

OBOS BBL

Full Rating Report

LONG-TERM RATING

BBB-

OUTLOOK

Stable

SHORT-TERM RATING

N3

PRIMARY ANALYST

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

SECONDARY CONTACTS

Yun Zhou
+46732324378
yun.zhou@nordiccreditrating.com

Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

RATING RATIONALE

Our 'BBB-' long-term issuer rating on Norway-based residential property 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' ability to generate liquidity and its healthy covenant headroom.

These strengths are partly offset by a weakened residential development market, in which demand for new-build housing has fallen materially due to the steep rise in interest rates since February 2022. Our assessment is also constrained by OBOS' weak leverage and interest coverage metrics, which we expect to decline further as a result of the ailing residential property market. In our view, the company's structure as a member association results in a limited ability to inject equity, if needed, increasing the importance of its ability to divest its equity investments and land bank to generate liquidity.

STABLE OUTLOOK

The outlook is stable, reflecting our expectations of a financial risk profile that continues to benefit from a strong balance sheet and the completion of housing projects supporting near-term liquidity and continued investment. It also reflects our expectations that OBOS will reduce its capital spending and debt accumulation as a result of the weakened residential market, and our view that the company is well-positioned to capitalise when the market stabilises thanks to its strong balance sheet.

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

- Further deterioration or lack of recovery in the residential market, limiting prospects for home sales in 2025 and beyond.
- Deteriorating credit metrics, with an equity ratio below 55% or EBITDA/net interest below 1.5x over an extended period.

Figure 1. OBOS key credit metrics, excl. OBOS-banken, 2019–2025e

NOKm	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	14,513	11,772	11,242	13,976	14,509	14,332	10,004
NCR-adjusted EBITDA	3,284	2,704	1,661	1,493	1,960	2,136	2,003
NCR-adjusted EBITDA margin (%)	22.6	23.0	14.8	10.7	13.5	14.9	20.0
NCR-adjusted FFO	2,638	2,289	1,268	1,155	941	1,155	1,087
NCR-adjusted net debt	15,689	13,885	13,571	20,043	17,848	18,265	16,741
Total assets	64,801	67,814	72,666	79,080	80,768	80,424	79,164
NCR-adjusted net debt/EBITDA (x)	4.8	5.1	8.2	13.4	9.1	8.6	8.4
NCR-adjusted EBITDA/net interest (x)	7.7	8.4	5.1	3.2	2.0	2.2	2.2
NCR-adjusted FFO/net debt (%)	16.8	16.5	9.3	5.8	5.3	6.3	6.5
NCR-adjusted FOCF/net debt (%)	12.7	14.9	-8.5	-9.5	-20.7	-20.3	0.2
NCR-adjusted equity ratio (%)	64.2	67.7	66.8	63.0	63.2	64.7	66.9

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.

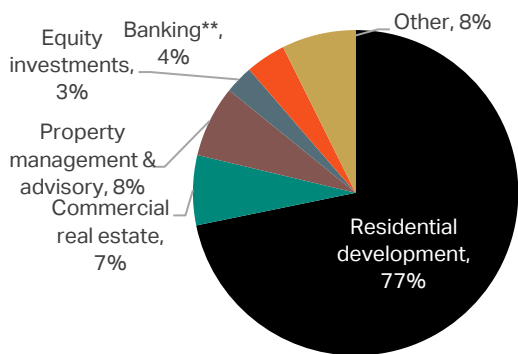
ISSUER PROFILE

OBOS is a Norway-based residential developer, owned by over 550,000 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 and housing cooperatives 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 Solon Eiendom subsidiaries in Norway and OBOS Sverige in Sweden.

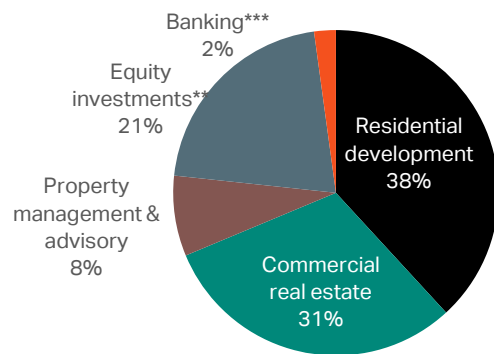
Our rating on OBOS takes account of the entire group and, although our assessment of key credit metrics excludes OBOS-banken, we believe that the bank adds value to the overall group by providing loans and alternative financing options to OBOS members and housing cooperatives.

Figure 2. OBOS revenues* by segment, 2018–2022



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

Figure 3. OBOS pre-tax profit* by segment, 2018–2022



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

BUSINESS RISK ASSESSMENT

Business risk assessment 'bbb-'

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.

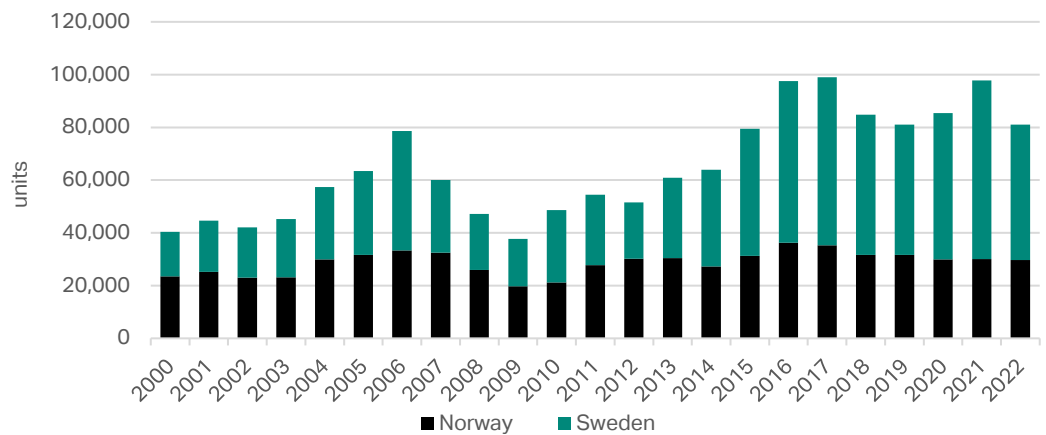
Residential development market faces weaker future

