Jernhusen AB

September 13, 2022

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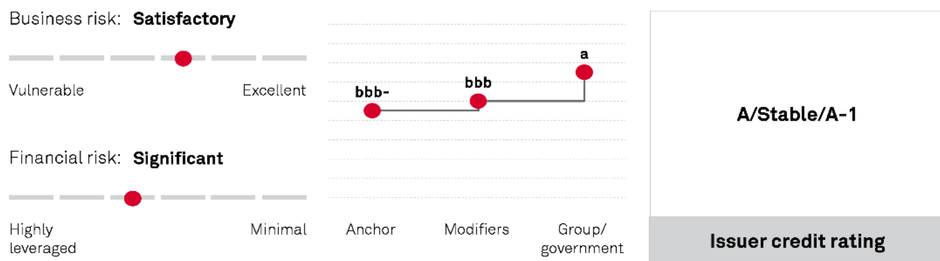
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Niche real estate company focused on owning, developing, and managing railway-related properties worth about Swedish krona (SEK) 20.6 billion as of June 30, 2022.	Relatively small and concentrated portfolio with limited international geographic diversity compared with other rated real estate companies.
High-quality property portfolio, with majority of assets in prime locations in Sweden's main three growth centers of Stockholm (around 50%), Gothenburg (20%), and Malmö (15%)	Some exposure to the more cyclical retail sector, which has been affected during the pandemic and may still be impacted by reduced traffic at railway stations as working from home persists.
Ownership of unique assets such as Stockholm's central station and train depots close to major cities.	Lower average debt maturity of 2.9 years as of Q2 2022, compared to similar rated peers.
Consistent and committed support from the Swedish government through 100% ownership.	Relatively high risk tolerance with a financial policy of a minimum equity ratio of 35% and debt to EBITDA ratio at around 11x as of June 2022.

We anticipate continued recovery in passenger numbers and visitors at stations should support Jernhusen's core business. We foresee a 5.0% and 4.5% like-for-like increase in net rental income for 2022 and 2023 on the back of a gradual recovery in traffic and footfall over the next 12-24 months, which will see Jernhusen's operating performance improve further. 2022 has seen a more or less full recovery in traffic this year and we believe this will translate into an increase in tenants' sales at retail premises and restaurants at stations (30% of total rental income) over the next couple of quarters. Furthermore, we expect Jernhusen to gradually fill its vacant premises (currently a higher-than-average 7.5% as of second-quarter 2022) over the next few quarters amid a continued recovery at stations. For the office segment, rental increases will likely move in line with inflation as the majority of leasing contracts are tied to indexation, but we remain unclear as to the full impact on retail premises given lower-than-average occupancy rates. We expect limited impact on the net operating profits amid high inflation rates as we understand a large part of cost increases will be passed over to tenants.

We expect Jernhusen's credit metrics to remain well within our rating thresholds, with adjusted debt to debt plus equity below 50% in 2022-2023 and debt to EBITDA remaining about 11x-12x. Jernhusen slightly decreased its reported loan-to-value (LTV) ratio to 39.9% as of June 30, 2022, corresponding to S&P Global Ratings-adjusted debt to debt plus equity of 46.3% versus 46.5 % as of June 30, 2020. The decrease was mainly driven by a 2.9% increase in portfolio value in first-half 2022, as well as improving operating cash flows that offset dividend distributions and increased investment. We expect adjusted debt to debt plus equity to remain below 50% for the next 12-24 months and we understand that Jernhusen has some flexibility in its development pipeline given that most of its projects can be postponed. Furthermore, rolling-12-month S&P Global Ratings-adjusted debt to EBITDA was 11.4x as of second-quarter 2022 reflecting improved operational performance over the first half and lower debt. We continue to view the EBITDA interest coverage ratio of 6.4x on June 30, 2022, as solid, supported by a low average cost of debt of 1.0%, and we anticipated the ratio will be maintained well above 4.5x over the next 12-24 months.

