

Research Update:

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

October 29, 2024

## Overview

- We forecast that public housing provider Framtiden will stabilize its S&P Global Ratings-adjusted EBITDA margins through multi-year rent settlements.
- We anticipate capital expenditure in both existing stock and new development will pick up in coming years as market conditions and financial metrics improve.
- Margins remain sensitive to increased costs, which could come from additional maintenance spend, or higher-than-expected growth in utility fees.
- We therefore affirmed our 'AA-/A-1+' long-and short-term issuer credit ratings on Framtiden and maintained the negative outlook.

### PRIMARY CREDIT ANALYST

**Dennis Nilsson**  
Stockholm  
+ 46 84 40 5354  
dennis.nilsson  
@spglobal.com

### SECONDARY CONTACT

**Carl Nynerod**  
Stockholm  
+ 46 84 40 5919  
carl.nynerod  
@spglobal.com

## Rating Action

On Oct. 29, 2024, S&P Global Ratings affirmed the 'AA-/A-1+' long- and short-term issuer credit ratings on Förvaltnings AB Framtiden (Framtiden). The outlook is negative. We also affirmed our 'K-1' Nordic regional scale rating.

## Outlook

The negative outlook reflects the risk that Framtiden's financial metrics are still sensitive to shocks that could structurally weaken its adjusted EBITDA margin and leverage.

## Downside scenario

We could lower the rating if spending pressure leads to adjusted EBITDA margins below 20% or if new development increased leverage considerably with debt to non-sales EBITDA reaching 20x.

## **Upside scenario**

We could revise the outlook to stable if management is able to structurally contain EBITDA margins above 20% and is able to contain debt to non-sales-adjusted EBITDA.

## **Rationale**

Financial metrics are gradually recovering in line with our base case, supported by Framtiden's strong focus on core traditional housing activities. The company benefits from high demand caused by a housing shortage in Göteborg and we expect that its rental revenue is stable and predictable. In our view Framtiden's management will uphold prudent financial planning and risk management, given that it consistently monitors and stress tests operations under various scenarios, and has appropriate mitigation plans in place.

## **Enterprise profile: Framtiden's size and the demand for rental housing in Göteborg underpin its strong market fundamentals**

Framtiden benefits from providing housing in Sweden's second-largest city, Göteborg, with a focus on core traditional housing activities that have very strong demand. Framtiden is the largest public housing provider in Sweden with over 75,000 units, operated through subsidiaries partly independent of each other. The risk of vacancies in Framtiden's portfolio is very low and limited to turnover from moving tenants or renovations.

We consider Framtiden's management to have prudent financial planning and risk management, given it consistently monitors and stress tests operations under various scenarios. 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, the city of Göteborg, including keeping loan-to-value and equity ratios at satisfactory levels.

We view Framtiden's sales exposure as low with new housing development for sale through its subsidiary Göteborgs Egnahems AB expected to remain limited through 2026. The subsidiary has been developing condominiums for sale as an additional revenue source, but has had low activity in the past two years as a result of weaker market conditions coinciding with a less intense development plan. Although these activities are socially motivated, considering they improve the mix of housing in the city districts, they are more exposed to market risk than rental housing, in our view.

We assess the regulatory framework for Swedish public housing companies as very strong, (see "Regulatory Framework Assessment: Swedish Public Housing Providers' Rent-Setting Scheme Balances Income And Costs," published May 22, 2023, on RatingsDirect).

## **Financial profile: Margins stabilize and multi-year rent settlements add predictability**

We expect Framtiden's financial performance to strengthen (or continue to recover) as multi-year rent settlements make planning easier for the company. In 2023 margins improved to a still moderate 21.2%, up from the 17.8% in 2022 due mainly to reduced maintenance spending. Rent growth is more predictable than usual because Framtiden in the rent settlements for 2024 was able to settle rent for two years for Poseidon and Familjebostäder and three years for

Bostadsbolaget and Gårdstensbostäder, the four subsidiaries managing Framtiden's rental housing units. This, combined with lower inflation and continued cost savings, will allow stronger cash flows from operations in coming years.

