Svensk FastighetsFinansiering AB (publ)

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'BBB+' long-term issuer rating on Svensk FastighetsFinansiering AB (publ) (SFF) reflects the company's commitment to and role for its five owners, the company's low risk appetite, the creditworthiness and continuous support provided by its owners, and the security available for senior secured bondholders. The rating also reflects the relatively long average lease term and the high occupancy rates of the properties in the pledged portfolio, as well as the stable operating environment.

These strengths are partially offset by a relatively high net loan-to-value (LTV) ratio of 52% as of 31 Dec. 2020 and the company's short debt maturity profile, with large maturities concentrated on single years and quarters. Furthermore, the rating is constrained by the high tenant concentration in the portfolio.

Although SFF is a finance company, Nordic Credit Rating (NCR) assesses the company using its real-estate methodology given that SFF's and its owners' risk profiles are associated with factors specific to real estate. Although there are material linkages, guarantees and liquidity commitments, NCR's view of SFF's creditworthiness is not directly connected to that of its overall owners, nor restricted by the weakest owner(s). Rather, SFF maintains its own liquidity reserves, mandated minimum equity requirements and the ability to sell all the properties in its portfolio for the benefit of its medium-term note (MTN) investors. We view SFF on a standalone basis, founded on the secured assets in its existing pool and the risk appetite defined in its MTN prospectus. Moreover, we add a notch to the final rating to reflect further credit support accruing regularly to SFF from its owners and outside of the pool of security available to bondholders.

STABLE OUTLOOK

The stable outlook reflects our expectations of stable performance by both SFF's property segments and its owners. We see net LTV being maintained below 60% and the company's risk appetite remaining low, given the restrictions in SFF's MTN prospectus. Furthermore, we expect SFF to remain an attractive funding source for its five owners and its current ownership to stay unchanged.

POTENTIAL POSITIVE RATING DRIVERS

- Sustainable reduction in net LTV to below 45%.
- Improvement in portfolio quality and/or a greater proportion of pledged residential properties.
- Greater number of pledged properties, together with improved tenant diversification.

POTENTIAL NEGATIVE RATING DRIVERS

- Increase in risk appetite or changes to/non-compliance with portfolio covenants.
- Deterioration in the creditworthiness or withdrawal of one or more of the owners.
- Increase in net LTV to above 60%, potentially due to a market correction.

Figure 1. SFF key credit metrics, 2016–2022e

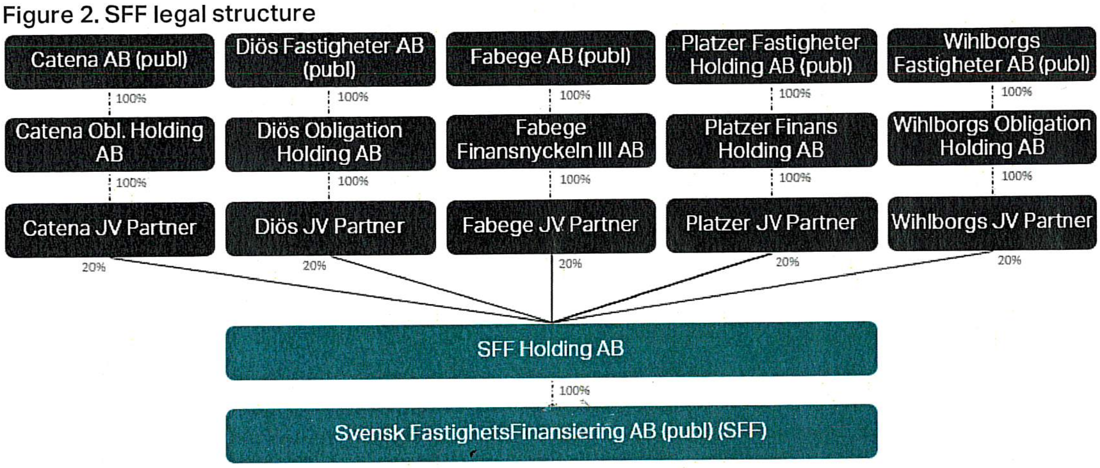
	2016	2017	2018	2019	2020e	2021e	2022e
Total assets (SEKbn)	7.0	10.2	10.5	10.0	9.4	9.8	10.2
Security value (SEKbn)	11.6	15.6	18.0	17.2	15.1	15.8	16.5
Gross debt (SEKbn)	6.3	9.2	9.5	8.9	8.3	8.7	9.2
Gross LTV (%)	54.1	58.8	52.6	51.6	54.9	55.1	55.3
Net LTV (%)	51.4	55.8	49.9	48.8	51.8	52.0	52.4

Based on NCR estimates and company data. e–estimate. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

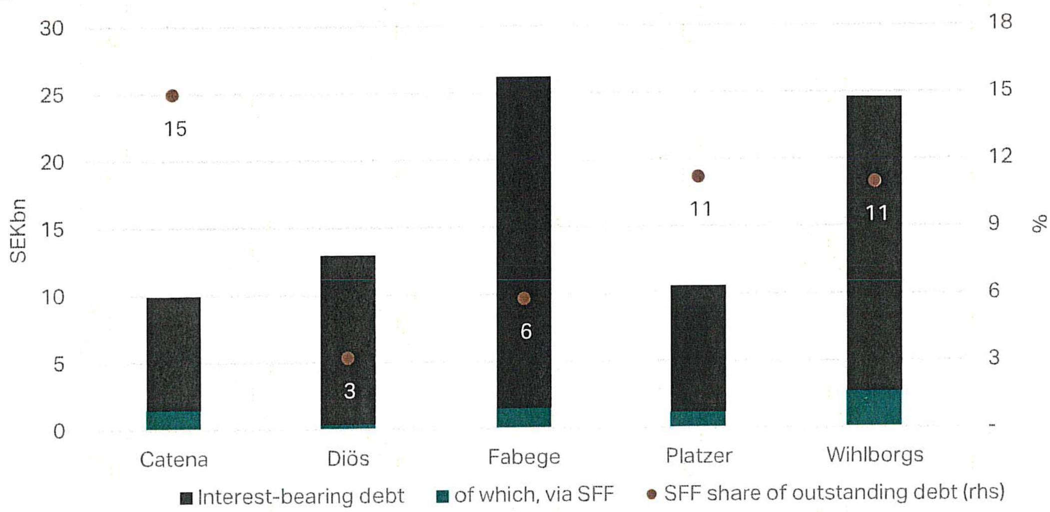
SFF is a joint venture founded in 2014 with common stock divided equally among Catena AB (publ) (Catena), Diös Fastigheter AB (publ) (Diös), Fabege AB (publ) (Fabege), Platzer Fastigheter Holding AB (publ) (Platzer) and Wihlborgs Fastigheter AB (publ) (Wihlborgs). The company is a financing vehicle for its owners, issuing secured bonds with security in the form of selected properties associated with its owners' core businesses in accordance with the prospectus for its MTN programme. By pooling the assets of the owner companies, SFF provides its owners with an alternative to bank financing and is the only source of secured capital market financing for each of its owners. The company's administration is managed by its service agent Hansan AB, owned by Backahill AB (the investment company of Swedish businessman Erik Paulsson and family), which is a major shareholder in four of SFF's five owner companies. SFF's board of directors includes the CFOs of the five owner companies and the CEO of SFF, who is also employed by Hansan AB.

Figure 2. SFF legal structure



SFF is an established debt issuer in Sweden, with SEK 8.3bn of outstanding bonds with security in 32 properties across Sweden valued at SEK 15.1bn, as of 31 Dec. 2020. SFF bonds as a share of the owner companies' interest-bearing debt decreased in the first three quarters of 2020 and as of 30 Sep. 2020 accounted for 3–15% of SFF's owners' outstanding interest-bearing debt. Volumes increased yet again in the fourth quarter of 2020, demonstrating that SFF is a meaningful alternative to bank financing, commercial paper and senior unsecured bond financing.

Figure 3. SFF owners' interest-bearing debt and share of debt financed by SFF, 30 Sep. 2020



Source: SFF and companies.

SFF issues debt secured by mortgage certificates of specific, otherwise unencumbered, properties and pledged shares in directly related property-owning subsidiaries that are 100% owned and managed by its owners. Each bond is associated with specific properties, but also backed by the entire pool of properties and the creditworthiness of SFF's ultimate owners, via guarantees within the structure and a legal requirement that owners add security when needed and replace or remove properties from SFF's portfolio that no longer fulfil property level covenants.

TRANSACTION STRUCTURE AND COVENANT DETAILS

SFF's issuance of senior secured bonds follows a strict process to ensure that the company maintains 10% minimum equity requirements, property and portfolio level covenants, and liquidity buffers. In addition, the owners provide guarantees throughout the structure, ensuring that SFF will receive timely payment as long as its owners do not default on their obligations to SFF. SFF's fulfilment of covenants and processes is monitored by Intertrust (Sweden) AB, acting as security agent, and confirmed by law firm Glimstedt Stockholm in a formal legal opinion for each bond prior to the disbursement of funds to SFF. Each calendar quarter, SFF submits a compliance certificate to the security agent ensuring that property and portfolio level covenants are met.

