

Research Update:

Samhallsbyggnadsbolaget Ratings Placed On CreditWatch Negative On Announced Tender Offer

March 19, 2024

Rating Action Overview

- Swedish real estate landlord Samhallsbyggnadsbolaget i Norden AB (SBB) announced a voluntary tender offer of up to €250 million across all its euro-denominated hybrid and senior unsecured bonds maturing over 2025-2040.
- The tender offer is mainly funded by proceeds from the recent transaction with Castlelake, which we understand has been closed. We believe the final terms of the tender offer, which remain uncertain, will be decided at SBB's sole discretion and announced after the expiration deadline on March 22, 2024.
- Depending on the outcome of the tender offer--including whether it increases the likelihood of a conventional default over the near to medium term and whether it offers less than originally promised to investors--we may view certain tranche repurchases as distressed in nature and therefore tantamount to a default.
- Given this uncertainty, we placed on CreditWatch with negative implications our 'CCC+' long-term issuer credit rating on SBB and the issue ratings on all its senior unsecured notes. In addition, we affirmed our 'C' issue ratings on the company's subordinated hybrid bonds and placed them on CreditWatch negative.
- The CreditWatch negative placement indicates that we could lower the rating on SBB to 'SD' (selective default) if debt tranches are repurchased at values we consider fall short of the original promise and if we consider this repurchase distressed in nature. We expect to resolve the CreditWatch once the company has announced the outcome of the tender offer.

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Rating Action Rationale

The CreditWatch negative placement reflects our view that the tender offer could be tantamount to a default. On March 18, 2024, SBB announced a tender offer via an unmodified Dutch auction on all its euro-denominated outstanding hybrid and euro-denominated senior unsecured bonds. We understand the offer is limited to a maximum purchase amount of €250 million, mainly funded with net cash proceeds of Swedish krona (SEK) 5.2 billion from the recent

transaction with Castlake regarding SBB Infrastructure AB. We understand the tender offer deadline will be March 22, 2024, and the settlement date will be March 26, 2024. The offer is subject to a minimum price for each debt tranche. 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 that are conducted at substantial discounts to par as tantamount to a default. We will consider whether the transactions will result in investors receiving less than originally promised. We will also consider whether a conventional default on the instruments subject to the transaction is realistic 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 offer involves a Dutch auction process, where investors voluntarily choose the amount and price at which they are willing, if at all, to buy.

SBB's liquidity will remain weak following the transaction. This is because SBB will continue facing significant debt maturities, totaling about SEK10 billion over 2024-2025, and we believe its access to capital market remains restricted. Asset sales remain the most likely path to deleveraging and managing upcoming maturities in the foreseeable future. Moreover, we will continue to view SBB's capital structure as unsustainable until the company can demonstrate a stable capital structure on a sustainable basis and an improved liquidity position through access to diversified funding sources or timely asset sales. Although SBB has been successful to attract some funding through the sale of equity stakes in several asset portfolios, such as the recent Brookfield and Castlake transaction, we believe equity sales remain challenging and come with a high degree of uncertainty under the current circumstances.

We understand SBB will defer its current hybrid coupon payments, which will likely be settled, considering the outstanding common dividend payment that is expected for the second quarter of 2024. SBB announced on Dec. 29, 2023, that it aims to strengthen its liquidity by deferring the hybrid coupon payments due in January, March, and April 2024. Coupon savings are estimated at €45 million. We expect the company will pay about SEK2 billion in outstanding, and approved, common dividends for 2022 before its next annual general meeting in the second quarter of 2024, and that it will settle the deferred coupon amounts at the same time, in line with the requirements in the hybrid bond documentation. That said, we also believe there is a high likelihood that the company will defer hybrid coupon payments over the next 12 months, especially after the payment of the common dividend of SEK2.1 billion that is expected for the second quarter of 2024. Therefore, we affirmed our 'C' issue ratings on the subordinated debt and placed them on CreditWatch with negative implications.

CreditWatch

The CreditWatch negative placement reflects that we may view some of the repurchases of tranches subject to the tender offer as tantamount to a default. As part of the CreditWatch placement, we will evaluate whether lenders of the tendered bonds will receive less than originally promised and whether a conventional default in the near to medium term is likely if the tender offer is not accepted.

We expect to resolve the CreditWatch once we have more clarity on the final acceptance ratio per tranche, pricing, and tendered amounts. We would likely lower the rating on SBB to 'SD' if the final outcome of the tender offer on senior bonds is 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, is not distressed or falls short of the original promise, we will likely affirm the 'CCC+' rating on SBB. The latter is subject to the company's liquidity position and the existence of specific default scenarios 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 SEK73.2 billion (about €64.6 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%). In addition, the company owns other properties (1%). These mainly include commercial assets with identified development potential, for which SBB seeks to obtain building rights, so that it can subsequently sell them. The portfolio is focused on the Nordics, with Sweden accounting for 83%. In addition, SBB has 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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 Conserves Liquidity Through Temporary Deferral Of Hybrid Coupon Payments, Jan. 3, 2024
- Samhallsbyggnadsbolaget Ratings Affirmed At 'CCC+' On Tender Offer Results; Off Watch;

Outlook Negative, Nov. 27, 2023

Ratings List

Ratings Placed On CreditWatch

	To	From
Samhallsbyggnadsbolaget i Norden AB(publ)		
Issuer Credit Rating	CCC+/Watch Neg/C	CCC+/Negative/C
Senior Unsecured	CCC+/Watch Neg	CCC+
Subordinated	C/Watch Neg	C
Commercial Paper	C/Watch Neg	C
SBB Treasury OYJ		
Senior Unsecured	CCC+/Watch Neg	CCC+
Recovery Rating	3(65%)	3(65%)

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