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Heimstaden Bostad presentation Q1 2024 results

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COMPANY REPRESENTATIVES

Helge Krogsbøl, Co-CEO

Christian Fladeland, Co-CEO

Thomas Hansen, CFO

Paul Spina, Chief Asset Management and Sustainability Officer

PRESENTATION

Malin Lenthenström

Welcome, everyone, and thank you for joining us for this presentation of Heimstaden Bostad's report for the first quarter of 2024. I would like to inform all participants that this presentation is intended only for investors and other financial stakeholders.

Today's speakers will go through a brief management presentation before we open to questions. Questions can be asked on the phone or in writing via the webcast. We will only address questions on Heimstaden Bostad.

As always, if the investor relations team can be of assistance, please get in touch with us. We look forward to continuing the conversation with you. With that, I will now hand over to our Co-CEO, Helge Krogsbøl.

Krogsbøl, Helge

Thank you, and good afternoon. It's good to have this call again, though it feels like such a short time since we concluded our annual report. As you can see in today's publication, we have been modifying our reporting structure to provide additional transparency whilst being more efficient in our production. Thomas will detail some of these changes in his segment, but overall, we are pleased with the improved layout and look forward to hearing your feedback.

Now, looking at the quarter, I am pleased with our positive first quarter operational performance and the signal of stabilisation of our residential property values. The net results is our reported value growth of 0.8%, despite moderate yield expansion in some markets. Our quarterly results continued to reflect the underlying fundamentals as like-for-like rental growth grew to 5.2% and the NOI margin on a last-12-month basis increased to 67.7%, which is an improvement from 64.9% in Q1 last year. And I want also to remind that this is the ninth quarter in a row where we have increased our margin on a like-for-like basis.

The privatisation plan continues to track on schedule as our SEK 1.1 billion gross sales for the isolated quarter matched our 2023 full year figure that we reported on in February. Gross premiums for the quarter also held steady at 31.5%, which, taken altogether, released SEK 600 million of net proceeds, which will be used for liability management.

Finally, we are seeing our key credit metrics, particularly those on the S&P definition, stabilising in line with our base case. This includes the reported S&P ICR of 1.6 and the S&P LTV remaining unchanged at 58.6 as compared to the prior quarter. We continue to actively track these measures and maintain open dialogue with the rating agencies. With that, I now hand it over to you, Thomas, who will give a brief update on the figures.

Hansen, Thomas

Thank you, Helge. Before we get into the figures, I want to note the change in our quarterly presentation. Our team took investor feedback and frequently asked questions and sought to redesign the MD&A. The result is an expanded and more focused quarterly review section which practically walks the reader through the details of our reported figures. We will continue to evolve and expand the quarterly review in the coming periods, and we look forward to receiving your feedback.

Now to the figures. As per our base case, our portfolio is virtually fully let as real economic occupancy was 98.3% for the quarter. We have consistently delivered a 98% or greater result, and we expect this trend to continue. The strong real economic occupancy trend continues especially in Germany, as it remained stable at 99.7% for the quarter. As we mentioned in the past, we continue to expect this level in Germany and Sweden to continue as the underlying supply-demand imbalance persists and supports both short-term and long-term fundamentals.

Occupancy was impacted in Poland and Czechia due to the onboarding of newbuilds for the quarter. Poland specifically received 170 new units, or a 20% increase in units from the prior quarter. Note, the Polish portfolio is expected to more than double in size during the remainder of the year, as the majority of new developments are coming online.

Like-for-like rental growth also performed, as we saw a net 5.2% increase over our comparable portfolio from a year ago. The aforementioned comparable portfolio represents 95% of total rental income. Core CPI development has also dropped sharply across our portfolio to 2.8% from 7.4% a year ago. This quarter then marks the second quarter of like-for-like growth surpassing inflation, showcasing the possibility for rent to outperform CPI over time.

If you look into the quarterly review section published this morning, you can see that we're adding additional transparency to like-for-like growth, as we're showing both rental growth and core CPI via country splits.

Denmark is the only exception, where the portfolio figures are below inflation. The rationale for this is the rent syndication, which concluded on the CPI print from October, which amounted to 0.5%. For Sweden, we observed a level of 6.8%, which is above the local CPI of 2.7%. This is due to a combination of negotiated rent increases and our tenant improvement programme.

