CREDIT OPINION
11 July 2024

Update

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RATINGS

AB Sagax

Domicile	STOCKHOLM, 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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AB Sagax

Update to credit analysis

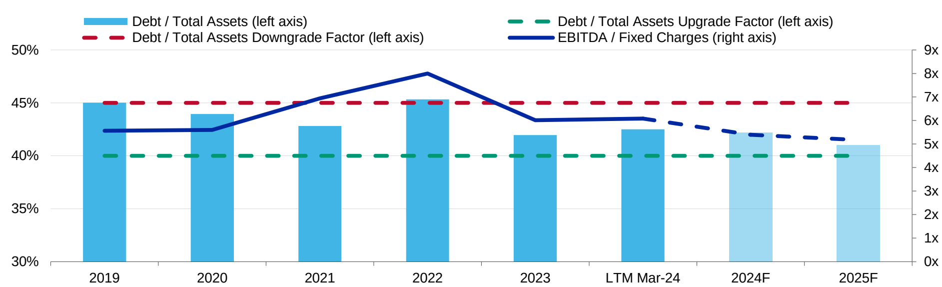
Summary

AB Sagax's (Sagax) Baa2 long-term rating reflects the company's leading market position in the Nordic warehouse and light industrial real estate sector. The company's well-executed business model is focused on attractive assets close to large cities and diversified, long-dated rental cash flow from creditworthy tenants underpin its stable portfolio. Sagax is a disciplined and opportunistic buyer that grows through value-accretive acquisitions in the various countries where it operates and has good access to debt and equity capital.

Other strengths include lower leverage than many of its European real estate peers, measured as net debt/EBITDA of 7.2x, partly reflecting its higher-yielding asset base as well as recent acquisitions; and a strong fixed-charge coverage of 6.1x for the 12 months that ended 31 March 2024, we expect only a smaller decline in the current market environment given the company's high fixed debt of 80% over the next 12-18 months. Sagax's Moody's-adjusted gross debt/total assets stood at 42.5% as of March 31 2024. More than 30% of its total unencumbered assets are located in Sweden and Finland, while its unencumbered assets/gross assets stood at 70.2% at 31 March 2024.

Counterbalancing these strengths is the company's exposure albeit limited to a relatively less-liquid and less-transparent sector of the property market. The limited alternative use for some of the company's properties without significant investments, especially outside major urban areas, is a potential long-term risk. Sagax's average lease period was five years as of 31 March 2024.

Exhibit 1
Debt/gross assets has gradually improved since 2018
Moody's-adjusted debt/gross assets and EBITDA/fixed charge coverage



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» Consistently high occupancy over 10 years time and geographical diversification, which will protect its cash flow from cyclical downturns

» Growth and further diversification through disciplined, opportunistic buying

» Large exposure towards Nordics and flexible asset type (which enables light industry to be converted to warehouse)

» Good track record of access to equity and debt capital

Credit challenges

» Operates in a less-transparent and less-liquid section of the property markets, in which yields are higher with fewer buyers for individual properties

» Dividends from joint ventures (JVs) leading to volatility in some ratios and less transparency

Rating outlook

The stable outlook reflects our expectation that Sagax will continue to deliver solid operational performance, keeping high occupancy, resulting in stable cash flow, good liquidity on a sustained basis and preserves its solid credit metrics. We expect Sagax to maintain effective leverage below 45% while continuing its balanced growth strategy.

Factors that could lead to an upgrade

» Continued growth of its asset base and diversifying its tenant base while maintaining a long average lease term and positive operating KPI's.