Jernhusen's liquidity and funding profiles should remain solid over the next 12-24 months, despite a relatively short average debt maturity. The company enjoys a solid liquidity buffer with the ratio of sources exceeding uses about 1.2x as of June 30, 2022. Jernhusen largely depends on short-term funding as debt repayments for the next 12 months total SEK4.3 billion, whereas about SEK2.5 billion is related to commercial paper. We understand the company intends to roll over existing maturities because it can still tap the market at favorable prices, compared to most 'BBB-' rated real estate companies. Nevertheless, should market conditions toughen, Jernhusen has SEK761 million of cash and cash equivalents and SEK4.5 billion available under its committed undrawn backup facility as of second-quarter 2022. This, in our view, mitigates its average debt maturity of 2.8 years, which is shorter than that of other rated peers. Jernhusen's ownership structure and the Swedish government's track record of supporting the GRE sector also strongly limits any liquidity risk.

Outlook

Our stable outlook signifies that we expect that Jernhusen's properties will continue to benefit from favorable demand trends for rail travel. We expect the company will maintain debt to debt plus equity of about 50%, EBITDA interest coverage of at least 4.5x, and debt to EBITDA of 11.0x-11.7x over the next 24 months.

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 to 55% or higher.
- 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.

Ratings downside could also 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.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Sweden of 2.3% in 2022 and 2.1% in 2023, and S&P Global Ratings' forecast of CPI growth of 5.0%-6.0%.
- We assume like-for-like growth in rental income of 5.0%-6.0% over the next 12-24 months as the majority of leasing contracts are tied to indexation
- Occupancy at about 93%-94%, supported by favorable locations .
- Stable EBITDA margin at about 46%-48%.
- Growth of portfolio value slightly positive, by SEK300 million-SEK400 million each year during 2022-2023, primarily from rental income upside.
- Investments in 2022 of about SEK750 million, increasing to SEK1.6 billion in 2023, depending on the back of ongoing station and depot projects.
- Maintenance expenditure of about SEK280 million-SEK300 million each year in the next 12-24 months
- Asset sales generating about SEK200 million in 2022 and additional disposals in the coming years as Jernhusen sells property development rights on land close to central stations.
- Dividend payments of about SEK400 million every year in next 12-24 months.

Key metrics

Jernhusen AB--Key Metrics*

	2020a	2021a	2022e	2023f	2024f
EBITDA interest coverage (x)	4.7	5.7	5-6	5-6	4.5-5.5
Debt to EBITDA (x)	12.5	11.5	11-13	12-14	12-14
Debt to debt plus equity (%)	50.7	46.5	43-48	47-52	47-52

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

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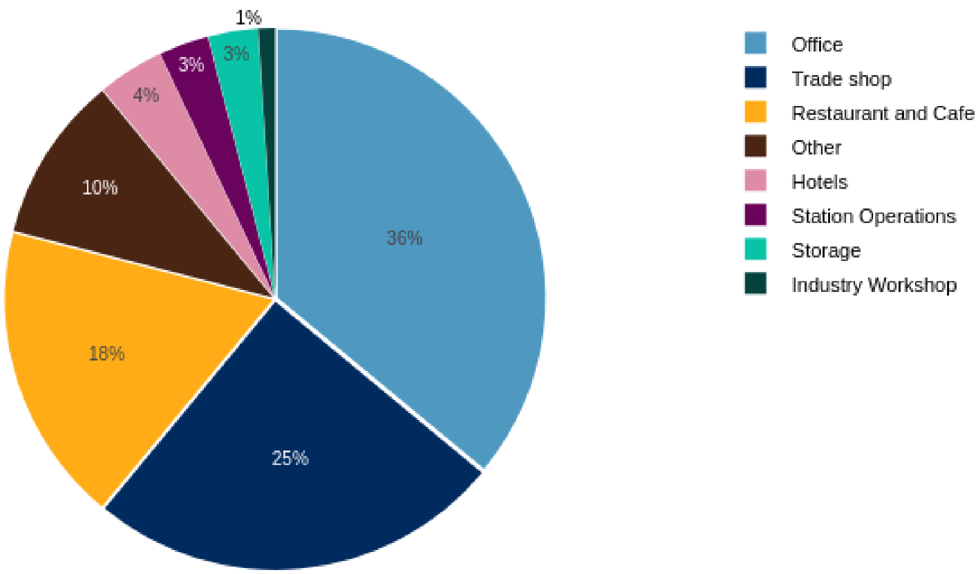
Company Description