Germany, which was partly impacted in Q4 23 on timing effects, now shows a stabilisation, slightly above expected like-for-like growth levels. Czechia continued to show a strong rental market, with like-for-like growth of 7.4%, exceeding the local CPI of 2.8%. This is due to a strong development of market rent levels.

Though a small but growing portfolio, Poland's quarterly result of 13% is due to the portfolio being relatively new. However, we also note that reduced vacancy accounts for almost half the growth, and increased rents are supporting the like-for-like growth in addition.

Our NOI margins were strong as we saw growth to 67.7% from 67.4% on a last-12-month basis. Our quarterly NOI margin improved to 66.4% versus 64.9% a year ago. This NOI performance is supporting our property values as we're demonstrating our ability to pass on the inflation to an increasingly higher extent while performing cost control.

On the macro level, as Helge mentioned, this is our ninth consecutive quarter of increasing quarterly margins. Our aim remains to continue to perpetuate the imbalance between our rental trends and cost bases, and we will continue to track margin development closely. I'll now hand it over to Paul.

Spina, Paul

Thank you, Thomas. Transitioning then to a bit of a deep dive on privatisation, Q1 was another strong ramp-up quarter, well in line with our forecast, where we're fully active in three out of the five markets and remain on track for our SEK 20 billion in sales value by the end of 2025 and on track to be running in all five markets within Q3.

An important focus area during the infancy stages of the programme has been to prove the assumptions in our plan, where we have so far seen churn rates and pricing delivered accordingly to the underwriting. In Q1, we achieved sales of 265 units, correlating to SEK 1.1 billion in sales value.

Since inception, we have already achieved sales of at least one unit across 41% of the SEK 80 billion privatisation potential.

This proves 31% premiums are achievable and can so far be extended across roughly SEK 33 billion in current book value. And those sales have been crystallised at yields or implied yields of 2.8% on the achieved sales prices. If we take a moment to think also about sources and uses related to the privatisation plan, this quarter, SEK 882 million in asset value delivered gross premiums of SEK 268 million to achieve the SEK 1.1 billion in sales value. In Q1 alone, that equates to just over SEK 1 billion for debt repayments when accounting for both secured asset level debt repayment triggered at the time of sale as well as net proceeds. As a reminder, estimated tax payments are assumed to be paid in the year that they are incurred, but in many cases can be deferred for up to three years or offset against certain obligations in the future.

Since programme inception, we've delivered 115% of booked asset value for deleveraging on the units that we've sold. The significant gross premium the plan has achieved has been key not only in creating shareholder value but also in supporting credit metrics. Based on that, we've introduced a few key metrics to exemplify, in relative terms, how to view our total proceeds for debt repayment, which is the combination of net proceeds as well as secured asset level debt, shown here and updated in our quarterly reports moving forward.

With regards to our capex programmes, we'll focus today on two key segments. The first is tenant improvement programme, and followed by our development pipeline. After implementing an increased hurdle rate in the middle of last year, we've seen a steady decline year over year, 2023 to 2024, in units completed for TI.

While we forecast volumes to continue to come down a little bit further from here, we still renovated over 1,000 units in Q1, due primarily to increased capacity and efficiency in our Berlin market, where we deliver our highest relative returns, with 12.5% yield on cost in the first quarter. While we significantly exceeded our volume target for Q1, we also managed to increase our yield on investment by 250 basis points, and now delivering according to the plan and expect to maintain results above the 10% yield requirement throughout 2024.

Finally, our development pipeline continues to roll towards completion. In Q1, we delivered 1,054 newbuild units, primarily in Sweden, Poland, Denmark and Czechia. More than half of our annual development capex and investments for the year occurred already in the first quarter. While we still have 2,066 units to be delivered the remainder of this year, our overall forward-looking commitments continue to reduce and, importantly, transition to NOI contribution where we estimate, of the 3,000 remaining units to be delivered, a total NOI earnings capacity estimated at SEK 358 million, rolling forward. With that, I can hand it to Christian.

