

Research Update:

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

May 28, 2020

Overview

- We expect the COVID-19 outbreak to have a very limited impact on Stockholms Kooperativa Bostadsforening (SKB), with only minimal rental losses and no material effect on vacancy rates.
- In our view, SKB's enterprise profile remains supported by the strength of Stockholm's economy and high demand for property in the region.
- We are affirming our 'AA-/A-1+' and 'K-1' ratings on SKB.
- The stable outlook reflects our view that SKB will maintain very low vacancy rates with only minimal rental losses.

Rating Action

On May 28, 2020, S&P Global Ratings affirmed its 'AA-' long-term and 'A-1+' short-term issuer credit ratings on Swedish public-sector housing 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

The affirmation reflects our view that SKB's financial position will remain robust despite the economic effects of COVID-19. We expect rent losses will be very limited, and primarily related to the company's commercial properties, which constitute a minor share of the total property portfolio. Furthermore, we expect moderate internal cash flows to slow the debt buildup in 2020-2022.

We view SKB as a public housing entity, based on its not-for-profit mission, guidelines and principles for setting rent, and targeted tenant clientele. SKB has a strong market position, with

PRIMARY CREDIT ANALYST

Carina Redelius
Stockholm
(46) 8-440-5918
carina.redelius
@spglobal.com

SECONDARY CONTACT

Carl Nynerod
Stockholm
(46) 8-440-5919
carl.nynerod
@spglobal.com

ADDITIONAL CONTACT

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

well-maintained and attractive properties mainly located in Stockholm, which has a wealthy economy. Strong population growth in the city continues to fuel housing demand, with scarce supply supporting demand for SKB's housing units. SKB has no vacancies. In line with our expectations, SKB has now started to expand into the neighboring Uppsala region. However, this does not change our view of the company's enterprise risk. If the plan is successful, it might open up further opportunities for SKB to widen its regional scope. Furthermore, SKB's market position is enhanced by its solid strategy and prudent management, in our view.

SKB's financial profile benefits from its strong debt position and robust financial performance, with no legal limits on rent-setting allowing for greater flexibility than peers to adjust revenue. In addition, capital from members' deposits and compulsory member savings provide predictable cash flow. Nevertheless, we consider that SKB's creditworthiness is constrained by its management's policy of maintaining moderate liquidity.

SKB currently has about 90,800 members, including existing tenants and those on a waiting list. SKB had 8,100 rental apartments at year-end 2019, implying that about 82,000 members are on the waiting list. Although a high share of people on the list are not actively seeking housing, active members on the waiting list support high demand. SKB benefits from low competition and low cyclicity, which are features of Sweden's public housing sector. Although SKB's members are free to leave the association and withdraw their savings, we see no material risk of this happening in the foreseeable future, given the ongoing high demand for rental apartments in and around Stockholm and historical patterns during SKB's long history.

We assess SKB's management and governance as very strong, with a focused strategy, prudent planning, and comprehensive risk-management practices, showcased through a conservative and consistent approach to risks in the debt portfolio and development of new properties. In line with our expectations, SKB has recently acquired leasehold land from the city of Stockholm to achieve a better balance between rented and owned land. In the recent transaction, SKB acquired 42 out of 94 leaseholds, which will be beneficial for the company over the long term. This step supports SKB's long-term planning and strategy. The acquisition of Swedish krona (SEK) 1.1 billion of leasehold land increased SKB's debt to EBITDA to 13x in 2019 from 10x in 2018. We expect capital expenditure to increase from historical levels following the decision to expand into Uppsala and we forecast investment of about SEK740 million on average each year over 2020-2022. We forecast debt to EBITDA will increase slightly from 13x in 2019 to average about 14x over 2020-2022.

SKB has a strong balance sheet, enhanced by its ability to raise rent and delay maintenance if needed, and sound access to funding from multilateral lending institutions, banks, and the capital market. In our base-case scenario for 2020-2022, we forecast the association's EBITDA-to-revenue margin at 39%. Since 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 without affecting rental demand. In addition, we regard as positive that SKB operates under special legislation allowing it to increase rents above the benchmark rates for public- and private-sector landlords.

