

# Stockholms Kooperativa Bostadsforening

April 11, 2024

This report does not constitute a rating action.

## Credit Highlights

### Overview

Enterprise profile	Financial profile
Stockholms Kooperativa Bostadsforening (SKB) benefits from high demand, due to a housing shortage in the Stockholm region and the high quality of its properties.	SKB's financial profile will benefit from its strong internal cash flow generation, enabling margins to gradually recover as inflationary pressure subsides.
--SKB's large member base underpins the strong demand for its services, minimal vacancies, and membership contributions, which provide cost-effective capital.	--Inflationary pressure on operating expenditure has pushed EBITDA margins below 40%, although we expect a gradual recovery of margins in the coming years.
--SKB's management demonstrates a risk-averse strategy in its approach to property management, expansion, and financial policies.	--We anticipate strong inflows from member contributions will lead to modest debt financing in 2024-2026 and contain the ratio of debt to nonsales adjusted EBITDA at about 13.2x.

**SKB operates in a low-risk industry focusing solely on core rental housing with no development for sales.** SKB is supported by the significant demand for rental housing in the Stockholm region. This results in minimal vacancy rates and a waiting list of 93,100 members for its 8,484 apartments.

**The company's financial profile benefits from robust financial performance, which we expect will be bolstered by historically high rent increases (5.2% in 2024; and our estimate of 4% in 2025).** SKB has a strong track record of delivering planned development, albeit with some delays, but relatively slowly in line with organizational capacity.

## Outlook

The stable outlook reflects S&P Global Ratings' view that SKB's stable and predictable cash flow and strong demand for housing will offset the risks associated with increasing operating expenditure due to high inflation.

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## Downside scenario

The ratings could come under pressure if SKB's management embarks on a more aggressive strategy of debt-funded development. This could cause the company's debt and interest burdens to increase materially beyond our base-case projections, and reduce its liquidity coverage.

## Upside scenario

We could raise the ratings if SKB were to strengthen its margin sustainably, for example, should management be able to reduce costs without undermining the quality of its properties, while at the same time maintaining its liquidity ratio structurally above 1.25x.

# Rationale

## Enterprise profile: A strong market position and continued focus on maintaining high standards in properties

Rent levels for public housing in Sweden do not differ because of rental regulation. However, we believe SKB has lower vacancies than peers in the domestic and international markets, demonstrating the demand for its properties, which supports its market position. Additionally, SKB has never sold a property, which differentiates it from peers and shows commitment to its long-term approach to its assets and members. This strategy also benefits its property management since it leads to smoother maintenance spending and a clear incentive to maintain high property standards.

We assess the regulatory framework for Swedish public housing companies and housing cooperatives as very strong. All rental housing in Sweden is considered to have a public policy role, not just rental housing aimed at low-income households. Therefore, most rental regulations apply to all landlords (public and private), and tenants have the same rights in terms of rental negotiations and occupancy rights, among other things, regardless of whether the landlord is public or private. Since there is no dedicated housing regulator, the risk for negative intervention is very low, and changes in the rental regulatory framework are rare.

SKB is a housing cooperative that we view as a public housing provider in the sense that it operates with a not-for-profit mission and applies broadly the same guidelines and principles for rent setting. In addition, we regard as positive that SKB operates under special legislation compared to that for municipality-owned public housing associations. This legislation permits SKB to increase rents beyond the benchmark rates for public- and private-sector landlords if the need arose. In 2024, SKB increased its rent by 5.2%, with the possibility of adding a further increase this year, if necessary. In our view, the possibility of raising rents further if inflation increases or interest rates remain higher than expected adds flexibility that is not available to other Swedish rental housing providers.

We consider SKB's management and governance to be very strong, with a focused strategy and prudent long-term planning. As a cooperative, SKB operates under the law on Swedish Cooperative Unions, SKB does not have any shareholders but rather members, comprising tenants in their properties and those waiting in the queue. Members of SKB pay an annual fee that represents savings, until it reaches a ceiling of Swedish krona (SEK) 30,000, to stand in the queue. On top of this, tenants are required to make a capital contribution when moving into an apartment, which is returned when the tenant moves out. This helps alleviate SKB's funding needs. Members can influence the organization through the annual member meetings, as well as the annual council meeting where representatives from both existing tenants and members on the waiting list can vote to elect SKB's board. Recently SKB has undergone a change of CEO and Chief Financial Officer. In our view, the new leadership has been continuing the lower risk

tolerance than domestic peers that SKB has historically shown. We continue to observe a conservative and consistent approach to risks related to the debt portfolio, for instance, compared to domestic peers. SKB has lower exposure to interest rate changes in the short term, which in our view demonstrates its low risk tolerance. We expect SKB to maintain its financial policies and approach to managing interest rate risks and its debt maturity profile.

