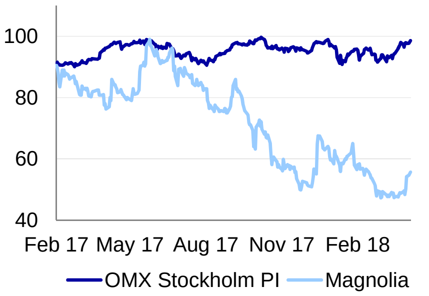
Magnolia Bostad

Construction and Real Estate | Sweden

Key data

Country	Sweden
Bloomberg	MAG SS
Reuters	MAGNO.ST
Share price	52.60
Free float	24.6%
Market cap (m)	SEK 1,989
Website	magnoliabostad.se
Next report date	09 July 2018

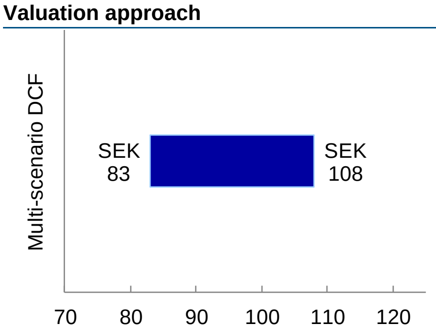
Absolute and relative performance



	-1M	-6M	-12M	YTD
Absolute	9%	-25%	-48%	5%
Relative	5%	-23%	-54%	3%

Source: FactSet and Bloomberg

Valuation approach



Source: Nordea

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The bottom-line machine steams ahead

The quarter in numbers

Magnolia Bostad's Q1 numbers were strong, beating both our estimates and Thomson Reuters' consensus expectations. At SEK 128m, Magnolia's Q1 gross profit was the strongest Q1 gross profit in the company's history, at 603% y/y on very easy comparables, beating Thomson Reuters' consensus by 83% and our forecast by 100% The rental and care business units steam on, with a project of 275 rental apartments sold during the quarter, along with one 58-unit Care project. The dilution from minorities was minimal in the quarter, yielding EPS of SEK 2.14. Full-year LTM EPS landed at SEK 7.51, meaning the LTM P/E is 7.0x.

High performance in rental and care...

It is positive to see both rental and care continuing to bloom with future potential in the rights portfolio. With Magnolia breaking ground on its first care and hotel projects as recently as Q4, the diversification of the business model has been proven yet again.

...spiced with tenant-owned contracts without lost focus

On top of that, the company has managed to sign ~40 tenants-owned contracts despite the current environment for such apartments. Most of these are in future projects not yet accounted for in terms of profit recognition. This bodes well for a possible recovery of the company's tenant-owned sales. In the meantime, focus is on rentals, care and hotel projects, with 1.6% of units under production solely attributable to direct tenant-owned development. The rights portfolio is also focused on rental, care and hotels.

Valuation

We base our fair value on a multi-scenario DCF. Accounting for sensitivity and a downside scenario in our base case, we reach a fair value range of SEK 83-108 per share.

SUMMARY TABLE - KEY FIGURES

SEKm	2015	2016	2017	2018E	2019E	2020E	2021E
Net sales	876	1010	1772	1615	1729	1869	2004
- growth	n.m.	15%	75%	-9%	7%	8%	7%
EBIT	205	355	377	453	560	607	657
- margin	40.8%	35.2%	21.3%	28.0%	32.4%	32.5%	32.8%
EPS	8.07	5.86	5.18	8.17	10.71	11.92	13.33
- growth	n.m.	-27%	-12%	58%	31%	11%	12%
DPS	1.00	1.75	1.75	2.04	2.68	2.98	3.33
P/E	22.2	16.4	9.6	6.9	5.3	4.7	4.2
EV/EBIT	11.1	13.5	10.4	8.5	6.3	5.2	4.5
EV/Sales	4.5	4.7	2.2	2.4	2.0	1.7	1.5
RoE	61.8%	28.9%	21.2%	27.8%	29.0%	26.0%	23.9%
Div. yield	1.2%	1.8%	3.5%	3.6%	4.7%	5.3%	5.9%
FCF yield	-4.7%	-3.3%	-33.3%	17.0%	19.0%	23.7%	12.9%
ND/EBITDA	1.8	2.8	4.9	3.4	2.2	1.4	1.0

Source: Company data and Nordea estimates

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Q1 2018 review

Magnolia delivered a strong Q1 with gross profit at SEK 128m – the strongest Q1 gross profit yet in the company's history, up 603% y/y on very easy comparables. This beat Thomson Reuters' consensus by 83%. The rental and care business units steam on, with a project of 275 rental apartments sold during the quarter, along with one 58-unit Care project. It is positive to see both rental and care continuing to bloom, as future potential of the rights portfolio and the diversification of the business model have been proven in yet another quarter. As expected, tenant-owned conversions were weak; the company performed three conversions (we had expected four). We assume stronger underlying earnings per unit in residentials than we previously estimated.

Beating both consensus and us by 83% and 100%, respectively, on gross profit

Magnolia Bostad's Q1 numbers were strong, beating our estimates and Thomson Reuters consensus expectations. Sales at SEK 532m made this by far the strongest Q1 to date, more than the double Thomson Reuters' consensus and our estimates. Gross profit and EBIT, which are more illustrative of Magnolia's performance than sales, were 83% and 107% above consensus, respectively, and beat our estimates by 100% and 122%, respectively.

EPS in Q1 amounted to SEK 2.14 (a quarterly implied P/E of 24.6x in a structurally small quarter based on the 2 May closing price). Full-year LTM EPS landed at SEK 7.51, implying an LTM P/E of 7.0x.

58 care + 275 residentials beat us by six units, along with seemingly strong realisation profits – none expected

Magnolia delivered sales of 275 rental apartments, 58 care units. Along with the three conversions during the quarter, the number of units totalled 336 versus our estimate of 330. We suspect this was from stronger underlying per-unit gross profit than we estimated coming into the quarter along with strong profits from the realisation of building rights of above SEK 50m.

MAGNOLIA BOSTAD: DEVIATION TABLE Q4 2017

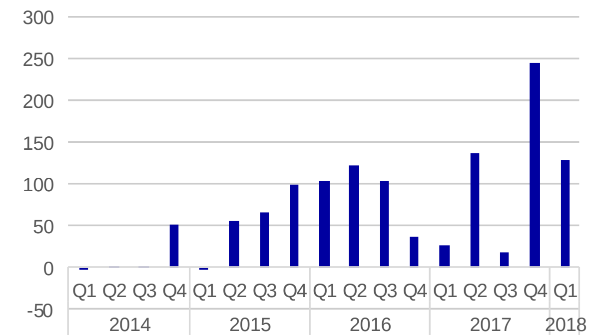
SEKm	Actual Q1 2018	NDA est. Q1 2018	Deviation vs. actual		Consensus Q1 2018	Deviation vs. actual		Actual Q4 2017	q/q	Actual Q1 2017	y/y
Sales	**532**	**182**	**350**	**192%**	**196**	**336**	**171%**	**718**	**-26%**	**71**	**649%**
Gross profit	**128**	**64**	**64**	**100%**	**70**	**58**	**83%**	**245**	**-48%**	**26**	**392%**
Gross profit margin	24.1%	35.2%		*-11.1pp*	35.7%		-11.6pp	34.1%	-10.1pp	36.6%	-12.6pp
Adj. EBIT	**113**	**51**	**62**	**122%**	**55**	**58**	**107%**	**230**	**-51%**	**14**	**707%**
Adj. EBIT margin	21.2%	28.0%		-6.8pp	27.8%		-6.6pp	32.0%	-10.8pp	19.7%	1.5pp
EPS	**2.14**	**0.43**	**1.71**	**396%**	**0.51**	**1.63**	320%	**4.26**	-50%	**-0.20**	n.m.

Source: Company data and Nordea estimates

Gross profit has grown by a 19.4% CAGR in Q1 over two years

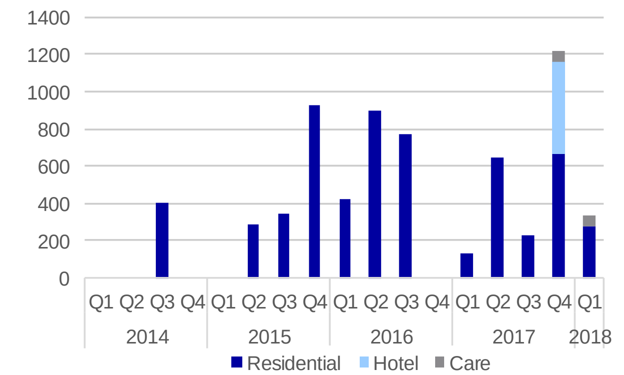
Comparing Magnolia's results q/q is unreasonable as Q1 and Q3 are regarded as seasonally small, while Q2 and Q4 are bigger quarters. As Q1 2017 enjoyed easy comparables, the actuals compared with Q1 2016 showed an EBIT CAGR of 15% and a gross profit CAGR of 19.4%.

GROSS PROFIT Q/Q, SEKm



Source: Company data and Nordea

NUMBER OF UNITS SOLD



Source: Company data and Nordea

Continued strength in residential and care

Even though we had expected more care units to be sold (a deviation of 62 units), Magnolia showed a strong performance in this environment, beating our initial estimates for residential sales by 69 units.

We over-shot care housing, while we underestimated residential sales

SPECIFICATION OF UNITS

		Q1 2018	
	NDA Estimate	Pre-announced	Outcome
Hotels	0	0	0
Care housing	120	0	58
Conversion	4	0	3
Residential	206	275	275
Total	**330**	**275**	**336**

Source: Company data and Nordea estimates

Conversions – conservative outlook reiterated

We estimated four conversions this quarter, but Magnolia reported three.

