



ERIK PENSER BANK

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Arlandastad Group

Underlying operations still heading in right direction

Revenue increases driven by operating activities

Revenues for Q2 2023 came in at SEK 109.6m (84.3), having expanded by 30% y/y. Revenues from operating activities accounted for 62.5% of the total at SEK 68.5m (54.2), with rental income reaching SEK 40.8m, up 38% y/y. The increase in rental income stemmed chiefly from the operations at Skavsta, increased revenue-based rents, and rent indexation. The company continues to improve the cost-effectiveness of its operations, and despite annual increases in the cost bases of 24% and 23%, property expenses and expenses from operating activities dropped by 16% and 13% compared with Q1 2023. Property expenses include depreciations from commercial properties of SEK 9m during Q2 2023. Gross profits totalled SEK 35.1m (23.8), representing a gross margin of 32% (28%). Long-term NAV per share was SEK 88 (94).

Positive developments in management portfolio and operating activities

As of the end of Q2 2023, the property portfolio had a fair value of SEK 6,055m (6,184). Revaluation of properties bolstered the result by SEK 95.1m (280.8). The value of the building rights and value-added property portfolio was SEK 3.5bn (3.67), with the average building rights value of Explore Arlanda narrowing by some 4% to SEK 3,318 per sqm. Explore Skavsta building rights increased by around 1.7%. The company has seen greater activity at both Arlandastad and Skavsta, with the lease programme bringing in new agreements with solid tenants like Tesla. We believe the operating activities will continue their positive contribution hand in hand with improved activity at Skavsta airport and event organisation.

Fair value maintained

The positive direction for revenues, earnings, and value growth in Q2 2023 leads us to reiterate our positive view on the company. In the longer term, we believe Arlandastad Group is well equipped thanks to its relatively moderate LTV and sustainable business model in which synergy effects are still being realised. We raise our revenue and interest income expense estimates for 2023–25 owing to reduced vacancies and rising market interest rates. We maintain our fair value of SEK 68–72.

Change in estimates				Forecast (SEK m)					Value and risk													
	23e	24e	25e		2022	2023e	2024e	2025e	Fair value	SEK 68,0 - 72,0												
Rental Income	9,3%	2,1%	2,3%	Rental Income	123	151	195	215	Share price	SEK 37,8												
P/PPM	22,4%	-23,6%	-33,9%	Rental growth	39%	23%	29%	11%	Risk level	Medium												
EPRA NAV	0,0%	-0,1%	-0,2%	NOI	64	95	132	141	Price Performance 12 months 													
Upcoming events				NOI-Margin	53%	63%	68%	66%														
Q3 - report	15 November 2023			P/PPM	270	-8	23	23	Conflicts of interest <table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td>✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td>✓</td> </tr> <tr> <td>Transactions 12m</td> <td></td> <td>✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser		✓	Transactions 12m		✓
	Yes	No																				
Liquidity provider		✓																				
Certified adviser		✓																				
Transactions 12m		✓																				
Q4 - report	15 February 2024			P/PPM, Growth	56%	47%	39%	7%														
Company facts (SEK m)				EPRA NAV	88,0	87,9	91,7	106,1														
Number of shares	63m			EPRA NAV, Growth	10%	0%	4%	16%														
Market capitalization	2 315			CEPS	4,2	-0,1	0,3	0,3														
Net debt	1 400			CEPS growth	>100%	-103%	>100%	-2%														
EV	3 715			P/PPM Per Share	10,8x	-292,5x	100,0x	101,5x														
Free float	40%			P/CEPS	10,9x	-292,5x	125,9x	127,8x														
Daily trading volume, average	1k			P/EPRA NAV	0,5x	0,4x	0,4x	0,3x														
Bloomberg Ticker	AGROUP SS EQUITY			Implicit yield	2,1%	3,6%	4,8%	4,9%														
Analyst				ROE	11,0%	Neg.	5,0%	17,1%														
Rodriguez Meshe				Dividend per share	0,0	0,0	0,0	0,0														
rodriguez.meshe@penser.se				Loan-to-value	25,4%	26,9%	27,1%	24,6%														
				EBITDA / Interest expenses	-0,3x	0,9x	1,2x	1,2x														
				Average interest rate	3,2%	5,1%	5,1%	5,2%														

