

RatingsDirect®

Forvaltnings AB Framtiden

Primary Credit Analyst:

Erik A Karlsson, Stockholm + 46(0)84405924; erik.karlsson@spglobal.com

Secondary Contact:

Carl Nynerod, Stockholm (46) 8-440-5919; carl.nynerod@spglobal.com

Table Of Contents

Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Related Criteria

Related Research

Forvaltnings AB Framtiden

Key Rating Factors

Enterprise profile

Strong market fundamentals in the city of Göteborg and Forvaltnings AB Framtiden's focus on core operations ease the impact of the COVID-19 pandemic.

Issuer Credit Rating

AA-/Stable/A-1+

Nordic Regional Scale

--/--/K-1

- Framtiden only has limited exposure toward nonresidential tenants, providing resilience toward pandemic-induced vacancies and rent losses.
- Demand for the company's properties remain strong, supported by population growth and a housing shortage in Göteborg.
- S&P Global Ratings expects Framtiden's long-term strategies will remain firm, focusing on providing the increasing population with rental housing.

Financial profile

The company's debt burden is set to rise on increasing investment, mainly related to new construction.

- Framtiden has gradually ramped up its investment in new construction over the past years.
- As a result, its debt burden is set to increase moderately throughout our forecast period from borrowings on-lent via the city treasury.
- We do not expect any material impact on the company's financial position from the pandemic.

Outlook

The stable outlook indicates that, despite a rising debt burden, S&P Global Ratings expects Framtiden's management will stick to its financial policy and maintain stable operating performance over the next two years. We do not foresee any changes in the company's ownership and support structure that would affect our view of the group's role for or link with Göteborg.

Upside scenario

We could raise the ratings if Framtiden's relationship with the city strengthened further; for example, if the city offered a formal, unconditional, and irrevocable guarantee or the company had stronger contractual ties with the city treasury. We could also raise the ratings if Framtiden's financial risk profile improved markedly, with better performance and a stronger liquidity position.

Downside scenario

We could lower the ratings if the company's financial risk profile came under greater pressure, for example, from a marked deterioration in financial performance, caused by pandemic effects beyond our expectation, together with debt accumulation beyond our projections.

Rationale

Framtiden operates within the geographical borders of Göteborg, where it is the largest provider of rental housing in the local market with about 73,000 apartments throughout the city. The company focuses on rental housing with more than 90% of its rental revenue from residential housing. We view this as a low risk industry, due to stable and anticyclical earnings, and a key factor in weathering the pandemic.

Strong population growth, averaging 1.4% for the past five years, and housing shortage in Göteborg underpin the strong demand for Framtiden's properties, illustrated by housing prices in the city averaging almost 200% of the national average. Consequently, we consider the risk for vacancies in the rental housing portfolio very low. We believe the pandemic could cause vacancies and rental losses among commercial tenants to increase, although these constitute a limited share of the company's operations.

We estimate Framtiden will post stable operating performance through 2022, roughly on par with the past two years. We believe the pandemic will have a limited impact on the company, stemming mainly from its commercial premises, to which we factor in some rent losses. In our forecast, we factor in delays in maintenance work, which we believe will materialize in 2021 instead, affecting EBITDA performance marginally in these years. We expect maintenance expenditure will be stable over the coming two years. Overall, we believe Framtiden's properties are generally well maintained, with an average technical age of about 42 years. In our analysis, we adjust EBITDA for capitalized repairs averaging about Swedish krona (SEK) 370 million, because we consider them an operating expenditure.

Through the forecast period, we expect Framtiden to complete and sell a sizable number of condominiums via its subsidiary Göteborgs Egnahems AB, which seeks to improve the mix of housing forms in certain city districts. These activities will elevate Framtiden's total revenue, but we do not expect its contribution to account for more than 10% of total revenue over the coming years. Although we believe there is an elevated risk for unsold properties, we consider the related financial risk limited because these activities are not financially motivated and the company could transform the properties into apartments should they not sell.

We expect Framtiden's capital spending will continue increasing over the coming two years, related to new construction and investments in existing stock, and averaging SEK3.5 billion compared with SEK2.5 billion for the past two years. Consequently, we expect the company to add about SEK2.5 billion in net new borrowing per year through 2022, leading to a moderate increase of Framtiden's debt to 14.4x EBITDA (up from 11.4x in 2019). Although we do not consider it positive for the ratings, we acknowledge Framtiden's strong balance sheet, with market valued properties of SEK105 billion by year-end 2019, yielding a loan-to-value ratio of 18%. Moreover, we expect low interest rates will continue supporting the company's financial position, and we estimate the EBITDA-interest-coverage ratio will remain comfortably above 3.5x through the forecast period.

