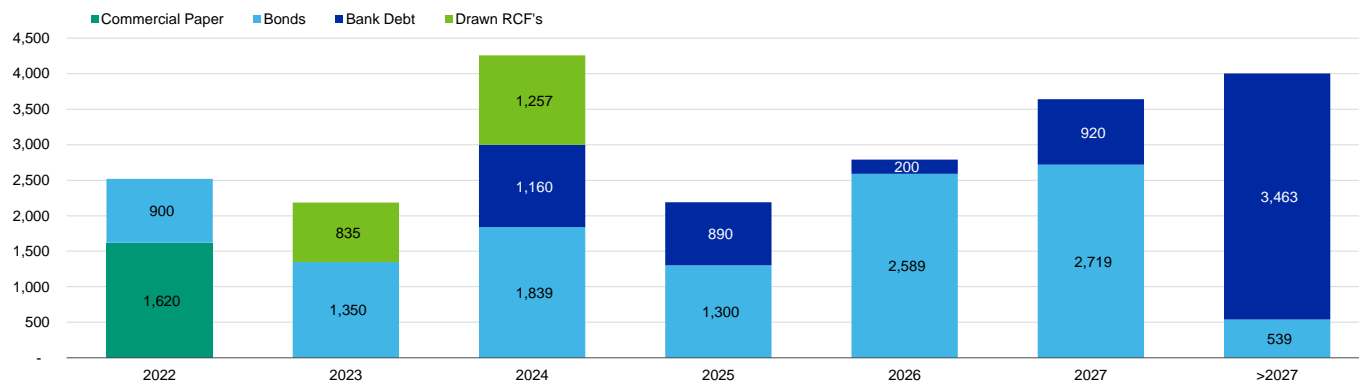
We view the company's continued decrease in short-term funding as credit positive as it otherwise is a potential threat to liquidity because it increases the duration mismatch between funding sources and the long-term nature of real estate assets. Moreover, companies with a high proportion of short-term debt are more vulnerable to instability in capital and lending markets, and more quickly affected by a change of sentiment towards the cyclical real estate sector. However, we are comfortable that the long-dated RCFs with ample covenant headroom provide a backstop against the unlikely risk that the company could struggle to roll over its commercial paper. We expect the company to continue to rely on long-term sources of funding to a greater extent. We see the Ba score for liquidity and access to liquidity as strongly positioned.

We expect the major demands on cash from operations in the next 12-18 months to come from capital expenditure on redevelopments and refurbishments of properties. Other than rolling over the SEK1.6 billion of commercial paper outstanding, the company will need to refinance SEK1.4 billion of bonds maturing in the next 18 months.

Exhibit 12

**Front-loaded debt maturity structure**

Debt maturities as of March 2022 SEK million



Source: Atrium Ljungberg

Exhibit 13

**Ample headroom under the RCF and bank loan covenants**

Atrium Ljungberg AB

	Covenant	Level as of March 2022	Headroom under the covenant
Interest Coverage Ratio, termination rights	1.3x - 1.7x	5.1x	353%
Equity / Assets ratio, %	25% - 30%	47.1%	171%
Leverage at property level (individual loans limited of maximum LTV)	65% - 75%	met	N/A

Source: Atrium Ljungberg



## Rating methodology and scorecard factors

The principal methodology used in this rating was [Global Rating Methodology for REITs and Other Commercial Property Firms](#) published in August 2021. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology. The current and forward-looking scorecard-indicated Baa3 rating is one notch lower than the rating assigned. The one notch gap between the rating assigned and the scorecard-indicated outcome reflects the greater emphasis we have placed in our assessment on the company's debt to assets and fixed charges coverage ratios compared to the weights in the grid.

Exhibit 14

### Rating Factors

#### Atrium Ljungberg AB

Atrium Ljungberg AB			Moody's 12-18 Month Forward View As of 4/1/2022 [3]		
REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]			Q1 2022 LTM		
Factor 1 : Scale (5%)	Measure	Score		Measure	Score
a) Gross Assets (USD Billion)	\$6.1	Baa		\$6.5-6.9	Baa
Factor 2 : Business Profile (25%)					
a) Market Positioning and Asset Quality	Baa	Baa		Baa	Baa
b) Operating Environment	A	A		A	A
Factor 3 : Liquidity and Access To Capital (25%)					
a) Liquidity and Access to Capital	Ba	Ba		Ba	Ba
b) Unencumbered Assets / Gross Assets	50.4%	Ba		52-54%	Ba
Factor 4 : Leverage and Coverage (45%)					
a) Total Debt + Preferred Stock / Gross Assets	39.9%	Baa		40-41%	Baa
b) Net Debt / EBITDA	14.2x	Ca		14-15x	Ca
c) Secured Debt / Gross Assets	13.7%	Baa		11-12%	Baa
d) Fixed Charge Coverage	3.7x	Baa		3.2-3.4x	Baa
Rating:					
a) Scorecard-Indicated Outcome		Baa3			Baa3
b) Actual Rating Assigned					Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations

[2] As of 3/31/2022(L), estimated

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestiture

Source: Moody's Financial Metrics™

## Ratings

Exhibit 15

Category	Moody's Rating
<b>ATRIUM LJUNGBERG AB</b>	
Outlook	Stable
Issuer Rating - Dom Curr	Baa2

Source: Moody's Investors Service

## Appendix

Exhibit 16

### Moody's-Adjusted Debt Reconciliation for Atrium Ljungberg AB<sup>[1][2]</sup>

	FYE	FYE	FYE	FYE	FYE	LTM
in SEK millions	Dec-2017	Dec-2018	Dec-2019	Dec-2020	Dec-2021	Mar-2022
<b>As Reported Debt</b>	<b>18,247.0</b>	<b>18,506.0</b>	<b>21,516.0</b>	<b>20,084.0</b>	<b>21,586.0</b>	<b>22,682.0</b>
Leases	176.0	400.0	0.0	0.0	0.0	0.0
<b>Moody's-Adjusted Debt</b>	<b>18,423.0</b>	<b>18,906.0</b>	<b>21,516.0</b>	<b>20,084.0</b>	<b>21,586.0</b>	<b>22,682.0</b>

[1] All figures are calculated using Moody's estimates and standard adjustments.

[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics <sup>TM</sup>

Exhibit 17

### Moody's-Adjusted EBITDA Reconciliation for Atrium Ljungberg AB<sup>[1][2]</sup>

	FYE	FYE	FYE	FYE	FYE	LTM
in SEK millions	Dec-2017	Dec-2018	Dec-2019	Dec-2020	Dec-2021	Mar-2022
<b>As Reported EBITDA</b>	<b>3,490.0</b>	<b>4,095.0</b>	<b>3,859.0</b>	<b>1,025.0</b>	<b>4,989.0</b>	<b>6,749.0</b>
Unusual Items - Income Stmt	-1,929.0	-2,568.0	-2,216.0	452.0	-3,428.0	-5,198.0
Leases	44.0	40.0	0.0	0.0	0.0	0.0
<b>Moody's-Adjusted EBITDA</b>	<b>1,605.0</b>	<b>1,567.0</b>	<b>1,643.0</b>	<b>1,477.0</b>	<b>1,561.0</b>	<b>1,551.0</b>

[1] All figures are calculated using Moody's estimates and standard adjustments.

[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics <sup>TM</sup>

## Endnotes

[1](#) JLL Nordic Outlook - Spring 2022.

[2](#) CBRE Research 2021.

[3](#) [Moody's Global Macro Outlook 2020-21](#)

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