LSTH Svenska Handelsfastigheter AB (publ)

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N4

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LSTH Svenska Handelsfastigheter AB (publ) 'BBB-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating has affirmed its 'BBB-' long-term issuer rating on Sweden-based property manager LSTH Svenska Handelsfastigheter AB (publ). The outlook is stable. We have lowered the short-term rating to 'N4' from 'N3' to reflect committed capital outflows exceeding available committed sources of capital.

Rating rationale

The affirmation reflects Svenska Handelsfastigheter's stable performance and our expectations of strong occupancy in its premises. We believe the company's market position has improved following a series of acquisitions in 2024, and we expect further controlled growth. The portfolio has expanded significantly, with the property portfolio now exceeding 300 properties and 1 million sqm. We anticipate that the property value will stand at SEK 20bn in 2025. In our view, the acquisitions and recent developments in net letting indicate an improved robustness of the company's business profile. The company's interest coverage should stabilise at 3.2—3.3x over our forecast period, while cash flow relative to debt should strengthen, allowing for deleveraging as the company does not pay dividends. The company's interest-rate fixing period and average debt maturity have shortened over the last year. We expect the company will increase its interest-rate fixing period and extend its debt maturity profile from current levels. We believe, however, that the company will continue to operate with narrower headroom in its refinancing processes than what is typical for an investment-grade company. In our opinion, the owners' history of providing equity capital for containing financial risk offsets some of the risk associated with this strategy.

The rating 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 incorporates the stable operating environment and the company's somewhat strong cash flow generation compared with other property managers. The rating is further supported by the company's strong owners and their willingness to provide equity capital for containing financial risk.

The rating is constrained by Svenska Handelsfastigheter's moderate financial leverage, high tenant concentration, and liquidity profile which is notably weaker than those of investment-grade peers who typically have committed sources of capital exceeding capital outflows. We see the company's growing exposure to the discretionary retailing segment and the location of the company's premises as a relative weakness to other property segments.

Stable outlook

The stable outlook reflects our expectation that Svenska Handelsfastigheter will maintain its financial risk profile and improve cash flow generation. We expect that the company will complete ongoing refinancing of loans at good terms, extending the debt maturity profile. The outlook incorporates our expectation that the company's tenants will continue to be resilient to the negative effects of e-commerce and lower discretionary purchasing power of consumers.

We could raise the rating to reflect improvement in financial risk management, the liquidity profile, and interest-rate fixing period, reducing sensitivity to adverse changes in market conditions, along with financial ratios maintained at current levels.

We could lower the rating to reflect a deterioration in credit metrics, with net loan-to-value 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 affect profitability and/or occupancy. Lastly, we could lower the rating to reflect an adverse change in the ownership structure and owner commitments.

Related rating actions

i) LSTH Svenska Handelsfastigheter AB (publ) 'BBB-' long-term rating affirmed; Outlook stable, 27 Mar. 2024.

Related publications

i) Swedish real estate outlook 2025, 23 Jan. 2025.
ii) Swedish real estate snapshot (Q3 2024): continued cautious optimism in the air, 26 Nov. 2024.
iii) Swedish real estate: Likely interest rate cuts allow for cautious optimism, 24 Sep. 2024.
iv) NCR comments: Main owners increase stake in Svenska Handelsfastigheter, 20 May 2024.
v) NCR comments: Svenska Handelsfastigheter raises new equity from owners, 4 Dec. 2023.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB-	BBB-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N4	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-	bbb-
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		**N4**	**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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