Heba Fastighets AB (publ)

Full Rating Report

LONG-TERM RATING

A-

OUTLOOK

Negative

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'A-' long-term issuer rating on Heba Fastighets AB (Heba) reflects the company's long and stable history of managing residential rental properties in Stockholm, Sweden's highest-demand housing market. Due in part to Heba's stable ownership, the company has maintained a strong financial position, low risk appetite and relatively moderate leverage as it has grown its property portfolio.

The rating is constrained by the company's increased efforts to expand, with a series of acquisitions and new developments in regions on the outskirts of its historical markets and its targeting of a growing share of rental income from elderly care properties, special-needs housing (Swe: *LSS-boende*) and preschools. The rating is also constrained by increasing investments in projects to build and sell tenant-owned apartments via joint ventures. We expect most of these investments to be financed by debt and lead to higher leverage and loan-to-value (LTV) levels, and the resulting higher financial risk of the company affects our outlook.

NEGATIVE OUTLOOK

The negative outlook reflects NCR's projections that Heba will increase leverage due to its expansion plans and project investments. In particular, we expect the company to finance a large portion of this growth with debt, given modest cash flow generation, resulting in an increase in net LTV and limiting further improvements in interest coverage. We could lower our rating if the company is unable to maintain its historically very strong financial profile as it expands its investments in tenant-owned apartment developments, increasing the company's business risk.

DRIVERS FOR A STABLE OUTLOOK

- Less need for debt-financing, resulting in projected net LTV of around 40%, net interest coverage above 5x and commitment to a low risk appetite.
- Improvements in diversification and market position, along with improved credit metric projections.

NEGATIVE RATING DRIVERS

- Net LTV increasing to above 45% for a sustained period, or decreasing net interest coverage due to higher leverage.
- Increased share of development projects in which Heba bears the associated risk.

Figure 1. Heba key credit metrics, 2017–2023e

SEKm	2017	2018	2019	2020	2021e	2022e	2023e
Rental income	335	381	388	394	449	491	539
NCR-adj. EBITDA	187	221	232	240	273	299	331
NCR-adj. investment property	8,771	9,656	10,293	12,213	13,231	13,671	14,786
NCR-adj. net debt	3,221	3,532	3,492	4,985	5,961	6,415	6,958
Total assets	8,804	9,724	10,399	12,776	14,074	14,680	15,447
NCR-adj. net debt/EBITDA (x)	17.2	16.0	15.1	20.8	21.8	21.5	21.0
NCR-adj. EBITDA/net interest (x)	3.7	4.1	4.4	4.6	4.3	4.6	4.7
NCR-adj. net LTV (%)	36.7	36.6	33.9	40.8	45.1	46.9	47.1

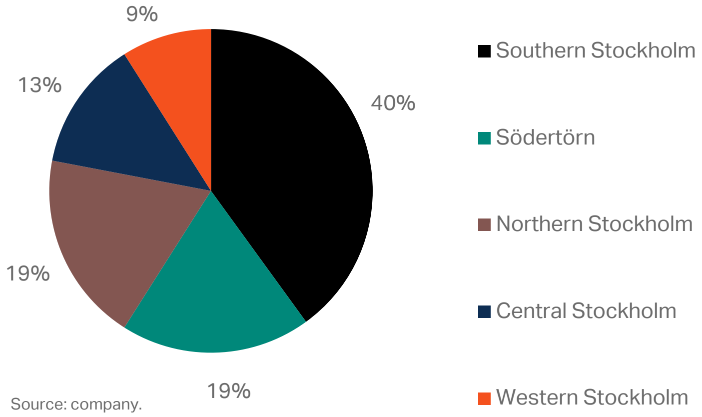
Based on NCR estimates and company data. e–estimate. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Heba is a Sweden-based property manager focusing on residential properties in the greater Stockholm area. Heba's portfolio consists of a mix of mid-20th century to modern and newly built apartment properties. The company also manages and develops community service properties for care of the elderly, special-needs housing and preschools in the region, and plans to increase its share of community service properties to 20% by 2024. These properties often have long rental contracts funded directly, or indirectly, by government or municipalities.

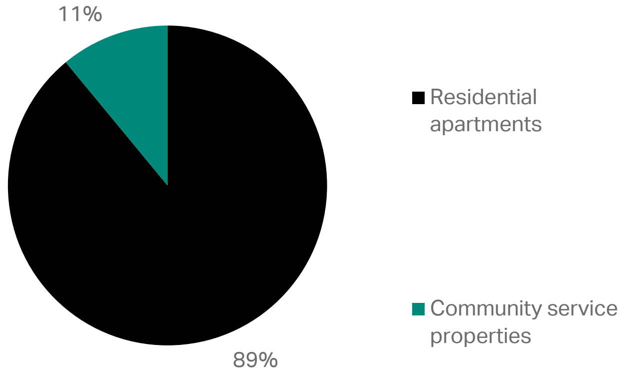
The company was founded in 1952 and has been publicly listed since 1994, with many of the original founders' families maintaining active ownership in the company. As of 31 Mar. 2021, the property portfolio included 68 properties – 3,372 apartments and 348 community service facilities – with a value of SEK 12.2bn.

Figure 2. Heba rental value by regional area, 31 Dec. 2020



Source: company.

Figure 3. Heba rental value by property type, 31 Dec. 2020



Source: company.

