Nordic Credit Rating

CORPORATE: REAL ESTATE

Sweden
26 May. 2020

Intea Fastigheter AB (publ)

Initial Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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RATING RATIONALE

Our 'BBB+' long-term issuer rating on Sweden-based community-service property manager Intea Fastigheter AB (publ) (Intea) is primarily based on the company's relatively low-risk portfolio of largely tailor-made properties. Most of these properties are leased on long-term contracts to highly creditworthy public-sector authorities within the education, healthcare and law enforcement sectors in various municipalities. Nordic Credit Rating (NCR) views most of Intea's tenants as critical public service providers in Sweden with long-term growth prospects on the basis of projected demographics. Intea's low risk profile is supported by an occupancy rate close to 100%, close relations with its tenants, good cost controls, a balanced approach to project investment and acquisitions, and committed ownership support. These factors contribute to our assessments of Intea's business and financial risk which are underpinned by moderate leverage. At end-March 2020, Intea's loan-to-value (LTV) ratio stood at 54.8%, its interest coverage ratio at 3.9x, and its ratio of secured debt at a relatively low 27.4%, according to the company.

These positive factors are somewhat offset by the limited number of the company's properties and tenants, slight concentration risk in certain municipalities, and limited geographic diversification.

STABLE OUTLOOK

The stable outlook reflects NCR's expectation that Intea will finalise its current development projects on schedule while remaining relatively protected from the negative impact that COVID-19 is having on parts of the wider real estate sector given its government-related tenants. In our view, disruptions in the capital markets could negatively impact the company's cost of financing relative to budget, but earnings and operational cash flows should remain relatively secure through the coronavirus crisis.

POTENTIAL POSITIVE RATING DRIVERS

- Continuing improvements in credit metrics, especially LTV consistently to below 50% and net interest coverage over 5x.
- Projects finalised on or ahead of schedule and within budget.

POTENTIAL NEGATIVE RATING DRIVERS

- Continued financial market abnormalities impacting e.g. bond refinancing abilities in 2021-2022.
- Project delays and contract cancellations affecting rental income growth.

Figure 1. Intea key credit metrics, 2017-2022e

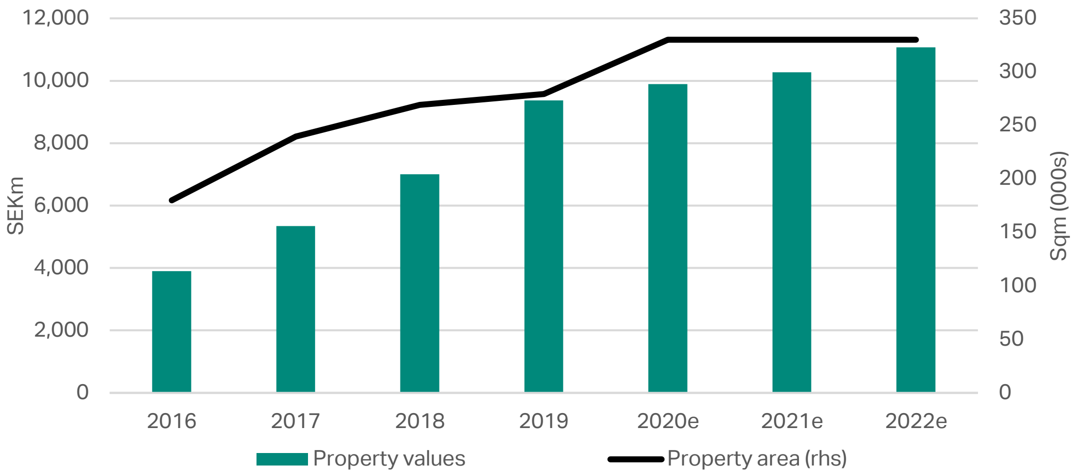
SEKm	2017	2018	2019	2020e	2021e	2022e
Revenue	283	372	488	518	564	585
Adjusted EBITDA	169	232	321	348	385	401
Investment properties	5,345	7,004	9,373	9,895	10,272	11,070
Adjusted net debt	2,843	3,815	5,056	5,214	5,418	5,855
Total assets	5,521	7,226	9,622	10,059	10,446	11,258
NCR-adjusted debt/EBITDA (x)	16.8	16.4	15.7	15.0	14.1	14.6
NCR-adjusted EBITDA/interest (x)	3.4	4.1	4.0	4.2	4.4	4.3
NCR-adjusted LTV (%)	53.2	54.5	53.9	52.7	52.7	52.9

Based on NCR estimates and company data. e – estimate. All metrics adjusted in line with NCR methodology.

COMPANY PROFILE

Intea was founded in 2015 with support from pension foundations associated with, among others, Svenska Handelsbanken AB, SAAB AB and AB Volvo. The company is focused on highly specialised and purpose-built properties within the community services subsegment in Sweden. Specific markets served by Intea include the judiciary system, universities and public hospitals. Intea has chosen to avoid less-specialised community service markets such as care homes for the disabled and the elderly, nurseries, and schools, which are served by many of its peers. Intea's properties are usually leased under long-term contracts and at present about 94% of its lettable area is leased to agencies of the Swedish government and municipalities, all of which are perceived to be stable tenants and financially solvent counterparties. As of 31 Mar. 2020, the company's property portfolio consisted of 24 properties with an area of 299,000 sqm, valued at about SEK 9.5bn at a 4.9% property yield. While Intea has a marked focus on expanding its portfolio and actively engages in acquiring existing properties, the company is highly selective and does not venture outside its main area of focus.

