

Tear Sheet:

Willhem AB (publ)

April 30, 2024

We forecast that adjusted EBITDA interest coverage will drop toward 1.8x-2.0x in 2024 and 2025 (from 2.1x in 2023) due to higher refinancing costs, maintaining tight headroom under our ratings thresholds. Owing to sustained higher interest rates, and near-term refinancing needs, we project Willhem's average cost of debt will rise to about 3.0% in 2024 and 2025 (from 2.6% 2023). About 28% of fixed-rate interest terms and 39% of total outstanding debt (or 26% excluding commercial paper [CP]) matures in the next 12 months. To address these upcoming maturities, we anticipate Willhem will access both the local debt capital markets and raise new loans through credit institutions; we expect CP to be rolled over. The company has been active in the market and as of April 30, 2024, the company had refinanced or issued new bonds covering about 80% of bonds maturing in 2024, excluding CP (we note for instance the company's issuance of five-year bonds at a fixed coupon of 3.8%). For upcoming issuances, we assume 3.8%-4.0% coupons considering recent upward pressure on interest rates in Sweden. On this basis, we continue to project our adjusted EBITDA interest coverage will fall to about 1.8x-2.0x in 2024 and 2025 versus 2.1x in 2023, remaining close to our 1.8x downside threshold for the current rating. The negative outlook reflects a one-in-three likelihood of a downgrade in the next 12-18 months should Willhem's credit metrics weaken beyond our current forecasts.

Willhem's recent capital increases, totaling Swedish krona (SEK)2 billion from its owner, support the balance sheet, maintaining a S&P Global Ratings-adjusted ratio of debt to debt plus equity below 60%. In the first quarter of 2024, Willhem's owner, the Swedish state-owned pension fund, AP1, injected additional capital of SEK1.0 billion (following the SEK1.0 billion of equity Willhem received from its owner in late 2023). The capital was used for debt repayment. Willhem's debt to debt plus equity ratio deteriorated to 57.8% in 2023 (versus 54.1% at year-end 2022) mainly due to an 8.5% portfolio devaluation (following a 2.7% decline in second-half 2022) although partly offset by the SEK1 billion of capital injection in the fourth quarter. Overall it resulted in less headroom to our downside threshold of 60% compared with previous year (54.1% in 2022). In our current base case, we expect S&P Global Ratings-adjusted debt-to-debt-plus equity ratio at 56%-58% in 2024 and remaining at this level in 2025-2026 including our assumptions of an additional negative 3.0% fair value property adjustment in 2024 and a flat development thereafter. In addition, we expect no dividend in the current year to further preserve capital. We understand that the company's management and owner AP1 are committed to its financial target of a maximum loan-to-value ratio (LTV) of 60% (reported LTV of 52.5% as of Dec. 31, 2023), which corresponds to adjusted debt to debt plus equity of below 65%.

Favorable dynamics across the residential property sector support operational performance. We anticipate Willhem's operating performance will remain stable, underpinned by expected like-for-like rental growth of 4.0%-5.0% in 2024 (4.0% in 2023) and sustained occupancy of about 98%-99% as the company's portfolio is mainly spread across major Swedish cities that

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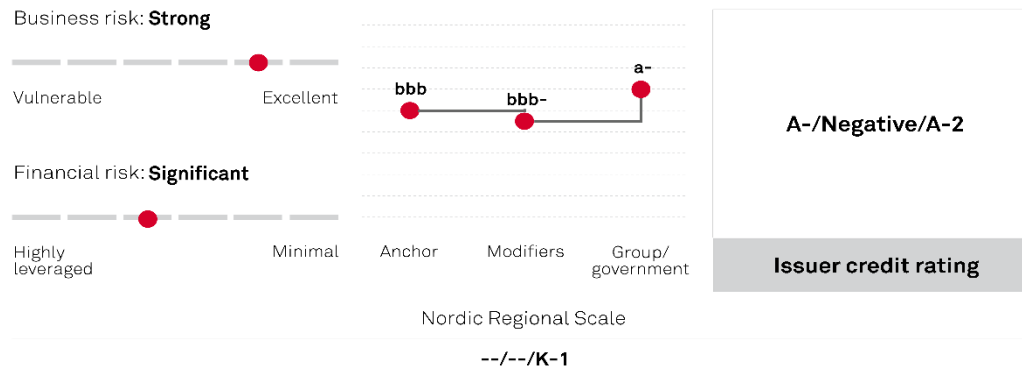
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enjoy healthy population growth, solid demand, and where new supply is limited. Over the next 12 months we anticipate the gross EBITDA margin will remain around 60% (61.6% in 2023, assuming increasing cost inflation may weigh on margins with some time lag for the landlord to pass increased costs to tenants. The portfolio yield increased to 3.9% in 2023 following the like-for-like devaluations and from the peak in first-half 2022 (yield at 3.1%). The fair value adjustment amounts to -11.7% in total over this period. We believe property values could still be under pressure in the first half of 2024 but assume yields will stabilize later this year.

