

# OBOS BBL

Full Rating Report

## LONG-TERM RATING

**BBB-**

## OUTLOOK

**Stable**

## SHORT-TERM RATING

**N3**

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## RATING RATIONALE

Our 'BBB-' long-term issuer rating on Norway-based residential developer OBOS BBL reflects the company's strong market position as one of the largest residential developers in the Nordic region. OBOS has been a fixture in the Norwegian housing sector for nearly 100 years and has become a major component of the Swedish housing market over the past decade. Our assessment takes account of the benefits of OBOS' diverse range of business, investment and financial activities. It also reflects OBOS' strong balance sheet, especially given the large excess values in its land bank, equity investments and subsidiaries. We take a positive view of OBOS' generally strong liquidity position and healthy covenant headroom.

These strengths are partly offset by the cyclical nature of the residential market, in which demand for new-build housing is closely linked to the state of the overall economy. Our assessment is constrained by OBOS' weak leverage, cash flow and interest coverage metrics, which we expect to weaken further as a result of a slowing residential market. In our view, additional financial risk arises from the company's structure as a member association, which results in a limited ability to inject equity if needed.

## STABLE OUTLOOK

The outlook is stable, reflecting our expectations of a financial risk profile that continues to benefit from a strong balance sheet, ample liquidity and healthy covenant headroom. It also reflects our expectations of a slowing residential market, negatively impacting OBOS' home sales and key credit metrics over our forecast period through 2024.

### POTENTIAL POSITIVE RATING DRIVERS

- Improved credit metrics, with net debt/EBITDA below 4x and EBITDA/net interest above 6x over an extended period.
- Increased scale and improved operating margins, combined with a strengthened market position in Sweden.

### POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating credit metrics, with an equity ratio below 50% or EBITDA/net interest below 1.5x over an extended period.
- A residential market deteriorating beyond our expectations, reducing prospects for home sales and further weakening credit metrics.

Figure 1. OBOS key credit metrics, 2018–2024e

NOKm	2018	2019	2020	2021	2022e	2023e	2024e
Revenues	13,162	14,924	12,246	11,715	12,225	14,913	14,509
NCR-adj. EBITDA	2,652	3,284	2,704	1,661	1,697	1,547	1,097
NCR-adj. EBITDA margin (%)	20.7	22.6	23.0	14.8	13.9	10.4	7.6
NCR-adj. FFO	2,053	2,638	2,289	1,268	1,237	846	335
NCR-adj. net debt	16,786	15,689	13,885	13,571	17,730	20,403	21,820
NCR-adj. total assets	61,436	64,801	67,814	72,666	76,526	78,558	79,305
NCR-adj. net debt/EBITDA (x)	6.3	4.8	5.1	8.2	10.4	13.2	19.9
NCR-adj. EBITDA/net interest (x)	6.9	7.7	8.4	5.1	4.2	2.4	1.5
NCR-adj. FFO/net debt (%)	12.2	16.8	16.5	9.3	7.0	4.1	1.5
NCR-adj. FOCF/net debt (%)	9.6	12.7	14.9	(8.5)	(22.0)	(13.1)	(7.2)
NCR-adj. equity ratio (%)	61.3	64.2	67.7	66.8	64.6	64.1	64.1

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. FOCF–free operating cash flow. All metrics adjusted in line with NCR methodology.

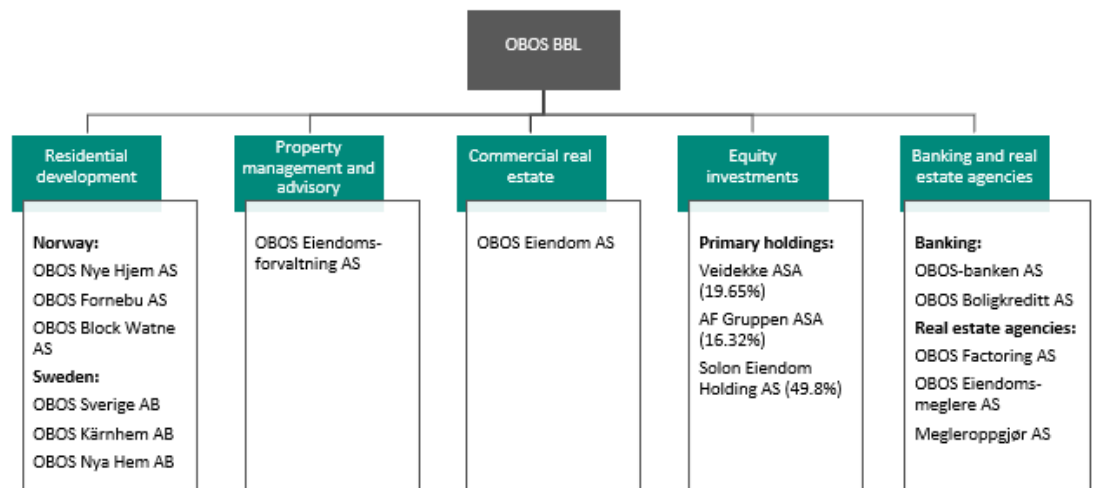
## ISSUER PROFILE

OBOS is a Norway-based residential developer, owned by its over 500,000 members in Norway and Sweden. The company's primary focus is residential development in Norway and Sweden, but it also provides property management and advisory services for housing cooperatives and owns strategic equity investments. In addition, it is a sizable commercial real-estate manager through its OBOS Eiendom subsidiary and operates a regulated bank (OBOS-banken AS), with its member homeowners as the bank's primary customer base. OBOS has been a fixture in the Norwegian housing sector for nearly 100 years and has become a major component of the Swedish housing market over the past decade.

OBOS develops large-scale residential housing and neighbourhood transformation projects in Oslo, Stockholm and other urban centres in Norway and Sweden. It also develops single-family timber-frame homes within commuting distances of these centres via its OBOS Block Watne and OBOS Sverige subsidiaries in Norway and Sweden, respectively.

Our rating on OBOS takes account of the entire group and, although our assessment of key credit metrics excludes OBOS-banken, we consider the bank's value to the overall group.

Figure 2. OBOS organisational chart of material subsidiaries



Source: company.

## BUSINESS RISK ASSESSMENT

Our business risk assessment reflects OBOS' long-term presence in the Norwegian housing and commercial property markets and its growing influence in the Swedish housing market. It also considers the company's range of business, investment and financial activities and its relative position as a leading residential developer in the Nordic region. We view real-estate development as a cyclical business, which weighs on our overall business assessment, as does the company's modest earnings profile.

