Nordic Credit Rating

Community service property managers

Peer comparison of NCR-rated real estate companies

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Gustav Nilsson
Credit Rating Analyst

Yun Zhou
Credit Rating Analyst

nordiccreditrating.com

Overview of community service property managers

Current rating within NCR's rating portfolio

Overview of NCR's portfolio

- NCR covers three community service property managers, Vacse, Stenvalvet and Intea, each of which have distinct characteristics which impact our assessment of their subfactors according to our real estate rating methodology.
- This article is intended to highlight differences in our view of the companies' exposure by segment, property portfolios, capital structures and projected key credit metrics.
- We see the community service property segment as having among the strongest real estate exposures in the Nordic real estate industry, which is reflected in the companies' strong business risk scoring.
- The key differences between the issuers relate to their financial risk profiles; Vacse has considerably better financial flexibility, is more conservatively capitalised and has a better liquidity profile than the other two companies. Our higher issuer rating on Vacse reflects our view that it has better average asset quality.

Rating tables

Subfactor	Vacse	Stenvalvet	Intea
Operating environment	a	a-	a
Market position, size and diversification	bb-	bb+	bb+
Portfolio assessment	a+	a-	bbb+
Operating efficiency	aa-	a-	aa-
Business risk assessment	**a-**	**bbb+**	**bbb+**
Ratio analysis	bbb+	bbb-	bb+
Risk appetite	a-	bbb-	bb+
Financial risk assessment	**bbb+**	**bbb-**	**bb+**
Issuer rating	**A-**	**BBB**	**BBB**

Potential positive rating drivers

Vacse	Stenvalvet	Intea*
Stronger credit metrics, together with significant portfolio growth and diversification that does not compromise low-risk business profile.	Committment to net LTV < 40%, net debt/EBITDA < 10x and ICR > 3.0x; and Reduced uncertainty relating to ownership and shareholder commitment.	Committment to a net LTV < 55% and ICR > 2.2x. Reduced project development, debt maturity and liquidity profile.

Potential negative rating drivers

Vacse	Stenvalvet	Intea
Net LTV > 45% or ICR < 3.5x Deviation from low-risk business profile. Adverse change in ownership or increase in owners' risk appetite.	Net LTV > 55% and ICR < 2.2x, given current ownership. A higher proportion of non-public tenants. Increased ownership uncertainty.	Failure to raise new equity and operate with ICR < 2.2x or net LTV > 55%. Failure to improve financial metrics or increase projects without improvements to liquidity management and capital structure.

Source: companies and NCR. *Intea's drivers reflect potential drivers for a stable outlook from current placement on Watch Negative. A Watch indicates that the rating could move in the near-term, typically a period of up to three months.. LTV–Loan to value. ICR–Net interest coverage.

