

Tear Sheet:

Willhem AB (publ)

May 8, 2023

S&P Global Ratings anticipates that our adjusted EBITDA interest coverage for Willhem will drop toward 2.0x-2.2x in 2023 and 2024 due to higher refinancing costs, but it should remain within rating thresholds. Like other similarly rated peers in the Nordics, Willhem's relatively high exposure to variable interest rates will weigh on financial costs over the next 12-24 months (2.1% on Dec. 31, 2022, and 1.2% in 2021). The company has hedged its portfolio with an average fixed-interest tenor for loans of 3.5 years, but about 30% of the fixed rate debt is maturing over the next year. Owing to several recent increases in interest rates, we believe Willhem will have an overall weaker debt-service capacity, given we project the average cost of debt will rise to 2.6% by year-end 2023 and 2.7% by year-end 2024. Consequently, we now project our adjusted EBITDA interest coverage will fall to about 2.0x-2.2x in 2023 and 2024 versus 3.1x in 2022, in line with the 1.8x threshold for the rating, although with tighter headroom.

We anticipate Willhem's leverage will increase over the next 12-24 months, given our assumption of about a 10% further asset devaluation over the next two years, although we anticipate stable operating performance. The portfolio expanded to Swedish krona (SEK) 59.9 billion in 2022 from SEK56.6 billion in 2021, mainly because of an acquisition and investment into existing properties compensating for a negative asset decline of 1.8% for 2022, which accelerated in the fourth quarter (3% in the quarter alone), reflecting a net initial yield expansion to 3.4% from 3.2%. We anticipate our adjusted debt to debt plus equity will increase to about 57%-59% over the next 12-24 months from 54.1% on Dec. 31, 2022, because we factor in a negative 7%-10% fair-value adjustment in 2023 and a further 2%-3% decline in 2024. But we expect the adjusted ratios will remain below our 60% downside thresholds. In our view, any major pressure on the company's leverage metrics exceeding the publicly stated target would be met by a capital injection or support from its main shareholder, Swedish state-owned pension fund AP1. That said, we anticipate Willhem's operating performance will remain stable, underpinned by positive like-for-like rental growth of 3.5%-3.9% in 2023 and 1.6%-2.0% in 2024 and sustained occupancy of about 98%-99%. Overall, Willhem's portfolio is spread across larger Swedish cities with healthy population growth, solid demand, and limited supply. Over the next 12 months we expect broadly unchanged performance, with the gross EBITDA margin remaining at 59%-60%, although increasing cost inflation may weigh on margins given we anticipate some time lag for the landlord to pass increased costs to tenants.

Willhem's cash on the balance sheet and committed credit facilities ensure it retains adequate liquidity, despite the high near-term debt maturities of commercial papers (CP). On Dec. 31, 2022, Willhem's average debt maturity was 2.5 years (3.2 years including credit facilities maturing beyond 12 months), which is shorter than most of our rated peers in Europe and below our requirement of three years for real estate companies, mainly reflecting a large share of the capital structure containing short-term debt. Consequently, the company has relatively high debt repayments in the next 12 months of about SEK10.1 billion, corresponding to about 30% of total outstanding debt, but mainly relating to CP. We understand Willhem intends to roll over existing short-term debt but had an adequate SEK4.4 billion of available cash and cash equivalents and

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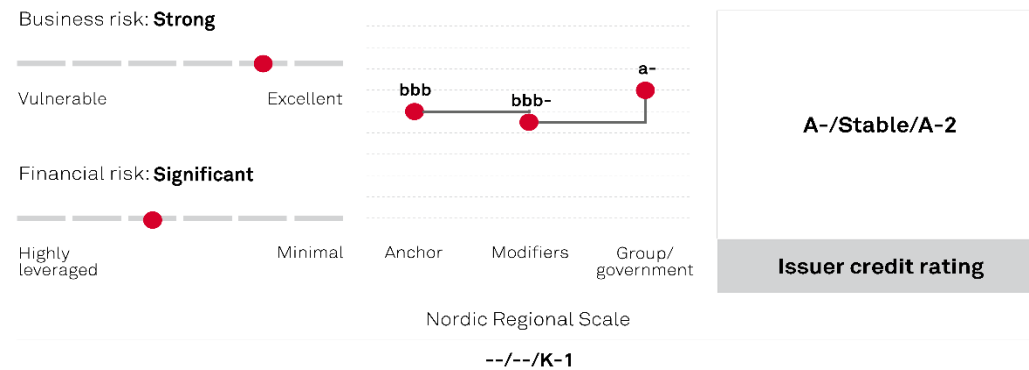
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about SEK17.7 billion under its committed undrawn back-up facility maturing beyond 12 months at Dec. 31, 2022, including the subscription agreement of SEK8 billion from AP1 fully covering its CP program of the same amount. Support from the owners reduces refinancing risk considerably for the coming 12-24 months and partly mitigates the risk associated with the average debt maturity being below three years, in our view.

Ratings Score Snapshot



Company Description

Willhem is a Swedish private property company with a portfolio value of SEK59.9 billion at Dec. 31, 2022 (about €5.3 billion). Willhem operates primarily in the residential sector (92.6% of property value), owning about 28,451 residential units. The company is active in 13 cities in Sweden with main operations in Stockholm (17% of total portfolio value at Dec. 31, 2022), Gothenburg (13%), Borås (11%), and Helsingborg (11%).

The company was founded in December 2010 and is 100% owned by Swedish pension fund AP1.

