

LSTH Svenska Handelsfastigheter AB (publ)

Full Rating Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

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RATING RATIONALE

Our 'BBB-' long-term issuer rating on Sweden-based commercial property manager LSTH Svenska Handelsfastigheter AB (publ) reflects the company's large proportion of non-cyclical tenants, diverse property portfolio, long remaining average lease terms, high occupancy levels, and low refinancing risk. The rating also reflects the stable operating environment and the company's comparatively strong cash flow generation compared with other property managers. We take a positive view of recent equity issues, revision of the capital structure and the owners' more pronounced management role through increased board participation. The rating is further supported by the company's commitment to a more conservative financial risk profile.

The rating is constrained by Svenska Handelsfastigheter's moderately 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 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 outlook is stable, reflecting our expectation that Svenska Handelsfastigheter will maintain its financial risk profile and improve its cash flow generation. The company is well equipped to meet upcoming debt maturities and has satisfactory interest hedging, making its interest coverage ratio more stable than those of its peers. 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.

POTENTIAL POSITIVE RATING DRIVERS

- Improved credit metrics, with net loan-to-value (LTV) below 40% and net debt/EBITDA below 9x over a protracted period.
- An increased proportion of non-cyclical tenants combined with a larger and more diverse portfolio.
- Strengthened long-term ownership structure and owner commitments.

POTENTIAL NEGATIVE RATING DRIVERS

- Worsened credit metrics, with net LTV above 55% and EBITDA/net interest below 2.2x over a protracted period.
- A higher proportion of cyclical tenants or deteriorating market fundamentals that negatively impact profitability or occupancy.
- An adverse change in ownership structure and owner commitments.

Figure 1. Key credit metrics, 2020–2026e

SEKm	2020	2021	2022	2023	2024e	2025e	2026e
Rental income	670	897	1,062	1,196	1,261	1,300	1,360
NCR-adj. EBITDA	453	591	710	806	854	881	924
NCR-adj. EBITDA margin (%)	67.6	65.9	66.8	67.4	67.7	67.8	68.0
NCR-adj. investment property	10,565	14,228	15,460	14,244	14,847	15,186	15,696
NCR-adj. net debt	5,140	7,640	8,061	6,921	7,087	6,822	6,692
Total assets	10,867	15,123	16,318	15,474	15,654	16,008	16,399
NCR-adj. net debt/EBITDA (x)	11.3	12.9	11.4	8.6	8.3	7.7	7.2
NCR-adj. EBITDA/net interest (x)	2.4	3.8	3.9	3.5	3.7	3.4	3.5
NCR-adj. net LTV (%)	48.7	53.7	52.1	48.6	47.7	44.9	42.6
NCR-adj. FFO/net debt (%)	4.9	5.4	6.0	7.4	8.5	8.9	9.6

Based on NCR estimates and company data. e—estimate. FFO—funds from operations. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Svenska Handelsfastigheter is a commercial property manager specialising in retail properties with a high proportion of non-cyclical tenants. The company targets grocery-anchored big-box retail properties in suburban locations. Svenska Handelsfastigheter has grown rapidly through new-builds and acquisitions. The company's portfolio comprises 285 properties in Sweden valued at SEK 14.2bn, with a lettable area of 851,200 sqm as of end-2023. The company was set up in 2015 by founders Lennart Sten, Thomas Holm and Johan Röhss with the support of three large pension funds: Kåpan Tjänstepensionsförening; the Fourth AP-fund; and Länsförsäkringar Liv Försäkringsaktiebolag (publ). The pension funds together control over 99% of the outstanding shares with the remainder being held by CEO Thomas Holm, the only founding partner who remains invested in the company.

BUSINESS RISK ASSESSMENT

Business risk
assessment 'bbb-'

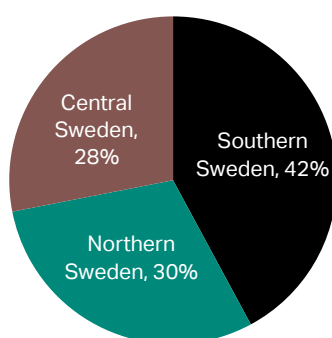
Our business risk assessment reflects Svenska Handelsfastigheter's high proportion of non-cyclical tenants and resilience to the rapid growth of e-commerce. It also reflects the company's strong operating margins and high occupancy rates. The satisfactory geographic diversity of the portfolio is offset by the company's high tenant concentration, and limited prospects for alternative use of its properties. Positively, we note that the company has a good position within its market niche.

