

LSTH Svenska Handelsfastigheter AB (publ)

Rating Action Report

LSTH Svenska Handelsfastigheter AB (publ) 'BBB-' long-term 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 \(publ\)](#). The outlook is stable. At the same time, the 'N3' short-term issuer rating was affirmed.

Rating rationale

The long-term rating reflects Svenska Handelsfastigheter's large proportion of non-cyclical tenants, diverse property portfolio, long remaining average lease terms, high occupancy levels, and prudent debt maturity profile. It also reflects the stable operating environment and the company's relatively strong cash flow generation. The rating is also supported by the company's strong owners and their commitment to maintaining a stable financial risk profile.

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

We have revised our assessment of the operating environment downwards by one notch to bring the subscore into alignment with those on the company's domestic peers. In addition, we have raised our subscore for market position, size and diversification to reflect the company's improved market position and reduced concentrations following the acquisition of Tre Kronor Property Investment AB (publ) in 2021.

Stable outlook

The stable outlook reflects our expectations that Svenska Handelsfastigheter will maintain its current financial risk profile despite rising market interest rates. It also reflects strong ownership commitments, which improve the company's financial risk profile. The outlook incorporates our expectation that Svenska Handelsfastigheter will continue to pursue a higher proportion of less cyclical tenants, the portfolio's resilience to the effects of e-commerce, and declining discretionary purchasing power on the part of consumers. We could raise the rating to reflect improved credit metrics (net LTV below 45% and net debt/EBITDA below 9x over a protracted period), or an increased proportion of non-cyclical tenants combined with a larger and more diverse portfolio. We could lower the rating to reflect weaker credit metrics (net LTV above 55% or net interest coverage below 3.5x over a protracted period) or a change in ownership structure that negatively affects financial risk. We could also lower the rating to reflect a higher proportion of cyclical tenants or deteriorating market fundamentals that negatively impact profitability or occupancy.

Rating list

Long-term issuer credit rating:
Outlook:
Short-term issuer credit rating:

To	From
BBB-	BBB-
Stable	Stable
N3	N3

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Figure 1. Svenska Handelsfastigheter rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb-	bbb
Market position, size and diversification	12.5%	bb	bb-
Portfolio assessment	12.5%	bb+	bb+
Operating efficiency	5.0%	a-	a-
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		bb+	bb+
Risk appetite		bbb-	bbb-
Financial risk assessment	50.0%	bb+	bb+
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		N3	N3

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.
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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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