Stenhus Fastigheter i Norden AB (publ)

Full Rating Report

LONG-TERM RATING

BB

OUTLOOK

Stable

SHORT-TERM RATING

N-2

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RATING RATIONALE

Our 'BB' long-term issuer rating on Sweden-based commercial property manager Stenhus Fastigheter i Norden AB (publ) (Stenhus Fastigheter) reflects the company's limited portfolio size, relatively high concentrations and brief operating history. It also reflects the company's high-yielding property portfolio, often in non-central locations, and our expectations that financial metrics will weaken as the company pursues its ambitious growth plans. The rating is constrained by a short debt maturity profile and lack of environmental, social and governance (ESG) credentials.

The weaknesses are partly offset by Stenhus Fastigheter's exceptionally long lease terms, strong profitability and high occupancy. Furthermore, the company's primary geographical focal area, the Mälardalen region, shows strong fundamentals, which we view as a credit strength. We take a positive view of Stenhus Fastigheter's 25% exposure to grocery retail and public tenants, which increase stability, while the high-yielding assets in the portfolio lead to relatively strong cash flow generation. We believe that Stenhus Fastigheter's brief operating history is mitigated by the founders' previous real-estate experience and the currently low, albeit increasing, financial gearing in the company.

STABLE OUTLOOK

The stable outlook reflects our expectations that financial metrics will weaken towards the levels set out in the company's financial policies. We foresee a successful integration of MaxFastigheter's operations into Stenhus Fastigheter's and expect the company to move previously outsourced property-related functions in-house, which should support margins. We also expect the company to continue to pursue growth within its currently targeted property subsectors and regions.

POTENTIAL POSITIVE RATING DRIVERS

- Improved credit metrics, with a net loan-to-value (LTV) ratio below 50% and net interest coverage above 3.5x over a prolonged period.
- A larger and less concentrated portfolio, combined with a longer track record.

POTENTIAL NEGATIVE RATING DRIVERS

- A deterioration in credit metrics, with net LTV above 60% over a prolonged period.
- Deteriorating market fundamentals, adversely affecting occupancy and/or profitability.

Figure 1. Stenhus Fastigheter key credit metrics, 2020–2023e

SEKm	2020*	2021e	2022e	2023e
Rental income	21	282	508	609
NCR-adj. EBITDA	14	198	371	451
NCR-adj. EBITDA margin (%)	65.7	70.0	73.0	74.0
NCR-adj. investment property	1,646	7,396	8,671	9,542
NCR-adj. net debt	254	3,575	4,607	5,171
Total assets	2,115	7,845	8,854	9,682
NCR-adj. net debt/EBITDA (x)	18.7	18.1	12.4	11.5
NCR-adj. EBITDA/net interest (x)	3.6	3.0	3.0	3.2
NCR-adj. net LTV (%)	15.5	48.3	53.1	54.2

Based on NCR estimates and company data. e–estimate. All metrics adjusted in line with NCR methodology. *2020 figures reflect the period 4 Sep.–31 Dec. 2020.

ISSUER PROFILE

Stenhus Fastigheter is a Sweden-based commercial property management company that owns, manages, and develops properties, primarily in Sweden's Mälardalen region. The company was founded on 4 Sep. 2020 and, over its short history, has established a property portfolio which, as of 30 Jun. 2021, comprised 42 properties, valued at SEK 3.0bn. In March 2021, Stenhus Fastigheter made a public offer to shareholders in MaxFastigheter i Sverige AB (MaxFastigheter), and on 16 Aug. 2021, it stated that it controlled 99.57% of outstanding shares, effectively doubling Stenhus Fastigheter's portfolio to 102 properties totalling 404,000 sqm, valued at SEK 6.0bn.

Stenhus Fastigheter's largest owner, Sterner Stenhus Holding AB with 34.7% of shares (as of 30 Sep. 2021), is owned by brothers Elias and Tomas Georgiadis, the CEO and CFO of Stenhus Fastigheter. In its first month, Stenhus Fastigheter acquired a portfolio of 10 properties valued at SEK 1.4bn from a sister company controlled by Sterner Stenhus Holding AB. Stenhus Fastigheter's ordinary shares have been listed on the Nasdaq First North exchange since November 2020.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bb+'

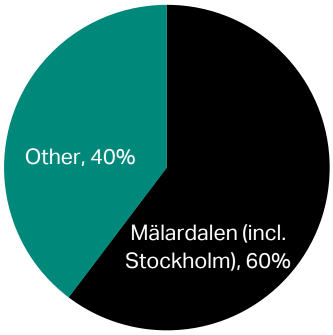
Our business risk assessment reflects Stenhus Fastigheter's limited portfolio size and relatively high concentrations. It also reflects the company's high-yielding property portfolio, often in non-central locations, as well as the company's exceptionally long lease terms, strong profitability and high occupancy. Further stability is provided by Stenhus Fastigheter's focus on the Mälardalen region, as well as its 25% exposure to grocery retail and public tenants.