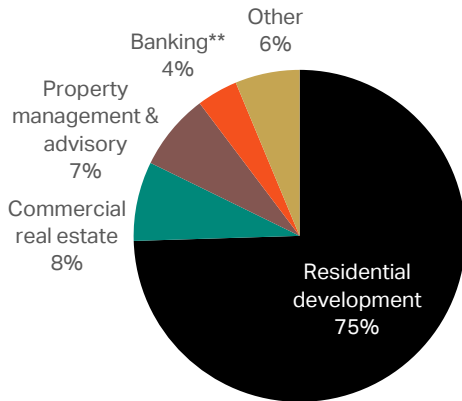
### Business profile dominated by residential development

OBOS' revenues are dominated by income from its residential development business, which accounted for 75% of revenues in the past four years. Due to relatively low operating margins in this division, it accounted for 41% of pre-tax profit in the same period. Our assessment of OBOS' operating environment factors in the cyclicity of residential development, together with the earnings stability provided by the less cyclical commercial real estate, and property management and advisory divisions.

Business risk assessment 'bbb'

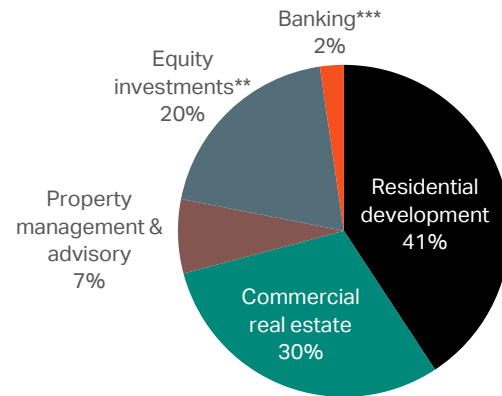
Operating environment 'bb'

Figure 3. OBOS revenues\* by segment, 2018–2021



Source: company. \*Excluding eliminations. \*\*Including real estate agency.

Figure 4. OBOS pre-tax profit\* by segment, 2018–2021

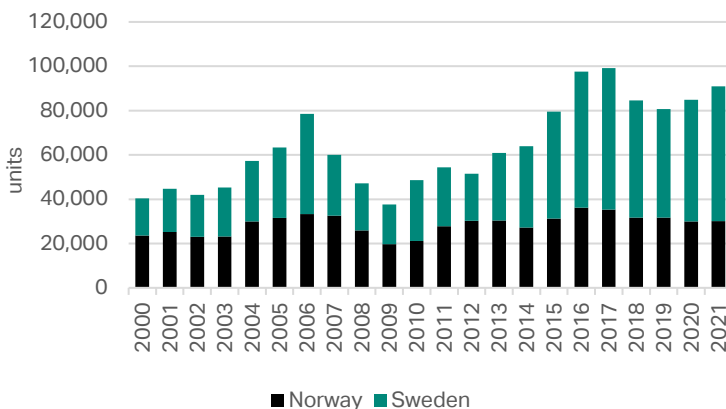


Source: company. \*Excluding other, eliminations and IFRS adjustments. \*\*Excluding NOK 2.1bn profit from sale of JM in 2021. \*\*\*Including real estate agency.

The outlook for residential development is closely connected with demand for new-build housing, which is dependent on the overall state of the economy and financing conditions for homebuyers. Following a generally strong housing market since the financial crisis in 2008–2009, uncertainty has increased in 2022 as inflation and interest rates have risen materially. In our view, this is likely to increase costs for homeowners and negatively affect the operating environment for residential developers. Furthermore, we expect historically high building costs and logistics bottlenecks to add to challenges in the sector. Given a high share of pre-sold apartments and houses, homebuilders only have a modest ability to pass rising construction costs onto customers. In addition, we expect rising interest rates to have a negative impact on housing prices.

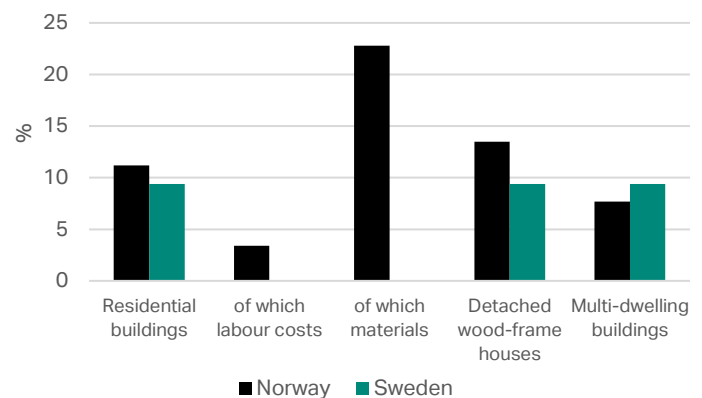
OBOS is feeling the impact of supply chain disruptions and has notified customers of potential delays of up to four months in some ongoing projects. In our view, these supply chain issues and higher construction costs are likely to lead to downward revisions of the number of housing construction starts in 2022 for the overall residential market.

Figure 5. Construction starts in Norway and Sweden, 2000–2021



Source: Statistics Norway, Statistics Sweden.

Figure 6. One-year increase in construction costs for residential development in Norway and Sweden, March/April 2022



Source: Statistics Norway as of April 2022. Statistics Sweden as of Q12022.

Despite a relatively modest revenue contribution, the OBOS Eiendom subsidiary has contributed some 30% of pre-tax profit and about 20% of NCR-adjusted EBITDA over the past four years. Commercial real estate is less cyclical than residential development and is therefore regarded as making a positive contribution in our business risk assessment. We take a favourable view of the property portfolio's focus on Oslo, where fundamentals are strong.

In addition to OBOS' value-creating divisions, it has substantial equity investments, primarily in the building and real-estate sectors. We assess their operating environments as similar to that of OBOS' residential development. As of 31 Mar. 2022, the book value of these investments was NOK 3.3bn, while

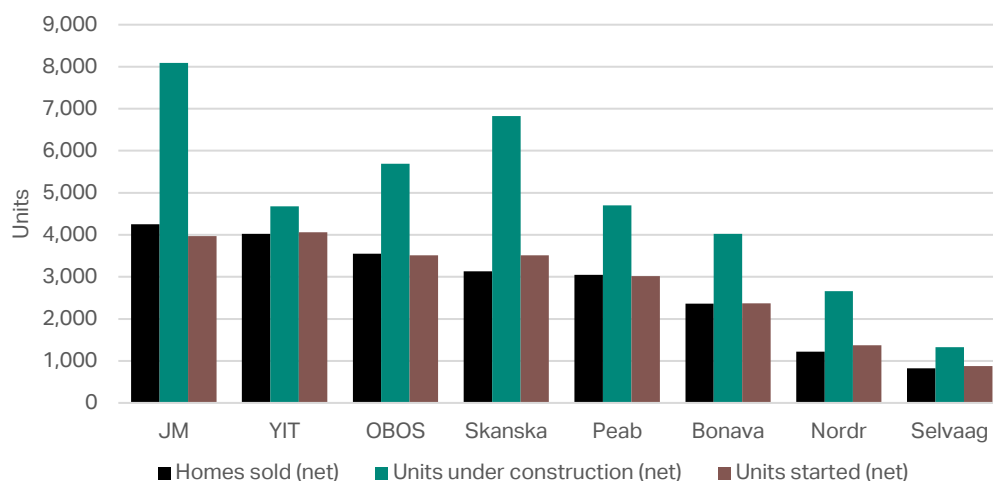
their combined market value was estimated to exceed book value by NOK 5.0bn. We consider these excess values in our calculations of value-adjusted equity and our assessment of financial risk.