Despite interlinkages in the ownership of SFF's owners, there is no contractual obligation for the five owners to support each other within the structure. We note, however, that if one or more owners were to not meet their obligations to SFF, SFF would maintain the ability to sell all of the properties pledged within the pool (not just those of the distressed company). SFF has liquidity buffers in the event of delayed payment or delays in the realisation of security.

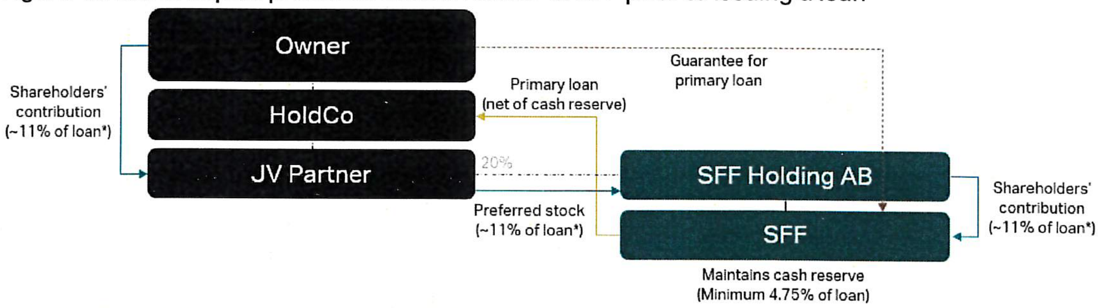
The details of the capitalisation and transaction processes are described below, followed by a description of property and portfolio level covenants.

Capitalisation and debt issuance

In the capitalisation process (Figure 4):

- SFF Holding AB receives an injection of preferred stock from an owner via the owner's joint venture company. The proceeds are then used as an equity injection in SFF. To ensure a 10% equity ratio in SFF, the injection is approximately 11.1% of the loan amount to be issued (10% of the loan plus 10% of the capital).
- SFF maintains a cash reserve of a minimum of 4.75% of the loan amount (depending on security pledged and STIBOR levels).
- SFF issues a loan (primary loan) to the owner's SFF holding company corresponding to the net proceeds from the equity injection less the cash reserve. Primary loans are fully cancellable at SFF's discretion, and proceeds can be used to add liquidity to SFF if necessary.

Figure 4. Flow of capital proceeds from an owner to SFF prior to issuing a loan



Source: SFF. *Shareholders' contributions and preferred stock are 10% of the loan plus 10% of the preferred stock (~11%) to maintain a 10% equity ratio.

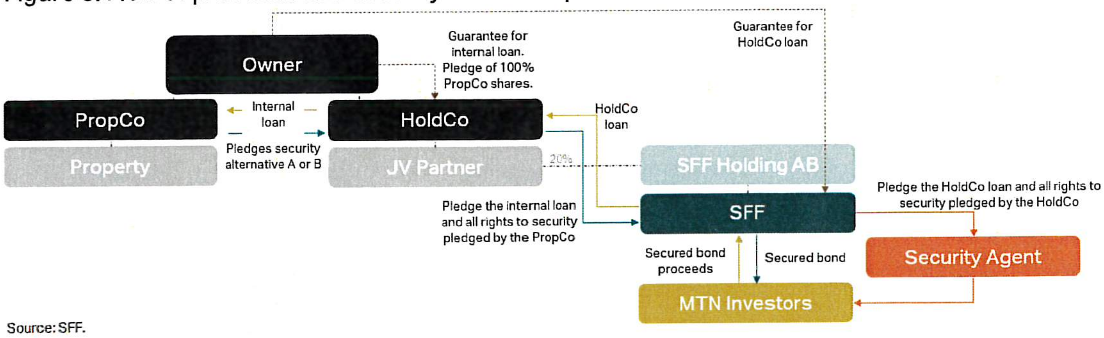
In the debt issuance process (Figure 5):

- A property company (PropCo) within an owner group determines the need to finance a particular property that fulfils all property and portfolio level covenants.
- SFF issues a senior secured bond to MTN investors (each bond can include loans associated with several properties from multiple owners).
- The proceeds from the secured bond are lent to the owner's SFF holding company (HoldCo loan) in exchange for pledges from the HoldCo and with a guarantee from the owner to SFF.
- The proceeds from the HoldCo loan are lent to the PropCo (Internal loan) in exchange for pledges from the PropCo and with a guarantee from the owner to the HoldCo.
- The PropCo pledges are either:

- Type A: All outstanding mortgage certificates corresponding to at least 100% of the loan amount plus 1% of the loan amount in additional cash reserves; or
- Type B: All outstanding mortgage certificates corresponding to 50–100% of the loan amount plus a pledge of 100% of the shares in the PropCo. When using this option, an undated and unsigned application for additional mortgage certificates up to 100% of the loan is submitted to the security agent.

- SFF pledges the HoldCo loan, the PropCo loan, the HoldCo guarantee from the owner, the mortgage certificates and the shares in the PropCo to the security agent, which is responsible for monitoring the pool of secured assets.
- Corporate law firm Glimstedt Stockholm issues a legal opinion confirming that all steps of the process have been completed satisfactorily before funds are transferred to SFF's account.

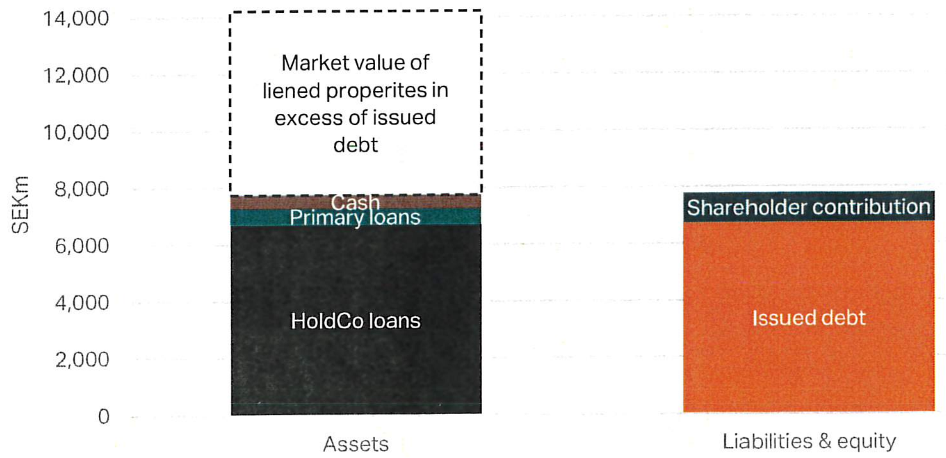
Figure 5. Flow of proceeds and security from a PropCo to MTN investors



Source: SFF.

SFF's balance sheet as of 30 Jun. 2020 (Figure 6) reflects the transactions described above. At all times issued debt is equal to HoldCo loans, due to the pass-through structure of SFF. As of 30 Jun. 2020, preferred stock was 15.5% of issued debt (13.4% of assets), cash and equivalents were 6.9% and primary loans were 8.5% of issued debt, respectively. In addition, the company, via its owners and third-party valuations, reported an excess market value of liened properties amounting to 96.5% of outstanding debt.

Figure 6. SFF balance sheet and additional security, 30 Jun. 2020



Source: SFF.

Property level covenants

Property level covenants define eligible properties and specific requirements to be fulfilled when a loan is initiated or refinanced. In our view, the LTV limits in Figure 7 could only be put under pressure under two scenarios. Firstly, if one or more of the owner companies were unable or unwilling to add security to the pool in order to reduce LTV to within limits, and secondly if one or more of the owners did not have the ability to refinance the property by other means outside SFF. This supports our view that the likelihood of SFF breaching property level covenants is a direct reflection of the creditworthiness of each of the owners.

The covenant thresholds reflect SFF's view of the underlying risk of each property type by requiring lower LTV, higher occupancy rates, and longer leasing contracts for more volatile property types. The restrictions include the maximum LTV when a loan is initiated (or refinanced) and make it clear when the security agent must initiate the process of adding cash to reduce the net debt on a property and/or exchanging collateral when a loan is to be cancelled. The property level covenants also state minimum occupancy rates and the minimum weighted-average lease expiry (WALE) for each property type, which are to be considered only upon initiation of a new loan.

Each property undergoes a desktop valuation on a quarterly basis, with a complete valuation by an approved third-party valuer at the point of pledging and thereafter twice per calendar year. If a property's value declines such that LTV exceeds 75% (70% for industrial properties, hotels and restaurants), the security agent:

- submits a pre-completed application for mortgage certificates on the property up to 100% of the loan amount and requests related stamp duty fees from the borrower; and
- requests additional funds from the borrower, reducing the net loan amount, and restoring the LTV to below initial maximum limits (see Initial LTV (max.) in Figure 7) or repaying the entire loan.

If a property's value declines such that LTV rises above 77% (72% for industrial properties, hotels and restaurants) this is grounds for cancellation and repayment of the loan unless LTV levels are restored to the initial maximum limits or the loan is repaid entirely within three months. In order to repay the loan, the security agent can cancel all primary loans (to HoldCo's) at its own discretion and dispose of all properties pledged within the pool (not just those of the distressed company).

