

# Vasakronan AB

## Q3 19: Continued good momentum

We regard Vasakronan's Q3 19 performance as encouraging as it indicates continued good momentum in its main markets. In Q3 19, net letting was positive at SEK127m. Due mainly to higher rents, Vasakronan enjoyed a positive valuation gain on its property portfolio of SEK2.1bn in Q3 19, bringing the total portfolio market value to SEK147bn at end-September. The company's balance sheet remains strong, with a lease-adjusted net LTV of 44% as of end-September. We see Vasakronan's bonds as fairly valued and maintain our Marketweight recommendation.

Demand for Vasakronan's premises remained strong in Q3 19, with an increase in reported rental income of 7.1% y/y and net operating income growth of 6.2% y/y. For comparable property holdings, rental income rose by 7% y/y in Q1-Q3 19 (H1 19 5% y/y). Renegotiations and lease extensions resulted in a rental increase of 12% in Q1-Q3 19, with a 3% rental increase for the retail segment. In Q3 19, net letting was positive at SEK127m.

Due mainly to higher rents, Vasakronan enjoyed a positive valuation gain on its property portfolio of SEK2.1bn in Q3 19, bringing the total portfolio market value to SEK147bn at end-September. Reported net LTV declined to 39% at end-September (end-June 41%). When also adjusting for SEK5bn of lease liabilities under IFRS 16, net LTV stood at 44%, with a secured LTV of 8%. Vasakronan continued to expand its green funding. In total, Vasakronan's green financing – green commercial paper, bonds and loans – now comprises 44% of the company's debt portfolio (Q2 19 40%). The average capital fixing was 5.2 years, with an average interest fixing of 6.2 years and an average interest rate of 1.8%.

Considering current high market valuations, Vasakronan maintains a primary focus on its own development projects and internally generated growth. As of end-September, the company's total project development portfolio amounted to SEK13bn. Of the total projected surface area in the larger projects, some 62% was pre-let (Q2 19 55%).

### Key figures

SEKm	Q3 18	Q2 19	Q3 19	y/y	q/q
Rental income	1 673	1 715	1 793	7,17%	4,55%
EBITDA (rep.)	1 189	2 126	1 269	6,73%	-40,31%
Net income	1 627	4 214	2 185	34,30%	-48,15%
Investment properties	134 303	149 261	152 630	13,65%	2,26%
Total debt	61 244	70 469	70 216	14,65%	-0,36%
Ratios	Q3 18	Q2 19	Q3 19	y/y	q/q
Gross LTV	45,6%	47,2%	46,0%	0,4pp	-1,2pp
LTM NOI margin	72,9%	73,8%	72,3%	-0,6pp	-1,5pp
LTM EBITDA interest coverage (x)	4,2	5,4	5,2	1,0pp	-0,2pp
Net debt/LTM EBITDA (x)	12,7	11,6	11,3	-1,3pp	-0,2pp
Total debt/total capital	52,1%	53,5%	52,5%	0,4pp	-1,0pp

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: 10.7

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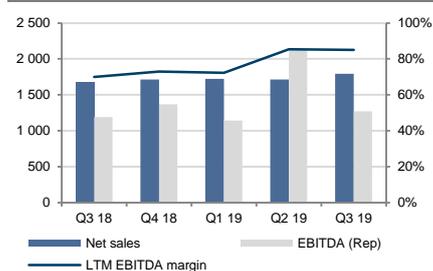
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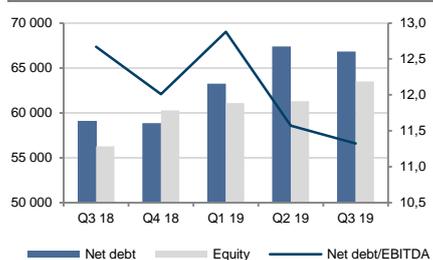
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### Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

### Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

## Recommendation

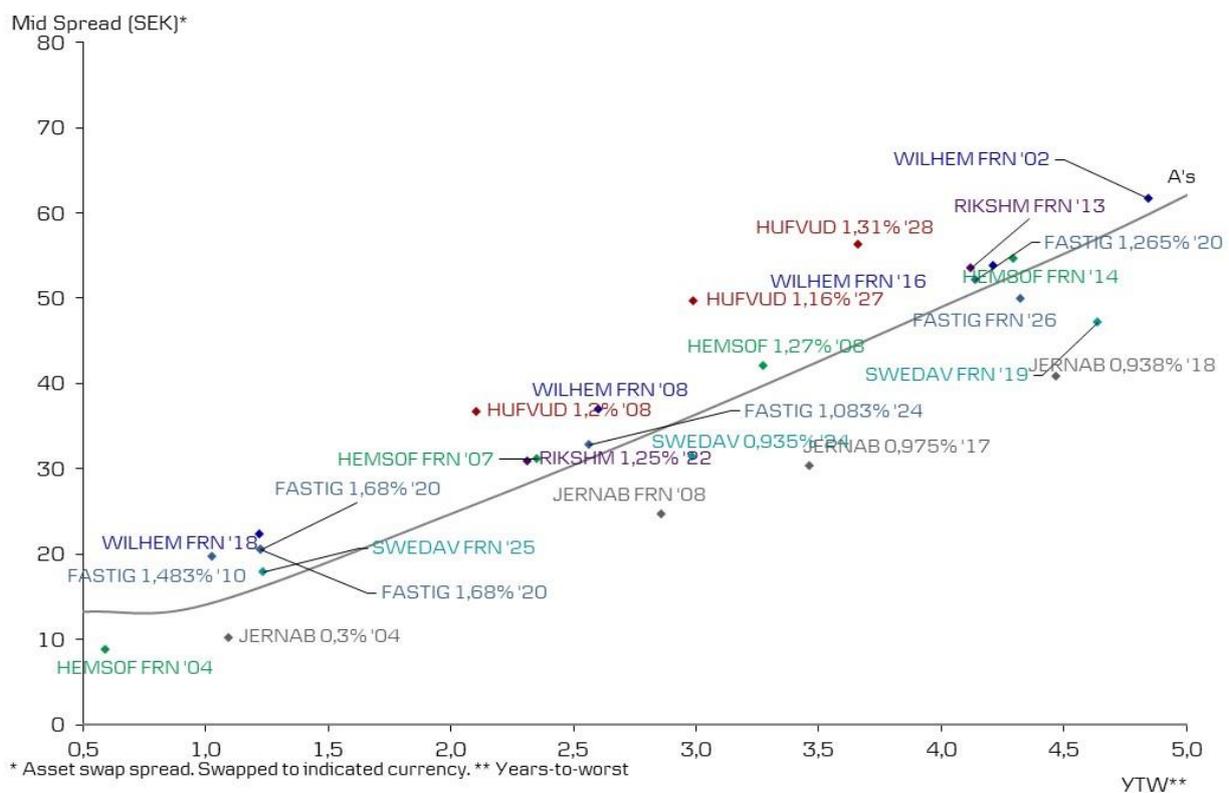
We regard Vasakronan's Q3 19 performance as encouraging, as it indicates continued good momentum in its main markets. At the same time, the company's balance sheet remains strong, with a lease-adjusted net LTV of 44% as of end-September.

In August, Vasakronan's board appointed Johanna Skogestig as the company's new CEO. Johanna has been responsible for property investments at Vasakronan since 2015. She will take office as of 1 November. We do not expect any major changes to Vasakronan's strategy following the change of CEO.

Vasakronan is a company with high sustainability ambitions with a good record in this area. As an example, the company has halved its energy consumption since 2009. It now states that it has begun to focus on reducing its indirect emissions via new construction projects. Among other things, Vasakronan has joined a local initiative in Malmö, which aims to accelerate the construction sector's adaptation to climate change. Furthermore, Vasakronan has joined a digital market place for recycled material in order to improve the collaboration between market participants and to develop a large-scale market in this area. As we regard CO<sub>2</sub> emissions from materials in construction projects as one of the largest ESG risks in the property sector, we regard Vasakronan's ambitions in this area positively.

Overall, we see Vasakronan's bonds as fairly valued and maintain our Marketweight recommendation.

Chart 1. SEK relative value



Source: Bloomberg, Danske Bank DCM Research

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## Company summary

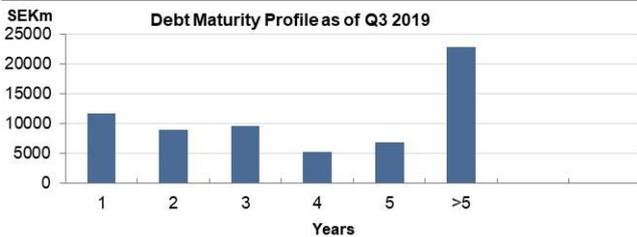
### Company description

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.

