

Vasakronan AB

Q1 19: Further expansion of green funding

Vasakronan enjoyed a strong start to 2019, with continued good earnings growth and a somewhat higher occupancy rate. Even though leverage increased sequentially from YE 18, this was due to the introduction of IFRS 16. Overall, Vasakronan's balance sheet remains strong with a lease-adjusted net LTV of 44% as of end-March. Following recent spread tightening, we downgrade our recommendation on Vasakronan's bonds to Marketweight (previously Overweight). Nonetheless, the company remains our preferred name in the 'A' real estate segment. This is mainly because Vasakronan has a more conservative financial policy and lower leverage than other 'A-' rated publicly-owned real estate companies such as Hemsö, Rikshem and Willhem.

Vasakronan enjoyed a strong start to 2019 with several new lettings, and an increase in reported rental income of 4.9% Y/Y and net operating income growth of 11% Y/Y. For comparable property holdings rental income rose by 6% Y/Y. Due mainly to higher rents, the company enjoyed a positive valuation gain on its property portfolio of SEK716m in Q1 19, bringing the total portfolio market value to SEK139bn at end March.

Capital expenditure amounted to SEK986m in Q1 19, with divestments of SEK1.3bn and no acquisitions. The reported net LTV declined further to 39% at end March (YE 18 42%). When also adjusting for SEK5bn of lease liabilities under IFRS16 the net LTV was 44%. The secured LTV remained at the low level of 8%. Vasakronan continued to expand its green funding. In total, Vasakronan's green financing – green CPs, bonds and loans – now comprises 37% of the company's debt portfolio (YE 18 35%).

Considering high market valuations, Vasakronan maintains a primary focus on its own development projects and internally-generated growth. As of end March, the company's total project development portfolio amounted to SEK12.4bn. Of the total projected surface area in the larger projects, some 52% was pre-let. After the end of the quarter, Vasakronan's CEO Fredrik Wirdenius stated that he plans to step down after 11 years in his current position. The process of recruiting a new CEO has begun.

Key figures

SEKm	Q1 18	Q4 18	Q1 19	y/y	q/q
Rental income	1,643	1,712	1,724	4.93%	0.70%
EBITDA (rep.)	1,132	1,367	1,142	0.88%	-16.46%
Net income	2,027	4,000	816	-59.74%	-79.60%
Investment properties	128,339	138,934	144,444	12.55%	3.97%
Total debt	58,903	61,087	69,153	17.40%	13.20%
Ratios	Q1 18	Q4 18	Q1 19	y/y	q/q
Gross LTV	45.9%	44.0%	47.9%	2.0pp	3.9pp
LTM NOI margin	70.4%	73.2%	72.1%	1.7pp	-1.1pp
LTM EBITDA interest coverage (x)	4.0	4.7	4.8	0.9pp	0.1pp
Net debt/LTM EBITDA (x)	12.3	12.0	12.9	0.5pp	0.9pp
Total debt/total capital	52.4%	50.3%	53.1%	0.6pp	2.8pp

Source: Company data, Danske Bank DCM Research

Marketweight

Sector: Real estate

Corporate ticker: FASTIG

Equity ticker: 1276Z SS

Ratings:

S&P: NR / NR

Moody's: A3 / S

Fitch: NR / NR

ESG rating:

Sustainalytics ESG Risk Rating: 12.4

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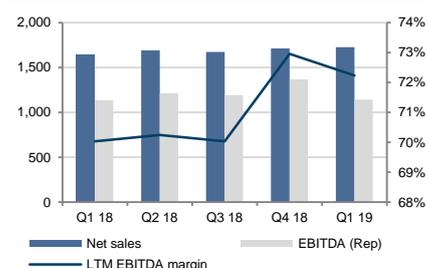
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Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

Recommendation

Vasakronan enjoyed a strong start to 2019, with continued good earnings growth and a somewhat higher occupancy rate. Even though leverage increased sequentially from YE 18, this was due to the introduction of IFRS 16. Overall, Vasakronan's balance sheet remains strong with a lease-adjusted net LTV of 44% as of end March. Positively, the company continues to pursue a cautious acquisition strategy and focuses mainly on internally-generated growth. By divesting two properties in Lund during the quarter to Wihlborgs, this also mean that Vasakronan has ceased all operations in Lund.

Following recent spread tightening, we downgrade our recommendation on Vasakronan's bonds to Marketweight (previously Overweight). Nonetheless, the company remains our preferred name in the 'A' real estate segment. This is mainly because Vasakronan has a more conservative financial policy and lower leverage than other 'A-' rated publicly-owned real estate companies such as Hemsö, Rikshem and Willhem.

