14 JAN 2025

Fitch Affirms SBB's IDR at 'CCC'; Removes Rating Watch Negative

Fitch Ratings - Frankfurt am Main - 14 Jan 2025: Fitch Ratings has affirmed SBB - Samhällsbyggnadsbolaget i Norden AB's (SBB Parent) Long-Term Issuer Default Rating (IDR) at 'CCC' and its senior unsecured debt rating at 'CC' with a Recovery Rating of 'RR6'. Both ratings have been removed from Rating Watch Negative (RWN). A full list of rating actions is below.

The rating actions follow the withdrawal of a formal claim by a sole bondholder of an interest coverage covenant breach tested in 2022. This removes the risk of SBB Parent defending an event of default (EofD) claim, had UK courts ruled against SBB Parent.

SBB Parent's ratings continue to reflect its weakened credit profile, following the transfer of most of its assets to Samhällsbyggnadsbolaget i Norden Holding AB (SBB Holding; IDR: 'CCC+') as part of a tender and exchange offer of bonds in December 2024. SBB Parent's remaining SEK3.2 billion of assets cannot meaningfully support its SEK19 billion of retained debt, including hybrids. These assets are attached to its secured debt and are not available to SBB Parent's predominantly unsecured bondholders.

Key Rating Drivers

EofD Claim Ended: The relevant bondholder, who initially held EUR46 million of SBB Parent bonds, participated in the December 2024 tender and exchange offer and now holds SEK86 million (EUR7.5 million), has discontinued its legal proceedings in the UK courts related to an EofD claim. As Fitch had placed SBB Parent's ratings on RWN reflecting the scheduled 1Q25 court hearing, the short-term risk associated with the RWN is no longer relevant to the ratings.

Insufficient Unsecured Creditor Assets: About SEK3.2 billion of income-producing assets retained at SBB Parent are pledged to specific SEK2.4 billion of secured debt. To fund its retained 2025 debt maturities, an intergroup instrument exists with SBB Holding, who holds the bulk of group cash and income-producing assets.

Rental income is insufficient to service SBB Parent's retained debt and will rely on cash upstreamed from SBB Holding to help meet its interest payments and redeem debt maturities due in 2026 and beyond. Headroom exists under SBB Holding's unsecured bond covenants to allow upstreaming of cash (or restricted distributions, as defined in bond documentation) to SBB Parent.

Weak Credit Profile: SBB Parent's ratings are driven by its small asset base and insufficient rental income generation, which translates into less than 1x EBITDA net interest cover, despite the continuing deferral of its hybrids' interest coupons. Fitch differentiates SBB Parent's weakened credit profile from its stronger subsidiary, SBB Holding, and the structural subordination of its bondholders by rating SBB Parent one notch below SBB Holding's IDR.

Options to Raise Liquidity: SBB Parent, on a standalone basis, does not have many options to raise cash to repay bonds maturing in 2026 and beyond. It is reliant on liquidity being upstreamed from SBB Holding whose various options include asset sales, sale of retained joint-venture stakes, raising external capital on its remaining wholly-owned community service portfolio, possibly through asset-backed transactions similar to the Castlelake JVs, forming another strategic partnership, or undertaking an IPO.

SBB Holding Cash Services Debt: The dividends or other forms of upstreamed cash from SBB Holding to help service SBB Parent's interest payments are subject to available covenant headroom in SBB Holding's newly issued bonds, primarily its consolidated solvency ratio of 65%. The existing SEK6 billion intergroup instrument covers the repayment of its 2025 bonds, including about SEK4 billion expiring on 14 January 2025. An inability to upstream sufficient cash from SBB Holding to help SBB Parent repay its bonds maturing in 2026 and beyond, will lead to a further downgrade of SBB Parent's ratings.

Derivation Summary

The SBB group's stable Nordic property portfolio is supported by the education and community service properties' stable tenant base with long-term indexed leases. This is tempered by the regional location of some assets within the group's portfolio. The SBB group also owns residential-for-rent assets, including 56% of Sveafastigheter AB, which owns SEK27.8 billion of residential assets.

Within the community service portfolio, Assura plc (A-/Negative) builds and owns modern general practitioners' facilities in the UK, with approved rents indirectly paid by the state National Health Service and a similar 11.2 years weighted average unexpired lease term (WAULT). At GBP2.7 billion (EUR3.2 billion), its portfolio is much smaller than the SBB group's. Reflecting Assura's community service activities, its net initial yield as of September 2023 was 5% versus the SBB group's 5.3% for its Nordic community service assets at end-2023. Assura has a 99% occupancy rate and specific-use assets. Assura's downgrade rating sensitivity to 'BBB+' includes net debt/EBITDA greater than 9x.

