

RatingsDirect®

Stockholms Kooperativa Bostadsforening

Primary Credit Analyst:

Tobias Hedman, Stockholm +46 (0)8 311 5915; tobias.hedman@spglobal.com

Secondary Contact:

Carl Nyrrerod, Stockholm + 46 84 40 5919; carl.nyrrerod@spglobal.com

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Stockholms Kooperativa Bostadsforening

Key Rating Factors

Issuer Credit Rating
AA-/Stable/A-1+
<i>Nordic Regional Scale</i>
--/--/K-1

Enterprise profile	Financial profile
<p>Stockholms Kooperativa Bostadsforening's (SKB's) enterprise profile remains supported by the strong economic profile and consequently high demand for housing in the Stockholm region.</p> <ul style="list-style-type: none">Population growth is set to fuel housing demand even further, keeping vacancy rates at zero.We consider SKB's management and governance as very strong, with a focused strategy, prudent planning, and comprehensive risk-management practices.SKB has a strong market position, with well-maintained and attractive properties.	<p>SKB's financial profile benefits from its strong debt position and robust financial performance, with higher than peers' flexibility on rent-setting.</p> <ul style="list-style-type: none">Increasing investments will drive the debt burden throughout our forecast period.We expect stable adjusted EBITDA margins and predictable cash flows.Liquidity remains adequate, comprising cash holdings and ample back-up facilities.

Outlook

The stable outlook reflects S&P Global Ratings' 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 liquidity risks. We do not foresee any material changes in Sweden's legal framework governing rental- and 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 allowed a surge in leverage materially beyond our base-case projections, which could also result in constrained liquidity.

Rationale

We forecast that SKB's financial position will remain robust in the coming years. The COVID-19 pandemic had only a limited effect on SKB during 2020, and we expect its financial performance to remain stable during our forecast period through 2023.

We view SKB as a public housing entity, based on its not-for-profit mission, principles for rent setting, and its tenant base. SKB has a strong market position, with well-maintained and attractive properties mainly located in the Stockholm region, which has a wealthy economy. We expect Stockholm's strong population growth to continue fueling demand for SKB's housing units. In line with most other housing landlords in Stockholm, SKB has no vacancies. SKB is currently expanding into neighboring Uppsala, which we believe will enhance its already strong market position.

SKB has a strong debt position with a low loan-to-value ratio, which gives the entity capacity to increase debt over the coming years. SKB also benefits from having 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 91,500 members, including existing tenants and those on a waiting list. SKB had 8,000 rental apartments at year-end 2020, implying that about 83,500 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 are far above what can be offered. We believe that this supports our base case on SKB, with high demand, low competition and low cyclicality. Although SKB's members are free to leave the association and withdraw their savings at any time, we see no material risk of this happening in the foreseeable future, given the ongoing high demand for rental apartments in the Stockholm region and historical patterns during SKB's long history.

We view SKB's management and governance as very competent, with a solid strategy, prudent long-term planning, and comprehensive risk-management practices, showcased through a conservative and consistent approach to managing its loan portfolio and development of new properties.

SKB has a strong financial position, 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 2021-2023, we forecast the association's adjusted EBITDA-to-revenue margin will remain at 39% on average during 2021-2023. 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, in contrast to rated Swedish peers, we regard as positive that SKB operates under legislation for cooperative societies, allowing it the right to increase rents above the benchmark rates for public- and private-sector landlords.

Together with investment projects in the Stockholm region, SKB is continuing its expansion to Uppsala, in line with its long-term strategy to build in attractive locations within a one-hour commute from Stockholm city. We expect the annual capital expenditure to average Swedish krona (SEK)700 million during 2021-2023. Consequently, we forecast adjusted debt-to-EBITDA will average 13x over 2021-2023.

Low interest rates and comparably low debt puts SKB in a position where operating cash flows comfortably service its debt. We expect debt will increase somewhat during our forecast period through 2023, in line with capital expenditure. We regard the financing structure of SKB to be well-diversified, including both commercial paper and bonds. We forecast adjusted EBITDA interest coverage at a strong 5.4x on average in our base-case scenario for 2021-2023. 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 15% at year-end 2020, 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 1.22x of debt service and committed capital spending over the next 12 months.

Liquidity sources in the 12 months from May 2021 include:

- Cash flow from operations of SEK322 million,
- SEK2,650 million of undrawn committed facilities and checking accounts,
- We include SEK50 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:

- SEK630 million of capital expenditure,
- SEK1,900 million of maturing debt and interest.

Environmental, Social, And Governance

In our view, SKB's management is stronger than average. It has 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. Since SKB is a tenant-owned co-operative society, interaction and steering with tenants is significantly more pronounced than the municipal-owned public housing companies.

Additionally, we note that SKB is compliant with regulatory standards in terms of apartment quality and condition. There is no underspending on maintenance. With respect to environmental factors, we view SKB as stronger than other housing associations in Sweden. We acknowledge the ambitious sustainability goals in place, limiting the potential effects of regulatory shifts and environmental requirements imposed on the sector.

Key Statistics

Table 1

Stockholms Kooperativa Bostadsforening Selected Indicators					
(Mil. SEK)	2019	2020	2021bc	2022bc	2023bc
Vacancy rates (% of net rental income)	0.1	0.1	0.1	0.1	0.1
Revenue	783.3	795.9	811.8	830.5	853.7
EBITDA	305.0	334.0	321.8	320.5	329.3
EBITDA/revenue (%)	38.9	42.0	39.6	38.6	38.6
Interest expense	49.0	45.8	47.9	62.4	79.9
Debt/EBITDA (x)	13	12	13	13	14
EBITDA/interest coverage (x)	6.2	7.3	6.8	5.2	4.2
Capital expense	1,336	391	558	687	789
Debt	3,972	3,995	4,123	4,355	4,747
Housing properties (according to balance-sheet valuation)	8,114	8,115	8,242	8,484	8,634
Cash and liquid assets	80.2	69.8	50.0	54.7	65.1

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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of May 21, 2021)*

Stockholms Kooperativa Bostadsforening

Issuer Credit Rating	AA-/Stable/A-1+
<i>Nordic Regional Scale</i>	--/--/K-1

Issuer Credit Ratings History

15-May-2012	AA-/Stable/A-1+
15-May-2012 <i>Nordic Regional Scale</i>	--/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

EMEA Sovereign and IPF; SovereignIPF@spglobal.com

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