» Sustaining effective leverage well below 40% and net debt/EBITDA around 7x with financial policies that support continued expectation of lower leverage

» Fixed charge coverage ratio of above 6x on a sustained basis in a normalized interest environment

» Maintained strong liquidity

Factors that could lead to a downgrade

» Deterioration in the operating performance, including further reduction in the average lease tenor, which is not counterbalanced by lower leverage, or if property market fundamentals weaken sharply

» Moody's adjusted effective leverage above 45% on a sustained basis or if Moody's-adjusted net debt/EBITDA of above 8x on a sustained basis

» Fixed charge coverage ratio falling below 4x

» Failure to maintain good liquidity, an adequate unencumbered asset base as well as a staggered maturity profile with substantial buffers to covenants

Key indicators

Exhibit 2
AB Sagax

(in SEK billions)	2019	2020	2021	2022	2023	LTM Mar-24	2024F	2025F
Gross Assets	40.2	46.6	62.5	72.1	73.4	76.6	77.1	79.1
Unencumbered Assets / Gross Assets	64.8%	67.7%	87.1%	80.3%	75.2%	70.2%	70.4%	71.1%
Total Debt + Preferred Stock / Gross Assets	45.0%	44.0%	42.8%	45.3%	42.0%	42.5%	42.2%	41.0%
Net Debt / EBITDA	8.0x	7.7x	9.3x	9.1x	7.1x	7.2x	7.2x	7.9x
Secured Debt / Gross Assets	13.6%	10.9%	0.3%	2.6%	3.1%	7.2%	3.5%	3.4%
Fixed Charge Coverage	5.6x	5.6x	6.9x	8.0x	6.0x	6.1x	5.4x	5.2x

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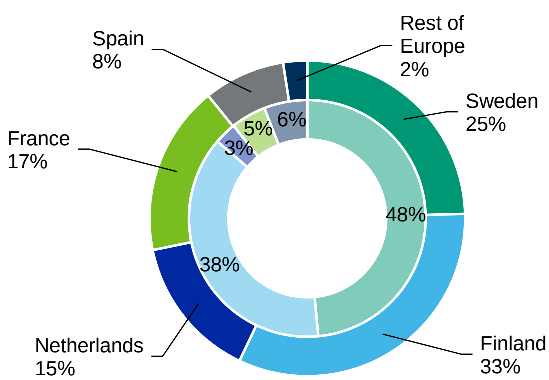
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

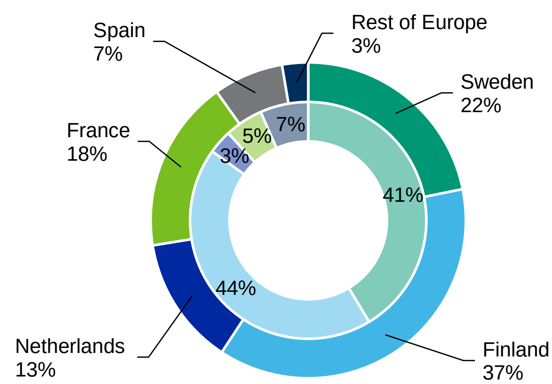
Sagax is a publicly listed real estate company headquartered in Stockholm. It owns a portfolio of 911 warehouse and light industrial properties valued at SEK59.8 billion as of March 31 2024, generating SEK4.5 billion rent on a LTM basis. By value, 58% of the portfolio is in Sweden and Finland, with the rest spread across France, Benelux, Spain, Germany and Denmark. The company is listed on the Nasdaq Stockholm Large Cap, with a market capitalization of SEK97.2 billion plus D-shares of SEK 3.8 billion as of 7 July 2024, The CEO David Mindus holds 29.1% of votes and 16.8% of capital in Sagax.

Exhibit 3
60% of property value is concentrated in Sweden and Finland



Outer ring represents data as of Q1 2024 and inner ring represents data as of 2017.
Source: Company information

Exhibit 4
60% of contractual rent comes from properties in Sweden and Finland



Outer ring represents data as of Q1 2024 and inner ring represents data as of 2017.
Source: Company information

Detailed credit considerations

Long-dated lease profile and diversification will protect cash flow from cyclical downturns