**Norwegian residential property leader**

Market position 'a-'

OBOS' long history and well-established position in the Norwegian residential housing market is a valuable strength. With over 500,000 members, the company plays an important role in Norway and is increasing its market recognition in Sweden after launching its membership programme in 2020. Membership benefits, including the right of first refusal on OBOS homes for sale, encourage members to stay in the organisation for the long term to maintain their position in the membership structure.

**Figure 7. Nordic residential developers by units sold, started and under construction, 2021**



Source: company.

OBOS is one of the market leaders in residential development in the Nordic countries and aims to be among the top three residential developers in terms of units sold in the region. We expect the company's investments in the coming years to help it maintain this position. Unlike most peers, OBOS does not have its own construction business, but instead primarily uses turnkey contracts with major partners, effectively reducing project risks. Two of its primary building partners, Veidekke and AF Gruppen, are also OBOS' two largest equity investments. OBOS is the largest shareholder in both companies, which we believe supports close cooperation going forward.

At the end of 2021, OBOS had 5,691 units under construction in Sweden and Norway, making it the third-largest homebuilder in the Nordics. In Norway, OBOS had around 3,300 homes under construction at the start of 2022, compared with industry expectations of about 30,000 new homes in total. In Sweden, OBOS had 2,400 homes under construction out of total anticipated production of 66,000 homes. The company is the largest single-family home builder in Sweden, with 1,700 houses under construction compared with a total of 15,000 projected new houses in 2022.

The company maintains a substantial land bank, which it makes significant investments in. At year-end 2021, the land bank represented the equivalent of 38,300 potential new homes, the largest among Norway's residential developers, representing a competitive advantage. These properties are included in the balance sheet at historical acquisition costs and carry unrealised gains of about NOK 11.4bn (at year-end 2021), which we consider when calculating value-adjusted equity.

OBOS Eiendom has a long history as a commercial real-estate manager in Norway, with a focus on shopping centres, offices and other commercial buildings. Properties are typically located close to OBOS' residential development projects, with almost all rental income coming from the Oslo area. As of 31 Dec. 2021, OBOS Eiendom's portfolio was valued at NOK 14.4bn, making the company a relatively small property manager in a Nordic context. However, in our view, OBOS Eiendom's market position is supported by its close ties with the overall OBOS group. (As of the date of publication, OBOS Eiendom had a 'BBB-' long-term issuer rating from NCR.)

Although OBOS-banken is a minor contributor to revenue and EBITDA, we believe that its offering supports OBOS' overall market position and OBOS' objectives to provide its members with affordable housing, while also cementing customer relationships. With nearly NOK 50bn in net lending, the bank is among the top 20 lenders in Norway.

**Mix of offerings, brands and equity investments add to diversification**

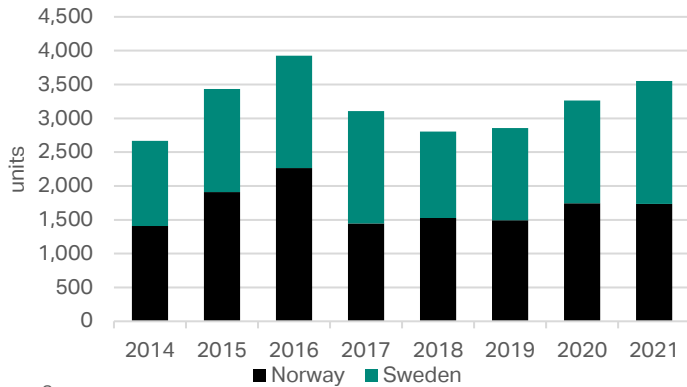
OBOS is active throughout the entire residential and commercial property value chain, generating revenues from development, management, financing and real-estate agencies. Revenues are dominated by residential property sales, although pre-tax profits demonstrate the relatively strong earnings profile of OBOS Eiendom and returns from equity investments.

Within residential development, OBOS has divisions focused on urban development and the construction of timber-frame terraced houses and single-family homes. Within the urban development division, OBOS focuses on large, often decades-long, urban transformation projects in Oslo, Stockholm and other metropolitan centres. In 2021, about half of homes sold were in Norway. The remainder was in Sweden, which adds some diversification, and this is further strengthened by the mix of apartment units and wood-frame buildings. In Norway, most new production is built by OBOS Nye Hjem and OBOS Fornebu in the form of apartments that are part of larger neighbourhood developments in the greater Oslo area. In Sweden, most homes are wood-frame, single-family modular homes built by OBOS Sverige under the Myresjöhus and SmålandsVillan brands.

OBOS aims to reduce the threshold for homebuyers by offering shared ownership, whereby buyers acquire only a 50–90% portion of the home, with OBOS owning the remainder (OBOS Deleie). Alternatively, it gives buyers the option of reducing the market price by 10–15%, with OBOS retaining the right to reacquire the home when the house is resold (OBOS Bostart). In our view, these initiatives add somewhat to the overall diversification of the residential development division.

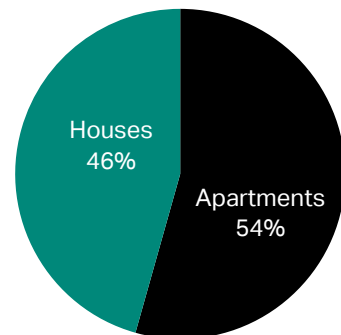
Size and diversification 'a-'

Figure 8. OBOS homes sold by country, 2014–2021



Source: company.

Figure 9. OBOS homes under construction by type of unit, year-end 2021



Source: company.

The company's equity investments have made a material contribution to profits in recent years. Dividends from these investments have added some NOK 1.5bn in cash flows in the past two years, while the divestments of OBOS' JM shares resulted in a NOK 2.1bn one-off profit in 2021. As was the case with the company's JM shares, OBOS has significant unrealised gains in its positions in Veidekke and AF Gruppen. In December 2021, OBOS acquired a 49.5% stake in Solon Eiendom Holding AS (owner of 90% of Solon Eiendom AS), making 8,000 additional residential units available for OBOS members' right of first refusal and entering into long-term cooperation with the company's other major owner, Sweden-based property manager Samhällsbyggnadsbolaget i Norden AB (publ). OBOS also invests in start-up companies with relevant technology for its core businesses.

Due to OBOS-banken's minor contribution to revenues and EBITDA, we do not place much emphasis on any diversification benefits from the division.

**Construction starts dependent on market demand, limited ability to pass on cost increases**

The revenue and profit from OBOS' residential development business are closely linked to demand for new-build housing. OBOS expects around 3,500 units to be sold in 2022. We believe that actual units

Operating efficiency 'bb'

sold and resulting construction starts will depend on market demand, especially since OBOS' residential development projects normally require a pre-sale rate of 50% before construction begins. If demand were to decrease, which is relatively likely given rising inflation and interest rates, the result would probably be delayed construction starts pending stronger demand, which is reflected in our forecast figures.

