

## Studentbostäder i Norden AB (publ)

Rating Action Report

**Studentbostäder i Norden AB (publ) long-term issuer rating lowered to 'CCC'; Rating on Watch Negative**

## LONG-TERM RATING

CCC

Watch Negative

## SHORT-TERM RATING

N6

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Nordic Credit Rating (NCR) said today that it had lowered its long-term issuer rating on Sweden-based residential property manager [Studentbostäder i Norden AB \(publ\)](#) to 'CCC' from 'B+'. At the same time, the short-term rating was lowered to 'N6' from 'N5'. Given the increasing likelihood of a covenant breach and a distressed exchange on the company's outstanding bond, we have placed the ratings on Watch Negative.

**Rating rationale**

The downgrade of the long-term rating reflects our concern over Studentbostäder's ability to avoid a covenant breach on its outstanding SEK 600m senior unsecured bond, maturing on 14 May 2024, as well as doubts over the company's ability to refinance the bond at maturity. Although we believe the risk of a covenant breach, or a resolution through a distressed exchange, likely changing the terms of the existing bond, is material within the next 12 months, there are actions the company could take to improve its liquidity situation and repay the bond.

By our definition, a 'CCC' issuer rating represents a strong likelihood of a conventional default or a distressed exchange, which could happen within or beyond the next 12 months. A distressed exchange, such as an extension of maturity, qualifies as a default on the bond when carried out to avoid a near-term default. While we do not specifically rate Studentbostäder's senior unsecured bonds, a default on the bond would result in a long-term issuer rating of 'SD' to reflect a selective default on the bond, as long as the company fulfils its other commitments.

We expect mitigating actions to include property divestments, equity injections, or both. The company is currently authorised to issue no more than 20% of the current volume of shares in equity or similar instruments, which at current valuations would only marginally improve liquidity. In addition, a material equity injection would significantly dilute non-participating owners' holdings at the current valuation. We believe there is potential for Studentbostäder to divest a number of properties, either in order to call the outstanding bond, thus removing the immediate covenant risk, or to repay other debt and reduce the risk of a covenant breach. However, the net cash flow from divestments is dependent on the associated bank loans, and low activity in the property transaction market raises concerns over the ability to divest significant volumes at attractive valuations. The uncertainty of these measures is reflected in our placement of the ratings on Watch Negative, given the high likelihood of a distressed exchange in the absence of progress in generating liquidity.

The maintenance covenant on Studentbostäder's outstanding bond includes an interest coverage ratio (ICR) above 1.5x. At 31 Mar. 2023 the covenant-defined ICR was 1.72x, compared with our adjusted calculation of 1.44x (rolling 12 months). In our most recent report, we forecast an adjusted ICR of 1.3x by year-end 2023 and for the company to require mitigating efforts to avoid a breach of the covenant later this year. Due to further increases in interest rates, we believe the actual outcome could be lower, and that the risk of a covenant breach early in the second half of 2023 has increased, barring any actions to reduce outstanding debt volumes.

In addition, Studentbostäder has an equity ratio covenant of 20% on the outstanding bond. At 31 Mar. 2023, the equity ratio was 25.7%. While there is some distance to the covenant, we believe it could be at risk if property valuations continue to fall in line with our expectations (-16% for the full year 2023). We consider the risk of breaching the ICR covenant as more imminent, however, as recent interest rate hikes take effect. According to the bond terms, a covenant breach is cause for immediate repayment. Consequently, failure to negotiate a distressed exchange would imply not only a default on the bond but also a very severe situation for the company, as we think it unlikely the company could raise sufficient liquidity to cover a repayment under these conditions.

Both the long-term issuer rating and the Watch Negative placement also reflect concerns about the overall liquidity situation, notwithstanding the bond maturity. Although the majority of the debt maturities (SEK 354m) in the 12 months to 31 Mar. 2024 have been refinanced, as of 31 Mar. 2023 Studentbostäder had an additional SEK 764m in bank debt maturing between 31 Mar. 2024 and 31 Mar. 2025. While Studentbostäder has demonstrated a good relationship with its banks during its relatively short history, we believe there is a material risk that the banks will be reluctant to refinance larger debt maturities, especially if declining property values push net loan-to-value metrics higher and the equity ratio down.

### Watch Negative

The Watch Negative placement reflects the increasing likelihood of a covenant breach and distressed exchange, as well as general uncertainty over whether the company's actions to improve its liquidity position will succeed. Without material divestments, constituting a considerable share of the total portfolio value, we believe that Studentbostäder is likely to either trigger the interest coverage covenant on its bond or negotiate a distressed exchange to avoid a breach and reduce the refinancing risk. The Watch Negative placement also reflects our belief that material divestments, possibly in combination with equity injections, are necessary to repay the bond, which matures on 14 May 2024.

We could lower the rating to 'CC' to reflect an absence of successful liquidity-generating actions in the near term, reducing the likelihood that the company could avoid a default on its bond or cover its other liquidity needs over the next 12 months. In the event of a default or distressed exchange on the bond or other outstanding debt, we would lower the issuer rating to 'SD', as long as the company fulfils its other commitments, until the future capital structure is defined. In addition, we could lower the issuer rating to 'C' if a default is imminent, or to 'D' if the company files for bankruptcy or in the event of similar action that would likely cause it to miss or delay future contractually required debt service payments.

We could return the outlook to stable if the company succeeds in removing concerns of a covenant breach or distressed exchange on the outstanding bond over the following 12 months. However, there is continued concern over the company's ability to repay other debt obligations and to stabilise its overall capital structure.

We could raise the long-term issuer rating back to the 'B' rating category to reflect a fully resolved situation regarding the outstanding bond, with no immediate concerns of a covenant breach or distressed exchange, and a stabilised capital structure with more moderate concerns over liquidity in the following 12 months.

We expect to resolve the Watch Negative placement within three months.

### Related publications:

- i) [Corporate Rating Methodology](#), publ. 8 May 2023
- ii) [Rating principles](#), publ. 24 May 2022
- iii) [Studentbostäder i Norden AB \(publ\) long-term issuer rating lowered to 'B+'; Outlook negative](#), publ. 19 Jan. 2023

Rating list	To	From
Long-term issuer credit rating:	CCC	B+
Outlook:		Negative
Watch:	Watch Negative	
Short-term issuer credit rating:	N6	N5

**Figure 1. False rating scorecard**

<b>Subfactors</b>	<b>Impact</b>	<b>To</b>	<b>From</b>
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+
<b>Business risk assessment</b>	<b>50.0%</b>	<b>bb+</b>	<b>bb+</b>
Ratio analysis		b-	b-
Risk appetite		b-	b-
<b>Financial risk assessment</b>	<b>50.0%</b>	<b>b-</b>	<b>b-</b>
<b>Indicative credit assessment</b>		<b>bb-</b>	<b>bb-</b>
Liquidity		Negative	Adequate
ESG		Adequate	Adequate
Peer calibration		Neutral	-1 notch
<b>Stand-alone credit assessment</b>		<b>b-</b>	<b>b+</b>
Support analysis		Neutral	Neutral
<b>Issuer rating</b>		<b>CCC</b>	<b>B+</b>
Outlook			Negative
Watch		Watch Negative	
<b>Short-term rating</b>		<b>N6</b>	<b>N5</b>

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:	<a href="#">NCR's Corporate Rating Methodology published on 8 May 2023</a> <a href="#">NCR's Rating Principles published on 24 May 2022</a> <a href="#">NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022</a> 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 <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
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: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a>
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: <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
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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