

Research Update:

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

February 17, 2021

## Overview

- COVID-19 has had a limited impact on Willhem's financial position, with only minimal rent losses and no material effect on vacancy rates.
- We expect Willhem's EBITDA margin will remain stable through 2023, supported by continued high demand for rental housing in the company's main markets.
- We are affirming our 'A-/A-2' ratings on Willhem and maintaining the stable outlook.

## Rating Action

On Feb. 17, 2021, S&P Global Ratings affirmed its 'A-/A-2' long- and short-term issuer credit ratings on Swedish housing provider 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 affirmation reflects our view that Willhem's operating results will remain stable through 2023, despite the broader economic impact of COVID-19. The limited impact of the pandemic on the company reflects the continued high demand for rental housing in Sweden's major cities, in combination with extensive central government support to the private sector, partly through employment schemes, which have curbed the impact on tenants' disposable income.

Furthermore, we expect Willhem will remain committed to its debt policies during a time of significant capital expenditure.

Willhem is owned by the First AP Fund (Första AP-fonden). Together with four other funds, First AP manages the funded capital in the income-based pension system in Sweden. The owner is involved in defining Willhem's strategies and has clearly indicated that Willhem constitutes a long-term investment. The owner provides support to the company in the form of a contractual agreement whereby it commits to subscribe commercial paper if Willhem fails to issue in the capital markets.

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In our view, Willhem operates in a low-risk industry, characterized by strict regulatory oversight and anti-cyclical operating cash flows. The company has grown rapidly and is now one of Sweden's largest private housing providers, owning and managing about 26,600 apartments in 13 Swedish cities, all of which are characterized by high population growth and housing shortages. As a result, vacancy rates have remained structurally low, below 2% of rent receivables, and the pandemic has had little to no impact on the company's vacancy rates.

Furthermore, we calculate the weighted average dwelling price at 124% of the national average, reflecting that some of Willhem's properties are outside of the metropolitan areas. In comparison with peers, Willhem has a somewhat larger share of its properties located in less attractive areas within its cities. We take this into account in our rating, given that this may lead to reduced prospects for property sales, under some market conditions, and potential reputational risk if Willhem were not to act as a socially responsible landlord.

We expect Willhem will continue to expand in the coming years, primarily in existing cities, although the company is regularly surveilling the market for lucrative opportunities. We estimate capital expenditure will average Swedish krona (SEK) 3.1 billion annually between 2021 and 2023. As a result, we expect Willhem's debt will increase steadily throughout the forecast period. In our base-case scenario, the five-year average debt-to-EBITDA ratio will remain stable at about 23x, slightly higher than in our previous review.

As a result of the company's ambitious capital expenditure plan, we also forecast high revenue growth in the coming years. At the same time, we expect Willhem will post strong and stable EBITDA margins throughout the forecast period, supported by strong market fundamentals in its main markets. We expect the five-year average EBITDA margin will amount to about 48%. The improved margin compared with our previous review can be attributed to investments in existing properties, a part of which relate to the company's comprehensive refurbishment project called Willhemlyftet. Furthermore, we incorporate capitalized maintenance costs, which we consider operating expenditure, into our calculations of the company's EBITDA.

We estimate the average EBITDA-to-interest cover ratio will remain stable in the coming years, resulting in a five-year average of 2.9x in 2019-2023, somewhat higher than in our previous base case. We expect gradually increasing interest rates over the coming years, which may pressure the cover ratio to some extent, if interest expense increases beyond our base-case expectations.

## Liquidity

We consider Willhem's liquidity position as adequate, supported by contracted facilities and cash holdings. We estimate that the company's liquidity sources will cover liquidity uses over the coming 12 months by 1.10x. Since the previous review, Willhem has increased the amount of committed backup facilities by SEK400 million. Furthermore, we continue to assess Willhem's market access as satisfactory, in line with other privately owned peers.