Willhem's cash on the balance sheet and committed credit facilities ensure it retains adequate liquidity, despite the high near-term debt maturities of short-term debt. As of Dec. 31, 2023, Willhem's weighted-average debt maturity was 2.2 years (3.7 years including credit facilities maturing beyond 12 months), hence below our 3.0-year minimum rating threshold 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 SEK12.5 billion, corresponding to 39% of total outstanding debt, and split between CP (13%) and krona-denominated senior unsecured bonds (26%) . We understand Willhem intends to roll over existing short-term debt and had an adequate SEK2.3 billion of available cash and cash equivalents and about SEK18.6 billion under its committed undrawn back-up facility maturing beyond 12 months as of 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 offsets the risk associated with the average debt maturity being below three years, in our view.

Ratings Score Snapshot



Recent Research

Swedish Residential Property Group Willhem Outlook Revised To Negative On Weakening Credit Metrics; Affirmed At 'A-/A-2', Sept. 18, 2023

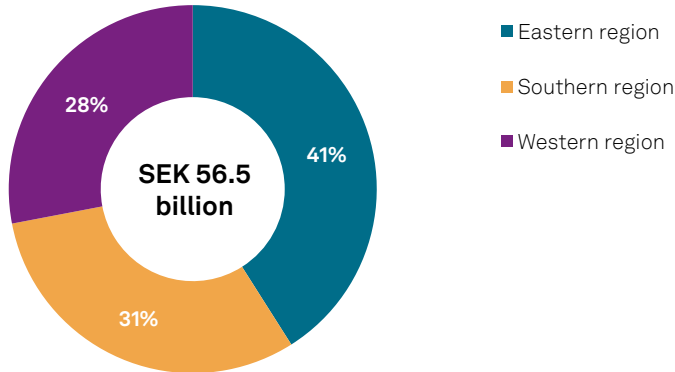
Company Description

Willhem is a Swedish private property company with a portfolio value of SEK56.5 billion (about €5.0 billion) at Dec. 31, 2023. Willhem operates primarily in the residential sector (93% of property value), owning about 29,095 residential units spread in around 2 million square meters. The company is active in 13 cities in Sweden with main operations in Stockholm (16.9% of total portfolio value as of Dec. 31, 2023), Gothenburg (12.6%), Linköping (10.7%) and Borås (10.6%).

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

Willhem's geographical distribution

As of Dec. 31, 2023



Source: Willhem.

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Outlook

The negative outlook captures the possibility of a downgrade in the next 12-18 months if Willhem's credit metrics weaken beyond our current base-case projections. At this time, we anticipate tight ratings headroom, with EBITDA interest coverage declining toward 1.8x-2.0x and debt to debt plus equity at, or just below, 60% over the next 24 months.

Downside scenario

We could consider a negative rating action if:

- Debt to debt plus equity increases to 60% or above for a prolonged period because of higher negative asset revaluation or a larger-than-expected debt-financed investment.
- EBITDA to interest nears 1.8x, or below, for a sustained period, for instance due to higher funding costs or materially weaker-than-expected operating performance.
- Willhem's standing in the debt capital markets deteriorates, creating refinancing risks, notably with respect to its CP and bonds.
- A change in AP1's approach and commitment to its investment in Willhem prompts us to see a reduced likelihood of extraordinary support.

Upside scenario

We could revise our outlook to stable if Willhem:

- Sustains an EBITDA interest coverage sufficiently above 1.8x;
- Debt to debt plus equity is well below 60%;
- Retains a good access to capital markets for refinancing needs; and
- Does not experience a change in the shareholder's strategy or commitment toward the company.

Key Metrics

Willhem AB (publ)--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. SEK)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	2,374	2,491	2,664	2,860	3,071	3,224	3,359	3,491
EBITDA (reported)	1,446	1,459	1,601	1,761	1,839	1,931	2,019	2,098
EBITDA	1,408	1,458	1,604	1,761	1,839	1,931	2,019	2,098
EBIT	1,407	1,460	1,631	1,857	1,861	1,956	2,043	2,122
Interest expense	413	406	516	825	968	967	1,009	1,005
Cash flow from operations (CFO)	898	1,121	1,194	795	897	993	1,039	1,122
Capital expenditure (capex)	1,396	1,725	1,966	1,605	800	1,100	1,100	1,000
Dividends	--	501	501	--	--	500	500	500
Debt	24,314	27,054	30,203	30,197	29,233	29,974	30,619	31,080
Equity	17,979	24,759	25,574	22,265	22,423	22,699	23,078	23,527
Cash and short-term investments (reported)	3,113	3,254	4,464	2,313	2,898	2,879	2,884	2,856
Adjusted ratios								
Debt/EBITDA (x)	17.3	18.6	18.8	17.1	15.9	15.5	15.2	14.8
EBITDA interest coverage (x)	3.4	3.6	3.1	2.1	1.9	2.0	2.0	2.1
Annual revenue growth (%)	5.2	4.9	6.9	7.4	7.4	5.0	4.2	3.9
EBITDA margin (%)	59.3	58.5	60.2	61.6	59.9	59.9	60.1	60.1
Debt/debt and equity (%)	57.5	52.2	54.1	57.6	56.6	56.9	57.0	56.9

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. SEK--Swedish krona.