Figure 7. Property level covenants (%)

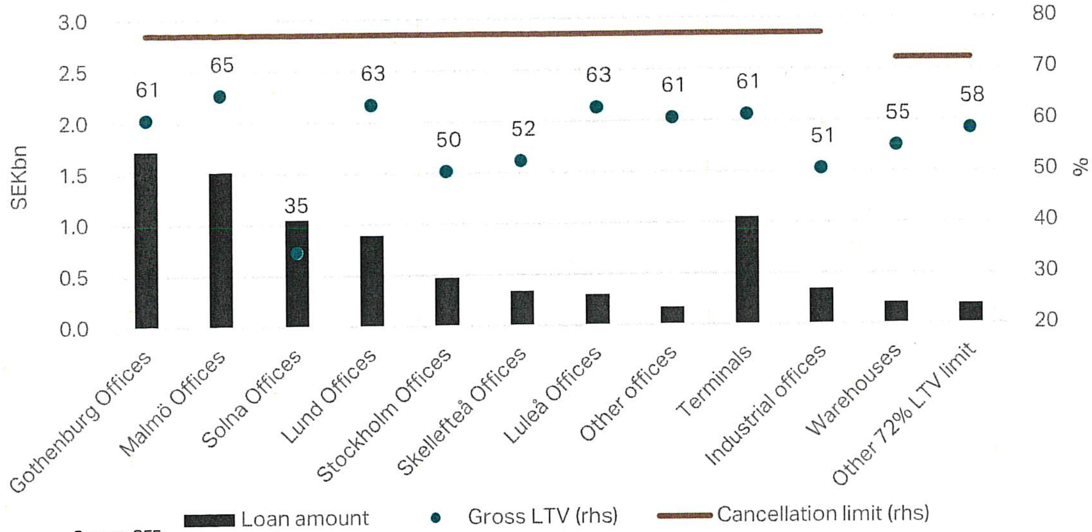
Property type	Initial LTV (max.)	Security agent notice (max. LTV)	Loan cancelled (max. LTV)	Vacancy rate (max.)	WALE, months (min.)*
Hotels and restaurants	60	70	72	5	30
Industrial properties, warehouses	60	70	72	5	24
Logistics properties	65	75	77	5	24
MFH with offices, offices, industrial offices	67	75	77	10	24
Care or cultural facilities, schools, terminals	70	75	77	10	24
Multi-family housing	72	75	77	10	24

Source: SFF. All LTV figures are on a gross basis. WALE–weighted-average lease expiry. MFH–multi-family housing. *WALE must be over 30 months for all properties with more than 85% rental income from a single tenant.

In addition to the covenants in Figure 7, individual properties must:

- be within pre-defined priority markets for each of the owner companies (see Figure 12);
- be free from any other encumbrance by other creditors, with SFF holding first-lien priority;
- have appropriate insurance coverage;
- be free from development or construction that negatively affects the rental income of the property;
- have less than 20% of rental income associated with the borrower's owner; and
- have a WALE of over 30 months when rental income from a single tenant exceeds 85% of the property's rental income.

Figure 8. Property type loan amounts, gross LTV, and maximum LTV covenants, 31 Dec. 2020



Source: SFF.

Portfolio level covenants

In addition to property level covenants, SFF's MTN prospectus also outlines specific covenants at the portfolio level designed to limit the concentrations to specific owners, regions or property types in the pool of assets. Portfolio level covenants are not associated with market valuations and, as such, prevent new properties being added to the pool, rather than excluding existing properties, as with property level LTV restrictions.

- Logistics and industrial properties may account for a maximum of 20% of outstanding loans (5% as of 31 Dec. 2020).
- Hotels and restaurants may account for a maximum 5% of outstanding loans (0% as of 31 Dec. 2020).
- At least 65% of all office-related exposures (Swedish property tax codes 321, 325, 326) should be associated with Sweden's three largest cities (Stockholm, Gothenburg or Malmö) and surrounding regions (89% as of 31 Dec. 2020).
- No sponsor may account for more than 50% of outstanding loans (Wihlborgs accounted for 33% as of 31 Dec. 2020).

SFF has 15 working days to resolve any breaches of its portfolio covenants, except for the covenant prohibiting more than a 50% share by a single owner, which must be resolved within 20 working days.

Although we view the portfolio level covenants as adequate in limiting SFF's exposure to higher-risk property segments, we note that, for example, the restriction on pledged logistics properties could adversely affect Catena's possibilities of financing through SFF, as Catena mainly invests in logistics properties and terminals.

NCR believes that a change in ownership would likely force the company to adjust its portfolio covenants, for example if Fabege, Platzer or Wihlborgs were to withdraw from SFF, the share of pledged office properties in major cities would require a much larger volume from the other two owners. These three owner companies are also material contributors to lower-risk properties in the portfolio, so a change in ownership could affect our view of the strengths and weaknesses of the portfolio financed by SFF.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'bbb-'

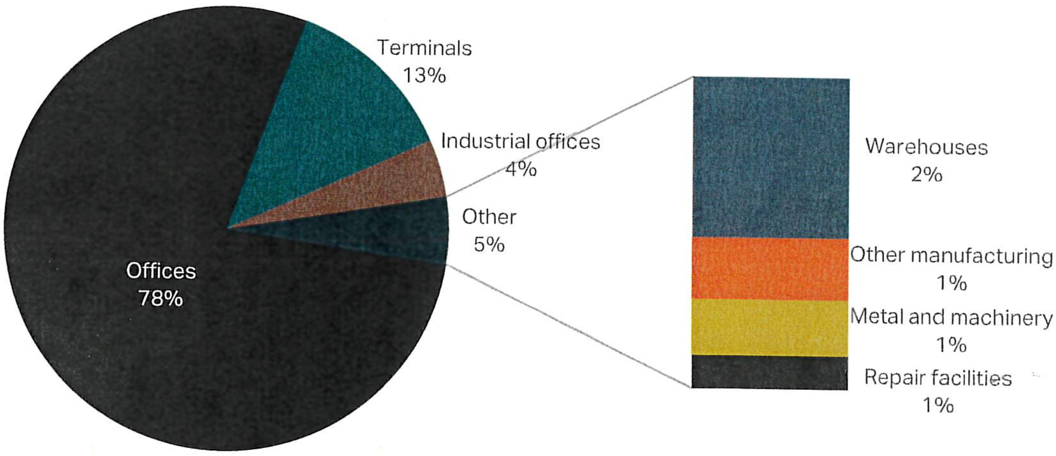
SFF is exposed to the Swedish property market both directly, through pledged properties, and indirectly, through owner guarantees. When assessing the business risk of SFF, NCR considers the characteristics of the properties in the secured portfolio as well as SFF's market position and its benefits for its owners. Our 'bbb-' business risk assessment reflects SFF's exposure to mainly office properties in prosperous municipalities. It also reflects a mix of Tier 1 and Tier 2 locations, and the substantial benefits SFF provides for its owners.

Operating environment scores 'bbb-'

Operating environment dependent on Swedish office market

As of 31 Dec. 2020, 78% of SFF's secured property portfolio consisted of office properties, based on loan amounts. In recent years, Sweden's office sector has benefited from benign economic conditions, falling interest rates, steady yield compression and increasing rent levels. However, the future of office space has come into question as employees have embraced working from home during the COVID-19 pandemic. On the back of this development, NCR believes the segment faces a somewhat more challenging market environment over the next few years. We see demand for office space decreasing slightly, putting pressure on rent levels in the sector. Furthermore, we expect that office tenants will request more flexible contract structures, possibly reducing average contract lengths in the sector (see *Swedish property managers face shift in customer demand*, published 6 Nov. 2020, and *Swedish office property managers set to survive lower rents*, published 24 Nov. 2020).

Figure 9. SFF's portfolio security by property type and loan amount, 31 Dec. 2020



Source: SFF.

While office space dominates SFF's portfolio, 13% of exposure relates to terminal buildings along Sweden's major highways or railway intersections. The rapid growth in e-commerce, fuelled by the COVID-19 pandemic, is boosting the logistics segment, in which strong demand is supporting low vacancies and stable rent levels.

SFF's industrial and warehousing exposures are largely dependent on the recovery of the Swedish economy following the pandemic. Although we view the operating environment for the two segments as stable, we consider that a protracted impact from COVID-19 could have an adverse effect on tenants.

In terms of municipality exposure, a large majority of SFF's pledged properties are located in municipalities with expected population growth significantly above the national average. Most municipalities also exhibit unemployment rates that are lower than the national average. We believe that the strong fundamentals of SFF's geographical locations reduce the risk of a broad decline in demand for SFF's properties.

The market risk in SFF's portfolio is reduced further by the property-specific covenants that prevent new lending to or refinancing of properties with significant vacancies, while LTV covenants are likely to be breached if vacancies at existing properties increase substantially. Consequently, much of the risk associated with declining property values is passed through to the owners, which would have to find alternative financing or add security to reduce property level LTV below initial levels.