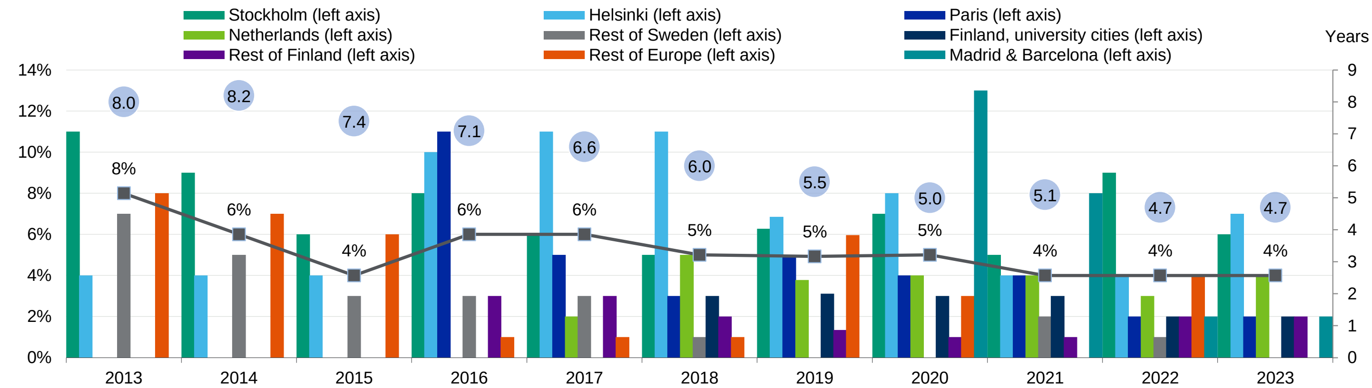
Sagax is one of the leading warehouse and light industrial companies in Sweden and Finland, but with an increasing pan-European footprint. The company has a clear, well-executed business model focused on light industrial and warehouse across multiple jurisdictions. Furthermore, besides triple-net contracts Sagax have a portfolio of almost 100% CPI-linked contracts. Therefore we expect a minimal effect on costs from inflation while the issuer will be able to increase rents substantially.

We positively view management's focus on generating diversified cash flow from triple net long-term leases to good-quality tenants, and prioritizing longer leases over maximizing rent. The five-year average remaining lease term, although declining over the last 5 years, provides cash flow stability. We expect the company to sustain its current high occupancy rate of around 95%, maintained since 2007, aided by favorable market conditions and constrained supply in many of its markets. The consistently high and stable margins of above 82% will ensure that the bulk of rental income is converted into earnings.

