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Research Update:

Swedish Property Company Akademiska Hus AB 'AA/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

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Overview

- We now expect slower increases in Akademiska Hus' debt in the coming years, owing to a lower completion rate of investments in 2017 that we think will continue in the next couple of years.
- Operations remain robust, thanks to stable rental flows from Sweden's university sector, which is an arm of the government, and we continue to view the likelihood of extraordinary government support for the company as high.
- We are therefore affirming our 'AA/A-1+' and 'K-1' ratings on Akademiska Hus.
- The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain adequate because of continued strong financial performance and prudent debt and liquidity management through year-end 2020.

Rating Action

On Feb. 2, 2018, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on Swedish property company Akademiska Hus AB. The outlook is stable.

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

Rationale

The ratings are based on our assessment of Akademiska Hus' very strong enterprise and financial risk profiles, resulting in a stand-alone credit profile (SACP) at 'aa-'. Moreover, we see a high likelihood that the company would receive timely and sufficient support from its owner, Sweden (unsolicited, AAA/Stable/A-1+), if it experienced any financial distress, which leads to our 'AA' long-term rating.

We assess Akademiska Hus' enterprise risk and financial risk profiles, or the components of its SACP, by benchmarking against factors we take into account when rating public and nonprofit social housing providers.

In our view, Akademiska Hus benefits from operating in a low-risk segment of the real estate industry and in Sweden's very strong economic environment. Continued population growth spurs demand for properties and student housing in the country. With a share of 60% in its market segments, Akademiska Hus is by far Sweden's largest provider of properties for universities and colleges, resulting in an extremely strong market position. Most tenants are universities that operate as government agencies, which helps the stability of revenues. Furthermore, vacancies

are minimal, at 0.9% of revenues, and properties are well maintained. We regard management as very competent and sophisticated, and it operates in line with its owner's strategies. We view positively that management has prolonged the maturity profile of its debt portfolio. However, our assessment of liquidity remains at only adequate even though it's well above the target set by Akademiska Hus' board.

To a large extent, Akademiska Hus provides specialized, tailor-made premises that guarantee long-term relationships with its tenants and enable stable revenue streams. In December 2017, the average remaining term of Akademiska Hus' lease contract portfolio was 6.0 years, unchanged from the 2016 figure. Furthermore, the company has strong management, in our view, and a conservative approach to project management. It starts new investments only after first signing a lease contract with the tenant. The company sets rent levels according to a formula that reflects estimated construction costs and expected yields.

Akademiska Hus' ability to generate predictable revenues from ongoing provision of services is very strong, with EBITDA as a percentage of revenues that we forecast at about 63% in 2018, in line with the 2017 figure. We forecast that the EBITDA margin will increase to 66% by year-end 2020 based on our expectation that revenues will grow faster than costs as construction projects complete. Akademiska Hus is embarking on an ambitious investment program for the coming years, although we note that delays were longer than we anticipated in 2017. We have consequently revised our forecast of project completions for the coming years, and we now project capital expenditures will decrease to Swedish krona (SEK) 2.9 billion (€300 million) on average a year in 2018-2020.

Based on an expected 50% self-financing of investments, we forecast Akademiska Hus' debt will increase through 2020. However, because revenue growth is outpacing debt increases, we forecast the debt-to-EBITDA ratio will improve to 8.6x by 2020 from 9.7x in 2016. The average remaining term of the loan portfolio increased to 7.6 years at year-end 2017, up from 5.2 years at the end of 2016, which is fairly long in a comparison with Swedish peers. The company manages its floating-rate risk exposure with derivatives, such that 70% of its debt portfolio is at fixed rates, post hedging.

The company continues to enjoy strong access to Swedish and international capital markets. Akademiska Hus funds itself through commercial paper (SEK4 billion domestic and €1.2 billion international), as well as SEK8 billion medium-term note (MTN) and €3 billion euro medium-term note (EMTN) programs that provide considerable financial flexibility and reduce refinancing risk. In addition, the EMTN and MTN programs carry ownership covenants stipulating that Akademiska Hus must be directly or indirectly majority owned and controlled by the Swedish government, otherwise the notes and any interest immediately fall due for repayment.

