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Research Update:

Swedish Housing Company Stockholms Kooperativa Bostadsforening 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Dennis Nilsson, Stockholm (46)84405354; dennis.nilsson@spglobal.com

Secondary Contact:

Carl Nyreerod, Stockholm (46) 8-440-5919; carl.nyreerod@spglobal.com

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Overview

- In our view, Stockholms Kooperativa Bostadsforening's (SKB's) very strong enterprise profile remains supported by low industry risk, well-maintained properties, and asset concentration in favorable locations.
- We continue to assess SKB's financial risk profile as very strong, due to comfortable debt sustainability, low leverage, and strong financial performance, despite its not-for-profit operations.
- We are affirming our 'AA-/A-1+' and 'K-1' ratings on SKB.
- The stable outlook reflects our expectation that SKB will maintain its current credit profile and adjust its liquidity position to manage maturing debt and loan financing of investments.

Rating Action

On May 22, 2017, S&P Global Ratings affirmed its 'AA-' long-term and 'A-1+' short-term issuer credit ratings on Swedish real estate company Stockholms Kooperativa Bostadsforening (SKB). The outlook is stable.

At the same time, we affirmed our 'K-1' Nordic regional scale rating on SKB.

Rationale

We view SKB as a public housing entity based on its not-for-profit mission and targeted clientele. Furthermore, the guidelines and principles for rent setting and social responsibility largely mirror that of the Swedish municipal housing sector. The ratings reflect our view of SKB's strong market position, with well maintained and attractive properties. SKB operates in the Stockholm area, which has a very strong local economy and soaring housing demand. The Stockholm region benefits from a very healthy demographic profile and very high property values compared with the rest of Sweden. The high population growth in and around the city is driving market values up and limiting the land available to construct new housing, as many parties show interest in available land. We note the concentration risk that SKB bears through its exposure to just the Stockholm region, but because there is a shortage in housing supply in this region, we assess the risks as balanced. Furthermore, SKB's market position is enhanced by solid strategy and prudent management, in our view. SKB's financial profile benefits from the association's strong debt position and liquidity; robust financial performance, with above-average flexibility to adjust revenues and expenditures; and predictable inflow of capital from members' deposits and compulsory member savings. Due to delays in upcoming projects, we have revised down our expectations for investment levels in 2017, leading to virtually no

external funding needs in the coming year. In 2018-2019, we expect higher funding needs as investment levels once again likely increase.

SKB currently has 87,694 members, including existing tenants and those on a waiting list. SKB had 7,866 rental apartments at year-end 2016, implying that about 80,000 members are on the waiting list. We base our view of SKB's very strong enterprise profile on low industry risk for public housing in Sweden, in general, thanks to very strong economic fundamentals where SKB operates. We acknowledge that members are free to leave the association and withdraw their savings at any time; however, we do not assign any material risk to such a scenario in the foreseeable future. Consequently, SKB has no vacancies and a very long waiting list for its apartments. We assess SKB's management and governance as very strong, with a very focused strategy, prudent planning, and comprehensive risk-management practices.

We consider SKB to have a very strong financial profile, due to its strong balance sheet, robust financial performance, and sizable buffers. In our base-case scenario for 2015-2019, we forecast the association's EBITDA-to-revenue margin at a sound 36%. Because we also consider SKB's properties to be well maintained, we believe the association could delay a good portion of its yearly maintenance costs, if necessary--about Swedish krona (SEK) 100 million (about €10 million) in 2016--without affecting rental demand. In addition, we regard as positive that, because SKB operates under special legislation, it has a unique flexibility to increase rents above the benchmark rates set for public- and private-sector landlords.

