

Heba Fastighets AB (publ)

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Negative

SHORT-TERM RATING

N3

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Heba Fastighets AB (publ) outlook revised to negative; 'BBB+' long-term issuer rating affirmed

Nordic Credit Rating (NCR) said today that it had revised its outlook on Sweden-based property manager [Heba Fastighets AB \(publ\)](#) to negative from stable. At the same time, the 'BBB+' long-term and 'N3' short-term issuer ratings on Heba were affirmed. The 'BBB+' senior unsecured issue ratings were also affirmed.

Rating rationale

The outlook revision reflects Heba's comparatively high sensitivity to rising interest rates, which will likely contribute to its net interest coverage ratio falling substantially over the next few quarters. In our base case, we expect the company's interest coverage to fall towards 3x by year-end 2022 and 2x by year-end 2023, from 4.4x in mid-2022. Although this key credit metric is unrelated to any covenants on outstanding debt, we would view such deterioration, if it occurs, as indicative of a weakened financial risk profile.

Heba's sensitivity to rising interest rates stems from the company's low current and previous funding costs. Furthermore, the regulated rents for Swedish residential properties (which account for some 80% of Heba's rental income) mean that rent levels are likely to lag behind the rate of inflation, putting additional pressure on interest coverage.

On a positive note, we expect Heba's business risk profile to remain strong and believe the company could take measures to support its financial risk profile. For instance, it could postpone investments or divest properties, thereby reducing leverage. We regard refinancing risk as relatively low over the next 12 months because outstanding commercial paper is backed by unused credit facilities and the company's next bond maturity is not until September 2023.

In response to reduced investor demand for commercial paper in general, Heba increased its share of secured financing in the second quarter of 2022. If the company's unsecured debt as a proportion of total debt remains below 50% over a protracted period, it could affect our view of recovery prospects for senior unsecured bondholders and, consequently, our issue ratings.

Negative outlook

The negative outlook reflects our expectations of a weakened financial risk profile as interest rates rise and interest coverage falls. We could lower the rating to reflect a weakened net interest coverage ratio in line with our expectations. We could also lower the rating to reflect the net loan-to-value ratio exceeding 50% over a protracted period or to reflect increasing refinancing risk on the back of worse financing conditions. We could revise the outlook to stable to reflect net interest coverage exceeding our expectations, possibly due to interest rates stabilising at lower levels than we foresee, or if the company takes action to support its financial risk profile.

Rating list	To	From
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Negative	Stable
Short-term issuer credit rating:	N3	N3
Senior unsecured issue rating:	BBB+	BBB+

Figure 1. Heba rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB+	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 28 May. 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:	<p>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</p> <p>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).</p>
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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