

# OBOS FORRETNINGSBYGG AS

## Set for revenue growth

OBOS Forretningsbygg ('OBOS FB' or 'the company') had record-high revenues last year. Its financial leverage rose significantly in 2016, mainly due to the acquisition of Ulven, but we still view the overall credit risk as conservative, in line with other Norwegian commercial real estate peers. We view the ownership of the OBOS BBL as a credit strength, with high probability of financial support if necessary.

### OBOS FB develops, owns and operates OBOS Group's commercial real estate.

The portfolio consists of shopping centres, office buildings, hotels, housing, garages, parking lots and other types of commercial real estate. Most of the properties are located in Oslo, but also in Stavanger, Bergen and Trondheim. Average vacancy in the portfolio was 2.5% at end-2016, which is low compared to peers, but will increase to 3.1% when including Ulven, according to the company.

OBOS FB is wholly-owned by OBOS BBL, which is the largest co-operative building association in the Nordics. It is owned entirely by its members who are not paid back in dividends, but benefit from various advantages like the right of pre-emption on houses, favourable loan and savings terms and various discount agreements. Internally generated profits are thus used to expand and improve its business further. We view the financially strong owner as a credit strength for OBOS FB.

The acquisition and development of Ulven has increased financial leverage in the company. The acquisition became effective on 1 February 2016. OBOS plans to develop a new residential area with 3,000 new units and 200,000 square metres of commercial property. The development of the area will be gradual over the next 10–15 years, with the sale of the first housing units starting during the summer of 2017

*\*Note that numbers for 2015 and 2016 are pro-forma including Ulven. Calculated ratios for 2015 and 2016 are also based on pro-forma numbers and are not actual reported numbers. Historical numbers from 2011-2014 are actual reported IFRS numbers.*

### Key financial figures - OBOS Forretningsbygg AS (EOY in NOKm)

	2013	2014	2015	2016	2017e	2018e	2019e
Total revenues	618	601	712	825	986	1,835	1,868
EBITDA	311	370	464	527	639	796	826
TIBD	3,510	3,332	3,454	6,491	5,722	6,722	6,722
Cash & cash equivalents	623	180	163	104	279	180	159
Total assets	6,720	9,533	10,246	15,396	14,971	16,439	17,896
EBITDA margin (%)	50.3	61.6	65.1	64.0	64.9	43.4	44.2
TIBD/EBITDA (x)	11.3	9.0	7.4	12.3	8.9	8.4	8.1
TIBD/total capital (%)	62.3	40.9	38.7	49.2	43.4	46.0	41.9

Source: Company (historical figures), DNB Markets (estimates)

### ISSUER RATING

Moody's	Not rated
S&P	Not rated
Fitch	Not rated

### BLOOMBERG IDENTIFIERS

Equity ticker	
Bond ticker	OBOS Corp

### CAPITAL STRUCTURE

Market cap. (NOKm)	
NIBD (NOKm)	
Enterprise value (NOKm)	
Bond debt outstanding (NOKm)	1,281

### MANAGEMENT

CEO	Nils Morten Bøhler
CFO	

### RISK ASSESSMENT (1-6)

Country	Very low (1)
Industry	Low (2)
Country & Industry	Low (2)
Competitive position	Satisfactory (3)
Business risk	Satisfactory (3)
Financial risk	Significant (4)

**DNB Markets has been mandated as joint lead manager for a potential secured bond issue for the company.**

### ANALYSTS

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Please see the last pages for important information.

