

# Hufvudstaden

## Great financing candidate

- Below consensus into the numbers
- High operational risk and low-yielding assets
- SELL Hufvudstaden and HOLD Fabege

### Poor risk/reward into the numbers

For Q3'24, we forecast net operating income (NOI) of SEK 359m and EBIT before value changes of SEK 379m, corresponding to growth of 1% and 3% y-o-y, respectively. Looking at Infront consensus, we are 3% below on NOI and 2% below on "EBIT before value changes". Thus, we argue the risk/reward is poor into the numbers. We raise our top-line estimates somewhat, while lower interest rate expectations affect '26e positively.

### Actual running NOI yield of only 3%

With the 5-year swap at ~2% and a margin/spread of ~100bps, total lending costs end up at ~3%. Meanwhile, the actual running NOI yield on the property portfolio is just 3% (~3.0% TTM and ~3.1% NTM). Thus, the annual cash return to equity/NAV is ~3% at the current leverage of ~21%. Even if we include a 2% (inflation target) appreciation over time, as well as zero capex, the normalised return on equity would be just above 5% due to low leverage and limited project gain contributions.

### Historically high spread vs. key peer

Hufvudstaden is trading at a 2025e P/CEPS multiple of 30x, corresponding to a premium of >50% versus the sector average of 20x. In our view, the valuation multiple is too high relative to the normalised return discussed above. Moreover, HUFV has traded at a discount to key peer Fabege over time, with an average NAV spread of -2% since 2004; that figure is currently around +10%. The same goes for P/CEPS where HUFV is trading at a premium to its ten-year average while Fabege is 25% below. We think the spread is too high, especially given that Fabege's leverage is well below its ten-year average. In essence, we argue the HUFV share is a great financing candidate at these levels. We downgrade our rating to SELL (Hold), TP raised to SEK 130 (125) on a lower risk premium.

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SEKm	2022	2023	2024e	2025e	2026e
Sales	1,855	2,033	2,108	2,146	2,272
NOI	1,235	1,359	1,407	1,439	1,538
NOI margin (%)	66.6	66.9	66.7	67.0	67.7
CEPS	4.46	4.73	4.37	4.59	5.06
DPS	2.70	2.70	2.80	2.80	2.80
EPRA NRVPs	200.27	184.69	183.55	190.28	200.07
EPS	3.57	-9.53	1.72	8.02	10.78
Rental growth	4.00	9.61	3.67	1.81	5.90
CEPS growth	-1.18	5.91	-7.58	5.04	10.19

Source: ABG Sundal Collier, Company Data

### Reasons:

### Recommendation change Preview of results



### Constr. & Real Estate

#### Estimate changes (%)

	2024e	2025e	2026e
Sales	0.8	1.1	1.1
NOI	0.9	1.0	1.0
CEPS	-2.7	0.2	4.6
EPRA NRV per share	1.7	1.6	1.7

Source: ABG Sundal Collier

### HUFV.A-SE/HUFVA SS

Share price (SEK)	27/9/2024	139.00
Target price	(125.0)	130.0

MCap (SEKm)	28,217
MCap (EURm)	2,499
No. of shares (m)	203.0
Free float (%)	51.3
Av. daily volume (k)	135

**Next event** Q3 Report 7 November 2024

### Performance



	2024e	2025e	2026e
P/CEPS	31.8	30.3	27.5
P/EPRA NRV	0.76	0.73	0.69
Implicit yield (%)	3.0	3.0	3.2
Dividend yield (%)	2.0	2.0	2.0
Net LTV (%)	20.24	20.44	19.71

### Company description

Hufvudstaden was founded in 1915 and owns office and retail properties in prime locations in Stockholm (~80% of property values) and Gothenburg (~20% of property values). The leasable area is close to 400,000 sqm and the property value is around SEK 50bn. The main owner is Fredrik Lundberg. The loan-to-value is below 20% and the financial leverage is the lowest among Swedish real estate companies.

[Sustainability information](#)

### Risks

The main risk for a real estate company is the macro development on the markets where they operate. Hufvudstaden operates in the prime segment, which in the past has been the most volatile part of the Swedish rental market. Property values in its markets are very high compared to construction costs, which creates a risk for increased supply. A continued trend with more efficient offices would reduce the demand if the number of employees does not continue to increase.

