

RatingsDirect®

Fastighets AB Forvaltaren

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Key Rating Factors

Enterprise profile

Fastighets AB Förvaltaren's focus on rental housing properties in the dynamic and fast-growing city of Sundbyberg will limit the repercussions from the COVID-19 pandemic.

Issuer Credit Rating

AA-/Stable/A-1+

Nordic Regional Scale

--/--/K-1

- We expect vacancy will remain low, although slightly elevated in 2020 caused by an uptick in nonresidential vacancies.
- On the back of the city's very strong population growth and housing shortage, we do not foresee any major shifts to Förvaltaren's strategies, focusing on new construction and investments in existing stock.

Financial profile

The COVID-19 pandemic will have only limited effects on the company's financial position.

- Although we anticipate some rental losses in 2020, mainly related to rent discounts for commercial tenants, we believe the rent collection on residential housing will remain solid, supporting Förvaltaren's financial position.
- The focus will remain on increasing the rental housing portfolio, leading to gradually increasing capital expenditure (capex) and debt through 2022.
- We expect Förvaltaren's abnormally strong liquidity position, caused by past years' debt repayments and preempted COVID-measures, will gradually fall toward historical levels over the forecast period.

Outlook

The stable outlook reflects S&P Global Ratings' view that, over the coming two years, Förvaltaren will maintain its stable and robust earnings on strong economic fundamentals in the region. In addition, we anticipate the company 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 Förvaltaren's financial performance deteriorated. This could happen if management lost control of operating spending; the pandemic's repercussions become more severe than expected, which would cause EBITDA to drop; or a more relaxed attitude toward financial policies caused its liquidity to deteriorate. We could also lower the ratings if the company's role for or link to Sundbyberg weakened.

Upside scenario

We could consider raising the ratings on Förvaltaren if the company's financial position improved markedly. This would include an improved financial performance, likely because 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 the company's role for or link to Sundbyberg strengthened.

Rationale

We believe that Förvaltaren's focus on rental housing properties, which in our view is a low-risk industry due to its stable and anticyclical revenues, in Sundbyberg will limit the pandemic's impact. The city has one of Sweden's fastest growing populations (averaging 3.5% for the past five years), which combined with close integration with the capital city of Stockholm, cater for high demand for Förvaltaren's properties. Its position in Sundbyberg is very strong, with about 25% of the total housing market and 60% of the rental housing market.

The city's property market remains strong, with dwelling prices at a high 180% of national levels. Despite the pandemic, we consider the vacancy risk in Förvaltaren's property portfolio very limited, although we expect a temporary uptick in commercial vacancies. Nevertheless, we do not expect the company's vacancy rate will exceed 2% of rent receivables.

Although we estimate some rent losses in 2020, mainly related to rent discounts for commercial tenants, we believe these effects will be offset by organic growth in the residential housing business and delayed maintenance work. Consequently, we estimate that Förvaltaren's EBITDA will be stable, at about 25% of revenue throughout 2022. We believe that some maintenance work will be delayed into 2021, which benefits EBITDA in 2020, but weigh on the 2021 performance. We adjust our EBITDA-calculation for capitalized repairs, which we deem as an operating expense, averaging Swedish krona (SEK) 85 million through the forecast period.

Förvaltaren's focus on new construction and increasing its portfolio of rental housing units remain firm, and we expect the company will gradually ramp up capex. In addition to new construction, we expect investment in existing stock to remain sizable.

In line with our previous expectations, Förvaltaren's debt will decrease in 2020, and start to pick up in 2021 on higher capex, reaching 11x of EBITDA in the end of the forecast period (with five-year average debt-to-EBITDA of 10.5x), compared with 11.9x in 2018. In 2020, the company sold a land plot, which was conditional upon permits being approved. This will bring in about SEK100 million in cash in 2020. Apart from that, we do not forecast any large-scale asset sales through 2022. Furthermore, we expect Förvaltaren's EBITDA interest coverage will remain strong at 5.6x, benefiting from low interest levels and a slowly increasing debt burden.

