

RATING ACTION COMMENTARY**Fitch Affirms Hemsö Fastighets AB at 'AA-'; Outlook Stable**

Wed 19 Mar, 2025 - 2:48 PM ET

Fitch Ratings - Frankfurt am Main - 19 Mar 2025: Fitch Ratings has affirmed Hemsö Fastighets AB's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA-' with Stable Outlooks. A full list of rating actions is below.

The affirmation reflects Hemsö 's continuing robust and predictable rental income from its properties supported by inflation-indexed, long-term leases with high occupancy rates, and primarily from public sector tenants. This largely mitigates the pressure on opex due to cost inflation mainly from reinvestment in existing stock to improve energy efficiency standards, maintaining a steady leverage ratio at 14x over the scenario horizon.

Fitch views Hemsö as a government related entity (GRE) of Sweden (AAA/Stable) and looks through its majority shareholder AP3, a public policy entity, Sovereign Wealth Fund, to Sweden as a sponsor. We have 'Strong expectations' of extraordinary support from Sweden. Combined with the Standalone Credit Profile (SCP) of 'bbb+', which is seven notches below the sovereign's rating, this leads to a four-notch uplift to the 'AA-' IDR.

KEY RATING DRIVERS**Support Score Assessment 'Strong expectations'**

We have 'Strong expectations' of support from Sweden through AP3 for Hemsö (score of 20 points out of a maximum 60) under our new GRE criteria. The support score is a combination of our assessment of the responsibility to support and incentive to support.

Responsibility to Support**Decision Making and Oversight 'Strong'**

Through AP3, whose board is appointed by the government, the Swedish state closely controls and monitors Hemsö's board by setting and approving the long-term business

strategy through AP3's presence on its board of directors. Hemsö reports to AP3 at least quarterly and communicates frequently with it. In Fitch's view, AP3's frequent oversight and control and its appointment of the board underscore the state's tight control over Hemsö. Hemsö plays a crucial policy role in supporting community needs while delivering stable returns, making it a core entity for the state.

Precedents of Support 'Strong'

As a social infrastructure provider, Hemsö receives support from the state through AP3. This is reflected in equity injections in support of its business growth, most recently in 2024, when the shareholder granted a SEK500 million equity injection covering 12.7% of its investments and additional SEK1.5 billion equity injections budgeted for 2025-2026. Since 2019, equity injections have accounted for SEK5.5 billion or 19% of the investments on average. Further tangible support is to strengthen Hemsö's liquidity profile. AP3 provides a multi-year committed credit facility of SEK6 billion, under which it is committed to buy up to SEK6 billion of commercial paper (CP) out of Hemsö's SEK12 billion CP programme.

Incentives to Support

Preservation of Government Policy Role 'Strong'

Hemsö performs a key public service by providing nursing homes, schools, healthcare and other public infrastructure buildings, which is crucial for the public sector, given Sweden's increasing and aging population trends and a shortage of these properties. A default would have a direct material impact on Hemsö's operations. Hemsö finances its large capex mainly through debt financing and is a regular issuer in debt capital markets. A default would prevent Hemsö financing its investments.

Contagion Risk 'N/A'

Hemsö benefits from a strong 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 SEK12 billion CP programme. Its commercial law status and non-policy-role mean Hemsö's strategic links to the public sector are through AP3's ownership. However, we do not consider Hemsö's high profile for its government, and its default would not necessarily increase the cost of financing for the government or other GReEs. It would also not be seen as whole-system failure, in Fitch's view.

Standalone Credit Profile

Hemsö's 'bbb+' SCP reflects the combination of a 'Stronger' risk profile, and a financial profile assessed at the upper end of the 'bb' category, with a forecast leverage ratio close

to 14x at 13.9x in 2029 in our rating case (2024: 14.4x), supported by a stable gross interest coverage ratio averaging close to 3x, and a debt service coverage ratio of 0.4x on average in 2025-2029.