BUSINESS RISK ASSESSMENT

Business risk assessment is 'a-'

Our business risk assessment of Heba reflects the stable operating environment and high demand for residential rental properties in the Stockholm region. It also reflects the company's history of delivering steady growth, driven by refurbishing existing properties and developing and acquiring low-risk properties while steadily improving its operating efficiency.

High demand and regulated market provide favourable conditions

Operating environment scores 'a+'

Our assessment of Heba's operating environment is supported by the company's exposure to the non-cyclical rental housing market in Sweden, with government-regulated rent levels and tenant waiting lists. It is further strengthened by the company's geographical focus on Stockholm, a market where selling prices for apartments have increased significantly over the past 10 years, supporting overall property valuations and increasing demand for rent-controlled rental apartments.

The Swedish rental market is regulated through a value system, i.e. rent levels are regulated by the government with the aim of reflecting the value of using a property. Accordingly, property owners cannot increase rents by levels deemed unreasonable, with rent increases having to be agreed between landlords and the respective residents' associations. In 2020, the average increase was 1.9%, the same as in 2019. The level for 2021 is expected to average 2%. Newly built and refurbished apartments can, however, command higher rent levels, albeit still below what would be expected in an unregulated market.

Sweden's housing authority (Boverket) reports that there is a continued housing deficit across Sweden and in Stockholm in particular, where population growth exceeds the national average and the impact of rental regulations is most evident. The regulated market and high demand result in demand being funnelled through a queue system. According to Stockholm's housing authority, Bostadsförmedlingen, there are over 700,000 individuals on the waiting list for an apartment in the city. The average waiting period for individuals and families that received first-hand rental contracts in the Stockholm region in 2020 was approximately 11 years. We believe it is unlikely that supply and demand in the Stockholm rental market will achieve balance without a variety of material changes, supporting our view of Heba having low vacancy levels during our forecast period. The City of Stockholm aims to increase housing by 140,000 units by 2030, but development is still slow.

Figure 4. Heba revenues per municipality, 2020

Municipality	Share of rental value	Population, 2020	Expected population change among 16–64-year-olds, 2018–2030	Average waiting time, years
Stockholm	56%	975,551	12.0%	17.0
Huddinge	13%	113,234	15.8%	10.0
Täby	11%	72,755	12.7%	6.5
Lidingö	9%	48,005	9.7%	9.1
Sollentuna	4%	73,990	12.7%	9.8
Botkyrka	3%	94,847	16.6%	8.6
Österåker	3%	46,644	13.8%	3.4
Salem	2%	16,959	11.3%	5.8
Total/Sweden average	**100%**	**-**	**7.2%**	**-**

Source: company, Statistics Sweden, Arbetsförmedlingen (based on population forecast by Statistics Sweden) and Ekonomifakta (based on data from Arbetsförmedlingen).

Heba intends to increase its share of community service properties to 20% of its portfolio by 2024. The company entered this segment in 2014 and plans to grow through facilities for the elderly, special-needs housing, subsidised social housing and preschools, for which property specialisation and project complexity are minimal. As the population grows and ages, demand for elderly care facilities and child care is likely to continue to grow in line with national and local demographics.

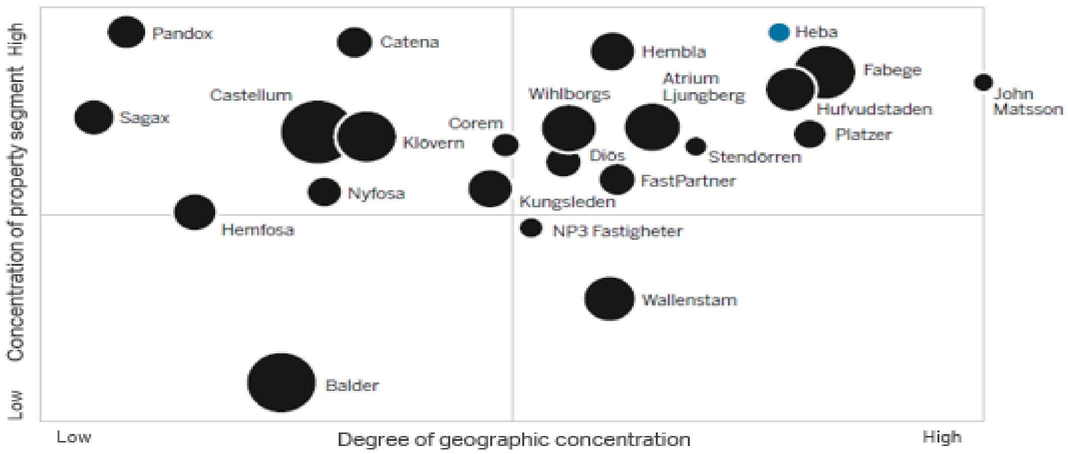
Small portfolio compared with peers, but strong diversification

Market position, size, and diversification scores 'bb'

As of 31 Mar. 2021, Heba's portfolio comprised 68 properties, totalling 254,000 sqm, valued at SEK 12.2bn. Heba is a relatively small real-estate manager in a Swedish context, as many of Sweden's largest real-estate managers are primarily associated with office buildings in various regions of the country and tend to have higher-valued portfolios but with materially higher tenant concentrations and risks associated with the business cycle.

While Heba does not have a leading market position, this is not necessarily a weakness in terms of the company's ability to generate value, given the regulation of the housing market and the need to continue expanding the Stockholm rental market.

