

Research Update:

Sweden-Domiciled DDM Debt AB Rated 'B'; Outlook Stable

June 23, 2021

Overview

- DDM group has completed its targeted refinancing as planned.
- While the group's initial issuance volume was slightly lower than we expected, we anticipate that DDM's debt trajectory will still hold for 2021, as investment activity picks up in the second half of 2021.
- We assigned our 'B' issuer credit rating to Sweden-domiciled DDM Debt AB, the issuing entity of the larger DDM group, which is consolidated under the Switzerland-based parent DDM Holding AG. We also assigned our 'B' issue ratings to the group's senior secured notes that have been the cornerstone of the refinancing, with a '4' recovery rating (35% recovery prospects).
- The stable outlook on DDM reflects our view that the group's leverage and debt-service metrics will remain steady.

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Rating Action Rationale

DDM group completed its refinancing as planned. DDM has been in the process of refinancing about €123 million, which included €37 million secured notes maturing in 2021, €77 million secured notes maturing in 2022, and €9 million drawn under a €27 million revolving credit facility. In April, DDM issued €150 million senior secured bonds maturing in 2026. As a result, the outstanding senior secured bonds were redeemed on May 6, 2021. We anticipate that an additional tap of the 2026 senior secured notes is possible in second-half 2021. Additionally, we continue to view DDM's financial risk profile as highly leveraged, given our expectation that debt to statutory EBITDA will remain above 5.0x, which is also in line with that of some of DDM's sector peers.

Our ratings are in line with the preliminary ratings we assigned on March 22, 2021. For further details on the rating analysis, see "DDM Debt AB Assigned Prelim 'B' Rating On Continued Opportunistic Growth Plans; Outlook Stable," published on RatingsDirect.

Outlook

The stable outlook on DDM reflects our view that the group's leverage and debt-service metrics will remain steady. Specifically, we expect statutory debt to EBITDA will stay above 5x.

Downside scenario

We could lower the rating on DDM if we observed an overall weakening in its franchise and financial discipline that led to a more aggressive financial policy. This could materialize as a sizable dividend distributions or an inorganic growth strategy that prompted us to view a pronounced deterioration in the group's already constrained financial risk profile.

We could lower our ratings on the notes to 'B-' if DDM were to see its book values markedly decline, through impairments or amortization of the book, or if the group increased its priority debt. Both scenarios would weaken recovery prospects, in our view.

Upside scenario

We currently regard an upgrade as unlikely. This is because we note that DDM's revenue streams are less diversified. Also, because of its secured portfolio focus, the group's financial metrics are less stable than that of peers that have a larger revenue scope. That said, we would view positively a meaningful improvement in the group's statutory coverage.

Ratings Score Snapshot

Issuer Credit Rating: B/Stable/--

Business risk: Weak

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Weak

Financial risk: Highly leveraged

- Cash flow/Leverage: Highly leveraged

Anchor: b

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- DDM Debt AB Assigned Prelim 'B' Rating On Continued Opportunistic Growth Plans; Outlook Stable, March 22, 2021

Ratings List

New Rating

DDM Debt AB

| | |
|-----------------|--------|
| Senior Secured | B |
| Recovery Rating | 4(35%) |

New Rating; Outlook Action

DDM Debt AB

| | |
|----------------------|-------------|
| Issuer Credit Rating | B/Stable/-- |
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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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 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

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