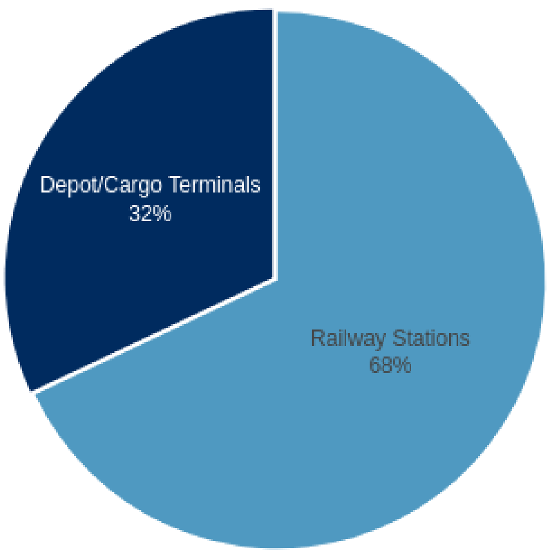
Jernhusen is a niche real estate company focusing on properties related to Sweden's railway system. It owns stations, depots, and cargo terminals, and develops commercial property around central stations. The Swedish government owns 100% of Jernhusen, which was founded in 2001 as a spin-off from the 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 June 30, 2022, its properties were valued at SEK20.6 billion and it had 548,000 square meters of rentable area.

Share of Rental Value per segment: as of Dec 31, 2021



Source: S&P Global Ratings, Company reports.

Portfolio Value breakdown by segment as of Dec 31, 2021



Source: S&P Global Ratings, Company reports.

Peer Comparison

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Jernhusen AB--Peer Comparisons

	Jernhusen AB	Fastighets AB Balder	Citycon Oyj	Willhem AB (publ)
Foreign currency issuer credit rating	A/Stable/A-1	BBB/Stable/--	BBB-/Stable/A-3	A-/Stable/A-2
Local currency issuer credit rating	A/Stable/A-1	BBB/Stable/--	BBB-/Stable/A-3	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	SEK	SEK	SEK	SEK
Revenue	1,514	8,956	2,080	2,491

Jernhusen AB--Peer Comparisons

EBITDA	718	6,497	1,844	1,458
Funds from operations (FFO)	594	4,493	1,022	1,021
Interest	125	1,533	691	406
Cash interest paid	124	1,662	801	436
Operating cash flow (OCF)	558	2,181	1,105	1,121
Capital expenditure	482	7,490	2,145	1,725
Free operating cash flow (FOCF)	76	(5,309)	(1,040)	(604)
Discretionary cash flow (DCF)	(93)	(5,510)	(2,743)	(1,105)
Cash and short-term investments	1,082	2,519	276	3,254
Gross available cash	1,082	2,519	276	3,254
Debt	8,237	112,786	22,897	27,054
Equity	9,477	92,914	21,745	24,759
EBITDA margin (%)	47.4	72.5	88.6	58.5
Return on capital (%)	11.6	5.5	4.1	3.1
EBITDA interest coverage (x)	5.7	4.2	2.7	3.6
FFO cash interest coverage (x)	5.8	3.7	2.3	3.3
Debt/EBITDA (x)	11.5	17.4	12.4	18.6
FFO/debt (%)	7.2	4.0	4.5	3.8
OCF/debt (%)	6.8	1.9	4.8	4.1
FOCF/debt (%)	0.9	(4.7)	(4.5)	(2.2)
DCF/debt (%)	(1.1)	(4.9)	(12.0)	(4.1)

Business Risk

Our assessment of Jernhusen's satisfactory business risk profile reflects the company's resilient asset portfolio. Its stable rental income is further supported by its unique property portfolio, which mainly consists of railway stations (68% of property value) and depots/cargo terminals (32%) in Sweden's largest cities. Pre-pandemic, about 550,000 passengers passed through its stations and traffic is estimated to now be back to these levels except for Stockholm where it is still about 20% lower than 2019. Traveling by rail is essential for daily commuters and supported by parties across the political spectrum. Swedish Transport Administration expects railway passenger traffic to increase 54% by 2040.

