

Offentliga Hus i Norden AB (publ)

Rating Update

LONG-TERM RATING

BB-

Watch Positive

SHORT-TERM RATING

N-2

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Offentliga Hus i Norden AB (publ) 'BB-' long-term issuer rating on Watch positive

Nordic Credit Rating (NCR) said today that it had placed its 'BB-' long-term issuer rating on Swedish community-service property manager [Offentliga Hus i Norden AB \(publ\)](#) (Offentliga Hus) on Watch positive ahead of a planned initial public offering (IPO) in October 2020. At the same time, we affirmed our 'BB-' long-term and 'N-2' short-term issuer ratings on the company.

By placing the long-term rating on Watch positive we are signalling a high likelihood of a one-notch upgrade in the next three months pending successful completion of the IPO.

Rationale

Offentliga Hus is planning to list its common shares on the Nasdaq First North Premier Growth Market. In preparation, the company has streamlined its portfolio by selling its shares in student housing company Studentbostäder i Sverige AB and disposing of 88 small properties (transactions will close on 30 Sep. 2020). In addition, the company has announced new financial targets, with the aim of improving transparency in terms of future growth and finances. In the past year, Offentliga Hus has implemented a new organisational structure, increasing the number of employees to 15 from two previously. As of 31 Aug. 2020, the company's property portfolio consisted of 141 properties totalling 518,000 sqm with a market value of SEK 8.6bn (excluding properties scheduled for divestment by 30 Sep. 2020).

Our 'BB-' long-term issuer rating reflects Offentliga Hus' strong operating environment, long-term contracts with mostly highly creditworthy tenants, geographically diverse portfolio, and increased focus on in-house operations. These strengths are offset by a highly leveraged balance sheet, low EBITDA margins, and high growth. The rating is also constrained by a notch of adjustment to reflect uncertainty about the financing of Offentliga Hus' ambitious growth plans. Following a successful IPO, we would expect to remove this adjustment.

In September 2020, Offentliga Hus obtained an equity contribution of SEK 300m from its parent company, ensuring an equity ratio above 30% in line with its bond covenants.

Watch positive

The Watch placement reflects our expectation that a successful IPO will increase transparency and governance. We further expect it to improve both credit metrics and liquidity, as well as diversify ownership and improve access to equity funding while reducing reliance on the two main shareholders. We plan to resolve the Watch placement within three months depending on the outcome of the IPO. We could remove the rating from Watch if the IPO is delayed or cancelled.

Potential positive rating drivers

- Successful completion of IPO leading to an injection of new capital and improved solidity.
- Decreased leverage, with adjusted LTV below 60% and EBITDA/net interest above 2.2x over a protracted period.
- Increased focus on tier 1 quality properties with desirable LTV levels.

Potential negative rating drivers

- Unsuccessful IPO outcome, compromising liquidity.

Rating list

	To	From
Long-term issuer credit rating:	BB-	BB-
Outlook [Watch]:	Watch Positive	Stable
Short-term issuer credit rating:	N-2	N-2

Figure 1. Offentliga Hus i Norden AB (publ) rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bbb+
Market position, size and diversification	12.5%	bb+
Portfolio assessment	12.5%	bbb-
Operating efficiency	5.0%	bbb
Business risk assessment	50.0%	bbb
Ratio analysis		b
Risk appetite		b
Financial risk assessment	50.0%	b
Indicative credit assessment		bb
Liquidity		Adequate
ESG		Adequate
Peer comparisons		-1 notch
Stand-alone credit assessment		bb-
Support analysis		Neutral
Issuer rating		BB-
Outlook		
Watch		Watch Positive
Short-term rating		N-2

Figure 2. Capital structure ratings

Seniority	Rating
Senior unsecured	NR

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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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 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:	Annual- and quarterly reports of the rated entity, Company presentations, Meetings with management of the rated entity, Non-public information, Press reports/public information.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
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 .
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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