

Public ratings

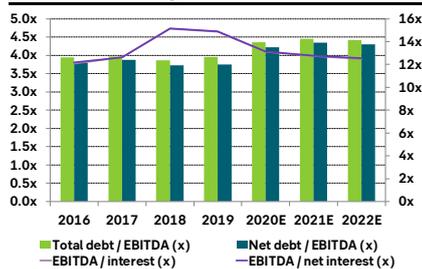
Moody's: A3/Stable

S&P: N.R.

Fitch: N.R.

Market cap (SEKm) Not listed

Vasakronan key credit metrics



Source: SEB and Bloomberg

Q3 earnings and metrics as expected

Vasakronan reported stable earnings and financial metrics, which corresponded well with our expectations and Moody's rating requirements. Despite a minor setback in net lettings in Q3 and a cautious rental market, new leases and renegotiations remained at healthy levels for the first nine months. Asset valuation was negligible but positive. The board now proposes to reinstate half of the previous dividend proposal, since the company is on solid ground both financially and operationally.

Operating items fully in line, but some signs of a softer rental market

Vasakronan's operating performance in the third quarter was stable. Reported rental income, NOI and EBITDA, were all in line with our estimates. New leases and renegotiations remained at healthy levels for the first nine months despite COVID-19. However, the rental market is still cautious, which is reflected in Q3's net lettings, which was small but negative at SEK 11m. In terms of value changes, the company regained some of the write-downs made in Q1 and reported small but positive revaluation of SEK 345m (corresponding to 0.2% of the property value), mainly contributed by positive effects from the project portfolio due to lower completion risk and ample occupancy rate in the portfolio (79%). The total occupancy rate was down 1.2% sequentially and stood at 92.6% (including vacancy in the project portfolio) at end-Q3.

Strong metrics and financial position, proposal to restore dividend

Net LTV was 39.8% and the 12-month interest coverage and ND/EBITDA were 4.6x and 12x, respectively. Vasakronan's balance sheet is strong and the board proposes to restore part of its previous dividend proposal of SEK 6bn that was withdrawn earlier this year. We expect Vasakronan to maintain adequate leeway against Moody's rating requirements, even when considering the proposed dividend of SEK 3bn for financial year 2019.

Bonds trading in line with close peers

Indicated bond prices continue to be in line with Hemsö and Willhem, peers rated at similar level (A-/Stable). We consider this as fairly valued given Vasakronan's lower leverage than peers and our expectations of prospects for continued healthy operating performance, while peers' benefits from more defensive portfolios with stronger revenue defensibility.

Key credit metrics & ratios

	2016	2017	2018	2019	2020E	2021E	2022E
Revenues (SEKm)	6,251	6,490	6,718	7,040	7,018	7,204	7,576
EBITDA (SEKm)	4,372	4,581	4,768	4,947	4,926	5,035	5,295
EBIT (SEKm)	4,372	4,581	4,768	4,947	4,926	5,035	5,295
FFO (SEKm)	3,137	3,383	3,729	3,973	3,686	3,717	3,883
FOCF (SEKm)	3,462	398	2,541	256	-584	467	1,133
Net debt (m)	53,093	56,998	58,872	63,123	66,707	70,240	73,107
Equity	46,117	51,377	60,271	70,156	69,755	69,632	69,667
EBITDA margin	69.9	70.6	71.0	70.3	70.2	69.9	69.9
EBIT margin (%)	69.9	70.6	71.0	70.3	70.2	69.9	69.9
Adjusted EBITDA net int. cover. (x)	3.8	3.9	4.6	4.4	4.1	4.0	3.9
Adjusted net debt to EBITDA (x)	12.1	12.4	12.3	12.8	13.5	13.9	13.8
Adjusted FFO / Net debt	6%	6%	6%	6%	6%	5%	5%
Adjusted net debt to capital	54%	53%	49%	47%	49%	50%	51%