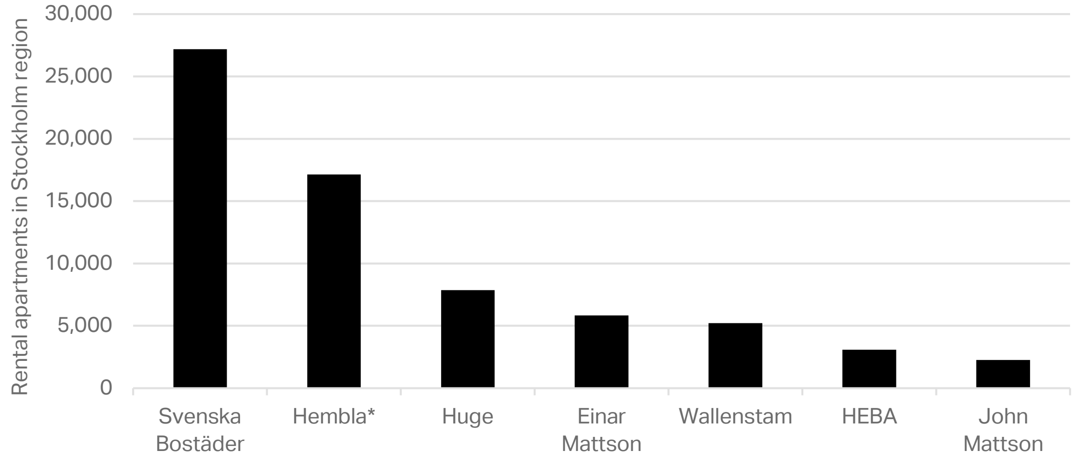
Figure 5. Heba and Swedish real-estate companies' geographic and segment distribution



Source: Nordanö

The residential housing segment is dominated by municipality-owned companies such as Svenska Bostäder (owned by the City of Stockholm) and Huge Bostäder (Huddinge County), Riksbyggen (owned by building unions, local housing associations and other cooperative associations), and a collection of private-sector companies. However, diversified real-estate managers such as Wallenstam and niche privately owned peers like John Mattson are adding to competition in the market.

Figure 6. Heba and selected real-estate companies' Stockholm rental apartments, 2019**



Source: company data. *Hembla: 80% of company's rental flats are in Stockholm. **Definition of Stockholm region as defined by each company and may include neighboring cities such as Uppsala and Tyresö.

As described above, demand for housing in Stockholm reduces the risks associated with Heba's competitive position and concentration in the Swedish capital's rental market. In our view, the company's portfolio of more than 3,000 apartments across the Stockholm region is highly likely to remain attractive, especially as Heba invests in the refurbishment of its aging stock of rental apartments. Heba's current portfolio includes six special-needs housing and elderly care properties, all completed since 2014.

Stable portfolio but increasing project risk

Portfolio assessment scores 'a-'

Heba's property portfolio consists of mostly old, but refurbished, residential properties, with good public transport connections as one of the property criteria. The company's average remaining lease term is short for residential housing, as lease contracts typically vary between one and three months. However, the high demand, as reflected by the queues, indicates a high probability of a strong occupancy rate and the remaining lease term is consequently of less importance. Community service properties are typically signed on 15–20-year lease terms, and we expect the increase towards 20% exposure in this segment to provide somewhat more revenue transparency.

Heba's portfolio was, on average, built between the 1960s and 1980s, but the company's long-term refurbishment plan, initiated in 2010, aims to upgrade the properties to current standards. As of 31 Dec. 2020, the company had refurbished half of the aging stock, representing 74% of its portfolio. The company expects to complete the refurbishment of all of its properties by 2027. It uses available apartments in its portfolio to relocate residents of each building during refurbishments, which take approximately eight months, as well as during environmental improvements (where financially justified) and other standard improvements. The completed refurbishments allow Heba to increase rental incomes on these properties by about 50%, justifying the investment and improving rental income in our projections.

Heba's own project and acquisition portfolio consists of commitments of about SEK 1.5bn, of which about 30% was already invested as of March 2021. We view the development risks as higher for properties in which Heba owns the property prior to completion or engages in forward funding, compared with projects in which Heba acquires a development project upon completion. We note that as of May 2021 the company has only one such active development project, mitigating some risk (see Figure 7). The two remaining projects are to be acquired upon completion and we therefore assess the risk to be lower and comparable to acquisitions of existing properties, with some elevated risk of revenues being delayed should there be a delay to the projects.

Figure 7. Heba active projects* and commitments, as of 31 Mar. 2021

Property	Property type	Project type	Sqm	Estimated completion	Total investment (SEKm)	Remaining investment (SEKm)
Vallentuna	Rental apartments and care of the elderly	Acquisition	7,636	Q2/21	403	400
Näs Österåker	Elderly care and preschool	Development	4,700	Q2/21	222	25
Norrtälje Hamn, Gråalen	Rental apartments	Acquisition	8,527	Q3/21	409	309
Norrtälje Hamn, Kvarteret Alen 3	Rental apartments and elderly care	Development	10,000	Q2/22	484	330
Total			**30,863**		**1,518**	**1,064**

Source: company. *Excluding refurbishment of existing rental apartments.

