Nordic Credit Rating

CORPORATE: REAL ESTATE

Sweden
7 Mar. 2024

Heba Fastighets AB (publ)

Full Rating Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

PRIMARY ANALYST
Gustav Nilsson
+46735420446
gustav.nilsson@nordiccreditrating.com

SECONDARY CONTACTS
Yun Zhou
+46732324378
yun.zhou@nordiccreditrating.com

Elisabeth Adebäck
+46700442775
elisabeth.adeback@nordiccreditrating.com

RATING RATIONALE

Our 'BBB' long-term issuer rating on Heba Fastighets AB reflects the company's long and stable history of managing residential rental properties in Stockholm, Sweden's highest-demand housing market. We expect Heba's business risk profile to remain strong and believe the company has taken measures to support its financial risk profile. The rating also reflects paused project development due to currently challenging and unclear economic conditions and the company's historically moderate financial risk appetite.

The rating is constrained by Heba's sensitivity to high interest rates, as a result of which we expect interest coverage to decrease, though stabilise, through our forecast period due to low cash flow generation relative to debt. This interest-rate sensitivity is aggravated by limitations on raising rents in Sweden's regulated market, although rental growth has been somewhat above historical levels in recent years. The rating is also constrained by Heba's exposure to property development and commitments to joint ventures, which we expect will remain part of the company's core strategy.

STABLE OUTLOOK

The outlook is stable, reflecting action taken by Heba to strengthen its balance sheet in 2023. It also reflects our expectations that Heba's interest coverage ratio and property values will decline through 2024 before stabilising over the remainder of our forecast period (through 2026). We assume that Heba will not further increase its exposure to community service properties with private tenants. We also believe that the company will start new development projects only if market conditions allow it to maintain its current financial risk profile.

POTENTIAL POSITIVE RATING DRIVERS

- NCR-adjusted interest coverage above 3.5x, primarily driven by a sustained improvement in cash flow generation with net debt/EBITDA below 9.0x over a protracted period; and
- an unchanged business risk profile, combined with lower development exposure to in-house and joint venture agreements.

POTENTIAL NEGATIVE RATING DRIVERS

- NCR-adjusted interest coverage ratio below 2.2x, or net loan to value (LTV) above the company's financial policy threshold of 50% for an extended period.
- Increased tenant concentration, particularly private counterparties.
- Significant issues with joint venture partners, negatively affecting one-off payments and financial commitments.

Figure 1. Heba key credit metrics, 2020–2026e

SEKm	2020	2021	2022	2023	2024e	2025e	2026e
Rental income	394	450	510	566	556	574	584
NCR-adj. EBITDA	244	294	348	458	396	404	392
NCR-adj. EBITDA margin (%)	62.0	65.5	68.3	81.0	71.1	70.4	67.0
NCR-adj. investment property	12,213	14,831	15,875	12,900	12,760	12,978	13,158
NCR-adj. net debt	4,985	6,024	7,591	5,508	5,815	5,747	5,780
Total assets	12,776	15,516	16,756	13,625	13,339	13,485	13,629
NCR-adj. net debt/EBITDA (x)	20.4	20.5	21.8	12.0	14.7	14.2	14.8
NCR-adj. EBITDA/net interest (x)	4.3	4.6	3.2	2.5	2.8	2.3	2.3
NCR-adj. net LTV (%)	40.8	40.6	47.8	42.7	45.6	44.3	43.9
NCR-adj. FFO/net debt (%)	3.8	3.8	3.2	5.0	4.4	4.0	3.8

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. All metrics adjusted in line with NCR methodology. One-off payments from joint ventures affected EBITDA and margins in 2023.

ISSUER PROFILE

Heba is a Sweden-based property manager focusing on residential properties in the greater Stockholm area. The company's portfolio consists of a mix of apartment properties dating from the mid-20th century to newly built dwellings. The company also manages and develops community service properties for care of the elderly, special-needs housing and preschools, though these account for a relatively small proportion of the portfolio. Heba also develops apartments and community service properties for sale and management through joint ventures.

The company was founded in 1952 and has been publicly listed since 1994, with many of the original founders' families maintaining active ownership roles. As of 31 Dec. 2023, Heba's portfolio comprised 56 properties, totalling 250,600 sqm and with a value of SEK 12.8bn.

BUSINESS RISK ASSESSMENT

Business risk assessment 'bbb+'

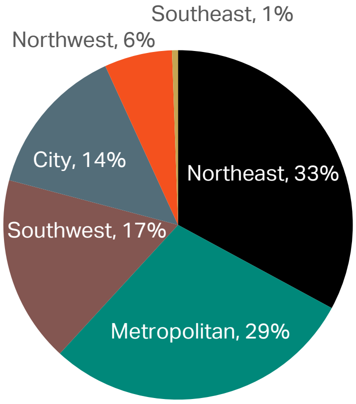
Our business risk assessment reflects stable operating conditions and high demand for residential rental and community service properties in the Stockholm region. It also reflects the company's history of achieving constant growth, driven by refurbishment of existing properties and development and acquisition of low-risk properties while steadily improving its operating efficiency. We view mothballing projects as prudent amid the current economic uncertainty but expect the company to resume development once economic fundamentals improve. Our assessment is constrained by Heba's relatively small portfolio size and the limited possibility of increasing rents in line with cost increases, due to the regulated rent system.

