

LSTH Svenska Handelsfastigheter AB (publ)

Full Rating Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'BBB-' long-term issuer rating on Sweden-based commercial property manager LSTH Svenska Handelsfastigheter AB (publ) (Svenska Handelsfastigheter) reflects the company's large proportion of non-cyclical tenants, diverse property portfolio, long remaining average lease terms, high occupancy level and prudent debt maturity profile. The rating takes account of the stable operating environment, healthy profitability and improved diversification through the acquisition of Tre Kronor Property Investment AB (publ) (Tre Kronor). It is also supported by the company's strong owners and their commitment to maintaining a stable financial risk profile, reflected in a commitment to a loan-to-value (LTV) ratio below 55%.

The rating is constrained by Svenska Handelsfastigheter's relatively high leverage and large dividend commitments, limiting the potential for deleveraging and increasing the financial risk profile. In addition, it reflects Svenska Handelsfastigheter's relatively small portfolio with a high proportion of customised properties outside city centres. Although these properties encourage tenant loyalty, they have a higher risk of prolonged vacancies if contracts are not renewed.

STABLE OUTLOOK

The stable outlook reflects our expectations that Svenska Handelsfastigheter will restore its LTV to below 55% on a sustained basis, despite net LTV approaching 60% following the acquisition of Tre Kronor. We anticipate it will do this either by divesting its Norwegian branch and community service properties portfolio or with support from the company's owners. It also incorporates NCR's expectation of a continued focus on a higher proportion of less cyclical tenants and the portfolio's resilience to the effects of e-commerce and the COVID-19 pandemic.

POTENTIAL POSITIVE RATING DRIVERS

- A reduced risk appetite in combination with deleveraging, resulting in net LTV below 45% and net interest coverage higher than 5x over a protracted period.
- A higher percentage of non-cyclical tenants, combined with reduced tenant concentration as a result of a larger and diverse portfolio.

POTENTIAL NEGATIVE RATING DRIVERS

- An increased risk appetite, which could be reflected by net LTV above 55% over a prolonged period.
- A change in ownership structure affecting financial risk.
- A higher proportion of cyclical tenants or deteriorating portfolio quality.

Figure 1. Svenska Handelsfastigheter key credit metrics, 2017–2023e

SEKm	2017	2018	2019	2020	2021e	2022e	2023e
Rental income	298	477	584	670	917	1,001	1,016
NCR-adj. EBITDA	202	323	394	453	620	677	687
NCR-adj. investment property	4,683	6,918	8,597	10,565	13,051	13,451	13,851
NCR-adj. net debt	3,662	5,654	6,919	5,140	7,246	7,390	7,527
Total assets	4,809	7,032	8,747	10,867	13,271	13,678	14,043
NCR-adj. net debt/EBITDA (x)	18.1	17.5	17.6	11.3	11.7	10.9	11.0
NCR-adj. EBITDA/net interest (x)	1.8	1.7	1.7	2.4	3.9	4.2	4.2
NCR-adj. net LTV (%)	78.2	81.7	80.5	48.7	55.5	54.9	54.3

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

ISSUER PROFILE

Svenska Handelsfastigheter is a commercial property manager specialising in retail properties with a high proportion of non-cyclical tenants. The company targets grocery-anchored big-box retail properties in suburban locations. Svenska Handelsfastigheter has grown rapidly through new-builds and acquisitions, most recently acquiring Tre Kronor, which added 150 properties valued at SEK 3.2bn to the portfolio. Following this acquisition, Svenska Handelsfastigheter owns and manages 279 properties across Sweden and Norway valued at SEK 14.2bn, with a lettable area of 821,000 sqm.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bbb'

Our business risk assessment reflects Svenska Handelsfastigheter's high proportion of non-cyclical tenants and resilience to the rapid growth of e-commerce. It also reflects the company's strong operating efficiency, high occupancy rates and high proportion of new or refurbished properties. The satisfactory geographic diversity of the portfolio is offset by the limited presence in each location, highly concentrated tenant composition, single-tenant dependencies and limited prospects for alternative use of properties.

Tenant exposure and location mitigate the threat from online channels

Operating environment scores 'bbb'

Almost three-quarters of Svenska Handelsfastigheter's rental revenue is generated from grocery and discount retailers (see Figure 3) mostly located in big-box properties outside city centres. Grocery retailers have performed well during the pandemic and often have multipurpose functionality with delivery and pick-up points located in store, allowing consumers to consolidate their shopping. We see grocery retailers as strong tenants with high visit frequencies, helping to drive traffic to adjacent tenants with higher exposure to discretionary consumer spending such as discount, electronic, furniture, and DIY stores. The Swedish discount retail segment had the strongest sales growth among physical retailers, with year-on-year growth of 16.3% in 2020. We see discount retailers growing strongly over the next few years and expect a continuation of the trend of consumers becoming more price sensitive. We view discount retailers as stronger-than-average retail tenants.