Operating environment 'bb-'

OBOS' revenues are dominated by income from its residential development business, which accounted for 77% of revenues over the past five years. Due to relatively low operating margins, this division accounted for only 38% of pre-tax profit over the same period. Our assessment of the 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 & advisory divisions.

The outlook for residential development has weakened in tandem with the recent rise in interest rates. New-build housing demand has declined given uncertainty about housing prices and interest rate levels upon project completion. This has resulted in a reduction in housing sales and construction starts across the Nordic region (see figures 4, 7 and 8). In addition, we expect rising interest rates to have a negative impact on housing prices. Furthermore, building costs remain relatively high in Norway and Sweden, though material costs have declined over the past year alongside the overall decline in construction activity.

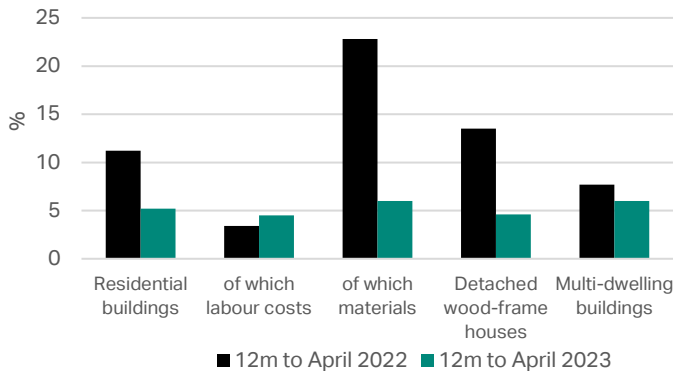
Figure 4. Housing construction starts in Norway and Sweden 2000-2022



Source: Statistics Norway, Statistics Sweden.

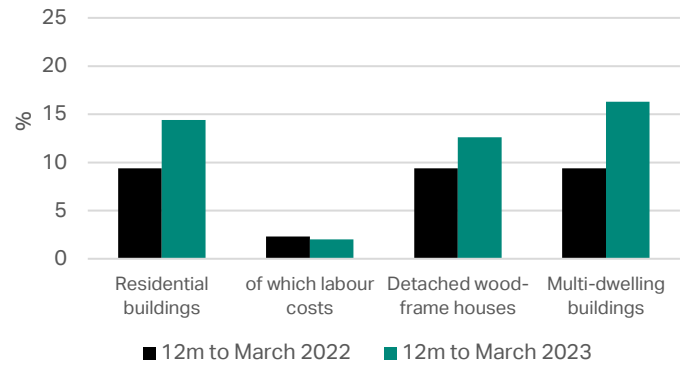
Given development timelines of around two years and a high proportion of pre-sold apartments and houses, the impact of the declining appetite for new builds is likely to have a muted impact on OBOS and its Nordic peers in the remainder of 2023 and early 2024 as current projects are completed. However, looking further ahead, we expect capital investment in new housing to decline materially. OBOS has virtually halved its 2023 and 2024 capital spending plans in comparison with recent years and is taking a cautious approach to new production projects. A continued deterioration or a lack of recovery in new builds by 2024 is a key negative rating driver for the company.

Figure 5. One-year increase in construction costs for residential development in Norway, April 2022/2023



Source: Statistics Norway.

Figure 6. One-year increase in construction costs for residential development in Sweden, March 2022/2023



Source: Statistics Sweden.

Despite a relatively modest revenue contribution, subsidiary OBOS Eiendom has contributed 31% of pre-tax profit and about 20% of NCR-adjusted EBITDA over the past five 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, the has substantial equity investments, primarily in the building companies Veidekke, AF Gruppen, and NCC. We assess the operating environment for these companies as similar to that in which OBOS' carries out residential development. As of 31 Mar. 2023, the book value of these investments was NOK 2.5bn, while their combined market value was estimated to exceed book value by NOK 3.7bn. We consider these excess values in our calculations of value-adjusted equity and our assessment of financial risk.

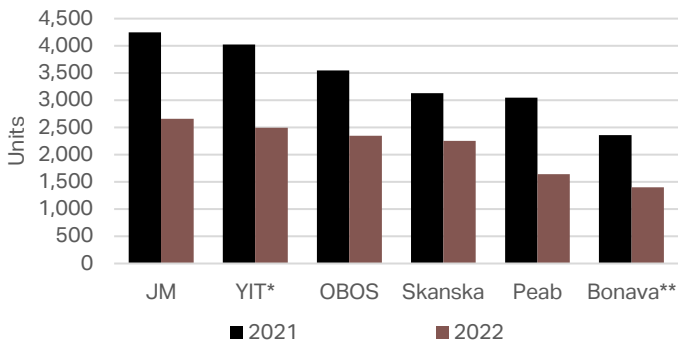
Norwegian residential property leader

OBOS' long history and well-established position in the Norwegian residential housing market is a notable strength. With over 550,000 members, the company plays an important role in Norway and is

Market position 'a'