Strong demand in a regulated market provides stable income generation

Operating environment 'a'

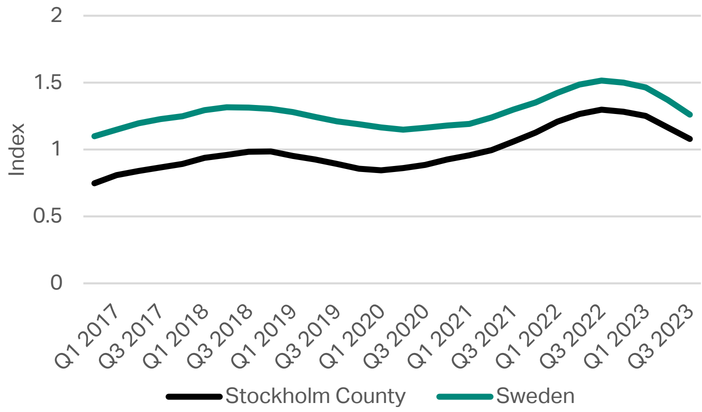
Our assessment of the operating environment is supported by Heba's large exposure to the non-cyclical Swedish rental housing market, which is characterised by government-regulated rents and long tenant waiting lists. It is further supported by the company's geographic focus on Stockholm. The capital has traditionally outperformed the domestic average in terms of housing prices and population growth, and has a relatively low unemployment rate. However, yields on residential properties, especially in the city itself, are low, and we expect continuous revision of property values as moderately priced financing remains unavailable to many prospective buyers. We see no risk of oversupply in the Stockholm housing market in the near term due to a struggling construction sector and limited supply of new builds. The tough climate for construction has resulted in Heba limiting development projects in the near term.

Figure 2. Heba property value by area (Greater Stockholm region), 31 Dec. 2023



Source: company.

Figure 3. Rental apartment deficit/surplus in Stockholm County and Sweden, 2017–Q3 2023



Source: SBAB Booli HMI. Index value above 1.5=surplus. Index value below 0.5=shortage.

The Swedish rental market is regulated through a value system in which rent levels are controlled by the government with the aim of reflecting the value of using a property. Accordingly, rent increases are negotiated between landlords and *Hyresgästföreningen*, a national tenants' organisation. Newly built and refurbished apartments can, however, generate higher rental levels, albeit still below what one would expect in an unregulated market. Since the beginning of 2023, a new system has been in place to reflect property managers' costs in rental increases more accurately. While Heba has obtained higher-than-historical increases under the new system, they remain well below the level of increases under inflation-indexed rental contracts, which are common for commercial and community-service tenants, from which approximately 27% of Heba's net operating income is generated.

The regulated rental market and high demand result in waiting lists for apartments. According to Stockholm's housing authority, *Bostadsförmedlingen*, about 822,400 individuals are currently waiting for an apartment in the city compared with 775,000 in 2022. In 2023, the average waiting period was about nine years. The long waiting times in Stockholm are indicative of high demand.

Property portfolio small compared with peers', but diversity strong

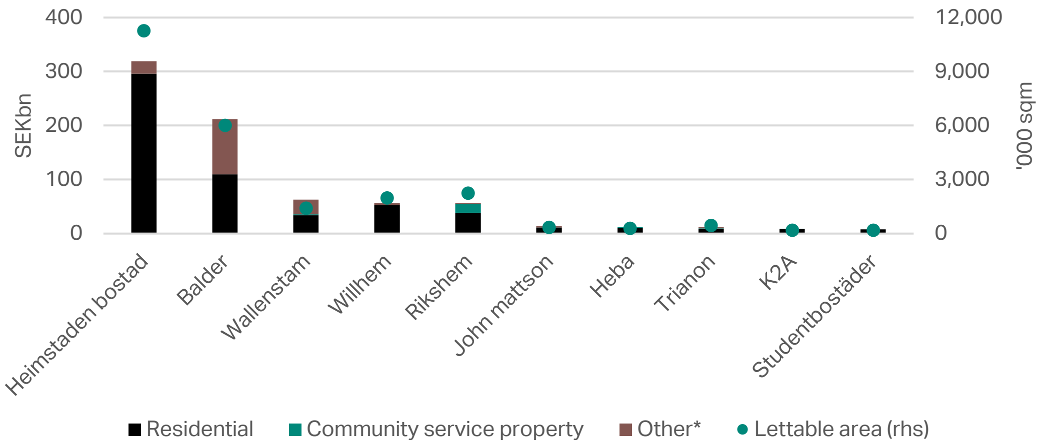
Market position, size and diversification 'bb'

As of 31 Dec. 2023, Heba's portfolio comprised 56 properties, totalling 250,600 sqm and valued at SEK 12.8bn. The company is small in a domestic context. Many of Sweden's largest real-estate managers lease office buildings and tend to have high-value portfolios, but are subject to materially greater tenant concentrations and risk associated with the business cycle.

