

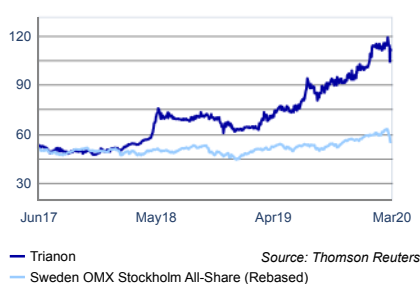
## Trianon

Construction and Real Estate  
Sweden

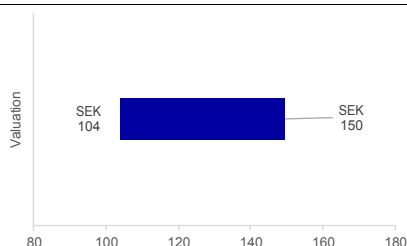
## KEY DATA

Stock country	Sweden
Bloomberg	TRIANB.SS
Reuters	TRIANB.ST
Share price (close)	SEK 111.5
Free Float	
Market cap. (bn)	EUR 0.38/SEK 4.07
Website	www.trianon.se
Next report date	04 May 2020

## PERFORMANCE



## VALUATION APPROACH (SEK PER SHARE)



## ESTIMATE CHANGES

Year	2020E	2021E	2022E
Sales	4%	5%	5%
EBIT (adj)	4%	5%	5%

Source: Nordea estimates

## Nordea Markets - Analysts

**Niclas Höglund**  
Senior Analyst, Sector Coordinator

**Svante Krokfors**  
Analyst

## Solid report and acquisitions add 5% to earnings

Trianon reported strong Q4 2019 results, with income from property management in line with our expectations, adjusting for realised derivative costs, and exceeding our NAV estimates despite lower revaluations in the quarter. With more than 66% of Trianon's total portfolio comprising rental apartments – and given the upward demand trend for rental apartments in Malmö – we argue that Trianon's low average rents and attractive project portfolio cushion it against the tougher economic growth outlook. We argue for a NAV-based fair value range of SEK 104-150 (103-151) per share.

## Q4 2019 outcome

Trianon reported Q4 income from property management of SEK 38.3m (SEK 45.3m excluding realised changes from derivatives), up 62% y/y and in line with our expectations, with lower financing costs compensating for higher central and admin costs. Earnings capacity of SEK 196.3m was up 10% q/q, above our SEK 191.5m forecast, driven by a lower rental discount and vacancies. Asset values were up 1.0% q/q versus our estimate of 1.3%, supporting EPRA NAV, up 6.9% q/q and 20% y/y (adjusted for dividends). Average financing costs were a touch down q/q at 2.4% (2.5%), together with unchanged capital duration (1.0 years) and slightly lower interest duration (3.3 years). Proposed DPS of SEK 1.45 was up 26% y/y. No units were started in the quarter, with some larger pending projects still waiting for planning permits to be granted. It expects to be able to start 750 units in 2020 and foresees a gradual improvement in the planning process. We argue that project starts should further increase visibility for NAV growth in 2020-22 and hence will act as an important driver for the share.

## Valuation and estimates

We add 4-5% to our adjusted EPS estimates for 2020-21, of which 3% relates to announced acquisitions of SEK 351m so far in Q1 2020 and the remaining ~2% to the strong Q4 2019 and higher earnings capacity. We do not include future acquisitions in our estimates but see further potential opportunities. These could be financed by issuing ordinary shares given Trianon's premium to NAV valuation (135% versus the sector's 114%). We argue that a peer valuation needs to be complemented with estimated project and renovation upside to capture Trianon's fair value. Using a NAV-based approach, we reach a fair value range of SEK 104-150 (SEK 103-151) – including revaluation scenarios and project portfolio potential – assuming P/EPRA NAV of 100-125% (unchanged). The company intends to change its listing to the Nasdaq main market during 2020. This could broaden its shareholder base and limit downside risk in the share.

## SUMMARY TABLE - KEY FIGURES

SEKm	2016	2017	2018	2019	2020E	2021E	2022E
Total revenue	176	264	348	453	550	572	585
NOI margin	63.8%	62.0%	61.1%	63.0%	64.0%	64.0%	64.0%
EPS (adj)	4.50	2.97	2.71	3.80	3.61	3.98	4.54
EPS (adj) growth	76.0%	-34.0%	-8.7%	40.0%	-5.0%	10.2%	14.0%
P/E (adj)	n.a.	17.1	23.5	27.2	30.9	28.0	24.6
DPS	0.00	1.00	1.15	1.45	1.52	1.59	1.59
NAV per share	46	56	63	73	80	88	96
NAV growth	51.3%	21.6%	12.5%	16.6%	10.1%	9.7%	9.5%
NOI/EV (adj)	n.a.	3.9%	3.8%	3.4%	3.9%	4.0%	4.2%
P/NAV	n.a.	91.2%	102.0%	141.9%	138.8%	126.6%	115.6%
P/EPRA NAV	n.a.	82.0%	91.4%	125.6%	125.7%	116.9%	106.9%
Dividend yield	n.a.	2.0%	1.8%	1.4%	1.4%	1.4%	1.4%
Loan-to-value (adj)	51.4%	52.0%	56.4%	56.0%	56.0%	53.9%	52.1%
Net debt / EBITDA (adj)	12.2	16.7	18.1	18.3	15.7	14.9	14.4

Source: Company data and Nordea estimates

## Q4 2019 outcome and estimate changes

Trianon delivered Q4 income from property management of SEK 38.2m adjusted for realised derivative value changes (compared with the reported SEK 45.3m), in line with our forecast, with lower rental income offset by a higher surplus ratio and lower financial costs. Earnings capacity was also above our expectation, which we attribute to a lower discount percentage of rental value and lower vacancies plus higher rental growth. We raise our adjusted EPS estimates for 2020-21 by 4-5%, of which 3% is related to the recently announced acquisitions worth SEK 351m. EPRA NAV was up 6.9% q/q at SEK 82.4 per share, 0.6% above our estimate, in part held back by a lower contribution from revaluation (+1.0% versus our estimate of +1.3% q/q) related to a higher yield requirement for the group (4.7% from 4.5% in Q3 2019) despite the better earnings. The higher yield requirement stands in contrast to recent transaction levels and we see room for a reversal adding to NAV growth in 2020-22, but owing to our cautious approach to revaluation, we keep our NAV estimates for 2020-21 unchanged.

TRIANON: Q4 2019 DEVIATION TABLE (SEKm)

	Actual	NDA est.		Deviation	Actual		Actual	
SEKm	Q4 19A	Q4 019		vs. actual	Q3 19	q/q	Q4 18	y/y
Rental revenue	121.1	123.6	-3	-2%	117.2	3%	92.8	30%
Operational costs and maintenance	-46	-49	3	-7%	-39	18%	-41	12%
<b>NOI</b>	<b>75.3</b>	<b>74.9</b>	<b>0</b>	<b>0%</b>	<b>80.7</b>	<b>-7%</b>	<b>54.4</b>	<b>38%</b>
Surplus ratio, %	62%	61%			69%		59%	
Central and admin	-11.4	-9.5	-1.9	20%	-6.9	65%	-11.9	-4%
Joint ventures	-0.2	0.1			0		4.9	-104%
Interest costs adj for realised derivative	-23.6	-25.7	2.1	-8%	-25.2	-6%	-23.8	-1%
Leasing costs	-1.6	-1.7	0		-1.7	-6%	0	
<b>Income from Property Management (IFPM)</b>	<b>38.3</b>	<b>38.2</b>	<b>0.1</b>	<b>0%</b>	<b>47</b>	<b>-19%</b>	<b>23.7</b>	<b>62%</b>
Changes to property value	70.6	92.3	-21.7	-23%	85.7	-18%	80	-12%
of which unrealised	70.6	92.3	-21.7	-23%	85.7	-18%	80	-12%
Changes to derivative value	58.3	-50	108.3		-45.2	-229%	-16.3	-458%
Pretax profits	167.4	80	86.9086	108%	87.5	91%	87.4	92%
Reported tax	-43.7	-17	-27.1	164%	-15.2	188%	-18.7	134%
of which paid tax	0	0	0		0		0	
Net income	123.7	64	59.7898	94%	72.3	71%	68.7	80%
<b>EPRA NAV</b>	<b>82.4</b>	<b>81.9</b>	<b>0.5</b>	<b>0.6%</b>	<b>78</b>	<b>6.9%</b>	<b>70</b>	<b>20%</b>
<b>Earnings Capacity</b>	<b>196.3</b>	<b>191.5</b>	<b>4.8</b>	<b>3%</b>	<b>177.8</b>	<b>10%</b>	<b>137.4</b>	<b>43%</b>
Dividend	1.45	1.4		3.6%			1.15	26%

Source: Company data and Nordea estimates

### Estimate changes

Due to the better earnings capacity, we raise our adjusted EPS estimates by ~2%. Yet given the recently announced acquisitions worth SEK 351m, we raise our estimates by ~4-5% in total.