Operating cash flows comfortably service SKB's debt. We forecast EBITDA interest coverage at a strong 5.2x in our base-case scenario for 2020-2022. Importantly, SKB reports properties on its balance sheet at historical cost less depreciation, which implies significant surplus values in its property portfolio. An internal property appraisal places SKB's loan-to-value ratio at a robust 16% at year-end 2019, suggesting substantial additional debt capacity and liquidity potential through unencumbered assets. In our view, risk tolerances and financial policies regarding the share of fixed-rate debt have a minimal impact on the association's credit standing, considering its very low leverage.

Liquidity

We continue to assess SKB's liquidity position as adequate, owing to the internal cash flow generation, committed bank facilities that mitigate refinancing risk, and demonstrated strong market access. We calculate that the association has available liquidity, including committed bank facilities, amounting to 1.17x of debt service and committed capital spending over the next 12 months.

Liquidity sources in the 12 months from May 2020 include:

- Cash flow from operations of SEK258 million,
- SEK2.7 billion of undrawn committed facilities and checking accounts,
- SEK80 million of expected capital revenue from compulsory member savings and deposits as an extraordinary source of financing for capital expenditure over the coming 12 months.

Liquidity uses over the same period include:

- SEK0.8 billion of capital expenditure,
- SEK1.7 billion of maturing debt and interest.

Outlook

The stable outlook reflects our expectation that SKB will see continued strong demand for its operations and that its strong financial performance will help fund the development program and mitigate risks associated with the moderate liquidity position. We do not foresee any material changes in Sweden's legal framework governing cooperative housing.

Upside scenario

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.

Downside scenario

Conversely, the ratings could come under pressure if SKB's financial management led to a surge in leverage materially beyond our base-case projections and also constrained liquidity.

Key Statistics

Table 1

Stockholms Kooperativa Bostadsforening Selected Indicators

	2018	2019	2020bc	2021bc	2022bc
Vacancy rates (% of net rental income)	0.1	0.1	0.1	0.1	0.1
Revenue	765.1	783.3	795.8	813.2	833.5

Table 1

Stockholms Kooperativa Bostadsforening Selected Indicators (cont.)

	2018	2019	2020bc	2021bc	2022bc
EBITDA	296.4	305	308.8	319.2	332.5
EBITDA/revenue (%)	38.7	38.9	38.8	39.3	39.9
Interest expense	54.1	49.0	49.0	63.0	81.0
Debt/EBITDA (x)	9.9	13.0	13.0	13.9	14.9
EBITDA/interest coverage (x)	5.5	6.2	6.3	5.1	4.1
Capital expense	232	1336	415	820	879
Debt	2,942	3,972	4,011	4,423	4,962
Housing properties (according to balance-sheet valuation)	6,256	7,458	7,696	8,357	9,138
Cash and liquid assets	74.2	80.2	37.6	17.1	77.0

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.

Ratings Score Snapshot

Table 2

Stockholms Kooperativa Bostadsforening Ratings Score Snapshot

Key rating factors	Score
Industry risk	2
Economic fundamentals and market dependencies	1
Strategy and management	1
Asset quality and operational performance	1
Enterprise profile	2
Financial performance	2
Debt profile	2
Liquidity	3
Financial policies	1
Financial profile	2

S&P Global Ratings' analysis of social housing providers' creditworthiness rests on our scoring of eight key rating factors: (i) industry risk; (ii) economic fundamentals and market dependencies; (iii) strategy and management; (iv) asset quality; (v) financial performance; (vi) debt profile; (vii) liquidity; and (viii) financial policies. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published Dec. 17, 2014, and "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015, detail how we derive and combine the scores, and then determine each social housing provider's stand-alone credit profile and the issuer credit rating. In accordance with S&P Global Ratings' public and nonprofit social housing providers methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating, the committee can make use of the flexibility afforded by paragraphs 12-17 of "Methodology For Rating Public And Nonprofit Social Housing Providers."

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Stockholms Kooperativa Bostadsforening

Issuer Credit Rating	AA-/Stable/A-1+
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Nordic Regional Scale	--/--/K-1
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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.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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