

# FASTIGHETS AB STENVALVET

Sweden  
Real estate management

14 May 2019  
Rating initiation

## LONG-TERM RATING

**BBB+**

## OUTLOOK

**Stable**

## SHORT-TERM RATING

**N-1+**

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## RATING RATIONALE

Our 'BBB+' long-term issuer rating on property management company Fastighets AB Stenvalvet (Stenvalvet) reflects the company's strong property portfolio. The properties are mainly used by the community service sector with 95% of the rental income generated directly or indirectly by government funding (72% of the rental income comes from public-sector tenants and a further 23% comes typically from private-sector health and care operators in receipt of government funding). The portfolio consists of 111 diverse properties throughout Sweden, with an average remaining lease term of more than six years, an occupancy rate of about 96%, and a stable operating performance. The rating also reflects Stenvalvet's solid financial position with a loan to value (LTV) ratio of 47%, excluding shareholder loans, an interest coverage ratio of 5.8x, and a strong ownership profile.

These strengths are somewhat offset by Stenvalvet's relatively high level of refinancing needs within the coming 12 months; these total about 30% of all external debt including commercial paper. However, the company has liquid funds of about SEK 1.7bn to match these needs. About 20% of tenants are private care and education operators and 5% are purely commercial. Some 26% of the company's properties are used as government and municipal offices, which partly offsets its concentration on tailor-made properties such as facilities for the elderly, schools and health care.

## OUTLOOK

The stable outlook reflects our expectation that Stenvalvet will continue to focus on community service properties, with long lease contracts under which rents are funded directly or indirectly by public institutions. We expect Stenvalvet to continue to refinance its short-term debt proactively to reduce the proportion of short-term debt in its overall debt mix. We also expect that the company will retain its moderate leverage (including LTV below 50%). The stable outlook reflects our view of a stable economic outlook for Sweden, with slowly rising interest rates, and an unchanged ownership profile for the company.

### POTENTIAL POSITIVE RATING DRIVERS:

- Continued successful growth and diversification of the property portfolio while retaining modest leverage and stable credit metrics, and improving the debt maturity profile

### POTENTIAL NEGATIVE RATING DRIVERS:

- Increased leverage, including an LTV of more than 50% over a protracted period
- Inability to refinance upcoming debt maturities
- Change in strategy resulting in an increasing level of non-community service tenants

Figure 1. Key credit metrics, 2015–2021

SEKm	2015	2016	2017	2018	2019e	2020e	2021e
Revenue	630	690	735	811	850	926	1,002
EBITDA	425	468	503	542	556	605	654
Investment properties	7,548	8,510	9,941	11,105	12,165	13,170	14,175
Net debt	4,108	4,386	4,770	5,121	5,682	6,231	6,568
Total assets	7,829	8,673	10,321	11,535	12,584	13,599	14,568
Debt/EBITDA (x)	9.67	9.37	9.48	9.45	10.21	10.30	10.05
EBITDA/interest (x)	6.53	6.54	6.21	5.71	5.41	5.36	5.42
LTV	54%	52%	48%	46%	47%	47%	46%

Based on NCR estimates and company data. e – estimate. All metrics are adjusted in line with NCR methodology.