A mix of property types, primarily in the Mälardalen region

Operating environment scores 'bb+'

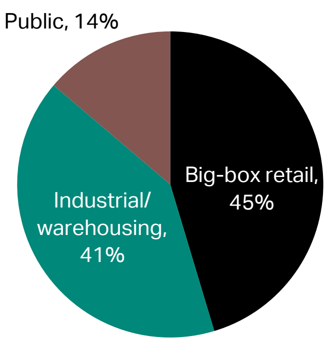
Stenhus Fastigheter's property portfolio contains commercial properties primarily in the Mälardalen region. The portfolio is diversified in terms of property types, with most rental income from big-box retail and industrial/warehousing, but also properties with public tenants.

Figure 2. Stenhus Fastigheter (incl. MaxFastigheter) rental income by location, 30 Jun. 2021



Source: company.

Figure 3. Stenhus Fastigheter (incl. MaxFastigheter) rental income by property type, 30 Jun. 2021



Source: company.

We view the company's focus on the Mälardalen region as supportive, since many municipalities in the region benefit from their proximity to Sweden's capital, Stockholm. Among Stenhus Fastigheter's largest ten municipalities, eight are expected to have higher population growth than the Swedish average until 2040, illustrating, in our view, the strong fundamentals of many of Stenhus Fastigheter's locations. In terms of unemployment, seven of Stenhus Fastigheter's largest municipalities exhibit higher unemployment than the Swedish average.

Figure 4. Stenhus Fastigheter (incl. MaxFastigheter) rental income from largest 10 municipal exposures, 30 Jun. 2021

Municipality	Share of rental income	Population, 2020	Expected population change, 2021–2040	Unemployment, 2020
Karlstad	12.3%	94,800	7.1%	8.6%
Botkyrka	11.8%	94,800	12.8%	12.6%
Eskilstuna	8.1%	107,000	6.9%	14.3%
Västerås	6.8%	155,600	12.5%	10.3%
Örebro	4.9%	156,400	13.4%	9.6%
Södertälje	4.7%	100,100	16.8%	12.9%
Stockholm	4.7%	975,600	15.0%	8.1%
Bro	4.6%	30,200	22.5%	8.1%
Gothenburg	3.8%	583,100	13.5%	9.4%
Norrtälje	3.7%	63,700	17.0%	5.8%
Total/Sweden average	**62.3%**	**-**	**8.9%**	**8.5%**

Source: company, Statistics Sweden, the Swedish Public Employment Service (based on population forecast by Statistics Sweden), Ekonomifakta (based on data from the Swedish Public Employment Service).

Following the acquisition of MaxFastigheter, big-box retail is Stenhus Fastigheter's largest single property type, accounting for 45% of rental income. Although physical retail has been under pressure from the growth in e-commerce in recent years, the performance of big-box retail has been much steadier. In particular, grocery retailers (accounting for some 10% of Stenhus Fastigheter's rental income) have performed well, even during the COVID-19 pandemic, and discount stores (some 20% of rental income) have proven resilient during the same period. We typically see grocery retailers as strong tenants that help drive traffic to adjacent tenants with higher exposure to discretionary consumer spending. In most cases, we view discount retailers as stronger than average retail tenants and expect stable performance over the next few years.

We consider the industrial/warehousing property subsectors as largely dependent on the overall state of the Swedish economy. Although we view these subsectors as relatively stable, we believe that a marked downturn in economic activity could have a considerable impact on them, which would adversely affect Stenhus Fastigheter's occupancy and profitability.

We view the community service property subsector as the strongest among Stenhus Fastigheter's subsectors. This property type typically benefits from long-term contracts with strong tenants, directly or indirectly funded by the Swedish government. Furthermore, this subsector benefits from an increasing dependent population, a trend that is expected to continue.

Small property portfolio with relatively high concentrations

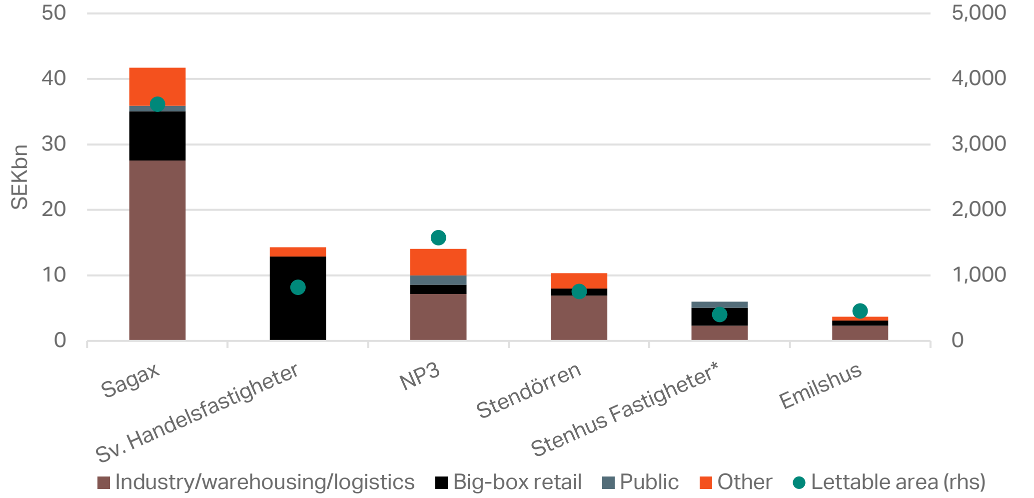
Market position, size and diversification scores 'b+'

