

# Heba

## Delivering the goods

- Rating outlook revised to stable
- Significant deleveraging in 2023
- Upgrading to Market Perform (Underperform)

### Rating outlook revised to stable

NCR has affirmed Heba's BBB rating and revised the outlook from negative to stable, reflecting the actions taken by the company in 2023 to strengthen the balance sheet. NCR expects to see further pressure on the interest coverage ratio (ICR) and property values in 2024 before stabilising in 2025-26. NCR also expects Heba to retain an ICR of more than 2.2x and an LTV of less than 50% over time. This is in line with our view, although we believe that retaining an ICR of more than 2.2x will be challenging.

### Significant deleveraging in 2023

In 2023, Heba sold properties amounting to SEK 2bn. These funds have largely been used for the repayment of debt, resulting in a NCR-adjusted LTV of about 43% at year-end 2023 compared to about 48% at year-end 2022. At the end of 2023, the ICR stood at 2.5x, and Heba has also acquired two community service properties in order to improve cash-flow generation relative to the low-yielding residential portfolio. As Heba has increased its secured bank lending during 2023, the secured LTV stood at 33% at the end of 2023, which can be compared to NCR's 40% threshold, where NCR could potentially lower the bond rating one notch below the BBB company rating. Given that we believe Heba will return to the bond market, we expect the secured LTV to remain below 40%

### Upgrading to Market Perform (Underperform)

Although we continue to have some concerns with the regards to continued pressure on the ICR, we take considerable comfort from the fact that management has taken forceful, balance sheet strengthening actions and seems prepared to do more, if needed, which we believe is also rating-supportive. Thus we raise our recommendation to Market Perform (Underperform)

#### Key figures

SEKm	2019	2020	2021	2022	2023
Rental revenues	388	394	450	510	566
Op. net (NOIRE)	261	274	313	362	402
Income fr property mgmt adj	179	187	229	238	255
Net income adj	724	718	1,475	-136	-712
Property value	10,293	12,213	14,831	15,875	12,900
Gross debt adj	3,517	5,082	6,183	7,692	5,755
Net debt to prop value adj (%)	33.9	40.8	40.6	47.8	42.7
Total debt to total assets adj (%)	33.8	39.8	39.8	45.9	42.2
FFO/gross debt adj (%)	5	4	4	3	4
Gross debt/EBITDA adj (x)	15.0	21.0	22.1	23.5	15.6
EBITDA/interest expense adj (x)	4.3	4.3	4.3	3.0	2.0
Dividends/FFO adj (%)	53.5	53.0	46.7	59.4	32.8
Pledged assets to total assets (%)	29.0	33.0	24.4	26.8	32.5
Secured debt to total assets (%)	25.8	25.9	16.4	24.5	30.7

Source: Handelsbanken Capital Markets

For full disclaimer and definitions, please refer to the end of this report.

Main recommendation  
Senior unsecured • SEK



Underperform



Market Perform

#### Profile

Sweden-based Heba Fastighets AB was founded in 1952 and listed in 1994. The company owns and manages residential rental apartments and community service properties in the Greater Stockholm area. Its total assets amounted to SEK 13.7bn as of December 31, 2023. The company has its headquarters in Stockholm, Sweden.

#### Website

[Link](#)