#### TRIANON: ESTIMATE CHANGES (SEKm)

SEKm	New estimates			Old estimates			Difference %		
	2019	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Rental revenue	446	548	570	449	528	544	-1%	4%	5%
Operational costs and maintenance	-161	-196	-204	-164	-191	-197	-2%	3%	4%
<b>NOI</b>	<b>286</b>	<b>352</b>	<b>366</b>	<b>285</b>	<b>337</b>	<b>347</b>	<b>0%</b>	<b>5%</b>	<b>5%</b>
Surplus ratio, %	64%	64%	64%	64%	64%	64%			
Central and admin	-36	-40	-40	-33.9	-38	-38	6%	6%	6%
Other income	-0.4	0.3	0.3	-0.1	0.4	0.4			
Interest costs	-94	-111	-116	-75	-105	-106	24%	6%	10%
<b>Income from Property Management (IFPM)</b>	<b>150</b>	<b>195</b>	<b>204</b>	<b>170</b>	<b>187</b>	<b>197</b>	<b>-12%</b>	<b>4%</b>	<b>3%</b>
Changes to property value	292	170	173	314	166	168	-7%	2%	3%
of which unrealised	292	170	173	314	166	168	-7%	2%	3%
Changes to derivative value	-61.5	40	40	-183.2	0	0			
<b>Pretax profits</b>	<b>381</b>	<b>405</b>	<b>417</b>	<b>301</b>	<b>354</b>	<b>365</b>	<b>27%</b>	<b>15%</b>	<b>14%</b>
Reported tax	-81	-83	-86	-53	-73	-75	51%	15%	14%
of which paid tax	0	-10	-10	0	-9	-10		4%	3%
<b>Net income</b>	<b>300</b>	<b>322</b>	<b>331</b>	<b>247</b>	<b>281</b>	<b>290</b>	<b>21%</b>	<b>15%</b>	<b>14%</b>
Hybrid dividend	-21	-28	-28	-21	-28	-28	0%	0%	0%
Minority	3	-25	-20	-12.6	-24.8	-19.84			
NI Ord shareholders	282	268	283	214	228	242	32%	18%	17%
NI Ord shareholders ex value changes	51	58	70	83	62	74	-39%	-6%	-6%
<b>Cash earnings to ordinary shareholders</b>	<b>131</b>	<b>132</b>	<b>145</b>	<b>136</b>	<b>125</b>	<b>139</b>	<b>-4%</b>	<b>5%</b>	<b>4%</b>
<b>-per share</b>	<b>3.8</b>	<b>3.6</b>	<b>4.0</b>	<b>3.9</b>	<b>3.4</b>	<b>3.8</b>	<b>-4%</b>	<b>5%</b>	<b>4%</b>
<b>EPRA NAV</b>	<b>3,006</b>	<b>3,234</b>	<b>3,477</b>	<b>3,012</b>	<b>3,240</b>	<b>3,482</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
Per share	82.4	88.7	95.4	81.9	88.9	95.5	1%	0%	0%

Source: Nordea estimates

## Factors to consider

Through the combination of its M&A-intensive strategy, investments in its existing portfolio, and projects, Trianon has successfully grown its property portfolio and rental income while maintaining solid earnings. We believe its strategy of acquiring properties that need renovation (or where it sees potential to improve NOI) is one of Trianon's key strengths. We argue that Trianon has defensive characteristics due to the improvements in its occupancy ratio and we believe it could withstand a potential downturn in the housing market through its residential portfolio, which solely comprises rental apartments. We consider the risks of higher interest rates and yield requirements to be the principal risks to future success, although higher rents due to higher inflation should partly offset any negative effect from rising interest rates.

### Trianon's property portfolio

The company's properties are all located in Malmö, with 2% of the property value in Malmö City and the rest spread across the wider Municipality of Malmö. The areas differ in characteristics, which we believe provides diversified exposure to different tenants, supply and demand etc. The total property portfolio had a market value of SEK 8bn in Q4 2019, up from SEK 3.3bn in 2016.

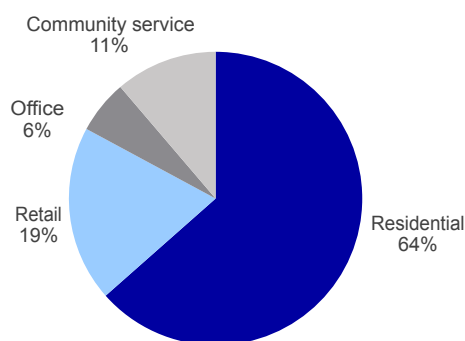
Trianon's property portfolio is divided into four segments; as of Q4 2019, residential properties constituted the largest share (64%), followed by retail properties (19%). The company also owns office and community service properties, each representing about 11% of the total portfolio value. In addition to existing properties, Trianon has a project portfolio. The project portfolio represents approximately 4% of its total portfolio value as of Q4, and Trianon asserts plans to commence production of 750 apartments during 2020 (of a total pipeline of 1,720 units).

Strategy of acquiring and renovating properties is a key strength, in our view

Trianon's strategy involves acquiring properties in need of renovation and maintenance work, particularly properties located in the Million Programme areas. The idea is to invest and renovate these properties to improve net operating income and in turn increase the value of its property portfolio. We believe this is one of Trianon's key strengths. The company asserts that its focus lies in residential and community service properties, for which Trianon believes there is strong demand. The company's long-term goal is for these two property classes to account for at least 80% of its portfolio (75% as of Q4 2019).

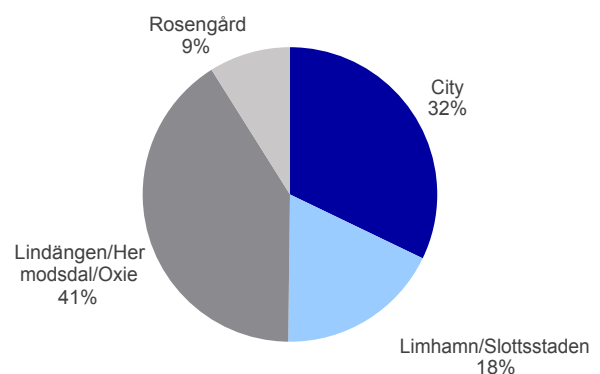
Furthermore, we argue that property management is another one of the group's key strengths, which is supported by Trianon's long track record of renovation and strong local presence.

PROPERTY VALUE BY SEGMENT AS OF Q4 2019



Source: Company data and Nordea

PROPERTY VALUE BY GEOGRAPHICAL AREA AS OF Q4 2019



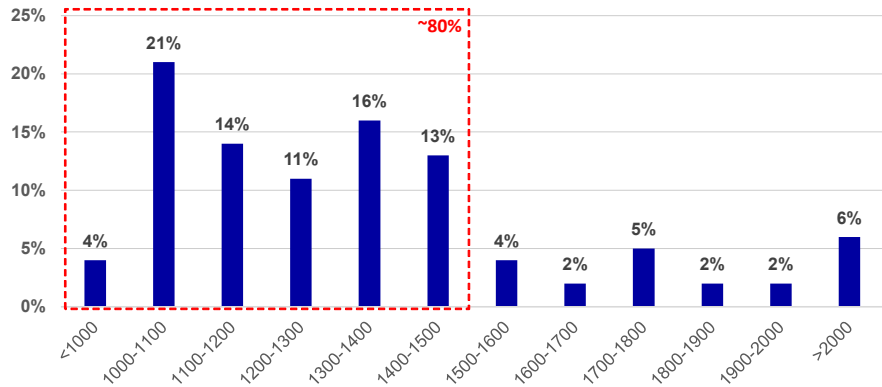
Source: Company data and Nordea

Despite any worries about Trianon's exposure to the residential rental market...

### Low average rents provide resilience against vacancy risk

The prevailing uncertainty in the residential market worries some investors. As Trianon has substantial exposure to this segment, and given its target of increasing the share of residential properties in its portfolio, some could view this as a risk. As shown below, however, Trianon has a portfolio with relatively low rents. Almost the entire portfolio, 94% of the apartments, have rents below SEK 2,000 per m<sup>2</sup>, and approximately 80% are below SEK 1,500 per m<sup>2</sup>. We think this makes Trianon's portfolio fairly resilient to vacancy risk if uncertainty in the residential market persists.

**AVERAGE RENTS FOR TRIANON'S RESIDENTIAL PROPERTIES (SEK/M<sup>2</sup>), 31 DECEMBER 2018**



...we find that its low average rents make it fairly resilient to vacancy risk

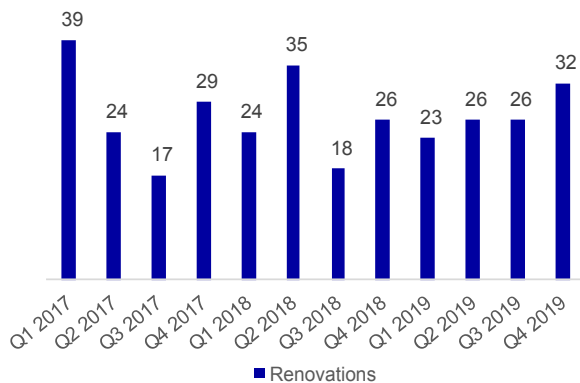
Source: Company data and Nordea

### Value-enhancing renovations

As mentioned, Trianon continuously works on adding value to its portfolio by renovating its existing apartments in connection with tenant relocation. The company has renovated around 100 apartments per year, and, as can be seen in the chart below on the right, ~57% of its existing portfolio has not been renovated, which constitutes great potential for value-enhancing renovations.

