MOODY'S
RATINGS

Rating Action: Moody's Ratings changes Castellum's outlook to positive from stable, ratings affirmed

29 Aug 2024

Stockholm, August 29, 2024 -- Moody's Ratings (Moody's) has today affirmed the Swedish real estate company Castellum AB's (Castellum or the company) long-term issuer rating of Baa3, its senior unsecured medium term note (MTN) ratings of (P)Baa3, its senior unsecured euro medium term notes rating at Baa3 and its subordinate debt rating Ba2. Concurrently, we have also affirmed Castellum Helsinki Finance Holding ABP's backed senior unsecured euro medium term notes at Baa3 and its backed senior unsecured medium term note programme (MTN) ratings of (P)Baa3. The outlook for Castellum is changed to positive from stable.

RATINGS RATIONALE

"The ratings affirmation and the change of outlook to positive reflects the continued good operating performance visible in a solid rental income growth combined with the expectation of further credit metrics improvements going forward, supported by capital preservation measures and decreasing interest rates", says Maria Gillholm, a Moody's Vice President - Senior Credit Officer, and Lead Analyst for Castellum. "We positively recognize that Castellum has taken several of proactive measures to improve its credit quality such as divesting assets, cutting cost and dividend as well as an equity issue. We expect the company to further improve its credit metrics, with EBITDA interest coverage to 3.5x, gross debt to assets ratio close to 40% and net debt to EBITDA around 10x", adds Mrs. Gillholm. "The action furthermore incorporates our expectation that Castellum continues to proactively address its debt maturities and increases its unencumbered asset base", Mrs. Gillholm continues.

Castellum's Baa3 issuer rating is also reflecting the company's large diversified position in the Swedish real estate market with a presence in the Government of Denmark (Aaa stable) and the Government of Finland (Aa1 stable); its strong positions in the office markets in which it operates, including significant holdings in Stockholm and Gothenburg, while most of the warehouse/logistics assets are in some of Sweden's largest logistic hubs, including Gothenburg, Stockholm and Örebro; its significant exposure (25%) to government tenants, which provide for a stable cash-flow stream on a long-term basis; and its adequate short-term liquidity and good track record of access to local and international capital markets, which helped increase the share of unencumbered assets and access to equity capital.

Counterbalancing these strengths are Castellum's short dated debt maturity profile of 4.2 years as of Q2 2024, with a susceptibility to rising interest rates. The company has hedged 65% of the company's interest rate exposure. Given the increasing reliance on secured debt, the ratio of unencumbered assets to total assets has decreased, however we expect that Castellum will gradually reverse this trend, supported by an increasing reliance on unsecured debt instruments.

Furthermore, we identified several event risks for Castellum related to its significant (33%) stake in Entra ASA (Entra, Baa3 stable), raising the question as to the longer term strategy, risk of conflicts of interest and reduced transparency, which is a credit negative for the company albeit we recognize the monetary value that could provide for alternate liquidity (SEK 6.6 billion as of end Q2 2024).

OUTLOOK

The positive outlook reflects our expectation that Castellum will continue to deliver solid operational performance, improve its occupancy rate, resulting in stable cash flow, good liquidity on a sustained basis and supporting a further improvement of its debt metrics. We expect Castellum to further improve its effective leverage towards 40% and EBITDA interest coverage above 3.5x. We expect the company to continue to divest assets, follow a prudent cost management and execute a balanced dividend policy. The central bank's potential interest rate reductions could further bolster this trajectory, enhancing the company's interest coverage capacity and overall financial health. Net debt/EBITDA is expected to hover close to 10x.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS:

• Effective leverage towards 40%, as measured by Moody's-adjusted gross debt/assets, together with a declining trend from net debt to EBITDA to 10x and financial policies that support the lower leverage

• Fixed charge coverage is above 3.5x on a sustained basis

• Increasing senior unsecured borrowing led to an increase of the pool of unencumbered assets to above 55% whilst at the same time further improves liquidity and the average length of its debt maturity profile

• Reduced reliance on short-term funding and extend debt maturities

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS:

• There is a deterioration in operating performance or if property market fundamentals weaken sharply

• Effective leverage not maintained well below 50% or if EBITDA fixed-charge coverage is sustainably falling below 2.75x

• Net debt/EBITDA above 13x

• Decreasing senior unsecured borrowing leading to a decrease of the pool of unencumbered assets to significantly below 40%.

• Liquidity and access to capital remains sustainably weaken or if large debt maturities in 2024-2025 are not addressed proactively schedule is shortened.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Castellum's governance sub scores board structure and financial policy have improved. Reduced concentrated ownership and the largest owner has switched to a supportive owner. Castellum has a moderate leverage with a commitment to maintain this level. Castellum has during last year done a guaranteed SEK 10 billion equity raise in addition to several other credit protection measures to safeguard its credit profile. Governance risks also consider Castellum's large scale investment in Norwegian company real estate company Entra ASA (Baa3 stable). This increases the risk of anticompetitive behavior and conflicts of interest and the risk that companies will not be able to support each other with liquidity. The cross-ownership also increases the complexity and creates varying degrees in transparency of assets quality and performance.

LIQUIDITY

Castellum's liquidity is good. The liquidity is supported by committed and available credit lines of about SEK26 billion, cash of SEK 739 million, and expected cash flow of 6.0 billion which cover uses over the next six quarters.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414558 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Maria Gillholm
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service (Nordics) AB
Norrlandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Christian Hendker, CFA
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrlandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

---

credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.