Heba Fastighets AB (publ)

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Negative

SHORT-TERM RATING

N3

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RATING RATIONALE

Our 'BBB' long-term issuer rating on Heba Fastighets AB (Heba) reflects the company's long and stable history of managing residential rental properties in Stockholm, Sweden's highest-demand housing market. We expect Heba's business risk profile to remain strong and believe the company could take measures to support its financial risk profile. The rating also reflects Heba's decision to pause its project development due to the uncertain economic environment, and the company's historically moderate financial risk appetite.

The rating is constrained by Heba's sensitivity to rising interest rates, reflected in decreasing interest coverage as increases in EBITDA are unable to keep pace. The sensitivity stems from both initially low funding costs and the limitations on raising rents in the regulated market. The rating is also constrained by our expectations of decreasing property values, affecting the loan-to-value (LTV) ratio in our forecast.

NEGATIVE OUTLOOK

The negative outlook reflects our expectation that, barring any significant action taken by the company, metrics will likely weaken in line with our forecast. Pay-outs from joint ventures support our forecast and we believe there is further potential for the company to take measures to outperform our base case. Nonetheless, the risk of further interest rate hikes in Sweden remains, and we expect property values to decline as yield requirements increase, adding pressure on the company's ability to maintain metrics within its financial policy. However, we remain uncertain as to the extent and timing of changes in property values.

DRIVERS FOR A STABLE OUTLOOK

- NCR-adjusted interest coverage ratio remaining above 2.2x, excluding one-off payments, and NCR-adjusted net LTV remaining below 50%, for an extended period.
- Action by the company to support its financial risk profile.

POTENTIAL NEGATIVE RATING DRIVERS

- NCR-adjusted interest coverage ratio below 2.2x or an NCR-adjusted net LTV above 55% for an extended period.
- Increasing refinancing risk as a result of worse financing conditions.
- Significant issues with joint venture partners, affecting Heba's one-off payments and financial commitments.

Figure 1. Heba key credit metrics, 2019–2025e*

SEKm	2019	2020	2021	2022	2023e	2024e	2025e
Rental income	388	394	450	510	602	633	657
NCR-adj. EBITDA	232	244	294	348	405	419	428
NCR-adj. EBITDA margin (%)	59.7	62.0	65.5	68.3	67.3	66.1	65.1
NCR-adj. investment property	10,293	12,213	14,831	15,875	14,099	13,318	13,487
NCR-adj. net debt	3,492	4,985	6,024	7,591	7,649	7,927	7,893
Total assets	10,399	12,776	15,516	16,756	14,776	14,028	14,136
NCR-adj. net debt/EBITDA (x)	15.1	20.4	20.5	21.8	18.9	18.9	18.5
NCR-adj. EBITDA/net interest (x)	4.4	4.3	4.6	3.2	2.1	1.8	1.7
*Incl. extraordinary EBITDA posts***	*4.4*	*4.3*	*4.6*	*3.2*	*3.3*	*1.8*	*2.1*
NCR-adj. net LTV (%)	33.9	40.8	40.6	47.8	54.3	59.5	58.5
NCR-adj. FFO/net debt (%)	5.1	3.8	3.8	3.2	5.8	2.4	3.5

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. All metrics adjusted in line with NCR methodology. *EBITDA and net interest adjusted to include interest income from joint venture loans in EBITDA, see further in report for discussion. **see financial risk section.

ISSUER PROFILE

Heba is a Sweden-based property manager focusing on residential properties in the greater Stockholm area. The company's portfolio consists of a mix of apartment properties dating from the mid-20th century to newly built dwellings. The company also manages and develops community service properties for care of the elderly, special-needs housing and preschools, though these account for a relatively small proportion of the portfolio. Heba also develops apartments and community service properties for sale and management through joint ventures.

The company was founded in 1952 and has been publicly listed since 1994, with many of the original founders' families maintaining active ownership roles. As of 31 Dec. 2022, Heba's portfolio comprised 75 properties, totalling 300,300 sqm and valued at SEK 15.7bn.

BUSINESS RISK ASSESSMENT

Business risk assessment 'bbb+'

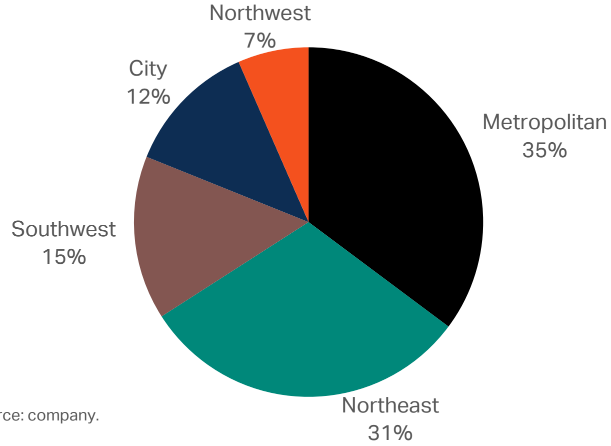
Our business risk assessment reflects the stable operating environment and high demand for residential rental and community service properties in the Stockholm region. It also reflects the company's history of achieving constant growth, driven by refurbishment of existing properties and development and acquisition of low-risk properties while steadily improving its operating efficiency. We view pausing projects as prudent amid the current economic uncertainty. The assessment is constrained by the relatively small portfolio size and the limited possibility of increasing rents in line with cost increases, due to the regulated rent system.