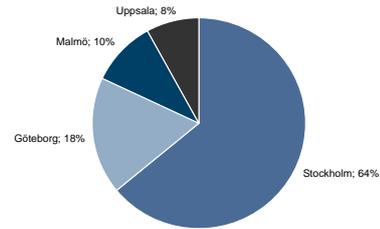
### Debt maturity profile



### Selected outstanding bonds

ISIN	Coupon	Currency	Maturity/call	Seniority	Rating*
SE0006732087	FRN	SEK	22-Jan-20	Sr Unsecured	NR/NR
SE0004357192	4%	SEK	1-Dec-20	Sr Unsecured	NR/NR
SE0007953930	1,68%	SEK	20-Jan-21	Sr Unsecured	NR/NR
SE0010869156	FRN	SEK	1-Mar-24	Sr Unsecured	NR/NR

### Sales breakdown, segments



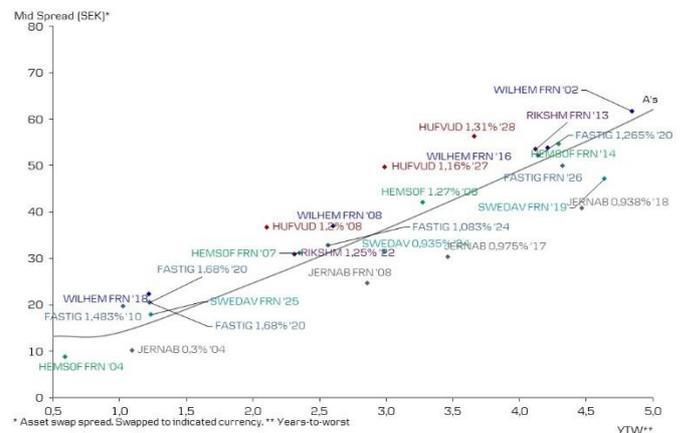
### Key credit challenges

- 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



\* Moody's/Standard & Poor's

Source: Company data, Bloomberg, Moody's, Standard & Poor's, Danske Bank DCM Research

## 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	6 987
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	1 260
Profit from property management	3 065	3 338	3 416	3 725	3 823
Change in property values	10 212	12 056	7 973	10 651	8 336
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	12 159
Current tax	-45	0	-95	-120	-243
Deferred tax	-2 814	-3 019	-2 464	-1 464	-2 432
Net income	10 944	11 592	9 270	12 902	9 484
<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	156 270
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	1 794
Total assets	109 786	122 056	131 970	145 201	158 064
Equity	41 245	46 117	51 377	60 271	69 755
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	70 087
Other liabilities	6 435	6 337	5 661	2 698	0
Total equity and liabilities	109 786	122 056	132 283	145 201	139 842
<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	3 579
Cash flow from operations (FFO)	3 210	3 439	3 111	3 635	3 579
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	-4 000
Free operating cash flow	3 681	5 496	2 674	2 192	-421
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	4 000
Change in cash	2 768	1 980	1 819	792	-421

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%	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	4,0
FFO/interest coverage (x)	3,5	4,0	3,9	4,4	3,8
FFO/debt (x)	5,6%	5,7%	5,8%	5,8%	5,1%
Net debt/EBITDA (x)	11,8	12,1	12,5	11,9	13,4
Gross LTV	48,8%	47,7%	46,0%	44,0%	44,8%
Net LTV	46,6%	45,8%	44,9%	42,4%	43,7%
Equity ratio	37,6%	37,8%	38,9%	41,5%	44,1%
Total debt/total capital	55,2%	54,5%	53,2%	50,3%	50,1%
<b>Quarterly overview (SEKm)</b>	<b>Q3 18</b>	<b>Q4 18</b>	<b>Q1 19</b>	<b>Q2 19</b>	<b>Q3 19</b>
Rental income	1 673	1 712	1 724	1 715	1 793
EBITDA	1 189	1 367	1 142	2 126	1 269
Net interest expenses	277	230	248	315	335
Net income	1 627	4 000	816	4 214	2 185
CFO	779	945	624	805	1 119
Investment properties	134 303	138 934	144 444	149 261	152 630
Total debt	61 244	61 087	69 153	70 469	70 216
Net debt	59 092	58 872	63 243	67 387	66 843
Equity	56 279	60 271	61 088	61 302	63 487
<b>Ratios</b>					
LTM NOI margin	72,9%	73,2%	72,1%	73,8%	72,3%
LTM EBITDA margin	70,0%	73,0%	72,2%	85,3%	85,0%
Direct yield	3,6%	3,5%	3,4%	3,3%	3,3%
Gross LTV	45,6%	44,0%	47,9%	47,2%	46,0%
LTM EBITDA interest coverage (x)	4,2	4,7	4,8	5,4	5,2
Net debt/LTM EBITDA (x)	12,7	12,0	12,9	11,6	11,3
Total debt/total capital	52,1%	50,3%	53,1%	53,5%	52,5%
FFO/debt	1,5%	1,4%	1,2%	1,3%	1,3%

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	66%	31%
Underweight	Underperformance relative to peer group	6 months	8%	17%

### Changes to recommendation in the past 12 months:

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

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