

Tear Sheet:

# Steen & Strom AS

August 22, 2023

**Despite the challenging macroeconomic environment, we expect Steen & Strom's (S&S') performance to remain stable over the next two years.** S&S performed solidly in 2022, with like-for-like rental growth of 2.4%, driven by Norway (+7.9%) and Denmark (+2.3%), as growth in Sweden was flat (+0.2%). Vacancy rates remained below 10.0% (6.8% in the first quarter of 2023), but were weaker than in 2019 (4.4%). Over the coming 24 months, we expect further support from rental income indexation and a progressive recovery in occupancy rates toward 95%.

**S&S' credit metrics remain comfortably in line with our rating thresholds.** Despite lower EBITDA generation as a result of material disposals of about Norwegian krone (NOK) 2.8 billion in 2022, we anticipate that S&S will be able to service its debt commitments as it reduced debt by about NOK2 billion using the disposal proceeds. We expect S&S' EBITDA interest coverage ratio to be robust, around 6.0x-6.5x over the next 12-24 months, despite increases in interest rates. We also expect moderate deleveraging, resulting in debt to EBITDA of 6.0x-6.5x and S&P Global Ratings-adjusted debt to debt plus equity of 28%-32% over our forecast period of 24 months. This is on the back of our assumption of lower dividends of about NOK600 million per year, moderate capital expenditure of about NOK300 million per year, and assumed asset devaluation of about 6%-8% in 2023 and 2024.

**We forecast that S&S' liquidity will remain adequate in the 12 months from June 2023.** This is supported by cash and cash equivalents of NOK505 million, undrawn credit lines of NOK1.9 billion (assuming the renewal of the NOK1 billion line from DNB), and funds from operations of around NOK1.0 billion-NOK1.2 billion, all of which should cover S&S' committed liquidity needs by more than 1.2x. Our liquidity assessment is also supported by S&S' long average debt maturity of 13.2 years, which compares favorably with its Nordic peers.

**Our ratings on S&S remain in line with those on its parent, Klépierre SA (BBB+/Stable/A-2).** Our ratings on S&S move in line with those on Klépierre since we assess S&S as a core subsidiary of Klépierre and as integral to Klépierre's identity and strategy for maintaining a presence in the Nordic countries.

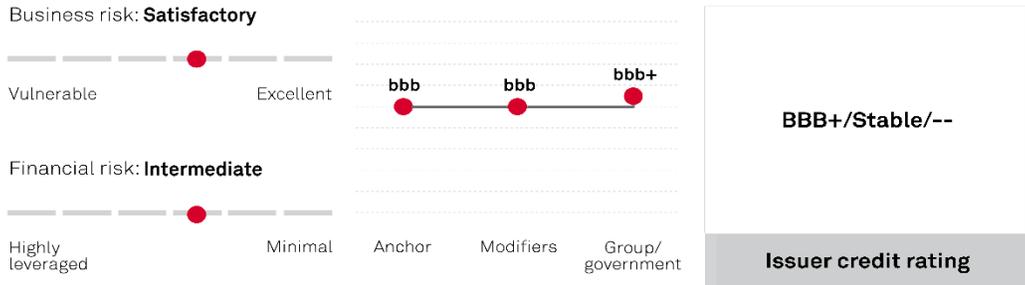
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## Ratings Score Snapshot



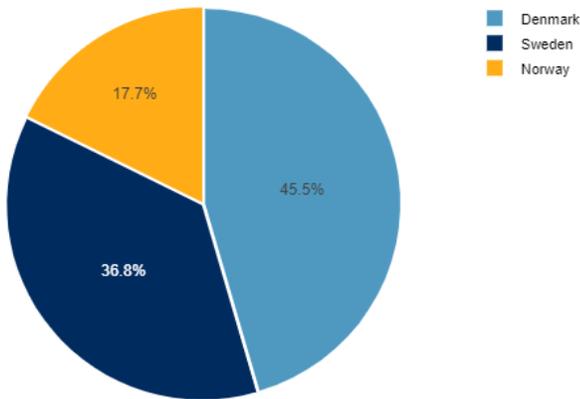
## Recent Research

- Klepierre S.A., June 9, 2023

## Company Description

S&S is a Norwegian retail property company operating in Scandinavia. It owns 10 shopping centers in Denmark (45% of the portfolio value), Sweden (37%), and Norway (18%), with a portfolio value of about NOK26.6 billion as of Dec. 31, 2022. S&S is fully owned by Storm Holding Norway AS, which, in turn, is owned by Nordica Holdco AB, of which, in turn, France’s Klèpierre owns 56.1%. Klèpierre is one of the leading shopping center owners in Europe, with a presence in about 12 countries.

Breakdown of portfolio value by geography  
Data as of Dec. 31, 2022



Source: S&S report.