Figure 10. SFF portfolio security by location and market value, 31 Dec. 2020

Municipality	Share of loan amount	Population, 2019	Expected population change among 16–64-year olds, 2018–2030	Unemployment, 2019
Gothenburg	21%	579,281	9.7%	7.1%
Malmö	19%	344,166	14.1%	13.6%
Stockholm	13%	974,073	12.0%	5.9%
Solna	13%	82,429	14.6%	4.3%
Lund	11%	124,935	9.0%	6.5%
Skellefteå	4%	72,589	-4.0%	5.3%
Luleå	4%	78,105	1.1%	6.2%
Burlöv	4%	19,112	16.8%	10.3%
Haninge	3%	92,095	17.3%	7.0%
Järfälla	2%	79,990	18.3%	7.6%
Total/Sweden average	**93%**	**-**	**7.2%**	**7.0%**

Source: SFF, Statistics Sweden, Swedish Public Employment Service (based on population forecast by Statistics Sweden) and Ekonomifakta (based on data from the Swedish Public Employment Service).

Substantial market diversification among owners, but high tenant concentration in pledged portfolio

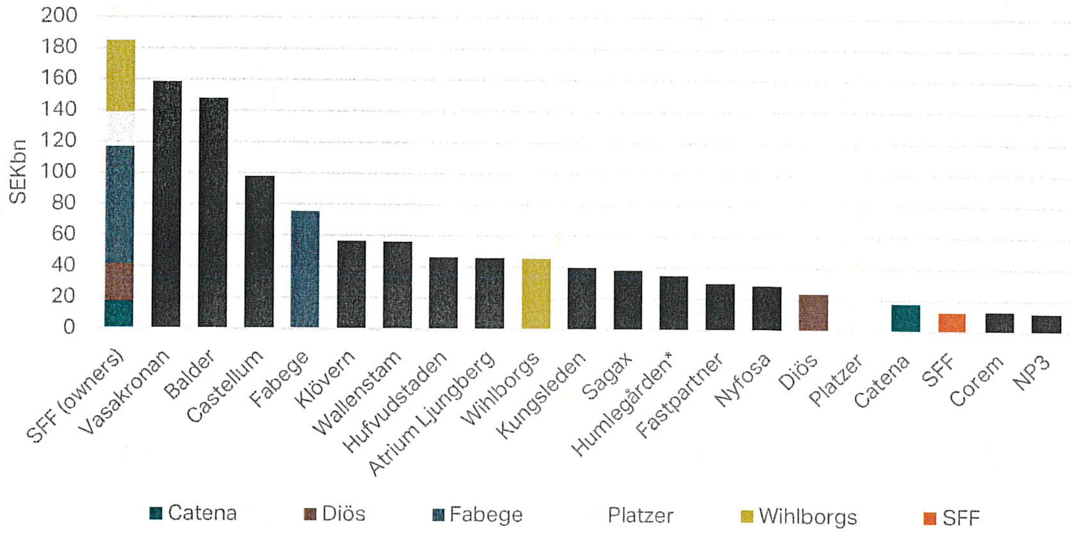
Market position, size and diversification scores 'bb+'

SFF's market position is defined by the scope of its owners and the benefit that the company provides by giving its owners access to financing. SFF's pool of security is made up of 32 properties across Sweden with a market value of SEK 15.1bn, as of 31 Dec. 2020. Compared with its Swedish peers, SFF's pool is relatively modest in size, but the substantial market value of properties within the owner aggregate indicates the breadth of the owners, which provide guarantees and support within the structure. In addition, the owners' aggregate portfolio demonstrates the potential for SFF to add considerably to its existing portfolio.

SFF provides its owners with an alternative source of financing, increasing the diversification of their funding. However, for SFF to remain a lasting attractive source of financing for its owners, the company must also offer competitive terms compared with those of secured bank financing. On average, secured financing via SFF is some 30–40bps cheaper than bank financing, indicating a substantial benefit for SFF's owners. However, we note that Fabege currently issues senior unsecured bonds at lower spread levels than SFF's, meaning that Fabege issues debt via SFF in order to diversify funding rather than for financial reasons.

During 2020, the Swedish FSA made increases to Swedish banks' capital requirements for commercial property exposures, which could lead to less attractive bank financing and support SFF's competitive position versus bank loans.

Figure 11. SFF and Swedish peers' property portfolios by market value, 30 Sep. 2020



Source: SFF data, company reports. *As of 30 Jun. 2020.

For a property to be eligible for financing via SFF it has to be located in its respective owner's priority market (Figure 12). While the owners' market coverage and portfolio level covenants ensure some geographical diversification across Sweden, SFF's current property pool of 32 properties is relatively narrow compared with those of larger Nordic real-estate companies.

Figure 12. SFF owners' priority markets

Owner	Priority market
Catena	Locations along major highways (E4, E6, E20 and E22) between Malmö, Helsingborg, Gothenburg and Stockholm, as well as terminal buildings at major railway intersections (Nässjö, Katrineholm and Hallsberg).
Diös	The northern cities of Borlänge, Falun, Gävle, Luleå, Skellefteå, Sundsvall, Umeå and Östersund.
Fabege	Central Stockholm (Stockholm City, Södermalm, Norrmalm, Östermalm and Kungsholmen), Hammarby Sjöstad and Solna (Solna Business Park and Arenastaden).
Platzer	Gothenburg, Mölndal and Härryda municipalities.
Wihlborgs	Malmö, Lund, Helsingborg and Burlöv municipalities.

Source: SFF.

As of 31 Dec. 2020, the portfolio's 10 largest tenants accounted for 50.4% of rental income, indicating a high degree of tenant concentration. We note that there are no limits on tenant concentrations across the portfolio. However, under the property level covenants, if more than 85% of a property's rental income comes from one tenant, the WALE must exceed 30 months at the point of financing, instead of the typical 24 months. We also note that the portfolio has limited property diversification due to its reliance on a few properties with low LTV levels that ensure compliance with portfolio covenants.

Portfolio dominated by offices in Sweden's three major cities

Portfolio assessment scores 'bbb'

SFF's bonds are secured in a pool of mortgage certificates of specific, otherwise unencumbered, properties and pledged shares in directly related property-owning subsidiaries that are 100% owned and managed by one or more of the five owners. In total, the pool includes 32 properties across Sweden valued at SEK 15.1bn, as of 31 Dec. 2020.

Figure 13. Portfolio property types and municipalities by loan amount, 31 Dec. 2020

Source: SFF.

We consider most of the assets in the pool to be well-located properties in Sweden's major cities, with a mix of properties in tier 1 and tier 2 locations. We note that the portfolio level covenants ensure that the portfolio remains focused primarily on offices in Stockholm, Gothenburg and the Öresund region in southern Sweden. In addition, the inclusion of properties owned by Catena and Diös in the pool is reflected by exposures to terminals, warehouses and office properties in northern Sweden. We anticipate that the mix of assets will remain diverse and of similar quality but note that our assessment of the portfolio could change as new properties are added to the pool.

As of 31 Dec. 2020, the average lease term in SFF's portfolio was 5.5 years, which is substantially longer than the minimum two years required at each point of financing. We note that some of the tenants are government-related entities but view the tenant quality of the portfolio as a neutral factor.

Covenants state that properties are to be free from development that has an adverse effect on rental income, which we consider a strength in our risk appetite assessment. However, given the owners' collective focus on sustainability we expect the owners to make value-adding improvements to some existing properties in order to ensure eligibility for green financing and to remain attractive to tenants.

Strong occupancy rate; margins considered neutral

Operating efficiency scores 'bbb+'

NCR considers SFF's earnings performance a neutral factor given its very low fixed costs and the fact that nearly all expenses are associated with the issuance of bonds and the administration of associated security. According to its financial policy, SFF is not designed to make profits, and adjusts its administration fees accordingly to minimise net financing costs for the owners. The company's income is comprised of token interest charges for the primary loans to the HoldCo's. These charges are used to pay administration costs and can be adjusted at any time by a board decision if expenses exceed or fall short of expectations. The cash reserves held by SFF are invested in low-risk financial assets (bank accounts, Swedish covered bonds and bonds and certificates from the government, Sweden's municipality credit company Kommuninvest, and domestic municipalities rated 'AA-' or higher). Issuance fees to banks are reflected in a minor difference between the principal amount on outstanding bonds and loans to its owners.

As shown in Figure 7, property level covenants prohibit new lending or refinancing to properties exceeding maximum vacancy limits of 5–10%. Once a property is financed via SFF, LTV covenants will capture any decline in occupancy leading to a decline in property values. Vacancy risks are consequently passed through to the owners, which would have to find alternative financing or increase cash to reduce property level LTV to continue financing properties with increasing vacancies via SFF. As of 31 Dec. 2020, the aggregate vacancy rate of SFF's portfolio was 2.5%, well below the vacancy limits for new lending or refinancing.

