

Research Update:

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

September 25, 2019

## Overview

- We expect that Akademiska Hus AB will pass its peak in capital expenditures in 2019, leading to stronger cash flow generation in coming years.
- We continue to view the likelihood of extraordinary government support for the property company as high, given that a majority of tenants are Swedish universities, an arm of the government.
- We are therefore affirming our 'AA/A-1+' and 'K-1' ratings on the company.
- The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain strong with continued prudent debt and liquidity management.

## Rating Action

On Sept. 25, 2019, 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 the company.

## Rationale

We expect Akademiska Hus to pass its peak of capital expenditures in 2019, after several years of heavy investments. In 2018, several large projects finished, with Biomedicum in Stockholm being the largest, while we see in 2019 and beyond a stream of projects across the company's large geographical area, leading to a reduced need for external financing and debt until at least 2021.

We assess Akademiska Hus' enterprise risk and financial risk profiles, or the components of its stand-alone credit profile, by benchmarking against factors we consider when rating public and nonprofit social housing providers. We assess the likelihood that the company would receive timely and sufficient support from its owner, Sweden (unsolicited; AAA/Stable/A-1+), as high if it

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experienced any financial distress, resulting in a rating one notch above their stand-alone credit profile.

In our view, Akademiska Hus operate in a low-risk segment of the real estate industry, given continued population growth and demand for educational properties and student housing in the country. With a 60% market share, the company is by far Sweden's largest provider of properties for universities and colleges, with holdings of land in and around campus areas, which make it the natural provider of additional properties on campus. Most tenants are universities that operate as government agencies, which helps stabilize revenues. We acknowledge vacancies increased in 2018, but we expect these to be the temporary effect of the new properties being completed causing vacancies in the existing stock of properties. We view Akademiska Hus' management as very competent. Its proactive debt management, by extending its maturity profile and managing currency and interest rate risk, is a credit positive. We also view positively on management's actions to strengthen its liquidity position over the past year. The strategic planning is based on the objectives set by its owner and carried out in line with the company's long-term plan.

Largely, Akademiska Hus segment, with tailor-made premises that guarantee long-term relationships with its tenants, enable stable revenue streams, which is key to our assessment of the organization. The average remaining term of Akademiska Hus' lease contract portfolio is about 6.3 years, and this has been stable since 2014. In addition, the company applies a conservative approach to project management. New investments typically starts after first signing a lease contract with the tenant. Also, Akademiska Hus sets rent levels according to a formula that reflects estimated construction costs and expected yields. These portfolio characteristics lead to highly predictable revenues from ongoing operations, including EBITDA of about 63% of revenues in 2019. We expect the EBITDA margin to increase, through higher profitability in ongoing projects and an expected drop in vacancies. Akademiska Hus has had an ambitious capital investment program that is reaching completion, so expenditures will likely decrease in coming years, to an average of 2.3 billion Swedish krona (SEK) over 2019-2021, compared with an average of SEK2.7 billion in 2017-2018.

Based on our expectation that Akademiska Hus will enjoy strong operating cash flows, we forecast its debt will increase by about SEK1 billion over the coming two years, with the bulk of that in 2019, while the need for further debt financing goes down in 2021 and beyond. Based on our expectation on profitability in the coming years and lower capital expenditures, we forecast that leverage will decrease with debt-to-EBITDA ratio strengthening to 8.1x in 2021 from 8.7x in 2018. Also, management has lengthened the average remaining term of the loan portfolio to 10.7 years at July 31, 2018, from 5.2 years at Dec. 31, 2016--which is long compared to Swedish peers.

We continue to positively factor into the rating our assessment of a high likelihood of extraordinary government support from the Swedish government. 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. We also take into account the company's very strong link to the Swedish government, which fully owns Akademiska Hus. We see the government as actively involved in defining strategy and appointing board members, while demonstrating a long-term commitment to the company.

## **Liquidity**

We assess Akademiska Hus' liquidity as strong. The company has SEK3.0 billion in bank accounts and short-term investments. This has decreased over the past year, but to counter this,

Akademiska Hus has increased its bank liquidity facilities to SEK5.5 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. With liquidity sources amounting to 120% of liquidity uses--mainly capital expenditures and debt service obligations--over the coming 12 months, we observe a stronger liquidity position.

Our assessment of Akademiska Hus' strong liquidity is supported by the company's 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 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 will remain strong, owing to continued strong market access and financial performance, and prudent debt and liquidity management. Furthermore, we expect that the company will exercise control over capital expenditures. We also assume 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, together with higher indebtedness, for example through a sharp increase in debt financed investments, which in turn could affect our assessment of the company's financial policies.

Ratings upside would depend on management taking steps to further strengthen liquidity on a sustainable basis, underpinned by a general improvement of the cash flow generation. A change in our assessment of the likelihood of support from the government to very high from high could also result in a higher rating, all else equal.

## Akademiska Hus -- Key Statistics

(MIL. SEK)	--Year ended Dec. 31--				
	2017a	2018a	2019e	2020bc	2021bc
Vacancy rates (%)	0.9	1.6	1.8	N.A.	N.A.
Revenue	5,806.1	6,116.7	6,300.2	6,564.8	6,794.6
EBITDA	3,762.2	3,860.1	3,989.6	4,284.5	4,471.1
EBITDA/revenue (%)	64.8	63.1	63.3	65.3	65.8
Interest expense	469.6	659.6	580.9	600.5	612.4
Debt/EBITDA (x)	9.2	8.7	8.7	8.4	8.1
EBITDA/interest coverage (x)	8.0	5.9	6.9	7.1	7.3
Capital expense	2,555.7	2,776.1	2,925.0	2,225.0	1,725.0
Debt	34,739.7	33,520.7	34,820.7	35,820.7	36,220.7
Housing properties (according to balance sheet valuation)	80,444.4	85,865.1	88,715.1	90,865.1	92,515.1
Loan to value of properties (%)	43.2	39.0	39.3	39.4	39.2
Cash and liquid assets	6,479.5	3,303.8	2,821.1	2,903.2	2,921.5

SEK--Swedish krona. a--Actual. e--Estimate. bc--Base-case scenario. N.A.--Not available.

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 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, Dec. 17, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

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

## Ratings List

### Ratings Affirmed

#### Akademiska Hus AB

Issuer Credit Rating	AA/Stable/A-1+
Nordic Regional Scale	K-1
Senior Unsecured	AA
Commercial Paper	A-1+

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. 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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