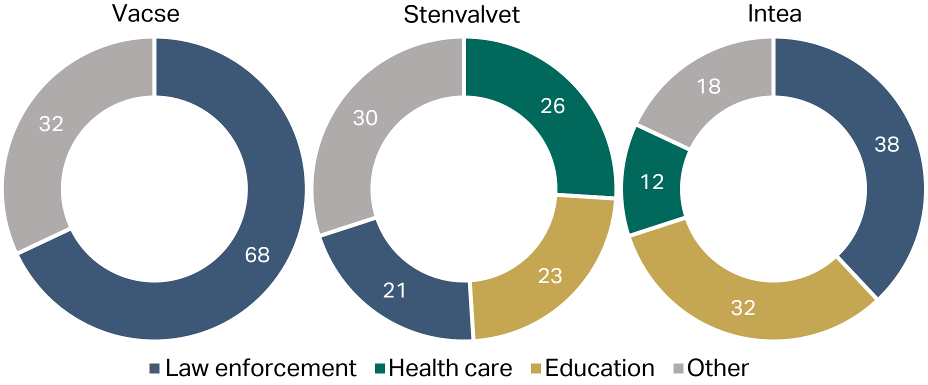
Market and tenant exposure

Limited counterparty diversity offset by tenant strength and scale

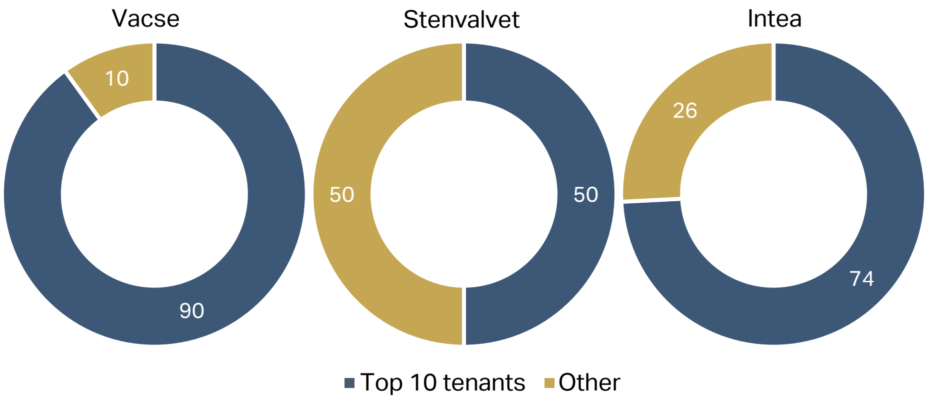
Stenvalvet benefits from diversity and Intea from scale

- Vacse and Intea's specialised community service properties result in a larger proportion of strong, government-backed tenants relative to Stenvalvet. About one-third of Stenvalvet's portfolio is occupied by private-sector tenants, which we view as riskier counterparties.
- Intea has the largest property portfolio in our sample. We see scale as beneficial for market position in the segment, as it improves access to financing and results in a greater ability to manage unforeseen events.
- Vacse has a larger portfolio concentration in the law enforcement sector. Demand for law enforcement properties is projected to grow in Sweden due to increasing crime rates and custodial sentences. However, we see other areas such as higher education and healthcare as strong segments with a high degree of specialisation and growing demand, ensuring occupancy and continued profitability.
- In our view, counterparty concentration in this defensive segment is less risky than for other property types due the strength of key tenants and their long-term focus. However, it requires stronger relationship management relative to other segments.

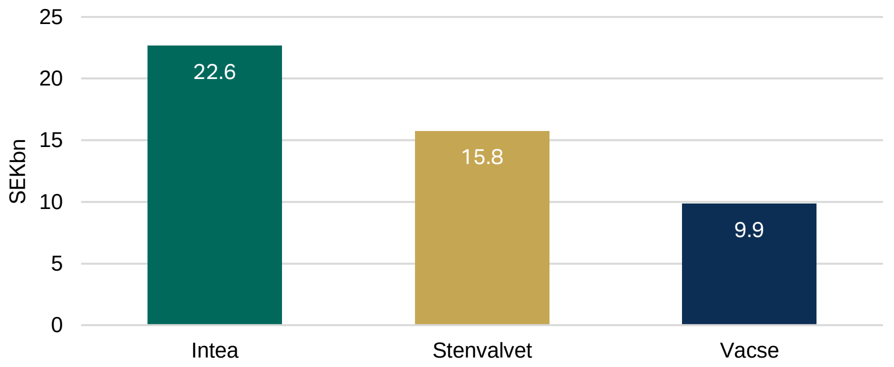
Segment split % of rental value, 30 Sep. 2024



Ten largest tenants % of rental value, 30 Sep. 2024



Property portfolio, 30 Sep. 2024



Source: companies and NCR. *Data from latest published NCR full rating report.