The portfolio contains very high-quality assets with about 85% comprising properties in prime locations in Sweden's three main growth centers of Stockholm, Gothenburg, and Malmö. Vacancy rates have remained high post-pandemic, at 7.5%, primarily due to redundancies at large central stations, compared to an average of around 5.0% over the last decade. We expect the vacant premises to be replaced gradually by new tenants in the coming years. We believe Jernhusen is better positioned than some other retail landlords affected by the rise in e-commerce given that Jernhusen's sales are primarily correlated with numbers of people passing through stations. This traffic is supported by a political agenda to increase the use of railways for passengers and cargo.

With a value of SEK13.3 billion, or 68% of the total portfolio value, the 37 owned stations dominate Jernhusen's portfolio. Rental income at the stations stems predominantly from retail premises and restaurants, where sales are relatively stable and primarily correlated to the number of trains and passengers. Rental contracts typically include both a base rent and a turnover-related add-on rent. We expect rental revenues from stations to remain considerably more stable and with lower vacancies than for retail properties in general.

Jernhusen owns and operates 20 train depots and 5 intermodal terminals with a total value of SEK6.2 billion. Although Jernhusen's tenants for its depots are mainly private maintenance companies, we view tenant risk as very low because a defaulting tenant would most likely be replaced by another very quickly to avoid disruptions to the railway system. The depot business resembles a monopoly where rents are set at cost plus margin. We also view as positive Jernhusen's ownership of railway depots close to main cities given that these are essential infrastructure for the ongoing maintenance of trains. Sales generated from office and freight terminals are more exposed to changes in economic activity.

We view Jernhusen's urban development business (12%-13% of portfolio value) as somewhat riskier than its core business due to the nature of its development activities, which could pose risks arising from recent construction cost increases and rising interest rates, ultimately weighing on projects' profitability. However, Jernhusen already owns the developable land plots, which are in good locations, and has a decade-long track record of development activities. Compared to similarly rated peers, such as Heimstaden Bostad AB and Fastighets AB Balder, Jernhusen's portfolio of SEK20.6 billion is much smaller, which we view as constraining its business profile. In addition, Jernhusen conducts all its business activities in Sweden, primarily in Stockholm (48%), whereas Akelius and Balder are diversified geographically.

Financial Risk

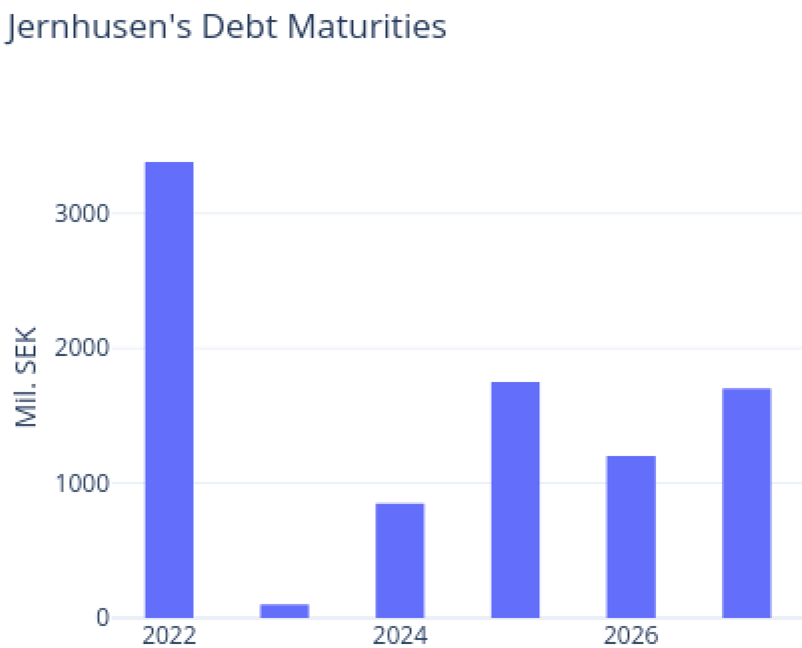
Our assessment of Jernhusen's financial risk profile is supported by the company's moderate debt leverage; its debt-to-debt plus equity is about 50% and debt to EBITDA will be close to 13x over the next 12-24 months, depending on the execution of its development pipeline and dividend policy. However, should the market deteriorate, and leverage ratios weaken, we think Jernhusen would have the flexibility to adjust its investment plan.