Figure 2. Svenska Handelsfastigheter rental value by management area, 30 Jun. 2021

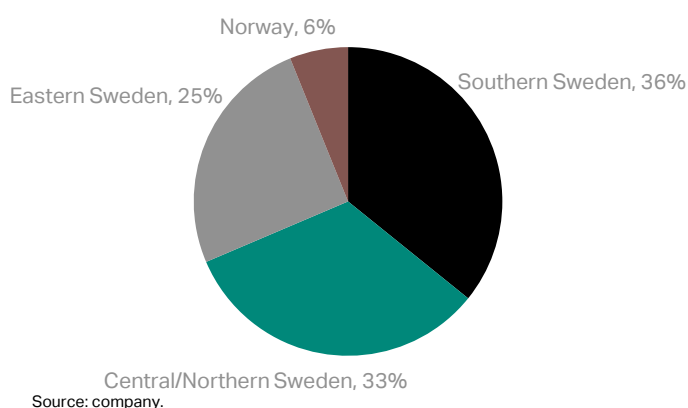
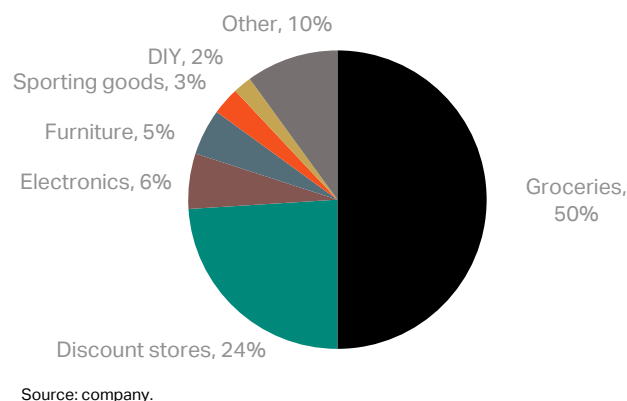


Figure 3. Svenska Handelsfastigheter rental value by tenant type, 30 Jun. 2021



However, physical retail has been under pressure from the increase in e-commerce and higher service consumption in the years prior to the COVID-19 pandemic. Social distancing has supercharged the penetration rate of online channels across all demographics, due to a temporary stall in service consumption and reduced traffic to physical retail locations. In 2020, Sweden and Norway saw online grocery sales grow by about 65% and 115%, respectively. We expect online channels to represent an increasing proportion of overall retail and grocery sales going forward. We view this as a risk for retail properties that could prove to have an adverse impact on property values in the segment.

Svenska Handelsfastigheter's diverse property portfolio spans more than 150 Swedish and Norwegian municipalities, with its largest management area (Southern Sweden) representing about 36% of the rental value (see Figure 2). As of 30 Jun. 2021, the 10 largest municipalities accounted for 46% of the rental value (see Figure 4). While most of the company's largest municipal exposures have projected population growth below Sweden's average, we see limited downside risk associated with these markets due to the essential functions provided by grocery stores

Figure 4. Svenska Handelsfastigheter rental value in top 10 municipal exposures, 30 Jun. 2021

Municipality	Share of rental value	Population, 2020	Expected population change among 15–64-year-olds, 2020–2040	Unemployment, 2020
Uppsala	8%	233,745	15.1%	7.6%
Södertälje	6%	100,004	14.5%	12.9%
Gävle	5%	102,827	2.1%	10.7%
Umeå	5%	130,248	11.0%	6.4%
Linköping	4%	164,750	10.7%	7.1%
Kristianstad	4%	86,235	4.3%	11.2%
Luleå	4%	78,604	-0.7%	7.2%
Kungsbacka	4%	84,849	7.7%	4.3%
Kalmar	3%	70,367	6.1%	7.7%
Norrköping	3%	143,504	7.2%	11.7%
Total/Sweden average	46%	10,378,483	8.9%	8.5%

Source: company, Statistics Sweden. Ekonomifakta (based on data from Arbetsförmedlingen).

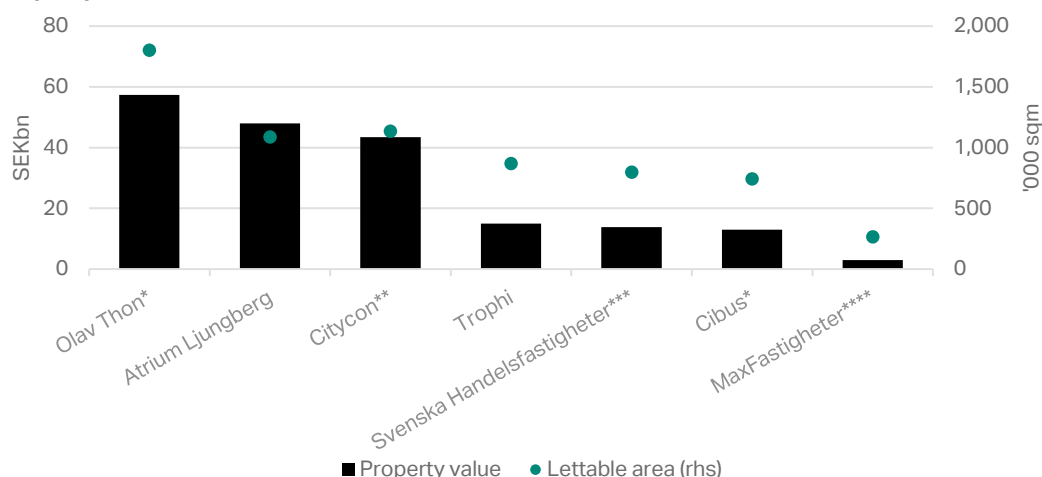
Geographical diversity constrained by high tenant concentration and weak market position

Market position, size and diversification scores 'bb-'

As of 30 Jun. 2021, Svenska Handelsfastigheter's property portfolio comprised 279 properties valued at SEK 14.2bn, with a combined lettable area of 821,000 sqm across 155 Swedish and Norwegian municipalities.

