

Research Update:

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

September 24, 2020

## Overview

- We expect that Akademiska Hus AB can cope with the adverse economic environment caused by COVID-19, with only a small impact on its operations.
- Akademiska Hus will have temporarily high capital expenditure, due to acquisitions in 2020, but its strengthened liquidity position will comfortably cover capital needs.
- 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. 24, 2020, 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 have higher capital expenditure in 2020 since it will acquire Alba Nova at Campus Albano for about Swedish krona (SEK) 1.8 billion, following several years of large investments. However, Akademiska Hus has gradually strengthened its liquidity position over the past few years, so its capital needs are well covered. We also consider that Akademiska Hus is very resilient to the economic effects from the COVID-19 pandemic. Only a small amount of its customers have been affected and it is offering alternative solutions to its main customer base to ensure smooth operations.

We assess Akademiska Hus' enterprise risk and financial risk profiles, the components of its stand-alone credit profile, by benchmarking against factors we consider when rating public and

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nonprofit social housing providers. We see a high likelihood that Akademiska Hus would receive timely and sufficient support from its owner, Sweden (unsolicited; AAA/Stable/A-1+), if it experienced any financial distress. This results in a rating that is one notch higher than the stand-alone credit profile.

In our view, Akademiska Hus operates 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 keeps revenue fairly stable. Vacancies increased beyond 2% after Karolinska Institute in Stockholm moved parts of its operations to a new laboratory. However, we believe the increase in vacancies is temporary and that structural demand for Akademiska Hus' properties has not shifted. We view Akademiska Hus' management as very competent. Its proactive debt management, with a conservative maturity profile and well-managed currency and interest rate risk, is a credit strength. We also view as positive management's actions to strengthen its liquidity position, which will cover capital needs such as acquisitions by a large margins in 2020.

Akademiska Hus operates in a very stable business segment, with tailor-made premises that guarantee long-term relationships with its tenants, the majority of which are government agencies. This enables stable revenue streams, which is key to our assessment of the company. The average remaining term of Akademiska Hus' lease contract portfolio is more than six years. In addition, the company applies a conservative approach to project management. New investments typically start after signing a lease contract with the tenant, and the company can offer an internal alternative plan of use for properties, which further decreases project risk after completion. These portfolio characteristics lead to highly predictable revenue 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 an ambitious capital investment program that is almost completed, so related expenditure will likely decrease in the coming years to an average of SEK2.5 billion over 2021-2022 from an average of SEK3 billion in 2018-2019.

Because we expect that Akademiska Hus will enjoy strong operating cash flows, we forecast its debt will increase by about SEK2 billion in 2020 and debt growth will slow down from 2021. Based on the past few years of high capital expenditure and completion of projects, we expect revenue to increase by close to 4% annually on average, with EBITDA margins remaining stable. We project that leverage, measured as debt to EBITDA, will stabilize at about 8.6x.

We continue to regard as positive the high likelihood of Akademiska Hus receiving extraordinary support from the Swedish government. We base our view of the likelihood of support on Akademiska Hus' important role in the economy, since 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 Akademiska Hus' strategy and appointing board members, while demonstrating a long-term commitment to the company.

## **Liquidity**

We assess Akademiska Hus' liquidity as very strong, with liquidity sources covering uses 1.3x over the next year. The company has strong cash generating capacity that we forecast at SEK4.4 billion over the coming 12 months, together with SEK5.5 billion in bank accounts and short-term investments, and bank liquidity facilities of SEK6 billion. The company's available liquidity sources over the coming 12 months total SEK15.8 billion, which should amply cover its liquidity outflows. We include the acquisition of Alba Nova in our calculation of liquidity uses, which include capital expenditure, maturing debt, dividends, and interest expenses totaling SEK12.1 billion over the same period.

In addition, the company has strong access to capital market funding. However, if Akademiska Hus were unable to tap the markets for financing, we would expect its owner to postpone dividend payments, enabling the company to prioritize debt repayments until it can again obtain external financing.

## Outlook

The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain robust, owing to continued strong market access and financial performance, as well as prudent debt and liquidity management. Furthermore, we expect that the company will gradually adapt to potential changes to its customers' needs in the future. 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.

## Downside scenario

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 arise if the university sector shifted rapidly to a business model that heavily curbs property needs and Akademiska Hus failed to take necessary actions to fill demand.

## Upside scenario

Ratings upside would depend on a further reduction of potential risks, for instance, by tightening management and financial policies such that liquidity remains very strong. An upgrade would also depend on the company's response to the pandemic and strategic decisions to counteract any negative impact on its operations. 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--				
	2018a	2019a	2020e	2021bc	2022bc
Vacancy rates (%)	1.6	1.8	2.1	N.A.	N.A.
Revenue	6,117	6,217	6,441	6,730	6,953
EBITDA	3,860	4,050	4,199	4,399	4,548
EBITDA/revenue (%)	63.1	65.2	65.2	65.4	65.4
Interest expense	660	924	515	537	552
Debt/EBITDA (x)	8.7	8.6	8.8	8.6	8.6

## Akademiska Hus Key Statistics (cont.)

Mil. SEK	--Year ended Dec. 31--				
	2018a	2019a	2020e	2021bc	2022bc
EBITDA/interest coverage (x)	5.9	4.4	8.2	8.2	8.2
Capital expense	2,776	3,191	4,000	2,500	2,500
Debt	33,521	34,948	36,948	37,948	38,948
Housing properties (according to balance sheet valuation)	85,865	91,424	95,424	97,924	100,424
Loan to value of properties (%)	39.0	38.2	38.7	38.8	38.8
Cash and liquid assets	3,304	4,337	3,840	4,050	4,184

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

## 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+

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