Operating environment
'bbb-'

Grocery-anchored tenants likely to remain strong despite challenging economic headwinds

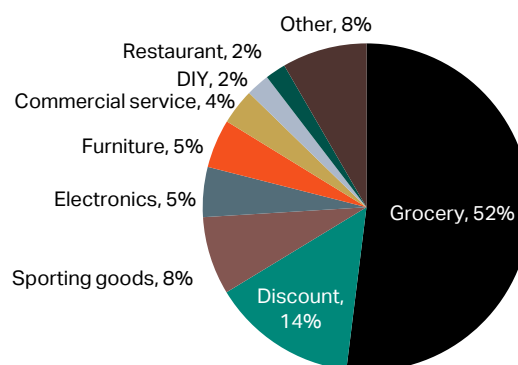
About two-thirds of Svenska Handelsfastigheter's rental revenue is generated from grocery and discount retailers mostly located in big-box properties outside city centres (see Figure 3). In our view, anchor grocery retailers are non-cyclical, have high customer footfall and typically encourage traffic to adjacent tenants with greater exposure to discretionary consumer spending such as discount, electronic, furniture, and DIY stores. Consumers' purchasing power was eroded in 2022 and 2023 by higher interest rates and inflation, which has negatively affected demand for non-essential retail goods such as sporting goods and consumer electronics. Amid these challenges, while total sales volumes have decreased, many discount stores have experienced higher growth than previously due to changed consumer behaviour. We expect discount stores to remain a growth segment as consumers become increasingly price-conscious and selective in their spending habits.

Figure 2. Rental value by management area, 29 Feb. 2024



Source: company.

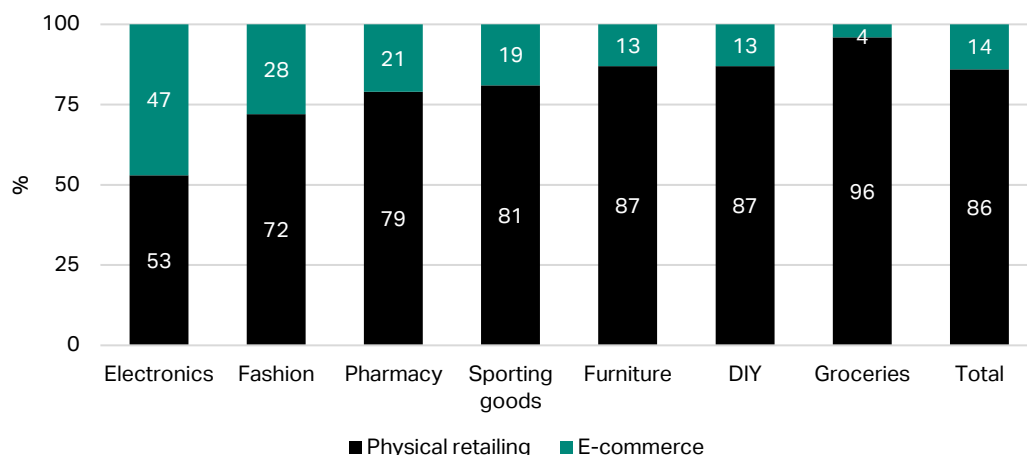
Figure 3. Rental value by property type, 29 Feb. 2024



Source: company.

The Swedish retail sector has experienced significant turbulence due to the recent economic downturn and the growth of online retail channels, which has resulted in reduced traffic and spending physical retail locations. Even though e-commerce has experienced negative growth since 2021, turnover stands at about 53% higher than before the COVID-19 pandemic and the share of total purchases has increased by 3pp. We anticipate growing competition from online channels when consumer sentiment improves as the share of e-commerce relative to total consumption is greater in discretionary segments (see Figure 4). We believe that the rapid growth in e-commerce could have an adverse impact on the outlook for the discretionary physical retail sector. We take a more positive view of the role of the physical store for grocery retailers, which seek to increase synergies between these and e-commerce due to difficulties in making pure online grocery retailing profitable.

Figure 4. Swedish consumer spending by sales channel and segment, 2023



Source: Postnord e-commerce barometer, 2023.

High interest rates have negatively affected property values across the sector as financing has become more expensive. Svenska Handelsfastigheter recorded property value declines of 11% during the second half of 2023. We see further corrections as unlikely unless the segment faces long vacancies due to the healthy yield gap of assets and comparatively strong cash flow generation, which could support debt-financed transactions.

Svenska Handelsfastigheter's portfolio spans 145 Swedish municipalities, with its largest management area (Southern Sweden) representing about 42% of rental value (see Figure 2). The largest municipalities of operation have projected population growth above the national average, which we see as positive for stability of demand for grocery-anchored retail facilities.