Svenska Handelsfastigheter's geographically diverse portfolio has resulted in the company having a relatively small presence in each location, especially after the acquisition of Tre Kronor, whose property portfolio is more geographically diverse than Svenska Handelsfastigheter's standalone portfolio. The company's smaller property portfolio than those of other commercial property managers (see Figure 5), combined with its geographical scope, weakens its local market position. However, we assess that the company's position in a niche segment with lower competition mitigates its limited portfolio size. The property portfolio size is similar to those of its closest peers Trophi and Cibus (see Figure 5), which we see an indication of an improved presence in the segment, but note that the divestment of the Norwegian and community service properties portfolio will reduce it slightly.

Figure 5. Svenska Handelsfastigheter peer group breakdown by property value and lettable area, 31 Mar. 2021



Source: companies. Olav Thon–Olav Thon Eiendomsselskap ASA. *Exchange rate of 1.03 SEK/NOK on 31 Mar. 2021. **Exchange rate of 10.2 SEK/EUR on 31 Mar. 2021. ***Including Tre Kronor. ****Acquired by Stenhus Fastigheter.

Svenska Handelsfastigheter's grocery-anchored strategy has resulted in material tenant and industry concentration, with the 10 largest tenants accounting for more than 50% of the overall rental value (see Figure 6). However, we consider Svenska Handelsfastigheter's contract, property and location diversification partly offsets tenant concentration (see Figure 3). The company's 10 largest properties account for 24% of rental value across 9 municipalities and the 10 largest contracts represent 12% of the rental value. The contractual diversification is highlighted by the company's largest tenant, ICA,

Sweden's largest grocery chain, which has 77 contracts across 43 municipalities through multiple franchisees.

Figure 6. Svenska Handelsfastigheter tenant concentration, 30 Jun. 2021

Tenant	Type of tenant	Share of rental income
ICA	Grocery	14.2%
Coop	Grocery	7.6%
City Gross	Grocery	7.2%
Dagab*	Grocery	6.6%
Systembolaget	Grocery	4.6%
Rusta	Discount	3.8%
Jula	Discount	3.3%
Elgiganten	Electronics	2.4%
Lager 157	Fashion	2.7%
Norsk Butikkdrift	Grocery	2.2%
Top 10 tenants	-	54.6%

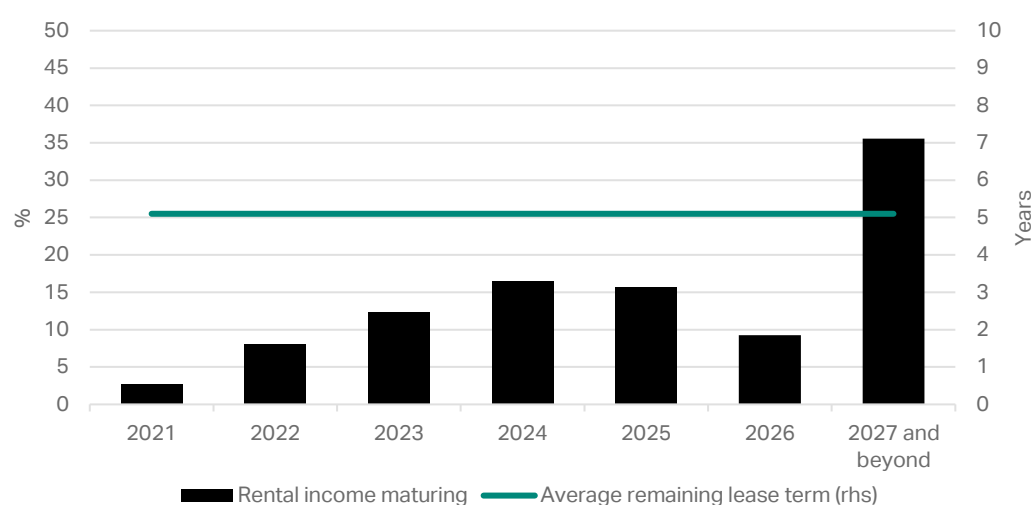
Source: company. *Logistics and delivery company consolidated into Axfood.

Long contracts and limited project risk offset by locations outside city centres

Svenska Handelsfastigheter's property portfolio is largely focused on big-box properties outside city centres and local grocery stores. The average property size is about 3,000 sqm, which is about 400sqm larger than that of its peer Cibus but 200sqm smaller than Trophi. Before the acquisition of Tre Kronor, the average property size was about 5,000sqm, highlighting the dilutive effect of Tre Kronor's property portfolio. However, we expect Svenska Handelsfastigheter to make adjustments to its portfolio during the year and this should partly reduce the dilutive effect.

As of 30 Jun. 2021, Svenska Handelsfastigheter had an average remaining lease term of 5.1 years, with a well-balanced maturity structure that reduces vacancy risk (see Figure 7). We view grocery tenants as stable counterparties due to their non-cyclical operations, with relatively low relocation risk at contract expiry because of their demand for customised premises that can accommodate a wide range of products alongside logistics and warehousing capacity. Due to features such as loading bays and temperature-controlled storage, the company's properties have alternative usage as local logistics properties. However, suburban property locations and retail consolidation could imply prolonged vacancies for the company's premises should contracts be terminated.