Fladeland, Christian

Thank you very much, Paul. Looking at valuations, we saw a stabilisation of valuation across all our markets, and some markets even gaining momentum over the course of Q1. As we anticipated on our annual report two months ago, there has been a significant relief across the markets as we have seen that interest rates are set to come down, even though the pace and to what extent still remains uncertain.

Asset values have gone up with around SEK 11.7 billion compared to Q4 23. A significant part of this is due to the weakening SEK against our other asset currencies, contributing SEK 6.5 billion of increasing G&E. Then we have acquisitions of SEK 2.5 billion, which relates to previous forward commitments that have been completed. Then we have disposals relating to our privatisation programme, around SEK 624 million, capex spend of SEK 643 million, and then finally, the like-for-like fair value change of SEK 2.5 billion, reflecting a 0.8% increase.

Across our nine markets, we saw a stabilisation across five of them, essentially being completely flat. This reflects markets where we've seen continued yield expansion to a moderate extent, but that's been offset by increased NOI or ownership housing values continuing to drive vacant possession values.

In the four markets where we have seen a more pronounced increase, it's Poland, where we have seen a delivery of our commitments where we had initial gains related to the acquisitions. That is a contributing factor. In the Czech Republic, we continue to see very strong rental growth as well but also a new development delivered in Prague, which has been this one-off effect. In Norway and the Netherlands, we continue to see a strong ownership housing market which is contributing positively to the privatisation basis, which has impacted these valuations quite significantly.

When we look at Q1 2024 and summarise, we believe we are delivering on the base case that we have targeted, both in relation to our liability management, addressing our upcoming maturities, but also to exploit the deleveraging efforts that our privatisation programme is intended to do.

We have a bank financing pipeline that is progressing according to our plan, meaning that we will continue to switch our funding from capital markets debt to bank financing, and we are well on track to do that. After that, we will continue to see the divestments. It's going to be used to deleverage our balance sheet, i.e. making us independent of bank financing as well.

As we communicated in our annual report earnings call, we are still considering whether we should do larger scale divestments in order to top up the privatisation plan, and we are still getting an increased number of inbound requests in that respect. We do see that there is still such a significant potential, in particular, with the privatisations but also in the investment market, where we see that the improved operating environment is something that we believe will dominate pricings going forward. So we will carefully and disciplined consider to which extent we should increase or continue the pace of the privatisations or whether we should actually consider doing these larger-scale divestments as well.

The ownership housing market has continued to contribute to our privatisation plan over the course of Q1 2024. We have a new tax regime introduced in Denmark, which had a quite significant effect in January, reducing the number of sales. But we have seen that take up fairly quickly, and we assume that to normalise during Q2 this year, and we have still seen very strong price movements.

In Sweden, which is the market that has had the most negative development in the ownership housing market, we have seen that values are now starting to recover, being up 3% year to date. And if you look at Stockholm, it's even up almost 5%, with an increased number of sales compared to same period last year of around 8%. This is something that we also believe will be a positive spillover to the investment market, where we continue to see a significant divergence between VPVs and investment capital [unclear].

While we are optimistic about the prospects for the residential transaction market, we also see that there remains uncertainty. There was a relief by the end of last year, where we saw that interest rates came down quite quickly during Q4 23 with the anticipation that there would be a number of rate cuts across central banks in 2024.

There is still a view that rate cuts will be observed, in particular, in Europe, but it has definitely been postponed, and there is probably also a larger uncertainty to what extent it will actually materialise. So the strong support or the strong tailwind that we saw in the Q ending 2023 has somehow vanished a bit during Q1 2024. However, the relief still maintains, and there is a firm view that interest rates have peaked, which we believe will continue to provide increased certainty and increased transaction volumes over the course of the year. With that, I think I will hand over to the Q&A session.

QUESTION & ANSWER

Operator

Thank you very much. We will now begin the Question-and-Answer session. Anyone who wishes to ask a question or make a comment, please press star and one on your touchtone telephones. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, if necessary, you may press star and two. Participants are requested to use only handsets while asking a question. And now, anyone who has a question or a comment may press star and one at this time. And our first question comes from Neeraj Kumar from Barclays. Neeraj, please go ahead.

Kumar, Neeraj

Good afternoon. So my first question is in regards to your JVs. I wanted to get a bit more understanding on them. I see you fully consolidate them, but the ownership stake has reduced to around 38% in terms of capital. So a bit more on how are those JVs financed. Are those assets pledged to banks or something of that sort? Are they paying dividend? And how is Allianz thinking about that stake?