Compared with Nordic real-estate peers, Stenhus Fastigheter's property portfolio is small, which, together with a geographically diverse portfolio, leads to a relatively weak market position. In addition, the company's name recognition among potential tenants is likely low, given its very short history.

Stenhus Fastigheter operates in locations generally characterised by strong competition and satisfactory liquidity. However, competition and liquidity are generally lower in Stenhus Fastigheter's targeted properties, due to most property managers' focus on higher-quality properties, leaving Stenhus Fastigheter in a relatively strong niche position, given its limited portfolio size.

Stenhus Fastigheter is among the smallest of more established property owners with either similar properties or geographical focus, including AB Sagax (publ), LSTH Svenska Handelsfastigheter AB (publ), NP3 Fastigheter AB (publ), Stendörren Fastigheter AB (publ) and Fastighetsbolaget Emilshus AB (publ).

Figure 5. Stenhus Fastigheter peer group breakdown by property value and lettable area, 30 Jun. 2021



Source: companies. *Including MaxFastigheter.

Due to the limited size of Stenhus Fastigheter's property portfolio, the concentrations in it are relatively high. As of 30 Jun. 2021, the company's 10 largest tenants accounted for 40% of rental income, while the 10 largest contracts accounted for 24% of rental income. The company's single largest property, a community service property in Botkyrka, generated 9% of rental income as of 30 Jun. 2021. We expect concentrations to decrease somewhat as Stenhus Fastigheter grows its portfolio, although we believe concentrations will remain material in the near term.

Figure 6. Stenhus Fastigheter (incl. MaxFastigheter) tenant concentration, 30 Jun. 2021

Tenant	Type of tenant	Share of rental income
Ahlberg-Dollarstore AB	Discount retail	8.1%
Botkyrka Municipality	Public	7.5%
Bilia AB	Automotive retail	5.0%
City Gross AB	Grocery retail	3.4%
Rusta AB	Discount retail	3.0%
Leos Lekland Sverige AB	Leisure	2.9%
Granngården AB	Retail	2.8%
ICA Sverige AB	Grocery retail	2.6%
Axfood Sverige AB	Grocery retail	2.5%
Iskuben Coldstore AB	Storage	2.3%
Top 10 tenants	**-**	**40.2%**

Source: company.

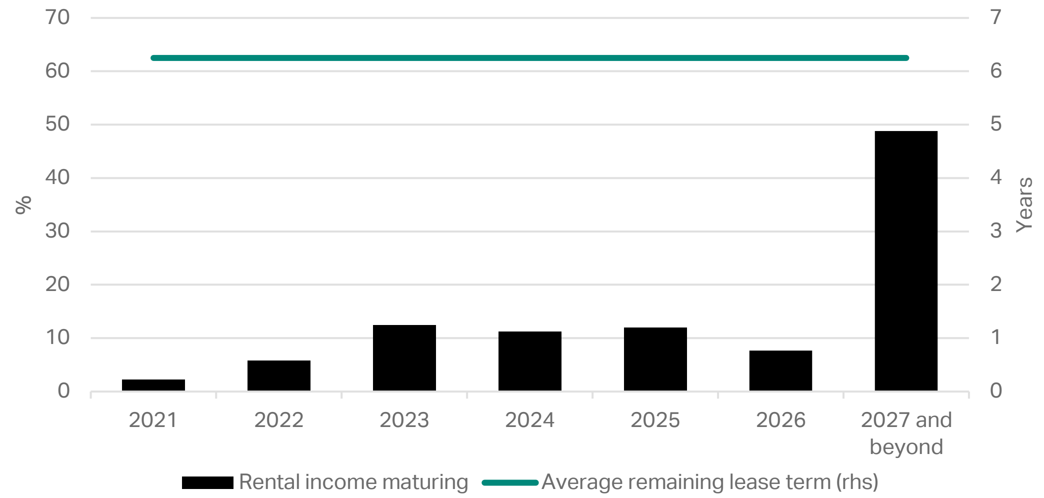
Long lease terms at high-yield properties

Portfolio assessment scores 'bb+'

As of 30 Jun. 2021, the average property yield in Stenhus Fastigheter's portfolio was 5.8% (based on forward-looking operating surplus, including MaxFastigheter). The company's yield is similar to those of its closest peers (often between 5.5% and 6%), but significantly higher than those in many other property subsectors. We view the relatively high yields as illustrative of the higher-risk assets in Stenhus Fastigheter's portfolio, but also indicative of stronger cash flow generation than that of many other property managers.