## Quarterly estimates

<b>Income statement (SEKm)</b>	<b>Q1'23</b>	<b>Q2'23</b>	<b>Q3'23</b>	<b>Q4'23</b>	<b>Q1'24</b>	<b>Q2'24</b>	<b>Q3'24e</b>	<b>Q4'24e</b>
Rental income	503	501	511	518	524	526	524	535
Operating costs	-172	-157	-156	-189	-178	-171	-165	-187
<b>Net operating income</b>	<b>331</b>	<b>344</b>	<b>355</b>	<b>329</b>	<b>346</b>	<b>355</b>	<b>359</b>	<b>347</b>
<i>NOI margin (%)</i>	<i>65.8%</i>	<i>68.7%</i>	<i>69.5%</i>	<i>63.6%</i>	<i>66.1%</i>	<i>67.5%</i>	<i>68.5%</i>	<i>65.0%</i>
Adm. Costs	-13	-13	-13	-15	-13	-13	-13	-16
All other income & costs	14	26	25	45	13	30	33	44
Recurring EBIT	318	332	343	314	333	342	346	331
Net financial items	-52	-67	-79	-81	-83	-78	-94	-88
<b>Income from property management</b>	<b>266</b>	<b>265</b>	<b>263</b>	<b>233</b>	<b>250</b>	<b>264</b>	<b>252</b>	<b>243</b>
Value chg. Realized	0	0	0	0	0	0	0	0
Value chg. Unrealized	-906	-1,389	-559	-1,188	-759	-236	103	211
Value chg. Derivatives	0	0	0	0	0	-6	0	0
Pretax profit	-627	-1,097	-271	-540	-497	53	388	497
Deferred tax	154	237	79	209	124	41	-55	-78
Current tax	-27	-12	-20	-11	-23	-51	-25	-24
Net profit	-499	-873	-212	-342	-396	42	308	395
Minority interest	0	0	0	0	0	0	0	0
Div. Pref/D-shares and hybrids	0	0	0	0	0	0	0	0
Net profit to shareholders	-499	-873	-212	-342	-396	42	308	395
<b>Cash earnings</b>	<b>239</b>	<b>253</b>	<b>243</b>	<b>222</b>	<b>226</b>	<b>213</b>	<b>227</b>	<b>219</b>
<b>CEPS</b>	<b>1.18</b>	<b>1.25</b>	<b>1.20</b>	<b>1.10</b>	<b>1.12</b>	<b>1.05</b>	<b>1.12</b>	<b>1.08</b>