A combination of lower demand and higher building costs can pose problems for a residential developer, because it cannot easily pass on rising costs to homebuyers in a weaker market. However, we believe that this risk is mitigated in OBOS' ongoing projects by the frequent use of fixed turnkey contracts, resulting in the bulk of construction risk being borne by the constructor. Risk is further mitigated by the company's longstanding relationships with builders, particularly with AF Gruppen and Veidekke, in which OBOS is the largest owner. Nevertheless, reduced demand combined with higher building costs is likely to delay construction starts for OBOS and other developers.

As of March 2022, the pre-sale rate in OBOS' homes under construction was 71.1% (based on value). A high pre-sale rate leads to income predictability, but also a limited ability to pass rising costs onto customers. Under Norwegian law, customers have the right to withdraw from the planned purchase of their homes but must compensate the developer for any incurred losses.

OBOS' operating margins are roughly in line with those of its peers. Margins, however, vary widely between OBOS' different segments. We expect company-wide margins to decrease in 2022–2024 as a result of a weaker residential market.

The EBITDA margin of OBOS Eiendom typically fluctuates between 60% and 70%, with the variation due to project gains and dividends received from joint ventures and associate companies. The company's occupancy rate is usually around 95%, although it fell to 92.6% in 2021 and further to 88.9% in the first quarter of 2022 following the completion of the Oslo K development project. We assess the operating efficiency of OBOS Eiendom as relatively strong.

Figure 10. OBOS revenues, gross profit, EBITDA, and margins, 2018–2024e

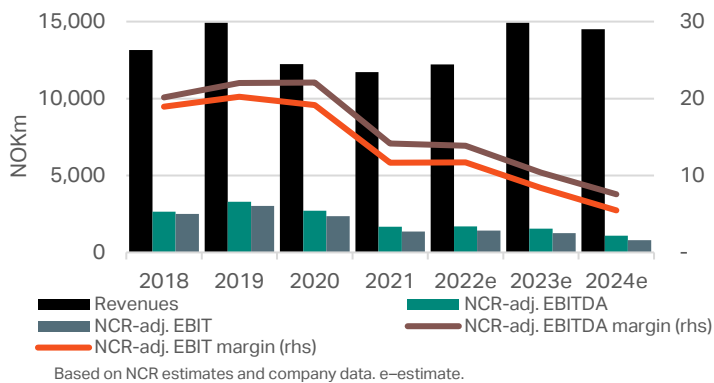
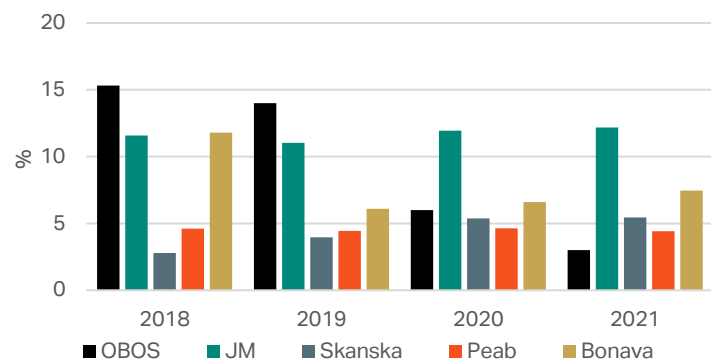


Figure 11. OBOS peer EBIT margins\*, 2018–2021



Source: companies. \*Unadjusted, excluding e.g., dividends received from joint ventures.

**FINANCIAL RISK ASSESSMENT**

Financial risk assessment 'bbb-'

Our financial risk assessment considers OBOS' key credit metrics, excluding OBOS-banken. The assessment also factors in the substantial excess values in OBOS' equity investments, land bank and subsidiaries. Given the nature of the company, we include the NCR-adjusted equity ratio in our financial ratio assessment. We view OBOS' financial risk appetite as commensurate with our ratio analysis.

**High financial gearing mitigated by strong balance sheet and substantial unrealised gains**

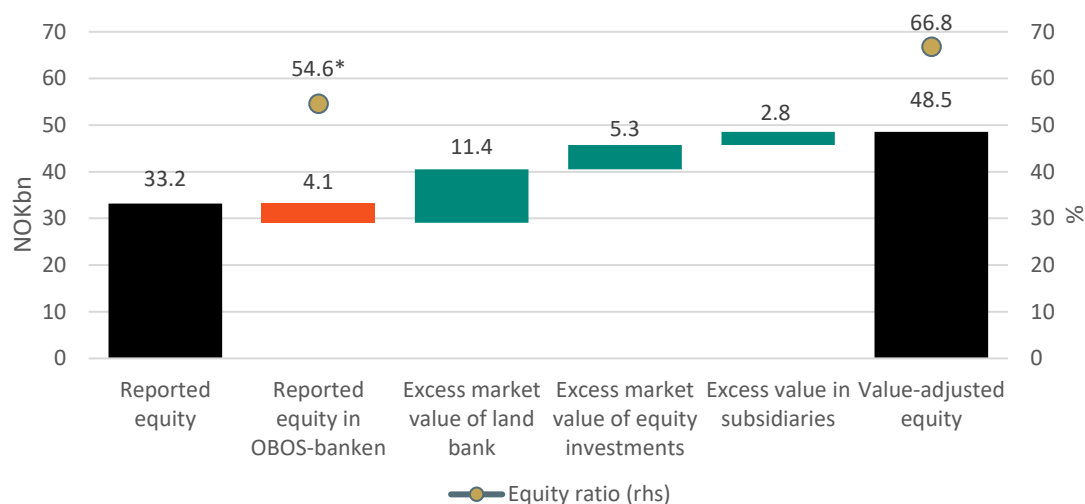
Ratio analysis 'bbb-'

Between 2018 and 2020, OBOS' NCR-adjusted net debt/EBITDA averaged around 5x, before rising to 9.5x in 2021 following a decrease in both revenues and operating margins. We expect net debt/EBITDA to remain at elevated levels in 2022 before weakening further on the back of a slowing residential market combined with significant investments. The company's net interest coverage has been maintained at 5–8x over the past four years. However, we expect interest coverage to decrease

substantially on the back of the forecast decline in EBITDA, but also as a consequence of rising market interest rates.

On the positive side, we view OBOS' strong balance sheet and substantial unrealised gains in its land bank, equity investments and subsidiaries as substantial mitigators of financial risk. This was illustrated by OBOS' divestment of its shares in Swedish construction company JM AB in 2021, resulting in a SEK 2.1bn profit, releasing considerable unrealised gains and improving cash flows. Although the company's unadjusted equity ratio is strong, we reflect these excess values in our NCR-adjusted equity ratio, which we regard as a key credit metric in our assessment. We expect these excess values to be more volatile than the company's balance sheet items, and therefore take a conservative approach when considering the adjusted equity ratio. In our view, the company's strong balance sheet provides good opportunities to reduce investments to weather economic downturns. We therefore view financial risk as moderate, despite other metrics being weak.