In our calculation of Willhem's liquidity sources, we include:

- SEK1.2 billion of estimated operating cash flow;
- SEK2.3 billion in cash;
- SEK5.6 billion in committed backups; and
- SEK6 billion in committed contractual agreements with the owner to subscribe commercial paper.

In our calculation of Willhem's liquidity uses, we include:

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- SEK3 billion in expected capital spending;
- SEK10.2 billion in maturing debt and interest; and
- SEK500 million in dividends.

### Outlook

The stable outlook reflects our view that Willhem will maintain its EBITDA-to-interest coverage ratio above 2.5x over the coming two years, supported by stable EBITDA margins. We also expect that Willhem will counteract any pressure on the coverage ratio stemming from increasing interest expense.

### Downside scenario

We could lower the rating over the coming two years if the EBITDA-to-interest cover ratio deteriorated below 2.5x. This could happen if interest rates increased beyond our base-case expectations, and Willhem fails to counteract this by deleveraging the balance sheet to an extent that the cover ratio is more resilient to increasing interest expense, for example. We could also consider a negative rating action if the liquidity ratio fell below 1.05x

### Upside scenario

We could consider an upgrade if Willhem's financial profile strengthened overall and if the quality of the company's property portfolio improved, underpinned by a larger share of properties in more attractive areas, in line with peers owned by Swedish municipalities.

### Key Statistics

Table 1

#### Willhem AB (Publ) Financial Statistics

(SEK Mil.)	--Fiscal year ending Dec. 31--				
	2019	2020e	2021bc	2022bc	2023bc
Number of units	25,783	26,625	N/A	N/A	N/A
Arrears (% of net rental income)*	<1%	<1%	N/A	N/A	N/A
Revenue	2,256	2,370	2,550	2,780	3,130
EBITDA\$	1,092	1,148	1,217	1,337	1,498
EBITDA/revenue (%)	48.4	48.3	47.7	47.8	47.9
Debt	23,326	27,190	28,050	30,830	33,630
Debt/EBITDA (x)	21.4	23.7	23.1	23.1	22.4
Interest expense	376	410	440	470	520
EBITDA/interest coverage (x)†	2.9	2.8	2.8	2.8	2.9
Capital expense	1,515	3,540	2,980	3,090	3,210

Table 1

**Willhem AB (Publ) Financial Statistics (cont.)**

(SEK Mil.)	--Fiscal year ending Dec. 31--				
	2019	2020e	2021bc	2022bc	2023bc
*Current arrears. §Adjusted for capitalized repairs. †Including capitalized interest. a--Actual e--Estimate. bc--Base case, reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. 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 like					

**Ratings Score Snapshot**

Table 2

**Willhem AB (publ) Ratings Score Snapshot**

Key rating factors	Score
Industry risk	2
Economic fundamentals and market dependencies	2
Strategy and management	3
Asset quality and operational performance	1
Enterprise profile	3
Financial performance	2
Debt profile	4
Liquidity	4
Financial policies	3
Financial profile	3

S&P Global Ratings' analysis of social housing providers' creditworthiness rests on our scoring of eight key rating factors: (i) industry risk; (ii) economic fundamentals and market dependencies; (iii) strategy and management; (iv) asset quality; (v) financial performance; (vi) debt profile; (vii) liquidity; and (viii) financial policies. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published Dec. 17, 2014, and "Rating Government-Related Entities: Methodology And Assumptions," published March 25, 2015, detail how we derive and combine the scores, and then determine each social housing provider's stand-alone credit profile and the issuer credit rating. In accordance with S&P Global Ratings' public and nonprofit social housing providers methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating, the committee can make use of the flexibility afforded by paragraphs 12-17 of "Methodology For Rating Public And Nonprofit Social Housing Providers."

**Related Criteria**

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

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**Willhem AB (publ)**

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Issuer Credit Rating    A-/Stable/A-2

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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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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