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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 84 40 5354; dennis.nilsson@spglobal.com

Secondary Contact:

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

Table Of Contents

- Overview
- Rating Action
- Rationale
- Outlook
- Related Criteria And Research
- Ratings List

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Overview

- In our view, Stockholms Kooperativa Bostadsforening's (SKB's) enterprise profile remains supported by the fundamental strength of and high demand in the Stockholm region.
- In 2017 SKB amortized its debt, and despite investments rising over the coming years, we expect the debt burden to remain at the current levels.
- 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 by leaning on strong housing demand and its financial flexibility to mitigate liquidity risks.

Rating Action

On May 21, 2018, 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, guidelines and principles for setting rent, and targeted clientele. 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 wealthy local economy and soaring housing demand. The high population growth in the city is driving market values up and limiting the land available to construct new housing, as many parties show interest in the available parcels. Although SKB operates solely in Stockholm, the housing shortage in this region is a rating strength as it results in increased demand for SKB's services. Furthermore, SKB's market position is enhanced by its 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 no legal limits on rent-setting; greater-than-peers' flexibility to adjust revenues; and predictable inflow of capital from members' deposits and compulsory member savings. Because we expect delays in upcoming projects, we believe SKB will be able to finance its investments for the coming years without resorting to external funding. Nevertheless, we acknowledge that SKB's creditworthiness is constrained by the management's adherence to a moderate internal liquidity position and globally average financial performance.

SKB currently has 89,000 members, including existing tenants and those on a waiting list. SKB had 8,000 rental apartments at year-end 2017, implying that about 81,000 members are on the waiting list. We believe SKB benefits from low competition and low cyclicity of public housing sector in Sweden, as well as growing population in the Stockholm region where SKB operates. We recognize that members are free to leave the association and withdraw their savings at any time. However, we do not associate any material risk to such a scenario in the foreseeable future based on the competitiveness and demand for rental apartments in and around Stockholm. 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 focused strategy, prudent planning, and comprehensive risk-management practices, showcased through conservative and consistent approach to risks taken in debt portfolio and development of new properties.

We consider SKB to benefit from its strong balance sheet, ability and willingness 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 2018-2020, we forecast the association's EBITDA-to-revenue margin at a sound 35%. 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, 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 the association's debt burden, with EBITDA interest coverage at a strong 4.5x in our base-case scenario for 2018-2020. We do not expect that SKB will increase its debt over the coming years, because cash flow generation is strong and capital expenditures (capex) are likely to be lower than planned the coming two years. Furthermore, SKB has significant surplus values in its property portfolio. An internal property appraisal places SKB's loan-to-value ratio at a robust 13% at year-end 2017, with a high valuation gain over the past year as property prices continue to rise in the region, which suggests substantial debt capacity in terms of unencumbered assets. Risk tolerances and financial policies regarding the share of fixed-rate debt, in our view, have a minimal impact on the association's credit standing, considering the very low leverage.

Liquidity

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

We estimate that SKB will refinance approximately Swedish krona (SEK) 2.0 billion (about €195 million) in loans over the next 12 months. In addition, we estimate SKB's capex at about SEK360 million on average over 2018-2020. We include SEK55 million of expected capital revenues from compulsory member savings and deposits as

an extraordinary source of financing for capex, lower than usual since fewer apartments are being finalized in 2018.

SKB currently has committed liquidity facilities totaling SEK2 billion to mitigate refinancing risks associated with short-term debt maturities, supplemented by a SEK550 million loan agreement with the European Investment Bank, of which half is accounted for in our liquidity analysis. Together with a checking account at SEK50 million and our base-case assumption of funds from operations of SEK206 million, we calculate that the association has available liquidity, including committed bank facilities, amounting to 115% of debt service and committed capital spending over the next 12 months.

Outlook

The stable outlook reflects our view that strong demand and financial flexibility will help SKB fund its development and mitigate risks associated with its average liquidity position. We do not foresee any material changes in Sweden's legal framework governing cooperative housing.

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.

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

Table 1

Stockholms Kooperativa Bostadsforening Selected Indicators

	2016	2017	2018bc	2019bc	2020bc
Vacancy rates (% of net rental income)	0.1	0.1	0.1	0.1	0.1
Revenue	718.1	747.4	766.1	772.2	780.7
EBITDA	265.4	290.3	264.1	268.9	279.2
EBITDA/revenue (%)	37.0	38.8	34.5	34.8	35.8
Interest expense	61.9	64.4	57.9	57.4	57.5
Debt/EBITDA (x)	11.7	10.3	11.1	10.9	10.6
EBITDA/interest coverage (x)	4.3	4.5	4.6	4.7	4.9
Capital expense	362.4	311.9	250.0	380.0	450.0
Debt	3,093	2,993	2,943	2,943	2,955
Housing properties (according to balance-sheet valuation)	6,003	6,129	6,185	6,286	6,405
Cash and liquid assets	88	56	67.4	58.9	50.0

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.

Table 2

Stockholms Kooperativa Bostadsforening Ratings Score Snapshot

Key Rating Factors

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 And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - August 14, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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

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. 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.

Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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