We reiterate four points on the conversion business:

1. Tenant-owned conversion **contributes little to the bottom line** in our expectations and less than SEK 1m in our estimates of the outcome.
2. We already know that tenant-owned apartment sales have **faltered across the market**, and so we expected very few conversions during the quarter, and few for quite some time ahead.
3. Our estimates expect some 30 conversions for full-year 2018 (remember that Q1 is a small quarter) and only a 9% 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 believe they factor in the current market environment.
4. Magnolia's current conversion projects are outside Stockholm, Gothenburg and Malmö, while the three reported for the quarter are in Eskilstuna in the Gjuteriet 2 project.

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

We keep our outlook for conversions in the coming quarters at seven for Q2 and ~30 for the full year. We set a 9% (previously 7%) steady-state estimate at mid-2020. The valuation impact is close to none (since we have conservative estimates of proceeds per conversion, this is a matter of SEK ~2m on 2018 gross profit and some SEK 40-50m in steady state). Proceeds per conversion are conservative, but we see little upside to the number of conversions in the short run, but recognise potential upside in the longer-term steady-state.

We still 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 stick to our more conservative per conversion proceeds than the company aims for: around 50% of SEK ~0.15-0.16m per converted unit.

~40 contracts for tenant-owned signed

Another sign of strength in the tenant-owned space is that the company signed contracts for ~40 tenant-owned apartments, the majority of which are in future projects which are not yet profit-recognised.

What is hiding behind the numbers?

We break down gross profit into SEK ~50m from residentials, which yields a ~21% higher gross profit per unit than in our estimates for the quarter, where we used SEK 0.15

We break down gross profit into:

- Residentials (pre-announced): Outcome of 275 rental apartments in Arlöv at SEK ~400m in final value. The real estate in this deal was previously conditionally sold and hence not recognised as revenue. It is now being sold to Heimstaden Bostad instead of going through with the initial deal. With a property value estimated at SEK ~400m and applying a margin of 12.5%, we reach a profit per unit of SEK 0.18m. This number is above our Q1 estimate for SEK 0.15m per residential unit. As a 10% margin is the company's minimum goal for residential properties, we argue that the margin for the quarter was 12.5%.
- Care (not announced): 58 units at a final price of SEK ~160m, we estimate. The long-term goal in care is a 15% margin, but due to a chunk of goodwill and thus a high book value of land associated with the current care unit portfolio, 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 Q2 we assume a margin of 8.5%, ie SEK ~0.21m in gross profit per unit. This equates to roughly SEK 2.5m value per finalised apartment, which is where last quarter's care units were estimated. This quarter, however, we estimate a SEK 2.8m value per unit due to the quarter's strong performance.
- Proceeds from conversions are minimal as we believe this has impacted gross profit less than a SEK 1m.
- Gross profit in property management, we believe, has accounted for a gross profit contribution of SEK ~9m (a 66% margin on SEK ~13m rental income).
- Proceeds from realisations of Instrumentet 2, Örnsberg and Skogskarlen 3, Bergshamra (the latter to a new JV) would then account for some SEK 54m, which is a significant contribution to the SEK 128m gross profit.
    - Acquired in 2013, Magnolia had planned to develop the property, but as Stockholm City has extended its tenancy, development is off the table and the property is divested. As the value is SEK 166m and the facility is a school in the Stockholm area, we suggest the impact on yearly rental income is some SEK 14m, with the effect fully from Q2 and none in Q1 2018. The company provides no information on deviation from book value.

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

ESTIMATED BUSINESS UNIT BREAK-UP OF Q1 2018 GROSS PROFIT

	End value SEKm	# of units	MAG marg.	End val/unit SEKm	profit/unit SEKm	Profit contrib SEKm
Residentials	**400**	**275**	*12.5%*	**1.5**	*0.18*	*50*
Care	160	**58**	*9.5%*	2.8	*0.26*	*15*
						65
Realisation Instrumentet 2, Örnsberg and Skogskarlen 3, Bergshamra						*54*
Conversion business						*0*
Gross profit from property management						*9*
Total gross profit						**128**

Numbers in bold are company data and in italics are our estimates
Source: Company data and Nordea estimates

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 0.18m per unit is far above our SEK ~0.15m estimate, leaving upside potential going forward.

Even if we remain cautious as residential projects differ greatly, we use SEK 0.155 from Q2

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 ~0.155 for residentials and await another quarter or two to be convinced into changing our expected gross profit/unit estimate further.

Opex roughly in line with our estimates

Central administration below our estimates (SEK 12m vs 12.8m)

In terms of opex we were roughly in line on the total, but with Magnolia having “strengthened the management team”, we expected quarterly central admin to reach SEK 12.8m, whereas it came in at SEK 12m. The company reported a moderate increase in the number of employees at 63 versus 61 in Q4 (although down from 75 in Q3 2017), which means the company has reached Q2 2017 levels in the number of employees.

Loss from associated companies remains at SEK 1m going forward

In terms of results from associated companies, we estimated a loss of SEK 1m, while a loss of SEK 3m was reported. However, we keep our estimates going forward at SEK 1m per quarter.

New Gothenburg office could cause higher central administration

Going forward, we keep central administration costs at SEK 13m for Q2 (due to a new office setup in Gothenburg) and from there at the same level as 12-month rolling sales – around 0.7% – since we assume drivers for central admin and sales will be more or less equal in the coming periods.

Increase in interest rate overcompensated by less debt

Net financials in line but from a lower debt base than expected

Going beyond the EBIT line, net financials came in at SEK -33m, just as we had expected, however this was on a lower debt base then we expected.

The interest rate was around 7.0% in the quarter versus our estimate of 6.8%. Although this increases our financial expense estimates going forward, we also recognise that our net debt estimates fall. The reduction in net debt in terms of impact on EPS more than compensates for the increase in financial costs. The effect on EPS from an increase in interest rate is some -1% every year, while the impact from a decrease in debt is around +3%, +6%, +4% for 2018-20, respectively.

Straightening out the minorities dilution

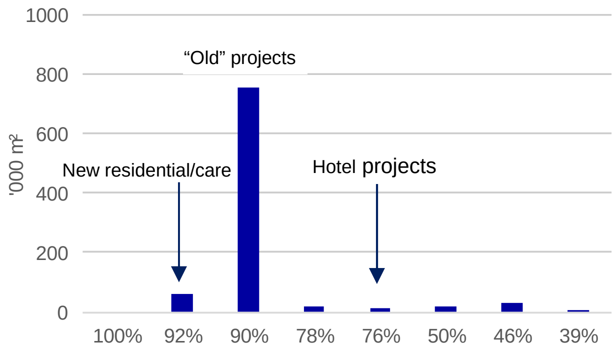
Minorities’ share was basically none; we expected 9%

A positive surprise was the portion of the bottom line attributable to minorities, -1.25% compared with our 9.1% estimate. We believe some project had smaller minorities shares than expected (such as the Arlöv residential project), while the realisation of both the Instrumentet 2 and Skogskarlen 3 (to new JV) projects might not have been exposed to much of the minorities shares.

We update our valuation to assume 13% (12%) for minorities

Looking at the rights portfolio, however, we see that by area, minorities have some 13% ownership stake. We find 13% for minorities a good average still and update our valuation from 12%. Quarter by quarter, however, we still deduct the minorities figure from the mix in that quarter.

PORTFOLIO PROJECTS ARE OWNED TO 87% 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

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 (the company communicating a goal of around five years' production in the rights pipeline, although the company will take the chance to be opportunistic). Revisions to NWC are only made to reflect the Q1 numbers.

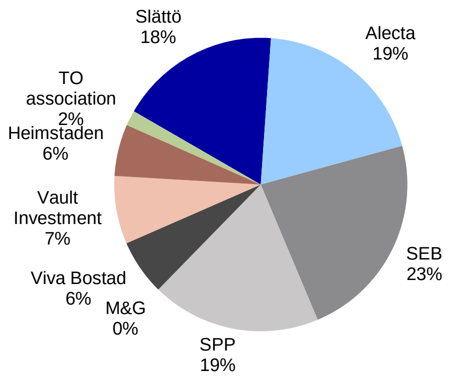
We believe that despite the impact of problems in the market (mostly tenant-owned), Magnolia has shown strength this quarter, which bodes well for the future

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 the problems. Pure tenant-owned projects amount to only ~1.6% of the development mix, the rest is sold off to what we would consider strong investors – such as Slättö (currently 18% of units under construction), Alecta (19%), SEB (23%) and SPP (19%).

Outlook for care units in the portfolio is good, but we lower our expectations as we glean more information about project size and frequency from past results than from portfolio planning

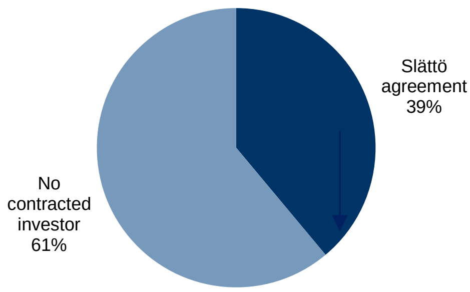
Outlook for care units: The outlook for care units in the portfolio is good, with about nine, two and two projects totalling 675, 126 and 172 units for 2018-20 starts, respectively. We had estimated ~8 units for 2018 and ~4 per year after 2018. In other words, we front-loaded care starts somewhat in 2018 in line with the project portfolio. Magnolia has delivered a 60-unit and a 58-unit project within care during the previous and current quarters, respectively, which is quite in line with the project size in the portfolio. We therefore take this as an indication of the future size and pace of care projects. As a result, we revise our estimates to four projects per year (one per quarter) in 2018 and assume that every project totals ~60 units. This has a negative effect on 2018E EPS, which is more than mitigated by the boost of the strong Q1 performance to full-year EPS. The effect beyond 2018 is marginal.