CEO	Patrik Emanuelsson
CFO	Hanna Franzen
Treasurer	

#### Public rating(s)

- NCR / BBB / Stable

#### Michael Andersson

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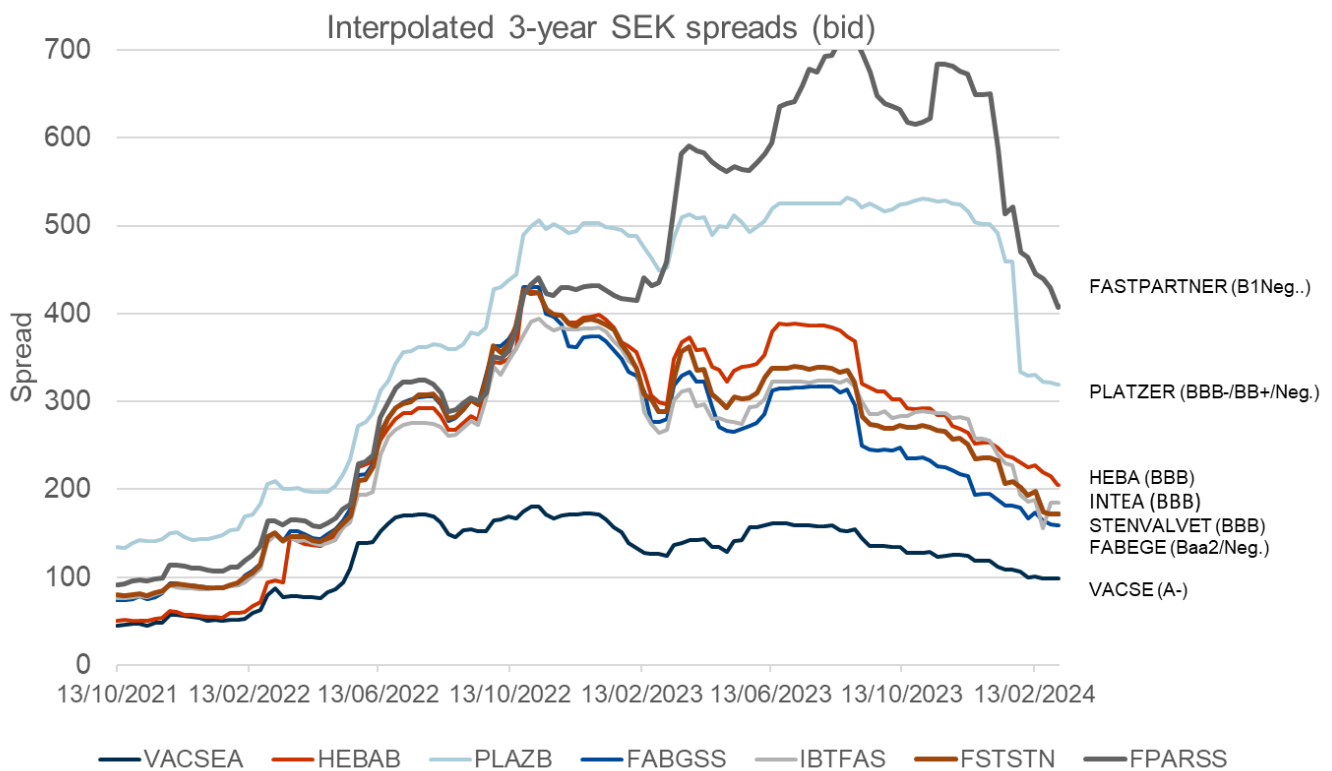
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# Relative value

