Nordic Credit Rating

CORPORATE: REAL ESTATE

Sweden
13 Jul. 2021

LSTH Svenska Handelsfastigheter AB (publ)

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST
Mille O. Fjeldstad
+4799038916
mille.fjeldstad@nordiccreditrating.com

SECONDARY ANALYST
Marcus Gustavsson
+46700442775
marcus.gustavsson@nordiccreditrating.com

LSTH Svenska Handelsfastigheter AB (publ) 'BBB-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB-' long-term issuer rating on Sweden-based commercial property manager LSTH Svenska Handelsfastigheter AB (publ) (Svenska Handelsfastigheter). The outlook is stable. At the same time, the 'N-1+' short-term issuer rating was affirmed.

Rationale:
The affirmation reflects Svenska Handelsfastigheter'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 also 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.

We have revised our assessment of Svenska Handelsfastigheter's market position, size and diversification to reflect the improved diversification achieved through the acquisition of Tre Kronor. We have also updated our assessment of the company's financial ratio analysis to better reflect its leveraged balance sheet.

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.

We could raise the rating to reflect a lower risk appetite in the event of deleveraging that results in net LTV below 45% and net interest coverage that is higher than 5x over a protracted period. We could also raise the rating if the percentage of non-cyclical tenants were to rise, combined with reduced tenant concentration as a result of a larger and diverse portfolio. We could lower the rating to take account of an increased risk appetite, which could be reflected by net LTV above 55% over a prolonged period, a change in the ownership structure affecting financial risk, a higher proportion of cyclical tenants or deteriorating portfolio quality.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB-	BBB-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N-1+	N-1+

Figure 1. Svenska Handelsfastigheter rating scorecard

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

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 07 Jul. 2020.
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.
Primary analyst:	Mille O. Fjeldstad, +4799038916, mille.fjeldstad@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
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, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
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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