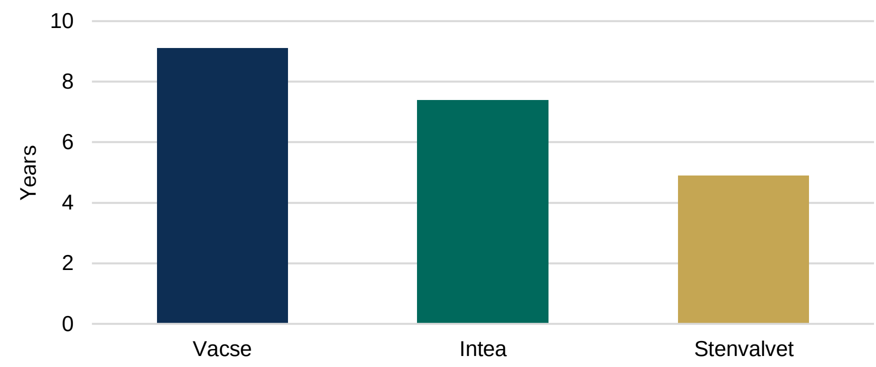
Property portfolio

All NCR-rated community service property managers have strong asset quality

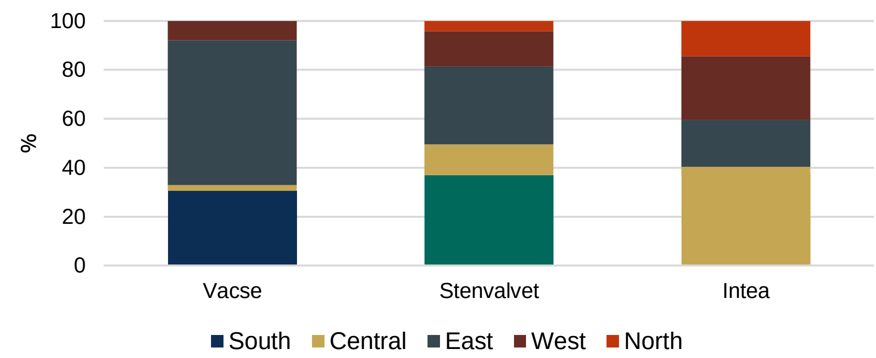
Vacse has highest portfolio quality among peers

- In our view, Vacse has the strongest asset quality among the peer group with a high degree of specialisation. Intea has the second strongest asset quality, but our portfolio assessment is negatively affected by the company's comparatively large development exposure and pipeline which currently results in a weaker portfolio assessment than Stenvalvet due to additional risk to liquidity. However, we regard Intea's operating portfolio as stronger than Stenvalvet's due to a higher degree of specialisation and long-dated contracts.
- Among the three companies, Vacse has the longest average remaining lease term of 9.1 years, which we expect to increase as ongoing projects are completed. The long average remaining lease term ensures revenue transparency and stability of rental income due to less frequent renegotiations, which lowers downside risk to rental levels. Intea has increased its remaining lease term to 7.4 years from 5.9 years a year ago due to finalisation of projects. Stenvalvet, which is currently more focused on property management has a lower average remaining lease term of 4.9 years compared with 5.4 years a year ago.
- The duration of contracts in this segment, especially among more specialised properties, is typically longer than in other property segments, such as offices or non-essential retail premises which typically have 3–5 year leases with more frequent negotiations and weaker counterparties.
- Vacse's assets are generally located in demographically stronger regions, in Sweden's larger cities with a large proportion of assets located in Stockholm, relative to Intea and Stenvalvet whose portfolios are more varied. Favourable demographic conditions ensure continued need for services provided by government-related tenants, reducing risk to property values, adaption costs and vacancy.
- In our rating subfactor, portfolio assessment, we consider development exposure in addition to assessments of the overall fundamentals in the company's property portfolio and asset quality. The three companies typically have different approaches to project development which is discussed on the next page.

Average contract duration, 30 Sep. 2024



Portfolio location* as % rental income, 30 Sep. 2024



Source: companies and NCR. *All properties are located in Sweden.

