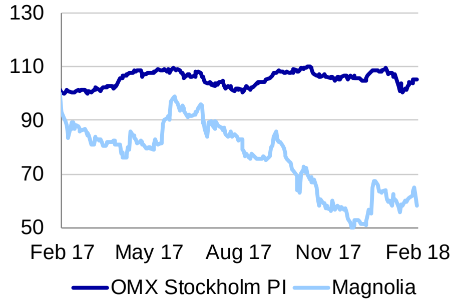
Magnolia Bostad

Construction and Real Estate | Sweden

Key data	
Country	Sweden
Bloomberg	MAG SS
Reuters	MAGNO.ST
Share price	56.60
Free float	24.6%
Market cap (m)	SEK 2,141
Website	magnoliabostad.se
Next report date	27 April 2018

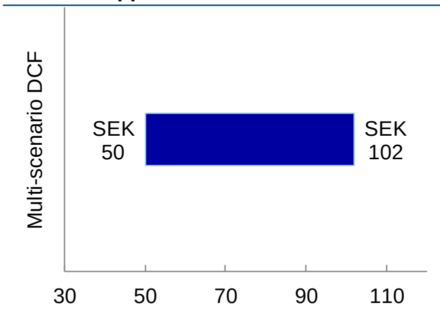
Absolute and relative performance

	-1M	-6M	-12M	YTD
Absolute	-9%	-31%	-48%	13%
Relative	-5%	-34%	-54%	13%



Source: FactSet and Bloomberg

Valuation approach



Source: FactSet and Nordea Markets

A lovely bouquet of project starts, with more to come

The quarter in numbers – strongest gross profit to date

Magnolia Bostad's Q4 numbers were strong, beating both our and consensus' expectations. Gross profit, the best representation of Magnolia's performance in our view, was 50% above consensus and beat our expectations by 59%. At SEK 245m, this is the strongest gross profit performance to date with 58% CAGR from Q4 2015. The proposed DPS of SEK 1.75 is in line with our expectations.

Proving its presence in Care and Hotels

Magnolia sold its first two projects within the Hotel segment, totalling 500 units, and its first project within Care, totalling 60 units. The company has thus proven its presence in Hotels and Care while delivering 3% above our expectations on the number of residential units, ie 663 versus 641. In terms of units sold, this quarter was the strongest ever seen and the performance in the non-traditional segments was a cushion to earnings that have relied purely on residentials until this point. This bodes well for future sales.

Conversion slow but higher residential profitability

Magnolia reported three conversions for Q4 2017 (we expected none). Conversions had a limited impact on our estimates and Magnolia's actual numbers. We estimate, however, that the quarter's gross profit per unit within residential was higher than we modelled (SEK ~0.21m versus our SEK ~0.14m). We remain cautious at SEK 0.15m, but see room for positive surprises going forward, as also indicated by the CEO.

Valuation

We base our fair value on a combination of scenarios in a DCF framework. Adding sensitivity to our base case as well as accounting for possible downside scenarios, we reach a fair value range of SEK 50-102 per share.

SUMMARY TABLE - KEY FIGURES

SEKm	2015	2016	2017	2018E	2019E	2020E	2021E
Net sales	876	1010	1772	1444	1825	1981	2126
- growth	n.m.	15%	75%	-19%	26%	9%	7%
EBIT	205	355	377	442	571	618	670
- margin	40.8%	35.2%	21.3%	30.6%	31.3%	31.2%	31.5%
EPS	8.07	5.86	5.18	7.56	10.46	11.87	13.35
- growth	n.m.	-27%	-12%	46%	38%	13%	12%
DPS	1.00	1.75	1.75	1.89	2.62	2.97	3.34
P/E	22.2	16.4	9.6	7.4	5.3	4.7	4.2
EV/EBIT	11.1	13.5	10.4	9.0	6.3	5.3	4.6
EV/Sales	4.5	4.7	2.2	2.8	2.0	1.7	1.5
RoE	61.8%	28.9%	21.2%	26.0%	28.8%	26.3%	24.3%
Div. yield	1.2%	1.8%	3.5%	3.4%	4.7%	5.3%	6.0%
FCF yield	-4.7%	-3.3%	-33.3%	8.6%	24.2%	19.0%	13.8%
ND/EBITDA	1.8	2.8	5.0	3.9	2.3	1.6	1.2

Source: Company data and Nordea Markets

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Q4 2017 review

Magnolia delivered a 2017 home-run with a jump at the end of the year. Q4 gross profit at SEK 245m was the strongest seen in the company's history, with a 58% CAGR versus the same quarter in 2015, beating consensus by 50%. Sold units reached new heights and Magnolia managed to prove its presence in the Hotel and Care segments, as two Hotel projects averaging 250 units per project and one 60-unit Care project were sold. This was a positive signal about the future potential of the rights portfolio and the diversification of the business model. As expected, tenant-owned conversions were weak; the company performed three conversions (we expected none). We suspect stronger underlying earnings per unit in residentials than we previously estimated, supported by the CEO's expectation of "higher profitability per project and greater risk distribution in the operations".

Beating both consensus and us with 50% and 59% respectively on gross profit

Magnolia Bostad's Q4 numbers were strong, beating both our and Thomson Reuters consensus expectations. Sales at SEK 718m made this the strongest Q4 to date, beating consensus by 54% and our estimate by 57%. Gross profit and EBIT, which are more informative of Magnolia's performance than sales, were 50% and 110% above consensus respectively, and beat our estimates by 59% and 66% respectively. SEK 245m in Q4 is the strongest quarterly gross profit performance to date, beating the previous record-holding quarter of Q2 2017 by ~80%.

Dividend in line with our expectations

Full-year backward-looking P/E of 10.7x

The proposed dividend is SEK 1.75 per share – in line with our estimate and flat y/y. The 3% dividend yield implied should be considered in light of Magnolia's balance sheet build-up during this growth phase; as such, we find the dividend yield appropriate. EPS in Q4 amounted to SEK 4.26 (a quarterly implied P/E of 13.1x based on the 23 January closing price). As Q4 is a big quarter, the full-year EPS landed at SEK 5.2 – meaning the implied backward-looking P/E is 10.7x for the full year.

MAGNOLIA BOSTAD: DEVIATION TABLE Q4 2017

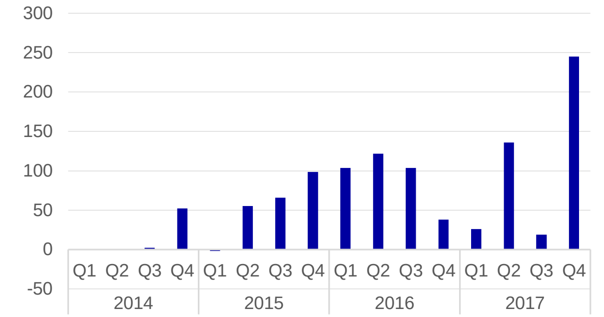
SEKm	Actual Q4 2017	NDA est. Q4 2017	Deviation vs. actual		Consensus Q4 2017	Deviation vs. actual		Actual Q3 2017	q/q	Actual Q4 2016	y/y
Sales	**718**	**457**	**261**	**57%**	**465.33**	**253**	**54%**	**193**	**272%**	**124**	**479%**
Gross profit	**245**	**154**	**91**	**59%**	**163.00**	**82**	**50%**	**19**	**1189%**	**38**	**545%**
Gross profit margin	34.1%	33.6%		0.5pp	35.0%		-0.9pp	9.8%	24.3pp	30.6%	3.5pp
Adj. EBIT	**230**	**139**	**91**	**66%**	**109.50**	**121**	**110%**	**7**	**3186%**	**41**	**461%**
Adj. EBIT margin	32.0%	30.3%		1.7pp	23.5%		8.5pp	3.6%	28.4pp	33.1%	-1.0pp
EPS	**4.26**	**2.62**	**1.64**	**63%**	**3.16**	**1.10**	35%	**-0.53**	-904%	**0.26**	1538%

Source: Company data and Nordea Markets

Gross profit has grown by a 58% CAGR in Q4 over two years

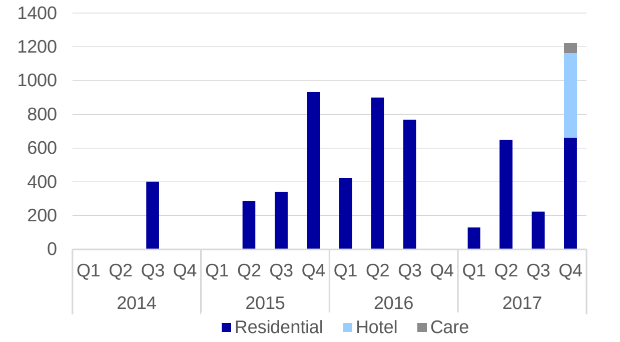
Comparing Magnolia's results q/q is unreasonable as Q1 and Q3 are regarded as seasonally small, while Q2 and Q4 are bigger quarters. The actuals compared to Q4 2016 showed ~461% y/y EBIT growth and the company's strongest ever quarter in terms of EBIT. To put the results in perspective due to easy comparisons, the CAGR for gross profits since 2015 is ~58%.

GROSS PROFIT Q/Q, SEKm



Source: Company data and Nordea Markets

NUMBER OF UNITS SOLD, WITH TWO NEW SEGMENTS



Source: Company data and Nordea Markets

Business model now standing on two more legs

Sold its first projects within Hotel and Care totalling 560 units (rooms/apartments)

Magnolia sold its first two projects in the Hotel segment, totalling 500 units, and its first project in care, totalling 60 units. The units sold in Hotels had already been communicated to the market. The company has thus proven its presence in Hotels and Care while delivering a few percent above our expectations on number of residential units – 663 versus 641. In terms of units sold, this quarter was the strongest Magnolia has ever seen.

We overestimated care unit sales for the quarter, but underestimated hotel sales (with two projects sold in Q4 versus the first hotel sale in 2019 in our estimates)

We increase hotel production and lower care unit production (although only in the short term)

In our initiation report, we believed the first hotels would be sold in 2019, and we overestimated the number of care units to be sold in this quarter. We now increase our estimates in the Hotel business in the short term, while we lower it slightly for Care in the short term, although the care portion of the building rights portfolio is front-end heavy, with more start-ready projects in 2018 than annual guidance suggests, and so the lowering of estimates for care is marginal. We do not consider the miss to our estimate in Care in Q4 representative of the long-term performance in the segment; instead we find it positive that Magnolia has proven the second and third legs of its business model, which have hitherto been more in the visionary stage from an outsider's perspective. We add some 100 hotel units to our forecast for 2018E, with 300 from 2019E, and lower the number of care units by ~130 in 2018E.

We are more optimistic about the outlook for Hotels and Care as Magnolia has now proven its ability to produce and sell projects in these segments

As the company guides for four care projects per year and one to two hotel projects per year, we are more optimistic about this outlook now as both business models have been proven. We are also increasingly optimistic about Magnolia's medium-term potential, as such a strong performance in a tough market environment bodes well for times with a less rocky macro road.

We did not estimate any hotel sales, while we over-shot care housing

SPECIFICATION OF UNITS

		Q4 2017	
	NDA Estimate	Pre-announced	Outcome
Hotels	0	500	500
Care housing	198	0	60
Conversion	0	0	3
Residential	641	430	663

Source: Company data and Nordea Markets

Tenant-owned conversion slow as expected, although still some conversions to expect ahead

We estimated no conversions this quarter, but Magnolia reported three for Q4 2017.

We note four things about the conversion business:

1. Tenant-owned conversion **contributes little to the bottom line** in our expectations and in the outcome
2. We already know that tenant-owned apartment sales have **faltered across the market**, and so we expected no conversions during the quarter
3. In our estimates, we had no conversions up until mid-2018 and only a 7% conversion rate in the long term (the company aims for 25% of rental units to be converted long-term) – we **regard our long-term estimates as robust** and factoring in the current market environment
4. Magnolia's current conversion projects are outside Stockholm, Gothenburg and Malmö. The company reports that even though it has been affected by the current market environment, **things are moving on in Q1**, in contrast to some tenant-owned competitors with exposure to the larger cities.

We believe conversion affects gross profit by a few SEKm 2018, while our long-term 7% conversion rate remains

Even if the impact on the bottom line is marginal, we raise our outlook for conversions in the coming quarters by four for Q1E and ~30 for the whole year. We move the 7% steady state estimate to mid-2020. The valuation impact is close to none (since we have conservative estimates of proceeds per conversion this is a matter of SEK 2-4m on full-year gross profit).