STRONG INVESTOR MIX IN DEVELOPMENT PORTFOLIO



Source: Company data and Nordea estimates

SLÄTTÖ AGREEMENT BACKS UP ~45% OF RIGHTS UNITS



Source: Company data and Nordea estimates

Changes to estimates

Apart from revisions that follow mechanically from Q1, we lower our estimate for the number of care units sold to about 60 per quarter until Q4, when we estimate 80 units and then 80 units during Q1s and Q3s and 90 units during Q2s and Q3s, in effect postponing the rights portfolio for care slightly into the future, with a marginal impact in the long term. At the same time, we recognise strong underlying potential in gross profit per unit in both care and residential. We increase profitability per unit by some SEK 0.05m per unit.

Rental income is also reduced by some SEK ~9m per year from Q2 2018 following the sale of the Örnsberg school building, Instrumentet 2.

We reduce the number of sold care units in 2018 and make marginal adjustments for the following years. Cost of debt increases going forward owing to higher costs in the current quarter – beginning in Q2. However, both of these effects are compensated by the lower net debt and the strong performance in the current quarter. We thus upgrade our EPS estimates for 2018-20 by 8%, 2% and ~0%, respectively.

SUMMARY TABLE - KEY FIGURE CHANGES

SEKm	2018E	2019E	2020E	2021E
Net sales	+11.8%	-5.2%	-5.6%	-5.7%
- growth	*+9.6pp*	*-19.3pp*	*-0.5pp*	*-0.1pp*
EBIT	+2.4%	-1.8%	-1.8%	-1.9%
- margin	*-2.6pp*	*+1.1pp*	*+1.3pp*	*+1.3pp*
EPS	+8.1%	+2.3%	+0.4%	-0.2%
- growth	*+11.8pp*	*-7.4pp*	*-2.1pp*	*-0.7pp*
DPS	+8.1%	+2.3%	+0.4%	-0.2%
ND/EBITDA	-12.3%	-3.8%	-16.0%	-17.8%

Source: Nordea estimates

CHANGES IN DETAILED ESTIMATES

	2018				2019				Years				Years			
SEKm	Q1	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E
Net sales	350	-65	-62	-51	-16	-27	-26	-27	0	171	-95	-112	0.0%	+11.8%	-5.2%	-5.6%
% y/y growth	*+492.3pp*	*-8.3pp*	*-32.1pp*	*-7.1pp*	*-88.1pp*	*+15.0pp*	*+17.6pp*	*+9.0pp*	*0.0pp*	*+9.6pp*	*-19.3pp*	*-0.5pp*	*0.0pp*	*+9.6pp*	*-19.3pp*	*-0.5pp*
Gross profit	64	-16	-17	-11	-4	-2	-4	-2	0	19	-11	-11	0.0%	+3.9%	-1.8%	-1.6%
% of sales	*-11.2pp*	*+1.5pp*	*+1.4pp*	*+1.4pp*	*+0.7pp*	*+1.4pp*	*+1.2pp*	*+1.3pp*	*0.0pp*	*-2.4pp*	*+1.2pp*	*+1.5pp*	*0.0pp*	*-2.4pp*	*+1.2pp*	*+1.5pp*
Operating profit	62	-19	-20	-13	-3	-1	-4	-2	0	11	-10	-11	0.0%	+2.4%	-1.8%	-1.8%
% of sales	*-6.5pp*	*+0.3pp*	*-0.2pp*	*+0.7pp*	*+0.7pp*	*+1.3pp*	*+1.0pp*	*+1.2pp*	*0.0pp*	*-2.6pp*	*+1.1pp*	*+1.3pp*	*0.0pp*	*-2.6pp*	*+1.1pp*	*+1.3pp*
% of gr. profit	*+9.7pp*	*-3.0pp*	*-4.1pp*	*-1.9pp*	*+0.2pp*	*+0.1pp*	*-0.2pp*	*-0.1pp*	*0.0pp*	*-1.3pp*	*+0.0pp*	*-0.2pp*	*0.0pp*	*-1.3pp*	*+0.0pp*	*-0.2pp*
Net profit	62	-18	-17	-10	3	4	1	2	0	16	10	2	0.0%	+5.1%	+2.4%	+0.4%
% of sales	*+5.2pp*	*-0.8pp*	*-1.3pp*	*+0.7pp*	*+2.7pp*	*+2.1pp*	*+1.7pp*	*+1.6pp*	*0.0pp*	*-1.3pp*	*+1.9pp*	*+1.6pp*	*0.0pp*	*-1.3pp*	*+1.9pp*	*+1.6pp*
% of gr. profit	*+34.6pp*	*-5.2pp*	*-6.3pp*	*-1.1pp*	*+6.5pp*	*+2.9pp*	*+2.5pp*	*+1.7pp*	*0.0pp*	*+0.8pp*	*+3.0pp*	*+1.5pp*	*0.0pp*	*+0.8pp*	*+3.0pp*	*+1.5pp*
Sold units	7	-56	-66	-37	-7	3	-7	3	0	-152	-7	-7	0.0%	-5.5%	-0.2%	-0.2%
Rights portfolio	-628	-572	-506	-469	-462	-37	-37	-37	0	-469	-37	-37	0.0%	-2.9%	-0.2%	-0.2%
Receivables	98	73	47	26	85	85	83	84	0	26	84	-27	0.0%	+1.7%	+6.0%	-1.8%
Value of portf.	-225	-218	-213	-208	-210	-191	-191	-191	0	-208	-191	-191	0.0%	-16.2%	-13.9%	-13.9%

Source: Company data and Nordea estimates

SPECIFICATION OF UNITS

	2017				2018				2019			
	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	58	60	60	80	80	90	80	90
Conversion				3	3	7	14	8	27	31	0	8
Residential	130	650	224	663	275	740	522	733	262	937	672	929
Total				**1,226**	**336**	**832**	**621**	**871**	**444**	**1,133**	**827**	**1,102**

Source: Company data and Nordea estimates

SPECIFICATION OF CHANGE IN NUMBER OF UNITS

	2018				2019			
	Q1	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Hotels								
Care housing	-62	-60	-60	-40	-7	+3	-7	+3
Conversion	-1							
Residential	+69	+4	-6	+3				
Total	**+6**	**-56**	**-66**	**-37**	**-7**	**+3**	**-7**	**+3**

Source: Company data and Nordea estimates

SPECIFICATION OF CHANGE OF GROSS PROFIT

	2018				2019				Years		
SEKm	Q1	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E	2017	2018E	2019E
Renting out	+1	-2	-2	-2	-2	-2	-2	-2		-6	-9
Hotels		-0	-0	-0	-0					-0	-0
Care housing	-10	-13	-13	-9	-2	+1	-2	+1		-45	-2
Conversion	-0	-0	-0	-0	-0					-0	-0
Residential	+19	-1	-2	-0	-0					+16	-0
Other	+54									+54	
Total	**+64**	**-16**	**-17**	**-11**	**-4**	**-2**	**-4**	**-2**		**+19**	**-11**

Source: Company data and Nordea estimates

EPS

	2017				2018				2019				Years			
SEK	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2017**	**2018E**	**2019E**	**2020E**
Estimate	-0.20	1.64	-0.53	4.26	2.14	2.09	1.43	2.51	1.08	3.66	2.48	3.48	5.17	8.17	10.71	11.92
Previous	-0.20	1.64	-0.53	4.26	0.43	2.53	1.85	2.75	1.01	3.56	2.46	3.43	5.17	7.56	10.46	11.87
Deviation					+397%	-17.5%	-22.7%	-8.7%	+7.1%	+2.9%	+0.9%	+1.4%		+8.1%	+2.3%	+0.4%

Source: Company data and Nordea estimates

CONTRIBUTIONS TO CHANGES IN INCOME STATEMENT ESTIMATES

	2018				2019				Years			
SEKm	**Q1**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2017**	**2018E**	**2019E**	**2020E**
Contribution to gross profit												
Net sales	*+192%*	*-15%*	*-18%*	*-11%*	*-7%*	*-5%*	*-6%*	*-5%*		*+12%*	*-5%*	*-6%*
Margin change	-92%	+4%	+3%	+4%	+2%	+4%	+3%	+4%		-8%	+3%	+4%
Gross profit	**+99%**	**-11%**	**-14%**	**-7%**	**-5%**	**-1%**	**-3%**	**-1%**		**+4%**	**-2%**	**-2%**
Contribution to EBIT												
Gross profit	*+99%*	*-11%*	*-14%*	*-7%*	*-5%*	*-1%*	*-3%*	*-1%*		*+4%*	*-2%*	*-2%*
Op. leverage	+27%	-1%	-2%	-1%	-1%	-0%	-0%	-0%		+0%	-0%	-0%
Central admin	+1%	-2%	-2%	-1%	+1%	+0%	+0%	-0%		-1%	+0%	-0%
Other SG&A	-4%									-0%		
EBIT	**+124%**	**-14%**	**-18%**	**-9%**	**-5%**	**-1%**	**-3%**	**-1%**		**+2%**	**-2%**	**-2%**
Contribution to profit before tax												
EBIT	*+124%*	*-14%*	*-18%*	*-9%*	*-5%*	*-1%*	*-3%*	*-1%*		*+2%*	*-2%*	*-2%*
Interest rate	-7%	-1%	-1%	-1%	-2%	-1%	-1%	-1%		-1%	-1%	-1%
Debt level	+5%	+2%	+4%	+4%	+17%	+4%	+5%	+3%		+3%	+5%	+3%
Change in FE	-2%	+1%	+3%	+3%	+15%	+4%	+4%	+3%		+2%	+5%	+3%
Change in FI												
Fin. Leverage	+225%	-4%	-7%	-2%	-3%	-0%	-1%	-0%		+1%	-0%	-0%
PBT	**+346%**	**-17%**	**-23%**	**-9%**	**+7%**	**+3%**	**+1%**	**+1%**		**+5%**	**+2%**	**+0%**
Contribution to net profit												
PBT	*+346%*	*-17%*	*-23%*	*-9%*	*+7%*	*+3%*	*+1%*	*+1%*		*+5%*	*+2%*	*+0%*
Tax rate												
Net profit	**+346%**	**-17%**	**-23%**	**-9%**	**+7%**	**+3%**	**+1%**	**+1%**		**+5%**	**+2%**	**+0%**
Contribution to EPS												
Net profit	*+346%*	*-17%*	*-23%*	*-9%*	*+7%*	*+3%*	*+1%*	*+1%*		*+5%*	*+2%*	*+0%*
Minorities share	+51%	-0%	-0%	-0%	-0%	+0%	-0%	+0%		+3%	-0%	-0%
Number of shrs												
EPS	**+397%**	**-17%**	**-23%**	**-9%**	**+7%**	**+3%**	**+1%**	**+1%**		**+8%**	**+2%**	**+0%**