Outlook

The stable outlook on Willhem reflects our expectation of continued favorable demand for midsize residential apartments in major Swedish cities, where new supply remains limited. We expect like-for-like rental income will increase 2.5%-3.5% annually in the next 12-24 months. We also anticipate that the company's S&P Global Ratings-adjusted EBITDA interest coverage will remain at about 3x and debt to debt plus equity at about 55% over the next 12-24 months.

In addition, the stable outlook incorporates no change to our view of the company's shareholder structure and the strategy of AP1 toward Willhem.

Downside scenario

Willhem AB (publ)

We could lower the rating if Willhem's debt to debt plus equity increases above 60% or its EBITDA interest coverage declines toward 1.8x or below on a sustainable basis. This could occur following higher-than-expected debt-financed investments or acquisitions or materially weaker operating performance than anticipated.

A negative rating action could also occur if the company's capital structure or liquidity deteriorate, for example, due to its average remaining debt maturity falling below two years or significant short-term refinancing needs, including CP.

We could also lower the rating if there is a change in the owner's approach and commitment to its investment in Willhem, which could lead us to revise our view of support from AP1

Upside scenario

We could raise the rating if Willhem's credit metrics strengthen beyond our base case, driving improvements in its overall financial risk profile. This could occur if debt to debt plus equity declines sustainably well below 55%, as part of a more conservative financial policy, with EBITDA interest coverage maintained at least at 3x and debt to EBITDA toward 13x on a sustainable basis.

That would also assume no change in the shareholder's strategy or commitment toward Willhem.

Key Metrics

Willhem AB (publ)--Key Metrics*

Mil. \$	2021a	2022a	2023e	2024f	2025f
Like-for-like rental growth (%)	2.6	2.6	3.5-4.0	1.5-2.0	1.5-2.0
EBITDA	1,458	1,604	1,750-1,800	1,800-1,850	1,900-1,950
EBITDA Margins (%)	58.5	60.2	58-60	58-60	58-60
Debt to EBITDA (x)	18.6	18.8	17.5-18.0	17.0-17.5	16.5-17.0
EBITDA interest coverage (x)	3.6	3.3	2.0-2.2	2.0-2.2	2.0-2.2
Debt to debt plus equity (%)	52.2	54.1	56.0-58.0	58.0-60.0	58.0-60.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Financial Summary

Willhem AB (publ)

Willhem AB (publ)--Financial Summary

Period ending	Dec-31-2017	Dec-30-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	2,031	2,152	2,256	2,374	2,491	2,664
EBITDA	1,118	1,195	1,295	1,408	1,458	1,604
Funds from operations (FFO)	779	833	897	969	1,021	1,136
Interest expense	326	399	376	413	406	516
Operating cash flow (OCF)	849	671	880	898	1,121	1,194
Capital expenditure	1,352	1,244	1,237	1,396	1,725	1,966
Dividends paid	0	385	401	0	501	501
Cash and short-term investments	1,229	1,445	2,010	3,113	3,254	4,464
Debt	19,690	20,515	21,661	24,314	27,054	30,203
Common equity	11,221	13,128	15,205	17,979	24,759	25,574
Valuation of investment property	33,397	36,265	40,075	46,347	56,560	59,886
Adjusted ratios						
EBITDA margin (%)	55.0	55.5	57.4	59.3	58.5	60.2
EBITDA interest coverage (x)	3.4	3.0	3.4	3.4	3.6	3.1
Debt/EBITDA (x)	17.6	17.2	16.7	17.3	18.6	18.8
Debt/debt and equity (%)	63.7	61.0	58.8	57.5	52.2	54.1

Peer Comparison

Willhem AB (publ)--Peer Comparisons

	Willhem AB (publ)	Deutsche Wohnen SE	Vesteda Residential Fund FGR	Akelius Residential Property AB	Hemso Fastighets AB
Foreign currency issuer credit rating	A-/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2	BBB/Negative/A-2	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2	BBB/Negative/A-2	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2021-12-31	2022-12-31	2022-12-31	2022-12-31

Willhem AB (publ)--Peer Comparisons

Revenue	2,664	11,419	4,044	3,376	4,096
EBITDA	1,604	6,890	2,741	1,504	2,886
Funds from operations (FFO)	1,136	5,032	2,340	626	2,307
Interest expense	516.0	1774.9	467.9	891.8	602.0
Operating cash flow (OCF)	1,194	4,785	2,351	1,640	2,468
Capital expenditure	1,966	7,995	2,184	2,195	3,809
Dividends paid	501.0	3690.8	2729.4	67948.3	1072.0
Cash and short-term investments	4,464	6,959	123	5,971	526
Debt	30,203	95,185	25,790	15,329	49,973
Equity	25,574	176,912	81,303	53,820	30,028
Valuation of investment property	59886.0	314191.2	105255.5	68770.3	84879.0
Adjusted Ratios					
EBITDA margin (%)	60.2	60.3	67.8	44.6	70.5
EBITDA interest coverage (x)	3.1	3.9	5.9	1.7	4.8
FFO cash interest coverage (x)	3.4	4.2	6.8	1.7	6.0
Debt/EBITDA (x)	18.8	13.8	9.4	10.2	17.3
Debt/debt and equity (%)	54.1	35.0	24.1	22.2	62.5

Environmental, Social, And Governance

ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Willhem. The company targets reducing its energy consumption by 50% by 2030 from the 2018 base level and achieving net-zero emissions by 2030. The company had secured green financing for about 20% of its total interest-bearing debt at Dec. 31, 2022. Willhem is 100% owned by Swedish sovereign wealth fund AP1, which acts as a buffer fund for the Swedish National Public Pension system. We understand that AP1 considers Willhem a core, long-term investment.

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Rating Component Scores

Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Strong
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bbb-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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