High demand and regulated market create favourable operating conditions

Operating environment 'a'

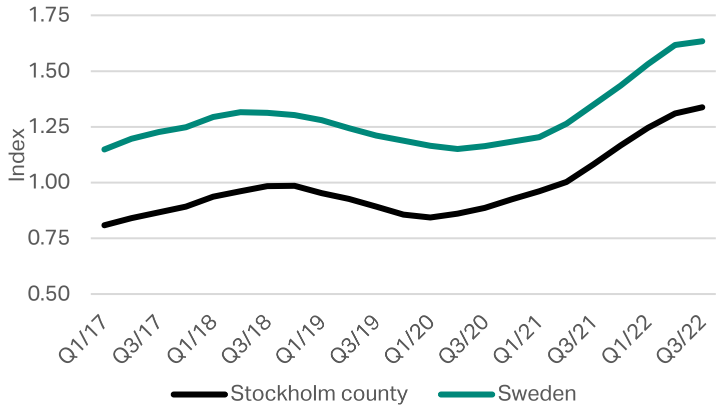
Our assessment of the operating environment is supported by Heba's exposure to the non-cyclical Swedish rental housing market, which is characterised by government-regulated rents and long tenant waiting lists. It is further supported by the company's geographic focus on Stockholm. The capital has traditionally outperformed the domestic average in terms of housing prices and population growth, and has a relatively low unemployment rate. However, yields for residential properties, especially in the city itself, are very low, and consequently we expect a relatively large correction in property values, as risk-free rates have increased. While Sweden has historically had a rental apartment deficit, the country is now moving towards a surplus, although Stockholm lags other regions in this respect.

Figure 2. Heba rental value by area (Greater Stockholm region), 31 Dec. 2022



Source: company.

Figure 3. Rental apartment deficit/surplus in Stockholm County and Sweden, 2017–Q3 2022



Source: SBAB Booli HMI. Index value above 1.5=surplus. Index value below 0.5=shortage.

The Swedish rental market is regulated through a value system in which rent levels are controlled by the government with the aim of reflecting the value of using a property. Accordingly, rent increases are negotiated between landlords and *Hyresgästföreningen*, a national tenants' organisation. Newly built and refurbished apartments can, however, generate higher rent levels, albeit still below what we would expect in an unregulated market. Since the beginning of 2023, a new system has been in place to better reflect property managers' costs in rent increases. While 2023 rents for Heba's residential portfolio were not finalised at year-end, the Swedish Property Federation in Stockholm has finished negotiations for a rental increase framework, and we expect the main portion of Heba's residential portfolio to get a 4.75% rent increase. While this is significantly higher than the recent average of 2%, it remains well below increases in inflation-indexed rental contracts, which are common for commercial and community-service tenants, from which approximately 20% of Heba's rental revenue is generated.

The regulated rental market and high demand result in waiting lists for apartments. According to Stockholm's housing authority, *Bostadsförmedlingen*, about 775,000 individuals are currently waiting for an apartment in the city. In 2022, the average waiting period was about nine years, down from 10.5 years in 2019. The long waiting times in Stockholm demonstrate high demand in the city, even as many other locations are moving towards a residential rental surplus.

During 2020 and 2021, Heba intensified its focus on development projects, which we reflect in our assessment of the operating environment. However, we consider it positive that Heba has postponed the start of new projects and has fairly low exposure to ongoing projects.

Portfolio small compared with peers, but diversity strong

Market position, size and diversification 'bb'

As of 31 Dec. 2022, Heba's portfolio comprised 75 properties, totalling 300,300 sqm and valued at SEK 15.7bn. The company is a relatively small player in a domestic context. Many of Sweden's largest real-estate managers primarily lease office buildings and tend to have higher-value portfolios, but are subject to materially greater tenant concentrations and risks associated with the business cycle.

Although Heba does not have a leading market position, we do not see this as a weakness in terms of the company's ability to generate value, given the regulation of the housing market and social demand for rental properties in Stockholm. High demand for housing in the capital reduces the risk associated with Heba's competitive position and concentration in the city's rental market.

Due to its focus on residential properties, Heba has low tenant concentrations. In 2022, 16% of property value consisted of commercial properties, mainly community service properties. While Heba's focus on the Swedish capital limits its geographic diversity in comparison with competitors with wider coverage, the strength of the Stockholm market is a mitigating factor.

Figure 4. Heba peer group breakdown by property value and lettable area, 31 Dec. 2022

Source: companies.

