

## LSTH Svenska Handelsfastigheter AB (publ)

Rating Action Report

## LONG-TERM RATING

BBB-

## OUTLOOK

Stable

## SHORT-TERM RATING

N3

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## LSTH Svenska Handelsfastigheter AB (publ) 'BBB-' long-term rating affirmed; Outlook stable

Nordic Credit Rating (NCR) said today that it had affirmed its 'BBB-' long-term issuer rating on Sweden-based commercial property manager [LSTH Svenska Handelsfastigheter AB \(publ\)](#). The outlook is stable. The 'N3' short-term issuer rating was also affirmed.

**Rating rationale**

The long-term rating reflects Svenska Handelsfastigheter's large proportion of non-cyclical tenants, diverse property portfolio, long remaining average lease terms, high occupancy levels, and low refinancing risk. It also reflects the stable operating environment and the company's relatively strong cash flow generation. We have raised our assessment of Svenska Handelsfastigheter's financial risk appetite to reflect increased shareholder commitments from the company's owners, which we regard as strong, and their more pronounced management role through increased board participation. The rating is further bolstered by the company's commitment to a more conservative financial risk profile.

These strengths are offset by Svenska Handelsfastigheter's relatively high, but stable, leverage as we expect the value of the company's properties to be more resilient than those of its peers due to its relatively low sensitivity to changes in yield requirements and the comparatively healthy yield gap of its assets. The rating is further constrained by the relatively small size of the company's portfolio, which includes a high proportion of customised properties outside city centres. Although these properties encourage tenant loyalty, they have a higher risk of lengthy vacancies if contracts are not renewed.

**Stable outlook**

The stable outlook reflects our expectation that Svenska Handelsfastigheter will maintain its financial risk profile thanks to strong shareholder commitments. In our assessment, the company is well equipped to meet upcoming debt maturities and remain resilient to higher market interest rates. The outlook incorporates our expectation that Svenska Handelsfastigheter will continue to pursue a higher proportion of less cyclical tenants. In addition, it reflects the portfolio's resilience to the negative effects of e-commerce and the declining discretionary purchasing power of consumers.

We could raise the rating to reflect a commitment to reducing financial risk (net loan-to-value [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 strengthened long-term ownership. We could lower the rating to reflect weaker credit metrics (net LTV above 55% and EBITDA/net interest below 3.0x) over a protracted period, or to reflect a change in ownership or the owners' risk appetite. We could also lower the rating if the company seeks a higher proportion of cyclical tenants or if market fundamentals deteriorate and negatively impact profitability and/or occupancy.

**Rating list**

	To	From
Long-term issuer credit rating:	BBB-	BBB-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N3	N3

**Figure 1. Svenska Handelsfastigheter 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%	bb	bb
Portfolio assessment	12.5%	bb+	bb+
Operating efficiency	5.0%	a-	a-
<b>Business risk assessment</b>	<b>50.0%</b>	<b>bbb-</b>	<b>bbb-</b>
Ratio analysis		bb+	bb+
Risk appetite		bbb	bbb-
<b>Financial risk assessment</b>	<b>50.0%</b>	<b>bbb-</b>	<b>bb+</b>
<b>Indicative credit assessment</b>		<b>bbb-</b>	<b>bbb-</b>
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		Neutral	Neutral
<b>Stand-alone credit assessment</b>		<b>bbb-</b>	<b>bbb-</b>
Support analysis		Neutral	Neutral
<b>Issuer rating</b>		<b>BBB-</b>	<b>BBB-</b>
Outlook		Stable	Stable
<b>Short-term rating</b>		<b>N3</b>	<b>N3</b>

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:	<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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