

## NCR makes initial assessment of Ukraine conflict on Nordic credit quality

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Nordic Credit Rating (NCR) is actively assessing the immediate and possible long-term effects of Russia's invasion of Ukraine on the credit quality of the issuers it rates.

The conflict is complex and its future course is unpredictable. However, we aim to assess the likely impact on our existing ratings and the credit quality of the entities we rate on the basis of available information and the actions taken to date. Our initial view is that the likely impact on financial markets and the issuers we rate does not yet warrant a broad reassessment of rating levels or outlooks. Instead, we are considering each rated issuer individually and assessing their direct and indirect exposures to the conflict zone. We are also assessing any likely changes in their financing prospects, and their respective exposure to conflict-driven changes in commodity prices and/or capital market disruptions.

This commentary is a point-in-time overview. We expect to follow it up with deeper analysis of specific sectors as the conflict evolves. We will continue to monitor the issuers we rate as part of our regular review processes but will also signal any changes in our assessment of their credit quality that arise as a result of the war.

### CORPORATE ISSUERS FACE RISING INPUT COSTS AND SUPPLY CHAIN IMPACTS

NCR-rated corporate issuers have modest direct exposure to Russia, Ukraine and/or Belarus. While some issuers have operations and production plants in the region, these are minor in the context of their overall operations. In particular, Jotun A/S has recently disclosed details of its exposures and operations in Russia. We believe that any asset writedowns and/or loss of production capacity will prove manageable for the corporate issuers we rate.

We also note that revenues from the conflict region account for less than 5% of the total revenues of all rated issuers. Russia is historically a large salmon market, but we note that Norwegian salmon was banned in Russia following sanctions imposed by Norway in 2014 in response to Moscow's annexation of Crimea earlier that year. Norwegian salmon exports to Belarus subsequently increased, offsetting some of the effects of the Russian ban. The impact of the current conflict on global salmon prices is not yet clear, but we expect any negative effect to be offset by low global supplies of salmon and the reopening of economies as the COVID-19 pandemic subsides.

The European automobile industry has experienced delays due to shortages of semiconductors since the beginning of the pandemic and could face further supply chain issues because specific auto parts are produced in Ukraine. Volkswagen, BMW and Mercedes are among the brands reporting reduced production. The impact on the Nordic automobile market is still unclear.

Indirect exposures are likely to have a larger impact on the corporate issuers we rate. Rising commodity and energy prices will affect profitability in the near-term before prices can be passed on to customers. The impact of increasing energy costs on production decisions remains unclear, while higher grain prices could alter demand for certain foods and products. Rising energy prices are already having a negative effect on issuers and are widely known, but we believe shortages of less mainstream yet vital commodities could exacerbate existing supply chain disruptions.

We note that many NCR-rated corporate issuers have relatively low financial risk. In our view, issuers with strong financial profiles and near-term debt maturities could delay refinancing at current rates. Such issuers include Jotun A/S, NorgesGruppen ASA and Møller Mobility Group AS, all of which have instruments maturing in March 2022.

**Figure 1. NCR ratings on corporate issuers**

	Long-term rating	Outlook	Country
Jotun A/S	BBB+	Stable	Norway
Kongsberg Gruppen ASA	A-	Stable	Norway
Lerøy Seafood Group ASA	BBB	Stable	Norway
Møller Mobility Group AS	BBB-	Stable	Norway
NorgesGruppen ASA	BBB+	Stable	Norway
Nortura SA	BBB-	Stable	Norway
SalMar ASA	A-	Negative	Norway
Södra Skogsägarna ekonomisk förening	BBB	Stable	Sweden

### REAL ESTATE ISSUERS FACE HIGHER RISK PREMIUMS WHICH COULD PRESSURE VALUES

Generally, NCR-rated real estate companies have minimal direct exposure to the conflict region. One issuer with direct exposure is CA Fastigheter, which, together with the Swedish government, owns the property which houses the Swedish consulate in St. Petersburg. In addition, CA Fastigheter's owner, Claesson & Anderzén AB, owns a 99.9% share in Ukraine-based agriculture business BZK Grain Alliance AB. We note that Grain Alliance and Claesson & Anderzén have very low external debt and that Grain Alliance has historically reinvested its own generated cash flows. In our view, this reduces the likelihood that CA Fastigheter could suffer spillover effects as a result of falling cash flows to its parent company.