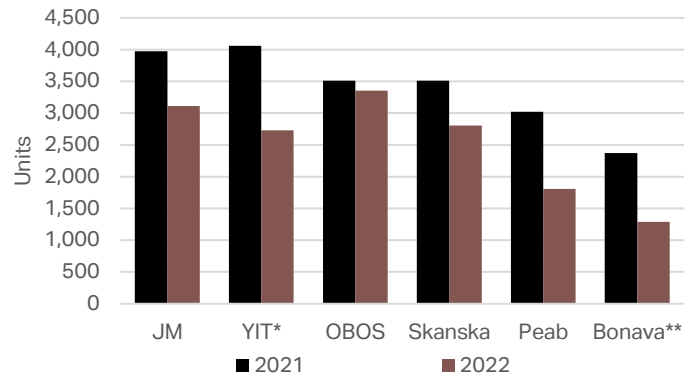
increasing its market recognition in Sweden after launching a membership programme in 2020. Membership benefits include the right of first refusal on OBOS homes for sale. They also encourage long-term loyalty among members seeking to maintain their position in the membership structure.

Figure 7. Nordic residential developers, units sold, 2021-2022



Source: company. *Finland only. **Sweden, Finland and Norway.

Figure 8. Nordic residential developers, units started, 2021-2022



Source: company. *Finland only. **Sweden, Finland and Norway.

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 years ahead to help it maintain this position. Unlike most of its peers, OBOS does not have its own construction business, but instead uses turnkey contracts with major partners, effectively reducing project risk. Three of its primary building partners, Veidekke, AF Gruppen and NCC, also represent OBOS' largest equity investments. OBOS is the largest shareholder in Veidekke and AF Gruppen, which we believe supports close future cooperation.

At 31 Mar. 2023, OBOS had 6,074 units under construction in Sweden and Norway, making it the third-largest homebuilder in the Nordic region. In Norway, the company has around 3,500 homes under construction, compared with 30,000 total new starts in Norway during 2022. In Sweden, it has 2,600 homes under construction compared with 51,000 total new starts in Sweden during 2022. As of 31 Mar. 2023, 68% of homes under production had been pre-sold, down 7pp on the previous year. Under Norwegian law, customers have the right to withdraw from the planned purchase of their homes but must compensate the developer for any losses incurred.

The company maintains a substantial land bank, in which it makes significant investments. At 31 Mar. 2023, the land bank represented the equivalent of 30,000 potential new homes in Norway, the largest among the country's residential developers, and 15,000 in Sweden, both providing the company with a competitive advantage. These properties are included on the balance sheet at historical acquisition costs and carried unrealised gains of about NOK 11.9bn as at 31 Mar. 2023 (including a 5% valuation deduction) which we take into consideration when calculating value-adjusted equity. Approximately half of the unrealised values are associated with a large, long-term development project in Fornebu, near Oslo.

Subsidiary 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 Mar. 2023, OBOS Eiendom's portfolio was valued at NOK 16.1bn, 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.

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

Size and diversification
'a-'

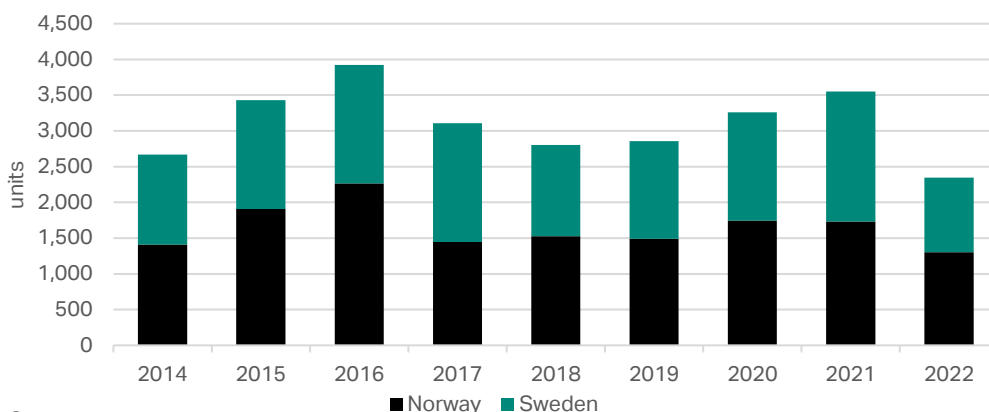
Mix of offerings, brands and equity investments add to diversity

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 OBOS Eiendom's relatively strong earnings profile 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 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, the majority of homes are wood-frame, single-family modular homes built by OBOS Sverige under the Myresjöhus and SmålandsVillan brands. The company also sells apartments and terraced houses via housing cooperatives (bostadsrättsföreningar) in Sweden. Demand for single-family homes in Sweden has been particularly reduced by higher costs of living and interest rate uncertainty. In addition, the lead times for single-family homes are much shorter than for larger urban projects. As a result, we expect OBOS to half its production of single-family homes in Sweden; the company has already furloughed nearly 300 employees at its factories in Myresjö and Vrigstad over the last 12 months.

Figure 9. OBOS homes sold by country, 2014–2022



OBOS' equity investments and joint ventures have made a material contribution to profits in recent years. Dividends have added around NOK 800m in cash flows in the past two years, while the divestment of OBOS' JM shares resulted in a NOK 2.1bn one-off profit and a NOK 4.6bn cash flow impact in 2021. OBOS has also made significant unrealised gains from its positions in Veidekke, AF Gruppen and NCC, in which the company acquired a 6.5% stake (23.1% voting rights) in Dec. 2022. During 2022, OBOS increased its stake in Solon Eiendom Holding AS (owner of 100% of Solon Eiendom AS) to 75% and began consolidating the company in its financial reports in the third quarter of 2022. The stake was fully included into the figures for the residential development division in 2023. Sweden-based property manager Samhällsbyggnadsbolaget i Norden AB (publ) continues to own the remaining 25% of Solon Eiendom Holding AS.