Portfolio stable, low project risk exposure

Portfolio assessment 'bbb+'

Heba's property portfolio consists of newly built properties (approximately one-third) and aging, but refurbished, residential properties, with good public transport connections. The company's average remaining lease term is short, with lease contracts typically varying between one and three months, as is common among residential property managers. However, high demand and long waiting lists suggest that occupancy rates are likely to remain strong and the average remaining lease term is consequently of less importance. Community service properties typically carry 15–20-year lease terms, which creates some revenue transparency.

Most of the buildings in Heba's portfolio were built between the 1960s and 1980s. The company launched a long-term refurbishment plan in 2010 to upgrade the properties to current standards. Due to postponements, the final apartments should be refurbished by 2027. The refurbishments allow Heba to increase rental incomes and support property valuations.

Heba's portfolio of active projects contained outstanding commitments of about SEK 350m at year-end 2022 in its own projects, as well as an additional SEK 180m in loan commitments to joint ventures. Active projects account for about 4% of the value in the in-use portfolio, which is a significant decrease from 15% at year-end 2021. Heba has decided to postpone the start of new projects in its pipeline due to economic uncertainty and to contain financial leverage. We do not view the halt in project work as a permanent shift in strategy, but as a temporary response to uncertain economic conditions. Consequently, we believe the company is likely to continue development as the market stabilises. In addition to ongoing projects, Heba has a portfolio of building rights for approximately 610 apartments in its own portfolio, excluding those due for completion in 2023. In addition, Heba has access to building rights for about 1,300 apartments through its partnerships. We do not, however, expect the company to start new developments during the forecast period.

Figure 5. Heba active projects* and commitments, 31 Dec. 2022

Property	Property type	Project type	Estimated completion	Expected investments 2023-2025 (SEKm)
Älvdansen, Enköping	Elderly care and rental apartments	Forward funding	Q3/23	50
Källberga, Nynäshamn	Rental apartments	Forward funding	Q3/25	300
Skärgårdsskogen, Skarpnäck	Apartments for sale	Joint venture	Not started	(75)
Framtidens Stora Sköndal	Rental apartments and apartments for sale	Joint venture	Not started	(105)
Total				**350 (530)**

Source: company. *Excluding refurbishment of existing rental apartments. Loans from Heba to joint-venture projects shown in parentheses.

In 2020, Heba entered into a joint venture with construction company Åke Sundvall Byggnads AB. Over the subsequent year, the company increased its project exposure through similar joint ventures, also with Åke Sundvall Byggnads, mostly involving the construction of apartments for sale, as well as some for rent. In 2022 and 2023, the exposure is expected to decrease as apartments for sale exit the portfolio, and Åke Sundvall Byggnads acquires residential rental properties. The main portion of properties with apartments for sale are already sold, and mostly moved into at this point in time. Heba also has commitments through this partnership for additional projects, which have been postponed. These project commitments will, however, incur some costs through the forecast period (Figure 5). Of the ongoing projects, one building remains that is not in the final stages of new owners moving in, and this building could be acquired by Åke Sundvall Byggnads if apartment sales are dissatisfactory.

Occupancy rate excellent due to stable demand

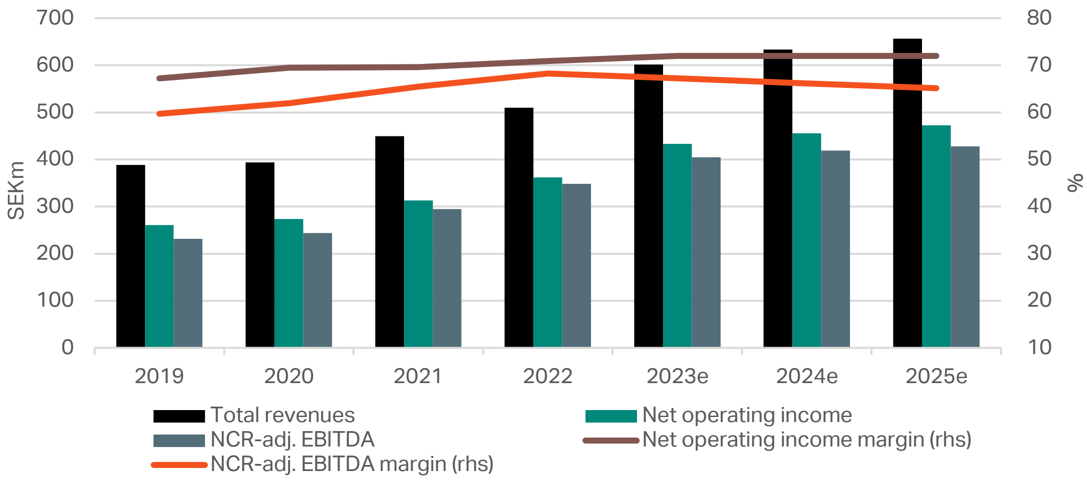
Operating efficiency 'a'

Strong demand for rental housing in Stockholm ensures that Heba's occupancy rate is high and operating efficiency stable. Vacancy rates in the portfolio stood at less than 0.5% and we expect them to remain low. We also expect Heba's existing residential and community service properties to continue to generate stable rental income due to rental increases (based on inflation and refurbishment) in excess of cost increases. The new third-party agreement for regulated residential rents was first tested this year, with rental increases vastly above the historical norm but well below increases in operating costs for property managers. Consequently, we are cautious about assessing its impact over the next few years.