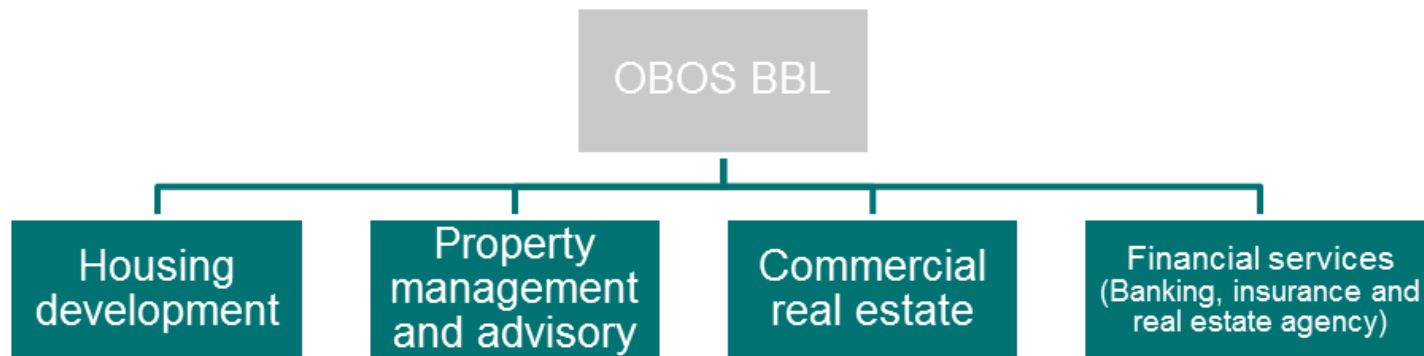
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## Company description

Figure 1: Organisation structure

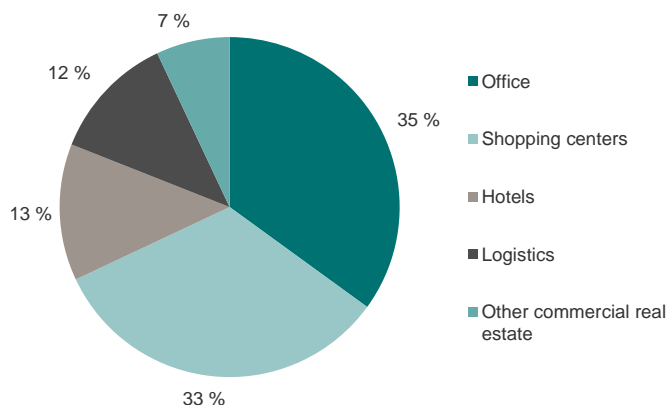


Source: Company

OBOS FB develops, owns and operates the OBOS Group's commercial real estate. The portfolio consists of shopping centres, office buildings, hotels, housing and garages and parking lots and other types of commercial real estate. 80% of the properties were located in Oslo at end-2016, 10% in Bergen, 5% in Trondheim and 5% in Stavanger. In 2016 the revenue was divided between 33% shopping centres, 35% offices, 12% logistics, 13% hotels and 7% other commercial real estate. Going forward a larger share of revenues will come from homebuilding due to the acquisition and development of Ulven. This will increase revenues, but reduce margins due to the lower average margins in the homebuilding segment relative to the commercial real estate segment.

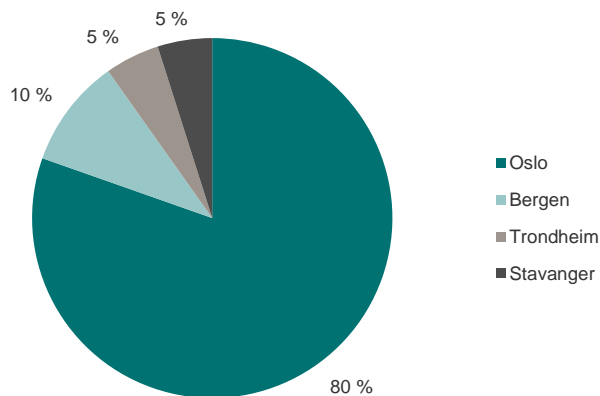
OBOS BBL is Norway's largest housing association

Figure 2: Revenues by segment 2016



Source: Company

Figure 3: Rent revenues by geography 2016



Source: Company

## Financially strong owner in OBOS BBL

OBOS FB is wholly owned by OBOS BBL. We believe OBOS BBL is a supportive and financially strong owner, which will most likely contribute extensive experience and finances if necessary.

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# Assets

## Diversified real estate portfolio

At end-2016, the real estate portfolio consisted of 71 wholly-owned developed properties totalling 561,000 sqm. In addition, the company is part owner of 83,000 sqm of commercial property. The total value of the company's investment property was NOK10.9bn at end-2016, up from NOK8.9bn at end-2015. Shopping centres and offices are the two largest segments in the portfolio, constituting 68% of revenues in 2016. OBOS FB is planning to convert a significant share of the logistics properties to housing and offices. At end-2016, three of OBOS' shopping centres were among the 60 largest shopping centres in Norway (Lamberseter, Tveita and Manglerud Senter). The central location, close to public transportation hubs, is an advantage for most of the OBOS' shopping centres.

