

Offentliga Hus i Norden AB (publ)

Rating Update

LONG-TERM RATING

BB-

OUTLOOK

Stable

SHORT-TERM RATING

N-2

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NCR affirms its 'BB-' ratings on Offentliga Hus i Norden AB (publ); outlook stable

Today Nordic Credit Rating (NCR) affirmed its 'BB-' long-term issuer rating and 'N-2' short-term rating on Offentliga Hus i Norden AB (publ) (Offentliga Hus) after the announcement of a series of transactions with Aktiebolaget Fastator (publ) (Fastator), the indirect owner of 50% of the shares in Offentliga Hus. The outlook on the ratings remains stable.

"We view the transaction as a step towards strengthening the community-service focus of the portfolio," said Mille Opdahl Fjeldstad, NCR's primary analyst for Offentliga Hus. "We plan to review the impact of the transaction on the financial metrics and portfolio concentration once the transaction is approved and financing completed."

IMPROVED PUBLIC-SERVICE FOCUS OF OFFENTLIGA HUS PROPERTIES

On 26 Nov. 2019, Offentliga Hus announced that it had agreed to purchase six properties occupied by public-service tenants, with a value of SEK 1.2bn from Fastator. In a second transaction, Fastator (via its 100% owned subsidiary Industrisamhället Fastigheter AB) agreed to purchase 30 properties from Offentliga Hus, worth SEK 118m, which fall outside of the company's definition of public-service related properties. In addition to the property transactions, Offentliga Hus agreed to sell its 34.39% share of Studentbostäder i Sverige AB (Studentbostäder) to Fastator based on a valuation of SEK 222m. The transactions are expected to close before year end, subject to the approval of Fastator's 19 Dec 2019 extraordinary general meeting.

Combined, these transactions improve our view of Offentliga Hus's property portfolio and provide further clarity about the company's strategic focus on public-service property management. The acquired properties are in the Greater Stockholm and Mälardalen region with strong anchor tenants, while the divested properties are smaller commercial properties outside top tier locations. The transactions will be financed by existing liquidity and bank financing but, given that the average occupancy rate of the acquired properties is below Offentliga Hus's current portfolio average, the company's key credit metrics could weaken.

Fastator will in turn provide a shareholder contribution of SEK 604m to Nordact AB, which directly owns 100% of the shares in Offentliga Hus. The injection is divided into SEK 382m in cash and SEK 222m worth of shares in Studentbostäder. While we are not aware of plans to inject additional capital into Offentliga Hus, the additional equity in Nordact could be used to finance further growth or provide additional capital to Offentliga Hus.

STABLE OUTLOOK

The stable outlook reflects NCR's view that Offentliga Hus is improving its portfolio focus and overall tenant quality, though we await clarity on the impact of the transactions on key financial metrics. We expect the company to proactively refinance its upcoming debt maturities and to fund its new investments in line with its loan to value (LTV) target of 60%. The outlook further reflects our stable outlook for the community service sector in Sweden.

POSITIVE RATING DRIVERS

- A sustainable increase in net interest coverage to increase headroom within the company's bond covenants
- Clear growth strategy with stable and sustainable financing
- Focus on tier 1 quality properties with desirable LTV levels

NEGATIVE RATING DRIVERS

- Any weakening of financial metrics
- A deterioration in the macroeconomic environment that could affect revenues, property values and covenant headroom
- Any breach of covenants could have a multi-notch negative impact on the rating if liquidity is compromised

Our full analysis of Offentliga Hus, published 2 Sep. 2019, is available at:

<https://nordiccreditrating.com/issuer/offentliga-hus-i-norden-ab-publ>

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 02 Sep. 2019.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Methodology used when determining the credit rating:	Nordic Credit Rating - Corporate Methodology published 14 Aug. 2018 Nordic Credit Rating - Rating Principles published 16 Sep. 2019 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 nordiccreditrating.com/governance/policies . 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) .
Materials used when determining the credit rating:	Non-public information, Press reports/public information
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Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
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