Investment case

Arlandastad Group is a property development company engaged in active property development in the vicinity of Stockholm's Arlanda and Skavsta airports. The company has acquired undeveloped land at low prices, providing it with a high return on invested capital as this has developed. Arlandastad Group differentiates itself from traditional real estate companies in that it owns and runs operating activities in its own property portfolio that add further value to the property activities. This creates and realises synergies between the different activities – such as events, hotels, and restaurants – and across business areas.

Company profile

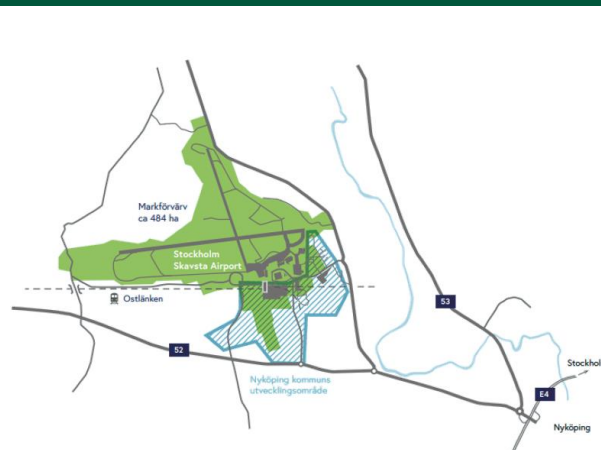
Arlandastad Group was founded in 2005 and applies a long-term investment view that focuses on identifying strategic parcels of land and developing properties to their full potential. The company owns and has at its disposal more than 8m sqm of land and runs two of Sweden's largest property development projects: Explore Arlandastad and Explore Skavsta. Explore Arlandastad totals almost 290 hectares. Of these, it directly owns 200 hectares, while 40 hectares are on long-term leases, and it can access 50 hectares should it be approved in zoning planning. During Q2 2022, the company acquired 90.1% of the shares in Stockholm Skavsta Flygplats AB, while Nyköping municipality owns the remainder. This acquisition brought with it 4.84 million sqm of land. We anticipate major infrastructure investments in these areas, as Arlanda will need to expand as Stockholm grows to both the north and the south.

Diagram 1: Explore Arlandastad



Source: Company

Diagram 2: Explore Skavsta



Source: Company

Arlandastad Group differs from many traditional real estate companies and developers in that it operates out of its properties. One of its three key activities today is the DRIVELAB concept, which includes the testing and training activities, as well as events to some extent. The second, Scandinavian XPO, is a major international meeting place, while the third is Stockholm Skavsta Airport, which operates Skavsta airport. By both owning the property and conducting business there, the company can take a larger share of end-customers' wallet, such as through trade fairs and similar events.

Arlandastad Group has acquired large areas of undeveloped land at a low initial value. By doing so, the company can focus on the area of property development that offers the greatest value increase: detailed planning work. Arlandastad Group collaborates with all stakeholders (municipalities, authorities, and other companies operating in the area) in this detailed planning work, thus increasing its chances of getting detailed planning projects approved. The low input values also allow for a greater degree of flexibility in projects and the opportunity for higher returns. Historically, profits from completed projects have been around 30%. In conclusion, we believe there are many hidden values on Arlandastad Group's balance sheet that should be reflected in the share price.

Valuation

Our valuation approach uses a sum-of-the-parts (SOTP) valuation, based on a separate valuation of the property development portfolio and the investment properties. The development portfolio and the property management portfolio justify a valuation of approximately SEK 67 and SEK 4 per share, respectively, totalling a fair value of SEK 68–72 per share.

