

Research Update:

Samhallsbyggnadsbolaget Ratings Raised To 'CCC' From 'SD' On Completed Debt Restructuring; Outlook Negative

December 20, 2024

Rating Action Overview

- On Dec. 18, Swedish real estate landlord Samhallsbyggnadsbolaget i Norden AB (SBB) announced the completion of its tender and exchange offer, in which cash proceeds of €110.2 million will repurchase the January 2025 euro-denominated and 2025 floating-rate securities, and about €3 billion of hybrid and senior notes will be exchanged into new senior unsecured instruments, issued by the new wholly owned subsidiary Samhallsbyggnadsbolaget i Norden Holding AB (SBB Holding).
- SBB's capital structure remains unsustainable based on continued weak liquidity with still significant short-term debt maturities.
- In our view, the group's ability to meet its debt maturities depends upon favorable business, financial, and economic conditions. Its debt-repayment capacity may also rely on ongoing partial repurchases, which we could view as distressed, to repay its most pressing debt maturities due in 2025 and 2026.
- Following the completion of the tender, we raised our long-and-short term issuer credit rating on SBB to 'CCC/C' from 'SD/D' (selective default), and our issue rating on its senior unsecured debt, issued by SBB and SBB Treasury AB to 'CC' from 'D' (default). We revised our recovery rating on the debt to '6' from '3'. In addition, we assigned our 'CCC' issue rating and '4' recovery rating on SBB Holding's new senior unsecured debt. We maintained our 'D' issue ratings on the three euro-denominated subordinated bonds, and our 'C' issue ratings on the commercial paper.
- The negative outlook reflects the risk of a conventional default or further distressed debt offers within the next 12 months if SBB does not secure sufficient funding sources.

Rating Action Rationale

We raised the issuer credit rating to 'CCC' from 'SD' following the tender and exchange offer's completion, with the company's liquidity position remaining weak. SBB tendered nominally

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about €111 million in cash, mainly related to its €550 million 1.75% senior unsecured notes due January 2025 (with €411.3 million outstanding, or €304 million including the tendered amount) and to a smaller extent its Swedish krona (SEK) 1.1 billion (€95 million) floating-rate notes due January 2025 (SEK851 million outstanding; SEK811 million including the tendered amount). The company further exchanged about €327 million of its euro-denominated hybrid bonds at a discount of about 50% into a new senior unsecured instrument due October 2029, issued under SBB Holding. It further exchange about €2.63 billion of senior unsecured notes into new senior unsecured notes, issued also by SBB Holding. We understand the latter was exchanged at a one-to-one rate and that the interest rate have not changed, with maturity two months earlier versus the original issued instruments for the respective exchanged notes. In summary, following the exchange offers, SBB issued:

- Securities due 2026 with total principal of €507.9 million;
- Securities due 2027 with total principal of €682.8 million;
- Securities due 2028 with total principal of €663.5 million;
- Securities due September 2029 with total principal of €773.2 million; and
- Securities due October 2029 with total principal of €154.4 million.

SBB will continue to face significant debt maturities of above SEK10 billion over 2025 and 2026. While we expect the company to service its upcoming maturity of its €550 million senior unsecured bond due January 2025 (with €304 million outstanding post-tender) in a timely manner with available liquidity sources, including proceeds of its IPO of Sveafastigheter as well as drawing on its new SEK2.5 billion credit facility, liquidity remains constrained for the next 12 months. We think its access to capital markets remains impeded. The need for additional funding sources or further negotiations with bondholders continue to be the most likely path to SBB deleveraging and managing the maturity wall for the foreseeable future. Moreover, we will continue to view the capital structure as unsustainable until the company can demonstrate capital structure stability and an improved liquidity position through access to diversified funding sources. Although SBB has attracted some funding through the sale of equity stakes in asset portfolios over the past 12 months, we think executing these transactions remains challenging and can carry a high degree of uncertainty. In addition, it may not result in a material deleveraging of the group.