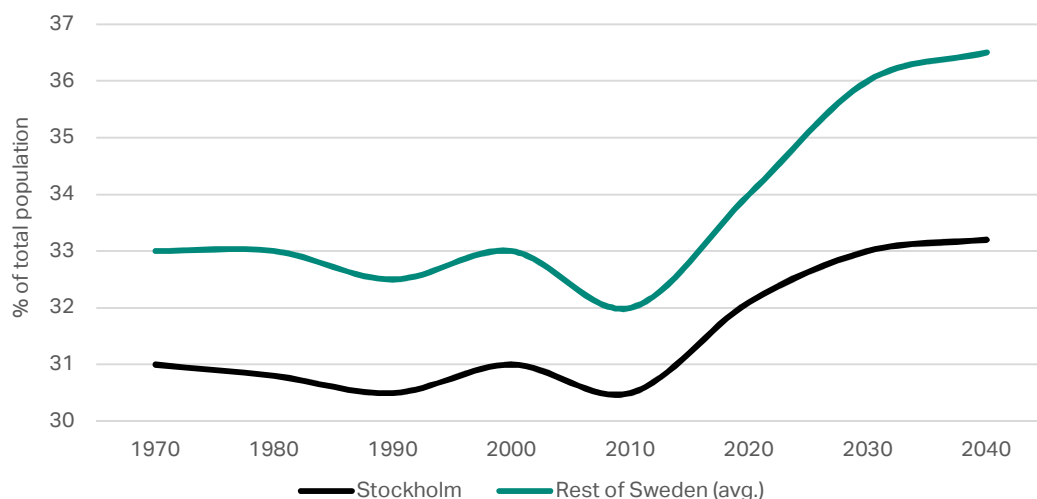
## COMPANY PROFILE

Stenvalvet was founded in 2010 when AI Pension, Alecta Pension foundation and the Church of Sweden's pension foundation joined together with the purpose of purchasing, developing and managing homes for the elderly in the Mälardalen region. Following the acquisition of Roxanne Real Estate Foundation AB in 2014, the ownership structure was broadened to include Kåpan Pensions and the Swedish Foundation for Strategic Research, effectively increasing the property portfolio to 96 properties totalling 463,000 square meters. As of 31 Dec. 2018, the company's property portfolio consisted of 111 properties. Since then, Alecta Pension foundation and AI Pension have sold their shares to Kåpan Pensions and the Church of Sweden.

## OPERATING IN AN INCREASINGLY IMPORTANT SECTOR

Our 'bbb+' business risk assessment for Stenvalvet reflects the stable operating environment in which the company operates, its strong property portfolio and solid operating efficiency. Stenvalvet's property portfolio mainly consists of community services properties, such as homes for the elderly, health care institutions, schools, police stations, court houses and other government and municipal agencies. We view a majority of Stenvalvet's tenants as important for Sweden's welfare system and highly creditworthy, resulting in rental income that has little correlation with the economic cycle. We also see increasing demand for these type of properties as Sweden's population is growing, especially in the youngest and oldest age groups. Our understanding is that most Swedish political parties are committed to providing for public security and health and care services. We also note that most Swedish municipalities are increasingly looking for alternatives to owning these types of properties by themselves due to rapidly increasing debt burdens. Accordingly, we expect Stenvalvet's operating environment to remain stable.

Figure 2. Recent and projected trends in Swedish population below 20 and above 75



Based on data from the Swedish central bank, Stenvalvet, and NCR

## DIVERSE PROPERTY PORTFOLIO THROUGHOUT SWEDEN

As of 31 Dec. 2018, Stenvalvet's property portfolio consisted of 111 properties totalling some 600,000 square metres with an average remaining lease length of more than six years. The portfolio is well diversified throughout Sweden, with properties typically situated in good locations in medium sized cities. Although rental contracts vary in length, they are typically renegotiated and index linked, and municipality agency tenants usually remain in the same building for decades.