Figure 7. Svenska Handelsfastigheter lease maturity profile, 30 Jun. 2021



Source: company.

Svenska Handelsfastigheter's project development portfolio (see Figure 8) accounts for less than 5% of the overall property portfolio after finalising major developments in 2020. We expect Svenska Handelsfastigheter to continue to grow through acquisitions and project development with a similar profile as its current portfolio. We see the development risk in Svenska Handelsfastigheter as low, due

Portfolio assessment
scores 'bb+'

to small, non-speculative projects in close collaboration with its tenants. All projects are commenced at a fixed price, which passes the development risk onto the contractor and ensures cost control, which we view as supportive of low project risk.

Figure 8. Svenska Handelsfastigheter large projects in progress, 30 Jun. 2021

Project	Key tenant	Annual revenue (SEKm)	Lettable area (sqm)	Invested (SEKm)	Total investment (SEKm)	Estimated completion
Framnäs 1:31	Jysk	1.5	1,500	5.6	9.3	Q3/2021
Skjutmättet 1-6	Coop	20.3	14,240	179.1	217.6	Q3/2021
Glaskolven 1	Chop	1.6	470	0.8	16.5	Q4/2021
Zinken 1	EKO	8.4	8,200	38.5	101.5	Q4/2021
Zinken 1 (etapp 2)	Snabbgross*	4.0	2,400	0	35.0	Q1/2022
Total	–	35.8	26,810	224.0	379.9	–

Source: company. *Axfood's restaurant wholesaler

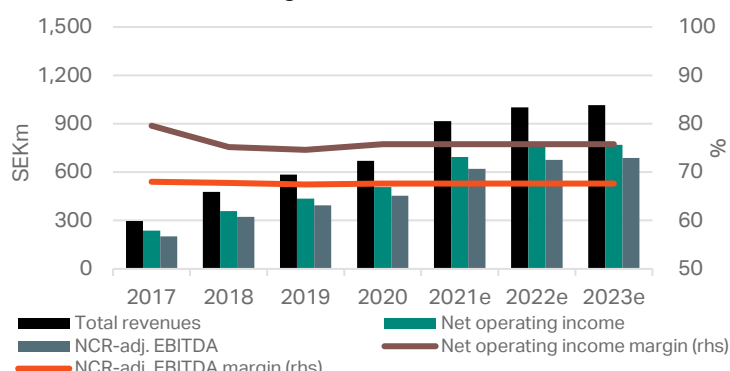
Limited impact of COVID-19 pandemic on earnings and strong cost controls support high margins

Svenska Handelsfastigheter's operating efficiency is characterised by the high degree of inflation-linked leases, low vacancy rates and good cost control. As of 30 Jun. 2021, 89% of rental contracts were linked to Swedish or Norwegian CPI, effectively offsetting cost inflation. The company manages its pre-acquisition properties from four administrative offices located in: the Stockholm region; Västernorrland region; Helsingborg region; and Gävleborg region. The company expects new properties to be run from these four existing offices to leverage its scale and increase cost efficiency. Svenska Handelsfastigheter reported that it had given rent rebates amounting to less than 1% of the total rental value over the course of the COVID-19 pandemic, which resulted in an EBITDA margin in line with historical levels of 68% for the full-year 2020.

As of 30 Jun. 2021, Svenska Handelsfastigheter's occupancy rate was 97%. We note that the company could face lower margins and higher capital spending for tenant customisation if existing tenants do not renew contracts upon expiry. We view the vacancy risk as low because of the favourable development of big-box properties and Svenska Handelsfastigheter's relatively long average lease terms. Our forecast of Svenska Handelsfastigheter's financial ratios assumes a net operating income margin of 76% and an EBITDA margin of around 68% over the forecast horizon through 2023 (see Figure 9).

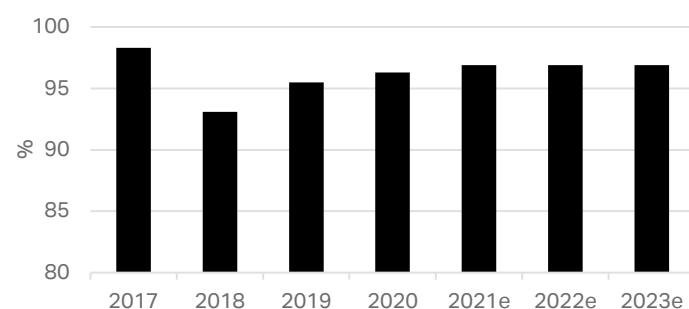
Operating efficiency scores 'a-'

Figure 9. Svenska Handelsfastigheter revenues, net operating income, EBITDA, and margins, 2017–2023e



Based on NCR estimates and company data. e-estimate.

Figure 10. Svenska Handelsfastigheter occupancy rate, 2017–2023e



Based on NCR estimates and company data. e-estimate.