Figure 12. OBOS value-adjusted equity and equity ratio (excl. OBOS-banken), 31 Dec. 2021



Source: company. \*Unadjusted equity ratio excl. OBOS-banken.

Our base-case forecast of OBOS' future performance assumes:

- 3,400 completed homes in 2022, followed by 4,000 in 2023 and 3,500 in 2024;
- a decline in selling prices of unsold homes of 5% in 2022 and an additional 5% in 2023;
- revenue growth of 4% in 2022, 22% in 2023 followed by a 3% decline in 2024;
- an NCR-adjusted EBITDA margin of 14% in 2022, 10% in 2023 and 8% in 2024;
- rising market interest rates, resulting in increased financing costs through 2024;
- land plot acquisitions of NOK 2.2bn in 2022, NOK 2.0bn in 2023 and NOK 700m in 2024;
- property divestments in OBOS Eiendom of NOK 1bn per year through 2024;
- capital spending in OBOS Eiendom of NOK 1.5bn in 2022, NOK 1.7bn in 2023 and NOK 1.2bn in 2024; and
- annual donations to charity amounting to 10% of after-tax profit.

On the basis of these assumptions, we estimate the following metrics for 2022–2024:

- NCR-adj. net debt/EBITDA of 10x in 2022, 13x in 2023 and 20x in 2024;
- NCR-adj. EBITDA/net interest of 4.2x in 2022, decreasing to 2.4x in 2023 and 1.5x in 2024;
- NCR-adj. funds from operations/net debt of 7% in 2022, 4% in 2023 and 2% in 2024;
- NCR-adj. free operating cash flow/debt of -22% in 2022, -13% in 2023 and -7% in 2024; and
- an NCR-adj. equity ratio of around 64%.

Our calculations of key credit metrics exclude OBOS-banken, which would otherwise distort the metrics in a way which, in our view, would not accurately reflect OBOS' financial risk profile. We adjust EBITDA for the company's annual 'OBOS gir tilbake' donation to charity. In practice, the decision to allocate these funds is discretionary and decided by the company's board as if it were a dividend payment, despite being reported as an operating cost in the company's financial statements. Our

adjustment for capitalised interests reflects interest on loans from other OBOS companies. Despite these interests being capitalised as increases in debt, we include them in net interest because we expect that they will eventually result in cash outflows.

**Figure 13. NCR's adjustments to OBOS BBL's credit metrics, 2018–2024e**

NOKm	2018	2019	2020	2021	2022e	2023e	2024e
EBITDA	2,730	3,674	2,444	4,177	1,515	1,869	1,536
Divestment of JVs*	-1	-253	-27	-2,136	0	0	0
Share of profits in JVs*	-554	-912	-1,044	-1,076	-1,122	-1,369	-1,332
Dividends received from JVs*	598	908	1,506	807	878	959	801
Annual donation to charity	85	119	125	167	427	88	91
OBOS-banken EBITDA	-207	-252	-301	-279	0	0	0
<b>NCR-adj. EBITDA</b>	<b>2,652</b>	<b>3,284</b>	<b>2,704</b>	<b>1,661</b>	<b>1,697</b>	<b>1,547</b>	<b>1,097</b>
Net interest	-339	-318	-295	-268	-364	-603	-689
Other interest income	-10	-18	-3	-3	0	0	0
Capitalised interest	-1	-15	-18	-41	-41	-41	-41
Dividends reported as interest inc.	-33	-73	-6	-17	0	0	0
<b>NCR-adj. net interest</b>	<b>-384</b>	<b>-425</b>	<b>-322</b>	<b>-329</b>	<b>-404</b>	<b>-643</b>	<b>-729</b>
<b>NCR-adj. EBITDA</b>	<b>2,652</b>	<b>3,284</b>	<b>2,704</b>	<b>1,661</b>	<b>1,697</b>	<b>1,547</b>	<b>1,097</b>
<b>NCR-adj. net interest</b>	<b>-384</b>	<b>-425</b>	<b>-322</b>	<b>-329</b>	<b>-404</b>	<b>-643</b>	<b>-729</b>
Current tax	-262	-269	-163	-118	-56	-58	-32
OBOS-banken current tax	48	47	72	54	0	0	0
<b>NCR-adj. FFO</b>	<b>2,053</b>	<b>2,638</b>	<b>2,289</b>	<b>1,268</b>	<b>1,237</b>	<b>846</b>	<b>335</b>
<b>NCR-adjusted FFO</b>	<b>2,053</b>	<b>2,638</b>	<b>2,289</b>	<b>1,268</b>	<b>1,237</b>	<b>846</b>	<b>335</b>
Changes in working capital	52	112	820	-1,698	-3,632	-1,813	-700
Capital spending	-489	-762	-1,034	-722	-1,500	-1,700	-1,200
<b>NCR-adjusted FOCF</b>	<b>1,617</b>	<b>1,988</b>	<b>2,075</b>	<b>-1,152</b>	<b>-3,896</b>	<b>-2,667</b>	<b>-1,565</b>
Cash and equivalents	645	646	1,970	933	877	691	843
Short-term liquidity placements	560	1,159	1,177	4,289	4,289	4,289	4,289
Less 25% short-term liquidity placements	-140	-290	-294	-1,072	-1,072	-1,072	-1,072
OBOS-banken cash and equivalents	239	321	433	417	417	417	417
<b>NCR-adj. cash and equivalents</b>	<b>1,304</b>	<b>1,836</b>	<b>3,286</b>	<b>4,567</b>	<b>4,511</b>	<b>4,326</b>	<b>4,477</b>
Gross interest-bearing debt	54,972	58,075	62,680	66,925	71,147	73,635	75,203
Long-term lease liabilities	0	435	383	324	324	324	324
Pension liabilities	113	136	102	110	110	110	110
Debt related to assets held for sale	108	633	176	119	0	0	0
OBOS-banken interest-bearing debt	-37,102	-41,754	-46,170	-49,339	-49,339	-49,339	-49,339
<b>NCR-adj. cash and equivalents</b>	<b>-1,304</b>	<b>-1,836</b>	<b>-3,286</b>	<b>-4,567</b>	<b>-4,511</b>	<b>-4,326</b>	<b>-4,477</b>
<b>NCR-adj. net debt</b>	<b>16,786</b>	<b>15,689</b>	<b>13,885</b>	<b>13,571</b>	<b>17,730</b>	<b>20,403</b>	<b>21,820</b>
Total equity	22,531	25,979	29,112	33,178	34,057	34,970	35,481
Excess value in land bank	11,629	10,091	11,522	11,446	11,446	11,446	11,446
Excess value in equity investments	3,204	5,553	6,225	5,272	5,272	5,272	5,272
Excess value in subsidiaries	3,251	3,505	2,766	2,766	2,766	2,766	2,766
OBOS-banken equity	-2,936	-3,502	-3,706	-4,128	-4,128	-4,128	-4,128
<b>NCR-adj. equity incl. excess values</b>	<b>37,679</b>	<b>41,626</b>	<b>45,919</b>	<b>48,535</b>	<b>49,413</b>	<b>50,326</b>	<b>50,837</b>
Total assets	83,475	90,992	97,915	106,749	110,608	112,640	113,387
Excess value in land bank	11,629	10,091	11,522	11,446	11,446	11,446	11,446
Excess value in equity investments	3,204	5,553	6,225	5,272	5,272	5,272	5,272
Excess value in subsidiaries	3,251	3,505	2,766	2,766	2,766	2,766	2,766
OBOS-banken total assets	-40,122	-45,341	-50,614	-53,567	-53,567	-53,567	-53,567
<b>NCR-adj. total assets</b>	<b>61,436</b>	<b>64,801</b>	<b>67,814</b>	<b>72,666</b>	<b>76,526</b>	<b>78,558</b>	<b>79,305</b>

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. FOCF–free operating cash flow. JV–Joint venture. \*Joint ventures and associate companies.