Figure 2. Intea's property values and property area, 2016-2022e



Based on company and NCR data

OPERATING ENVIRONMENT

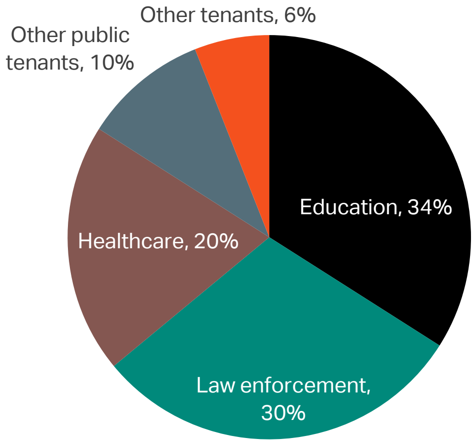
Operating environment scores 'a'

Our business risk assessment for Intea reflects the stable operating environment in which the company operates, its low-risk property portfolio with strong tenants and long lease terms, and very high operating efficiency given low vacancies and good cost control.

Most of Intea's tenants are essential public service providers and the company targets a minimum 90% of tenants measured by rental value to be government entities, regions or municipals, a figure which has been continuously surpassed. The nature of the tenants' operations as well as government guarantees makes Intea's operations highly stable. In addition, the length of the company's lease terms are often longer than contractually stipulated, generating long-term tenant relationships and stable rental income with low correlation with the general economic cycle. Rent levels are usually adjusted mainly on the basis of inflation. We view all Intea's tenants as highly creditworthy with about 65% of the company's rental income linked to the Swedish government and some 30% coming from municipalities and regions as of 31 Mar. 2020.

Intea's business model builds on a structural shift in the real estate market and the company sees the market for community service properties as highly attractive for investors since the current share of privately-owned entities within the subsector is as little as 20%. A key driver is that the Swedish government and municipalities have an interest in releasing invested capital currently tied up in fixed assets, such as aging real estate assets, and a need to lower fixed investments as other capital needs must be prioritized unless taxes are to increase. Structural growth within the community service property sector is mainly driven by demographic factors such as an increased number of children approaching school age (chiefly in the larger cities where newbuild schools are necessary), a larger proportion of elderly people as a percentage of the population (throughout Sweden where newbuilds are necessary after years of underinvestment) as well as a general population increase due to high rates of immigration. In addition, increased demand for higher education, more stringent legislation on care of the elderly, recent advances in healthcare techniques and increased demand for health care services, and aging community service properties are key drivers for the wider sector. Our understanding is that most of the political parties in Sweden are committed to increasing resources for the police and judiciary services. While Intea is highly selective in terms of property investment, we nonetheless expect the company's operating environment to improve or remain stable through 2022, given current trends.

Figure 3. Intea's main types of tenant, 31 Mar. 2020



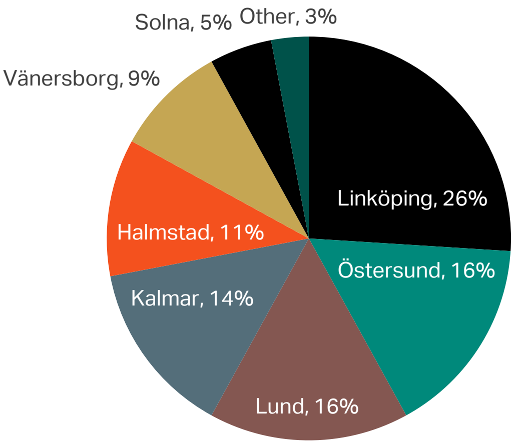
Based on company and NCR data

MARKET POSITION, SIZE AND DIVERSIFICATION

Market position, size and diversification assessed as 'bb'

As of 31 Mar. 2020, Intea's property portfolio consisted of 24 properties across 12 Swedish municipalities with a combined area of 299,000 sqm. While the combined area could be perceived as rather small, Intea is one of about 10 exclusive managers of community service properties in Sweden and therefore a leading provider in the subsegment. Moreover, the size of the company's individual properties is relatively large, even in comparison with those of other community service property managers. In NCR's opinion the company's closest peers (exclusive of funds) are Vacse AB and Fastighets AB Stenvalvet. Other peers include Akademiska Hus AB, Hemfosa AB (now part of Samhällsbyggnadsbolaget AB), Hemsö AB, Offentliga Hus i Norden AB and Specialfastigheter AB. The single largest tenants are The Swedish Police Authority (various locations), Region Skåne (Lund) and Linnaeus University (Kalmar).

Figure 4. Intea's geographic exposure by municipality, 31 Mar. 2020



Based on company and NCR data

About 90% of Intea's managed properties are custom-built. As a result, its tenants could be more loyal than average and contracts are more likely to be extended when they expire. Negotiations with tenants on upgrades and extensions are common and often form a foundation for new project plans. NCR believes that the risk of vacancies at specialised properties is lower than for community service and public service properties in general. However, Intea could face difficulties in acquiring new tenants if existing tenancies cannot be extended. Such a shift could cause a marked decrease in rental income and a subsequent fall in property values. However, we believe that there are often very few short-term options for Intea's tenants given the specialisation of each property, especially in smaller municipalities. Most commonly, Intea's leases are renegotiated as the typical tenant remains in the same property for periods outlasting the original contract.