FINANCIAL RISK ASSESSMENT

Our financial risk assessment reflects Svenska Handelsfastigheter's strong interest coverage ratio and relatively high net LTV, which are in line with the company's financial policies. The financial ratio score is constrained by the company's relatively weak debt/EBITDA and high net LTV ratios. Our assessment of Svenska Handelsfastigheter's financial risk appetite is better than reflected in the company's financial ratios due to its supportive ownership structure, with commitments to limit

Financial risk assessment is 'bb+'

Ratio analysis scores
'bb+'

financial risk, long debt maturities and stable cash flows. We apply a 100% equity treatment of the company's preference shares in our ratio analysis.

Acquisition to increase leverage in the short term, but recovery of LTV expected

We expect Svenska Handelsfastigheter to grow through acquisitions and project development. The company acquired Tre Kronor in the second quarter of 2021, which significantly increases rental income. The acquisition was financed mostly using debt, which we expect will increase LTV relative to 2020. The company inherited Tre Kronor's debt in the acquisition, which we assume will be refinanced at lower levels. We anticipate that Svenska Handelsfastigheter will streamline the acquired property portfolio by divesting the Norwegian and community service property portfolios by year-end 2021, which would restore net LTV to about 55%.

Our base-case forecast of Svenska Handelsfastigheter's financial ratios assume the following:

- rental income growth of 37% in 2021, 9% in 2022 and 2% in 2023;
- an EBITDA margin of 68% in 2021–2023;
- acquisitions of investment properties amounting to SEK 3.4bn in the first two quarters of 2021, with no acquisitions thereafter;
- divestments amounting to SEK 1.4bn;
- investments in properties through development and refurbishment of about SEK 400m per annum through 2023;
- no valuation changes aside from changes already recorded in 2021;
- annual dividend payments through 2023, amounting to SEK 253m.

Based on these assumptions, Svenska Handelsfastigheter's estimated metrics for 2021–2023 are:

- NCR-adjusted net LTV between 54.3% and 55.5%;
- NCR-adjusted EBITDA/net interest of 3.9x–4.2x;
- NCR-adjusted net debt/EBITDA of 10.9x–11.7x.

Our assessment of Svenska Handelsfastigheter's financial risk profile includes right-of-use assets in investment property values, while long-term leasing liabilities are included in net debt before deducting 100% of cash and equivalents (see Figure 11). We treat the company's preference shares as 100% equity, which has a positive effect on the company's credit metrics relative to previous years before it replaced its SEK 2.7bn bond.

Svenska Handelsfastigheter's preference shares have several features we considered when determining a 100% equity treatment:

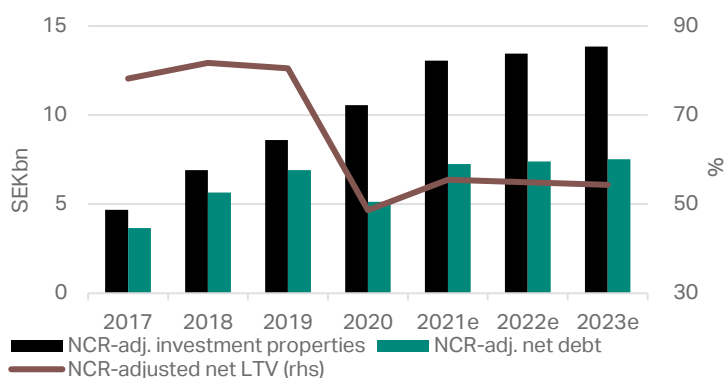
- We see Svenska Handelsfastigheter's owners as long-term supportive owners, with a commitment to a low risk appetite made in the shareholder agreement;
- the preference shares are perpetual;
- the preference shares are subordinate to all debt;
- dividend payments are deferrable, however penalty interest of 7.5% accrues on unpaid dividends;
- the owners of preference shares have the right to purchase class A shares in 2024 should they wish;
- the ownership structure cannot easily be changed and the preference shares cannot be traded freely or listed.

Figure 11. NCR's adjustments to Svenska Handelsfastigheter's credit metrics, 2017–2023e

SEKm	2017	2018	2019	2020	2021e	2022e	2023e
EBITDA	202	323	394	453	620	677	687
NCR-adj. EBITDA	202	323	394	453	620	677	687
Cash and cash equivalents	102	55	74	197	122	129	94
NCR-adj. cash and equivalents	102	55	74	197	122	129	94
Gross interest-bearing debt	3,764	5,709	6,973	5,317	7,348	7,500	7,601
Long-term leasing liabilities	0	0	20	20	20	20	20
NCR-adj. cash and equivalents	-102	-55	-74	-197	-122	-129	-94
NCR-adj. net debt	3,662	5,654	6,919	5,140	7,246	7,390	7,527
Net interest including leasing	-111	-190	-236	-190	-158	-163	-165
NCR-adj. net interest	-111	-190	-236	-190	-158	-163	-165
Investment property	4,683	6,918	8,577	10,545	13,031	13,431	13,831
Non-current right-of-use assets	0	0	20	20	20	20	20
NCR-adj. investment property	4,683	6,918	8,597	10,565	13,051	13,451	13,851

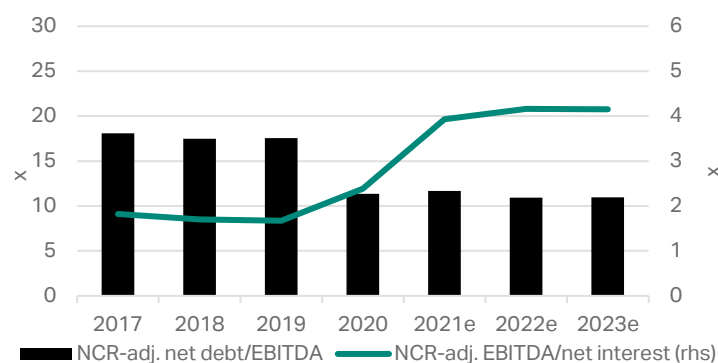
Based on NCR estimates and company data. e–estimate.