Source: SEB

Analyst

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Q3 vs SEB DCM Research

Vasakronan reported stable Q3 results which were well in line with our expectations, both operationally and with regards to key credit metrics. Rental income, NOI and EBITDA were in line with our expectations since the Q2 report. Unrealised value changes amounted to SEK 345m, and the reported yield was down 1bp sequentially and stood at 4.16% at end-Q3 2020. The negligible property revaluations in the quarter were marginally ahead of our estimates. Key credit metrics were all at levels that we expected, including a net LTV of 39.8% fully in line with our expectation and a 12M interest coverage of 4.6x (4.5x expected). Net debt/EBITDA stood still sequentially at 12.1x. Vasakronan reported interest expense of SEK 285m in the quarter, somewhat lower than our estimates of SEK 305m, which explain the minor deviation in interest coverage.

SEB DCM Research deviation (SEKm)

	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q3/20	Q3 vs SEB
Rental income	1,715	1,793	1,808	1,764	1,703	1,761	1,767	0%
NOI	1,265	1,259	1,293	1,247	1,218	1,281	1,293	1%
EBITDA	1,236	1,237	1,257	1,219	1,185	1,260	1,265	0%
FFO	945	1,005	1,215	740	880	944	977	3%
FOCF	-329	210	488	-751	-504	194	101	
Interest expense	-316	-299	-271	-280	-298	-305	-285	-7%
Net interest expense	-315	-298	-270	-277	-296	-305	-282	-8%
Investment properties	144,215	147,385	156,071	155,454	157,455	157,975	158,641	0%
Total debt	65,423	64,971	66,638	68,852	67,753	67,650	67,292	-1%
Net debt	62,341	61,598	63,123	62,560	63,342	62,918	63,196	0%
Total debt / EBITDA (x)	13.0x	13.0x	12.6x	13.1x	12.9x	13.0x	12.9x	
Net debt / EBITDA (x)	12.3x	12.4x	12.0x	11.9x	12.1x	12.1x	12.1x	
EBITDA / net interest (x)	4.7x	4.6x	4.7x	4.5x	4.6x	4.5x	4.6x	
FFO / net debt (%)	6.0%	5.9%	6.2%	6.2%	6.1%	6.1%	6.1%	
Gross LTV	45.4%	44.1%	42.7%	44.3%	43.0%	42.8%	42.4%	
Net LTV	43.2%	41.8%	40.4%	40.2%	40.2%	39.8%	39.8%	
Property								DEV
Net acquisitions	208	-2	-890	0	-6	230	228	
Investments in existing properties	-1,134	-1,025	-1,295	-1,169	-1,417	-750	-1,069	
Property revaluation	3,908	2,143	6,501	-1,786	578	0	345	
Yield	4.30%	4.30%	4.16%	4.20%	4.17%	4.17%	4.16%	
Operating costs								
Central administration	-29	-22	-36	-28	-33	-22	-28	30%
Running costs	-152	-165	-168	-197	-155	-162	-158	-3%
Repairs and maintenance	-31	-24	-31	-31	-29	-24	-27	15%
Property administration	-102	-79	-112	-84	-99	-78	-80	3%
Property taxes	-130	-229	-165	-165	-163	-176	-170	-3%
Leasehold rents	-35	-37	-39	-40	-39	-40	-39	-3%
Total property costs	-450	-534	-515	-517	-485	-480	-474	-1%

Source: SEB

Financial forecast

Our updated financial forecast assumes continued stable credit quality and healthy demand, even though the pandemic's long-term effects on the rental market is still uncertain. This is based on a combination of limited new supply, primarily in Stockholm, and our view of Vasakronan's property locations as attractive and its product offering as flexible. The company said interest for flexible office solutions with shorter contract length has increased following the coronavirus outbreak. Positively, several larger projects in the development portfolio are being completed in the near term, which will support operating earnings and cash flows. All announced projects and acquisitions/divestments are included in our financial forecast. We continue to calculate leeway against Moody's rating requirements. We expect effective leverage and fixed charge coverage to remain about 42-43% and around 4.0x respectively. Moody's ratio thresholds are leverage below 45% and a fixed coverage above 3.5x.

