S&P Global Ratings

RatingsDirect®

Research Update:

Region of Stockholm Ratings Affirmed At 'AA+/A-1+' And 'K-1'; Outlook Stable

Primary Credit Analyst:
Carl Nyrerod, Stockholm (46) 8-440-5919; carl.nyrerod@spglobal.com

Secondary Contact:
Andrea Croner, Stockholm (46) 8-440-5921; andrea.croner@spglobal.com

Table Of Contents

Research Update:

Region of Stockholm Ratings Affirmed At 'AA+/A-1+' And 'K-1'; Outlook Stable

Overview

- We believe that Region of Stockholm (formerly Stockholm County Council) will continue to post strong operating balances and somewhat reduced investment levels through 2021, leading to smaller deficits after capital expenditure.
- We now expect the region's tax-supported debt will peak at 65% of revenues this year before gradually descending thereafter.
- We are therefore affirming our 'AA+/A-1+' global scale and 'K-1' regional scale ratings on Region of Stockholm.
- The outlook remains stable.

Rating Action

On April 5, 2019, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term global scale issuer credit ratings on Sweden's Region of Stockholm. The outlook is stable.

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

Outlook

We anticipate that Region of Stockholm will improve its performance metrics in 2019-2021 on the back of sustained healthy operating surpluses and narrower deficits after capital expenditure. In our base-case scenario for 2019-2021, the region's tax-supported debt will gradually trend down, and we anticipate continued prudent liquidity management, with liquidity remaining exceptionally strong.

Downside scenario

The ratings could come under pressure if the region's budgetary performance were worse than we currently expect, leading to deficits after capital expenditure at a structural level of more than 5% of operating revenues. If, together with this, we noted deterioration in the region's liquidity, with cash and committed back-up facilities structurally covering less than 80% of debt service, we could negatively reassess both the region's financial management and liquidity and lower the ratings.

Upside scenario

We could raise the ratings if we considered that both the region's financial management and debt burden had strengthened. The latter would most likely be due to structural improvements in tax-supported debt to below 60% of revenue.

Rationale

In our view, Region of Stockholm's budgetary performance will gradually improve through 2021, supported by strong operating surpluses following peaking investments over the past few years. The region's liquidity, financial management, and contingent liabilities are other rating strengths, and they somewhat offset the region's high debt burden and rigid expenditure structure. In line with our view of other Swedish local and regional governments (LRGs), we consider the institutional framework as credit supportive.

Favorable local economy structure and institutional support to LRGs

Region of Stockholm's economy is well balanced and has a diverse industry structure, signaling its importance as a national and regional growth center. However, owing to the comprehensive equalization system within the Swedish institutional framework, which evens out wealth levels among LRGs, we use the national GDP per capita of $53,000 as the starting point of our analysis. Population growth in the region is strong, averaging 1.65% over the past three years, compared with the national average of 1.2%. Furthermore, at 6.0% in February 2019, unemployment is marginally lower than the national average of 6.3%.

Although Region of Stockholm is a net contributor to the Swedish LRG equalization system, we consider the institutional framework extremely predictable and supportive to the whole sector, and a key component of our ratings on the region. In our view, the system displays a high degree of institutional stability and the sector has good means for strong revenue and expenditure balance given the far-reaching equalization system and LRGs' autonomy in setting their local or regional tax rates.

We no longer view the region's revenue flexibility as a credit positive. This is because the regional tax rate is high in a national comparison and, even if ticket prices in its public transportation company are comparably low, the past few years' price increases have somewhat diluted the transport company's leeway for future large-scale increases, considering both political aspects and residents' willingness to accept higher prices.

We note that the region has some legacy management-related issues that could have spillover effects, such as in financial leases and the public-private project to develop, build, operate, maintain, and finance New Karolinska Solna University Hospital. Despite this, we believe that the region's financial management is competent. We expect it will use its revenue flexibility to counteract any potential budgetary pressure.

Investment levels should inch down, enabling improvement of the balance after capital accounts

Even though the region's increasing population adds to its operating expenditure, the region has a track record of robust budgetary performance, with operating balances averaging 8.9% of operating revenue in 2016-2018. This was partly thanks to a strong increase in tax revenue as well as ticket sales in its public transportation company. We continue to anticipate continued strong tax revenue growth in 2019. However, we expect that budgetary challenges will remain, notably due to structural deficits at several of the region's hospitals and increased contributions to the Swedish LRG equalization system, which we project will reduce the region's operating balance slightly to an average 7.6% of operating revenue during 2019-2021. Even if some of the regional hospitals continue to struggle with weak budget adherence, we still factor into our base case that the region will narrow the deficits at some of these hospitals and contain the growth of operating expenditure by gradually improving its budgetary steering.

Moreover, we project that Region of Stockholm's capital expenditure will remain high, peaking in 2019 before gradually declining. Our forecasts for the region's investments largely relate to property equipment upgrades, new hospital buildings, and investments in public transportation. We expect investments will average a high 11.7% of total expenditure over 2019-2021, noting, however, that this is lower than the 12.9% average observed over 2017-2018. This gradual descent translates to an average deficit after capital accounts of about 4.4% of revenues for the 2019-2021, versus 4.8% over 2016-2018. Also, we expect deficits after capital expenditure to continue narrowing.