We expect that Framtiden will refocus on developing new properties as market conditions improve and continue investing in existing stock. This will lead to capital expenditure (capex) increasing compared with 2023, but remaining stable at about Swedish krona (SEK) 2.7 billion annually in 2024-2026, of which we view 20% as capitalized repairs that we adjust back as an operating cost. In addition, Framtiden acquired building permits in 2024 that add an additional SEK1 billion in capex for the year. The capex plans for the upcoming years, as well as part of the reduced level the past couple of years, show the flexibility Framtiden's management can use when needed to adjust its capex plans to current market conditions.

As development picks up, we expect debt growth will increase compared with our previous expectations and reach SEK29 billion by year-end 2026. Leverage measured as debt to non-sales-adjusted EBTIDA will remain stable around 16x, however, as the increase in capex is matched by the stronger expected operating performance. Although Framtiden has a significant portion of fixed-rate liability, we expect higher interest rates will weaken the non-sales-adjusted EBITDA interest coverage ratio to 2.3x by 2026, down from 3.2x in 2023.

We view Framtiden's liquidity position is strong, supported by Göteborg. We calculate Framtiden's liquidity sources will cover 1x of debt service in the coming 12 months. Its sources consist of cash, our forecast operating cash flow of SEK1.8 billion. As part of our assessment of Framtiden's liquidity position, we consider the interaction between the company and city of Göteborg's in-house bank as ongoing financial support from the city. Therefore, we include a cash injection equivalent to Framtiden's estimated capex for the coming 12 months, alongside maturing debt and interest, minus operating cash flow of SEK1.5 billion. These sources cover uses of SEK3.3 billion that includes maturing debt, capex, and interest.

Even though Framtiden no longer taps capital markets on its own, we consider its access to external liquidity strong, because funding is managed by Göteborg's in-house bank, which we assess as having strong access to external funding.

## Government-related entity analysis

Framtiden is a fully owned subsidiary of the city of Göteborg (AA+/Stable/A-1+), via its holding company Göteborgs Stadshus AB. We believe Framtiden benefits from a high likelihood that its owner 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.

## Selected Indicators

Table 1

### Forvaltnings AB Framtiden--Financial statistics

Mil. SEK	--Year ended Dec. 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Number of units owned or managed	75,767.0	75,821.0	76,052.0	76,484.0	76,939.0
Adjusted operating revenue	7,384.4	7,060.0	7,403.0	7,874.1	8,137.1

Table 1

### Forvaltnings AB Framtiden--Financial statistics (cont.)

Mil. SEK	--Year ended Dec. 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Adjusted EBITDA	1,317.0	1,494.4	1,675.8	1,789.8	1,836.6
Nonsales adjusted EBITDA	1,289.9	1,494.4	1,675.8	1,777.5	1,804.9
Capital expense	2,319.2	1,667.5	3,135.5	2,215.9	2,132.4
Debt	23,690.7	24,476.9	26,653.9	27,823.9	28,877.9
Interest expense	276.1	469.9	730.6	756.8	771.0
Adjusted EBITDA/Adjusted operating revenue (%)	17.8	21.2	22.6	22.7	22.6
Debt/Nonsales adjusted EBITDA (x)	18.4	16.4	15.9	15.7	16.0
Nonsales adjusted EBITDA/interest coverage(x)	4.7	3.2	2.3	2.3	2.3

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

## Ratings Score Snapshot

Table 2

### Forvaltnings AB Framtiden--Ratings score snapshot

	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	3
Liquidity	3
Stand-alone credit profile	a+
Issuer credit rating	AA-

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "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

Research Update: Forvaltnings AB Framtiden 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Negative

- 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

Ratings List

Ratings Affirmed

Forvaltnings AB Framtiden

Issuer Credit Rating	AA-/Negative/A-1+
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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers 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.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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