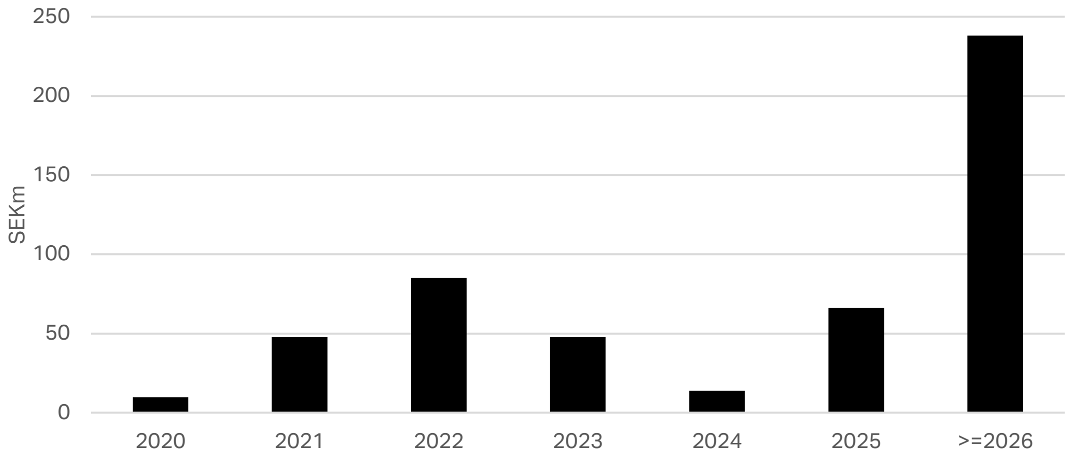
Although more companies have entered the subsegment in recent years, competition is partly mitigated by Intea's specialisation, stable ownership, and domestic identity, as certain government bodies want only domestic managers as counterparties in the face of concerns over security.

PORTFOLIO ASSESSMENT

Portfolio is assessed at 'a-'

Since most of Intea's properties are modern and highly specialised, typically with one long-term tenant, operating efficiency in terms of occupancy rates, net operating income (NOI), EBITDA margins, and returns on different forms of invested capital is very high (see Operational Efficiency, below). Out of a total portfolio value of SEK 9.5bn as of 31 Mar 2020, actively managed properties had a lettable area of 299,000 sqm with a value of about SEK 8.7bn and 0.8bn was attributed to ongoing projects. The managed portfolio has an average contract lease length of 6.5 years and we expect Intea to continue to operate with very high occupancy rates of close to 100%.

Figure 5. Intea's tenancy maturities by rental income, 2020e-2026e



Based on company and NCR data

Despite the owners' ambition to expand the company's property portfolio, we believe that management has acted prudently and notably Intea often chooses to develop projects in close collaboration with a tenant when engaging in new projects rather than acquiring older properties with significant upgrade needs. This is also evident in that Intea generally sees lower returns from both auction-acquired properties and off-market transactions compared with its own projects. Due to relatively high transaction prices and falling yields in the Swedish community service property market at present, Intea is focused on controlled growth and lowering both its operational and financial risk, which we believe is also the objective of the company's long-term owners, which require stable long-term returns.

Figure 6. Intea's main projects as of 31 Mar. 2020

Location	Tenant	Main use	Area (sqm)	Completion
Halmstad	Halmstad University	Education	10,500	Q2 2020
Östersund	Swedish public health agency	Healthcare	2,750	Q3 2020
Linköping	Swedish Police Authority	Law enforcement	3,600	Q4 2020
Kalmar	Linneaus University	Education	20,800	Q4 2020
Örebro	Swedish Police Authority	Law enforcement	11,600	Q2 2023
Kristianstad	Swedish Police Authority	Law enforcement	18,600	Q3 2024
Kristianstad	Kristianstad University	Education	30,000	2024
Total			97,850	

We regard Intea's project portfolio as a rating strength. It includes about 98,000 sqm of public tenant projects with a value of about SEK 3.3bn. These properties will expand the company's managed portfolio to about 400,000 sqm by 2024, when most current projects are scheduled for completion. While development projects carry some risk, we regard this as low given that pre-contracted lettings account for almost 100% of the current project area. Project risk is limited and mostly borne by the contractor. Intea hedges financial responsibility for its projects with the tenant until a binding rent agreement is signed. Given that the lettings are with similar kinds of tenants as those occupying the current managed portfolio, we view the future risk of vacancies as limited. We do not consider any rise in the value of project properties in our analysis.

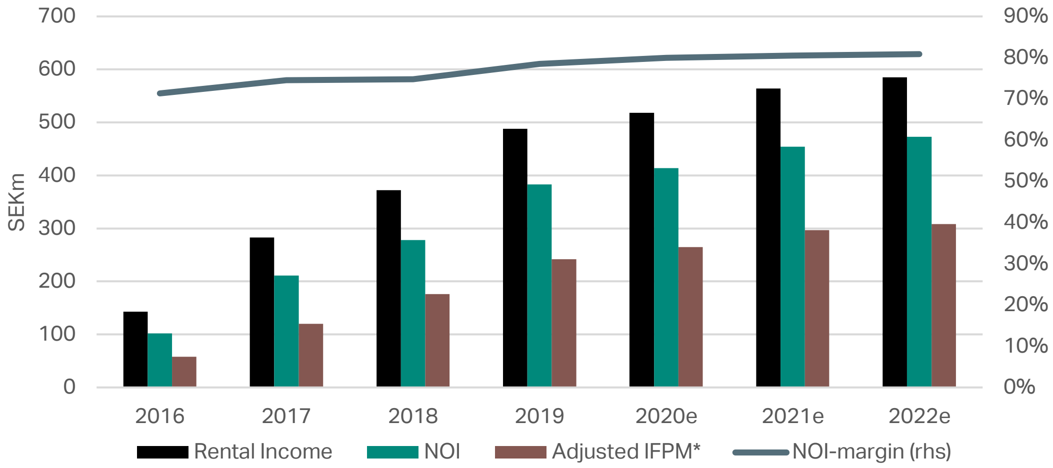
Intea had total building rights of about 86,400 sqm as of 31 Mar. 2020, a figure unchanged over the previous 12-month period. At present, these rights are valued conservatively and the planned properties are not expected to generate any rental income or other value in 2020-22. NCR does not take any appreciation in the value of project properties into account in its analysis.