## Outlook

The stable outlook reflects our view that S&S' portfolio of high-quality shopping centers should continue to generate a stable and significant proportion of owner Klépierre's rental income. The stable outlook also reflects our view that Klépierre's operating performance should remain solid over the next 24 months, supported by high indexation rates, and despite our expectation of subdued macroeconomic and retail conditions in Europe. We expect S&S to maintain adjusted debt to debt plus equity well below 50% over the next 24 months, with debt to EBITDA around 8x.

### Downside scenario

We could lower the long-term rating on S&S if Klépierre changes its stance toward S&S in a way that could lead us to revise our view of S&S' status within the group. We could lower our long-term rating on Klépierre, and hence on S&S, if:

- Slowing economic growth and sustained inflationary pressure erode consumers' purchasing power, and therefore weigh on retailers' operating performance and ability to pay rent;
- Rental income is weaker than we expect, for example due to uncollected rents, or downward rent negotiations with tenants; or
- Devaluations of Klépierre's portfolio are more material than we anticipate.

Any of these scenarios could weaken S&S' business model or credit metrics. In particular, we could downgrade S&S if, over the coming months, its:

- Adjusted debt-to-debt-plus-equity ratio surpassed 50% for a prolonged period; or
- Adjusted debt-to-EBITDA ratio increased above 11x.

Although it might not result in a downgrade, we would likely revise down our stand-alone credit profile on S&S if further asset rotation results in a smaller and even more concentrated portfolio, or if we revise our liquidity assessment to less than adequate.

### Upside scenario

We might consider raising the long-term rating on Klépierre, and therefore on S&S, over the next 24 months in the following conditions:

- Organic revenue and the portfolio value return to sustainable growth, demonstrating stronger resilience of the company's business model than we anticipate in the challenging retail environment;
- Adjusted debt to debt plus equity (on a fair-value basis) stays below 40%, on the back of a more prudent financial policy; and
- Adjusted debt to EBITDA remains comfortably below 9.5x.

## Key Metrics

## Steen &amp; Strom AS--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. NOK)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	1,910	1,887	1,684	1,486	1,499	1,527	1,539	1,563
Gross profit	1,734	1,683	1,488	1,301	1,313	1,337	1,348	1,368
EBITDA (reported)	1,549	1,529	1,617	1,315	1,343	1,368	1,379	1,400
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	45	(41)	(251)	(122)	(157)	(157)	(157)	(157)
EBITDA	1,594	1,488	1,366	1,193	1,185	1,211	1,222	1,242
Less: Cash interest paid	228	216	228	203	193	209	213	217
Less: Cash taxes paid	10	10	29	33	33	33	33	33
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	1,356	1,262	1,109	958	960	969	976	993
EBIT	1,562	1,455	1,384	1,460	1,181	1,206	1,220	1,241
Interest expense	229	236	194	147	193	209	213	217
Cash flow from operations (CFO)	1,272	1,281	849	1,081	1,124	1,132	1,143	1,159
Capital expenditure (capex)	378	381	13	26	310	300	300	300
Free operating cash flow (FOCF)	894	900	836	1,055	814	832	843	859
Dividends	1,088	1,259	1,922	1,579	600	600	600	600
Share repurchases (reported)	(30)	(70)	--	--	--	--	--	--
Discretionary cash flow (DCF)	(225)	(429)	(1,085)	(524)	214	232	243	259
Debt (reported)	12,282	13,062	9,693	7,782	7,314	6,642	6,514	5,951
Plus: Lease liabilities debt	377	393	352	379	407	438	472	507
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	449	265	461	311	300	303	611	301
Plus/(less): Other	--	--	--	--	--	--	--	--
Debt	12,211	13,190	9,584	7,850	7,421	6,777	6,374	6,157
Equity	21,287	20,583	18,486	17,753	16,344	16,073	16,601	17,146
FOCF (adjusted for lease capex)	497	884	835	1,038	777	794	803	817
Interest expense (reported)	229	236	194	147	193	209	213	217
Capex (reported)	378	381	13	26	310	300	300	300
Cash and short-term investments (reported)	453	268	461	314	300	303	611	301
<b>Adjusted ratios</b>								
Debt/EBITDA (x)	7.7	8.9 (x)	7.0	6.6	6.3	5.6	5.2	5.0
FFO/debt (%)	11.1	9.6	11.6	12.2	12.9	14.3	15.3	16.1
FFO cash interest coverage (x)	6.9	6.8	5.9	5.7	6.0	5.6	5.6	5.6
EBITDA interest coverage (x)	7.0	6.3	7.1	8.1	6.2	5.8	5.7	5.7
CFO/debt (%)	10.4	9.7	8.9	13.8	15.1	16.7	17.9	18.8
FOCF/debt (%)	7.3	6.8	8.7	13.4	11.0	12.3	13.2	14.0
DCF/debt (%)	(1.8)	(3.3)	(11.3)	(6.7)	2.9	3.4	3.8	4.2
Lease capex-adjusted FOCF/debt (%)	4.1	6.7	8.7	13.2	10.5	11.7	12.6	13.3
Annual revenue growth (%)	1.5	(1.3)	(10.7)	(11.8)	0.9	1.9	0.8	1.5
Gross margin (%)	90.8	89.2	88.4	87.6	87.6	87.6	87.6	87.6
EBITDA margin (%)	83.4	78.9	81.1	80.3	79.1	79.3	79.4	79.5
Return on capital (%)	4.6	4.3	4.5	5.4	4.8	5.2	5.3	5.4
Return on total assets (%)	3.9	3.7	3.8	4.6	4.0	4.3	4.4	4.4
EBITDA/cash interest (x)	7.0	6.9	6.0	5.9	6.1	5.8	5.7	5.7
EBIT interest coverage (x)	6.8	6.2	7.1	9.9	6.1	5.8	5.7	5.7
Debt/debt and equity (%)	36.5	39.1	34.1	30.7	31.2	29.7	27.7	26.4