Figure 3. Properties by type, 31 Dec. 2018

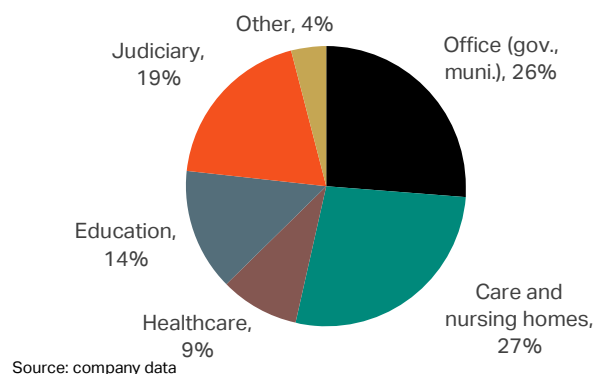
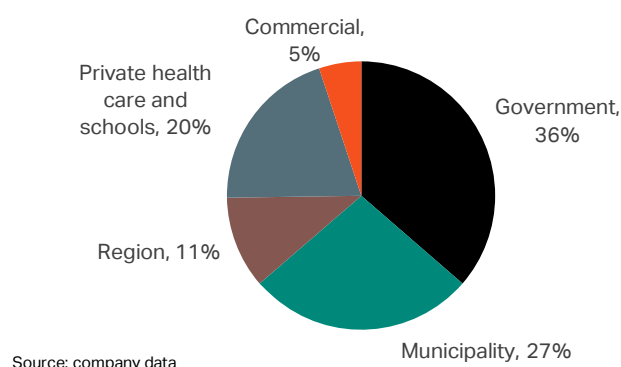
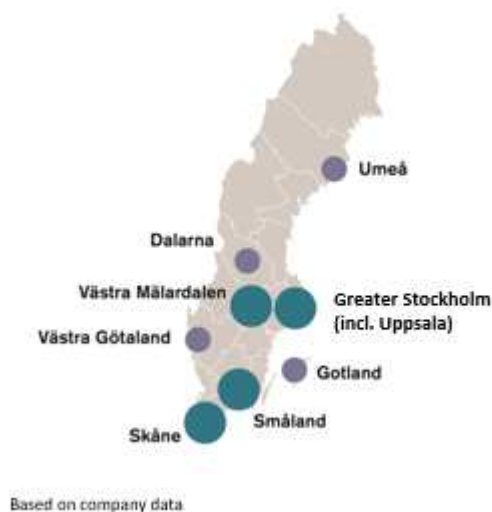


Figure 4. Rental income by tenant type, 31 Dec. 2018



Stenvalvet has a focus on residential care for the elderly and people with disabilities, which we believe could further strengthen the company's credit profile. According to the company's business strategy, at least 20% of the rental revenue should come from this segment. About 50 of the company's properties are health and care units and are typically more custom-made than other properties and have longer rental contracts. Schools are another focus area for Stenvalvet, as the Swedish government and municipalities expect a shortage of about 1,500 schools nationally over the next decade. Stenvalvet achieves further diversity through policies which stipulate that a maximum 25% of the portfolio's market value can be held in any one municipality, and a maximum 10% of its market value can reside in a single property.

Figure 5. Properties by geographic distribution



Stenvalvet plans to increase the number of properties under development. However, we expect the share of development properties to remain relatively low within the total portfolio. Typically, development and refurbishment projects are carried out on behalf of providers of care for the elderly and local authorities and entail long contracts that limit risk. Stenvalvet's operational performance has been strong in recent years. Due to the nature of the company's contracts and tenants, as well as an increased focus on retaining long-term tenants and improving cost efficiency, we expect profitability to remain stable.

Figure 6. Largest tenants, 31 Dec. 2018

TENANT	SHARE OF RENTAL INCOME
Swedish police	12%
International English Schools in Sweden	7%
Swedish court administration	6%
Attendo Sverige AB	5%
Strängnäs municipality	4%
Region Skåne	4%
Swedish Tax Agency	4%
Dalarna region	3%
Umeå municipality	3%
Swedish prison and probation service	3%

## FINANCIAL RISK ASSESSMENT

Our 'bbb+' financial risk assessment of Stenvalvet reflects the company's relatively modest adjusted LTV of 47%, its adjusted EBITDA to interest ratio of more than 5x and adjusted debt to EBITDA of less than 10x. It also reflects our expectations that the company's credit metrics will remain around these levels, despite continued growth of the property portfolio. Our assessment also takes into account Stenvalvet's relatively prudent risk appetite and solid ownership profile. Stenvalvet has an ambitious, but controlled, growth strategy, in our view. We expect LTV to remain below 50%, despite the company's self-imposed maximum of 65% under its financial policy. The rating could be negatively affected, if the company were to increase its debt leverage over time in a manner that weakened its credit metrics. However, we understand that management wants to retain modest leverage with LTV below 50%, which is commensurate with our current financial risk assessment.

