

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 weakened 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>.

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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.

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

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