

RatingsDirect®

Research Update:

Swedish Municipality of Huddinge 'AA+/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Dennis Nilsson, Stockholm (46)84405354; dennis.nilsson@spglobal.com

Secondary Contact:

Carl Nynerod, Stockholm (46) 8-440-5919; carl.nynerod@spglobal.com

Table Of Contents

Overview

Rating Action

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Ratings List

Research Update:

Swedish Municipality of Huddinge 'AA+/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

Overview

- We expect the Swedish Municipality of Huddinge will post a minor deficit after capital accounts on average through 2019 as investment levels remain high.
- At the same time, the municipality's debt is likely to stay low in the medium term.
- We are therefore affirming our 'AA+/A-1+' and 'K-1' ratings on Huddinge.
- The stable outlook continues to reflect our expectations that Huddinge will post only marginal deficits after capital accounts, which will contain its tax-supported debt and maintain its strong liquidity position.

Rating Action

On Nov. 10, 2017, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on the Swedish Municipality of Huddinge. The outlook is stable.

At the same time, we affirmed our 'K-1' short-term Nordic regional scale rating on Huddinge.

Outlook

The stable outlook reflects our expectation that Huddinge will maintain adequate budgetary performance over the next 24 months, despite ongoing capital investments. Although we think that Huddinge's company sector will record high investment levels, requiring loans from the municipal treasury, the build-up of debt will likely stay moderate. The outlook also incorporates our view that Huddinge will maintain its prudent approach to debt and liquidity management, in turn sustaining the municipality's liquidity as a positive rating factor.

Downside Scenario

We could consider a negative rating action if we observed that Huddinge's management was not calibrating its liquidity facilities and its loan amortization, such that its debt service coverage remained greater than 80%. If this were the case, we would view the municipality's financial management and liquidity less favorably and could consider a downgrade. We could also consider a negative rating action if Huddinge's debt and budget policies led to a sharp increase in the municipality's debt burden, exceeding 120% of operating revenues.

Upside Scenario

We could raise the ratings if, in line with our upside scenario, Huddinge's budgetary performance improved to the extent that the municipality consistently

achieved operating balances exceeding 5% of operating revenues, turning the balance after capital accounts into a surplus. This would likely strengthen the municipality's liquidity position such that the liquidity coverage ratio exceeded 120%.

Rationale

The ratings on Huddinge are supported by Sweden's extremely predictable and supportive institutional framework, the municipality's very strong local economy, strong liquidity, low debt, and low contingent liabilities. We now expect that Huddinge will post minor deficits after capital accounts on average for the next few years and we foresee investment levels increasing. Following the announcement that real estate company Huga Fastigheter will be divided into two entities—one to manage municipal properties and the other to look after housing properties—we have revised our view of the debt on-lent to Huga. We acknowledge that the housing entity will be able to service debt without support from the municipality.

Huddinge benefits from Sweden's institutional framework and its own strong financial management

In an international comparison, Huddinge's local economy is very strong. With more than 107,000 inhabitants, Huddinge is the second-most-populous municipality in Stockholm County. Its growth prospects are sound, and its population continues to grow rapidly. The economy is well balanced and has a diverse industry structure. In addition, the municipality benefits from its close integration with the dynamic Stockholm region. However, owing to the comprehensive equalization system within the Swedish institutional framework, which evens out wealth among Swedish local and regional governments (LRGs), we use the three-year average national GDP per capita of US\$54,100 as a starting point for our analysis.

We consider Sweden's institutional framework to be a key rating strength for Huddinge. The Swedish LRG system has a high degree of institutional stability. Furthermore, Huddinge has strong revenue flexibility from its asset-rich company sector, which posts sizable surplus values. We regard this revenue flexibility as important because it counterbalances a somewhat inflexible expenditure structure. Moreover, we consider Huddinge's financial management as positive for the ratings. We think management would use its flexibility to offset any budgetary deterioration that might occur. We also believe that Huddinge's financial management will continue to use prudent debt and liquidity management practices to handle its large loan portfolio and ensure that liquidity remains sufficient to cover debt service needs.

A somewhat weaker budgetary performance is unlikely to translate into a materially higher debt burden

Despite some modest weakening, we expect Huddinge's stable economic fundamentals and prudent financial management to support its adequate budgetary performance. We expect the municipality to have operating balances of 2.4% of operating revenues over 2017-2019, only slightly weaker compared to the 3% average in 2014-2016. At the same time, we expect the municipality to deliver some modest deficits due to its ambitious plans to increase investments in infrastructure and municipal properties. Although this contrasts with our previous expectation of balanced budgets in the

medium term, we believe Huddinge's budgetary performance remains adequate compared globally.

Huddinge has implemented strong debt management to handle its increasing loan portfolio. In our base case for 2017-2019, we expect increasing investments within Huddinge's company sector and consequently forecast additional net new borrowings from the municipality's treasury. However, all of Huddinge's debt is on-lent to its municipal companies, with most of it going to property company Hüge. We expect Huddinge's tax-supported debt to increase only modestly and stay below 90% of operating revenues through 2019. With Hüge splitting into two entities, we assess the new housing property company as being able to support its portion of on-lent debt without being dependent on support or revenues from the municipality. This improves our overall assessment of Huddinge's debt profile.