Source: Company data and Nordea estimates

CHANGES IN ESTIMATES: CONTRIBUTION TO CHANGE IN EPS

	2018				2019				Years			
SEKm	**Q1**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2017**	**2018E**	**2019E**	**2020E**
Contribution to EPS												
Net sales	*+687%*	*-21%*	*-27%*	*-15%*	*-13%*	*-6%*	*-9%*	*-7%*		*+18%*	*-8%*	*-8%*
Margin change	-332%	+5%	+5%	+5%	+3%	+5%	+5%	+5%		-12%	+5%	+6%
Gross profit	**+355%**	**-15%**	**-22%**	**-10%**	**-9%**	**-1%**	**-4%**	**-1%**		**+6%**	**-3%**	**-2%**
Central admin	+4%	-3%	-3%	-2%	+2%	+0%	+0%	-0%		-2%	+0%	-0%
Other SG&A	-11%									-1%		
EBIT	**+348%**	**-18%**	**-25%**	**-12%**	**-8%**	**-1%**	**-4%**	**-1%**		**+3%**	**-2%**	**-2%**
Interest rate	*-7%*	*-1%*	*-1%*	*-1%*	*-2%*	*-1%*	*-1%*	*-1%*		*-1%*	*-1%*	*-1%*
Debt	*+5%*	*+2%*	*+4%*	*+4%*	*+17%*	*+4%*	*+6%*	*+4%*		*+3%*	*+6%*	*+4%*
Change in FE	-2%	+1%	+3%	+3%	+15%	+4%	+5%	+3%		+2%	+5%	+3%
Change in FI												
Profit before tax	**+346%**	**-17%**	**-23%**	**-9%**	**+7%**	**+3%**	**+1%**	**+2%**		**+5%**	**+3%**	**+1%**
Tax rate												
Net profit	**+346%**	**-17%**	**-23%**	**-9%**	**+7%**	**+3%**	**+1%**	**+1%**		**+5%**	**+2%**	**+0%**
Minorities share	+51%	-0%	-0%	-0%	-0%	+0%	-0%	+0%		+3%	-0%	-0%
Number of shrs												
EPS	**+397%**	**-17%**	**-23%**	**-9%**	**+7%**	**+3%**	**+1%**	**+1%**		**+8%**	**+2%**	**+0%**

Source: Company data and Nordea estimates

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.

Rental business model

Divesting projects for construction; currently has a portfolio of ~16,001 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 currently holds building rights and development options to construct ~16,001 apartments, 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.

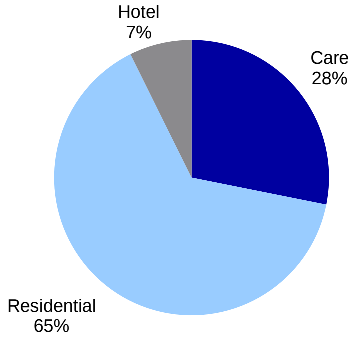
The company aims to convert 25% of rentals to tenant-owned, though probably slowed by current sentiment

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 9% in our estimates.

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

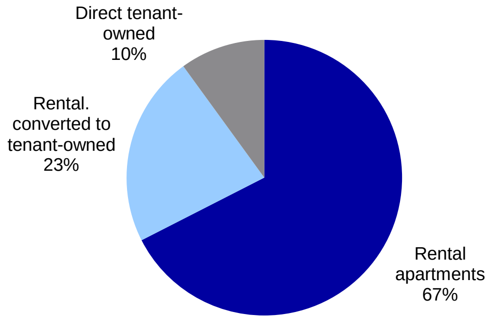
The company has diversified the business by developing both care housing and hotels. The portfolio has currently a few projects relating to hotels and a substantial number of projects with care housing. As of Q4 2017, both these segments are a proven part of the business model after Magnolia sold two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

VISION OF FUTURE PRODUCTION MIX IN RESIDENTIAL



Source: Company data and Nordea estimates

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	NDA/MAG half	Portfolio
Residentials	2800	3000	1500	2230
Care	340	526	340	60
Hotels	300	300	300	300

Gross profit per unit, SEKm	NDA	MAG	NDA/MAG half	Portfolio
0.125	7.6	9.3	4.1	5.2
0.135	8.4	10.3	4.6	5.8
0.145	9.2	11.2	5.1	6.4
0.155	9.9	12.1	5.6	7.0
0.165	**10.7**	13.1	6.1	7.6
0.175	11.5	14.0	6.6	8.2
0.185	12.3	15.0	7.1	8.8

"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.

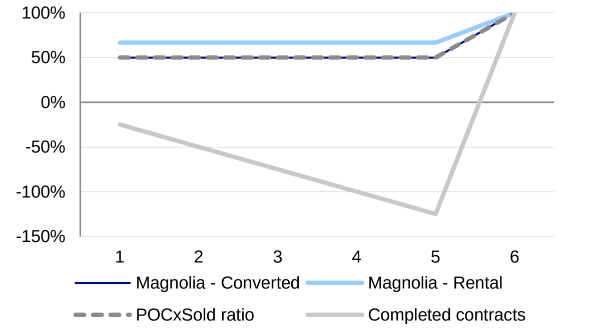
Source: Company data and Nordea estimates

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

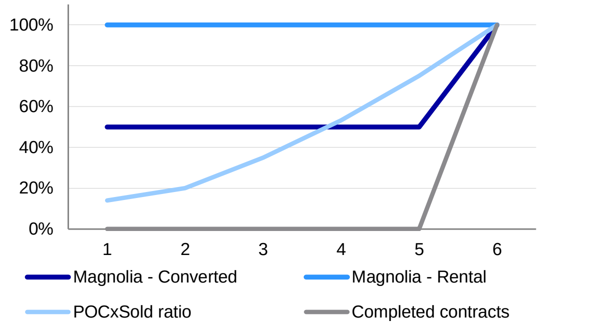
Magnolia profit accounts when it has signed a contract to divest rental units (to financially strong institutions) and has secured construction/development costs for the project. This profit accounting stands out as front-end-heavy compared with other residential development peers that mainly use percentage-of-completion 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

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



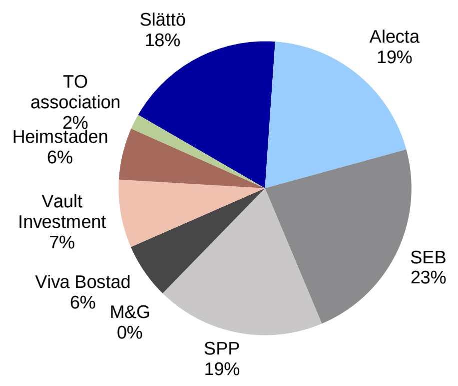
Source: Company data and Nordea

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.

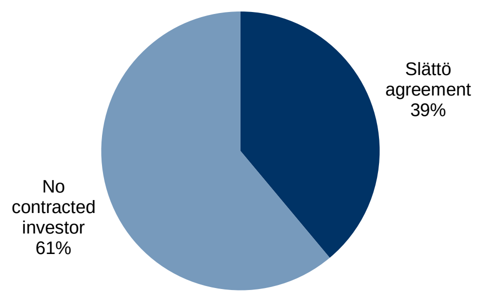
INVESTORS UNITS[1], SOLD[2] & UNDER CONSTRUCTION



1. *Total number as of Q4 '17 is 6,032 units.*
2. *For TO associations, 4 units where unsold as of Q1 2018.*

Source: Company data and Nordea estimates

SPLIT OF THE CURRENT RIGHTS PORTFOLIO BY UNITS



Source: Company data and Nordea estimates

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

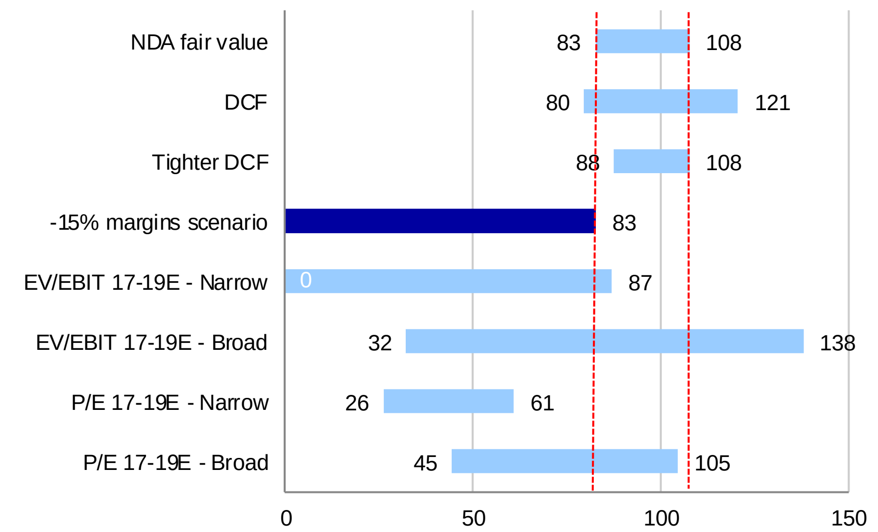
Peers multiples are too dispersed in the market

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 a DCF framework and reach SEK 83 to SEK 108

Instead, we rely on a multi-scenario DCF approach. Adding a ±0.5 pp sensitivity range for WACC, sales growth and margins to our DCF model, we arrive at SEK 88 to SEK 108. Due to market circumstances, we add a downside scenario of -15% on margins for our estimates, yielding a multi-scenario DCF Nordea fair value of **SEK 83 to SEK 108** per share.