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

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. The company expects to complete 3,200 to 3,500 units in 2023 and 2024. We believe that actual units sold will be lower than completions in 2023 and 2024, resulting in a build-up of inventory and stock of unsold apartments. Future construction starts will depend on market demand, especially since OBOS' residential development projects normally require a pre-sale rate of 50% before

Operating efficiency 'bb'

financing is secured and construction can begin. We expect the declining demand to result in a relatively modest rate of construction starts until demand returns. Over time, the lower number of starts is expected to result in higher demand, but profitability of new projects and the level of interest in pre-sales remain unknown.

OBOS mitigates some risks in ongoing projects by the frequent use of fixed turnkey contracts, resulting in the bulk of construction risk being borne by the builder. Risk is further mitigated by the company's longstanding relationships with the Nordic region's largest builder companies. Nevertheless, reduced demand and still-high building costs are likely to delay construction starts for OBOS and other developers.

OBOS' operating margins have historically been roughly in line with those of its peers. Margins, however, vary widely between the company's different divisions. We expect company-wide margins to increase in 2023-2025 as revenues from residential development decrease. This reflects a change in business mix, given that average EBITDA margins are 60-70% in commercial real estate compared with a recent average of 15% for residential development.

Figure 10. OBOS revenues, gross profit, EBITDA, and margins (excl. OBOS-banken), 2019–2025e

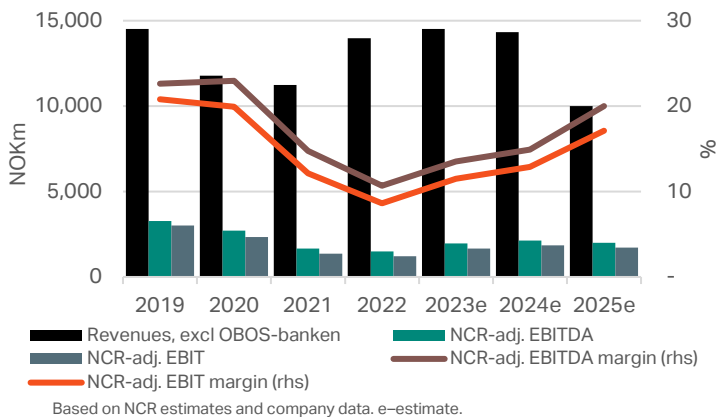
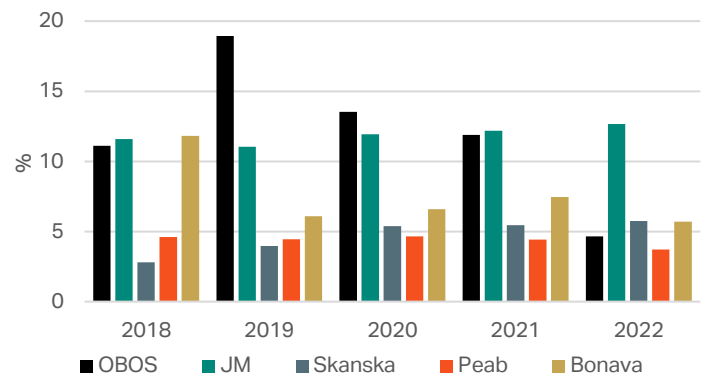


Figure 11. OBOS peer EBIT margins*, 2018–2022



Source: companies. OBOS incl. OBOS banken. *Unadjusted, excluding profits 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.

Ratio analysis 'bbb'

High financial gearing mitigated by strong balance sheet and unrealised gains

We expect net debt/EBITDA to fall from elevated levels at end-2022 due to a change in OBOS' growth objectives. The company remains highly leveraged in comparison with its property developer peers, even excluding OBOS-banken, but maintains NOK 16bn in investment properties in OBOS Eiendom and a strong balance sheet, especially considering NOK 18bn in unrealised market value. The company's net interest coverage has fallen due to higher interest rates, with the NIBOR 3-month rate increasing by 3pp since the beginning of 2022. The effect of the decline has been mitigated by interest rate hedging, however, we forecast that interest coverage will decrease further in 2023 before stabilising.

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 has been evidenced in recent years by the company's divestment of its shares in JM in 2021, the sale of land for use in partnerships with other Nordic developers, and full or partial divestments of commercial properties held by OBOS Eiendom, turning unrealised gains into cash flows. The sale of JM in particular allowed the company to provide internal financing for residential development and commercial real estate projects, resulting in strong cash flows as internally funded projects are completed in 2023 and 2024.

