Nordic Credit Rating

CORPORATE: REAL ESTATE

Sweden
27 Mar. 2024

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 LSTH Svenska Handelsfastigheter AB (publ). The outlook is stable. At the same time NCR affirmed the 'N3' short-term rating.

Rating rationale

The affirmation of the long-term rating reflects our view that Svenska Handelsfastigheter's financial risk profile is likely to remain robust due to the company's satisfactory interest-rate fixing, improved earnings capacity and suspension of dividends. We believe that the owners have improved the company's financial flexibility and ability to act on potential investment opportunities without increasing financial risk. We also believe they are committed to maintaining the net loan-to-value (LTV) ratio below 50%.

We have raised our assessment of the company's financial risk profile due to reflect its commitment to lower leverage and a recent revision of its capital structure. Preference shares held by institutional owners were converted into common equity in early 2024. We believe that the new capital structure reduces barriers to accessing new equity in a timely fashion and improves transparency. In our view, further downward pressure on property values is unlikely due to the healthy yield gap of the company's assets and a widening of its yield requirements by 125bps over the past 18 months. We expect the owners to provide equity to maintain net LTV targets if property values fall.

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. 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 and the owners' more pronounced management role through increased board participation.

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. 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 and improve its cash flow generation. The company is well equipped to meet upcoming debt maturities and has satisfactory interest hedging arrangements, 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.

We could raise the rating to reflect improved credit metrics (LTV below 40% and net debt/EBITDA below 9x over a protracted period). We could also raise the rating if the company were to increase the proportion of non-cyclical tenants and increase the size and diversity of its portfolio. The rating could also be raised to reflect a strengthened long-term ownership structure and owner commitments.

We could lower the rating to reflect a deterioration in credit metrics (net LTV above 55% and EBITDA/net interest below 2.2x over a protracted period). The rating could also be lowered if the company pursues a higher proportion of cyclical tenants or market fundamentals deteriorate and negatively impact profitability and/or occupancy. The rating could also be lowered to reflect an adverse change in the ownership structure and owner commitments.

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

Subfactors	Impact	To	From
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-
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		bbb-	bb+
Risk appetite		bbb+	bbb
Financial risk assessment	50.0%	bbb	bbb-
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	Stable
Short-term rating		**N3**	**N3**

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:	NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology 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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