



RATING ACTION COMMENTARY

Fitch Affirms Swedish Property Company SBB at 'BBB-', Stable Outlook

Mon 06 Apr, 2020 - 12:36 PM ET

Fitch Ratings - Stockholm - 06 Apr 2020: Fitch Ratings has affirmed the Swedish property company Samhallsbyggnadsbolaget i Norden's AB's (SBB) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-' and subordinated debt rating at 'BB'. The Outlook is Stable.

Following December 2019's acquisition of Hemfosa, SBB needs to complete planned disposals to reduce its leverage. Last week Nyfosa withdrew its offer to acquire one tranche of planned disposals, but Fitch understands that this is not representative of wider domestic market conditions, particularly for community service assets, which are less affected by coronavirus events. To maintain its rating, Fitch has calculated that SBB needs to sell at least SEK10 billion of assets this year (SEK2 billion achieved).

Fitch expects there will be a limited impact on rental income from SBB's portfolio of community service properties due to the economic effects of the coronavirus, considering its often government-linked tenants and the nature of its schools, LSS (disabled)-housing and other community service properties, and regulated residential. This will provide stability to SBB's cash flows compared with peers more exposed to retail store closures or tenants with weaker tenant quality.

KEY RATING DRIVERS

Minimum Level of 2020 disposals: After the Hemfosa acquisition, our forecasts of deleveraging towards 10x net debt to EBITDA at end-2020 relied upon SBB executing a significant amount of planned disposals under conducive market conditions. In maintaining SBB's rating, Fitch calculates that an assumed level of SEK10 billion of near-term disposals are needed to enable it to reach 10x net debt/EBITDA. SEK2 billion has been achieved so far.

A further improvement in SBB's financial profile would depend on successful disposals thereafter. Meanwhile, interest cover and liquidity remain strong.

Niche Community Service Assets: The combined SEK80 billion portfolio of SBB and Hemfosa is focused on community service properties and regional residential. The community service properties have an indirect and direct government tenant base including government departments, municipalities, elderly care, and LSS group housing. The passing rent for the combined group was SEK5.2 billion at end-2019. SBB's profile is supported by the resilient nature of its rental cash flows.

Improved Interest Cover: SBB completed significant refinancing during 2019, which has lowered its average interest cost to 1.76% at year-end (excluding hybrids). In 1Q20, SBB has issued EUR800 million of unsecured bonds, of which EUR50 million was a 20-year bond with 2.75% coupon and EUR500 million of hybrid bonds. As a result of the completed refinancings, EBITDA net interest cover is expected to improve to above 3x in 2020 and around 4x in 2021 from 1.7x in 2019, a significant improvement. The option to defer its hybrid interest payments provides further flexibility.

Fitch includes 100% of hybrid interest costs in its interest cover ratios and SBB's hybrid bonds have received 50% equity credit in its leverage calculations.

Redeeming Hemfosa Minorities. The Hemfosa acquisition was made with a combination of cash and shares in SBB. In 1Q20, SBB acquired 93.5% of shares in Hemfosa, and has called for a mandatory redemption of the remaining minorities. We have included a SEK2 billion net cash outflow during 2020 (including net cost of shares acquired after year-end) in our forecast.

Bespoke Nature of Some Assets: The community service-orientated portfolios contain some bespoke regional and niche assets such as education, city halls,

regional municipal offices, and elderly people's apartments. Although on long-dated leases (averaging around seven years), their rental evidence may be difficult to ascertain. However, these leases have contractual indexed uplifts. Historically, these tenants have tended to be "sticky" and stay in the locality they serve. Occupancy is above 95%.

For these types of niche assets, Fitch believes that there are a growing number of alternative domestic investors, albeit less than the investor depth in other domestic commercial property. SBB's residential portfolio (17% of the combined group) is regional and benefits from the stability of rents under Sweden's rental regulation and a shortage of available rented housing.

DERIVATION SUMMARY

With the lower-yielding nature of SBB's residential rental portfolio and longer lease length than peers (from both community service assets and average tenure of residential assets), and portfolio mix, Fitch would allow the combined group more leverage headroom and lower interest cover than (i) commercial property orientated Swedish peers; and (ii) EMEA peers with commercial property companies that underpin our EMEA REIT Navigator mid-point guidelines.

Fitch views the combined group's portfolio as more stable due to the strength of Swedish residential property with its regulated below-open market rents and the community service properties' stable tenant base with longer-term leases. This is slightly tempered by the regional location of assets. Community service assets' fundamentals are less sensitive to economic cycles than commercial office property companies that are reliant on open market conditions with multiple participants affecting market fundamentals.

KEY ASSUMPTIONS

- Completion of 2020's planned, sizeable, disposal programme to achieve lower financial leverage.
- We have updated the combined group's financial profile using provisional 1Q20 data on rents and margins.
- Acquisition of remaining Hemfosa minority via mandatory redemption.

- Conversion of additional cash-like items (receivables from JV and others receivables) to readily available cash.
- SEK5 billion cumulative inflow from SBB's building right disposals and related JVs until 2023.
- Around SEK2.5 billion of capex with 10-15 years repayment period.
- Organic rental growth of 2.0% to 2.5% per year including indexation.

RATING SENSITIVITIES

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

- Net debt to EBITDA of less than 9.5x (funds from operations (FFO)-based net equivalent under 10.5x) (pro forma net debt to EBITDA FY 2020: around 10x)
- Fixed charge cover (FCC) ratio greater than 2.3x
- Unencumbered asset cover above 2.0x
- Well-laddered debt maturity schedule with longevity

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

- Net debt to EBITDA greater than 10x
- Non-completion of the material 2020 disposal programme
- Portfolio acquisitions that (due to being over-priced) reduce FCC below 1.8x
- Group LTV approaching 60% (compared with individual propco covenant breach levels of 70%-75%)
- 12-month liquidity score below 1.0x

BEST/WORST CASE RATING SCENARIO

Ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Comfortable Liquidity: At end-2019, SBB had SEK12.8 billion in cash on balance sheet and SEK1.0 billion in short-term investments. Around SEK8 billion of the cash was reserved for payment to Hemfosa shareholders in early January (treated as restricted cash). This left SEK5.7 billion of readily available cash in addition to SEK7.1 billion of committed undrawn credit facilities (in total SEK12.9 billion). The available liquidity covered SEK10.3 billion of maturing bank, bond and commercial papers in 2020. In 1Q20, SBB completed major bond issuances; a EUR500 million hybrid bond, a EUR750 million unsecured bond and a EUR50 million unsecured 20-year bond (in total more than SEK13 billion) further strengthening SBB's liquidity.

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.

ESG CONSIDERATIONS

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT

RATING

ENTITY/DEBT	RATING		
SBB - Samhallsbyggnadsbolaget i Norden AB	LT IDR	BBB-	Affirmed
● subordinated	LT	BB	Affirmed
● senior unsecured	LT	BBB-	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\)](#)
(including rating assumption sensitivity)

[Corporate Hybrids Treatment and Notching Criteria \(pub. 11 Nov 2019\)](#)

[Corporate Rating Criteria \(pub. 27 Mar 2020\)](#) (including rating assumption sensitivity)

APPLICABLE MODELS

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

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v7.8.0 \(1\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

SBB - Samhallsbyggnadsbolaget i Norden AB EU Issued

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING

<https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating%20Definitions%20-%203%20May%202019%20v3%206-11-19.pdf>

DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the

management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such

fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Real Estate and Homebuilding Corporate Finance Europe Sweden

