

Research Update:

# Forvaltnings AB Framtiden 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

October 26, 2022

## Overview

- Higher inflation and increasing operating expenditure will weigh on Swedish public housing company Förvaltnings AB Framtiden's S&P Global Ratings-adjusted EBITDA margins through 2022-2024 and consequently weaken its debt to nonsales adjusted EBITDA.
- That said, we believe Framtiden will be able to absorb these pressures, thanks to its highly predictable revenue stream from rental activities and limited exposure to sales activities.
- We therefore affirmed our 'AA-/A-1+' long- and short-term ratings on Framtiden.
- The stable outlook reflects our expectation that Framtiden has sufficient financial flexibility and management expertise to handle rising pressure on its financial metrics.

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## Rating Action

On Oct. 26, 2022, 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.

## Outlook

The stable outlook indicates that, despite increasing inflationary cost pressure, we expect Framtiden's management will stick to its financial policy and maintain stable operating performance.

## Downside scenario

We could lower the ratings on Framtiden if management failed to take actions to mitigate inflationary cost pressure, such that the company's financial performance deteriorated significantly, while at the same time increasing its exposure to market sales activities.

## **Upside scenario**

We could also raise the ratings if Framtiden's financial performance improved markedly, exemplified by adjusted EBITDA margins sustainably above 30% on a five-year average.

## **Rationale**

We believe Framtiden has a strong focus on core traditional housing activities and benefits from high demand caused by the housing shortage in Göteborg. We expect stable and predictable rental revenue will support Framtiden's financial metrics, although rental growth will not fully offset inflationary cost pressure over the next two years. As such, we assume a drop in its S&P Global Ratings-adjusted EBITDA margins. This will be mainly underpinned by higher cost inflation and spending on existing stock, primarily in socially challenged areas. That said, we consider Framtiden's management to have prudent financial planning and risk management, given that they consistently monitor and stress test operations under various scenarios, and have appropriate mitigation plans in place. Framtiden has strict control of its cash flows, with the flexibility to adjust any capital projects if needed. Furthermore, Framtiden has a track record of adhering to its internal targets, set by the owner, including keeping loan-to-value and equity ratios at satisfactory levels.

Framtiden is a fully owned subsidiary of city of Göteborg (AA+/Stable/A-1+), via its holding company Göteborgs Stadshus AB. Framtiden and Göteborg have established a long-term plan for the development of the housing situation in the city. The company is focused on rental housing (owns about 75,000 units), with more than 90% of its revenue stemming from residential housing, 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 as very low, with vacancies currently at about 1.5%, which we consider in line with market average.

We also consider revenue stemming from condominium development for sale as an additional revenue source, although we expect its share will be limited at about 7% of total revenue. Although these activities are socially motivated, since they improve the mix of housing tenures in the city districts, they are riskier and more exposed to market risk. Over the forecast period through 2025, we expect Framtiden will scale down development for condominiums sale via its subsidiary Göteborgs Egnahems AB.

Through 2025, we expect capital expenditures (capex) to remain stable at about Swedish krona (SEK) 2.5 billion annually. However, we expect Framtiden will focus less on development of new properties and more on investment in existing stock. This strategy reflects an active decision by management to improve its quality of stock in socially challenged areas, i.e., areas with higher crime rates and typically higher maintenance needs. It also reflect a shortage of construction materials and a lack of approved local plans. Framtiden aims to improve these areas and reduce by enhancing the housing tenure mix (rental and condominium) and maintaining its properties well.

To finance their development plan, we expect Framtiden's debt to nonsales EBITDA will increase moderately to 14.6x in 2022, from 12.9x in 2021. Although Framtiden has significant portion of fixed rate liability, we expect higher interest rates will push the nonsales adjusted EBITDA-interest-cover ratio to 5.8x.

We assess the regulatory framework for Swedish public housing companies as very strong, underpinned by our view that all rental housing companies in Sweden are considered to have a

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public policy role, with limited risk of negative intervention and reporting standards similar to those of private companies (see "Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers," published June 8, 2021, on RatingsDirect). Tenants have the same rights (regarding rental negotiations, occupancy rights, etc.) regardless of if the landlord is private or public.

Furthermore, we believe that Framtiden benefits from a high likelihood that the owner, the city of Göteborg, would provide timely and sufficient support in case of financial distress. Framtiden plays an important role as a key provider of housing for the city's growing population. Furthermore, we consider the link to Göteborg as very strong. The city is the sole owner and is actively involved in defining Framtiden's strategies.

## Liquidity

We calculate Framtiden's liquidity sources, provided by the city treasury, will cover 1.08x of the coming 12 months' debt service. Framtiden is fully integrated in its owner's in-house bank, which has assumed full responsibility for the company's financing.

We consider the transfer of risk as ongoing financial support from the owner and therefore include a cash injection equivalent to Framtiden's estimated capex for the coming 12 months alongside maturing debt and interests, totaling SEK8.4 billion. Even though Framtiden no longer taps capital markets on its own, we consider its access to external liquidity strong, since Framtiden's funding is managed by its owner's in-house bank, which we assess as having strong access to external funding.

## Key Statistics

Table 1

### Förvaltnings AB Framtiden--Key Statistics

(Mil. SEK)	--Year ended Dec 31 --				
	2020a	2021a	2022e	2023bc	2024bc
Number of units owned or managed	74,300	75,235	75,786	76,205	76,840
Adjusted operating revenue	6,673	7,691	7,032	7,011	7,228
Adjusted EBITDA	1,703	1,843	1,511	1,611	1,863
Non-sales adjusted EBITDA	1,705	1,567	1,457	1,600	1,857
Capital expense	3,312	2,482	2,470	2,492	2,459
Debt	21,778	22,532	23,726	24,981	26,091
Interest expense	247	248	262	303	375
Adjusted EBITDA/adjusted operating revenue (%)	25.5	24	21.5	23	25.8
Debt/non-sales adjusted EBITDA (x)	12.8	14.4	16.3	15.6	14.1
Non-sales adjusted EBITDA/interest coverage(x)	6.9	6.3	5.6	5.3	4.9

SEK--Swedish krona. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

## Ratings Score Snapshot

Table 2

### Förvaltnings AB Framtiden--Rating Score Snapshot

Factor	Assessment
Enterprise profile	2
Industry risk	2
Regulatory framework	2
Market dependencies	2
Management and Governance	2
Financial profile	3
Financial performance	4
Debt profile	3
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, June 8, 2021

## Ratings List

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### Ratings Affirmed

#### Forvaltnings AB Framtiden

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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](http://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](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](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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; or Stockholm (46) 8-440-5914

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