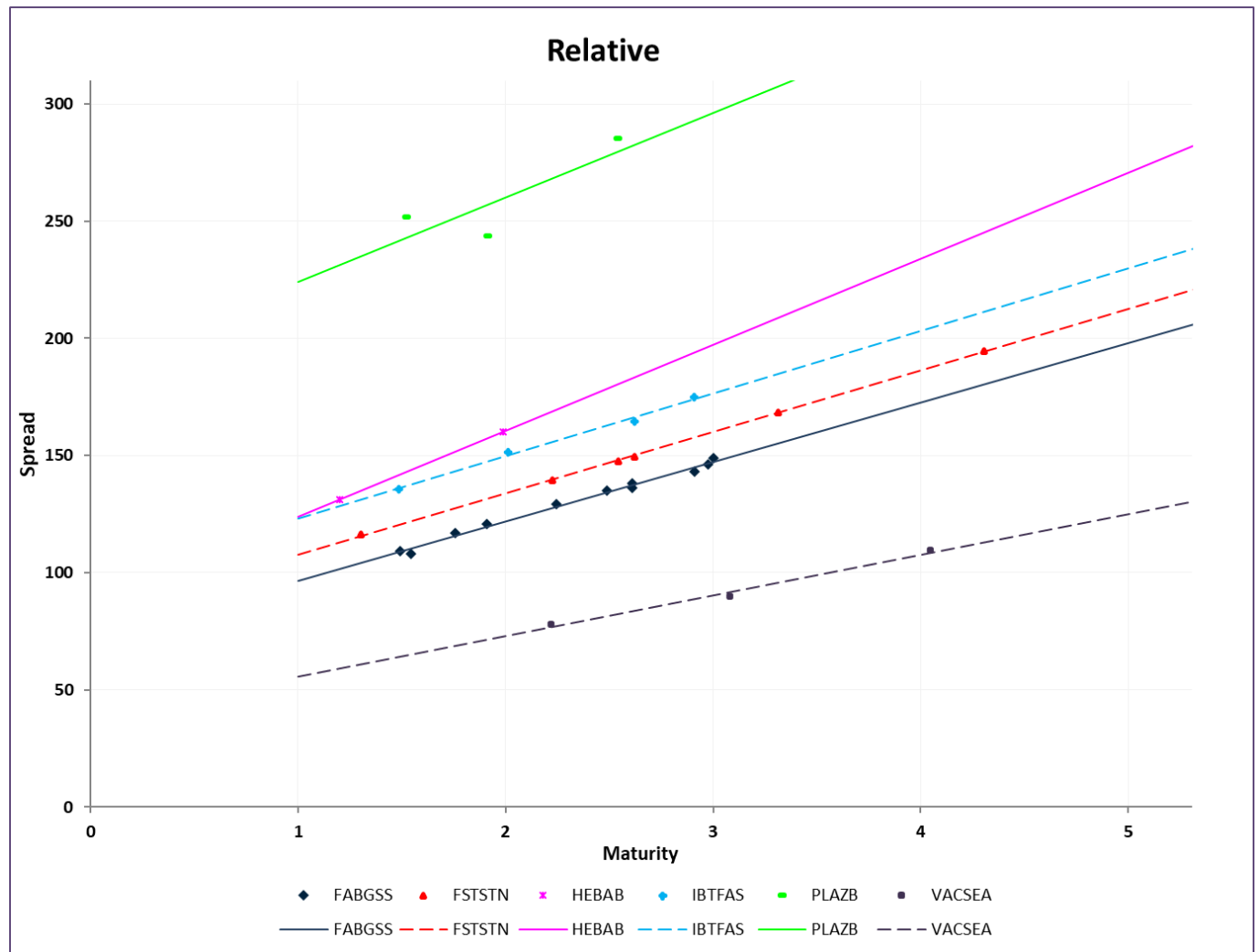
While we continue to have some concerns regarding continued pressure on the ICR, we take comfort in the fact that management has taken forceful, balance sheet strengthening actions and, if needed, seems prepared to do more - something we also believe is rating-supportive. Credit spreads for Heba's outstanding bonds, maturing in May, 2025, and March, 2026, seem to be somewhat wider than peers such as Intea and Stenvalvet, both rated BBB. However, since Heba's bonds are relatively short-dated, it is somewhat difficult to assess the relative pricing. Today, Heba is in a much better financial position than it was a year ago, which combined with a stable rating outlook, means its bonds should perform in line with peers going forward. We raise our recommendation to Market Perform (Underperform).

Interpolated 3-year SEK spreads (bid)



Sources: Bloomberg and Handelsbanken Capital Markets

Relative value SEK bonds



# Key figures

## P&L accounts, annual data

SEKm	2019	2020	2021	2022	2023
Revenues	388	394	450	510	566
Total op expenses	-157	-154	-174	-186	-200
EBITDA	234	242	280	328	370
EBITDA adj	234	242	280	328	370
EBIT	232	240	275	322	402
Associated income	0.0	0.0	-0.8	-1	36
Interest income	1	4	19	25	34
Interest expense	-55	-57	-65	-109	-181
EBT	781	910	1,774	-138	-1,044
Paid tax	-1	0.1	-0.3	-	-
Net income	724	718	1,475	-136	-712

Source: Handelsbanken Capital Markets

## P&L, quarterly data

SEKm	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23
Revenues	137	143	147	148	129
Total op expenses	-51	-57	-49	-43	-52
EBITDA	87	87	98	106	78
EBITDA adj	87	87	98	106	78
EBIT	86	113	129	88	72
Associated income	-0.5	27	31	-17	-6
Interest income	7	7	11	7	11
Interest expense	-40	-46	-51	-46	-37
EBT	-222	-228	-307	-320	-188
Net income	-190	-188	-201	-265	-58

Source: Handelsbanken Capital Markets

## Balance sheet, annual data

SEKm	2019	2020	2021	2022	2023
Financial assets	34	334	459	458	340
Total tangible assets	10,300	12,220	14,836	15,882	12,907
Total intangible assets	2	2	7	6	5
Other long-term assets	2	2	7	6	5
Other current assets	37	122	56	82	26
Cash and equivalents	25	97	159	101	247
Total assets	10,399	12,776	15,516	16,756	13,625
Equity	5,506	6,125	7,493	7,225	6,438
LT interest-bearing debt	1,770	2,461	4,448	5,960	5,043
ST interest bearing debt	1,747	2,621	1,735	1,732	712
Other current liabilities	122	102	131	130	107
Total equity and liabilities	10,399	12,776	15,516	16,756	13,625
Total equity and liabilities adj	10,399	12,776	15,516	16,756	13,625
Total debt	3,517	5,082	6,183	7,692	5,755
Total debt adj	3,517	5,082	6,183	7,692	5,755