We have continue to see conversion as more of a bonus to the business model than a significant driver

All in all, we look at the conversion business as more of a bonus to the business model than a significant contributor. We keep our more conservative per-conversion proceeds than the company aims for: around 50% of SEK ~0.15-0.16m per converted unit.

Stronger-than-expected residential profitability hiding in the numbers

We break down gross profit into SEK ~140m from residentials, which yields a higher value per unit by SEK 0.17-0.23 than in our estimates, while we use SEK 0.14

We break down gross profit into:

- Hotels (pre-announced): 500 units sold with SEK ~700m investor value – we assume a margin of 12% for Magnolia and thus a SEK 0.17m/unit gross profit. The long-term goal is 15% in hotels.
- Residential
    - Hyllie (pre-announced): SEK ~1bn, assuming 10% margin and so SEK 0.23m per unit in gross profit.
    - Fyren #2 (conditionally announced in Q3): The SEB part is no longer conditional and so this was recognised in Q4 2017. We assume a value of SEK ~450m and a 9% margin, ie SEK ~0.17m in gross profit per unit.
- Care (not announced): 60 units with a final price of SEK ~147m. The long-term goal in care is a 15% margin, but due to recent acquisitions, margins will be under slight pressure at least during 2018. We assume some 8-10% margins in care for 2018, increasing to around 15% in the long term. For Q1 we assume a margin of 8.5%, ie SEK 0.21m in gross profit per unit.
- We ignore proceeds from conversions, as we believe that this would have an impact of less than SEK 1m.
- Gross profit in property management, we believe, has accounted for a gross profit contribution of SEK ~8m (a 66% margin on SEK ~12m in estimated quarterly rental income).

If this was also applied to EBIT, one would arrive at similar results.

ESTIMATED BREAK-UP OF Q4 GROSS PROFIT ON BUSINESS UNITS

	End value	# of units	MAG marg.	End val/unit	profit/unit	Profit contrib
Hotels	**700**	**500**	*12.0%*	**1.4**	*0.17*	*84*
Residential: Hyllie	**1000**	**427**	*10.0%*	**2.3**	*0.23*	*100*
Residential: Fyren #2	*453*	**236**	*9.0%*	*1.9*	*0.17*	*41*
Care	**147**	**60**	*8.5%*	**2.5**	*0.21*	*12*
						237
Gross profit from property management						*8*
Total gross profit						**245**

Numbers in bold is company data and in italics NDA estimates

Source: Company data and Nordea Markets

As we have previously been cautious in the current market environment towards the gross profit per unit in Residential – fearing that excess supply in tenant-owned projects would flow over into the rental space – we see that the estimated SEK 0.23m and SEK 0.17m per unit is far above our SEK ~0.14m estimate.

Even if we remain cautious as residential projects differ greatly, we use SEK 0.15 from Q1

In terms of estimates, we are yet too cautious to accept a gross profit per unit up in the SEK 0.20s, but we revise it to SEK ~0.15 for residentials and await another quarter or two to be convinced into changing our expected gross profit/unit estimate further.

Opex bang in line with our estimates

Central administration below our estimates (SEK 12m vs 14.2m), explained by decreased number of employees q/q (61 vs 75 in Q3)

In terms of opex we were bang in line on the total, but with Magnolia having "strengthened the management team" we expected quarterly central admin to reach SEK 14.1m compared to SEK 11m in Q3. It came in at SEK 12m instead, which is a positive. The company reported fewer employees (61 vs 75 in Q3), which means it reached Q2 levels in the number of employees, with central administration SEK 3m less than in Q4. The cost beat could thus be attributed to the decrease in the number of employees

Going forward, we keep central administration at the same level as 12M rolling sales for 2017 – around 0.6% – since we assume drivers for central admin and sales will be more or less equal in the coming periods.

Going beyond the EBIT line, we estimated net financials of around SEK -30m, while they came in at some SEK -32m due to increased leverage.

Straightening out the minorities haircut

Minorities' share was greater than we expected, driven by higher mix in Hotel and probably some other project with higher minorities share

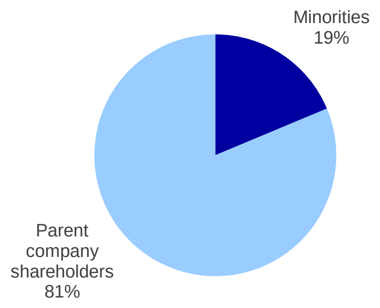
A negative surprise was the portion of the bottom line attributable to minorities though, 19% compared with our 9.1% estimate. This was due to the composition of sales (a lot of sales in Hotels, where minorities have higher ownership stakes). On this mix, we would still have estimated a 14-15% minorities haircut, significantly below the actual of 19%. We believe some project had a greater minorities share than expected.

Looking at the rights portfolio, however, we see that by area, minorities have some 12% ownership stake.

Going forward, we average 12% minorities instead of 9% as before

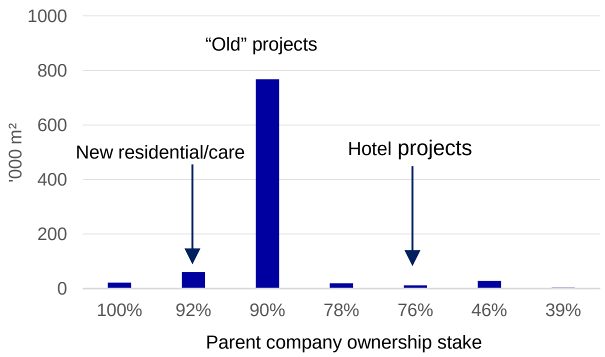
We find 12% for minorities a better average going forward than our ~9% previous estimate. We will therefore have to adjust down the fair value of the common stock by some ~3% (all else being equal) due to the increased market value of minorities. Quarter by quarter, we link it to the composition of sales in that quarter.

Q4 EBIT BREAKDOWN – MINORITIES 19% OF NET PROFIT



Source: Company data and Nordea Markets

PORTFOLIO PROJECTS ARE OWNED TO 88% ON AVERAGE



Note that some projects are mixed hotel/care/residential and have been identified as 90% ownership stake, which might not be the outcome
Source: Company data and Nordea Markets

Outlook in the rights and development portfolios

Confidence in both the projects themselves and also in the current size of the rights portfolio – no major NWC adjustments

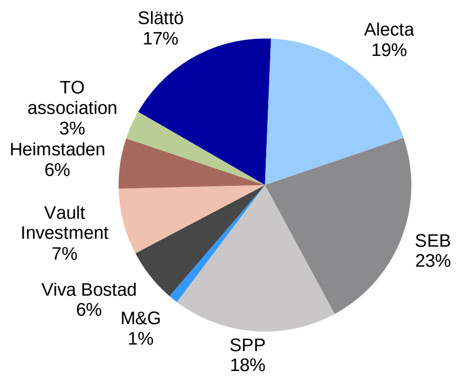
Management's outlook reflects confidence in the rights portfolio.

- There is potential for higher earnings per unit going forward
- Unit size of 15,000-16,000 in the rights portfolio is most likely being pursued even if sales goals are stretched, as we understand it, with more than 3,000 units per year for all segments (the company communicating a goal of ~five years production in the rights pipeline). Hence we do not revise our NWC estimates other than what follows the Q4 numbers, which is a positive.

We believe that despite the impact of problems in the market (mostly tenant-owned) Magnolia has shown strength this quarter, which bodes well for the future

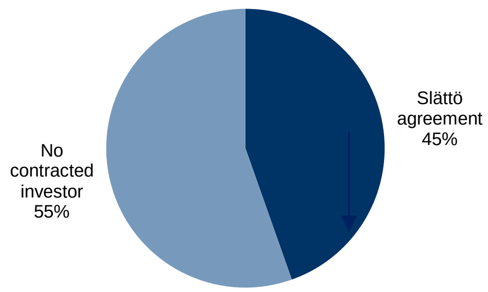
Yet management also recognises there are projects that have suffered in the current environment and that the credit market has been unbeneficial to the company – despite its low tenant-owned exposure. Given the current strong performance and the Slättö agreement as a support to rely on bodes well for the future despite problems in two specific projects. Pure tenant-owned projects amount to only 3% of the development mix; the rest is sold off to what we would consider strong investors, such as Alecta (currently 19% of units under construction), SEB (23%) and SPP (18%).

STRONG INVESTOR MIX IN DEVELOPMENT PORTFOLIO



Source: Company data and Nordea Markets

SLÄTTÖ AGREEMENT BACKS UP ~45% OF RIGHTS UNITS



Source: Company data and Nordea Markets

Factors to consider when investing in Magnolia Bostad

Magnolia Bostad develops and divests mainly rental apartments to reliable financial institutions with mitigated development risks as it secures construction costs with the divestment. One key uncertainty is related to the timing and quantity of divestments, partly due to a profit accounting method that appears front-end-heavy compared with peers but comes with lower risks, and might therefore be justified. Delayed cash flow compared with earnings could hold back growth and is a matter of concern currently. The probability and possibility to convert rental apartments to tenant-owned projects will likely remain low and be less profitable given the poor sentiment to tenant-owned prices and demand. However it is important to point out that projects are almost always started out as rental projects with potential of conversion as a sign of demand with unchanged low financial and development risks for Magnolia. Conversion of cash from old projects and delivery in line with the outlook of divesting 3,000 units annually implies an attractive earnings outlook and potential to fair value.

Rental business model

Divesting projects for construction; currently has a portfolio of ~16,429 units

Magnolia develops rental apartments to divest to financially strong institutions while securing construction costs, which helps to limit both financial and development risks. The company has successfully found a niche which was previously held by construction companies and internal development organisations of the institutions. The company holds building rights and development options to produce ~16,429 apartments currently, which has grown from 11,190 units in 2016. This improves transparency regarding potential volumes and supports the company's target to divest and start 3,000 units annually, assuming demand remains unchanged.

The company has also become known for selling rights in close conjunction with purchase

Historically, the company also has been successful in delivering "Magnolia" projects, divesting units in close connection with the acquisition of building rights while still delivering 10% profit margins. As only a part of development costs go on Magnolia's books, 10% on the entire development might correspond to 20-35% EBIT margin in Magnolia's books.

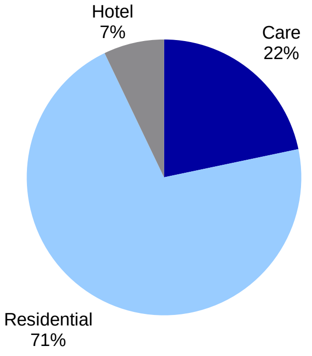
The company aims to convert 25% of rentals to tenant-owned, though probably slowed by current sentiment

In addition to rental apartment development, recent strong pricing trends have suggested that there is an opportunity to convert some apartments to tenant-owned, late in the production process. The company targets potential of 25% conversion with substantially higher profitability. Unfortunately, the cool-down of the tenant-owned market in Sweden during the last six to nine months will likely limit these conversions over the coming years and we only include long-term conversions of up to 7% in our estimates.

Diversification in hotels and care now a proven part of the business model

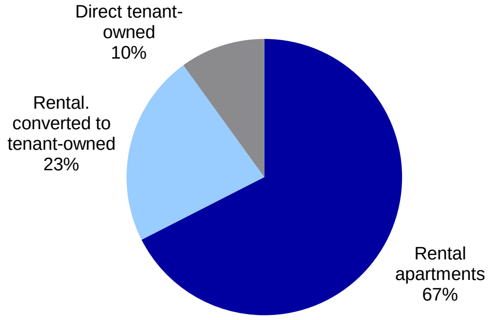
The company has diversified the business by developing both care housing and hotels. The portfolio has currently a few projects relating to hotels and a substantial number of projects with care housing. As of Q4 2017, both these segments are a proven part of the business model after Magnolia sold two projects amounting to 500 units in Hotels and one project of 60 units in care.

ESTIMATED SPLIT OF BUILDING RIGHTS, UNITS



Source: Company data and Nordea Markets

VISION OF FUTURE PRODUCTION MIX IN RESIDENTIAL



Source: Company data and Nordea Markets

Sensitivity to volume and profit/unit should be considered as it provides both an upside and downside to our estimates and might be positively correlated

The rental model is sensitive, on both the up and down side, to volumes and profit per unit that Magnolia can achieve. If yields are rising, all else equal, real estate prices would drop. In this atmosphere, it could be hard for Magnolia to keep a) its ~10% margin and b) the sales price on which the margin is applied. In other words, both prices and the margin on those prices could come under pressure. Magnolia has an advantage in this market situation, however, as demand for tenant-owned decreases, it could be reasonable to assume that demand for rentals increases (ie Magnolia's main exposure). It is also possible that oversupply in the tenant-owned area flows over to the residential space, mitigated by the now proven segments of Hotels and Care. Lower demand in general could lead to decreased costs for construction and land, allowing Magnolia to defend its margin, despite decreasing sales prices. In any case, we find studying the sensitivity of profit per unit and volumes to be vital in these market conditions. Below is a sensitivity analysis for our 2019 EPS estimates (our base case estimate is in bold).