Fladeland, Christian

I can take that, Neeraj. It seems like you're in pole position for all our earnings calls in terms of the Q&A session. If we take the Swedish JV, we have financing in place there, but that is intercompany loans from the Heimstaden Bostad group. So we made our internal facility agreement when we made the acquisition, based on the capital markets financing that we took out at that point in time. It is correct that it is fully consolidated, both the debt and equity within the JVs. In relation to the Germany JV with Allianz as well, there is asset-backed funding in place, with an LTV of just more than 30%. I believe it's 34%. And that is also fully consolidated up to Heimstaden Bostad.

Kumar, Neeraj

Got it. And are they paying dividends, or how is Allianz getting returns on it? Is there any cash flow around that?

Fladeland, Christian

We have not decided on any dividends for any of those JVs during the ownership. We have a quite ambitious business plan in relation to both upgrading from an ESG perspective and value-add capex. So that is not JVs that have been providing any dividends as of now.

Kumar, Neeraj

Got it. My second question is regarding your bond maturing in October 2024, which has around SEK 1.15 billion outstanding. What's the most likely source of liquidity for repaying that? Are you looking to tap those credit facilities you have or you are even thinking about offering an exchange of those unsecured bonds, like other landlords in the sector?

Fladeland, Christian

So our bank financing pipeline is used in order to address that, and some of the facilities that you referred to, in particular our secured assets, is also something that we want to use for addressing that upcoming maturity. We don't anticipate any potential for any capital markets transaction in order to address that. It is assumed based on existing facilities and the ongoing projects that we are having in the banking market.

Kumar, Neeraj

Got it. And how are you thinking about your hybrids?

Fladeland, Christian

We are still thinking, as we did on the last call. So of course, a lot has... I wouldn't say a lot, but there has been some events in that space in the recent months. And of course, we are looking at how that is received among investors and where that could be relevant for us to put in the toolbox as well. But nothing has been concluded yet.

Kumar, Neeraj

Got it. And lastly, probably, how are the conversations ongoing with the rating agencies? I see both Fitch and S&P are at negative outlook, so you are just at the cusp of downgrade to high yield. So how comfortable you are, protecting those ratings?

Fladeland, Christian

So the dialogue is very much as it was a couple of months ago, when we spoke the last time. The downgrade from S&P in December had a clear outline on what criteria we should fulfil in order to remove the negative outlook, and that is delivering on our base case. And that is what we're doing. When that will happen is of course up to S&P, and Fitch for that matter, but executing on the privatisation plan, which is going according to plan, and continuing to run our operations that we are forecasting is the key to that.

Kumar, Neeraj

Got it. That's all from my side. Thank you very much.

Operator

And our next question comes from Mary Pollock from CreditSights. Mary, please proceed.

Pollock, Mary

Hi. Thanks for taking the question. I was hoping you could actually just confirm that the SEK 750 million deferred payment for the Icelandic transaction was received by Heimstaden AB in the period. And related to that, can you help us understand why liquidity appears to have deteriorated so much at Heimstaden AB despite that payment, it appears, being received?

Fladeland, Christian

As mentioned in the introductory to this call, this [inaudible] any Heimstaden AB questions. But I can just briefly confirm that that receipt has not happened by 31 March but only happened in April, so after quarter end. But please, I would like you to respect that it's only questions related to Heimstaden Bostad on this call, and anything on Heimstaden AB, you can address that probably to the Investor Relations team. Thank you.

Operator

Okay, Mary...

Pollock, Mary

Sorry. And that's all from me. Thank you.

Operator

Okay. Thank you very much. And our next question then comes from Tomas Mannion from Sarria. Tomas, please go ahead.

Mannion, Tomas

Good afternoon. Just to go back to your financing, and you mentioned the pipeline of unsecured facilities, can you give us a guidance on what levels of interest rate you're looking at in the various markets? We have in the past been... You furnished some information in relation to that. And secondly, in relation to your unsecured, do you still view the unsecured market closed to you, given where your current long-dated bonds are trading, or would you contemplate issuing? I know it's expensive debt, but would you contemplate issuing that at these levels? Thank you.

