

Studentbostäder i Norden AB (publ)

Rating Action Report

LONG-TERM RATING

B+

OUTLOOK

Negative

SHORT-TERM RATING

N5

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Nordic Credit Rating (NCR) said today that it had lowered its long-term issuer rating on Sweden-based [Studentbostäder i Norden AB \(publ\)](#) (Studentbostäder) to 'B+' from 'BB-'. The outlook is negative. At the same time the short-term rating was lowered to 'N5' from 'N4'.

Rating rationale

The rating action on the long-term rating reflects our view that Studentbostäder's financial risk profile will deteriorate by more than we previously expected. The company is highly exposed to rising interest rates which impact interest coverage and are likely to reduce property values as property yields rise. In our base-case projection, we expect the company to breach a 1.5x interest-coverage maintenance covenant in late 2023 on an outstanding bond. We believe that loan-to-value (LTV) and equity ratio covenants could also come under pressure over the next 12-18 months. In our base-case forecast, we assume property value declines of about 20% over the next few years, resulting in an increase in Studentbostäder's net LTV beyond current policy levels. However, we remain uncertain about the extent and pace that reported property values will be affected by rising interest rates. The company could need to strengthen its balance sheet, most likely through property divestments or equity injections, or a combination of both.

We see liquidity risk as elevated and view a SEK 600m bond maturing in 2024 as a concern as the maturity date approaches. We note that the bond has a call option with a first call date of 13 May 2023. We plan to follow closely the company's plans to refinance the instrument.

Negative outlook

The negative outlook reflects an increased likelihood that Studentbostäder could breach a 1.5x interest-coverage maintenance covenant on the SEK 600m bond. We project that without mitigating action the company will breach the covenant in late 2023. In our view, the company is committed to reducing the likely negative impact on its credit metrics through cost reductions and loan refinancing, as well as possible equity injections and property divestments. We are currently uncertain about the company's profitability and ability to divest and deleverage as well as the future course of market interest rates.

A covenant breach could negatively affect the company's ability to refinance its maturing debt, while increased liquidity risk could result in a multi-notch downward rating revision. In addition, we project a decline in property values over the next few years, which could put pressure on LTV and equity ratio covenants. However, the timing and magnitude are uncertain due to a lack of transactions.

We could lower the rating to reflect deteriorating liquidity or increased refinancing risk. We could also lower the rating to reflect an actual covenant breach, or a distressed exchange request to modify existing bond terms. We could revise the outlook to stable to reflect increased covenant headroom. We could also revise the outlook to stable to reflect significant deleveraging due to, for example, equity injections or asset divestments, or to reflect reduced liquidity risk and refinancing risk.

Rating list	To	From
Long-term issuer credit rating:	B+	BB-
Outlook:	Negative	Negative
Short-term issuer credit rating:	N5	N4

Figure 1. Studentbostäder rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bbb+	bbb+
Market position, size and diversification	12.5%	b+	b+
Portfolio assessment	12.5%	bb+	bb+
Operating efficiency	5.0%	bb+	bb+
Business risk assessment	50.0%	bb+	bb+
Ratio analysis		b-	b
Risk appetite		b-	b
Financial risk assessment	50.0%	b-	b
Indicative credit assessment		bb-	bb-
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer comparisons		-1 notch	Neutral
Stand-alone credit assessment		b+	bb-
Support analysis		Neutral	Neutral
Issuer rating		B+	BB-
Outlook		Negative	Negative
Short-term rating		N5	N4

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating
Publication date:	The rating was first published on 13 Jan. 2022.
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 Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 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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