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bbb'

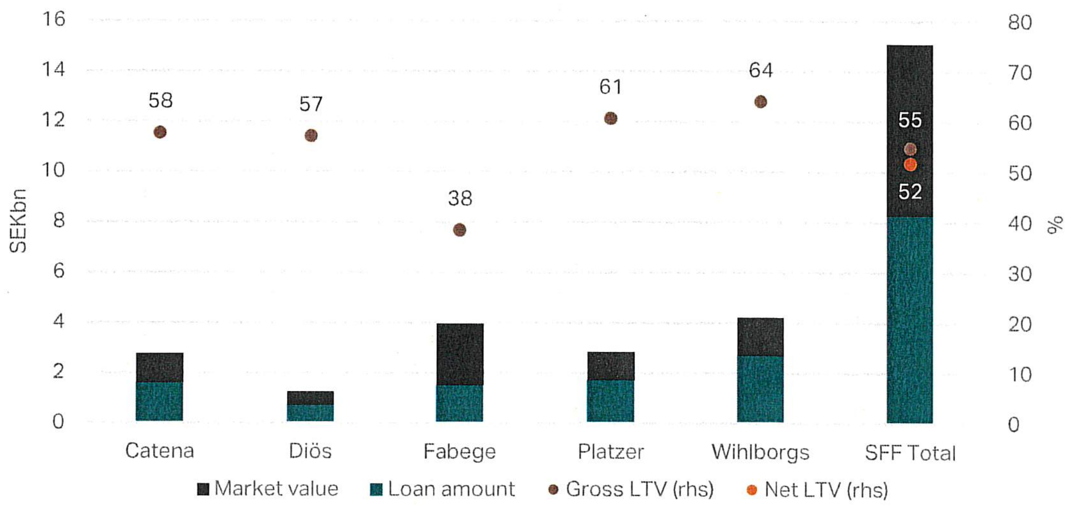
Our 'bbb' financial risk assessment balances SFF's somewhat high financial gearing (measured as net LTV) and its low risk appetite clearly outlined by portfolio and property level covenants. We consider the strength of the various checks and balances within the structure, as well as the oversight of the security agent, the owners and the legal review associated with each loan, as supportive of a somewhat stronger financial risk assessment than a purely ratio-driven assessment.

Somewhat high financial gearing, but significant headroom under covenants

Ratio analysis scores 'bb'

Our assessment of SFFs financial risk profile takes account of the company's LTV ratio (gross and net) and its property level LTV limits. Our calculations of net LTV subtract 100% of cash, since, although they are restricted, SFF's cash reserves can only be used for the benefit of bondholders. If SFF were to be liquidated, cash reserves and primary loans would be used to repay MTN investors. However, we do not adjust LTV for primary loans as these loans are associated with credit risk.

Figure 14. Market value, loan amount and LTV by owner, 31 Dec. 2020



Source: SFF.

SFF's LTV limits are specified at the property level and vary by owner company and property type (Figure 8). At year-end 2020, reported gross LTV was 54.9%, leaving significant headroom under LTV covenants ranging between 72% and 77% (the cancellation limit). At the same reporting date, we estimate net LTV to be 51.8%. We expect LTV levels to remain at current levels or increase slightly as new properties are added to the portfolio. The growth of SFF's portfolio is strongly interlinked with the demand from its owners, but we assume that the portfolio will grow by 5% per annum while new properties are financed at average gross LTV of 60%. In addition, we do not project any changes in the value of existing properties. Accordingly, we project net LTV to increase to 52.4% by 2022.

In terms of SFF's other key credit metrics as determined by NCR, we note that the company is not intended to generate earnings, while interest expenses are passed directly through from the HoldCo loans to the MTN investors, ensuring perfect net interest coverage as long as the owners can make coupon payments. Given our view of the owners having credit assessments of 'bbb'/'bb', we do not anticipate any problems with coupon payments and note that SFF maintains considerable cash buffers as well as access to a subordinated SEK 50m credit facility commitment from its owners.

SFF is mandated to maintain a 10% equity ratio, which is upheld by the issuance of preferred shares in SFF Holding AB in conjunction with each financing. The preferred share issuance equals approximately 11.1% of the loan amount and is passed through to SFF as a shareholder contribution. The preferred shares in SFF Holding AB have no coupon payments, do not affect the owners' 20% voting rights, and are resolved when associated HoldCo loans are repaid to SFF.

Transaction structure and covenant details support the rating

Risk appetite scores 'a'

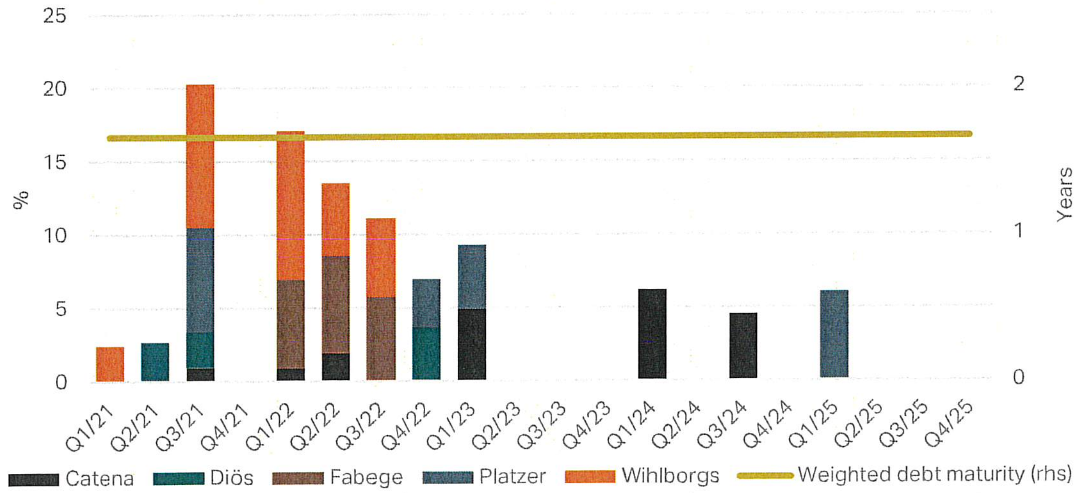
SFF's risk appetite is closely connected with the transaction structure and covenants stipulated in SFF's MTN prospectus (described in detail above). This clearly outlined framework is, in our view, supportive of a somewhat stronger financial risk assessment than a purely ratio-driven assessment. Our risk appetite assessment considers the strength of the various checks and balances within the structure as well as the oversight of the security agent, the owners and the legal review associated with each loan.

We view the various covenants within the structure as adequate, while the processes outlined satisfactorily ensure that pledged securities are managed in an orderly fashion. Furthermore, we note that although property level covenants, other than the LTV covenant, are only applicable at the point of financing, they continually ensure that the pledged portfolio maintains a high quality as loans are refinanced regularly. For example, if the occupancy of a specific property were to decline substantially, we would expect this to be captured by the LTV covenant, but if not, this deterioration would be captured at refinancing as the property no longer meets the minimum occupancy requirement, resulting in the property being excluded from the security package. This ensures that the quality of the security package is continually restored.

We believe that SFF's owners intend to maintain existing risk levels and note that the company has evidence that the various triggers within the structure work and have resulted in additional cash security where vacancies have affected the valuations of single properties.

As of 31 Dec. 2020, SFF's average debt maturity was 1.7 years, with 25% of loans due to mature in 2021. According to its financial policy, SFF's long-term aim is for loan maturities over any 12-month period to not exceed 20% of total loan volumes. This target was not met at year-end 2020 or at year-end 2019. If SFF were a standalone entity, we would view the company's short debt maturity profile as a material concern. However, we note that the burden of upcoming maturities is mitigated by the relevant owner company providing the necessary assurance, three months before each maturity, that it will have the available cash and/or available bank facilities to repay the loan.

Figure 15. SFF debt maturity profile by owner loan, 31 Dec. 2020



Source: Company.

ADJUSTMENT FACTORS

Adjustment factors are neutral

The adjustment factors are assessed as neutral and have no effect on our standalone credit assessment of the company.

Liquidity

Liquidity assessed as adequate

We assess SFF's liquidity profile as adequate, though we note that the short debt maturity profile and high proportion of near-term debt maturities is a material standalone weakness that requires commitments of available liquidity from the company's owners. Given our view of the owners having credit assessments of 'bbb'/'bb', we expect the owners to maintain sufficient liquidity buffers to support SFF if needed.

Because of SFF's substantial near-term debt maturities, the company's expected funding uses exceed funding sources over 2021. This could have been a material weakness but is to some extent mitigated by the fact that a vast majority of SFF's debt is secured. We believe the majority, if not all, of the pledged properties are of sufficiently high quality to enable refinancing through alternative funding channels, such as the banking system, reducing refinancing risk.

SFF's refinancing risk is further reduced by the process stipulated prior to an upcoming debt maturity. Four months before a loan maturity, SFF formally notifies its owners of the forthcoming maturity, whereupon the owner company provides confirmation, three months prior to maturity, that it will have available cash and/or available bank facilities to repay the loan in the event that SFF is unable to issue bonds in the market. If an owner is unable to provide such assurances, SFF, via the security agent, could commence the process of selling the associated property to ensure repayment of the loan. As the sales process could be time-consuming, SFF has the ability to use existing cash and cancel all primary loans to generate further cash to ensure timely payment to MTN investors until proceeds from the sale are finalised.

We estimate the following primary funding sources for the 12 months ending 31 Dec. 2021, totalling SEK 1.1bn:

- SEK 393m in estimated minimum cash reserves;
- SEK 166m in proceeds from borrowings;
- SEK 50m in an unutilised credit facility from the owner companies; and
- SEK 527m in estimated minimum fully cancellable primary loans.

