

Tear Sheet:

# Jernhusen AB

June 9, 2023

**We anticipate that Jernhusen's S&P Global Ratings-adjusted debt to debt plus equity will rise substantially over the next 12-24 months, due to increased investment capital expenditure (capex), but remain within our 55% downside threshold.** Jernhusen reported S&P Global Ratings-adjusted debt to debt plus equity of 46.1% as of March 31, 2023 (corresponding to a loan-to-value [LTV] ratio of 38.2%), which was broadly unchanged over the past year and versus 45.8 % at Dec 31, 2022. We expect a marked increase to about 50% in 2023 and 54% in 2024, leaving limited headroom below our 55% downside threshold. The higher leverage is mainly driven by the significant ramp up of investment activities, with total capex of approximately Swedish krona (SEK) 3 billion over the next two years, primarily related to new depot investment in Stockholm and urban development in Gothenburg. Although both projects require a sizable investment, they display limited risks due to the tenant type (government-owned and public entities) and their contracted rental income. Furthermore, our assumptions take into consideration potential negative fair value adjustments of 5.0% in 2023 and another 2% in 2024, in line with our expectations for the sector. We recognize that our projected ratios are sensitive to our assumptions on development capex, valuations, and dividends. That said, we understand Jernhusen has some flexibility on development spending and dividends, as well as a track record of maintaining leverage ratios well in line with its financial policy. In addition, we note that yields are already quite elevated (especially for the depot segment at 7%), which should mitigate the effects of higher interest rates on valuations.

**We anticipate that Jernhusen's adjusted EBITDA interest coverage will drop in 2023 and 2024 due to higher refinancing costs but higher cash flow should support a ratio above 3.0x.** Like most rated Nordic peers, Jernhusen has a relatively high exposure to variable interest rates, yet partially mitigated by a high level of hedging (85%). With about 20% of fixed-rate debt maturing over the next year, we expect it will further pressure the average cost of debt over the next 12-24 months (2.0% as of March 31, 2023). We believe this will likely result in a weaker debt-service capacity, albeit partially offset by improving cash flows given most leasing contracts are tied to indexation (like-for-like rental income expanded 12% in first-quarter 2023). In addition, we expect Jernhusen to gradually fill its vacant premises to pre-COVID-19 levels despite higher-than-average vacancies of 6.5% in first-quarter 2023. In our view, S&P Global Ratings-adjusted EBITDA interest coverage will fall to close to 4.5x and 3.6x in 2023 and 2024 compared with 6.1x at March 31, 2023, although we anticipate it will remain above our 3.0x threshold over the next 12-24 months.

**Jernhusen's liquidity and funding positions remain manageable over the next 12-24 months.** We anticipate that liquidity sources will likely cover uses more than 1.2x for the 12 months started April 1, 2023. Jernhusen largely depends on short-term funding, given debt repayments for the next 12 months total SEK3.3 billion, with about SEK1.9 billion related to commercial paper. We understand the company intends to roll over existing maturities because it can still access the financial markets at favorable prices, despite challenging market conditions, unlike most lower-rated real estate companies in the Nordics. Nevertheless, should market conditions

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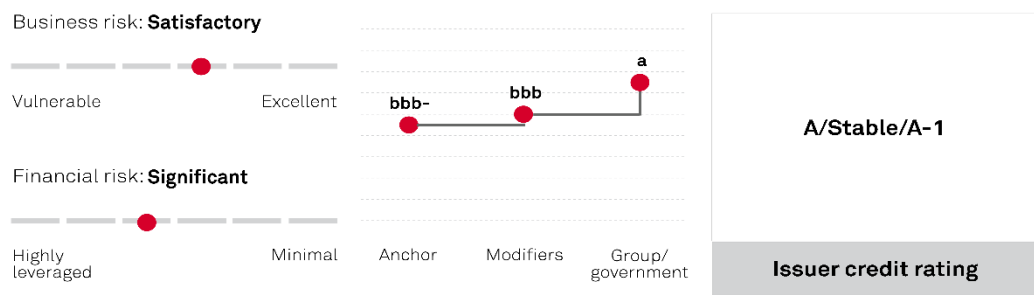
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further deteriorate and liquidity dry up, Jernhusen has SEK1.1 billion of cash and cash equivalents and SEK4.5 billion available under its committed undrawn backup facility as of first-quarter 2023. In our view, this mitigates its average debt maturity of 2.7 years as of first-quarter 2023, which is shorter than those of most other rated peers but bound to increase as Jernhusen issues longer-dated debt to finance its development projects. Furthermore, we think Jernhusen’s ownership structure (100% state owned) and the Swedish government’s track record of supporting the government-related entity sector strongly limit any liquidity risk.