EPS '19 SENSITIVITY

Number of	NDA	MAG	DA/MAG half	Portfolio
Residentials	2800	3000	1500	2030
Care	347	347	347	60
Hotels	300	300	300	300

Gross profit per unit, SEKm	NDA	MAG	DA/MAG half	Portfolio
0.12	7.3	8.3	3.9	4.5
0.13	8.1	9.1	4.4	5.0
0.14	8.9	10.0	4.9	5.5
0.15	9.7	10.9	5.4	6.1
0.16	**10.5**	11.7	5.9	6.6
0.17	11.3	12.6	6.4	7.2
0.18	12.0	13.5	6.9	7.7

"NDA" is based on our 2019 volume estimates,
"MAG" is based on Magnolia's communicated volume potential,
"NDA/MAG half" are NDA estimates but half MAG for residential developments,
"Portfolio" is based on the building rights portfolio part to be sold in 2019.

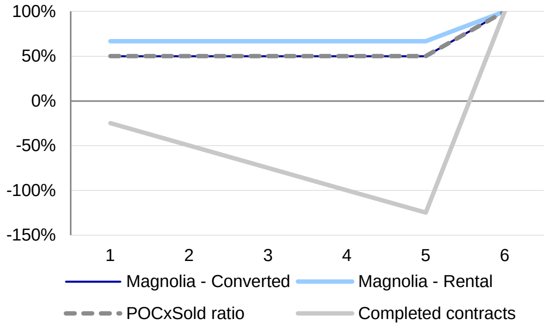
Source: Nordea Markets and company data

Front-end-heavy profit accounting

Profit accounting is front-end heavy and volatile between quarters, but might be reasonable as construction occurs after sale, outside the Magnolia group with lower counterparty risk

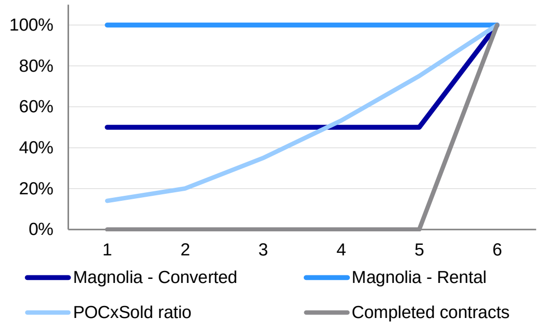
Magnolia profit accounts when it has signed a contract to divest rental units (to financially strong institutions) and has secured construction/development costs for the project. This profit accounting stands out as front-end-heavy compared with other residential development peers that mainly use percentage-of-completion adjusted for the sales rate in projects. The profit accounting method elevates volatility between quarters but since the financial counterparty risk is lower and all costs are matched, we believe it should be seen as a timing risk rather than an execution risk. The accounting method also implies that there is a substantial delay between the reported earnings contribution and actual cash flow from a project, which elevates the perceived financial risk on the balance sheet when the company starts projects.

ACC. ACCOUNTING OF CASH FLOW (PER QUARTER)



Source: Company data and Nordea Markets

ACC. ACCOUNTING OF EBIT (PER QUARTER) % OF TOTAL



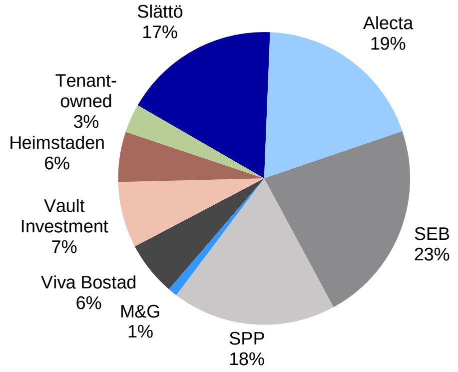
Source: Company data and Nordea Markets

Reliable investors and strategic agreement with Slättö

Slättö agreement constitutes ~7,000 units already divested or to be divested over the next three to four years, while investors in rental projects currently under construction are also institutional and reliable

The strategic purchase agreements create solid fundamentals for earnings base of at roughly 7,000 divested apartments in 13 projects over the next three to four years. The deal is worth SEK ~7-14bn. Rental apartments already sold have been sold to institutional investors that we find reliable in terms of expected future cash flow. The strong market for rental apartments has supported strong growth for Magnolia and although the purchase agreements should limit downside risks, rising yield requirements and a too-high supply of rental units could come under pressure, especially in the light of the currently hesitant tenant-owned market and prices. On a positive note, however, declining tenant-owned volumes might stabilise cost inflation and open up for lower production costs, which could compensate for higher yield requirement from institutional investors.

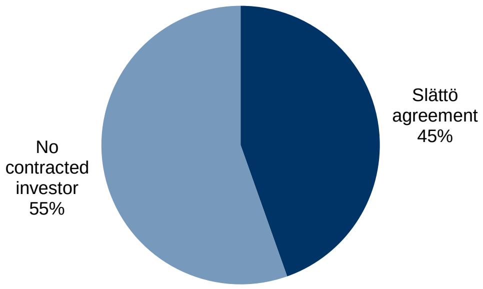
INVESTORS UNITS[1], SOLD[2] & UNDER CONSTRUCTION



1. *Total number as of Q4 '17 is 5,849 units.*
2. *For TO associations, 4 units where unsold as of Q4 '17.*

Source: Company data and Nordea Markets

SPLIT OF THE CURRENT RIGHTS PORTFOLIO BY UNITS



Source: Company data and Nordea Markets

Pending changes to taxes already partly discounted in transactions

Changes to tax deductibility possibly affecting future yields, but more or less priced in by the market

There are several pending proposals for corporate taxes related to both interest deductibility, gains tax from divestments (Packaging) and lower overall corporate tax rate (20% from today's 22%). All in all, these changes might imply that Magnolia needs to carry a higher part of the deferred tax generated in the developments and or create volatility in the transaction market with higher yield requirements. The market has already adapted to most of these changes and it is partly mitigated by a lower corporate tax rate and higher tax deductible depreciations. We assume that tax will start to be paid in 2019, reaching 8% in 2020 with 10% as the long-term tax rate.

Business model tested in a tougher environment

Magnolia has a successful history in mainly the rental space, but we now see rental development at historically high levels and problems facing tenant-owned developers – however, Magnolia has proven resilient so far through the market downturn

Magnolia has successfully found a niche to develop and divest rental apartments, meeting pent up demand for residential rental properties. The strong market for residential apartments has come under pressure though, due to an increased supply of both rental apartments and especially tenant-owned apartments – foremost in the secondary market – which has led to higher lead times to divest projects and lower prices of primarily tenant-owned apartments.

One key question mark for Magnolia is connected to the stability of its business model based on record-high volumes and whether demand will remain high when interest rates normalise. Structural divestment agreements create a base volume and reduce downside risks. Magnolia has proven resilient so far through the market downturn, and has even managed to diversify the business through Hotels and Care in such an environment.

The company's ability to find attractive building rights and capture scale advantages related to construction costs should also partly compensate for higher yield requirements.

Valuation

Peers multiples are too dispersed in the market

A peer-based valuation using multiples seems to be an unreliable approach given the difference in exposure in the current market environment. Furthermore, differences in risk and accounting among peers make it difficult to justify a plain comparison using multiples alone.

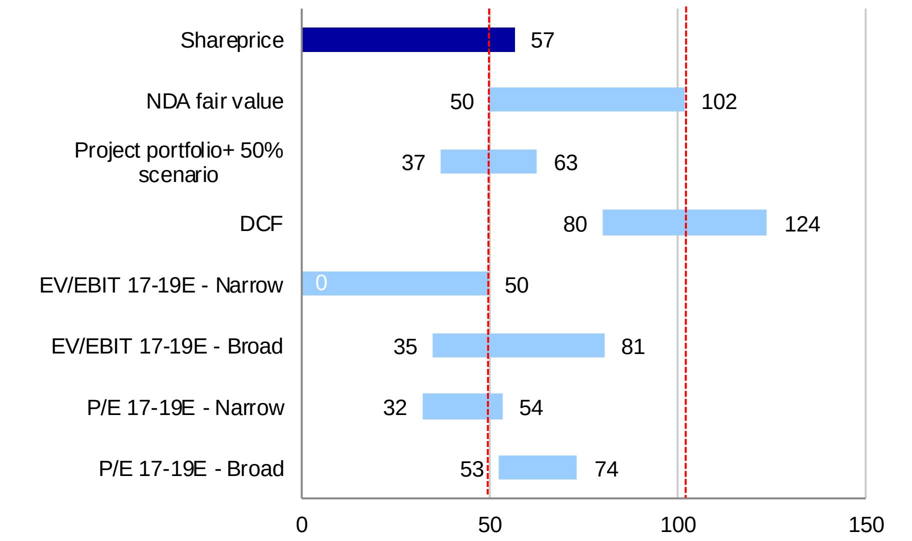
We rely on several DCF scenarios...

Instead, we rely on a multi-scenario DCF approach. Adding sensitivity to our base case, we reach a range of SEK 80 to 124, where we accept the mid-point of SEK 102 per share as the upper boundary to our fair value range.

...accounting for several possible views on the company's future, yielding a range of SEK 50 to SEK 102 per share

We also simulate one, in our view quite extreme, non-going concern scenario where the current building rights portfolio is being sold off and the company closed down afterwards, reaching a value of SEK 37 per share. Furthermore, we simulate a scenario where Magnolia reaches half of its communicated potential within residential development, leading to a SEK 62 per share valuation. We find the former scenario ("project portfolio") too extreme for the lowest fair value, while the latter ("50% scenario") is too high for the lowest fair value. We therefore take the mid-point of SEK 50 per share as the lower bound of our multi-scenario DCF value, arriving at a fair value of **SEK 50 to SEK 102** per share.

VALUATION



Source: Thomson Reuters and Nordea Markets

Risk factors

We believe one should consider operational, financial and regulatory risks such as taxation, ownership structure, macroeconomic factors, key personnel, financing capabilities, volume and demand risk and other risks associated with the business model.

- Macroeconomic factors: The recent downturn in the market for tenant-owned properties highlights the possibility for real estate segments which were previously very profitable to quickly turn problematic. Even if the exposure to tenant-owned properties is very limited for Magnolia, we still see a possibility that macro and market factors will affect the company's earnings negatively; these include increased interest rates and lower real estate prices.
- Ownership structure and conflict of interest: Fredrik Holmström, one of the founders and current chairman of the board, is the majority shareholder of Magnolia Bostad and controls more than 50% of the votes/capital. Therefore, he is a vital part of the company. Potential sell-offs or changes in his position will likely have an impact on the company's long-term performance. Since the CEO, Fredrik Lidjan, is a co-investor of future development projects of rental apartments and Fredrik Lidjan and Clas Hjorth, responsible for hotel constructions, are co-investors of future developments of hotel projects, a potential conflict of interest may arise in the future. For instance, short-term profit maximisation from projects may not align with long-term value creation for Magnolia Bostad.
- Risks associated with the business model: As the company develops real estate projects, it faces risks related to the production process. Such risks could include defect assembly, environmental aspects or construction problems. Some of this risk is managed through fixed production costs in turnkey contracts. Also, the company experiences risk before and after the development process. Unexpected costs related to acquisitions or problems with selling can impact the company's operations and financial position.

For a more comprehensive list, see "Risk factors" on page 22.

Valuation

We argue that the valuation of Magnolia fundamentally will be related to a DCF-based approach based to some extent on the building rights portfolio. The different financial risk among peers and timing from divestments makes P/E and EV/EBIT valuation approaches very sensitive to volume assumptions, which could be delayed or pulled forward between years. Valuation for residential development peers focused on the tenant-owned market has come under pressure following delayed selling processes and lower prices in the secondary market. Our multi-scenario DCF arrives at a fair value of SEK 50 to 102 per share.

DCF-based approach

Our valuation approach is primarily based on a DCF framework

One of the most common ways to value the attractiveness of an investment opportunity is the discounted cash flow (DCF) method. A DCF model discounts all available cash flows for equity, bond and non-equity holders at the weighted average cost of capital (WACC). In other words, WACC represents a blended cost of capital for all invested capital in the company. In fundamental terms, a DCF framework is built on three parts:

- Discounting the company's free cash flow at WACC.
- Identifying the value of debt and other non-equity claims on the enterprise value.
- Deducting all claims to determine the value of the common equity. The fair value per share is then simply calculated by dividing the equity value by the number of outstanding shares.

