FitchRatings

Hemsö Fastighets AB

Final edited draft - Confidential

Key Rating Drivers

Ratings Derivation Summary: Fitch Ratings assesses Hemsö Fastighets AB's (Hemsö) Standalone Credit Profile (SCP) at 'bbb+' by applying its *Public Sector, Revenue-Supported Rating Criteria*. Fitch views Hemsö as a government-related entity (GRE) of Sweden (AAA/Stable) and applies a three-notch uplift from the SCP to reflect possible extraordinary support from the sovereign.

Possible State Support: Fitch assigns a score of 17.5 to Hemsö, according to its *Government-Related Entities Rating Criteria*. We assess Status, Ownership & Control as 'Strong', and the rating factors Support Track Record and Expectations, Socio-Political Implications of Default and Financial Implications of Default as 'Moderate'. The score, combined with a SCP more than four notches below Sweden's sovereign rating, leads to a bottom-up approach and a three-notch uplift from the SCP to the final Issuer Default Rating (IDR).

Revenue Defensibility - 'Stronger': Fitch assesses Hemsö's demand as 'Stronger' and pricing characteristics as 'Midrange' based on high demand for social infrastructure in Sweden. The country is expecting population growth of 10% in 2017-2029 and growth of 58% for people over 80 years old. Hemsö does not follow a policy mission and changes in pricing are not sensitive to demand. Hemsö has long-term lease agreements including annual rent adjustments to reflect increases in the consumer price index.

Operating Risk - 'Stronger': In Fitch's view, Hemsö's operating costs are well identified and are not affected by significant volatility. They have increased consecutively in the past 10 years, but their growth remained below that of properties income. We expect the trend to continue reflecting improving cash flow, inflation-linked contractual agreements and no meaningful increase in the share of staff costs to operating spending.

The increase in Hemsö's expenditure stems from its development and corresponding maintenance costs, which are scheduled to grow more slowly than operating revenue from new items.

Financial Profile – 'Midrange': In our rating-case scenario, we expect Hemsö's leverage ratio (net adjusted debt/EBITDA) to decline to below 12x in 2027 (2022: 17.2x). This considers its investment plan and an increase of debt to SEK51.5 billion (2022: SEK49.9 billion) by 2027, but we assume these investments will improve Hemsö's cash flow and increase its EBITDA.

Its financial profile is supported by its sound liquidity position of SEK526 million at end-2022 and ample access to liquidity and available credit facilities of SEK13.5 billion, which together covered Hemsö's debt maturing in 2023 by 1.5x.

ESG Considerations: ESG issues have a minimal impact on Hemsö's ratings, as reflected in a score of '3'.

Rating Sensitivities

Positive Rating Action: An upgrade of Hemsö's IDRs could result from a strengthening of its SCP, based on net debt/EBITDA declining to 12x. An upgrade could also result from our assessment of an improved strength of linkage or incentive to support under our GRE criteria.

Negative Rating Action: A downgrade of the IDRs could result from a weaker assessment of Hemsö's SCP, with net debt/EBITDA sustained above 15x. A downgrade could also result from an assessment of weaker links or lower incentives to support under our GRE criteria.

Public Finance
Government-Related Entities
Sweden

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile Summary

Hemsö Fastighets AB is one of Sweden's largest providers of social infrastructure, including nursing homes and educational, health care and judicial properties. It operates in Sweden (67% of its property portfolio), Finland (16%) and Germany (17%).

Financial Data Summary

Hemsö Fastighets AB

(SEKbn)	FY22rc	FY27rc
Net adjusted debt/EBITDA (x)	17.2	11.8
EBITDA/gross interest coverage (x)	4.3	3.1
Operating revenue	5,018	5,898
EBITDA	2,912	4,353
Net adjusted debt	49,973	51,547
Total assets	89,448	--

rc: Fitch's rating-case scenario
Source: Fitch Solutions, Fitch Ratings, Hemsö Fastighets AB

Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (September 2021)

Government-Related Entities Rating Criteria (September 2020)

Related Research

Fitch Affirms Sweden at 'AAA'; Outlook Stable (November 2022)

Sweden (December 2022)

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Rating Synopsis

Hemso Fastighets AB Rating Derivation Summary

GRE Key Rating Drivers and Support Score		
Status, Ownership and Control	Strong	5
Support Track Record	Moderate	2.5
Socio-Political Implications of GRE Default	Moderate	5
Financial Implications of GRE Default	Moderate	5
GRE Support Score		17.5
Score - Notching Guideline Table		**15-17.5**

Standalone Credit Profile (SCP) Derivation	
Revenue Defensibility	Stronger
Operating Risk	Stronger
Leverage Ratio (Rating Case Scenario)	12.4
Qualitative Factors Adjustments	Neutral
GRE SCP	bbb+
Distance - Notching Guideline Table	>4

Sponsor IDR	GRE SCP	GRE IDR
AAA	aaa	AAA
AA+	aa+	AA+
AA	aa	AA
AA-	aa-	AA-
A+	a+	A+
A	a	A
A-	a-	A-
BBB+	bbb+	BBB+
BBB	bbb	BBB
BBB-	bbb-	BBB-
BB+	bb+	BB+
BB	bb	BB
BB-	bb-	BB-
B+	b+	B+
B	b	B
B-	b-	B-
CCC/CC/C	ccc/cc/c	CCC/CC/C

