

NCR comments: Svensk FastighetsFinansiering AB (publ) 2020Q2 report

Our 'BBB+' issuer and issue ratings on Svensk FastighetsFinansiering AB (publ) (SFF) are unchanged following the recent maturity of bonds and the publication of second-quarter results by its owners.

SFF publishes mid-year financial accounts, but also regularly updates its market value reports, most recently following an SEK 210m tap issuance on 6 Jul. 2020. SFF is not intended to generate returns, so a SEK 110,000 loss recorded in the first six months had little impact on our view of the company. We note that SFF maintains SEK 463m in liquid assets in line with a financial policy of maintaining strong liquidity buffers.

Volumes decline due to wider spreads after COVID-19 outbreak

Three SFF bonds matured during the second quarter of 2020, reducing outstanding debt to SEK 6.7bn from SEK 8.5bn previously. SFF issued a new SEK 150m bond on 3 Jun. 2020, but with a 1.5% spread over the Stockholm interbank offered rate, much higher than spreads on bonds issued during the first quarter prior to the capital market disruption caused by COVID-19.

The disruption of the capital markets since March led SFF's owners to seek alternative financing. In particular, loans in respect of properties owned by Diös Fastigheter AB declined by SEK 1.5bn during the quarter, effectively increasing the focus of SFF's portfolio on office properties in Sweden's three largest cities to 92%. Three other owners also reduced their financing volumes during the second quarter. As of 30 Jun. 2020, Willborgs Fastigheter AB had the highest loan volumes with SFF, accounting for 37% of the company's outstanding bonds.

According to SFF, as of 6 Jul 2020, outstanding bonds finance 28 properties worth SEK 13.2bn (compared with 41 properties worth SEK 15.2bn as at 31 Mar. 2020), resulting in an improvement in SFF's loan-to-value (LTV) ratio to 52.5% (55.7% previously).

In our view, the decline in volumes resulting from the market impact of COVID-19 is likely to reverse by the end of 2020 but this is highly dependent on competitive financing costs for its owners. The decline in total loan volumes partly reflects the owners' active management of the company as a financing source and shows they maintain adequate liquidity ahead of SFF bond maturities.

Bonds maturing during the third quarter are two green bonds totalling SEK 920m maturing 7 Sep. 2020. These bonds finance three properties owned by two of SFF's owners. Access to SFF's green bonds makes the company an attractive source of financing for its owners, with green bonds comprising 55% of SFF's outstanding bond volumes as at 30 Jun. 2020.

Owners see solid second quarter

SFF's five owners reported solid second quarter results, despite the impact of COVID-19 on their tenants and the market values of existing properties. Generally, LTV, net interest coverage and occupancy rates were in line with end-2019 levels while the net asset value of all owners remained above end-2019 levels due to completion of projects and revaluations of existing assets.

We continue to view forward-looking property valuations as uncertain given the Public Health Agency of Sweden's continued guidance to work from home where possible and the risk of a second wave of COVID-19 impacting economic activity during the second half of 2020. We note, however, that the share of SFF's loans secured by office properties and train terminals had increased to 93% as of 30 Jun. 2020 (from 84% at end-2019) and that SFF has no security in hotel properties or properties with at-risk retail tenants.

We maintain credit assessments on the owners that range from 'bbb' to 'bb'. On the basis of second quarter reports, the owners maintain sufficient liquidity to mitigate any refinancing risk arising in the remainder of 2020.

This commentary does not constitute a rating action.

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