

Full Regular Transcription

Creo Media Group AB

Heimstaden Bostad presentation Q2 2024 results

2024-08-16 at 14:00 pm CET

Duration: 45 minutes

COMPANY REPRESENTATIVES

Helge Krogsbøl, Co-Chief Executive Officer

Thomas Hansen, Chief Financial Officer

Christian Fladeland, Co-Chief Executive Officer

Paul Spina, Chief Asset Management and Sustainability Officer

Frederik Stentoft Berling, Group Head of Corporate Communication

PRESENTATION

Camilla

I would like to inform all participants that this presentation is intended only for investors and other financial stakeholders. As per usual, today's speakers will go through a management presentation before we open up to questions. Questions can be asked on the phone or in writing via the webcast. We will only address questions on Heimstaden Bostad. If you have additional questions after the call, especially if your inquiry is modelling related, you know where to find the Investor Relations team after the call. With that, I will now hand it over to our Co-CEO, Helge Krogsbøl.

Krogsbøl, Helge

Thank you, Camilla, and good afternoon to all of you listening in. It's good to have this call again, as it's been some months since our Q1 announcement. Before we get to the Q&As, we have two main areas to cover in the management presentation. The first area covers our outstanding portfolio performance, asset management and remaining development pipeline. The latter portion will cover financing, liquidity and valuations.

Now looking to the quarter, the privatisation plan continues to track on schedule as we meet our first half year target with SEK 2.8 billion gross sales. Gross premiums remained strong at 29.3, which, taken altogether, released 1.4 billion of net proceeds, which will be used for liability management. For those following on a quarterly level, we sold 363 units at a total sales book value of SEK 1.6 billion. This translates to 29% premium to book level for Q2, standalone. Paul will cover the privatisation programme more in detail later. However, I'm very pleased to see that we are able to deliver ahead of our step-up sales plan for Q2.

It should be no surprise that the portfolio continues to reflect the strong underlying fundamentals as like-for-like rental growth again exceeds inflation by a good margin, producing the third consecutive quarter ahead of inflation and above 5%. The NOI margin on a last-12-month basis increased to 68.4%, which is an improvement from 66% last year. This is the tenth consecutive quarter of NOI improvement. We are also pleased with our Q2 NOI, 71.5%, which is a record high result for Heimstaden Bostad. We expect that the continued rental growth above inflation and a solid cost control will drive strong margin development also in the next period.

Our property values on a fair value basis have further stabilised, with a slight quarter-over-quarter growth to 0.4%. We see this value growth in two consecutive quarters as another signal that residential property values have stabilised.

Finally, we are seeing our key credit metrics, particularly those on the S&P definition, continue to stabilise in line with our base case. This includes the reported S&P ICR of 1.6 and S&P LTV, declining slightly to 58.2% from 58.6% as compared to the prior quarter. We continue to actively track these measures and maintain open dialogue with the rating agencies. So with that, I now hand it over to 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 another change in our quarterly presentation. Our team took investor feedback and expanded our country presentation by adding individual pages. Each page includes both KPIs, with historical trends, as well as explanations of trends in writing. We believe that this increased transparency will support both your understanding of our portfolio diversity as well as better inform your financial modelling.

We've also added an outlook publication in the Q2 quarterly review, where we're offering guidance ranges on select KPIs. The initial guidance range is an update to the December 2023 presentation and covers the remainder of the year. And we'll continue to offer forward-looking transparency in the quarters to come.

Now to the figures. As per our base case, the portfolio is virtually fully let, as real economic occupancy remained unmoved at 98.3% for the quarter. And per our outlook publication, we're expecting occupancy to remain above 98%. The strong real economic occupancy trend continues in our regulated markets, especially in Germany and Sweden, as both remain unchanged at 99.7% and 98.9% respectively. We continue to expect these levels as the underlying supply-demand imbalance persists and supports both short-term and long-term fundamentals.