As of Dec 31, 2018, Stenvalvet's main source of funding was secured bank debt. Of the company's SEK 5.4bn of interest-bearing debt, some SEK 520m is commercial paper. The secured bank debt is relatively evenly spread between four large Nordic financial institutions (SEB, Nordea, Handelsbanken, and Nykredit). In addition to providing equity, Stenvalvet's shareholders fund the company through a SEK 2.5bn shareholder loan. We classify this loan as equity and consequently exclude it from our credit metric calculations. This is because:

- we view Stenvalvet's owners as strategic long-term owners;
- the loan matures well beyond all other debt;
- it is subordinated to all other debt; and
- interest payments can be deferred.

The shareholders have committed a further SEK 500m in funds. In addition, the company can convert the shareholder loan to equity if necessary.

Figure 7. Balance sheet, 31 Dec. 2018



Source: company data

In our base case, we assume the following:

- rental income growth of 4.8% in 2019, 8.9% in 2020 and 8.3% in 2021;
- EBITDA margin to remain around 70%;
- interest cost on external debt of around SEK 113m in 2019 and SEK 120m in 2020;
- annual investments in properties of SEK 1,000m in 2019 and 2020;
- no increase in the value of the existing portfolio, only an increase in projects being finalised.

Based on these assumptions, we arrive at the following metrics for 2019–2021;

- LTV of 45-47%;
- EBITDA to net interest of 5.5x; and
- debt to EBITDA of 10x.

As mentioned above, we exclude the SEK 2.5bn shareholder loan and SEK 220m of associated interest in our credit calculations. We note, however, the relatively high interest paid on the shareholder loan but expect the board to continue balancing shareholder returns against the company's growth ambitions and funding needs, and so retain credit metrics at current levels.

As shown below, we expect credit metrics to remain relatively stable over the next few years despite likely growth in the property portfolio. We also expect Stenvalvet to increase its share of unsecured debt as the portfolio and total gross debt increase, thus decreasing dependence on secured bank debt and shareholder loans.

Figure 8. Property values, net debt, and LTV

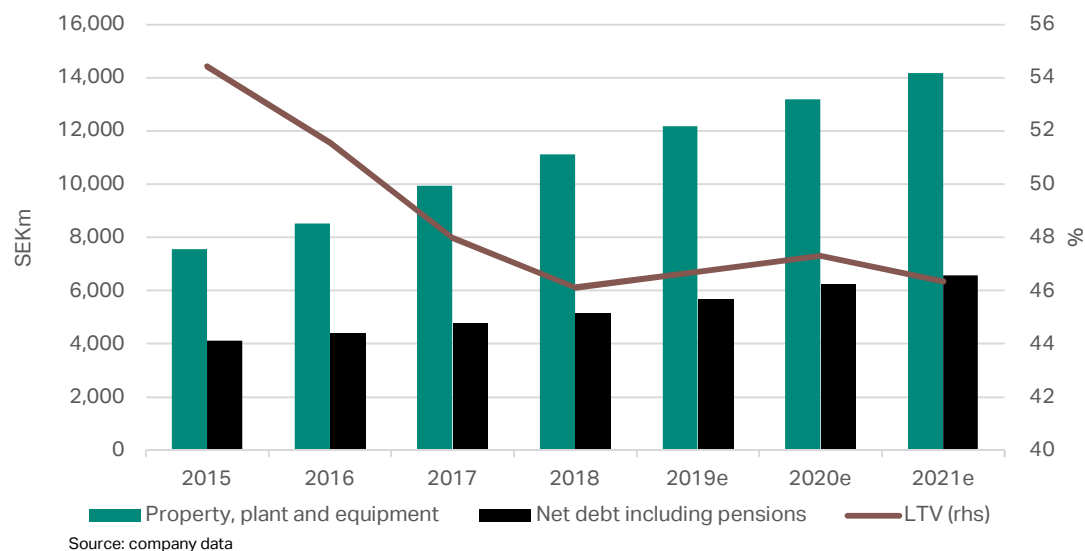
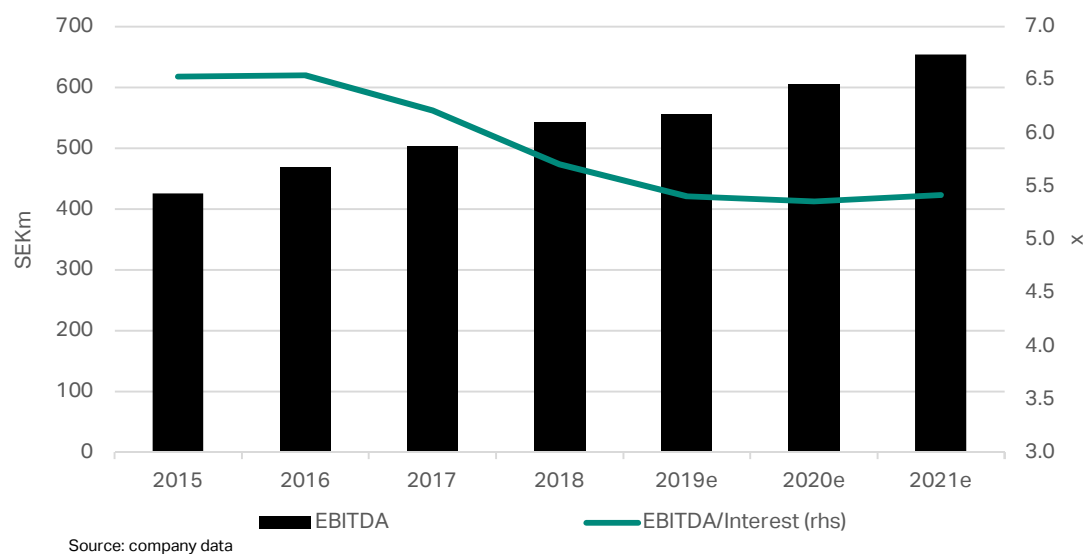