OBOS' unadjusted equity ratio is strong in the context of its developer peer group and we reflect these excess market values in our adjusted equity ratio, which we regard as a key credit metric in our assessment. We note that the company has added a 60% adjusted equity ratio to its financial policy. We expect these excess values to be more volatile than OBOS' balance sheet items, particularly the equity investments, and therefore expect the company to maintain adequate headroom. 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 Mar. 2023

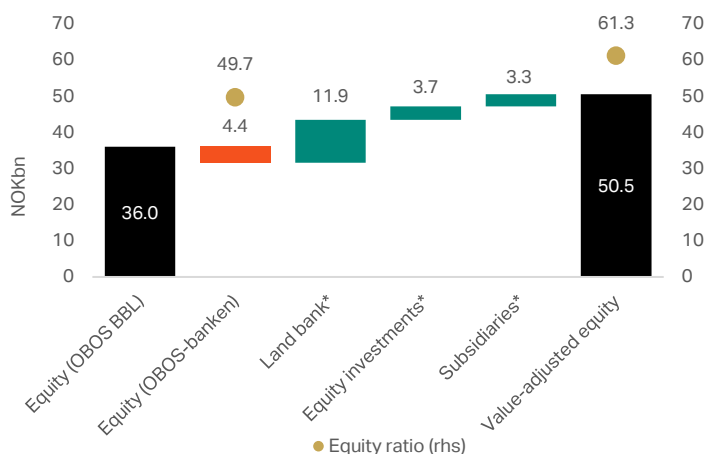
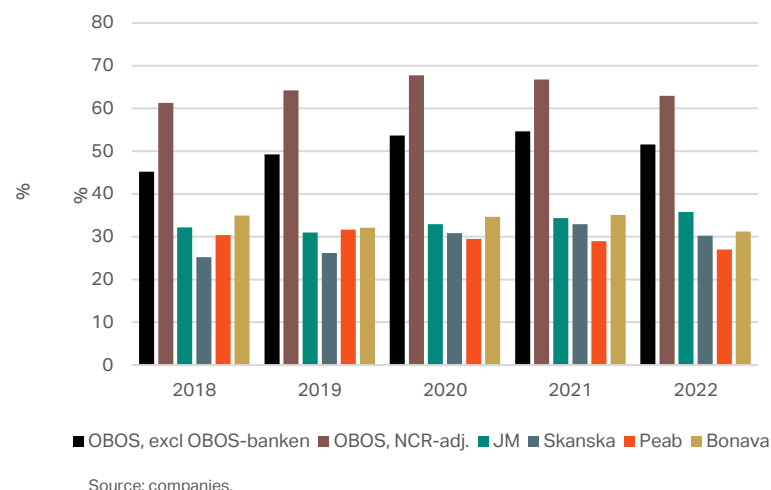


Figure 13. OBOS peer equity ratios, 2018–2022



Source: company. *Excess market value.

Source: companies.

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

- 3,200 completed homes in 2023, followed by 3,400 in 2024 and 1,750 in 2025;
- Increasing stock of unsold homes in 2023 and 2024, before net reductions in 2025;
- average selling prices of unsold homes of NOK 4.2m on average through 2025, reflecting a high proportion of properties in Fornebu and Oslo;
- revenue declines of 0.2% in 2023, 1.2% in 2024, and 30% in 2025;
- an NCR-adjusted EBITDA margin of 13-20% from 2023-2025, driven higher by a reduction in lower-margin sales revenues in 2025;
- average interest rates of 5.3% through 2025;
- repayment of construction loans in 2023 and 2024 due to strong cash flow from sales financed by the 2021 sale of JM shares (about NOK 4.2bn in cash reemployed);
- capital spending of NOK 3.0bn in both 2023 and 2024, and NOK 1.5bn in 2025; 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 between 8-9x in 2023-2025;
- NCR-adj. EBITDA/net interest of 2-2.2x in 2023-2025;
- NCR-adj. funds FFO /net debt of 5.3-6.5% in 2023-2025;
- NCR-adj. FOCF /debt of minus 20% in 2023 and 2024 and about 0% in 2025; and
- an NCR-adj. equity ratio of 63-66%.

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. However, we include dividends from the bank to OBOS BBL in our forecast to reflect the cash flow impact. 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 interest amounts reflects interest on loans from other OBOS companies. Although these interest amounts are capitalised by the company, we include them in net interest because we expect that they will eventually result in cash outflows. We also include all projected

interest payments in our forecast, although the company capitalises a proportion of its construction loans.

Figure 14. NCR's adjustments to OBOS BBL's credit metrics (excl. OBOS-banken), 2019–2025e

NOKm	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	3,674	2,444	4,177	1,831	1,885	1,931	1,806
Divestment of JVs*	-253	-27	-2,136	-286	-3	0	0
Share of profits in JVs*	-912	-1,044	-1,076	-779	-800	-800	-800
Dividends received from JVs*	908	1,506	807	848	630	800	800
Annual donation to charity	119	125	167	230	158	105	97
OBOS-banken dividends					90	100	100
OBOS-banken EBITDA	-252	-301	-279	-352	0	0	0
NCR-adj. EBITDA	3,284	2,704	1,661	1,493	1,960	2,136	2,003
Net interest	-318	-295	-268	-396	-932	-899	-838
Dividends reported as interest inc.	-92	-9	-20	-5	0	0	0
Capitalised interest	-15	-18	-41	-72	-72	-72	-72
NCR-adj. net interest	-425	-322	-329	-474	-1,004	-971	-909
NCR-adj. EBITDA	3,284	2,704	1,661	1,493	1,960	2,136	2,003
NCR-adj. net interest	-425	-322	-329	-474	-1,004	-971	-909
Current taxes	-269	-163	-118	49	-15	-10	-6
Other FFO adjustments	47	72	54	87	0	0	0
NCR-adj. FFO	2,638	2,289	1,268	1,155	941	1,155	1,087
NCR-adj. FFO	2,638	2,289	1,268	1,155	941	1,155	1,087
Changes in working capital	112	820	-1,698	-2,116	-1,670	-1,946	466
Capital expenditures in tangible assets	-762	-1,034	-722	-951	-2,962	-2,925	-1,524
NCR-adj. FOCF	1,988	2,075	-1,152	-1,913	-3,691	-3,716	30
Cash and cash equivalents	646	1,970	933	1,913	1,866	949	1,473
Adjustment for liquid assets	869	883	3,217	560	566	566	566
Other cash adjustments	321	433	417	422	422	422	422
NCR-adj. cash and equivalents	1,836	3,286	4,567	2,895	2,854	1,936	2,461
Gross debt	58,075	62,680	66,925	74,202	73,680	73,180	72,180
Leasing liabilities	435	383	324	338	338	338	338
Retirement benefit obligations	136	102	110	99	104	104	104
Liabilities related to assets held for sale	633	176	119	0	0	0	0
OBOS-banken interest-bearing debt	-41,754	-46,613	-49,291	-51,701	-53,421	-53,421	-53,421
NCR-adj. cash and equivalents	-1,836	-3,286	-4,567	-2,895	-2,854	-1,936	-2,461
NCR-adj. net debt	15,689	13,443	13,619	20,043	17,848	18,265	16,741
Total equity	25,979	29,112	33,178	35,580	36,593	37,549	38,444
Excess value	19,149	20,513	19,485	18,588	18,909	18,909	18,909
OBOS-banken total equity	-3,503	-3,707	-4,129	-4,363	-4,430	-4,430	-4,430
NCR-adj. equity	41,626	45,919	48,534	49,805	51,072	52,028	52,923
Total assets	90,992	97,915	106,749	116,944	120,109	119,765	118,505
Excess value	19,149	20,513	19,485	18,588	18,909	18,909	18,909
OBOS-banken total assets	-45,341	-50,614	-53,568	-56,453	-58,250	-58,250	-58,250
NCR-adj. total assets	64,800	67,814	72,666	79,080	80,768	80,424	79,164

