

RatingsDirect®

Research Update:

Swedish Housing Company Willhem Affirmed At 'A-/A-2'; Outlook Stable

Primary Credit Analyst:

Erik A Karlsson, Stockholm + 46(0)84405924; erik.karlsson@spglobal.com

Secondary Contact:

Carl Nynerod, Stockholm (46) 8-440-5919; carl.nynerod@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

Research Update:

Swedish Housing Company Willhem Affirmed At 'A-/A-2'; Outlook Stable

Overview

- Willhem AB (publ) has abandoned its planned expansion into the public service property sector, and will remain focused on rental housing apartments.
- We expect Willhem's financial position will remain stable through 2020, supported by strong economic fundamentals in its main markets and its owner's capital commitments, mitigating Willhem's vulnerable debt burden.
- We are affirming our 'A-/A-2 ratings on Willhem.
- The stable outlook reflects our view that Willhem will maintain its EBITDA-to-interest-coverage ratio at above 2.5x over the coming two years.

Rating Action

On Dec. 5, 2018, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on Swedish housing provider Willhem AB (Publ). The outlook is stable.

At the same time, we affirmed our 'K-1' Nordic regional scale rating on the company.

Rationale

The affirmation reflects our view that Willhem's earnings should remain stable through 2020, thanks to strong market fundamentals. Under our base case, we expect Willhem will manage increasing interest expenses, avoiding pressure on its EBITDA-to-interest cover ratio. We expect no major changes in Willhem's property portfolio over the coming years, due to its decision to abandon its expansion into public service properties. We view the risks related to Swedish public housing as somewhat lower than for public service properties.

In our view, Willhem operates in a low risk industry, characterized by regulatory oversight and anticyclical earnings. The company is one of Sweden's largest private housing providers and owns about 26,000 apartments in 13 Swedish cities. We calculate the portfolio vacancy at under 2% of rent receivables, and we consider the vacancy risk as low due to high demand. This demand is underpinned by an average population growth of 1.4% (national average at 1.2%) in cities where Willhem is active, and a supply shortage of rental housing properties. We calculate the average dwelling price at 125% of

the national average, reflecting that some of Willhem's properties are outside of the metropolitan areas. In comparison with peers, Willhem has a larger share of its properties in less attractive areas within the cities. We take this into account in our rating, given that this may lead to reduced prospects for property sales, and potential reputational risk if Willhem were not to act as a socially responsible landlord.

We anticipate Willhem will continue to expand over the coming years, primarily in existing markets, although at slower pace than previously. We estimate capital expenditures (capex) will average Swedish Krona (SEK) 2.9 billion (€284 million) annually in 2019-2020, compared with SEK3.9 billion in 2016-2017. As a result, we expect Willhem's will borrow about SEK2 billion annually in 2019-2020. In our base case scenario, the debt-to-EBITDA (5-year average) will remain stable at about 23x, slightly higher than the 22x in our last review. We continue to consider Willhem's maturity profile and reliance on short-term debt as negative for the ratings, with about 30% of the portfolio maturing within 12 months as of Oct. 31, 2018. That said, we view positively the policy decision to extend interest fixing, now averaging six years.

We expect the EBITDA-to-interest cover ratio will remain stable through 2020 calculated at 2.9x (five-year average), similar to our last review. We expect gradually increasing interest rates over the coming years, which may pressure the cover ratio to some extent if interest expenses increase beyond our base case expectations.

We expect Willhem will post strong and stable EBITDA results throughout the forecast period, supported by strong market fundamentals in main markets. We expect the five-year EBITDA-margin will average about 44%, which is in line with that in our last review. We anticipate small margin improvements related to investments in existing properties (i.e. Willhemlyftet), but also from acquisitions. Furthermore, we incorporate into our calculations of the company's EBITDA about SEK200 million annually of capitalized maintenance costs, which we consider operating expenditures.

Willhem is owned by Första AP-fonden, which is involved in defining Willhem's strategies. Första AP-fonden has indicated it considers Willhem a long-term investment and will maintain its current shareholding. The owner provides support to the company in the form of a contractual agreement whereby it commits to subscribing to commercial paper if Willhem fails to issue at the capital markets, and a capitalization target, which implies willingness to inject capital if capitalization fell below the minimum target.