The community service properties provide stable operating revenue, but account for only 16% of the current portfolio by value. We expect the proportion of community service properties in the portfolio to remain stable due to strong competition in the transaction market for such properties. While we consider community service properties to have lower vacancy risk than some other commercial real estate, the vacancy risk remains above that of residential properties.

Our base case includes interest income from joint ventures, as they are of a regular and, in our view, operational nature. Excluding these, we expect EBITDA margins of 64% throughout the forecast period. Payments from sold apartments and repayments of outstanding loans to joint ventures are, however, not included in our assessment of Heba's operating efficiency due to their irregular nature. EBITDA margins are protected by strong internal cost control and by hedges on a large percentage of electricity costs through 2023–2025.

Figure 6. Heba revenues, net operating income, EBITDA, and margins, 2019–2025e



Based on NCR estimates and company data. Figures include interest income from JVs (see financial ratios section), but not one-off payments from JVs.

FINANCIAL RISK ASSESSMENT

Financial risk assessment 'bb+'

Our financial risk assessment reflects our expectation that Heba's credit metrics will weaken during our forecast period as a result of falling property values, due to rising interest rates and higher property yields. Payments from completed joint venture projects support metrics in 2023 and 2025, which we factor into our assessment. Due to Heba's history of maintaining a relatively low financial risk profile and low refinancing risk, due to its substantial credit facilities, we consider its risk appetite stronger than our ratio analysis. Heba also has a strong debt maturity profile and actively engages in interest hedging efforts to contain the impact of rising interest rates.

Credit metrics weaken as interest rates rise and property values decline

Ratio analysis 'bb+'

While Heba's financial risk has increased somewhat in recent years, in conjunction with its increased project focus, the company has endeavoured to keep leverage stable at around 40%. However, as interest rates have risen since April 2022, both interest coverage and property valuations have started coming under pressure. Heba reported a 4.1% decrease in property values for the full year 2022, but we expect property yields will widen still further due to the increase in long-term market interest rates. Our assessment factors in the fact that some of the yield increase in 2022 was offset by higher-than-normal rental increases, but we expect this impact to be lower in 2023–2025, as inflation should decrease to more normal levels from late 2023. Although we have factored in property value increases of finalised projects before, our forecast does not assume value increases for finalised projects due to the current uncertainty in property valuations.

We include interest income from loans to joint ventures in EBITDA, rather than net interest, to reflect the operational nature of the loans. In 2023 and 2025, we expect an increase in EBITDA due to the completion of the first joint-venture project, as a result of both revenue from sold (late-stage) for-sale apartments and repayments of loans Heba has extended to its joint venture projects. Our assessment considers both the trend in financial performance, excluding these one-off payments, and the impact of the significant boost to EBITDA on metrics.

Our base case assumes the following:

- average rental income growth on residential properties of 4.5% in 2023, and 10% on a majority of CPI-indexed properties;
- rental income growth of 3.5% total in 2024, and 2% in 2025;
- an EBITDA margin (including recurring interest income from joint ventures) of 65–57% in 2023–2025;

- investments in new projects and renovations of SEK 425m in 2023, 390m in 2024 and 169m in 2025;
- changes in property values of -14% in 2023, -8% in 2024, and 0% in 2025;
- dividends of SEK 0.45 per share in 2023, amounting to SEK 74m, constant through 2024–2025; and
- no value increases in finalised projects.

On the basis of these assumptions, we arrive at the following projections for 2023–2025:

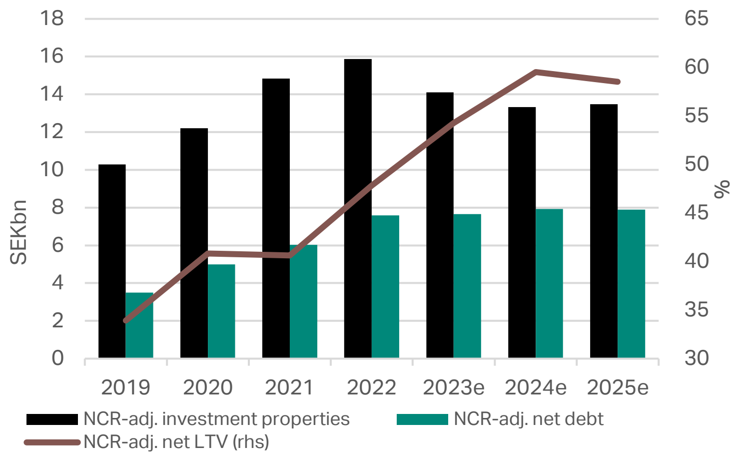
- NCR-adjusted net LTV of 54.3–59.5%;
- NCR-adjusted EBITDA to net interest of 1.7–2.1x (1.8–3.3x incl. one-off payments from joint ventures); and
- NCR-adjusted net debt to EBITDA of 18–19x.