Figure 14. OBOS NCR-adj. net debt/EBITDA and EBITDA/net interest, 2018–2024e

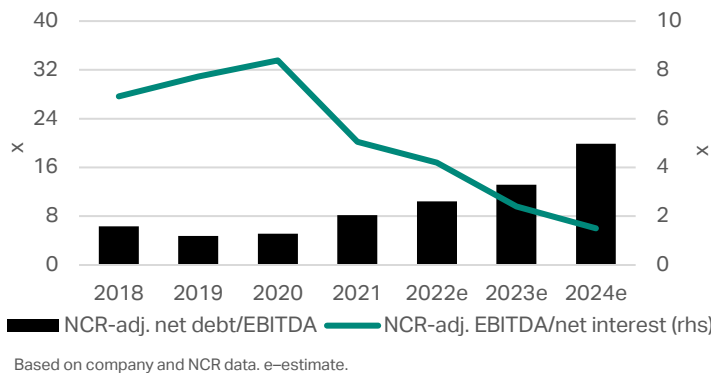


Figure 15. OBOS NCR-adj. FFO/net debt and FOCF/net debt, 2018–2024e

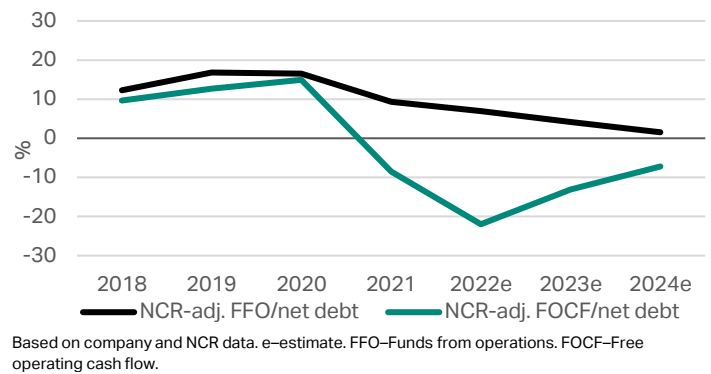
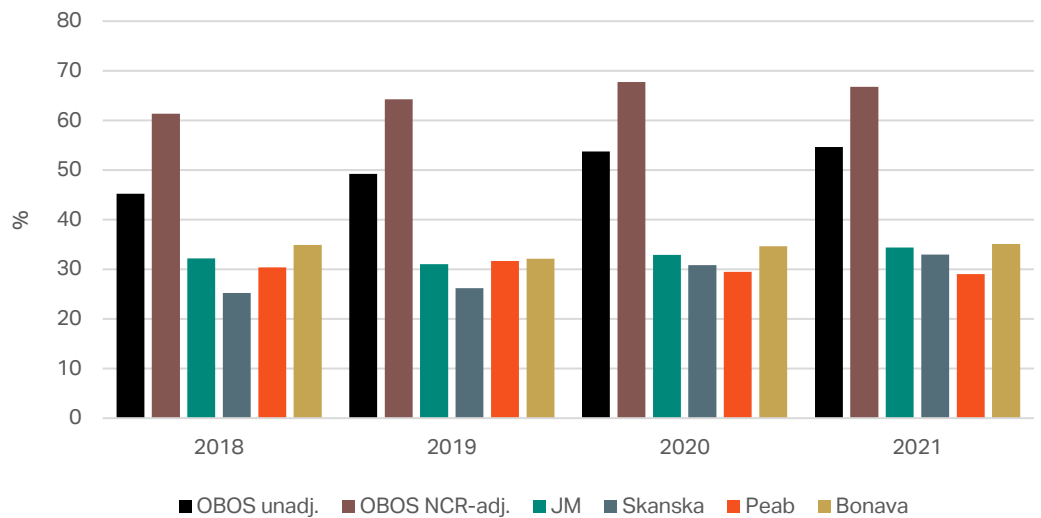


Figure 16. OBOS peer equity ratios, 2018–2021



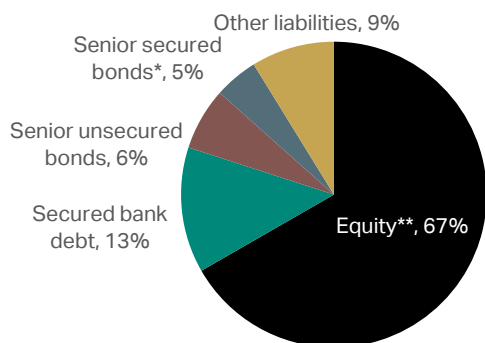
**Retention of cash flows is a strength, while lack of equity injection procedures is a constraint**

Risk appetite 'bbb-'

Excluding OBOS-banken, which is self-financed, OBOS is funded through a mix of equity, secured bank loans, and bonds (secured and unsecured). As OBOS is a member association, in addition to the previous years' profit, equity is made up of member capital contributed by OBOS' over 500,000 members. If members decide to leave OBOS, there is no refund of member capital. Consequently, there is no risk of substantial cash outflows if members were to leave OBOS. Furthermore, because OBOS is a member association, it does not have set procedures for injecting equity, if needed, and therefore has no real ability to restore financial ratios through equity injections if these were to fall below targets. This risk is mitigated by a generally strong liquidity position, which as of 31 Dec. 2021 amounted to NOK 9.3bn, including NOK 1.3bn in cash, NOK 4.3bn in money market and investment grade funds, and NOK 3.7bn in unutilised credit facilities. OBOS' financial policy stipulates that available liquidity at all times must be enough to cover all outstanding market loans issued by OBOS BBL maturing within the next 12 months.

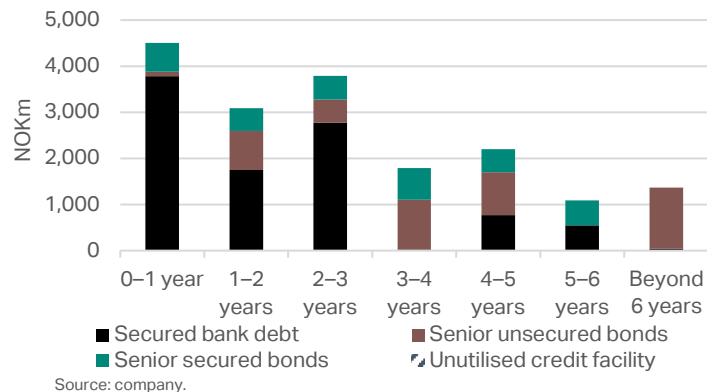
As of 31 Dec. 2021, the average debt maturity among OBOS' loans was 2.7 years, with debt maturities well distributed over several years. About 40% of the company's total bank loans are construction loans associated with ongoing development projects. We view the maturity risk of these loans as lower than other maturities, due to their close association with specific project properties and plans to repay these loans upon project completion. We therefore view OBOS' debt maturity profile as relatively balanced, despite large maturities in the next few years.

