

Stenhus Fastigheter i Norden AB (publ)

Rating Action Report

LONG-TERM RATING

BB

OUTLOOK

Negative

SHORT-TERM RATING

N4

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

Rating rationale

The outlook revision reflects our expectation that Stenhus Fastigheter's net interest coverage ratio will weaken towards covenant levels. Our base-case projections anticipate that net interest coverage will decrease to 2.1–2.2x in 2023–2024, compared with our previous estimates of above 3.0–3.2x. We expect this metric to remain commensurate with covenants, which in most cases stipulate that it should exceed 2.0x, but believe headroom will be limited. In our view, there is further downside risk to the metric, due to uncertainty about market interest rates. Consequently, we believe that covenant headroom could diminish faster than we currently expect, despite the mitigating effect of the completion of development projects and inflation-linked rental contracts.

Stenhus Fastigheter's sensitivity to rising interest rates stems from its low degree of fixed interest, leaving the company more sensitive than most of its peers. Furthermore, we believe the company's large debt maturities in the coming two years increase liquidity and refinancing risk. However, we expect Stenhus Fastigheter's property values to be less impacted by rising property yields than those of most of its peer group, mainly because yields in the company's property types were comparatively high to begin with.

Over the last year, Stenhus Fastigheter has acquired Randviken Fastigheter AB (Randviken), roughly doubling its property portfolio. We take a positive view of this improvement in business risk profile, especially since it reduces portfolio concentrations. We expect this increased revenue diversity to mitigate the impact of a forecast slowdown in Sweden's economy, reducing the impact of difficulties for single tenants.

Negative outlook

The outlook is negative, reflecting our expectation that Stenhus Fastigheter's net interest coverage will weaken over our forecast period through 2024. In our base-case projection, we expect net interest coverage to remain commensurate with covenant levels through 2024, but that headroom will become increasingly limited in 2023 and 2024. We believe that downside risk has increased due to uncertainty about market interest rates and that covenant headroom could diminish faster than we currently expect, despite the mitigating effect of the completion of development projects and inflation-linked rental contracts. We expect Stenhus Fastigheter to integrate the operations of recent acquisition Randviken Fastigheter AB successfully. We also expect the company to continue to focus on its currently targeted property subsectors and regions.

We could revise the outlook to stable to reflect increased or stable covenant headroom, with net interest coverage well above 2.0x. We could lower the rating to reflect an impending or actual covenant breach, a deterioration in credit metrics with net loan to value above 60% or net interest coverage below 1.5x over a protracted period, or to reflect deteriorating market fundamentals adversely affecting occupancy and/or profitability.

Rating list

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

Figure 1. Stenhus Fastigheter rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bb+	bb+
Market position, size and diversification	12.5%	bb	b+
Portfolio assessment	12.5%	bb+	bb+
Operating efficiency	5.0%	bbb+	bbb+
Business risk assessment	50.0%	bb+	bb+
Ratio analysis		bb	bb
Risk appetite		b+	bb-
Financial risk assessment	50.0%	bb-	bb-
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 19 Nov. 2021.
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 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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