We maintained our 'D' rating on SBB's subordinated bonds because the company has announced the deferral of hybrid coupons in July 2024 and we expect it to continue deferring these for at least the next 12 months. Following management's intention to replace its hybrid capital with debt, we conclude SBB is no longer committed to retaining hybrid instruments as a long-standing part of its capital structure to absorb losses or conserve cash. The company started deferring coupon payments on its hybrids in July 2024 and could have continued deferring them while maintaining equity content for more than 10 years, given the instruments' long-dated nature. Our assessment of management's intent is no longer in line with our criteria for maintaining intermediate equity content, so revised it to no equity content on all hybrid capital outstanding (for more information, see "SBB Ratings Remains At 'SD' On Announced Cash Tender And Exchange Offers Into New Debt Instruments," published Dec. 11, 2024, on RatingsDirect).

SBB's potential further exchange offer announcement announced Dec. 13 would be neutral to the ratings. We understand the transaction would include an exchange offer for its 2040 securities for an equivalent principal amount into its newly issued 2040 securities, issued by

SBB Holding with substantially similar terms, including the same interest rate and a one-to-one exchange rate. In addition, SBB could offer to exchange the SEK1.5 billion subordinated perpetual notes into the newly issued October 2029 securities, issued by SBB Holding with total principal of €100 million–€150 million. We would see such a transaction as opportunistic and therefore not tantamount to default.

Pending legal claims by some bondholders could hurt SBB's liquidity further in 2025. The company received two letters from Corbin Capital Partners and Fir Tree, bondholders in SBB's 2028 and 2029 securities. They intend to accelerate their holding, which together amounts to about €128 million. The claim relates to the company's Euro Medium-Term Note consolidated interest coverage covenant ratio in its first-quarter report for 2023, which both bondholders believe has been breached. We understand court proceedings will commence in January 2025. We remain cautious on any potential outcome of legal processes that could affect SBB's liquidity further. However, the new covenant package has more favorable terms for SBB, including only incurrence covenants. That should limit the risk of an increase in acceleration claims for the same reasons.

Outlook

The negative outlook reflects the risk of a conventional default or further distressed debt offers within the next 12 months.

Downside scenario

We could lower the ratings on SBB if the company fails to secure sufficient funding for its short-to-medium-term liquidity needs.

We could also downgrade SBB if additional unexpected events adding material legal risk and significantly constraining SBB's credit profile or liquidity; or another tender offer or bond buyback that we considered distressed and tantamount to default.

Upside scenario

We could raise the ratings on SBB if the company successfully refinanced debt maturities and restored its liquidity.

Company Description

SBB is a listed real estate companies in the Nordics with a portfolio value of about SEK53.9 billion (about €4.7 billion) as of Sept. 30, 2024. It invests mainly in community service and educational properties (47% of total portfolio value) and Swedish regulated residential properties (52%). The remaining 1% mainly includes commercial assets that have identified development potential. SBB seeks to obtain building rights for these and then subsequently sells them. Of the portfolio, 80% is in Sweden, 14% in Finland, 4% in Norway, and 2% in Denmark.

Liquidity

We assess SBB's liquidity as weak. We anticipate that liquidity sources will cover liquidity uses by less than 1x for the 12 months as of Sept. 30, 2024.

Principal liquidity sources

- SEK1.8 billion of unrestricted available cash;
- A new credit facility of SEK2.5 billion maturing in more than 12 months;
- SEK672 million disposal proceeds; and
- SEK5.3 billion cash received, including IPO proceeds from Sveafastigheter in October, SEK250 million dividends from Nordiqus, and about SEK2 billion of signed refinancing.

Principal liquidity uses

- Short-term debt maturities of SEK9.4 billion, including amortization payments;
- Committed capital expenditure of about SEK200 million; and
- Signed acquisitions of SEK140 million.

Covenants

SBB has maintenance covenants for its bonds, issued by SBB and SBB Treasury AB. We understand that the company is compliant with their covenants. We think headroom could tighten with the transaction but do not expect a near-term covenant breach.

We understand that the newly issued bonds under SBB Holding have only incurrence based covenants related to interest coverage ratio and loan-to-value, which will only be tested when SBB takes on new debt or makes distribution to investors subordinate to the bondholders.

