LSTH Svenska Handelsfastigheter AB (publ)

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Negative

SHORT-TERM RATING

N3

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LSTH Svenska Handelsfastigheter 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 LSTH Svenska Handelsfastigheter AB (publ) to negative from stable. At the same time, the 'BBB-' long-term issuer rating and 'N3' short-term issuer rating were affirmed.

Rating rationale

The outlook revision reflects increased uncertainty as Svenska Handelsfastigheter's owners discuss potential changes in the company's ownership and management team. Given our positive view of the current owners and their ability to support the company, changes in the ownership profile or operations could affect our assessment of the company's creditworthiness. Details of the ongoing negotiations are confidential.

In our base case, we expect the situation to be resolved by the end of the first quarter of 2023. However, the process has already taken longer than we originally expected, and discussions could continue further into next year.

Negative outlook

The negative outlook reflects increased uncertainty about Svenska Handelsfastigheter's ownership profile and management. In addition, we expect the company's financial metrics to come under pressure as a result of rising interest rates and property yields. In our base case, we expect NCR-adjusted net interest coverage to fall below our previous end-2023 estimate of 3.5x at an earlier point in the year.

We could lower the rating if negotiations stall or the outcome negatively affects our view of the company's ownership profile and operations. We could also lower the rating if net loan to value (LTV) remains above 50% and net interest coverage falls below 3.5x, or if deteriorating market fundamentals negatively impact occupancy or profitability. We could revise the outlook to stable if the current uncertainties recede and net LTV falls below 50% or net interest coverage stabilises above 3.5x.

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

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		Negative	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 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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