

Research Update:

# Samhallsbyggnadsbolaget Ratings Raised To 'CCC' On Completion Of Tender Offer; Outlook Negative

March 28, 2024

## Rating Action Overview

- On March 26, Swedish real estate landlord Samhallsbyggnadsbolaget i Norden AB (SBB) completed a tender offer at prices well below par, with cash proceeds of €163 million allocated solely to the holders of its three euro denominated subordinated notes and its senior unsecured bonds, due 2026, 2027, and 2028.
- SBB's capital structure remains unsustainable based on continued weak liquidity with significant short-term debt maturities.
- In our view, SBB's ability to meet its future debt maturities depends upon favorable business, financial, and economic conditions, including timely and successful asset disposals. Its debt repayment-capacity may also rely on ongoing partial repurchases, which we could view as distressed, to repay its most pressing debt maturities due in 2024 and 2025.
- Therefore, following the completion of the tender, we raised our long-term issuer credit rating on SBB to 'CCC' from 'SD' (selective default), and our issue rating on its affected senior unsecured debt to 'CCC' from 'D' (default). We affirmed our 'CCC' issue ratings on SBB's 2025 and 2026 senior unsecured notes. The recovery rating remains at '3'.
- At the same time, we raised our issue ratings on the three euro subordinated bonds to 'C' from 'D'.
- The negative outlook on our long-term rating on SBB reflects the risk of a conventional default or further distressed debt offers within the next 12 months, if SBB does not execute its revised business and funding strategy as planned.

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## Rating Action Rationale

**We view the accepted tender offer as distressed due to the risk of a default linked to SBB's vulnerable financial position, and because creditors will receive less than the original promise.**

We consider these repurchases as tantamount to a default under our criteria because, not only have the lenders received materially less value than they were initially promised under the terms of the original securities, but we also believe that there was a realistic possibility of a conventional

default on the instruments subject to the tenders, over the near to medium term.

SBB will continue to face significant debt maturities, totaling about Swedish krona (SEK) 10 billion over 2024 and 2025, including its €550 million nominal issued senior unsecured bond, due January 2025. We believe its access to capital markets remains impeded. Asset sales continue to be the most likely path to SBB 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 capital structure stability and an improved liquidity position through access to diversified funding sources or timely asset sales. Although SBB has attracted some funding through the sale of equity stakes in several asset portfolios--demonstrated by the recent Brookfield and Castlelake transaction--we believe execution of these steps remains challenging and carries a high degree of uncertainty under current circumstances.

**We raised our ratings on SBB's subordinated bonds to 'C' as we believe the company will very likely defer hybrid coupon payments within the next 12 months.** We continue to believe that SBB is highly likely to 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 full-year 2023 report, the company will remain cautious toward hybrid coupon payments until its financial position has improved. Therefore, we raised our issue ratings on the subordinated debt to 'C' from 'D'. We maintain our intermediate equity content on the hybrid instruments reflecting our expectation that the issuer is willing to use the instruments to absorb losses or conserve cash.

We consider hybrids to be eligible for an intermediate equity content assessment if they have at least 10 years remaining before their effective maturity date, as defined by our criteria, when the issuer credit rating is in the 'B' category or lower.

## **Outlook**

The negative outlook reflects the risk of a conventional default or further distressed debt offers within the next 12 months, if SBB does not execute its revised business and funding strategy as planned.

## **Downside scenario**

We could lower the ratings on SBB if the company fails to execute sufficient asset disposals or otherwise secure sufficient funding for its short-to medium-term liquidity needs.

We could also downgrade the company if additional unexpected events occurred, including materialized legal risk, significantly constraining SBB's credit profile or liquidity, or in the event of another tender offer or bond buyback that we considered to be distressed and tantamount to default.

## **Upside scenario**

We could raise the ratings on SBB if the company managed to proceed with sufficient and timely asset disposals or raised additional capital to successfully refinance debt maturities in the medium term and restore its liquidity.

## Company Description

SBB is one of the largest listed real estate companies operating in the Nordic region. It had a portfolio value of about SEK73.2 billion (about €6.5 billion) on Dec. 31, 2023. SBB mainly invests in community service and educational properties (60% of total portfolio value) and Swedish regulated residential properties (39%). The company also owns other properties (1%), mainly commercial assets with identified development potential, for which it seeks to obtain building rights, to be subsequently sold. SBB's portfolio is largely based in Sweden (83%), with other operations in Finland (11%), Norway (5%), and Denmark (1%).

## Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- 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

Swedish Real Estate Company SBB Downgraded To 'SD' After Accepting Below-Par Tender Offer, March 27, 2024

## Ratings List

**Upgraded**

	To	From
<b>Samhallsbyggnadsbolaget i Norden AB (publ)</b>		
Issuer Credit Rating	CCC/Negative/C	SD/--/SD
Senior Unsecured	CCC	D
Recovery Rating	3(65%)	3(65%)
Subordinated	C	D
Commercial Paper	C	SD

**SBB Treasury OYJ**

Senior Unsecured	CCC	D
Recovery Rating	3(65%)	3(65%)

**Ratings Affirmed**

**Samhallsbyggnadsbolaget i Norden AB (publ)**

Senior Unsecured	<b>CCC</b>
Recovery Rating	3(65%)

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/sourceld/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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