Among academics and practitioners, DCF valuation is commonly considered the best way to capture the underlying fundamental drivers of a company such as cost of capital, growth rates, reinvestment rates etc. If applied correctly, it represents the best way to approximate the true intrinsic value of a company. The main appeal of a DCF framework compared with other valuation methodologies is that it also focuses on streams of cash rather than accounting earnings. Its main disadvantage is its relative sensitivity to changes in input values.

Multi-scenario DCF at SEK 50-102/share with WACC of 8.7%; drivers are longer surplus period, margins and units sold/converted

We value Magnolia with a multi-scenario DCF approach and arrive at SEK 50-102. We assume a WACC of 8.7%. Margin development in the estimate period, project divestments higher than our estimates, delayed divestments process and successful investments of building rights (prolonged surplus period) will act as important value drivers to our fundamental DCF model.

Standard DCF

Growth of 9% and margin of 29% until 2023

Margins slowly contracting to 12.7% where WACC=ROIC

This scenario uses Nordea Markets' estimates, a growth rate of 9% and an average margin of 29% until 2022, when growth continues at 2.5% per year. Our standard DCF model assumes that WACC=ROIC after ~30 years, which implies a 12.7% margin. As we question the ability for Magnolia to keep pricing power in the longer term, we assume that margins will gradually shift to 12.7% during this 30 year period.

Our standard scenario is allowed a ±1 pp sensitivity and reach SEK 102 as midpoint

When allowing a sensitivity of ±1 pp for our WACC assumption, ±1 pp for sales growth and ±1 pp for EBIT margin change, we find that the DCF value of our standard scenario varies from SEK 80 to 124 – with the midpoint of 102. We will use this midpoint as an upper point of our multi-scenario DCF range as there are other more pessimistic scenarios that will contribute to the lower bound.

DCF VALUE BREAKDOWN, SEKM, SEK PER SHARE

DCF value	Value	Per share
NPV FCFF	4,901 to 7,594	129.6 to 200.8
(Net debt)	-1,518 to -2,353	-40.1 to -62.2
Time value	47 to 73	1.2 to 1.9
Market value of associates	0	0.0
(Market value of minorities)	-401 to -621	-10.6 to -16.4
Surplus values	0	0.0
(Market value preference shares)	0	0.0
Share based adjustments	0	0.0
Other adjustments	0	0.0
DCF Value	**3,028 to 4,693**	**80.1 to 124.1**

WACC COMPONENTS AND ASSUMPTIONS

WACC components	
Risk-free interest rate	1.5%
Market risk premium	5.5%
Forward looking equity beta	1.3 to 1.7
Cost of equity	8.8% to 10.8%
Cost of debt	4.0% to 6.0%
Tax-rate used in WACC	10.0%
Equity weight	80.0%
WACC	**7.7% to 9.7%**

Source: Company data and Nordea Markets

SENSITIVITY: WACC AND EBIT MARGIN, SEK

		WACC				
		6.7%	**7.7%**	**8.7%**	**9.7%**	**10.7%**
	+2.0pp	158.5	128.7	107.1	90.7	77.6
EBIT marg.	**+1.0pp**	151.1	123.1	102.7	87.1	74.7
change		143.7	117.5	98.4	83.6	71.8
	-1.0pp	136.3	111.9	94.0	80.1	68.9
	-2.0pp	128.8	106.3	89.6	76.5	66.0

SENSITIVITY: WACC AND SALES GROWTH, SEK

		WACC				
		6.7%	**7.7%**	**8.7%**	**9.7%**	**10.7%**
	+2.0pp	165.6	131.7	108.0	90.3	76.6
Sales gr.	**+1.0pp**	153.8	124.1	102.9	86.8	74.0
change		143.7	117.5	98.4	83.6	71.8
	-1.0pp	135.1	111.8	94.4	80.8	69.7
	-2.0pp	127.7	106.8	90.9	78.3	67.9

SENSITIVITY: SALES GROWTH AND EBIT MARGIN, SEK

		Sales growth change				
		-2.0pp	**-1.0pp**		**+1.0pp**	**+2.0pp**
	+2.0pp	97.8	102.2	107.1	112.8	119.4
EBIT margin	**+1.0pp**	94.4	98.3	102.7	107.8	113.7
change		90.9	94.4	98.4	102.9	108.0
	-1.0pp	87.5	90.5	94.0	97.9	102.3
	-2.0pp	84.0	86.7	89.6	92.9	96.6

Source: Company data and Nordea Markets

Other scenarios

We find a lower boundary for our multi-scenario DCF with…

To find a **suitable lower boundary** of the multi-DCF range, a non-going concern scenario, and a scenario where residential development only reaches half of Magnolia's goal, ie 1,500 units per year

Non-going concern scenario (project portfolio only): If the current portfolio is finalised and then the company is shut down, our DCF arrives at a value of **SEK 38 per share**.

…the midpoint of non-going concern scenario and a 50% residential scenario, SEK 50 per share is used as lower boundary for multi-scenario DCF

50% scenario: If we use Nordea Markets' estimates for all parts of the business but instead assume that residential developments will reach a volume of half of the potential that Magnolia has communicated, ie **~1,500 per year** by 2018E and kept flat going forward, a DCF reaches SEK 62 per share.

We find the former scenario ("project portfolio") to be too extreme for the lowest fair value, while the latter ("50% scenario") is too high for a lowest fair value. We therefore take the mid-point of SEK 50 per share as the lower bound of our multi-scenario DCF value.

Sensitivity to volume and profit/unit should be considered as it provides both an upside and downside to our estimates and might be positively correlated

Magnolia's model is sensitive, on both the up- and downside, to volumes and profit per unit that Magnolia can achieve. If yields are rising, all else equal, real estate prices would drop. In this atmosphere, it could be hard for Magnolia to keep a) its ~10% margin and b) the sales price on which the margin is applied. In other words, both prices and the margin on those prices could come under pressure. Magnolia has an advantage in this market situation, however, as demand for tenant-owned decreases, it could be reasonable to assume that demand for rentals increases (ie Magnolia's main exposure). Lower demand in general could lead to decreased costs for construction and land, allowing Magnolia to defend its margin, despite decreasing sales prices. In any case, we find studying the sensitivity of profit per unit and volumes to be vital in these market conditions. Below is a sensitivity analysis for our 2019 EPS estimates (our base case estimate is in bold).

EPS '19 SENSITIVITY

Number of	NDA	MAG	NDA/MAG half	Portfolio
Residentials	2800	3000	1500	2030
Care	347	347	347	60
Hotels	300	300	300	300

Gross profit per unit, SEKm		NDA	MAG	NDA/MAG half	Portfolio
	0.12	7.3	8.3	3.9	4.5
	0.13	8.1	9.1	4.4	5.0
	0.14	8.9	10.0	4.9	5.5
	0.15	9.7	10.9	5.4	6.1
	0.16	**10.5**	11.7	5.9	6.6
	0.17	11.3	12.6	6.4	7.2
	0.18	12.0	13.5	6.9	7.7

"NDA" is based on our 2019 volume estimates,
"MAG" is based on Magnolia's communicated volume potential,
"NDA/MAG half" are NDA estimates but half MAG for residential developments,
"Portfolio" is based on the building rights portfolio part to be sold in 2019.

Source: Nordea Markets and company data.

Multiple-based approach

EV/EBIT and P/E multiples can usually be used for relative valuation

EV/EBIT is neutral to a company's financial gearing. It captures the operations' capital intensity to the extent that depreciation levels approximately correspond to sustainable capex levels.

P/E is often used to compare companies and to consider the differences in tax rates and financing costs. However, it is biased towards lower multiples for companies with high financial gearing. We believe that certain adjustments should be applied when using P/E in order to appropriately value the company.

DETAILED PEER VALUATION AND MULTIPLES

Reuters consensus		Price	Mcap	Returns			P/E (recurring)			Ev/Sales			EV/EBI	EV/EBIT			Div yield	
	Country	SEK	SEKm	1m	3m	YTD	2017E	2018E	2019E	2017E	2018E	2018E	2016	2017E	2018E	2019E	2017E	2018E
Construction																		
Skanska AB	SE	166.85	67,246	4%	-7%	-2%	12.2	15.2	13.5	0.36	0.37	0.4	8.4	10.3	10.8	9.3	5.0%	5.0%
NCC AB	SE	161.40	17,629	2%	-6%	3%	18.4	13.7	10.7	0.31	0.30	0.3	10.4	13.6	9.7	8.0	4.9%	5.5%
Peab AB	SE	78.60	20,720	9%	2%	11%	11.6	12.5	12.3	0.48	0.45	0.5	11.5	10.2	9.8	9.6	4.9%	5.1%
Yit Oyj	FI	71.33	15,102	6%	17%	11%	11.2	11.9	10.0	1.07	0.53	0.5	37.2	18.6	11.2	9.4	3.4%	3.9%
Veidekke ASA	NO	91.99	12,287	3%	2%	-5%	10.9	8.7	8.4	0.43	0.39	0.4	10.3	10.1	8.0	7.7	5.5%	6.4%
NRC Group ASA	NO	60.42	2,555	1%	0%	-6%	22.8	14.4	11.4	1.03	0.84	0.8	16.7	16.7	11.1	8.9	1.8%	3.3%
SERNEKE Group	SE	97.20	1,751	3%	-6%	9%	7.2	6.0	5.0	0.35	0.28	0.3		5.2	4.2	3.6	0.7%	4.1%
Development																		
JM AB	SE	187.80	13,441	-2%	-3%	0%	6.6	8.7	10.2	0.75	0.78	0.8	6.6	5.2	6.3	7.0	5.8%	5.9%
Bonava AB (publ)	SE	122.30	13,327	4%	7%	7%	9.8	11.1	11.6	1.24	1.23	1.2	12.4	9.0	10.2	10.8	4.0%	4.3%
Oscar Properties	SE	32.10	1,435	-9%	-3%	-7%	2.1	4.9	6.0	0.00	0.00	-	11.4	5.0	9.5	11.2	1.8%	1.0%
Magnolia Bostad AB	SE	56.60	2,156	-5%	1%	13%	10.6	4.8	4.7	2.55	2.58	2.6	8.4	11.0	6.6	6.5	3.4%	5.0%
Tobin Properties AB	SE	22.70	579	8%	-21%	6%	5.8	1.8	1.0	26.24	9.09	9.1	20.6	29.6	8.7	5.6		12.3%
SSM Holding AB (publ)	SE	19.00	751	-3%	-19%	-4%	4.9	11.7	10.9	1.88	1.65	1.6		483.9	10.0	9.4		10.5%
Median Construction			16,366	3%	1%	0%	11.9	13.1	11.1	0.45	0.42	0.4	10.9	12.0	10.3	9.1	4.9%	5.1%
Median Development			1,955	-2%	-3%	3%	6.2	6.8	8.1	1.24	1.23	1.2	9.9	10.0	9.1	8.2	4.0%	5.0%
Median Construction & Development			**289**	**3%**	**-3%**	**3%**	**10.6**	**11.1**	**10.2**	**0.72**	**0.65**	**0.7**	**10.9**	**10.3**	**9.7**	**8.9**	**4.4%**	**5.0%**

Source: Thomson Reuters and Nordea Markets

PEER VALUATION

	P/E			EV/EBIT		
Peer multiple summary	**2017**	**2018E**	**2019E**	**2017**	**2018E**	**2019E**
Median Construction & Development	*10.6*	*11.1*	*10.2*	*10.3*	*9.7*	*8.9*
-High	22.8	15.2	13.5	483.9	11.2	11.2
-Low	2.1	1.8	1.0	5.0	4.2	3.6
Median Development	*6.2*	*6.8*	*8.1*	*10.0*	*9.1*	*8.2*
-High	10.6	11.1	11.6	29.6	10.2	11.2
-Low	2.1	1.8	1.0	5.0	6.3	5.6
Magnolia NDA	*10.9*	*8.5*	*8.5*	*11.1*	*10.1*	*8.1*
Magnolia Reuters	*9.5*	*4.7*	*4.8*	*9.5*	*5.7*	*5.3*
Estimate NDA vs Reuters	*-13%*	*-45%*	*-44%*	*2%*	*-35%*	*-35%*

Source: Thomson Reuters and Nordea Markets

Issues with multiples and peer valuation

We argue that there are several issues with using a peer/multiples valuation for Magnolia Bostad at the moment. Some of these issues include:

- **Lag in accounting**: Even if we see that different accounting practices can be justified for Magnolia Bostad and many of its peers, we still consider it a factor necessary to take into account. Compared to peers, Magnolia Bostad recognises profits earlier compared to cash flows (in a stable market). Therefore, Magnolia Bostad's P/E or EV/EBIT for 2018 should perhaps be compared to 2019 equivalents for peers. In a stable market, this calls for **a discount in multiples** compared to peers.
- **Lower risk**: Magnolia could arguably constitute a lower risk in development, for example, versus some peers such as Tobin and Oscar Properties. This would, all else equal, justify **a premium in multiples** compared to peers.
- **Exposure and market condition**: Magnolia Bostad has much more exposure to rentals than tenant-owned apartments. Even if this should affect future expected profits, especially in a market condition where tenant-owned exposure is and perhaps should be penalised, the justified multiples could **differ between Magnolia and peers due to exposure**.
- **Range of peer multiples in the current environment**: It should also be noted that peer valuation yields quite a range of fair value for Magnolia and could thus quickly become a useless metric.