Notching Guideline Table

Distance \ Score	>=45	35-42.5	27.5-32.5	20-25	15-17.5	12.5	<=10
= or above	Capped	Capped	Capped	Capped	Capped	Capped	Capped
1,2,3	=	=	=	- 1	+ 1	+ 1	SCP
4	=	- 1	- 1	- 2	+ 1	+ 1	SCP
>4	=	- 1	- 2	- 3	+2/+3	+ 1	SCP

Stylized Notching Guideline Table: refer to GRE criteria for details

Summary	
Sponsor IDR/CO	AAA
GRE SCP	bbb+
Distance Sponsor IDR/CO vs GRE SCP	7
GRE Support Score	17.5
Notching Approach	Bottom up +3
GRE Suggested IDR/CO	A+
Single Equalisation Factor	No
GRE IDR	**A+**

Source: Fitch Ratings

Hemsö's SCP of 'bbb+' is driven by its high leverage, which is mitigated by its sound liquidity position and its stable cash flow based on long-term lease agreements with tenants from the public sector. The combination of the 'bbb+' SCP and our bottom-up approach with a three-notch uplift leads to a Long-Term IDR of 'A+'.

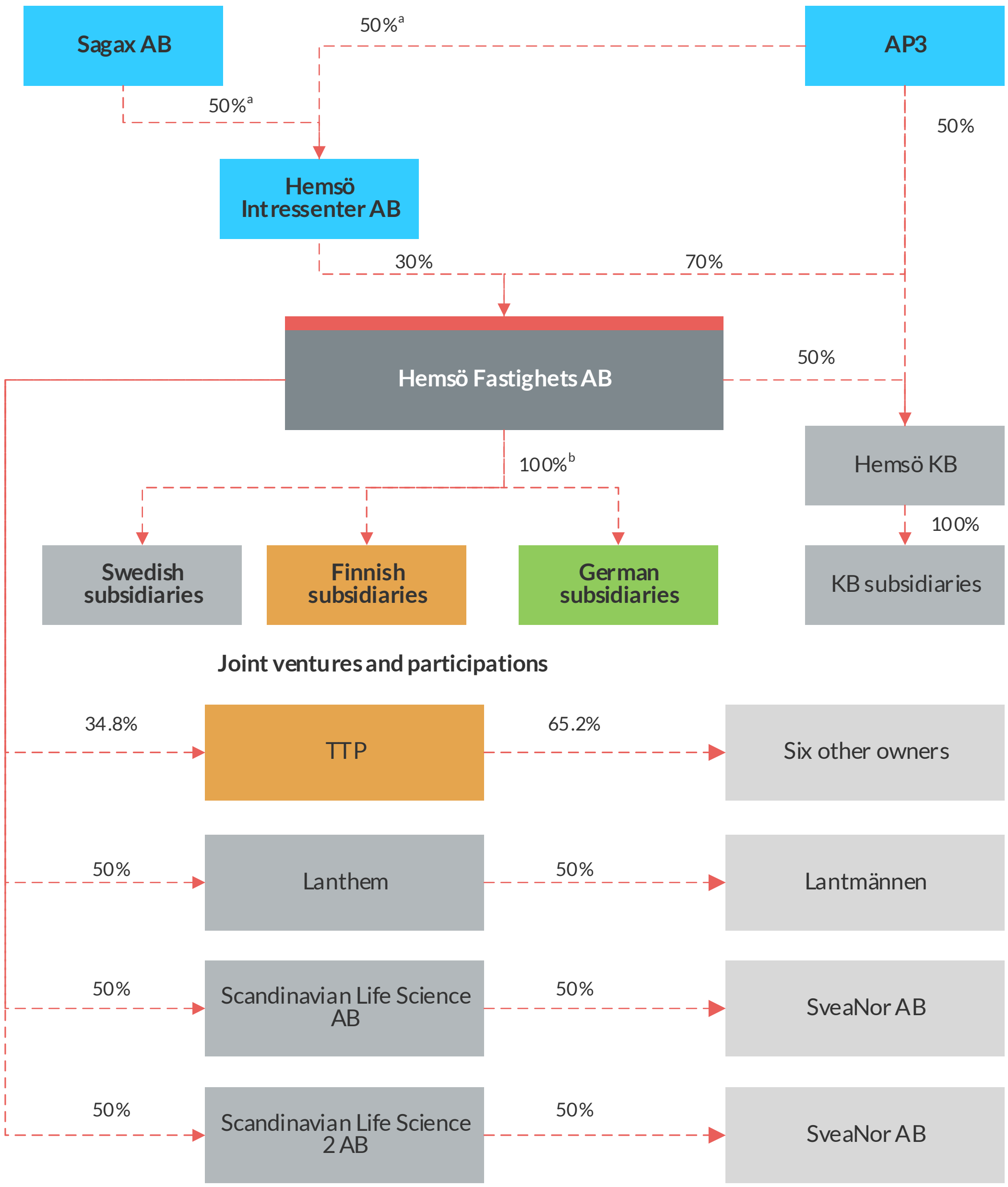
Issuer Profile

Hemsö is one of the largest private owners of public properties in Sweden. Its business is based on sustainably owning, managing and developing public properties for nursing homes, education, health care and the justice system. It began operations in 2001, when it acquired its first properties for public use. Hemsö became an independent company in 2009, equally owned by the Third Swedish National Pension Fund (AP3) and Kungsleden AB. In 2012, AP3 acquired 100% of Hemsö, with 85% direct ownership and a call option for the remaining 15%, owned by AB Sagax. However, AP3 currently prefers to retain them as shareholder, as AB Sagax has expertise in commercial properties in Hemsö's home region.

Hemsö is the leading Swedish property company for social infrastructure and its aim is to be a long-term property partner for the public sector and municipalities in particular. It owns 480 properties in Sweden, Finland and Germany and the portfolio value amounts to SEK84.9 billion. Hemsö has established long leases with its tenants; direct public tenants account for 61% of its rental income, while tax-financed tenants account for 95% of its rental income. The average term of the leases was 9.6 years in 2022.

Hemsö has a close link with its owner, AP3, and both are focused on environmental, governance and social sustainability. AP3 manages fund capital, which helps create security and stability in the income pension system (buffer fund). AP3 is a state entity (myndighet) and governed by law. AP3 has stated that the social infrastructure profile is well suited to it and that Hemsö, with long leases and stable tenancies, is a core subsidiary with high probability of shareholders' support and AP3's largest single investment.

Hemsö – Organisational Chart



[a] AP3 has a call option to acquire Sagax's stake in Hemsö Intressenter AB, i.e. controlling 100% of the shares in Hemsö Fastighets AB.
[b] All properties are owned by subsidiaries. The subsidiaries are listed in the annual report
Source: Fitch Ratings; Hemsö

Support Rating Factors

Hemsö Fastighets AB - Assessment of Support

Status, ownership, and control	Support track record	Socio-political implications of default	Financial implications of default	GRE score
Strong	Moderate	Moderate	Moderate	17.5

Source: Fitch Ratings

Status, Ownership and Control: Strong