OPERATING EFFICIENCY

Operating efficiency scores 'a'

Intea's operating efficiency is determined by long tenancies, close to 100% occupancy, stable and fair rental agreements, low fixed costs, and good cost control. Furthermore, the company's efficiency and profitability reflect efficient use of committed capital. Figure 7 shows Intea's improving financial profile with increasing NOI margins as the portfolio evolves and the company grows.

Figure 7. Intea's financial profile 2016-2022e



Based on company and NCR data. IFPM-income from property management. *adjusted for interest on shareholder loans

In our view, Intea's rental income is stable with limited downside risk. Rents are negotiated at arm's length, with appreciation based on 0.75-1x inflation. The tenant is typically responsible for most ancillary costs such as energy, insurance, non-basic property services, taxes, and modification costs during tenancies. All contracts abide by EU legislation and Swedish contract law. Given Intea's strategy of working closely with its tenants and its relatively limited number of tenants, we believe that the risk of early contract termination is low.

Intea's direct costs generally move in tandem with rental income, though this can vary significantly from quarter to quarter given higher costs in winter. Property type and age also determine direct property costs and hence NOI. We forecast NOI margins will rise to 80-81% in 2020-22 (from 78% in 2019) as a result of negligible tenant turnover, limited vacancies, and efficient management and maintenance services and see EBITDA margins of 65-69% over the same period.

Given a relatively low fixed operating cost base (prior to net interest), Intea's central costs are low, enabling substantial increases in EBITDA margins and margins on income from property management over time, as well as good return on equity (ROE) and invested capital. Intea has opted for relatively long-term financing but with a mix of bank and market debt financing and ordinary equity and shareholder loans (see Financial Risk Profile, below) implying substantial variations in its net financing costs. In general, we see somewhat higher financing costs ahead while swap contracts are utilised to lower interest rate risk and take advantage of changes in spreads. Intea's return on capital target is largely consistent with the aim of its owners with long-term, low-risk returns, but since 2016 actual returns have exceeded this target. Intea's return on assets (ROA) stood at 5.5% in 2019, which is not far from the sector average, while ROE was 14.1% in 2019 (including shareholder loans), suggesting that its operations are efficiently run. In our view, additional scale and further work on the cost base could improve conditions further.

FINANCIAL RISK PROFILE

Financial risk profile assessed as 'bbb'

We view Intea's overall financial policy and risk appetite as relatively balanced and believe that the company has low income volatility, a conservative project approach, and a strong ownership profile – including commitments to additional shareholder loans and equity – which has a moderating effect on overall financial risk.

Intea's financial policy is based on the targets set out in Figure 8. Despite the company's expansion plans, we expect it to keep its debt ratio, LTV, and gearing below these targets or in line with current levels. We base this assumption on the company's moderating capital spending (assuming no further acquisitions or additional project starts in 2020-22 and that current projects are completed on schedule and within budget) and use of shareholder loans in addition to new debt financing (see Liquidity, below).

Figure 8. Intea's financial targets and compliance requirements

Financial policy	Target	31 Mar. 2020*
LTV (%)	< 60	54.8
Interest coverage (x)	> 2	3.9
Secured debt/total debt (%)	< 30	27.4
Loan duration (years)	> 2	3.1
Interest rate duration (years)	> 2	5.9

*as defined by the company

We believe that Intea's credit metrics will remain stable over the next few years, with LTV falling to 52.7-52.9% in 2020-22 (from 53.9% in 2019), the interest coverage ratio (ICR) rising to 4.2-4.4x (from 4.0x) and debt to EBITDA falling to 15.0–14.6x (from 15.7x). The absolute trend in the company's credit metrics is commensurate with its targets and wider financial risk strategy.

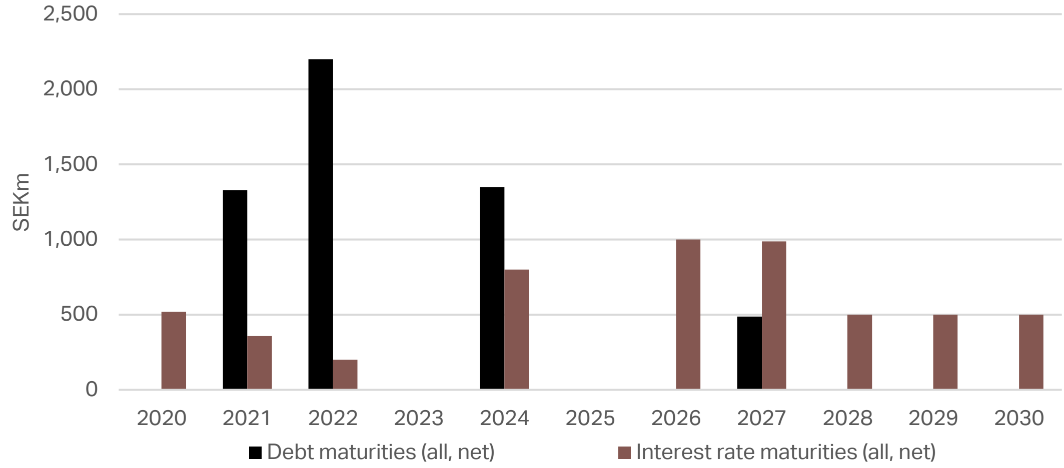
Given the current market conditions resulting from the COVID-19 pandemic, we see a risk that Intea might have to rely on short-term debt funding rather than extended bond financing in the very short term, increasing its financing costs slightly. That said, we view the company's current debt levels as healthy given it has no bond maturities as of 2020 and strong bank relations with leading Swedish credit institutions Svenska Handelsbanken AB and Nordea AB, as well as Nordic Investment Bank (NIB). Danske Bank is also co-responsible for the company's medium-term note (MTN) and certificate programmes.