## Ratings Score Snapshot



## Recent Research

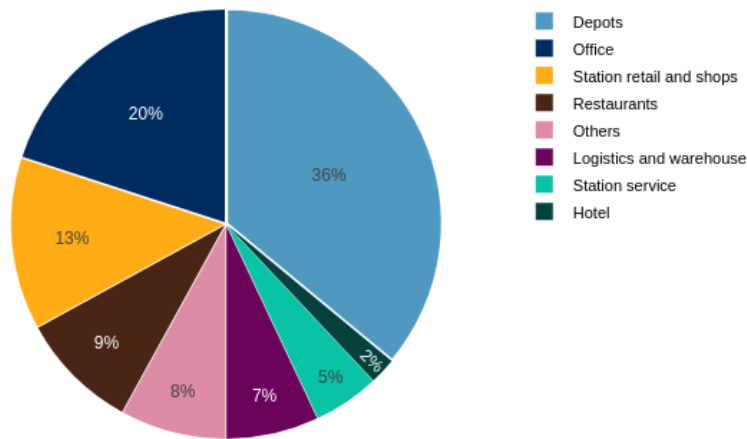
- Industry Top Trends 2023: Real Estate, Jan. 23, 2023
- Jernhusen AB, Sept. 13, 2022

## Company Description

Jernhusen is a niche real estate company focusing on properties related to Sweden's railway system. It owns stations, depots, and cargo terminals, and develops commercial property around central stations. The Swedish government owns 100% of Jernhusen, which was founded in 2001 as a spin-off from the Swedish railway monopoly Statens Järnvägar (SJ). Jernhusen's purpose is to enable more people to travel by rail and thereby contribute to a more environmentally friendly transport system. As of March 31, 2023, its properties were valued at SEK21.2 billion and it had 537,000 square meters of rentable area.

**Share of rental value per segment**

As of Dec. 31, 2022



Source: Company report.

## Outlook

Our stable outlook signifies that we expect Jernhusen's properties will continue to benefit from favorable demand trends for rail travel and the company will remain able to access financial markets to cover its refinancing needs. We expect some deterioration in the credit ratios due to rises in interest rates and pressure on valuations, although they should remain commensurate with the current rating thresholds.

### Downside scenario

We could lower the rating if Jernhusen's operating performance falters due to subdued footfall at railway stations and if tenants renegotiate rent reductions in the current inflationary environment, or if bankruptcies or vacancies increase. We could also lower the rating if Jernhusen's financial risk increases, for example, due to higher yields that lead to a drop in property values and weaker debt to debt plus equity.

Specifically, we could downgrade the company if its:

- S&P Global Ratings-adjusted debt to debt plus equity increases toward 55%;
- Debt to EBITDA increases to above 13x, or its liquidity cushion decreases over the next 12-24 months; or
- Interest coverage ratio falls well below 3x for a prolonged period.

A negative rating action could also stem from a liquidity shortage, for example, due to higher-than-anticipated capex needs or late refinancing of upcoming debt maturities.

In addition, ratings downside could build if we consider that the likelihood of government support for Jernhusen has weakened. This could, for example, result from partial privatization of the company, although we consider this highly unlikely.

## Upside scenario

We could raise the rating if we think Jernhusen's financial risk tolerance has decreased, allowing it to maintain debt to debt plus equity of less than 40% on a sustainable basis. We view this as unlikely in the coming two years given Jernhusen's ambitious investment plan, and our view that this would only follow a shift in the company's financial policy.