Vasakronan financial forecast, SEB DCM Research base case (SEKm)

(SEKm)	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	2016	2017	2018	2019	2020E	2021E	2022E
Rental income	6,944	7,040	7,080	7,068	7,042	6,251	6,490	6,718	7,040	7,018	7,204	7,576
NOI	5,020	5,060	5,064	5,017	5,051	4,459	4,678	4,869	5,060	5,039	5,151	5,417
EBITDA	4,982	5,268	5,269	5,252	5,221	4,379	4,596	4,942	5,268	4,938	5,047	5,307
FFO	3,627	3,899	3,875	3,878	3,864	3,179	3,416	3,761	3,899	3,698	3,729	3,895
Y/Y growth in rental income (%)	4%	5%	4%	4%	1%		4%	4%	5%	0%	3%	5%
NOI margin (%)	72%	72%	72%	71%	72%	71%	72%	72%	72%	72%	72%	72%
EBITDA margin (%)	72%	75%	74%	74%	74%	70%	71%	74%	75%	70%	70%	70%
Interest expense	-1,095	-1,135	-1,166	-1,148	-1,134	-1,162	-1,167	-1,046	-1,135	-1,207	-1,269	-1,360
Net interest expense	-1,091	-1,131	-1,160	-1,141	-1,125	-1,152	-1,165	-1,043	-1,131	-1,204	-1,264	-1,356
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1,228	-1,278	-1,311	-1,296	-1,282	-1,314	-1,330	-1,189	-1,278	-1,351	-1,415	-1,515
Investment properties	147,385	156,071	155,454	157,455	158,641	115,922	126,875	138,934	156,071	159,951	164,400	168,883
Total debt	64,971	66,638	68,852	67,753	67,292	55,240	58,421	61,087	66,638	68,897	71,897	74,897
Cash and equivalents	3,373	3,515	6,292	4,411	4,096	2,147	1,423	2,215	3,515	2,190	1,657	1,290
Net debt	61,598	63,123	62,560	63,342	63,196	53,093	56,998	58,872	63,123	66,707	70,240	73,607
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	66,843	68,367	67,818	68,513	68,362	53,093	56,998	58,872	68,367	71,951	75,484	78,851
Secured debt	12,105	11,603	11,601	11,973	10,971	0	15,290	12,907	11,603	10,897	10,897	10,897
Equity	63,487	70,156	70,007	70,518	71,610	46,117	51,377	60,271	70,156	69,755	69,633	69,668
Adjusted equity	63,487	70,156	70,007	70,518	71,610	46,117	51,377	60,271	70,156	69,755	69,633	69,668
Net debt+equity	125,085	133,279	132,567	133,860	134,806	99,210	108,375	119,143	133,279	136,462	139,873	143,275
Credit metrics												
Total debt / EBITDA (x)	13.0x	12.6x	13.1x	12.9x	12.9x	12.6x	12.7x	12.4x	12.6x	14.0x	14.2x	14.1x
Net debt / EBITDA (x)	12.4x	12.0x	11.9x	12.1x	12.1x	12.1x	12.4x	11.9x	12.0x	13.5x	13.9x	13.9x
Adjusted debt / EBITDA (x)	13.1x	12.6x	12.5x	12.7x	12.7x	11.7x	12.0x	11.6x	12.6x	14.1x	14.5x	14.4x
EBITDA / interest (x)	4.5x	4.6x	4.5x	4.6x	4.6x	3.8x	3.9x	4.7x	4.6x	4.1x	4.0x	3.9x
EBITDA / net interest (x)	4.6x	4.7x	4.5x	4.6x	4.6x	3.8x	3.9x	4.7x	4.7x	4.1x	4.0x	3.9x
EBITDA / adjusted interest (x)	4.2x	4.2x	4.1x	4.2x	4.2x	3.5x	3.6x	4.3x	4.2x	3.8x	3.7x	3.6x
Fixed charge coverage (x)	0.4x	0.4x	0.3x	0.4x	0.4x	0.3x	0.3x	0.3x	0.4x	4.1x	4.0x	3.9x
FFO / total debt (%)	5.6%	5.9%	5.6%	5.7%	5.7%	5.8%	5.8%	6.2%	5.9%	5.4%	5.2%	5.2%
FFO / net debt (%)	5.9%	6.2%	6.2%	6.1%	6.1%	6.0%	6.0%	6.4%	6.2%	5.5%	5.3%	5.3%
FFO / adjusted debt (%)	5.6%	5.9%	5.9%	5.9%	5.9%	6.3%	6.3%	6.6%	5.9%	5.3%	5.1%	5.1%
Gross LTV	44.1%	42.7%	44.3%	43.0%	42.4%	47.7%	46.0%	44.0%	42.7%	43.1%	43.7%	44.3%
Net LTV	41.8%	40.4%	40.2%	40.2%	39.8%	45.8%	44.9%	42.4%	40.4%	41.7%	42.7%	43.6%
Adjusted LTV	43.8%	42.4%	42.2%	42.1%	41.7%	45.8%	44.9%	42.4%	42.4%	43.6%	44.5%	45.3%
Net debt / debt+equity	49.2%	47.4%	47.2%	47.3%	46.9%	53.5%	52.6%	49.4%	47.4%	48.9%	50.2%	51.4%
Adjusted debt / debt + equity	53.4%	51.3%	51.2%	51.2%	50.7%	53.5%	52.6%	49.4%	51.3%	52.7%	54.0%	55.0%
Secured LTV	8.2%	7.4%	7.5%	7.6%	6.9%	0.0%	12.1%	9.3%	7.4%	6.8%	6.6%	6.5%
Equity ratio	39.2%	41.2%	40.2%	40.7%	41.2%	37.8%	38.8%	41.5%	41.2%	40.4%	39.4%	38.5%