The smaller EUR0.8 billion portfolio of higher-rated Norwegian-based Public Property Invest ASA (PPI; BBB/Stable) is community service-focused, also with public-sector tenants. PPI's business profile is, however, paired with a stronger balance sheet with net debt/EBITDA below 8x, loan-to-value around 45% and an interest cover around 2x.

Under Fitch's EMEA Real Estate Navigator, many of the SBB group's portfolio-focused factors are investment-grade.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

-- Moderate rental growth of 3.5% per year, driven by CPI-indexation and rental uplifts

-- Stable net rental income margins

-- Hybrid interest deferred

Recovery Analysis

Our recovery analysis assumes that SBB Parent would be liquidated rather than restructured as a going-concern (GC) in a default.

Recoveries are based on an independent valuation of its investment property portfolio at end-3Q24. Fitch has used SBB Parent's retained property's values of around SEK3.2 billion, to which it has applied a standard 20% discount. Fitch has used SBB Parent's retained unsecured and subordinated hybrid debt amounts, after some bonds were exchanged into bonds at SBB Holding.

We assume no cash is available for recoveries. This analysis attributes zero value to various investments in equity stakes, including the SEK1.9 billion attributable value of Public Property Invest AS's equity.

After deducting a standard 10% for administrative claims, we assume that no unencumbered investment property assets are available to unsecured creditors. Its existing directly-held investment property is dedicated to SEK2.4 billion secured creditors who rank ahead of SBB Parent's unsecured creditors.

Fitch's principal waterfall analysis generates a ranked recovery for senior unsecured debt of 'RR6', which is equivalent to a waterfall-generated recovery computation output percentage of 0%, based on current metrics and assumptions. The 'RR6' indicates a 'CC' unsecured debt instrument rating.

Given the structural subordination of SBB Parent's hybrids, we estimate a ranked recovery of 'RR6' with 0% expected recoveries. As loss absorption has been triggered with the deferral of coupons, the instrument rating is 'C', three notches below SBB Parent's IDR.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Failure to execute, or provide visibility, of a plan to address the retained euro-denominated (SEK465 million-equivalent) September 2026 debt maturity at least 12 months in advance

- Actions pointing to a widespread potential renegotiation of SBB Parent's debt's terms and conditions, including a material reduction in lenders' terms sought to avoid a default

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Evidence that refinancing risk has eased, including improved capital markets receptivity to the SBB group

- A material reduction in leverage

Liquidity and Debt Structure

SBB Parent's available liquidity at end-3Q24 was SEK1.5 billion. Most of SBB Parent's group cash including SEK3.1 billion Sveafastigheter IPO proceeds, is now held at SBB Holding. SBB Parent will use an intergroup loan to repay its 2025 debt maturities with cash at SBB Holding. SBB Parent also has access to an undrawn SEK2.5 billion asset asset-backed facility held at SBB Holding. It has no revolving credit facilities available for drawdown.

The next material debt maturity, following the potential repayment of its retained 2025 bonds, is its euro-denominated (SEK465 million-equivalent) bond in September 2026. SBB Parent's average cost of debt at end-3Q24 was 2.3%, excluding hybrids (averaging 3.3%) and the higher-coupon (13%) Morgan Stanley preference shares in SBB Residential Property AB.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

SBB Parent has an ESG Relevance Score of '4' for Governance Structure to reflect previous key person risk (the previous CEO) and continuing different voting rights among shareholders affording greater voting rights to the key person. SBB Parent has an ESG Relevance Score '4' for Financial Transparency, reflecting an ongoing investigation by the Swedish authorities into the application of accounting standards and disclosures. Both these considerations have a negative impact on the credit profile, and are relevant to the ratings in conjunction with other factors. These factors are, however, improving under the new management within the SBB group.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
SBB - Samhallsbyggnadsbolaget i Norden AB	LT IDR	CCC	Affirmed		CCC
	ST IDR	C	Affirmed		C
• subordinated	LT	C	Affirmed	RR6	C
• senior unsecured	LT	CC	Affirmed	RR6	CC
• senior	ST	C	Affirmed		C

ENTITY/DEBT	RATING			RECOVERY	PRIOR
unsecured					
SBB Treasury Oyj					
• senior unsecured	LT	CC	Affirmed	RR6	CC ⬙

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊡	

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub.12 Nov 2020)

Corporate Rating Criteria (pub.06 Dec 2024) (including rating assumption sensitivity)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 2024)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

SBB - Samhallsbyggnadsbolaget i Norden AB	EU Issued, UK Endorsed
SBB Treasury Oyj	EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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