Source: ABG Sundal Collier, Company data

## Hufvudstaden

Income Statement (SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>Rental income</b>	<b>1,751</b>	<b>1,797</b>	<b>1,896</b>	<b>1,768</b>	<b>1,784</b>	<b>1,855</b>	<b>2,033</b>	<b>2,108</b>	<b>2,146</b>	<b>2,272</b>
Other income	0	0	0	0	0	0	0	0	0	0
Operating costs	-489	-495	-524	-531	-562	-620	-674	-701	-707	-735
<b>NOI</b>	<b>1,262</b>	<b>1,302</b>	<b>1,373</b>	<b>1,237</b>	<b>1,221</b>	<b>1,235</b>	<b>1,359</b>	<b>1,407</b>	<b>1,439</b>	<b>1,538</b>
NOI margin (%)	72.1	72.4	72.4	70.0	68.5	66.6	66.9	66.7	67.0	67.7
Adm. costs	-41	-44	-49	-47	-58	-56	-53	-55	-56	-56
All other income & costs	39	35	32	3	123	119	110	120	130	197
Recurring EBIT	1,220	1,258	1,324	1,190	1,163	1,179	1,306	1,352	1,383	1,481
Net financial items	-136	-121	-119	-132	-139	-185	-279	-344	-351	-344
Income from property management	1,085	1,138	1,205	1,058	1,024	994	1,027	1,008	1,032	1,137
Value chg. realized	0	0	0	0	0	0	0	0	0	0
Value chg. unrealized	2,848	3,621	2,727	-2,930	2,579	-209	-4,042	-681	879	1,395
Value chg. derivatives	62	27	4	0	0	0	0	-6	0	0
Pretax profit	3,895	4,820	3,968	-1,833	3,726	904	-2,535	441	2,041	2,729
Deferred tax	-709	-338	-679	471	-661	-91	678	32	-315	-434
Current tax	-151	-162	-142	-99	-110	-91	-70	-124	-103	-114
Net profit	3,035	4,320	3,146	-1,462	2,955	722	-1,927	349	1,622	2,181
Minority interest	0	0	0	0	0	0	0	0	0	0
Div. Pref/D-shares and hybrids	0	0	0	0	0	0	0	0	0	0
Net profit to shareholders	3,035	4,320	3,146	-1,462	2,955	722	-1,927	349	1,622	2,181
<b>Cash earnings</b>	<b>934</b>	<b>976</b>	<b>1,063</b>	<b>959</b>	<b>914</b>	<b>903</b>	<b>957</b>	<b>884</b>	<b>929</b>	<b>1,023</b>
<b>Other related information</b>	-	-	-	-	-	-	-	-	-	-
Tax Rate (%)	22.1	10.4	20.7	20.3	20.7	20.2	24.0	20.8	20.5	20.1
Investments in developments	-584	-738	-865	-886	-574	-966	-1,238	-992	-960	-672
Acquisitions	0	0	0	0	0	0	0	0	0	0
Other investments	-4	-18	-63	-63	-55	-52	-63	-7	0	0
Divestments	0	0	0	0	0	0	0	0	0	0
<b>EPS</b>	<b>14.71</b>	<b>20.94</b>	<b>15.25</b>	<b>-7.12</b>	<b>14.61</b>	<b>3.57</b>	<b>-9.53</b>	<b>1.72</b>	<b>8.02</b>	<b>10.78</b>
<b>CEPS</b>	<b>4.53</b>	<b>4.73</b>	<b>5.15</b>	<b>4.67</b>	<b>4.52</b>	<b>4.46</b>	<b>4.73</b>	<b>4.37</b>	<b>4.59</b>	<b>5.06</b>
Dividend per share	3.60	3.70	3.90	2.50	2.60	2.70	2.70	2.80	2.80	2.80
Payout ratio of CEPS	79.51	78.23	75.70	53.50	57.54	60.47	57.10	64.06	60.99	55.35
Rental growth	2.79	2.66	5.53	-6.78	0.88	4.00	9.61	3.67	1.81	5.90
NOI growth	2.93	3.19	5.46	-9.87	-1.32	1.11	10.11	3.48	2.28	6.87
CEPS growth	-0.21	4.47	8.93	-9.30	-3.30	-1.18	5.91	-7.58	5.04	10.19

Source: ABG Sundal Collier, Company Data

Balance Sheet (SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>Properties</b>	<b>39,730</b>	<b>44,089</b>	<b>47,681</b>	<b>45,637</b>	<b>48,790</b>	<b>49,547</b>	<b>46,743</b>	<b>47,054</b>	<b>48,893</b>	<b>50,959</b>
Goodwill	0	0	0	0	0	0	0	0	0	0
Deferred tax asset	0	0	0	0	0	0	0	0	0	0
Ass. companies and JVs	0	0	0	0	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0	0	0	0	0
Other assets	170	216	955	977	1,127	1,236	1,318	1,382	1,391	1,435
Cash and liquid assets	395	1,071	1,706	784	1,182	453	382	1,893	1,773	1,762
<b>Total assets</b>	<b>40,295</b>	<b>45,375</b>	<b>50,342</b>	<b>47,397</b>	<b>51,099</b>	<b>51,235</b>	<b>48,444</b>	<b>50,329</b>	<b>52,057</b>	<b>54,157</b>
Shareholders equity	25,402	29,000	31,383	28,617	31,066	31,262	28,789	28,591	29,638	31,183
Pref. and D shares + minorities	0	0	0	0	0	0	0	0	0	0
Hybrids	0	0	0	0	0	0	0	0	0	0
Deferred tax	7,940	8,293	8,972	8,502	9,162	9,253	8,575	8,543	8,858	9,292
Interest bearing debt	6,200	7,350	8,350	8,650	9,200	9,000	9,400	11,419	11,767	11,806
Other liabilities	753	733	1,637	1,629	1,671	1,720	1,680	1,777	1,794	1,876
<b>Total liabilities and equity</b>	<b>40,295</b>	<b>45,375</b>	<b>50,342</b>	<b>47,397</b>	<b>51,099</b>	<b>51,235</b>	<b>48,444</b>	<b>50,329</b>	<b>52,057</b>	<b>54,157</b>