Figure 5. Rental value from top 10 municipal exposures, 29 Feb. 2024

Municipality	Share of rental value, %	Population, 2023	Expected population change among 15–64-year-olds, 2023–2045, %	Unemployment, 2023, %
Uppsala	7.2	245,329	14.2	6.3
Södertälje	4.9	102,519	9.7	10.5
Gävle	4.4	103,532	2.7	8.7
Kristianstad	4.4	86,560	5.2	9.2
Umeå	3.9	133,091	11.1	3.8
Linköping	3.6	167,404	9.9	5.8
Luleå	3.4	79,352	-0.1	4.5
Kungsbacka	3.3	85,653	8.2	2.6
Norrköping	3.0	145,163	7.5	8.8
Kalmar	2.8	72,304	7.4	5.9
Total/Sweden average	40.8	10,551,707	6.7	6.4

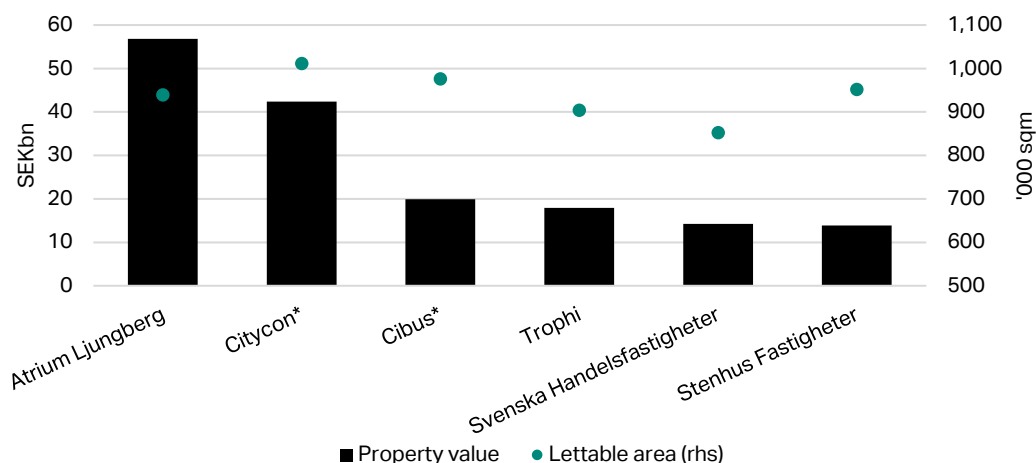
Source: company, Statistics Sweden and the Swedish Public Employment Service (Arbetsförmedlingen).

Geographic diversity constrained by high tenant concentration

Svenska Handelsfastigheter's geographically diverse portfolio, consisting of 285 properties with a combined lettable area of 851,200 sqm (as of end-2023), results in low property and location-related concentration risk. The company's 10 largest properties generate about 24% of rental value and are located in different municipalities. We believe that the focus on grocery-anchored properties improves the company's relative market position and offsets some risk associated with its comparatively small portfolio (see Figure 6). The company's portfolio is, however, similar in size to that of its closest peer (Trophix), suggesting significant presence in a less competitive niche.

Market position, size and diversification 'bb'

Figure 6. Peer group breakdown by property value and lettable area, 31 Dec. 2023



Source: company. *Exchange rate of EUR/SEK 11.1 on 31 Dec. 2023.

Svenska Handelsfastigheter's grocery-anchored strategy has resulted in material tenant and industry concentration, with the 10 largest tenants accounting for more than 50% of overall rental income. However, the largest tenants are strong counterparties spread across multiple contracts, properties and locations, which in our view offsets concentration risk. As of 29 Feb. 2024, the 10 largest contracts generated 12% of rental income.

Figure 7. Tenant concentration, 29 Feb. 2024

Tenant	Type of tenant	Share of rental income, %
ICA	Grocery	14.3
Coop	Grocery	9.4
Axfood	Grocery	7.6
City Gross*	Grocery	6.9
Systembolaget	State alcohol monopoly	4.3
Rusta	Discount	3.7
EKO*	Discount	3.0
Jula Sverige	Discount	3.0
Lager 157	Clothing	2.4
Jysk	Furniture	2.1
Top 10 tenants	-	56.8

Source: company. *Part of Bergendahls.

Long contracts and limited project risk offset by locations outside city centres

Svenska Handelsfastigheter's portfolio consists largely of big-box properties outside city centres and local grocery stores. We view grocery tenants as stable counterparties due to their non-cyclical operations, with relatively low relocation risk at contract expiry because of their demand for customised premises. However, the suburban location of some of the company's premises could result in lengthy vacancies if contracts are terminated. We see the company's relatively high yield levels, with exit yield in its valuations of 6.5%, as indicative of greater risk than in the wider real estate sector. Yields are about 70bps higher than those of Trophi and about 20bps lower than those of Stenhus Fastigheter. We believe the difference between those companies to be a function of property mix in their respective segments, rather than different fundamentals. As of 29 Feb. 2024, Svenska Handelsfastigheter had an average remaining lease term of 4.9 years, and a well-balanced lease maturity structure. We view the company's long contracts as a positive rating factor as they limit vacancy risk.