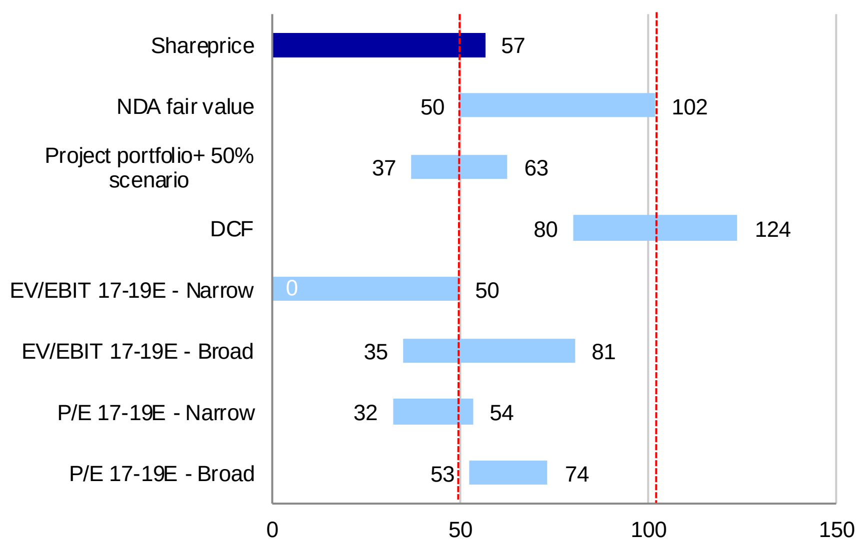
Fair value range

We use multi-scenario DCF, yielding SEK 50-102 per share and use peers as a point of reference only

As we do not consider peer multiples valuation as a reliable way to value Magnolia, we use our multi-scenario DCF range as a fair value range, ie SEK 50-102.

As a point of reference, we also include peer valuations in the schematic valuation chart below. With peer valuations, we use a broad universe (Construction and Development) and a narrow universe (Development); see the table in the previous subsection. Since the dispersion is so high, we use medians for every time period and then use max and min numbers out of the estimate time periods to arrive at a range of multiples which are then applied to Nordea Markets' estimates to arrive at implied price for Magnolia.

VALUATION, MULTI-SCENARIO DCF AND MULTIPLES AS A POINT OF REFERENCE, SEK



Source: Thomson Reuters and Nordea Markets

Estimates

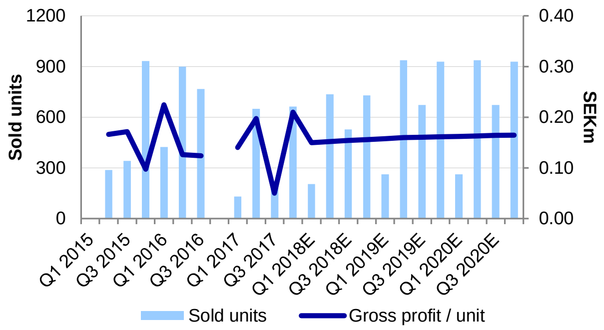
We believe that Magnolia can reach the goal of selling 3,000 residential units per year by 2021. We use profitability on the gross profit level and estimate that absolute gross profit will increase by ~58% over from 2017 to 2020. We estimate the lag of cash flows to gross profits of ~2.5 years and believe that the indirect tenant-owned model will be a relatively slow starter. With the move towards hotels and care housing, we believe that Magnolia can sell hotels and care units totalling around 300 rooms and 350 units, respectively, by 2020.

We expect 2,200 residential units per year to be reached by end-2018

When it comes to the traditional models, ie rental and direct tenant-owned apartments, in 2018, we believe this number will reach some 2,200 units, while the goal of 3,000 would be reached by 2021.

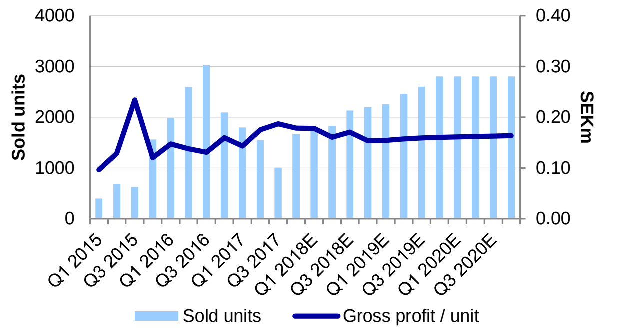
We deem gross profit per unit a better proxy for profitability of sales, as net sales and gross margins are heavily impacted by the nature of the rights being sold, ie whether they are options or actual land booked on Magnolia Bostad's group balance sheet. Gross profit per unit is estimated to go from SEK 0.15m up to SEK 0.16m by 2019/20 from where it is projected to grow by 2-2.5% per year. As a point of reference, in 2017, gross profit per unit is SEK ~0.18m in our estimates[1].

SOLD UNITS AND GROSS PROFIT RESIDENTIALS…



Source: Company data and Nordea Markets

…ON A ROLLING 12 MONTH BASIS



Source: Company data and Nordea Markets

We further believe that the indirect tenant-owned model will struggle in the current environment and project a 7% conversion rate by 2019

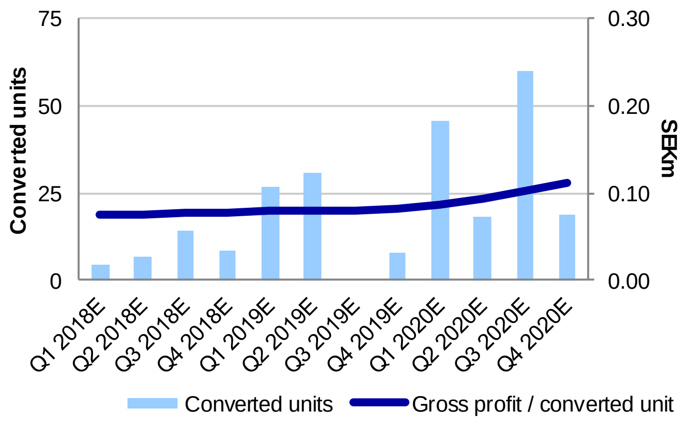
On top of sales from traditional models, ie the rental and direct tenant-owned models, we add projected sales and profit from the indirect tenant-owned model. In this model, units are converted from rental apartments to tenant-owned apartments. The company's goal is a conversion rate of some 25%, although we believe that due to the current sentiment in the Swedish residential housing market, this will be hard to achieve in the short and medium term. Hence, we estimate conversions will reach slightly below 150 by 2020. Even if the indirect tenant-owned apartment conversion is unsuccessful, Magnolia aims to always have at least a 10% margin in the rental model.

Gross profit of conversion an additional 50-100% of rental development

We estimate a conversion will yield, on average, an additional kick-back amounting to 50% of the gross profit already received from selling it as a rental apartment. The low number is due to the current market sentiment in tenant-owned properties in Sweden, and we project that the gross profit beyond 2020 will be in line with the gross profit already received from the rental development.

[1] Total gross profit for 2017 is reported. However, to back-track the gross profit attributable to selling development projects, some assumption must be made on gross profit attributable to Hotels and Care.

UNITS DEVELOPED UNDER RENTAL MODEL AND CONVERTED TO T-OWNED UNITS

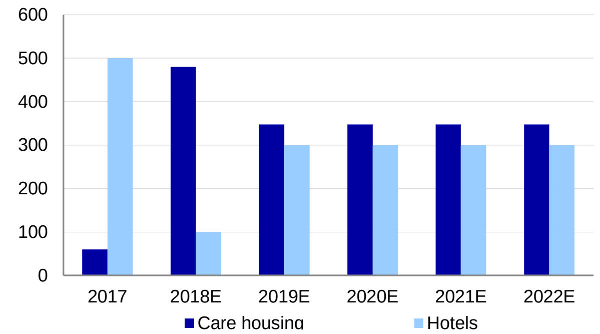


Source: Company data and Nordea Markets

In addition to the conversion model and tradition residential model, we have also projected sales in:

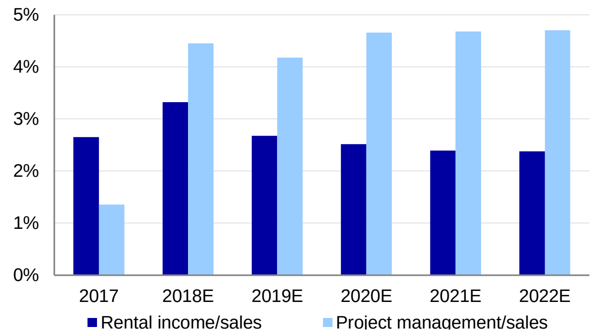
- **Care housing**: Gross profit per unit is initially 1.4x that of residential developments, reaching 2.25x by end-2020. This corresponds to ~8-10% reaching 15% by mid-2020. We estimate ~450 units 2018 and ~350 units by 2022 – due to the front-end heavy rights portfolio within Care. We see both upside potential and downside risk to this number.
- **Hotels**: We assume a 1x absolute gross profit in relation to that of traditional residential units – which was basically the outcome of the two sold hotel projects during Q4 2017. We assume that Magnolia is able to build some 100 units during 2018 (even since proving its ability to divest hotel projects this is more on the conservative side) going up to 300/year in later periods.
- **Project management**: Project management income makes up 4-6% of sales in our medium-term forecasts, which does not add to gross profit.
- **Rental income**: Rental income is projected to lay flat in real terms at SEK ~47m per year of sales in the medium term. Rental income has been assumed to have 66% gross profit margin (in line with 2017 actuals).

NUMBER OF UNITS SOLD IN CARE AND HOTELS



Source: Company data and Nordea Markets

RENTAL INCOME & PROJECT MANAGEMENT AS SALES %

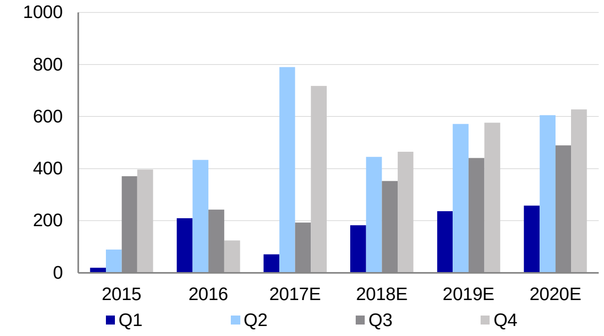


Source: Company data and Nordea Markets

Sales are then estimated as an effect of gross profit estimates, though we deem estimates to be volatile

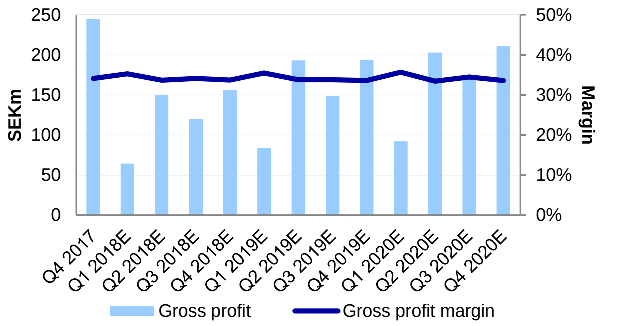
Even though we do not consider sales to be a good indicator for the progress of Magnolia Bostad's business, and also consider them quite unpredictable. Sales vary greatly depending on the type of project sold – if the building rights are options or if they are booked on Magnolia's balance sheet. As this is not transparent, we estimate sales as a function of gross profit with a margin of ~30-35%. The gross margin is much higher in the indirect tenant-owned model, but we estimate that this is only a small part of the business. The first and third quarters are smaller, while the second and fourth quarters tend to be stronger – at least in terms of residentials and we will have to see how the other segments develop.

