

Research Update:

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

May 25, 2022

Overview

- In our view, Stockholms Kooperativa Bostadsforening (SKB) has very strong enterprise profile thanks to the very low vacancy rates and high demand for rental housing in Stockholm and Uppsala.
- We expect SKB's development plan to drive up its debt burden moderately but its overall financial position should remain robust.
- We affirmed our 'AA-/A-1+' and 'K-1' ratings on SKB.
- The outlook is stable, balancing risk related to further inflation pressure with continued strong demand.

Rating Action

On May 25, 2022, 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.

Outlook

The stable outlook reflects our view that SKB's stable and predictable cash flow and strong demand for housing will offset the risks associated with increasing operating expenditure driven by higher inflation.

Upside scenario

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We could raise the ratings if SKB were to strengthen its margin sustainably, for example, should management actively take measures to contain cost pressure, while at the same time maintaining its liquidity ratio structurally above 1.25x.

Downside scenario

Conversely, the ratings could come under pressure if SKB's management shifted to a more aggressive business plan that allowed debt and interest burden to increase materially beyond our base-case projections, which could also result in constrained liquidity.

Rationale

The affirmation reflects our view that SKB's financial position will remain robust, driven by stable and predictable cash flow in combination with very low vacancy rates, having about 84,000 members on the waiting list for an apartment. SKB recently expanded into the neighboring Uppsala region, which in our view opens further opportunities for it to widen its regional scope. Unlike some of its municipal-owned peers, SKB never sells any properties. SKB also has a smoother maintenance spend, which means that its properties are better maintained than peers'.

We consider SKB's management and governance is very strong, with a focused strategy and prudent long-term planning. We consider SKB to have comprehensive risk-management practices, showcased through a conservative and consistent approach to risks in the debt portfolio. We expect SKB to continue adhering to its financial policies, maintaining strong interest coverage despite a rising interest rate environment.

We assess the regulatory framework for Swedish public housing companies and housing cooperatives as very strong, underpinned by the public policy role of providing housing where the tenants have the same rights, whether the landlord is a private or public company. Since there is no dedicated housing regulator, the risk for negative intervention is very low, and changes in the rental regulatory framework are rare. We view SKB as a housing cooperative, based on its not-for-profit mission, guidelines and principles for setting rent. In addition, we regard as positive that SKB operates under special legislation, allowing it the right to increase rents above the benchmark rates for public- and private-sector landlords.

SKB's financial profile benefits from its robust financial performance, bolstered by stable rental revenue growth through 2022-2024. Even though SKB has no legal limits on rent-setting, allowing for greater flexibility than peers to adjust revenue, we still expect SKB to benchmark itself against peers when setting its rents. We also expect some cost pressure in maintenance and other operational expenditure, driven by higher inflation. As such, we expect a decrease in SKB's adjusted EBITDA margin to 39% for 2022-2024, down from about 44% in 2021, even though we believe the association could delay a good portion of its yearly maintenance costs if necessary, without affecting rental demand.

SKB has a strong track record in delivering planned developments. To meet the high demand for housing, we expect SKB will deliver on average 200 new apartments per year over 2022-2024, requiring an estimated annual capital expenditure of about Swedish krone (SEK)575 million (about €55 million) during 2022-2024. We anticipate these development plans will be financed both by internal cash generation and additional borrowing, estimated to be about SEK315 million per year. Consequently, we forecast an increase in debt to non-sales adjusted EBITDA, reaching 14.4x by 2024, from 11.7x in 2021. After factoring in the anticipated rise in interest rates, SKB continues to have a very strong adjusted EBITDA interest coverage of 5.2x in our base-case scenario for 2022-2024.

Liquidity

We assess SKB's liquidity position as very strong, owing to its 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 1.91x debt service and committed capital spending over the next 12 months. However, we don't expect the liquidity ratio to remain at this level in the future, considering SKB's development plan and upcoming bullet maturities.

Liquidity sources in the 12 months started May 31, 2022 include:

- Cash flow from operations of SEK326 million,
- SEK2.750 billion of undrawn committed facilities and checking accounts,
- 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:

- SEK0.6 billion of committed capital expenditure,
- SEK1 billion of maturing debt and interest.

Key Statistics

Table 1

Stockholms Kooperativa Bostadsforening Selected Indicators

(Mil. SEK)	2020	2021	2022bc	2023bc	2024bc
Vacancy rates (% of net rental income)	0.1	0.3	0.1	0.1	0.1
Revenue	795.9	811.7	840.1	869.5	899.9
EBITDA	334.0	354.9	322.9	329.6	334.2
EBITDA/revenue (%)	42.0	43.7	38.4	37.9	37.1
Interest expense	45.8	42.0	47.4	65.9	85.7
Debt/EBITDA (x)	12.0	11.7	13.8	14.4	14.4
EBITDA/interest coverage (x)	7.3	8.4	6.8	5.0	3.9
Capital expense	391	593	589	683	455
Debt	3,995	4,161	4,458	4,748	4,821
Housing properties (according to balance-sheet valuation)	7,696	8,069	8,540	9,088	9,768
Cash and liquid assets	69.8	19.6	50.6	51.8	53.5

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.

Ratings Score Snapshot

Table 2

Stockholms Kooperativa Bostadsforening Ratings Score Snapshot

Factor	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	2
Market dependencies	2
Management and Governance	2
Financial risk profile	2
Financial performance	3
Debt profile	2
Liquidity	2

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Ratings Affirmed

Stockholms Kooperativa Bostadsforening

Issuer Credit Rating AA-/Stable/A-1+

Nordic Regional Scale --/--/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. 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/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating

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