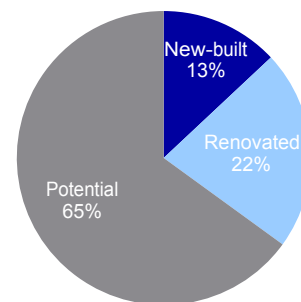
Trianon has three renovation models. The most common one, Renovation Low, accounts for 70% of renovations (Trianon's estimate). This model entails an average investment of SEK 190,000 per apartment and leads to an average annual rental increase of SEK 13,000, implying an average return of 6.8%.

**TRIANON HAS RENOVATED ~100 APARTMENTS ANNUALLY...**



Source: Company data and Nordea

**...AND SEES LARGE POTENTIAL GOING FORWARD AS WELL**



Source: Company data and Nordea

### Interesting project portfolio

Trianon's project portfolio accounted for around 4% of its total property portfolio as of Q4 2019. The portfolio comprises new production of rental apartments. According to Trianon's current estimates, it will commence production of around 400 new apartments per year between 2020 and 2023. Based on management's estimates and previously completed projects, each apartment requires investments of around SEK 1.8-2.0m, which gives an average rental yield of 5.5-6.0%. With the company's cautious

guidance of 200-300 starts per year, this would add approximately SEK 20-40m to the rental value, thus highlighting the great potential in Trianon's project portfolio.

Trianon expects roughly 350-400 unit starts per year from 2020 to 2023

#### CURRENT PROJECT PORTFOLIO, Q4 2019

Area	Detailed dev. plan status	Nr of apartments	Expected start date
Norra Sorgenfri, phase 1**	Expected 2020	315	2020
Rosengård C, phase 1	Expected 2020	170	2020
Hyllie	Expected 2020	70	2020
Sege Park	Yes	100	2020
Rosengård C, phase 2 and 3	No	800*	2020-2023
Entré	No	65	2020
Norra Sorgenfri, phase 2**	No	200*	2021
<b>Total</b>		<b>1,720</b>	

\*Dependent on detailed development plan

\*\*Accessible when detailed development plan receives approval

Source: Company data and Nordea

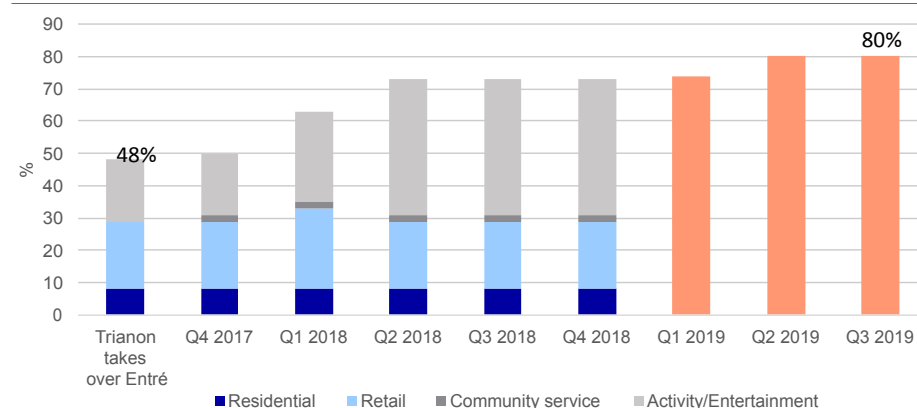
#### Good entry point into Entré

In 2017, Trianon acquired Entré, a shopping mall in Malmö, with a lettable area of 40,000 m<sup>2</sup>. The mall was inaugurated in 2009 and includes tenants such as H&M, Systembolaget, Apoteket, Filmstaden, Hemköp and SATS. In addition to the existing mall, the property also holds building rights with a BTA of 4,000 m<sup>2</sup> and 900 parking spaces.

The mall's reputation was previously questionable, but by converting space from retail to entertainment, activities, and community service, Trianon managed to increase its occupancy rate from 48% in Q2 2017 up to ~80% in Q4 2019. We argue that this is still a fairly high vacancy rate and could thus offer potential for rental growth, as Trianon is currently refurbishing parts of the mall and we believe there is potential that full occupancy will be in place by the end of 2020. The chart below highlights the transformation of Entré from a traditional retail-heavy shopping mall to activity/entertainment and community service representing around 60% of the occupied area.

Furthermore, the aforementioned building rights and some of the vacant space in the mall, according to Trianon, could be converted into apartments or office space. The central location, adjacent to an important public transportation hub in Malmö, provides attractive conditions for offices and apartments, thus further strengthening Entré's potential.

#### DEVELOPMENT OF OCCUPANCY RATE IN ENTRÉ

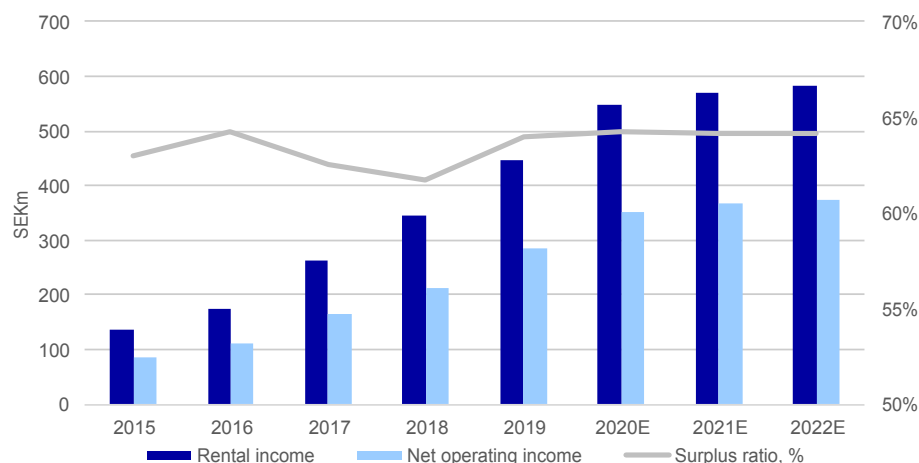


Note: The latest available figures for the occupancy split are for Q4 2018.

Source: Company data and Nordea

#### Strong rental growth with a stable surplus ratio

Trianon's rental income has increased quite significantly over the years, with a 2013-19 CAGR of 27%, amounting to SEK 446m in 2019. Net operating income has followed the same trajectory, and Trianon has maintained a stable surplus ratio despite its aggressive growth strategy. We expect Trianon to continue increasing its rental income and to increase its surplus ratio slightly.

**STRONG RENTAL GROWTH WITH A STABLE SURPLUS RATIO (SEKm AND %)**

Source: Company data and Nordea estimates

**Committed owners, board, and management**

Trianon's CEO Olof Andersson and board member Jan Barchan are the main owners of the company, with a total share of votes of around 67%. They have been part of the company for a long time. We believe their commitment and their active interest in the company are positive factors for Trianon. Furthermore, the company's chairman of the board, Mats Cederholm, owned 3.68% of the votes as of 31 December 2019. We argue that the strong commitment and conviction of management and the board of directors are also positive.

**Valuation**

We use a mix of NAV and multiple-based approaches in our valuation of Trianon. The multiples used are P/EPRA NAV, P/NNNAV, adjusted P/E (cash earnings multiple), implied yield (EBITDA/enterprise value), EV/GAV and dividend yield.

We conclude that in a peer comparison, Trianon's implied valuation appears fairly low. We argue, however, that the different characteristics of Trianon's and the peers' property holdings make it difficult to use a peer comparison to derive a fair value for Trianon's share.

We calculate a NAV-based fair value range for Trianon by estimating a 2022E EPRA NAV per share in bull and bear scenarios. Then we calculate the scenarios' respective present values assuming an 8.0% return requirement (equity), including revaluation and project portfolio potential (illustrated in the table below). Based on this, we arrive at a fair value range of SEK 104-150 (103-151 previously) per share.

**PROJECT PORTFOLIO: EPRA NAV PER SHARE SENSITIVITY ESTIMATES**

Valuation yield	Number of started units per year						
	100	200	300	400	500	600	700
5.75%	-9%	-12%	-13%	-14%	-15%	-15%	-15%
5.25%	-3%	-4%	-5%	-5%	-5%	-5%	-6%
4.75%	3%	5%	5%	6%	6%	6%	6%
4.25%	12%	16%	18%	19%	20%	20%	21%
3.75%	22%	31%	34%	36%	38%	38%	39%
3.25%	36%	50%	56%	59%	61%	62%	63%
2.75%	54%	76%	84%	89%	92%	94%	96%

Note: The figures in the table are our estimated percentage changes of Trianon's EPRA NAV given different scenarios for production output and valuation yield.

Source: Company data and Nordea estimates

## Risk factors

Below, we assess some of the key risks in investing in Trianon. For a more comprehensive list, see the 'Risk factors' section.

We argue the following risk factors are important to consider:

- **Concentrated geographical exposure:** As 100% of Trianon's property portfolio is in Malmö, there would be risks to the company's performance if the region's macro economy were to perform poorly or if the Malmö real estate market were to be hit harder than other parts of Sweden during a possible downturn. Currently, we see no signs of tougher times in Malmö in the near term, but we advise investors to pay attention to macroeconomic and sector-specific trends related to Malmö when investing in Trianon.
- **Rate increases:** If the Swedish central bank were to raise interest rates, this could put upward pressure on interest costs (interest costs accounted for ~22% of Trianon's total costs in 2018) and lower the fundamental value of Swedish real estate stocks in general.
- **Higher yield requirements:** The principal factors affecting valuation yields include the availability and cost of financing. If yield requirements increase, that could lead to lower NAV growth.
- **Access to credit market and leverage:** Like most real estate companies, Trianon is financed through the credit market. If risk appetite were to decrease, the credit market could become less liquid and increase Trianon's refinancing risks. In our view, Trianon has a relatively stable financial position, with an LTV of 57% and an equity ratio of around 34% as of Q4 2019. Trianon is focused, however, on expanding through acquisitions – with this strategy, the company will likely need to obtain debt capital to finance its acquisitions.