Risk Profile: 'Stronger'

Fitch assesses Hemsö's risk profile as 'Stronger', reflecting the combination of assessments below.

Revenue Risk: 'Stronger'

Rental income is very predictable, stemming from Hemsö's social infrastructure properties in a highly regulated market with low demand risk. Lease agreements are fully contracted mostly with public tenants (61%) like states, municipalities, and regions that are 'AAA' or 'AA' rated counterparties. The lengthy lease duration of 9.1 years on average is supported by a high occupancy ratio due to aging population and undersupply. The remainder of its agreements are from private operators (34%) and non-profit organisations (5%), which are to a large extent funded by taxpayers.

Hemsö has sufficient negotiation power to adjust rents to cover at least inflationary increases. Lease agreements include annual rent adjustments to reflect increases in the consumer price index. Sweden adjusts this at the every start of the year, and it is on an ongoing basis for Finland and Germany in accordance with the applicable lease agreements.

Expenditure Risk: 'Stronger'

Hemsö's operating costs are well identified and are not affected by significant volatility. Property costs are mainly derived from operating costs related to heating, electricity, maintenance, property tax and leasehold fees, whereas staff costs tend to increase in line with inflation. Heating and electricity costs can to some extent be passed through to public tenants through rent adjustments in Sweden and Finland, whereas in Germany, 100% of these costs can be passed through to the tenants. Hemsö's contractual lease agreements allow for revenue adjustments to cover for inflation-related cost increases.

We do not factor in any supply constraints for labour and resources. Hemsö has strong project development procedures with a record of effective management and secures financing in advance. It is a regular issuer with a solid presence in capital markets. Hemsö can delay or reduce uncommitted capex if it deems it not profitable.

Liabilities and Liquidity Risk: 'Stronger'

Fitch sees limited risk in Hemsö's debt. It has well-established funding programmes, reflected in its EUR6 billion EMTN and SEK12 billion CP Programme. The weighted average maturity of its outstanding debt of SEK 52.2 billion excluding the financial leases for SEK1.1 billion was 4.9x in 2024. Hemsö diversifies its funding beyond the Swedish debt capital markets to access longer maturity buckets and extend its debt tenure. Refinancing risk is mitigated by a strong liquidity position and access to committed credit lines. All foreign-currency borrowings are fully hedged, and 81% of its debt is fixed rate.

Financial Profile 'bb'

Hemsö's financial profile is assessed at the upper end of the 'bb' category. Our rating case expects Hemsö's leverage (net adjusted debt to EBITDA) to average 14x in 2024-2029 and close to 13.9x in 2029 (2024: 14.4x), debt service coverage to be 0.4x (2024: 0.4x) and gross interest coverage to remain stable at close to 3.0x (2024: 3.3x)

In the rating-case scenario, we expect Hemsö's rental driven EBITDA to reach SEK4,684 million in 2029, up from SEK3,630 million in 2024, while we expect the EBITDA margin to average 71.4% during 2025-2029 compared with 70.7% in 2024. This will be driven by higher rents due to inflation adjustments, a shortage of social infrastructure properties and the completion of new development. This offsets rising maintenance and reinvestment costs aimed at increasing energy efficiency standards and additionally the completion of planned development projects.

We expect Hemsö's net adjusted debt to increase to about SEK65.2 billion by 2029 from SEK52.4 billion in 2024 including SEK1.1 billion financial leases, due to SEK21.2 billion planned development of properties over 2024-2029. This is below total capex in 2019-2023 of SEK32 billion, reflecting management's plan to deleverage in recent years. Fitch's net adjusted debt to EBITDA declines to 13.9x in 2029 from 14.4x in 2024.

Additional Risk Factors Considerations

No other asymmetric risk affects Hemsö's ratings. Fitch considers the company's management and governance practices to be in line with the sector's standards, characterised by high involvement from the state, and the management shares strategic decisions with AP3. The legal and regulatory framework in Sweden is highly regulated and frequently performed external controls do not pose a material challenge for Hemsö. The information quality is on par with industry standards.