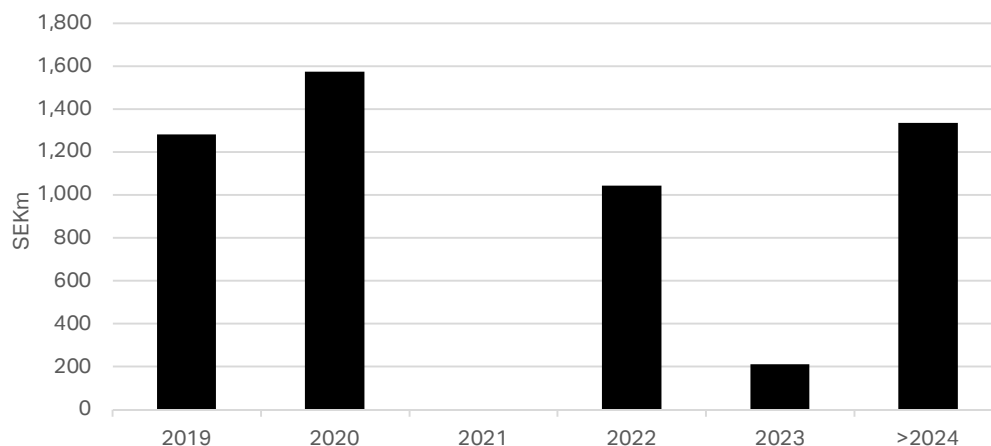
Figure 9. EBITDA and EBITDA/net interest



## LIQUIDITY PROFILE

We assess Stenvalvet's liquidity profile as adequate despite the relatively large amount of short-term debt. The average debt maturity is just short of four years, however some 30% of total external debt is to be refinanced within the coming 12 months. We expect bank debt to be rolled over along with the commercial paper. The company currently has no outstanding bonds. We expect potential shortfalls to be covered by existing credit facilities, cash on balance sheet and operating cash flow.

**Figure 10. Debt maturity profile**



Source: company data

We estimate the following primary liquidity sources for the next 12 months;

- cash and equivalents of SEK 315m;
- available credit facilities of SEK 978m;
- expected funds from operations of SEK 452m; and
- a committed shareholder injection of SEK 495m.