Although Heba does not have a leading market position, we believe that its concentration on Stockholm and supportive regulation offset vacancy risk. High demand for housing in the capital reduces the risk associated with Heba's competitive position and geographic concentration. The company is, however, exposed to a single country's regulatory framework which effectively dictates rental terms and income streams.

Due to its focus on residential properties, Heba has low tenant concentrations. As of end-2023, community service properties accounted for 19% of property value. While Heba's focus on the Swedish capital limits its geographic diversity in comparison with competitors with wider coverage, the strength of the Stockholm market offsets some concentration risk.

Figure 4. Heba peer group breakdown by property value, property type and lettable area, 31 Dec. 2023



Source: companies. *Includes project properties in cases where property type was unspecified in company reports.

Income-generation portfolio stable, with limited near-term development risk

Portfolio assessment 'bbb+'

Heba's property portfolio consists of newly built properties (approximately 45%) and aging, but refurbished, residential properties (55%), with good public transport connections. The company's average remaining lease term is short, with lease contracts typically varying between one and three months, as is common among residential property managers. However, high demand and long waiting lists suggest that occupancy rates are likely to remain strong and the average remaining lease term is consequently of less importance. Community service properties typically carry 15–20-year lease terms, which creates some revenue transparency.

Most of the buildings in Heba's portfolio were built between 1960 and 1980, and most are upgraded to current standards. The company launched a long-term refurbishment plan in 2010 to upgrade its remaining properties to current standards. Due to postponements, all apartments should be refurbished by 2028. The refurbishments allow Heba to increase rental income and support property valuations.

As of end-2023, Heba had two committed developments of rental apartments in its project portfolio. The first project, Källberga in Nynäshamn, is being carried out through a forward funding contract whereas the second, Vårbergstoppen, is being developed through a joint venture with long-term partner Åke Sundvall Byggnads AB. Heba has extended guarantees for credit facilities of SEK 500m and provides additional funding in line with its ownership stake (50%). The estimated remaining investments amount to about 6% of the value of the operating portfolio, which is lower than historical levels prior to 2022. On 26 Feb. 2024, the joint venture announced the sale of the Vårbergstoppen project to AB Svenska Bostäder (owned by Stockholm Municipality) for SEK 725m (~9% below the expected total investment), to be paid in two stages upon completion (see Figure 5). The sale is contingent on municipal approval.

Heba is currently cautious about starting new projects due to challenging conditions for new developments and to contain financial leverage. We do not view the mothballing of projects as a permanent shift in strategy, but as a temporary response to weak economic conditions. Consequently, we believe the company is likely to resume development when economic fundamentals improve. Heba has uncommitted early-phase projects involving 700 apartments in the joint venture portfolio. Of these, 440 are tenant-owned apartments designated for sale. In our opinion, property development for sale carries higher risk than build-to-hold development due to a different cash flow profile, with greater sensitivities to market conditions and buyer sentiment at the time of exit. We do not expect Heba to start any new developments during our forecast period.

Figure 5. Heba committed and early-phase projects*, 31 Dec. 2023

Property	Property type	Project type	Estimated completion	Expected investment (SEKm)
Källberga, Nynäshamn	Rental apartments	Forward funding	2026	373
Vårbergstoppen	Rental apartments	Joint venture	1 Sep. 2024 (stage 1) 1 Jun. 2025 (stage 2)	800
Early-phase development	Rental apartments and tenant-owned apartments for sale	Joint venture	No estimate	2,250
Total	-	-	-	**3,423**

Source: company. *Excluding refurbishment of existing rental apartments.

Occupancy rates excellent due to stable demand

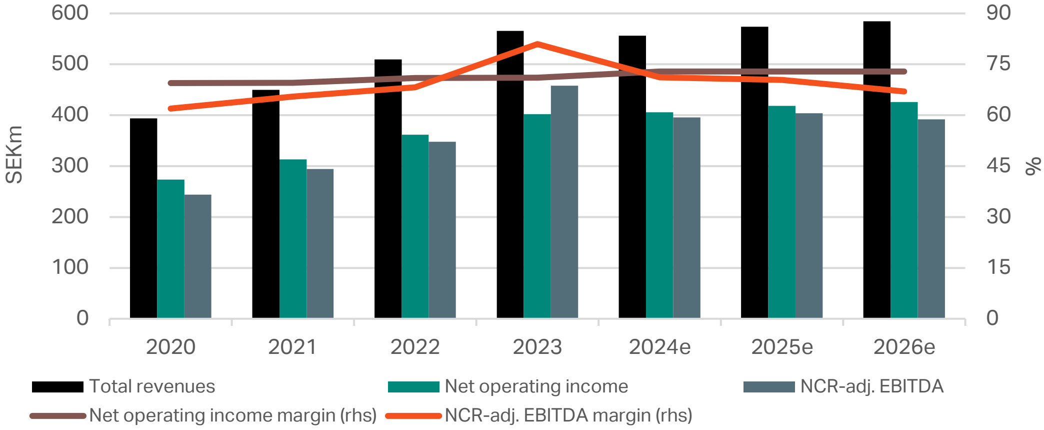
Operating efficiency 'a'