Exhibit 5

Economic vacancy

Sagax's sustained low vacancy rate



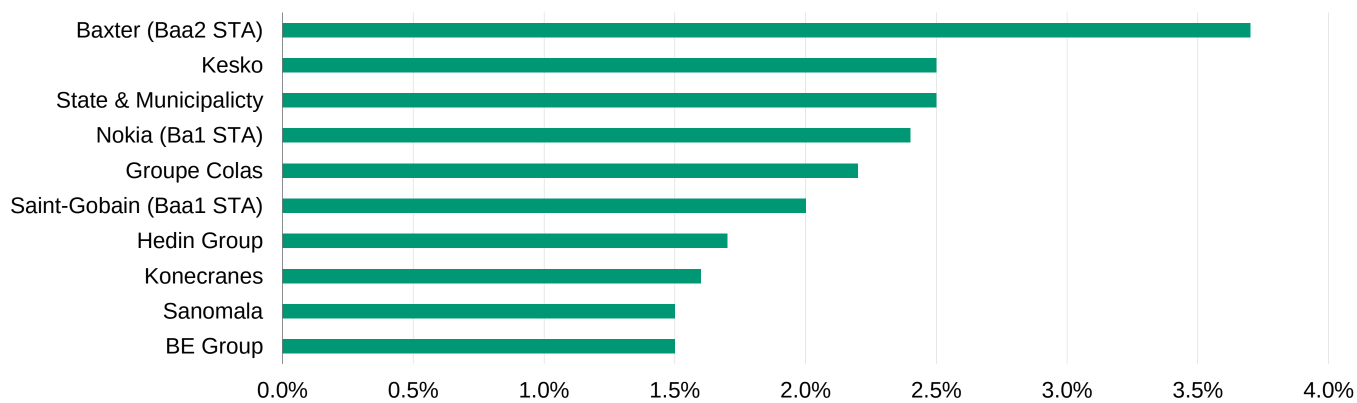
Source: Company information

Sagax is well diversified in terms of geography, tenants, industry type and underlying economic drivers. Geographic diversification across and within the company's two main markets of Sweden and Finland will protect its cash flow and portfolio values as economic and property market performances are less correlated across countries. The company's operations in jurisdictions that are at different stages of the economic and property cycles further diversify its exposure. Its growing presence in other European countries will reduce the reliance on its two main markets. Sagax has more than 2,500 leases in place, all of which are essentially inflation linked. The top 6 tenants represent 15% of rent, with Baxter International Inc. (Baa2 stable) and Kesko, the single-largest tenants, contributing around 6% together. The company's tenant base is spread across multiple industries, with the highest exposure to manufacturing industry at 17% of rent roll, followed by 14% to Automotive, 10% to food-related and 8% to service for properties. There is no single-asset concentration, with the largest property representing less than 5% of the total value.

Exhibit 6

Rental income distribution by tenant

Diversified tenant base, with the top 10 tenants representing 22% of total rental income



Source: Company information

Scale in the warehouse and light industry sector can provide a small advantage in attracting tenants, but is generally less important than in other sectors such as shopping centres or logistics. The company benefits from its leading scale in Sweden and Finland, and the diversification benefits from its exposure outside those two countries outweigh its limited presence.

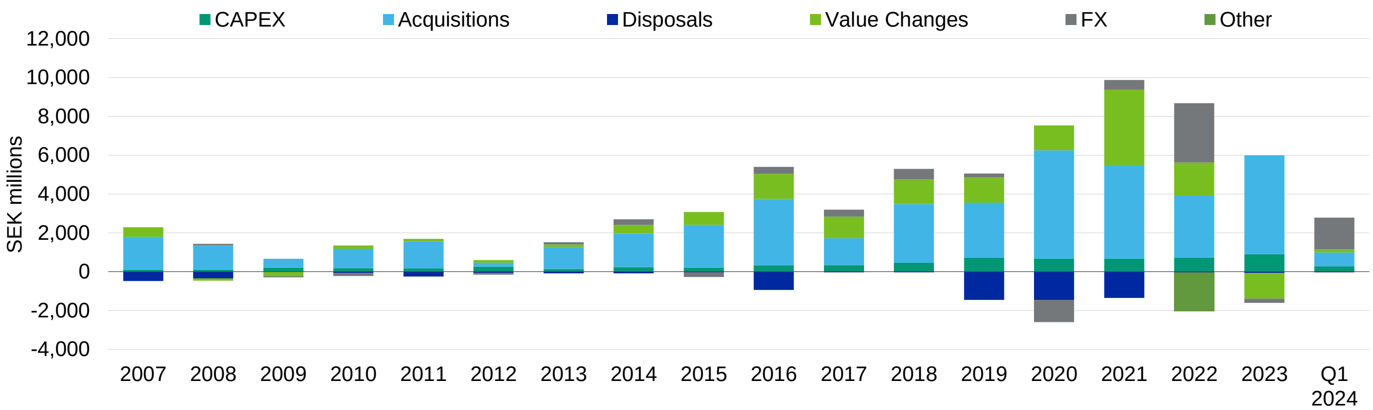
Growth and further diversification through disciplined, opportunistic buying

We expect Sagax to grow its portfolio by roughly SEK2-3 billion per year, excluding fair value changes, over the coming years. At the same time, we expect the company to manage growth to maintain its effective leverage well below 45% and create a cushion to its financial policy of below 50%.

