

Research Update:

Swedish Real Estate Company SBB Downgraded To 'SD' On Accepted Below Par Exchange Offer

July 3, 2024

Rating Action Overview

- According to its announcement on June 28, 2024, Swedish real estate company Samhallsbyggnadsbolaget i Norden AB (publ) (SBB) accepted a debt exchange offer for amounts significantly below par, leading to repurchases we regard 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 all rated senior unsecured debt that were subject to the exchange offer. In addition, we lowered our issue ratings on the three euro-denominated subordinated bonds to 'D' from 'C'. We maintained at 'C' its ratings on the commercial paper program which was not part of the transaction.
- Following the settlement of the transaction, our ratings on SBB and ratings on its bonds will remain at 'SD' and 'D', respectively, reflecting our view of a virtual certainty of default, as defined by our criteria, within the next six to 12 months, since we think the company will likely address its debt by implementing another tender or exchange that we would view as distressed.

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Rating Action Rationale

We view SBB's debt exchange offer as a distressed restructuring, tantamount to a default, because the lenders will receive less than they were originally promised. SBB is repurchasing outstanding debt with a nominal value of approximately €334 million, at such deep discounts that it expects its equity base to benefit from a transaction profit of approximately SEK1.6 billion (or €140 million). Specifically, SBB allocated about €275 million for its euro-denominated notes, SEK721 million for its Swedish krona-denominated notes, and NOK40 million for its Norwegian krone-denominated notes, in exchange for €110.9 million of new securities and additional securities of SEK412.5 million with 30 months maturity. SBB also offered a cash component as well as the settlement of its accrued interest payments, including its subordinated debt that amounts to about €48.3 million. The affected debt comprises almost all of its euro, krona, and krone senior unsecured notes and part of its one krona and three euro subordinated hybrid bonds.

The latter bonds have first optional call dates in January 2025, December 2025, and October 2026. We understand that the average price was 60%-70% to par, and we assume that the discount on the hybrid notes was deeper than on its senior notes. This prompted us to lower to 'D' our issue ratings on all of its rated euro-denominated senior notes and on the euro-denominated hybrid notes.

Our 'SD/D' long-term and short-term issuer credit ratings on SBB and 'D' issue ratings on the notes capture our assumption that SBB's capital structure will remain unsustainable and that a default is a virtual certainty within the next six to 12 months. SBB faces sizable debt maturities of about SEK14 billion over 2024-2025, and we think it has limited access to capital markets. We consider asset sales to be SBB's most likely means of reducing its leverage and managing the maturity wall and that tender offers and exchanges will remain as a likely way to support that process, although seeking access to diversified funding sources is also an option. SBB has attracted some funding by selling equity stakes in several of its asset portfolios, for example, the recent Brookfield and Castl lake transaction. However, in our view, executing such transactions would be difficult and, in the current circumstances, carry a high degree of uncertainty.

We continue to consider that SBB's subordinated hybrid bonds have intermediate equity content. We understand that SBB accepted a nominal value of about €174.7 million of exchange amounts from its euro hybrid investors, spread across the three subordinated notes. Our assumption that the discount was deeper compared with the senior notes leads us to see a significant loss for its hybrid investors compared with the original amount promises--and well above the loss accepted by holders of the senior unsecured debt. In addition, although we note that the exchange to senior unsecured notes does not represent a replacement, as per our methodology, we think the economic costs over the medium term will benefit SBB, as the new senior notes will bear fixed interest of 4.75% versus the hybrid reset rates of about 6% to 7% (to be applied from its first reset rates, occurring in January 2025, December 2025 and October 2026). Therefore, we still view SBB's hybrids as loss-absorbing instruments with equity content up to 15% of the capitalization rate (14.6% as of March 31, 2024).

Once the exchange is settled, we assume our 'D' rating on the subordinated bonds will continue to capture our view of a high likelihood that SBB will defer payment of the coupons again and undergo further below par discounted transactions within the next 12 months. In particular, we see deferral on the hybrid instruments as likely during the second half of 2024, after SBB has paid its common dividend of SEK2.1 billion as well as its mandatory settlement of all deferred hybrid coupons. The remaining hybrids still have a sufficiently long residual time to their effective maturity dates, making them, in our view, 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.)

In our view, SBB's near-term operational strategy remains highly uncertain. The value of SBB's property portfolio has steadily decreased, shrinking to about SEK67.4 billion in first-quarter 2024 from about SEK73 billion at end-2023 and SEK135 billion at end-2022. The decline stems from SBB's decentralized operational strategy and because it has been selling assets to secure liquidity and funding needs. SBB has disposed of considerable assets over the past year, and we understand that additional disposals will occur throughout 2024. These sales include the subsidiary Sveafastigheter, which could translate to a further depressed business strength and reduced rental cash flows.

Company Description

SBB is one of the largest listed real estate companies in the Nordics. It had a portfolio value of about SEK67.4 billion (about €5.9 billion) on Mar. 31, 2024. SBB mainly invests in community service and educational properties (58% of total portfolio value) and Swedish regulated residential properties (41%). 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: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, 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 Raised To 'CCC' On Completion Of Tender Offer; Outlook Negative, March 28, 2024

Ratings List

Downgraded;

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

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