Strong demand for rental housing in Stockholm ensures that occupancy is high and operating efficiency stable. Vacancy rates in the portfolio stand at less than 0.5% and we expect them to remain low. We also expect Heba's existing residential and community service properties to continue to generate stable rental income due to rental increases (based on inflation and refurbishment) in excess of cost increases. Negotiated residential rents for 2024 are significantly above historical norms, but well below recent increases in operating costs for domestic property managers. We expect rental growth at slightly above historical levels as inflationary pressure recedes, but lower than current levels in excess of 4%.

Community service properties provide stable operating revenue and are likely to contribute about 25–27% of Heba's net operating income during our forecast period. Heba plans to complete the acquisition of two elderly care facilities in early-2024, but we expect no acquisitions of additional community service properties during our forecast period. We consider vacancy risk to be above that of residential properties, but lower than some other commercial property types.

Our base case includes interest income from joint ventures due to their recurring and operational nature. We expect Heba's EBITDA margin, excluding interest income, to remain at about 66% through the forecast period. Payments from apartments sold, however, are not included in our assessment of Heba's operating efficiency due to their non-recurring nature. EBITDA margins are protected by strong internal cost controls and by hedges on a large percentage of electricity costs through 2025.

Figure 6. Heba revenues, net operating income, EBITDA, and margins, 2020–2026e



Based on NCR estimates and company data. e–estimate. One-off payments from JVs affected EBITDA and margins in 2023.

FINANCIAL RISK ASSESSMENT

Financial risk assessment 'bb+'

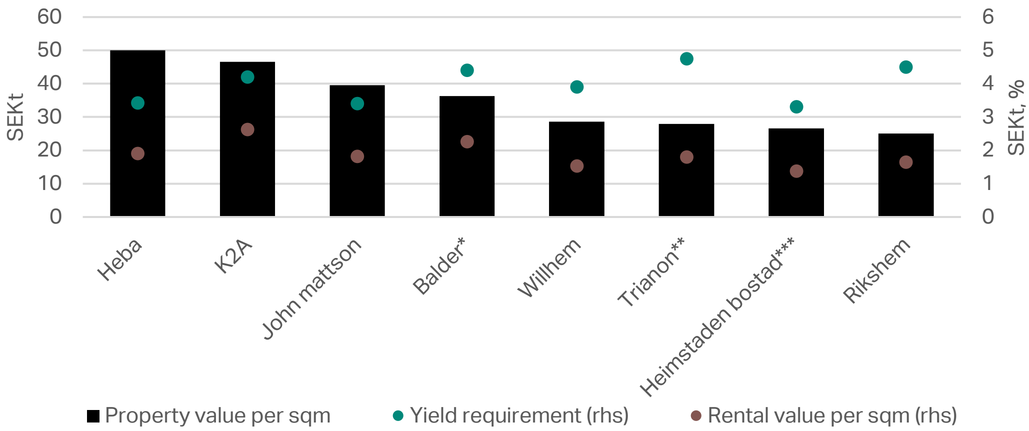
Our financial risk assessment reflects our expectation that Heba's credit metrics will weaken during our forecast period, primarily as a result of higher interest costs and low cash flow generation. We expect moderate declines in property values due to higher property yields. We consider Heba's risk appetite to be more prudent than reflected in our ratio analysis due to the company's hedging efforts and history of maintaining a relatively modest financial risk profile and low refinancing risk. The company has a strong debt maturity profile and maintains unutilised credit facilities in excess of committed uses.

Disposal of properties in 2023 supported credit metrics

Ratio analysis 'bb+'

We expect Heba to moderate its growth over the near term, avoiding commitment to any new development projects or acquisitions until market conditions improve. The company disposed of properties resulting in a cash inflow of SEK 2bn during 2023. This was used to deleverage its balance sheet. We expect Heba's net LTV to increase as we anticipate further declines in property values in the course of 2024 before stabilising over the remainder of the forecast period. We believe that yields should widen from current levels as long-term financing costs remain prohibitive for prospective residential buyers. A sluggish transaction market, with widely differing price expectations between buyers and sellers, has resulted in a dearth of transactions. We see this as an indication that actual property values are lower than current book value. We believe, however, that Heba's focus on the greater Stockholm region should ensure its yield requirements remain more resilient than those of peers with different portfolio compositions.

Figure 7. Heba peer group breakdown by rental value and property value per sqm, and yield requirement, 31 Dec. 2023



Based on data from company reports. *Exclusively based on the residential segment. **Based on residential and community service property segment. ***Exclusively Swedish residential segment.