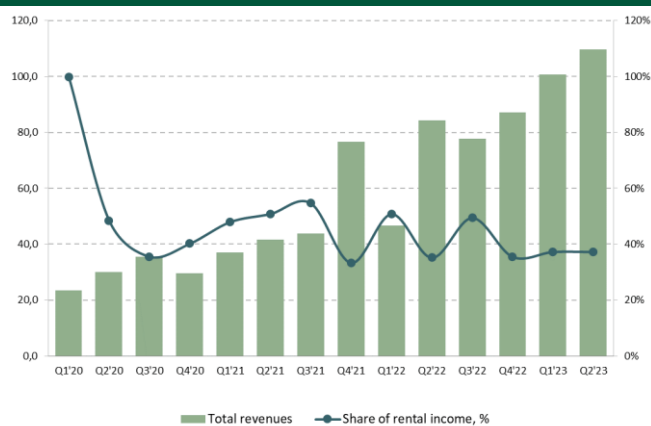
The quarter in detail

Property management

During Q2, rental income reached SEK 40.9m (29.7), implying y/y growth of 38%, driven by indexation, improved revenue-based rent, and the operations at Skavsta. Net operating profits came in at SEK 27.4m (34.7), representing a surplus ratio of 61% (77). Rising interest rates contributed to elevated expenses at SEK -23.7m (-12.5), relating largely to interest costs for loan financing. The increase came in the wake of higher interest-bearing debt and a hiked interest rate. The average interest rate in Q2 2023 was 5.9% compared with 2.9% in Q2 2022 and 4.5% at year-end.

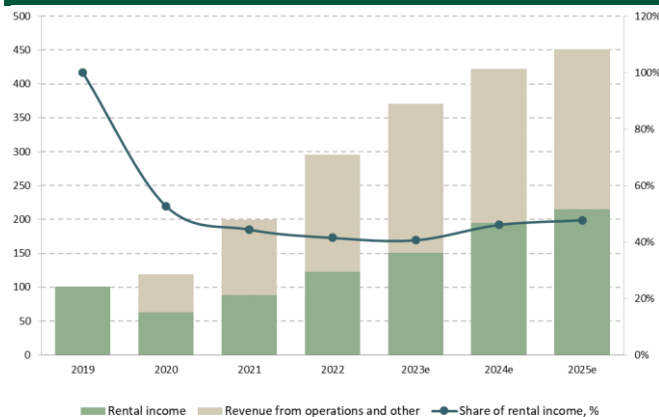
The market value of the investment property portfolio was SEK 2,547m, representing an average return requirement of 6.74% (6.41%).

Graph 1: Revenues on a quarterly basis



Source: EPB, Company

Graph 2: Revenues on an annual basis



Source: EPB, Company

Property development

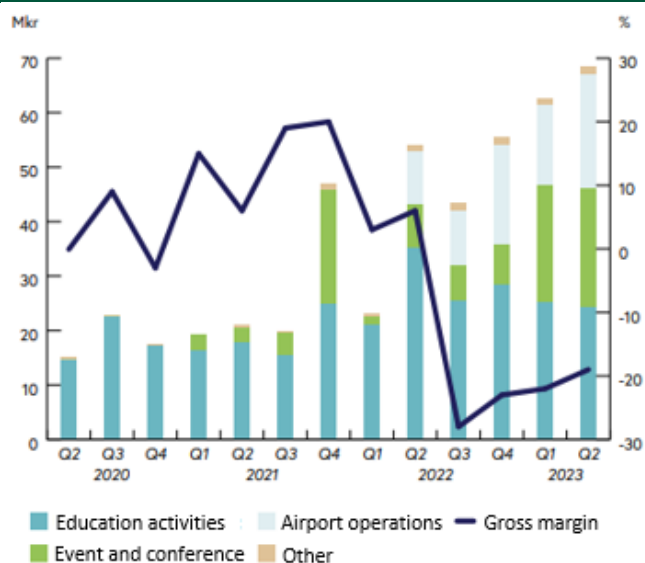
This business area manages the strategy, or concept development, as well as the development of the existing land portfolio at the company's disposal. The business model is based on controlling the entire value chain from the acquisition of land and planning processes to the construction and subsequent management of the properties.