VALUATION



Source: Thomson Reuters and Nordea estimates

We include a "wider DCF" which uses ±1pp sensitivity to WACC, sales growth and margin assumptions compared with ±0.5 pp of the regular DCF range.

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 suggests the possibility for real estate segments that were previously very profitable to quickly turn problematic. Even if the exposure to tenant-owned is very limited for Magnolia, we still see the possibility for macro and market factors to hurt the company's earnings, such as increased interest rates and consequent lower prices on real estate.

- 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. He is thus a vital part of the company. Potential sell-offs or changes in his position would likely have an impact on the company's long-term performance. Since CEO Fredrik Lidjan is a co-investor in future development projects of rental apartments and he and Clas Hjorth, responsible for hotel constructions, are co-investors in 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 24.

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 83 to 108 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 83-108/share with a base case 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 83-108. We assume a base case 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 5% and margin of 32% until 2023

Margins slowly contracting to 12.5% where WACC=ROIC

This scenario uses our estimates, a growth rate of 5% and an average margin of 32% until 2023, when growth continues at 2.5% per year. Our standard DCF model assumes that WACC=ROIC after ~30 years, which implies a 12.5% margin. As we question Magnolia's ability to keep pricing power in the longer term, we assume that margins will gradually shift to 11.8% during this 30-year period.

Allowing for a ±0.5pp WACC, sales growth and EBIT margin yields SEK 88 to SEK 108 per share

We add a downside scenario (-15% on margin expectations), yielding a fair value of SEK 83 to SEK 108

When applying a sensitivity of ±0.5 pp for our WACC assumption, ±0.5 pp for sales growth and ±0.5 pp for EBIT margin change, we find that the DCF value of our standard scenario varies from SEK 88 to SEK 108. For our fair value, however, we want to add the sensitivity to the downside of a -15% development on our estimated margins during the estimate period which results in a SEK 83 per share valuation. In total, the multi-scenario DCF arrives at a target range of SEK 83 to SEK 108 per share. We previously incorporated an even-more bearish scenario which we find unwarranted now that Magnolia has proven its capability in this shaky market environment for two quarters in a row. If the company continues to perform well in this environment, it could call for a revision of the inclusion of the -15% margin scenario into the fair value range.

DCF VALUE BREAKDOWN, SEKM, SEK PER SHARE

DCF value	Value	Per share
NPV FCFF	5,349 to 6,554	141.4 to 173.3
(Net debt)	-1,660 to -2,034	-43.9 to -53.8
Time value	117 to 143	3.1 to 3.8
Market value of associates	0	0.0
(Market value of minorities)	-485 to -595	-12.8 to -15.7
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	**3,320 to 4,068**	**87.8 to 107.6**

WACC COMPONENTS AND ASSUMPTIONS

WACC components	
Risk-free interest rate	1.5%
Market risk premium	5.5%
Forward looking equity beta	1.4 to 1.6
Cost of equity	9.3% to 10.3%
Cost of debt	4.5% to 5.5%
Tax-rate used in WACC	10.0%
Equity weight	80.0%
WACC	**8.2% to 9.2%**

Source: Company data and Nordea estimates

SENSITIVITY: WACC AND EBIT MARGIN, SEK

		WACC				
		7.7%	8.2%	8.7%	9.2%	9.7%
	+1.0pp	119.9	109.8	101.1	93.4	86.5
EBIT marg.	+0.5pp	117.2	107.5	99.0	91.5	84.8
change		114.6	105.2	96.9	89.6	83.2
	-0.5pp	111.9	102.8	94.8	87.8	81.5
	-1.0pp	109.3	100.5	92.8	85.9	79.8

SENSITIVITY: WACC AND SALES GROWTH, SEK

		WACC				
		7.7%	8.2%	8.7%	9.2%	9.7%
	+1.0pp	120.6	110.1	101.1	93.2	86.1
Sales gr.	+0.5pp	117.5	107.6	98.9	91.3	84.6
change		114.6	105.2	96.9	89.6	83.2
	-0.5pp	111.9	102.9	95.0	88.0	81.8
	-1.0pp	109.3	100.8	93.2	86.5	80.5

SENSITIVITY: SALES GROWTH AND EBIT MARGIN, SEK

		Sales growth change				
		-1.0pp	-0.5pp		+0.5pp	+1.0pp
	+1.0pp	96.9	98.9	101.1	103.4	105.8
EBIT margin	+0.5pp	95.1	97.0	99.0	101.2	103.5
change		93.2	95.0	96.9	98.9	101.1
	-0.5pp	91.4	93.1	94.8	96.7	98.7
	-1.0pp	89.6	91.1	92.8	94.5	96.4

Source: Company data and Nordea estimates

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/EBIT			Div yield	
	Country	SEK	SEKm	1m	3m	YTD	2017	2018E	2019E	2017	2018E	2017	2018E	2019E	2017	2018E
Construction																
Skanska AB	SE	170.45	68,206	0%	4%	0%	12.5	15.3	13.5	0.46	0.47	13.3	14.0	12.0	4.9%	4.9%
NCC AB	SE	157.55	17,097	-1%	2%	0%	18.0	13.1	10.4	0.34	0.32	14.7	9.5	8.7	5.0%	6.0%
Peab AB	SE	77.10	20,179	3%	12%	9%	11.4	12.1	12.0	0.48	0.46	10.4	10.0	9.7	4.9%	5.2%
Yit Oyj	FI	56.50	11,927	-22%	-18%	-13%	8.4	11.9	7.8	1.17	0.55	20.2	13.8	9.9	4.3%	5.1%
Veidekke ASA	NO	107.01	14,308	12%	16%	5%	12.1	9.8	9.6	0.50	0.42	11.8	9.0	8.7	4.8%	5.7%
NRC Group ASA	NO	59.09	2,501	-2%	-5%	-9%	21.2	14.1	10.8	1.04	0.83	16.9	12.5	8.7	1.8%	3.2%
SERNEKE Group	SE	99.90	1,787	9%	6%	12%	7.4	6.4	5.4	0.36	0.29	5.4	4.5	3.7	0.7%	4.5%
Development																
JM AB	SE	171.10	12,158	-10%	-12%	-8%	6.0	7.9	9.5	0.73	0.78	5.1	6.2	7.0	6.4%	6.3%
Bonava AB (publ)	SE	107.30	11,677	-6%	-9%	-6%	8.6	9.8	10.3	1.14	1.11	8.3	9.7	10.1	4.5%	4.9%
Oscar Properties	SE	31.60	1,439	13%	-8%	-8%	2.1	4.7	5.7	0.00	0.00	4.9	15.3	10.5	1.8%	1.1%
Magnolia Bostad AB	SE	52.60	1,989	9%	-11%	5%	9.8	5.4	5.0	2.48	2.56	10.7	7.2	6.9	3.6%	4.1%
Tobin Properties AB	SE	18.00	482	-22%	-13%	-16%	4.6	2.4	1.8	25.92	8.83	29.2	8.8	7.1		0.0%
SSM Holding AB (publ)	SE	20.75	814	43%	2%	5%	5.3	0.0	0.0	1.87	0.00	480.0	0.0	0.0		0.0%
Median Construction			14,308	0%	4%	0%	12.1	12.1	10.4	0.48	0.46	13.3	10.0	8.7	4.8%	5.1%
Median Development			1,676	-1%	-9%	-6%	5.7	5.1	5.4	1.14	0.78	9.5	8.0	7.1	4.5%	2.6%
Median Construction & Development			**241**	**-1%**	**-6%**	**-6%**	**8.6**	**9.8**	**9.5**	**0.68**	**0.51**	**11.8**	**9.5**	**8.7**	**4.7%**	**4.9%**

Source: Thomson Reuters and Nordea estimates

PEER VALUATION

	P/E			EV/EBIT		
Peer multiple summary	**2017**	**2018E**	**2019E**	**2017**	**2018E**	**2019E**
Median Construction & Development	*8.6*	*9.8*	*9.5*	*11.8*	*9.5*	*8.7*
-High	21.2	15.3	13.5	480.0	15.3	12.0
-Low	2.1	-	-	4.9	-	-
Median Development	*5.7*	*5.1*	*5.4*	*9.5*	*8.0*	*7.1*
-High	9.8	9.8	10.3	29.2	15.3	10.5
-Low	2.1	2.4	1.8	4.9	6.2	6.9
Magnolia NDA	*10.2*	*6.4*	*4.9*	*10.7*	*8.2*	*6.0*
Magnolia Reuters	*8.8*	*5.7*	*5.1*	*9.1*	*6.8*	*5.8*
Estimate NDA vs Reuters	*-13%*	*-12%*	*4%*	*2%*	*-18%*	*-2%*

Source: Thomson Reuters and Nordea estimates

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 with peers, Magnolia Bostad recognises profits earlier than cash flows (in a stable market). Therefore, Magnolia Bostad's P/E or EV/EBIT for 2018E should perhaps be compared with 2019E equivalents for peers. In a stable market, this calls for **a discount in multiples** compared with 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.