# Valuation

Our valuation of Trianon is based on NAV and other key metrics, both in absolute terms as well as relative to peers. Trianon currently trades at a premium to EPRA NAV of 135%. We find this fair, as we believe the company is compensating for its above-sector financial risk with lower operational risk due to lower vacancy risks related to its rental apartment portfolio and potential in its project portfolio that is not reflected in the share price. We consider Trianon's successful M&A-driven strategy – in combination with reinvesting in its existing portfolio – to be key for maintaining a valuation around par with NAV in the future. We see upside potential related to increased visibility in ongoing projects and investments in its existing portfolio, as well as the development of Entré. Ultimately, we derive a fair value range of SEK 104-150 (103-151) for Trianon's share.

## Valuation summary

We combine NAV- and multiples-based approaches for valuing the Trianon share. We believe the key value drivers for NAV growth in the sector are rental growth, M&A, vacancy rates/costs, retained earnings, financing and yield requirements. We consider NAV to be a decent measure of a real estate company's current break-up potential. When analysing NAV growth, however, we favour EPRA NAV and NNNAV and use both in our valuation approach. In our view, EPRA NAV captures the long-term potential and NNNAV estimates the current potential, adjusting for differences in deferred tax and derivative holdings.

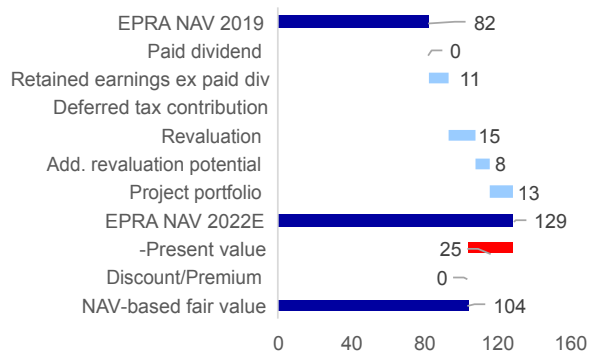
The multiples we use in our valuation are P/EPRA NAV, adjusted P/E (cash earnings multiple), implicit yield (EBITDA/enterprise value) and dividend yield. As P/E ratios vary in the sector depending on factors such as yield requirements, paid tax and financial risk, we believe that adjusted P/E (price to EPS excluding non-recurring earnings and adjusted for paid tax) serves as a better multiple. In our view, the implied property yield provides a debt-free return perspective on the portfolio. EV/GAV or enterprise value/gross asset value is a way of comparing companies with different levels of leverage, and adjusts for debt levels, which P/EPRA NAV does not.

## NAV-based fair value

We estimate a NAV-based fair value range for Trianon by estimating a 2022E EPRA NAV per share for a bull and a bear case and then calculating the cases' respective present values, assuming an 8.0% return requirement (equity).

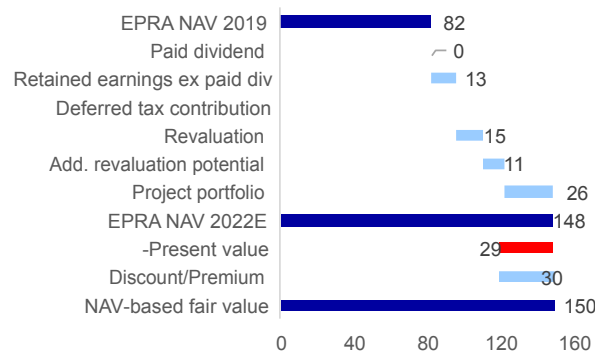
Trianon has guided for approximately 100 renovations per year. We have estimated that this gives revaluation effects of around SEK 23-35m per year between 2020 and 2024. With a large stock of its portfolio not yet renovated, we see upside potential in the company's ability to add value through renovations that we have not yet factored into our valuation. As such, we vary the amount of additional revaluation potential in the bull and the bear cases but see stronger potential following the better NAV growth momentum in Q4 2019 than we expected as well as larger potential for renovations following the acquisition announced earlier this spring.

We estimate that the project portfolio will add SEK 13-26 per share (we illustrate how we reach these values at the end of this section). Furthermore, we assume a 0% P/EPRA NAV discount in the bear case and a 25% premium in the bull case, based on P/EPRA NAV for the peer group. Ultimately, we derive a NAV-based fair value range of SEK 104-150 per share.

**TRIANON'S EPRA NAV SOTP FOR 2019-22E, BEAR CASE (SEK)**


Note: 2022E EPRA NAV discounted to present value with 8.0% cost of equity

Source: Company data and Nordea estimates

**TRIANON'S EPRA NAV SOTP FOR 2019-22E, BULL CASE (SEK)**


Note: 2022E EPRA NAV discounted to present value with 8.0% cost of equity

Source: Company data and Nordea estimates

**Peer multiple approach**

The peers used in this report are listed in the table below; we use a focused peer group and a broader one.

The focused peers are chosen based on their Malmö exposure, property type, and more general business characteristics. This focused peer group comprises Wihlborgs, Sagax, SBB, and Balder.

Our broader peer group includes four other listed Nordic real estate companies under our coverage – Klöver, Kungsleden, Castellum, and Atrium Ljungberg.

In the table below, we provide what we consider to be the most relevant multiples for Trianon and its peers for 2019, as well as our estimates for 2020. We highlight a few of the multiples below. In terms of cash earnings or adjusted P/E, Trianon is valued above the two peer groups' medians, both for 2019 and 2020E. Trianon was valued at a slightly premium versus the peer groups' medians in 2019, however, in terms of P/EPRA NAV, at ~137% versus ~136% (focused peer group) and 113% (total peer group). Multiples in the sector have expanded, which we attribute to a further reduction in long interest rates.

**MULTIPLES FOR TRIANON AND ITS PEERS**

	Per Share	Market Cap	P/E adj.		P/EPRA NAV			LTV	Implicit yield			EV/GAV	
			2019A	2020E	2018A	2019A	2020E		2018A	2018A	2019A	2018A	2019A
<b>Focus peers</b>													
Wihlborgs	183.5	28,024	16.7	17.0	83%	131%	119%	54%	4.9%	4.0%	96.5%	90.8%	
Sagax	128.8	45,759	24.8	21.2	146%	226%	204%	54%		3.9%	80.6%	75.5%	
SBB	27.1	36,370	130.2	19.2	88%	135%	121%	55%	4.3%	1.3%	93.0%	86.0%	
Balder	444.4	75,759	21.6	21.6	94%	133%	118%	56%	4.3%	3.6%	60.9%	61.2%	
<b>Broader peers</b>													
Klöver	21.8	25,724	19.5	21.1	101%	93%	27%	62%	4.9%	3.9%	113.5%	100.8%	
Kungsleden	98.0	21,472	17.6	16.9	95%	86%	98%	47%	4.9%	3.9%	109.4%	103.3%	
Castellum	222.2	59,988	20.4	20.3	101%	96%	343%	45%	4.5%	3.9%	113.4%	103.4%	
Atrium Ljungberg	195.6	25,113	21.8	22.8	78%	91%	80%	41%	4.0%	3.5%	95.7%	90.5%	
<b>Focused</b>													
		High	130.2	21.6	146%	226%	204%	56%	4.9%	4.0%	96.5%	90.8%	
		Low	16.7	17.0	83%	131%	118%	54%	4.3%	1.3%	60.9%	61.2%	
		<b>Median</b>	<b>23.2</b>	<b>20.2</b>	<b>91%</b>	<b>134%</b>	<b>120%</b>	<b>55%</b>	<b>4.3%</b>	<b>3.8%</b>	<b>86.8%</b>	<b>80.8%</b>	
<b>Total</b>													
		High	130.2	22.8	146%	226%	343%	62%	4.9%	4.0%	113.5%	103.4%	
		Low	16.7	16.9	78%	86%	27%	41%	4.0%	1.3%	60.9%	61.2%	
		<b>Median</b>	<b>21.0</b>	<b>20.7</b>	<b>94%</b>	<b>114%</b>	<b>119%</b>	<b>54%</b>	<b>4.5%</b>	<b>3.9%</b>	<b>96.1%</b>	<b>90.6%</b>	
<b>Trianon</b>	<b>111.5</b>	<b>3,923</b>	<b>29.3</b>	<b>30.9</b>	<b>91%</b>	<b>135%</b>	<b>126%</b>	<b>57%</b>	<b>3.3%</b>	<b>2.9%</b>	<b>99.4%</b>	<b>96.9%</b>	

Note: Implicit yield = EBITDA/Enterprise value. Data as of market close on 2 March 2020.

Source: Company data, Thomson Reuters and Nordea

Trianon differs from its peers due to its relatively high leverage – at the higher end of the spectrum in terms of LTV and net debt/EBITDA. We argue that Trianon's above-sector financial risk is compensated for by lower operational risk, however, which in turn is related to lower vacancy risks, as its residential property portfolio solely comprises rental apartments.