Figure 12. Svenska Handelsfastigheter NCR-adj. investment properties, net debt, and net LTV, 2017–2023e



Based on NCR estimates and company data. e–estimate.

Figure 13. Svenska Handelsfastigheter NCR-adj. net debt/EBITDA and EBITDA/net interest, 2017–2023e



Based on NCR estimates and company data. e–estimate.

Balanced maturity structure and reduced bank dependence support ratio analysis

Risk appetite scores
'bbb-'

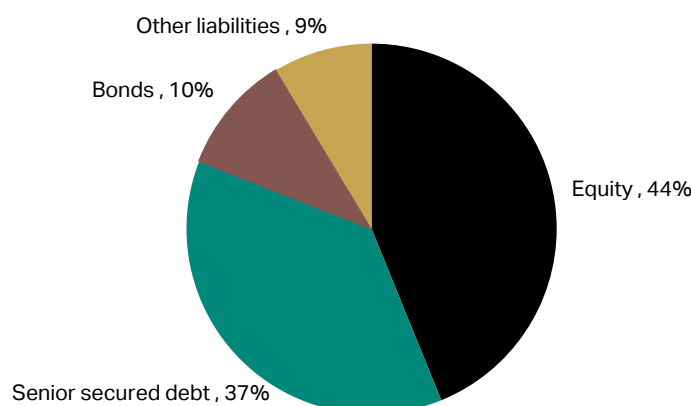
Our assessment of Svenska Handelsfastigheter's risk appetite is better than is reflected in the financial ratio analysis. We consider the company's owners as integral to our overall assessment of the company's financial risk profile. We view the company's balance sheet composition, with a relatively long debt maturity profile, good standing in the capital markets and satisfactory interest rate fixing as supportive of our assessment.

We consider the ownership structure as supportive of Svenska Handelsfastigheter's development. The pension funds have committed to providing about SEK 250m in additional equity to support growth, which we consider in our liquidity analysis. In addition, the owners have guaranteed financial support for the company in the event of a covenant breach. We view the ownership structure as supportive of the company's financial risk profile.

Svenska Handelsfastigheter finances its operations through a mix of equity, secured debt and senior unsecured bonds. As of 31 Mar. 2021, Svenska Handelsfastigheter had outstanding debt of SEK 5.3bn, SEK 4.2bn of which was secured debt and SEK 1.2bn senior unsecured bonds. We note that the company has large after-tax commitments relating to dividends and expect the dividend to be paid in 2021 to represent more than 2020's full-year income from property management after tax. We view the large shareholder pay-outs, together with debt-financed acquisitions, as contributing to a leveraged balance sheet structure. However, we see the company's owners as supportive of the company's development and the owners have guaranteed financial support for the company in the event of a covenant breach, with the potential of equity injections to maintain the company's net LTV

levels below 55%. We also note that the dividend could be postponed should LTV remain at elevated levels.

Figure 14. Svenska Handelsfastigheter funding profile, 31 Mar. 2021



Source: company.

Svenska Handelsfastigheter operates within its defined financial targets, which are different from the company's financial covenants (see Figure 15). Notably, the company does not have financial targets relating to its financial covenants, but operates with significant covenant headroom.

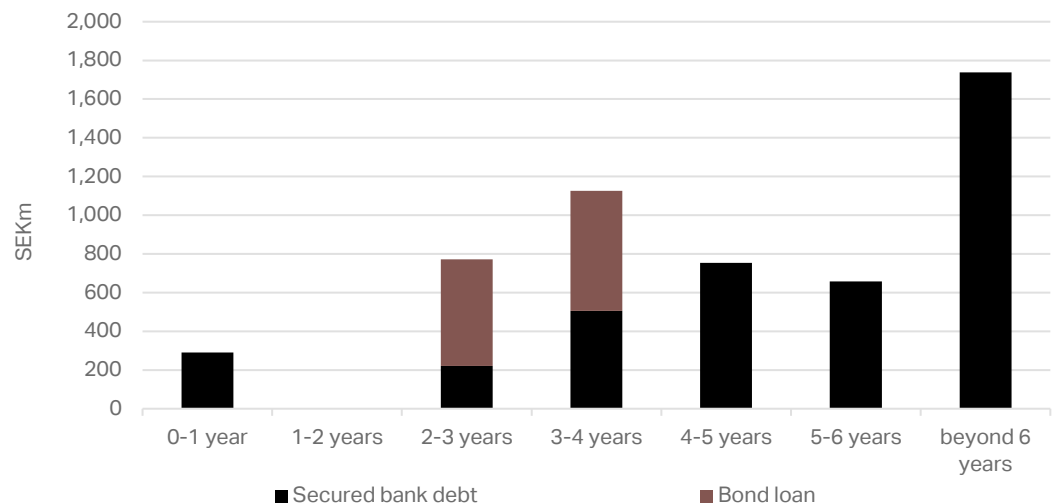
Figure 15. Svenska Handelsfastigheter financial covenants, policies and reported metrics