We acknowledge management's enhanced focus on financially sustainable construction. Although this could negatively affect constructed volumes, because some projects might be too expensive to undertake, we believe it effectively limits the financial risks.

In our view, Framtiden benefits from a high likelihood that the owner, Göteborg (AA+/Stable/A-1+), would provide

timely and sufficient support in case of financial distress. The company plays an important role as a key contributor to provide the city's growing population with housing. Furthermore, we consider the link to Göteborg very strong. The city is the sole owner and is actively involved in defining Framtiden's strategies. In addition, the company is fully integrated with the city's in-house bank that caters for the company's capital needs.

Environmental, social, and governance

We believe Framtiden has well-developed strategies reflected in prudent and risk-averse policies. Its properties are generally well-maintained and broadly comply with Swedish quality, safety, and energy requirements. Framtiden's relatively ambitious sustainability targets, both for new construction and existing stock of properties, limits, in our view, the risk related to potential regulatory shifts and environmental requirements imposed on the sector.

We believe the company executes a social mission that supports its credit quality. Its strategy of catering for a growing population, by providing the City of Göteborg with rental housing supports our view of an important role for the city. As well, it acts as a socially responsible landlord, promoting for instance good integration, safety, and sustainability. The social mission also contributes to our view of low industry risk for the sector than for for-profit peers, which underpins Framtiden's stand-alone credit quality.

Liquidity

We calculate the company's liquidity sources, provided by the city treasury, will cover 122% of coming 12 months' debt service. Framtiden is fully integrated in its owner's in-house bank, which has assumed full responsibility for the company's financing. We consider the transfer of risk as ongoing financial support from the owner and therefore include a cash injection equivalent to Framtiden's estimated capex for the coming 12 months alongside maturing debt and interests, totaling SEK10.9 billion. The company no longer taps the capital markets on its own, so we consider its access to external liquidity satisfactory.

Key Statistics

Table 1

Forvaltnings AB Framtiden--Key Statistics					
	--Year ended March 31--				
(Mil. SEK)	2018a	2019a	2020e	2021bc	2022bc
Number of units owned or managed	72,760.0	73,635.0	N.A.	N.A.	N.A.
Revenue§	5,686.6	5,819.6	6,181.0	6,562.3	6,576.1
Share of revenue from sales activities (%)	2.0	0.6	8.7	11.5	8.4
EBITDA§†	1,708.2	1,647.8	1,733.1	1,776.0	1,826.8
EBITDA/revenue §†(%)	30.0	28.3	28.0	27.1	27.8
Capital expense‡	2,260.7	2,753.8	3,301.0	3,839.0	3,368.0
Debt	17,018.0	18,749.6	22,021.1	24,426.2	26,333.8
Debt/EBITDA §†(x)	10.0	11.4	12.7	13.8	14.4
Interest expense*	258.5	245.7	254.8	291.6	321.0
EBITDA/interest coverage§†* (x)	6.6	6.7	6.8	6.1	5.7

Table 1

Forvaltnings AB Framtiden--Key Statistics (cont.)					
(Mil. SEK)	--Year ended March 31--				
	2018a	2019a	2020e	2021bc	2022bc
Cash and liquid assets	0.6	0.1	0.0	0.0	0.0

§Adjusted for grant amortization. †Adjusted for capitalized repairs. *Including capitalized interest. 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

Forvaltnings AB Framtiden--Ratings Score Snapshot	
Industry risk	2
Economic fundamentals and market dependencies	1
Strategy and management	2
Asset quality and operational performance	1
Enterprise profile	2
Financial performance	4
Debt profile	2
Liquidity	4
Financial policies	2
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: 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

Related Research

- Research Update: Sweden's City of Goteborg 'AA+/A-1+' Ratings Affirmed; Outlook Stable, Sept. 11, 2020

Ratings Detail (As Of October 27, 2020)*	
Forvaltnings AB Framtiden	
Issuer Credit Rating	AA-/Stable/A-1+

Ratings Detail (As Of October 27, 2020)*(cont.)

<i>Nordic Regional Scale</i>	--/--/K-1
Issuer Credit Ratings History	
01-Nov-2011	AA-/Stable/A-1+
09-Sep-2009	A+/Stable/A-1
09-Sep-2009 <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.

Additional Contact:

EMEA Sovereign and IPF; SovereignIPF@spglobal.com

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.