Hemsö is a commercial law company exposed to bankruptcy law and there is no automatic liability transfer of its assets and liabilities to its owner in the event of default. The 'Strong' assessment is driven by the tight control and monitoring by AP3, which appoints its board, and sets and approves Hemsö's long-term business strategy.

The members of AP3's board are appointed by the government and are required to report at least annually to it, which in turn reports to parliament.

AP3 is supervised by the Swedish Financial Supervisory Authority (Finansinspektionen) and in Fitch's view, the Swedish government has significant control over the fund via the appointed board members. AP3 has access to liquidity at the National Debt Office, which manages Sweden's debt. Fitch views AP3 as ultimately strongly linked to the state, also considering the important public mission the fund provides.

Support Track Record: Moderate

AP3 views Hemsö as a strategic investment, which pays dividends to its owner (2022: SEK1,072 million). Hemsö is not reliant on operational grants and subsidies. However, we see tangible signs of support granted by AP3 in the form of a multi-annual committed credit facility of SEK6 billion, strengthening Hemsö's liquidity profile. This is based on a subscription agreement and AP3 is committed to buy up to SEK6 billion of commercial paper (CP) out of Hemsö's SEK8 billion CP programme, should Hemsö face difficulties placing it in the capital markets.

Direct financial support has been granted through capital injections to support Hemsö's business growth, reflected in SEK3 billion contributions in 2019-2021. Considering the record of past equity injections, Fitch expects additional capital would be provided if needed. There are no restrictions on support. AP3 may buy Hemsö's bonds or grant loans to it, but it is not allowed to guarantee Hemsö's debt. Our 'Moderate' assessment reflects our interpretation of these capital injections as investments in Hemsö's business development and not as tangible signs of support. It also factors in the liberalised market environment and Hemsö's international footprint, which would likely limit the flexibility of the government to provide support in certain scenarios (notably due to restrictions, such as state aid regulation).

Socio-Political Implications of Default: Moderate

Hemsö operates in an important and growing market, driven by Sweden's growing population and the government's obligation to provide sufficient social infrastructure. In Fitch's view, a default of Hemsö would be politically very sensitive and create a large loss for AP3, while Hemsö's activities could be gradually taken over by other private or public operators. We deem a financial default would have limited impact on its operations.

Financial Implications of Default: Moderate

Hemsö benefits from a strong and sustained presence in the financial markets as a frequent issuer of local- and foreign-currency bonds and loans, having established a EUR6 billion EMTN programme and a SEK8 billion CP programme. Given its commercial law status and non-policy-role, Hemsö's links to the public sector are based on AP3's ownership.

We do not view Hemsö as a government proxy-funding vehicle and its debt is marginal in the context of the central government's debt (AP3 is debt-free). A default of Hemsö would have only a moderate impact on the availability and cost of funding for the public sector and other Swedish GREs.

