

Research Update:

Forvaltaren 'AA-/A-1+' And 'K-1' Ratings Affirmed On Ability To Contain Debt; Outlook Stable

October 25, 2023

Overview

- We forecast that Swedish public housing provider Fastighets AB Förvaltaren (Förvaltaren) will see continued pressure on its S&P Global Ratings-adjusted EBITDA margins because rent settlements are not fully compensating for inflation.
- However, we believe that Förvaltaren will be able to contain its debt intake since the amount of new development will remain low in current market conditions.
- 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. 25, 2023, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term 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 has sufficient financial headroom to mitigate the pressure on its financial metrics from inflation and increasing interest rates.

Downside scenario

We could lower the ratings if Förvaltaren failed to address the cost pressure and adapt its development portfolio to market conditions, thereby leading to weaker EBITDA margins. In this scenario, weaker EBITDA margins could worsen Förvaltaren's debt metrics.

Upside scenario

We could consider raising the ratings if we observed a significant improvement in Förvaltaren's EBITDA margins and liquidity. An upgrade could also occur if we saw a strengthening in Förvaltaren's ownership or support structure that would make us positively reassess the company's role for, or link to, the City of Sundbyberg.

Rationale

The ratings capture our view of Förvaltaren's stable rental property operations; strong, risk-averse management focusing on core activities; and robust financial metrics. We expect that Förvaltaren will be able to maintain relatively stable EBITDA margins and financial indicators.

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

Förvaltaren's focus is on rental properties, which we regard as a low-risk sector due to its stable and, to some extent, anticyclical 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 amounted to 1.8% in 2022, down from 2.7% in 2021. This decline is the result of an increased focus on reducing vacancies. Among the changes, the company updated its approach from vacating apartments during refurbishments to offering the affected tenants a discount on the rent to remain in the property. We expect Förvaltaren will be successful in reducing the vacancy rate further in the coming years.

In our view, Förvaltaren's management is experienced and proactively manages the company's financial and operational risks. Over the years, the company has gradually reduced its exposure to commercial premises and increased its focus on refurbishing and developing its existing stock. Förvaltaren has a clear focus on delivering good-quality public services to its tenants. It monitors financial risks prudently, in line with its risk-limiting financial policies. Positively, the city's directive for the company'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 May 22, 2023, on RatingsDirect).

Financial profile: Limited new development will contain debt leverage

Since inflation remains high, we are seeing Förvaltaren's margins contract. In 2022, the adjusted EBITDA margin fell to 21.6%. We believe that Förvaltaren will be able to keep the margin above 20% in 2023 through rent increases, which include a temporary nominal fee on top of a 3.7% general increase, resulting in higher rent rises in 2023. In 2024, we expect rents to rise by 6%. This will support a recovery in margins in the coming years, albeit not to the same level as before inflation started to rise.

We expect Förvaltaren's capital expenditure (capex) to peak at about Swedish krona (SEK) 480 million in 2024, including some catch-up from 2023, after which it should moderate. We assume that most investments will be to renovate and maintain the existing stock, with new development limited to that already under construction. In the coming years, we do not expect much new development since market conditions are weak and the city's infrastructure presents a capacity constraint. As a result, we expect Förvaltaren's debt to nonsales EBITDA to reach 14.8x by

year-end 2025. Our expectation is that the ratio will remain structurally below 15x, partly as a result of past asset sales, which have helped contain leverage.

Although Förvaltaren has hedged a large share of its debt portfolio, we expect that higher interest rates will push the adjusted nonsales EBITDA interest coverage ratio to 3.7x in 2023. It will then weaken to below 2.5x in the coming years as higher interest rates flow through to the debt portfolio.

Förvaltaren's liquidity sources cover its uses by 1.24x over the next 12 months. Its sources consist of cash and committed liquidity facilities totaling SEK1.2 billion, as well as our forecast of operating cash flow of SEK180 million. These sources cover uses including SEK450 million of capex that we expect over the coming 12 months, as well as SEK660 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 company's sole owner and is actively involved in defining Förvaltaren's strategies.

Financial Statistics

Table 1

Fastighets AB Förvaltaren--Key Statistics

Mil. SEK	2021a	2022a	2023bc	2024bc	2025bc
Number of units owned or managed	6,612	6,627	6,646	6,665	6,682
Adjusted operating revenue	723.9	746	780.1	829.3	856.5
Adjusted EBITDA	193	161.1	165	190.1	199.5
Adjusted nonsales EBITDA	193	161.1	165	190.1	199.5
Capital expense	393.7	439.8	377.1	480.6	462
Debt	1,800.00	2,000.00	2,250.00	2,600.00	2,950.00
Interest expense	14.1	21.6	44.1	67.9	92.6
Adjusted EBITDA/adjusted operating revenue (%)	26.7	21.6	21.1	22.9	23.3
Debt/adjusted nonsales EBITDA (x)	9.3	12.4	13.6	13.7	14.8
Adjusted nonsales EBITDA/interest coverage (x)	13.7	7.5	3.7	2.8	2.2

Note: Adjusted data is by S&P Global Ratings. a--Actual. e--Estimate. 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

	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

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

Ratings List

Ratings Affirmed

Fastighets AB Forvaltaren

Issuer Credit Rating AA-/Stable/A-1+

Nordic Regional Scale --/--/K-1

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/sourceld/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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