Portfolio assessment
'bb+'

Figure 8. Lease maturity profile, 29 Feb. 2024



Source: company.

Projects account for a minor proportion of Svenska Handelsfastigheter's overall operations, and we expect the company to keep construction activity at a reduced level throughout our forecast period (ending 2026). We see development risk as low as the company's projects are typically small, non-speculative and carried out in close collaboration with tenants under fixed-price contracts, which effectively mitigates project risk.

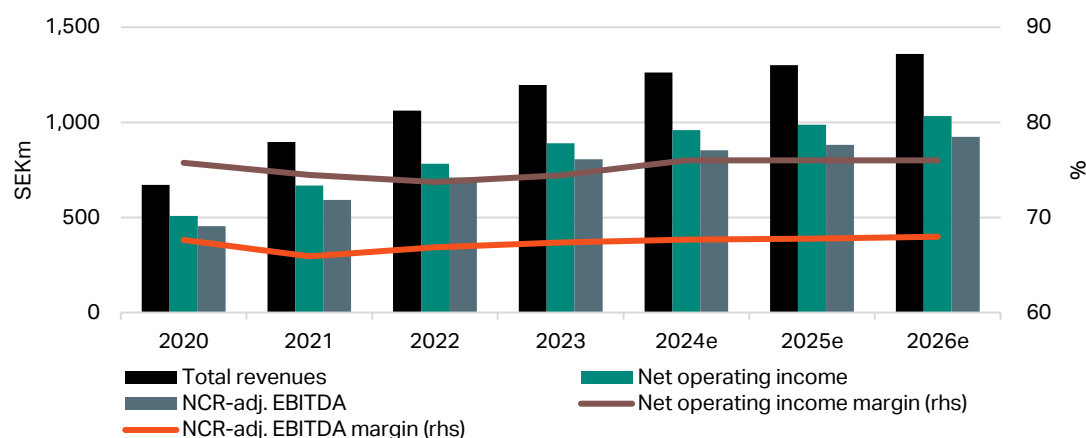
Strong margins and high occupancy

Operating efficiency 'a-'

Svenska Handelsfastigheter's operating efficiency is characterised by a high degree of inflation-linked leases, low vacancy rates, and strong cost control. Most of the company's rental contracts are linked to the Swedish consumer price index, effectively offsetting cost inflation. The company has five administrative offices and expects to manage new properties from them to gain scale and improve cost efficiency. Over our forecast period, we expect Svenska Handelsfastigheter's margins to improve due a reduction in non-recurring expenses and a large proportion of index-linked rental contracts. In 2023, the company incurred non-recurring expenses of SEK 16.3m related to the renewal of shareholder commitments and subsequent revision of its capital structure. Our forecast of Svenska Handelsfastigheter's financial ratios assumes a net operating income margin of 76% and an EBITDA margin averaging 68%.

As of end-2023, Svenska Handelsfastigheter's economic occupancy rate was 97.4%. We expect earnings and occupancy to remain stable throughout our forecast period because of the company's long average lease-terms and high proportion of strong, non-cyclical tenants. Short temporary vacancies could arise in the discretionary retail sector depending on tenants' ability to remain profitable amid reduced consumer demand.

Figure 9. Revenues, net operating income, EBITDA, and margins, 2020–2026e



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

FINANCIAL RISK ASSESSMENT

Financial risk
assessment 'bbb'

Our financial risk assessment reflects Svenska Handelsfastigheter's robust property values and comparatively strong cash flow generation and interest coverage. It also reflects the company's moderately high financial gearing. We assess Svenska Handelsfastigheter's financial risk appetite as more prudent than warranted by the company's financial ratios, primarily due to its supportive ownership structure and reduced barriers to accessing new equity. We take a positive view of the company's efforts to limit financial and refinancing risk, and maintain strong liquidity.

Strong cash flow generation likely to improve financial ratios

Ratio analysis 'bbb'

We expect Svenska Handelsfastigheter to grow more slowly than previously because of its reduced pace of acquisitions and project development. The company is likely to undertake acquisitions only if the pricing supports strong cash flows and enables net LTV to remain below 50%. We expect cash flows from operations to cover capital spending for the time being and note that the company has suspended dividends, reducing the need for debt financing to meet operating commitments. We believe that recent lease indexations and new swap contracts are likely to support the company's interest coverage ratio through our forecast period. The company's extensive interest rate hedging and equity injections from its owners have enabled it to strengthen its balance sheet to deal with higher market interest rates. We see it as unlikely that the company will record any larger revisions to its property values in 2024, in view of extensive value declines of about 11% in the second half of 2023. Yields have widened by about 125bps from their lowest levels in the second quarter of 2022 and would support debt financed acquisitions at moderate loan to value ratios.