Standalone Credit Profile Assessment

Hemsö Fastighets AB - Assessment of SCP

Revenue defensibility	Operating risk	Reference leverage ratio (x)	Liquidity profile assessment	Asymmetric risks	Counterparty risk	SCP
Stronger	Stronger	12.4	Neutral	Neutral	No	bbb+

Source: Fitch Ratings

Hemsö's SCP is 'bbb+', which reflects a 'Stronger' assessment of Revenue Defensibility and Operating Risk and a 'Midrange' assessment of its financial profile, based on its leverage ratio (net adjusted debt/EBITDA), which is envisaged to decline to below 12x according to Fitch's medium-term rating-case scenario from 17.2x in 2022.

Revenue Breakdown (Excluding Non-Cash Items), 2022

	(SEKbn)	% of operating revenue
Rental income	4,073	98
Other operating revenue	70	2
Operating revenue	**4,143**	**100**
Interest revenue	6	-
Capital revenue	448	-
Memo: non-cash operating revenue	875	-

Source: Fitch Solutions, Fitch Ratings, Hemsö Fastighets AB

Expenditure Breakdown (Excluding Non-Cash Items), 2022

	(SEKbn)	% of operating expenditure
Staff costs	183	15
Operating costs	734	60
Maintenance costs	242	20
Other operating expenditure	72	5
Operating expenditure	**1,231**	**100**
Interest expenditure	673	-
Capital expenditure	6,894	-
Memo: Non-cash operating expenditure	17	-

Source: Fitch Solutions, Fitch Ratings, Hemsö Fastighets AB

Revenue Defensibility: Stronger

Demand Assessed as 'Stronger'

Fitch assesses Hemsö's demand characteristics as 'Stronger' based on high demand for social infrastructure in Sweden. Its property portfolio consists of nursing homes (38% of the value of its property portfolio), educational buildings (36%), healthcare properties (15%) and properties belonging to the justice system (11%), such as police stations. Given its core market of nursing homes and education, together accounting for 74% of its properties, Hemsö can rely on strong demand from Sweden's expected population growth of 10% in 2017-2029 and 58% increase in people aged over 80.

In Finland and Germany, where Hemsö also has properties, the proportion and the number of elderly people is also expected to increase. We assume vacancy risk is not material, considering high demand for properties managed by Hemsö.

Hemsö has an established relationship with the public sector, which contributes positively to its demand. This is reflected in a large and increasing share of its rental revenue coming from public tenants (2022: 61%) with long-term leases, and highly rated counterparties. In 2022, 95% of rental income was directly or indirectly backed by public tenants (tax-financed). This supports revenue sustainability and strengthens its business profile.

The company has exposure to significant private rental income, but this is mitigated by undersupply in the market and the obligation of Swedish municipalities to provide social infrastructure services. If a private provider stops operating, Fitch believes the public sector would probably step in to meet this obligation. As Hemsö has identified social infrastructure as a growth area, driven by population growth and undersupply, we assume the share of rent from private tenants will continue to decline.

Hemsö is divesting its non-core properties, which should keep its vacancy rate below 2%. It increased its average lease duration to 9.6 years in 2022 from eight years in 2016, supporting cash flow predictability.

We have assumed moderate stress in our rating case. We expect public-sector tenants (including municipalities, counties and the central government in Sweden), which generated 61% of revenue in 2022, to maintain their contractual agreements and demand to remain high.

Following an intense financial year in 2022, including SEK2,867 million of acquisitions and SEK3,809 million of project development, Hemsö assumes a gradual improvement of its EBITDA, supporting its leverage and supported by long-term leases, high occupancy rate of 97.9% in 2022 and high demand for its properties.

Pricing Assessed at 'Midrange'

Fitch views the pricing characteristics of Hemsö's properties as 'Midrange', as we believe it will be able to collect sufficient revenue to cover at least inflationary increases. Based on the past 10 years of performance, property income has consistently covered property costs by more than 3x, and specifically 3.8x in 2022. To ensure stable inflation-adjusted income, Hemsö aims to expand its long-term lease agreements. The average lease was 9.6 years at end-2022 and lease agreements for new construction are between 15 and 25 years. The agreements include annual rent adjustments to reflect increases in the consumer price index.

Operating Risk: Stronger

Operating Cost and Resource Management Assessed at 'Stronger'

In our view, Hemsö's operating costs are well identified and not affected by significant volatility. They have increased consecutively in the past 10 years, but growth remained below that of its property income.

Hemsö's EBITDA increased to SEK2,912 million in 2022 from SEK899 million in 2010. We expect the trend to continue, reflecting improving cash flow, inflation-linked contractual agreements and no meaningful increase in the share of staff costs in operating spending. The rise in Hemsö's expenditure stems from its development and corresponding maintenance costs, which are scheduled to grow more slowly than operating revenue from new projects.

Following large investments in 2018-2022, averaging SEK7 billion annually, Hemsö estimates total capex of SEK7.9 billion in 2023-2027 (average SEK1,572 million), resulting in a gradual improvement of its EBITDA and its leverage ratio. Given the high demand, Hemsö prefers to be an opportunistic investor and decide to invest more than scheduled. However, we believe Hemsö would always have flexibility in timing of major costs and is able to postpone scheduled investments in case of need.