As of the end of Q2 2023, the company had exercised less than 10% of its potential building rights of around SEK 1.3–1.4 million sqm of gross total area (GTA) at Explore Arlandastad. The value of the building rights and development properties was SEK 3,507m (3,668). Building rights at Explore Arlandastad are valued at SEK 3,318 per sqm GTA (3,453), while those at Explore Skavsta are valued at an average SEK 307 per sqm GTA (302).

Operational businesses

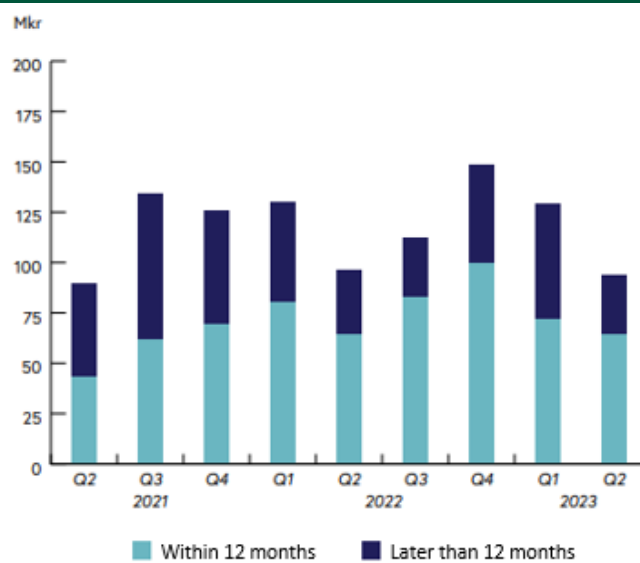
This business area consists of three subsidiaries: Training Partners, Scandinavian XPO, and Stockholm Skavsta Airport. Total revenues for Q2 2023 were SEK 68.5m (54.1), having increased by 26.6% y/y. The total order backlog, pre-booked events, and training etc came in at SEK 93.8m (96.4), of which SEK 64.2m is expected to be recognised in the coming 12 months.

Graph 3: Revenues and gross margins



Source: Company

Graph 4: Order backlog



Source: Company

Estimate changes

Based on the results for the first half of the year, we see the company heading in the right direction. Both the property management and operating activities continue to perform well, while we see positive signs from the cost-efficiency programme. We lift our revenue estimates by 4.9% for 2023, 2.1% for 2024, and 2.3% for 2025. We also raise our estimates for costs by around 3% on average over our forecast period, chiefly on account of financing expenses.

Graph 5: Estimate changes

	2022	2023e	2024e	2025e
Rental income	122,8	150,7	194,7	215,3
Change	0,0%	9,3%	2,1%	2,3%
Revenue from operations	170,2	220,1	227,8	235,7
Change	0,0%	3,8%	3,7%	3,7%
Total revenue	295,9	370,9	422,5	450,9
Change	0,0%	5,9%	3,0%	3,0%
Income from property management	269,5	-8,0	23,3	22,9
Change	0,0%	-22,4%	-23,6%	-33,9%
EPRA NAV per share	89,0	87,9	91,7	106,1
Change	0,0%	0,0%	-0,1%	-0,2%

Source: EPB

Valuation

Our valuation approach is based on a sum-of-the-parts valuation (SOTP) using a separate valuation of the property development businesses and the investment properties. We exclude the operating businesses as their values will be relatively low and especially as we consider Arlandastad Group a pure real estate company in the long term.