Based on NCR estimates and company data. e—estimate. JV—Joint venture. *Joint ventures and associate companies. **Excess value in land bank, equity investments and subsidiaries.

Figure 15. OBOS NCR-adj. net debt/EBITDA and EBITDA/net interest (excl. OBOS-banken), 2019–2025e

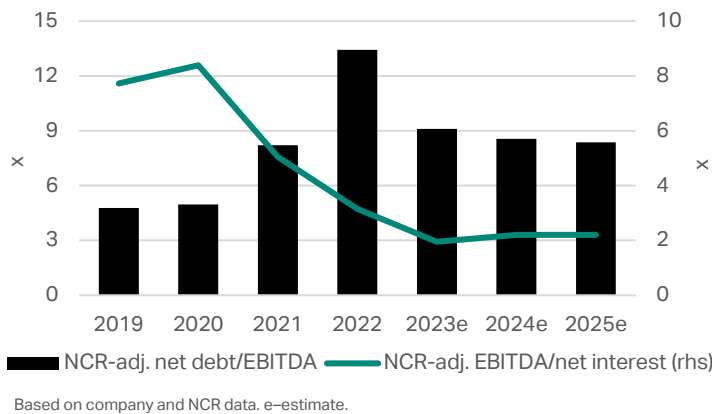
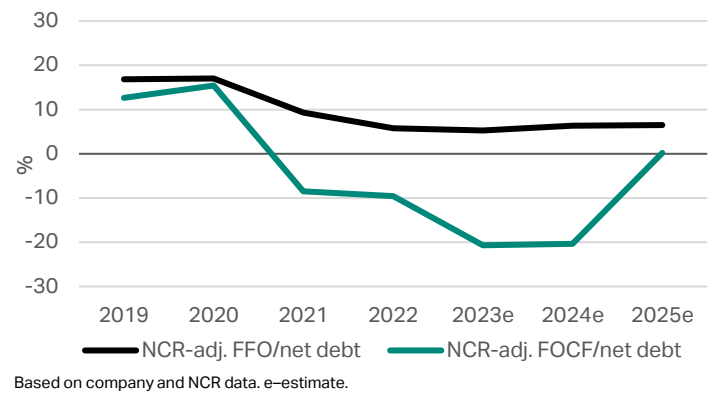


Figure 16. OBOS NCR-adj. FFO/net debt and FOCF/net debt (excl. OBOS-banken), 2019–2025e



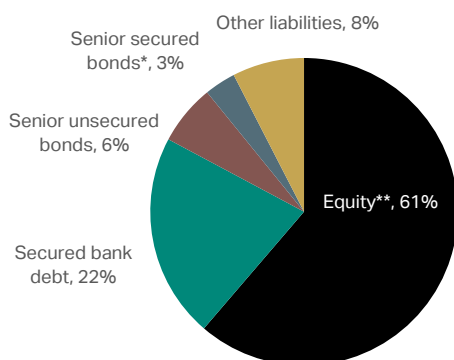
Retention of cash flows is a strength, while lack of equity injection procedures is a constraint

Risk appetite 'bbb-'

Excluding OBOS-banken, which is self-financed, OBOS is funded through a mix of equity, secured bank loans for property and construction projects, and secured and unsecured bonds. As OBOS is a member association, in addition to the profit of previous years, NOK 120m in equity is made up of capital contributed by OBOS' members, which is not refundable. Because OBOS is a member association, it has no 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 target. This risk is mitigated by a robust liquidity position based on OBOS' financial policy which stipulates that available liquidity at all times must be enough to cover all outstanding market loans issued by the company maturing within the next 12 months.