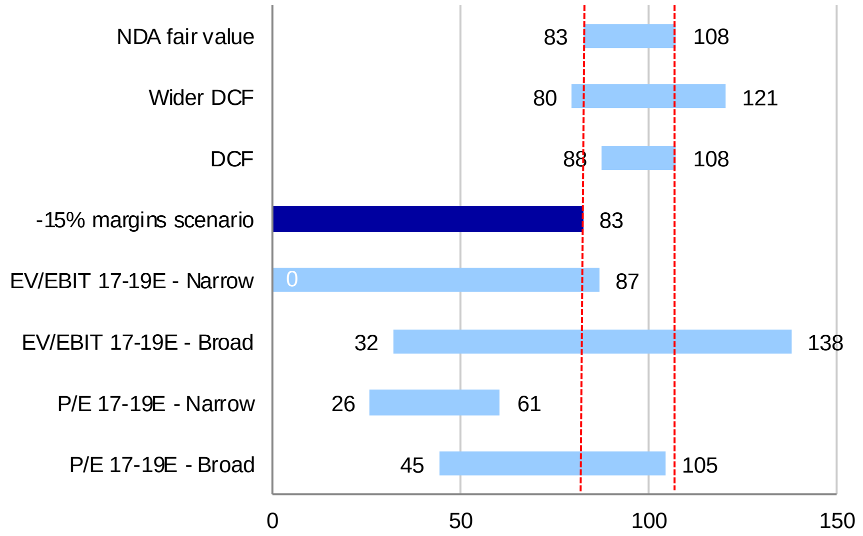
Fair value range

We use multi-scenario DCF, yielding SEK 83-108 per share and use peers as a point of reference only

As we do not consider peer multiples valuation a reliable way to value Magnolia, we use our multi-scenario DCF range as a fair value range, ie SEK 83-108 per share. This includes accounting for sensitivity in our base case as well as a downside scenario of -15% on our estimated EBIT margin.

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 estimates to arrive at implied price for Magnolia.

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



Source: Thomson Reuters and Nordea estimates

We include a "wider DCF" which uses ±1 pp sensitivity to WACC, sales growth and margin assumptions compared with ±0.5 pp of the regular DCF range.

Estimates

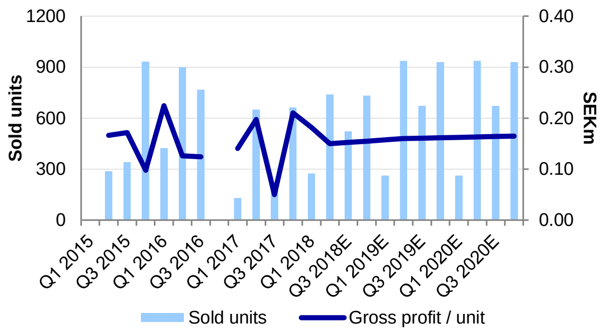
We believe that Magnolia can reach the goal of selling 3,000 residential units per year by 2021. We use profitability on the gross profit level and estimate that absolute gross profit will increase by ~56% over from 2017 to 2020. We estimate the lag of cash flows to gross profits of ~2.5 years and believe 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 340 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 2,270 units, while the goal of 3,000 would be reached by 2021.

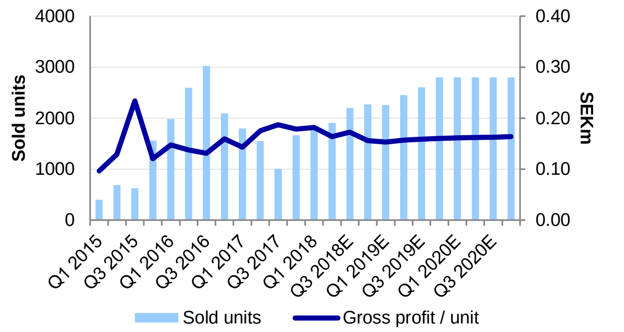
We deem gross profit per unit a better proxy for profitability of sales, as net sales and gross margins are heavily impacted by the nature of the rights being sold, ie whether they are options or actual land booked on Magnolia Bostad's group balance sheet. Gross profit per unit is estimated to go from SEK 0.155m up to SEK 0.165m 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 estimates

…ON A ROLLING 12 MONTH BASIS



Source: Company data and Nordea estimates

We further believe that the indirect tenant-owned model will struggle in the current environment and project a 9% conversion rate by 2019

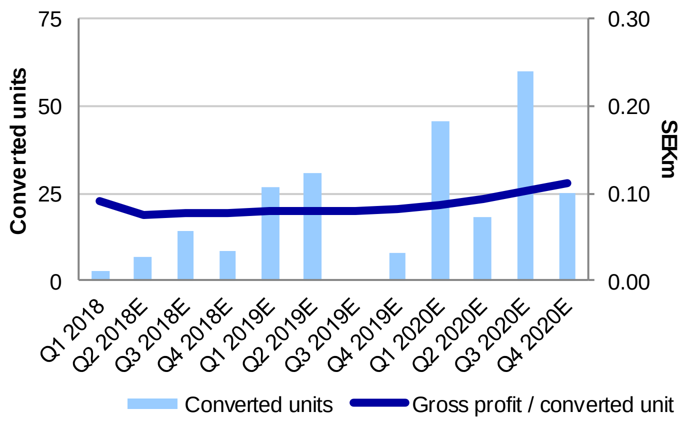
On top of sales from traditional models, ie the rental and direct tenant-owned models, we add projected sales and profit from the indirect tenant-owned model. In this model, units are converted from rental apartments to tenant-owned apartments. The company's goal is a conversion rate of some 25%, although 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

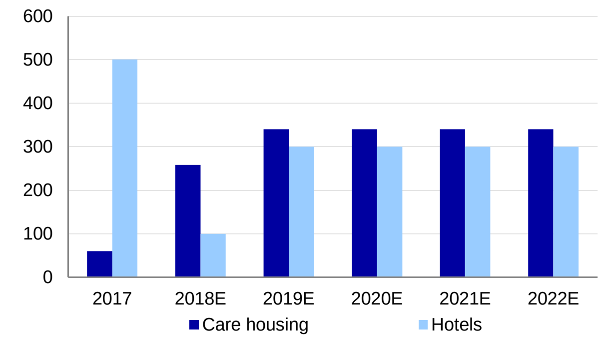


Source: Company data and Nordea estimates

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

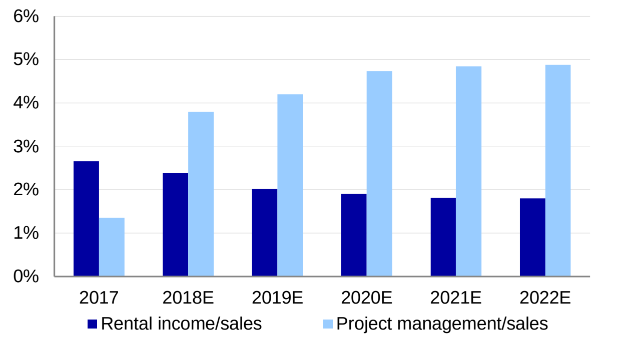
- **Care housing**: Gross profit per unit is initially 1.4x that of residential developments, reaching 2.25x by end-2020. This corresponds to ~8-10% reaching 15% by mid-2020. We estimate ~260 units 2018 and ~350 units by 2022 – despite the front-end heavy rights portfolio within Care.
- **Hotels**: We 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 estimates

RENTAL INCOME & PROJECT MANAGEMENT AS SALES %

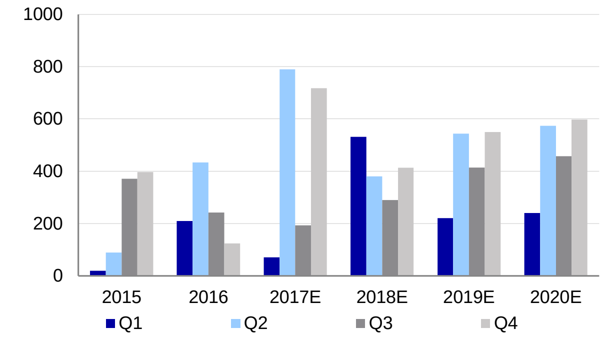


Source: Company data and Nordea estimates

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

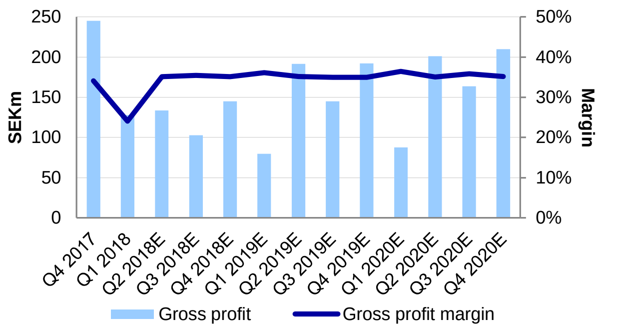
Even though we do not consider sales to be a good indicator for the progress of Magnolia Bostad's business, and also consider them quite unpredictable. Sales vary greatly depending on the type of project sold – if the building rights are options or if they are booked on Magnolia's balance sheet. As this 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