Source: XXX

Long-term credit profile

The credit profile and the A3/Stable Moody's rating are underpinned by Vasakronan's very large portfolio and dominant position in central office locations in major Swedish cities. The rating is also supported by the indirect government ownership, good liquidity position and high interest coverage. Conversely, Vasakronan is geographically concentrated in Sweden and it engages in development activities, some speculative.

SEK 159bn portfolio

Largest real estate company in Sweden

With a property portfolio valued at about SEK 159bn, Vasakronan is Sweden's largest real estate company. The portfolio consists of about 171 properties located in central locations in Stockholm, Gothenburg, Uppsala and Malmö/Lund. Vasakronan, in its current form, was established in 2008. The company operates in Sweden's most attractive office markets, focusing on high-quality and sustainable office buildings in prime locations. It is owned by the Swedish pension funds (AP1-4) and, consequently, indirectly owned by the Swedish government.

A3 rating supported by ownership structure

A3/Stable by Moody's since May, 2018

Vasakronan has been rated A3 by Moody's since May 2018. The rating is underpinned by Vasakronan's large property portfolio with a dominant market position in the prime office segment, high quality assets, and a high share of public tenants. The rating agency also considers additional strengths, for example the strong liquidity position and good interest coverage. The A3 rating includes a one-notch uplift relating to the likelihood of extraordinary government support.

Conversely, Moody's believes that Vasakronan is exposed to potential regulatory changes which could limit the AP funds' exposure to real estate. It also highlights a geographic concentration to Sweden and a moderate development pipeline as factors which counterbalance credit strengths.