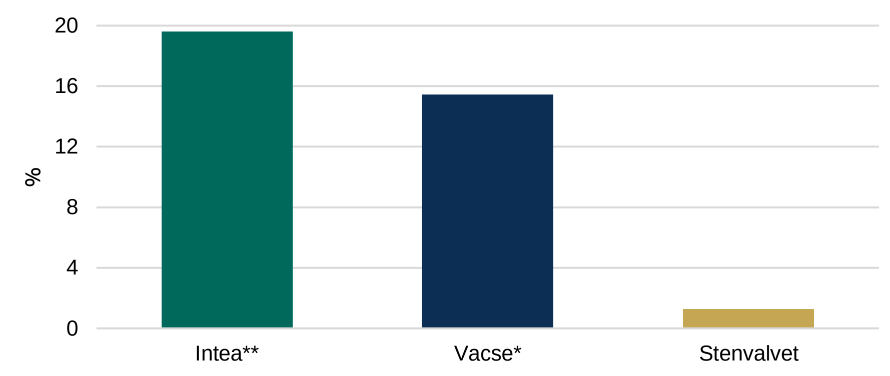
Project portfolio

Different types of projects and approaches result in different risk profiles

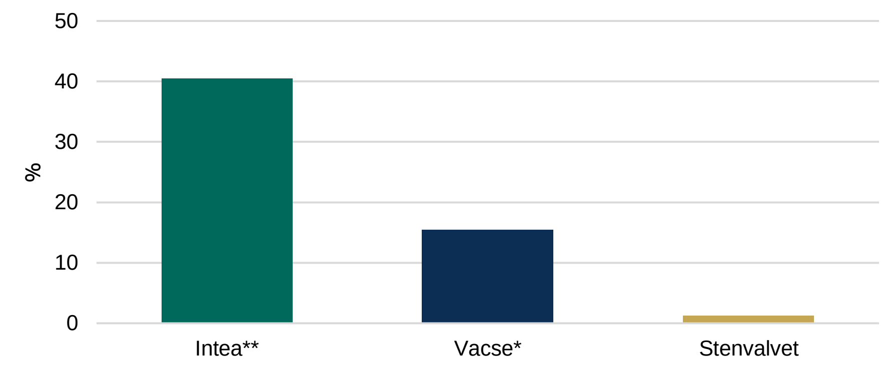
Intea's portfolio assessment affected by development

- The three companies typically have different approaches to project development:
  - Vacse acquires project properties upon completion.
  - Intea has outflows based on achieved milestones and leverages yield-based rental contracts covering unexpected costs by adjusting rental levels, including financing costs.
  - Stenvalvet typically employs fixed-price contracts without yield-based components due to limited developments for the justice authorities, which employ yield-based contracts to a larger extent than other segments.
- We see Vacse's approach as the least risky among the three companies as it entails no ongoing risk to liquidity or other project-related risk. Intea's approach largely restricts risk to liquidity management whereas Stenvalvet could have projects with lower cash flow generation relative to invested amount. We see the latter project type as the most risky among our sample and in the case of larger development exposure, negative for the business risk profile. However, we see this approach as more prudent than variable cost-plus contracts.
- We note, however, that Stenvalvet has generally lower project exposure and in the past few years has shifted its focus to investments for upgrading existing properties rather than new development, which we believe entails lower risk than new construction.
- Intea has the largest project exposure and pipeline, with a large proportion of new-builds which is likely to results in higher ongoing debt uptake serviced through cash flows generated by its operating portfolio before completion of projects. We see Intea's approach as riskier than that of the other two property managers due to the need for servicing debt during construction which could negatively affect liquidity in the event of delays. Vacse uses forward funding arrangements and acquires properties upon finalisation, with matching debt uptake resulting in strong debt servicing capabilities.
- Intea's large project pipeline contains some projects with projected cash outflows which are several years away, at which point the company will have a larger operating portfolio and debt servicing capabilities, effectively reducing cash flow risk. Through 2025, Intea has projects amounting to about SEK 2.8bn scheduled for completion, which should increase annual revenues by SEK 208m.

Project investments as % of portfolio, 30 Sep. 2024



Project pipeline as % of portfolio, 30 Sep. 2024



Source: companies and NCR. *All project-related outflows are paid upon completion, includes projects which are due by end-2026. **NCR-estimates including uncommitted projects and acquisitions of new projects closed after the end of the third quarter.