Metric	Financial policy	Financial covenant	NCR estimates 2021e	Reported by Svenska Handelsfastigheter 31 Mar. 2021
Interest coverage ratio	N.A.	$\geq 1.5x$	3.9x	3.0x***
Net LTV	$\leq 60\%$	N.A.	56%	48%
Secured debt/total assets	N.A.	$\leq 50\%$	N.A.	37%
Debt maturity within 1 year	$\leq 25\%^*$	N.A.	N.A.	5.4%
Interest rate fixing	$2.0 \leq \text{years} \leq 5.0^{**}$	N.A.	N.A.	3.2 years

Source: company. *Maximum of 70% can mature between 1 and 3 years, 3 and 5 years while 100% can mature after 5 years. **Maximum interest rate fixing of 40% can mature within 1 year. ***Last 12 months. N.A.—not applicable.

The company targets a balanced maturity structure, allowing a maximum of 25% of total outstanding debt to mature within a given year. We see this financial target as positive, as it reduces refinancing risk. As of 31 Mar. 2021, the company's average debt maturity was 4.5 years, with most debt maturing beyond 5 years (see Figure 16). We regard the company's debt schedule as better than peers', which is positive for our assessment of the risk profile. The company is actively diversifying its funding sources through more capital market funding and is working on obtaining longer debt maturities. On 4 Jun. 2021 the company expanded its MTN programme by a total of SEK 2.0bn to SEK 5.0bn. The company issued bonds amounting to SEK 1.8bn in the second quarter of 2021 to finance the acquisition of Tre Kronor. It has the possibility of tapping an additional SEK 2.1bn under the framework if needed. The company has unutilised facilities amounting to SEK 1bn, collateralised by unleveraged properties. Although refinancing risk is low, we expect the owners to contribute capital to provide relief for the company in the event of financial distress or a liquidity crunch. As of 31 Mar. 2021, Svenska Handelsfastigheter's average interest rate fixing was about 3.2 years, while the average interest rate on its loans was 2.1%.

Figure 16. Svenska Handelsfastigheter debt maturity profile, 31 Mar. 2021



Source: company.

ADJUSTMENT FACTORS

Adjustment factors are neutral

Adjustment factors are assessed as neutral and have no effect on our stand-alone credit assessment.

Liquidity

Liquidity assessed as adequate

Our 12-month liquidity analysis is based on a stressed scenario under which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect an investment grade company to cover all liquidity needs over the coming 12 months.

We assess Svenska Handelsfastigheter's liquidity profile as adequate because expected funding sources cover uses in the 12 months ending 31 Mar. 2022. We exclude the company's unutilised credit facility of SEK 1bn from the liquidity analysis, as there is no current commitment from the bank and it requires the approval of collateral. We generally consider that dividends can be deferred in situations in which liquidity is strained and therefore exclude it from our liquidity analysis.

We have identified the following primary funding sources for the 12 months ending 31 Mar. 2022, totalling SEK 4.3bn:

- SEK 3.5bn in proceeds from borrowing, including a bridge loan, since the end of the first quarter of 2021;
- SEK 351m from funds from operations, equalling 75% of the estimated NCR-adjusted funds from operations over the period;
- SEK 250m in unutilised shareholder commitments, if needed; and
- SEK 196m in cash and cash equivalents as of 31 Mar. 2021.

We estimate the following uses of funds for the 12 months ending 31 Mar. 2022, totalling SEK 3.9bn:

- SEK 1.9bn relating to the acquisition of Tre Kronor and other properties;
- SEK 1.7bn in repayment of borrowings, including a bridge loan;
- SEK 321m in committed capital spending.

Environmental, social and governance factors

ESG factors assessed as adequate

Svenska Handelsfastigheter's environmental, social and governance (ESG) policies support our view of the company's overall business risk and competitive position.

Svenska Handelsfastigheter aims to be CO₂ neutral by 2025 and a cornerstone of achieving this target is its strong focus on solar photovoltaic systems. The company has a long-term collaboration with Telge Energi to power its facilities using only solar energy. Svenska Handelsfastigheter works closely with its tenants to optimise its environmental footprint and encourage tenants to participate in such efforts.

The company aims to have 40% of its property portfolio environmentally certified according to its green bond framework, which has received a light-green second opinion from Cicero. All new construction is certified according to the Miljöbyggnad Silver standard or better and we view the company's efforts as positive for the quality of its portfolio and its ability to attract tenants.

The main ESG issues that could impact our overall assessment are factors that could contribute to revenue losses, cost increases, higher capital spending or deteriorating financing terms (see Figure 17).

