

Heba Fastighets AB (publ)

Rating Action 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.comElisabeth Adebäck
+46700442775
elisabeth.adeback@nordiccreditrating.com

Heba Fastighets AB (publ) outlook revised to stable; 'BBB' long-term issuer rating affirmed

Nordic Credit Rating (NCR) said today that it had revised the outlook on its 'BBB' long-term issuer rating on Sweden-based property manager [Heba Fastighets AB \(publ\)](#) to stable from negative. The long-term rating was affirmed, as were the 'BBB' senior unsecured issue rating and the 'N3' short-term issuer rating.

Rating rationale

The outlook revision reflects our view that the Heba's financial ratios have improved as a result of action taken by the company last year to strengthen its balance sheet. In 2023, Heba sold properties amounting to SEK 2bn, which it largely used for repayment of debt. In early 2024, the company acquired two community service properties in the Stockholm region, which we expect will improve cash flow generation relative to the lower yielding residential portfolio. Our updated forecast points to improved NCR-adjusted EBITDA to net interest (net interest coverage) as a result of deleveraging, restructuring of the company's swap portfolio, and revision of its near-term dividend policy. We believe these actions will enable Heba to maintain NCR-adjusted net interest coverage above 2.2x over a protracted period against our previous estimates of below 2.0x.

The long-term issuer rating reflects Heba's long and stable history of managing residential rental properties in Stockholm, Sweden's highest-demand housing market. We expect the company's business risk profile to remain strong and believe it has taken adequate 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.

Constrictive capital markets and higher lending margins have forced Heba to increase its levels of secured bank financing at the expense of unsecured borrowing. As of 31 Dec. 2023, gross secured loan to value (LTV) was 33%. We currently expect 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.

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.

We could raise the rating to reflect a commitment to reduced financial risk (NCR-adjusted interest coverage above 3.5x), primarily driven by a sustained improvement in cash flow generation (net debt/EBITDA below 9.0x over a protracted period); together with an unchanged business risk profile and reduced exposure to in-house and joint venture development projects. We could lower the rating to reflect an NCR-adjusted interest coverage ratio below 2.2x, or net LTV above 50% over an

extended period. We could also lower the rating to reflect increased tenant concentrations, particularly private counterparties, or significant issues with joint venture partners, affecting one-off payments and financial commitments.

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. Heba 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%	bbb+	bbb+
Operating efficiency	5.0%	a	a
Business risk assessment	50.0%	bbb+	bbb+
Ratio analysis		bb+	bb+
Risk appetite		bbb-	bbb-
Financial risk assessment	50.0%	bb+	bb+
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 28 May. 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.
Primary analyst:	Gustav Nilsson, +46735420446, gustav.nilsson@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Elisabeth Adebäck, +46700442775, elisabeth.adeback@nordiccreditrating.com
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 NCR's Rating Principles published on 14 Feb. 2024 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) .
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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