The company revised its capital structure early in 2024 and converted preference shares held by the pension fund owners into common equity. We have treated these as 100% equity in our historical calculations of the company's key credit metrics.

In our base-case forecast of Svenska Handelsfastigheter's future performance, we assume:

- rental income growth of 5% in 2024, 3% in 2025, and 5% in 2026;
- an EBITDA margin of about 68% through 2026;
- net acquisitions of investment properties and development of existing properties amounting to SEK 600m in 2024, SEK 339m in 2025, and SEK 510m in 2026;
- expiry and replacement of swaps with low interest rates, with a projected increase in average interest rates from 3.0% at end-2023 to 3.8% by end-2026;
- no changes in property values;
- SEK 168m in share repurchases, relating to the revision of the company's capital structure in early-2024 (see risk appetite, and ownership analysis);
- no dividend payments.

On the basis of these assumptions, we estimate Svenska Handelsfastigheter's financial metrics for 2024–2026 as follows:

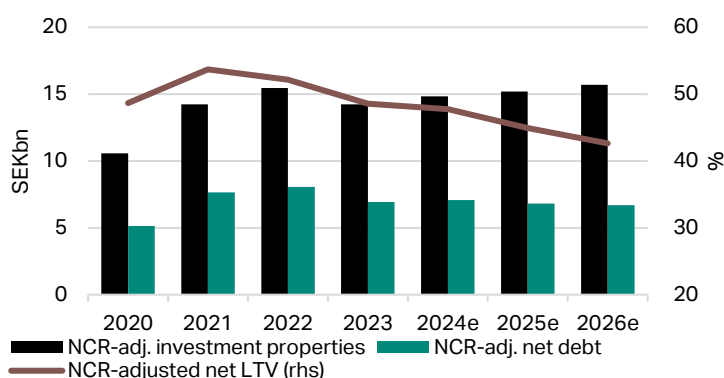
- NCR-adjusted net LTV between 42.6% and 47.7%;
- NCR-adjusted EBITDA/net interest of 3.4x–3.7x; and
- NCR-adjusted net debt/EBITDA of 7.2x–8.3x.

Figure 10. NCR's adjustments to credit metrics, 2020–2026e

SEKm	2020	2021	2022	2023	2024e	2025e	2026e
EBITDA	453	588	700	789	854	881	924
Non-recurring costs		3	10	16			
NCR-adj. EBITDA	453	591	710	806	854	881	924
Net interest, including leasing	-190	-156	-183	-232	-230	-257	-263
NCR-adj. net interest	-190	-156	-183	-232	-230	-257	-263
NCR-adj. EBITDA	453	591	710	806	854	881	924
NCR-adj. net interest	-190	-156	-183	-232	-230	-257	-263
Current tax	-9	-23	-44	-59	-20	-20	-21
NCR-adj. FFO	254	412	482	515	604	604	640
Investment property	10,545	14,200	15,432	14,215	14,818	15,157	15,667
Non-current right-of-use assets	20	28	28	29	29	29	29
NCR-adj. investment property	10,565	14,228	15,460	14,244	14,847	15,186	15,696
Cash and cash equivalents	197	741	289	880	457	472	352
NCR-adj. cash and equivalents	197	741	289	880	457	472	352
Gross interest-bearing debt	5,317	8,354	8,322	7,771	7,515	7,265	7,015
Long-term leasing liabilities	20	28	28	29	29	29	29
NCR-adj. cash and equivalents	-197	-741	-289	-880	-457	-472	-352
NCR-adj. net debt	5,140	7,640	8,061	6,921	7,087	6,822	6,692

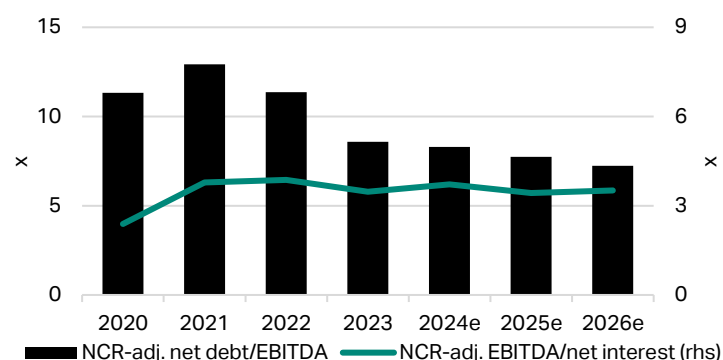
Based on NCR estimates and company data.