Figure 17. Svenska Handelsfastigheter ESG considerations

Issue	Risk	Mitigating efforts	Result
CO ₂ emissions	Increased costs due to regulatory and/or taxation changes.	Efforts to increase energy efficiency and reduce CO ₂ emissions. Environmental certification of properties.	Installed solar panels with 1,850 MWh annual capacity and initiated partnerships with Telge Energi and Tesla. Measurement of CO ₂ emissions according to Scope 1 and 2. However, Scope 3 emissions are likely to account for a large proportion of CO ₂ emissions and are harder to estimate and reduce.
Impact of climate change on operations	Loss of revenues or increased capital spending.	Environmental certification of properties, materiality evaluations, technical solutions, tenant dialogue, and compliance with stakeholders' demands for project properties.	Materiality assessment of properties and locations, no properties are at risk.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO ₂ dependence.	Efforts to increase energy efficiency and reduce CO ₂ emissions. Overall sustainability focus throughout operations.	Introduced ESG and impact reporting, environmental certifications and green bond framework.
Employee relations	Reduced operating efficiency due to loss of key personnel.	Incentive programmes to retain key personnel. Shareholder safeguards allowing fund owners to override decisions of founders.	Key personnel committed through shareholder agreement

Source: company.

OWNERSHIP ANALYSIS

Ownership assessed as neutral

Svenska Handelsfastigheter is owned through dual share classes (see Figure 18); class A shares and preference shares. Class A shares held by the founding partners carry 10 votes apiece, whereas the preference shares held by AP4, Kåpan and Länsförsäkringar carry one vote. The class A shares cannot represent more than 70% of the total amount of shares in the company, while preference shares can represent up to 100%.

Because the A shares carry most of the voting rights, the founding partners have a voting majority. However, the founding partners' ability to enforce certain actions are regulated in the shareholder agreement, for instance by requiring voting majority by class B shares, to avoid misconduct and reduce conflicts of interest. The three pension funds have the right to replace the founders if there are valid grounds.

Figure 18. Svenska Handelsfastigheter ownership structure, 30 Jun. 2021

Owner	Number of class A shares	Number of preference shares	Share of votes	Share of capital
Lennart Sten*	566,660	0	51.7%	30.4%
Thomas Holm*	250,000	0	22.8%	13.4%
Johan Röhss (through company)*	133,340	0	12.2%	7.1%
Bo Liffner (through company)	30,000	0	2.7%	1.6%
Monica Fallenius	24,000	0	2.2%	1.3%
Arja Taaveniku	6,000	0	0.6%	0.3%
Kåpan	0	356,258	3.3%	19.1%
AP4	0	356,258	3.3%	19.1%
Länsförsäkringar	0	142,459	1.3%	7.6%
Total	1,010,000	854,975	100%	100%

Source: company. *Founding partners.

Figure 19. Svenska Handelsfastigheter key financial data, 2017–Q1 2021

SEKm	FY	FY	FY	FY	LTM
Period-end	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Mar. 2021
INCOME STATEMENT					
Rental income	298	477	584	670	693
Other income	–	–	–	–	–
Total costs from operations	-61	-118	-148	-163	-174
Net operating income	237	359	436	508	519
Administrative expenses	-34	-36	-42	-54	-55
Administrative expenses, project portfolio	–	–	–	–	–
EBITDA	202	323	394	453	464
Share of profit in associated companies and joint ventures	–	–	–	–	–
Interest expenses	-111	-190	-240	-190	-152
Interest income	0	0	4	0	0
Interest expenses, shareholder loans	–	–	–	–	–
Financial costs from leasing	–	–	–	–	–
Other financial costs	-3	-1	-1	-2	–
Changes in investment property	200	93	310	604	787
Gain (loss) on financial assets held at fair value	–	–	–	–	34
Depreciation and amortisation	–	–	–	–	–
Restructuring activities	–	–	–	–	–
Pre-tax profit	292	196	446	846	1,133
Current taxes	0	-1	-19	-9	-4
Deferred taxes	-58	-32	-93	-176	-231
Net profit	235	163	334	661	898
BALANCE SHEET					
Investment property	4,683	6,918	8,577	10,545	10,809
Other non-current assets	1	1	21	20	20
Total non-current assets	4,684	6,918	8,597	10,565	10,830
Cash and cash equivalents	102	55	74	197	196
Other current assets	23	58	76	106	98
Total current assets	125	113	150	302	294
Total assets	4,809	7,032	8,747	10,867	11,123
Total equity	822	944	1,220	4,686	4,926
Non-current borrowings	3,737	5,697	6,619	5,003	5,043
Non-current borrowings, shareholder loans	–	–	–	–	–
Deferred tax liabilities	85	117	206	382	439
Other non-current liabilities	22	60	100	120	67
Total non-current liabilities	3,844	5,874	6,925	5,506	5,550
Total current liabilities	143	214	602	676	648
Total equity and liabilities	4,809	7,032	8,747	10,867	11,123
CASH FLOW STATEMENT					
Pre-tax profit	292	196	446	846	1,133
... of which changes in investment property	200	93	310	604	787
Depreciation and amortisation	0	0	0	0	–
Tax paid	-3	-3	-2	-1	-190
Adjustment for items not in cash flow	-203	-63	-288	-585	-652
Cash flow from operating activities before changes in working capital	86	130	156	260	291
Changes in working capital	13	37	-13	63	48
Cash flow from operating activities	99	166	142	324	339
Cash flow from investment activities	-1,438	-2,117	-1,326	-1,346	-1,261
Cash flow from financing activities	1,387	1,903	1,203	1,145	1,091
Cash and cash equivalents at beginning of period	54	102	55	74	27
Cash flow for period	49	-47	19	123	169
Cash and cash equivalents at end of period	102	55	74	197	196

Source: company. FY–full year. LTM–last 12 months.

Figure 20. Svenska Handelsfastigheter rating scorecard

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

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