

Research Update:

Swedish Public Housing Company Förvaltnings AB Framtiden 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

October 26, 2021

Overview

- Sweden-based Förvaltnings AB Framtiden's highly predictable revenue stream from rental activities supports the rating.
- The entity only has limited exposure toward nonresidential tenants, providing resilience on vacancies and rent losses.
- We affirmed our 'AA-/A-1+' long- and short-term issuer credit ratings on Framtiden.
- The stable outlook reflects our expectation that the entity will continue to benefit from strong demand and low vacancy rates, and its status as the largest provider of rental housing in Göteborg.

Rating Action

On Oct. 26, 2021, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term issuer credit rating on Swedish public housing provider Förvaltnings AB Framtiden. The outlook is stable.

Outlook

The stable outlook indicates that, despite a rising debt burden, S&P Global Ratings expects Framtiden's management will stick to its financial policy and maintain stable operating performance.

Upside scenario

We could raise the ratings if Framtiden's relationship with the city strengthened further; for example, if the city offered a formal, unconditional, and irrevocable guarantee or the entity had stronger contractual ties with the city treasury. We could also raise the ratings if Framtiden's

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financial performance improved markedly and its liquidity position strengthened.

Downside scenario

We could lower the ratings if Framtiden's financial performance deteriorated significantly and debt accumulated beyond our projections, such that the group's debt to nonsales adjusted EBITDA would structurally increase above 15x.

Rationale

We believe that Framtiden benefits from being the largest provider of rental housing in Göteborg, with around 75,000 rental units. With the entity's strong local presence and a high demand caused by the housing shortage in Göteborg, we expect stable rental revenue throughout our forecast period. We also consider revenue from condominium development for sale as an additional source, although we expect this to be limited. The company focuses on rental housing, with more than 85% of its rental revenue stemming from it, which in our view provides a highly predictable revenue source.

The housing shortage in the city underpins the strong demand for Framtiden's properties. Consequently, we consider the risk for vacancies building up in the rental housing portfolio very low. We expect the rental losses and vacancies among commercial tenants caused by the pandemic to be limited, leading to stable financial performance throughout our forecast. We expect stable revenue growth, with only a temporary drop in adjusted EBITDA margins in 2021 related to higher maintenance spending on its properties. Thereafter, we expect EBITDA margins averaging 25%-30%, in line with historical figures. Overall, we believe Framtiden's properties are generally well maintained, and we expect maintenance expenditure will remain stable.

We expect capital expenditure (capex) to be stable at around Swedish krona (SEK) 2.5 billion annually during our forecast period. We factor in some delays in development. Compared with our most recent review, we have revised down our expectations for capex throughout 2021-2023, because we see a lack of approved local plans that could delay some capital projects. Through the forecast period, we expect Framtiden to complete and sell a sizable number of condominiums via its subsidiary Göteborgs Egnahems AB. Although these activities will elevate Framtiden's total revenue, we do not expect its contribution to account for more than 15% of the total. These activities are conducted as a way of improving the mix of housing tenures in the city's districts.

We acknowledge management's enhanced focus on sustainable construction. Although this could increase development costs and cause some delays, we believe it could have a positive impact on the company's profitability. With its development plans, we expect a moderate increase of Framtiden's debt to nonsales EBITDA to 13.9x in 2021 from 13.0x in 2020. Moreover, we expect low interest rates will continue supporting Framtiden's debt service coverage, and we estimate the nonsales adjusted EBITDA interest coverage ratio will remain comfortably above 5.0x through the forecast period.

We assess the regulatory framework, for Swedish public housing companies (published June 8, 2021, on RatingsDirect) as very strong, underpinned by our view that all rental housing in Sweden are considered to have a public policy role, with limited risk of negative intervention and reporting standards similar to that of private companies. Tenants have the same rights in terms of rental negotiations and occupancy rights, regardless of whether the landlord is private or public.

Furthermore, we believe that Framtiden benefits from a high likelihood that the owner, the City of Göteborg (AA+/Stable/A-1+), would provide timely and sufficient support in case of financial

distress. The entity plays an important role as a key contributor in providing the city's growing population with housing. Furthermore, we consider the link to Göteborg very strong. The city is the sole owner and is actively involved in defining the entity's strategies. In addition, Framtiden is fully integrated to Göteborg's in-house bank that caters to the company's capital needs.

Liquidity

We calculate that Framtiden's liquidity sources, provided by the city treasury, will cover 1.09x of the coming 12 months' debt service. The company is fully integrated in its owner's in-house bank, which has assumed full responsibility for the entity's financing.

We consider Framtiden has transferred risk via ongoing financial support from the owner and therefore include a cash injection equivalent to the entity's estimated capex for the coming 12 months alongside maturing debt and interests, totalling SEK9.5 billion. Although Framtiden no longer taps the capital markets on its own, we consider its access to external liquidity strong because its funding is managed by the owner's inhouse bank, which we assess has strong access to external funding.

Key Statistics

Table 1

Förvaltnings AB Framtiden--Key Statistics

Mil. SEK	--Year ended Dec. 31--				
	2019a	2020a	2021e	2022bc	2023bc
Number of units owned or managed	73,635	74,274	75,380	76,199	77,108
Adjusted operating revenue	5,820	6,673	6,990	6,838	6,920
Adjusted EBITDA	1,647.80	1,703.20	1,723.20	1,920.80	1,986.30
Nonsales adjusted EBITDA	1,645.10	1,675.60	1,675.00	1,894.80	1,968.80
Capital expense	2,753.80	3,311.60	2,563.90	2,477.00	2,687.20
Debt	18,749.60	21,778.10	23,230.70	24,377.60	25,684.60
Interest expense	245.7	247.3	295.4	317.1	336.9
Adjusted EBITDA/adjusted operating revenue (%)	28.3	25.5	24.7	28.1	28.7
Debt/nonsales adjusted EBITDA (x)	11.4	13	13.9	12.9	13
Nonsales adjusted EBITDA/interest coverage(x)	6.7	6.8	5.7	6	5.8

SEK--Swedish krona. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available.

Ratings Score Snapshot

Table 2

Förvaltnings AB Framtiden--Ratings Score Snapshot

Factor	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	2
Market dependencies	2
Management and Governance	2
Financial risk profile	3
Financial performance	4
Debt profile	2
Liquidity	3

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers Published, June 8, 2021
- Outlook 2021: Strong Liquidity Should Help Social Housing Providers Remain Resilient, Dec. 8, 2020
- ESG Industry Report Card: Public And Nonprofit Social Housing Providers Outside The U.S., Aug. 4, 2020

Ratings List

Ratings Affirmed

Forvaltnings AB Framtiden

Issuer Credit Rating	AA-/Stable/A-1+
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Nordic Regional Scale	--/--/K-1
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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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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.

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