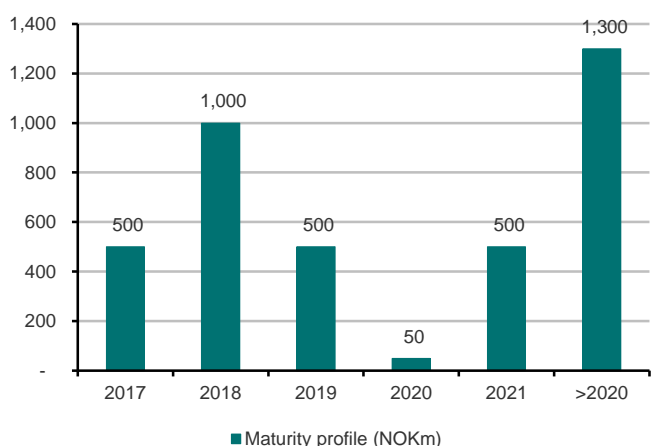
Shopping centers and offices are the two largest segments constituting 68% of revenues

## Long contract duration with solid and diversified tenants

The average duration of OBOS FB's contracts is 5.9 years, often with options to extend the contracts on given terms. The rent is mainly fixed with a small revenue-based component and 100% inflation-adjusted. The vacancy rate of the portfolio was 2.5% at-end 2016, which is low, also compared to other commercial real estate peers. It will, however, increase to 3.1% when including Ulven according to the company (see Figure 5 below). The tenant base consists of a large number of different tenants and no dominant contracts. The share of public tenants is currently 17% and increasing. We view the counterparty risk of the tenant base as low based on historically very low default rates, solid tenants and a large and diversified tenant base.

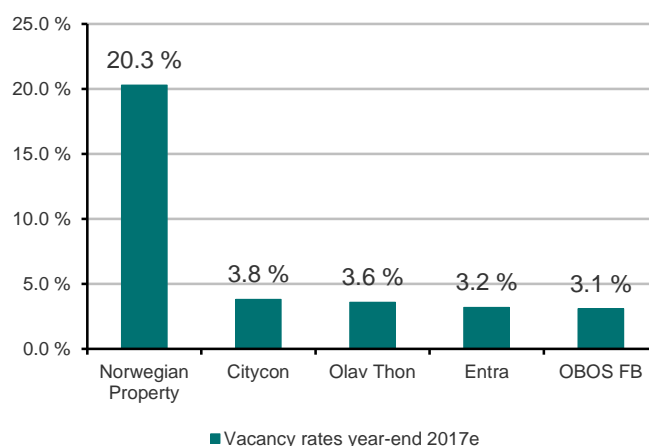
Low portfolio vacancy at 2.5%.

Figure 4: Revenues and EBITDA margins



Source: DNB Markets (estimates), Company (historical figures)

Figure 5: Vacancy rates at end 2017e



Source: DNB Markets

## Ulven AS

OBOS BBL acquired the Ulven area at the beginning of 2016 for NOK2.9bn from Fabritius. It was later sold to OBOS FB for 3.1bn and the area was valued at NOK 3.8bn by the external appraiser Newsec at end-2016. The rent revenues were NOK121m in 2016, and we estimate it will be the main reason for the doubling of the company's revenues within 2019e. The property includes 280 acres of land in Hovinbyen which will be developed into 3,000 new homes and 200,000 sqm of commercial property as well as the continuation of some existing property. OBOS plans to start housing construction as soon as possible, with the sale of the first houses during the summer of 2017. The construction of Torgbyggene, where Bydelsadministrasjonen, NAV and other retail tenants will move in during Q2 2017 is soon to be completed. The construction of Loomis' new headquarters has also started and is due to be completed at the beginning of 2018. The housing development segment is more cyclical than the other commercial real estate segments OBOS are exposed to. However, we believe the OBOS BBL's experience in this segment and the current profitability of this sector will increase profits for OBOS FB in the coming years as seen in our estimates.