As well as adding to its share of community service properties, Heba has also identified further growth potential in its current portfolio and refurbishment of older residential properties. Heba has the right to build 11 properties in or near its existing portfolio with an estimated rental income of over SEK 183m. As these building rights are not yet in the development phase, they are not considered a material risk at this stage and the building rights could be transferred or sold if necessary.

During 2020, Heba increased its growth target by entering into a joint venture with Åke Sundvall Byggnads AB through a project to build 200 apartments for sale in Bredäng. Since then, Heba has increased its cooperation with Åke Sundsvall Byggnads AB, adding additional joint-venture exposures through both rental apartments and tenant-owned apartments. The increase in projects, albeit through joint ventures resulting in lower direct exposure for Heba, is expected to increase the overall business risk and tie up capital, while the revenue flow will be both deferred and volatile due to the increased exposure to residential-housing prices in Stockholm.

Figure 8. Heba projects and commitments in joint ventures, as of 31 Mar. 2021

Property	Property type	Apartments	Project start	Total investment (SEKm)
Bredäng	Apartments for sale	200	Q4/20	500
Uppsala	Rental apartments and apartments for sale	304	Q2/21	640
Vårbergstoppen	Apartments for sale	300	Q2/21	600
Skärgårdsskogen Skarpnäck	Apartments for sale		Early phase	
Framtidens Stora Sköndal	Rental apartments and apartments for sale	600	Early phase	2,000
Total		**1,404**		**3,740**

Source: company.

Excellent occupancy rate due to stable demand

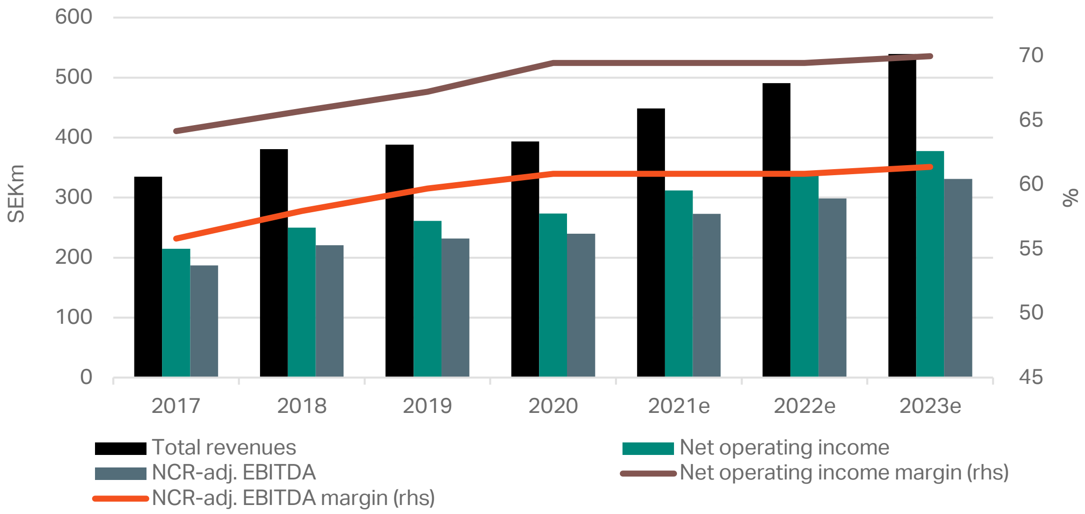
Operating efficiency scores 'a'

Demand for rental housing in Stockholm ensures that Heba's occupancy rate remains very high and operating efficiency remains stable. Thus, we expect Heba's portfolio to maintain very low vacancy rates (less than 0.5% as of March 2021), excluding temporary relocations of residents for the renovation of older apartment buildings. We expect Heba's existing residential and community service properties to generate stable rental incomes, with increases based on inflation and refurbishment of older apartment buildings. This is driven by a shortage of available and affordable rental housing in Stockholm and the need for additional care facilities for the elderly, individuals with special needs and preschool children. The community service properties provide stable operating revenue, albeit low as they represent only 11% of the current portfolio.

An increasing number of community service buildings in the portfolio is expected to continue contributing to steady improvements in operating efficiency. In addition, new production and the refurbishment of older rental properties will allow for rental increases in excess of cost inflation. Accordingly, we project that EBITDA margins will continue their steady rise and improve to above 61% by 2023.

Our revenue estimates see developments held for sale through joint ventures adding somewhat to volatility, as revenues will be generated upon completion and not on a recurring basis.

Figure 9. Heba revenues, net operating income, EBITDA, and margins, 2017–2023e



Based on NCR estimates and company data.

FINANCIAL RISK ASSESSMENT

Financial risk assessment is 'bbb+'

Our financial risk assessment reflects Heba's historically modest leverage, along with a prudent financial policy and risk appetite. However, Heba's growth plans will increase the company's LTV and leverage and we expect the company to materially increase debt-financed investments and expansion, which is reflected in our negative outlook. Although Heba is continuing to improve its rental income as it updates its portfolio via refurbishments and acquisitions, we have revised our interest coverage projections down to reflect higher net interest costs.

Credit metrics expected to decline due to project activity

Ratio analysis scores 'bbb+'

Heba's leverage has historically been relatively low compared with that of peers, but our forecast expects the additional projects and acquisitions to increase debt. The refurbishment projects will have a similar effect as residents are temporarily relocated and the refurbishment is financed, with a time lag between higher financing costs and increased revenue and property values. Although our projections include only modest value changes for completed projects and acquisitions, capital expenditure on new projects, refurbishment and acquisitions could result in lower-than-projected LTV as properties begin generating cash flow.