Financial Summary

Willhem AB (publ)--Financial Summary

Period ending	Dec-30-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	2,152	2,256	2,374	2,491	2,664	2,860
EBITDA	1,195	1,295	1,408	1,458	1,604	1,761
Funds from operations (FFO)	833	897	969	1,021	1,136	954
Interest expense	399	376	413	406	516	825
Operating cash flow (OCF)	671	880	898	1,121	1,194	795
Capital expenditure	1,244	1,237	1,396	1,725	1,966	1,605
Dividends	385	401	-	501	501	-
Cash and short-term investments	1,445	2,010	3,113	3,254	4,464	2,313
Debt	20,515	21,661	24,314	27,054	30,203	30,197
Common equity	13,128	15,205	17,979	24,759	25,574	22,265

Willhem AB (publ)--Financial Summary

Valuation of investment property	36,265	40,075	46,347	56,560	59,886	56,497
Adjusted ratios						
EBITDA margin (%)	55.5	57.4	59.3	58.5	60.2	61.6
EBITDA interest coverage (x)	3.0	3.4	3.4	3.6	3.1	2.1
Debt/EBITDA (x)	17.2	16.7	17.3	18.6	18.8	17.1
Debt/debt and equity (%)	61	58.8	57.5	52.2	54.1	57.6

Peer Comparison

Willhem AB (publ)--Peer Comparisons

	Willhem AB (publ)	Vesteda Residential Fund FGR	Akelius Residential Property AB	Hemso Fastighets AB	Grand City Properties S.A.
Foreign currency issuer credit rating	A-/Negative/A-2	A-/Stable/A-2	BBB-/Stable/A-3	A-/Stable/A-2	BBB+/Negative/A-2
Local currency issuer credit rating	A-/Negative/A-2	A-/Stable/A-2	BBB-/Stable/A-3	A-/Stable/A-2	BBB+/Negative/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Revenue	2,860	4,202	3,702	4,859	6,735
EBITDA	1,761	2,868	1,734	3,500	3,533
Funds from operations (FFO)	954	2,323	988	3,017	2,413
Interest expense	825.0	622.5	712.2	1159.7	1097.8
Operating cash flow (OCF)	795	2,368	1,711	1,948	2,011
Capital expenditure	1,605	3,357	2,179	2,825	880
Dividends paid	0.0	2212.0	16784.0	1155.0	0.0
Cash and short-term investments	2,313	44	767	1,593	13,678
Debt	30,197	28,868	38,438	50,219	46,763
Equity	22,265	71,052	33,347	28,156	48,132
Valuation of investment property	56497.0	96418.1	63204.2	82624.0	95918.8
Adjusted Ratios					
EBITDA margin (%)	61.6	68.3	46.8	72.0	52.5
EBITDA interest coverage (x)	2.1	4.6	2.4	3.0	3.2
FFO cash interest coverage (x)	2.2	5.4	2.4	7.5	4.2
Debt/EBITDA (x)	17.1	10.1	22.2	14.3	13.2
Debt/debt and equity (%)	57.6	28.9	53.5	64.1	49.3

Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of Willhem. The company aims a 50% reduction of its energy consumption by 2030 (from the 2013 base level of 173kWh/sqm) and during 2022 a new goal was set to reach

Willhem AB (publ)

energy consumption of 72kWh/sqm (96kWh/sqm in 2023). Willhem targets to achieve climate neutrality by 2030 for its scope 1 and 2 emissions and reduce its scope 3 emissions by 50% over the same time frame compared to 2018. The main environmental risks we assess for the company relate to carbon emissions and waste related to project development and Willhem sees significant potential for improvement in this area. Willhem's green bond framework was independently assessed by Cicero, now part of S&P Global Ratings. Cicero assigned Willhem's green bond framework a Medium Green shading and the company had secured green financing of about 22% of its total interest-bearing debt as of Dec. 31, 2023.

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.

Rating Component Scores

Foreign currency issuer credit rating	A-/Negative/A-2
Local currency issuer credit rating	A-/Negative/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	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 07, 2024
- Criteria | Corporates | General: Management and Governance Credit Factors For Corporate Entities, Jan. 07,2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018

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- 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
- 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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