Heba Fastighets AB (publ)

Rating Action Report

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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

Nordic Credit Rating (NCR) has affirmed its 'BBB' long-term issuer rating on Sweden-based residential and community service property manager Heba Fastighets AB (publ). The outlook is stable. At the same time, NCR affirmed its 'N3' short-term issuer rating and 'BBB' senior unsecured issue rating.

Rating rationale

The affirmation reflects Heba's stable performance and our expectation of higher rental growth in the residential segment, which will support cash flow and offset the impact of expiring low interest rate swaps on the company's interest coverage. In 2024, the company acquired community service properties with better cash flow than its residential portfolio, improving its earnings capacity. In the fourth quarter of 2024, Heba revised its financial policy and set growth targets for 2025 to 2030. The company aims to increase its portfolio value to SEK 20bn while keeping a long-term gross loan-to-value (LTV) below 45%. Simultaneously, it adjusted its dividend policy to 50% of after-tax profit from property management, down from a previous long-term target of 70% (temporarily revised to 40% during 2023 and 2024). We believe reduced dividends allow for reinvestment into operations and meet leverage targets.

In addition, the rating 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, including revision of long-term dividend policy. The rating also reflects low project development exposure and the company's historically moderate financial risk appetite.

The rating is constrained by Heba's high sensitivity to changes in interest rates. Limitations on raising rents in Sweden's regulated market results in slower cash flow adjustments in the residential sector during periods of high inflation compared with other segments. The company's earnings relative to debt is relatively high. While Heba's exposure to property development is currently low, we expect this will increase and remain part of the company's core strategy.

Stable outlook

The outlook is stable, reflecting our expectations that Heba's interest coverage ratio will remain stable over our forecast period through 2027 and that the company will have a lower than historical development exposure. We believe property values will increase due to higher net operating income. We expect the company will refinance maturing debt at more favourable terms than current loan terms and will maintain its liquidity profile, with committed sources exceeding cash outflows.

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 to 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 a material increase in tenant concentration, or significant issues with joint venture partners, affecting one-off payments and financial commitments.

Related rating actions

i) Heba Fastighets AB (publ) outlook revised to stable; 'BBB' long-term issuer rating affirmed, 7 Mar. 2024.

Related publications
i) Swedish real estate outlook 2025, 23 Jan. 2024.
ii) Comparison of NCR-rated community service property managers, 9 Dec. 2024.
iii) Swedish real estate snapshot (Q3 2024): continued cautious optimism in the air, 26 Nov. 2024.
iv) Swedish real estate: Likely interest rate cuts allow for cautious optimism, 24 Sep. 2024.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB	BBB
Outlook:	Stable	Stable
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	Stable
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.
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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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