Source: ABG Sundal Collier, Company Data

Other balance sheet related infor. (SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net IB debt	5,805	6,279	6,644	7,866	8,018	8,547	9,018	9,526	9,994	10,044
Rental area m2 (000)	385	385	384	387	387	387	391	391	391	423
Equity ratio (%)	63	64	62	60	61	61	59	57	57	58
Net loan to value	14.61	14.24	13.93	17.24	16.43	17.25	19.29	20.24	20.44	19.71
ICR real estate	8.99	10.44	11.15	9.04	8.37	6.39	4.68	3.93	3.94	4.30
BVPS	123.15	140.59	152.15	139.44	153.56	154.53	142.30	141.33	146.50	154.14
EPRA NRV per share	161.92	180.82	195.65	183.47	198.85	200.27	184.69	183.55	190.28	200.07

Source: ABG Sundal Collier, Company Data

Valuation (SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
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## Hufvudstaden

Valuation (SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Shares outstanding adj.	206	206	206	202	202	202	202	202	202	202
Share price	139.00	139.00	139.00	139.00	139.00	139.00	139.00	139.00	139.00	139.00
Market cap. (m)	28,671	28,671	28,671	28,121	28,121	28,121	28,121	28,121	28,121	28,121
P/E (x)	9.4	6.6	9.1	-19.5	9.5	39.0	-14.6	80.6	17.3	12.9
P/CEPS	30.7	29.4	27.0	29.7	30.8	31.1	29.4	31.8	30.3	27.5
Implicit yield (%)	2.9	3.0	3.1	2.7	2.7	2.7	3.0	3.0	3.0	3.2
Yield on BV (%)	3.2	3.0	2.9	2.7	2.5	2.5	2.9	3.0	2.9	3.0
Dividend yield (%)	2.6	2.7	2.8	1.8	1.9	1.9	1.9	2.0	2.0	2.0
P/EPRA NRV	0.86	0.77	0.71	0.76	0.70	0.69	0.75	0.76	0.73	0.69
P/BVPS (x)	1.13	0.99	0.91	1.00	0.91	0.90	0.98	0.98	0.95	0.90
EV/NOI (x)	22.73	22.02	20.88	22.73	23.03	22.78	20.69	19.99	19.55	18.29

Source: ABG Sundal Collier, Company Data

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Total of Rating	Research Coverage	Investment Banking Clients (IBC)	
	% of Total Rating	% of Total IBC	% of Total Rating by Type
<b>BUY</b>	65.85%	18%	7.47%
<b>HOLD</b>	30.05%	4%	3.64%
<b>SELL</b>	3.55%	0%	0.00%

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## Stock price, company ratings and target price history

Company: Hufvudstaden

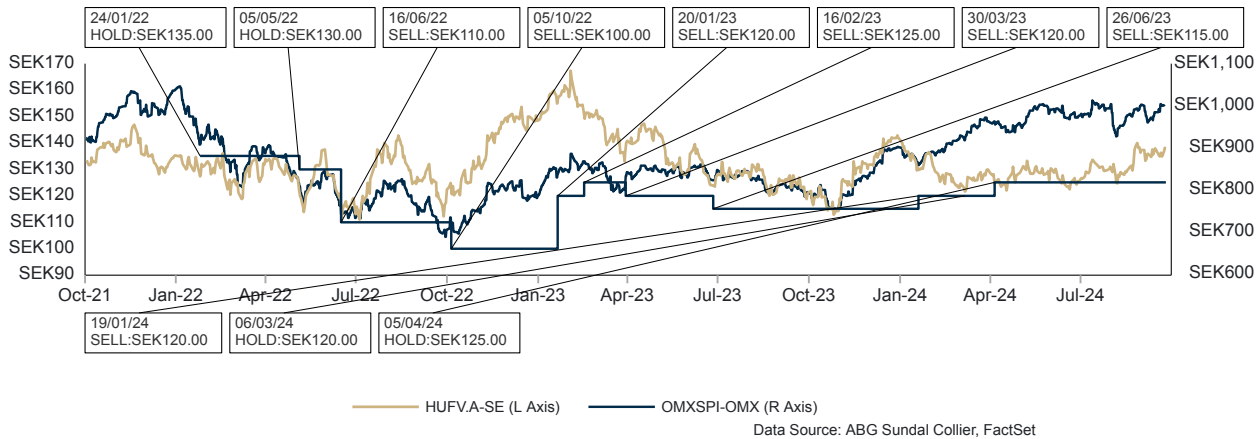
Currency: SEK

Current Recommendation: SELL

Date: 27/9/2024

Current Target price: 130.0

Current Share price: 139.00



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Production of recommendation: 9/30/2024 05:30.

All prices are as of market close on 27 September, 2024 unless otherwise noted.

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