

Stenhus Fastigheter i Norden AB (publ)

Rating Action Report

Stenhus Fastigheter i Norden AB (publ) 'BB' long-term issuer rating affirmed; Outlook negative

Nordic Credit Rating said today that it had affirmed its 'BB' long-term issuer rating on Sweden-based property manager [Stenhus Fastigheter i Norden AB \(publ\)](#) (Stenhus Fastigheter). The outlook is negative. The 'N4' short-term issuer rating and the 'BB-' issue rating on the company's senior unsecured debt were also affirmed.

Rating rationale

The long-term issuer rating reflects Stenhus Fastigheter's brief operating history, high growth rates and limited covenant headroom. It also reflects the company's high-yielding property portfolio, often in non-central locations, and our expectation that interest coverage will weaken due to higher financing costs.

The weaknesses are partly offset by Stenhus Fastigheter's exceptionally long lease terms, strong profitability and high occupancy. The company's primary geographic focus, the Mälardalen region (including Stockholm), has strong economic fundamentals, which we view as a credit strength. We take a positive view of Stenhus Fastigheter's 21% exposure to public-sector tenants, which provide stability, while the high-yielding assets in the portfolio generate relatively strong cash flows. Furthermore, Stenhus Fastigheter's recent portfolio growth has resulted in greater revenue diversity, which we regard positively.

We have revised our assessment of Stenhus Fastigheter's operating efficiency to reflect improved operating margins as the company continues to achieve synergies with the consolidation of its 2022 acquisition of Randviken Fastigheter AB (publ).

We have lowered our assessment of the company's financial ratios to reflect continued pressure on its interest coverage ratio. In our base-case forecast, we expect the ratio to weaken towards 1.8x before improving marginally in 2025. We see a continued risk that interest coverage could weaken more than we currently expect, despite the mitigating effect of the completion of development projects and inflation-linked rental contracts.

Negative outlook

The negative outlook reflects our expectation that Stenhus Fastigheter's net interest coverage will weaken through 2024. In our base-case projection, we expect net interest coverage to remain above covenant levels, but that headroom will become limited in the remainder of 2023 and 2024. We see a risk that covenant headroom could diminish faster than we currently expect, despite the mitigating effect of the completion of development projects and inflation-linked rental contracts. Our forecast assumes improvements in margins as the company finalises the integration of Randviken. We also expect the company to continue to focus on its currently targeted property subsectors and regions.

We could lower the rating to reflect an impending or actual covenant breach or a deterioration in credit metrics (net loan to value above 60% or net interest coverage below 1.5x over a protracted period). We could also lower the rating to reflect deteriorating market fundamentals that adversely affect profitability.

We could revise the outlook to stable to reflect increased or stable covenant headroom and a visible improvement in net interest coverage or a continued adequate liquidity position.

Related publications

- (i) [The Swedish real estate sector– waiting for sunshine after the rain](#), 27 Sep. 2023.
- (ii) [Decoding Swedish real estate in an uncertain market environment](#), 29 Aug. 2023.

LONG-TERM RATING

BB

OUTLOOK

Negative

SHORT-TERM RATING

N4

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Rating list	To	From
Long-term issuer credit rating:	BB	BB
Outlook:	Negative	Negative
Short-term issuer credit rating:	N4	N4
Senior unsecured issue rating:	BB-	BB-

Figure 1. Stenhus Fastigheter rating scorecard

Subfactors	Impact	To	From
Operating environment	20.0%	bb+	bb+
Market position, size and diversification	12.5%	bb	bb
Portfolio assessment	12.5%	bb+	bb+
Operating efficiency	5.0%	a-	bbb+
Business risk assessment	50.0%	bb+	bb+
Ratio analysis		bb-	bb
Risk appetite		b+	b+
Financial risk assessment	50.0%	b+	bb-
Indicative credit assessment		bb	bb
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		Neutral	Neutral
Stand-alone credit assessment		bb	bb
Support analysis		Neutral	Neutral
Issuer rating		BB	BB
Outlook		Negative	Negative
Short-term rating		N4	N4

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BB-	BB-

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 19 Nov. 2021.
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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NORDIC CREDIT RATING AS

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