

# Vasakronan AB

## Q4 18: Good growth and lower leverage

Vasakronan ended 2018 on a strong note, with continued good earnings growth and some further reduction in leverage. As of YE 2018, Vasakronan's net LTV stood at a low 42%, with a secured LTV of 9%. The company also managed to increase further its share of green financing to 35% of total funding. Following a period of widening spreads, we now see the company's SEK bonds as attractively valued compared with 'A'-rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem, which all have higher leverage than Vasakronan. Consequently, we upgrade our bond recommendation from Marketweight to Overweight.

### Good growth and lower leverage

In Q4 18, Vasakronan continued to deliver good growth, with an increase in rental income of 3.5% y/y and net operating income growth of 6.3% y/y. For 2018 as a whole and for comparable property holdings rental income rose by 5%. Due mainly to higher rents, the company enjoyed a positive valuation gain on its property portfolio of SEK4bn in Q4 18, bringing the total portfolio market value to SEK139bn at YE 2018.

Capital expenditure amounted to SEK952m in Q4 18, with acquisitions of SEK100m and divestments of SEK345m. This, together with the positive revaluations, resulted in a further decline in net LTV to 42% at YE 2018 (end-Q3 18 44%), with a gross LTV of 44%. The secured LTV remained at the low level of 9%. Vasakronan also continued to expand its green funding. In total, Vasakronan's green financing – green CPs, bonds and loans – now comprises 35% of the company's debt portfolio (Q3 18 33%).

Considering high market valuations, Vasakronan maintains a primary focus on its own development projects and internally generated growth. As of YE 2018, the company's total project development portfolio amounted to SEK10.6bn. Of the total projected surface area in the larger projects, some 41% was pre-let as of YE 2018.

### Key figures

SEKm	Q4 17	Q3 18	Q4 18	y/y	q/q
Rental income	1,654	1,673	1,712	3.51%	2.33%
EBITDA (rep.)	1,130	1,189	1,367	20.97%	14.97%
Net income	2,436	1,627	4,000	64.20%	145.85%
Investment properties	126,875	134,303	138,934	9.50%	3.45%
Total debt	58,421	61,244	61,087	4.56%	-0.26%
Ratios	Q4 17	Q3 18	Q4 18	y/y	q/q
Gross LTV	46.0%	45.6%	44.0%	-2.1pp	-1.6pp
LTM NOI margin	71.3%	72.9%	73.2%	1.9pp	0.3pp
LTM EBITDA interest coverage (x)	3.9	4.2	4.7	0.8pp	0.5pp
Net debt/LTM EBITDA (x)	12.5	12.7	12.0	-0.5pp	-0.7pp
Total debt/total capital	53.2%	52.1%	50.3%	-2.9pp	-1.8pp

Source: Company data, Danske Bank DCM Research

## Overweight

Sector: Real estate

Corporate ticker: FASTIG

Equity ticker 1276Z SS

### Ratings:

S&P: NR / NR

Moody's: A3 / S

Fitch: NR / NR

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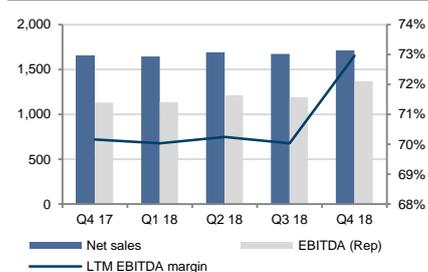
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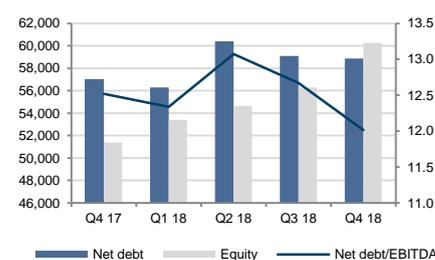
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### Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

### Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

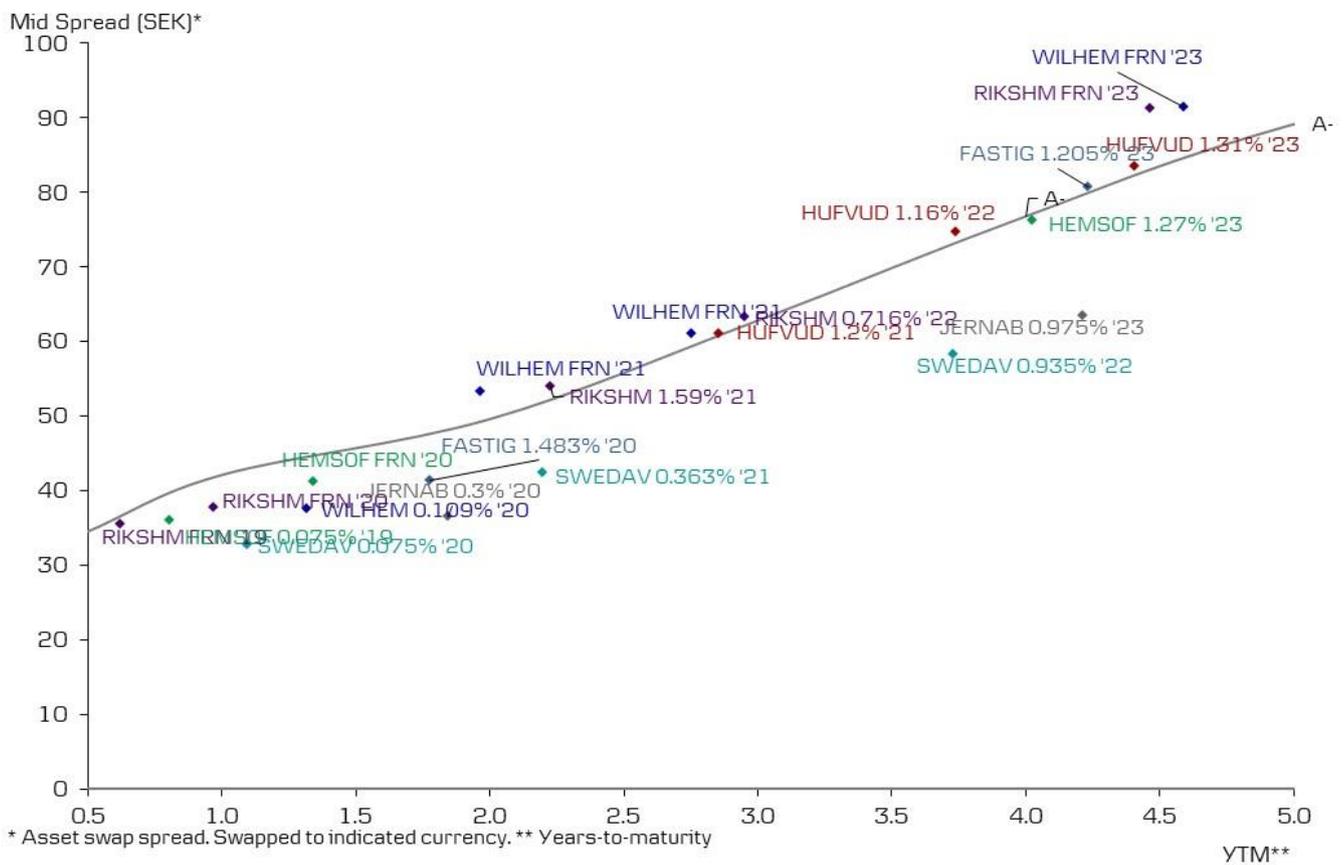
## Recommendation

Vasakronan ended 2018 on a strong note, with continued good earnings growth and some further reduction in leverage. On average, the company achieved rental increases of 14.6% on the new rental contracts signed in the quarter.

Vasakronan also continued to increase the share of green financing in the quarter. The share of environmentally certified buildings remained high at 85% at YE 2018 (unchanged from Q3 18). This meant that a total pool of SEK7.6bn was still available for green financing.

In our opinion, Vasakronan enjoys both solid credit fundamentals and a strong ownership profile. Following a period with widening spreads, we now see the company's SEK bonds as attractively valued compared with 'A-' rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem, which all have higher leverage than Vasakronan. We upgrade our bond recommendation from Marketweight to Overweight.