Intea has relatively modest leverage and strong net interest coverage both on a standalone basis and compared with the wider community service property management industry. However, it has somewhat less favourable credit metrics than those of its closest peers, Stenvalvet and Vacse. Both have lower leverage and higher debt servicing capacity than Intea while Vacse has fewer projects planned. It is also NCR's opinion that Intea has more explicit growth ambitions than both Stenvalvet and Vacse.

We expect Intea's main sources of future funding aside from equity (only 16.1% of total assets as of 31 Mar. 2020) and shareholder loans (22.7% of total assets) to consist of a combination of secured bank loans, certificates and unsecured bonds. The shareholder loans are subordinated and treated as 100% equity. Market debt is issued in the form of longer tenured bonds within a mixed rate-structure MTN programme initiated in June 2017 with a framework amount of SEK 5bn (of which SEK 1.8 bn have maturities in 2021 and 2022) and short-duration unsecured debt via a certificate programme established in October 2017, with a framework amount of SEK 3bn (of which SEK 870m has been issued after recent repayments). A SEK 600m bond maturing in 2021 is priced at the three-month Stockholm interbank offered rate (Stibor) plus 0.70% while a SEK 1.2 bn bond maturing in 2022 is priced at three-month Stibor plus 1.60%. These rates could be difficult to refinance at present given the effects of COVID-19 and the implicit wider spreads. Nonetheless, Intea intends to issue certificates rather than rely on bonds and bank loans to avoid increasing its loan and interest durations at present.

At present, Intea has SEK 1.7bn in secured bank loans split among its three main lenders and of mixed durations. The secured loans are pledged against the company's 100%-controlled real estate entities and ultimately the underlying properties. Recently Intea has also managed to secure additional back-up credit lines and now has total bank commitments of SEK 2.5bn. Given the company's existing MTN and certificate programmes, we assume that Intea will decrease its bank borrowing over the next three years.

Figure 9. Intea's debt and interest rate maturities 2020-2030



Based on company data

Intea uses swap contracts to adjust interest rates from floating to fixed rates over time. The company's average interest rate had increased to 1.67% as at 31 Mar. 2020 from 1.60% a year earlier. Despite a need to keep secured bank borrowing below 30% of total assets, this figure stood at 27.4% as of 31 Mar. 2020, compared with 11.5% a year earlier. According to covenants that govern the company's MTN programme, secured debt must not exceed 40% of assets. We assume that this ratio will decline as market conditions improve during 2020. There is also a change-of-control clause within the MTN programme requiring repayment should more than 50% of the company's share capital change hands. In addition, the certificate programme stipulates that Intea must maintain a corresponding amount in unutilised back-up credit lines, or similar bank guarantees, as the outstanding certificates amount. This currently stands at about SEK 1.5bn. In addition to the above bank financing, Intea has a loan engagement with NIB worth SEK 488m with a 9-year maturity and relatively low interest.

Intea plans to extend its maturities and utilise both the bond and certificate markets once credit conditions improve. NCR, however, assumes that any new debt will be short-term, with certificates to cover lapsed certificates and secured bank loans to cover liquidity gaps and new, refinanced, bonds to be issued through the MTN programme as existing bonds mature in 2021 and 2022 and as current projects are finalised. We assume that Intea's secured debt to total assets ratio will remain at current levels. A long-term strategy for the company could be to convert shareholder loans into either bank or market-based debt financing (existing or extended MTN and certificate programmes) as this could lower interest costs and make the company more independent while at the same time preparing it for a stock market listing. At present, Intea has no green bond financing, which we see as a prospective way of raising attractively priced capital.

In our base-case scenario, we assume the following:

- Rental income growth of 6.2% in 2020, 8.9% in 2021, and 3.7% in 2022, with growth coming mainly from completion of projects in progress and agreed tenancy contracts.
- EBITDA margin to remain above 67% in 2020-22 (based on an NOI-margin above 80% during the entire period and stable central costs.
- Interest costs on external interest-bearing debt growing to around SEK 83m in 2020, SEK 88m in 2021, and SEK 93m in 2022 given slightly higher interest costs and external debt growing by SEK 837m (net) over the 2020-22 period to just over SEK 7.6bn (this against total external debt commitments of SEK 11.0bn as of 31 Mar. 2020).
- Shareholder loan costs of SEK 138m in 2020, SEK 142m in 2021, and SEK146m in 2022 based on stable interest rates (6%) and new shareholder loans of 275m, implying total shareholder loans of SEK 2.5bn by 2022.
- Unrealised value increases (due to finalisation of new projects) resulting in a total property portfolio value increase of SEK 114m in 2020, SEK 142m in 2021 and SEK 144m in 2022.
- Working capital release (cash flow additions) of SEK 89m in 2020, SEK 42m in 2021, and SEK 30m in 2022.
- Investments in existing properties and new projects of about SEK 408m in 2020, SEK 235m in 2021, and SEK 654m in 2022.
- Dividends paid to ordinary shareholders of SEK 50m (already paid out) in 2020, SEK 60m in 2021, and SEK 70m 2022.

