

# RatingsDirect®

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## Willhem AB (publ)

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# Willhem AB (publ)

## Key Rating Factors

### Issuer Credit Rating

A-/Stable/A-2

*Nordic Regional Scale*

--/--/K-1

Enterprise profile	Financial profile
<p>Willhem's strategies remain firm, focusing on rental housing.</p> <ul style="list-style-type: none"><li>• Solid population growth and high demand for rental housing within Willhem's main markets underpin strong market fundamentals.</li><li>• As a result, vacancy risks are still minimal.</li><li>• However, Willhem's larger share of properties in less attractive locations is a weakness, in our view.</li></ul>	<p>Strong market fundamentals support stable performance, but increasing interest rates could create constraints.</p> <ul style="list-style-type: none"><li>• High demand for rental housing in Willhem's markets sustains healthy operating performance.</li><li>• That said, hiking interest rates could weaken Willhem's ability to service interest payments.</li></ul>

## Outlook

The stable outlook reflects S&P Global Ratings' view that Swedish housing company Willhem AB (publ) will maintain its EBITDA-to-interest cover ratio at over 2.5x over the coming two years, supported by stable adjusted EBITDA margins over 40%. We also take into account our expectation that Willhem will counteract any pressure on the cover ratio stemming from increasing interest expenses.

### Downside scenario

We could lower the ratings over the next two years if the EBITDA-to-interest cover ratio deteriorated to below 2.5x. This could happen if the interest rates increase beyond our base-case expectations, and Willhem fails to offset this by deleveraging the balance sheet to an extent that the cover ratio is more resilient to increasing interest expenses, for example.

### Upside scenario

We could consider an upgrade if Willhem's overall financial profile strengthens, implying a reduced debt of below 20x of EBITDA and a structurally improved liquidity at above 1.25x. In this scenario, we would also expect the EBITDA margin to surpass 50%.

## Rationale

***Willhem operates in a low risk industry, characterized by regulatory oversight and anticyclical earnings.*** Willhem is one of Sweden's largest private housing providers and owns about 26,000 apartments in 13 Swedish cities. Willhem has actively expanded into cities with solid demand for rental housing and high population growth, averaging 1.4% annually for the past three years in its main markets.

***Vacancy risk remains low.*** We calculate the average dwelling price at 125% of the national average, reflecting that some of Willhem's properties are outside of the metropolitan areas. Compared with peers, Willhem has a larger share of its properties in less attractive areas within the cities. Vacancy risk remains low, calculated below 2% of rent receivables. Nevertheless, we consider it in our rating, since it may lead to reduced prospects for property sales and potential reputational risk if Willhem were not to act as a socially responsible landlord.

***Willhem benefits from support from its owner.*** Willhem's owner Första AP-fonden considers the housing company to be a long-term investment. The owner is involved in defining Willhem's strategies and supports the company via a contractual agreement, whereby it commits to subscribing to commercial paper if Willhem fails to issue at the capital markets, and a capitalization target, which implies willingness to inject capital if capitalization fell below the minimum target.

***We expect Willhem will maintain stable performance through 2021.*** We anticipate Willhem's focus on investments in existing properties (i.e. Willhemlyftet), and acquisitions could marginally strengthen performance. Furthermore, we incorporate into our calculations of the company's EBITDA about Swedish krona (SEK) 200 million annually of capitalized maintenance costs, which we consider operating expenditure.

***Investments in existing properties and acquisitions will remain important.*** We believe Willhem will focus on expanding within its main markets, although we assume that supporting circumstances could prompt the company to expand into new geographical areas as well. We expect capital expenditure (capex) will gradually increase from the level seen in 2018, mainly related to investments in existing properties and acquisitions. While investments in existing properties are predictable, acquisitions are volatile, potentially leading to materially higher capex volumes in certain years.

***Första AP-fonden's commitment helps keep debt concerns at bay.*** In our view, Willhem's investments in existing properties will contribute positively to performance. Consequently, although we expect Willhem's nominal debt to increase, we expect debt in relation to EBITDA to remain stable. Because of the owner's capitalization commitment, we consider the risk for a significantly weakened debt burden as limited. However, we continue to regard as negative for the ratings Willhem's maturity profile, with about 40% of the portfolio maturing within 12 months as of Sept. 30, 2019.

***Willhem expected to counter risks related to interest exposure.*** We expect Willhem's EBITDA interest cover ratio will remain stable, comfortably above 2.5x over the next two years. We expect gradually increasing interest rates over the coming years, which may constrain the cover ratio to some extent if interest expenses increase beyond our base-case expectations. That said, we acknowledge that Willhem actively works to minimize its interest exposure.

## Liquidity

Willhem's liquidity position rests on ample amount of contracted facilities and cash holdings, covering 1.14x of the coming 12 months of debt service. We note that the cash position is currently abnormally high, but we expect it will decrease gradually owing to outflows in early 2020. Furthermore, we continue to assess Willhem's market access as satisfactory, in line with other non-municipal-owned peers.

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

- SEK1.1 billion of estimated operating cash flow;
- SEK1.9 billion in cash;
- SEK5.2 billion in committed backups provided by banks; and
- SEK6 billion in committed contractual agreement from owner to subscribe commercial paper.

Our calculation of Willhem's liquidity uses includes:

- SEK1.8 billion in expected capex;
- SEK10.1 billion in maturing debt and interest; and
- SEK600 million of dividends.

## Key Statistics

**Table 1**

Willhem AB Key Statistics					
(Mil. SEK)	2017a	2018a	2019e	2020bc	2021bc
Number of units owned or managed	26,002	25,992	N.A	N.A	N.A
Revenue	2,031	2,152	2,255	2,378	2,512
EBITDA*	915	993	1,050	1,119	1,192
EBITDA/revenue(%)*	45.1	46.1	46.6	47.0	47.5
Capital expense*	4,028	1,285	1,633	1,775	2,046
Debt	20,919	21,960	22,991	23,927	25,778
Debt/EBITDA(x)*	22.9	22.1	21.9	21.4	21.6
Interest expense	326	399	382	398	425
EBITDA/interest coverage(x)*	2.8	2.5	2.8	2.8	2.8
Cash and liquid assets	1,229	1,445	1,942	1,250	1,250

\*Adjusted for capitalized repairs. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available. SEK--Swedish krona.

## Ratings Score Snapshot

**Table 2**

Willhem AB Ratings Score Snapshot	
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**Table 2**

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Financial profile	3

S&P Global Ratings bases its ratings on non-profit social housing providers on the eight main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on Dec. 17, 2014, summarizes how the eight factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating. For social housing providers generating more than a third of its consolidated revenues from open market sales, we also refer to the "Key Credit Factors For The Homebuilder And Real Estate Developer Industry."

## 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- S&P Global Ratings Definitions, Sept. 18, 2019

### Ratings Detail (As Of December 18, 2019)\*

#### Willhem AB (publ)

Issuer Credit Rating	A-/Stable/A-2
<i>Nordic Regional Scale</i>	--/--/K-1

#### Issuer Credit Ratings History

12-Dec-2014	A-/Stable/A-2
12-Dec-2014 <i>Nordic Regional Scale</i>	--/--/K-1

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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