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Research Update:

Swedish Housing Group Framtiden 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

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Overview

- We believe Framtiden's financial performance will improve following its planned revenue and expense efficiency measures.
- At the same time, Framtiden's debt will likely increase as a result of the group's upcoming capital expenditure.
- We are affirming our 'AA-/A-1+' and 'K-1' ratings on Framtiden.
- The stable outlook reflects our expectation that, despite rising debt, Framtiden's financial management will stick to its financial policy and maintain a strong financial performance.

Rating Action

On Oct. 17, 2017, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term issuer credit ratings on Swedish public housing provider Förvaltnings AB Framtiden. The outlook is stable.

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

Rationale

We expect Framtiden's capital expenditures will reach high levels in 2017-2019, owing to the strong demand for housing in the city of Göteborg (AA+/Stable/A-1+), leading to an increase in what we currently view as a moderate debt burden. At the same time, we believe that Framtiden will strengthen its financial performance, with adjusted EBITDA exceeding 30% of revenue.

We rate Framtiden one notch above its stand-alone credit profile (SACP), which we assess at 'a+', since we see a high likelihood of the company receiving extraordinary support from its owner, the city of Göteborg.

Framtiden has a very strong enterprise profile, stemming from low industry risk, very good asset quality, and strong strategy and management. We continue to view Framtiden's financial profile as strong, largely because of risk-averse financial policymaking and a moderate, albeit increasing debt burden. Relatively modest debt-service coverage, despite increasing reliance on loans from the city treasury, and average financial performance constrain the SACP.

We base the high likelihood of extraordinary support from Göteborg on our assessment of Framtiden's:

- Important role for Göteborg, which regards the group as an important contributor

to the city's overall infrastructure and public policy, as illustrated by the city's ambitious goals for new construction. The group had 72,300 housing units in the Göteborg area at year-end 2016 and is the largest social housing provider in the city; and

- Very strong link with the city, which is actively involved in defining Framtiden's strategy, appoints its board of directors, and intends to maintain its 100% ownership.

We consider that the low industry risk for social housing providers in Sweden, due to low cyclicalities of revenues and close oversight from the city, benefits Framtiden. Also, Framtiden enjoys robust demand for its rental apartments in the expanding city of Göteborg, which results in minimal vacancies. We calculate the average price of private homes in Göteborg at a high 193% of the national average, which, combined with very strong population growth of 1.6% annually over the past three years results in excellent economic fundamentals.

Framtiden's properties are generally well maintained, with maintenance expenditures in 2016 amounting to about Swedish krona (SEK) 1.1 billion (about €115 million). Although Framtiden's new, less strict, rental policy may marginally increase rent arrears, we don't believe that this would hurt the company's creditworthiness. The rental policy, which took effect in January 2017, removes the income requirement and includes the acceptance of payment defaults.

We continue to view Framtiden's financial profile as strong. We expect the group's financial performance will improve, but remain average compared with that of international peers. Framtiden has launched an efficiency program to contain the growth of expenses related to maintenance, repairs, and existing stock of properties. The program intends to increase the group's self-financing capability, due to investment needs over the coming years. In 2017-2019, we expect Framtiden will gradually improve the EBITDA margin, with the five-year average at 33%.

We believe that Framtiden's debt to EBITDA is set to increase, albeit from a modest level, as a result of the capital expenditures the group will undertake over the coming years.

The demand for housing in Göteborg has been strong for many years, causing the city council to increase its new-construction target to 1,400 housing units per year from 2018. We expect Framtiden will invest an average of about SEK3.3 billion annually in 2017-2019, which will add about SEK2.2 billion of net new loans per year. The group's ratio of debt to EBITDA is expected to reach 11.7x by year-end 2019 from 9.1x in 2016. We also recognize the relatively short-term structure of the group's debt portfolio, where about 40% matures within 12 months. At the same time, Framtiden has a strong loan-to-value ratio of 19% and headroom within its interest coverage ratios.