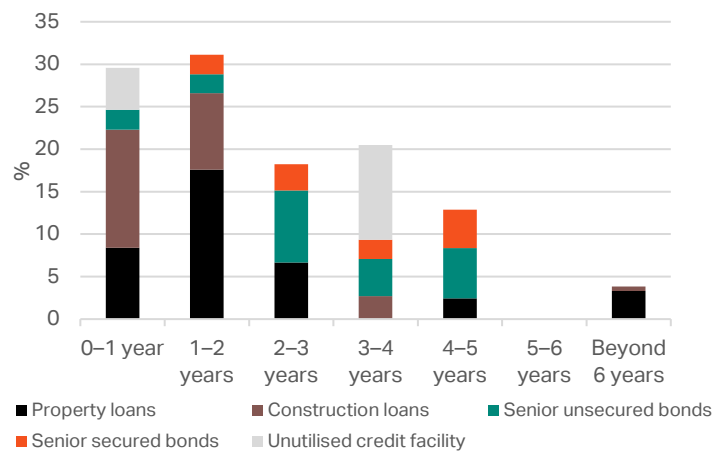
We view OBOS' debt maturity profile as relatively balanced, despite large maturities over the next few years. As of 31 Mar. 2023, the average debt maturity among OBOS' loans was just over two years, with debt maturities well distributed over several years. The average maturity is reduced by the fact that 25% of the company's bank loans are construction loans associated with ongoing development projects. We view the maturity risk of these loans as lower than that of other maturities, due to their close association with specific project properties and plans to repay upon project completion. The likely reduction in the pace of construction is a key driver of our projections of a reduction in gross debt.

Figure 17. OBOS funding profile (excl. OBOS-banken), 31 Mar. 2023



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 (excl. OBOS-banken), 31 Mar. 2023



OBOS pays no dividends to its members. However, it donates up to 10% of after-tax profit to charity each year. In 2022, the amount donated was NOK 230m, up from NOK 167m a year earlier. Because of this low dividend-like payment, a large majority of cash flows generated stay within 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). The company has fallen below its target for interest coverage ratio as per 31 Mar. 2023 but expects to exceed its 3x target (excluding capitalised interest on projects) by the end of 2023. 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 Mar. 2023
LTV	<50%	<40%	31.2%*
Interest coverage ratio	-	>3x	2.4x
Value-adjusted equity ratio	-	60%	63.0%
Average fixed-interest period**	-	1.5–4 years	2.7 years

Source: company. *Interest-bearing debt divided by total value, excluding OBOS-banken. **Excluding construction loans.

ADJUSTMENT FACTORS

Adjustment factors are assessed as neutral and have no effect on the rating.

Liquidity

Our 12-month liquidity analysis is based on a stressed scenario in 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, given that we expect NOK 2.5bn in maturing debt not to be refinanced. This results in a funding surplus of NOK 0.5bn in the 12 months ending 31 March 2024. In our view, liquidity risk is supported by strong banking relationships and near-term debt maturities related to ongoing development projects and intended to be repaid upon project completion. We include NOK 2.5bn in cash flows associated with committed project deliveries over the 12-month period. Although most estimated working capital needs in that time are committed, we note that the company has reduced projected capital spending and believe that it could reduce investment further to support liquidity, if necessary.

We estimate the following primary funding sources for the 12 months ending 31 Mar. 2024, totalling NOK 8.2bn:

- NOK 1.9bn in cash and equivalents as of 31 Mar. 2023;
- NOK 0.6bn in adjusted short-term liquid placements, corresponding to 75% of balance sheet value;
- NOK 0.7m in funds from operations, corresponding to 75% of projected NCR-adjusted FFO over the 12-month period;
- NOK 2.5bn in excess cash flow from sold projects without external debt; and
- NOK 2.5bn in unutilised credit facilities maturing after 31 Mar. 2024.

We estimate the following uses of funds for the 12 months ending 31 Mar. 2024, totalling NOK 7.7bn:

- NOK 3.0bn in maturing debt (assuming that NOK 2.5bn of 5.5bn in maturing debt is not refinanced);
- NOK 3.0bn in committed capital spending; and
- NOK 1.8bn in estimated working capital needs.

Environmental, social and governance factors

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,

Adjustment factors
neutral

Liquidity adequate

ESG factors adequate

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 (the OBOS "Deleie" scheme, 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 (the OBOS "Bostart" scheme, available in Norway). We believe the wide variety of social initiatives, including these financing schemes, 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 focus on new construction, both in terms of carbon emissions, certification, and waste management.

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 ₂ emissions	Increased costs due to regulatory and/or taxation changes.	Drive to increase energy efficiency and reduce CO ₂ emissions.	Targets reducing CO ₂ emissions from projects (82% of emissions) by 45% by 2026, 55% by 2030 and 95% by 2050. Increasing share of fossil-free construction projects.
Impact of climate change on operations	Loss of revenues or increased capital spending.	Evaluation of impact on properties (in OBOS Eiendom).	Reporting according to Task Force on Climate Related Financial Disclosure. Result for 2022 shows financial impact between NOK 8m-162m in Norwegian operations. Company reports EU Taxonomy alignment of 0-32% in its subsidiaries.
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. Requirements for new projects to be certified by BREEAM (Norway) and Svanenmärkt (Sweden).
Corruption	Increased costs, possibly material.	Procedures and policies in place to avoid corruption issues, in both OBOS and its managed projects.	No tolerance for corruption. No reported cases in 2022.
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. Green bond framework for OBOS BBL since 2019 and OBOS-banken since 2021.