The UK has stabilised at 97.7% versus 83.3% a year ago, which is a signal that our operational platform is established. Poland was impacted by the delivery of new assets and saw a quarterly reduction to 86% from 96.1%. Specifically, we received 686 new units, or a 72% increase in units from the prior quarter. We are expecting another 830 units to be delivered in the second half of the year.

Like-for-like rental income growth also performed as we saw a net 5.1% increase over our comparable portfolio from a year ago. The comparable portfolio now represents 94% of total rental income. Our CPI development continues to drop sharply across our portfolio to 2.3% from 6.3% a year ago. This then marks the third quarter of like-for-like growth, surpassing inflation, showcasing the possibility for rents to outperform CPI over time.

For Sweden, we observed another strong level of 5%, which is above the local CPI of 2%. This is due to a combination of the negotiated rent increases and our tenant improvement programme. Rental growth is driven by annual negotiations with local tenant associations, as well as business plan execution, including value-add CapEx, such as apartment upgrades. Looking ahead, we will benefit from two-year agreements from 2024, with rent indexations between 4.5% and 5%. Germany also performed, with a quarterly figure of 5.7%. This growth continues to be driven by reversion to market rent upon tenant churn alongside tenant improvements.

Our NOI margin improved as we saw growth to 68.4% from 67.7% on the last-12-month basis, while our quarterly NOI margin improved to 71.5% versus 69% a year ago. Outside the income side, further driving the margin development is a decrease of 0.7% on our property expenses on the last-12-month basis. The main contributors are across-the-board cost efficiency measures alongside stricter cost control.

As you can see in our outlook publication, our aim remains to continue to perpetuate the imbalance between our rental trends and cost bases, and we're expecting our last-12-month NOI margin to remain within the 68% to 69% range through the rest of the year. I now hand it over to Paul.

Spina, Paul

Thank you, Thomas. I'll start with privatisation, where, as Helga mentioned, our cumulative development is slightly ahead of pace. Coming into our privatisation plan, we had ambitious ramp-up goals, and while we're currently slightly ahead of pace, still a bit too early to tell if we'll continue to be ahead of pace in the second half. However, we're confidently on track for the second half goal and our SEK 20 billion goal by the end of 2025. As of now, plan to date, we have sold just over SEK 4 billion by the end of 2024.

Our confidence in our forward-looking outlook has to do with three things. First, a very strong ownership market continues to improve at an accelerated pace across all of our sales markets. In addition to that, we've seen strong value growth and strong liquidity in those markets where we're actively selling.

That confidence in the second half is strong, that we will match our H1 performance and that we'll see, together with an increased sales bucket with the addition of Norway coming online, that we're well-positioned to maintain the linear growth on the plan as forecasted. Taking our most recent months and using a run rate, forward-looking, would get us to SEK 18 billion in sales by the end of 2025, with still additional markets and inventory coming online.

If we then look at our performance and some key KPIs to date, we're 20% of the way towards our SEK 20 billion goal. We've been able to maintain our gross premiums, selling at 30% premium to book value, translating to a net premium of 14.1%. Our average sales price continues to be strong and, in fact, growing in line at just under SEK 50,000 per square meter, representing an implied yield of 2.8%. If we're then to pivot and look at sources and uses of the proceeds looking forward, or looking backwards, we've been able to release just under SEK 2.5 billion for deleveraging year to date, or SEK 1.4 billion in the second quarter.

If we then move to the next slide, where I have to admit it's probably the worst-looking slide on the deck, but that's because I made it myself, because I think it's very important. Looking at the strength of our balance sheet, we've been able to sell SEK 2.1 billion in book value, representing a 114% monetisation rate of that book value, further strengthening and supporting the strength of our balance sheet and our valuation.

Transitioning then to CapEx, we've been able to control spending via a strong, disciplined approach, really highlighting the optionality in our CapEx programme. And so far, year to date, we have had a 37% overall reduction in CapEx versus the same period last year. While maintenance has been generally flat, only down 3% year over year, sustainability investments up 4%, and likely growing from there, our tenant improvements and value-add CapEx have had significant reductions.

