

# Stockholms Kooperativa Bostadsforening

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*This report does not constitute a rating action.*

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## Credit Highlights

### Overview

#### Enterprise profile

Stockholms Kooperativa Bostadsforening (SKB) benefits from the housing shortage in the Stockholm region and the high quality of its housing properties.

--We expect minimal vacancies due to strong demand for rental housing in SKB's area of operations.

--Strong demand for SKB's services is underlined by its large member base.

--SKB has full lifecycle ownership of all properties and no exposure to sales activities.

#### Financial profile

SKB's financial profile will benefit from its strong internal cash flow generation, although margins will be pressured in coming years.

--We anticipate strong inflows from member contributions will lead to modest debt financing in 2023-2025 and a contained ratio of debt to non-sales adjusted EBITDA of about 12.1x.

--Pressure on operating expenditures will keep EBITDA margins subdued, but close to 40% as SKB weathers inflationary pressure.

--SKB's liquidity position is supported by its strong access to capital markets.

## 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 expenditures driven by higher inflation.

## Downside scenario

The ratings could come under pressure if SKB's management initiate new building projects significantly above historic levels that allowed debt and interest burdens to increase materially beyond our base-case projections, which could also result in constrained liquidity.

## 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 building a maintenance log, while at the same time maintaining its liquidity ratio structurally above 1.25x.

## Rationale

Our rating on SKB is supported by the significant demand for rental housing in the Stockholm region where SKB operates. This results in minimal vacancy rates and a waiting list of 92,800 members for its 8,355 apartments. SKB has never sold a property, which differentiates it from peers and shows strong dedication to its long-term approach to its assets and members. This also benefits its property management, since it leads to smoother maintenance spending and a clear incentive to opt for higher standards.

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 its debt portfolio. We expect SKB will continue adhering to its financial policies, maintaining its approach to managing interest rate risks and maturity profile of its debt portfolio.

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 for 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, occupancy rights, and so on, 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, with a not-for-profit mission and its guidelines and principles for setting rent. In addition, we regard as positive that SKB operates under special legislation that permits it to increase rents above the benchmark rates for public- and private-sector landlords.

SKB's financial profile benefits from its robust financial performance, which we expect will be bolstered by stable rental revenue growth through 2025. Even though SKB has no legal limits on rent-setting, which provide it with greater flexibility than peers to adjust revenue, we still expect SKB to benchmark itself against peers when setting its rents, as exemplified by a rent increase of about 4.5% on average in 2023. We understand SKB intends to maintain its stock, which together with operational cost pressure, will lead to adjusted EBITDA margins staying below 40% in 2023-2025, down from about 44% at year-end 2021.

SKB has strong track record in delivering planned development, and to meet the high demand for housing, we expect SKB will deliver on average 200 new apartments per year through 2023-2025, requiring to an estimated annual capital expenditure of about Swedish krona (SEK) 575 million (about €52 million) during 2023-2025. We anticipate these development plans will be financed both by internal cash generation of roughly SEK280 million per year as well as additional borrowing through debt financing and member contributions totaling about SEK295 million per year, on average. Consequently, we forecast a modest increase in debt, leading to stable debt to non-sales adjusted EBITDA, estimated at 12.1x by 2025, compared with 12.6x in 2022. After factoring in the anticipated rise in interest rates, SKB continues to have a very strong adjusted EBITDA interest coverage of 3.7x in our base-case scenario for 2023-2025.

### **Liquidity**

We assess SKB's liquidity position as very strong, owing to the internal cash flow generation, committed bank facilities that mitigate refinancing risk, and demonstrated strong external access. We calculate that the association has available liquidity, including committed bank facilities, amounting to 1.26x of debt service and committed capital spending over the next 12 months. We believe the liquidity ratio will remain at 1.25x-1.75x, since debt maturities are lower in coming years.

Liquidity sources in the 12 months from February 2023 include:

- Cash flow from operations of SEK350 million;
- SEK3.150 billion of undrawn committed facilities and checking accounts; and

- We include SEK110 million of expected capital inflow from compulsory member savings.

Liquidity uses over the same period include:

- SEK500 million of capital expenditure; and
- SEK2.35 billion 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 its debt portfolio and the development of new properties. Since SKB is a tenant-owned cooperative society, interaction and steering with tenants is significantly more pronounced than at 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

### Stockholms Kooperativa Bostadsförening--Key Statistics

	--Year ended Dec.31--				
Mil. SEK	2021a	2022e	2023bc	2024bc	2025bc
Number of units owned or managed	8,237	8,355	8,505	8,655	8,955
Adjusted operating revenue	812	841	892	922	989
Adjusted EBITDA	355	335	336	355	391
Non-sales adjusted EBITDA	355	335	336	355	391
Capital expense	593	449	486	542	603
Debt	4,161	4,228	4,428	4,528	4,723
Interest expense	42	55	83	98	109
Adjusted EBITDA/Adjusted operating revenue (%)	44	40	38	38	40
Debt/Non-sales adjusted EBITDA (x)	12	13	13	13	12
Non-sales adjusted EBITDA/interest coverage(x)	8	6	4	4	4

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--Ratings Score Snapshot

	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

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.

## 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 Detail (as of March 27, 2023)\*

### 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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