Issue Ratings--Recovery Analysis

Key analytical factors

- We rate SBB 's five newly issued senior unsecured bonds, issued by SBB Holding for about €3 billion in total, 'CCC' with a '4' recovery rating, indicating our expectation of average (30%-50%; rounded estimate: 40%) in a default scenario.
- Bondholders could benefit from a valuable asset base, mostly consisting of stabilized income-producing investment properties, and rank ahead of the remaining senior unsecured bond issuances at the Samhallsbyggnadsbolaget i Norden AB and SBB Treasury OYI levels.
- The issue ratings on SBB's senior unsecured notes (issued by SBB and SBB Treasury OYI) with a combined remaining nominal value of about SEK7.6 billion (including the euro-denominated 2025 bond) is 'CC', two notches below our issuer credit rating. The '6' recovery rating indicates our expectation of negligible recovery prospects (0%-10%; rounded estimate: 0%) in a default scenario.
- Recovery prospects are constrained by the debt instrument's unsecured nature, as well as its contractual and structural subordination to prior-ranking debt.
- In our hypothetical default scenario assumed for 2025, we envisage a severe economic downturn in Sweden, Finland, and Norway, resulting in market depression and exacerbated competitive pressures.
- For recovery purposes, we only assume that residual value is available to the new noteholders from the 61% stake that SBB owns in Sveafastigheter, which holds a residential portfolio of assets, worth about SEK27.7 billion with related mortgage debt of about SEK10 billion. We assume no other value is forthcoming from equity stakes in other minority-held

entities, because we understand SBB might not be able or willing to sell these stakes to third parties for a variety of reasons, including change of control prepayment triggers, covenant or other factors.

- We value the group as a going concern. We use a discrete asset value approach to take into consideration the stressed value of SBB's yielding properties as well as building rights. Recovery prospects for the proposed senior unsecured notes are very sensitive to a small change in the amount of senior secured debt or any other priority debt outstanding at default.

Simulated default assumptions

- Year of default: 2025
- Jurisdiction: Sweden

Simplified waterfall

- Gross enterprise value (EV) at emergence (adjusted for Sveafastigheter's assets and related mortgage debt): SEK23.94 billion
- Net EV at emergence after administrative costs: SEK22.74 billion
- Estimated priority debt (credit lines, mortgages, and other secured debt, excl Sveafastigheter): About SEK 7.91 billion
- Net EV available to senior unsecured bondholders: SEK14.83 billion
- Senior unsecured debt claims, issued at SBB I Norden Holding AB: SEK34.50 billion
- --Recovery expectation: 30%-50% (rounded estimate: 40%)
- --Recovery rating: 4
- Net EV available to structurally subordinated senior unsecured bondholders: None
- Senior unsecured debt claims issued at SBB I Norden AB and SBB Treasury OYI: SEK 4,205 million (excluding the euro-denominated January 2025 bond)
- --Recovery expectation: 0%-10% (rounded estimate: 0%)
- --Recovery rating: 6

All debt amounts include six months of prepetition interest and assume 85% of the RCF and credit lines are drawn on default (SBB's credit lines totaled about SEK2.5 billion as of December 2024).

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
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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: Principles Of Credit Ratings, Feb. 16, 2011
- 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 | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

Related Research

- SBB Ratings Remains At 'SD' On Announced Cash Tender And Exchange Offers Into New Debt Instruments, Dec. 11, 2024
- SBB's IPO Plan For Sveafastigheter Should Reduce 2025 Refinancing Risk, Sept. 24, 2024
- Swedish Real Estate Company SBB Downgraded To 'SD' On Accepted Below Par Exchange Offer, July 3, 2024

Ratings List

Ratings list

Upgraded

	To	From
Samhallsbyggnadsbolaget i Norden AB (publ)		
Issuer Credit Rating	CCC/Negative/C	SD/--/D

Upgraded; Recovery Ratings Revised

	To	From
Samhallsbyggnadsbolaget i Norden AB (publ)		
SBB Treasury OYJ		
Senior Unsecured	CC	D
Recovery Rating	6(0%)	3(65%)

Ratings Affirmed

Samhallsbyggnadsbolaget i Norden AB (publ)		
Commercial Paper	C	

Ratings Unchanged

Samhallsbyggnadsbolaget Ratings Raised To 'CCC' From 'SD' On Completed Debt Restructuring; Outlook Negative

Ratings list

Samhallsbyggnadsbolaget i Norden AB (publ)

Subordinated	D
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New Rating

Samhallsbyggnadsbolaget i Norden Holding AB

Senior Unsecured	CCC
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Recovery Rating	4(40%)
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