We estimate the following uses of funds for the 12 months ending 31 Dec. 2021, totalling SEK 2.1bn:

- SEK 2.1bn in servicing of debt maturities.

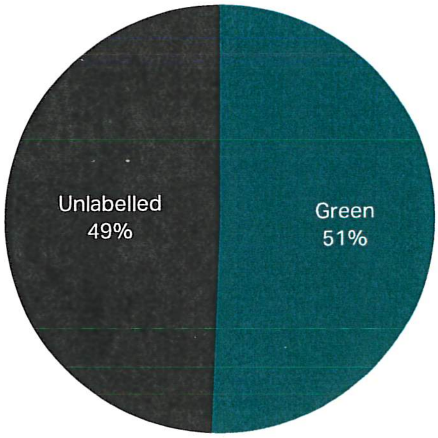
Environmental, social and governance factors

ESG factors assessed as adequate

Given the nature of SFF, the company's sustainability and environmental, social and governance (ESG) initiatives are heavily dependent on its owners' financing demands and the efforts of its servicing company, Hansan AB. We believe that the structure is carefully managed fully in accordance with the terms of the MTN prospectus by each of the administrating companies and the board of directors, consisting of the CFOs of each owner and the company's CEO (also employed at Hansan AB). We note that all board members have veto rights on any board decision, which could impede decision-making but ensures that the board is unanimous in its decisions. SFF follows Swedish governance guidelines (*Svensk kod för bolagsstyrning*) but has decided to deviate from some of these guidelines, such as the inclusion of independent board members. We consider the deviations minor and reasonable given the nature of SFF's operations.

SFF's environmental profile is dependent on the type of properties its owners finance via SFF. However, the owners each have a stated objective to improve their own environmental profile by enhancing energy efficiency and increasing the share of environmentally certified properties under management. SFF consequently has a relatively high share of outstanding green bonds, which it has issued under its own green framework (certified medium green by CICERO) since 2015. As of 31 Dec. 2020, SFF had 10 outstanding green bonds totalling SEK 4.2bn, accounting for 51% of its outstanding bond volume (see Figure 16). All of these properties are certified using the Leadership in Energy and Environmental Design (LEED), BREEAM, or the Swedish 'Miljöbyggnad' (environmental building) certification system. We expect SFF to become a larger issuer of green bonds as its owner companies fulfil their respective environmental targets, possibly enhancing SFF's access to financing and increasing the benefit for its owners.

Figure 16. Proportion of green and unlabelled bonds, 31 Dec. 2020



Source: SFF.

OWNERSHIP ANALYSIS

Ownership assessed as positive

NCR reflects continual support from SFF's owners by assigning an additional notch to SFF's standalone credit assessment to reflect the credit enhancement not reflected elsewhere within the assessment. In particular, we factor in the requirement for the owners to replace non-performing assets and/or provide additional security if LTV levels were to rise, and for the owners to confirm available liquidity/bank facilities three months prior to any loan maturity. Furthermore, while we note that there are no guarantees between the owners, the security agent has the ability to sell any of the pool properties for the benefit of MTN investors, which, together with the strong ownership ties between the five companies, provides incentives for the owners to resolve any issues collectively. Upon SFF's inception, the five owners were partly owned by Swedish businessman Erik Paulsson and/or his family's private investment company, Backahill AB. While Backahill AB relinquished ownership of Platzer in 2017, it has historic ties to the company.

Owner profiles can be found below.

Owner profiles

CATENA AB (PUBL)

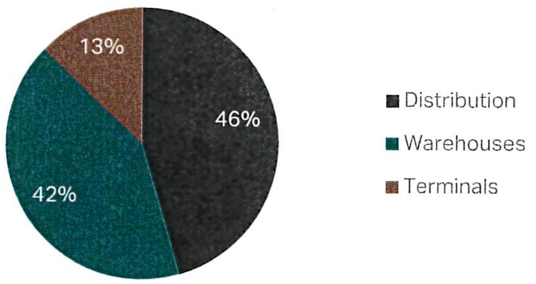
Catena manages and develops logistics properties – terminals, distribution and warehouse facilities – in Sweden's largest cities and along connecting railways and highways. With 44% of revenues stemming from top 10 tenants, the property portfolio is less diversified than those of its peers, though we note that third-party logistics companies aggregate some of the underlying tenant risk. The average remaining lease term is approximately five years and 61% of rental income derives from contracts with more than three years of remaining lease terms. Since merging with Tribona in 2016, the portfolio has continued to grow, accompanied by improvements in earnings and leverage metrics.

Figure 17. Catena key metrics

	2015	2016	2017	2018	2019	LTM*
Property portfolio ('000 sqm)	817	1,491	1,662	1,792	1,843	1,913
Property value (SEKbn)	4.8	10.8	13.1	14.7	16.3	17.8
Vacancy (%)	5	7	5	4	5	4
Average debt maturity (years)	2.5	1.5	1.9	1.4	1.3	2.2
EBITDA margin (%)	70	69	72	73	74	76
Adjusted net debt/EBITDA (x)	10.0	11.7	11.7	10.4	10.3	10.5
Adjusted EBITDA/interest (x)	3.7	2.4	3.1	3.4	3.9	3.9
Adjusted LTV (%)	68.1	58.9	57.1	56.4	54.3	54.6

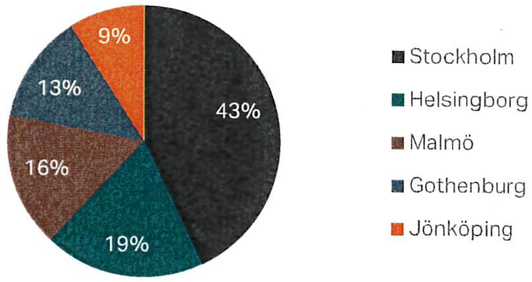
Based on company and NCR data. All metrics adjusted according to NCR methodology. *As of 30 Sep. 2020.

Figure 18. Catena property types by lettable area, 30 Sep. 2020



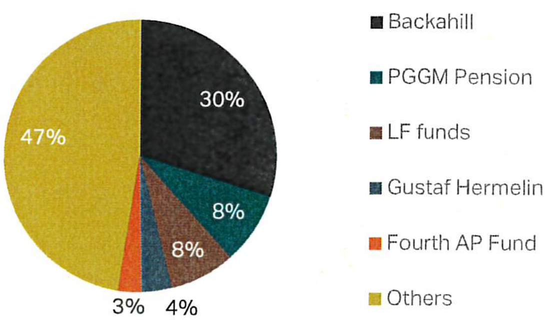
Source: company data.

Figure 19. Catena geographical profile by lettable area, 30 Sep. 2020



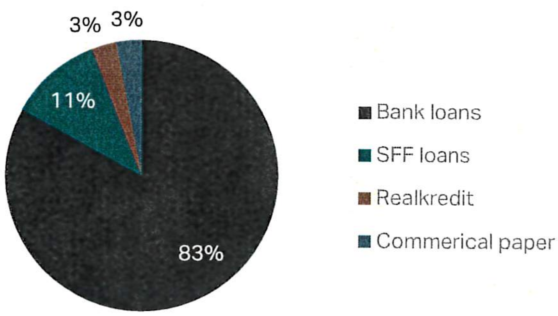
Source: company data.

Figure 20. Catena ownership structure, 30 Sep. 2020



Source: company. LF–Länsfösäkringar.

Figure 21. Catena interest-bearing debt, 30 Sep. 2020



Source: company data.

DIÖS FASTIGHETER AB (PUBL)

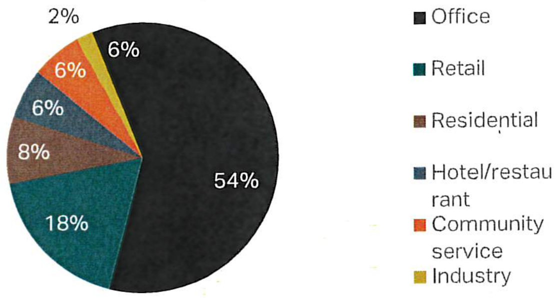
Diös focuses on property management and development in the cities along the north-eastern coast of Sweden, as well as the inland regions of Dalarna and Östersund. The company's portfolio is more diversified across property types than other owners and only 16% of revenues stem from top 10 tenants, which are primarily government or government-related entities. The average remaining lease term is 4.0 years and the portfolio has a higher vacancy ratio (12%) than those of SFF's other owners. Despite stable lettable area, property values have increased in recent years, as have operating margins.

