S&P Global Ratings

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Research Update:

Norwegian Property Company Steen & Strom Outlook Revised To Positive After Same Action On Parent; 'BBB+' Rating Affirmed

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Rating Action Overview

- We revised our outlook on Klepierre S.A. (BBB+/Positive/A-2), parent of Steen & Strom (S&S), to positive from stable on resilient credit metrics during the past 24 months, thanks to a prudent financial policy.
- In our view S&S' creditworthiness simultaneously improves because of its integral and core status to Klepierre's group and strategy in the Nordic markets.
- Therefore, we revised our outlook on S&S to positive from stable and affirmed our 'BBB+' long-term issuer credit rating on the company, in line with our ratings and outlook on Klepierre.
- The positive outlook indicates that we could raise the rating over the next 12-24 months if Klepierre's operating performance remains resilient, its portfolio valuation stays relatively stable, and the company does not resort to outsized debt-funded acquisitions beyond our base-case scenario.

Rating Action Rationale

Our ratings on S&S move in line with those on parent Klepierre. In our view, S&S is a core subsidiary of the parent's group and is integral to the group's strategy in the Nordic markets. The outlook revision on Klepierre follows a prudent financial policy and financial flexibility, which should enable the company to sustain low leverage credit metrics, despite real estate market turbulence. In recent years, Klepierre maintained similar, if not better, credit metrics than pre-COVID-19 levels, mostly supported by indexation capacity over the past 24 months and reduced debt. We now expect asset values to stabilize, while sound indexation, positive lease reversions, and opportunistic acquisitions should improve leverage metrics. The positive outlook, therefore, reflects our view that Klepierre's credit metrics could improve beyond our base-case scenario as its debt leverage ratios improve further. (For more information, see "Klepierre S.A. Outlook Revised To Positive On Conservative Credit Metrics And Robust Performance; Affirmed At

'BBB+'," published May 27, 2004, on RatingsDirect.)

S&S' stand-alone credit metrics remain solid, underpinned by resilient operating performance and continuing deleverage. We understand the company's key performing indicators remained solid in 2023, underpinned by positive like-for-like rental growth of 9%, mainly from the performance in the Swedish market. Despite a minimal decrease in occupancy to 95% from 96% in December 2022, we understand that S&S maintained a high collection rate of close to 100% and good weighted-average lease terms of about 4.9 years. We do not expect a significant impact on the company's financial performance triggered by property disposals expected for 2024, which leads our S&P Global Ratings-adjusted EBITDA interest coverage ratio to remain broadly stable, at 7.0x-7.5x during the upcoming 24 months. Driven by the company's deleveraging strategy, we also expect debt to EBITDA and debt to debt plus equity to further improve in the next 24 months to 4.8x-5.5x and 25%-28%, respectively, remaining largely in line with our base-case scenario.

S&S' liquidity position assessment for the upcoming 12-24 months improved to strong from adequate. We forecast that the company's sources of liquidity will include unrestricted cash and cash equivalents of Norwegian krone (NOK) 1.1 billion (as of March 2024), undrawn committed bank lines of about NOK900 million maturing in more than 12 months, and broadly stable forecast yearly funds from operations of about NOK1.1 billion for the upcoming 12 months. We estimate these to be highly sufficient to cover S&S' liquidity needs for the next 12 months. Sources mainly include short-term financial maturities of NOK1.1 billion, expected capital expenditure of about NOK225 million, and our assumption of forecast dividend payout of approximately NOK660 million. Additionally, we believe that S&S' liquidity position benefits from a very long average debt maturity of about 13.5 years and sufficient covenant headroom under the existing debt facilities.

Outlook

The positive outlook on S&S reflects that on Klepierre. The positive outlook on Klepierre reflects the probability that we could raise the rating within the next 12-24 months if operating performance remains resilient and portfolio valuations stay relatively stable. It also incorporates our assumption that Klepierre will not resort to large debt-funded acquisitions such that its debt to debt plus equity would rise above 45%, while we expect its annualized debt to EBITDA to remain below 8.0x.

Downside scenario

We could revise the outlook to stable if:

- Debt-to-debt-plus-equity does not remain well below 45%;
- EBITDA interest coverage moves toward 3.8x; or
- Debt to annualized EBITDA deviates materially from our base-case scenario and remains higher than 7.5x.

We would take a negative view if Klepierre undertakes debt-funded acquisitions beyond our expectations, resulting in a material deviation from our base-case scenario.

Although it might not result in a downgrade, we would likely revise down our stand-alone credit profile on S&S if:

- Adjusted debt-to-debt plus equity ratio surpasses 50% for a prolonged period;
- Adjusted debt-to-EBITDA ratio increases above 11x; or
- EBITDA interest coverage ratio decreases to below 2.4x.

