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Research Update:

Swedish Public Housing Provider Forvaltaren Outlook Revised To Negative; Ratings Affirmed At 'AA-/A-1+' And 'K-1'

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Overview

- In our view, Fastighets AB Förvaltaren's liquidity position has weakened due to reliance on short-term debt, although its strong market access should allow funding through the capital markets.
- Furthermore, we anticipate Förvaltaren's debt will keep increasing, owing to steady demand for housing amid strong population growth in Sundbyberg and environs.
- We are therefore revising our outlook on Förvaltaren to negative from stable, and affirming our 'AA-/A-1+' and 'K-1' ratings on the company.
- The negative outlook indicates that we could lower the ratings if Förvaltaren's debt burden increased structurally and significantly.

Rating Action

On Oct. 26, 2017, S&P Global Ratings revised its outlook on Swedish public housing provider Fastighets AB Förvaltaren to negative from stable.

At the same time, we affirmed our 'AA-/A-1+' long- and short-term issuer credit ratings and our 'K-1' Nordic regional scale rating on the company.

Rationale

We revised our outlook on Förvaltaren to negative because of a deteriorated liquidity position, caused by reliance on short-term debt. Combined with this, we consider that the risk of debt increasing above 20x EBITDA in the medium term has increased.

The ratings are based on our assessment of the company's stand-alone credit profile (SACP) in the 'a' category, as well as our opinion that there is a high likelihood that the company's owner, the city of Sundbyberg (not rated), would provide timely and sufficient extraordinary support in the event of financial distress. Förvaltaren has a very strong enterprise profile, stemming from low industry risk, excellent economic fundamentals, very good asset quality, consistent strategy, and a strong market position in Sundbyberg's rental property market. The company's currently moderate debt burden, large stock of unencumbered assets, and transparent and long-term financial policy further support our assessment of its SACP. These strengths are partly offset by Förvaltaren's short-dated debt profile, which creates exposure to refinancing risk and adds volatility to its debt service and modest financial performance.

In accordance with our criteria for government-related entities, our view that there is a high likelihood of extraordinary government support is based on our assessment of Förvaltaren's:

- Important role for Sundbyberg, where the company is regarded as an important contributor to the city's overall infrastructure and public policy; and
- Very strong link with the city, which is actively involved in defining Förvaltaren's strategy, appoints the company's board of directors, and intends to maintain its 100% ownership over the medium term.

We consider Förvaltaren to have a very strong enterprise profile, thanks to its low industry risk, excellent economic fundamentals, and strong market position. Specifically, the company has about 7,800 apartments in the Sundbyberg area, located in the northern part of Stockholm's metropolitan area. Förvaltaren benefits from very high demand for its rental apartments in the fast growing city of Sundbyberg, which results in minimal vacancies. We calculate the average house price in Sundbyberg at a high 196% of the national average. Combined with population growth, which has been among the highest in Sweden at 4% annually over the past three years, such a high average house price suggests strong local economic fundamentals.

We view Förvaltaren's asset quality as very strong. Förvaltaren's properties are generally well maintained, and the company's maintenance work enhances the maturity of its property portfolio; the effective average age of its property stock is 37 years. Vacancy rates have decreased and we foresee them remaining low in the coming years, due to very strong demand for housing in the area. Förvaltaren's business plan includes the construction of almost 900 new apartments by 2019, and refurbishment of an additional 2,900. As a part of the plan, Förvaltaren will divest some of its portfolio by facilitating conversions, in which tenants acquire the property and form a housing cooperative. There is political consensus that a better mix of housing types is needed, although to what extent Förvaltaren will convert properties is still uncertain.

We assess Förvaltaren's financial profile as strong, thanks to the company's currently manageable debt and generally conservative financial policies. The growing demand for rental properties has led to an increase in investments. The company is currently in an expansionary phase, and we estimate that its investments will total approximately Swedish krona (SEK) 1.3 billion (about €135 million) in 2017-2019. The planned development could lead to an average of SEK122 million in net new loans per year. As a result, we forecast the company's ratio of debt to EBITDA will increase to 19.1x by year-end 2019 from 16.8x in 2016. Nevertheless, we acknowledge that the gains from the company's divestment plans may slow down the debt accumulation.

Förvaltaren, like its Swedish peers, is exposed to risks associated with its short-dated debt profile. As of Aug. 31, 2017, the average remaining loan term was 1.3 years. The company has mitigated this refinancing risk with committed bank lines that technically lengthen the average term to maturity to 2.5 years from 3.1 years at year-end 2015. The average interest-fixing period (including hedging) was 1.77 years.

Liquidity

We now regard Förvaltaren's liquidity as adequate rather than strong, since its liquidity sources cover 92% of liquidity uses, compared with 110% as of October 2016. About SEK1.7 billion of the company's total loan portfolio matures over the coming 12 months. In addition, we calculate that interest expense and gross capital spending of SEK419 million add to Förvaltaren's liquidity needs over that period. In terms of available sources of liquidity in the next 12 months, Förvaltaren has liquidity facilities of SEK1.3 billion, as well as cash, liquid assets, and inflows of SEK597 million. Moreover, we acknowledge Förvaltaren's strong market access when we assess its overall liquidity position.

Outlook

The negative outlook reflect the pressure on Förvaltaren to deliver more social housing units, which may inflate its debt profile structurally beyond our base-case expectations, while liquidity remains adequate.

We may lower the ratings if we observed a further deterioration of the debt profile over the next 24 months, for example from an increase in debt to EBITDA beyond 20x alongside inability to improve liquidity coverage. We could also lower the rating if we see increased exposure to short-term interest-fixing.

We could revise the outlook to stable if, from 2018 and onward, Förvaltaren's financial profile strengthened over the next 24 months. This could happen if more conservative debt and liquidity policies led to liquidity sources consistently exceeding uses by more than 105%, for example through lengthening of the short-dated debt structure, and if debt accumulation slowed significantly.

Fastighets AB Forvaltaren Financial Statistics

(SEK Mil.)	--Fiscal year ending Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Number of units	7,823	7,826	N/A	N/A	N/A
Vacancy rates (% of net rental income)	2.1	2.1	1.2	N/A	N/A
Arrears (% of net rental income)*	0.0	0.0	N/A	N/A	N/A
Revenue	770	805	788	775	789
Share of revenue from non-traditional activities (%)	0.0	0.0	0.0	0.0	0.0
Operating expense	462	494	487	473	480
EBITDA§	134	175	171	172	179
EBITDA/revenue (%)	17.4	21.7	21.7	22.2	22.7
Interest expense	59	61	49	50	53
Debt/EBITDA (x)	21.9	16.8	17.7	18.2	19.1
EBITDA/interest coverage (x)†	2.3	2.9	3.5	3.4	3.4
Capital expense	673	417	376	367	587
Debt	2,940	2,940	3,033	3,124	3,429
Housing properties (according to balance-sheet valuation)	5,217	5,478	N/A	N/A	N/A

Fastighets AB Forvaltaren Financial Statistics (cont.)

(SEK Mil.)	--Fiscal year ending Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Loan to value of properties (%)	19.9	19.2	N/A	N/A	N/A
Cash and liquid assets	490	224	207	207	207

*Current arrears. §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. The data and ratios above result in part from S&P Global Ratings' own calculations. The main sources are the financial statements and budgets, as provided by the issuer. SEK--Swedish krona. bc--Base case, reflects S&P Global Ratings' expectations of the most like

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - August 14, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 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 - December 17, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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