Figure 17. OBOS funding profile, 31 Dec. 2021



Source: company. \*Bonds issued by OBOS Eiendom and OBOS Nye Hjem. \*\*Equity adjusted for excess values in land bank, equity investments and subsidiaries.

Figure 18. OBOS debt maturity profile, 31 Dec. 2021



Source: company.

OBOS does not pay dividends to its members. However, it donates up to 10% of after-tax profit to charity each year. In 2021, the amount donated was NOK 167m, up from NOK 125m a year earlier. Because of this low dividend-like payment, the large majority of cash flows generated stay in the group, which we view positively in our assessment of financial risk.

OBOS' interest-bearing debt is governed by financial policy targets as well as a group-wide financial covenant, which stipulates that the loan-to-value (LTV) ratio must be maintained below 50% (see Figure 19). All covenants and targets are calculated excluding OBOS-banken. In addition, the company's return target stipulates that return on capital employed should exceed 5%. In our view, OBOS' financial targets are adequate, given the company's structure, and covenant headroom is sufficient.

Figure 19. OBOS financial covenants, policies and reported metrics

Metric	Common covenants	Financial policy/targets	Reported 31 Dec. 2021
LTV	<50%	<40%	20%
Interest coverage ratio	-	>3x	6.2x
Average fixed-interest period*	-	1.5-4 years	2.3 years

Source: company. \*Excluding construction loans.

**ADJUSTMENT FACTORS**

Adjustment factors neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

**Liquidity**

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario under which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect an investment grade company to cover all liquidity needs over the coming 12 months.

We assess OBOS' liquidity as adequate, despite a minor funding deficit of NOK 400m in the next 12 months. In our view, liquidity risk is mitigated by the large majority of near-term debt maturities being related to ongoing development projects and intended to be repaid upon project completion, which reduces maturity risk. Furthermore, although most estimated working capital needs in the next 12 months are committed, we believe that the company could reduce investments to some extent to support liquidity, if needed.

We estimate the following primary funding sources for the 12 months ending 31 Dec. 2022, totalling NOK 8.6bn:

- NOK 1.35bn in cash and equivalents as of 31 Dec. 2021;
- NOK 3.2bn in adjusted short-term liquid placements, corresponding to 75% of balance sheet items;
- NOK 900m in funds from operations, corresponding to 75% of the estimated NCR-adjusted funds from operations over the period;

- NOK 625m in proceeds from borrowings since 31 Dec. 2021; and
- NOK 2.5bn in unutilised credit facilities maturing after 31 Dec. 2022.

We estimate the following uses of funds for the 12 months ending 31 Dec. 2022, totalling NOK 9.0bn:

- NOK 4.5bn in maturing debt;
- NOK 900m in committed capital spending; and
- NOK 3.6bn in estimated working capital needs.

### **Environmental, social and governance factors**

ESG factors adequate

OBOS' environmental, social, and governance (ESG) risks and opportunities are incorporated in our view of the company's overall business and financial risk. OBOS has a societal focus that is embedded in its business model. In our view, the company's overall target of providing housing to its members, along with its annual charitable donation of up to 10% of after-tax profit, strengthens both its ESG profile and its market position.

The company's increasing social initiatives include efforts to reduce the cost of buying a home. OBOS offers shared ownership that allows buyers to acquire only 50–90% of a home, with OBOS owning the remainder (OBOS Deleie, available in both Norway and Sweden). It also gives buyers the option of reducing the market price by 10–15%, with OBOS retaining the right to reacquire the home when it is resold (OBOS Bostart, available in Norway). We believe OBOS' wide variety of social initiatives, including 'Deleie' and 'Bostart', support the company's market position by adding value to the member offering.

Through its position not only as a housing, but also an urban, developer, OBOS collaborates with research initiatives to create sustainable neighbourhoods and cities. The company's main environmental targets centre around new construction, both in terms of carbon emissions, certifications, and waste management. In property management, OBOS was involved in establishing the Norwegian Green Building Council's steps for immediate action for property managers, and has been a signatory to the initial 10 steps since 2017, and the additional 10 steps since 2021.

The main ESG issues that could affect our overall assessment are factors that could contribute to increased costs, loss of revenues, higher capital spending or a deterioration in financing opportunities (see Figure 20).

Figure 20. OBOS ESG considerations

Issue	Risk	Mitigating efforts	Result
CO <sub>2</sub> emissions	Increased costs due to regulatory and/or taxation changes.	Drive to increase energy efficiency and reduce CO <sub>2</sub> emissions.	Established target to reduce CO <sub>2</sub> emissions from projects (accounting for 85% of emissions) by 45% by 2026.
Impact of climate change on operations	Loss of revenues or increased capital spending.	Evaluation of impact on properties (in OBOS Eiendom).	In 2021, OBOS conducted a survey of climate risk exposure throughout the group, and identified both risks and opportunities, and noted appropriate measures to counteract risks.
Choice of materials/ efficiency and waste management	Increased costs, as well as impact on ability to certify properties or finance projects with sustainable financing.	Projects have targets of 80–90% recycled material, and waste generation of maximum 25kg/sqm.	Close to half of built units are constructed from wood. Fossil-free construction of 18% and 19% of projects in OBOS Eiendom and OBOS Nye Hjem/OBOS Fornebu, respectively.
Corruption	Increased costs, possibly material.	Procedures and policies in place to avoid corruption issues, in OBOS and its managed projects.	No reported cases of corruption in 2021.
Increased environmental focus on financial markets	Adverse effect on financing opportunities or higher financing costs due to slow transition to lower carbon dependence.	Established green bond framework. OBOS-banken provides green mortgages. Target of all new properties achieving energy efficiency class 'A'. Started assessment of biodiversity impact in 2021 in anticipation of future investor demand.	Cicero second opinion on green bond framework: light green. Environmental certification in development projects ranges from 29% to 100% among OBOS' subsidiaries. Most current projects will get energy class 'B'. 16% of lending portfolio is green, and OBOS has NOK 3.25bn outstanding in green bonds as of 31 Dec. 2021.