We continue to apply a uplift to the rating from the SACP, incorporating our view of a high likelihood of extraordinary government support from the Swedish government to Akademiska Hus, in the event of financial distress. We base our view of the likelihood of support on Akademiska Hus' important role in the economy, in which the company has a recognized and dominant position in supplying Sweden's higher

education sector with technically advanced and cost efficient properties. With higher education being a top priority for the state, we see Akademiska Hus' operations as vital for the fulfillment of government policy in this area. In our opinion of government support, we also factor in the company's very strong link to the Swedish government, which fully owns Akademiska Hus. We see the government as actively involved in defining Akademiska Hus' strategy, and appointing board members, while demonstrating a long-term commitment to the company.

Liquidity

In our view, Akademiska Hus has an adequate liquidity position, given upcoming debt maturities and financing of capital expenditures. We note that Akademiska Hus currently has SEK6 billion in bank accounts and short-term investments. Furthermore, the company maintains bank liquidity facilities totaling SEK3.0 billion as a backup, should funding markets dry up. Moreover, we expect the company's very strong cash flows will contribute to its liquidity over the coming 12 months, on the back of robust cash-generating capacity. We expect that the company's liquidity will remain adequate, with liquidity sources amounting to 97% of liquidity uses--mainly capital expenditures and debt service obligations--over the coming 12 months. This projected ratio of liquidity sources to uses represents a 35% increase since our last review in February 2017.

Our assessment of Akademiska Hus' adequate liquidity is helped by its strong access to capital market funding. In addition, if Akademiska Hus faces a situation in which it can't access the markets for financing, we would expect its owner to postpone the dividend payments, enabling the company to prioritize debt repayments until it can return to external financing sources.

Outlook

The stable outlook reflects our expectation that Akademiska Hus' liquidity position will remain adequate, owing to continued strong market access, strong financial performance, and prudent debt and liquidity management. Furthermore, we expect that the company will exercise control over capital expenditures. We also anticipate that Sweden will remain the sole owner of Akademiska Hus over the next few years and the likelihood of extraordinary government support for the company will remain high.

We could consider a negative rating action if Akademiska Hus' link with, or role for, the government of Sweden were to weaken. Pressure on the rating could also stem from a deteriorating liquidity position, for example due to weaker cash-generation capability or higher debt service obligations, or from an increase in debt-funded investments that could prompt weaker EBITDA interest coverage and higher leverage.

Raising the rating would depend on Akademiska Hus' liquidity improving significantly, with liquidity sources sustainably above 125% of cash outflows over the ensuing 12 months, a development we consider unlikely at this time. Although a remote scenario at this stage, a change in our assessment of the likelihood of support from the government to very high from high could trigger an upgrade.

Akademiska Hus AB Selected Indicators

	2016	2017	2018bc	2019bc	2020bc
Vacancy rates (% of net rental income)	0.9	0.9	1.6	2.1	1.7
Revenue	5,666.0	5,821.0	6,141.2	6,325.4	6,588.5
EBITDA	3,581.6	3,717.0	3,878.8	4,095.7	4,339.7
EBITDA/revenue (%)	63.2	63.9	63.2	64.7	65.9
Interest expense	628.1	454.0	452.3	459.1	479.8
Debt/EBITDA (x)	9.7	9.4	9.1	8.9	8.6
EBITDA/interest coverage (x)	5.7	8.2	8.6	8.9	9.0
Capital expense	2,763.6	2,500.0	2,800.0	3,000.0	2,800.0
Debt	34,817.8	34,829.0	35,123.0	36,523.0	37,523.0
Housing properties (according to balance-sheet valuation)	73,024.0	79,120.0	81,920.0	84,920.0	87,720.0
Loan to value of properties (%)	47.7	44.0	42.9	43.0	42.8
Cash and liquid assets	5,370	6,000	5,025	4,985	4,844

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 - August 14, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- 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: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010

Ratings List

	Rating	
	To	From
Akademiska Hus AB		
Issuer Credit Rating		
Foreign and Local Currency	AA/Stable/A-1+	AA/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1

Ratings List Continued...

Senior Unsecured

Foreign and Local Currency	AA	AA
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Short-Term Debt

Foreign Currency	A-1+	A-1+
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Commercial Paper

Foreign and Local Currency	A-1+	A-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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website 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.

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