Figure 7. NCR's adjustments to Heba's credit metrics, 2019–2025e

SEKm	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	232	240	276	324	385	405	420
Interest income from JVs	0	4	19	25	20	14	8
JV dividends: sale of apartments	0	0	0	0	54	0	0
JV dividends: repayment loan	0	0	0	0	176	0	94
NCR-adj. EBITDA	232	244	294	348	405	419	428
NCR-adj. EBITDA incl. one-off posts	232	244	294	348	635	419	522
Cash and cash equivalents	25	97	159	101	127	162	195
NCR-adj. cash and equivalents	25	97	159	101	127	162	195
Gross interest-bearing debt	3,359	4,915	6,025	7,535	7,620	7,932	7,932
Long-term leasing liabilities	158	167	158	157	157	157	157
NCR-adj. cash and equivalents	-25	-97	-159	-101	-127	-162	-195
NCR-adj. net debt	3,492	4,985	6,024	7,591	7,649	7,927	7,893
Net interest	-48	-47	-41	-79	-170	-214	-233
Interest income from JVs	0	-4	-19	-25	-20	-14	-8
Financial costs from leasing	-6	-5	-5	-5	-5	-5	-5
NCR-adj. net interest	-53	-57	-65	-109	-194	-232	-245
Investment property	10,135	12,046	14,673	15,718	13,943	13,161	13,330
Non-current right-of-use assets	158	167	158	157	157	157	157
NCR-adj. investment property	10,293	12,213	14,831	15,875	14,099	13,318	13,487

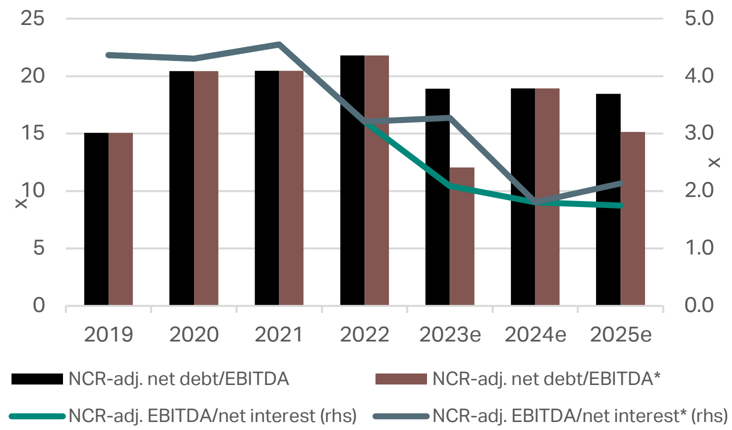
Based on NCR estimates and company data. e–estimate. FFO–funds from operations.

Figure 8. Heba NCR-adj. investment properties, net debt, and net LTV, 2019–2025e



Based on NCR estimates and company data.

Figure 9. Heba NCR-adj. net debt/EBITDA and EBITDA/net interest, 2019–2025e



Based on NCR estimates and company data. *Incl. one-off payments from JV.

Funding stable and diverse, but risk appetite gradually increasing

Risk appetite 'bbb-'

Our view of Heba's risk appetite is stronger than our assessment of the company's financial ratios. We view the choice to pause early-stage projects and delay the start of new projects as positive and indicative of a prudent risk appetite in the face of increased uncertainty in the market. The assessment is also supported by the option to convert properties with apartments for sale into residential rental properties.

Our risk appetite assessment, however, remains constrained by Heba's significant exposure to joint-venture agreements (although decreasing as ongoing projects are finalised). At year-end 2022, Heba had SEK 408m in outstanding loans to its joint ventures with Åke Sundvall Byggnads. As we consider these loans to be of an operational nature rather than financial, we do not net the loans or the resulting interest income against debt. In addition, Heba has made off-balance-sheet financial guarantees in respect of the joint ventures amounting to SEK 1.2bn. These guarantees expire in 2024.

Figure 10. Heba financial policies and reported metrics (%)