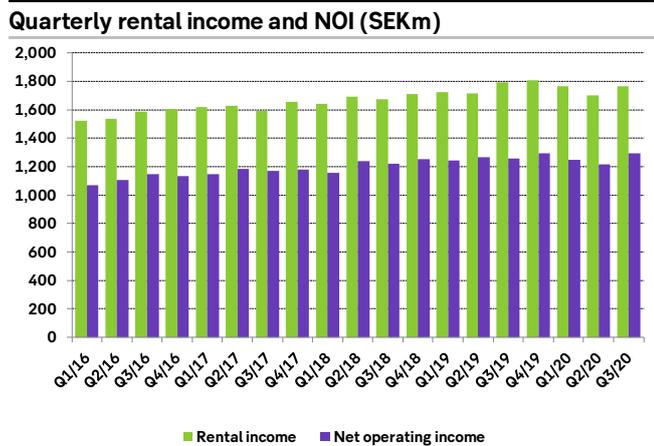
Secured LTV is low at about 7%. This is sufficiently low not to warrant any notching from the issuer rating under rating agency methodology.

Rating affirmed with stable outlook in May 2020

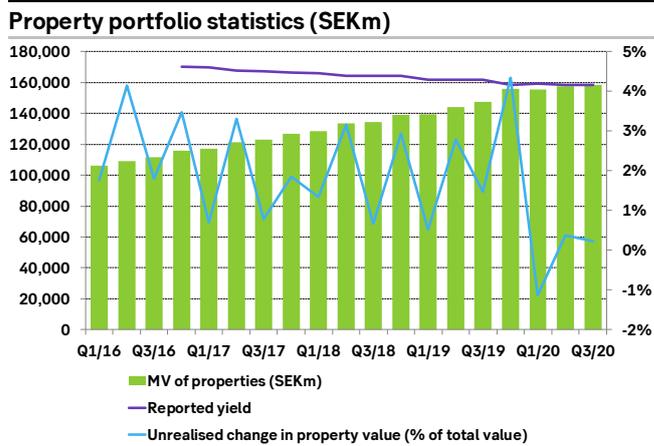
Stable outlook and adequate ratings leeway

Vasakronan's A3/Stable rating was affirmed by Moody's in May 2020. The stable outlook reflects Moody's expectations of no significant impact on values or metrics coming from COVID-19. Moody's expects an adjusted debt-to-asset ratio of around 45% over the near term. We estimate the corresponding ratio at about 42% at Q3 2020, and we also expect it to remain below 45% in our financial base case. 12M interest rate coverage is also adequate in relation to the ratings requirement, with about 4.2x posted for Q3 2020, against a minimum of 3.5x required by Moody's in order to avoid ratings pressure.