We expect revenues from property management to rise by 2% per annum, reflecting the predictability of the regulated rent, with additional revenue generated from completed projects and acquisitions. Revenues derived from apartments built for sale are expected to increase volatility somewhat. These projects will result in additional debt, without corresponding increases in rental revenues for Heba. Instead, deferred revenue will be distributed to Heba as a joint-venture dividend or cash pay-out, which could improve our credit metric projections beyond our forecast period.

Our base case scenario assumes the following:

- rental income growth of 14% in 2021, 9% in 2022 and 10% in 2023, with growth mainly resulting from the completion of existing projects and refurbishment of properties, allowing rental increases for existing apartments;
- EBITDA margin to improve to above 61% by 2023;

- investments in new projects and joint ventures of about SEK 2.4bn;
- dividend payment of 70% of post-tax earnings from property management; and
- no value increases in the existing portfolio except for a 5% increase in finalised new projects and refurbishments.

Based on these assumptions, we arrive at the following for 2020–2022:

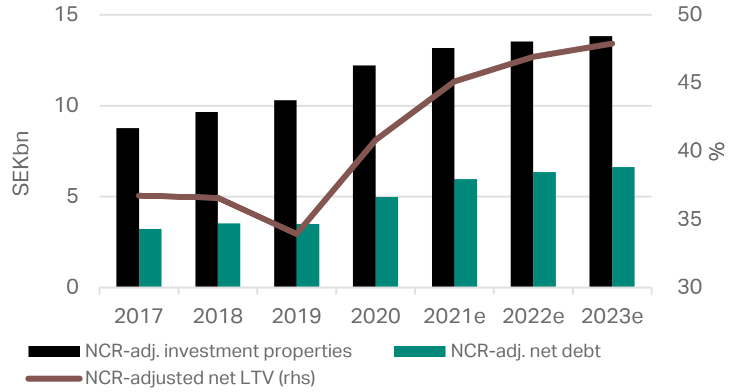
- adjusted net LTV of 45–47%;
- adjusted EBITDA to net interest of 4.3–4.7x; and
- adjusted net debt to EBITDA increasing to above 20x over our forecast period.

Figure 10. NCR's adjustments to Heba's credit metrics, 2017–2023e

SEKm	2017	2018	2019	2020	2021e	2022e	2023e
EBITDA	187	221	232	240	273	299	331
NCR-adj. EBITDA	187	221	232	240	273	299	331
Cash and cash equivalents	6	6	25	97	123	47	59
NCR-adj. cash and equivalents	6	6	25	97	123	47	59
Gross interest-bearing debt	3,228	3,538	3,359	4,915	5,918	6,296	6,850
Long-term leasing liabilities			158	167	167	167	167
NCR-adj. cash and equivalents	-6	-6	-25	-97	-123	-47	-59
NCR-adj. net debt	3,221	3,532	3,492	4,985	5,961	6,415	6,958
Net interest	-50	-54	-48	-47	-58	-60	-65
Financial costs from leasing			-6	-5	-5	-5	-5
NCR-adj. net interest	-50	-54	-53	-52	-63	-65	-70
Investment property	8,771	9,656	10,135	12,046	13,065	13,504	14,619
Non-current right-of-use assets			158	167	167	167	167
NCR-adj. investment property	8,771	9,656	10,293	12,213	13,231	13,671	14,786

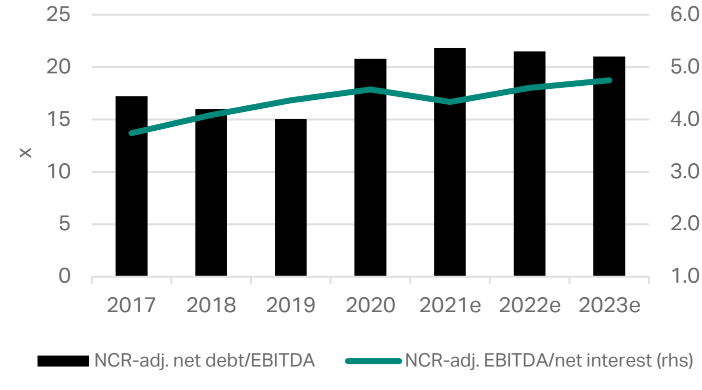
Based on NCR estimates and company data. e–estimate.

Figure 11. Heba NCR-adj. investment properties, net debt, and net LTV, 2017–2023e



Based on NCR estimates and company data.

Figure 12. Heba NCR-adj. net debt/EBITDA, and EBITDA/net interest, 2017–2023e



Based on NCR estimates and company data.

Focus on less dependence on banks, increased cash holdings and stable debt maturity

Risk appetite scores 'a-'

Our view of Heba's risk appetite reflects the company's long history, stable ownership, steady growth and commitment to its customers and employees. We view the company's growth objectives as supportive for improved diversification and earnings, but note that the increased focus on development projects could lead to greater financial risk appetite allowing for higher leverage and increased revenue volatility. We view the joint-venture agreements to develop apartments for sale as a small step into a somewhat riskier property segment. However, we understand that some of the properties are also approved as rental apartments and would be converted to attractive new rentals if the housing market is not conducive to the sale of newly produced apartments. We believe these considerations, as well as the increase in leverage via new acquisitions in our projections, are reflected in our outlook.

