S&P Global Ratings

RatingsDirect®

Akademiska Hus AB

September 28, 2022

PRIMARY CONTACT

Tobias Hedman
Stockholm
46-0-8-311-5915
tobias.hedman
@spglobal.com

ADDITIONAL CONTACT

Carl Nyrerod
Stockholm
46-84-40-5919
carl.nyrerod
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Enterprise profile	Financial profile
Operates in a low-risk segment of the real estate industry, given continued population growth and strong demand for academic study, which are key strengths.	Prudent financial management is expected to contain the debt build up and manage risks related to increasing interest rates.
--Well-established cooperation with tenants and a conservative approach to project management are key factors in keeping vacancy rates stable at about 2%.	-- Mainly inflation-linked revenue will help maintain adjusted EBITDA margins at a strong level, despite pressures from rising inflation and increasing costs.
--Strong market share of 60% of properties for universities and colleges, with somewhat limited competition, which makes it the natural provider of properties for higher education.	--However, a shortage of construction materials and increasing construction costs could potentially lead to delays in capital projects.
-- The new management team and board of directors should retain the group's robust planning process and we do not expect significant changes in the strategy to provide premises for higher education and research.	-- Liquidity is expected to remain solid, with ample back-up securities including credit facilities, cash, and equivalents.

S&P Global Ratings expects stable and predictable rental revenue to partly offset inflationary pressure on the cost base. Despite an expected decline in adjusted EBITDA margins, in our view, Akademiska Hus AB's financial performance remains a key strength.

We consider Akademiska Hus' operations vital for the fulfillment of government policy, along with its recognized and dominant position in supplying properties for Sweden's higher education sector. Therefore, we maintain our view of a high likelihood of support from the Swedish government, if the company experienced any financial distress.

Outlook

The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain very strong, supported by prudent debt and liquidity management. We also expect that the company will gradually adapt to potential future changes to its customers' needs, supporting stable demand and solid financial performance. Furthermore, we assume that Sweden will remain the sole owner of Akademiska Hus and the likelihood of extraordinary government support for the company will remain high.

Downside scenario

We could consider a negative rating action if Akademiska Hus' link with, or role for, the government of Sweden weakens. We could also consider a negative rating action if we see significant deterioration in financial performance that could impact credit metrics and our assessment of management.

Upside scenario

Ratings upside would depend on positive cash flow after capital expenditure (capex) and dividends, leading to sustained debt repayment. A change in our assessment of the likelihood of support from the government to very high from high could also result in a higher rating, all else being equal.

Rationale

In our view, Akademiska Hus operates in a low-risk segment of the real estate industry. This is given continued population growth and strong demand for academic study, which create the need for purpose-built university premises and student housing. With a 60% market share, the company is by far Sweden's largest provider of properties for universities and colleges, with land holdings in and around campus areas. This makes it the natural provider of properties on campus. Most tenants are universities, which in Sweden are operated as government agencies. Overall, this leads to stable operations and we expect that vacancies will remain stable and at par with the market average.

Akademiska Hus recently appointed a new CEO, followed by a new CFO and changes in the board of directors. However, we don’t expect this new management to lead to any material shift in strategy, given the long-term nature and importance of Akademiska Hus’ mission to provide properties for higher education, together with oversight from the Swedish government as its owner. Furthermore, the new management team have extensive previous experience in the construction and real estate sector. As such, we view them as very competent, which, together with the company's prudent long-term planning and well-established processes and procedures for budgeting and follow-up, are key strengths in our management assessment. This is also evidenced by the company's history of reaching set financial targets, including return on operating capital, equity ratio, and dividends. Moreover, in line with peers, management has prudent policies regarding risk management, including refinancing risk 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: Government-Owned, Public Policy-Focused Real Estate Companies In Sweden,” published Sept. 23, 2021, on RatingsDirect).

According to our "General Criteria: Principles Of Credit Ratings," published Feb. 16, 2011, 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 "Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021.

We see a high likelihood that Akademiska Hus would receive timely and sufficient support from its owner, Sweden (unsolicited; AAA/Stable/A-1+), if it experienced any financial distress. This results in a rating that is one notch higher than the SACP. We base our view of the likelihood of support 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 fulfillment 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 expect continued structurally high demand for university properties and Akademiska Hus also benefits from having very few competitors. It has very well-established cooperation and long-term relationships with its tenants, focused on delivering purpose-built premises. The company is also in ongoing dialogue with tenants and, in view of shifting demand, working with them to adapt existing properties for new purposes. This approach is more cost-efficient and lessens the impact on the environment compared with building new properties.