**Steen & Strom AS--Forecast summary**

Debt fixed-charge coverage (x)	7.0	6.3	7.1	8.1	3.1	0.8	2.3	0.7
Debt/debt and undepreciated equity (%)	36.5	39.1	34.1	30.7	31.2	29.7	27.7	26.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. NOK--Norwegian krone.

**EFinancial Summary****Steen & Strom AS--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.)	NOK	NOK	NOK	NOK	NOK	NOK
Revenues	1,879	1,882	1,910	1,887	1,684	1,486
EBITDA	1,431	1,487	1,594	1,488	1,366	1,193
Funds from operations (FFO)	1,022	1,097	1,356	1,262	1,109	958
Interest expense	395	254	229	236	194	147
Operating cash flow (OCF)	1,399	1,267	1,272	1,281	849	1,081
Capital expenditure	208	270	378	381	13	26
Dividends paid	0	0	1,088	1,259	1,922	1,579
Cash and short-term investments	578	447	449	265	461	311
Debt	12,290	12,009	12,211	13,190	9,584	7,850
Common equity	21,375	21,838	21,287	20,583	18,486	17,753
Valuation of investment property	36,647	36,821	--	36,766	30,140	26,641
<b>Adjusted ratios</b>						
EBITDA margin (%)	76.2	79.0	83.4	78.9	81.1	80.3
EBITDA interest coverage (x)	3.6	5.9	7.0	6.3	7.1	8.1
Debt/EBITDA (x)	8.6	8.1	7.7	8.9	7.0	6.6
Debt/debt and equity (%)	36.5	35.5	36.5	39.1	34.1	30.7

**Peer Comparison****Steen & Strom AS--Peer Comparisons**

	Steen & Strom AS	Mercialys	NEPI Rockcastle N.V.	Carmila S.A.	Citycon Oyj
Foreign currency issuer credit rating	BBB+/Stable/--	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2	BBB-/Stable/A-3
Local currency issuer credit rating	BBB+/Stable/--	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2	BBB-/Stable/A-3
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31

**Steen & Strom AS--Peer Comparisons**

Revenue	1,486	1,777	4,466	3,759	2,144
EBITDA	1,193	1,495	3,971	3,063	1,902
Funds from operations (FFO)	958	932	3,071	2,419	1,065
Interest expense	147.3	563.1	635.1	700.3	706.0
Operating cash flow (OCF)	1,081	1,249	2,876	2,752	838
Capital expenditure	26	201	1,468	1,198	1,737
Dividends paid	1578.5	963.0	2539.9	1515.1	1016.6
Cash and short-term investments	311	2,275	2,594	3,756	660
Debt	7,850	11,084	25,184	23,690	22,443
Equity	17,753	20,569	41,050	36,931	20,255
Valuation of investment property	26640.7	30502.0	69452.0	60910.7	42539.0
<b>Adjusted Ratios</b>					
EBITDA margin (%)	80.3	84.1	88.9	81.5	88.7
EBITDA interest coverage (x)	8.1	2.7	6.3	4.4	2.7
FFO cash interest coverage (x)	5.7	2.7	4.8	4.6	2.4
Debt/EBITDA (x)	6.6	7.4	6.3	7.7	11.8
Debt/debt and equity (%)	30.7	35.0	38.0	39.1	52.6

## Environmental, Social, And Governance

ESG factors are a neutral consideration overall in our credit rating analysis of S&S. As of end-2022, Klépierre owned 56.1% of S&S, and S&S' current leverage and financial discipline are commensurate with those of Klépierre. We have not seen S&S' controlling shareholder exert any negative operational influence on S&S over the past few years. On the contrary, Klépierre has a track record of injecting capital into S&S to sustain conservative financial leverage during the company's selective acquisitions.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB+/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BBB+/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Very Low
Industry risk	Low
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Intermediate</b>
Cash flow/leverage	Intermediate
<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	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>bbb</b>

## 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
- 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

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