Focusing then on CapEx, sorry, on tenant improvements, where we really show the strength of ICR-accretive discretionary CapEx, we've completed 28% less units for a 45% decrease in total spending. And in turn, the yield on investment for those units has increased by 43%, from 7.6% now to just under 11%.

Finally, when it comes to developments, the story is very much unchanged from the previous three or four quarters, where we have been talking about the pipeline running into completion. The good news is the majority of the spending is behind us, while there are still plenty of units to be delivered. So if we were to put a bow on that, there's 2,800 units still to be added to the portfolio. That will cost Heimstaden Bostad SEK 1.9 billion in remaining commitments and will deliver SEK 337 million in annual NOI upon completion, with the majority of that coming in the second half of this year and across 2025. With that, I can hand it to Christian.

Fladeland, Christian

Thank you, Paul. Looking at our fair value development over the quarter, we saw a like-for-like increase of 0.4%, corresponding into SEK 1.25 billion before taking FX changes into account.

We experienced positive value growth in six out of our nine markets, with three markets being marginally negative.

Going through the negative development, we saw continued pressure on yields in Germany. That was as we had foreseen when we entered the year. We see the regulated markets with the lowest absolute yields, where despite strong operational recovery, we still see that's where there is the most pressure on yields. And that has also fed through into the yields in Q2 in Germany, where we saw a moderate decrease of minus 0.7%.

In the UK, we saw a decline of minus 1.4%, mainly driven by the regional specifics of our Scotland asset. We have an asset in Edinburgh, where there is introduced a new lease legislation which is restricting how you can increase rents going forward. So we consider this a one-off effect. In Finland, we saw a moderate compression in values, mainly driven by increased vacancy rates and lower rental growth. And that's something that we also experienced across our peers in the market.

The best-performing markets are the ones that are very much linked to the ownership housing development, so if we take the Netherlands, increasing by a bit more than 4%, where ownership housing prices reached new peak values over the quarter. Same goes for Poland and Norway. Sweden, Denmark and the Czech Republic both show a strong operational performance, with moderate yield expansion, it trading around the 0% mark in terms of value development.

If we are to bridge the overall value development for the quarter, we end the quarter with around SEK 750 million lower investment property values. This is driven by an FX impact of minus SEK 2.6 billion as we saw the SEK strengthening across the quarter across all our, or across most of our other anchor currencies. We had divestments of approximately SEK 1 billion that was transferred during the quarter, and asset held for sale was introduced, with just less than SEK 400 million, reflecting the privatisation assets that were sold over the quarter but not yet transferred as of the quarter end.

If we move on and look in the details of the ownership housing markets, we can see that the recovery is manifesting across even more markets over the past couple of months. We have seen Sweden, Finland and Germany as being the laggards in this respect, but there has been a quite substantial recovery in particular in Sweden, where we are now up 7% since the bottom that we experienced by the end of 2023.

We have three markets that are now standing at all-time highs, the Netherlands, Norway and Poland, as mentioned before. We have three markets that is within 5% of the all-time high. And then we have three recovering markets, where we see very strong momentum, all of them less than 10% below all-time highs.

This is clearly showing how resilient the residential market has been across our markets, despite the increase in interest rates, very much supported by the credit tightening that we have seen following the financial crisis, meaning that the low interest rates have not fed into the credit loosening when people are out to buy their own homes.

So despite the fact that interest rates have gone up, we still see that the affordability and the purchasing power has been sufficient to actually maintain the levels as of only a few years back. And we believe that this trend will continue going forward, and we will continue to see more all-time highs across the markets where we haven't seen that yet.

So if we are to summarise up and look at the outlook for the second half of this year, in terms of disposals, we will continue to ramp up our privatisation programme and believe that we are well on track on our SEK 20 billion target by end of 2025. But as communicated on the large earning call, we also still continue to evaluate whether we should do larger transactions in terms of whole blocks.

That's a market that we are seeing is continuing to open up more and more. The price guidance that we're getting both from advisors but also unsolicited approaches is something where we definitely could see an interest in expanding our disposal programme in order to deleverage even quicker.