Ulven was valued at NOK3.8bn by Newsec

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## Capital structure

### Debt portfolio: increased leverage after Ulven acquisition

We view OBOS FB's financial risk profile as aggressive to significant in rating agency terminology. The debt portfolio consists of secured bank loans and secured bonds as illustrated in Figure 6 below. The share of debt with fixed interest rate was 22% at year end-2016, which is low compared to peers. We believe the share will increase going forward based on the company's stated financial target of minimum 30% fixed interest rate in the portfolio. From 2012, OBOS FB has experienced a falling average funding cost from 4.42% in 2012 to 3.49% in 2016.

Low share of fixed interest rate in debt portfolio of 22%, but we believe it will increase going forward

Figure 6: Debt overview at end- 2016

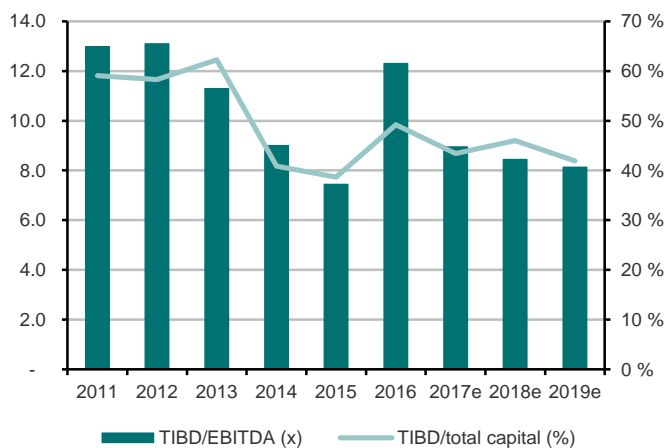
Facility description	Currency	Size (NOKm)	Outst. (NOK)	Maturity	Coupon	Ranking
Bond, OBFB01	NOK	450	450	25-Oct-19	CPI	1. priority pledge
Bond, OBFB02	NOK	356	356	5-Feb-18	3mN+1.70	1. priority pledge
Bond, OBFB03	NOK	475	475	3-Apr-24	4.49 %	1. priority pledge
Secured bank loans	NOK	2,077	2,077	31-Dec-20	n.a	1. priority pledge
<b>Total</b>		<b>3,358</b>				

Source: Company, Stamdata

The company became significantly more leveraged after the acquisition of Ulven in 2016, which resulted in an increase in net debt to EBITDA from 7.1x at end-2015 to 12.1x at end-2016 and an increase in net LTV from 37% to 57%. We believe the leverage level of the company will be somewhat reduced going forward to between 8–10x and LTV around 50%.

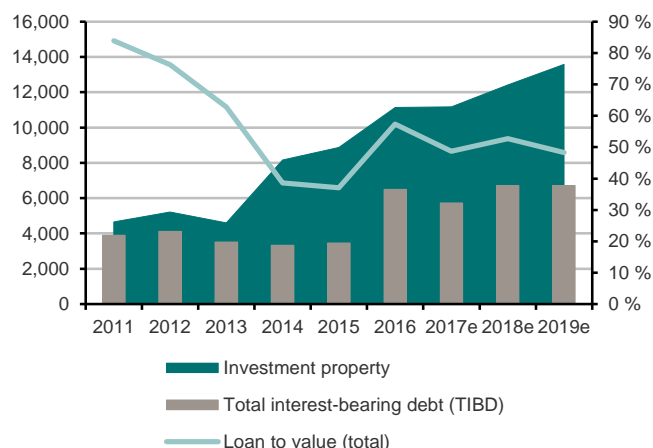
Net debt to EBITDA up from 7.1x at end-2015 to 12.1x at end-2016

Figure 7: Financial leverage



Source: DNB Markets (estimates), Company (historical figures)

Figure 8: Debt and assets



Source: DNB Markets (estimates), Company (historical figures)

## Covenants

The outstanding bonds in OBOS FB have a minimum equity ratio covenant of 20%. OBOS FB was well within this covenant in 2016 and according to our estimates it will also be well within the covenant for the next three years.

