

RatingsDirect®

Research Update:

Swedish Housing Company Willhem Affirmed At 'A-/A-2'; Outlook Stable

Primary Credit Analyst, Sovereigns And International Public Finance:

Carl Nyreerod, Stockholm (46) 8-440-5919; carl.nyreerod@spglobal.com

Secondary Contact, Sovereigns And International Public Finance:

Emelie Rosencrantz, Stockholm +46(8)4405355; emelie.rosencrantz@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Swedish Housing Company Willhem Affirmed At 'A-/A-2'; Outlook Stable

Overview

- Willhem continues to benefit from solid operations, based on very strong financial performance and strong economic fundamentals in cities where it operates.
- However, a fairly substantial, albeit declining, share of Willhem's properties are in the least sought-after city districts, and its aggressive expansion and financial leverage exceed that of rated Swedish municipality-owned public housing peers.
- We are affirming our 'A-/A-2' ratings on Willhem.
- The stable outlook reflects our expectation that, over the next two years, Willhem will maintain its strong enterprise and financial profiles, supported by low vacancies and its owner's commitment to keep leverage within specified ratios.

Rating Action

On Dec. 15, 2016, S&P Global Ratings affirmed its 'A-' long-term and 'A-2' short-term issuer credit ratings on Swedish public housing company Willhem AB (publ). The outlook is stable.

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

Rationale

The ratings reflect our assessment of Willhem's strong enterprise and financial profiles. Willhem's strong enterprise profile benefits from low industry risk, very strong asset quality, and strong economic fundamentals in the rental property market in cities where Willhem operates. Willhem's strong financial profile is enhanced by its excellent financial performance .

These strengths are partly offset by Willhem's somewhat higher exposure than peers to less sought after locations in cities where it operates, although we note a recent positive shift in property locations. We also take into consideration its investment program, which is far more aggressive than Swedish municipality-owned public housing companies and will lead to further debt accumulation in nominal terms. Furthermore, Willhem's financial profile is burdened by its vulnerable debt profile and adequate liquidity.

We consider Willhem's enterprise profile to be strong, supported by low industry risk and strong economic fundamentals. As of October 2016, the company manages 22,812 apartments, up from 17,881 one year before, and it has signed contracts for acquiring another 2,800 dwellings in the beginning of 2017. Willhem's strategy is to operate in selected cities, targeting regions that it believes have strong growth prospects such as Stockholm, Göteborg, Malmö, Borås, Karlstad, and Linköping. In

line with this strategy, Willhem entered Helsingborg's housing market in 2015, and will expand into Eskilstuna in the beginning of 2017.

Willhem benefits from robust demand for the majority of its rental properties, which provide for low vacancies. Where the company is present, we calculate the average price for private houses at 136% the national average. Combined with average population growth of 1.2% annually in these cities over the past three years, this suggests robust local economic fundamentals. However, within selected cities, in many cases Willhem has higher exposure to properties in less attractive locations. Even if this negative location bias is decreasing, we still consider it to be negative for the ratings because it could lead to increased risk of higher vacancies, reduced prospects for property sales, lower potential to finance refurbishments by increasing rents, and potential reputational risk if Willhem were not to act as a socially responsible landlord.

We assess Willhem's financial profile as strong because of its excellent financial performance and the owner's support, offsetting the company's vulnerable debt position and adequate liquidity. Financial performance is very strong, with five-year-average EBITDA to revenues at a healthy 52.5%. Earnings are robust and we consequently expect profitability will remain strong. Willhem is in an expansionary phase and intends to invest approximately Swedish krona (SEK) 5 billion (€510 million) annually in 2016-2018. With these planned investments adding about SEK3.6 billion in net new loans per year, we forecast the company's ratio of debt to EBITDA at 14x in 2018. In our base-case scenario, we calculate Willhem's EBITDA interest coverage at 3.4x in 2018, compared with 3.1x in 2015. Moreover, Willhem has a solvency target range of 35%-40%, with which we expect it will comply. In September 2016, its adjusted solvency ratio was 34%.

Like its domestic peers, Willhem is exposed to risks associated with its short-term debt profile. With high volatility in future debt service from maturing debt and a high 46% of debt with fixed interest rates shorter than one year, we have lowered our view of the company's debt position to vulnerable. In September 2016, the average remaining term on debt was 1.8 years. However, the company has mitigated this refinancing risk with committed bank lines that technically result in a longer average term of 3.0 years. The average fixed-interest-rate period (including hedging) was 2.6 years, which somewhat exposes the company's performance and interest coverage ratios to potential interest rate increases.

We understand that Willhem is currently considering expanding its operations into a new business segment for public service properties, namely nursing homes, schools, and courts. Willhem has not made a formal decision, and if it were to enter this segment, we will monitor it with regards to relative size, property types, contractual structures, and possible exposures to non-public tenants.