Property development

We base our valuation of the property development business area (building rights portfolio) on the book value of the building rights per sqm. We subsequently make adjustments based on the development of construction costs over the previous 12 months. We take into consideration several factors when valuing the building rights portfolio, such as the book value of this portfolio, recent building rights transactions, and so on.

Table 1: Valuation

	Explore Arlandastad	Explore Skavsta	Total
Planned building rights (kvm)	1 544 604	1 057 000	2 601 604
Value/sqm	3 318	307	2 095
Total value (mSEK)	5 125	324	5 449
No. of shares	63,3	63,3	63,3
Value/share	81	5	86
Discount	23%	23%	23%
Value/share	63	4	67

Source: EPB

Table 2: Sensitivity analysis

Explore Arlandastad			Explore Skavsta		
Value/sqm	Value/share	Delta (%)	Value/sqm	Value/share	Delta (%)
318	7,8	-90%	157	2,6	-49%
1 318	32,2	-60%	207	3,5	-33%
2 318	56,6	-30%	257	4,3	-16%
3 318	81,0	0%	307	5,1	0%
4 318	105,4	30%	357	6,0	16%
5 318	129,9	60%	407	6,8	33%
6 318	154,3	90%	457	7,6	49%

Source: EPB

Given these calculations, we see the valuation of the building rights portfolio at SEK 67 per share. When valuing this, we have chosen to apply an average discount of 23%. We see this discount as justified for several reasons: (i) the continued high uncertainty associated with the price development of construction costs, (ii) the volatility in the financial market, and (iii) the ongoing uncertainty in the transactional market. We do not rule out the possibility of reducing or eliminating the discount or setting a premium as the market recovers.

Property management

Given that the company's expansion plans imply it broadening and expanding its property management portfolio over time, we choose to value this area separately. Our valuation approach is based on what profits (minus tax) the company is expected to generate from property management in 2025, and we thus arrive at a multiple of 10x, which we then discount with a WACC of 10%. A multiple of 10x is realistic given comparable companies' valuations when taking the size discount into account.

Arlandastad Group is unique among real estate companies in that it focuses on value creation across all stages of real estate development projects, from land acquisition to management of the buildings. This makes it difficult to find peer companies. We believe Atrium Ljungberg is the listed company most similar to Arlandastad Group, given its focus on the Sickla area. Our fair value for the property management business amounts to some SEK 4 per share.

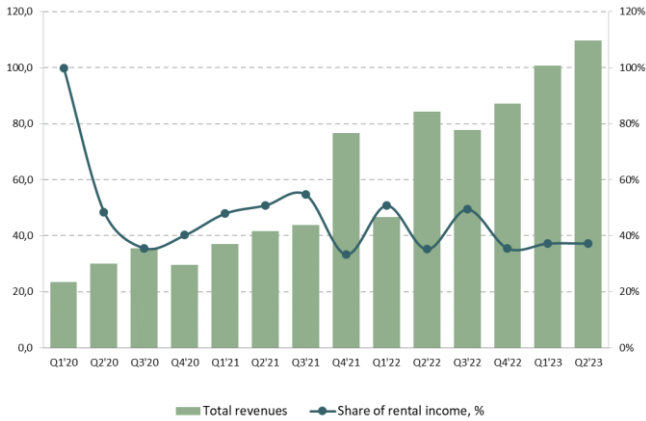
Table 3: Valuation

FFO (2025)	30,7
Multiple	10x
Value	307
No. of shares (m)	63,3
Value per share	4,9
No. of periods	2e
WACC	10%
Present value	4,0