In our forecast of Heba's financials, we include interest income from loans to joint ventures in EBITDA, rather than net interest, to reflect the operational nature of the loans.

In our base-case forecast of Heba's future performance, we assume the following:

- A decline in rental income of 1.6% in 2024, caused by disposals of properties in 2023, followed by growth of 3.1% in 2025 and 1.9% in 2026;
- an EBITDA margin (including recurring interest income from joint ventures) of 67–71%;
- increased interest rates due to expiry of swap contracts entered into at lower than current rates, resulting in interest rates on debt of 2.4%–3.0% through the forecast period;
- declines in property values of 4.7% in 2024, reflecting our expectations of moderate increases in valuation yields;
- net investments in projects and renovations of SEK 476m in 2024, SEK 81m in 2025, and SEK 180m in 2026;
- dividend payments of SEK 86m in 2024, and thereafter payments of 40% of income from property management less adjusted tax, resulting in dividends of SEK 81m in 2025, and SEK 73m in 2026.

On the basis of these assumptions, we arrive at the following projections for 2024–2026:

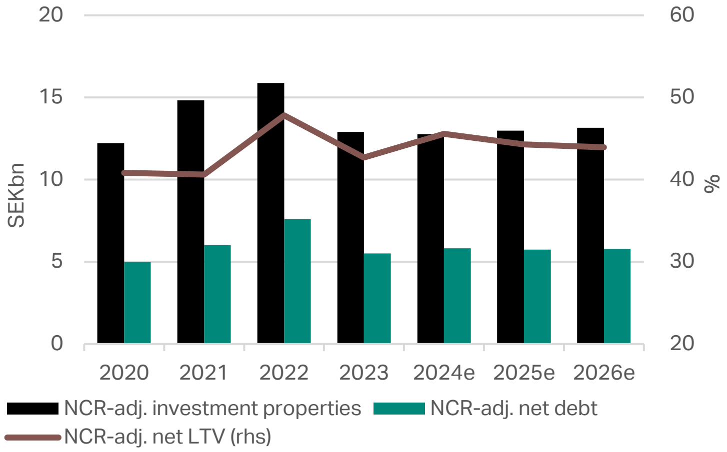
- NCR-adjusted net LTV of 43.9–45.6%;
- NCR-adjusted EBITDA to net interest of 2.3–2.8x; and
- NCR-adjusted net debt to EBITDA of 14–15x.

Figure 8. NCR's adjustments to Heba's credit metrics, 2020–2026e

SEKm	2020	2021	2022	2023	2024e	2025e	2026e
EBITDA	240	276	324	366	368	379	386
Interest income from JVs	4	19	25	34	28	25	6
Dividends from joint ventures	0	0	0	58	0	0	0
NCR-adj. EBITDA	244	294	348	458	396	404	392
Net interest	-47	-41	-79	-143	-109	-145	-161
Interest income from JVs	-4	-19	-25	-34	-28	-25	-6
Financial costs from leasing	-5	-5	-5	-4	-4	-4	-4
NCR-adj. net interest	-57	-65	-109	-181	-141	-174	-171
NCR-adj. EBITDA	244	294	348	458	396	404	392
NCR-adj. net interest	-57	-65	-109	-181	-141	-174	-171
Current taxes	0	-0	-0	0	-0	-0	-0
NCR-adj. FFO	187	229	239	277	254	230	221
Investment property	12,046	14,673	15,718	12,773	12,633	12,851	13,031
Non-current right-of-use assets	167	158	157	126	126	126	126
NCR-adj. investment property	12,213	14,831	15,875	12,900	12,760	12,978	13,158
Cash and cash equivalents	97	159	101	247	90	158	125
NCR-adj. cash and equivalents	97	159	101	247	90	158	125
Gross interest-bearing debt	4,915	6,025	7,535	5,629	5,779	5,779	5,779
Long-term leasing liabilities	167	158	157	126	167	158	157
NCR-adj. cash and equivalents	-97	-159	-101	-247	-90	-158	-125
NCR-adj. net debt	4,985	6,024	7,591	5,508	5,815	5,747	5,780

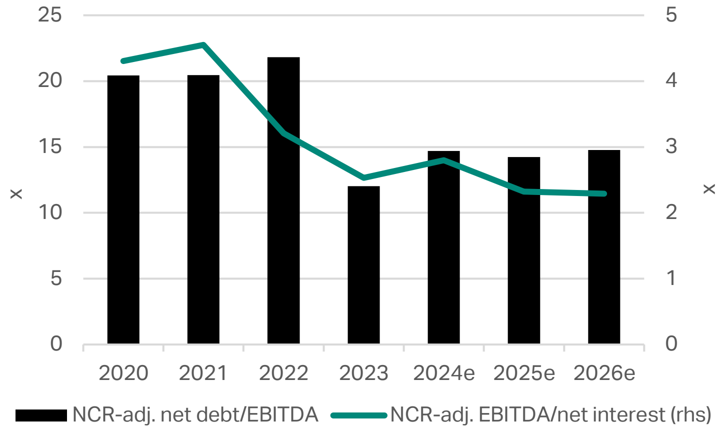
Based on NCR estimates and company data. e–estimate.