We also note that the company is transforming its portfolio through further expansion into community service properties and increasing its coverage of the Stockholm region. However, additional financial risk is low given that the company's leasing contracts for community service properties are 15–20 years, with both private and public tenants such as Attendo Care, Vardaga, Frösunda Omsorg and Salem municipality.

We expect management to remain well within its financial targets, despite increases in debt and leverage over the coming year.

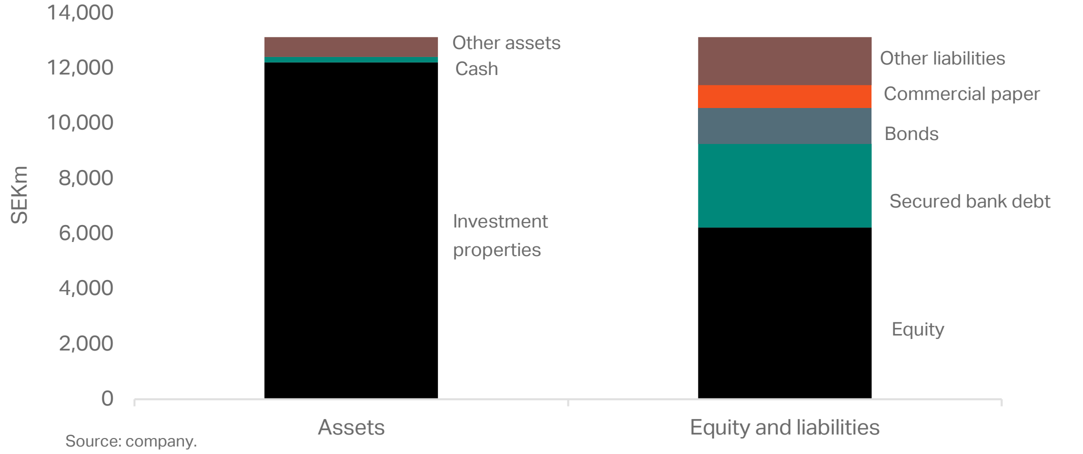
Figure 13. Heba financial targets, 31 Mar. 2021

Financial policy	Target	31 Mar. 2021*
Equity/total assets (%)	>40	47%
LTV (%)	<50	42.3%
Share of community service properties (%)	~20	11%
Dividend pay-out (%)	70	72**

Source: company data. *Heba's own calculations. **2020 dividend pay-out.

Heba uses secured bank debt and commercial paper and, since March 2021, unsecured bonds. We expect Heba's share of unsecured debt to increase to above 50% from 41% as of 31 Mar. 2021, complemented by short-term financing via a SEK 2bn commercial-paper programme. The company's bank loans are typically secured by its property assets, with SEK 4.2bn in mortgaged assets (30% of total assets and 81% of outstanding debt) as of 31 Mar. 2020.

Figure 14. Heba balance sheet, 31 Mar. 2021

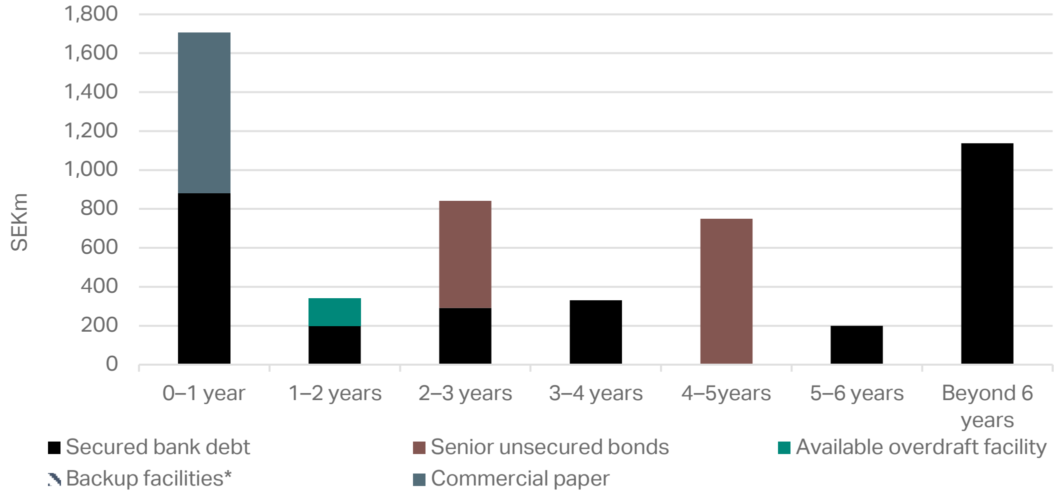


Source: company.

As of 31 Mar. 2021, Heba had SEK 1.7bn in maturing financing over the coming 12 months, including SEK 825m in unsecured commercial-paper financing. We expect the company to use a SEK 1.7bn revolving credit facility (maturing from 2022 to 2026) to repay maturing commercial paper, if necessary. The company has held relatively low levels of cash and instead managed liquidity with an additional SEK 140m overdraft facility, but we note that the company had increased its cash position to SEK 195m as of 31 Mar. 2021.

