

Research Update:

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

September 26, 2024

## Overview

- We forecast that Akademiska Hus AB's S&P Global Ratings-adjusted EBITDA margins will remain very strong on the back of inflation-linked rental contracts that balance increased costs.
- Solid performance supports a robust debt profile despite our forecast of higher capital expenditure (capex) than previously assumed.
- We expect Akademiska Hus AB to remain the largest provider of properties for higher education in Sweden, underpinning the group's credit quality.
- We therefore affirmed our 'AA/A-1+' and 'K-1' ratings on Akademiska Hus and maintained a stable outlook.

## Rating Action

On Sept. 26, 2024, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on Swedish property company Akademiska Hus AB. The outlook is stable.

At the same time, we affirmed our 'K-1' short-term Nordic regional scale rating on the company.

## Outlook

The stable outlook reflects our expectation that Akademiska Hus' financial performance and debt metrics will remain very solid, backed by cost control and rental contracts being linked to consumer price inflation. We also expect that demand for its properties will remain high as the company gradually adapts to its customers' changing needs.

Furthermore, we believe Sweden will remain the sole owner of Akademiska Hus and that the likelihood of extraordinary government support for the company will remain high.

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## Downside scenario

We could consider a negative rating action if Akademiska Hus' management fails to contain cost increases, which result in a pronounced deterioration of its financial metrics. This could also indicate loosening of its financial policies and change our view of its management.

## Upside scenario

Ratings upside would depend on a sustained reduction of the company's debt, all else equal. We could also consider a positive rating action if we consider that the link with the central government of Sweden had strengthened.

## Rationale

We expect Akademiska Hus' stable and predictable rental revenue, along with efficient cost controls from its management, to largely offset inflationary pressure on the cost base. We project the company's S&P Global Ratings-adjusted EBITDA margins to slightly strengthen in 2024-2026 despite being lower than in previous years. We therefore believe Akademiska Hus' financial performance remains a key strength that would support solid debt metrics and robust liquidity.

We consider Akademiska Hus' operations vital for the fulfilment of government policy within higher education, teamed with the company's recognized and dominant position in supplying properties for Sweden's university sector. Therefore, we continue to see a high likelihood of government support for Akademiska Hus if it experienced any financial distress.

We assess Akademiska Hus' enterprise risk and financial risk profiles and the components of its stand-alone credit profile (SACP) by benchmarking against factors we consider in our "Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021.

## Enterprise profile: Supported by continued strong demand for academic study and stable and predictable rental revenue

In our view, Akademiska Hus operates in a low-risk segment of the real estate industry. We base our opinion on continued strong demand for academic study that creates the need for purpose-built university premises and student housing. With approximately 60% market share, the company is set to remain Sweden's largest provider of properties for universities and colleges, with land holdings in and around campus areas. Most of Akademiska Hus' tenants are universities, which in Sweden operate as government agencies. Overall, this leads to stable revenue. Although refurbishment works can increase vacancies, we expect those will remain stable at less than 3% of revenue and at par with the market average.

We regard Akademiska Hus' management as highly skilled and with a strong focus on its niche market of providing properties for higher education. The company is appropriately staffed, in our view, and its management team has extensive experience in the construction and real estate sectors. This, alongside prudent long-term planning and well-established processes for budgeting and monitoring, are key strengths that explain our assessment of the company's management. This is further supported by the company's history of reaching set financial targets, including returns on operating capital, equity ratios, and dividends. Moreover, in line with peers, the company operates with prudent risk management policies, including those related to refinancing

and interest rate risk.

We assess the regulatory framework for Swedish real estate companies with a clear public policy focus as strong (see "Regulatory Framework Assessment: Swedish Public Real Estate Companies Are Supervised Through Their Integration With Owners," published May 25, 2023, on RatingsDirect).

## **Financial profile: Remains strong, underpinned by cost controls and solid rental income**

Akademiska Hus benefits from having very few competitors. It has very well-established partnerships and long-term relationships with its tenants, and a shared focus on delivering purpose-built premises. Also, we expect demand to remain high as the company adapts its existing properties to changes in tenants' requirements and for new purposes. We view this approach as more cost efficient and has the goal of lessening the impact on the environment compared to that when building new properties.

We forecast adjusted EBITDA margins to slightly strengthen in 2024-2026 but remain lower than in previous years. This because of increased rental income from adding new units and a gradual reduction of inflationary pressure on personnel and maintenance costs. We expect the inflation-linked increase in rental contracts will not provide full coverage of these costs in the coming two years, with S&P Global Ratings-adjusted EBITDA margins averaging 64% over that period. However, given the relatively high adjusted EBITDA margin, we assume Akademiska Hus has enough of a buffer before such costs affect its overall financial performance.