We consider the company's properties generally well-maintained, although we anticipate maintenance will remain important through our forecast period, because Förvaltaren previously paused some maintenance plans on properties it aimed to sell a couple of years ago. The properties' technical age was, by the end of 2019, about 40 years.

The company's balance sheet remains solid, supported by properties valued at SEK13.9 billion (year-end 2019), corresponding to a loan-to-value ratio of 12%. Although we do not consider it positive for the ratings, it provides headroom to absorb new funding if needed.

In our view, Förvaltaren's management is experienced and proactively manages the company's financial and

operational risks. Nevertheless, we have observed somewhat weaker governance over the city's subsidiaries financial strategies, resulting in shifting strategies.

In our view, the company 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 increasing population. Furthermore, we consider the link to Sundbyberg very strong. The city is the sole owner and is actively involved in defining the company's strategies.

Environmental, social, and governance

Overall, we believe that Förvaltaren has well developed strategies reflected in prudent and risk-averse policies. Its properties are generally well-maintained and broadly comply with Swedish quality, safety, and energy requirements. We acknowledge Förvaltaren's relatively ambitious sustainability targets, both for new construction and existing stock of properties, limiting the effects of possible regulatory shifts and environmental requirements imposed on the sector.

Förvaltaren executes a social mission, which supports its credit quality. Its strategy of catering for an expanding population, by providing the City of Sundbyberg with rental housing supports our view of an important role for the city. As well, it acts as a socially responsible landlord, promoting for instance good integration, safety, and sustainability. The social mission also contributes to our view of a low industry risk for the sector than for for-profit peers, which underpins Förvaltaren's stand-alone credit quality.

Liquidity

Förvaltaren's liquidity position rest on ample contracted and committed facilities, alongside our view of strong access to external liquidity, because the company has access to the capital markets even in periods of financial stress. We believe the liquidity position is abnormally strong, covering 1.54x of the next 12 months' liquidity uses, due to previous debt reduction and enhanced preparedness to navigate COVID-turbulence. As capex and debt increase, we estimate the cover ratio will come down to historical levels at 1.2x-1.25x.

Liquidity sources include:

- Weighted average cash level of about SEK160 million
- Estimated operating cash flow of SEK170 million
- Committed and undrawn liquidity facilities of SEK1.1 billion

Liquidity uses include:

- Expected capex of SEK400 million
- Maturing debt and interest of SEK530 million
- SEK3 million of dividends

Key Statistics

Table 1

Fastighets AB Förvaltaren--Key Statistics					
	--Year ended March 31--				
(Mil. £)	2018a	2019a	2020e	2021bc	2022bc
Number of units owned or managed	6,596.0	6,608.0	N.A.	N.A.	N.A.
Revenue§	713.0	701.0	706.9	726.7	765.4
Share of revenue from sales activities (%)	0.0	0.0	0.0	0.0	0.0
EBITDA§†	177.0	172.0	184.1	167.1	194.0
EBITDA/revenue §†(%)	24.8	24.5	26.0	23.0	25.3
Capital expense†	178.0	214.0	315.4	421.3	448.7
Debt	2,107.0	1,700.0	1,600.0	1,850.0	2,130.0
Debt/EBITDA §†(x)	11.9	9.9	8.7	11.1	11.0
Interest expense*	69.0	33.0	28.3	24.3	28.1
EBITDA/interest coverage§†*(x)	2.6	5.2	6.5	6.9	6.9
Cash and liquid assets	623.0	370.0	257.1	220.3	205.6

§Adjusted for grant amortization. †Adjusted for capitalized repairs. *Including capitalized interest. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Ratings Score Snapshot

Table 2

Fastighets AB Förvaltaren--Ratings Score Snapshot	
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S&P Global Ratings bases its ratings on non-profit social housing providers on the eight main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on Dec. 17, 2014, summarizes how the eight factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating. For social housing providers generating more than a third of its consolidated revenues from open market sales, we also refer to the "Key Credit Factors For The Homebuilder And Real Estate Developer Industry."

Related Criteria

- 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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings Detail (As Of October 27, 2020)*

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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