Fladeland, Christian

Yes. So if we look across our asset-backed funding sources, we see that spreads have started to stabilise, the cheapest being the mortgage market in Denmark and Pfandbrief in Germany, being between 70 to 80 basis points, depending on LTV, up to 130 basis points. And in the remainder of the markets, being primarily ordinary corporate/commercial banking, we are seeing spreads between 150-160 basis points to 200-220 basis points. And then, of course, the base rate is as they are at the point in time when we are drawing in the different currencies.

In relation to capital markets funding, even though spreads have come down also for us as well, we still feel that they are highly elevated compared to our alternatives in the asset-backed funding market, and we still believe that they reflect a bit of an overhang on us as a name and doesn't reflect the underlying risk of our portfolio. So as long as spreads are at current levels, I cannot see us going into the capital markets, but we'll continue to focus on asset-backed funding, with taking a more firm view on the asset quality.

Mannion, Tomas

Okay. Thank you. And then just one follow-up question relating to your Allianz, the JVs. My understanding, although they are specific JVs, they have a similar payout to other shareholders. Can you confirm that the agreement that they have signed is akin to the other shareholders, and i.e. dividends or cash flow from the JV is unlikely unless dividends were returned at the wider group?

Fladeland, Christian

So it's correctly understood that the whole contractual framework is the exact same in terms of tenure, share class structures, etc. But it is, of course, a ring-fenced structure in terms of commercial performance. So if you saw those portfolio would perform much better than the remaining portfolio of Heimstaden Bostad in the same markets, having significant value appreciation, significant higher income, return, etc., there could be a basis where there would be paid dividends on those JVs to Heimstaden Bostad without Heimstaden Bostad paying dividends out. But the overall contractual framework is the exact same, if that made sense.

Mannion, Tomas

Yes. That's fine. Perfect. Thank you.

Operator

Thank you. And our next question comes from Michael Chakardjian from BNP Paribas. Michael, please go ahead.

Chakardjian, Michael

Hi. Thanks. I had a few questions. So on your funding one which you're looking to do, could you tell us a little bit the amount or size which you're looking to do from the bank markets, how many number of banks, when we can start seeing them actually being executed, any timeframe on that?

And then the next question I had was, in the presentation, you said there was SEK 2.55 billion of acquisitions, but there's only SEK 495 million in cash outflow. Is there a timing gap or something to help to explain that bridge? Thanks.

Fladeland, Christian

If we start with the latter part, that reflects that some of these acquisitions have been forward funding commitments, but they have been structured as forward purchases. That essentially means that we have been funding them, but they have only been classified as real estate assets on our balance sheet, while it has been receivables until this point in time. So even though it is classified as SEK 2.5 billion in acquisitions on investment properties, it's something that had already a balance sheet impact earlier on, just as another line item. So that's the reason for that one.

The first part on bank financing, you would likely see us... Our aggregated pipeline for the next 12 months or so is around SEK 15 billion, so it's significantly less than you saw us having, going back 12 months ago, where we had been executing on more than SEK 30 billion. Most of these I would anticipate to have done before end of Q3 as we want to prioritise getting these drawn for the October maturity. However, we still have these secured RCFs which are also used for liability management.

So it is how do we balance, optimising drawing as late as possible on the new financing in order to maintain the cheap financing in place for as long as possible to support the ICR. But given the need of sources based on our maturities, you should probably anticipate that most of these will be done by Q3 this year.

Chakardjian, Michael

And then just a follow-up on the use of facilities. Would that be just for a very short term and just a bridge timing gap, or is there any planned longer-term use on the facilities, say, for more than a quarter?

Fladeland, Christian

So the secured RCFs have their background essentially as term loans. It was secured debt that we had back in 2018 when we went to the capital markets the first time with Nordic banks.

And when we repaid those when we went into the capital markets, we decided to pay for maintaining the commitments as back-up facilities.

But it's not like back-up facilities in the sense of unsecured facilities, which is a last resort. It's something that could easily be considered a term loan afterwards. So it's not something that we at all have any intention not utilising, and they may run as secured RCFs, and prolonged on a regular basis, or they could be converted into term loans. That is something that we will evaluate from case to case together with the banks.