Figure 9: Financial covenants

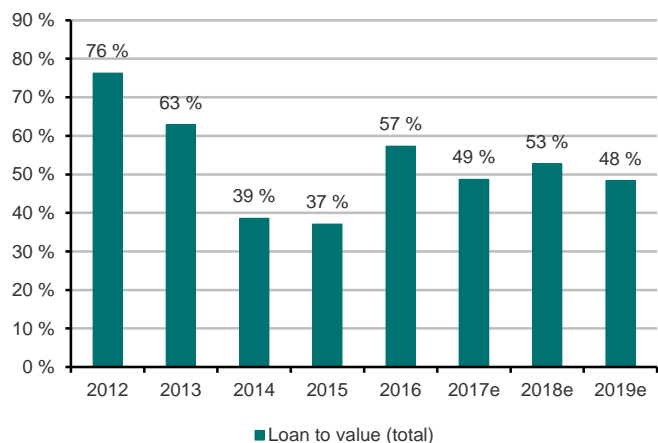
	2016	2017e	2018e	2019e
Minimum equity ratio				
- Covenant	20 %	20 %	20 %	20 %
- Model output	44 %	45 %	44 %	48 %

Source: DNB Markets (estimates), Company (historical figures)

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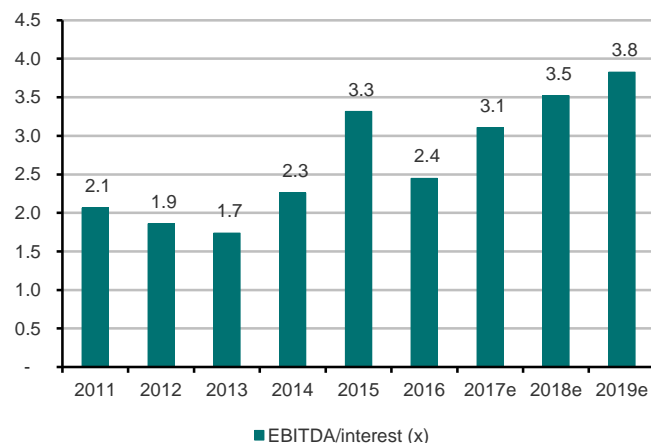
There are also financial covenants related to OBOS FB's revolving credit facilities. The book equity ratio shall be minimum 30%, and the company shall be 100% owned by OBOS BBL.

Figure 10: Loan to value (LTV)



Source: DNB Markets (estimates), Company (historical figures)

Figure 11: EBITDA to net interest expense



Source: DNB Markets (estimates), Company (historical figures)

## Credit considerations

### Model assumptions

To model the significant change in the company after the acquisition of Ulven we have made several assumptions regarding revenues, costs, margins etc. We assume a development cost of NOK23,000 per sqm for the 200,000 sqm commercial property. We assume a development cost of 40,000 sqm for housing and an average size of 65 sqm for the 3,000 new housing units. We believe the EBITDA-margin will be around 25% on the housing segment and in line with historical EBITDA-margin of around 65% for the commercial property segment. We have divided the revenues and costs for Ulven equally between the 15 years we estimate it will take for OBOS FB to develop the area starting from 2019 when the first units are handed over to the customers. We also assume a slot cost per unit of ~8000 per sqm.

### Liquidity strengthened by OBOS BBL

Available liquidity sources in the company at end-2016 were NOK104m in cash on the balance sheet and NOK300m in undrawn borrowing facilities. The liquidity is significantly weaker than for example Olav Thon Eiendomsselskap, with liquidity sources of NOK4,951m (bank deposits and undrawn borrowing facilities) at end-2016. However, the liquidity of OBOS BBL is strong with NOK2.9bn in undrawn borrowing facilities and NOK2.0bn in cash and cash equivalents on the balance sheet. We view OBOS FB as highly integrated in OBOS BBL and an important part of the group's core strategy. We believe that the strong liquidity in OBOS BBL will also benefit OBOS FB if necessary.

