

LSTH Svenska Handelsfastigheter AB (publ)

Rating Action Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Nordic Credit Rating (NCR) said today that it had revised its outlook on Sweden-based property manager [LSTH Svenska Handelsfastigheter AB \(publ\)](#) to stable from negative. At the same time, the 'BBB-' long-term issuer rating and 'N3' short-term issuer rating were affirmed.

Rating rationale

The outlook revision reflects an improvement in our projections of Svenska Handelsfastigheter's ratios. This follows a SEK 1bn equity issue, announced 21 Mar. 2023, and reduced uncertainty about the company's ownership and management team. Recent negotiations about the company's future have concluded in line with the timeline we had previously expected and we see the outcome as supportive of the corporate credit risk profile.

The owners' decision to strengthen the balance sheet through the new issue supports our positive view of their commitment to the company and effectively reduces its leverage. As a result of the equity issue, the company's pro-forma NCR-adjusted net loan-to-value (LTV) as of end-2022 would have been 46% compared with 52% before. In addition, we expect Svenska Handelsfastigheter to commit to keeping net LTV below 50%. We believe that current CEO Lennart Sten's replacement by current deputy CEO Thomas Holm will have only a minimal impact on the company's overall strategy and operations.

Stable outlook

The stable outlook reflects an improved financial risk profile following the strengthening of the balance sheet and reduced uncertainty about the company's ownership and management team. In our assessment, Svenska Handelsfastigheter is well equipped to meet upcoming debt maturities and is less sensitive to higher market interest rates than previously. We expect the values of the company's properties to be more resilient than those of its competitors due to its relatively low sensitivity to changes in yield requirements and the healthy yield gap of its assets.

We could raise the rating to reflect a commitment to reducing financial risk (net LTV and net debt/EBITDA below 40% and 9x respectively) or a significantly larger and more diverse portfolio with a higher proportion of non-cyclical tenants. We could also raise the rating to reflect increased long-term ownership commitment. We could lower the rating to reflect a change in ownership or the owners' risk appetite and weaker credit metrics (net LTV above 50% and net interest coverage below 3.5x) over a protracted period. We could also lower the rating if the company's exposure to cyclical tenants increases or if market fundamentals deteriorate and negatively impact profitability and/or occupancy.

Rating list

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

To	From
BBB-	BBB-
Stable	Negative
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		Stable	Negative
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:	<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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NORDIC CREDIT RATING AS

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