In terms of capital markets, we have previously communicated that we don't want to be dependent on going to the bond market in order to manage our rebalancing. That is still the case today. In 2024, we have seen the bond market open up for most real estate issuers at very competitive spreads, and that has put a significant relief on the sector. We still see that our funding cost in the capital markets is significantly above where it should be, and we don't consider it relevant to enter it at that basis. So capital markets is still something that we would evaluate on a continuous basis, but not something we plan.

The only exceptions we can take in there is that we have a hybrid, as most of you are aware, that will have a reset early next year, and where we have a call option by Q4 this year.

There, we are continuing to evaluate our options, and the exchange offers that have become the template in this market is something that we will definitely also evaluate when we get closer to that date. So that kind of capital market activity will still be relevant for us to consider.

We expect to see a continued stabilisation and also slow improvement in our key credit metrics. The LTV started to see a declining trend this quarter, helped by the disposals, the reduction in CapEx and also the value growth. In the coming quarters, as we will see less and less CapEx spend as new development obligations are being phased out, we believe that the deleveraging impact will be even more significant, as we assume that prices will continue to moderately increase from here.

The ICR, which is the key pressure point across most real estate companies these days, is something that we see as quite steady as a rock. That both goes to the upside and to the downside. We see it will be bottoming out in this 1.5 to 1.6 range where we are today, but also that it will take time before we will have significant impact from the deleveraging efforts that we're carrying out.

I know that this is a repetition from the last time, but for each quarter that we are going ahead, we still have three quarters where we know the historical ICR impact, as it's on a rolling-12-month basis. So we consider the forecast on this metric to be associated with a high degree of precision. We've increased our hedge ratio over the course of the year, now to stand at 88%, so we feel very comfortable that the levels that we are at today, at 1.6, it could be rounded down to 1.5, is something that is highly reasonable.

Going forward, our base case is essentially the same as when we entered the year. We have the privatisation programme progressing as we planned, slightly above expectations, but not to an extent where we are willing yet to actually say that we will outperform our 2025 target. But we are comfortable that that we'll be able to fulfil and be compliant with the investment grade thresholds that have been set out by the rating agencies that rate us.

We do want to see whether there are optionality to create even more headroom and advance the deleveraging and thereby support our key credit metrics even more by doing additional disposals, and that will be evaluated on a continuous basis. With that, I will open up for Q&A.

QUESTION & ANSWER

Operator

We now begin the Question & Answer session. Anyone who wishes to ask a question, or make a comment, may press star and one on their telephone.

If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question. Anyone with a question or a comment may press star and one at this time. The first question is from Neeraj Kumar with Barclays. Please go ahead.

Kumar, Neeraj

Good afternoon, everyone. So my first question is in regards to your rating. So if you have to pick one, which rating agency are you more comfortable in being able to defend your IG rating, and why?

Fladeland, Christian

Sorry, could you just repeat there the first part, Neeraj? I didn't get that.

Kumar, Neeraj

Yes, sorry. So which rating agency you are more comfortable in being able to defend your IG rating, and why out of Fitch and S&P.

Fladeland, Christian

I don't know who I'm most concerned about, but we are definitely very much focused on complying with the S&P thresholds, which is the determinant of our financial policy.

Kumar, Neeraj

Got it. And you mentioned about your efforts to bring the outlook to stable, but one of the conditions over there is the ICR to be 1.8 times. So how do you plan to get there, given what you mentioned? It's quite sticky at where it is.

Fladeland, Christian

So our BBB-plus threshold is 1.8 times. Our BBB-minus threshold is the 1.5, not falling sustainably below that. So to the extent that we stabilise between 1.5 and 1.7, I definitely believe that that could justify a stable outlook.

Kumar, Neeraj

Got it. My second question is in regards to your bank debt.

So do you have any colour on where do you plan to fund the additional financing required for your bond maturities?

Fladeland, Christian

So we are fully funded in relation to the upcoming bond maturity here in October, when you look at our cash position together with committed facilities. And from here on, we have an ambition to not be dependent, in particular, not on the bank debt to address the maturities from second half of 2025 and onwards. So the ambition is that disposals will be able to address the vast majority of those maturities from that point and onwards.