We would also likely revise down our stand-alone credit profile on S&S if further asset rotation results in a smaller and even more concentrated portfolio no longer comparable with peers in the same rating category.

Upside scenario

A positive rating action would hinge on a continued sound operating performance and stabilizing Klepierre's portfolio value. It would also hinge on the absence of overly large debt-funded acquisitions that would affect the company's debt to debt plus equity. This would mean that:

- S&P Global Ratings-adjusted debt-to-debt-plus-equity improves well below 45% sustainably;
- EBITDA interest coverage remains well above 3.8x; and
- Debt to annualized EBITDA stays below 7.5x.

A upward revision to the SACP would most likely come from an expansion of the scope, scale, and diversity of S&S' asset portfolio. In addition, an upside would require ratios to remain at the following levels:

- Adjusted debt to debt plus equity staying below 35%;
- EBITDA interest coverage remaining above 3.8x; and
- Debt to EBITDA staying comfortably below 7.5x.

Company Description

S&S is a Norwegian retail property company operating in Scandinavia. It owns 10 shopping centers in Denmark (43% of the portfolio value), Sweden (40%), and Norway (17%), with a broadly stable portfolio value of about NOK26.3 billion as of Dec. 31, 2023. S&S is fully owned by Storm Holding Norway AS, which, is owned by Nordica Holdco AB, of which, in turn, France's Klepierre owns 56.1%. Klepierre is one of the leading shopping center owners in Europe, with a presence in about 10 countries, managing a property portfolio with a value of €19.3 billion as of December 2023.

Our Base-Case Scenario

Assumptions

- Lower inflation in Norway, Denmark, and Sweden of about 3.4%, 3.2%, and 2.5% in 2024, with low real GDP growth of 1%, 1.3%, and 0.3%, respectively. We expect unemployment to increase slightly in 2024 to 4.0%, 5.2%, and 8.3%, respectively, and staying broadly stable in 2025.
- Annual like-for-like rental income growth of 1.4%-2.0% through 2024-2025, supported mainly by S&S' rental indexation capacity, good collection and footfall rate.

- Occupancy remaining at 94%-95% in 2024 and 2025, mainly supported by solid demand for large retail companies.
- Minimal like-for-like property devaluation of about 1% in 2024, in view of still-high required yields but remaining overall stable in the subsequent year.
- An increase in the expected dividend payout to NOK600 million-NOK670 million in 2024 and 2025.
- Average cost of debt to increase to 2.2%-2.4% in 2024 and 2025, assuming a further hedging debt structure of at least 90%.
- Annual capex of about NOK225 million in 2024, remaining largely stable in 2025.

Key metrics

- S&P Global Ratings-adjusted EBITDA interest coverage of 7.2x-7.6x in both 2024 and 2025.
- Debt to debt plus equity in the 24%-27% range for the upcoming 24 months.
- Debt to EBITDA of 5.0x-5.5x in 2024 and 4.5x-5.0x in 2025.

Liquidity

We view S&S' liquidity as strong, with a ratio of liquidity sources to uses of above 1.5x for the 12 months started April 1, 2024, and comfortably above 1.0x during the subsequent 12 months.

Principal liquidity sources over the 12 months started April 1 include:

- Unrestricted cash and cash equivalents of about NOK1.2 billion;
- Undrawn committed credit lines of NOK900 million maturing in more than one year; and
- Our forecast of funds from operations of about NOK1.1 billion in the next 12 months.

Principal liquidity uses in that time include:

- Debt repayment of about NOK1.1 billion, of which NOK400 million are bond issuances maturing in October;
- Our estimate of NOK 650 million-NOK 670 million of annual dividend payments; and
- Maintenance and committed development capex of NOK225 million-NOK250 million annually.

Covenants

As of December 2023, S&S and its subsidiaries have financial covenants for their existing debt. We understand that the headroom for all these covenants is strong (more than 15%) and we expect the company to maintain sufficient headroom.

We understand that S&S' covenant is as follows:

- A minimum book equity ratio of 20% (as of December 2023, it was reported at 56.5%).

Certain loans at S&S' subsidiaries have the following covenants:

- Maximum loan-to-value ratio of 65% (reported at 20.4% as of December 2023).
- Maximum loan-to-value ratio of 40% (reported at 33.2% as of December 2023).

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Positive/--
Business risk:	Satisfactory
Country risk	Very low
Industry risk	Low
Competitive position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile (SACP):	bbb
Group credit profile	bbb+
Entity status within group	Core (+1 notch from SACP)

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- 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
- 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

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Klepierre S.A. Outlook Revised To Positive On Conservative Credit Metrics And Robust Performance; Affirmed At 'BBB+', May 27, 2024

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Steen & Strom AS		
Issuer Credit Rating	BBB+/Positive/--	BBB+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.