On the back of this expected improvement in the balance after capital accounts, we expect the region to gradually decrease its tax-supported debt. Consequently, we project the region's tax-supported debt will decrease to 60.3% of consolidated revenue by 2021 from 64.4% in 2018. In our calculation of tax-supported debt we include financial leases and an estimate of the present value of capital and funding costs from the public-private partnership agreement for New Karolinska Hospital.

We assess Region of Stockholm on a consolidated basis, including transport company AB Storstockholms Lokaltrafik. As such, the company's liabilities and performance are included in our debt and budgetary performance analyses. This leads us to assume that the major contingent liability the region is facing is the potential future losses and recapitalization that could arise in relation to ongoing financial leases, which we view as overall contained.

Region of Stockholm enjoys exceptionally strong liquidity, in our opinion, reflecting its reliable access to external liquidity and funding in the coming years, as well as its comprehensive committed bank facilities. In February 2019, cash and committed facilities accounted for 225% of debt service for the ensuing 12 months, and we expect cash balances will average Swedish krona

(SEK) 1 billion (about €90.6 million) over the next 12 months. We also take into account a committed bank line of SEK4 billion and a checking account containing SEK3 billion. Furthermore, the region has loan agreements with the European Investment Bank (EIB) linked to specific infrastructure investment plans. We include as a liquidity source SEK3.5 billion available under the EIB loans.

Region of Stockholm has a range of funding alternatives, which reduces refinancing risk. Funding is largely acquired through a €4 billion euro medium-term note program. The region also has a SEK5 billion commercial paper program. Overall, we consider the region's debt management prudent and our base-case assumption is that the region will maintain the long-term nature of its loan portfolio and that its liquidity will remain exceptionally strong over 2019-2021.

Key Statistics

Table 1

Region of Stockholm Selected Indicators

(Mil. SEK)	2016	2017	2018	2019bc	2020bc	2021bc
Operating revenues	92,245	97,259	101,063	104,904	108,858	112,964
Operating expenditures	85,674	87,794	93,137	97,258	100,623	103,911
Operating balance	6,571	9,465	7,926	7,646	8,235	9,053
Operating balance (% of operating revenues)	7.1	9.7	7.8	7.3	7.6	8.0
Capital revenues	800	257	686	200	200	200
Capital expenditures	13,514	13,860	12,211	14,153	13,103	12,489
Balance after capital accounts	(6,143)	(4,138)	(3,599)	(6,307)	(4,668)	(3,236)
Balance after capital accounts (% of total revenues)	(6.6)	(4.2)	(3.5)	(6.0)	(4.3)	(2.9)
Modifiable revenues (% of operating revenues)	82.1	82.4	81.8	82.4	80.9	81.0
Capital expenditures (% of total expenditures)	13.6	13.6	11.6	12.7	11.5	10.7
Direct debt (outstanding at year-end)	44,595	45,966	50,802	54,654	55,830	54,835
Direct debt (% of operating revenues)	48.3	47.3	50.3	52.1	51.3	48.5
Tax-supported debt (outstanding at year-end)	59,761	61,484	65,118	68,658	69,491	68,120
Tax-supported debt (% of consolidated operating revenues)	64.8	63.2	64.4	65.4	63.8	60.3
Interest (% of operating revenues)	1.4	2.1	2.2	2.5	2.6	2.9
Local GDP per capita (SEK)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (SEK)	445,182	458,105	473,383	486,479	501,858	519,196

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. SEK--Swedish krona. S&P Global Ratings' scenarios that could be consistent with a downgrade. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Region of Stockholm Ratings Score Snapshot	
Key Rating Factors	
Institutional Framework	Extremely predictable and supportive
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	High
Contingent Liabilities	Low

S&P Global Ratings bases its ratings on local and regional governments on the eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

- Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Feb. 22, 2019

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Governments - International Public Finance: Methodology And Assumptions: The Impact Of PPP Projects On International Local And Regional Governments: Refined Accounting Treatment, Dec. 15, 2008

Related Research

Sovereign Risk Indicators, Dec. 13, 2018. An interactive version is also available at
http://www.spratings.com/sri

- Institutional Framework Assessments For International Local And Regional Governments, Nov. 6, 2018

- S&P Global Ratings Definitions, Oct. 31, 2018
- Default, Transition, and Recovery: 2017 Annual International Public Finance Default Study And Rating Transitions, June 11, 2018

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

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

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

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

Ratings List

Ratings Affirmed

Stockholm (Region of)	
Issuer Credit Rating	AA+/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Senior Unsecured	AA+
Commercial Paper	K-1

Additional Contacts:
Philip Steinkeller, London + 44 20 7176 0192; philip.steinkeller@spglobal.com
EMEA Sovereign and IPF; SovereignIPF@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.