Property costs are mainly derived from operating costs related to heating, electricity, maintenance, property tax and leasehold fees. We assume this risk is mitigated by Hemsö's expertise and prudent management and its improving building standards.

Capital Planning Assessed as 'Neutral'

We consider capital planning and management as 'Neutral'. Hemsö is an established and frequent issuer on the capital markets via its EMTN and CP programmes. Debt management is prudent and forward-looking and the debt structure has no concentration, interest-rate or foreign-exchange risk. Hemsö has a good record of low-risk project development. This is due to standardised construction, investment amounts usually between SEK150 million and SEK200 million, typically 100% pre-let prior to construction start, and long leases between 15 and 25 years. It is also due to Hemsö's core business.

As property value relies on yield, rental income and vacancy, properties towards social infrastructure show lower volatility in value during their lifetime. Increasing yields are the main property risk for social infrastructure and this has no direct impact on cash flow, according to the issuer.

Financial Profile: 'Midrange'

We expect Hemsö's net adjusted debt to increase to SEK53.7 billion (2022: SEK50.5 billion) by 2025, when it will start to decline to SEK51.5 billion by 2027. This assumes a significant decline of investments in 2023-2027, with an average SEK1,572 million annually compared to SEK7 billion in 2018-2022. This due to the issuer's plan to focus on finalising current project development and very selectively reviewing potential acquisitions or picking up opportunistic investments , as the yield expansion in 2022 and 2023 has negatively affected the capital structure.

Hemsö's financial flexibility is likely to increase in our rating case, as the large amount of project completions in 2022 will contribute positively to its cash flow. According to Fitch's rating case, the leverage ratio will gradually improve to 11.8x in 2027 from 17.2x in 2022 and the issuer expects its LTV ratio to decline to below 50% (2022: 56.7%). We have taken the average of the past three years of our rating case as the reference leverage ratio (12.4x) to balance out some uncertainties over a five-year period, and have leeway in case Hemsö makes unplanned investments.

Hemsö's financial profile is supported by SEK526 million in sound liquidity of at end-2022 and it has ample access to liquidity. It also has access to SEK13.5 billion of committed credit lines, of which a large proportion is committed over several years by strong counterparties, adding to available liquidity of SEK14 billion at end-2022, which covers Hemsö's debt maturing in 2023 by 1.5x.

Fitch's Base and Rating Cases Main Assumptions

Fitch's Base and Rating Cases - Main Assumptions and Outcomes

Assumptions	5-Year Historical Average	2023 - 2027 Average Base Case	2023 - 2027 Average Rating Case
Operating revenue growth (%)	3.1	7.5	7.3
Transfers from public sector growth (%)	-	-	-
Operating expenditure growth (%)	8.3	4.4	4.7
Net capital expenditure (average per year; SEKbn)	-6,062	-1,569	-1,569
Apparent cost of debt, 2022 (%)	1.4	2.5	2.5

Outcomes	2022	2027 Base Case	2027 Rating Case
EBITDA (SEKbn)	2,912	4,426	4,353
CFADS (SEKbn)	2,912	4,426	4,353
Net adjusted debt (SEKbn)	49,973	51,207	51,547
Net adjusted debt/EBITDA (x)	17.2	11.6	11.8
Net adjusted debt/CFADS (x)	17.2	11.6	11.8

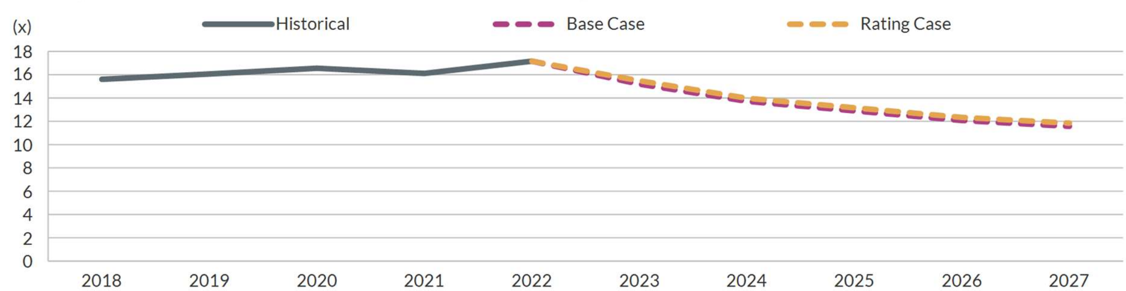
Source: Fitch Solutions, Fitch Ratings, Hemsö Fastighets AB

Fitch's rating-case scenario is based on prudent assumptions. The underlying data and of the base and rating case are Hemsö's actual results for at year-end 2018-2022. The base case is essentially Hemsö's forecast for 2023-2027. Fitch believes Hemsö's assumptions to be prudent, as they consider macroeconomic assumptions largely in line with Fitch forecasts. Fitch's rating case assumes 1% less revenue and higher opex than the base case. The positive development largely reflects additional cash flow from finalised projects and acquisitions in 2022.