We anticipate liquidity to be used for the following over the coming 12 months:

- SEK 1.6bn of debt maturities;
- planned capital expenditure and investments totaling SEK 245m.

## SUSTAINABILITY FOCUS AND OWNERSHIP STRUCTURE ARE CREDIT SUPPORTIVE

We view Stenvalvet's ownership profile as well as its focus on environmental, social and governance (ESG) issues and sustainability as supportive of the rating and factor this into our overall business risk and financial risk assessments. Stenvalvet has a clearly defined long-term strategy of commitment to its tenants and the communities in which they operate. The company's sustainability policy includes three focus areas:

- economic sustainability;
- social commitment and responsibility; and
- environmental and ecological sustainability

In our view Stenvalvet has a credible and solid strategy in all three focus areas. In addition, the company has a long-term focus on tenants, lease contracts, and counterparties which support economic sustainability. Stenvalvet aims to be responsive to tenants and seeks to achieve energy efficiency at its properties. The company's sustainability policy is updated annually and sanctioned by

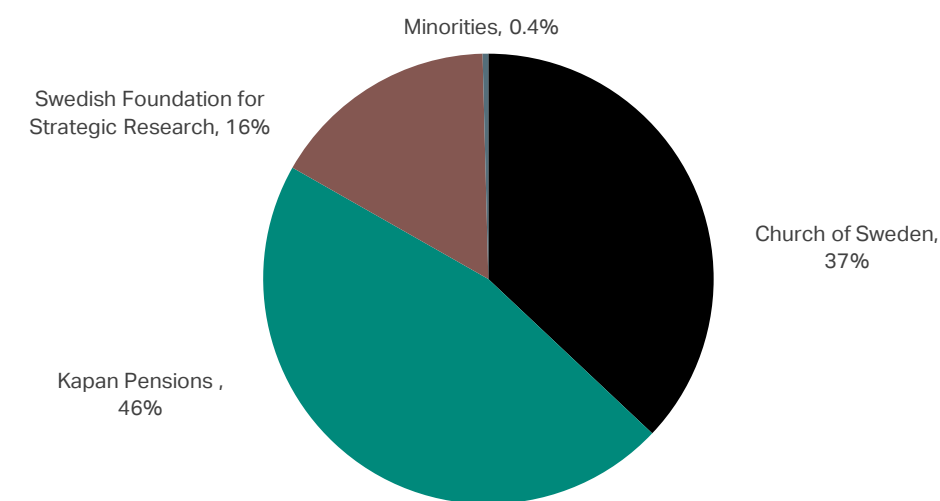
the board of directors, and the CEO is responsible for its implementation. Stenvalvet also has a sustainability officer who reports to the CFO.

We view Stenvalvet's ownership structure as supportive of the rating as we believe the owners have a long-term focus on their investments. Stenvalvet's main owners are:

- Kåpan Pensions, which manages collectively agreed pensions for Swedish government employees;
- The Church of Sweden's pension foundation; and
- The Swedish Foundation for Strategic Research

The owners, which are financially strong, manage investments totalling around SEK 120bn, and have a long-term focus on their investment. All three owners have a clearly stated sustainability focus in their investment guidelines. Accordingly, we believe that there is sufficient economic strength to support Stenvalvet if needed. We also believe that the owners will balance growth, investment and shareholder returns in a way that does not weaken Stenvalvet's creditworthiness.

Figure 11. Ownership structure



Source: company data



**Figure 12. Scoring summary sheet**

Subfactors	Impact	Score
Operating environment	20.0%	a-
Market position, size and diversification	12.5%	bb+
Portfolio assessment	12.5%	bbb+
Operating efficiency	5.0%	a
Business risk assessment	50.0%	bbb+
Ratio analysis		bbb+
Risk appetite		bbb
Financial risk assessment	50.0%	bbb+
Indicative credit assessment		bbb+
Liquidity		-
ESG		-
Peer comparison		-
Standalone credit assessment		bbb+
Support analysis		-
Issuer rating		BBB+
Short-term rating		N-1+