We expect that Akademiska Hus' portfolio characteristics will lead to highly predictable revenue from ongoing operations. This is supported by long-term lease agreements with an average remaining term of 5.9 years as of year-end 2023. In addition, the company uses a conservative approach to project management, in our view. New investments typically start after signing a lease contract with the tenant, which further decreases the risk of vacancies after a project's completion.

Although we project that Akademiska Hus' required debt funding will be higher than we previously forecast, we expect its debt metrics would remain solid. As Akademiska Hus delivers on its development plan, we forecast stable but higher and increasing capex through 2026. This, alongside dividends estimated at Swedish krona (SEK) 2.5 billion (about \$250 million) on average per year, will elevate Akademiska Hus' debt through 2026. We expect that solid performance will partly balance high interest rates and increasing debt, resulting in a strengthening of its non-sales adjusted EBITDA-to-interest coverage ratio and a decrease of its debt-to-non-sales adjusted-EBITDA to below 10x through 2026.

We assess Akademiska Hus' liquidity as very strong, with liquidity sources covering uses 1.8x over the next year. The company has strong cash generating capacity that we forecast at SEK5 billion over the coming 12 months, together with SEK5.4 billion in cash and short-term investments, and SEK7.2 billion of bank liquidity facilities available beyond 12 months. In our liquidity calculation, we include uses of SEK10 billion over the same period, among them, capex, maturing debt, dividends, and interest expenses. However, we expect liquidity buffers to reduce as Akademiska Hus progresses with its investment plans.

In addition, we consider that the company has strong access to capital market funding, as we observed during the pandemic when Akademiska Hus had no problems issuing bonds, despite capital market turbulence. Furthermore, we expect Akademiska Hus' owner would postpone dividend payments to prioritize debt repayments should access to capital markets be interrupted.

## Government-related entity: A high likelihood of support adds a one-notch rating uplift

We see a high likelihood that Akademiska Hus would receive timely and sufficient support from Sweden (unsolicited; AAA/Stable/A-1+) if it experienced any financial distress. We base our view on Akademiska Hus' important role in the economy since the company has a recognized and dominant position in supplying Sweden's higher education sector with technically advanced and cost-efficient properties.

With higher education being a top priority for the state, we see Akademiska Hus' operations as vital for the fulfilment of government policy in this area. We also take into account the company's very strong link to the Swedish government, which fully owns Akademiska Hus. We see the government as actively involved in defining Akademiska Hus' strategy and appointing board members, while demonstrating a long-term commitment to the company. We therefore apply a one-notch uplift to our SACP assessment to derive our rating on Akademiska Hus.

## Selected Indicators

Table 1

### Akademiska Hus AB--Financial statistics

(Mil. SEK)	--Year ended Dec. 31--				
	2022a	2023a	2024bc	2025bc	2026bc
Adjusted operating revenue	6,954	7,650	8,028	8,291	8,522
Adjusted EBITDA	4,600	4,832	5,082	5,295	5,474
Nonsales adjusted EBITDA	4,600	4,832	5,082	5,295	5,474
Capital expense	2,168	2,509	2,405	2,490	2,580
Debt	37,481	40,575	42,276	44,746	47,348
Interest expense	682	1,056	1,237	1,288	1,287
Adjusted EBITDA/Adjusted operating revenue (%)	66.1	63.2	63.3	63.9	64.2
Debt/Nonsales adjusted EBITDA (x)	8.1	8.4	8.3	8.5	8.6
Nonsales adjusted EBITDA/interest coverage(x)	6.7	4.6	4.1	4.1	4.3

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

## Ratings Score Snapshot

Table 2

### Akademiska Hus AB--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	3

Table 2

**Akademiska Hus AB--Ratings Score Snapshot (cont.)**

	Assessment
Management and governance	2
Financial risk profile	2
Financial performance	1
Debt profile	2
Liquidity	2
Stand-alone credit profile	aa-
Issuer credit rating	AA

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

**Related Criteria**

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings List**

**Ratings Affirmed**

**Akademiska Hus AB**

Issuer Credit Rating	AA/Stable/A-1+
Nordic Regional Scale	--/--/K-1

**Akademiska Hus AB**

Senior Unsecured	AA
Commercial Paper	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global

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