Nordic Credit Rating

CORPORATE: REAL ESTATE

Sweden
15 Jun. 2022

Studentbostäder i Norden AB (publ)

Rating Action Report

LONG-TERM RATING

BB-

OUTLOOK

Negative

SHORT-TERM RATING

N4

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Studentbostäder i Norden AB (publ) outlook revised to negative; 'BB-' long-term issuer rating affirmed

Nordic Credit Rating (NCR) said today that it had revised its outlook on Sweden-based property manager Studentbostäder i Norden AB (publ) to negative from stable. At the same time, the 'BB-' long-term issuer rating and the 'N4' short-term issuer rating were affirmed.

Rating rationale

The outlook revision reflects an increased likelihood that Studentbostäder might breach a 1.5x interest-coverage maintenance covenant (1.7x reported in the first quarter of 2022). In our base case, we expect interest coverage to remain in compliance with covenant levels through 2022 and 2023. However, we believe that downside risk has increased due to uncertainty about how fast and to what extent the Swedish central bank will raise its policy rate. In our view, there is a material risk that covenant headroom will diminish, although the closing of already communicated acquisitions and the finalisation of development projects will likely mitigate the impact. Studentbostäder's relatively low degree of interest fixing leaves it more exposed to rising interest rates than most of its peers. Positively, we believe that the company is committed to reducing the negative impact of rising interest rates through cost reductions and loan refinancing. Nevertheless, we believe that the risk of a covenant breach has increased.

Negative outlook

The negative outlook reflects an increased risk of a breach of the interest-coverage covenant. We could lower the rating to reflect an impending or actual covenant breach. We could also lower the rating to reflect weakened credit metrics (net LTV above 75%) over a protracted period or deteriorating market fundamentals that adversely affect occupancy and/or profitability. We could revise the outlook to stable if covenant headroom increases or stabilises at current levels.

Rating list	**To**	**From**
Long-term issuer credit rating:	BB-	BB-
Outlook:	Negative	Stable
Short-term issuer credit rating:	N4	N4

Figure 1. Studentbostäder rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb+	bbb+
Market position, size and diversification	12.5%	b+	b+
Portfolio assessment	12.5%	bb+	bb+
Operating efficiency	5.0%	bb+	bb+
Business risk assessment	50.0%	bb+	bb+
Ratio analysis		b	b
Risk appetite		b	b
Financial risk assessment	50.0%	b	b
Indicative credit assessment		**bb-**	**bb-**
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		Neutral	Neutral
Stand-alone credit assessment		**bb-**	**bb-**
Support analysis		Neutral	Neutral
Issuer rating		**BB-**	**BB-**
Outlook		Negative	Stable
Short-term rating		**N4**	**N4**

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 13 Jan. 2022.
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 Rating Methodology published on 18 Feb. 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 NCR's Rating Principles published on 24 May 2022 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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