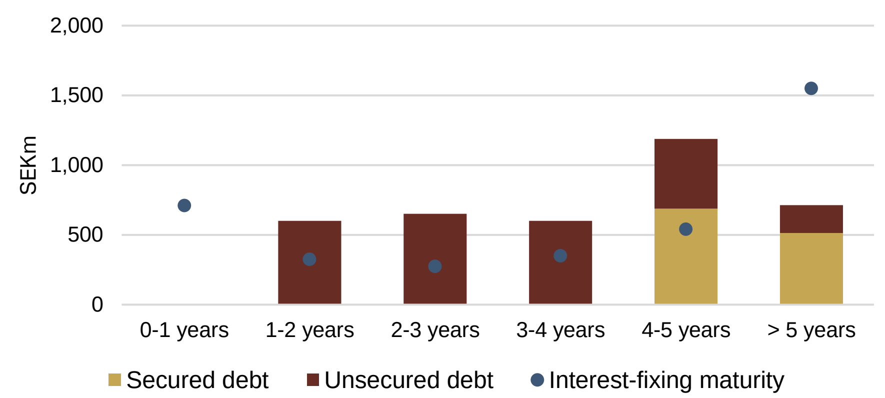
Capital structure

Interest-fixing, debt composition and maturity structure

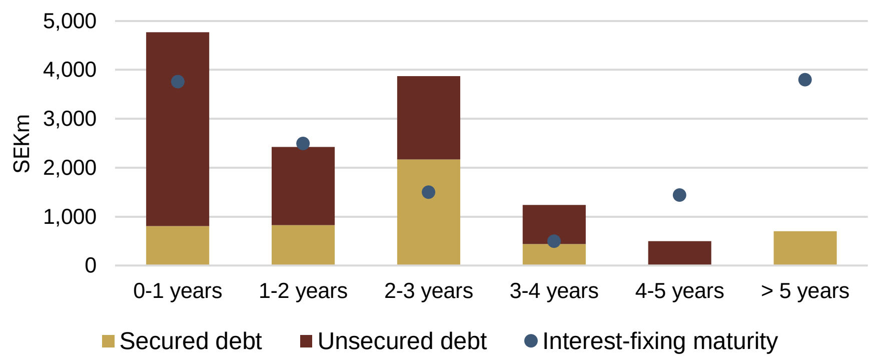
Vacse's capital structure is stronger than peers

- Vacse has the longest average debt maturity of 3.9 years, about 1.3 years longer than both Intea and Stenvalvet. Intea's and Stenvalvet's debt maturity profiles are more front-loaded, whereas Vacse's next debt maturity is a bond falling due in May 2026, which lowers refinancing risk and improving liquidity.
- All three issuers leverage the bond market. For Vacse and Intea it is the primary source of financing whereas Stenvalvet uses a larger proportion of secured debt in its financing mix. We believe that the higher proportion of capital market finance increases Vacse and Intea's refinancing options relative to Stenvalvet as they can sell unencumbered assets or pledge properties to meet maturing bonds. We believe it is easier to meet upcoming maturing bonds with available unpledged assets.
- We take a positive view of Vacse's comparatively low sensitivity to changes in prevailing market interest rates, due to its average remaining fixed-interest period of 4.2 years. This adds resilience to its financials during rising interest-rate cycles. Intea and Stenvalvet have average interest maturities of 2.6 and 2.5 years, respectively. The average interest rates for the issuers on 30 Sep. 2024, was 2.7% for Vacse, 3.2% for Intea and 3.4% for Stenvalvet.

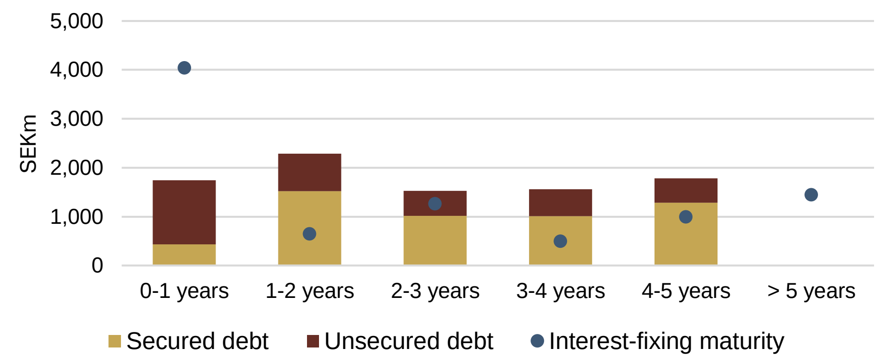
Vacse interest-fixing and debt maturity, 30 Sep. 2024



Intea interest-fixing and debt maturity, 30 Sep. 2024



Stenvalvet interest-fixing and debt maturity, 30 Sep. 2024



Source: companies and NCR.

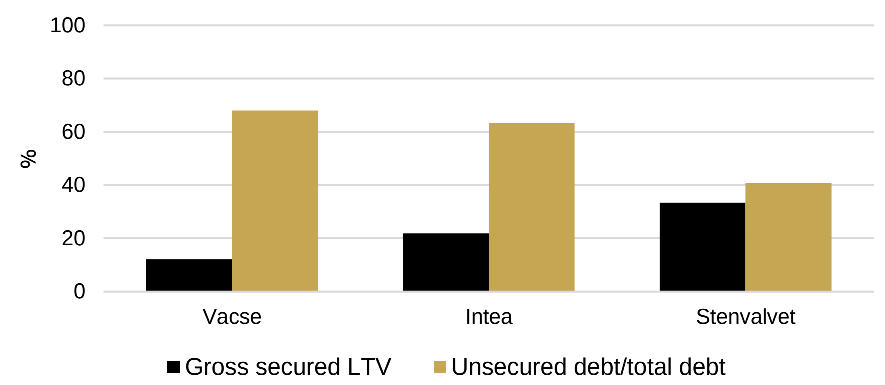
Risk appetite and financial flexibility favours Vacse