As most of Stenhus Fastigheter's properties are big-box retail or industrial/warehousing properties, most are located in non-central locations. Although we see potential alternative usage in most properties, we note that the properties' locations may increase the time it takes to find new tenants if a property were to become vacant. The relatively high risk of Stenhus Fastigheter's properties is mitigated by long lease terms, in many cases with strong tenants. As of 30 Jun. 2021, the average remaining lease term was 6.25 years, while a mere 8% of rental income is scheduled to mature by year-end 2022.

Figure 7. Stenhus Fastigheter (incl. MaxFastigheter) lease maturity profile, 30 Jun. 2021



Source: company.

As of 30 Jun. 2021, Stenhus Fastigheter had nine ongoing projects or plan developments (see Figure 8). The ongoing projects are relatively small in size, except for the Fanfaren 4 project in Karlstad, which is close to completion. Development projects are typically contracted on fixed-price turnkey contracts, while projects are 100% pre-let upon construction start, limiting construction and project risk.

In terms of lettable area, Stenhus Fastigheter's portfolio of potential building rights makes up a large proportion of its project portfolio. In cases where plan development is associated with property types not considered core by Stenhus Fastigheter, we expect the company to divest building rights upon legal approval of construction plans, which would reduce risk.

Figure 8. Stenhus Fastigheter (incl. MaxFastigheter) large projects, 30 Jun. 2021

Project	Municipality	Property type	Occup. rate	Lettable area (sqm)	Invested (SEKm)	Total investment (SEKm)	Estimated completion
Fanfaren 4	Karlstad	School & offices	93%	3,919	95	115	2021/2022
Montören 1	Köping	Big-box retail	100%	2,000	3	33	2022
Steninge 1:66	Sigtuna	Sheltered housing	100%	470	14	22	2022
Steninge 1:217	Sigtuna	Sheltered housing	100%	470	10	22	2022
Grånestad 4:3	Norrköping	Sheltered housing	100%	500	0	23	2022
Kolgården 14	Visby	Sheltered housing	100%	675	0	30	2022/2023
Samariten 1	Botkyrka	Building rights	-	33,000	-	-	-
Spinnaren 6	Köping	Building rights	-	7,150	-	-	-
Skiftinge 1:5 & 1:6	Eskilstuna	Building rights	-	11,200	-	-	-
Total	**-**	**-**	**-**	**59,384**	**123**	**245**	**-**

Source: company.

Profitability set to increase with scale and more in-house operations

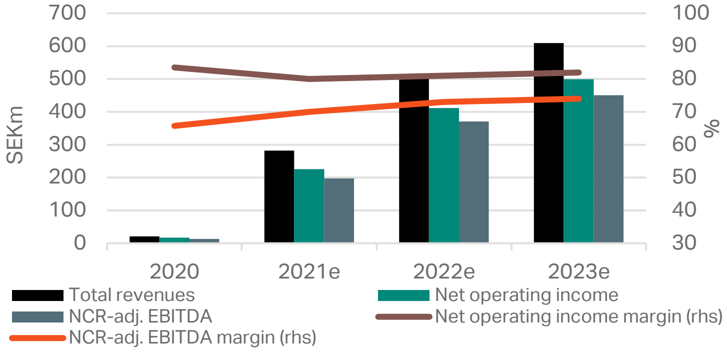
Operating efficiency scores 'bbb+'

As of 30 Jun. 2021, Stenhus Fastigheter had only four employees. Since the company was founded in September 2020, property management has been outsourced to sister company Sterner Stenhus Förvaltning AB. To facilitate efficient property management, the company expects to move these functions in-house during the fourth quarter of 2021. Following the acquisition of MaxFastigheter, Stenhus Fastigheter has a presence through local offices in Stockholm, Eskilstuna, and Karlstad.

Over its brief history, Stenhus Fastigheter has maintained a net operating income margin of around 80%, which is higher than most real-estate peers. The high margins are supported by a large proportion of double- and triple-net contracts, under which tenants bear a large proportion of property-related costs. Over our forecast period through 2023, we expect the net operating income margin to gradually increase towards 82%. Our forecast sees the EBITDA margin increasing towards 74%, factoring in the likelihood of central admin costs in proportion to revenues decreasing as the property portfolio grows.

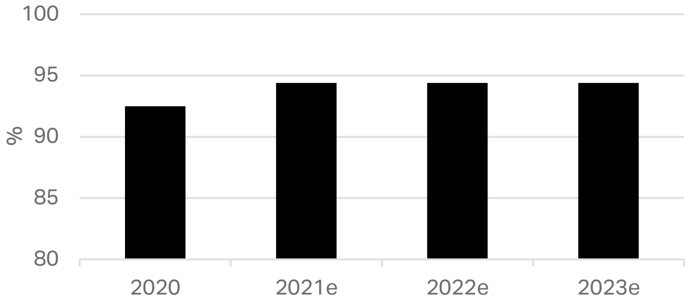
As of 30 Jun. 2021, the occupancy rate in Stenhus Fastigheter's portfolio was 95%. We expect occupancy to decrease slightly to 94% following the MaxFastigheter acquisition and then remain at around similar levels over our forecast period.