The SEK1,569 million average investment scheduled for 2023-2027 is significantly below the average investments of SEK7 billion annually in 2018-2022, reflecting Hemsö's cautious business plan in an uncertain environment including increasing rates. However, higher capex based on opportunistic investments should keep the company's financial profile in line with its current assessment, as Hemsö's leverage is currently at the stronger end of the 'Midrange' assessment (12x).

Hemsö's financial profile is further supported by its sound liquidity position of SEK526 million at end-2022 and ample access to liquidity as well as SEK13.5 billion of committed credit lines, adding available liquidity of SEK14 billion at end-2022, which covers Hemsö's debt maturing in 2023 by 1.5x.

Net Adjusted Debt/EBITDA - Fitch's Base- and Rating-Case Scenarios



Source: Fitch Ratings, Hemso Fastighets AB

Asymmetric Risk and Other Considerations

Asymmetric Risk Considerations

Debt structure and contingent liabilities	Management and governance	Legal and regulatory	Information quality	Country ceiling and legal regime	Liquidity profile assessment	Asymmetric risk and liquidity profile assessment
Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	**Neutral**

Source: Fitch Ratings

We assess all asymmetric risk attributes as 'Neutral'. Hemsö's debt structure is sound and Hemsö can rely on a good funding mix, based on an established EMTN and a SEK8 billion CP programme, of which its owner provides a guarantee to buy SEK5 billion at any time in case of need, ensuring good access to liquidity even in times of challenged market access. The debt repayment is further mitigated by almost 95% of the revenue being tax-based and 61% stemming from public tenants.

Fitch does not consider that Hemsö faces any additional risk that could negatively affect its SCP. Fitch views Hemsö's financial management as prudent, particularly given the regular update of its multi-year financial plan and the entirely hedged foreign-exchange and interest-rate risk.

Debt and Liquidity Analysis

Total adjusted debt reported at end-2022 amounted to SEK49.6 billion and Hemsö's debt structure is sound. At end-2022, 100% of the debt was fixed-rate, the average maturity was 5.4 years and the debt amortisation schedule shows only some concentration in 2026. During 2022, Hemsö increased its credit facilities by SEK1 billion to SEK13.5 billion. SEK6.7 billion was issued under its EMTN programme and SEK, EUR and JPY bonds were issued.

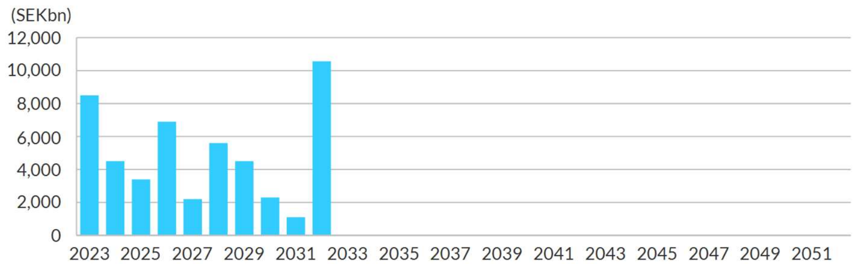
In 2023, Hemsö needs to refinance SEK3.5 billion of maturing debt. This is mitigated by its well-established access to capital markets as well as its ample liquidity position. At end-2022, Hemsö had SEK14 billion of available liquidity (SEK526 million of unrestricted cash and SEK13.5 billion of committed credit facilities), covering its maturing debt by 4x in 2023. According to its own estimates on its liquidity ratio, Hemsö is in line with its policy of 125% (2022: 128%). Including committed credit facilities of SEK13.5 billion, cash of SEK0.5 billion and an EBITDA of SEK3.4 billion, the sources amount to SEK17.5 billion, while its uses are SEK13.4 billion (CP SEK5 billion, maturing debt SEK3.5 billion, developments SEK2.5 billion, financial net SEK1 billion, dividends SEK1.2 billion and acquisitions SEK0.2 billion).

Liquidity Cushion Calculation

(SEKm)	2023rc
Available cash, 2022	526
Unrestricted cash, 2022	526
Liquid investments, 2022	
Undrawn committed credit lines	13,500
EBITDA, 2023rc	3,382
Debt service, 2023rc	9,573
Cash operating expenditure, 2023rc	1,369
Liquidity cushion (x)	5.7

rc: rating-case scenario
Source: Fitch Ratings, Hemsö

Direct Debt Maturity Profile, End-2022



Source: Fitch Ratings, Hemso Fastighets AB

Debt Analysis

	End-2022
Direct debt (SEKbn)	49,567
Debt in foreign currency (% of direct debt)	56.5
Fixed rate (% of direct debt)	100.0
Issued debt (% of direct debt)	100.0
Apparent cost of debt (%)	1.8
Weighted average life of debt (years)	6.3

Source: Fitch Solutions, Fitch Ratings, Hemsö Fastighets AB

Liquidity

(SEKbn)	
Cash and liquidity available for debt service, end-2022(a)	526
Undrawn committed credit lines, end-2022 (b)	13,500
EBITDA, 2023 (c)	3,382
Debt service, 2023 (d)	9,573
Cash operating expenditure, 2023 (e)	1,369
Liquidity cushion, 2023 (x): (a+b+c-d)/e	5.7