Debt composition create financial flexibility and strong access to capital

Intea and Vacse have lower share of secured LTV

- We regard Vacse's and Intea's capital structures as stronger than Stenvalvet's due to lower gross secured LTV, adding refinancing options and lowering the number of prior-ranking creditors to the company's senior unsecured debtholders.
- Intea has a slightly riskier long-term target interval of having net LTV of 50–55% while Vacse and Stenvalvet have policy targets of below 50%. Intea, having recently announced acquisitions of SEK 1.6bn is likely to temporarily exceed its maximum limit of 60% intra-quarter. We believe that an announced IPO before end-2024 with a target amount of SEK 2.0bn could result in net LTV being restored to its long-term target range.
- Stenvalvet has reported net LTV of 50.1%, marginally above its current target. We believe that the company will also reduce net LTV in the coming quarters due to cash flows from operations and low capital spendings.
- Vacse remains well below its net LTV target, having net LTV of 35.1% for the quarter and NCR forecasts it will remain below 40% due to debt amortisation and retention of cash flows.

Gross secured LTV and debt composition 30 Sep. 2024



Vacse and Stenvalvet have higher cash retention

- Vacse has no determined policy for dividends but has paid about SEK 100m annually to its owners. Vacse generates enough cash flow from operations to cover dividends, projects and amortisation, resulting in natural operational deleveraging.
- Stenvalvet currently pays no dividends but has revised its policy to allow for a maximum of 40% of adjusted income from property management to be paid as dividends. If the company decides to pay dividends, its operating cash flows are not sufficient to cover both project-related outflows and dividends given current cash flows resulting in rising leverage which could negatively affect its financial ratios.
- In contrast, Intea has D-shares in its capital structure, committing the company to pay dividends of SEK 116m annually. In addition, Intea faces large project-related outflows, resulting in debt-uptake serviced through its operating portfolio.
- We believe that all three companies face limited negative revaluation risk to their portfolios as they have attractive assets and yield levels which support debt-funded transactions.

Financial policy targets

Key metric	Vacse	Stenvalvet	Intea
Net LTV, %	<50	<50	50–55
Dividends, % of adjusted IFPM	*30	<40	30–50
Secured debt/total assets, %	<20	n.a.	<30

Source: companies and NCR. IFPM–Income from property management *Based on NCR-estimates of SEK 100m relative to income from property management 2024e.

Liquidity and ownership

Vacse maintains strong liquidity

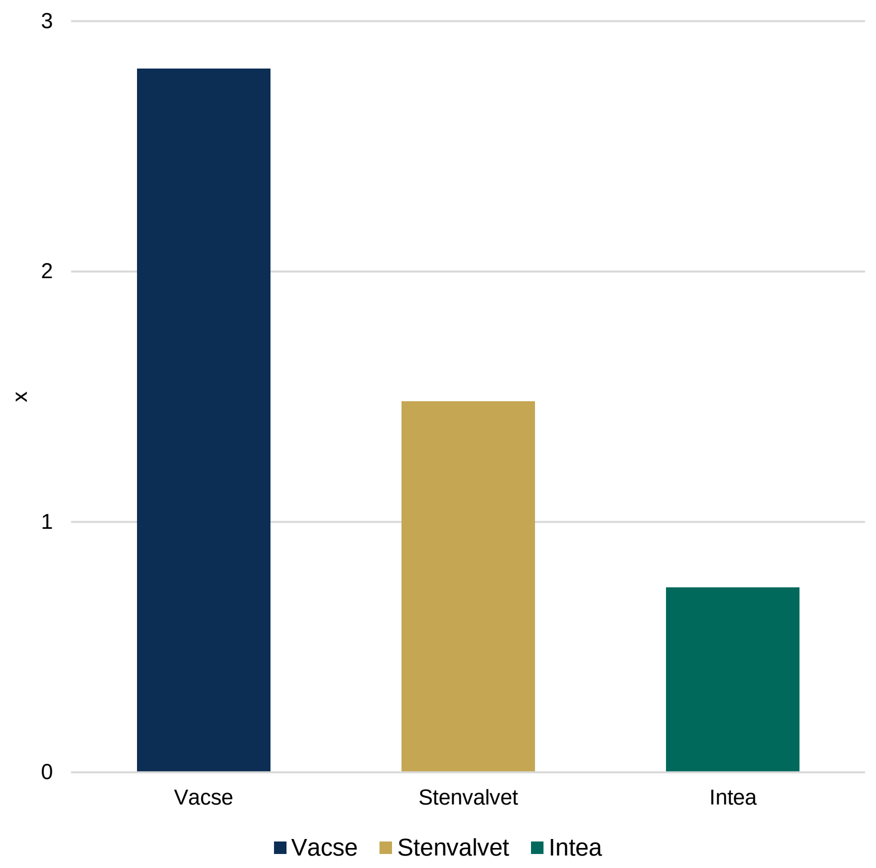
Intea has weaker liquidity profile than peers