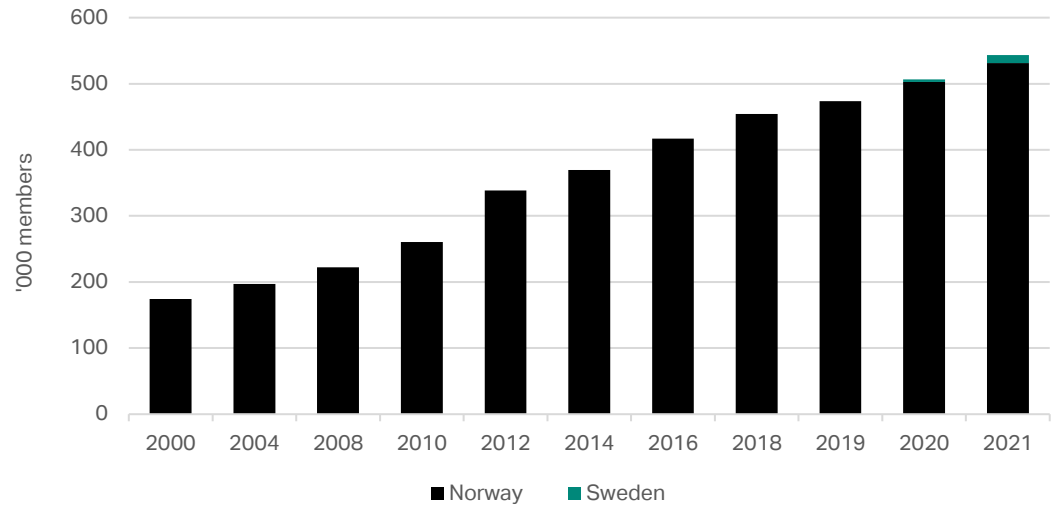
Source: company.

**OWNERSHIP ANALYSIS**

Ownership neutral

OBOS is owned by its more than 500,000 members. As a member association, the company has no set procedures for injecting equity if needed. Although we believe that OBOS members value the company's efforts to provide members with affordable housing, as indicated by the strong growth in the number of members over the past two decades, we do not expect members to be financially committed to OBOS if it were to face financial distress. We assess OBOS' ownership profile as neutral, but factor in our view of the corporate structure in our assessment of financial risk appetite.

Figure 21. Change in number of OBOS members, 2000–2021



Source: company.

### ISSUE RATINGS

We typically rate senior unsecured bonds one notch below the long-term issuer rating for an investment grade issuer if secured debt accounts for more than 50% of outstanding debt. As of 31 Dec. 2021, secured debt accounted for 69% of OBOS' total debt. However, due to the substantial asset values both on and off OBOS' balance sheet, we would expect meaningful recovery prospects in the event of financial distress. For this reason, we rate senior unsecured bonds issued by the company 'BBB-', in line with the long-term issuer rating. If the company's NCR-adjusted equity ratio were to fall below 60% (from 66.8% as of 31 Dec. 2021) on a sustained basis, with secured debt accounting for more than 50% of outstanding debt at the same time, we would likely lower the ratings on the company's senior unsecured obligations by one notch.

**Figure 22. OBOS key financial data, 2018–2021**

NOKm	2018	2019	2020	2021
<b>INCOME STATEMENT</b>				
Total revenue	13,162	14,924	12,246	11,715
Gross profit	2,176	2,509	1,373	966
EBITDA	2,730	3,674	2,444	4,177
EBIT	2,572	3,409	2,088	3,882
Net financial items	-110	-256	497	-151
Pre-tax profit	2,928	3,737	3,224	4,454
<b>Net profit</b>	<b>2,632</b>	<b>3,415</b>	<b>3,021</b>	<b>4,268</b>
<b>BALANCE SHEET</b>				
Goodwill	1,079	1,071	1,125	1,127
Intangible assets other than goodwill	971	1,100	2,113	2,393
Interests in joint ventures	3,952	6,333	5,793	5,145
Investment property	11,533	11,658	12,943	14,207
Investment property under construction or development	17,892	17,645	19,996	22,206
Other non-current assets	44,820	47,275	51,059	56,418
<b>Non-current assets</b>	<b>80,246</b>	<b>85,082</b>	<b>93,029</b>	<b>101,496</b>
Cash and cash equivalents	645	646	1,970	933
Other current assets	2,583	5,264	2,917	4,320
<b>Total current assets</b>	<b>3,228</b>	<b>5,910</b>	<b>4,887</b>	<b>5,253</b>
<b>Total assets</b>	<b>83,475</b>	<b>90,992</b>	<b>97,915</b>	<b>106,749</b>
Total equity	22,531	25,979	29,112	33,178
Long-term borrowings	27,780	29,846	29,717	34,642
Long-term lease liabilities	0	375	330	279
Retirement benefit obligations	113	136	102	110
Deferred tax liabilities	1,585	1,618	1,566	1,748
Other long-term liabilities	266	209	281	314
<b>Non-current liabilities</b>	<b>29,744</b>	<b>32,184</b>	<b>31,997</b>	<b>37,093</b>
Short-term borrowings	27,192	28,229	32,963	32,282
Other short-term liabilities	4,008	4,600	3,843	4,195
<b>Current liabilities</b>	<b>31,200</b>	<b>32,829</b>	<b>36,806</b>	<b>36,477</b>
<b>Total equity and liabilities</b>	<b>83,475</b>	<b>90,992</b>	<b>97,915</b>	<b>106,749</b>
<b>CASH FLOW STATEMENT</b>				
Pre-tax profit	2,928	3,737	3,224	4,454
Adjustment for items not in cash flow	-6,095	-5,388	-2,494	-2,142
<b>Cash flow before changes in working capital</b>	<b>-3,167</b>	<b>-1,651</b>	<b>730</b>	<b>2,312</b>
Changes in working capital	52	112	820	-1,698
<b>Operating cash flow</b>	<b>-3,115</b>	<b>-1,539</b>	<b>1,550</b>	<b>613</b>
Cash flow from investing activities	-1,860	-1,087	-1,773	-3,676
Cash flow from financing activities	4,370	2,647	1,535	2,034
Exchange rate effects on cash and cash equivalents	-9	-2	15	-15
Cash and cash equivalents start of year	1,258	645	665	1,991
<b>Cash flow for the year</b>	<b>-613</b>	<b>20</b>	<b>1,326</b>	<b>-1,044</b>
Cash and cash equivalents at the end of the year*	645	665	1,991	947

Source: company. \*Including cash reported as held for sale.

**Figure 23. OBOS rating scorecard**

Subfactors	Impact	Score
Operating environment	20.0%	bb-
Market position	10.0%	a-
Size and diversification	10.0%	a-
Operating efficiency	10.0%	bb
<b>Business risk assessment</b>	<b>50.0%</b>	<b>bbb-</b>
Ratio analysis		bbb-
Risk appetite		bbb-
<b>Financial risk assessment</b>	<b>50.0%</b>	<b>bbb-</b>
<b>Indicative credit assessment</b>		<b>bbb-</b>
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
<b>Stand-alone credit assessment</b>		<b>bbb-</b>
Support analysis		Neutral
<b>Issuer rating</b>		<b>BBB-</b>
Outlook		Stable
<b>Short-term rating</b>		<b>N3</b>

**Figure 24. Capital structure ratings**

Seniority	Rating
Senior unsecured	BBB-

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