

Research Update:

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

March 27, 2024

Rating Action Overview

- On March 24, 2024, Swedish real estate company Samhallsbyggnadsbolaget i Norden AB (publ) (SBB) announced the results of its tender offer. It has allocated about €163 million in cash to the repurchase of three euro-denominated hybrid subordinated notes and its senior unsecured bonds due in 2027, 2028, and 2029 at prices well below par. The nominal amount repurchased is €408 million.
- Under our criteria, we view these repurchases as tantamount to a default because the lenders received less value than they were promised under the initial terms of the securities.
- Therefore, we lowered to 'SD' (selective default) from 'CCC+' our long-term issuer credit ratings on SBB, and to 'D' (default) from 'CCC+' our issue rating on the affected senior unsecured debt. We also lowered to 'CCC' from 'CCC+' our ratings on the senior unsecured notes due in 2025 and 2026, which are not part of the tender acceptance allocation. In addition, we lowered our issue ratings on the three euro-denominated subordinated bonds to 'D' from 'C'.
- Following the settlement of the transaction, we expect to raise our ratings on SBB and the affected senior unsecured debt to 'CCC'. We see heightened risk that the company could address its debt by implementing another tender we would view as distressed, within the next 12 months.

PRIMARY CREDIT ANALYST

Nicole Reinhardt
Frankfurt
+ 49 693 399 9303
nicole.reinhardt
@spglobal.com

SECONDARY CONTACT

Marie-Aude Vialle
Paris
+33 6 15 66 90 56
marie-aude.vialle
@spglobal.com

ADDITIONAL CONTACT

Corporate and IFR EMEA
RatingsCorpIFREMEA
@spglobal.com

Rating Action Rationale

The lenders that accepted SBB's tender offer will receive less than they were originally promised and therefore we view the transaction as a distressed restructuring, tantamount to a default, under our criteria. SBB is repurchasing outstanding debt with a nominal value of €408 million at such deep discounts that its expected cash outflow is only €162.7 million. The affected debt comprises its 2027, 2028, and 2029 senior unsecured notes and part of three subordinated hybrid bonds, which have first optional call dates in January 2025, December 2025, and October 2026. We understand that the average price was about 60% to par and we assume that the discount on the hybrid notes was deeper on the senior notes. Therefore, we lowered to 'D' our issue ratings on the 2027, 2028, and 2029 senior notes and on the euro-denominated hybrid

notes.

We lowered our ratings on the 2025 and 2026 notes that were not subject to the tender offer to 'CCC' from 'CCC+'. Although we do not consider these issuances to be defaulted, the potential for a default on these instruments has risen. Even after the discounted tenders on the other bonds, SBB's liquidity will be weak and it has sizable short-term debt maturities. We expect to raise our ratings on the 2025 and 2026 notes back to 'CCC' after the tender transaction has been settled.

SBB faces significant debt maturities, totaling about SEK10 billion, over 2024 and 2025. It also has limited access to capital markets, in our view. As a result, we anticipate that SBB's capital structure will remain unsustainable over the longer term until the company can demonstrate an improved liquidity position and sustain a stable capital structure. We consider asset sales to be SBB's most likely means of reducing its leverage and managing the maturity wall, although it could also seek access to diversified funding sources. SBB has attracted some funding by selling equity stakes in several of its asset portfolios, for example, the recent Brookfield and Castletlake transaction. However, we see executing such transactions as difficult and, in the current circumstances, they carry a high degree of uncertainty.

Although we lowered our ratings on SBB's subordinated hybrid bonds to 'D', we still view them as having intermediate equity content. We understand that SBB accepted about €234 million of tender amounts from hybrid investors, spread across the three subordinated notes, which each have a nominal value of €500 million. We assume that the discount was deeper compared with the senior notes, indicating a significant loss for its hybrid investors compared with the original amount promised--and well above the loss accepted by holders of the senior unsecured debt. Therefore, we still view SBB's hybrids as loss-absorbing instruments with equity content up to 15% of the capitalization rate (17% as of Dec. 31, 2023).

Once the tender is settled, we will likely rate the subordinated bonds at 'C', indicating that we see a high likelihood that the company will defer payment of the coupon again within the next 12 months. In particular, we see deferral as likely after the second quarter of 2024, when SBB is expected to pay its common dividend of SEK2.1 billion (see "Samhallsbyggnadsbolaget Ratings Placed On CreditWatch Negative On Announced Tender Offer," published on March 19, 2024). The remaining hybrids still have a sufficiently long residual time to their effective maturity dates that we consider them eligible for intermediate equity content. We consider hybrids rated in the 'B' category or below to have intermediate equity content if there are at least 10 years before their effective maturity date.

The company has disposed of a large amount of assets over the past 12 months and its near-term operational strategy remains highly uncertain. The value of the property portfolio owned by SBB declined to about SEK73 billion at year-end 2023 from SEK135 billion at year-end 2022, due to its decentralized operational strategy and because it has been selling assets to secure liquidity and funding needs. We understand that SBB plans further significant asset sales throughout 2024, which could depress the company's business strength further and reduce rental cash flows. Given the lack of clarity regarding the company's mature portfolio and operations, we revised our business risk profile down to fair from satisfactory.

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%). The remaining 1% of the total portfolio value mainly comprises commercial assets that have identified development potential. SBB seeks to obtain building rights for these and then subsequently sells them. Of the portfolio, 83% is in Sweden, 11% in Finland, 5% in Norway, and 1% in Denmark.

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

- Samhallsbyggnadsbolaget Ratings Placed On CreditWatch Negative On Announced Tender Offer, March 19, 2024

Ratings List

Downgraded; CreditWatch Action

| | To | From |
|---|--------|------------------|
| Samhallsbyggnadsbolaget i Norden AB (publ) | | |
| Issuer Credit Rating | SD/SD | CCC+/Watch Neg/C |
| Senior Unsecured | CCC | CCC+/Watch Neg |
| Recovery Rating | 3(65%) | 3(65%) |
| Senior Unsecured | D | CCC+/Watch Neg |
| Recovery Rating | 3(65%) | 3(65%) |
| Subordinated | D | C/Watch Neg |
| Commercial Paper | SD | C/Watch Neg |

SBB Treasury OYJ

| | | |
|------------------|--------|----------------|
| Senior Unsecured | D | CCC+/Watch Neg |
| Recovery Rating | 3(65%) | 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 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/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at 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. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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