- Intea typically has larger committed cash outflows than available sources of committed financing, resulting in a higher reliance on functioning capital markets to meet debt maturities and higher risk to liquidity than Vacse and Stenvalvet, which typically have committed sources exceeding uses, thereby reducing liquidity risk.
- However, we believe that Intea's prospective IPO could alleviate the current weaknesses in its liquidity profile relative to other investment grade issuers and increase the company's resilience to unpredictable events.
- Vacse has the strongest liquidity profile with committed sources to uses of 2.8x due to well-diversified and limited upcoming debt maturities, followed by Stenvalvet with 1.5x implying more resilience to adverse changes in financing conditions than Intea.

All companies are currently owned by pension funds

- We regard Vacse's ownership as the strongest as the company has the largest amount of committed capital and is wholly owned by long-term conservative pension funds. Vacse is owned by pension funds associated with large Swedish industrial companies.
- Intea's prospective IPO will dilute its current ownership which mostly consists of pension funds, however, the current owners will retain control. Unlike Stenvalvet and Vacse, the two founders control 8% of the capital and 28% of the voting rights. We believe the presence of private ownership influences the company's risk tolerance more than a company wholly owned by pension funds. The pensions funds, however, hold most of the voting power which we believe moderates risk tolerance.
- We regard Stenvalvet's ownership as the weakest among the three with limited access to new equity. Stenvalvet's main owner, the Church of Sweden, was sanctioned by Financial Authorities in 2024 for being overexposed to Stenvalvet and is looking to reduce its ownership to below 50% over time, which we believe adds uncertainty to the future ownership profile of the company and reduces access to capital, if needed.

Liquidity coverage, 30 Sep. 2024



Source: companies and NCR.

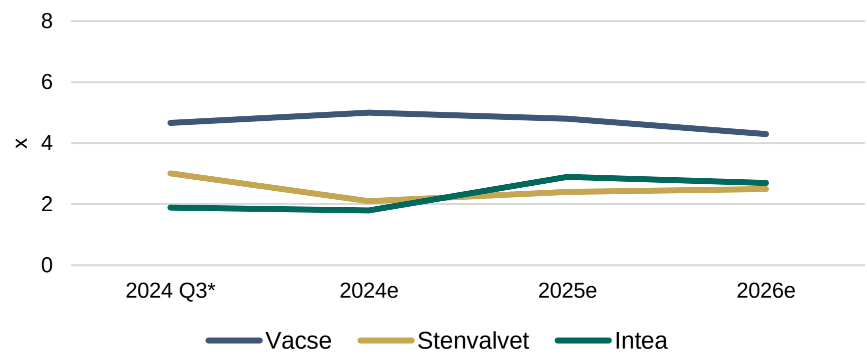
Financial forecast

Two companies likely to grow, one likely to deleverage

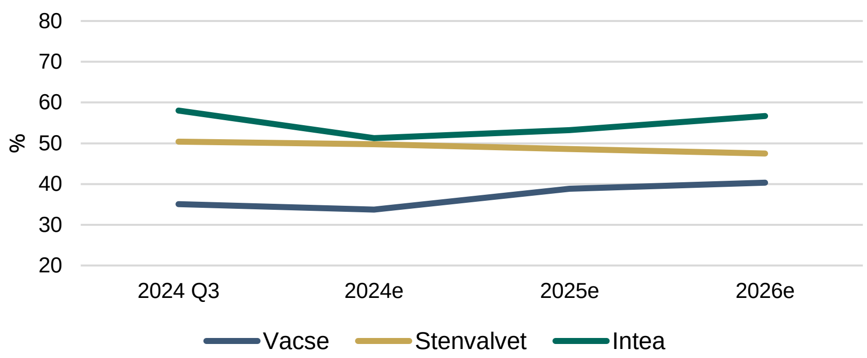
Stenvalvet likely to deleverage in the next few years