Figure 11. NCR-adj. investment properties, net debt, and net LTV, 2020–2026e



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

Figure 12. NCR-adj. net debt/EBITDA and EBITDA/net interest, 2020–2026e



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

Strong funding profile reduces financial risk

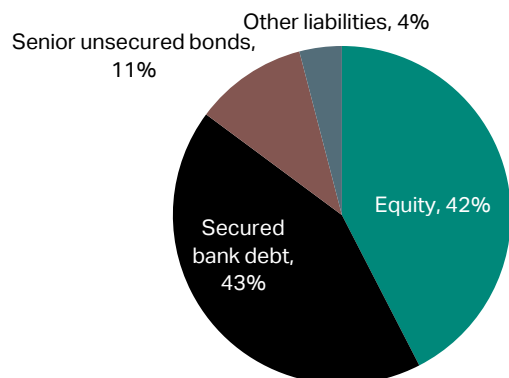
Risk appetite 'bbb+'

We assess Svenska Handelsfastigheter's financial risk appetite as more prudent than warranted by our financial ratio analysis. The company's owners are integral to our overall assessment of the company's financial risk profile due to their history of supportive actions to limit financial risk. In our view, the ownership profile contributes to improved financial flexibility and ensures adherence to long-term financial targets. We take a positive view of the company's active efforts to deal with refinancing risk, its satisfactory interest rate fixing arrangements, and comparatively large liquidity buffers.

We consider the ownership structure as supportive of Svenska Handelsfastigheter's current financial risk profile due to the owners' positive role in the company's governance structure. We view their ability to provide support as positive in that it enables adjustment of the capital structure to accommodate specific needs and reduce refinancing risk. In early 2023, Svenska Handelsfastigheter entered a new shareholder agreement. The renewed commitment harnesses the strength of the company's owners, which have taken a more prominent role on the board. Throughout 2023, Svenska Handelsfastigheter suspended dividends and raised SEK 1.2bn in new equity from its owners, demonstrating the company's commitment to a moderate long-term financial risk profile, with net LTV sustainably below 50%. These supportive actions have offset the impact of the large property value declines through the second half of 2023, when property values fell by 11%. We expect any larger acquisitions to be accompanied by equity issues to defend the policy stipulated net LTV levels of 50%.

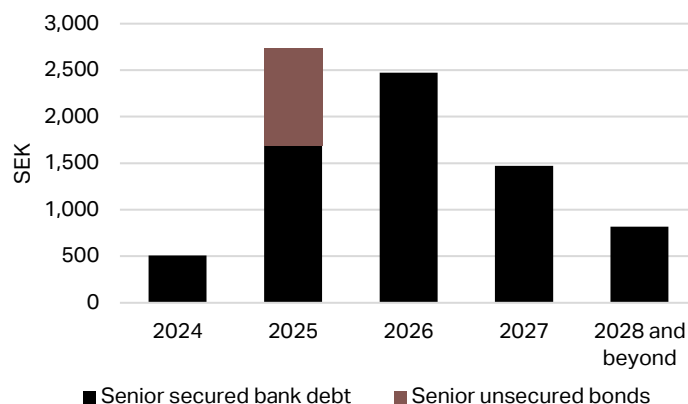
Svenska Handelsfastigheter is financed by common equity, secured bank debt and senior unsecured bonds. In early-2024, the company simplified its capital structure by converting preference shares held by its pension fund owners into common equity and now operates with a single share class, which makes future equity raising more straightforward (see ownership analysis).

Figure 13. Funding profile, 31 Dec. 2023



Source: company.

Figure 14. Debt maturity profile, 29 Feb. 2024



Source: company.

Svenska Handelsfastigheter targets a balanced debt maturity structure, allowing a maximum of 25% of total outstanding debt to mature within a given year. We see this financial target as positive, as it reduces refinancing risk. We expect continued proactive refinancing of loans and bonds. As of end-2023, the average debt maturity was 2.2 years. At that time, the company had an average fixed-interest period of about 2.8 years, while the average interest rate on its loans was 3%. About 96% of the company's floating interest rates are hedged.

Svenska Handelsfastigheter's financial risk profile is governed by financial targets and covenants (see Figure 15). In our view, the company has healthy levels of policy and covenant headroom.

Figure 15. Financial covenants, policies and reported metrics

Metric	Financial policy	Financial covenants	Reported 31 Dec. 2023
Interest coverage ratio	n.a.	≥1.5-2.5x	3.3x ³⁾
Net LTV	≤50%	n.a.	48.5%
Secured debt/total assets	n.a.	≤50%	39%
Debt maturities in any 12-month period	≤25% ¹⁾	n.a.	16%
Interest rate fixing	≥2.0 years ²⁾	n.a.	2.8 years

Source: company. 1) Maximum of 70% can mature between one and three years or three and five years while 100% can mature after five years. 2) No more than 40% of fixed interest rates can mature within any given 12-month period. 3) Last 12 months ending 31 Dec. 2023. n.a.=not applicable.

