FitchRatings

20 DEC 2024

Fitch Assigns SBB Holding First-Time 'CCC+' IDR; Senior Unsecured 'CCC+'

Fitch Ratings - Frankfurt am Main - 20 Dec 2024: Fitch Ratings has assigned Samhallsbyggnadsbolaget i Norden Holding AB (publ) (SBB Holding) a Long-Term Issuer Default Rating (IDR) of 'CCC+' and senior unsecured debt rating of 'CCC+' with a Recovery Rating of 'RR4'.

The ratings reflect the transfer of about 96% of SBB - Samhallsbyggnadsbolaget i Norden AB's (SBB Parent) group assets to a new entity, SBB Holding. SBB Holding has issued unsecured bonds of about SEK32 billion after a tender and exchange offer for SBB Parent's bonds. This results in a weak credit profile for SBB Holding, with Fitch-calculated net debt/EBITDA of 26.4x in 2025.

Fitch expects SBB Holding to use cash and its recently received disposal receipts to upstream cash to SBB Parent to repay the latter's retained unsecured 2025 bonds of SEK4.7 billion. This allows management time to concentrate on operations ahead of SBB Holding's next material bond maturity of SEK5.8 billion in August 2026.

Key Rating Drivers

SBB Holding's Property Portfolio: SBB Holding's SEK50.6 billion of investment property assets at end-3Q24 mostly consists of directly-held community service properties of about SEK21.6 billion and the consolidation of its 56%-owned Sveafastigheter AB's SEK28.5 billion residential-for-rent portfolio. During 4Q24, the Nordiqus AB SEK9.1 billion equity investment and SEK5.3 billion vendor loan were also transferred. In addition, the two 100%-owned Castlelake-financed vehicles, total SEK15 billion of community service assets and have their own secured debt.

Fitch deconsolidates Sveafastigheter and only adds recurring rental-derived cash dividends upstreamed from these entities to SBB Holding's EBITDA.

Debt Transferred from SBB Parent: SBB Holding issued about SEK32 billion of unsecured bonds due in 2026-2029 derived from SBB Parent's exchanged unsecured bonds and subordinated hybrids. The unsecured instruments have unchanged coupons, with minor adjustments to their maturity dates. The new bonds are guaranteed by SBB Parent. The completed tender prepaid only SEK1.2 billion of the group's 2025 debt maturities submitted for tender, with SEK4.7 billion retained at SBB Parent, which SBB Holding plans to repay with its SEK6 billion "other liabilities to SBB entities" at end-3Q24. Fitch views this as SBB Holding's debt.

De-linked from SBB Parent: The bondholders who remain with SBB Parent or SBB Treasury Oyj (whose debt is guaranteed by SBB Parent), totalling about SEK7.6 billion, are structurally subordinated to creditors of SBB Holding following the transaction. The exchanged bonds have no cross-default with SBB Parent should the event of default claim against SBB Parent for an interest cover covenant breach be successful. The SBB Holding bonds also have a new interest cover covenant in place.

Unsecured Recoveries: The Recovery Ratings on the new SBB Holding senior unsecured instruments now include equal-ranking debt instruments issued in exchange for SBB Parent's discounted hybrids. SBB Parent's hybrids of EUR326.7 million have now become SBB Holding unsecured debt of EUR154 million (SEK1.8 billion). Fitch now estimates recoveries for SBB Holding's senior unsecured bonds at 43%, equivalent to 'RR4'.

Weak Financial Profile: SBB Holding's leverage is similar to SBB Parent's previous profile and remains very high regardless of which metric is used. Without cash dividends from its joint ventures (JVs), Fitch forecasts net debt/EBITDA at around 26.4x in 2025. Fitch expects SBB Holding to be able to cover cash interest expense during 2024-2027 with cash from operations, helped by its low cost of debt of about 2.3%. The key to SBB Holding's sustainability will be its ability to continue raising liquidity to meet its sizable 2026 and 2027 bond maturities, particularly as the capital markets remain unreceptive.

Options to Raise Liquidity: SBB Holding can raise cash through various available options to meet debt maturities after 2025. These include asset sales, sale of retained JV stakes, and raising external capital on its remaining wholly-owned community service portfolio, possibly through asset-backed transactions similar to the Castlelake JVs, another strategic partnership or IPO. If SBB Holding opts to segregate a portion of debt specifically for its community service portfolio, this would effectively make SBB Parent an investment holding company for any of its remaining debt holders.