Figure 9. Heba NCR-adj. investment properties, net debt, and net LTV, 2020–2026e



Based on NCR estimates and company data. e–estimate.

Figure 10. Heba NCR-adj. net debt/EBITDA and EBITDA/net interest, 2020–2026e



Based on NCR estimates and company data. e–estimate.

Funding structure stable and diverse, but risk appetite gradually increasing

Risk appetite 'bbb-'

Broadly, Heba's risk appetite is more prudent than warranted by our assessment of its financial ratios. We view the company's recent decision to mothball early-stage projects and delay the start of new projects as prudent in the face of currently challenging market conditions. We also consider Heba's recent revision of financial targets and dividend policy as positive along with its fixed-interest arrangements, its diverse debt maturity profile, and strong liquidity.

Our risk appetite assessment, however, is constrained by Heba's exposure to property development through joint venture agreements, with the company having extended loans and financial guarantees to joint ventures. Guaranteed volumes and loans vary depending on project commitments. As of 31 Dec. 2023, Heba had extended guarantees of SEK 500m to its joint venture in Vårbergstoppen, where a contract for divestment has been signed.

In 2023, Heba revised its near-term financial targets in an attempt to navigate uncertain market conditions and strengthen its balance sheet. Over the next two years, the company aims to pay out 40% of after-tax profit from property management. We expect this policy change to be temporary as the company could return to a higher payout ratio when it presents new long-term financial targets in 2025.

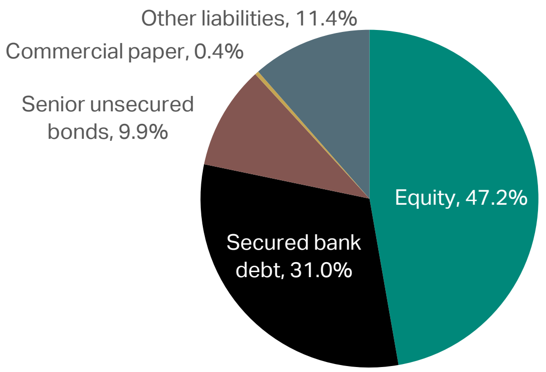
Figure 11. Heba's financial policies and reported metrics (%)

Metric	Financial policy/targets	Reported 31 Dec. 2023
Equity to total assets	>40	47.2
Gross LTV	<50	44.1
Community service properties' share of net operating income	~20	27*
Dividend payout ratio	40	40**

Source: company. *projection. **Proposed dividend based on 2023 income from property management less adjusted taxes of 20.6%.

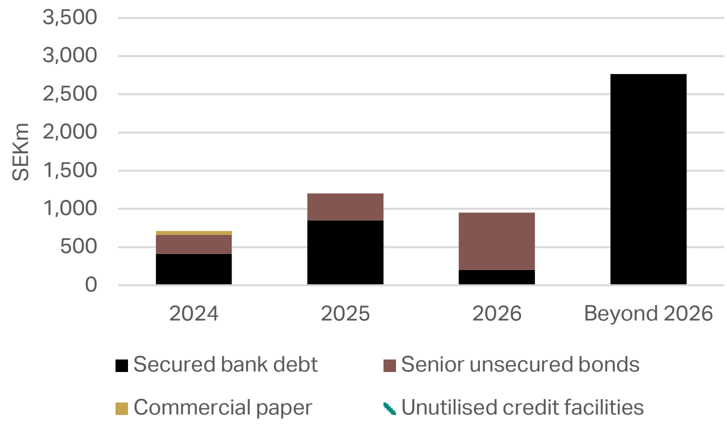
Heba is primarily financed by secured bank debt and senior unsecured bonds. The company has a commercial paper framework of SEK 4bn, but the outstanding amount of SEK 50m as of end-2023 is well below historical levels and we expect the company to increase the proportion of commercial paper in its funding mix. At end-2023, senior unsecured debt, including commercial paper, stood at 25% of total outstanding debt, considerably lower than at end-2021 when the ratio was 58%. The higher proportion of secured funding in the mix has resulted in the proportion of unencumbered assets shrinking to 67% at end-2023, compared with 83% two years previously. We see the moderately high proportion of unencumbered assets as positive for Heba's capital structure, particularly if the company needs to dispose of assets to meet bond maturities.

Figure 12. Heba funding profile, 31 Dec. 2023



Source: company.

Figure 13. Heba debt maturity profile, 31 Dec. 2023



Source: company.

At end-2023, Heba's average debt maturity was 4.2 years, including commitments. The company had SEK 1.2bn in maturities over the subsequent 12 months, of which SEK 532m were credit facilities (with some likely to be renewed). We see the company's relatively long and well-spread debt maturity profile as positive. As of 31 Dec. 2023, Heba's average fixed-interest period was 3.5 years. However, maturities are front-loaded with about 54% of interest-fixing falling due within the next two years, which represents a risk to the interest coverage ratio depending on the timeliness and extent of prospective interest rate cuts through 2025.