Jernhusen's defensive portfolio could support somewhat higher leverage and we note that its financial policy allows for higher leverage, stipulating a LTV ratio in the 45%-55% range, corresponding to our adjusted debt to debt plus equity of about 50%-60%. Yet we expect that the company will maintain ample headroom with regard to this ratio.

Jernhusen's financial ratios are sensitive to changes in interest rates and yield requirements given its high reliance on commercial paper as a funding source. Despite increasing interest rates, Jernhusen has maintained its cost of debt at around 1.0% as of June 30, 2022, unchanged from June 2021; furthermore, we note that Jernhusen benefits from green funding amounting to 67% of the outstanding loan portfolio. We therefore forecast Jernhusen will maintain a strong EBITDA interest coverage; its historical coverage of 4.5x-5.5x has compared well with peers. On the other hand, the debt maturity profile is relatively short dated at 2.8 years as of June 2022. That said, this is offset by Jernhusen's access to unused credit facilities that are almost equal to its outstanding debt.

Debt maturities

As of June 30, 2022, average debt maturity stood at 2.8 years.



dish Krone. Source: S&P Global Ratings; Company Data

Comparable Ratings Analysis

Our rating incorporates the company's relatively robust position within our significant financial risk profile category. Jernhusen has strong EBITDA interest coverage of 4x-6x historically, compared with 1x-4x for most other rated investment-grade peers, supported by a relatively high yielding property portfolio. In addition, our positive comparison reflects Jernhusen's strong market position within the depots segment, with a large share of government-related tenants enabling stable cash flow. As a result, we include a one-notch positive adjustment to our stand-alone credit assessment for comparable rating analysis.

Jernhusen AB--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK
Revenues	1,368	1,453	1,545	1,622	1,446	1,514

Jernhusen AB--Financial Summary

EBITDA	640	683	718	793	658	718
Funds from operations (FFO)	503	535	572	658	526	594
Interest expense	137	157	144	141	139	125
Cash interest paid	137	148	146	135	132	124
Operating cash flow (OCF)	(91)	682	693	284	715	558
Capital expenditure	574	661	556	480	440	482
Free operating cash flow (FOCF)	(665)	21	138	(196)	275	76
Discretionary cash flow (DCF)	(1,165)	(157)	(41)	(896)	56	(93)
Cash and short-term investments	170	74	233	212	634	1,082
Gross available cash	170	76	233	212	634	1,082
Debt	7,340	7,340	7,410	8,288	8,225	8,237
Common equity	6,956	7,427	7,680	8,094	8,013	9,477
Adjusted ratios						
EBITDA margin (%)	46.8	47.0	46.5	48.9	45.5	47.4
Return on capital (%)	12.7	6.1	5.7	9.5	1.8	11.6
EBITDA interest coverage (x)	4.7	4.4	5.0	5.6	4.7	5.7
FFO cash interest coverage (x)	4.7	4.6	4.9	5.9	5.0	5.8
Debt/EBITDA (x)	11.5	10.7	10.3	10.5	12.5	11.5
FFO/debt (%)	6.9	7.3	7.7	7.9	6.4	7.2
OCF/debt (%)	(1.2)	9.3	9.4	3.4	8.7	6.8
FOCF/debt (%)	(9.1)	0.3	1.9	(2.4)	3.3	0.9
DCF/debt (%)	(15.9)	(2.1)	(0.6)	(10.8)	0.7	(1.1)