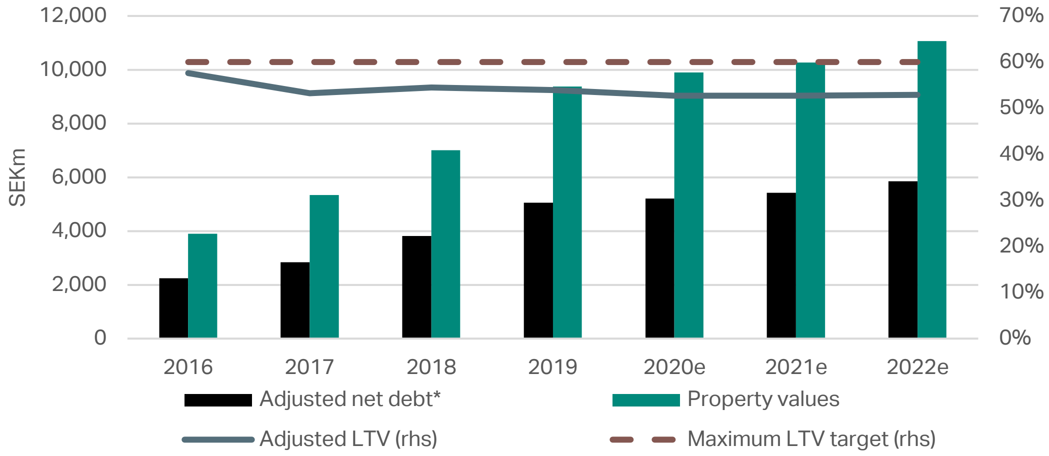
Note that we factor in no increase in the value of the existing portfolio to reflect ad-hoc improvements or general yield compression, only an increase from finalisation of new projects.

Based on these assumptions, we arrive at the following projections for 2020–22:

- LTV of 52.7-52.9%;
- EBITDA to net interest of 4.2-4.3x;
- debt to EBITDA of 15.0-14.6x; and
- secured debt to assets of 17.6-15.0%.

While we do not make concrete assumptions about possible credit market developments, we think it is fair to expect that Intea's gross debt and LTV will increase in 2021-22 as a result of new investment, a stable valuation of already-managed properties, and prospective bond issues given the ambition to roll-over current debt and to further diversify financing as the property portfolio grows. However, given the COVID-19 pandemic and its impact on credit markets it is likely that secured debt will form a notable proportion of new financing. To keep the equity and debt ratios at their current levels, we would expect that in addition to retained earnings there will also be injections of shareholder loans and small amounts of new equity in 2020-22. The company's current LTV level is favourable and triggers no concerns about credit or refinancing. However, it is ultimately dependent on property values, and while the ratio compares favourably with Intea's own targets, it is still above the corresponding ratios of its peers.

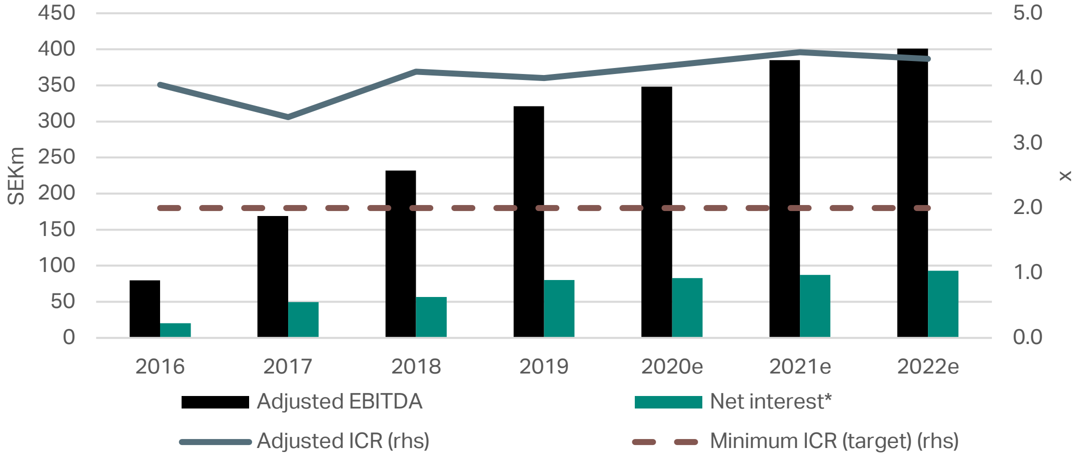
Figure 10. Intea's adjusted net debt, property values and LTV, 2016-2022e



Based on company and NCR data, *adjusted for interest on shareholder loans

Despite the lower cost of borrowing as of end-2019, we expect net interest costs to increase due to adverse spreads as a result of the COVID-19 pandemic, higher perceived financing risk, and a likely slight rise in total debt after 2020. However, we believe that EBITDA is likely to increase over the next few years as a result of new tenancies, supporting a gradual increase of EBITDA/net interest through 2022. This indicates that Intea's debt servicing capability is good and significantly above the company's targets, albeit below the corresponding capacities of its peers.

