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Research Update:

Swedish Housing Provider Forvaltaren Affirmed At 'AA-/A-1+' And 'K-1'; Outlook Stable

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Overview

- Swedish public housing provider Fastighets AB Förvaltaren has a very strong enterprise profile and a strong financial profile, albeit with a short-dated debt profile and an investment program that could lead to further debt accumulation.
- We think there is a high likelihood that the City of Sundbyberg, Förvaltaren's owner, would provide timely and sufficient extraordinary support to Förvaltaren in the event of financial distress.
- We are affirming our 'AA-/A-1+' long- and short-term issuer credit ratings and our 'K-1' Nordic regional scale rating on the company.
- The stable outlook reflects our expectation that Förvaltaren's stand-alone credit profile will remain at its current level and that its continued investments will help cement its role as a dominant rental housing landlord in Sundbyberg.

Rating Action

On Oct. 19, 2016, 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' Nordic regional scale rating on the company.

Rationale

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.

Our assessment of Förvaltaren's SACP is supported by the company's very strong enterprise profile, stemming from low industry risk, excellent economic fundamentals, and strong market position in Sundbyberg's rental property market. The company's high asset quality and strong financial profile, which reflect its conservative financial policies and low leverage, 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, although the maturity structure is technically prolonged by committed credit facilities, and the company's investment program, which could lead to further debt accumulation.

In accordance with our criteria for government-related entities (GREs), 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 7,800 apartments in the Sundbyberg area. Förvaltaren benefits from very high demand for its rental apartments in the growing city of Sundbyberg, which provides for minimal vacancies in its housing stock. We calculate the average dwelling price for private houses in Sundbyberg at a high 202% of the national average. When combined with population growth, which has been among the highest in Sweden at 4.6% annually over the past three years, such a high average house price suggests strong local economic fundamentals.

Förvaltaren's properties are generally well maintained. The company's maintenance work enhances the longevity of its property portfolio and reduces the effective average age of its stock to a low 39 years.

We assess Förvaltaren's financial profile as strong thanks to the company's conservative financial policies and robust balance sheet. Förvaltaren has entered an expansionary phase with investments that we estimate at approximately Swedish krona (SEK) 1.4 billion (about €144 million) in 2016-2018. These planned investments could lead to some debt uptake of about SEK115 million in net new loans per year and we forecast the company's ratio of debt to debt and equity will remain relatively stable at 53% by year-end 2018 (53% in 2014). However, Förvaltaren is also planning on selling off assets of about SEK1.5 billion over the coming years, which will likely be used to finance new construction, and which could result in lower financing needs.

However, we believe there is ample room for the company to absorb new financing, given its very strong loan-to-value ratio of 24% at year-end 2015 and headroom within its interest coverage ratios. In our base-case scenario, we calculate Förvaltaren's EBITDA interest coverage at a strong 2.7x in 2018, compared with 2.3x in 2015, and debt to EBITDA at an adequate 11x in 2018, compared with 9.2x in 2015.

Like its domestic peers, Förvaltaren is exposed to risks associated with its short-term debt profile. As of Sept. 30, 2016, its average loan maturity stood at 1.7 years. However, the company has mitigated this refinancing risk with committed bank lines that technically result in a longer average maturity of 2.8 years, from 3.1 years at year-end 2015. The average interest-fixing period (including hedging) was 2.1 years.

Liquidity

We consider Förvaltaren's liquidity position to be strong because liquidity sources cover 110% of liquidity uses, combined with what we view as strong market access.

Specifically, about SEK1.3 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 SEK514 million add to Förvaltaren's liquidity needs over the next 12 months.

In terms of available liquidity in the coming 12 months, Förvaltaren has liquidity facilities of SEK1.3 billion. Together with cash and liquid assets, and inflows of SEK670 million, we calculate the company's available liquidity, including bank facilities, is 110% of uses of liquidity over the next 12 months. Moreover, we acknowledge Förvaltaren's strong market access when we assess its overall liquidity position.

Outlook

The stable outlook reflects our expectation that Förvaltaren's SACP will remain at its current level over the next 24 months, supported by the company's very strong enterprise profile and strong financial profile. We expect that the company's continued investments will help cement its role as a dominant rental housing landlord in Sundbyberg. Resulting debt accumulation, however, will be moderate and not weaken its liquidity position.

We could raise the ratings within the next 24 months if Förvaltaren's financial profile were to strengthen. This could happen if more conservative debt and liquidity policies led liquidity sources to consistently exceed uses by more than 125% and if Förvaltaren's debt profile strengthened, for example through borrowings increasing notably less than we currently expect and the term structure of the debt portfolio significantly lengthening, thereby minimizing refinancing risk such that we would positively reassess the debt profile. We could also raise the ratings if we were to positively reassess the company's role for or link with Sundbyberg.

The ratings could come under pressure within the next 24 months if Förvaltaren's financial profile were to deteriorate. This could happen if the company's liquidity position relative to short-term debt maturities were to weaken to less than 105% of uses of funds. In this case, we could revise down our assessment of the company's financial policies. A deterioration of Förvaltaren's financial profile would also occur if its debt-to-EBDITA ratio increased beyond 20x on a five-year average, leading its debt score to deteriorate. We could also consider a negative rating action if the company's role for or link with the city were to decline.

Fastighets AB Förvaltaren Financial Statistics

(SEK Mil.)	--Fiscal year ending Dec. 31--				
	2014	2015	2016bc	2017bc	2018bc
Number of units	7,751	7,823	N/A	N/A	N/A
Vacancy rates (% of net rental income)	3.7	2.1	N/A	N/A	N/A

Fastighets AB Forvaltaren Financial Statistics (cont.)

(SEK Mil.)	--Fiscal year ending Dec. 31--				
	2014	2015	2016bc	2017bc	2018bc
Arrears (% of net rental income)*	0.0	0.0	0.0	0.0	0.0
Revenue	768	770	797	808	843
Share of revenue from non-traditional activities (%)	0.0	0.0	0.0	0.0	0.0
Operating expense	355	367	497	524	556
EBITDA§	172	134	191	175	178
EBITDA/revenue (%)	22.4	17.4	24.0	21.7	21.1
Interest expense	60.0	59.0	61.9	63.1	66.5
Debt/EBITDA (x)	9.9	9.2	9.5	10.4	11.0
EBITDA/interest coverage (x)†	2.9	2.3	3.1	2.8	2.7
Capital expense	577	673	379	451	562
Debt	2,811	2,940	2,957	3,063	3,281
Housing properties (according to balance-sheet valuation)	4 602	5 217	N/A	N/A	N/A
Loan to value of properties (%)	25.1	23.9	N/A	N/A	N/A
Cash and liquid assets	659	490	490	490	490

*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 - June 01, 2016
- 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: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

Rating

To

From

Fastighets AB Forvaltaren

Issuer Credit Rating

Foreign and Local Currency

AA-/Stable/A-1+

AA-/Stable/A-1+

Ratings List Continued...

Nordic Regional Scale	--/--/K-1	--/--/K-1
Commercial Paper		
Local Currency	A-1+	A-1+

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