That being said, we still have quite a lot of unencumbered capacity, and our secured LTV is still well below 35%. So if we want to take out more bank debt, we see that we have access to do that. But the ambition is to be able to deleverage from here, looking for the maturities from second half of 2025 and onwards.

Kumar, Neeraj

Got it. Just a linked question to that, your secured debt. The outlook you have for the year-end is between 32% to 35%. That's quite a big range. Can you help us with the moving parts over there?

Fladeland, Christian

Yes, it's a bit of a big range. So I'm very comfortable with the high end of it. I think you should expect it to be around 34%-ish, but definitely not above 35%. This was based on... You know the Q2 figures by now, but what you also see that we have announced since Q2 ended is the large Dutch financing, where we're taking out €200 million more of encumbered debt. And then we're also doing other asset-backed funding here in Q3 that will be drawn for our October bond maturity. But 34% to 34.5% is probably where you should anticipate it to be.

Kumar, Neeraj

Got it. And my third question is in regards to disposals. Is there any particular geography you're focusing at in terms of the larger transactions? And also, you reported positive valuation gains for the second quarter straight. Is it fair to assume that some of these geographies where you're reporting big positive uplift, you can easily sell your assets at book value there?

Fladeland, Christian

We don't have any targeted geographies for where we are going to potentially sell in whole-block sales. So that would be more on an opportune basis.

I believe that our book value is reflective of market values. So I definitely believe that we will be able to present transactions at or around book value.

Kumar, Neeraj

Got it. Probably the last question is on the hybrids. Any timelines on that one? And are you looking to reduce the gross amount of it outstanding, or are you looking for reducing the coupons? What exactly the thoughts are there.

Fladeland, Christian

There's no doubt that we are highly focused on making sure we defend our ICR as long as possible. And that, of course, incentivises us to get as close to the reset date as possible. In relation to whether it will be associated with a tender, all this will depend on how we see the liquidity position and how our disposal programme moves forward. If we have headroom for it, that's, of course, something that would be interesting to consider.

Kumar, Neeraj

Got it. Thank you very much.

Fladeland, Christian

Welcome.

Operator

The next question is from Noor Sehur with Morgan Stanley. Please go ahead.

Sehur, Noor

Hi, Christian. This is Noor. Two questions from my side quickly. First of all, you spoke about considering larger disposals, which we've been hearing you speak about. Which markets do you think are more suitable for these, and which markets would you target on that, with respect to larger disposals?

Fladeland, Christian

It would be a bit the same answer that I gave Neeraj. We have decided any specific markets. But what I would say is that we have markets where we have larger portfolios, where we could quite easily divest some scale without losing the economies of scale in those markets. So that's, of course, something that would be a preference.

Sehur, Noor

Right. And if I follow up on the ICR, you spoke about stabilising ICR between 1.5 and 1.6. I think last calls that we've had, you were pretty sure that it won't go below 1.6, and now we're talking about 1.5. Just trying to understand what has changed there. Is it the secured debt that you're getting is much higher margin than you had anticipated? What's the moving part there?

Fladeland, Christian

I wouldn't put too much emphasis into that. I think last time we also said 1.5 to 1.6. But you're correct, I would assume that we'll be able to maintain 1.6 also for the coming quarters. Where this becomes a bit sensitive is that we're also subject to some FX fluctuations. And the SEK has depreciated quite a bit across most of our anchor currencies.

And even though we fund ourselves in local currencies, we don't have an equal LTV across all currencies. So we are marginally below LTV in SEK, meaning that when the SEK depreciates, it has a marginal impact. And given that this is rounding to one decimal, whether you're at 1.54 or 1.56 actually make a difference.

Sehur, Noor

Yes. Right.

Fladeland, Christian

So does that help?

Sehur, Noor

Understood. And just quickly, with respect to the equity raise, is that just all is forgotten now? And has there been any progress, any changes on those discussions, any update on Alecta?