The company has actively increased its loan maturity since year-end 2019, with the average maturity of the loan book rising to 3.7 years in the first quarter (4.5 years including commitments, compared with 2.5 years at year-end 2019), with interest rate fixing of 3.2 years (3.8 years). We note that the company's interest cost increases as a result of the interest rate fixing and view the company's high regard for transparency and consistency on costs as supportive for our overall assessment of the company's risk appetite. Heba uses interest rate derivatives to limit the effects of interest rate changes. A total of SEK 1,650 million of the loan portfolio had been tied through interest rate derivatives as of 31 Mar. 2021. We assess interest fixing and debt maturity to be satisfactory and commensurate with the overall risk appetite assessment.

Figure 15. Heba debt maturities, 31 Mar. 2021



Source: company. *Unutilised credit facilities related to outstanding commercial paper.

ADJUSTMENT FACTORS

Adjustment factors are neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

Liquidity

Liquidity assessed as neutral

We assess Heba's liquidity profile as adequate. The company has strong relationships with its banks, as well as SEK 1.8bn in revolving credit facilities and overdraft facilities available, providing additional liquidity support. Since the end of the quarter, the company has issued SEK 350m in bonds and SEK 250m in commercial paper.

We estimate the following primary liquidity sources for the next 12 months as of 31 Mar. 2020, totalling SEK 2.7bn:

- SEK 146m, reflecting 75% of cash and equivalents as of 31 Mar. 2021;
- SEK 350m in senior unsecured bonds issued in May 2021;
- SEK 250m in commercial paper issued in the current quarter;
- SEK 1.64bn in undrawn credit facilities maturing between 2022 and 2025;
- SEK 250m, reflecting the sale of properties in May 2021 and the expected receipt of payments in September 2021; and
- SEK 160m, reflecting 75% of funds from operations through 31 Mar. 2021.

We anticipate liquidity to be used for the following over the next 12 months, totalling SEK 2.7bn:

- SEK 881m in bank debt maturities;
- SEK 825m in outstanding commercial paper;
- SEK 670m in costs of acquisitions and deposits for committed projects;
- SEK 100m in a dividend pay-out for 2020; and
- SEK 300m in planned capital expenditure for refurbishing old apartments.

Environmental, social and governance factors

ESG factors assessed as adequate

Heba's environmental, social and corporate (ESG) governance policies support our view of the company's overall business risk and competitive position. In addition to its financial goals, the company includes measurable customer and employee satisfaction, as well as sustainability goals, in its corporate objectives.

Heba's environmental commitment is focused on reducing the energy consumption of its buildings, as well as environmentally certifying all of its newly constructed buildings. Refurbishing apartments often includes installing geothermal heating, additional insulation, energy-efficient windows and appliances, solar panels and other measures to improve energy efficiency. All of the company's energy usage is monitored in an effort to identify areas for improvement. The company claims to have reduced its properties' energy consumption by 7% on its way to a 2028 target of a 20% reduction. The company's ambition is to be climate neutral by 2045 at the latest, and until it achieves this it contributes to a UN climate compensation programme (compensating 912 tons of CO_2 emissions in 2020). For its new production, Heba targets a silver-level certification from Miljöbyggnad or equivalent.

Heba also assumes social responsibility for its community service facilities and rental apartments. The company conducts surveys of tenants and employees and has established minimum levels of satisfaction in its corporate goals. It also contributes to charity organisations focused on supporting the local community.

Given the demand for rental housing in Stockholm, the company acknowledges the risk of bribes, corruption and illegal property transfers. Heba conducts internal training programmes and has instituted a no-tolerance code of conduct to ensure that its employees understand their ethical responsibilities. NCR's view is that Heba's focus on employee and tenant satisfaction, as well as on sustainable environmental and financial targets, is consistent with the company's long history, stable ownership and long-term approach to corporate culture.

The main ESG issues that could affect our credit rating on Heba are factors that could contribute to loss of revenue, increased operating costs, higher capital expenditure, loss of value of assets, decreased access to funding or loss of operating rights.

Heba is indirectly exposed to the success of Åke Sundvall Byggnads AB through the joint ventures and could be negatively affected should the joint ventures become unsuccessful or delayed. We do, however, view this risk as low due to Åke Sundvall Byggnads AB's track record.

Figure 16. Heba ESG considerations

Issue	Risk	Mitigating efforts	Result
CO_2 emissions	Increased costs due to regulatory and/or taxation changes.	Efforts to increase energy efficiency and reduce CO_2 emissions. Offsetting of CO_2 emissions. Environmental certification of properties.	Scope 1 and 2 emissions decreased by 21% and 3%, respectively, in 2020 compared with 2019. However, the majority of emissions are expected to be Scope 3, which Heba will begin measuring in 2021. Heba environmentally certified 23,378 sqm in 2020 and certifications now account for 13% of the portfolio.
Political risk	Political action affecting residential rental revenues and lowering property values.	Increasing share of community service properties supporting stability and diversifying revenues	11% of revenues from community service properties, with an aim of 20%
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower fossil-fuel dependence.	High focus on certifications and target of net zero carbon emissions by 2045. Certification of properties and green-bond framework.	Issued SEK 1.3bn in green bonds in first issuance, and another SEK 350m a few months later.
Employee relations	Reduced operating efficiency due to loss of key personnel.	Focus on equality and employee satisfaction, together with competitive remuneration.	Listed on Allbright green list on equality for 2020, indicating a high level of equality in senior positions. Low turnover reported, at approximately 6%.

Source: company.

