

Research Update:

# Samhallsbyggnadsbolaget Ratings Placed On CreditWatch Negative On Announced Bond Tender Offer

November 17, 2023

## Rating Action Overview

- Swedish real estate landlord Samhallsbyggnadsbolaget i Norden AB (SBB) announced voluntary tender offer of up to €600 million across all of its euro-denominated hybrid and senior unsecured bonds maturing between 2024 and 2040.
- The tender offer is partly funded by proceeds from the EduCo transaction, which is subject to completion by November 27; therefore, there is a degree of uncertainty as to the final terms of the tender offer, which will be decided at SBB's sole discretion and announced after the expiration deadline, which is currently dated for Nov. 22, 2023.
- Depending on the outcome of the tender, our view whether the terms affect the prospects of conventional default in the near to medium term, and whether it offers less than the original promise to investors, we may view certain tranche repurchases as distressed in nature, and therefore tantamount to default.
- Given this uncertainty, we placed our 'CCC+' issuer credit rating on SBB on CreditWatch with negative implications, along with the ratings on all senior unsecured notes.
- In addition, we lowered our ratings on the company's subordinated hybrid bonds to 'C' from 'CC' and placed them on CreditWatch negative.
- The negative CreditWatch indicates that we could lower the rating to 'SD' (selective default) if debt tranches are repurchased at values that we deem as less than the original promise and we consider this to be distressed in nature.
- We expect to resolve the CreditWatch placement once the company has announced the result from the tender offer.

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## Rating Action Rationale

**The negative CreditWatch reflects the likelihood that we may view the transaction as**

**tantamount to default.** On Nov. 16, SBB announced a tender offer via an unmodified Dutch auction on all of its euro-denominated outstanding hybrid and euro-denominated senior unsecured bonds. We understand the offer is limited to a maximum purchase amount of €600 million and subject to the successful completion of the EduCo transaction, with cash proceeds of Swedish krona (SEK) 8 billion, to be received before settlement date of the tender offer transaction. We understand the tender offer deadline will be Nov. 22, and the settlement date on Nov. 27. The offer is subject to a minimum price for each debt tranche, and the amount accepted for purchase in each tranche, as well as the overall debt repurchased, will be determined and can be changed at SBB's sole discretion.

We may view purchases of certain tranches conducted at substantial discounts to par as tantamount to default. We will consider whether the transactions would involve investors receiving less than the original promise, and whether there is a realistic possibility of a conventional default on the instruments subject to the transaction, over the near to medium term, if the repurchases do not take place. We may determine that a default has occurred even though the tender offers involve a Dutch auction process, where investors voluntarily choose the amount and price at which they are willing, if at all, to tender.

**SBB's liquidity will remain weak following the transaction.** This is because SBB will continue facing significant debt maturities over 2024 and 2025 and we believe its access to capital market remains remote. Asset sales remain the most likely path to deleveraging and managing the maturity wall in the foreseeable future.

Moreover, we still view SBB's capital structure as unsustainable over the longer term until the company can demonstrate a sustained capital structure stability and an improved liquidity position through access to diversified funding sources or timely asset sales. We believe execution of these steps is challenging and carries a high degree of uncertainty under current circumstances.

**We believe SBB will very likely defer hybrid coupon payments within the next 12 months.** We also believe that there is a high likelihood the company will defer hybrid coupon payments within the next 12 months, especially after the payment of the common dividend of SEK2.1 billion, expected during the second quarter of 2024. As stated by management in its third-quarter report, the company will remain cautious toward hybrid coupon payments until its financial position has improved. Therefore, we have lowered our issue ratings on the subordinated debt to 'C' from 'CC' and placed them also on CreditWatch with negative implications.

## Outlook

The negative CreditWatch placement reflects the likelihood that we may view some of the repurchases of tranches subject to the tender offer as tantamount to default. As part of the CreditWatch listing, we will evaluate whether or not lenders of the tendered bonds are receiving meaningfully less than the original promise, and whether there is a prospect of conventional default in the near to medium term if the tender offer is not accepted.

We expect to resolve the CreditWatch once we have greater clarity on the final acceptance ratio per tranche, pricing and tendered amounts. We would likely lower the issuer credit rating to 'SD' if

the final outcome of the tender offer on senior bonds is viewed as tantamount to a default according to our criteria. If SBB does not achieve sufficient acceptance on its tender offer or if lenders receive a tendered price that under our criteria would not be seen as distressed or less than the original promise, we would likely affirm the issuer credit rating at 'CCC+', subject to assessment of the company's liquidity position and if there were no specific scenarios of default envisioned over the next 12 months.

## **Company Description**

SBB is one of the largest listed real estate companies in the Nordics. It had a portfolio value of about SEK118 billion (about €10.2 billion) on Sept. 30, 2023. SBB mainly invests in community service and educational properties (75% of total portfolio value) and Swedish regulated residential properties (25%). In addition, the company owns other properties (5%), mainly commercial assets with identified development potential, for which it seeks to obtain building rights, to be subsequently sold. The portfolio is in the Nordics, with 73% in Sweden. In addition, SBB has operations in Norway (17%), Finland (9%), and Denmark (2%).

## **Related Criteria**

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Samhallsbyggnadsbolaget Downgraded To 'CCC+' On Upcoming High Debt Maturities And Liquidity Pressure; Outlook Negative, July 28, 2023

- SBB To Improve Near-Term Liquidity With Expected Cash Injection; Uncertainties On Capital Structure Remain, Sept. 26, 2023
- Samhallsbyggnadsbolaget Downgraded To 'BB-' On Business Uncertainty And Tightening Liquidity; On CreditWatch Negative, June 7, 2023
- Samhallsbyggnadsbolaget Downgraded To 'BB+' On Continuously High Leverage And Tightening Liquidity; Outlook Negative, May 8, 2023

## Ratings List

### CreditWatch Action; Ratings Affirmed

	To	From
<b>Samhallsbyggnadsbolaget i Norden AB (publ)</b>		
Issuer Credit Rating	CCC+/Watch Neg/C	CCC+/Negative/C
Senior Unsecured	CCC+ /Watch Neg	CCC+
Recovery Rating	3(65%)	3(65%)
Commercial Paper	C/Watch Neg	C

### SBB Treasury OYJ

Senior Unsecured	CCC+ /Watch Neg	CCC+
Recovery Rating	3(65%)	3(65%)

### Downgraded; CreditWatch Action

	To	From
<b>Samhallsbyggnadsbolaget i Norden AB (publ)</b>		
Subordinated	C/Watch Neg	CC

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](http://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/sourcelid/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://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](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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