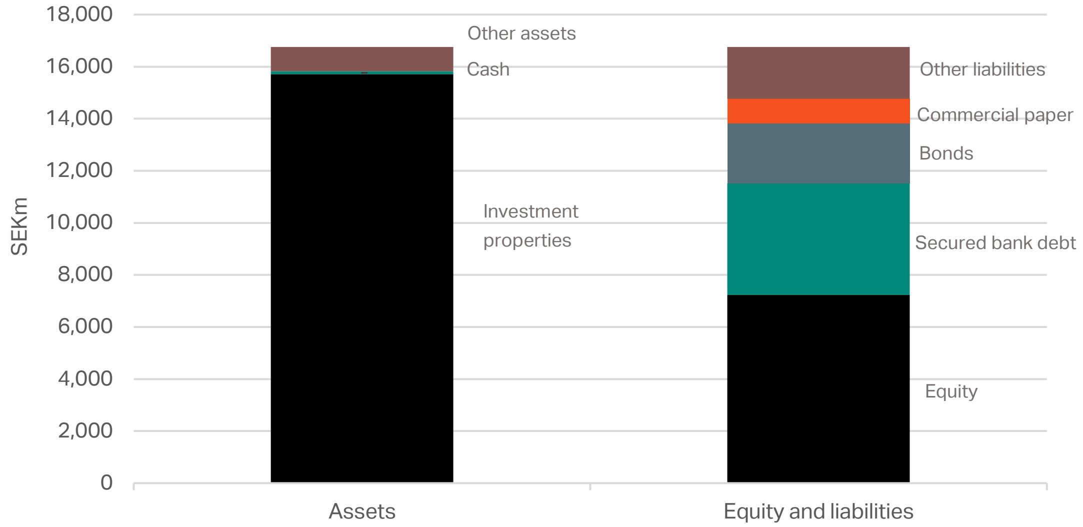
Metric	Targets	Reported 31 Dec. 2022
Equity/total assets	>40	43
LTV	<50	47.9
Share of community service properties**	~20	17
Dividend pay-out	70	72*

Source: company. *2021 dividend pay-out. **Of rental revenue.

Heba has a history of paying dividends above 70% of after-tax operating profit, which is somewhat higher than its peers' pay-out levels. While the dividend for 2022 the financial year has yet to be voted on at the annual general meeting, the proposal diverges significantly from this target (approximately 40% of after-tax profit from property management). If approved, we would view this as positive for Heba's willingness to diverge from its dividend target to support financial metrics.

Heba is financed by secured bank debt and commercial paper under a SEK 4bn framework and, since March 2022, unsecured bonds within a SEK 5bn framework. At year-end 2022, unsecured debt, including commercial paper, stood at 43% of total debt. The company's bank loans are typically secured by its property assets, with SEK 4.5bn in mortgaged assets (27% of total assets, compared with 17% one year ago) as of 31 Dec. 2022.

Figure 11. Heba balance sheet, 31 Dec. 2022

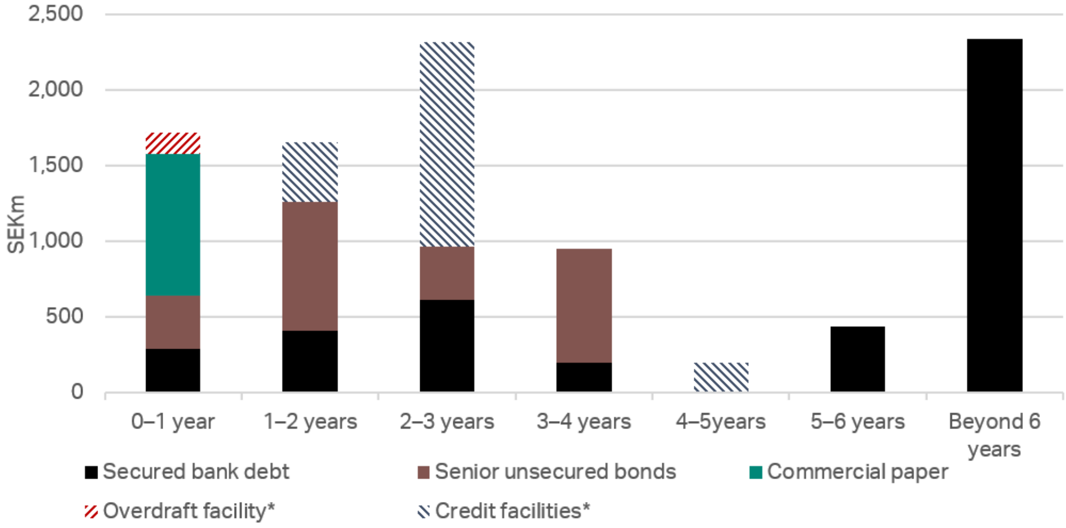


Source: company.

At year-end 2022, Heba had SEK 1.7bn in maturities over the subsequent 12 months, including SEK 350m in senior unsecured bonds, its SEK 140m overdraft facility (expected to be renewed), and SEK 940m in unsecured commercial paper. We expect the company to refinance the majority of this commercial paper on a continuing basis, but note that it also has backup facilities of SEK 2.1bn if necessary. The company holds relatively low levels of cash, instead managing liquidity using an additional SEK 140m overdraft facility.

At year-end 2022, Heba's average debt to maturity was 4.2 years, including commitments and excluding commercial paper, and its average fixed-interest period was 2.8 years, reflecting the company's aversion to refinancing risk, which we view as positive. Heba uses derivatives to limit the effects of interest rate changes. A total of SEK 3.5bn of the loan portfolio had fixed interest through interest rate derivatives at year-end 2022.

Figure 12. Heba debt maturities, 31 Dec. 2022



Source: company. *Unutilised portion.

ADJUSTMENT FACTORS

Adjustment factors neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs.