Reconciliation Of Jernhusen AB Reported Amounts With S&P Global Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	8,979	9,438	1,514	731	1,962	125	718	558	169	482
Cash interest paid	-	-	-	-	-	-	(124)	-	-	-
Lease liabilities	340	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(1,082)	-	-	-	-	-	-	-	-	-

Reconciliation Of Jernhusen AB Reported Amounts With S&P Global Adjusted Amounts (Mil. SEK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Income (expense) of unconsolid. cos.	-	-	-	(13)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Noncontrolling/ minority interest	-	39	-	-	-	-	-	-	-	-
Total adjustments	(742)	39	-	(13)	1	-	(124)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	8,237	9,477	1,514	718	1,963	125	594	558	169	482

Liquidity

We assess Jernhusen's liquidity as adequate, based on our estimate that the company's liquidity sources will likely cover uses by about 1.2x in the 12 months from June 30, 2022. We view as positive that Jernhusen's long-dated committed bank lines, currently maturing beyond June 2022, cover its SEK3 billion commercial paper program in full and that the company faces limited debt maturities in the next 12 months. We note that Jernhusen has had satisfactory access to credit markets for more than 10 years, and access to its medium-term note program since 2013. In addition, Jernhusen has relationships with large Swedish banks with strong credit quality.

Principal liquidity sources

- SEK761 million in available unrestricted cash.
- A SEK4.5 billion revolving credit facility maturing beyond 12 months.
- Signed asset sales of about SEK 190 million.
- Our estimate of funds from operations of SEK800 million-SEK830 million.

Principal liquidity uses

- SEK4.4 billion of contractual debt amortization payments, including debt maturities and SEK 2.4 billion of commercial papers.
- SEK390 million of dividend.
- Capex of about SEK1.26 billion.

Covenant Analysis

Compliance expectations

Jernhusen is subject to no covenants on its debt lines.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

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 alphanumerical 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 of its train stations and office buildings held long term are classified according to BREEAM or LEED, the majority in the very good category. The company targets reducing energy consumption of its properties (in kilowatt-hour per square meter) by 50% until 2030 (base year 2008). It also has advanced well within green financing, with 67% of its debt portfolio comprised of green bonds as of second-quarter 2022.

Government Influence

Jernhusen is 100% owned by the Swedish government and managed by the Ministry of Enterprise; we therefore classify it as a government-related entity (GRE). We consider that there is a high likelihood of government support for Jernhusen from Sweden (AAA/Stable/A-1+), and therefore apply three notches uplift to our assessment of the company's 'bbb-' stand-alone credit profile. Our assessment of government support is based on our view of Jernhusen's:

- Important role for the Swedish government due to its unique real estate holdings, which are essential for the Swedish railway network. We think that Jernhusen plays an important role in meeting political objectives relating to public transport. Although we think that part of Jernhusen's activities could be managed by private real estate companies, we view it as highly unlikely that the large central stations (such as those in Stockholm, Göteborg, and Malmö) and depots would be sold to private owners, due to their vital functions in the railway system; and
- Very strong link with the Swedish government, which is actively involved in defining the company's strategy, appoints its board, and has a long-term commitment to the company. We view it as unlikely that the government would consider privatizing Jernhusen given that it owns critical real estate assets tied to the Swedish railway sector. In addition, an ownership clause in the company's debt documentation stipulates that the government should own 100% of Jernhusen. The Swedish government has a track record of supporting the GRE sector, and any unremedied financial distress at the company would pose significant reputation risk for the government.

Rating Component Scores

Foreign currency issuer credit rating	**A/Stable/A-1**
Local currency issuer credit rating	**A/Stable/A-1**
Business risk	**Satisfactory**
Country risk	Very Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb-**
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)
Stand-alone credit profile	**bbb**

Related Criteria

- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Related Research

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Ratings Detail (as of September 13, 2022)*

Jernhusen AB	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (as of September 13, 2022)*

Issuer Credit Ratings History	
27-Sep-2021	A/Stable/A-1
30-Jun-2020	A/Negative/A-1
29-Aug-2017	A/Stable/A-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.