### Summary of peer comparison

We base our peer valuation on the three multiples listed in the table below, using actual numbers for 2019 and our estimates for 2020. A straightforward peer comparison results in an implied fair value for Trianon's share below its current trading value if focused on adjusted P/E, but above its current trading value if focused on NAV, as illustrated in the 'Implied value per share' chart below.

#### SELECTED MULTIPLE SUMMARY FOR TRIANON AND ITS PEERS

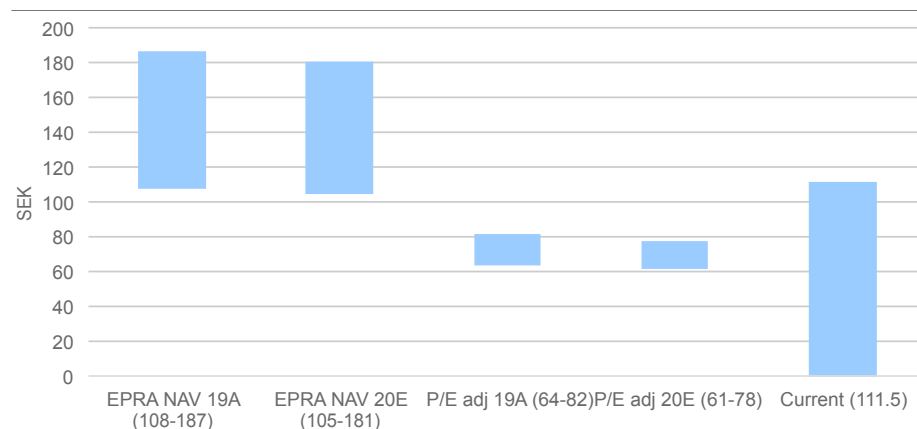
	LOW	HIGH	MEDIAN	Trianon
<b>P/EPRA NAV multiple</b>				
Focused peers* 19A	131%	226%	134%	91%
Focused peers* 20E	118%	204%	120%	135%
Total peers** 19A	86%	226%	114%	91%
Total peers** 20E	27%	343%	119%	135%
<b>P/E adj multiple</b>				
Focused peers* 19A	16.7	21.6	23.2	29.3
Focused peers* 20E	17.0	21.6	20.2	30.9
Total peers** 19A	16.7	130.2	21.0	29.3
Total peers** 20E	16.9	22.8	20.7	30.9

\*Focused peers: Wihlborgs, Sagax, SBB and Balder.

\*\*Total peers: Wihlborgs, Sagax, SBB, Balder, Klövern, Kungsleden, Atrium Ljungberg and Castellum

Source: Company data and Nordea estimates

#### IMPLIED VALUE PER SHARE



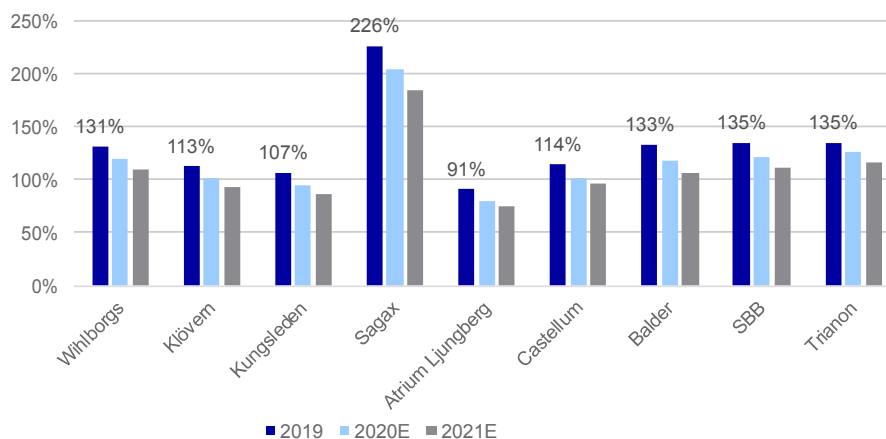
Note: The multiples are based on the focus peer groups.

Source: Company data, Thomson Reuters, and Nordea estimates

As Trianon's property portfolio differs from that of its peers, we find a peer valuation to be insufficient for deriving a fair valuation for the company. It is difficult to reflect the project portfolio value in a peer valuation, as the companies' project portfolios differ materially from one other.

### NAV focus

Peers on average traded at a small discount to EPRA NAV, ie around 90% during 2017-18, but in terms of figures for 2019A, the majority trade at a premium.

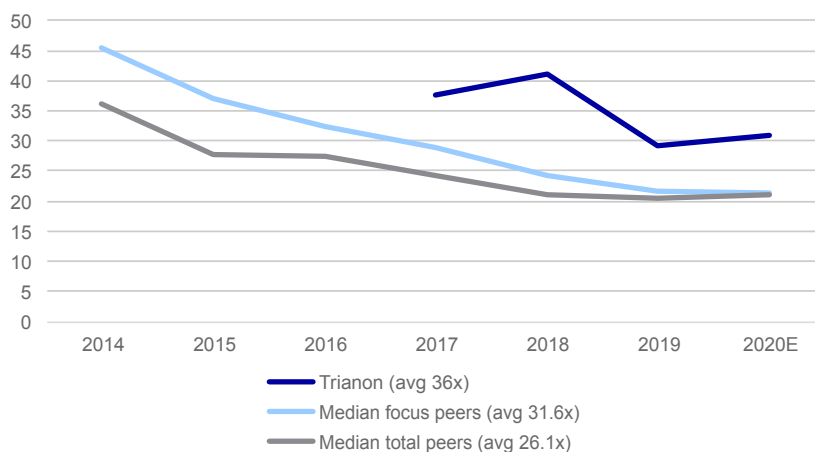
**P/EPRA NAV**

Source: Company data and Nordea estimates

**Cash earnings focus**

Cash earnings are a vital driver of NAV growth for real estate companies, but the level varies in size depending on property type. Due to higher tenant risk, cash earnings for residential properties tend to be lower than for office and retail properties. Cash earnings metrics generally neglect the potential of companies' project portfolios, as a project often lacks cash flows before completion. Therefore, these metrics may not reflect the full potential of the companies.

In the chart below, we provide a peer comparison for adjusted P/E. The focused peer group and the total peer group saw valuations drop from above 25x in 2014 to around 16-18x in 2018, according to reported figures and share prices. We expect further multiples contraction in 2020, albeit only marginally. Trianon was valued higher than the two peer groups in 2017-19, and we expect the company's adjusted P/E to be slightly above 30x for 2020E.

**P/E ADJUSTED FOR TRIANON AND ITS PEERS, 2014-20E**

Source: Company data and Nordea estimates

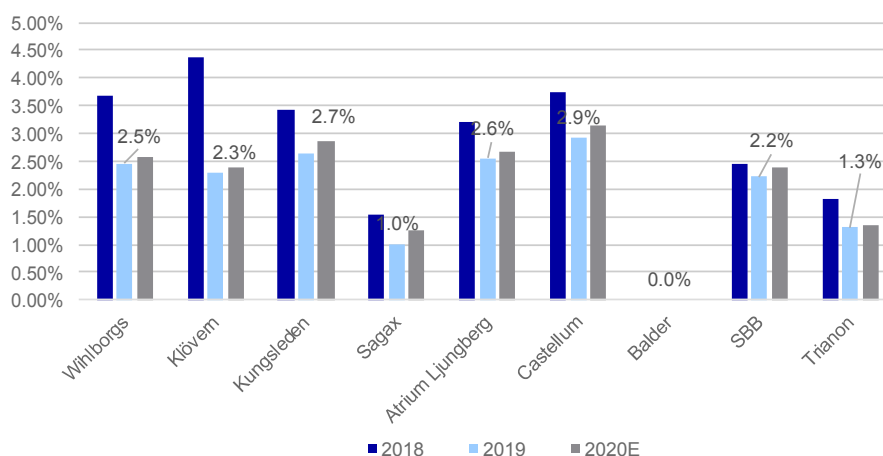
**Dividend yield**

Dividend yield is an important factor in the real estate sector, in our opinion, as it demonstrates the companies' capacity to distribute cash flow while simultaneously reinvesting in properties and maintaining healthy debt structures. Balder and Hembla do not pay any dividends.

Trianon has a long-term policy of not distributing more than 50% of income from property management (IFPM), excluding results from joint ventures (after paid tax). It has also stated that growth will be prioritised over the coming two to three years, implying a distribution of around 30% of IFPM excluding results from joint ventures (after paid tax). The company announced a dividend of SEK 1.45 per share for 2019, implying a dividend yield of 1.3%. This is the lowest among the peers that pay

dividends, but we consider the low yield to be appropriate for Trianon, as the company wants to expand its property portfolio and reinvest in its existing properties.

#### DIVIDEND YIELD FOR TRIANON AND ITS PEERS, 2018-20E



Source: Company data and Nordea estimates

#### Project portfolio

Besides acquiring residential properties, Trianon produces new rental apartments. As of Q4 2019, the company's project portfolio constituted projects with a total of 1,720 rental apartments to be started during 2020-23. We argue that the potential in Trianon's project portfolio should be taken into account when valuing the company.