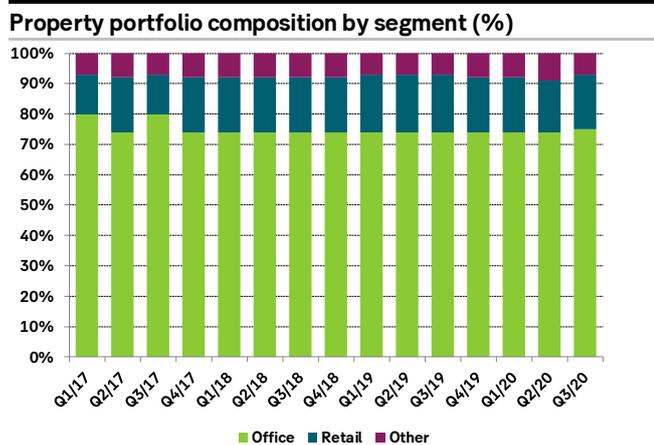
Company overview



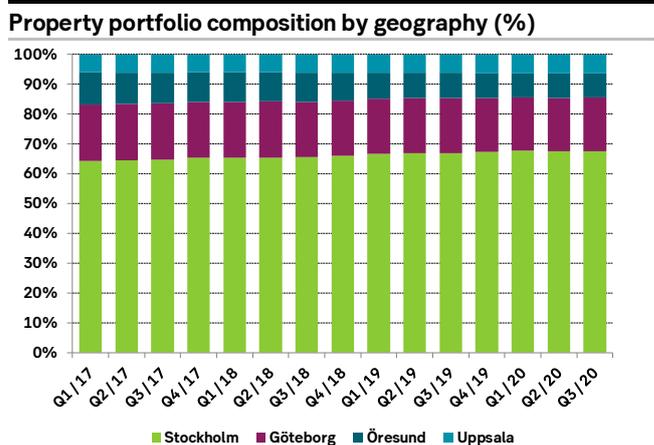
Source: Company reports



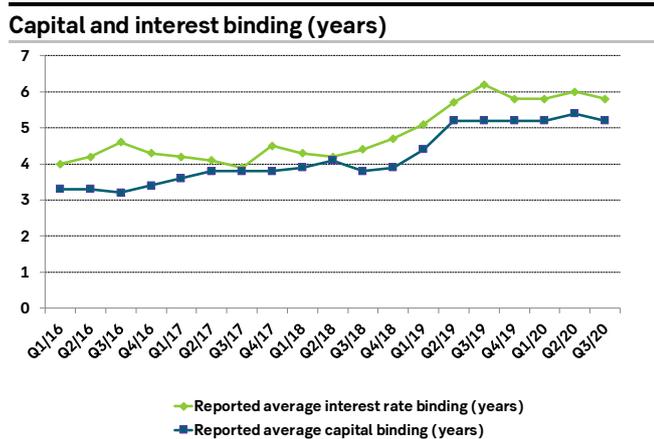
Source: Company reports



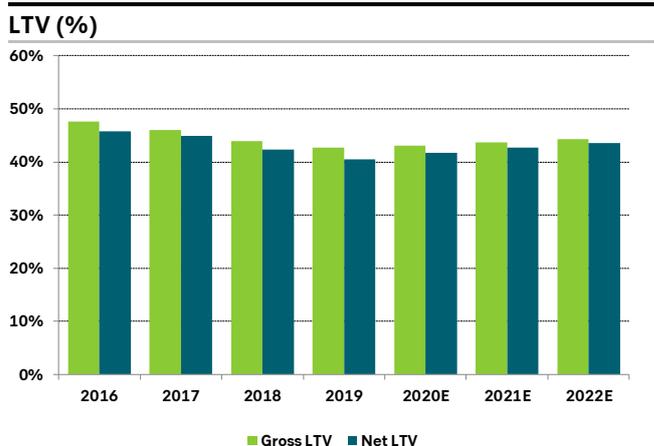
Source: Company reports



Source: Company reports



Source: Company reports



Source: SEB

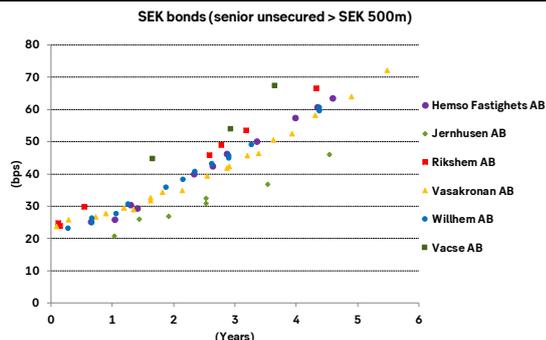
Credit strengths

- Large portfolio and high-quality property portfolio
- Indirectly owned by the Swedish government through AP1-4
- Strong liquidity, including commitment from owners
- Meaningful share of public sector tenants (about 24%)
- Strong interest coverage

Credit concerns

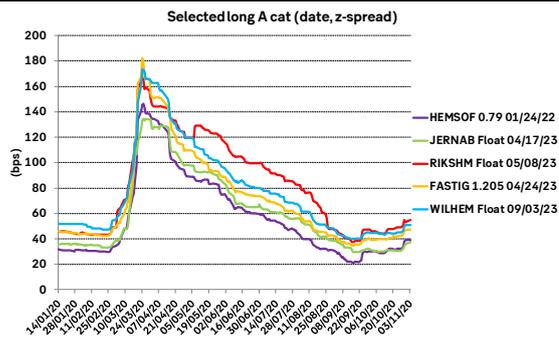
- Geographically concentrated to Sweden
- Exposed to commercial property segments where rent levels can be volatile
- Modest retail exposure, balanced by attractive locations
- Engages in development activities with varying degree of speculation
- Engages in development activities with varying degree of