Figure 22. Diös key metrics

	2015	2016	2017	2018	2019	LTM*
Property portfolio ('000 sqm)	1,463	1,354	1,553	1,464	1,483	1,480
Property value (SEKbn)	13.4	13.7	19.5	20.8	22.9	23.8
Vacancy (%)	12	10	9	9	9	12
Average debt maturity (years)	2.4	1.8	2.4	2.0	1.6	2.8
EBITDA margin (%)	55	55	59	59	60	61
Adjusted net debt/EBITDA (x)	11.6	10.8	11.0	10.6	11.1	11.6
Adjusted EBITDA/interest (x)	3.4	3.6	5.4	6.1	6.9	6.3
Adjusted LTV (%)	62.4	58.7	57.0	54.3	54.1	55.3

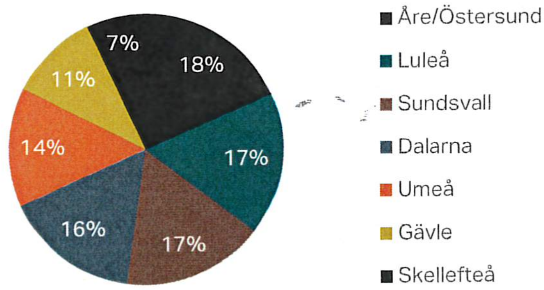
Based on company and NCR data. All metrics adjusted according to NCR methodology. *As of 30 Sep. 2020.

Figure 23. Diös property types by rental value, 30 Sep. 2020



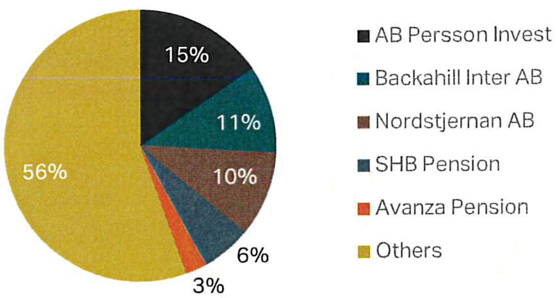
Source: company data.

Figure 24. Diös geographical profile by rental value, 30 Sep. 2020



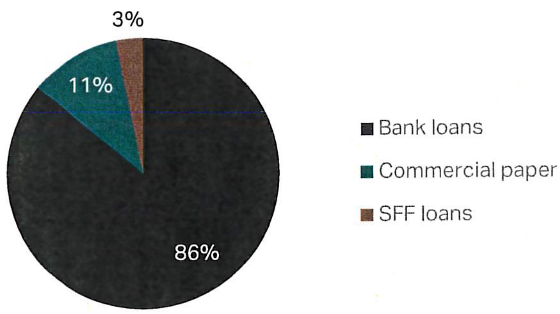
Source: company data.

Figure 25. Diös ownership structure, 30 Sep. 2020



Source: company data. SHB-Svenska Handelsbanken.

Figure 26. Diös interest-bearing debt, 30 Sep. 2020



Source: company data.

FABEGE AB (PUBL)

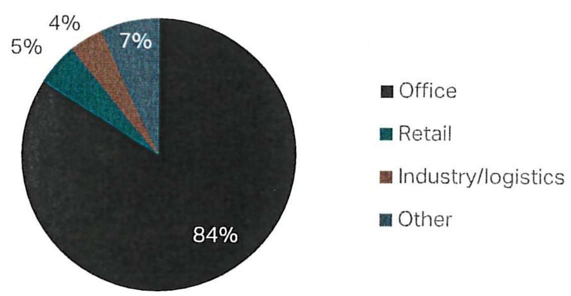
While not the largest owner by lettable area, Fabege is the largest of SFF's five owners in terms of property value at SEK 76.6bn as of 31 Dec. 2020. The company focuses on office space in central Stockholm and the connected areas of Solna and Hammarby Sjöstad. The company has improved credit metrics in recent years and has the lowest LTV level of the sponsors at 35.5%. Fabege is the only company among the owners with a public credit rating. The company's top 10 tenants account for 30% of annual revenues. Vacancy levels rose in 2020 to end the year at 9%.

Figure 27. Fabege key metrics

	2015	2016	2017	2018	2019	2020
Property portfolio ('000 sqm)	1,092	1,062	1,136	1,252	1,255	1,245
Property value (SEKbn)	40.3	47.8	57.9	67.6	74.3	76.6
Vacancy (%)	7	6	6	6	6	9
Average debt maturity (years)	4.1	3.8	4	5	5.8	5.2
EBITDA margin (%)	68	68	70	71	72	72
Adjusted net debt/EBITDA (x)	15.4	15.3	15.3	14.6	13.3	13.7
Adjusted EBITDA/interest (x)	2.2	2.5	2.9	3.7	4.2	4.1
Adjusted LTV (%)	52.3	45.8	42.5	38.8	36.4	35.5

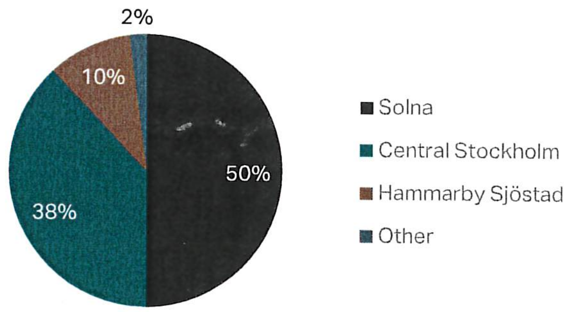
Based on company and NCR data. All metrics adjusted according to NCR methodology.

Figure 28. Fabege property types by rental income, 31 Dec. 2020



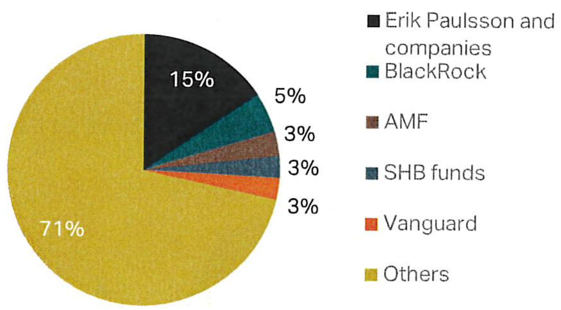
Source: company data.

Figure 29. Fabege geographical profile by market value, 31 Dec. 2020



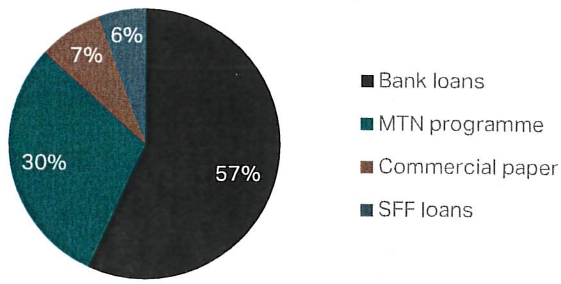
Source: company data.

Figure 30. Fabege ownership structure, 31 Dec. 2020



Source: company data. SHB-Handelsbanken.

Figure 31. Fabege interest-bearing debt, 31 Dec. 2020



Source: company data.

PLATZER FASTIGHETER HOLDING AB (PUBL)

Platzer focuses on commercial properties in Gothenburg, representing one of the more geographically concentrated portfolios of the five owners. The company manages and develops 66 properties valued at SEK 22.6bn as of 31 Dec. 2020, with 55% of the revenues stemming from office space. The company's top 20 tenants accounted for 34% of rental income in 2020 and the average remaining lease term of the portfolio as of 31 Dec. 2020 was 3.1 years.

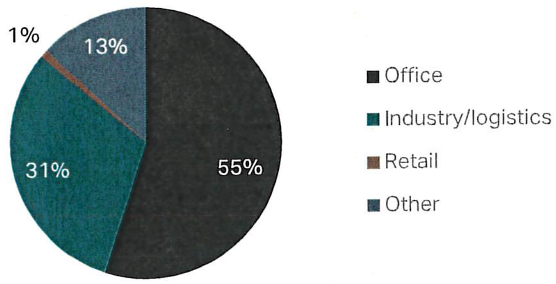
Platzer is the only owner without current ties to Erik Paulsson and associated companies, which sold their ownership stake in Platzer in 2017. The current ownership structure represents the long-term relationship with the Ernström Group, which took Platzer private in 2001, and together with Länsförsäkringar Gothenburg and Bohuslän (the second-largest owner) and Backahill AB-owned Brinova created Platzer in its current form in 2008.

Figure 32. Platzer key metrics

	2015	2016	2017	2018	2019	2020
Property portfolio ('000 sqm)	465	801	805	821	825	827
Property value (SEKbn)	9.8	13.6	15.6	18.4	20.5	22.6
Vacancy (%)	9	6	6	5	6	7
Average debt maturity (years)	1.9	2	1.6	2.2	2.4	2.3
EBITDA margin (%)	68	68	68	70	70	71
Adjusted net debt/EBITDA (x)	13.7	16.9	12.2	13.1	12.6	13.2
Adjusted EBITDA/interest (x)	3.0	3.2	3.5	3.6	4.3	4.1
Adjusted LTV (%)	56.3	57.9	53.2	52.0	48.1	47.6

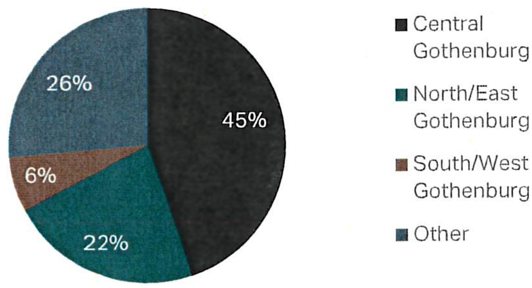
Based on company and NCR data. All metrics adjusted according to NCR methodology.