Figure 9. Stenhus Fastigheter revenues, net operating income, EBITDA, and margins, 2020–2023e



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

Figure 10. Stenhus Fastigheter occupancy rate, 2020–2023e



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

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bb-'

Our financial risk assessment reflects an expected weakening of Stenhus Fastigheter's financial metrics to levels more in line with the company's financial policy targets as the company pursues its ambitious growth plans. We expect net LTV to be relatively high compared with real-estate peers, and interest coverage and cash flow to be relatively strong due to the high-yielding assets in the portfolio. We view Stenhus Fastigheter's financial risk appetite as somewhat greater than warranted by our ratio analysis. Specifically, we view the company's ambitious growth plans, short debt maturity profile and limited history as negative factors in our overall financial risk assessment.

Strong cash flow generation mitigates relatively high financial gearing

Ratio analysis scores 'bb'

As Stenhus Fastigheter was founded in September 2020, the company's track record is limited, but historical financial metrics are relatively strong compared with financial policy levels. Our forecast of financial metrics sees Stenhus Fastigheter continuing on its ambitious growth path to achieve property values of SEK 10bn by 2024, resulting in weaker credit metrics more in line with the company's financial policy. We expect the rapid portfolio growth to be financed by both debt and equity, and lead to substantial increases in rental income and EBITDA.

Our base case forecast of Stenhus Fastigheter's future performance assumes:

- rental income growth of 1,300% in 2021, 80% in 2022 and 20% in 2023, reflecting a larger property portfolio;
- an EBITDA margin of 70% in 2021, 73% in 2022 and 74% in 2023;
- investment in properties through development and refurbishment of SEK 55m in 2021, SEK 226m in 2022 and SEK 71m in 2023;
- property acquisitions of SEK 5.0bn in 2021, SEK 1.1bn in 2022 and SEK 800m in 2023; and
- valuation changes in investment properties of SEK 430m in the second half of 2021 in line with the company's reverse profit warning in Oct. 2021. Otherwise, we expect no valuation changes other than in line with capital spending.

On the basis of these assumptions, we estimate the following metrics for 2021–2023:

- NCR-adjusted net LTV increasing towards 55%;
- NCR-adjusted EBITDA/net interest of around 3x; and
- NCR-adjusted net debt/EBITDA of 18x in 2021, decreasing to around 12x in 2022–2023.

Our calculations of Stenhus Fastigheter's credit metrics include right-of-use assets in investment property values and long-term leasing liabilities in net debt, before deducting 100% of cash and equivalents (see Figure 11). Our 2020 net interest adjustment reflects costs related to the company's public offering.

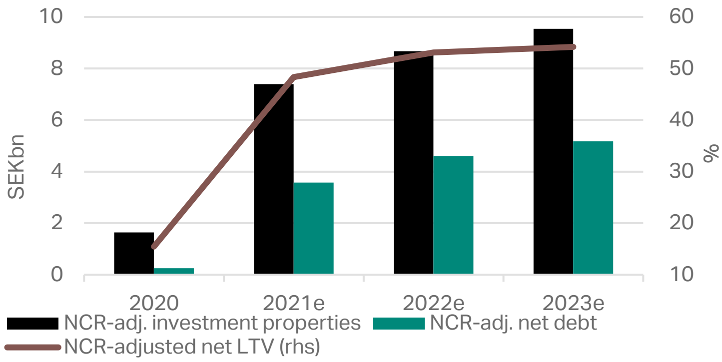
All of Stenhus Fastigheter's properties are valued at each quarter, with 20–30% being external appraisals, resulting in all properties being externally assessed at least once a year. Out of the total SEK 6.0bn in property value as of 30 Jun. 2021 (incl. MaxFastigheter), SEK 121m was associated with potential building rights. Following legal approval of construction plans, this could incur value uplifts and, if divested, add cash flows that are not included in our financial forecast.

Figure 11. NCR's adjustments to Stenhus Fastigheter's credit metrics, 2020–2023e

SEKm	2020	2021e	2022e	2023e
EBITDA	14	198	371	451
NCR-adj. EBITDA	14	198	371	451
Cash and cash equivalents	452	402	135	93
NCR-adj. cash and equivalents	452	402	135	93
Gross interest-bearing debt	694	3,913	4,679	5,201
Long-term leasing liabilities	12	63	63	63
NCR-adj. cash and equivalents	-452	-402	-135	-93
NCR-adj. net debt	254	3,575	4,607	5,171
Net interest (incl. financial costs from leasing)	-7	-67	-124	-143
Other financial costs	3	0	0	0
NCR-adj. net interest	-4	-67	-124	-143
Investment property	1,634	7,332	8,608	9,479
Non-current right-of-use assets	12	63	63	63
NCR-adj. investment property	1,646	7,396	8,671	9,542