## Key Metrics

### Jernhusen AB--Key Metrics\*

Mil. SEK	2021a	2022a	2023e	2024f	2025f
Debt to EBITDA (x)	11.5	10.3	10.5-11.5	12.0-13.0	12.0-13.0
EBITDA interest coverage (x)	5.7	6.6	4.3-4.8	3.5-4.0	3.0-3.5
Debt to debt plus equity (%)	46.5	45.8	50.0-52.0	53.0-55.0	53.0-55.0

\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. SEK--Swedish krona.

## Financial Summary

### Jernhusen AB--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	1,453	1,545	1,622	1,446	1,514	1,639
EBITDA	683	718	793	658	718	880
Funds from operations (FFO)	535	572	658	526	594	760
Interest expense	157	144	141	139	125	134
Operating cash flow (OCF)	682	693	284	715	558	305
Capital expenditure	661	556	480	440	482	833
Dividends paid	178	179	700	219	169	390
Cash and short-term investments	74	233	212	634	1,082	384

**Jernhusen AB--Financial Summary**

Debt	7,340	7,410	8,288	8,225	8,237	9,083
Common equity	7,427	7,680	8,094	8,013	9,477	10,755
Valuation of investment property	16,234	16,944	17,922	17,974	19,574	21,289
<b>Adjusted ratios</b>						
EBITDA margin (%)	47.0	46.5	48.9	45.5	47.4	53.7
EBITDA interest coverage (x)	4.4	5.0	5.6	4.7	5.7	6.6
Debt/EBITDA (x)	10.7	10.3	10.5	12.5	11.5	10.3
Debt/debt and equity (%)	49.7	49.1	50.6	50.7	46.5	45.8

**Peer Comparison****Jernhusen AB--Peer Comparisons**

	Jernhusen AB	Fastighets AB Balder	Citycon Oyj	Willhem AB (publ)
Foreign currency issuer credit rating	A/Stable/A-1	BBB/Negative/--	BBB-/Stable/A-3	A-/Stable/A-2
Local currency issuer credit rating	A/Stable/A-1	BBB/Negative/--	BBB-/Stable/A-3	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	SEK	SEK	SEK	SEK
Revenue	1,639	10,521	2,268	2,664
EBITDA	880	7,426	2,012	1,604
Funds from operations (FFO)	760	4,734	1,127	1,136
Interest	134	2,150	747	516
Cash interest paid	120	2,201	825	466
Operating cash flow (OCF)	305	5,796	886	1,194
Capital expenditure	833	10,880	1,838	1,966
Free operating cash flow (FOCF)	(528)	(5,084)	(952)	(772)
Discretionary cash flow (DCF)	(918)	(5,347)	(2,045)	(1,273)
Cash and short-term investments	384	5,594	699	4,464
Gross available cash	384	5,594	699	4,464
Debt	9,083	131,604	23,746	30,203
Equity	10,755	105,380	21,431	25,574
EBITDA margin (%)	53.7	70.6	88.7	60.2
Return on capital (%)	9.9	3.6	3.8	3.0
EBITDA interest coverage (x)	6.6	3.5	2.7	3.1
FFO cash interest coverage (x)	7.3	3.2	2.4	3.4
Debt/EBITDA (x)	10.3	17.7	11.8	18.8
FFO/debt (%)	8.4	3.6	4.7	3.8

### Jernhusen AB--Peer Comparisons

OCF/debt (%)	3.4	4.4	3.7	4.0
FOCF/debt (%)	(5.8)	(3.9)	(4.0)	(2.6)
DCF/debt (%)	(10.1)	(4.1)	(8.6)	(4.2)

## Environmental, Social, And Governance

### ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Jernhusen. We believe that the company is advanced in term of certification of its buildings. Currently all its train stations and office buildings held long term are classified according to BREEAM or LEED standards, the majority in the 'very good' category. The company aims to reduce the energy consumption of its properties (in kilowatt-hours per square meter) by 50% until 2030 (base year 2008). It is also well advanced in green financing, with 77% of its debt portfolio comprising green bonds as of first-quarter 2023.

### Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>A/Stable/A-1</b>
<b>Local currency issuer credit rating</b>	<b>A/Stable/A-1</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Very Low
Industry risk	Low
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bbb-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
<b>Stand-alone credit profile</b>	<b>bbb</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- 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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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