Company summary

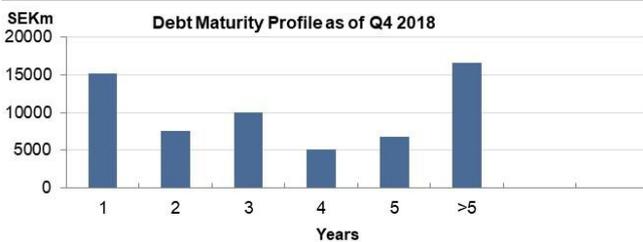
Company description

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

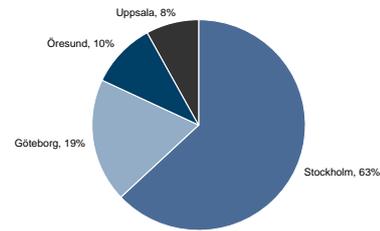


Selected outstanding bonds

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

Sales breakdown, segments



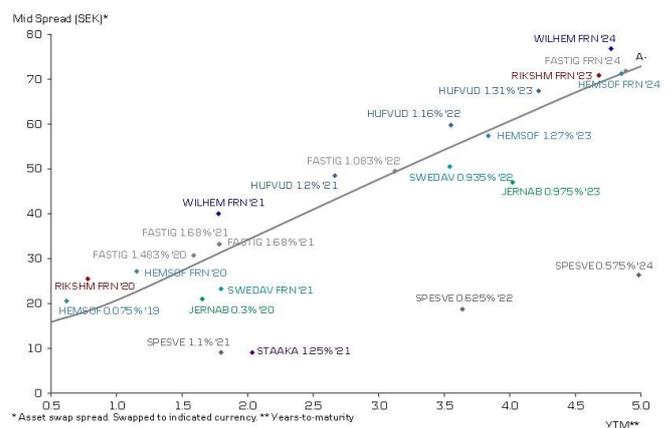
Key credit challenges

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



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

Summary tables

Income statement (SEKm)	2015	2016	2017	2018	2019E
Rental income	6,009	6,269	6,490	6,718	6,987
Other operating income	0	0	0	0	0
Total revenue	6,009	6,269	6,490	6,718	6,987
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	5,082
EBITDA	4,114	4,371	4,553	4,927	5,082
Net interest expenses	1,121	1,052	1,165	1,043	1,060
Profit from property management	3,065	3,338	3,416	3,725	4,023
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	6,801
Current tax	-45	0	-95	-120	-136
Deferred tax	-2,814	-3,019	-2,464	-1,464	-1,360
Net income	10,944	11,592	9,270	12,902	5,305
Balance sheet (SEKm)	2015	2016	2017	2018	2019E
Market value properties	103,894	115,922	126,875	138,934	150,213
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	602
Total assets	109,786	122,056	131,970	145,201	150,814
Equity	41,245	46,117	51,377	60,271	65,576
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	68,087
Other liabilities	6,435	6,337	5,661	2,698	0
Total equity and liabilities	109,786	122,056	132,283	145,201	133,663
Cash flow statement (SEKm)	2015	2016	2017	2018	2019E
FFO (adjusted)	2,855	3,137	3,383	3,567	3,887
Cash flow from operations (FFO)	3,210	3,439	3,111	3,635	3,887
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	387
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	2,000
Change in cash	2,768	1,980	1,819	792	-1,613

Source: Company data, Danske Bank DCM Research estimates

Summary tables

Adjusted ratios (SEKm)	2015	2016	2017	2018	2019E
Sales growth	1.9%	4.3%	3.5%	3.5%	4.0%
EBITDA margin	68.5%	69.7%	70.2%	73.3%	72.7%
NOI margin	71.1%	71.4%	72.1%	72.5%	72.7%
EBITDA interest coverage (x)	3.7	4.2	3.9	4.7	4.8
FFO/interest coverage (x)	3.5	4.0	3.9	4.4	4.7
FFO/debt (x)	5.6%	5.7%	5.8%	5.8%	5.7%
Net debt/EBITDA (x)	11.8	12.1	12.5	11.9	13.3
Gross LTV	48.8%	47.7%	46.0%	44.0%	45.3%
Net LTV	46.6%	45.8%	44.9%	42.4%	44.9%
Equity ratio	37.6%	37.8%	38.9%	41.5%	43.5%
Total debt/total capital	55.2%	54.5%	53.2%	50.3%	50.9%
Quarterly overview (SEKm)	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
Rental income	1,643	1,690	1,673	1,712	1,724
EBITDA	1,132	1,213	1,189	1,367	1,142
Net interest expenses	271	265	277	230	248
Net income	2,027	5,248	1,627	4,000	816
CFO	953	1,161	779	945	624
Investment properties	128,339	133,518	134,303	138,934	144,444
Total debt	58,903	62,397	61,244	61,087	69,153
Net debt	56,285	60,389	59,092	58,872	63,243
Equity	53,404	54,652	56,279	60,271	61,088
Ratios					
LTM NOI margin	70.4%	73.4%	72.9%	73.2%	72.1%
LTM EBITDA margin	70.0%	70.2%	70.0%	73.0%	72.2%
Direct yield	3.7%	3.6%	3.6%	3.5%	3.4%
Gross LTV	45.9%	46.7%	45.6%	44.0%	47.9%
LTM EBITDA interest coverage (x)	4.0	4.1	4.2	4.7	4.8
Net debt/LTM EBITDA (x)	12.3	13.1	12.7	12.0	12.9
Total debt/total capital	52.4%	53.3%	52.1%	50.3%	53.1%
FFO/debt	1.3%	1.6%	1.5%	1.4%	1.2%

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%

Changes to recommendation in the past 12 months:

Date	Old rec.	New rec.
New	Overweight	Marketweight
31 Jan 2019	Marketweight	Overweight

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