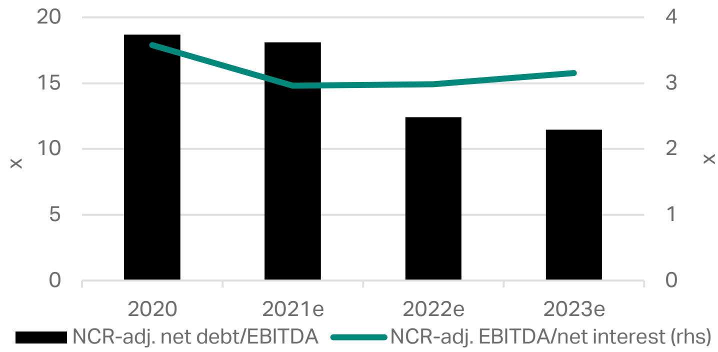
Based on NCR estimates and company data. e–estimate.

Figure 12. Stenhus Fastigheter NCR-adj. investment properties, net debt, and net LTV, 2020–2023e



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

Figure 13. Stenhus Fastigheter NCR-adj. net debt/EBITDA and EBITDA/net interest, 2020–2023e



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

Ambitious growth plans, short debt maturity profile and limited history increase financial risk

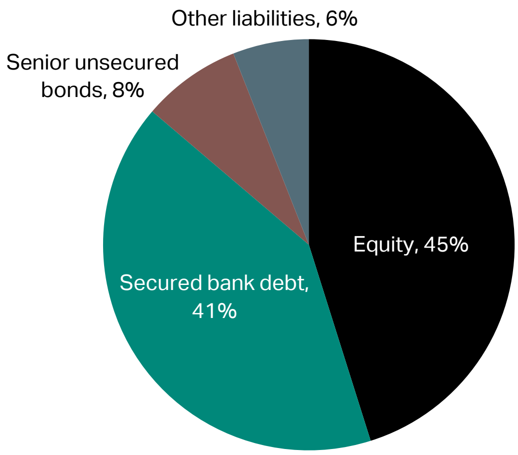
Risk appetite scores 'bb-'

We view Stenhus Fastigheter's financial risk appetite as somewhat greater than warranted by the company's financial ratios. In particular, we consider the company's ambitious growth plans and short debt maturity profile as negative factors in our financial risk assessment. The assessment is also constrained by the company's very brief history and lack of unutilised credit facilities.

Since it was founded in September 2020, Stenhus Fastigheter has grown rapidly. In its first month, the company acquired a portfolio of 10 properties valued at SEK 1.4bn from a sister company controlled by Sterner Stenhus Holding AB (the main owner of Stenhus Fastigheter). Following a series of transactions, the portfolio was valued at SEK 3.0bn by 30 Jun. 2021, while the acquisition of MaxFastigheter adds another SEK 3.0bn to the portfolio. Several acquisitions were partly financed with the company's listed shares as payment, reducing the negative impact on cash flow and financial metrics, which we view as positive. Stenhus Fastigheter targets a portfolio value of SEK 10bn by 2024, an ambitious goal that we believe can be achieved through continued use of newly issued equity as payment. We expect future growth to be pursued via both acquisitions and project development.

Stenhus Fastigheter finances its operations through a mix of equity and secured bank debt. As a result of its acquisition of MaxFastigheter, the company has a total of SEK 500m in senior unsecured bonds maturing in 2023 and 2024. Stenhus Fastigheter does not currently have any revolving credit facilities, which, if added, would support liquidity.

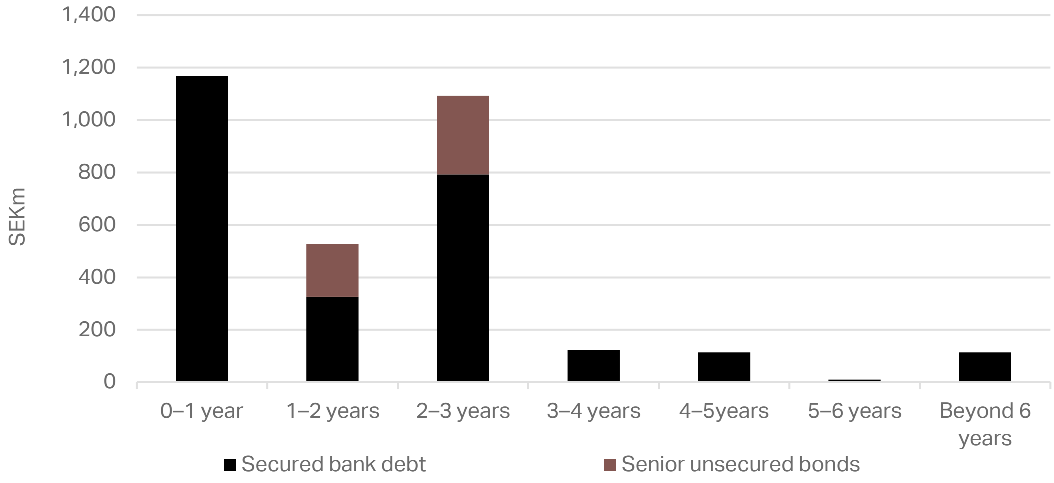
Figure 14. Stenhus Fastigheter (incl. MaxFastigheter) funding profile, 30 Jun. 2021



Source: company.