Liquidity

We consider Willhem's liquidity position will remain adequate, based on our expectation that liquidity sources will cover liquidity uses over the coming 12 months by more than 1.05x. Willhem has increased the amount of committed backup facilities by SEK800, and has also increased its cash target level to limit the refinancing risks in the portfolio. We do not expect liquidity will

structurally improve, because we believe the amount of maturing debt will increase beyond our 12-month horizon. Furthermore, we continue to assess Willhem's market access as satisfactory, in line with other non-municipal-owned peers.

Principal liquidity sources in the 12 months from Oct. 31, 2018 include:

- SEK1.1 billion of estimated operating cash flow;
- SEK1.3 billion in cash;
- SEK5.2 billion in committed backups provided by banks;
- SEK6 billion in committed contractual agreement from owner to subscribe commercial paper; and

Principal liquidity uses over the same period include:

- SEK2.7 billion in expected capex;
- SEK7.1 billion in maturing debt and interest

Outlook

The stable outlook reflect our view that Willhem will maintain its EBITDA-to-interest cover ratio at over 2.5x over the coming two years, supported by stable adjusted EBITDA-margins over 40%, and our expectation that Willhem will counteract any pressure on the cover ratio stemming from increasing interest expenses.

Downside scenario

We could lower the ratings over the coming two years if the EBITDA-to-interest cover ratio deteriorated to below 2.5x. This could happen if the interest rates increase beyond our base-case expectations, and Willhem fails to counteract this by deleveraging the balance sheet to an extent that the cover ratio is more resilient to increasing interest expenses, for example.

Upside scenario

We could consider an upgrade if Willhem's overall financial profile strengthens, implying a reduced debt of below 20x of EBITDA and a structurally improved liquidity at above 1.25x. In this scenario, we also expect the EBITDA-margin will improve above 50%.

Table 1

Willhem AB (Publ) Financial Statistics					
	--Fiscal year ending Dec. 31--				
(SEK Mil.)	2016	2017	2018bc	2019bc	2020bc
Number of units	22,871	26,002	N/A	N/A	N/A
Vacancy rates (% of net rental income)	1	1.3	N/A	N/A	N/A
Arrears (% of net rental income)*	<1%	<1%	N/A	N/A	N/A

Table 1

Willhem AB (Publ) Financial Statistics (cont.)					
Revenue	1,546	2,031	2,214	2,391	2,558
Share of revenue from non-traditional activities (%)	0	0	0	0	0
Operating expense	872	1116	1258	1334	1402
EBITDA§	674	915	956	1,057	1,156
EBITDA/revenue (%)	43.6	45.1	43.2	44.2	45.2
Interest expense	230	319	342	363	415
Debt/EBITDA (x)	25.4	22.9	21.7	21.6	21.5
EBITDA/interest coverage (x)†	2.9	2.9	2.8	2.9	2.8
Capital expense	3,927	4,028	1,072	2,878	2,887
Debt	17,125	20,919	20,740	22,791	24,806
Housing properties (according to balance-sheet valuation)	25,288	33,397	35,028	39,364	43,737
Loan to value of properties (%)	67.7	62.6	59.2	57.9	56.7
Cash and liquid assets	2,649	1,229	1,000	1,000	1,000

*Current arrears. §Adjusted for capitalized repairs. †Including capitalized interest. a--Actual e--Estimate. bc--Base case, reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available. The data and ratios above result in part from S&P Global Ratings' own calculations. The main sources are the financial statements and budgets, as provided by the issuer. SEK--Swedish krona. bc--Base case, reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Willhem AB (publ) Ratings Score Snapshot	
Key rating factors	
Industry risk	2
Economic fundamentals and market dependencies	2
Strategy and management	3
Asset quality and operational performance	1
Enterprise profile	3
Financial performance	2
Debt profile	4
Liquidity	4
Financial policies	3
Financial profile	3

S&P Global Ratings' analysis of social housing providers' creditworthiness rests on our scoring of eight key rating factors: (i) industry risk; (ii) economic fundamentals and market dependencies; (iii) strategy and management; (iv) asset quality; (v) financial performance; (vi) debt profile; (vii) liquidity; and (viii) financial policies. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published Dec. 17, 2014, and "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015, detail how we derive and combine the scores, and then determine each social housing provider's stand-alone credit profile and the issuer credit rating. In accordance with S&P Global Ratings' public and nonprofit social housing providers methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating, the committee can make use of the flexibility afforded by paragraphs 12-17 of "Methodology For Rating Public And Nonprofit Social Housing Providers."

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Global Ratings Definitions, Oct. 31, 2018

Ratings List

Ratings Affirmed

Willhem AB (publ)

Issuer Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.