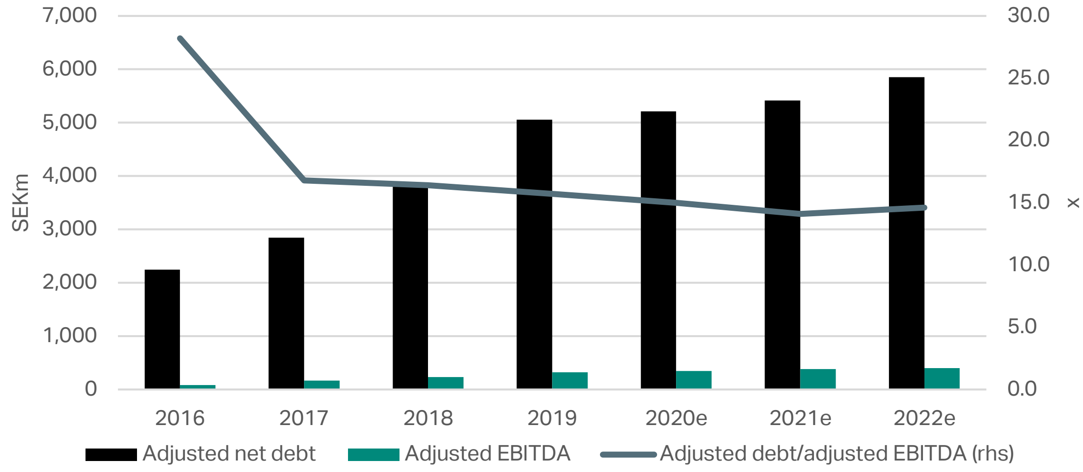
Figure 11. Intea's adjusted EBITDA, net interest cost and ICR, 2016-2022e



Based on company and NCR data, *adjusted for interest on shareholder loans

We expect net debt/EBITDA to increase. This would take into account new debt, high retained earnings, and strong cash flows. The risk in the denominator is mitigated by a presumed rise in EBITDA as projects are completed. The metric reflects a theoretical possibility that Intea could repay existing debt within the timeframe of its existing contracts, though this falls well outside the 2020-22 period.

Figure 12. Intea's adjusted net debt, adjusted EBITDA, and net debt/EBITDA



Based on company and NCR data

RISK APPETITE

Intea's discipline in carrying out acquisitions and new projects and the company's largely government-backed rental income supports our view that its risk appetite is well balanced. We believe that despite the gradual increase in the size of Intea's property portfolio, the company aims to maintain a diverse and well-balanced debt-equity structure to lower its overall risk profile. Intea's overall risk appetite and ability to obtain further shareholder loans from its owners supports our view that the company's financial risk is healthy. Our financial risk assessment is supported by Intea's good access to multiple capital sources, limited use of these sources, and satisfactory standing in the capital markets. We also view the company's extended average debt maturity profile as positive in terms of credit risk, but note that assessing its maturities is more difficult given current market conditions.

LIQUIDITY

Liquidity perceived as neutral

We assess Intea's liquidity profile as adequate -- despite the general credit market tightening in response to the COVID-19 pandemic – and note that the company recently successfully secured additional short-term financing with the expansion of a secured SEK 2.5bn back-up line. As part of a more prudent financial strategy, we expect management to work actively to extend the company's debt maturity profile and gradually seek market-based funding, primarily bonds, for planned portfolio increases following project completions in the 2020-22 period. Moreover, over the longer term, Intea is also seeking to refinance secured bank loans maturing in 2021-22, partly in the bond market and partly as bank loans. Given the company's cash and cash-equivalent positions at the start of 2020 and its stated commitments, we believe that Intea will be able to maintain its liquidity buffers.

We estimate the following primary liquidity sources for the next 12 months (totalling SEK 2.5bn):

- cash and equivalents of SEK 112m as of 31 Mar. 2020, adjusted by 25%;
- a SEK 230m secured bank loan as certificates mature during 2020;
- a SEK 292m fully committed, unutilised, bank loan facility (including back-ups) maturing beyond 2022;
- funds from operations of SEK 140m when stressed by 25%; and
- an unutilised shareholder commitment of SEK 1,700m.

We note that Intea plans to secure additional loans in 2020, ahead of its current bond maturities. Moreover, the company has ample room for market-based unsecured financing within both the MTN and certificate programmes as well as the implicit possibility of further expanding its committed secure credit lines beyond the current SEK 2.5bn total.

We anticipate liquidity to be used for the following purposes over the next 12 months (totalling SEK 1.2bn):

- amortisation of secured debt of SEK 58m;
- maturing certificates worth SEK 850m; and
- planned investments of SEK 269m.

We note that Intea met a SEK 500m maturing secured bond issued under the MTN programme during the first quarter of 2020 by increasing its secured bank loans. We do not allow for potential cost overruns or assume any unannounced property acquisitions in the remainder of 2020. Similarly, we have not included any sales of managed property or projects in the course of the year.

We assess Intea's liquidity over the next 12 months as neutral, given the company's easy access to committed shareholder capital. As sources outweigh uses of liquidity by a factor of 2x (no additional unsecured lending is forecast for the rest of the year) and as Intea has a low-volatility operating cash flow profile, we believe that the company has sufficient liquidity over the next 12 months.

ESG

ESG assessment is neutral

Intea's environmental, social and governance (ESG) policies improve our view of the company's overall business risk and competitive position. Intea has an employee dedicated to ESG compliance and policies, and the company is also certified according to various ISO standards.

Overall, Intea has demonstrated a commitment to environmental issues such as the lowering of CO_2 emissions and the enhancement of energy efficiency by certification targets for its new projects. The company also complies with various Swedish legislation on matters regarding the planning, construction and management of properties and the resulting impact on the general environment and biodiversity. Given the nature of its tenants and Intea's future market position, we view this work as increasingly important, not only from a strategy perspective but also from a financing viewpoint. Intea has yet to develop a green bond framework in alignment with the UN's sustainable development goals. However, the company has a goal to include in its tenancy contracts collaboration clauses between tenants and manager to lower the use of energy and water and the production of sewage. In addition, 100% of the company's electricity has to come from renewable sources enabling lower CO_2 emissions. Intea aims to obtain BREEAM certification or other relevant certification of all entirely renovated buildings and new projects. Intea's focus on certification could provide the company with further debt diversification opportunities and increase the likelihood that its properties will retain their asset values over time, thereby facilitating renegotiation of contracts at maturity.

