

# RatingsDirect®

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## Fastighets AB Forvaltaren

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# Fastighets AB Forvaltaren

## Key Rating Factors

### Issuer Credit Rating

AA-/Stable/A-1+

*Nordic Regional Scale*

--/--/K-1

Enterprise profile	Financial profile
<p>Förvaltaren's owner, city of Sundbyberg, has embarked on a new asset management strategy after the 2018 elections.</p> <ul style="list-style-type: none"><li>• The new political leadership has shifted focus from asset sales toward increasing the number of apartments in the city.</li><li>• The city's economic fundamentals remain strong and will support Förvaltaren's financial position in the medium term.</li></ul>	<p>Förvaltaren's borrowing needs will pick up following debt reduction in previous years.</p> <ul style="list-style-type: none"><li>• Owing to an increased focus on construction, we expect Förvaltaren's capital expenditure (capex) will gradually increase through 2021.</li><li>• At the same time, we do not expect Förvaltaren will engage in any new sizable divestment scheme over the coming two years.</li><li>• We expect the company will gradually reduce its abnormally high cash reserve by funding investments and amortizing debt, then start to accumulate debt again in 2020.</li></ul>

## Outlook

The stable outlook reflects our view that, over the coming two years, Förvaltaren will maintain its stable and robust earnings on the back of strong economic fundamentals in the region. In addition, we anticipate Förvaltaren will manage debt and liquidity prudently to mitigate refinancing risks. Furthermore, we do not expect any material change in Förvaltaren's ownership or support structure that would make us revise our assessment of the company's role for or link to Sundbyberg.

### Downside scenario

The ratings could come under pressure if we observed a deterioration in Förvaltaren's financial performance. This could happen if management lost control of operating spending, which would cause EBITDA to drop, and a more relaxed attitude toward financial policies caused its liquidity to deteriorate. We could also lower the ratings if Förvaltaren's role for or link to Sundbyberg weakened.

## **Upside scenario**

We could consider raising the ratings on Förvaltaren if we observed a marked improvement in its financial position. This would include an improved financial performance, likely as a result of improved cost controls elevating EBITDA margins above 30%. The stronger financial performance would enable Förvaltaren to amortize debt to structurally below 10x EBITDA. We could also consider an upgrade if Förvaltaren's role for or link to Sundbyberg strengthened.

## **Rationale**

The city of Sundbyberg, Förvaltaren's owner, changed political leadership after the elections in 2018 to a left-center minority coalition. In previous years, Förvaltaren has transformed a large number of rental housing properties into condominiums by selling the properties to the tenants to improve the mix of housing forms in certain city districts. We understand the new leadership will discontinue these activities and focus on increasing the number of housing units in the city.

In our view, Förvaltaren's management is experienced and proactively manages the company's financial and operational risks. That said, we have observed somewhat weaker governance over the city's subsidiaries financial strategies in the past.

In our view, Förvaltaren benefits from a high likelihood of receiving timely and sufficient support from its owner if needed. We believe Förvaltaren plays an important role as a key contributor of housing for the city's growing population. Furthermore, we consider the link to Sundbyberg to be very strong. The city is the sole owner and is actively involved in defining Förvaltaren's strategies.

We continue to regard Förvaltaren's industrial and regulatory environment as low-risk, characterized by regulatory surveillance along with stable earnings with no pronounced sensitivity to economic cycles. As a municipally owned housing company, Förvaltaren is only allowed to operate within Sundbyberg's geographical borders. Its position in Sundbyberg is very strong with about 25% of the total housing market and 60% of the rental housing market.

Sundbyberg benefits from close integration with the capital city of Stockholm. The city's property market remains favorable with dwellings prices at a high 180% of national levels. We view the vacancy risk as limited, calculated under 2% of rent receivables, owing to Sundbyberg's strong population growth (averaging 3% for the past three years) alongside the region's strong economic fundamentals.

We consider Förvaltaren's properties to be generally well-maintained and note the company has worked proactively on maintenance projects. These efforts have enhanced the properties' technical age, which by the end of 2018 was about 38 years. We anticipate maintenance will remain important through our forecast period, as Förvaltaren has paused maintenance plans on properties it aimed to sell. Due to the new strategy set by the city, we expect Förvaltaren to conduct these activities over the coming years.

Consequently, we estimate that Förvaltaren's EBITDA will remain stable at around 24% of revenues throughout 2021, supported by strong demand, shortage of housing, and strong population growth in Sundbyberg and the larger Stockholm region. In our view, the currently low interest rate environment will provide further support to Förvaltaren's

financial performance. We incorporate into our calculations of the company's EBITDA about SEK100 million of capitalized maintenance costs, which we consider operating expenditures.