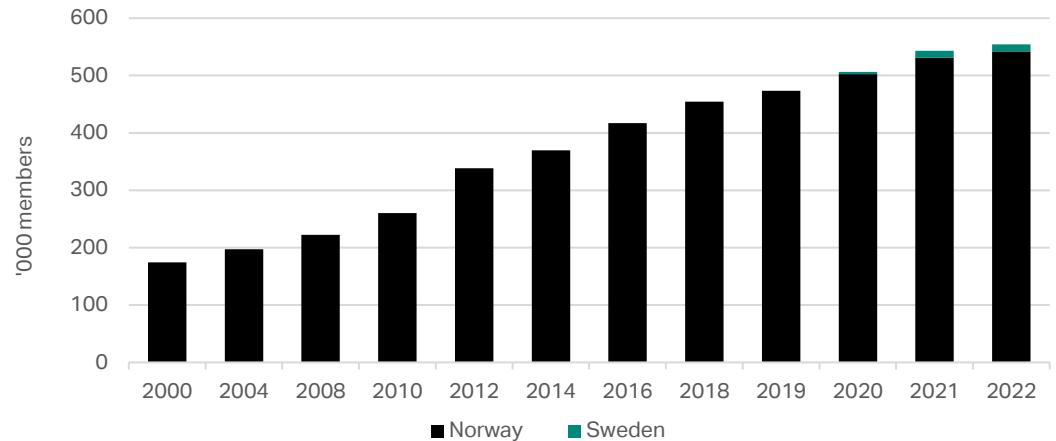
Source: company. See [ESG factors in corporate ratings](#).

Ownership neutral

OWNERSHIP ANALYSIS

OBOS is owned by its more than 550,000 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 them with affordable housing, as indicated by the strong growth in membership 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. Number of OBOS members in Norway and Sweden, 2000–2022



Source: company.

ISSUE RATINGS

Due to the substantial asset values both on and off OBOS' balance sheet, we would expect meaningful recovery prospects for senior unsecured bond holders in an event of financial distress. This is reflected in the company's secured debt to NCR-adjusted total assets (excluding OBOS-banken) of 20.8% and an equity ratio above 60%. For this reason, we rate senior unsecured bonds issued by the company in line with the 'BBB-' long-term issuer rating. If the company's NCR-adjusted equity ratio were to fall below 60% (from 61.3% as of 31 Mar. 2023) on a continuing basis, we would likely lower the ratings on its senior unsecured obligations by one notch.

METHODOLOGIES USED

- (i) [Corporate Rating Methodology](#), 8 May 2023.
- (ii) [Rating Principles](#), 24 May 2022.
- (iii) [Group and Government Support Rating Methodology](#), 18 Feb. 2022.

Figure 22. OBOS key financial data, 2019–Q1 2023

NOKm	2019	2020	2021	2022	LTM to Q1 2023
INCOME STATEMENT					
Total revenue	14,924	12,246	11,715	14,540	14,437
Gross profit	2,509	1,373	966	767	751
EBITDA	3,674	2,444	4,177	1,831	1,598
EBIT	3,409	2,088	3,882	1,544	1,469
Net financial items	-256	497	-151	-159	-258
Pre-tax profit	3,737	3,224	4,454	1,581	1,288
Net profit	3,415	3,021	4,268	1,629	1,235
BALANCE SHEET					
Goodwill	1,071	1,125	1,127	1,304	1,337
Intangible assets other than goodwill	1,100	2,113	2,393	2,290	2,338
Interests in joint ventures	6,333	5,793	5,145	4,732	5,131
Investment property	11,658	12,943	14,207	16,100	16,504
Investment property under construction or development	17,645	19,996	22,206	30,680	32,744
Other non-current assets	47,275	51,059	56,418	56,362	58,541
Non-current assets	85,082	93,029	101,496	111,468	116,595
Cash and cash equivalents	646	1,970	933	1,913	1,888
Other current assets	5,264	2,917	4,320	3,563	3,258
Total current assets	5,910	4,887	5,253	5,476	5,146
Total assets	90,992	97,915	106,749	116,944	121,741
Total equity	25,979	29,112	33,178	35,580	36,016
Long-term borrowings	29,846	29,717	34,642	39,136	43,784
Long-term lease liabilities	375	330	279	281	285
Retirement benefit obligations	136	102	110	99	104
Deferred tax liabilities	1,618	1,566	1,748	2,004	2,116
Other long-term liabilities	209	281	314	426	437
Non-current liabilities	32,184	31,997	37,093	41,946	46,726
Short-term borrowings	28,229	32,963	32,282	35,066	34,586
Other short-term liabilities	4,600	3,843	4,195	4,352	4,413
Current liabilities	32,829	36,806	36,477	39,418	38,999
Total equity and liabilities	90,992	97,915	106,749	116,944	121,741
CASH FLOW STATEMENT					
Pre-tax profit	3,737	3,224	4,454	1,581	1,288
Adjustment for items not in cash flow	-5,388	-2,494	-2,142	-1,148	-2,932
Cash flow before changes in working capital	-1,651	730	2,312	432	-1,644
Changes in working capital	112	820	-1,698	-2,116	-2,710
Operating cash flow	-1,539	1,550	613	-1,684	-4,354
Cash flow from investment activities	-1,087	-1,773	-3,676	1,554	-200
Cash flow from financing activities	2,647	1,535	2,034	1,102	4,257
Other adjustment cash and cash equivalents	0	0	6	14	0
Cash and cash equivalents start of year	625	644	1,970	933	2,168
Cash flow for year	20	1,326	-1,038	981	-280
Cash and cash equivalents at end of year	644	1,970	933	1,913	1,888

Source: company. LTM-last 12 months. *Including cash reported as held for sale.

Figure 23. False 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
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 calibration		Neutral
Stand-alone credit assessment		bbb-
Support analysis		Neutral
Issuer rating		BBB-
Outlook		Stable
Short-term rating		N3

Figure 24. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB-

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