

ISSUER COMMENT

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 Rate this Research

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Kungsleden AB

Change of financial policy is credit positive

On 11 February, [Kungsleden AB](#) (Baa3 stable) announced a resilient full-year 2020 performance and a change to its financial policy. Kungsleden announced that the company is now targeting an LTV ratio – defined as net interest-bearing debt divided by the market value of investment properties – of below 45% over time, which is more restrictive than its previous target of around 50%. The ratio stood at 45% as of 31 December 2020. Kungsleden's existing interest rate coverage ratio target of above 2.5x remains unchanged.

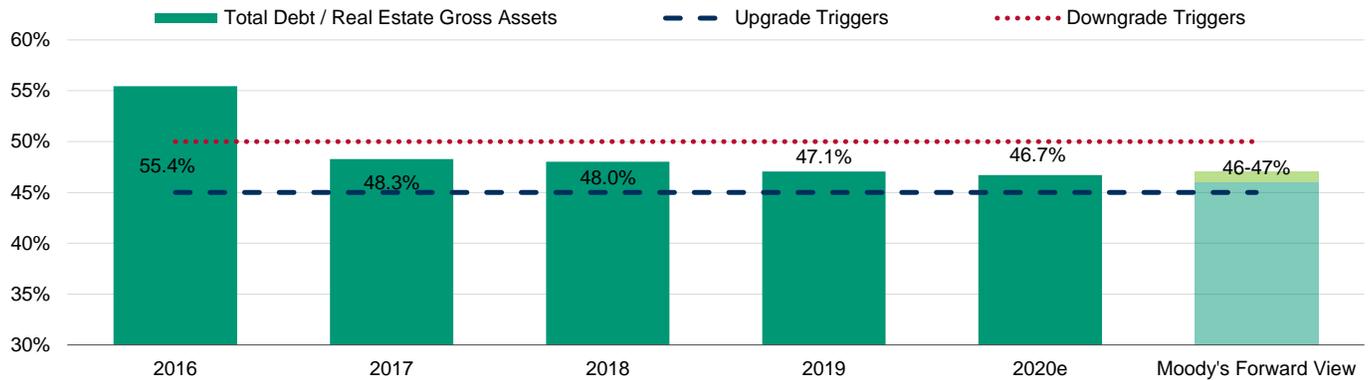
We view the revised LTV target as credit positive because it indicates Kungsleden's intention to maintain lower leverage over time than we previously expected, which can build a path toward positive rating action. Credit metrics as of year-end 2020 position Kungsleden solidly within its Baa3 rating category. However, further deleveraging, which would also allow the group to have some cushion against the tighter leverage, ceiling combined with continued solid operating performance of a stronger portfolio and a further move toward unsecured lending, are the key drivers for us to assess positive rating potential. Kungsleden's preliminary adjusted effective leverage, as measured by gross debt to total assets, was 46.7% as of 31 December 2020. As of the same date, its fixed-charge coverage stood at 4.3x, net debt to EBITDA at 11.6x and unencumbered assets at 33% of total assets.

Kungsleden has had a solid performance in 2020 and proven to be resilient in the context of the pandemic and posted above-average like-for-like rental growth of 4%. This, combined with a further gradual improvement toward the four clusters of Stockholm, Göteborg, Malmö and Västerås, is also an important credit-positive factor

While Kungsleden's effective leverage and unencumbered assets have been stable since we upgraded the rating in June 2019, we expect the company to improve its financial ratios and to begin to increase its unencumbered assets over the next 12-18 months. Kungsleden has limited debt maturities to refinance and consequently to release unencumbered assets. We expect the company to early refinance SEK2.2 billion of bank debt and to release SEK4.3 billion of encumbered assets. This will cause unencumbered assets to increase to slightly above 40% in the coming 12-18 months.

Exhibit 1

We expect leverage to improve following the company's change of LTV policy
Moody's adjusted debt/total assets



"Moody's Forward View" represents our forward view rather than that of the issuer.

2020e ratio is preliminary

Sources: Moody's Financial Metrics and Moody's Investors Service estimates

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