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## Research Update:

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

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## Research Update:

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

## Overview

- In our view, Stockholm's Kooperativa Bostadsforening (SKB)'s very strong enterprise profile remains supported by low industry risk, well-maintained properties, and asset concentration in favorable locations.
- Similarly, we 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 19, 2016, 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

The ratings reflect our view of SKB's very strong enterprise and financial risk profiles. The enterprise profile is supported by low industry risk, very strong local economic fundamentals, and SKB's very strong market position. SKB has very attractive and well-maintained properties in the Stockholm area, which is characterized by high population growth and very high property values. 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. Somewhat offsetting these strengths is our base-case assessment of a moderate future funding need for upcoming construction.

SKB is a cooperative housing association that operates exclusively in the Stockholm metropolitan area. It currently has 85,922 members, including existing tenants and those on a waiting list. SKB had 7,765 rental apartments at year-end 2015, implying that about 78,000 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. The Stockholm region benefits from a very healthy demographic profile and very high

property values compared with the rest of Sweden. Moreover, SKB's properties are very well maintained and tenant satisfaction and loyalty scores very high, in our view. 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 2014-2018, we forecast the association's EBITDA-to-revenue margin at a sound 39%. 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) 119 million (about €13 million) in 2015--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 4.0x in our base-case scenario for 2014-2018. However, we expect that SKB will increase its debt in nominal terms to partly finance its 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. Consequently, under our base case, we expect SKB's debt-to-capitalization ratio to be contained at the current level of about 55%. 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 19% at year-end 2015, which suggests significant debt capacity in terms of unencumbered assets.

## **Liquidity**

The short-term rating is 'A-1+'. We consider SKB's liquidity position to be strong, supported by our assessment of sound internal liquidity, significant volumes of committed bank facilities that mitigate refinancing risk, and demonstrated strong market access.

We note that SKB started issuing bonds in 2013, increasing its financing options and lengthening its loan maturity profile. We estimate that SKB will refinance approximately SEK1 billion in loans over the next 12 months. In addition, we estimate SKB's capital spending at about SEK654 million on average over 2016-2018, which will increase its liquidity needs. We include SEK145 million of expected capital revenues from compulsory member savings and deposits as an extraordinary source of financing for capital expenditure.

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 SEK227 million, we calculate that the association has available liquidity, including committed bank facilities, amounting to 123% of debt service and committed capital spending over the next 12 months.

## Outlook

The stable outlook reflects our expectation that SKB will maintain its very strong enterprise and financial risk profiles, and adjust its liquidity position to manage maturing debt and loan financing of investments. We expect no changes in Sweden's legal framework governing cooperative housing that might constrain or alter SKB's activities over the next two years.

We could raise the ratings if SKB's financial risk profile were to strengthen, for example, due 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 were to deteriorate 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 highly unlikely at present.

### Stockholms Kooperativa Bostadsforening Financial Statistics

(Mil. SEK)	--Fiscal year end Dec. 31--				
	2014	2015	2016bc	2017bc	2018bc
Revenues	657.6	682.7	716.7	755.0	784.4
EBITDA	278.4	267.8	285.8	309.1	325.8
Operating income	186.5	140.0	150.5	149.8	160.8
Net income from continuing operations	105.8	66.1	79.0	85.3	89.0
Interest expense	81.2	73.9	71.5	64.0	70.7
Funds from operations	197.2	193.9	214.3	244.6	254.0
Capital expenditures	432.1	475.3	540.5	572.1	848.6
Total assets	5,405	5,729	6,152	6,626	7,312
Debt	2,835	2,977	3,154	3,328	3,761
Equity	2,271	2,451	2,675	2,900	3,137
EBITDA margin (%)	42.3	39.2	39.9	40.9	41.5
EBITDA interest coverage (x)	3.4	3.6	4.0	4.8	4.6
Operating cash flow/debt (%)	197.8	221.4	221.7	253.9	261.9
Debt/EBITDA (x)	10.2	11.1	11.0	10.8	11.5
Debt/debt and equity (%)	55.5	54.8	54.1	53.4	54.5

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: Standard & Poor's National And Regional Scale Mapping Tables - January 19, 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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