#### CURRENT PROJECT PORTFOLIO

Area	Detailed dev. plan status	Nr of apartments	Expected start date
Norra Sorgenfri, phase 1**	Expected 2020	315	2020
Rosengård C, phase 1	Expected 2020	170	2020
Hyllie	Expected 2020	70	2020
Sege Park	Yes	100	2020
Rosengård C, phase 2 and 3	No	800*	2020-2023
Entré	No	65	2020
Norra Sorgenfri, phase 2**	No	200*	2021
<b>Total</b>		<b>1,720</b>	

\*Dependent on detailed development plan

\*\*Accessible when detailed development plan receives approval

Source: Company data and Nordea

#### Revaluation potential

To value the project portfolio, we estimate its revaluation potential and estimate to what extent revaluation could add value to Trianon's EPRA NAV. From a sample computation of new production (displayed in the section 'Property portfolio') and disclosed figures from a previous project called Vårsången, we assume that Trianon invests approximately SEK 1.85m per apartment in its new production projects. According to the company, Trianon builds new production at a yield of 4.25% and completed projects are valued at a rental yield of around 6%.

In the table below, we provide the present value of the estimated revaluation potential of the existing project portfolio, given different scenarios for the number of annual unit starts and valuation yields assuming a required return of 8%.

We argue that it is reasonable to assume Trianon can start 300-400 apartments annually, with a valuation yield of 3.75-4.25%, which would add SEK 447-893m to EPRA NAV. In the second table, we illustrate the percentage increase of EPRA NAV per share, given the different scenarios. Consequently, we estimate that the project portfolio could increase EPRA NAV per share by 18-36%, ie SEK 13-26 per share. This estimate is not very sensitive to differing levels of production output but rather to a change in the valuation yield. We thus highlight changes in the valuation yield as the main downside risk to our valuation of the project portfolio.

**PROJECT PORTFOLIO: ESTIMATED REVALUATION POTENTIAL (SEKm)**

		Number of started units per year						
		100	200	300	400	500	600	700
Valuation yield	5.75%	-213	-296	-331	-349	-361	-369	-375
	5.25%	-78	-108	-121	-128	-132	-135	-137
	4.75%	86	119	133	141	146	149	151
	4.25%	288	401	447	473	489	500	507
	3.75%	544	757	845	893	923	944	959
	3.25%	878	1,222	1,365	1,442	1,491	1,524	1,548
	2.75%	1,334	1,857	2,074	2,192	2,265	2,316	2,353

Source: Company data and Nordea estimates

**PROJECT PORTFOLIO: EPRA NAV PER SHARE SENSITIVITY ESTIMATES**

		Number of started units per year						
		100	200	300	400	500	600	700
Valuation yield	5.75%	-9%	-12%	-13%	-14%	-15%	-15%	-15%
	5.25%	-3%	-4%	-5%	-5%	-5%	-5%	-6%
	4.75%	3%	5%	5%	6%	6%	6%	6%
	4.25%	12%	16%	18%	19%	20%	20%	21%
	3.75%	22%	31%	34%	36%	38%	38%	39%
	3.25%	36%	50%	56%	59%	61%	62%	63%
	2.75%	54%	76%	84%	89%	92%	94%	96%

Note: The figures in the table are our estimated percentage changes of Trianon's EPRA NAV given different scenarios for production output and valuation yield.

Source: Company data and Nordea estimates

We value Trianon's current project portfolio at **SEK 13-26** per share. We find that a limiting factor for the valuation of Trianon's project portfolio is its LTV target of below 60%, as it implies that financing new production projects with debt could potentially be difficult if the company wants to remain within the range of its target level. With the issuance of the hybrid bond (which counts as equity), however, Trianon's LTV decreases and makes room for taking on more debt without exceeding an LTV of 60%.

# Detailed estimates

## QUARTERLY ESTIMATES (SEKm)

	2019				2020			
	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E
Rental revenue	96	112	117	121	133	138	138	138
Operational costs and maintenance	-41	-38	-37	-46	-56	-46	-42	-52
NOI	55	74	81	75	77	92	96	87
Surplus ratio, %	57%	66%	69%	62%	58%	67%	69%	63%
Central and admin	-7.8	-9.7	-6.9	-11.4	-10.05	-10.05	-10.05	-10.05
Other costs	0	0	0	0	0	0	0	0
Other income	-0.3	0.1	0	-0.2	0.075	0.075	0.075	0.075
Operating income ex value changes	47	65	74	64	67	82	86	77
Interest costs	-21	-24	-25	-24	-26	-28	-28	-28
Leasing costs	-1	-2	-2	-2	-2	-2	-2	-2
<b>Income from property management (IFPM)</b>	<b>25</b>	<b>40</b>	<b>47</b>	<b>39</b>	<b>39</b>	<b>53</b>	<b>56</b>	<b>47</b>
Changes to property value	35	101	86	71	26	26	26	93
of which unrealised	0	0	0	0	0	0	0	0
Changes to derivative value	-33	-41	-45	58	10	10	10	10
Pretax profits	27	99	88	167	75	88	92	150
Reported tax	-5	-17	-15	-44	-16	-18	-19	-31
of which paid tax	0	0	0	0	-2.0	-2.6	-2.8	-2.3
<b>Net income</b>	<b>22</b>	<b>83</b>	<b>72</b>	<b>124</b>	<b>58</b>	<b>68</b>	<b>70</b>	<b>116</b>
Hybrid dividend	0	-7	-7	-7	-7	-7	-7	-7
NI Ord shareholders	20	74	63	126	47	57	60	105
NI Ord shareholders ex value changes	18	14	22	-3	11	21	24	3
<b>Cash earnings to ordinary shareholders</b>	<b>18</b>	<b>14</b>	<b>22</b>	<b>-3</b>	<b>13</b>	<b>24</b>	<b>26</b>	<b>5</b>
<b>-per share</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.1</b>

Source: Company data and Nordea estimates

## ANNUAL ESTIMATES (SEKm)

	Earnings capacity								
	Q4 2019	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Rental revenue	521.5	174	262	345	446	548	570	583	597
Operational costs and maintenance	-181.4	-62	-98	-132	-161	-196	-204	-209	-214
NOI	340.1	112	164	213	286	352	366	374	383
Surplus ratio, %	65%	64%	63%	62%	64%	64%	64%	64%	64%
Central and admin	<b>-40.2</b>	-19	-26	-34	-36	-40	-40	-42	-44
Other costs		-0.1	0	0	0	0	0	0	0
Other income	0.3	46	8.7	5.9	-0.4	0.3	0.3	0.3	0.3
Operating income ex value changes	300	138	146	184	249	312	326	333	339
Interest costs	-103.9	-12.6	-22.8	-79.9	-93.7	-111.4	-116.1	-115.8	-122.6
Leasing costs					-5.8	-6.4	-6.4	-6.4	-6.4
% of net debt	0	0.9%	1.1%	2.8%	2.4%	2.4%	2.4%	2.4%	2.6%
<b>Income from property management (IFPM)</b>	<b>196.3</b>	<b>125.7</b>	<b>123.5</b>	<b>104.5</b>	<b>149.8</b>	<b>194.6</b>	<b>203.5</b>	<b>210.4</b>	<b>210.3</b>
Changes to property value		421	321	212	292	170	173	178	183
of which unrealised		421	321	212	292	170	173	178	183
Changes to derivative value		-44	-12	-17	-62	40	40	0	0
Pretax profits		503	432	299	381	405	417	388	393
Reported tax		-101	-92	-40	-81	-83	-86	-80	-81
of which paid tax		0	0	0	0	-10	-10	-17	-17
<b>Net income</b>		<b>402</b>	<b>340</b>	<b>259</b>	<b>300</b>	<b>322</b>	<b>331</b>	<b>308</b>	<b>312</b>
Hybrid dividend					-21	-28	-28	-28	-28
Minority		0	-21	-11	3	-25	-20	0	0
NI Ord shareholders		402	318	248	282	268	283	260	264
NI Ord shareholders ex value changes		24	10	54	51	58	70	82	81
<b>Cash earnings to ordinary shareholders</b>		<b>126</b>	<b>102</b>	<b>93</b>	<b>131</b>	<b>132</b>	<b>145</b>	<b>145</b>	<b>145</b>
<b>-per share</b>		<b>4.47</b>	<b>2.97</b>	<b>2.71</b>	<b>3.80</b>	<b>3.61</b>	<b>3.98</b>	<b>3.99</b>	<b>3.99</b>
<b>Dividend per share</b>		<b>0.00</b>	<b>1.00</b>	<b>1.15</b>	<b>1.45</b>	<b>1.52</b>	<b>1.59</b>	<b>1.59</b>	<b>1.59</b>

