

Research Update:

Akademiska Hus AB 'AA/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

September 28, 2023

Overview

- Inflation will benefit Akademiska Hus AB's revenue, helping to maintain very strong S&P Global Ratings-adjusted EBITDA margins, despite some contraction due to increasing costs as well as inflationary pressures on expenditures.
- Akademiska Hus continues to be the natural provider of properties for higher education, underpinning the group's credit quality, and is evidenced by their strong market share of 60% of properties for universities and colleges.
- We therefore affirmed our 'AA/A-1+' and 'K-1' ratings on Akademiska Hus.
- The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain very strong, underpinned by continued prudent debt and liquidity management.

Rating Action

On Sept. 28, 2023, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit rating on Swedish property company Akademiska Hus AB. The outlook is stable. At the same time, we affirmed our 'K-1' Nordic regional scale rating on the company.

We also affirmed the issue ratings on the company's senior unsecured debt.

Outlook

The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain very strong, on the back of prudent debt and liquidity management. We also expect that the company will gradually adapt to any changes in its customers' needs, supporting stable demand and solid financial performance. Furthermore, we assume that 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 we see a pronounced deterioration in Akademiska Hus' financial metrics, such as one triggered by a substantial further increase in interest rates. We could also consider a negative rating action if we observe management loosen the financial policy such that there's a material increase in leverage.

Upside scenario

Ratings upside would depend on positive cash flow after capital expenditure (capex) and dividends, leading to sustained debt repayment. 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 will see stable and predictable rental revenue that partly offsets inflationary pressure on the cost base. Despite our projection of a decline in S&P Global Ratings-adjusted EBITDA margins, we think that Akademiska Hus financial performance remains a key strength. 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 support from the Swedish government, if Akademiska Hus experienced any financial distress.

Enterprise profile: Low industry risk, supported by continued population growth and strong demand for academic study, remains a key strength

In our view, Akademiska Hus operates in a low-risk segment of the real estate industry. We base our opinion on continued population growth and a strong demand for academic study that create the need for purpose-built university premises and student housing. With approximately 60% market share, the company is by far Sweden's largest provider of properties for universities and colleges, and it has land holdings in and around campus areas. This makes Akademiska Hus 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 below 3% of revenues and at par with the market average.

Akademiska Hus' management is highly skilled, in our view, with a strong focus on its niche market of providing properties for higher education. The company is appropriately staffed, and the management team has extensive experience in the construction and real estate sectors. As such, we view them as very competent, which, alongside 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. These strengths are also evident in the company's history of reaching set financial targets, including return on operating capital, equity ratio, and dividends. Moreover, in line with peers, management applies prudent risk management policies, including those related to refinancing and interest rates.

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).

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.

Financial profile: Rental income and, alongside low vacancy rates, should support strong operating cash flow

In addition to our expectation of support from continued structurally high demand for university properties, Akademiska Hus benefits from having very few competitors. It has very well-established cooperation and long-term relationships with its tenants, and a shared focused on delivering purpose-built premises. Also, the company is working with tenants to adapt existing properties to shifts in demand and for new purposes. This approach is more cost-efficient and lessens the impact on the environment compared with building new properties.

We expect that Akademiska Hus' portfolio characteristics will lead to highly predictable revenue from ongoing operations. The average remaining term of Akademiska Hus' lease contract portfolio is 5.7 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. That said, we consider that cost pressures from higher inflation, including increasing maintenance, and construction costs, will constrain Akademiska Hus' financial performance, with S&P Global Ratings-adjusted EBITDA margins forecast to inch below 64% through 2025 from close to 71% in 2022. However, given the relatively high adjusted EBITDA margin, we assume Akademiska Hus has enough of a buffer before we see a weakening in its financial performance.

We forecast stable capex through 2025, but we expect increasing construction costs and shortages of construction materials may delay some expenditures. With an average of about Swedish krona (SEK) 2 billion in capex per year through 2023-2025, similar to the 2022 level, alongside dividends estimated at SEK2.6 billion on average, more loan funding will be required over the coming two years. We project Akademiska Hus' debt will reach SEK43 billion in 2025 from SEK37.4 billion in 2022. Despite rising interest rates and this higher debt, we expect debt-to-non-sales adjusted-EBITDA will remain below 10X in 2025, and the non-sales adjusted EBITA-to-interest coverage ratio will remain above 3X in 2025.

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 SEK4.9 billion over the coming 12 months, together with SEK7.1 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 SEK10.8 billion over the same period, among them, capex, maturing debt, dividends, and interest expenses. We expect the ratio to lower somewhat as cash levels are currently high.

In addition, we consider that the company has strong access to capital market funding, as we observed during the Lehman crisis or start of the COVID-19 pandemic when Akademiska Hus had no problems issuing bonds, despite capital market turbulence. Furthermore, we expect Akademiska Hus' owner would postpone dividends to prioritize debt repayments should the capital markets become unavailable.

Government-related entity analysis

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 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 therefore apply a one-notch uplift to our SACP assessment to derive our rating on Akademiska Hus.

Selected Indicators

Table 1

Akademiska Hus--Selected Indicators

Mil. SEK	2021a	2022a	2023bc	2024bc	2025bc
Adjusted operating revenue	6,678.7	6,953.7	7,443.8	7,811.8	7,993.0
Adjusted EBITDA	4,503.9	4,599.7	4,725.8	5,004.1	5,071.2
Non-sales adjusted EBITDA	4,503.9	4,599.7	4,725.8	5,004.1	5,071.2
Capital expense	2,424.9	2,151.9	2,033.0	2,060.0	2,005.0
Debt	36,219.7	37,481.5	39,535.5	41,435.5	43,135.5
Interest expense	404.1	682.3	1,234.7	1,344.6	1,466.0
Adjusted EBITDA/Adjusted operating revenue (%)	0.7	0.7	0.6	0.6	0.6
Debt/Non-sales adjusted EBITDA (x)	8.0	8.1	8.4	8.3	8.5
Non-sales adjusted EBITDA/interest coverage(x)*	11.1	6.7	3.8	3.7	3.5

*Non-sales adjusted EBITDA/interest coverage figures include, in the denominator, interest expenditures that are not netted by interest revenues.

Ratings Score Snapshot

Table 2

Akademiska Hus AB--Ratings Score Snapshot

Enterprise Risk Profile score	2.4
Industry Risk Score	2
Regulatory Framework Score	3
Market Dependencies Score	3
Management & Governance Score	2
Financial Risk Profile score	1.67

Table 2

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

Financial Performance Score	1
Debt Profile Score	2
Liquidity Score	2

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

- Full Analysis: Sweden, May 1, 2023

Ratings List

Ratings Affirmed

Akademiska Hus AB

Issuer Credit Rating	AA/Stable/A-1+
Nordic Regional Scale	--/--/K-1
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 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/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at 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. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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