

Research Update:

Fastighets AB Förvaltaren 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

October 23, 2024

Overview

- We forecast that Swedish public housing provider Fastighets AB Förvaltaren (Förvaltaren) will ramp up its capital expenditure (capex) as market conditions for new development improve, which will push up its debt financing needs.
- At the same time, we believe that Förvaltaren will stabilize its S&P Global Ratings-adjusted EBITDA margins at higher than previously expected levels, helped by receding inflation.
- We therefore affirmed our 'AA-/A-1+' long- and short-term issuer credit ratings on Förvaltaren.
- The outlook is stable.

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Rating Action

On Oct. 23, 2024, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term foreign and local currency issuer credit ratings on Fastighets AB Förvaltaren (Förvaltaren). The outlook is stable. We also affirmed the 'K-1' Nordic regional scale rating on Förvaltaren.

Outlook

The stable outlook reflects our view that Förvaltaren's management will safeguard the public housing provider's financial performance and contain the strain on debt and liquidity from an expanding capex program.

Downside scenario

We could lower the ratings if Förvaltaren's management allows capex into new construction and existing stock to soar beyond our current expectation. This would likely weigh on indebtedness and liquidity, and could also cause us to revise downward our assessment of management and governance.

Upside scenario

We could consider raising the ratings if Förvaltaren's EBITDA margin and liquidity significantly improve. An upgrade could also occur if the ownership support structure for Förvaltaren strengthens to the extent that we positively reassess the housing provider's role for, or link to, the City of Sundbyberg.

Rationale

The ratings capture our view of Förvaltaren's stable lettings operations; its strong, risk-averse management focusing on core activities; and its robust financial metrics. We expect Förvaltaren to maintain stable EBITDA margins and financial indicators as receding inflation will help the housing provider to contain the rise in spending in the coming years.

Enterprise profile: Förvaltaren benefits from strong demand in Sundbyberg thanks to its proximity to Stockholm

Förvaltaren focuses on letting residential properties, which we regard as a low-risk sector due to its stable and noncyclical revenue base. Demand for rental housing is strong in Sundbyberg thanks to its proximity to central Stockholm. Förvaltaren's housing vacancies primarily relate to apartments that are being emptied for renovation. Vacancies fell to 1.8% in 2023 from 2.7% in 2021 thanks to the provider's increased focus on this metric. The housing provider updated its approach from vacating apartments during refurbishments to offering the affected tenants a discount on the rent to incentivize them to remain in the property.

In our view, Förvaltaren's management is experienced and proactively manages the housing provider's financial and operational risks. Over the years, Förvaltaren has gradually reduced its exposure to commercial premises and increased its focus on refurbishing and developing its existing stock. It monitors financial risks prudently, in line with its risk-limiting financial policies. Positively, the city's directive for the housing provider's strategy has become more balanced in recent years, and we do not foresee any major shifts in Sundbyberg's steerage of Förvaltaren under the current leadership.

We assess the regulatory framework for Swedish public housing companies as very strong (see "Regulatory Framework Assessment: Swedish Public Housing Providers' Rent-Setting Scheme Balances Income And Costs," published on May 22, 2023, on RatingsDirect).

Financial profile: New development and rising capex will push up leverage

While inflation is anticipated to converge toward the Riksbank's target rate of about 2%, we expect EBITDA margins to stabilize. In 2023, the adjusted EBITDA margin recovered significantly, to 28%, mainly due to one-off cost items that strained margins in 2022, falling away. We believe that Förvaltaren will now be able to maintain margins at about 25% through our forecast period to 2026, as rent increases of about 4% in 2024 compensate partly for expenditure growth. Although rent settlements should more than offset inflation in the coming years, we expect fees for heating, water, and waste to increase more rapidly, which will lead to margins stabilizing rather than rising further.

We expect Förvaltaren's capex to peak at about Swedish krona (SEK) 640 million in 2026, up from

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SEK400 million in 2023, as market conditions improve and new development increases. We assume that about half of investments will go toward renovating and maintaining the existing stock, while the other half will be spent on new development. As local construction capacity is constrained, we expect new development to be delayed compared with original timelines. As a result, we forecast Förvaltaren's debt to non-sales EBITDA ratio will reach 14.6x by year-end 2026. We project the ratio will remain structurally below 15x, in line with our previous expectations, as stronger EBITDA margins offset the effect of rising capex.

Although market interest rates have started to come down, we expect the adjusted nonsales EBITDA interest coverage ratio to decrease throughout the forecast period, to 2.6x by 2026.

Förvaltaren's liquidity sources cover its uses by 1.0x over the next 12 months. Its sources comprise cash and committed liquidity facilities totaling SEK1.1 billion, as well as operating cash flow, forecast at SEK230 million. These sources cover uses, including SEK560 million of capex that we expect over the coming 12 months, as well as SEK880 million of maturing debt and interest payments in the same period.

Förvaltaren's liquidity position rests on its committed facilities, alongside our view of its strong access to external liquidity. Förvaltaren has proven that it has good access to capital market funding even amid market stress, and it benefits from being able to obtain bank loans with a municipal guarantee from its owner, the City of Sundbyberg.

Government-related entity analysis

Förvaltaren is a fully owned subsidiary of the City of Sundbyberg (not rated). In our view, Förvaltaren benefits from a high likelihood of receiving timely and sufficient support from Sundbyberg if needed. Förvaltaren plays an important role as a key contributor of housing for the city's increasing population and expanding ambitions. Furthermore, we consider Förvaltaren's link to Sundbyberg to be very strong. The city is the housing provider's sole owner and is actively involved in defining Förvaltaren's strategies.

Financial Statistics

Table 1

Fastighets AB Förvaltaren--Financial statistics

Mil. SEK	--Year ended Dec. 31--				
	2022A	2023A	2024BC	2025BC	2026BC
Number of units owned or managed	6,627	6,633	6,647	6,661	6,763
Adjusted operating revenue	746.0	810.3	834.7	866.9	893.5
Adjusted EBITDA	161.0	228.4	221.5	233.3	236.2
Nonsales adjusted EBITDA	161.0	224.0	217.0	228.7	231.6
Capital expense	441.5	399.1	374.9	622.4	646.8
Debt	2000.0	2200.0	2430.0	2880.0	3380.0
Interest expense	21.6	44.6	77.0	80.3	89.5
Adjusted EBITDA/Adjusted operating revenue (%)	21.6	28.2	26.5	26.9	26.4
Debt/Nonsales adjusted EBITDA (x)	12.4	9.8	11.2	12.6	14.6

Table 1

Fastighets AB Förvaltaren--Financial statistics (cont.)

Mil. SEK	--Year ended Dec. 31--				
	2022A	2023A	2024BC	2025BC	2026BC
Nonsales adjusted EBITDA/interest coverage(x)	7.5	5.0	2.8	2.8	2.6

SEK--Swedish krona. A--Actual. BC--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Fastighets AB Förvaltaren--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	2
Market dependencies	3
Management and governance	2
Financial risk profile	3
Financial performance	4
Debt profile	2
Liquidity	3
Stand-alone credit profile	a+
Issuer credit rating	AA-

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Regulatory Framework Assessment: Swedish Public Housing Providers' Rent-Setting Scheme Balances Income And Costs, May 22, 2023

Ratings List

Ratings Affirmed

Fastighets AB Förvaltaren

Issuer Credit Rating	AA-/Stable/A-1+
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Nordic Regional Scale	--/--/K-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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