ADJUSTMENT FACTORS

Adjustment factors neutral

Adjustment factors are assessed as neutral and have no effect on the rating.

Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect a company with an investment grade rating ('BBB-' or above) to cover its liquidity needs, with limited need for external funding over the coming 12 months.

We assess Heba's liquidity profile as adequate given that net sources are projected to exceed uses by SEK 964m in the course of 2024. The surplus liquidity should also be able to cover the company's proposed dividend of 0.52 SEK per share (SEK 86m in total).

We estimate the following primary funding sources of liquidity for the 12 months ending 31 Dec. 2024, totalling SEK 2.1bn:

- SEK 247m in cash and equivalents as of 31 Dec. 2023;
- SEK 191m from FFO, equalling 75% of estimated NCR-adjusted FFO over the period; and
- SEK 1.7bn in unutilised credit facilities.

We estimate the following uses of funds for the 12 months ending 31 Dec. 2024, totalling SEK 1.2bn:

- SEK 712m in repayment of borrowings; and
- SEK 462m in committed capital spending and acquisitions.

Environmental, social and governance factors

ESG factors adequate

The main environmental, social and governance (ESG) issues that could affect our credit rating on Heba are factors that could contribute to loss of revenue, increased operating costs, higher capital spending, loss of value of assets, reduced access to funding, or loss of operating rights.

Heba has a leading position in the Swedish market in terms of energy efficiency in its properties, with usage of 81 kWh/sqm at end-2023. The company aims to be climate neutral by 2045, and, until it achieves this goal, is contributing to a UN carbon offset programme. Heba has also signed on as a future client of a carbon capture storage project of energy company Stockholm Exergi. For new construction projects, the company targets silver-level certification from domestic environmental certification agency Miljöbyggnad (or equivalent). Heba also assumes social responsibility for its community service facilities and rental apartments. The company conducts surveys of tenants and employees and has established minimum levels of satisfaction in its corporate goals.

Given the strong demand for rental housing in Stockholm, Heba acknowledges the risk of bribes, corruption and illegal property transfers. In this respect, it conducts internal training programmes and has instituted a no-tolerance code of conduct to ensure that its employees understand their ethical responsibilities. Heba has begun working with its two major suppliers, Åke Sundvall Byggnads and Husab, to find and address potential irregularities among their suppliers.

Figure 14. Heba ESG considerations

Issue	Risk	Mitigating efforts	Result
CO_2 emissions	Increased costs due to regulatory and/or taxation changes.	Efforts to increase energy efficiency and reduce CO_2 emissions. CO_2 offsets. Environmental certification of properties.	Heba has not yet reported CO_2 figures for 2023. However, since 2022 the company has had its net zero emissions target approved by SBTi*.
Political risk	Political action affecting residential rental revenues and lowering property values.	Community service properties in portfolio and development of tenant-owned apartments for sale diversify revenues.	Community service properties accounted for 19% of portfolio value at end-2023.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower fossil-fuel dependence.	Strong focus on environmental certification. Targets net zero carbon emissions by 2045. EU Green and sustainability linked financing framework.	SEK 1.4bn in outstanding green bonds as of end-2023. 81 kWh/sqm usage in property portfolio at end-2023, target of below 78 kWh/sqm by 2028.

Source: company. See ESG factors in corporate ratings. *Science Based Targets initiative.

OWNERSHIP ANALYSIS

Ownership neutral

Heba has two different share classes: A and B, with the former carrying 10 votes each and the latter one. The A shares are held by, or are associated with, descendants of the company's founders. They are unlisted and carry the right of first refusal should an owner wish to divest their stake. In our opinion, A shareholders have a long-term financial commitment to the company. The B shares are listed and freely traded. In 2023, Samhällsbyggnadsbolaget i Norden AB divested its shares to Heba's new main owner, family office IC Industricentralen Holding. We consider the change of main owner as supportive of the company's historically prudent risk appetite.

Heba has not required capital injections in recent years, and the company's public listing gives it access to the equity markets should the need arise.

Figure 15. Heba ownership structure, 31 Dec. 2023

Owner	Share of capital, %	Share of votes, %
IC Industricentralen Holding AB	23.1	12.4
Charlotte Ericsson	6.4	9.3
Johan Vogel	6.1	8.7
Anna Vogel	6.1	8.7
Christina Holmbergh	5.9	8.5
Anders Eriksson	5.1	8.1
Birgitta Maria Härnblad	4.9	8.7
Ulf Ericsson	3.8	2.0
Spiltan Aktiefond Stabil	3.0	1.6
Maria Sundström	2.1	3.0
Top 10 owners	66.6	70.9
Other	33.4	29.1

Source: company.