Additionally, SKB has an ambitious target of achieving 100% green financing by 2025. It also aims to reduce energy usage by 30% as of 2030 and be climate neutral by 2045. The company is currently investing, for instance, in solar panels on rooftops and is helping tenants to reduce water usage. In our view, SKB's focus on perpetual ownership of properties it develops and not undertaking asset acquisitions could help the company achieve these targets because they contain maintenance needs and support long-term capital planning. Overall, we consider SKB's properties to be in good condition compared to those of peers.

### Financial profile: Adjusted EBITDA margins are subdued amid high heating and utilities costs

We expect SKB to benchmark itself against peers when setting its rents, as exemplified by its rent increases in previous years, which have been in line with the municipal housing providers. We understand SKB intends to keep its housing stock in good condition, which together with continued operational cost pressure, will lead to adjusted EBITDA margins staying below 40% in 2024-2026. That said, with expected rent increases to be higher than inflation and additional properties added, we expect margins to improve already in 2024 from the 36.8% recorded in 2023.

We expect SKB will deliver 150 new apartments per year through 2024-2025, requiring an estimated annual capital expenditure of about SEK490 million (about €43 million). We anticipate these development plans will be financed both by internal cash generation of roughly SEK350 million per year as well as a combination of debt financing and member contributions. Member contributions are not interest bearing and will be returned to members if they exit the queue and/or their apartment, so we don't view them as debt. Positively, we note that SKB has increased the ceiling for member contributions by 50% in 2024, which will add further cash inflow, leading to member contributions averaging approximately SEK130 million annually, double the average for the past four years.

Because SKB has several new developments in progress, capital expenditure (capex) will fluctuate, with high capex in 2024 returning to more modest levels in 2025-2026. Consequently, we forecast a modest increase in debt through 2026, leading to broadly stable debt to non-sales adjusted EBITDA of about 11.8x by 2026. After factoring in an anticipated rise in interest rates, we expect SKB to have non-sales adjusted EBITDA interest coverage of 2.9x in our base-case scenario for 2024-2026, although significantly lower than 6.1x in 2022 due to the gradual impact of higher market interest rates.

We continue to view SKB as having very strong liquidity, with liquidity sources covering uses by approximately 1.3x in the next 12 months. We forecast liquidity sources of about SEK3.5 billion--comprising cash, undrawn and available credit facilities, member savings, and cash from operations--cover uses of about SEK2.7 billion, mainly debt maturities and capex. We also assess that SKB has strong access to external liquidity, supported by its track record through periods of financial market turbulence.

## Environmental, Social, And Governance

We view SKB's environmental, social, and governance risks as positive for our credit analysis. SKB's management takes a prudent approach to development and is risk adverse. It serves a strong social purpose in providing good quality housing to an area with significant

shortage. SKB's operational area is subject to less social economic challenges compared to that of its rated peers in Sweden. Its properties have relatively high environmental standards and require less investment to achieve Sweden's sustainable goals. We acknowledge the ambitious sustainability goals in place, limiting the potential effects of regulatory shifts and environmental requirements imposed on the sector.

## Key Statistics

### Stockholms Kooperativa Bostadsforening--Key Statistics

	--Year ended Dec.31--				
Mil. SEK	2022A	2023A	2024BC	2025BC	2026BC
Number of units owned or managed	8,355	8,484	8,634	8,784	8,784
Adjusted operating revenue	841.2	906.6	968.0	1,023.3	1,057.5
Adjusted EBITDA	335.2	333.4	367.3	397.1	413.4
Non-sales adjusted EBITDA	335.2	333.4	367.3	397.1	413.4
Capital expense	418.8	638.4	744.6	368.0	356.5
Debt	4,227.5	4,505.1	4,965.1	4,900.1	4,860.1
Interest expense	54.7	88.7	136.9	131.8	131.8
Adjusted EBITDA/Adjusted operating revenue (%)	39.9	36.8	37.9	38.8	39.1
Debt/Non-sales adjusted EBITDA (x)	12.6	13.5	13.5	12.3	11.8
Non-sales adjusted EBITDA/interest coverage(x)	6.1	3.8	2.7	3.0	3.1

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

## Rating Component Scores

### Stockholms Kooperativa Bostadsforening--Rating Component Scores

	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

Footnote -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.

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## 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

## Related Research

- Non-U.S. Social Housing Providers Ratings Risk Indicators, Score Snapshot, And History Published For March 2024, Mar. 11, 2024
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2024, Mar. 11, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2024, Mar. 11, 2024
- Non-U.S. Social Housing Providers Ratings History: March 2024, Mar. 11, 2024

### Ratings Detail (as of April 11, 2024)\*

#### 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.

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