No single factor leads to the equalisation of Hemsö's ratings with that of Sweden as a sponsor

Derivation Summary

Fitch views Hemsö as a GRE of Sweden and applies a bottom-up +4 rating approach. This reflects our 'Strong expectations' of government support from Sweden as a sponsor through AP3 and an SCP of 'bbb+', seven notches below the sovereign rating. The SCP reflects the combination of a 'Stronger' risk profile and a financial profile assessed in the upper end of 'bb' category under our rating-case scenario, with the primary leverage ratio (net adjusted debt to EBITDA) averaging at 14x in 2025-2029 (2024: 14.4x).

Hemsö's close peers are French and UK social housing providers, which provide key public service in terms of essential social infrastructure such as affordable housing in highly regulated markets. While all peers have a 'Stronger' risk profile, their financial profiles differ, driven by their leverage ratio. Most peers have a SCP in the 'bbb' category and their IDRs differ based on our government support assessment, which leads to a top down-2 approach for LogiRep (A/Negative) and Erilia (A/Negative) or a 1 or 2 notch uplift to the SCP (bottom up+1 or 2) for Hyde Housing Association Limited (A/Stable) or Origin Housing Limited (A-/Stable).

Short-Term Ratings

Hemsö's Short-Term IDR of 'F1+' is consistent with its Long-Term IDR of 'AA-'.

Debt Ratings

Hemsö Treasury OYJ's senior unsecured rating of 'AA-' is based on the explicit guarantee provided by Hemsö to its SPV.

Issuer Profile

Hemsö is a for-profit social infrastructure provider established in 2001. It is one of the largest private companies in the Swedish market, providing nursing homes, educational, healthcare, and judicial properties. It primarily operates in Sweden, comprising 65% of its property portfolio, but seeks to diversify its operations to achieve high returns by expanding into countries with higher credit quality, such as Finland (18%) and Germany (17%).

KEY ASSUMPTIONS

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2019-2024 historical figures and 2025-2029 scenario assumptions:

- 4.8% annual increase in operating revenue, driven by a price effect on rents and new development

- 3.9% annual increase in operating expenses, driven by inflation and increased cost on reinvestment in existing stock for increasing higher efficiency standards
- Net capex on average at SEK4,186 million, in line with Hemsö's investment plan including both committed and uncommitted capex

- Cost of debt of 2.5%, reflecting slightly higher margins on new borrowing in domestic markets

We expect public-sector tenants (including municipalities, counties and the central government in Sweden), which generated 61% of revenue in 2024, to maintain their contractual agreements and expect demand will remain high. Our scenario factors in a limited additional average annual stress of about +0.6 % on operating revenue and about +1.5% on Hemsö's operating expenses, as Hemsö's financial figures are not subject to large fluctuations and the base-case already incorporates a reasonable amount of stress.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of Sweden would lead to a downgrade of Hemsö's ratings, all else remaining equal.

Hemsö's ratings would also be downgraded if its SCP was lowered to 'bbb', which would be triggered by a deterioration of the leverage ratio above 15x on a sustained basis. A downgrade could also result from a weaker assessment of responsibility-to-support or incentive-to-support factors.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Hemsö's IDRs could result from a stronger assessment of the responsibility-to-support or incentive-to-support factors.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Hemsö's IDRs and its SPV's senior unsecured long-term ratings are credit linked to Sweden's IDRs.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT 	RATING 			PRIOR 
Hemso Fastighets AB	LT IDR	AA-	Affirmed	AA-
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA-	Affirmed	AA-
	LC ST IDR	F1+	Affirmed	F1+
Hemso Treasury OYJ				
senior unsecured	LT	AA-	Affirmed	AA-

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Public Policy Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Hemso Fastighets AB EU Issued, UK Endorsed

Hemso Treasury OYJ EU Issued, UK Endorsed

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