Source: EPB

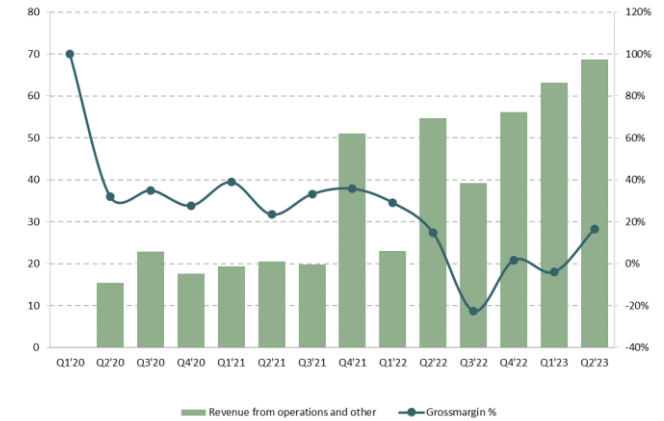
Graphs

Graph 6: Revenue



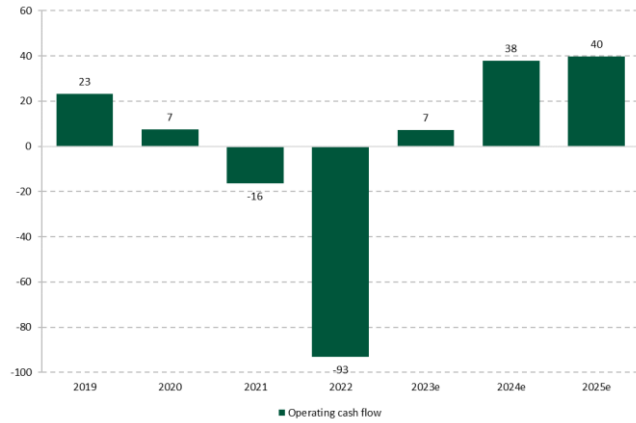
Source:

Graph 7: Revenue from operating activities



Source:

Graph 8: Operating cash flow



Source:

Graph 9: Property value and loan-to-value ratio



Source:

Income statement

	2020	2021	2022	2023e	2024e	2025e
Rental income	63	89	123	151	195	215
Other rental income	7	4	3	0	0	0
Total rental income	69	93	126	151	195	215
Property expenses	-31	-51	-61	-56	-63	-74
Net operating income	38	41	64	95	132	141
Central administration	-45	-74	-83	-66	-63	-66
Other income / expenses	11	33	4	55	57	59
EBITDA	5	0	-15	84	125	134
EBITDA adj.	5	0	-15	84	125	134
EBITA	5	0	-15	84	125	134
Total depreciations	-5	0	0	0	0	0
EBIT	0	0	-15	84	125	134
Interest rate income	3	0	1	0	0	0
Interest rate expenses	-34	-41	-54	-92	-102	-111
Other financial items	0	3	337	0	0	0
Profit from property management (PFPM)	-31	-38	270	-8	23	23
Profit from property management (PFPM) adj.	-31	-38	270	-8	23	23
Changes in value, properties	682	281	146	0	221	894
Profit before tax	651	243	416	-8	244	917
Profit before tax adj.	651	243	416	-8	244	917
Tax expenses, current	-154	-64	71	0	-5	-5
Net income	496	179	487	-8	239	912
Net income adj.	496	179	487	-8	239	912

Source: EPB

Cash flow statement

	2020	2021	2022	2023e	2024e	2025e
Profit before tax	651	243	416	-8	244	917
Changes in value, properties	-682	-281	-146	0	-221	-894
Other cash flow impact items	7	22	-312	15	19	22
Taxes paid	-3	2	-4	0	-5	-5
Cash flow before changes in WC	-22	-15	-46	7	38	40
Change in working capital	30	1	-49	0	0	0
Cash flow from operations	7	-14	-96	7	38	40
Investments in existing properties	-402	-133	-195	-316	-436	-524
Other FCF-impact items	-28	-7	156	0	100	200
Free cash flow from investments	-430	-140	-39	-316	-336	-324
New share issues / buybacks	105	426	0	0	0	0
Net loan proceeds	312	12	86	181	184	155
Other CF items	-3	-3	0	0	0	0
Cash flow from financing activities	414	434	85	181	184	155
Cash flow	-8	281	-50	-128	-114	-129