The average remaining term of Akademiska Hus' lease contract portfolio is six years. In addition, the company applies a conservative approach to project management. New investments typically start after signing a lease contract with the tenant, which further decreases risk of vacancies after completion. We expect that these portfolio characteristics will lead to highly predictable revenue from ongoing operations. We consider that cost pressures stemming from higher inflation, including increasing maintenance, energy, and construction costs, will pressure Akademiska Hus' financial performance, with adjusted EBITDA margins forecast to edge down to less than 67% through 2024 from close to 69% in 2021. However, given the relatively high adjusted EBITDA margin, it is our view that Akademiska Hus has enough of a buffer before the financial performance assessment weakens.

We expect increasing construction costs and construction materials shortages might lead to some delays in capex, which we forecast will peak in 2023 and slow thereafter. With an average of about Swedish krona (SEK) 2.5 billion in capex per year through 2022-2024 (up from SEK2.4 billion in 2021) and dividends estimated at 70% of net profit, more loan funding will be required through our forecast. Therefore, we expect Akademiska Hus' debt to reach SEK40 billion in 2024 from SEK36 billion in 2021. Despite rising interest rates and this higher debt, we consider Akademiska Hus to have experienced and proactive debt management, with a conservative maturity profile and well-managed handling of currency- and interest-rate risk.

Liquidity

We assess Akademiska Hus' liquidity as very strong, with liquidity sources covering uses 1.3x over the next year. The company has strong cash generating capacity that we forecast at SEK4.5 billion over the coming 12 months, together with SEK6.5 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 SEK14 billion over the same period, among them, capex, maturing debt, dividends, and interest expenses.

In addition, we consider that the company has strong access to capital market funding, evidenced during the start of the COVID-19 pandemic when Akademiska Hus had no problems issuing bonds, despite capital market turbulence. Akademiska Hus also benefits from a buffer in that we expect its owner to postpone dividend payments to enable the company to prioritize debt repayments should the capital markets become unavailable.

Environmental, Social, And Governance

We think that Akademiska Hus' performance on ESG indicators is broadly in line with that of sector peers. We consider social risks to be limited for Akademiska Hus, given its core business of providing properties for higher education, research, and innovation. During the COVID-19 pandemic, rental revenue was barely affected given the long-term nature of contracts.

In terms of environmental factors, Akademiska Hus recently established a new climate strategy with the main target of being carbon neutral by 2035. To achieve this, the company has shifted its focus to rebuild and maintain existing properties rather than construct completely new buildings, with an emphasis on improving cost and energy efficiency and transparency. We consider this approach to be largely in line with that of peers.

We also have a neutral view on Akademiska Hus' governance and financial policies and consider them in line with most of its peers'.

Key Statistics

Akademiska Hus AB--Key Statistics					
Year ended Dec. 31					

Mil. SEK	2020	2021	2022bc	2023bc	2024bc
Number of units owned or managed	-	-	-	-	-
Adjusted operating revenue	6,418.5	6,678.7	6,745.5	6,846.7	6,983.6
Adjusted EBITDA	4,385.7	4,586.7	4,512.1	4,530.0	4,572.5
Nonsales adjusted EBITDA	4,385.7	4,586.7	4,512.1	4,530.0	4,572.5
Capital expense	2,795	2425	2,496	2,520	2114
Debt	37,091	36,220	37,220	38,695	39,795
Interest expense	429	404	515	538	566
Adjusted EBITDA/Adjusted operating revenue (%)	68.3	68.7	66.9	66.2	65.5
Debt/Nonsales adjusted EBITDA (x)	8.5	7.9	8.2	8.5	8.7
Nonsales adjusted EBITDA/interest coverage(x)	10.2	11.4	8.8	8.4	8.1
a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N.A.--Not available. SEK--Swedish krona.					

Rating Component Scores

Akademiska Hus AB Ratings Score Snapshot	
Factor	**Assessment**
Enterprise risk profile	2
Industry risk	2
Regulatory framework	3
Market dependencies	3
Management and Governance	2
Financial risk profile	2
Financial performance	1
Debt profile	2
Liquidity	2
S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Regulatory Framework Assessment: Government-Owned, Public Policy-Focused Real Estate Companies In Sweden, Sept. 23, 2021

Ratings Detail (as of September 28, 2022)*

Akademiska Hus AB		
Issuer Credit Rating		AA/Stable/A-1+
Nordic Regional Scale		--/--/K-1
Commercial Paper		A-1+
Senior Unsecured		AA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
04-Oct-1996		AA/Stable/A-1+
31-Dec-1998	*Nordic Regional Scale*	--/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.