Exhibit 7

Portfolio development by source

Most of the growth comes from acquisitions that reduce the exposure to development risk



Source: Company information

Sagax's presence in and knowledge of multiple European countries is a competitive advantage, which allows it to find the best risk-adjusted acquisitions and enhance its credit profile. Sagax has an established track record of disciplined buying, as demonstrated by its limited purchases over the last few years in a competitive Swedish investment market that makes it hard for buyers to find value. The company is less vulnerable to overpaying for assets in heated markets nearing their peak as the market has not had a yield compression similar to other assets classes, which gives it some downside protection should asset values start to fall in an inherently cyclical industry. However, this opportunistic approach entails risks because it could increase the company's exposure to relatively weaker markets. This risk is mitigated by Sagax's focus on capitals and regions with high GDP and population growth. Nonetheless, we view the company's growth strategy as value-adding and credit positive because it improves diversification.

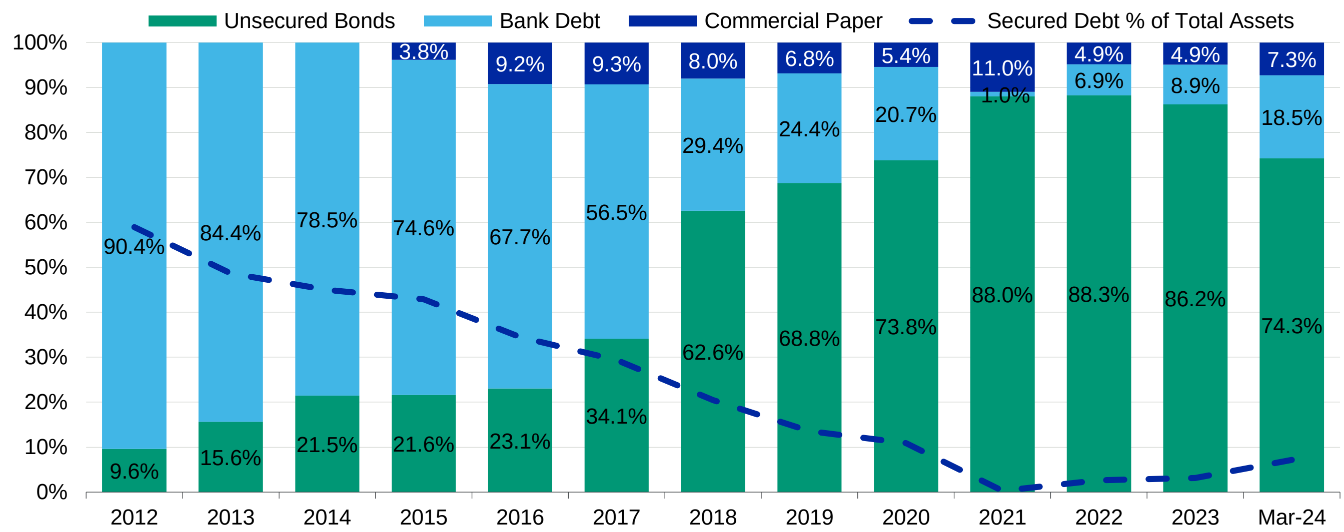
Good track record of access to equity and debt capital but more difficult funding conditions ahead

Sagax has an established track record of accessing diverse sources of funds, including public equity markets, Swedish krona- and euro-denominated public bonds, bank lending and commercial paper. As of 31 March 2024, 83% of its funding mix was unsecured.

Exhibit 8

Capital structure development

Well-established track record of accessing equity and debt markets



Source: Company information

The company has three classes of shares: Class A, B and D common shares. Class D shares, which we classify as equity, are entitled to five times the total dividend on Class A and B shares, although not more than SEK2 per share annually. The preference shares previously issued by the Sagax were redeemed in April 2021. The company's top three shareholders control 47% of the voting shares, which contributes to stability but could hamper equity free float and liquidity. In 2023, Sagax completed two rounds of issuances of common shares and raised Class B SEK 4.2 billion in total.

Borrowing in various currencies is prompted by Sagax's expansion in Euro areas, assets in Euro and cash flows in Euro constitute a natural hedge. Furthermore, maturity terms in the eurobond market are on average longer than local Swedish krona bonds, thus helping the company lengthen its debt maturity.