Source: Fitch Solutions, Fitch Ratings, Hemsö Fastighets AB

At end-2022, Hemsö reported unrestricted cash of SEK526 million. It has various committed credit lines, totalling SEK13,500 million at end-2022, ensuring a debt-coverage ratio of 165%, while its policy requires a minimum of 125%. Based on the updated rating case for 2023-2027, the liquidity cushion is assessed at 5.7x in 2023. Fitch considers Hemsö's liquidity will remain at the current level and its liquidity cushion to remain sound, as Hemsö can rely on its committed credit lines and it would benefit from additional liquidity support from its owner.

Short-Term Rating Derivation

The Short-Term IDR of 'F1+' is the higher of the possible rating levels, as we assess Revenue Defensibility as 'Stronger'. The minimum coverage ratio is 1.65x ((SEK526 million + SEK13,500 million) / SEK8,500 million) and above the threshold of 1.25x. The Liquidity Profile assessment is 'Neutral' and the Debt Characteristics assessment is 'Neutral'. (The coverage ratio was calculated assuming the entire funding needs for 2023 fall due within 90 days.)

National Ratings

Not applicable

Debt Ratings

The senior unsecured rating of 'A+' provided for Hemsö Treasury OYJ is based on the explicit guarantee provided by Hemsö Fastighets AB to its SPV.

Peer Analysis

Peers

	Sponsor	GRE score	Reference leverage (x)	SCP	IDR	Rating Approach
Hemsö Fastighets AB	Sweden	17.5	12.4	bbb+	A+	Bottom up +3
HOWOGE Wohnungsbaugesellschaft mbH	Germany	22.5	16.4	bbb	AA-	Top-down -3
Clesence	France	15.0	20.0	bbb+	A	Bottom-up +2
Erilia	France	15.0	17.0	bbb+	A	Bottom-up +2
A2 Dominion Housing Group Limited	UK	12.5	12.0	a-	A	Bottom-up +1

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Hemsö Fastighets AB

Hemsö has no direct peer in terms of business profile, as Hemsö is not focussed on residential housing and social housing in particular. However, 61% of its revenue stems from the public sector, as Hemsö is engaged in nursing homes, schools and other educational units and judicial buildings, like police stations. In terms of factors assessment, Hemsö is in the line with large part of our housing portfolio, except for Key Risk Factor 4 (Financial Implications of Default), where it has a 'Moderate' assessment, together with the German peer HOWOGE Wohnungsbaugesellschaft mbH.

Peers in France and UK have a lower assessment, as their overall amount of debt in relation to their sponsors' liabilities is even lower than Hemsö's, as Hemsö faces competition in Sweden, but to a much lesser degree than French and British providers.

In terms of SCP, Hemsö matches its housing peers for revenue defensibility and operating risk, and the financial profile is at the top end of the 'Midrange' assessment. The updated rating case shows a leverage ratio of 12.4x, well below its downgrade trigger of 15x and not yet approaching the upgrade trigger of 12x. The notch-specific 'bbb+' assessment is supported by the entity's strong liquidity cushion and debt coverage.

Criteria Variation

Not applicable

Financial Adjustments

Hemsö receives profit/loss from participations in associated companies and considers the sum as part of its operating income. This includes:

- Profit from property management
- Change in value
- Tax

Fitch has deducted the change in value item and reclassified this amount an operating revenue of non-cash nature. As a result, the EBITDA calculated by Hemsö differs from Fitch's calculation.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Optional section 'ESG Relevance Score Text' has been hidden. It can be displayed and enabled for authoring by re-enabling it via the side-bar.

Appendix A: Financial Data

Hemsö Fastighets AB					
(SEKbn)	**2018**	**2019**	**2020**	**2021**	**2022**
Income statement					
Operating revenue	4,980	5,123	5,756	11,611	5,018
Operating expenditure	-1,014	-1,002	-1,118	-1,052	-1,248
Interest revenue	54	62	68	44	6.00
Interest expenditure	-422	-481	-569	-530	-673.00
Other non-operating items	7	0	0	0	199
Taxation	-502	-621	-803	-1,886	-593
Profit (loss) after tax	3,103	3,081	3,334	8,187	2,709
Memo: Transfers and grants from public sector					
Balance sheet summary					
Long-term assets	46,511	56,338	63,574	77,967	87,757
Stock					
Trade debtors					
Other current assets	446	619	728	853	1,165
Total cash, liquid investments, sinking funds	450	988	891	687	526
Total assets	47,407	57,945	65,193	79,507	89,448
Long-term liabilities	25,084	32,037	34,234	41,738	48,553
Trade creditors					
Other short-term liabilities	9,123	9,194	10,877	9,419	10,866
Charter capital	13,200	16,714	20,082	28,350	30,029
Reserves and retained earnings					
Minority interests					
Liabilities and equity	47,407	57,945	65,193	79,507	89,448
Debt statement					
Short-term debt	7,994	7,899	9,524	7,600	8,503
Long-term debt	21,734	27,643	29,128	34,898	41,064
Finance leases	0	0	0	0	932
Subordinated debt					
Total debt	29,728	35,542	38,652	42,498	50,499
Unfunded pension liabilities					
Other Fitch-classified debt					
Adjusted debt	29,728	35,542	38,652	42,498	50,499
Unrestricted cash, liquid investments, sinking funds	450	988	891	687	526
Net adjusted debt	29,278	34,554	37,761	41,811	49,973
EBITDA reconciliation					
Operating balance	3,966	4,121	4,638	10,559	3,770
+ Depreciation	61	12	12	15	17
+ Provision and impairments					
+/- Other non-cash operating expenditures/revenues	-2,151	-1,982	-2,369	-7,979	-875
= EBITDA	1,876	2,151	2,281	2,595	2,912