Source: Company data and Nordea estimates

GROSS PROFIT AND MARGIN

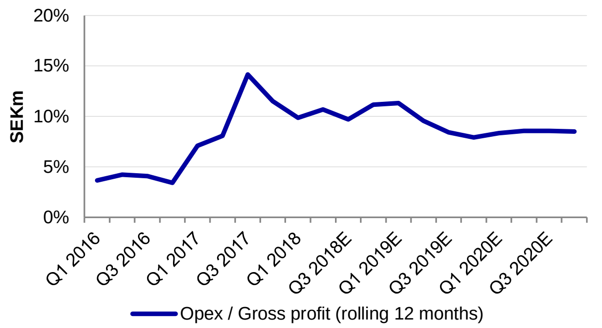


Source: Company data and Nordea estimates

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

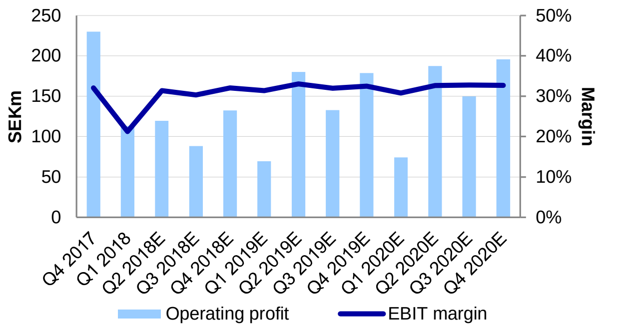
Operational expenditures in relation to gross profit have increased lately as Magnolia has among other things ramped up personnel and acquisitions in the rights portfolio. We estimate that it will remain in the territory slightly above 10% and gradually decrease, owing to operational leverage. We therefore 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 estimates

OPERATING PROFIT AND MARGIN



Source: Company data and Nordea estimates

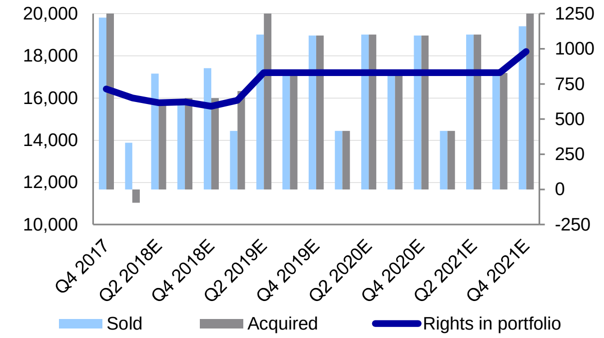
Portfolio expected to have around 15,000-16,000 units

We expect Magnolia to aim for a rights portfolio size of about 15,000-16,000 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

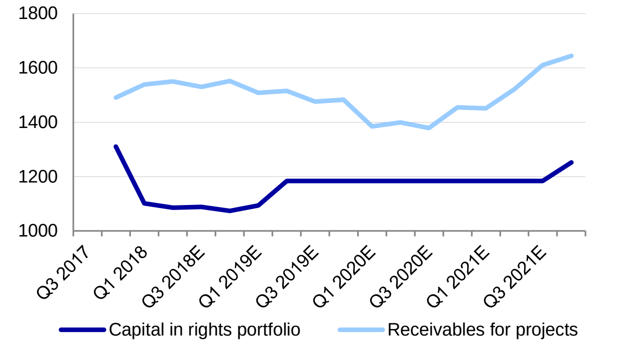
Another important aspect when valuing Magnolia Bostad is the binding of capital in the rights portfolio as well as in receivables – as the company is only paid for the profit part of projects after they have been completed, which usually takes some 2.5 to three years (we assume closer to 2.5 years). 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 ~469m 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



Source: Company data and Nordea estimates

RIGHTS PORTFOLIO AND PROJECT RECEIVABLES



Source: Company data and Nordea estimates

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**	**Q1**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2017**	**2018E**	**2019E**	**2020E**
Net sales	71	790	193	718	532	380	290	413	221	544	414	550	1,772	1,615	1,729	1,869
% y/y growth	*-66.2%*	*82.0%*	*-20.3%*	*479.0%*	*649.3%*	*-51.9%*	*50.4%*	*-42.5%*	*-58.5%*	*43.3%*	*42.8%*	*33.1%*	*75.4%*	*-8.9%*	*7.1%*	*8.1%*
Gross profit	26	136	19	245	128	133	103	145	80	192	145	192	426	509	609	663
% of sales	*36.6%*	*17.2%*	*9.8%*	*34.1%*	*24.1%*	*35.1%*	*35.5%*	*35.1%*	*36.1%*	*35.2%*	*35.0%*	*35.0%*	*24.0%*	*31.5%*	*35.2%*	*35.5%*
Operating profit	14	126	7	230	113	119	88	132	69	180	133	179	377	453	560	607
% of sales	*19.7%*	*15.9%*	*3.6%*	*32.0%*	*21.2%*	*31.4%*	*30.3%*	*32.0%*	*31.4%*	*33.0%*	*32.0%*	*32.5%*	*21.3%*	*28.0%*	*32.4%*	*32.5%*
% of gr. profit	*53.8%*	*92.6%*	*36.8%*	*93.9%*	*88.3%*	*89.4%*	*85.5%*	*91.2%*	*86.9%*	*93.9%*	*91.4%*	*93.0%*	*88.5%*	*88.8%*	*92.1%*	*91.5%*
Net profit	-9	101	-22	198	80	87	60	105	46	153	104	145	268	332	449	498
% of sales	*-12.7%*	*12.8%*	*-11.4%*	*27.6%*	*15.0%*	*23.0%*	*20.6%*	*25.5%*	*20.9%*	*28.1%*	*25.2%*	*26.4%*	*15.1%*	*20.6%*	*26.0%*	*26.6%*
% of gr. profit	*-34.6%*	*74.3%*	*-115.8%*	*80.8%*	*62.5%*	*65.4%*	*58.1%*	*72.7%*	*57.8%*	*80.0%*	*71.9%*	*75.6%*	*62.9%*	*65.3%*	*73.8%*	*75.1%*
Sold units	130	650	224	1,223	333	825	607	863	417	1,102	827	1,094	2,227	2,628	3,440	3,440
Rights portfolio	11,830	16,170	15,848	16,429	16,001	15,776	15,819	15,606	15,889	17,200	17,200	17,200	16,429	15,606	17,200	17,200
Receivables				1,490	1,539	1,550	1,530	1,552	1,509	1,515	1,475	1,483	1,490	1,552	1,483	1,455
Value of portf.	1,453	905	1,326	1,310	1,101	1,086	1,088	1,074	1,093	1,184	1,184	1,184	1,310	1,074	1,184	1,184
EPS	-0.20	1.64	-0.53	4.26	2.14	2.09	1.43	2.51	1.08	3.66	2.48	3.48	5.17	8.17	10.71	11.92

Source: Company data and Nordea estimates

SPECIFICATION OF GROSS PROFIT

	2017				2018				2019			
SEKm	**Q1**	**Q2**	**Q3**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**Q1E**	**Q2E**	**Q3E**	**Q4E**
Renting out				8	9	6	6	6	6	6	6	6
Hotels				85	0	4	4	8	13	13	13	13
Care housing				13	15	13	13	17	18	20	18	22
Conversion				0	0	1	1	1	2	2	0	1
Residential				139	50	111	80	114	41	150	108	150
Other					54							
Total				**245**	**74**	**133**	**103**	**145**	**80**	**192**	**145**	**192**

Source: Company data and Nordea estimates

SPECIFICATION OF UNITS

	2017				2018				2019			
Units	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**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	58	60	60	80	80	90	80	90
Conversion				3	3	7	14	8	27	31	0	8
Residential	130	650	224	663	275	740	522	733	262	937	672	929
Total				**1,226**	**336**	**832**	**621**	**871**	**444**	**1,133**	**827**	**1,102**

Source: Company data and Nordea estimates

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**	**1,615**	**1,729**	**1,869**	**2,004**	**2,057**
Revenue growth		n.m.	-2.1%	523.1%	15.4%	75.4%	-8.9%	7.1%	8.1%	7.2%	2.7%
EBITDA	-8	25	49	367	357	378	458	566	613	663	688
Depreciation and impairments PPE	-2	0	0	0	0	-1	-6	-6	-6	-6	-6
EBITA	-10	25	49	367	357	377	453	560	607	657	682
Amortisation and impairments	-1	-1	-1	-10	-2	0	0	0	0	0	0
EBIT	-11	24	47	357	355	377	453	560	607	657	682
of which associates	0	0	-1	0	15	-9	-6	-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	-120	-95	-66	-53	-38
Pre-Tax Profit	**-12**	**21**	**30**	**307**	**266**	**268**	**332**	**466**	**541**	**605**	**644**
Reported taxes	-0	0	-1	-0	0	0	0	-17	-43	-48	-52
Net profit from cont. operations	-12	21	29	307	266	268	332	449	498	556	593
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	-19	-43	-72	-24	-44	-47	-52	-55
Net profit to equity	-12	21	29	288	223	196	309	405	451	504	537
EPS	**-0.38**	**0.66**	**0.90**	**8.07**	**5.86**	**5.18**	**8.17**	**10.71**	**11.92**	**13.33**	**14.20**
DPS	0.00	0.00	0.00	1.00	1.75	1.75	2.04	2.68	2.98	3.33	3.55
of which ordinary	0.00	0.00	0.00	1.00	1.75	1.75	2.04	2.68	2.98	3.33	3.55
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%	21.3%	28.4%	32.8%	32.8%	33.1%	33.5%
EBITA	-275.2%	17.2%	34.7%	41.9%	35.3%	21.3%	28.0%	32.4%	32.5%	32.8%	33.2%
EBIT	-303.0%	16.5%	33.7%	40.8%	35.2%	21.3%	28.0%	32.4%	32.5%	32.8%	33.2%
Adjusted earnings											
EBITDA (adj.)	-8	25	49	214	357	378	458	566	613	663	688
EBITA (adj.)	-10	25	49	214	357	377	453	560	607	657	682
EBIT (adj.)	-11	24	47	205	355	377	453	560	607	657	682
EPS (adj.)	-0.38	0.66	0.90	3.79	5.86	5.18	8.17	10.71	11.92	13.33	14.20
Adjusted profit margins in percent											
EBITDA (adj.)	-221.7%	17.2%	34.7%	24.5%	35.3%	21.3%	28.4%	32.8%	32.8%	33.1%	33.5%
EBITA (adj.)	-275.2%	17.2%	34.7%	24.5%	35.3%	21.3%	28.0%	32.4%	32.5%	32.8%	33.2%
EBIT (adj.)	-303.0%	16.5%	33.7%	23.4%	35.2%	21.3%	28.0%	32.4%	32.5%	32.8%	33.2%
Performance metrics											
CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	303.9%	87.4%	84.1%	18.5%	16.6%	3.1%	6.2%
EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	97.9%	75.1%	11.5%	14.5%	15.1%	10.7%
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	99.7%	75.8%	11.9%	14.3%	14.9%	10.8%
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	67.7%	73.6%	7.3%	19.4%	26.6%	14.8%
DPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.9%	14.2%	17.5%	14.8%
Average EBIT margin	n.a.	8.3%	20.7%	35.8%	35.5%	29.4%	29.4%	30.0%	29.4%	29.5%	31.9%
Average EBITDA margin	n.a.	11.0%	22.6%	37.1%	36.3%	29.8%	29.7%	30.4%	29.7%	29.8%	32.2%