Chakardjian, Michael

Okay, thanks. I'll get back in the queue.

Operator

And our next question comes from Holsteen, Jakob from Capital Four. Holsteen, go ahead.

Holsteen, Jakob

Hey. A couple of questions, if I may. So you made a very good call on increasing the hedge ratio back in December, so congrats on that, which should improve the visibility on the ICR development through 2024. So now, rates have come down, or are up again since December, so what kind of assumptions do you have on the rates level to be confident that the ICR will remain here at 1.6 on the S&P level?

Fladeland, Christian

Yes. So when we look at how we forecast our ICR, first and foremost, I have already seen some credit commentary that says that we're getting continued pressure on the ICR. And I can confirm that that has gone down to 1.6. But when we looked at this on a last-12-month basis, the only thing that was unknown in that calculation was the Q1 interest cost, while you knew that the Q1 interest cost would be higher than Q1 the prior year.

So when we look at our forecasting based on the current hedge ratio of 87%, even though we have 13% that needs to be reset within the coming year at a higher base rate than when we were ending last year, we don't see that that is something that will materially deteriorate the ICR, and for that matter, we still consider 1.6 to be the bottoming out level, even at the current interest rate curve.

Holsteen, Jakob

Got it. And what about the new bank facilities that you have in the pipeline? What impact will that have on ICR? Just a rough answer.

Fladeland, Christian

We are putting into our forecasting the new credit spreads that we have in the term sheets that we're negotiating, together with of course the forward curve. And based on that, we believe that we're able to maintain the ICR at the 1.6.

Holsteen, Jakob

Got it. Thanks. Then, you guided for yield stabilisation, which we've also seen in the Q1 figures. Are you comfortable to start the privatisation outside of Denmark and the Netherlands, as the yields have stabilised?

Fladeland, Christian

So the next market that we will likely be targeting is Norway, where we haven't initiated it yet but where we have prepared ourselves. There, we will definitely look into what opportunities that there will be to scale that up during Q2. In Germany, we are still working on scaling that up. But there, we need to restructure some of the funding structures as Pfandbrief structure. And that by nature is super flexible in relation to partial repayments and condo sales. So Germany I would only anticipate to really be able to scale up over the course of the second half of this year and then going into 2025, while Norway should also start to contribute some during Q2.

Holsteen, Jakob

Great. Maybe a last one from me is on the unencumbered asset pools. So last quarter, you mentioned around 22%. What will that look like after you've done the new bank pipeline?

Fladeland, Christian

I don't have the exact figures, so I would have to return on that. But given that we have not taken out that much asset-backed funding in Q1 yet but only set to come in the coming quarters, I would assume that the 20-21% is fairly the same this quarter, maybe slightly higher because most of the assets that we are encumbering are Euro assets, while we have reporting currency in SEK. So I would anticipate that the unencumbered ratio should come down a bit. I think I said increase, but it should come down a bit from that.

Holsteen, Jakob

Great. Thanks. I'll jump back in the queue. Thanks, Christian.

Fladeland, Christian

Welcome.

Operator

And our next question comes from Silvia from Duranti. Silvia, please go ahead. Hello, Silvia? Hi, Silvia?

Duranti, Silvia

Hi. Can you hear me?

Spina, Paul

We can hear you.

Duranti, Silvia

Okay, great. Sorry about that. Yes, thanks for the presentation and also for the improvements in the reporting. That's appreciated. First question is on the ICR. So, indeed, the privatisation [inaudible] stabilising at around 1.6 times. But looking at your financial policy, this is still around 1.8. So I'm wondering, what measures are you really taking to restore the ICR in line with the policy, if any, or are you happy with keeping it at around 1.6 times? Thanks.

Fladeland, Christian

So our policy is very clear, we have a target to get to 1.8, but it's also an internal policy that reflects on how we want to have our financial metrics, longer term. Given the significant change that we have seen in the interest rate environment and the deterioration of the ICR, it's not something that we are taking drastic measures in order to solve. That would be highly destructive for the company, either operationally, scale-wise or from a shareholder perspective.

But we have a clear target that we want to take measures in order to improve the ICR. But whether it will take one year, two years, two and a half years to do that organically through disposals, that's not something we have set a firm timeline on. But we are clearly dedicated to work and make plans in order to get back to the 1.8, but we will do it in a manner where it's not deteriorating for our shareholders either.