NET SALES OVER QUARTERS, SEKm



Source: Company data and Nordea Markets

GROSS PROFIT AND MARGIN

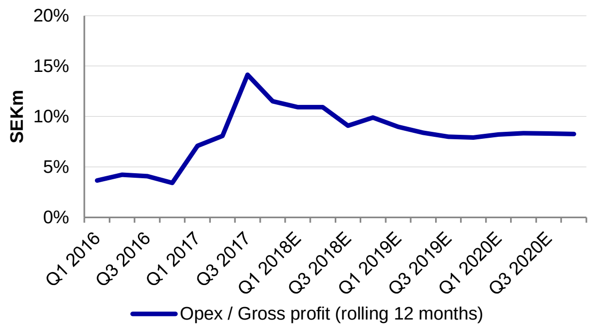


Source: Company data and Nordea Markets

Operational expenditure to gross profit will remain below 15% and then decrease beyond 2018

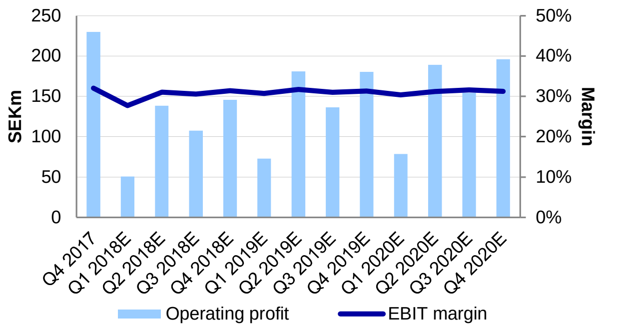
Operational expenditures in relation to gross profit have increased lately as Magnolia has among other things ramped up personnel and acquisitions in the rights portfolio. We estimate that it will remain in the ~10% territory and gradually decrease, owing to operational leverage. We therefore expect the EBIT margin to increase at a higher rate than gross margin, while being more sensitive to seasonality.

OPERATIONAL LEVERAGE: OPEX / GROSS PROFIT



Source: Company data and Nordea Markets

OPERATING PROFIT AND MARGIN



Source: Company data and Nordea Markets

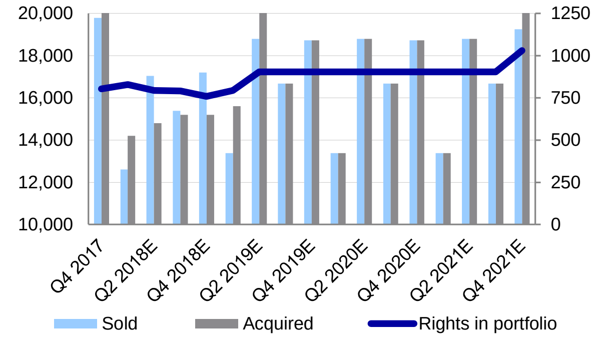
Portfolio expected to have around 15,000 units

We expect Magnolia to aim for a rights portfolio size of about 15,000 units. This means that units sold will on average be slightly above rights acquired for some time. As a best guess, we expect sold units and acquired rights to be in line with each other from mid-2019 on.

We then project receivables and tied-up capital in the rights portfolio going forward

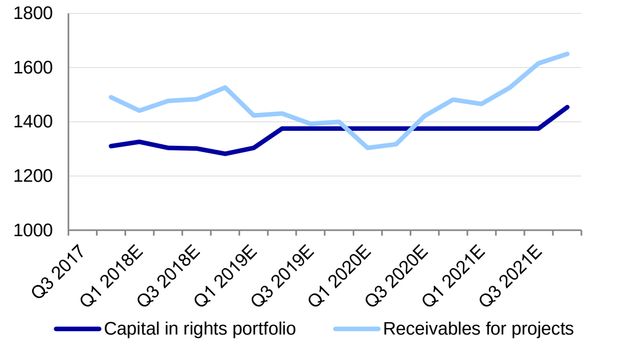
Another important aspect when valuing Magnolia Bostad is the binding of capital in the rights portfolio as well as in receivables – as the company is only paid for the profit part of projects after they have been completed, which usually takes some 2.5 to three years (we assume closer to 2.5 years). As the number of sold units increases, so does profit. Cash flow matching that profit, however, is tied up on the balance sheet as receivables for around 2.5 years. As the number of sold units increases, we see an increase in receivables. The opposite is the case for units already sold for which profit has not yet been paid, as this is expected be paid during the following ~2.5 years. We estimate that a total of SEK 1.5bn is unpaid, SEK ~453m of which will be paid to Magnolia in the coming 12 months. As we estimate the profitability of past projects to have been slightly higher than for the imminent projects, we expect capital tie-up to decrease during 2018 and then increase to SEK ~1.6bn in 2021.

DEVELOPMENT OF RIGHTS PORTFOLIO, SEKm



Source: Company data and Nordea Markets

RIGHTS PORTFOLIO AND PROJECT RECEIVABLES, SEKm



Source: Company data and Nordea Markets

Below are our detailed estimates for Magnolia Bostad's future operations along with actual results.

DETAILED ESTIMATES

	2017				2018				2019				Years			
SEKm	**Q1**	**Q2**	**Q3**	**Q4**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2017**	**2018E**	**2019E**	**2020E**
Net sales	71	790	193	718	182	445	352	464	237	571	441	576	1,772	1,444	1,825	1,981
% y/y growth	*-66.2%*	*82.0%*	*-20.3%*	*479.0%*	*157.0%*	*-43.6%*	*82.4%*	*-35.3%*	*29.7%*	*28.3%*	*25.2%*	*24.1%*	*75.4%*	*-18.5%*	*26.4%*	*8.5%*
Gross profit	26	136	19	245	64	150	120	156	84	193	149	194	426	490	620	674
% of sales	*36.6%*	*17.2%*	*9.8%*	*34.1%*	*35.2%*	*33.6%*	*34.1%*	*33.7%*	*35.4%*	*33.8%*	*33.8%*	*33.6%*	*24.0%*	*34.0%*	*34.0%*	*34.0%*
Operating profit	14	126	7	230	51	138	108	146	73	181	136	180	377	442	571	618
% of sales	*19.7%*	*15.9%*	*3.6%*	*32.0%*	*27.7%*	*31.1%*	*30.5%*	*31.4%*	*30.7%*	*31.7%*	*30.9%*	*31.3%*	*21.3%*	*30.6%*	*31.3%*	*31.2%*
% of gr. profit	*53.8%*	*92.6%*	*36.8%*	*93.9%*	*78.6%*	*92.4%*	*89.6%*	*93.1%*	*86.7%*	*93.8%*	*91.5%*	*93.1%*	*88.5%*	*90.1%*	*92.1%*	*91.7%*
Net profit	-9	101	-22	198	18	106	77	115	43	149	103	143	268	316	439	496
% of sales	*-12.7%*	*12.8%*	*-11.4%*	*27.6%*	*9.8%*	*23.7%*	*21.9%*	*24.9%*	*18.2%*	*26.1%*	*23.5%*	*24.9%*	*15.1%*	*21.9%*	*24.0%*	*25.0%*
% of gr. profit	*-34.6%*	*74.3%*	*-115.8%*	*80.8%*	*27.9%*	*70.6%*	*64.4%*	*73.8%*	*51.3%*	*77.1%*	*69.5%*	*73.9%*	*62.9%*	*64.5%*	*70.8%*	*73.6%*
Sold units	130	650	224	1,223	326	881	673	900	424	1,099	834	1,091	2,227	2,780	3,447	3,447
Rights portfolio	11,830	16,170	15,848	16,429	16,629	16,348	16,325	16,075	16,351	17,237	17,237	17,237	16,429	16,075	17,237	17,237
Receivables				1,490	1,441	1,477	1,483	1,526	1,423	1,430	1,392	1,399	1,490	1,526	1,399	1,482
Value of portf.	1,453	905	1,326	1,310	1,326	1,304	1,302	1,282	1,304	1,374	1,374	1,374	1,310	1,282	1,374	1,374

Source: Company data and Nordea Markets

SPECIFICATION OF GROSS PROFIT

	2017				2018				2019			
SEKm	**Q1**	**Q2**	**Q3**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**
Renting out				8	8	8	8	8	8	8	8	8
Hotels				85	0	4	4	8	13	13	13	13
Care housing				13	25	26	26	26	19	19	20	22
Conversion				0	0	1	1	1	2	2	0	1
Residential				139	31	112	81	114	41	150	108	150

Source: Company data and Nordea Markets

SPECIFICATION OF UNITS

	2017				2018				2019			
Units	**Q1**	**Q2**	**Q3**	**Q4**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**
Hotels	0	0	0	500	0	25	25	50	75	75	75	75
Care housing	0	0	0	60	120	120	120	120	87	87	87	87
Conversion				3	4	7	14	8	27	31	0	8
Residential	130	650	224	663	206	736	528	730	262	937	672	929

Source: Company data and Nordea Markets

Risk factors

This section highlights the main risk factors for Magnolia Bostad and primarily covers operational, financial and regulatory risks. These risk factors are assessed in terms of their effect on the company's operations, financial performance and financial condition. The following is not an exhaustive list, but rather an overview of some of the key risk factors for the company as we see it.

Macroeconomic factors

The real estate market is cyclical and affected by macroeconomic factors

Magnolia Bostad operates in the cyclical real estate market. Hence, general macroeconomic factors, such as GDP development, population growth and level of production of new housing heavily impact the company. Since the project portfolio is concentrated to some strategic areas, 58% in Greater Stockholm, regional development could have a substantial impact on the company's operations and financial performance.

A downturn in the economy is likely to have an adverse effect on the Swedish housing market and thus impact the company's operations. One example could be if the company planned to develop a real estate project but the current market conditions mean that the company is unable to sell the apartments and it ends up postponing the start of the project.

Competition

Domestic and foreign competitors may put pressure on profitability

The Swedish market for real estate development is relatively fragmented and highly competitive. Competition may increase further as competitors develop their strategies and strengthen their financial position. Furthermore, strong price performance on the real estate market may attract new competitors and put pressure on profitability. Foreign competitors could also enter the market to a larger extent, further increasing the competition.

There could be considerable risk for Magnolia Bostad to be left out by buyers or contractors

In Magnolia Bostad's case, there is a risk of new competitors entering the market as well as a risk that some suppliers or buyers expand their market scope and develop the properties themselves. Magnolia Bostad's business model is to combine a buyer of a property, a contractor of the same property and a municipality that allows for the construction to commence. It is possible that a contractor or a real estate management company could do what Magnolia Bostad is doing today, leaving out Magnolia Bostad from the business or pressuring its margins.

Changes in interest rates

Interest expenses a large part of total costs

The company's interest rate expenses constitute a large part of its total costs. Changes in interest rates would therefore have a significant impact on the financial performance of the company. Additionally, interest rates across Europe, and especially in Sweden, remain at historically low levels and have probably boosted activity and spending in real estate development projects.

Yield requirements on rental units and interest rates tend to correlate, and although there are still attractive yield gaps between headline rates and yield requirements (approximately 3% today), prices on rental units might come under pressure and/or demand deteriorates when rates increase. Since rents for the rental properties are regulated, CPI adjustments are delayed and hence returns (yields) would come under pressure if rates are up driven by inflation. In 2017 and 2018, the rental adjustment on average was 0.7% (SABO estimate for 2018), below the general CPI adjustments for commercial real estate properties (+1.2% in 2017 and +1.7% in 2018).

Historically low levels of interest rates are likely to increase over time

However, even though the Riksbank expects interest rates to remain at similar levels in the future, interest rates are likely to approach normalised levels over time. This would have a negative impact on borrowing costs and probably dampen activity in the industry. Thus, changes in interest rates would affect the company's financial performance and financial situation. Also, since Magnolia Bostad has issued bonds with floating rates, the company is directly exposed to changes in interest rates.

Financing risk

Developing properties require financing options in order to secure profitability

Development projects require favourable financing options in order to secure profitability. If financing cannot be obtained, extended or expanded, the company may risk losing promising acquisitions of building rights. Strong overall economic development and low interest rates have probably led to a currently promising financing market for the company. However, there is still a risk that the company has, due to costly financing, overpaid for its building rights and may therefore not be able to fully realise the expected return on a project.

Counterparty risk

Most units are sold before production starts but counterparty risk still exists

Properties developed as rental apartments are sold before production starts and tenant-owned apartments must have binding agreements to specific sales targets before production starts. For instance, a sales target can be defined as securing the sale of 75% of the project. In both cases, the buyer provides funding on an ongoing basis throughout the process. Nevertheless, there is still a risk that Magnolia Bostad will not get paid as agreed upon, as the company still faces counterparty risk.