We assess Huddinge's liquidity as strong, based on strong debt-service coverage. In October 2017, cash and committed facilities accounted for about 115% of debt service for the ensuing 12 months. Huddinge uses committed credit facilities from banks to handle its liquidity needs and reduce refinancing risk. Specifically, Huddinge generally holds a cash balance of Swedish krona (SEK) 350 million (about €35 million). Its committed liquidity back-up facility currently amounts to SEK1.75 billion. Together with a checking account of SEK600 million, this reinforces liquidity support. In liquidity uses we also include an expected financing need within the in-house bank to replace a guarantee to Södertörn Energi AB with on-lent debt.

Huddinge has a range of funding alternatives, which reduces refinancing risk. Funding is largely acquired through a SEK2 billion commercial paper program, a SEK4 billion medium-term note program, and loans from Kommuninvest. Consequently, we acknowledge Huddinge's strong and reliable capital market access in assessing its overall liquidity. We expect Huddinge to somewhat increase its use of commercial paper in the coming 12 months and beyond, leading the liquidity coverage ratio to stay between 80% and 120%.

As a member of local government funding agency Kommuninvest i Sverige AB, Huddinge has signed a joint and several guarantee of Kommuninvest's obligations. This is reflected in our view of Huddinge's contingent liabilities but we currently do not envisage a scenario in which Kommuninvest's operations would falter to the extent that these guarantees would be called. Overall, we consider Huddinge to have low contingent liabilities.

Key Statistics

Table 1

Municipality of Huddinge Key Statistics

(Mil. SEK)	—Fiscal year end Dec. 31—					
	2014	2015	2016	2017bc	2018bc	2019bc
Operating revenues	6,235	6,303	6,812	7,087	7,256	7,513

Table 1

Municipality of Huddinge Key Statistics (cont.)						
	—Fiscal year end Dec. 31—					
(Mil. SEK)	2014	2015	2016	2017bc	2018bc	2019bc
Operating expenditures	5,923	6,189	6,655	6,887	7,087	7,370
Operating balance	312	114	157	200	169	143
Operating balance (% of operating revenues)	5.0	1.8	2.3	2.8	2.3	1.9
Capital revenues	23	161	82	140	210	210
Capital expenditures	265	317	399	368	379	400
Balance after capital accounts	71	(42)	(161)	(28)	0	(47)
Balance after capital accounts (% of total revenues)	1.1	(0.7)	(2.3)	(0.4)	0.0	(0.6)
Debt repaid	2,037	2,350	2,100	1,725	2,150	2,768
Gross borrowings	2,146	1,992	2,110	1,623	2,739	3,660
Balance after borrowings	370	(565)	(30)	(0)	0	(0)
Modifiable revenues (% of operating revenues)	68.8	71.9	70.3	71.8	72.2	71.8
Capital expenditures (% of total expenditures)	4.3	4.9	5.7	5.1	5.1	5.2
Direct debt (outstanding at year-end)	6,235	5,877	5,884	5,782	6,371	7,264
Direct debt (% of operating revenues)	100.0	93.2	86.4	81.6	87.8	96.7
Tax-supported debt (outstanding at year-end)	7,791	7,430	7,281	6,579	7,168	8,061
Tax-supported debt (% of consolidated operating revenues)	105.2	94.9	87.4	76.2	81.2	88.4
Interest (% of operating revenues)	4.0	1.9	1.1	1.2	1.4	1.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	408,180	428,947	444,134	458,621	473,105	487,085

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

Ratings Score Snapshot

Table 2

Municipality of Huddinge Ratings Score Snapshot

Key rating factors

Institutional framework	Extremely predictable and supportive
Economy	Very strong
Financial management	Strong
Budgetary flexibility	Strong
Budgetary performance	Average
Liquidity	Strong
Debt burden	Low
Contingent liabilities	Low

*S&P Global Ratings bases its ratings on local and regional governments (LRGs) on eight main rating factors listed in the table above. Section A of our “Methodology For Rating Non-U.S. Local And Regional Governments” summarizes how the eight factors are combined to derive the foreign currency rating on an LRG.

Key Sovereign Statistics

Sovereign Risk Indicators - October 13, 2017. Interactive version available at <http://www.spratings.com/sri>

Related Criteria And Research

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30,2014
- General Criteria: National And Regional Scale Credit Ratings - September 22,2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15,2009
- General Criteria: S&P Global Ratings’ National And Regional Scale Mapping Tables - August 14,2017
- General Criteria: Use Of CreditWatch And Outlooks - September 14,2009
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07,2017

Related Research

- Sovereign Risk Indicators - October 13, 2017. Interactive version available at <http://www.spratings.com/sri>
- Default, Transition, and Recovery: 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions - May 08, 2017
- Swedish Local And Regional Government Risk Indicators: February 2016 Update - February 10, 2016
- Sweden’s New Equalization System Will Hurt Some LRGs’ Finances But Not Their Credit Quality - February 9, 2015

Research Update: Swedish Municipality of Huddinge 'AA+/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

	Rating	
	To	From
Huddinge (Municipality of)		
Issuer Credit Rating		
Foreign and Local Currency	AA+/Stable/A-1+	AA+/Stable/A-1+
Nordic Regional Scale	-/-/K-1	-/-/K-1
Senior Unsecured		
Foreign and Local Currency	AA+	AA+

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Research Update: Swedish Municipality of Huddinge 'AA+/A-1+' And 'K-1' Ratings Affirmed; Outlook Stable

Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.