ISSUE RATINGS

As of 31 Dec. 2023, Heba's gross secured LTV was 33%. We expect the proportion of secured financing to increase over the next 12–18 months if market spreads remain unattractive in comparison with bank financing. Consequently, we expect the company's gross secured LTV to approach 38% by end-2025 given the likelihood that some properties will decline in value through 2024. Should the company further increase the proportion of secured financing or property values decline by more than our current expectations, resulting in secured gross LTV above 40% over a protracted period, our view of recovery prospects for senior unsecured bondholders could be negatively affected. We currently expect meaningful recovery for unsecured debtholders in the event of financial distress because of the low level of prior ranking debt to unsecured debt. Accordingly, the rating on Heba's senior unsecured obligations is commensurate with the 'BBB' issuer rating.

SHORT-TERM RATING

The 'N3' short-term rating reflects the company's liquidity profile relative to the 'BBB' long-term issuer rating.

METHODOLOGIES USED

(i) Corporate Rating Methodology, 8 May 2023.
(ii) Rating Principles, 14 Feb. 2024.
(iii) Group and Government Support Rating Methodology, 14 Feb. 2024.

RELEVANT RESEARCH

(i) Swedish real estate sector adapts to tougher financing climate, 18 Jan. 2024.
(ii) Real estate quarterly snapshot (2023Q3) - is it a sigh of relief?, 28 Nov. 2023.
(iii) The Swedish real estate sector– waiting for sunshine after the rain, 27 Sep. 2023.
(iv) Decoding Swedish real estate in an uncertain market environment, 29 Aug. 2023.

Figure 16. Heba key financial data, 2020–2023

SEKm	FY	FY	FY	FY
Period-end	31 Dec. 2020	31 Dec. 2021	31 Dec. 2022	31 Dec. 2023
INCOME STATEMENT				
Rental income	394	450	510	566
Other income	–	–	–	–
Total costs from operations	-120	-137	-148	-164
Net operating income	**274**	**313**	**362**	**402**
Administrative expenses	-34	-37	-38	-37
Administrative expenses, project portfolio	–	–	–	–
EBITDA	**240**	**276**	**324**	**366**
Share of profit in associated companies and joint ventures	–	-1	-1	36
Interest expenses	-52	-60	-104	-177
Interest income	4	19	25	34
Interest expenses, shareholder loans	–	–	–	–
Financial costs from leasing	-5	-5	-5	-4
Other financial costs	–	–	–	–
Changes in investment property	744	1,491	-603	-1,160
Gain (loss) on financial assets held at fair value	-21	56	227	-11
Disposals of investment properties	–	-2	-0	-128
Gain (loss) on derivatives	–	–	–	–
Depreciation and amortisation	–	–	–	–
Restructuring activities	–	–	–	–
Income (expense) on discontinued operations	–	–	–	–
Pre-tax profit	**910**	**1,774**	**-138**	**-1,044**
Current taxes	–	-0	-0	0
Deferred taxes	-192	-298	2	331
Net profit	**718**	**1,475**	**-136**	**-712**
BALANCE SHEET				
Investment property	12,046	14,673	15,718	12,773
Other non-current assets	510	628	628	479
Total non-current assets	**12,556**	**15,301**	**16,346**	**13,252**
Cash and cash equivalents	97	159	101	247
Other current assets	122	56	309	126
Total current assets	**219**	**214**	**410**	**373**
Total assets	**12,776**	**15,516**	**16,756**	**13,625**
Total equity	**6,125**	**7,493**	**7,225**	**6,438**
Non-current borrowings	2,294	4,290	5,803	4,917
Non-current borrowings, shareholder loans	–	–	–	–
Deferred tax liabilities	1,412	1,710	1,710	1,326
Other non-current liabilities	222	158	157	126
Total non-current liabilities	**3,928**	**6,158**	**7,669**	**6,369**
Total current liabilities	**2,723**	**1,865**	**1,862**	**819**
Total equity and liabilities	**12,776**	**15,516**	**16,756**	**13,625**
CASH FLOW STATEMENT				
Pre-tax profit	910	1,774	-138	-1,044
... of which changes in investment property	744	1,491	-603	-1,160
Depreciation and amortisation	–	–	–	–
Tax paid	0	-1	-0	–
Adjustment for items not in cash flow	-724	-1,543	361	1,270
Cash flow from operating activities before changes in working capital	**187**	**229**	**223**	**226**
Changes in working capital	1	4	-26	26
Cash flow from operating activities	**188**	**233**	**197**	**252**
Cash flow from investment activities	**-1,273**	**-1,075**	**-1,653**	**1,773**
Cash flow from financing activities	**1,157**	**904**	**1,398**	**-1,878**
Cash and cash equivalents at beginning of period	25	97	159	101
Cash flow for period	72	62	-58	146
Cash and cash equivalents at end of period	**97**	**159**	**101**	**247**

Source: company. FY–full year.

Figure 17. Heba rating scorecard

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

Figure 18. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB

DISCLAIMER

NORDIC CREDIT RATING AS

nordiccreditrating.com