We assess Heba's liquidity profile as adequate. The company has strong relationships with its banks, as well as SEK 2.1bn in revolving credit facilities and overdraft facilities available, providing additional liquidity support. Since year-end 2022, the company has redeemed commercial paper worth SEK 310m without issuing new commercial paper, and drawn on SEK 200m of its credit facilities. We anticipate a SEK 605m surplus for the 12 months ending 31 Dec. 2023, more than enough to cover the proposed dividend of 0.45 SEK/share.

We estimate the following primary liquidity sources for the 12 months to 31 Dec. 2023, totalling SEK 2.8bn:

- SEK 101m, reflecting cash and equivalents as of 31 Dec. 2022;
- SEK 54m in payments from apartments sold;
- SEK 176m in repayment of joint venture loans;
- SEK 2.1bn in undrawn credit facilities; and
- SEK 331m, reflecting 75% of funds from operations through 31 Dec. 2023.

We anticipate liquidity to be used for the following purposes over the same period, totalling SEK 2.1 bn:

- SEK 292m in bank debt maturities;
- SEK 940m in outstanding commercial paper;
- SEK 140m in a maturing overdraft facility;
- SEK 350m in maturing unsecured bonds; and

- SEK 425m in planned capital spending for committed projects and refurbishing aging apartments.

Environmental, social and governance factors

ESG factors adequate

The main environmental, social and governance (ESG) issues that could affect our credit rating on Heba are factors that could contribute to loss of revenue, increased operating costs, higher capital spending, loss of value of assets, reduced access to funding, or loss of operating rights.

Heba has a leading position in the Swedish market in terms of energy efficiency in its properties, with a usage of 86 kWh/sqm at year-end 2022, down by 7% from a year prior. Heba aims to be climate neutral by 2045 at the latest, and, until it achieves this, is contributing to a UN carbon offset programme. Heba has also signed on as a future client for Stockholm Exergi's carbon capture storage project. For its new constructions, the company is targeting a silver-level certification from domestic environmental certification agency Miljöbyggnad (or equivalent). Heba also assumes social responsibility for its community service facilities and rental apartments. The company conducts surveys of tenants and employees, and has established minimum levels of satisfaction in its corporate goals.

Given the strong demand for rental housing in Stockholm, Heba acknowledges the risk of bribes, corruption and illegal property transfers. In this respect, it conducts internal training programmes and has instituted a no-tolerance code of conduct to ensure that its employees understand their ethical responsibilities. Heba has begun working with its two major suppliers, Åke Sundvall Byggnads and Husab, to find and address potential irregularities among their suppliers.

Figure 13. Heba ESG considerations

Issue	Risk	Mitigating efforts	Result
CO_2 emissions	Increased costs due to regulatory and/or taxation changes.	Efforts to increase energy efficiency and reduce CO_2 emissions. CO_2 offsets. Environmental certification of properties.	Heba has not yet reported CO_2 figures for 2022. However, in late 2022 the net zero emissions target was approved by SBTi*.
Political risk	Political action affecting residential rental revenues and lowering property values.	Community service properties in portfolio and development of apartments for sale diversify revenues.	Community service properties accounted for 16% of portfolio value at year-end 2022.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower fossil-fuel dependence.	Strong focus on environmental certification. Targets net zero carbon emissions by 2045. Green-bond framework.	SEK 2.3bn in outstanding green bonds as of year-end 2022. 86 kWh/sqm usage in property portfolio at year-end 2022, target of below 80 kWh/sqm by 2028.

Source: company. See ESG factors in corporate ratings. *Science Based Targets initiative.

OWNERSHIP ANALYSIS

Ownership neutral

The majority of voting rights in Heba are held by, or associated with, descendants of the company's founders, which suggests they have a long-term financial commitment. Samhällsbyggnadsbolaget i Norden AB (SBB) purchased more than 20% of the capital in March 2021, making it the largest shareholder. Around year-end 2022, it moved the shares back onto its own books, having placed the shares in derivatives with Nordea Bank Apb since October 2021. SBB has announced that it might divest its subsidiary Sveafastigheter AB and move the Heba shares out of SBB and into Sveafastigheter. At this point, this does not impact our assessment of Heba's ownership. Our assessment of Heba's risk appetite reflects the current ownership's historically prudent approach to real-estate management, and a significant change in ownership structure could affect our rating.

Heba has not required capital injections in recent years, and the company's public listing gives it access to the equity markets should the need arise. However, we believe dilution of ownership would limit the potential for large equity injections.

Figure 14. Heba ownership structure, 28 Feb. 2023

Owner	Share of capital	Share of votes
Samhällsbyggnadsbolaget i Norden AB (SBB)	23.4%	12.5%
Charlotte Ericsson	6.4%	9.2%
Johan Vogel	5.9%	8.4%
Anna Vogel	5.9%	8.4%
Christina Holmbergh	5.9%	8.4%
Anders Eriksson	5.2%	8.1%
Birgitta Härnblad	4.9%	8.6%
Ulf Ericsson	3.8%	2.0%
Spiltan Fonder AB	3.0%	1.6%
Maria Sundström	2.1%	3.0%
Top 10 owners	66.5%	70.4%
Other	33.5%	29.6%

Source: company.