Figure 33. Platzer property types by market value, 31 Dec. 2020



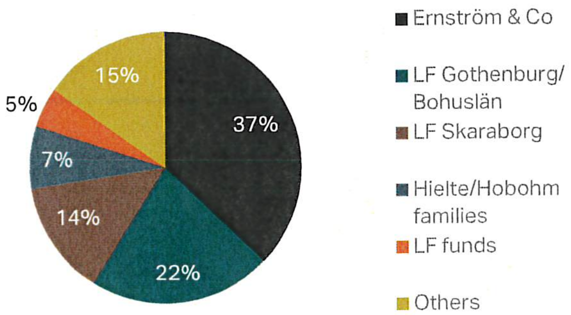
Source: company data.

Figure 34. Platzer geographical profile by rental income, 31 Dec. 2020



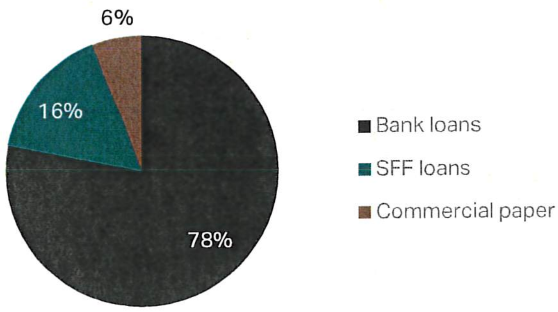
Source: company data.

Figure 35. Platzer ownership structure, 31 Dec. 2020



Source: company data. LF-Länsförsäkringar.

Figure 36. Platzer interest-bearing debt, 31 Dec. 2020



Source: SFF and company data.

WIHLBORGS FASTIGHETER AB (PUBL)

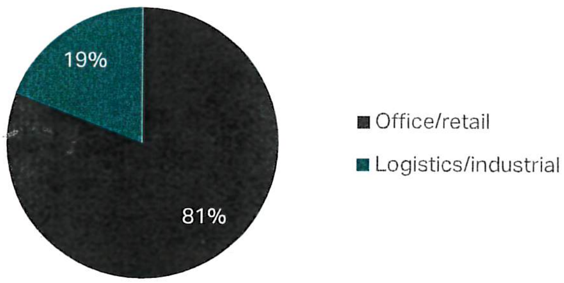
Wihlborgs' property focus is on the Öresund region, including Sweden's largest southern cities and Copenhagen across the Öresund Bridge. Most of the portfolio comprises office and retail space (81%), with the remaining properties associated with logistics or industrial properties. As of 30 Sep. 2020, the property portfolio was valued at SEK 47.0bn. Wihlborgs' net interest coverage has improved in recent years due to a strong improvement in EBITDA and materially lower interest costs.

Figure 37. Wihlborgs key metrics

	2015	2016	2017	2018	2019	LTM*
Property portfolio ('000 sqm)	1,746	1,800	2,067	2,106	2,181	2,210
Property value (SEKbn)	28.6	32.8	38.6	42.1	45.5	47.0
Vacancy (%)	9	9	7	7	7	9
Average debt maturity (years)	4.8	5.9	6.2	6	5.7	6.2
EBITDA margin (%)	71	72	71	70	69	70
Adjusted net debt/EBITDA (x)	11.6	11.8	12.4	12.1	11.4	11.2
Adjusted EBITDA/interest (x)	3.3	3.3	3.4	4.0	6.3	6.7
Adjusted LTV (%)	56.6	52.8	53.0	53.8	51.6	51.2

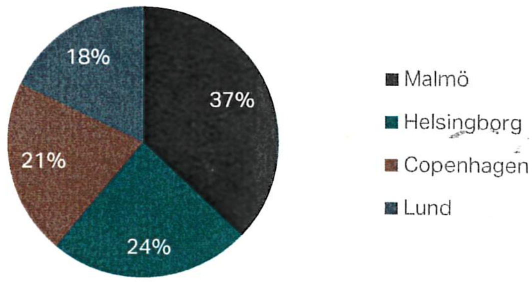
Based on company and NCR data. All metrics adjusted according to NCR methodology. *As of 30 Sep. 2020.

Figure 38. Wihlborgs property types by rental value, 30 Sep. 2020



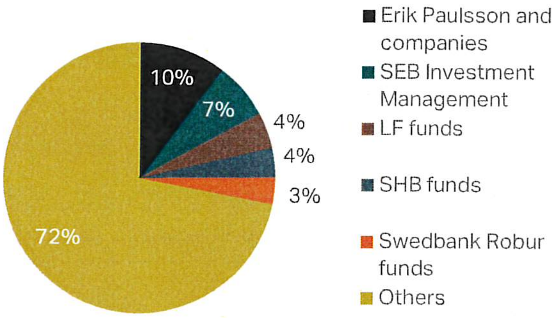
Source: company data.

Figure 39. Wihlborgs geographical profile by rental value, 30 Sep. 2020



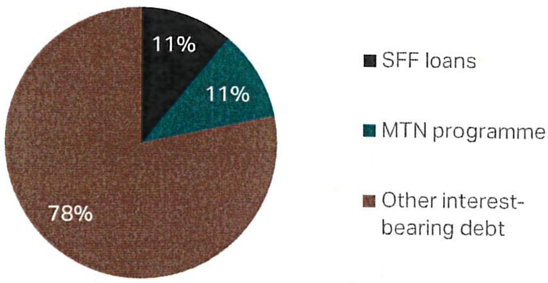
Source: company data.

Figure 40. Wihlborgs ownership structure, 30 Sep. 2020



Source: company. LF–Länsförsäkringar. SHB–Handelsbanken.

Figure 41. Wihlborgs interest-bearing debt, 30 Sep. 2020



Source: SFF and company data.

Figure 42. SFF key financial data, 2016-Q2 2020

SEKm Period-end	FY 31 Dec. 2016	FY 31 Dec. 2017	FY 31 Dec. 2018	FY 31 Dec. 2019	LTM 30 Jun. 2020
INCOME STATEMENT					
Rental income	–	–	–	–	–
Other income	–	–	–	–	–
Total costs from operations	–	–	–	–	–
Net operating income	–	–	–	–	–
Administrative expenses	-6	-7	-7	-7	-7
Administrative expenses, project portfolio	–	–	–	–	–
EBITDA	-6	-7	-7	-7	-7
Share of profit in associated companies and joint ventures	–	–	–	–	–
Interest expenses	-24	-43	-52	-73	-79
Interest income	28	50	60	81	86
Interest expenses, shareholder loans	–	–	–	–	–
Financial costs from leasing	–	–	–	–	–
Other financial costs	–	–	–	–	–
Changes in investment property	–	–	–	–	–
Gain (loss) on financial assets held at fair value	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–
Restructuring activities	–	–	–	–	–
Pre-tax profit	-2	0	0	1	1
Current taxes	–	–	–	–	–
Deferred taxes	0	0	0	0	0
Net profit	-2	0	0	1	1
BALANCE SHEET					
Investment property	–	–	–	–	–
Other non-current assets	5,446	6,234	7,015	3,453	4,945
Total non-current assets	5,446	6,234	7,015	3,453	4,945
Cash and cash equivalents	320	460	492	486	463
Other current assets	1,218	3,520	3,028	6,030	2,347
Total current assets	1,538	3,980	3,520	6,515	2,810
Total assets	6,985	10,214	10,535	9,968	7,755
Total equity	699	1,022	1,064	1,090	1,036
Non-current borrowings	5,134	5,875	6,616	3,230	4,644
Non-current borrowings, shareholder loans	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–
Other non-current liabilities	–	–	–	–	–
Total non-current liabilities	5,134	5,875	6,616	3,230	4,644
Total current liabilities	1,151	3,316	2,855	5,649	2,075
Total equity and liabilities	6,985	10,214	10,535	9,968	7,755
CASH FLOW STATEMENT					
Pre-tax profit	-2	0	0	1	1
... of which changes in investment property	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–
Tax paid	–	–	–	–	–
Adjustment for items not in cash flow	–	–	–	–	–
Cash flow from operating activities before changes in working capital	-2	0	0	1	1
Changes in working capital	-61	0	1	3	-10
Cash flow from operating activities	-64	0	1	4	-9
Cash flow from investment activities	-1,708	-3,095	-285	559	2,921
Cash flow from financing activities	1,915	3,235	315	-569	-2,942
Cash and cash equivalents at beginning of period	176	320	460	492	494
Cash flow for period	144	140	32	-6	-30
Cash and cash equivalents at end of period	320	460	492	486	463

Source: company. FY–full year. LTM–last 12 months.

Figure 43. SFF rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bbb-
Market position, size and diversification	12.5%	bb+
Portfolio assessment	12.5%	bbb
Operating efficiency	5.0%	bbb+
Business risk assessment	50.0%	bbb-
Ratio analysis		bb
Risk appetite		a
Financial risk assessment	50.0%	bbb
Indicative credit assessment		**bbb**
Peer comparisons		Neutral
ESG		Adequate
Liquidity		Adequate
Stand-alone credit assessment		**bbb**
Support analysis		+1 notch
Issuer rating		**BBB+**
Outlook		Stable
Short-term rating		**N-1+**

DISCLAIMER

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