Fladeland, Christian

I've not become that old yet that I have forgotten everything about the equity questions. But we don't have any plans or are planning the company according to any equity raise. We want to make sure that we organically can defend our rating and our deleveraging. So it's not something that we are planning for or have in any of our forecasts.

Sehur, Noor

Right. Okay, thanks.

Operator

Next question is from Othman El Iraki with Fidelity International. Please go ahead.

El Iraki, Othman

Yes. Hi, guys. Thank you for the presentation. Just two quick questions from me, the first one on the upcoming 2024 senior bond. Are you planning to use your undrawn RCF to tackle this? I'm just thinking, it's probably not the best or not the most comfortable situation, to have to draw on your RCF to redeem a bond. So I don't know if you're going for this or maybe will, in the meantime, access the secured debt market to deal with that. Just your thinking about that would be interesting. Thanks.

Fladeland, Christian

So we have two kinds of RCFs. We have the unsecured RCFs, which are backstop facilities, which we have no ambition to use for anything other than supporting our liquidity ratio and optimise our funding profile. And then we have secured RCFs, which are facilities that we maintained with our banks back when we entered the capital market in 2018. And that is facilities that we have started to convert into term loans, to some instances, and been drawing in order to address upcoming capital market maturities. We don't assume to continue...

El Iraki, Othman

Okay, just...

Fladeland, Christian

To draw or not on the secured RCFs, but we are planning to draw some of it for the October maturity.

El Iraki, Othman

Okay. So just to follow up on this, sorry, so the secured RCFs. So that's the one that you can draw and that you will probably draw. What geographies actually are the assets secured by?

Fladeland, Christian

Our secured RCFs are mainly related to Swedish and Norwegian assets.

El Iraki, Othman

Okay. And the size of this secured RCF?

Fladeland, Christian

I need to look at somebody in the room. But I believe we have 9.7 undrawn of the secured.

El Iraki, Othman

Okay.

Fladeland, Christian

Yes, also, we can take that on as separate, but I believe it's around that.

El Iraki, Othman

Okay, thank you. And just one last question, more on the... So can you just remind me if you're still in the process of renegotiating the shareholder agreement with all the shareholders at the moment, or is it still on hold?

Fladeland, Christian

We have continuous dialogue with our shareholders, but we have a shareholder agreement in place today until 2047. And to the extent that there will be an agreement among shareholders to change this, we will, of course, disclose that.

El Iraki, Othman

Okay, thank you.

Operator

The next question is from Michael Chakardjian with BNP Paribas. Please go ahead.

Chakardjian, Michael

Hi. I have a few questions. I wanted to just go a bit further on the RCF. So you have 21 billion of unutilised credit commitments. So you said you had 9.7 billion in the secured RCF. I assume the remainder is in the unsecured. How much of the secured RCF would you feel comfortable in drawing to tackle the October maturity?

Fladeland, Christian

So the 21 you mentioned, I believe that's including the cash balance of 3.5?

Chakardjian, Michael

Okay, yes.

Fladeland, Christian

Yes, exactly. Then I get the figures. So the unsecured RCFs, we agree that we will maintain them completely unchanged. The secured RCFs is something that is fully feasible to be drawn for this. But given that we have taken out quite a lot of asset-backed funding where we haven't yet drawn yet, among others, the €725 million refinancing here in the Dutch portfolio during Q3, we assume that we only would have to spend less than SEK 2 billion on the secured RCF for the October maturity. So it's [overtalking 00:32:50].

Chakardjian, Michael

Okay. So only SEK 2 billion for the October maturity. So, okay.

Fladeland, Christian

That's correct.

Chakardjian, Michael

The next question I had was, you're talking about looking to do other disposals. Are you in any active discussions with any acquirers?

Fladeland, Christian

We have had a lot of unsolicited approaches over the last two years. In 2023, they were of a very opportunistic nature. In 2024, there are some discussions that we have been entertaining. It's not like we have been going out to market through brokers, and it's not like we have anything that we can announce to the market. But I can say that the interest that we are seeing and the prices that are being discussed is meaning that we find it more likely now that there would be additional disposals on some of the privatisation programme.