Figure 13. Key financials

SEKm	2015	2016	2017	2018	2019e	2020e	2021e
<b>INCOME STATEMENT</b>							
Revenue	630	690	735	811	850	926	1,002
Cost of goods sold	-192	-202	-212	-232	-255	-279	-303
General administration	-20	-25	-27	-37	-39	-42	-46
EBITDA	425	468	503	542	556	605	654
Interest cost	-65	-72	-81	-95	-103	-113	-121
Interest on shareholder loans	-183	-187	-204	-226	-254	-278	-296
Change in value of properties	269	412	394	319	0	0	0
Change in value of financial instruments	36	-104	-1	141	0	0	0
Pre-tax profit	483	517	610	626	199	214	237
Current tax	-3	-1	1	-4	-2	-1	-1
Deferred tax	-112	-105	-140	-92	0	0	0
<b>Net Profit</b>	<b>368</b>	<b>411</b>	<b>472</b>	<b>585</b>	<b>197</b>	<b>213</b>	<b>235</b>
<b>BALANCE SHEET</b>							
Property, plant and equipment	7,548	8,510	9,941	11,105	12,165	13,170	14,175
Other non-current assets	44	1	16	63	63	63	63
Total non-current assets	7,592	8,511	9,957	11,168	12,228	13,233	14,238
Cash and cash equivalents	200	127	335	315	304	314	278
Other current assets	37	35	29	52	52	52	52
Total current assets	237	162	364	367	356	366	330
<b>Total assets</b>	<b>7,829</b>	<b>8,673</b>	<b>10,321</b>	<b>11,535</b>	<b>12,584</b>	<b>13,599</b>	<b>14,568</b>
Total equity	1,100	1,511	1,982	2,567	2,764	2,977	3,212
Long-term interest-bearing loans	3,865	3,809	4,471	4,122	4,672	5,272	5,805
Shareholder loans	1,943	2,040	2,400	2,548	2,848	3,048	3,248
Other long-term liabilities	245	353	492	605	605	605	605
Total non-current liabilities	6,053	6,202	7,363	7,275	8,125	8,925	9,658
Total current liabilities	676	960	976	1,694	1,695	1,697	1,698
<b>Total equity and liabilities</b>	<b>7,829</b>	<b>8,673</b>	<b>10,321</b>	<b>11,536</b>	<b>12,584</b>	<b>13,599</b>	<b>14,568</b>
<b>CASH FLOW STATEMENT</b>							
Pre-tax profit	483	517	610	626	199	214	237
Cash flow before changes in working capital	101	146	218	336	199	214	237
Changes in working capital	-2	23	59	13	0	0	0
Operating cash flow	99	169	277	349	199	214	237
Cash flow from investment activities	-708	-545	-1,021	-849	-1,060	-1,005	-1,005
Cash flow from financing activities	615	303	952	480	850	800	733
Cash flow at the beginning of the year	194	200	127	335	315	304	314
<b>Cash flow for the year</b>	<b>6</b>	<b>-73</b>	<b>208</b>	<b>-20</b>	<b>-11</b>	<b>9</b>	<b>-36</b>
Cash flow at the end of the year	200	127	335	315	304	314	278

Based on NCR estimates and company data. e-estimate. All metrics are adjusted in line with NCR methodology.

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating The rating is an initial credit rating.
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Methodology used when determining the credit rating:	Nordic Credit Rating - Corporate Methodology published 14 August, 2018: <a href="https://nordiccreditrating.com/pdf/Nordic%20Credit%20Rating%20-%20Corporate%20Rating%20Methodology.pdf">https://nordiccreditrating.com/pdf/Nordic%20Credit%20Rating%20-%20Corporate%20Rating%20Methodology.pdf</a> Nordic Credit Rating - Rating Principles published 14 August 2018: <a href="https://nordiccreditrating.com/pdf/Nordic%20Credit%20Rating%20-%20Rating%20Principles.pdf">https://nordiccreditrating.com/pdf/Nordic%20Credit%20Rating%20-%20Rating%20Principles.pdf</a> The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a> The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <a href="https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml">https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml</a>
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Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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