As of 30 Jun. 2020, Stenhus Fastigheter's average debt maturity profile was 2.5 years, which is in line with the company's minimum 2.5 year target. The debt maturity profile is rather front-loaded, with 37% of debt maturing within the next 12 months (including MaxFastigheter), which increases refinancing risk. The company uses interest rate swaps to mitigate interest rate risk, and as of 30 Jun. 2021, the average fixed interest period was 2.1 years, while the average interest rate on the company's loans was 1.85%.

Figure 15. Stenhus Fastigheter (incl. MaxFastigheter) debt maturity profile, 30 Jun. 2021



Source: company.

Stenhus Fastigheter's interest-bearing debt is governed by financial covenants and targets (see Figure 16). Over its limited history, the company has maintained ample headroom under covenants and policy levels. A long-term profitability target stipulates return on equity in excess of 12% per year over an economic cycle. The company aims to pay a minimum of 30% of profit from property management as a dividend in the long term. However, over the next few years, it expects to reinvest cash flows and refrain from paying dividends in order to support growth. In addition to the common covenants listed in Figure 16, covenants in MaxFastigheter bonds stipulate that the equity ratio must be at least 25%, interest coverage has to be at least 1.8x, while LTV must not exceed 75%.

Figure 16. Stenhus Fastigheter financial covenants, targets and reported metrics

Metric	Common loan covenants	Financial targets	Reported 30 Jun. 2021
Equity ratio	-	>35%	52.6%
Gross LTV	<65–70%	<60%	46.1%
Interest coverage ratio	>2.0–2.5x	>2.0x	4.6x
Average debt maturity	-	>2.5 years	2.52 years

Source: company.

ADJUSTMENT FACTORS

Adjustment factors are neutral

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

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 assess Stenhus Fastigheter's liquidity as adequate, even though our analysis results in a SEK 900m deficit in the 12 months ending 30 Jun. 2022. Despite the company's short history, we view its banking relationships, together with its proven access to equity market financing, as sufficient mitigators of liquidity risk in the near term.

We estimate the following primary funding sources for the 12 months ending 30 Jun. 2022, totalling SEK 4.0bn:

- SEK 221m in cash and equivalents, as of 30 Jun. 2021 (incl. MaxFastigheter);
- SEK 140m from funds from operations, equalling 75% of estimated NCR-adjusted funds from operations over the period;
- SEK 2.2bn in proceeds from borrowings from the end of the second quarter of 2021; and
- SEK 1.5bn in equity injections from the end of the second quarter of 2021.

We estimate the following uses of funds for the 12 months ending 30 Jun. 2022, totalling SEK 4.9bn:

- SEK 1.2bn in maturing debt and amortisation;
- SEK 3.6bn in committed acquisitions; and
- SEK 114m in committed capital spending.

Environmental, social and governance factors

ESG factors assessed as adequate

Due to Stenhus Fastigheter's short history, it has yet to publish its first sustainability report. The company intends to publish a basic version of a sustainability report in conjunction with its annual report for 2021, while a full sustainability report will not be completed before year-end 2022. The company does not currently measure or report CO_2 emissions and is not actively working with environmental certification of properties or green financing. We view the company's current ESG efforts as a credit weakness, as we believe that a company's green credentials are becoming increasingly important to attract and retain financiers.

As Stenhus Fastigheter's ordinary shares are listed on the unregulated market Nasdaq First North, it is not obliged to follow Swedish governance guidelines (*Svensk kod för bolagsstyrning*). However, the company intends to move its listing to the regulated main market in the next few years, which would require it to either follow or report deviations from the guidelines. As of 30 Jun. 2021, the company's board of directors consisted of five members, three of which were independent in relation to either the company or its largest shareholders.

The main ESG issues that could affect our overall assessment of Stenhus Fastigheter's creditworthiness are factors that might contribute to loss of revenues, increased costs, higher capital spending or a deterioration in financing possibilities (see Figure 17).

Figure 17. Stenhus Fastigheter ESG considerations

Issue	Risk	Mitigating efforts	Result
CO_2 emissions	Increased costs due to regulatory and/or taxation changes	The company does not currently measure or report CO_2 emissions.	We view CO_2 emissions reporting as a necessity to meet investors' high expectations, and expect to see greater efforts by the company.
Impact of climate change on operations	Loss of revenues or increased capital spending	The company does not currently work actively with environmental certification of properties.	We would view environmental certification of properties as positive, as this would strengthen the company's sustainability profile and allow access to green financing.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO_2 dependence	The company does not currently have strong green credentials and does not have access to green financing.	Investor demand for green credentials is increasing. We view sustainability reporting and a focus on ESG as necessary to remain attractive to investors. We expect to see greater efforts by the company.