Source: EPB

Balance sheet

	2020	2021	2022	2023e	2024e	2025e
ASSETS						
Goodwill	16	16	16	16	16	16
Investment properties	5 222	5 610	5 954	6 270	6 926	8 344
Associates and JV:s	0	0	83	83	83	83
Other fixed assets	535	550	877	862	842	821
Total fixed assets	5 784	6 185	6 944	7 245	7 882	9 278
Accounts receivable	95	105	148	148	148	148
Cash and cash equivalents and short-term investments	163	441	394	266	152	23
Total current assets	259	546	542	414	300	170
TOTAL ASSETS	6 043	6 731	7 486	7 658	8 182	9 448
EQUITY AND LIABILITIES						
Total equity	3 556	4 160	4 649	4 641	4 880	5 792
Long-term interest-bearing debt	1 552	1 505	1 635	1 816	2 000	2 155
Long-term lease liabilities	8	5	4	4	4	4
Deferred tax liabilities	826	889	918	918	918	918
Other long-term liabilities	0	0	50	50	150	350
Total long-term liabilities	2 386	2 400	2 607	2 788	3 072	3 427
Short-term interest-bearing debt	8	67	24	24	24	24
Other current liabilities	90	100	202	202	202	202
Total current liabilities	101	171	229	229	229	229
TOTAL EQUITY AND LIABILITIES	6 043	6 731	7 486	7 658	8 182	9 448

Source: EPB

Growth and margins

	2020	2021	2022	2023e	2024e	2025e
Rental growth	-	42%	39%	23%	29%	11%
Vacancy rate	0%	0%	0%	0%	0%	0%
Net operating margin	62%	47%	53%	63%	68%	66%
EPS growth, adjusted	-	N.m.	>100%	N.m.	>100%	>100%
CEPS growth	Neg.	Neg.	>100%	Neg.	>100%	Neg.
EPRA NAV growth	Neg.	3,8%	10,2%	Neg.	4,3%	15,7%
Equity growth	Neg.	17,0%	11,7%	Neg.	5,2%	18,7%
Profit from property management growth	Neg.	7,6%	55,8%	47,1%	38,8%	7,2%
DPS growth	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: EPB

Return

	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	5%	11%	Neg.	5%	17%
Yield	1%	1%	1%	2%	2%	2%
Implicit yield	Neg.	1%	2%	4%	5%	5%

Source: EPB

Financial position

	2020	2021	2022	2023e	2024e	2025e
Net debt	1 408	1 140	1 273	1 582	1 880	2 164
Loan-to-value	27,2%	25,7%	25,4%	26,9%	27,1%	24,6%
Equity ratio	59%	62%	62%	61%	60%	61%
Net debt / equity	0,4x	0,3x	0,3x	0,3x	0,4x	0,4x
Net debt / EBITDA	284,7x	-56977,3x	-85,1x	18,8x	15,0x	16,1x
Average interest rate	2,0%	2,7%	3,2%	5,1%	5,1%	5,2%

Source: EPB

Per share data

	2020	2021	2022	2023e	2024e	2025e
Profit from property management per share	-0,55	-0,60	4,24	-0,13	0,37	0,36
EPS	8,71	2,82	7,66	-0,13	3,76	14,4
EPS, adjusted	8,71	2,82	7,66	-0,13	3,76	14,4
CEPS	-0,60	-0,62	4,18	-0,13	0,29	0,29
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00
Number of shares, m	0,00	0,00	0,00	0,00	0,00	0,00
Number of shares after dilution, average	57,0	63,5	63,5	63,5	63,5	63,5
EPRA NAV per share	76,9	79,8	88,0	87,9	91,7	106