SEK senior unsecured bonds, A category



Source: SEB and Bloomberg

Selected SEK bonds, historical spread evolution



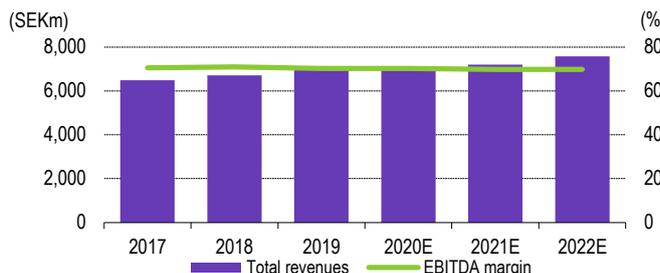
Source: SEB and Bloomberg

Financial statement summary - Adjusted numbers (SEKm)

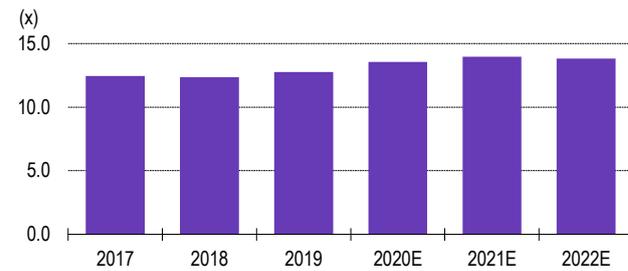
	2018	2019	2020E	2021E
Income statement				
Revenues	6,718	7,040	7,018	7,204
EBITDA	4,768	4,947	4,926	5,035
Net income (reported)	12,902	13,909	2,599	3,877
Cash flow statement				
Funds from operations (FFO)	3,729	3,973	3,686	3,717
Operating Cash Flow	4,000	4,138	3,686	3,717
Free Operating cash flow	2,541	256.0	-584.0	467.2
Pre-financing cash flow	-1,459	-3,744	-3,584	-3,533
Balance sheet				
Cash (and equivalents)	2,215	3,515	2,190	1,657
Total debt	61,087	66,638	68,897	71,897
Net debt	58,872	63,123	66,707	70,240
Equity	60,271	70,156	69,755	69,632
Total assets (reported)	145,201	170,179	172,698	176,615
Key credit metrics & ratios				
Net debt to EBITDA (x)	12.3	12.8	13.5	13.9
Net debt to capital	49%	47%	49%	50%
FFO / Net debt	6%	6%	6%	5%
Equity ratio	42%	41%	40%	39%

Source: SEB and Vasakronan financial reports

Revenues and EBITDA margin



Adjusted net debt / EBITDA



Source: SEB and Vasakronan financial reports

Profit & loss statement

(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
Total revenues	6,251	6,490	6,718	7,040	7,018	7,204	7,576
Total expenses	-1,879	-1,909	-1,950	-2,093	-2,091	-2,168	-2,280
EBITDA	4,372	4,581	4,768	4,947	4,926	5,035	5,295
Depreciation	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0
EBIT	4,372	4,581	4,768	4,947	4,926	5,035	5,295
Associated companies	-3	-3	159	1,105	0	0	0
Net interest expenses	-1,152	-1,165	-1,043	-1,131	-1,204	-1,264	-1,355
Value changes	11,274	8,415	10,602	12,308	-390	1,200	1,233
Other financial items	0	0	0	0	0	0	0
Reported pre-tax profit	14,491	11,828	14,486	17,229	3,332	4,971	5,173
Minority interests	0	0	0	0	0	0	0
Total taxes	-3,019	-2,559	-1,584	-3,320	-733	-1,094	-1,138
Net profit	11,472	9,269	12,902	13,909	2,599	3,877	4,035
EBITDA margin	69.9	70.6	71.0	70.3	70.2	69.9	69.9
EBIT margin (%)	69.9	70.6	71.0	70.3	70.2	69.9	69.9
Tax rate (%)	20.8	21.6	10.9	19.3	22.0	22.0	22.0
Growth rates y-o-y (%)							
Total revenues	0.0	3.8	3.5	4.8	(0.3)	2.7	5.2
EBITDA	n.a.	4.8	4.1	3.8	(0.4)	2.2	5.2
EBIT	0.0	4.8	4.1	3.8	(0.4)	2.2	5.2
Pre-tax profit	0.0	(18.4)	22.5	18.9	(80.7)	49.2	4.1