Source: Company data and Nordea estimates

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	6.9	5.3	4.7	4.2	4.0
EV/EBITDA (adj.)	n.m.	5.1	9.4	18.4	13.4	10.4	8.4	6.2	5.1	4.5	3.8
EV/EBITA (adj.)	n.m.	5.1	9.4	18.4	13.4	10.4	8.5	6.3	5.2	4.5	3.9
EV/EBIT (adj.)	n.m.	5.3	9.7	19.3	13.5	10.4	8.5	6.3	5.2	4.5	3.9
Valuation ratios/reported earnings											
P/E	0.0	0.0	0.0	10.4	16.4	9.6	6.9	5.3	4.7	4.2	4.0
EV/Sales	16.0	0.9	3.3	4.5	4.7	2.2	2.4	2.0	1.7	1.5	1.3
EV/EBITDA	n.m.	5.1	9.4	10.8	13.4	10.4	8.4	6.2	5.1	4.5	3.8
EV/EBITA	n.m.	5.1	9.4	10.8	13.4	10.4	8.5	6.3	5.2	4.5	3.9
EV/EBIT	n.m.	5.3	9.7	11.1	13.5	10.4	8.5	6.3	5.2	4.5	3.9
Dividend yield (ord.)	n.a.	n.a.	n.a.	1.2%	1.8%	3.5%	3.6%	4.7%	5.3%	5.9%	6.3%
FCF yield	n.a.	n.a.	n.a.	-4.7%	-3%	-33.3%	17.0%	19.0%	23.7%	12.9%	21.3%
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 estimates

BALANCE SHEET

SEKm	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Intangible assets	8	7	14	7	6	7	8	9	9	10	10
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	2	3	3	4	4
of which goodwill	8	7	6	6	6	6	6	6	6	6	6
Tangible assets	125	0	0	0	1	8	7	7	7	7	7
Shares associates	24	31	63	26	139	135	129	125	121	117	113
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	1060	978	1113	1183	1218
Total non-current assets	**189**	**84**	**124**	**343**	**583**	**1346**	**1205**	**1119**	**1250**	**1317**	**1348**
Inventory	20	210	433	1143	1164	1314	1078	1188	1188	1256	1256
Accounts receivable	48	52	198	208	496	678	906	920	757	876	939
Other current assets	3	0	1	2	5	5	5	5	5	6	6
Cash and bank	20	23	37	193	507	208	125	292	109	53	307
Total current assets	**90**	**285**	**669**	**1546**	**2172**	**2205**	**2114**	**2404**	**2058**	**2190**	**2508**
Assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total assets	**279**	**370**	**792**	**1889**	**2755**	**3551**	**3318**	**3523**	**3308**	**3507**	**3855**
Shareholders equity	**169**	**190**	**253**	**678**	**862**	**991**	**1234**	**1561**	**1911**	**2303**	**2714**
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	132	152	155	160	163
Total Equity	169	190	253	771	998	1171	1365	1713	2066	2463	2877
Deferred tax	0	0	0	2	2	2	2	2	2	2	2
Long term int. bearing debt	75	146	494	731	1268	1566	1333	874	325	450	350
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	39	42	45	48	50
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**	**1374**	**918**	**372**	**500**	**402**
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	3	6	15	14	38	16	15	16	17	18	19
Other current liabilities	26	21	29	131	121	222	202	217	234	251	258
Short term interest bearing debt	6	2	0	130	237	507	362	659	619	275	300
Total current liabilities	**35**	**30**	**44**	**275**	**396**	**745**	**579**	**891**	**870**	**544**	**576**
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**	**3318**	**3523**	**3308**	**3507**	**3855**
Balance sheet and debt metrics											
Net debt	61	125	457	668	998	1,865	1,570	1,241	835	672	343
Working capital	41	235	587	1,208	1,506	1,759	1,772	1,880	1,698	1,868	1,924
Invested capital	230	319	711	1,551	2,089	3,105	2,977	2,999	2,949	3,185	3,272
Capital employed	244	340	748	1,614	2,359	2,806	2,739	2,631	2,438	2,963	3,279
ROE	-14.1%	11.4%	13.2%	62%	28.9%	21.2%	27.8%	29.0%	26.0%	23.9%	21.4%
ROIC	-10.1%	8.5%	8.7%	31.1%	19.0%	14.1%	14.5%	17.9%	18.7%	19.7%	19.4%
ROCE	-4.7%	7.0%	6.3%	22.1%	15.1%	13.4%	16.5%	21.3%	24.9%	22.2%	20.8%
Net debt/EBITDA	-7.2	5.1	9.4	1.8	2.8	4.9	3.4	2.2	1.4	1.0	0.5
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%	37.2%	44.3%	57.8%	65.7%	70.4%
Net gearing	35.9%	66%	180.3%	n.m.	100.0%	159.3%	115.0%	72.4%	40.4%	27.3%	11.9%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT											
SEKm	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
EBITDA (adj.) for associates	-8	25	50	367	342	387	464	570	617	667	692
Paid taxes	0	0	4	1	-4	0	0	-17	-43	-48	-52
Net financials	0	-3	-18	-49	-89	-109	-120	-95	-66	-53	-38
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	110	85	-131	-67	-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	-24	-44	-47	-52
Other adj. to reconcile to cash flow	40	-21	6	-254	-193	216	0	0	0	0	0
Funds from operations (FFO)	**0**	**-10**	**38**	**-90**	**-90**	**-291**	**382**	**520**	**332**	**452**	**517**
Change in NWC	0	-36	-267	-60	68	-326	-13	-108	181	-170	-56
Cash flow from op. (CFO)	0	-47	-229	-150	-22	-617	369	413	514	282	461
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**	**363**	**406**	**507**	**276**	**455**
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	363	406	507	276	455
Dividends paid	0	0	-5	-6	-38	-66	-66	-77	-101	-113	-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	-378	-162	-589	-219	-75
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	-83	167	-183	-56	254
Cash flow metrics											
Capex/D&A	0%	2314%	1060%	74%	6348%	1300%	105%	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	56.5	56.5	56.5	56.5	56.5
Market cap	0	0	0	3191	3656	1891	2137	2137	2137	2137	2137
Enterprise value	61	125	457	3952	4790	3936	3839	3530	3127	2969	2643
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 estimates

Appendix: Project portfolio

Magnolia Bostad has 6,032 apartments under production and building permits for another ~16,001 apartments. Slättö is the designated buyer of ~35% 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
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
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
Visborg	Visby	C	58	3,950	0	2018	2019	Northern Horizo	Peab
Fasanen	Burlöv	RU	275	12,675	0	2018	2020	Hermstaden Bos	Serneke
Sum			**6,032**	**273,325**	**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 estimates

CONVERSIONS IN SOLD RENTAL APARTM. PROJECTS

Project	City	2018	Buyer
Gjuteriet 2	Eskilstuna	3	Slättö
Sum		**3**	

Source: Company data and Nordea

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	54	4,850	x	2018	2019	92%	
Partilleport	Göteborg	C	54	11,100	x	2018	2019	46%	
Allarp Laholm	Helsingborg	C	54	3,850	x	2018	2019	46%	
Drottninghög	Helsingborg	C	100	8,100	x	2018	2020	78%	
Sportflygaren	Örebro	R	145	7,300	x	2018	2019	90%	
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	115	6,150	x	2018	2020	90%	
Gyllehemmet	Borlänge	C	106	10,500	x	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/C	210	12,000		2018	2020	90%	
Ångloket	Knivsta	R/C	270	15,000		2018	2020	90%	
Hagby Park	Åkersberga	R	195	10,900		2019	2021	90%	Slättö agreement
Sländan, phase 3	Södertälje	R	200	10,000		2019	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		2021	2024	90%	Slättö agreement
Mejeriet, phase 3	Helsingborg	R	240	10,400		2021	2024	90%	
Södra Häggviks Gårdar	Sollentuna	R/C	1,500	94,000		2020	tbd	90%	Slättö agreement,
Skärholmen	Skärholmen	R	85	7,000		2,020	2,021	92%	
Skarpnäcksgård	Skarpnäck	R	60	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	240	20,000		tbd	tbd	90%	
Kilot	Halmstad	R	26	1,860		tbd	tbd	92%	
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	50%	
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			**16,001**	**898,640**					
Slättö sum			**6,225**	**318,750**					
With local planning			**1,750**	**114,410**					

Source: Company data and Nordea estimates

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