Chakardjian, Michael

Got you. But it sounds like this would be more of a 2025 announcement then. Is that more fair to say?

Fladeland, Christian

If I could make you believe that, so I could come with a positive surprise in the coming quarters, that would be preferable. But I would assume that there's a decent likelihood that it could be before. But it's not something that is decided. But I see a likelihood that it could be before year end.

Chakardjian, Michael

Okay. And then I just wanted to check then, from me the last question, that you have no plans to raise any more secured debt. Is that correct? Before the October maturity.

Fladeland, Christian

So we are focused on... We want to create as much flexibility as possible, but we want to also make sure that we support our credit metrics. And the way we do that is to make sure that we actually deleverage. So to the extent that we can keep a decent sales pace and we can get the prices that we find defensible, then we don't want to take on more secured debt than is absolutely necessary.

And we see that that pipeline is getting more and more thin than we believe we need to. But we are still, of course, working with our unencumbered asset base in order to make sure that we have alternative routes to the extent that we don't need to sell if we don't find the price is right.

Chakardjian, Michael

Okay. And then the last question I had, it's a follow-up to the shareholder agreement. So you didn't quite answer the last question fully. So I guess, have there been active discussions to amend the shareholder agreement over the last, two, two quarters, beyond dialogue with shareholders?

Fladeland, Christian

I think the background for our wording in the last couple of quarters is that we have, for quite some time, had so much focus on new equity, on change of the shareholder agreement. And what we changed thus then, and that was also part of the rating update that we did late last year, is now we have a base case that the company is fully in control of, which involves a disposal programme, privatisation programme and a deleveraging path that should defend the IG rating. And simultaneously with that, we said that on the shareholder level, we will, of course, continue discussions to find proper alignment.

But there is an agreement in place that lasts until 2047, that was signed and supported by our shareholders back in 2022. That shareholder agreement has previously been amended, several times over the past ten years, so it's, of course, not unreasonable to assume that there will come other amendments at some point. But we also wanted to communicate that the market should not wait for such changes to come.

When and if they come, we will communicate it. And in the meantime, one should expect that the existing agreement will remain in place.

Chakardjian, Michael

Okay, that's helpful. Thank you. That's all from me.

Operator

As a reminder, if you wish to register for a question, please press star and one on your telephone. The next question is from Axel Tärn with Swedbank. Please go ahead.

Tärn, Axel

Hello. Thank you for taking my questions. The first one is probably more just to confirm what you stated regarding the privatisation plan. I know you guided for, I think it was 1,473 units in the second half of 2024 as a sales volume. Can you just confirm whether this is the base case or if you see any deviation from this going forward?

Spina, Paul

Sure, I can take it. I think, coming into the second half of the year, what we're saying is we're 28% ahead of pace, but forecasting to be on track for the end of the year. So the better way to look at that is that we've sold a little bit of our second half goals already in the first half. So that could mean that we're slightly below the second half guidance, based on selling that already in the first half. Just as likely, we could beat that goal. We have more than enough inventory to do it. But rather to remain cautious and guide that we're on track for our year-end target from a cumulative point of view.

Tärn, Axel

Okay, thank you. My second question is related to the ICR, but from a different way. So what's your forecast for your average interest rate by the end of this year, so 2024, and by the end of next year, 2025?

Fladeland, Christian

As I recall it, we assume it to increase to 3.2 by the end of this year and 3.3 by the end of next year. But to be 100% certain, I would appreciate if you would send the question to FA, and then we'll answer it. But it's a very moderate increase that we see in the next 24-month horizon, based on the current hedge profile.

Tärn, Axel

Okay, that makes sense. Thank you. And then my third question, the final question.

We've seen now two consecutive quarters of positive results, and still, your metrics are below your financial policy. But are there any realistic scenarios here where you decide to pay the more senior dividend on the preference share A, or is this out of the question for the time being?