Source: Company data and Nordea estimates

**NAV CALCULATIONS (SEKm)**

	2016	2017	2018	2019	2020E	2021E	2022E
Equity total	1,181	1,757	1,978	2,831	3,046	3,274	3,496
- of which pref/hybrid equity	0	0	0	378	378	378	378
Acc. Dividend added back					53	108	166
Goodwill	0	0	0	0	0	0	0
Derivatives	77	67	79	134	94	54	54
Deferred tax	210	302	341	420	420	420	466
<b>EPRA NAV</b>	<b>1,468</b>	<b>2,126</b>	<b>2,399</b>	<b>3,006</b>	<b>3,234</b>	<b>3,477</b>	<b>3,804</b>
Per share	52.2	61.9	69.8	82.4	88.7	95.4	104.3
<b>EPRA NAV</b>	1,468	2,126	2,399	3,006	3,234	3,477	3,804
Derivatives	- 77	- 67	- 79	- 134	- 94	- 54	- 54
Deferred tax 5%	- 105	- 148	- 170	- 212	- 212	- 212	- 233
<b>EPRA NNNAV</b>	<b>1,286</b>	<b>1,911</b>	<b>2,150</b>	<b>2,660</b>	<b>2,929</b>	<b>3,211</b>	<b>3,517</b>
Per share	45.7	55.6	62.6	72.9	80.3	88.1	96.4
Investment properties	3,306	4,693	5,905	7,958	8,547	8,789	9,036
Net debt adj	1,698	2,443	3,333	4,561	4,890	4,844	4,803
Loan-to-value	51.4%	52.0%	56.4%	57.3%	57.2%	55.1%	53.1%
Equity ratio	33.9%	36.1%	32.8%	33.6%	33.8%	35.4%	36.8%
Implicit yield							
Shares ordinary (millions)	28.1155	34.3655	34.3655	36.4655	36.4655	36.4655	36.4655
Average shares (P&L)	28.1155	34.3655	34.3655	34.5405	36.4655	36.4655	36.4655

Source: Company data and Nordea estimates



# Risk factors

Below we list and describe what we believe are the most relevant risks relating to Trianon. The purpose of this is not to provide a comprehensive picture of all the risks that affect the company, but rather to highlight those that we find the most important. This is an integral part of the factors to consider when investing in Trianon. The main risks we identify are key personnel leaving, rate hikes from higher credit spreads, reputational risks, and possible conflicts of interest.

<p>A general economic downturn would pose a risk – residential real estate has seen headwinds in Sweden lately</p>	<p><b>Economic activity in Sweden slowing</b></p> <p>Trianon is to some extent exposed to the general economy, and in particular to the Swedish market where the company operates. A downturn in the economy could affect the company's prospects and could impact customers' financial positions as well. The real estate market may be hampered by economic uncertainty and a corresponding slowdown in GDP growth, unemployment, household income, consumer confidence and measures affecting housing prices.</p>
<p>We consider Trianon to be fairly sensitive to rate hikes relative to peers</p>	<p><b>Rate hikes from the Swedish central bank</b></p> <p>As Trianon is largely financed with debt, potential further rate hikes from the Swedish central bank would increase Trianon's financial costs, which in turn could put pressure on the company's results, as interest costs accounted for approximately 24% of Trianon's total costs (excluding taxes) in fiscal year 2019. With an above-sector-average LTV, we consider Trianon to be fairly sensitive to rate hikes relative to peers. Should there be a substantial structural increase in interest rates, yields could increase as a result, and this could in turn have a negative impact on NAV.</p> <p>It is also worth highlighting that the Swedish FSA will implement higher risk weights for Swedish banks related to commercial real estate exposure. The rules will be implemented in 2021 but the FSA points out that the banks need to amend their models in 2020 to meet the requirements. It estimates higher costs of 15-30 bp that are the burden of banks or real estate companies, hence there is a risk for higher funding costs.</p>
<p>Increased competition owing to the strong historical performance?</p>	<p><b>Increased competition</b></p> <p>The Swedish market for real estate development is highly competitive and has become more so in recent years, given the historically strong performance. The strong performance and headwinds in real estate segments where Trianon is not active may attract new competitors, putting pressure on profitability. There is also a potential risk that more foreign competitors could enter the market.</p>
<p>Olof Andersson is CEO, member of the board and main owner</p>	<p><b>Possible conflicts of interest</b></p> <p>Olof Andersson, the CEO, is also on the board of directors and is one of the main owners of Trianon. Together with Jan Barchan, he owned ~66% of the votes in the company as of Q4 2019. There could be a risk that the company prioritises the largest owner's interests ahead of those of the other shareholders. However, we consider their commitment and active engagement in the company to be positive, as highlighted earlier in this report.</p>
<p>Lower risk appetite could make it harder for Trianon to secure refinancing</p>	<p><b>Access to the credit market and level of leverage</b></p> <p>Like most property companies, Trianon is financed through the credit market. If risk willingness decreases, the credit market becomes less liquid and there is a potential risk that Trianon will have problems refinancing itself. In our view, Trianon has a relatively stable financial position with a LTV of 57% and an equity ratio of around 34% as of Q4 2019. However, Trianon is focused on expanding through acquisitions, and the company will inevitably need to obtain debt capital to finance these acquisitions.</p>
<p>A continued downturn in the residential real estate market could hinder developments</p>	<p><b>Downturn in the residential real estate market</b></p> <p>If prices in the Swedish residential market continue to decrease, this could affect the company negatively, with residential properties constituting a large part of Trianon's property portfolio. However, Trianon's average rents in its portfolio are quite low, thereby limiting the risk of increasing vacancies, in our opinion.</p>

Changes in regulations or tax rules would affect Trianon's ability to operate its business

### **Legal, tax and political risks**

Changes in regulations or tax rules would affect Trianon's ability to operate its business. These could include new amortisation rules or raising household taxes. Other political regulations affecting how rents are set also represent a risk outside the company's control. Furthermore, Trianon has been benefiting from the governmental investment subsidy when developing residential properties. The outlook for this investment subsidy is uncertain and could affect Trianon adversely, but more details should be announced by the government later this year.

### **Concentrated geographical exposure**

As 100% of Trianon's property portfolio is located in Malmö, this could pose a risk should the region do poorly in macroeconomic terms or if the real estate market in Malmö is hit harder by a potential downturn than other parts of Sweden. Currently, we see no signs of tougher times in Malmö in the near term but believe investors should pay attention to macroeconomic and sector-specific trends related to Malmö when investing in Trianon.

### **Negative media attention**

Trianon has a share of its property holdings located in areas where gang violence and other criminal activity are present, and these have received negative media attention during the last couple of years. We note that this poses a risk for Trianon, but according to the company, it works closely with the local police force and the negative public image of some of the areas is exaggerated.

# Reported numbers and forecasts

## INCOME STATEMENT

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>Total revenue</b>	n.a.	106	114	138	176	264	348	453	550	572	585
Revenue growth	n.a.	n.a.	7.4%	20.9%	27.4%	50.4%	31.8%	30.2%	21.5%	3.9%	2.3%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0	28	64	87	139	146	184	249	312	326	333
Depreciation and impairments PPE	0	0	0	0	0	0	0	0	0	0	0
of which leased assets	0	0	0	0	0	0	0	0	0	0	0
EBITA	0	28	64	87	139	146	184	249	312	326	333
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	n.a.	28	64	87	139	146	184	249	312	326	333
of which associates	0	2	6	14	46	9	6	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	-19	-15	-15	-13	-23	-80	-100	-118	-122	-122
of which lease interest	0	0	0	0	0	0	0	-6	-6	-6	-6
Changes in value, net	0	62	14	129	378	308	195	231	210	213	178
<b>Pre-tax profit</b>	0	70	63	200	504	432	299	381	405	417	388
Reported taxes	0	-20	-6	-40	-101	-92	-40	-81	-83	-86	-80
Net profit from continued operations	0	50	56	160	403	340	259	300	322	331	308
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	-21	-11	3	-25	-20	0
Net profit to equity	0	50	57	160	403	319	248	282	268	283	280
<b>EPS</b>	n.a.	1.94	2.21	5.71	14.33	9.27	7.22	8.15	7.36	7.75	7.69
DPS	0.00	0.00	0.00	0.00	0.00	1.00	1.15	1.45	1.52	1.59	1.59
of which ordinary	0.00	0.00	0.00	0.00	0.00	1.00	1.15	1.45	1.52	1.59	1.59
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

## Profit margin in percent

EBITDA	n.a.	26.0%	55.7%	62.8%	79.2%	55.4%	53.0%	55.0%	56.8%	57.0%	56.8%
EBITA	n.a.	26.0%	55.7%	62.8%	79.2%	55.4%	53.0%	55.0%	56.8%	57.0%	56.8%
EBIT	n.a.	26.0%	55.7%	62.8%	79.2%	55.4%	53.0%	55.0%	56.8%	57.0%	56.8%

## Adjusted earnings

EBITDA (adj)	0	28	64	87	139	146	184	249	312	326	333
EBITA (adj)	0	28	64	87	139	146	184	249	312	326	333
EBIT (adj)	0	28	64	87	139	146	184	249	312	326	333
EPS (adj)	n.a.	0.32	1.91	2.56	4.50	2.97	2.71	3.80	3.61	3.98	4.54

## Adjusted profit margins in percent

EBITDA (adj)	n.a.	26.0%	55.7%	62.8%	79.2%	55.4%	53.0%	55.0%	56.8%	57.0%	56.8%
EBITA (adj)	n.a.	26.0%	55.7%	62.8%	79.2%	55.4%	53.0%	55.0%	56.8%	57.0%	56.8%
EBIT (adj)	n.a.	26.0%	55.7%	62.8%	79.2%	55.4%	53.0%	55.0%	56.8%	57.0%	56.8%

## Performance metrics

CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26.8%	31.8%	31.9%	26.6%	17.2%
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	46.1%	31.4%	29.2%	18.6%	17.8%
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46.1%	31.4%	29.2%	18.6%	17.8%
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30.1%	29.8%	5.2%	-11.6%	-3.7%
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	9.7%
Average last 5 years											
Average EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	58.1%	59.6%	58.4%	57.6%	55.7%
Average EBITDA margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	58.1%	59.6%	58.4%	57.6%	55.7%