Chart 1. SEK large real estate relative value



Source: Bloomberg, Danske Bank DCM Research

## Company summary

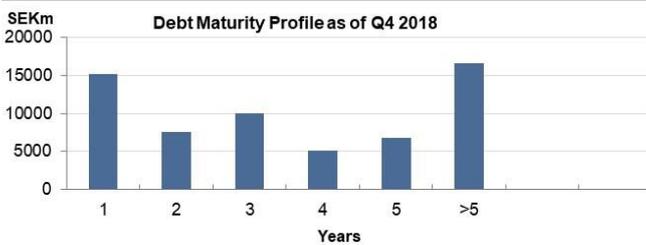
### Company description

Vasakronan is the largest property company in Sweden. The portfolio is concentrated to Sweden's largest cities and in terms of property type, offices and retail make up for the large majority of the total. The current structure of the company was formed after AP Fastigheter (controlled by the state-owned AP funds) bought all the shares of Vasakronan from the Swedish government on 3 July 2008. The merged corporation changed its name to Vasakronan. It is the company's strategy to focus on growth markets in Sweden and own properties that provide a stable return over time.

### Key credit strengths

- High-quality urban property portfolio with low vacancy rates.
- Strong ownership from government pension funds.
- Diversified client base with large proportion of public sector.
- Proven access to capital and bank markets.

### Debt maturity profile



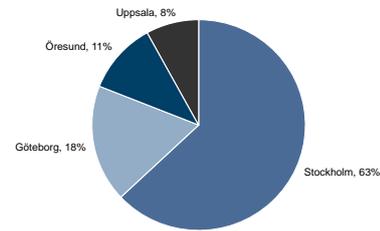
### Selected outstanding bonds

Isin	Coupon	Currency	Maturity/Call	Seniority	Rating*
SE0009241425	FRN	SEK	24/04/2019	Sr Unsecured	NR/NR
SE0006732087	FRN	SEK	22/01/2020	Sr Unsecured	NR/NR
SE0004357192	4%	SEK	01/12/2020	Sr Unsecured	NR/NR
SE0007953930	1.68%	SEK	20/01/2021	Sr Unsecured	NR/NR
SE0010869156	FRN	SEK	01/03/2024	Sr Unsecured	NR/NR

\*Moody's/S&P

Source: Company data, Bloomberg, Danske Bank DCM Research [all charts and tables]

### Sales breakdown, segments



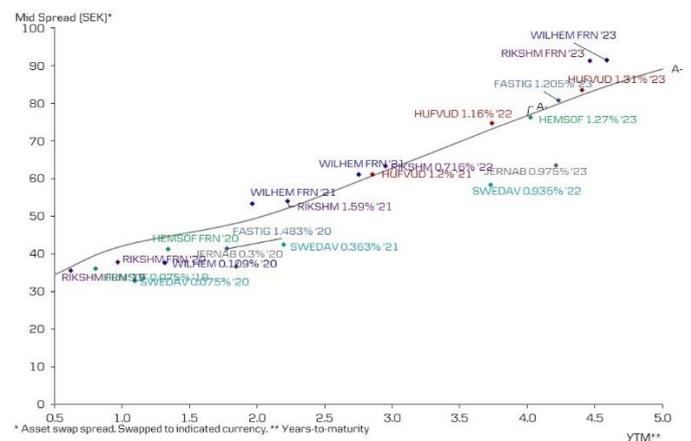
### Key credit challenges

- Earnings are exposed to swings in economic cycles.
- Some, albeit manageable, exposure to project development.
- Some sensitivity to interest rate movements, although mitigated by a strong balance sheet.

### Main shareholders

Name	Votes (%)	Capital (%)
AP1	25.0%	25.0%
AP2	25.0%	25.0%
AP3	25.0%	25.0%
AP4	25.0%	25.0%