We believe the strong liquidity in OBOS BBL will benefit OBOS FB if necessary

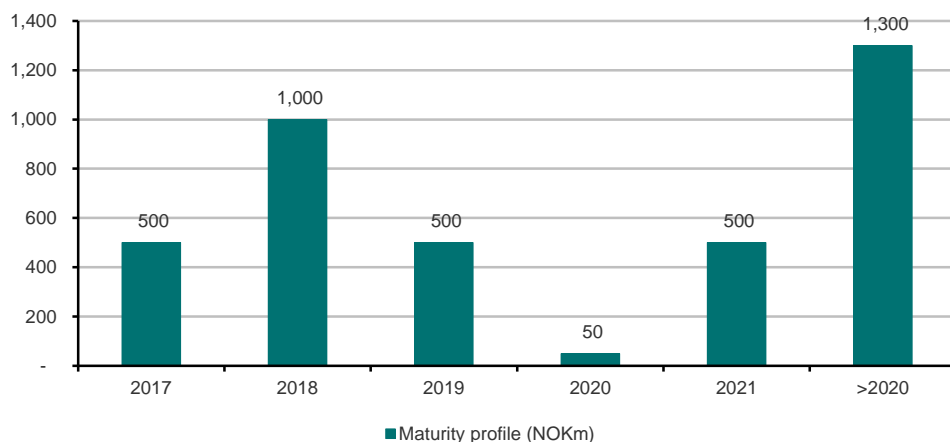
### Diversified repayment profile

OBOS' repayment profile is diversified as illustrated in Figure 8 below. The largest repayment will happen in 2018 when NOK1,000m in instalments and repayment of bank loans are due. Note that several of the loans are expected to be extended before maturity, and we do not believe OBOS FB will have problems refinancing outstanding bank loans or bonds.

We believe OBOS FB will have no problem refinancing its debt

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Figure 12: Debt maturity profile (NOKm)

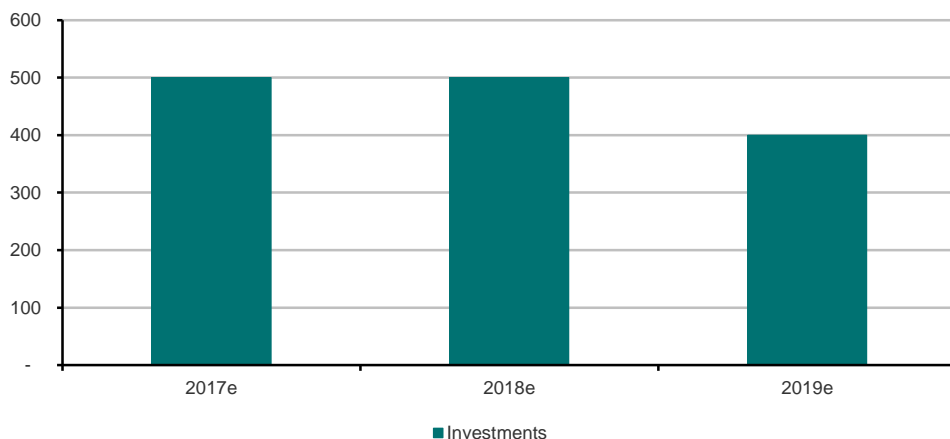


Source: Company

## Capex

For the project Freserveien we assume a total capex between 2017-2019 of NOK1,000m. We have distributed these costs with NOK60m in 2017, NOK500m in 2018 and NOK400 in 2019. In addition we have other capex of 440m in 2017 for other investments such as infrastructure etc. related to both Ulven and Freserveien. See total capex estimates illustrated in figure 13 below.

Figure 13: Capex estimates (NOKm)



Source: DNB Markets

## Recovery

Our recovery estimate in the event of a potential default is based on a theoretical restructuring scenario where assets are sold to pay off creditors. Investment property is valued internally every quarter. By year-end four properties are valued by an external appraiser and the internal valuation is based on this in addition to recent transactions. The properties are conservatively valued in our view and we have not made any value adjustments. We expect a recovery of 70–90% for the secured bonds with 1. priority pledge in selected properties and LTV below 65%.

We expect a recovery of 70–90% for the secured bonds with LTV below 65%

## Peers

The peer group consists of other Norwegian commercial real estate peers. Note that the calculated numbers for peers are the average of the last three years. For OBOS FB, 2016 numbers are the most relevant due to the acquisition of Ulven and the changed debt level in the company.

