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## Research Update:

# Swedish Housing Company Uppsalahem 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

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## Research Update:

# Swedish Housing Company Uppsalahem 'AA-/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

## Overview

- Uppsalahem continues to display low industry risk, very high demand, a sound debt profile, and strong financial performance for its not-for-profit orientation.
- Uppsalahem is being integrated into the city of Uppsala's in-house bank, which should decrease its refinancing risk.
- We continue to believe that the company enjoys a high likelihood of extraordinary government support in the event of financial distress.
- We are affirming our 'AA-/A-1+' global scale and 'K-1' regional scale ratings on Uppsalahem.
- The stable outlook reflects our expectation that, over the next two years, Uppsalahem will maintain its very strong enterprise profile and strong financial profile, and adjust its liquidity position to manage its debt position.

## Rating Action

On June 9, 2017, S&P Global Ratings affirmed its 'AA-' long-term and 'A-1+' short-term issuer credit ratings on Swedish housing provider Uppsalahem AB. The outlook is stable.

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

## Rationale

The affirmation reflects our unchanged assessment of Uppsalahem's stand-alone credit profile (SACP) at 'a+' and our opinion that there is a high likelihood that the company's government owner, the city of Uppsala (AA+/Stable/A-1+), would provide timely and sufficient extraordinary support to Uppsalahem in the event of financial distress.

Our assessment of Uppsalahem's SACP is supported by the company's very strong enterprise profile, stemming from low industry risk, excellent asset quality, and strong economic fundamentals in Uppsala's rental property market, compared to excellent previously, as well as its very strong strategy and management. In addition, we view Uppsalahem's financial profile as strong, owing to a strong debt position, compared to very strong previously, and strong financial performance. These strengths are partly offset by Uppsalahem's liquidity position, which we regard as only adequate. However, we consider that Uppsalahem's strong access to capital markets supports its liquidity position.

Uppsalahem is being integrated into the city of Uppsala's in-house bank. As such, the city is in the process of transferring Uppsalahem's loans into the city's in-house bank function. After the transition to the city treasury, Uppsalahem will have about Swedish krona (SEK) 600 million (about €60 million) in commercial paper. Uppsalahem also anticipates having backup facilities in order to be commensurate with a liquidity coverage ratio of about 80% when the transition is completed.

We consider Uppsalahem to be a government-related entity (GRE). We base our view of a high likelihood of timely and sufficient extraordinary government support on our assessment of Uppsalahem's:

- Important role for Uppsala in achieving key public policy objectives, most importantly, the provision of affordable housing and area development; and
- Very strong link with the city, which is actively involved in defining the company's strategy, appoints its board of directors, and intends to maintain its 100% stake in the company. In addition, Uppsala has signed a guarantee that ensures the adequacy of Uppsalahem's capitalization, which we see as a confirmation of the city's financial commitment to the company. In our view, Uppsalahem's recent integration into Uppsala's in-house bank affirms its link with the city.

We consider Uppsalahem to have a very strong enterprise profile, owing to low industry risk and strong economic fundamentals in its area of operations. Uppsalahem holds a leading position in Uppsala's rental property market, which is characterized by strong demand, resulting in negligible vacancies. However, due to high demand stemming from high population growth, private companies are increasingly visible, with new construction projects in the city.

Nevertheless, thanks to Uppsala's strong economic environment, we view the risk of market disruption as low. In our base case, we assume that vacancies at Uppsalahem will remain negligible through to 2019, attesting to very predictable operating performance. We calculate the average price of private homes in Uppsala at a high 134% of the national average, which, combined with robust population growth of about 1.3% annually, suggests solid local economic fundamentals.

In May 2013, Uppsalahem exercised its option to acquire the remaining 49% of student accommodation provider Studentstaden for SEK870 million (about €94 million). In our view, this new business has not increased Uppsalahem's enterprise risk, given the strong demand for student accommodation in Uppsala. Furthermore, a review of the student housing portfolio has not indicated a need for higher maintenance costs. During 2013, Uppsalahem divested part of its student housing portfolio that needed refurbishment and carried higher-than-average maintenance costs. We also note that since purchasing the initial stake in Studentstaden in 2011, Uppsalahem has acquired expertise in the management and logistics involved in student housing operations. Currently, the profitability of student housing is on par with that of Uppsalahem's traditional rental apartment portfolio.