Source: Fitch Ratings, Fitch Solutions, Hemsö Fastighets AB

Appendix B: Financial Ratios

Hemsö Fastighets AB

	2018	2019	2020	2021	2022
Income statement ratios					
Operating revenue growth (annual % change)	15.4	2.9	12.4	101.7	-56.8
Operating expenditure growth (annual % change)	21.2	-1.2	11.6	-5.9	18.6
EBITDA/operating revenue (%)	71.4	70.6	69.3	71.5	70.3
Personnel costs/operating expenditure (%)	18.3	15.1	15.6	15.0	14.9
Total transfers from public sector/operating revenue and ad-hoc transfers (%)					
Balance sheet ratios					
Current assets/adjusted debt (%)	3.0	4.5	4.2	3.6	3.4
Current assets/total assets (%)	1.9	2.8	2.5	1.9	1.9
Total assets/adjusted debt (%)	159.5	163.0	168.7	187.1	177.1
Return on equity (%)	23.5	18.4	16.6	28.9	9.0
Return on assets (%)	6.6	5.3	5.1	10.3	3.0
Debt ratios					
Net adjusted debt/EBITDA (x)	15.6	16.1	16.6	16.1	17.2
EBITDA/gross interest coverage (x)	4.5	4.5	4.0	4.9	4.3
Net adjusted debt/operating revenue (%)	587.9	674.5	656.0	360.1	995.9
Net adjusted debt/equity (%)	221.8	206.7	188.0	147.5	166.4
Debt in foreign currency/total debt (%)					
Debt at floating interest rates/total debt (%)					
Issued debt/total debt (%)					
Liquidity ratios					
Liquidity cushion (x)	7.8	7.6	7.4	5.7	6.4
Coverage ratio (x)	6.4	6.3	6.5	5.4	6.5

Source: Fitch Ratings, Fitch Solutions, Hemsö Fastighets AB

Appendix C: Fitch's Rating Case Scenario

Hemsö Fastighets AB

(SEKbn)	2023rc	2024rc	2025rc	2026rc	2027rc
Cash-adjusted income statement					
Operating revenue	4,751	5,212	5,526	5,772	5,898
Operating revenue growth (annual % change)	14.7	9.7	6.0	4.4	2.2
Operating expenditure	-1,369	-1,381	-1,446	-1,507	-1,545
Operating expenditure growth (annual % change)	11.2	0.9	4.8	4.2	2.5
EBITDA	3,382	3,832	4,080	4,265	4,353
Other funds available for debt service	0	0	0	0	0
CFADS	3,382	3,832	4,080	4,265	4,353
Interest revenue	20	20	20	20	20
Interest expenditure	-1,070	-1,226	-1,319	-1,359	-1,383
Financial balance	-1,050	-1,206	-1,299	-1,339	-1,363
Net capital expenditure	-3,443	-2,500	-1,400	-250	-250
Capital injection and other cash-items	0	0	0	0	0
Dividend paid	-1,155	-1,205	-1,347	-1,427	-1,502
Other cash-items (net)	-130	-140	-150	-160	-170
Net debt movement	1,900	1,200	150	-1,100	-1,100
Change in cash	-496	-19	34	-11	-33
Debt and liquidity					
Adjusted debt	52,399	53,599	53,749	52,649	51,549
Memo: Non-cash movement in adjusted debt	0	0	0	0	0
Unrestricted cash	30	11	45	34	2
Net adjusted debt	52,369	53,588	53,704	52,615	51,547
Financial and liquidity ratios					
Net adjusted debt / EBITDA (x)	15.5	14.0	13.2	12.3	11.8
Net adjusted debt / CFADS (x)	15.5	14.0	13.2	12.3	11.8
EBITDA / gross interest coverage (x)	3.2	3.1	3.1	3.1	3.1
CFADS / gross interest coverage (x)	3.2	3.1	3.1	3.1	3.1
Liquidity cushion (x)	5.7	5.5	-	-	-
Liquidity coverage ratio (x)	5.9	5.6	-	-	-

rc - Fitch's rating-case scenario: a through-the-cycle scenario that incorporates a combination of revenue, cost or financial risk stresses
Source: Fitch Ratings, Fitch Solutions, Hemsö Fastighets AB

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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