SKB's balance sheet is healthy, and operating cash flows comfortably sustain its debt burden, with EBITDA interest coverage at a strong 4.5x in our base-case scenario for 2015-2019. We do not expect that SKB will increase its debt in 2017, because cash flow generation is strong and capital expenditures are lower than we previously anticipated over our forecast horizon through year-end 2019. However, we expect an increase in nominal debt, which will partly finance SKB's construction program. Still, we believe that the increase in debt will be limited in relative terms because SKB can draw on deposits and compulsory member savings. Furthermore, SKB has significant surplus values in its property portfolio. An internal property appraisal places SKB's loan-to-value ratio at a very strong 15% at year-end 2016, with a high valuation gain over the past year as property prices continue to rise in the region, which suggests significant debt capacity in terms of unencumbered assets.

Liquidity

The short-term rating is 'A-1+'. We continue to consider SKB's liquidity position as adequate, supported by our assessment of sound internal liquidity, significant volumes of committed bank facilities that mitigate refinancing risk, and demonstrated strong market access. SKB's liquidity has strengthened slightly versus the position in our previous review.

We estimate that SKB will refinance approximately SEK1.3 billion in loans over the next 12 months. In addition, we estimate SKB's capital spending at about SEK480 million on average over 2017-2019, which will increase its liquidity needs. We

include SEK124 million of expected capital revenues from compulsory member savings and deposits as an extraordinary source of financing for capital expenditures.

SKB currently has a committed liquidity facility of SEK1.5 billion to mitigate refinancing risks associated with short-term debt maturities. Together with checking accounts totaling SEK300 million and our base-case assumption of funds from operations of SEK215 million, we calculate that the association has available liquidity, including committed bank facilities, amounting to 124% of debt service and committed capital spending over the next 12 months.

Outlook

The stable outlook reflects our view that SKB will maintain its very strong enterprise and financial risk profiles over the coming 24 months, while adjusting its liquidity to manage maturing debt and loan financing of investments. Risks with regards to potential changes in Sweden's legal framework governing cooperative housing are balanced, in our opinion.

We could raise the ratings if SKB's financial risk profile strengthened, for example, owing to improved profitability and liquidity metrics, reflected in a liquidity coverage ratio sustainably higher than 1.25x.

The ratings could come under pressure if SKB's financial risk profile deteriorated significantly, for example, if the investment program led to a surge in leverage and liquidity weakened relative to short-term debt. If management did not quickly and effectively address such deterioration, we could revise our assessment of SKB's financial policies and management downward and lower the ratings. However, we consider this scenario as highly unlikely at present.

Stockholms Kooperativa Bostadsforening Key Statistics

(Mil. SEK)	--Fiscal year ending Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Revenues	682.7	718.1	747.5	766.2	780.8
EBITDA	237.8	265.4	265.5	281.2	287.8
Operating income	110.0	130.0	125.2	134.4	131.6
Net income from continuing operations	66.1	98.2	93.3	101.0	94.6
Interest expense	73.9	61.9	61.9	63.4	67.0
Capital expenditures	475.3	362.4	343.0	500.0	600.0
Total assets	5,728.5	6,002.5	6,095.9	6,346.9	6,651.5
Debt	2,976.5	3,005.0	3,015.3	3,152.5	3,386.7
Equity	2,450.8	2,670.1	2,763.5	2,864.5	2,959.1
EBITDA margin (%)	34.8	37.0	35.5	36.7	36.9
EBITDA interest coverage (x)	3.2	4.3	4.3	4.4	4.3
Operating cash flow/debt (%)	7.4	7.1	6.9	7.1	6.7

Stockholms Kooperativa Bostadsforening Key Statistics (cont.)

(Mil. SEK)	--Fiscal year ending Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Debt/EBITDA (x)	12.5	11.3	11.4	11.2	11.8
Debt/debt and equity (%)	54.8	53.0	52.2	52.4	53.4

The data and ratios above result in part from S&P Global Ratings' own calculations. The main sources are the financial statements and budgets, as provided by the issuer. SEK--Swedish krona. bc--Base case, reflects S&P Global Ratings' expectations of the most likely scenario.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers - December 17, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

	Rating	
	To	From
Stockholms Kooperativa Bostadsforening		
Issuer Credit Rating		
Foreign and Local Currency	AA-/Stable/A-1+	AA-/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1

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Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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