Source: company.

OWNERSHIP ANALYSIS

Ownership assessed as neutral

Through their 70% and 30% ownership stakes in Sterner Stenhus Holding AB, together brothers Elias and Tomas Georgiadis are the largest shareholder in Stenhus Fastigheter. Over the past decade, the two brothers have run a construction company focused on façade and exterior renovations, made property investments through joint ventures with Kvalitena AB (publ), and, until 2019, were the largest owners in listed property management company Amasten Fastighets AB (publ).

In conjunction with the listing of Stenhus Fastigheter's shares on Nasdaq First North in November 2020, Fastighets AB Balder, led by real-estate investor Erik Selin, and Länsförsäkringar real-estate fund became significant shareholders in the company. In addition, investment company Investment AB Öresund became a significant owner in conjunction with the acquisition of MaxFastigheter. Over Stenhus Fastigheter's short history, the company has financed several acquisitions with newly issued equity, reducing the impact on cash flow despite rapid growth. Furthermore, the company has made equity injections in which the largest owners have contributed cash, most recently in July 2021, when they added SEK 450m in liquidity.

We assess Stenhus Fastigheter's overall ownership as neutral, although we take a positive view of the company's public listing, as it gives access to the equity market and allows for equity-financed property acquisitions.

Figure 18. Stenhus Fastigheter ownership structure, 30 Sep. 2021

Owner	Share of capital and votes
Sterner Stenhus Holding AB	34.7%
Fastighets AB Balder	20.1%
Investment AB Öresund	8.3%
Länsförsäkringar real-estate fund	7.8%
Swedbank insurance	3.4%
TTC Invest	2.2%
Brobryggen Intressenter AB	2.2%
Avanza pension	1.6%
PriorNilsson Realinvest	1.5%
Nordnet pension	1.2%
Top 10 owners	**83.1%**
Other	16.9%

Source: company.

ISSUE RATINGS

In cases where an issuer is rated 'BB+' or below, NCR typically conducts a recovery analysis to assess the likelihood that unsecured bondholders will recover their initial investment in the event of default and liquidation. However, as of 30 Jun. 2021, Stenhus Fastigheter had no senior unsecured bonds (other than two senior unsecured bonds issued by MaxFastigheter). Given the high level of secured financing, we would likely lower the ratings on senior unsecured debt instruments issued by Stenhus Fastigheter by one notch to 'BB-' to reflect their effective subordination, contingent on the outcome of a recovery analysis.

Figure 19. Stenhus Fastigheter key financial data, 2020–Q2 2021

SEKm	FY	LTM
Period-end	31 Dec. 2020	30 Jun. 2021
INCOME STATEMENT		
Rental income	21	91
Other income	–	–
Total costs from operations	-3	-19
Net operating income	**17**	**72**
Administrative expenses	-4	-12
Administrative expenses, project portfolio	–	–
EBITDA	**14**	**60**
Share of profit in associated companies and joint ventures	–	–
Interest expenses	-4	-14
Interest income	–	–
Interest expenses, shareholder loans	–	–
Financial costs from leasing	–	–
Other financial costs	-3	-3
Changes in investment property	76	308
Gain (loss) on financial assets held at fair value	–	–
Depreciation and amortisation	–	–
Restructuring activities	–	–
Pre-tax profit	**83**	**351**
Current taxes	0	-64
Deferred taxes	-11	–
Net profit	**72**	**287**
BALANCE SHEET		
Investment property	1,634	3,018
Other non-current assets	20	31
Total non-current assets	**1,654**	**3,049**
Cash and cash equivalents	452	174
Other current assets	10	47
Total current assets	**462**	**221**
Total assets	**2,115**	**3,270**
Total equity	**1,360**	**1,706**
Non-current borrowings	606	730
Non-current borrowings, shareholder loans	–	–
Deferred tax liabilities	19	62
Other non-current liabilities	12	31
Total non-current liabilities	**637**	**822**
Total current liabilities	**118**	**742**
Total equity and liabilities	**2,115**	**3,270**
CASH FLOW STATEMENT		
Pre-tax profit	83	351
... of which changes in investment property	76	308
Depreciation and amortisation	–	–
Tax paid	2	2
Adjustment for items not in cash flow	-76	-309
Cash flow from operating activities before changes in working capital	**9**	**44**
Changes in working capital	18	31
Cash flow from operating activities	**27**	**75**
Cash flow from investment activities	**-1,558**	**-2,711**
Cash flow from financing activities	**1,983**	**2,810**
Cash and cash equivalents at beginning of period	–	–
Cash flow for period	452	174
Cash and cash equivalents at end of period	**452**	**174**

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

Figure 20. Stenhus Fastigheter rating scorecard

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

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