As of Aug. 31, 2017, Framtiden's loans totaled SEK15.9 billion, of which SEK13.2 billion came from the city treasury, and SEK2.7 billion consisted of senior unsecured medium-term notes in its own name, with principal repayments in 2017-2018.

Liquidity

We continue to regard Framtiden's liquidity as adequate. In our view, Framtiden has now been fully integrated into the city's treasury, and has transferred all external refinancing risk to the city treasury. Including funding from the city treasury, we calculate Framtiden's liquidity sources-to-uses ratio at 120%.

The majority of Framtiden's outstanding debt of SEK15.9 billion comes from the city treasury. We estimate that about SEK7 billion in loans will mature within the next 12 months and we incorporate them, alongside SEK3.4 billion of planned capital expenditures, in our estimate of liquidity uses. However, since Göteborg has assumed financing responsibility for Framtiden, we include equivalent funds in our estimate of liquidity sources.

Framtiden no longer has ready access to the capital markets; however, its access to financing via the city treasury is a mitigant. In addition, Framtiden holds a significant amount of unpledged assets that it can use to obtain funding from banks.

Framtiden's financial relationship with the city is formalized in legal documents stating that the city will be responsible for supplying funding to the company. We expect this access may be expanded, since the city has an interest in securing funding for the new construction it has mandated the group to produce.

Outlook

The stable outlook reflects our expectation that, despite a rising debt burden and a potential marginal increase in arrears, Framtiden's financial management will stick to its financial policy and strengthen the company's financial performance. We do not foresee any changes in Framtiden's ownership and support structure that would affect our view of the group's role for or link with Göteborg.

We could raise the ratings if Framtiden's relationship with the city strengthened further, for example through a formal, unconditional, and irrevocable guarantee or stronger contractual ties with the city treasury. We could also raise the ratings if we saw a marked improvement in Framtiden's financial risk profile, with better performance and a stronger liquidity position.

We could lower the ratings if pressure on Framtiden's financial risk profile arose. This could, for example, occur if we observed a marked deterioration in financial performance, together with debt accumulation beyond our current projections.

Forvaltnings AB Framtiden Financial Statistics

(Mil. SEK)	--Fiscal year end Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Number of units	71,345	72,338	72,718	73,628	74,608
Vacancy rates (% of net rental income)	0.7	0.8	0.9	N.A.	N.A.
Arrears (% of net rental income)*	0.0	0.0	0.0	0.0	0.0

Forvaltnings AB Framtiden Financial Statistics (cont.)

(Mil. SEK)	--Fiscal year end Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Revenue	5,320.3	5,765.3	5,399.5	5,539.9	5,695.0
Share of revenue from non-traditional activities (%)	0.0	0.0	0.0	0.0	0.0
Operating expense	3,182.0	3,318.7	3,390.9	3,396.0	3,491.0
EBITDA§	1,673.8	1,741.4	1,727.8	1,855.9	1,907.8
EBITDA/revenue (%)	31.5	30.2	32.0	33.5	33.5
Interest expense	397.5	372.1	293.6	325.8	376.1
Debt/EBITDA (x)	9.1	9.1	9.7	10.5	11.7
EBITDA/interest coverage (x)†	4.2	4.7	5.9	5.7	5.1
Capital expense	1,364.2	1,861.3	1,953.2	3,855.4	4,045.4
Debt	15,154.7	15,840.6	16,734.2	19,435.2	22,324.4
Housing properties (according to balance-sheet valuation)	25,330.7	26,332.3	N.A.	N.A.	N.A.
Loan to value of properties (%)	19.7	19.0	N.A.	N.A.	N.A.
Cash and liquid assets	5.2	2.5	0.0	0.0	0.0

*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.

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - August 14, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers - December 17, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

Rating

To

From

Forvaltnings AB Framtiden

Issuer Credit Rating

Ratings List Continued...

Foreign and Local Currency	AA-/Stable/A-1+	AA-/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1

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