Minimal Effect from EofD Claim: The ongoing EofD claim against SBB Parent, which is set to be addressed in UK courts during 1Q25, stemming from an alleged interest coverage covenant breach tested in 2022, has minimal effect on SBB Holding's debt. The absence of a cross-default with SBB Parent should ensure that SBB Holding will not default if the court rules against SBB Parent. Additionally, Fitch understands from management that if EofD-claiming bondholders have exchanged into SBB Holding debt, they will not hold SBB Parent bonds when they appear in court in January 2025.

Derivation Summary

Fitch views SBB group's Nordic property portfolio as stable, 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 SBB's portfolio. The SBB group also owns residential-for-rent assets, including 56% of Sveafastigether AB which owns SEK27.8 billion of residential assets.

Within the community service portfolio, one SBB Holding peer is Assura plc (A-/Negative), which 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 SBB Parent's. Reflecting Assura's community service activities, its net initial yield as of end-March 2024 was 5.1% versus SBB Holding'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 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

- No dividends from SBB Holding's JVs

- Cash shareholder loan interest from Nordiqus included

- Completion of existing development projects and modest spend thereafter. Total capex to average around SEK350 million annually

- Unsubordinated loans from other SBB entities of about SEK6 billion treated as debt

Recovery Analysis

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

SBB Holding's recoveries are based on the end-3Q24 independent valuation of the investment property portfolio. Fitch has used the 3Q24 non-pledged property values of around SEK22.9 billion as unencumbered investment property assets. This deducts pledged properties transferred to Sveafastigheter after end-3Q24. Fitch applies a standard 20% discount to these values.

We assume no cash is available for recoveries, even though this cash is now being used to prepay the 2025 group debt maturities. Mirroring these 2025 debt maturities, Fitch includes SBB Holdings' EUR6 billion "other liabilities to SBB entities" as unsecured debt totalling SEK38 billion. This analysis also attributes zero value to various investments in equity stakes, including the SEK9.1 billion Nordiqus equity, SEK4.7 billion Sveafastigheter equity, and SEK5.3 billion Nordiqus vendor loan. After deducting a standard 10% for administrative claims, the total amount of unencumbered investment property assets we assume available to unsecured creditors is around SEK16.5 billion.

Fitch's principal waterfall analysis generates a ranked recovery for senior unsecured debt of 'RR4', equivalent to a waterfall-generated recovery computation output percentage of 43% based on current metrics and assumptions. The 'RR4' indicates a 'CCC+' unsecured debt instrument rating.

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 August 2026 debt maturity at least 12 months in advance

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

- Reduction in SBB Holding's directly-held unencumbered investment property portfolio relative to its unsecured debt would lead to a lower Recovery Rating and senior unsecured rating

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

- Proceeds from successful disposals used to prepay the sizeable 2026 debt maturities, and increasing liquidity

- A material reduction in leverage

Liquidity and Debt Structure

The SBB group's available cash at end-3Q24 was SEK1.5 billion, of which SEK342 million was attributed to Sveafastigheter. This is further supported by about SEK3.1 billion Sveafastigheter IPO net proceeds and a SEK2.5 billion asset-backed facility signed during 4Q24. Together these sources cover the post-tendered remaining 2025 unsecured debt maturities of around SEK4.7 billion. These cash sources are currently held at SBB Holding. Beyond 2025, SBB Holding's next debt material maturity is its EUR507.9 million/SEK5.8 billion eurobond in August 2026.

Pro-forma for the bond exchanges SBB Holding will mirror SBB Parent's average cost of debt at 2.3% at end-3Q24, excluding hybrids (averaging 3.3%), the higher-coupon Morgan Stanley preference shares (at 13%) in SBB Residential Property AB and the debt raised in the non-consolidated Castlelake-funded SBB Infrastructure AB and SBB Social Facilities (375bp-500bp plus STIBOR/EURIBOR). Derivatives, together with fixed-rate debt, provide interest rate coverage of SBB Holding's debt for 3.3 years on average.

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 Holding 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 SBB Parent shareholders affording greater voting rights to the key person. SBB Holding 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 SBB management.

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
Samhallsbyggnadsbolaget i Norden Holding AB (publ)	LT IDR	CCC+	New Rating		
• senior unsecured	LT	CCC+	New Rating	RR4	

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

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)

Parent and Subsidiary Linkage Rating Criteria (pub.16 Jun 2023)

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)

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Solicitation Status

Endorsement Status

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