The Swedish sovereign wealth fund Första AP-fonden owns Willhem. The owner is actively involved in defining the company's strategy and has indicated its intentions to maintain full ownership of Willhem. We understand that Första AP-fonden considers Willhem to be a long-term core investment. The owner provides ongoing support by an agreement to subscribe to commercial paper if Willhem

encounters difficulties issuing in the market, an openly communicated target for capitalization (implying that the owner would inject capital if capitalization fell below the minimum target), and financial covenants in loans agreements indicating that Första AP-fonden will remain as majority owner.

Liquidity

We consider Willhem's liquidity position to be adequate. With regards to liquidity uses, about SEK6.5 billion of the company's total loan portfolio matures in the coming 12 months. In addition, we calculate that about SEK4.1 billion of its interest and principal payments due on debt mature in the coming 12 months, adding to the company's short-term liquidity needs.

Willhem has available liquidity sources of SEK9.9 billion in credit facilities, including an agreement with the owner to finance maturing debt. Combined with cash, liquid assets, and inflows of SEK0.85 billion, we conservatively calculate the company's available liquidity at a ratio close to the threshold of 105% of uses of liquidity over the next 12 months. Although this is somewhat lower than in our previous review, we still view the company's liquidity position as adequate. While we include an estimated volume of investments in public service properties in our liquidity calculation, we note that the company has not yet taken a formal decision to enter this business segment. If Willhem were to set up such operations, we expect it would proportion its liquidity planning so that sources of funds would structurally be above 105% of short-term uses of funds. This view is also in line with the company's financial policy.

Willhem has a range of funding options. Most of its funding is through a SEK5.5 billion commercial paper program, a SEK12 billion medium-term note program, and bank loans.

Outlook

The stable outlook reflects our expectation that Willhem will maintain its strong enterprise profile over the next two years, supported by low vacancies and sound economic fundamentals, but somewhat mitigated by exposure to less desirable locations in some regions. If the company diversifies into public service properties, we expect this segment would represent only a minor part of operations and have a clear focus on public sector tenants. We also think that the company's financial profile will remain strong, despite continually high leverage, thanks to excellent financial performance and its owner's commitment to keep leverage within specified ratios. Moreover, we believe the company will maintain an aggressive expansion policy compared with rated Swedish municipal owned housing peers.

We could raise the ratings if Willhem's financial profile strengthened. This could happen if Willhem's liquidity position strengthened more than we expect, with liquidity sources sustainably exceeding uses by more than 125%, and the ratio of loan to value decreased significantly. In addition, we could consider a positive rating action if Willhem adjusted the composition of its property portfolio further so that the distribution of properties is closer to that of rated municipal owned

Swedish public housing peers. A less aggressive expansion policy would also support an upgrade.

The ratings could come under pressure if Willhem's financial profile deteriorated. This could happen if the company's financial performance or policies weakened, or if its liquidity declined structurally and remained less than adequate, with sources of funds totaling less than 105% of short-term uses of funds. In addition, we could consider a negative rating action if Willhem's enterprise profile deteriorated. This could occur if the company expanded heavily public service properties and within that business segment had a non-negligible exposure to non-public tenants.

Willhem AB (publ) Financial Statistics

	--Fiscal year ending Dec. 31 --					
(Mil. SEK)	2013	2014	2015	2016bc	2017bc	2018bc
Revenues	1,200	1,277	1,375	1,547	2,118	2,711
EBITDA	602	666	716	832	1,121	1,402
Operating income	820	1075	2,472	1,866	1,641	1,922
Net income from continuing operations	367	317	1,832	1,154	1,013	1,242
Interest expense	437	397	234	245	337	413
Funds from operations	168	271	482	263	493	722
Capital expenditures	463	676	1,052	3,746	6,762	4,557
Total assets	13,276	14,974	18,065	22,581	29,599	34,412
Debt	10,411	8,427	9,193	12,555	17,560	20,131
Equity	2,351	5,554	7,386	8,540	10,553	12,795
EBITDA margin (%)	50.2	52.2	52.1	53.8	52.9	51.7
EBITDA interest coverage (x)	1.4	1.7	3.1	3.4	3.3	3.4
Operating cash flow/debt (%)	1.3	3.4	6.0	1.4	3.2	3.9
Debt/EBITDA (x)	17.3	12.7	12.8	15.1	15.7	14.4
Debt/debt and equity (%)	81.6	60.3	55.4	59.5	62.5	61.1

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 - June 01, 2016
- 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

Research Update: Swedish Housing Company Willhem Affirmed At 'A-/A-2'; Outlook Stable

	Rating	
	To	From
Willhem AB (publ)		
Issuer Credit Rating		
Foreign and Local Currency	A-/Stable/A-2	A-/Stable/A-2
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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site 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.

Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.