ISSUE RATINGS

Heba is financed primarily by secured bank loans, senior unsecured bonds, and commercial paper. At year-end 2022, unsecured debt accounted for 43% of total outstanding debt, well below the company's 50% policy limit. Due to the company's historical adherence to this policy, as well as the relatively low secured LTV providing a buffer to unsecured debt holders, we rate Heba's senior unsecured debt 'BBB', in line with the long-term issuer rating.

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.

METHODOLOGIES USED

(i) Corporate Rating Methodology, 18 Feb. 2022.
(ii) Rating Principles, 24 May 2022.
(iii) Group and Government Support Rating Methodology, 18 Feb. 2022.

RELEVANT RESEARCH

(i) Sweden's real-estate sector faces growing challenges, 13 Dec. 2022.

Figure 15. Heba key financial data, 2018–2022

SEKm Period-end	FY 31 Dec. 2018	FY 31 Dec. 2019	FY 31 Dec. 2020	FY 31 Dec. 2021	FY 31 Dec. 2022
INCOME STATEMENT					
Rental income	381	388	394	450	510
Other income	–	–	–	–	–
Total costs from operations	-130	-127	-120	-137	-148
Net operating income	**250**	**261**	**274**	**313**	**362**
Administrative expenses	-30	-29	-34	-37	-38
Administrative expenses, project portfolio	–	–	–	–	–
EBITDA	**221**	**232**	**240**	**276**	**324**
Share of profit in associated companies and joint ventures	–	–	–	-1	-1
Interest expenses	-55	-49	-52	-60	-104
Interest income	1	1	4	19	25
Interest expenses, shareholder loans	–	–	–	–	–
Financial costs from leasing	–	-6	-5	-5	-5
Other financial costs	2	–	–	–	–
Changes in investment property	557	624	744	1,491	-603
Gain (loss) on financial assets held at fair value	-1	-22	-21	56	227
Disposals of investment properties	–	–	–	-2	-0
Gain (loss) on derivatives	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–
Restructuring activities	–	–	–	–	–
Income (expense) on discontinued operations	–	–	–	–	–
Pre-tax profit	**724**	**781**	**910**	**1,774**	**-138**
Current taxes	–	-1	–	-0	-0
Deferred taxes	-71	-55	-192	-298	2
Net profit	**654**	**724**	**718**	**1,475**	**-136**
BALANCE SHEET					
Investment property	9,656	10,135	12,046	14,673	15,718
Other non-current assets	38	201	510	628	628
Total non-current assets	**9,693**	**10,337**	**12,556**	**15,301**	**16,346**
Cash and cash equivalents	6	25	97	159	101
Other current assets	25	37	122	56	309
Total current assets	**31**	**62**	**219**	**214**	**410**
Total assets	**9,724**	**10,399**	**12,776**	**15,516**	**16,756**
Total equity	**4,873**	**5,506**	**6,125**	**7,493**	**7,225**
Non-current borrowings	2,101	1,747	2,294	4,290	5,803
Non-current borrowings, shareholder loans	–	–	–	–	–
Deferred tax liabilities	–	1,220	1,412	1,710	1,710
Other non-current liabilities	1,201	192	222	158	157
Total non-current liabilities	**3,302**	**3,158**	**3,928**	**6,158**	**7,669**
Total current liabilities	**1,549**	**1,735**	**2,723**	**1,865**	**1,862**
Total equity and liabilities	**9,724**	**10,399**	**12,776**	**15,516**	**16,756**
CASH FLOW STATEMENT					
Pre-tax profit	724	781	910	1,774	-138
... of which changes in investment property	557	624	744	1,491	-603
Depreciation and amortisation	–	–	–	–	–
Tax paid	–	–	0	-1	-0
Adjustment for items not in cash flow	-561	-610	-724	-1,543	361
Cash flow from operating activities before changes in working capital	**163**	**170**	**187**	**229**	**223**
Changes in working capital	7	2	1	4	-26
Cash flow from operating activities	**170**	**173**	**188**	**233**	**197**
Cash flow from investment activities	**-376**	**121**	**-1,273**	**-1,075**	**-1,653**
Cash flow from financing activities	**207**	**-275**	**1,157**	**904**	**1,398**
Cash and cash equivalents at beginning of period	6	6	25	97	159
Cash flow for period	1	19	72	62	-58
Cash and cash equivalents at end of period	**6**	**25**	**97**	**159**	**101**

Source: company. FY–full year. LTM–last 12 months.

Figure 16. Heba rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	a
Market position, size and diversification	12.5%	bb
Portfolio assessment	12.5%	bbb+
Operating efficiency	5.0%	a
Business risk assessment	50.0%	bbb+
Ratio analysis		bb+
Risk appetite		bbb-
Financial risk assessment	50.0%	bb+
Indicative credit assessment		**bbb**
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		**bbb**
Support analysis		Neutral
Issuer rating		**BBB**
Outlook		Negative
Short-term rating		**N3**

Figure 17. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB

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