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 Svenska Handelsfastigheter's liquidity position as adequate, supported by net sources/uses of SEK 700m (1.3x) for the 12 months ending 31 Dec. 2024. In our view, the company's healthy cash balance and credit facilities offset any near-term liquidity risk. In addition, the company's liquidity profile is further strengthened by a history of timely equity injections from the owners for the purpose of managing refinancing risk.

We estimate the following primary funding sources for the 12 months ending 31 Dec. 2024, totalling SEK 2.7bn:

- SEK 880m in cash and cash equivalents;
- SEK 453m from FFO, equalling 75% of estimated NCR-adjusted FFO over the period;
- SEK 625m in proceeds from borrowings; and
- SEK 760m in unutilised credit facilities with maturities beyond the next 12 months.

We estimate the following uses of funds for the 12 months ending 31 Dec. 2024, totalling SEK 2.0bn:

- SEK 1.2bn in maturing debt;
- SEK 168m in share repurchases; and
- SEK 602m in committed capital spending and acquisitions.

Environmental, social and governance factors

ESG factors adequate

In our view, Svenska Handelsfastigheter's environmental, social and governance (ESG) efforts and reporting are comparable with those of its closest peers. In 2022, the company obtained a negligible risk score, the lowest possible ESG risk classification, from research and data provider Sustainalytics. Svenska Handelsfastigheter has assessed its entire property portfolio and seeks to improve the energy efficiency of its buildings to ensure it meets the requirements of the EU taxonomy. Thorough climate risk analysis of properties is ongoing.

The company aims to reduce its CO₂ emissions by 42% by 2030. Since 2020, it has used only 100% fossil-free electricity. Svenska Handelsfastigheter has a strong focus on solar photovoltaic systems and produces its own electricity to power its facilities. The company works closely with tenants to optimise its environmental footprint and encourages tenants to participate in such efforts. We view the company's sustainability efforts as positive in terms of the quality of its portfolio and its ability to attract tenants. As of end-2023, 56% of the portfolio (by value) had obtained certification. We expect certifications to be less of a priority going forward as the company seeks compliance with the EU taxonomy. In addition, the company's climate related targets are verified and approved by the Science Based Targets Initiative. The company recently changed its share structure and installed a new board of directors consisting of representatives from the pension fund owners and industry experts together with CEO Thomas Holm. We believe these changes are positive for the company's governance structure, where owners have taken a more pronounced role in the management of the company.

The main ESG issues that could impact our overall assessment are factors that could contribute to revenue losses, cost increases, higher capital spending or deteriorating financing terms.

Figure 16. 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.	Produced 859 MWh electricity with solar cells in 2022, reducing CO ₂ emissions by 215 tonnes. Reduced emission intensity by 40% per sqm between 2019 and 2022. 56% of the property portfolio was certified at end-2023.
Impact of climate change on operations	Loss of revenues or increased capital spending	Materiality evaluations, technical solutions, tenant dialogue, and compliance with stakeholder demands for project properties.	Materiality assessment of properties and locations. Third-party evaluation from Sustainalytics indicates low ESG risk in portfolio.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO ₂ dependence	Efforts to increase energy efficiency and reduce CO ₂ emissions. Overall sustainability focus throughout operations.	Introduced ESG and impact reporting, obtained ESG risk score, environmental certification and green bond framework.

Source: company. See [ESG factors in corporate ratings](#).

OWNERSHIP ANALYSIS

Ownership neutral

Svenska Handelsfastigheter has been financed through a single share class since early 2024, when the company revised its capital structure. The company's main owners, Kåpan Tjänstepensionsförening (Kåpan) and the Fourth AP-fund (AP4), together hold about 83% of the outstanding shares. Kåpan manages collectively agreed occupational pensions for government employees and has assets under management of over SEK 130bn. AP4 is one of five buffer funds in the Swedish public pensions system, with assets under management of about SEK 500bn at end-2023. We regard Svenska Handelsfastigheter as a core holding of these two funds' direct real estate investments, whereas we see it as a supplementary holding for Länsförsäkringar Liv Försäkringsaktiebolag (publ) (Länsförsäkringar) which has more extensive commitments to other real estate managers. The owners have strong financial capacity and a history of supporting the company by injecting equity and suspending dividends. We believe that the new capital structure reduces barriers to accessing new equity in a timely fashion and that board participation by representatives of the company's main owners indicates their commitment. We have reflected the supportive ownership profile and availability of equity in our assessment of the company's financial risk profile.

Figure 17. Ownership structure, 29 Feb. 2024

Owner	Share of capital and votes, %
Kåpan	41.55
AP4	41.45
Länsförsäkringar	16.58
Thomas Holm	0.42
Total	100

Source: company.