Source: EPB

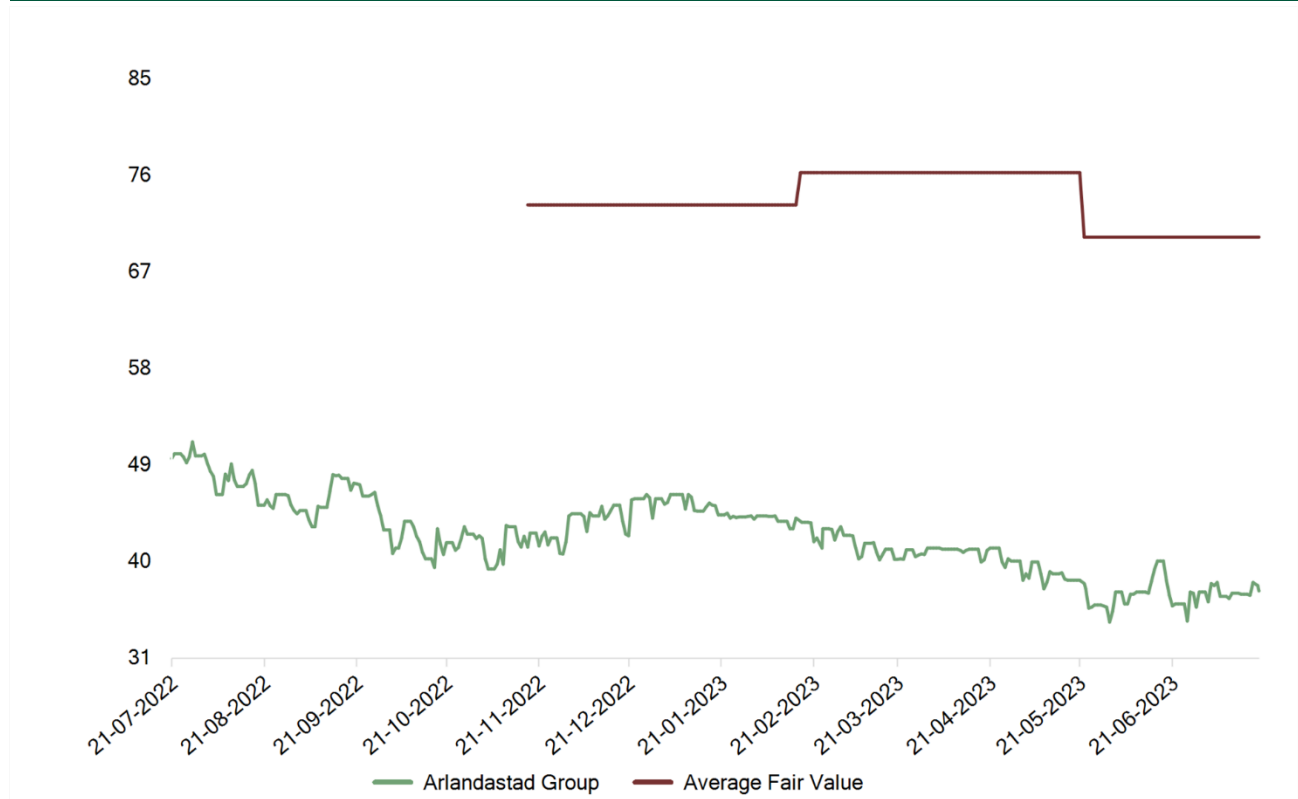
Valuation

	2020	2021	2022	2023e	2024e	2025e
P/PFPM per share	-	-114,7x	10,8x	-292,5x	100,0x	101,5x
P/E, adjusted	-	24,5x	6,0x	-292,5x	9,7x	2,5x
P/EPRA NAV	-	0,9x	0,5x	0,4x	0,4x	0,3x
P/CEPS	-	-112,2x	10,9x	-292,5x	125,9x	127,8x
Dividend yield	-	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV	-	5 504	4 157	3 715	3 715	3 715
Share price, year end	-	69,0	45,6	36,6	36,6	36,6

Source: EPB

Share Price and Fair Value Chart

Arlandastad Group (AGROUP SS EQUITY)



Source: EPB, IDC

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