Dependence on key customers – 71% of sales to top-three customers

Even if the probability of a buyer failing to pay might be quite low as Magnolia Bostad attempts to target financially strong investors, the impact can be significant as the majority of Magnolia Bostad's sales are to its top-three customers. In 2016, sales to these three parties constituted 71% of totals group sales, while all other customers represented less than 10% of total sales each.

Counterparty risk both to buyer and contractor

However, the buyer is not the only counterparty in Magnolia Bostad's operations. Since the company outsources the production process to contractors using turnkey contracts, additional counterparty risk exists. This could result in a situation where Magnolia Bostad needs to find another buyer or new contractors if any of the counterparties becomes insolvent during the development of the project. Alternatively, the company could cancel an ongoing project if any of the counterparties fail the ongoing funding.

Volumes and demand

When we combine macroeconomic risks, changes in interest rates, financing risks, and counterparty risks, there is a clear risk also that demand for Magnolia's projects (both rental and tenant-owned) will correlate with and exaggerate the cyclical swings in the company.

Legal, tax and political risks

Changes in building codes, taxes and other regulations affect operations

Changes in regulations, tax rules or development restrictions could have an adverse effect on Magnolia Bostad. Strong price performance in the Swedish housing market may cause political action, changing the nature of business. This could include political initiatives to try to cool down the real estate market by raising taxes on residential properties. Also, changes in building codes, building rights and security rules will probably have an effect on Magnolia Bostad's business.

Changes to customer purchasing power will also affect operations

Changes affecting the household economy, such as taxes or amortisation rules, would reasonably affect the housing market since the customers' purchasing power is likely to be affected. All in all, any changes to the end customers' capability or willingness to pay for housing may impact Mangold Bostad's possibility to develop and sell real estate.

Key personnel

The company is reliant on the experience and knowledge of some key personnel. Since Magnolia Bostad has experienced rapid growth in terms of building rights in the portfolio and strives to further gain market shares, keeping and recruiting new personnel is essential for additional growth.

Ownership structure and conflict of interest

Founder and Chairman Fredrik Holmström is vital to Magnolia Bostad

Fredrik Holmström, one of the founders and current chairman of the board, is the majority shareholder of Magnolia Bostad and controls more than 50% of the votes/capital. Therefore, he is a vital part of the company. Potential sell-offs or changes in his position will likely have an impact on the company's long-term performance.

CEO and co-investor Fredrik Lidjan also very important to the company

Since the CEO, Fredrik Lidjan, is a co-investor of future development projects of rental apartments and Fredrik Lidjan and Clas Hjorth, responsible for hotel constructions, are co-investors to future developments of hotel projects, a potential conflict of interest may arise in the future. For instance, short-term profit maximisation from projects may not align with long-term value creation for Magnolia Bostad.

Risks associated with the business model

Price trends and overall activity in the market will affect demand for property development

The company's business model is mainly new real estate development projects and a key requirement for any of its project is profitability. A development project that is unprofitable will simply not be implemented. One factor affecting profitability is the company's ability to sell residential properties. For instance, if there is a risk that the company is unable to meet the market's demand, Magnolia Bostad will probably struggle when trying to secure a deal to sell residential. Price trends and the activity in the real estate market are some factors affecting market demand.

Since activity in the Swedish housing market has increased, Magnolia Bostad may suffer from a shortage of resources. This could cause longer delivery times and increase building costs. If increased building costs cannot be balanced out with higher income, the company will suffer from lower profitability.

Some risks are inherent in the production process

As the company develops real estate projects, it faces risks related to the production process. Such risks could include defect assembly, environmental aspects or construction problems. Some of this risk is managed through fixed production costs in turnkey contracts. Also, the company experiences risk before and after the development process. Unexpected costs related to acquisitions or problems with selling can impact the company's operations and financial position.

Reported numbers and forecasts

INCOME STATEMENT											
SEKm	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Net revenue	**4**	**144**	**141**	**876**	**1,010**	**1,772**	**1,444**	**1,825**	**1,981**	**2,126**	**2,183**
Revenue growth		n.m.	-2.1%	523.1%	15.4%	75.4%	-18.5%	26.4%	8.5%	7.3%	2.7%
EBITDA	-8	25	49	367	357	376	448	577	624	676	701
Depreciation and impairments PPE	-2	0	0	0	0	1	-6	-6	-6	-6	-6
EBITA	-10	25	49	367	357	377	442	571	618	670	695
Amortisation and impairments	-1	-1	-1	-10	-2	0	0	0	0	0	0
EBIT	-11	24	47	357	355	377	442	571	618	670	695
of which associates	0	0	-1	0	15	-9	-4	-4	-4	-4	-4
Associates excl. from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	-0	-3	-17	-50	-89	-109	-126	-115	-79	-64	-45
Pre-Tax Profit	**-12**	**21**	**30**	**307**	**266**	**268**	**316**	**455**	**539**	**606**	**651**
Reported taxes	-0	0	-1	-0	0	0	0	-16	-43	-48	-52
Net profit from cont. operations	-12	21	29	307	266	268	316	439	496	557	599
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	-19	-43	-72	-30	-43	-47	-52	-56
Net profit to equity	-12	21	29	288	223	196	286	396	449	505	543
EPS	**-0.38**	**0.66**	**0.90**	**8.07**	**5.86**	**5.18**	**7.56**	**10.46**	**11.87**	**13.35**	**14.35**
DPS	0.00	0.00	0.00	1.00	1.75	1.75	1.89	2.62	2.97	3.34	3.59
of which ordinary	0.00	0.00	0.00	1.00	1.75	1.75	1.89	2.62	2.97	3.34	3.59
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	-221.7%	17.2%	34.7%	41.9%	35.3%	21.2%	31.0%	31.6%	31.5%	31.8%	32.1%
EBITA	-275.2%	17.2%	34.7%	41.9%	35.3%	21.3%	30.6%	31.3%	31.2%	31.5%	31.9%
EBIT	-303.0%	16.5%	33.7%	40.8%	35.2%	21.3%	30.6%	31.3%	31.2%	31.5%	31.9%
Adjusted earnings											
EBITDA (adj.)	-8	25	49	214	357	376	448	577	624	676	701
EBITA (adj.)	-10	25	49	214	357	377	442	571	618	670	695
EBIT (adj.)	-11	24	47	205	355	377	442	571	618	670	695
EPS (adj.)	-0.38	0.66	0.90	3.79	5.86	5.18	7.56	10.46	11.87	13.35	14.35
Adjusted profit margins in percent											
EBITDA (adj.)	-221.7%	17.2%	34.7%	24.5%	35.3%	21.2%	31.0%	31.6%	31.5%	31.8%	32.1%
EBITA (adj.)	-275.2%	17.2%	34.7%	24.5%	35.3%	21.3%	30.6%	31.3%	31.2%	31.5%	31.9%
EBIT (adj.)	-303.0%	16.5%	33.7%	23.4%	35.2%	21.3%	30.6%	31.3%	31.2%	31.5%	31.9%
Performance metrics											
CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	303.9%	87.4%	79.0%	20.1%	18.3%	4.7%	10.9%
EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	97.6%	74.1%	12.0%	15.0%	15.8%	11.9%
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	99.7%	74.8%	12.4%	14.9%	15.5%	12.0%
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	67.7%	70.2%	6.7%	19.3%	26.7%	17.4%
DPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.2%	14.1%	17.5%	17.4%
Average EBIT margin	n.a.	8.3%	20.7%	35.8%	35.5%	29.4%	30.1%	30.3%	29.4%	29.3%	31.3%
Average EBITDA margin	n.a.	11.0%	22.6%	37.1%	36.3%	29.8%	30.4%	30.7%	29.6%	29.5%	31.7%

Source: Company data and Nordea Markets

VALUATION RATIOS - ADJUSTED EARNINGS

SEKm	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
P/E (adj.)	0.0	0.0	0.0	22.2	16.4	9.6	7.5	5.4	4.8	4.2	3.9
EV/EBITDA (adj.)	n.m.	5.1	9.4	18.4	13.4	10.5	9.0	6.3	5.3	4.6	4.0
EV/EBITA (adj.)	n.m.	5.1	9.4	18.4	13.4	10.4	9.1	6.3	5.4	4.7	4.0
EV/EBIT (adj.)	n.m.	5.3	9.7	19.3	13.5	10.4	9.1	6.3	5.4	4.7	4.0
Valuation ratios/reported earnings											
P/E	0.0	0.0	0.0	10.4	16.4	9.6	7.5	5.4	4.8	4.2	3.9
EV/Sales	16.0	0.9	3.3	4.5	4.7	2.2	2.8	2.0	1.7	1.5	1.3
EV/EBITDA	n.m.	5.1	9.4	10.8	13.4	10.5	9.0	6.3	5.3	4.6	4.0
EV/EBITA	n.m.	5.1	9.4	10.8	13.4	10.4	9.1	6.3	5.4	4.7	4.0
EV/EBIT	n.m.	5.3	9.7	11.1	13.5	10.4	9.1	6.3	5.4	4.7	4.0
Dividend yield (ord.)	n.a.	n.a.	n.a.	1.2%	1.8%	3.5%	3.3%	4.6%	5.2%	5.9%	6.3%
FCF yield	n.a.	n.a.	n.a.	-4.7%	-3%	-33.3%	8.5%	23.8%	18.7%	13.6%	21.5%
Payout ratio	n.a.	0.0%	-24.4%	-20.5%	-13.2%	-29.6%	-33.8%	-25.0%	-25.0%	-25.0%	-25.0%

Source: Company data and Nordea Markets

BALANCE SHEET

SEKm	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Intangible assets	8	7	14	7	6	7	7	8	8	9	9
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	0	8	1	0	1	1	2	2	3	3
of which goodwill	8	7	6	6	6	6	6	6	6	6	6
Tangible assets	125	0	0	0	1	8	8	8	8	8	8
Shares associates	24	31	63	26	139	135	131	127	123	119	115
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0
Other non-int. bearing assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	31	46	46	310	437	1196	941	970	1082	1153	1188
Total non-current assets	**189**	**84**	**124**	**343**	**583**	**1346**	**1087**	**1113**	**1221**	**1289**	**1320**
Inventory	20	210	433	1143	1164	1314	1286	1378	1378	1458	1458
Accounts receivable	48	52	198	208	496	678	973	817	788	884	948
Other current assets	3	0	1	2	5	5	4	5	6	6	6
Cash and bank	20	23	37	193	507	208	214	515	191	-30	305
Total current assets	**90**	**285**	**669**	**1546**	**2172**	**2205**	**2477**	**2716**	**2363**	**2318**	**2717**
Assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total assets	**279**	**370**	**792**	**1889**	**2755**	**3551**	**3564**	**3829**	**3584**	**3607**	**4037**
Shareholders equity	**169**	**190**	**253**	**678**	**862**	**991**	**1211**	**1535**	**1885**	**2278**	**2694**
of which preferred stock	0	0	0	0	0	0	0	0	0	0	0
of which Equity of hyb. debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	93	136	180	138	151	155	160	164
Total Equity	169	190	253	771	998	1171	1349	1686	2040	2438	2858
Deferred tax	0	0	0	2	2	2	2	2	2	2	2
Long term int. bearing debt	75	146	494	731	1268	1566	1429	804	404	404	404
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	4	0	110	91	65	53	67	73	78	80
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-curr. liabilities	**75**	**150**	**495**	**843**	**1361**	**1633**	**1484**	**873**	**479**	**484**	**486**
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	3	6	15	14	38	16	13	16	18	19	20
Other current liabilities	26	21	29	131	121	222	181	229	248	266	273
Short term interest bearing debt	6	2	0	130	237	507	537	1025	800	400	400
Total current liabilities	**35**	**30**	**44**	**275**	**396**	**745**	**731**	**1270**	**1066**	**686**	**693**
Liab.for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**279**	**370**	**792**	**1889**	**2755**	**3549**	**3564**	**3829**	**3584**	**3607**	**4037**
Balance sheet and debt metrics											
Net debt	61	125	457	668	998	1,865	1,752	1,314	1,013	834	499
Working capital	41	235	587	1,208	1,506	1,759	2,069	1,956	1,906	2,063	2,119
Invested capital	230	319	711	1,551	2,089	3,105	3,156	3,069	3,127	3,352	3,439
Capital employed	244	340	748	1,614	2,359	2,806	2,833	2,559	2,518	2,922	3,344
ROE	-14.1%	11.4%	13.2%	62%	28.9%	21.2%	26.0%	28.8%	26.3%	24.3%	21.8%
ROIC	-10.1%	8.5%	8.7%	31.1%	19.0%	14.1%	13.7%	17.4%	18.3%	19.0%	18.8%
ROCE	-4.7%	7.0%	6.3%	22.1%	15.1%	13.4%	15.6%	22.3%	24.5%	22.9%	20.8%
Net debt/EBITDA	-7.2	5.1	9.4	1.8	2.8	5.0	3.9	2.3	1.6	1.2	0.7
Interest coverage	-4.3	4.3	2.7	7.8	4.2	3.5	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	60.7%	51.4%	32.0%	35.9%	31.3%	27.9%	34.0%	40.1%	52.6%	63.1%	66.7%
Net gearing	35.9%	66%	180.3%	n.m.	100.0%	159.3%	129.9%	77.9%	49.7%	34.2%	17.5%