EBITDA includes material amount of dividends which can result in higher volatility, leverage adequate for the current rating

Sagax owns 50% of Söderport Property Investment AB, 15% of Hemsö Fastighets AB and 50% of Ess-Sierra, valued at SEK7.7 billion, on its balance sheet. We include the JVs' carrying value when arriving at our leverage ratio, as measured by Moody's-adjusted gross debt/ assets. The JVs paid SEK712 million of dividends for the 12 months that ended 31 March 2024, which we include when arriving at the company's Moody's-adjusted EBITDA. We expect dividends from JVs to be more volatile due to the current market situation. We view direct investments in properties on multi-year contract providing stable streams of cash flow to be more favorable as opposed to JV holdings.

Elevated risk at lease maturity because of limited alternative use; operations in a less-liquid and less-transparent sector of the property market

There is limited alternative use for the company's properties that are located outside of capital cities and university cities should the current tenants not renew. Many of the buildings the company owns are customised for their occupiers, and therefore, it may take a long time to find alternative tenants and require capital spending to modify the premises to fit a new occupier's requirements. The risk of limited alternative use is mitigated by longer leases in these areas. Around 19% of the company's assets by value are located outside of capital cities and university cities. Over the next years, we expect this proportion to decrease as the company continues its strategy of locating its properties close to centers with growing populations. Also, the application of IFRS 16 reduces the tenants benefits from sale-and-lease-back transactions. Current share of sale-and-lease-back is 15%.

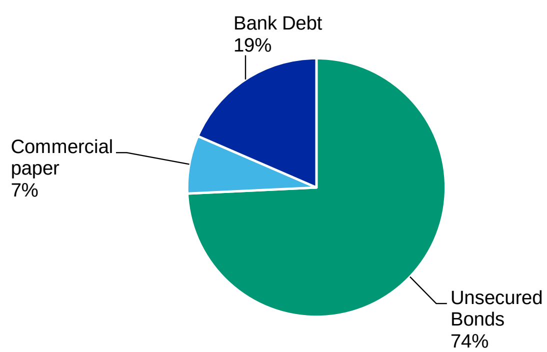
Sagax properties with lower alternative uses, could constrain its financial flexibility should it need to sell properties, with markets likely to be less liquid especially in downturns. However, the company does not rely on disposals as part of its strategy. Furthermore, the warehouse and light industrial real estate sector is somewhat more difficult to track than other asset classes and is less covered by broker reports, which tend to lump it with logistic assets. This scenario makes it more difficult to source detailed demand drivers, such as takeup of space by tenants, granular rental levels and submarket vacancy rates.

Improved debt maturity profile and lower reliance on secured bank debt

During the last five years, Sagax reduced its reliance on secured bank debt, which now represents only about 17% of its funding mix compared with close to 45% some years ago. This development significantly improved the financial position of the company's unsecured creditors and its financial flexibility. The current ratio of unencumbered assets to unsecured lending is 2x.

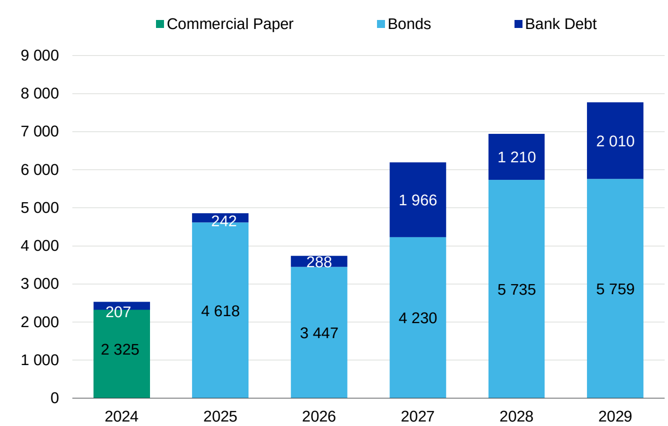
The company reported a relatively short 3-4-year average debt maturity as of 31 March 2024 and a 2.2% average interest rate on its interest-bearing liabilities. The company's Moody's-adjusted fixed-charge coverage ratio is 6.1x, which is above its minimum interest coverage ratio according to the financial policy of 3x. We expect that the coverage will decline following the higher interest rate environment but that the decline will be minor, to around 5.2-5.4x over the next 12-18 months, as the company has a significant fixed portion of total debt attributable to fixed rate bonds and hedging instruments.

