

Fastighets AB Stenvalvet (publ)

Rating Action Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Fastighets AB Stenvalvet long-term issuer rating lowered to 'BBB'; Outlook stable

Nordic Credit Rating (NCR) said today that it had lowered its long-term rating on Sweden-based community service property manager [Fastighets AB Stenvalvet \(publ\)](#) to 'BBB' from 'BBB+'. The outlook is stable. The short-term rating was affirmed at 'N3'. At the same time, NCR lowered the senior unsecured issue rating to 'BBB' from 'BBB+'.

Rating rationale

The lowering of the long-term issuer rating reflects the company's weaker financial risk profile following the repayment of its shareholder loans, which we treated as equity. While SEK 245m of the loans and unpaid interest will be converted to equity, SEK 1.6bn of the SEK 1.8bn in loans will be financed by a new credit facility, increasing NCR-adjusted net debt and projected interest costs. Following the repayment, we expect the net loan-to-value (LTV) ratio to increase to about 49% from 39% as of 31 Mar. 2023.

Going forward, we expect net LTV to remain 10 percentage points higher than our previous forecast, with a corresponding reduction in the interest coverage ratio. As we expect the financial metrics to weaken, we believe the overall financial risk has increased due to more senior debt in the capital structure. Although there is still uncertainty over Stenvalvet's ownership structure, the repayment of shareholder loans reduces the Church of Sweden's direct exposure to Stenvalvet and, in our view, reduces the urgency of reducing its ownership in Stenvalvet.

Stable outlook

The stable outlook reflects our expectations that the financial metrics will weaken but stabilise over our forecast period. The outlook also reflects our expectation that Stenvalvet will continue to focus on community service properties, with long lease contracts under which rents are funded directly or indirectly by public institutions.

We could raise the rating to reflect credit metrics improving over the long term to NCR-adjusted net LTV below 40% and EBITDA/net interest over 3.0x. We could also raise the rating to reflect reduced uncertainty related to ownership and shareholder commitment.

We could lower the rating to reflect leverage increasing on a long-term basis to NCR-adjusted net LTV above 55% with EBITDA/net interest below 2.2x, given the current ownership. We could also lower the rating to reflect a higher proportion of non-public-sector tenants.

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

Figure 1. Stenvalvet rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 14 May. 2019.
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 8 May 2023 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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