In our view, increasing risk premiums, in particular for high-yield issuers, could affect real estate companies' credit metrics by increasing financing costs and pressuring property values. A number of NCR-rated real estate issuers have high levels of bank financing with maturities over the coming 12 months. While we believe that Nordic banks will continue to support their borrowers, financing costs could increase. In addition, ambitious growth plans built on expectations of favourable access to capital market financing could be reconsidered or delayed by higher financing costs.

We expect the Ukraine conflict to push up inflation in the Nordic countries while Nordic real estate managers could encounter gross margin pressure if they are unable to pass on the impacts of higher energy costs to their tenants. If the war is protracted and impedes economic growth in Europe, central banks across the continent could seek to keep policy interest rates low. Such an outcome could benefit real estate managers with inflation-linked rental contracts, while reducing concerns about a rapid increase in policy rates.

**Figure 2. NCR ratings on real estate companies**

	Long-term rating	Outlook	Country
Axfast AB (publ)	BBB	Stable	Sweden
Bonnier Fastigheter AB	BBB	Stable	Sweden
CA Fastigheter AB	BBB-	Stable	Sweden
Catena AB (publ)	BBB-	Stable	Sweden
Fastighets AB Stenvalvet (publ)	BBB+	Stable	Sweden
Heba Fastighets AB (publ)	A-	Negative	Sweden
Intea Fastigheter AB (publ)	BBB+	Stable	Sweden
LSTH Svenska Handelsfastigheter AB (publ)	BBB-	Stable	Sweden
NP3 Fastigheter AB (publ)	BB	Stable	Sweden
Platzer Fastigheter Holding AB (publ)	BBB-	Stable	Sweden
Stendörren Fastigheter AB (publ)	BB-	Stable	Sweden
Stenus Fastigheter i Norden AB (publ)	BB	Stable	Sweden
Studentbostäder i Norden AB (publ)	BB-	Stable	Sweden
Svensk FastighetsFinansiering AB (publ)	BBB+	Stable	Sweden
Vacse AB (publ)	A-	Stable	Sweden

### RATED BANKS HAVE MINIMAL DIRECT EXPOSURE

NCR-rated financial institutions have minimal direct exposure to the conflict region. We note, however, that wider bond spreads could affect banks' financing, in particular their access to and pricing of capital instruments. Most rated financial institution issuers have demonstrated their ability to fund themselves with higher levels of deposits as savings rates increased following the onset of the COVID-19 pandemic. One exception is Kredittforeningen for Sparebanker, which is not deposit-financed. The company is match funded with maturing bonds linked to loans it extends to Norwegian savings banks. Another exception is Danske Hypotek AB, which is financed primarily by covered bonds. We expect Nordic covered bonds to remain highly attractive to investors even if markets turn volatile.

Four rated savings banks have strong ties with Swedbank AB, which is the largest lender in the Baltic states of Estonia, Latvia and Lithuania. We note that Swedbank's share price has fallen by about 25% since end-2021 on concerns that the Ukraine conflict could spread into the Baltic countries, all of which border Russia and two of which border Belarus. NCR-rated savings banks which hold Swedbank shares are only minimally impacted by the sharp decline at current price levels (see [Q&A: Swedbank judgement and share price impacts on Swedish savings banks](#), published 23 Mar. 2020), but we note that further escalation of the conflict could affect these issuers directly and indirectly given the links between the Swedish banking market through Swedbank and SEB's exposure to the Baltic states.

We do not expect the Ukraine conflict to have a direct impact on Nordic consumer banks, which have performed well through the COVID-19 pandemic and have maintained stable loss ratios. However, any escalation of the conflict could extend a period of reduced demand for consumer loans, travel and consumption which began with the onset of the pandemic. In addition, borrowers with already weak financial profiles are more likely to be affected by food and energy price inflation. NCR-rated consumer banks also have a higher risk premium on their financing than other Nordic financial institutions, which could lead to higher financing costs and put pressure on lending margins.

**Figure 3. NCR ratings on financial institutions**

	Long-term rating	Outlook	Country
Collector Bank AB (publ)	BBB-	Stable	Sweden
Danske Hypotek AB	A	Stable	Sweden
Kredittforeningen for Sparebanker	A-	Stable	Norway
Nordax Bank AB (publ)	BBB	Stable	Sweden
Resurs Bank AB (publ)	BBB	Stable	Sweden
Sparbanken Rekarne AB (publ)	A-	Stable	Sweden
Sparbanken Västra Mälardalen	BBB+	Stable	Sweden
SpareBank 1 Østfold Akershus	A	Stable	Norway
Sörmlands Sparbank	BBB+	Positive	Sweden
Varbergs Sparbank AB (publ)	A-	Stable	Sweden

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