

Bonnier Fastigheter AB

Rating Action Report

LONG-TERM RATING

BBB

OUTLOOK

Negative

SHORT-TERM RATING

N3

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Bonnier Fastigheter AB outlook revised to negative; 'BBB' long-term issuer rating affirmed

Nordic Credit Rating said today that it had revised its outlook on Sweden-based property manager [Bonnier Fastigheter AB](#) to negative from stable. The outlook on subsidiary AB Bonnier Fastigheter Finans (publ) was also revised to negative from stable. At the same time, the 'BBB' long-term and 'N3' short-term issuer ratings on both the parent and the subsidiary were affirmed. The 'BBB' senior unsecured issue ratings on instruments issued by AB Bonnier Fastigheter Finans (publ) were also affirmed.

Rating rationale

The outlook revision reflects our expectation that Bonnier Fastigheter's credit metrics will weaken over the next few years as a result of continued portfolio growth combined with rising interest rates and a likely decline in asset values. We expect the company to continue to build a SEK 25bn property portfolio (including JV exposures) by 2025, despite more challenging market conditions. To reflect rising interest rates and rapid portfolio growth, we have revised our expectations for net interest coverage in 2023 to 3.1x from 5.5x a year earlier. In addition, we have increased our projections for net loan to value (LTV) in 2023 to 39% from 33% a year earlier to reflect higher net debt than previously expected.

We believe that the likely resulting increase in financial risk will be accompanied by a stronger business risk profile but that the net effect will be credit negative. Positively, we believe that Bonnier Fastigheter is better equipped than most of its domestic peers to adapt to deteriorating market conditions thanks to its strong balance sheet.

As of 31 Aug. 2022, 53% of Bonnier Fastigheter's debt was unsecured. If secured debt were to account for more than 50% of outstanding debt and, at the same time, net LTV were to increase above 40%, our view of recovery prospects for senior unsecured bondholders and, consequently, the issue ratings could be negatively affected.

Negative outlook

The negative outlook reflects our expectations that Bonnier Fastigheter's credit metrics will weaken from currently strong levels as the company pursues a portfolio value target of SEK 25bn by 2025. We expect rising interest rates and a probable decline in asset values to increase financial risk. However, we also expect that any weakening in the company's financial position will be mitigated by a stronger business risk profile due to a larger and less concentrated property portfolio, possibly with meaningful residential exposure. Nevertheless, we view the net effect as broadly credit negative.

We could lower the long-term issuer ratings to reflect weakened credit metrics, including net LTV above 35% and net interest coverage below 3.5x over a protracted period, or deteriorating market fundamentals that negatively affect profitability and/or occupancy.

We could revise the outlook to stable to reflect continued strong credit metrics, including net LTV below 35% or net interest coverage above 3.5x over a protracted period. We could also revise the outlook to stable to reflect an increased proportion of residential properties under management, combined with reduced growth ambitions and stronger credit metrics.

Rating list

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

To	From
BBB	BBB
Negative	Stable
N3	N3

Figure 1. Bonnier Fastigheter rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb-	bbb-
Market position, size and diversification	12.5%	bb-	b+
Portfolio assessment	12.5%	bbb-	bbb-
Operating efficiency	5.0%	bbb+	bbb+
Business risk assessment	50.0%	bb+	bb+
Ratio analysis		bbb+	a-
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. Associated entities

Name	LT rating	Outlook	ST rating
AB Bonnier Fastigheter Finans (publ)	BBB	Negative	N3
Senior unsecured	BBB		

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 14 Oct. 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.
Primary analyst:	Marcus Gustavsson, +46700442775, marcus.gustavsson@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
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 Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 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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