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EgnsINVEST Ejd. Germany explains its financing and interest-rate strategy: Interview with CFO Birk Klinkby

EgnsINVEST Ejd. Germany shared an interview with CFO Birk Klinkby in the latest edition of the shareholder magazine BERL!N.

EgnsINVEST Ejd. Germany places strong emphasis on optimizing its debt and minimizing interest-rate risk by choosing the right loan mix. How EgnsINVEST Ejd. Germany does this is highlighted in an interview with the company's CFO, Birk Klinkby, which you can read below.

Could you describe the thoughts and strategy behind the way the company secures financing?

> Our strategy is composed partly of what we want and partly of the art of the possible. The art of the possible should be understood as the fact that Nykredit is the only provider of mortgage lending in Denmark that we can use to finance properties in Berlin. The other Danish mortgage lenders simply do not have a product on the shelf for financing properties in Germany—more specifically, Berlin. It is not a market they have entered. Of course, it also requires particular expertise to operate south of the border. Nykredit is the only one that has built up that expertise. So we only have Nykredit, which can offer a mortgage loan in euros, which is important to avoid currency risk.

Aren't there any German options?

> Yes, we also have a German alternative. The reason we have not chosen it is the terms. With German financing, the loans would have to be amortized, and the loans would be non-callable for the entire term. That is not the case with Nykredit. Here we have the option of interest-only periods, and when refinancing we can change the loan profile or redeem the loans without a price loss. This makes us more flexible in terms of adapting the financing to developments in the market and in the company. At the same time, we have the option to fix the interest rate for up to five years with their standard products.

You said earlier that our loans with Nykredit are in euros in order to avoid currency risk. Could you elaborate?

> You should keep your revenue and your loans in the same currency—this is something all economists are taught. Even though Denmark has a fixed-exchange-rate policy against the euro, there is always a latent risk that must be

taken into account. Moreover, there is no reason to take that risk, because we cannot gain anything from it. For example, we would not obtain better terms or opportunities with Nykredit or another mortgage credit institution if we took out loans in Danish kroner.

Economists also use the term Loan to Value (LTV), i.e., loans relative to values—can you say something about that?

LTV is important because it reflects the relationship between debt and property value—and is therefore an expression of the company's financial robustness. It is part of what we continuously discuss with Nykredit in relation to determining our financing terms. As a general rule, it must be kept below 60% to obtain interest-only. In some cases, we work it a bit further down to get a better contribution margin. The contribution margin reflects the risk assessment that Nykredit makes of the company. It shows how well the company is secured, particularly in relation to the value of the properties and the overall loan-to-value ratio. The stronger the collateral and the lower the risk, the lower the contribution margin. It is worth emphasizing that we have a very good collaboration with Nykredit. We are extremely satisfied with them and have a very good dialogue with ongoing sparring, where both sides listen.

Could you elaborate on the strategy the company uses to minimize interest-rate risk?

We are satisfied with having a fixed rate for up to five years. And our interest-rate strategy is to use staggered refinancing dates. The way we do it right now, about a quarter of our loan portfolio is adjusted each year. We have roughly divided the loans into quarterly portions. In that way, it is not really that important whether it is an F-3, F-4 or F-5. What matters is that they are spread out over the years. In one year we have about a quarter of the loans that need to be refinanced, and we also do in two years, etc. That way we still have a degree of security and something to budget on. Likewise, we have flexibility and are able to act if something happens in the market or with the company. We are not locked in.

Has that strategy been used completely consistently in the company?

In recent years, the interest-rate market has been turbulent. Naturally, we have had an extra strong focus on interest rates and how we expected them to develop—not that we speculate in interest rates, but we take them into account. When you believe interest rates will rise, you want to lock your rate in for a longer period, and conversely, if you believe rates will fall, you want a short rate so you can follow it down. While in the most recent period we have had part of our loan portfolio on a short 3-month rate, we are now back to having the rate fixed between one and four years. We believe interest rates are at a normalized level. That is at least our expectation. This means we have returned to our strategy of staggered refinancing dates.

Summary

To briefly sum it all up, EgnsINVEST Ejd. Germany has chosen a strategy that balances flexibility and security by spreading refinancing over several years. By working closely with Nykredit and keeping loans and revenue in the same currency, currency risk is minimized, while the option of interest-only periods and ongoing refinancing provides the company with both budget certainty as well as freedom of action and the ability to adapt to the market.

Contacts

Email: markus@vaekstaktier.dk
Telephone: +45 50 42 99 18

About Us

Website: vaekstaktier.dk