Source: Company data and Nordea Markets

CASH FLOW STATEMENT

SEKm	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
EBITDA (adj.) for associates	-8	25	50	367	342	385	452	581	628	680	705
Paid taxes	0	0	4	1	-4	0	0	-16	-43	-48	-52
Net financials	0	-3	-18	-49	-89	-109	-126	-115	-79	-64	-45
Change in Provisions	0	0	0	0	0	0	0	0	0	0	0
Change in other LT non-IB	-31	-10	-4	-154	-146	-785	243	-15	-106	-66	-33
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	-72	-30	-43	-47	-52
Other adj. to reconcile to cash flow	40	-21	6	-254	-193	218	0	0	0	0	0
Funds from operations (FFO)	**0**	**-10**	**38**	**-90**	**-90**	**-291**	**497**	**403**	**357**	**454**	**524**
Change in NWC	0	-36	-267	-60	68	-326	-310	113	50	-157	-56
Cash flow from op. (CFO)	0	-47	-229	-150	-22	-617	188	516	406	298	468
Capital Expenditure	0	-22	-15	0	-100	-13	-6	-6	-6	-6	-6
Free Cash Flow before A&D	**0**	**-68**	**-244**	**-150**	**-122**	**-630**	**181**	**510**	**400**	**291**	**461**
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Free cash flow	0	-68	-244	-150	-122	-630	181	510	400	291	461
Dividends paid	0	0	-5	-6	-38	-66	-66	-71	-99	-112	-126
Equity issues / buybacks	0	0	0	181	0	0	0	0	0	0	0
Net change in debt	0	71	263	131	474	397	-107	-137	-625	-400	0
Other financing adjustments	0	0	0	0	0	0	-2	0	0	0	0
Other non-cash adjustments	20	0	0	0	0	0	0	0	0	0	0
Change in cash	20	3	14	156	314	-299	6	301	-324	-221	335
Cash flow metrics											
Capex/D&A	0%	2314%	1060%	74%	6348%	-1300%	107%	107%	107%	107%	107%
Capex/Sales	0.0%	15.4%	10.6%	0.8%	9.9%	0.7%	0.4%	0.4%	0.3%	0.3%	0.3%
Key information											
Share price year end (current)	0.0	0.0	0.0	84.0	96.3	50.0	56.6	56.6	56.6	56.6	56.6
Market cap	0	0	0	3191	3656	1891	2141	2141	2141	2141	2141
Enterprise value	61	125	457	3952	4790	3936	4031	3605	3308	3135	2804
Diluted no. of shares, year-end (m)	31.3	31.3	33.3	38.0	38.0	37.8	37.8	37.8	37.8	37.8	37.8

Source: Company data and Nordea Markets

Appendix: Project portfolio

Magnolia Bostad has 5,849 apartments under production and building permits for another ~16,429 apartments. Slättö is the designated buyer of ~42% of the gross area of all permits and projects. The projects under development include Senapsfabriken with approximately 1,000 apartments in central Uppsala and Sländan, with both tenant-owned apartments and rental apartments in central Södertälje.

SOLD PROJECTS IN PRODUCTION

Project	Municipality	Type	Apartments	Gross area (m²)	Units unsold	Start	Completion	Magnolia share	Buyer
Lumen	Sollentuna	TO	90	4,750	0	2015	2017	TO association	Wästbygg
Slipen	Karlstad	RU	216	12,300	0	2015	2018	Slättö	Consto
Maria Forum	Helsingborg	RU	292	12,500	0	2015	2018	Alecta	Serneke
Bryggeriet	Helsingborg	RU	327	14,700	0	2015	2019	Alecta	Skanska
Nyby Lilium	Uppsala	RU	300	14,000	0	2015	2019	SEB	Serneke
Kalkstenen	Malmö	RU	129	5,100	0	2015	2019	SPP	Veidekke
Cementfabriken	Malmö	RU	144	7,100	0	2015	2019	SPP	Veidekke
Varvet	Varvet	TO	92	6,100	0	2016	2018	TO association	Consto
Segelflygaren	Örebro	RU	210	10,000	0	2016	2018	Slättö	Consto
Maria Mosaik	Helsingborg	RU	345	16,000	0	2016	2020	SPP	Veidekke
Senapsfabriken	Kungsängen	RU	455	19,400	0	2016	2019	SEB	NCC
Tegelslagaren	V allentuna	RU	155	6,150	0	2016	2019	SEB	ED Bygg
Tegelmästaren	Vallentuna	RU	160	5,950	0	2016	2019	SEB	ED Bygg
Sländan	Södertälje	RU	445	19,000	0	2016	2019	SPP	ED Bygg
Gjuteriet	Eskilstuna	RU	262	13,900	0	2016	2019	Slättö	Consto
Terra Nova	Visby	C	60	3,780	0	2017	2018	M&G	PEAB
Varvet Townhouse	Karlstad	TO	4	700	4	2017	2018	TO association	Consto
Sländan, phase 2	Södertälje	RU	130	5,300	0	2017	2020	Viva Bostad	ED Bygg
Fyren, phase 1	Nynäshamn	RU	220	10,500	0	2017	2020	Viva Bostad	Consto
Fyren, phase 2	Nynäshamn	RU	236	11,600	0	2017	2020	SEB	Consto
Hotell Resecentrum	Halmstad	H	240	9,500	0	2017	2020	Alecta	Serneke
Hotell Brunnshög	Lund	H	260	8,900	0	2017	2020	Alecta	Serneke
Hyllie Valhall	Malmö	RU	427	21,000	0	2017	2021	Vault Investmen	ED Bygg
Senapsfabriken	Uppsala	RU	325	13,100	0	2017	2022	Slättö	NCC
Senapsfabriken	Uppsala	RU	325	13,900	0	2017	2023	Heimstaden	NCC
Sum			**5,849**	**265,230**	**4**				
Slättö sum			**1,013**	**49,300**	**0**				

Type of ownership: RU=Rental unit, TO=Tenant-owned, H=Hotel, C=Care

Source: Company data and Nordea Markets

CONVERSIONS IN SOLD RENTAL APARTM. PROJECTS

Project	City	2017	Buyer
Slipen	Karlstad	32	Slättö
Gjuteriet, #1	Eskilstuna	49	Slättö
Gjuteriet, #2	Eskilstuna	38	Slättö
Sum		**119**	

Source: Company data and Nordea Markets

PENDING PROJECTS NOT SOLD

Project	Municipality	Type	Apartments /unit	Gross area (m²)	Local Plan	Estimated production start	Estimated completion	Magnolia share	Buyer
Adjutanten	Gotland	C	68	4,200	x	2018	2018	92%	
Täljöviken	Stockholm	C	55	4,850	x	2017	2018	92%	
Partilleport	Göteborg	C	54	11,100	x	2018	2019	46%	
Allarp Laholm	Helsingborg	C	54	3,850	x	2018	2019	46%	
Fasanen	Burlöv	R	275	12,670	x	2018	2020	90%	
Drottninghög	Helsingborg	C	100	8,100		2018	2020	78%	
Sportflygaren	Örebro	R	130	7,500	x	2018	2019	90%	
Visborg	Visby	C	58	3,950	x	2018	2019	92%	
Nyponrosen 2	Helsingborg	C	125	8,360	x	2018	2019	46%	
Lilium, phase 2	Uppsala	R	110	5,200	x	2018	2019	90%	
Konstnären	Uppsala	R	120	5,500	x	2018	2020	90%	
Gyllehemmet	Borlänge	C	106	10,500		2018	2019	92%	
Österhagen	Stockholm	C	72	5,040		2019	2020	92%	
Erstavik	Stockholm	C	72	5,180		2021	2022	46%	
Norra kajen, phase 3	Sundsvall	R	230	16,000		2021	2023	90%	
Mesta	Eskilstuna	C	54	3,950		2019	2020	92%	
Nätverket	Åkersberga	R	335	9,200		2019	2021	90%	Slättö agreement
Norrbacka	Sigtuna	R	210	12,000		2018	2020	90%	
Ångloket	Knivsta	R	250	14,000		2018	2020	90%	
Hagby Park	Åkersberga	R	195	10,900		2019	2021	90%	Slättö agreement
Sländan, phase 3	Södertälje	R	200	10,000		2018	2020	90%	
Hasseludden	Stockholm	C	60	4,300		2018	2020	92%	
Ophelias brygga	Helsingborg	R	125	7,500	x	2018	2020	90%	
Lommarstranden	Norrtälje	R	100	5,500		2019	2021	90%	Slättö agreement
Gjuteriet, phase 2	Eskilstuna	R	100	5,800	x	2018	2020	90%	
Slipsen, phase 1	Lund	R	195	9,900		2018	2020	90%	Slättö agreement
Norrtälje Hamn phase 1	Norrtälje Hamn	R	145	7,400	x	2018	2020	90%	Slättö agreement
Torgkvarteren, phase 1	Bålsta	R	220	11,000		2019	2022	90%	
Mejeriet, phase 1	Helsingborg	R	230	10,400		2019	2022	90%	Slättö, partly
Frihamnen	Göteborg	H	300	12,000		2019	2021	76%	
Frihamnen	Göteborg	R	150	8,000		2020	2022	90%	
Norra kajen, phase 1	Sundsvall	R	240	18,000		2019	2021	90%	
Hammarby-Smedby	Upplands-Väsby	C	72	7,700		2020	2021	78%	
Ystad trädgård	Ystad	C	100	4,600	x	2020	2021	39%	
Norrtälje Hamn, phase 2	Norrtälje Hamn	R	145	7,500	x	2019	2022	90%	Slättö agreement
Torgkvarteren, phase 2	Bålsta	R	220	11,000		2019	2023	90%	
Slipsen, phase 2	Lund	R	195	9,900		2019	2023	90%	Slättö agreement
Mejeriet, phase 2	Helsingborg	R	230	10,400		2020	2023	90%	
Norra kajen, phase 2	Sundsvall	R	230	16,000		2020	2022	90%	
Lommarstranden, phase 2	Norrtälje	R	100	5,500		2020	2022	90%	Slättö agreement
Norrtälje Hamn, phase 3	NorrtäljeHamn	R	150	7,600	x	2019	2022	90%	Slättö agreement
Slipsen, phase 3	Lund	R	200	9,900		2020	2024	90%	Slättö agreement
Mejeriet, phase 3	Helsingborg	R	240	10,400		2020	2024	90%	
Södra Häggviks Gårdar	Sollentuna	R	1,500	94,000		2020	tbd	90%	Slättö agreement
Skärholmen	Skärholmen	R	85	7,000		tbd	tbd	92%	
Skarpnäcksgård	Skarpnäck	R	50	3,500		tbd	tbd	92%	
Årstaberg 1	Stockholm	R	100	6,300		tbd	tbd	92%	
Årstaberg 2	Stockholm	R	120	7,500		tbd	tbd	92%	
Mossenskolan	Motala	C	54	4,400	x	2018	2019	78%	
Bredängshöjden	Stockholm	R	700	35,000		tbd	tbd	90%	Slättö agreement
Orminge Centrum	Nacka	R	300	20,000		tbd	tbd	90%	
Instrumentet	Stockholm	R	100	4,700		tbd	tbd	100%	
Senapsfabriken, phase 3	Uppsala	R	700	29,000		tbd	tbd	90%	Slättö agreement
Upplands Väsby Infra City	Upplands Väsby	R/C/H	800	42,000		2020	2023	90%	
Skogskarlen	Solna	R	200	17,400		tbd	tbd	100%	
Bunkeflostrand	Malmö	R/C	1,300	58,500		tbd	tbd	90%	Slättö, partly
Kvarnsjödal	Botkyrka	R/C	2,000	130,000		tbd	tbd	90%	Slättö, partly
Vårby Bryggor	Huddinge	R/C/H	1,800	85,000		tbd	tbd	90%	Slättö, partly
Sum			**16,429**	**916,650**					
Slättö sum			**7,325**	**383,250**					
With local planning			**1,868**	**111,980**					

Source: Company data and Nordea Markets

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