We assess Uppsalahem's financial profile as strong, thanks to the company's strong debt position, and robust financial performance. However, Uppsalahem is in an expansion phase and, in our base case, we expect it will invest an average of SEK1.0

billion per year in 2017-2019, predominantly as a result of new construction. These planned investments will add to net new loans annually, resulting in an adequate average debt to EBITDA of 13x by year-end 2019. At the same time, we believe there is ample room for the company to absorb new financing, thanks to a very strong loan-to-value ratio of 33% in 2016, headroom within its interest coverage ratios and the transition of a large part of Uppsala's loans to the city's in-house bank. In our base-case scenario, we estimate Uppsalahem's EBITDA interest coverage ratio at a very strong 4.0x by year-end 2019 and a five-year average of 4.1x. However, we observe that Uppsalahem pursues a short duration in its loan portfolio, with about 50% of loans having fixed interest for less than one year, which weighs on our assessment.

In 2017-2019, we also forecast that Uppsalahem will post sound operating balances with a five-year average EBITDA margin of 42%, due to increases in negotiated rents and containment of operating costs. Strong operating margins help to internally finance Uppsalahem's ample investment portfolio. Over 2017-2019, we forecast that Uppsalahem's investments will average SEK1 billion per year.

## **Liquidity**

We consider Uppsalahem's liquidity position to be adequate. As of April 30, 2017, we estimate the company's available liquidity, including bank facilities, at about 80% of uses of liquidity over the next 12 months. Strong access to external financing supports our view of Uppsalahem's liquidity.

Uppsalahem's loan maturity profile stood at 2.4 years at year-end 2016, compared with about 2.1 years in 2015. We calculate that Uppsalahem's liquidity needs over the next 12 months include interest expenses and capital spending of SEK1 billion, together with debt maturities of SEK3.2 billion.

In terms of available liquidity, Uppsalahem has committed facilities with banks, totaling SEK2.4 billion in April 2017; and cash and liquid short-term investments of SEK400 million. Together with funds from operations (net of interest), the company's available liquidity, including bank facilities, covers about 80% of uses of liquidity over the next 12 months, by our calculation.

## **Outlook**

The stable outlook reflects our expectation that Uppsalahem's SACP will remain at its current level, supported by the company's very strong enterprise profile and strong financial profile. We expect that the company will maintain sufficient financial buffers to support its increasing debt over the next two years. We expect that Uppsalahem's integration into the city treasury will continue. However, we do not anticipate Uppsalahem's ownership or support structure to change to an extent that it would affect our view of the company's affiliation with Uppsala.

We could raise the ratings if Uppsalahem's financial profile strengthened significantly above our base-case expectations. Rating upside could stem from a substantial structural improvement in liquidity relative to short-term debt service,

coupled with the formalization of this strategy in the company's financial policies. A significant increase in the company's profitability, with EBITDA sustainably exceeding 50% of revenues, could boost Uppsalahem's financial performance and lower its debt burden, possibly leading to an upgrade. We could also raise the ratings if Uppsalahem's role for the city strengthened.

The ratings could come under pressure if we observed that Uppsalahem's liquidity position relative to short-term debt maturities deteriorated significantly, its access to external liquidity decreased, or its role for, or link to, the city weakened.

### Uppsalahem AB Selected Financial Indicators

	2015	2016	2017bc	2018bc	2019bc
Number of units	15,408	16,508	16,758	17,008	17,258
Vacancy rates (% of net rental income)	0	0	0	0	0
Revenues (mil. €)	1,206	1,246	1,295	1,337	1,377
Share of revenues from non-traditional activities (%)	0	0	0	0	0
Operating expense (mil. €)	442	442	663	650	671
EBITDA (mil. €)	556	588	599	641	658
EBITDA/revenues (%)	40	42	41	43	43
Interest expense(mil. €)	129.3	119.4	122.9	134.4	146.8
Debt/EBITDA (x)	12	12	13	13	13
EBITDA/interest coverage (x)	4	4	4	4	4
Capital expense (mil. €)	852	832	1,002	1,061	1,080
Debt (mil. €)	5,731	6,222	6,678	7,163	7,662
Loan to value of properties (%)	36	33	N.A.	N.A.	N.A.
Cash and liquid assets (mil. €)	205	418	412	428	429

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.

## Related Criteria And Research

### Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- 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: Stand-Alone Credit Profiles: One Component Of A Rating - October

01, 2010

- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

## Ratings List

	Rating	
	To	From
Uppsalahem AB		
Issuer Credit Rating		
Foreign and Local Currency	AA-/Stable/A-1+	AA-/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1
Commercial Paper		
Nordic Regional Scale	K-1	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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public Web site 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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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