We expect Förvaltaren will ramp up capex over the coming years, related to new construction and refurbishments, averaging about SEK300 million per year compared to SEK190 million for the past two years. Given the owner's emphasized focus on increasing the number of apartments in the city, we expect capex to pick-up compared to historic levels.

We expect Förvaltaren's debt burden to reduce through the forecast period and reach 10.9x its EBITDA (five-year average debt-to-EBITDA of 11.5x), compared to 14.4x in 2017. Although we do not forecast any additional asset sales, we expect the company will receive the proceeds from previously sold properties of about SEK295 million in 2019-2020. In combination with its currently abnormally high cash balance, we forecast Förvaltaren will be able to fund investments and amortize debt in 2019 and 2020, and start borrow toward the end of the forecast period. Furthermore, we expect Förvaltaren's EBITDA interest coverage will remain strong at 3.8x, similar to our last review.

Förvaltaren's balance sheet remains solid, supported by properties valued at SEK13.2 billion (year-end 2018), corresponding to a loan-to-value ratio of 11%. Although we do not consider it as positive for the ratings, we acknowledge that it provides headroom to absorb new funding if needed.

### **Liquidity**

Förvaltaren's liquidity position rest on ample contracted and committed facilities, which we calculate will cover 1.13x of liquidity uses, alongside our view of strong access to external liquidity. The past year's asset sales has provided Förvaltaren with an abnormally high cash level. We forecast this to decrease over the coming 12 months, averaging SEK326 million, owing to investments and the repayment of maturing debt. Similar to other municipal-owned public housing providers, we consider Förvaltaren to have strong access to external liquidity as rated entities have a track record of tapping the financial markets even in periods of financial stress.

Liquidity sources include:

- Weighted average cash level of SEK326 million;
- SEK107 million of cash inflows from sold assets;
- Estimated operating cash flow of SEK169 million; and
- Committed and undrawn liquidity facilities of SEK1.1 billion.

Liquidity uses include:

- Expected capex of SEK314 million;
- Maturing debt and interest of SEK1.2 billion; and
- SEK4 million of dividends.

## Key Statistics

Table 1

Fastighets AB Forvaltaren Key Statistics					
(Mil. SEK)	--Fiscal year ended Dec. 31--				
	2017	2018	2019BC	2020BC	2021BC
Number of units	6,939	6,596			
Vacancy rates (% of net rental income)	<2%	<2%	<2%	<2%	<2%
Revenue	787	713	693	710	728
EBITDA§	202	177	163	170	177
EBITDA/revenue (%)	25.7	24.8	23.6	23.9	24.3
Interest expense	58	69	48	39	35
Debt/EBITDA (x)	14.4	11.9	10.4	9.8	10.9
EBITDA/interest coverage (x)	3.5	2.6	3.4	4.4	5.0
Capital expense	209	178	199	337	381
Debt	2,900	2,107	1,700	1,665	1,927
Housing properties (according to balance-sheet valuation)	5,263	4,834	4,805	4,980	5,307
Cash	198	623	404	250	250

§Adjusted for capitalized repairs. BC--base case, reflects S&P Global Ratings' expectations of the most likely scenario. SEK--Swedish krona.

## Ratings Score Snapshot

Table 2

Fastighets AB Forvaltaren Ratings Score Snapshot	
Industry risk	2
Economic fundamentals and market dependencies	1
Strategy and management	2
Asset quality and operational performance	1
Enterprise profile	2
Financial performance	4
Debt profile	2
Liquidity	3
Financial policies	2
Financial profile	3

S&P Global Ratings' analysis of social housing providers' creditworthiness rests on our scoring of eight key rating factors: (i) industry risk; (ii) economic fundamentals and market dependencies; (iii) strategy and management; (iv) asset quality; (v) financial performance; (vi) debt profile; (vii) liquidity; and (viii) financial policies. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published Dec. 17, 2014, and "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015, detail how we derive and combine the scores, and then determine each social housing provider's stand-alone credit profile and the issuer credit rating. In accordance with S&P Global Ratings' public and nonprofit social housing providers methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating, the committee can make use of the flexibility afforded by paragraphs 12-17 of "Methodology For Rating Public And Nonprofit Social Housing Providers."

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- S&P Global Ratings Definitions, Oct. 31, 2018

### Ratings Detail (As Of October 25, 2019)\*

#### Fastighets AB Forvaltaren

Issuer Credit Rating	AA-/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1
Commercial Paper	
<i>Local Currency</i>	A-1+

#### Issuer Credit Ratings History

25-Oct-2018		AA-/Stable/A-1+
27-Oct-2017		AA-/Negative/A-1+
01-Sep-2011		AA-/Stable/A-1+
07-Sep-2004	<i>Nordic Regional Scale</i>	--/--/K-1

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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