S&P Global
Ratings

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Research Update:

Forvaltaren 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

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Overview

- Förvaltaren enjoys a highly predictable revenue stream from rental activities.
- The company has sufficient financial headroom to cope with additional investments on its existing housing stock while developing new residential units.
- We are affirming our 'AA-/A-1+' and 'K-1' ratings on Förvaltaren.
- The stable outlook reflects our expectation that a robust and conservative strategy will enable Förvaltaren to maintain non-sales EBITDA margins of about 25% of revenue throughout 2023, contain debt growth, and sustain its strong liquidity position.

Rating Action

On Oct. 25, 2021, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term issuer credit ratings on Swedish public housing provider Fastighets AB Förvaltaren. The outlook is stable.

At the same time, we affirmed our 'K-1' short-term Nordic regional scale rating on Förvaltaren.

Rationale

The stable outlook reflects our view that Förvaltaren will maintain its stable and robust earnings on the back of strong economic fundamentals in the region. We anticipate that 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 the city of 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, and a more relaxed attitude toward financial policies caused liquidity to deteriorate.

Upside scenario

We could consider raising the ratings on Förvaltaren if we observed a marked improvement in its financial position. This would include a stronger financial performance, likely as a result of improved cost controls elevating non-sales EBITDA margins above 30%, together with liquidity cover structurally higher than 1.25x.

Rationale

The rating indicates Förvaltaren's very stable operations, with a strong focus on core traditional housing activities and robust financial metrics. We expect that Förvaltaren will maintain non-sales EBITDA margins of about 25% and forecast debt to non-sales EBITDA at 12.8x by 2023, even if its current housing stock needs some refurbishments, which somewhat limits profitability and could lead to higher debt. Förvaltaren maintains a strong liquidity position, underpinned by the group's ample liquidity sources consisting of cash and undrawn facilities.

Förvaltaren's focus is on rental-housing properties, which in our view is a low-risk sector, due to its stable and anticyclical revenue which to date has been affected by the COVID-19 pandemic to a very limited extent. Sundbyberg has one of Sweden's fastest growing populations, which combined with its close integration with the capital city of Stockholm, caters for high demand for Förvaltaren's properties. Förvaltaren's 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. Despite the pandemic, we consider vacancy risk limited, although the company is currently experiencing a temporary uptick in vacancies due to some large properties undergoing renovation. We note that maintenance was lower than expected in 2020, which boosted EBITDA, but will likely have increased this year weighing on the 2021 non-sales EBITDA margin. Consequently, we estimate that Förvaltaren's non-sales EBITDA will remain stable at around 25% of revenue through 2023. We adjust our EBITDA calculation for capitalized repairs, which we regard as an operating expense, averaging SEK77 million in 2021-2023.

Förvaltaren's focus on new construction and increasing its portfolio of rental housing units remains firm, and we expect it will gradually ramp up capex over the coming years. In addition to new construction, we also expect investments in existing housing stock to remain sizeable. We consider Förvaltaren's properties to be generally well maintained, although we anticipate maintenance will remain important through our forecast period, since Förvaltaren previously paused maintenance plans on properties it aimed to sell.

Consequently, Förvaltaren's debt has increased somewhat in 2021 due to higher capex, and we expect it to reach 12.8x of EBITDA by the end of 2023 compared with a five-year average of 10.2x and a low 6.8x in 2020. Furthermore, we expect Förvaltaren's non-sales EBITDA interest coverage will remain strong at 7.1x at year-end 2021, still benefitting from low interest rates and debt. In our view, Förvaltaren's management is experienced and proactively manages the company's financial and operational risks. That said, we have in the past observed somewhat weaker governance from its owner, resulting in shifting strategies.

We assess the regulatory framework for Swedish public housing companies as very strong, underpinned by our view that all rental housing in Sweden has a public policy role, with limited risk of negative government intervention, and reporting standards that is similar to that for private companies. Tenants have the same rights in terms of rental negotiations, occupancy, and other terms and conditions, regardless of whether the landlord is from the private or public sector.

Changes in the regulatory framework are rare and when they occur they are generally well prepared, with the major stakeholders involved in hearings and drafting responses.

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

Liquidity

Förvaltaren's liquidity position rests on ample contracted and committed facilities, alongside our view of strong access to external liquidity, since Förvaltaren has access to the capital funding even in periods of market stress. We believe the company's liquidity position is currently unusually strong, covering 1.45x liquidity uses over the next 12 months. This is thanks to debt reduction in previous years and enhanced preparedness to navigate the impact of COVID-19. As capex and debt increase, we estimate the coverage ratio will decline to historical levels of 1.00x-1.25x.

Liquidity sources include:

- Cash of about Swedish krona (SEK) 187 million (about $21.7 million);
- Estimated operating cash flow of SEK165 million; and
- Committed and undrawn liquidity facilities of SEK1.1 billion.

Liquidity uses include:

- Expected capex of about SEK480 million;
- Maturing debt and interest of SEK530 million; and
- SEK2 million of dividends.

Table 1

Fastighets AB Förvaltaren--Key Statistics

	--Year ended Dec. 31.--				
Mil. SEK	**2019a**	**2020a**	**2021e**	**2022bc**	**2023bc**
Number of units owned or managed	6,608	6,612	N.A.	N.A.	N.A.
Adjusted operating revenue	701.0	719.0	724.8	753.8	781.7
Adjusted EBITDA	172.0	234.0	170.0	198.7	201.6
Non-sales adjusted EBITDA	172.0	234.0	170.0	198.7	201.6
Capital expense	214.0	329.0	401.9	498.4	610.9
Debt	1700	1600	1800	2150	2580
Interest expense	33.0	23.0	24.5	28.5	34.3
Adjusted EBITDA/Adjusted operating revenue (%)	24.54	32.55	23.45	26.36	25.79
Debt/Non-sales adjusted EBITDA (x)	9.88	6.84	10.59	10.82	12.80
Non-sales adjusted EBITDA/interest coverage(x)	5.21	10.17	6.94	6.98	5.88

SEK--Swedish krona. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Table 2

Fastighets AB Förvaltaren--Ratings Score Snapshot

Factor	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

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers Published, June 8, 2021
- Outlook 2021: Strong Liquidity Should Help Social Housing Providers Remain Resilient, Dec. 8, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

Ratings List

Ratings Affirmed	
Fastighets AB Forvaltaren	
Issuer Credit Rating	AA-/Stable/A-1+
Nordic Regional Scale	--/--/K-1