- We expect Stenvalvet to have lower growth than both Vacse and Intea as the company has no large projects scheduled for construction in the next few years. We expect Stenvalvet to deleverage below its long-term target of net LTV below 50% over the coming years.
- Vacse is likely to see net LTV trend towards 40% by end-2026 as the company is committed to acquiring some properties upon completion. Although Intea has dropped a previous growth target of having a property value of SEK 30bn in 2026, we expect the company to continue to grow through project development with cash outflows prior to inflows from projects, thereby increasing net LTV.
- In our assessment of the issuers' forward-looking financial ratios, we include capitalised interest, which constitutes a large proportion of Intea's interest costs (SEK 60.1m in 2023) due to its focus on development projects funded through bonds. In the case of Stenvalvet, we include prepaid interest rate derivatives entered into at non-market rates as this arrangement create a financial asset which is unwound as a fair value change over time rather than an interest cost. Vacse has a simpler capital structure without any such arrangements and stronger key credit metrics.

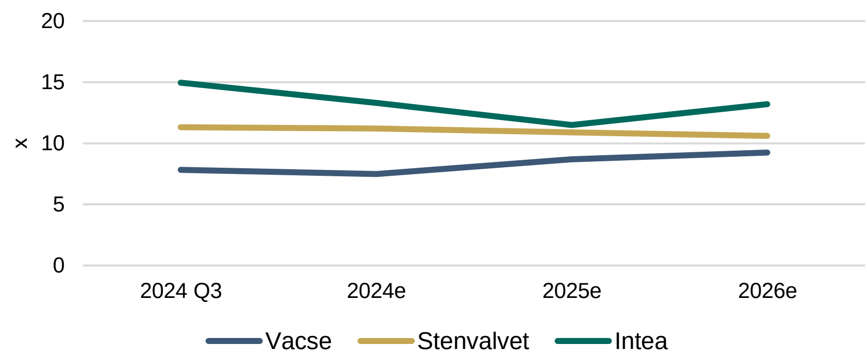
Net interest coverage



Net LTV



Net debt/EBITDA



Source: latest published NCR rating action report. *Stenvalvet does not include adjustment for interest-rate derivatives on a quarterly basis.

Rating overview

Overview of scorecards on NCR-rated community service property managers

Subfactor	Impact	Vacse	Stenvalvet	Intea
Operating environment	20%	a	a-	a
Market position, size and diversification	12.5%	bb-	bb+	bb+
Portfolio assessment	12.5%	a+	a-	bbb+
Operating efficiency	5%	aa-	a-	aa-
Business risk assessment	**50%**	**a-**	**bbb+**	**bbb+**
Ratio analysis		bbb+	bbb-	bb+
Risk appetite		a-	bbb-	bb+
Financial risk assessment	**50%**	**bbb+**	**bbb-**	**bb+**
Indicative credit assessment		**a-**	**bbb**	**bbb**
Liquidity		Adequate	Adequate	Adequate
ESG		Adequate	Adequate	Adequate
Peer Comparison		Neutral	Neutral	Neutral
Standalone credit assessment		**a-**	**bbb**	**bbb**
Support analysis		Neutral	Neutral	Neutral
Issuer rating		**A-**	**BBB**	**BBB**
Outlook		Stable	Stable	
Watch				Negative
Short-term rating		**N2**	**N3**	**N3**
Senior unsecured issue rating		**A-**	**BBB**	**BBB**

Source: NCR.

Contact details

Gustav Nilsson
Credit Rating Analyst
gustav.nilsson@nordiccreditrating.com
+46 735 420 446

Yun Zhou
Credit Rating Analyst
yun.zhou@nordiccreditrating.com
+46 732 324 378

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