## VALUATION RATIOS - ADJUSTED EARNINGS

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
P/E (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	17.1	23.5	27.2	30.9	28.0	24.6
EV/EBITDA (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	29.0	30.4	33.8	29.0	27.7	27.1
EV/EBITA (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	29.0	30.4	33.8	29.0	27.7	27.1
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	30.8	31.4	33.7	29.1	27.8	27.1

## VALUATION RATIOS - REPORTED EARNINGS

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	5.5	8.8	12.7	15.1	14.4	14.5
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	16.05	16.12	18.59	16.48	15.81	15.38
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	30.8	31.4	33.7	29.1	27.8	27.1
EV/EBITA	n.a.	n.a.	n.a.	n.a.	n.a.	30.8	31.4	33.7	29.1	27.8	27.1
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	30.8	31.4	33.7	29.1	27.8	27.1
Dividend yield (ord.)	n.a.	n.a.	n.a.	n.a.	n.a.	2.0%	1.8%	1.4%	1.4%	1.4%	1.4%
FCF yield	n.a.	n.a.	n.a.	n.a.	n.a.	-48.1%	-25.8%	-25.1%	-7.1%	2.2%	3.1%
FCF Yield bef A&D, lease adj	n.a.	n.a.	n.a.	n.a.	n.a.	-7.2%	-4.2%	-1.6%	1.5%	2.2%	3.1%
Payout ratio	n.a.	0.0%	0.0%	0.0%	0.0%	10.8%	15.9%	17.8%	20.6%	20.5%	20.7%

Source: Company data and Nordea estimates

**BALANCE SHEET**

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Intangible assets	0	0	0	0	0	0	0	0	0	0	0
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	0	0	0	0	0	0	0	0	0	0
of which goodwill	0	0	0	0	0	0	0	0	0	0	0
Tangible assets	0	1,361	1,567	2,197	3,306	4,693	5,905	8,149	8,738	8,980	9,227
of which leased assets	0	0	0	0	0	0	0	191	191	191	191
Shares associates	0	0	0	0	0	0	0	0	0	1	1
Interest bearing assets	0	17	18	62	106	29	13	8	8	8	8
Deferred tax assets	0	2	20	19	22	23	32	48	48	48	48
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	1	2	0	1	1	1	2	2	2	2
Total non-current assets	0	1,381	1,608	2,278	3,435	4,746	5,951	8,207	8,796	9,038	9,286
Inventory	0	0	0	0	0	0	0	0	0	0	0
Accounts receivable	0	27	34	20	21	71	60	36	43	45	46
Short-term leased assets	0	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0	0
Cash and bank	0	20	28	1	23	44	30	178	148	194	236
Total current assets	0	46	62	22	44	115	90	213	192	239	282
Assets held for sale	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total assets</b>	<b>0</b>	<b>1,427</b>	<b>1,669</b>	<b>2,300</b>	<b>3,479</b>	<b>4,861</b>	<b>6,041</b>	<b>8,420</b>	<b>8,988</b>	<b>9,278</b>	<b>9,568</b>
Shareholders equity	0	538	580	799	1,181	1,757	1,978	2,831	3,046	3,274	3,496
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	378	378	378	378
Minority interest	0	0	0	0	0	53	86	86	111	131	131
Total Equity	0	538	580	799	1,181	1,811	2,064	2,917	3,158	3,405	3,627
Deferred tax	0	67	89	129	232	325	373	467	541	617	680
Long term interest bearing debt	0	727	807	1,228	1,795	2,473	3,284	4,442	4,730	4,727	4,727
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	9	71	56	77	67	79	134	94	54	54
Non-current lease debt	0	0	0	0	0	0	0	191	191	191	191
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	803	1,043	1,426	2,157	2,906	3,757	5,272	5,555	5,588	5,651
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	0	0	0	0	0	0	0	0	0	0	0
Current lease debt	0	0	0	0	0	0	0	0	0	0	0
Other current liabilities	0	74	31	60	107	101	157	147	178	185	190
Short term interest bearing debt	0	12	15	15	32	43	63	85	97	100	100
Total current liabilities	0	86	46	75	139	144	219	231	275	285	289
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
<b>Total liabilities and equity</b>	<b>0</b>	<b>1,427</b>	<b>1,669</b>	<b>2,300</b>	<b>3,477</b>	<b>4,861</b>	<b>6,041</b>	<b>8,420</b>	<b>8,988</b>	<b>9,278</b>	<b>9,568</b>
<b>Balance sheet and debt metrics</b>											
Net debt	0	702	776	1,180	1,698	2,443	3,333	4,561	4,890	4,844	4,803
of which lease debt	0	0	0	0	0	0	0	191	191	191	191
Working capital	0	-48	3	-39	-86	-30	-97	-111	-135	-140	-144
Invested capital	0	1,333	1,610	2,239	3,349	4,716	5,854	8,096	8,661	8,898	9,142
Capital employed	0	1,277	1,402	2,042	3,008	4,327	5,411	7,634	8,175	8,422	8,645
ROE	n.m.	18.4%	10.1%	23.3%	40.7%	21.7%	13.3%	11.7%	9.1%	8.9%	8.3%
ROIC	n.m.	3.3%	3.4%	3.6%	4.0%	2.9%	2.8%	2.8%	3.0%	2.9%	2.9%
ROCE	n.m.	4.7%	4.8%	5.1%	5.6%	4.0%	3.8%	3.8%	4.0%	3.9%	3.9%
Net debt/EBITDA	n.m.	25.4	12.2	13.6	12.2	16.7	18.1	18.3	15.7	14.9	14.4
Interest coverage	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	n.m.	37.7%	34.7%	34.7%	34.0%	36.1%	32.8%	33.6%	33.9%	35.3%	36.5%
Net gearing	n.m.	130.5%	133.8%	147.7%	143.8%	134.9%	161.5%	156.4%	154.9%	142.3%	132.4%

Source: Company data and Nordea estimates

**CASH FLOW STATEMENT**

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>EBITDA (adj) for associates</b>	<b>0</b>	<b>26</b>	<b>58</b>	<b>73</b>	<b>94</b>	<b>138</b>	<b>179</b>	<b>250</b>	<b>312</b>	<b>326</b>	<b>332</b>
Paid taxes	0	0	0	0	0	0	0	0	-10	-10	-17
Net financials	0	-19	-15	-15	-13	-23	-49	-99	-118	-122	-122
Change in provisions	0	0	0	0	0	0	0	0	0	0	0
Change in other LT non-IB	0	6	119	-75	57	-22	-18	55	-78	-40	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	0	18	-124	59	-78	0	-11	-54	n.a.	n.a.	n.a.
<b>Funds from operations (FFO)</b>	<b>0</b>	<b>31</b>	<b>38</b>	<b>42</b>	<b>60</b>	<b>93</b>	<b>101</b>	<b>151</b>	<b>106</b>	<b>153</b>	<b>193</b>
Change in NWC	0	19	-22	26	13	-7	51	-2	24	5	3
<b>Cash flow from operations (CFO)</b>	<b>0</b>	<b>50</b>	<b>16</b>	<b>68</b>	<b>73</b>	<b>86</b>	<b>152</b>	<b>149</b>	<b>130</b>	<b>158</b>	<b>197</b>
Capital expenditure	0	0	0	0	-250	-211	-244	-208	-68	-69	-69
<b>Free cash flow before A&amp;D</b>	<b>0</b>	<b>50</b>	<b>16</b>	<b>68</b>	<b>-176</b>	<b>-125</b>	<b>-93</b>	<b>-59</b>	<b>63</b>	<b>89</b>	<b>128</b>
Proceeds from sale of assets	0	2	4	-31	6	0	0	0	0	0	0
Acquisitions	0	-43	-22	-384	-479	-715	-472	-889	-351	0	0
Free cash flow	0	8	-2	-347	-650	-839	-565	-947	-288	89	128
Free cash flow bef A&D, lease adj	0	50	16	68	-176	-125	-93	-59	63	89	128
Dividends paid	0	-13	-14	-16	-19	-21	-34	-42	-53	-55	-58
Equity issues / buybacks	0	0	0	75	0	278	0	204	0	0	0
Net change in debt	0	5	27	261	442	393	0	627	300	0	0
Other financing adjustments	0	0	0	0	0	0	187	0	182	185	150
Other non-cash adjustments	0	18	-3	0	249	210	398	-73	-170	-173	-178
Change in cash	0	20	8	-26	22	21	-14	148	-29	46	42
<b>Cash flow metrics</b>											
Capex/D&A	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Capex/Sales	n.a.	0.0%	0.0%	0.0%	n.m.	79.8%	70.2%	45.8%	12.3%	12.1%	11.8%
<b>Key information</b>											
Share price year end (/current)	n.a.	n.a.	n.a.	n.a.	n.a.	51	64	104	112	112	112
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	1,744	2,193	3,774	4,066	4,066	4,066
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	4,240	5,612	8,421	9,067	9,042	9,000
Diluted no. of shares, year-end (m)	0.0	25.6	25.6	28.1	28.1	34.4	34.4	36.5	36.5	36.5	36.5

Source: Company data and Nordea estimates

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