Duranti, Silvia

Okay, got it. And you said [inaudible] potentially looking into large-scale divestments next to the privatisation. What is the timeline for this assessment and potentially [inaudible], and how does this align with the timelines of the rating agencies to resolve your negative outlook? And then how will you make sure that this potential action will not be too late?

Fladeland, Christian

It's very difficult to hear you. I don't know whether any of my colleagues, they fully got that question. They are negatively nodding, so shaking their head.

Duranti, Silvia

Okay, yes, I have some...

Fladeland, Christian

Could you try to repeat it?

Duranti, Silvia

Yes. I think I have some issues with my microphone, so I'll go back to the queue and will try to fix it.

Fladeland, Christian

All good. Alternatively, just write us an email, and we'll answer you, at the Investor Relations team.

Operator

And I would also like to remind you, if you would like to enter the question queue, please press star and one. And our next question comes from Yi Qian from Atlanticomnium. Yi, please go ahead.

Qian, Yi

Hi. Thank you very much for the presentation and the improved reporting. I have a few questions. The first one is on the ICR. When you say you forecast it to be 1.6 times, did you include the potential increase, the coupon from high grade, after the reset early next year? And the second one is regarding the 2026 maturities. There are a lot of maturities in that year. How do you plan to address those maturities?

And the last one is regarding your discussion with the shareholders. Could you share any update regarding that front?

Especially when thinking about if H Bostad is going to be downgraded to high yield, there could be a significant impact on the bank access, and then would they consider putting some support before the final downgrade? Thank you.

Fladeland, Christian

So if we start with the ICR part and the hybrids, when we are making forecasting, we are forecasting on the basis of what we feel we have decently control on, and that is that we will have a reset and that it will be pure debt. And then, of course, we'll do what we can to change that assumption through exchange or through another consideration on a hybrid. But for budgeting and stress-testing purposes, that is always the basis. So that is included in our anticipation of the ICR bottoming out at 1.6, that that is reset at that point in time.

On the next item, our 26 maturities, you're correct that we have quite a number of maturities in 26, but a lot of it is also asset-backed funding, which we still see that we will have a clear route to roll over in the ordinary course of business. And then we also have some capital market maturity.

Our base case today is that that would be fully addressed with disposal proceeds, both from the privatisation programme, which should be able to cover into 2026, but also that we would want to increase our disposal bucket in order to not be dependent on taking out any new funding. We still see that we would have capacity to do asset-backed funding at that point in time, but in order to really strengthen the ICR, that needs to be done through deleveraging. And when we are standing here in first half of 2024, we should be able to do that organically through disposals.

In relation to shareholders discussions, we don't have anything to report on that respect. As S&P reflected in their rating in December, they are evaluating Heimstaden Bostad on a standalone basis. So it would be up to a separate discussion with shareholders if we were to come in the scenario where a downgrade from here would at all become relevant. But I don't have any commentary to how they would react to that.

Qian, Yi

Sorry, just to get back to the shareholders, is there any discussion regarding the rating perspective, with the shareholders, I mean, to maintain an IG rating? Or they accept the high yield?

Fladeland, Christian

There is a clear ambition for the company and the board, where the shareholders are also present, that we want to maintain our investment grade rating. That's for sure.

Qian, Yi

Perfect. But they won't do anything just to save the ratings?

Fladeland, Christian

There is no commitments from any of the shareholders to support the company. So this is only based on the board's communication that they want to support the investment grade rating and take the necessary measures. But in relation to firm commitments, that's not something that are in place today.

Qian, Yi

Okay, understood. Thank you very much.

Operator

And now, our question comes from Michael Chakardjian, with a follow-up. Michael, please go ahead.

Chakardjian, Michael

Hi. My question was just answered. Thanks.

Operator

And this concludes our Question-and-Answer session. I would now like to turn the conference back over to the Heimstaden management for some closing remarks. Thank you.

Fladeland, Christian

Thank you, everybody, for listening in. We have been very proud about this Q1 report and look forward to follow that up in Q2. If any questions arise up with this call, always feel free to reach out. Have a good day, everybody.

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