With 94% of Intea's tenants being Swedish public entities, the company is implicitly bound by Swedish governmental practices in the ESG area. Moreover, the company aims to improve working conditions for employees via education, health-improving measures, and work-life balance initiatives. Intea also aims to improve social factors through local employment and social initiatives regulated through company-defined quality targets. In our view, Intea places emphasis on its reputation as a good employer and landlord.

In terms of governance we see little risk of change, conflicts, or other governance-related issues relating to the current management, board, or owners. NCR's view is that the targets of the owners and management are interlinked. Intea's governance procedures are compliant with Swedish and European ownership directives and internally regulated in the shareholders' agreement, as is standard practice. The company also has internal rules to promote anti-harassment and gender equality enhancement policies.

Intea's ESG policies have a positive implication for our overall view of the company's business and financial risk and therefore our rating. Although Intea is a relative newcomer to the real estate industry, it follows procedures and principles that demonstrate an overall commitment to the environment and we expect to see further initiatives. While Intea has certified several of its buildings according to global standards we believe more work is needed to achieve full compliance.

SUPPORT, OWNERSHIP AND CREDIT ENHANCEMENT

Additional shareholder loans are committed

We view Intea's broad and highly diverse ownership base (see Figure 13) as stable. The trust owners have strong associations with well-known Swedish corporations and banks with combined assets in excess of SEK 100bn. The owners have committed to additional shareholder loans and equity (an estimated additional SEK 1.7bn will be available by mid-2020) which we consider in our liquidity analysis and which we expect to support the company's growth. The loans could also support the company in the event of distress or be used to improve the company's credit metrics. We view the size, solvency, characteristics, and long-term strategy of the owners as supportive to the company's overall risk profile.

Figure 13. Intea's owners as of 31 Mar. 2020

Owner	No. of shares	Share of total (%)
Svenska Handelsbanken Pension Fund	1,521,253	15.2
Intea AB	1,434,000	14.3
SAAB Pension Fund	1,140,940	11.4
Volvo Pension Fund	998,332	10.0
Federation of Swedish Farmers	950,783	9.5
Pensionskassan Svenska Handelsbanken	760,627	7.6
The Foundation for Baltic and East European Studies	722,595	7.2
PRI Pensionsgaranti	665,548	6.7
Riksbankens Jubileumsfond	570,470	5.7
Åke Wiberg Foundation	313,758	3.1
Others	921,694	9.2
Total	10,000,000	100.0

ISSUE RATINGS

Aside from secured bank lending, Intea is financed by unsecured senior obligations issued under the SEK 5bn MTN programme. It also has market financing from the SEK 3bn certificate programme. The 'BBB+' rating assigned to Intea is also applicable to both the secured debt and to all outstanding bonds and future bonds issued within the programme frameworks. The company has no meaningful subordinated debt.

Figure 14. Intea key financial data

SEKm	2017	2018	2019	Q12020 LTM
INCOME STATEMENT				
Revenue	283	372	488	510
Cost of goods sold	-72	-94	-105	-102
Selling, general & admin. expenses	-41	-46	-61	-64
EBITDA	169	232	321	344
Interest costs	-50	-56	-80	-86
Interest on shareholder loans	-74	-90	-123	-130
Change in value of properties	138	206	446	463
Change in value of financial instruments	-14	-16	-33	-42
Pre-tax profit	170	276	532	550
Net Profit	**132**	**224**	**399**	**405**
BALANCE SHEET				
Property, plant and equipment	5,345	7,004	9,373	9,512
Total non-current assets	5,348	7,006	9,373	9,513
Cash and cash equivalents	124	134	144	150
Total current assets	174	220	249	327
Total assets	**5,521**	**7,226**	**9,622**	**9,840**
Total equity	760	1,066	1,588	1,593
Long-term interest-bearing loans	1,567	2,568	3,499	3,496
Total non-current liabilities	1,463	1,763	2,235	2,235
Total current liabilities	3,164	4,504	6,093	6,129
Total equity and liabilities	**5,521**	**7,226**	**9,622**	**9,840**
CASH FLOW STATEMENT				
Pre-tax profit	170	276	532	550
Operating cash flow	109	147	116	132
Cash flow from investing activities	-740	-1,468	-1,944	-1,937
Cash flow from financing activities	674	1,329	1,839	1,884
Cash and cash equivalents at the beginning of the year	81	125	134	171
Cash flow for the year	**43**	**8**	**10**	**79**
Cash and cash equivalents at the end of the year	124	134	144	150

Figure 15. Scoring summary sheet

Subfactors	Impact	Score
Operating environment	20.0%	a
Market position, size and diversification	12.5%	bb
Portfolio assessment	12.5%	a-
Operating efficiency	5.0%	a
Business risk assessment	50.0%	bbb+
Ratio analysis		bbb
Risk appetite		bbb+
Financial risk assessment	50.0%	bbb
Indicative credit assessment		**bbb+**
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		**bbb+**
Support analysis		Neutral
Issuer rating		**BBB+**
Outlook		Stable
Short-term rating		**N-1+**

Figure 16: Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 26 May. 2020.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
Primary analyst:	Daniel Johansson, +46732324378, daniel.johansson@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR’s rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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