Cash flow

(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
FFO	3,137	3,383	3,729	3,973	3,686	3,717	3,883
Changes in working capital	302	0	271	165	0	0	0
Operating cash flow	3,439	3,383	4,000	4,138	3,686	3,717	3,883
Net capital expenditures	23	-2,985	-1,459	-3,882	-4,270	-3,250	-2,750
Free operating cash flow	3,462	398	2,541	256	-584	467	1,133
Dividend paid	-7,382	-4,000	-4,000	-4,000	-3,000	-4,000	-4,000
Acquisitions, divestments net	0	0	0	0	0	0	0
Pre-financing cash flow	-3,920	-3,602	-1,459	-3,744	-3,584	-3,533	-2,867
Net loan proceeds	4,285	3,237	2,735	5,379	2,259	3,000	3,000
Share issue	0	0	0	0	0	0	0
Other	-519	-359	-484	-335	0	0	0
Net change in cash	-154	-724	792	1,300	-1,325	-533	133
Capex/sales (%)	-0.4	46.0	21.7	55.1	60.8	45.1	36.3

Balance sheet

(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
Cash and liquid assets	2,147	1,423	2,215	3,515	2,190	1,657	1,790
Other current assets	909	871	905	1,176	1,141	1,141	1,141
Long-term financial assets	907	969	1,058	2,150	2,150	2,150	2,150
Fixed tangible assets	115,922	126,875	138,934	161,314	165,194	169,643	173,626
Intangibles	2,171	2,145	2,089	2,024	2,024	2,024	2,024
Total assets	122,056	132,283	145,201	170,179	172,698	176,615	180,731
Interest bearing debt	55,240	58,421	61,087	66,638	68,897	71,897	74,897
Other liabilities	20,699	22,485	23,843	33,385	34,047	35,087	36,168
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	46,117	51,377	60,271	70,156	69,755	69,632	69,667
Total liabilities and equity	122,056	132,283	145,201	170,179	172,698	176,615	180,731
Net debt (m)	53,093	56,998	58,872	63,123	66,707	70,240	73,107
Net debt/equity (%)	115.1	110.9	97.7	90.0	95.6	100.9	104.9
Equity/total assets (%)	37.8	38.8	41.5	41.2	40.4	39.4	38.5
Net debt/EBITDA (x)	12.1	12.4	12.3	12.8	13.5	13.9	13.8
EBITDA Interest cover	3.8	3.9	4.6	4.4	4.1	4.0	3.9

Main shareholders

Name	(%)	Votes	Capital	Management		Company information	
Name				Title	Name	Contact	
Swedish National Pension Funds		100.0	100.0	COB	Ulrika Francke	Internet	www.vasakronan.se
				CEO	Johanna Skogestig	Phone number	+46 8 783 2100
				CFO	Christer Nerlich		

Company description: Vasakronan is Sweden's largest real estate company by far. It was created in 2008 through AP Fastigheter's acquisition of the "old" Vasakronan from the Swedish government. Vasakronan's strategy is to be a long-term owner of commercial real estate properties in regions enjoying high economic growth, mainly Stockholm, Gothenburg, Öresund and Uppsala. Commercial properties comprise 98% of the total portfolio with the remainder consisting of residential real estate and other.

Please note: The data in several tables and charts in this document have been adjusted in line with common practice in the field of credit research. This mainly refers to adjustments of operating leases, pensions, derivatives and other contingent liabilities. For a detailed breakdown of the adjustments, please contact the author of this report.

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