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**Figure 14: Peer analysis**

Key financials	OTE	SST	NPRO	OBOS FB
Corporate credit rating				
Business risk profile	Strong	Strong	Strong	Strong
Financial risk profile	Significant/intermediate	Aggressive/significant	Highly leveraged	Aggressive/Significant
Currency	NOK	NOK	NOK	NOK
Rating	Not rated	Not rated	Not rated	Not rated
Financials				Pro forma
Revenues	3,100	1,836	796	825
EBITDA	1,612	1,329	603	527
Net income	2,168	1,513	158	1,244
FFO	793	820	193	149
CF from operations	953	740	38	711
Capex	2,534	12	245	-3300
Net debt	16,603	16,303	9,321	6,387
Secured debt	14,371	14,648	7,717	
Equity	15,022	14,125	5,375	6,698
Adjusted ratios				
EBITDA margin (%)	52.4	72.4	75.7	64.0
EBITDA/net interest expense (x)	2.4	2.8	1.5	2.4
Net debt/EBITDA (x)	11.0	12.3	14.7	12.1
FFO/TIBD (%)	4.7	4.9	2.1	2.3
LTV (%)	43.9	55.4	59.9	57.4
Total debt/total capital (%)	53.0	54.2	63.5	49.2

\* Average of three past years for peers. 2016 numbers for OBOS FB

Source: Company, DNB Markets



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## Summary of financial accounts - OBOS Forretningsbygg AS (EOY in NOKm)

<b>Profit &amp; Loss</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Total operating revenues	466	570	618	601	712	825	986	1,835	1,868
Total operating costs	-166	-256	-307	-231	-248	-297	-347	-1,039	-1,042
<b>EBITDA</b>	<b>301</b>	<b>314</b>	<b>311</b>	<b>370</b>	<b>464</b>	<b>527</b>	<b>639</b>	<b>796</b>	<b>826</b>
Depreciation & amortisation	-93	-98	-114	-6	-5	-16	-18	-19	-21
<b>EBIT</b>	<b>208</b>	<b>216</b>	<b>197</b>	<b>364</b>	<b>459</b>	<b>511</b>	<b>622</b>	<b>776</b>	<b>805</b>
Income from associates	164	181	15	53	26	295	160	160	160
Sale of assets	0	37	280	26	230	790	349	349	349
One-offs, write-downs, impairments	-6	0	76	390	0	0	0	0	0
Net interest	-146	-169	-179	-164	-140	-215	-206	-226	-216
Net other financials	0	10	25	0	138	25	0	0	0
<b>Pre-tax profit</b>	<b>220</b>	<b>275</b>	<b>414</b>	<b>669</b>	<b>712</b>	<b>1,407</b>	<b>925</b>	<b>1,060</b>	<b>1,098</b>
Tax	-17	-41	-85	-161	-62	-163	-185	-212	-220
<b>Net profit</b>	<b>203</b>	<b>233</b>	<b>329</b>	<b>509</b>	<b>650</b>	<b>1,244</b>	<b>740</b>	<b>848</b>	<b>878</b>

<b>Balance sheet</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Tangible fixed assets	4,654	5,215	4,600	8,162	8,872	11,137	11,173	12,412	13,577
Investments in associates	1,768	1,801	1,182	918	917	1,126	1,126	1,126	1,126
Intangible assets	77	69	66	81	81	51	51	51	51
Other non-current assets	410	186	170	6	26	17	22	22	22
Cash & cash equivalents	0	137	623	180	163	104	279	180	159
Other current assets	103	38	81	185	187	2,961	2,320	2,648	2,960
<b>Total assets</b>	<b>7,012</b>	<b>7,446</b>	<b>6,720</b>	<b>9,533</b>	<b>10,246</b>	<b>15,396</b>	<b>14,971</b>	<b>16,439</b>	<b>17,896</b>
Interest-bearing long-term debt	3,905	4,115	3,510	3,302	3,454	5,984	5,215	6,215	6,215
Other non-current liabilities	164	199	254	1,095	1,151	1,232	1,256	1,281	1,306
Interest-bearing short-term debt	0	0	0	30	0	507	507	507	507
Other current liabilities	237	186	828	281	164	974	541	541	541
<b>Total liabilities</b>	<b>4,306</b>	<b>4,501</b>	<b>4,592</b>	<b>4,709</b>	<b>4,769</b>	<b>8,698</b>	<b>7,519</b>	<b>8,544</b>	<b>8,569</b>
Equity	2,706	2,945	2,128	4,824	5,477	6,698	7,451	7,895	9,327
<b>Total equity and liabilities</b>	<b>7,012</b>	<b>7,446</b>	<b>6,720</b>	<b>9,533</b>	<b>10,246</b>	<b>15,396</b>	<b>14,971</b>	<b>16,439</b>	<b>17,896</b>
Net interest-bearing debt	3,905	3,978	2,888	3,152	3,292	6,387	5,443	6,541	6,562
Total interest-bearing debt	3,905	4,115	3,510	3,332	3,454	6,491	5,722	6,722	6,722