Source: Handelsbanken Capital Markets

## Cash flow, annual data

SEKm	2019	2020	2021	2022	2023
Funds from operations (FFO)	170	187	230	223	226
FFO adj	170	187	230	223	226
Change in working capital	2	0.6	4	-26	26
Operating cash flow (OCF)	172	188	233	196	252
Cash flow from investments	121	-1,273	-1,075	-1,653	1,773
Capex	-606	-1,270	-1,397	-1,648	-327
Dividends paid	-91	-99	-107	-132	-74
Discretionary cash flow	-525	-1,182	-1,272	-1,584	-150
Net change in debt	-179	1,556	1,110	1,510	-1,804
Cash flow from financing	-275	1,157	904	1,398	-1,879
Net cash flow	18	72	62	-59	146

Source: Handelsbanken Capital Markets

**Key metrics, annual data**

%	2019	2020	2021	2022	2023
EBITDA adj margin	60.3	61.4	62.2	64.2	65.4
EBIT adj margin	59.7	60.9	61.1	63.2	71.0
Equity ratio	52.9	47.9	48.3	43.1	47.2
Equity ratio adj	52.9	47.9	48.3	43.1	47.2
Net debt/equity (x)	0.63	0.81	0.80	1.1	0.86
Net debt/EBITDA (x)	14.9	20.6	21.5	23.2	14.9
Net debt/EBITDA adj (x)	14.9	20.6	21.5	23.2	14.9
Debt/EBITDA (x)	15.0	21.0	22.1	23.5	15.6
Debt/EBITDA adj (x)	15.0	21.0	22.1	23.5	15.6
EBITDA/net interest adj (x)	4.4	4.6	6.1	3.9	2.5
EBIT/interest (x)	4	4	4	3	2
FFO/net debt	4.9	3.8	3.8	2.9	4.1
FFO/total debt adj	4.8	3.7	3.7	2.9	3.9
FFO/net debt adj	4.9	3.8	3.8	2.9	4.1

Source: Handelsbanken Capital Markets

# Credit research disclaimer

## Recommendation structure and allocations

Handelsbanken Capital Markets Credit Research (HCM) employs a three-graded recommendation scale. The recommendations reflect the analyst's assessment of the bond's total return on a 12-month time horizon in relation to a relevant benchmark. An issuer may have more than one recommendation. One of them is designated as the main recommendation for the company. The analyst determines which is the main recommendation for a company based on an assessment of factors such as outstanding volume and liquidity.

The recommendations amongst companies under coverage and amongst companies under coverage for which Handelsbanken has provided investment banking services in the past 12 months are listed below. The table refers to the companies' main recommendation.

Recommendations are continuously reviewed by the analyst and monitored by the Research Management and will be updated and/or refreshed regularly. The rationale behind a change in recommendation will be explained in such a refresher/update.

A list of all recommendations made by investment research during the preceding 12-month period is available here: <https://www.researchonline.se/desc/creditchest>.

Unless otherwise specified, prices and spreads mentioned in this report refer to the closing price of the previous day.

## Recommendations: definitions and allocations

HCM recommendation <sup>1</sup>	HCM universe main <sup>2</sup>	IB services <sup>3</sup>
Outperform	14%	63%
Market Perform	72%	40%
Underperform	14%	38%

<sup>1</sup> Recommendation definitions:

Outperform: Over the next 12 months, the bond's total return is expected to exceed the total return of the relevant benchmark

Market perform: Over the next 12 months, the bond's total return is expected to be in line with the total return of the relevant benchmark

Underperform: Over the next 12 months, the bond's total return is expected to be below the total return of the relevant benchmark

<sup>2</sup> Percentage of companies under coverage within each recommendation

<sup>3</sup> Percentage of companies within each recommendation (unsecured) for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 8 March 2024

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**Heba**

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8 Mar 2024: Heba - Handelsbanken's analyst Michael Andersson has no position in Heba or a related instrument.

On 2024-03-08 the recommendation (SEK Senior unsecured) Underperform, which was set on 21 Sep 2022, was changed to the current recommendation Market Perform.

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