Exhibit 9
SEK32 billion interest-bearing liabilities as of 31 March 2024



Source: Company information

Exhibit 10
A well-managed short-term debt maturity, where commercial paper maturities are fully covered by longer-dated RCFs
Debt maturities as of 31 March 2024 in SEK millions



Source: Company information

ESG considerations

AB Sagax's ESG credit impact score is CIS-2

Exhibit 11
ESG credit impact score

CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

ESG considerations are not material (**CIS-2**) on AB Sagax. This reflects the company's moderate financial policies which enables it to manage exposure towards environmental and social risk.

Exhibit 12
ESG issuer profile scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-2	G-2

Source: Moody's Ratings

Environmental
E-3 indicated limited impact on current rating. This primarily reflects its exposure to carbon transition as we believe demand for greener building will grow over time and will increase capital spent to comply with regulations and tenants' requirements. Sagax's level of certified properties is currently low but gowning.

Social
S-2 reflects that credit exposure to social risks is limited. The company strategy is supported by the increasing demand for fast delivery into cities, which has created some tailwind for its assets.

Governance
G-2 reflects that governance is not material to the rating but reflects somewhat concentrated ownership, a notable share in joint ventures and associated companies but very prudent and conservative handled. The **G-2** further reflects strong execution, opportunistic when it comes to buying cash-flow generative properties, adherence to a rather conservative for their rating category financial policies and strong commitments to the rating.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis
The company has good liquidity, with its cash sources covering the uses for the next coming 18 months, and is underpinned by:

» SEK5.4 billion of cash as of 31 March 2024, pro-forma recent €500 million bond issuance

» SEK10.8 billion of committed undrawn RCFs as of 31 March 2024 spread across multiple facilities with well-staggered maturities between 2025 and 2028

» SEK53.7 billion pool of unencumbered assets

» the company's ability to raise cash by exercising its put option for the 15% holding in Hemsö Fastighets AB against the state-owned Third Swedish National Pension Fund that owns the remaining 85%.

» We consider their holdings in Hemsö (value SEK 4.6 billion) as alternate liquidity but that the value varies.

We expect the major use of cash in the 18-month period to come from around SEK1.2 billion of capital spending, and around SEK5.1 billion of debt maturities. The company pays out less cash to shareholders than many of its European peers, and unlike real estate investment trusts (REITs), it has no legal obligation to pay a high proportion of dividends, which gives it more leeway in using operating cash flow to reduce leverage if needed.

Rating methodology and scorecard factors

The principal methodology used in this rating was our REITs and Other Commercial Property Firms rating methodology. The scorecard-indicated outcome of Baa2 in our forward view is in line with the assigned rating of Baa2.

Exhibit 13

Rating factors

AB Sagax

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current LTM Mar-24		Moody's 12-18 month forward view	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets ($ billions)	7.2	Baa	7.3 - 7.4	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa
b) Operating Environment	Baa	Baa	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	70.2%	Baa	70-71%	Baa
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	42.5%	Baa	41-42%	Baa
b) Net Debt / EBITDA	7.2x	Ba	7.2x - 7.9x	Ba
c) Secured Debt / Gross Assets	7.2%	A	3.5%	A
d) Fixed Charge Coverage	6.1x	A	5.2x - 5.4x	A
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				Baa2

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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Ratings

Exhibit 14

Category	Moody's Rating
AB SAGAX	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2
SAGAX EURO MTN NL B.V	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa2
SAGAX EURO MTN AB (PUBL)	
Outlook	Stable
Bkd Senior Unsecured	Baa2

Source: Moody's Ratings

REPORT NUMBER 1414326