ISSUE RATINGS

We do not assign issue ratings to Svenska Handelsfastigheter's outstanding debt. In line with our methodology, we consider a property manager's secured gross LTV as an indicator of loss given default for senior unsecured bondholders. At end-2023, Svenska Handelsfastigheter's secured gross LTV was 43% and the company partly refinanced a SEK 620m senior unsecured bond in the first quarter of 2024 using secured bank debt, further increasing secured gross LTV. We believe that the large proportion of prior-ranking debt reduces recovery prospects for senior unsecured bondholders.

SHORT-TERM RATING

The 'N3' short-term rating reflects the company's liquidity profile relative to the 'BBB-' long-term issuer rating. The company's committed sources to uses stood at 1.3x according to our liquidity analysis, which we see as indicative of an adequate liquidity profile for the 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) [Real-estate quarterly snapshot \(Q42023\): Strong performance despite highest Swedish corporate defaults](#), 15 Mar. 2024.
- (ii) [Swedish real estate sector adapts to tougher financing climate](#), 18 Jan. 2024.
- (iii) [NCR comments: Svenska Handelsfastigheter raises new equity from owners](#), 4 Dec. 2023.
- (iv) [Real estate quarterly snapshot \(2023Q3\) - is it a sigh of relief?](#), 28 Nov. 2023.
- (v) [NCR comments: Sharp decline in property values in the third quarter of 2023](#), 28 Sep. 2023.
- (vi) [The Swedish real estate sector– waiting for sunshine after the rain](#), 27 Sep. 2023.

Figure 18. Svenska Handelsfastigheter 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	670	897	1,062	1,196
Other income	–	–	–	–
Total costs from operations	-163	-229	-279	-306
Net operating income	508	668	783	890
Administrative expenses	-54	-80	-83	-101
Administrative expenses, project portfolio	–	–	–	–
EBITDA	453	588	700	789
Share of profit in associated companies and joint ventures	–	–	–	–
Interest expenses	-190	-155	-183	-239
Interest income	0	0	0	6
Interest expenses, shareholder loans	–	–	–	–
Financial costs from leasing	–	-1	-1	–
Other financial costs	-2	-3	-1	–
Changes in investment property	604	871	444	-1,745
Gain (loss) on financial assets held at fair value	-19	102	–	–
Disposals of investment properties	–	–	–	–
Gain (loss) on derivatives	–	–	448	-245
Depreciation and amortisation	–	–	–	–
Restructuring activities	–	–	–	–
Income (expense) on discontinued operations	–	–	–	–
Pre-tax profit	846	1,425	1,408	-1,433
Current taxes	-9	-23	-44	-59
Deferred taxes	-176	-264	-222	259
Net profit	661	1,138	1,142	-1,233
BALANCE SHEET				
Investment property	10,545	14,200	15,432	14,215
Other non-current assets	20	67	477	249
Total non-current assets	10,565	14,267	15,909	14,465
Cash and cash equivalents	197	741	289	880
Other current assets	106	115	120	130
Total current assets	302	856	409	1,010
Total assets	10,867	15,123	16,318	15,474
Total equity	4,686	5,603	6,687	6,567
Non-current borrowings	5,003	8,322	6,674	6,499
Non-current borrowings, shareholder loans	–	–	–	–
Deferred tax liabilities	382	658	880	621
Other non-current liabilities	120	67	29	81
Total non-current liabilities	5,506	9,046	7,582	7,201
Total current liabilities	676	474	2,049	1,707
Total equity and liabilities	10,867	15,123	16,318	15,474
CASH FLOW STATEMENT				
Pre-tax profit	846	1,425	1,408	-1,433
... of which changes in investment property	604	871	444	-1,745
Depreciation and amortisation	0	–	–	–
Tax paid	-1	-47	-27	-32
Adjustment for items not in cash flow	-585	-973	-892	1,990
Cash flow from operating activities before changes in working capital	260	405	489	525
Changes in working capital	63	58	-75	0
Cash flow from operating activities	324	463	415	525
Cash flow from investment activities	-1,346	-1,027	-818	-523
Cash flow from financing activities	1,145	1,108	-49	588
Cash and cash equivalents at beginning of period	74	197	741	289
Cash flow for period	123	544	-452	591
Cash and cash equivalents at end of period	197	741	289	880

Source: company. FY–full year.

Figure 19. Svenska Handelsfastigheter rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bbb-
Market position, size and diversification	12.5%	bb
Portfolio assessment	12.5%	bb+
Operating efficiency	5.0%	a-
Business risk assessment	50.0%	bbb-
Ratio analysis		bbb-
Risk appetite		bbb+
Financial risk assessment	50.0%	bbb
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

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