<b>Cash flow</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
EBITDA	527	639	796	826
Dividends from associates	0	0	0	0
Net cash tax	-163	-185	-212	-220
Net cash interest	-215	-206	-226	-216
<b>Funds from operations (FFO)</b>	<b>149</b>	<b>249</b>	<b>358</b>	<b>391</b>
Changes in working capital	-878	-277	-312	-312
Other cash flow from operations	1,439	0	0	0
<b>Cash flow from operations (CFO)</b>	<b>711</b>	<b>-28</b>	<b>46</b>	<b>79</b>
Investments	-3,300	-500	-500	-400
Divestments				
Other cash flow investments	0	703	0	0
<b>Free operating cash flow (FOCF)</b>	<b>-2,589</b>	<b>175</b>	<b>-454</b>	<b>-321</b>
Debt instalments	-245	-500	-1,000	-450
Debt principal				
Dividends	0	0	0	0
<b>Funding surplus</b>	<b>-2,834</b>	<b>-325</b>	<b>-1,454</b>	<b>-771</b>
New debt	2,775	500	1,356	750
New equity	0	0	0	0
Other cash from financing	0	0	0	0
<b>Net cash flow</b>	<b>-59</b>	<b>175</b>	<b>-98</b>	<b>-21</b>
Other adjustments				
<b>Change in cash</b>	<b>-59</b>	<b>175</b>	<b>-98</b>	<b>-21</b>

Source: Company (historical figures), DNB Markets (estimates)

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**Key credit metrics - OBOS Forretningsbygg AS (EOY)**

	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
FFO/TIBD (%)							2.3	4.3	5.3	5.8
TIBD/EBITDA (x)		13.0	13.1	11.3	9.0	7.4	12.3	8.9	8.4	8.1
NIBD/EBITDA (x)		13.0	12.7	9.3	8.5	7.1	12.1	8.5	8.2	7.9
EBITDA/interest (x)		2.1	1.9	1.7	2.3	3.3	2.4	3.1	3.5	3.8
CFO/TIBD (%)							11.0	-0.5	0.7	1.2
FOCF/TIBD (%)							-39.9	3.1	-6.8	-4.8
DCF/TIBD (%)							-39.9	3.1	-6.8	-4.8
TIBD/total capital (%)		59.1	58.3	62.3	40.9	38.7	49.2	43.4	46.0	41.9

Source: Company (historical figures), DNB Markets (estimates)

**Profitability - OBOS Forretningsbygg AS (EOY)**

	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
EBITDA margin (%)	64.5	55.1	50.3	61.6	65.1	64.0	64.9	43.4	44.2	
EBIT margin (%)	44.5	37.9	31.9	60.6	64.4	62.0	63.1	42.3	43.1	
Profit margin (%)	43.5	40.9	53.3	84.6	91.3	150.8	75.1	46.2	47.0	
EBIT/assets (%)	3.0	2.9	2.9	3.8	4.5	3.3	4.2	4.7	4.5	

Source: Company (historical figures), DNB Markets (estimates)

\*Note that numbers for 2015 and 2016 are pro-forma including Ulven . Calculated ratios for 2015 and 2016 are also based on pro-forma numbers and are not actual reported numbers. Historical numbers from 2011-2014 are actual reported IFRS numbers.

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**IMPORTANT/DISCLAIMER**

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Number of shares				00/00/0000

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6 March 2017

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