OWNERSHIP ANALYSIS

Ownership assessed as adequate

We view Heba's ownership structure as supportive of the company's long-term, low-risk strategy and solid financial position, which we factor into our assessment via the financial risk profile and overall rating on the company. The majority of voting rights are held by, or associated with, descendants of Heba's founders, which suggests they have a long-term financial commitment to the company. SBB i Norden AB purchased more than 20% of capital in March 2021, making it the largest shareholder. We do not expect any strategic move to acquire the company as a whole, but note that SBB has a history of acquiring real-estate companies, both listed and unlisted. Our assessment of Heba's risk appetite reflects the current ownership's historically prudent approach to real-estate management and we note that a significant change in ownership structure could affect our rating.

As a testament to the stability of the company, it has not been necessary for the owners to inject capital for decades and paid-in capital has remained constant since the company began IFRS reporting in 2005.

Figure 17. Heba ownership structure, 31 Mar. 2021

Owner	Share of capital (%)	Share of votes (%)
SBB i Norden AB	20.6	11.0
Birgitta Maria Härnblad	12.4	19.6
Charlotte Ericsson	6.4	9.1
Christina Holmbergh	5.9	8.5
Anders Eriksson	5.5	8.3
Ulf Ericsson	3.9	2.1
Margaretha Sundström	3.5	7.4
Didner & Gerge cos.	3.5	1.9
Spiltan Funds AB	2.3	1.2
Johan Vogel	2.2	2.9
Top 10 owners	**66.2**	**72.0**
Other	33.8	28.0

Source: company.

ISSUE RATINGS

Heba is financed primarily by secured bank loans, senior unsecured bonds and commercial paper. The company has an express commitment to reduce the share of secured debt to below 50% of outstanding debt by year-end 2021. Our rating on the senior unsecured debt issued under Heba's SEK 2bn MTN programme is the same as the issuer rating. Should the announced plan of reducing secured debt change or be delayed, we could lower the issue rating by one notch.

Figure 18. Heba key financial data, 2017–Q1 2021

SEKm	FY	FY	FY	FY	LTM
Period-end	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Mar. 2021
INCOME STATEMENT					
Rental income	335	380	388	394	405
Other income	–	–	–	–	–
Total costs from operations	-120	-130	-127	-120	-124
Net operating income	**215**	**250**	**261**	**274**	**281**
Administrative expenses	-28	-30	-29	-34	-34
Administrative expenses, project portfolio	–	–	–	–	–
EBITDA	**187**	**221**	**232**	**240**	**247**
Share of profit in associated companies and joint ventures	–	–	–	–	0
Interest expenses	-51	-55	-49	-52	-55
Interest income	1	1	1	4	7
Interest expenses, shareholder loans	–	–	–	–	–
Financial costs from leasing	–	–	-6	-5	-5
Other financial costs	1	2	–	–	–
Changes in investment property	319	557	624	744	758
Gain (loss) on financial assets held at fair value	14	-1	-22	-21	28
Depreciation and amortisation	–	–	–	–	–
Restructuring activities	–	–	–	–	–
Pre-tax profit	**471**	**724**	**781**	**910**	**980**
Current taxes	–	–	-1	–	0
Deferred taxes	-103	-71	-55	-192	-209
Net profit	**368**	**654**	**724**	**718**	**771**
BALANCE SHEET					
Investment property	8,771	9,656	10,135	12,046	12,221
Other non-current assets	6	38	201	510	584
Total non-current assets	**8,777**	**9,693**	**10,337**	**12,556**	**12,805**
Cash and cash equivalents	6	6	25	97	195
Other current assets	21	25	37	122	133
Total current assets	**27**	**31**	**62**	**219**	**327**
Total assets	**8,804**	**9,724**	**10,399**	**12,776**	**13,132**
Total equity	**4,293**	**4,873**	**5,506**	**6,125**	**6,231**
Non-current borrowings	2,472	2,101	1,747	2,294	3,460
Non-current borrowings, shareholder loans	–	–	–	–	–
Deferred tax liabilities	–	–	1,220	1,412	1,438
Other non-current liabilities	1,175	1,201	192	222	192
Total non-current liabilities	**3,648**	**3,302**	**3,158**	**3,928**	**5,090**
Total current liabilities	**863**	**1,549**	**1,735**	**2,723**	**1,811**
Total equity and liabilities	**8,804**	**9,724**	**10,399**	**12,776**	**13,133**
CASH FLOW STATEMENT					
Pre-tax profit	471	724	781	910	980
... of which changes in investment property	319	557	624	744	758
Depreciation and amortisation	–	–	–	–	–
Tax paid	–	–	–	0	-3
Adjustment for items not in cash flow	-326	-561	-610	-724	-786
Cash flow from operating activities before changes in working capital	**145**	**163**	**170**	**187**	**191**
Changes in working capital	27	7	2	1	-23
Cash flow from operating activities	**173**	**170**	**173**	**188**	**168**
Cash flow from investment activities	**-929**	**-377**	**121**	**-1,273**	**-1,121**
Cash flow from financing activities	**761**	**207**	**-275**	**1,157**	**1,146**
Cash and cash equivalents at beginning of period	2	6	6	25	2
Cash flow for period	4	0	19	72	193
Cash and cash equivalents at end of period	**6**	**6**	**25**	**97**	**195**

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

Figure 19. Heba rating scorecard

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

Figure 20. Capital structure ratings

Seniority	Rating
Senior unsecured	A-

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