### Relative valuation



## Summary tables

<b>Income statement (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
Rental income	6,009	6,269	6,490	6,718	6,920
Other operating income	0	0	0	0	0
Total revenue	6,009	6,269	6,490	6,718	6,920
Total property related costs	1,735	1,792	1,812	1,849	1,904
Net operating income (NOI)	4,274	4,477	4,678	4,869	5,015
EBITDA	4,114	4,371	4,553	4,927	5,015
Net interest expenses	1,121	1,052	1,165	1,043	1,177
Profit from property management	3,065	3,338	3,416	3,725	3,838
Change in property values	10,212	12,056	7,973	10,651	2,779
Change in financial derivatives	598	-764	468	13	0
Other	-72	-19	-28	159	0
Pre-tax profit	13,803	14,611	11,829	14,486	6,616
Current tax	-45	0	-95	-120	-132
Deferred tax	-2,814	-3,019	-2,464	-1,464	-1,323
Net income	10,944	11,592	9,270	12,902	5,161
<b>Balance sheet (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
Market value properties	103,894	115,922	126,875	138,934	145,213
Other fixed assets	58	54	46	44	0
Intangible assets	2,188	2,171	2,145	2,089	0
Deffered tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	2,301	2,147	1,423	2,215	-580
Total assets	109,786	122,056	131,970	145,201	144,633
Equity	41,245	46,117	51,377	60,271	65,432
Shareholder loans	0	0	0	0	0
Deferred taxes	11,356	14,362	16,824	18,286	0
Total debt	50,750	55,240	58,421	61,087	62,087
Other liabilities	6,435	6,337	5,661	2,698	0
Total equity and liabilities	109,786	122,056	132,283	145,201	127,519
<b>Cash flow statement (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
FFO (adjusted)	2,855	3,137	3,383	3,567	3,705
Cash flow from operations (FFO)	3,210	3,439	3,111	3,635	3,705
Investment (properties)	470	1,563	440	-634	0
Disposals (properties)	1,387	2,120	612	2,526	0
Investments other (net)	-22	0	-5	146	0
Capex	-1,386	-1,626	-1,489	-3,335	-3,500
Free operating cash flow	3,681	5,496	2,674	2,192	205
Dividends and share repurchased	-4,924	-7,933	-4,000	-4,000	-4,000
Debt financing (net)	4,033	5,930	3,150	2,685	1,000
Change in cash	2,768	1,980	1,819	792	-2,795

Source: Company data, Danske Bank DCM Research estimates

**Summary tables**

<b>Adjusted ratios (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>
Sales growth	1.9%	4.3%	3.5%	3.5%	3.0%
EBITDA margin	68.5%	69.7%	70.2%	73.3%	72.5%
NOI margin	71.1%	71.4%	72.1%	72.5%	72.5%
EBITDA interest coverage (x)	3.7	4.2	3.9	4.7	4.3
FFO/interest coverage (x)	3.5	4.0	3.9	4.4	4.1
FFO/debt (x)	5.6%	5.7%	5.8%	5.8%	6.0%
Net debt/EBITDA (x)	11.8	12.1	12.5	11.9	12.5
Gross LTV	48.8%	47.7%	46.0%	44.0%	42.8%
Net LTV	46.6%	45.8%	44.9%	42.4%	43.2%
Equity ratio	37.6%	37.8%	38.9%	41.5%	45.2%
Total debt/total capital	55.2%	54.5%	53.2%	50.3%	48.7%
<b>Quarterly overview (SEKm)</b>	<b>Q4 17</b>	<b>Q1 18</b>	<b>Q2 18</b>	<b>Q3 18</b>	<b>Q4 18</b>
Rental income	1,654	1,643	1,690	1,673	1,712
EBITDA	1,130	1,132	1,213	1,189	1,367
Net interest expenses	291	271	265	277	230
Net income	2,436	2,027	5,248	1,627	4,000
CFO	862	953	1,161	779	945
Investment properties	126,875	128,339	133,518	134,303	138,934
Total debt	58,421	58,903	62,397	61,244	61,087
Net debt	56,998	56,285	60,389	59,092	58,872
Equity	51,377	53,404	54,652	56,279	60,271
<b>Ratios</b>					
LTM NOI margin	71.3%	70.4%	73.4%	72.9%	73.2%
LTM EBITDA margin	70.2%	70.0%	70.2%	70.0%	73.0%
Direct yield	3.7%	3.7%	3.6%	3.6%	3.5%
Gross LTV	46.0%	45.9%	46.7%	45.6%	44.0%
LTM EBITDA interest coverage (x)	3.9	4.0	4.1	4.2	4.7
Net debt/LTM EBITDA (x)	12.5	12.3	13.1	12.7	12.0
Total debt/total capital	53.2%	52.4%	53.3%	52.1%	50.3%
FFO/debt	1.4%	1.3%	1.6%	1.5%	1.4%

Source: Company data, Danske Bank DCM Research estimates

## Fixed Income Credit Research



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Marketweight	Performance in line with peer group	6 months	61%	29%
Underweight	Underperformance relative to peer group	6 months	9%	23%

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New	Marketweight	Overweight

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