Fladeland, Christian

It's definitely not something that we will at all consider before we get closer to the AGM. And I would still assume that we would go into 2025, and maybe even 2026, before that would become relevant. The strengthening of the metrics is something that we will continue to defend. And the most important is to get our negative outlook out of the way and a path to get back to BBB-plus.

Tärn, Axel

Okay, perfect. And that's all from me. Thank you for taking my questions.

Operator

The next question is from Mary Pollock with CreditSight. Please go ahead.

Pollock, Mary

Hi. Thank you for taking the questions. I just want to make sure I understood correctly that you said, ideally, you'd like to not be reliant on the secured market, pretty much from next year, for refinancing your senior unsecured bonds. Is it supposed to be covered with asset sales? And if I am correct in that, what does that assume for asset sales beyond the privatisation strategy? Or in theory, I guess, can you get through all of 2025 with just asset sale privatisations, or when do you need the bond market again, in the scenario where you're not relying on the secured market?

Fladeland, Christian

So just to emphasise, we definitely want to make sure that we have secured debt pipeline as an alternative to the bond market. So it's not like if we don't do asset sales, then we would rather be dependent on the bond market before going to the secured debt market. But based on just the privatisation programme and the net proceeds, we see that we could manage the second half of 2025 maturities with a small margin.

So in order to build additional margin, to do other additional disposals would be helpful in order to make sure that we don't have to go on that secured debt. That being said, and just to repeat it, we have secured debt capacity. But if we really want to also reverse the trend on the ICR and not just stabilise it, then we need to do the deleveraging. And that's what we're trying to do.

Pollock, Mary

I see. So it's about really optionality and making sure you're executing asset sales that make best economic sense as opposed to executing asset sales to avoid the secured market entirely.

Fladeland, Christian

Right.

Pollock, Mary

Thanks. That's very helpful. And on the Kojamo stake, have you any other thoughts on that, any other ways you could potentially liquidate it? Are you interested in selling it? Obviously, it's been a tough couple of months for their equity. Any colour there would be great.

Fladeland, Christian

No, we still like Kojamo as a company. There is no doubt, and you can also see that in our own figures, the Finnish residential market is the one where you have the least pricing power as a landlord, due to the supply-demand balance. And that has also impacted Kojamo, with a lot of new supply coming. And that has also reflected in the share price. So I definitely believe that the current share price is not something that is attractive to consider. Then we definitely see other disposals that are more relevant.

Pollock, Mary

Thanks so much.

Fladeland, Christian

I understand this was the last question in line, but we have some written Q&A.

Stentoft Berling, Frederik

Yes, actually from my side, I think we've answered most of the written Q&A. Some of you that sent in through the webcast, we'll email out individually. But there's a couple of themes, Christian, if you could answer this. One of the themes is if you could just speak to the current cost of credit facilities and also the cost of the bank funding.

Fladeland, Christian

Yes. So we have seen, as a fact, funding increase in pricing compared to late 2022 and early 2023. But we have seen a stabilisation recently.

If you look at the cheapest Euro/Danish Krone funding, the Danish mortgages and the German Pfandbrief, that typically stands between 80-basis-point up to 130-basis-point margins. The more traditional bank markets, being the Netherlands, Czech Republic, Poland, the UK even and Sweden, all of them stand between 150 to 200 base points. So I think that's the two type of ranges.

Stentoft Berling, Frederik

Great. And then on the hybrids, our commitment to coupons.

Fladeland, Christian

We are highly committed to coupons.

Stentoft Berling, Frederik

Okay, great. And on disposals, a question, alternative question. Are JVs also possible? And could the partnership with Allianz potentially be expanded?

Fladeland, Christian

JVs are always a possibility as well. That being said, we also communicated when we established the JVs with Allianz that this is not something that we would do to a large extent. We have not been pursuing any minority position or preferred equity structures. So to consider a lot of new JVs or anything similar is not something you should anticipate. But, of course, we keep our options open.

Stentoft Berling, Frederik

Great. I think that was it. There was a couple of questions about Paul's PowerPoint abilities, but we can address those offline. So with that, thank you for joining the call. And as usual, please reach out with any follow-ups after this call.

- END -