Post-results

Vasakronan AB

Q1 21: Stable earnings in a cautious market

Vasakronan showed a stable performance overall in Q1 21. Net lettings remained somewhat negative at SEK154m for the quarter, with an economic occupancy rate of 91.5% as of end-March (YE 2020: 91.9%). According to Vasakronan, the trends in rental markets for offices and stores are currently cautious. Still, the average increase in the rent level on renegotiated leases during the quarter was close to 16%. Leverage was unchanged sequentially from Q4, with a net LTV of 43% as of end-March. Vasakronan has a certain exposure to project development risk. In our opinion, this is mitigated by the company's strong balance sheet and the high occupancy rate of 80% on its major projects. Vasakronan's credit profile is also supported by its strong ownership by Swedish government pension funds. We see the company's bonds as fairly valued and maintain our Marketweight recommendation.

In Q1 21, Vasakronan reported an increase in rental income of 3% y/y, with an increase in operating surplus of 4% y/y. For comparable property holdings, rental income and operating surplus were at par with the previous year.

Net lettings remained somewhat negative at SEK154m during the quarter, with an economic occupancy rate of 91.5% as of end-March (YE 2020: 91.9%). Out of total vacancies of 8.5%, 1.8 percentage points were attributable to ongoing projects and vacant development properties. According to Vasakronan, rent relief offered in relation to COVID-19 together with provisions for doubtful receivables had a negative impact of SEK9m on rental income during the quarter.

Unrealised value changes in the property portfolio amounted to SEK1.6bn, due to lower yield requirements. As of end-March, Vasakronan's total property portfolio market value was SEK165bn. Leverage was unchanged sequentially from Q4, with a net LTV of 43% as of end-March. The secured LTV stood at a low 6% as of end-March, with an average capital fixing of 5.2 years and an average interest rate of 1.5%.

Key figures

SEKm	Q1 20	Q4 20	Q1 21	y/y	q/q
Rental income	1,764	1,772	1,818	3.06%	2.60%
EBITDA (rep.)	1,253	1,360	1,321	5.43%	-2.87%
Net income	-151	2,265	2,313	-1631.79%	2.12%
Investment properties	160,711	167,583	169,981	5.77%	1.43%
Total debt	74,110	74,481	78,330	5.69%	5.17%
Ratios	**Q1 20**	**Q4 20**	**Q1 21**	**y/y**	**q/q**
Gross LTV	46.1%	44.4%	46.1%	0.0pp	1.6pp
LTM NOI margin	73.0%	74.2%	73.3%	0.4pp	-0.8pp
LTM EBITDA interest coverage (x)	4.8	3.8	3.9	-0.9pp	0.1pp
Net debt/LTM EBITDA (x)	11.0	14.8	15.0	4.0pp	0.2pp
Total debt/total capital	51.4%	51.2%	51.7%	0.3pp	0.5pp

Source: Company data, Danske Bank Credit Research

Marketweight

Real Estate Holding , Development

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

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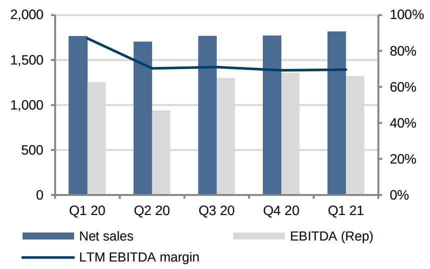
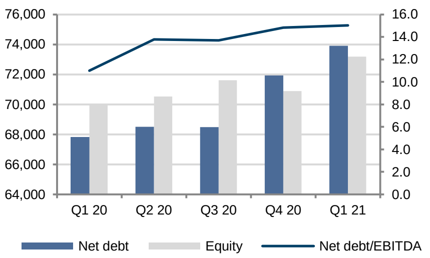
Profitability (SEKm)



Source: Company data, Danske Bank Credit Research

Financial metrics (SEKm)



Source: Company data, Danske Bank Credit Research

Important disclosures and certifications are contained from page 8 of this report

Market update

According to Vasakronan, the trends in rental markets for offices and stores are currently cautious. Still, the average increase in the rent level on renegotiated leases during the quarter was 15.8%. For offices, the average rent increase following renegotiation was 19.5% and for retail it was negative 0.4%. According to Vasakronan, close to 69% of tenants with contracts up for renegotiation over the period decided to remain a tenant of the company.

Vasakronan maintains a prime focus on organic growth, with a large portfolio of own development projects. As of end-March, the company's total project development portfolio amounted to SEK13.6bn, of which SEK9.8bn had been capitalised. All of the major projects are due to be completed in the coming three years. Of the total projected surface area in the larger projects, some 80% has been pre-let.

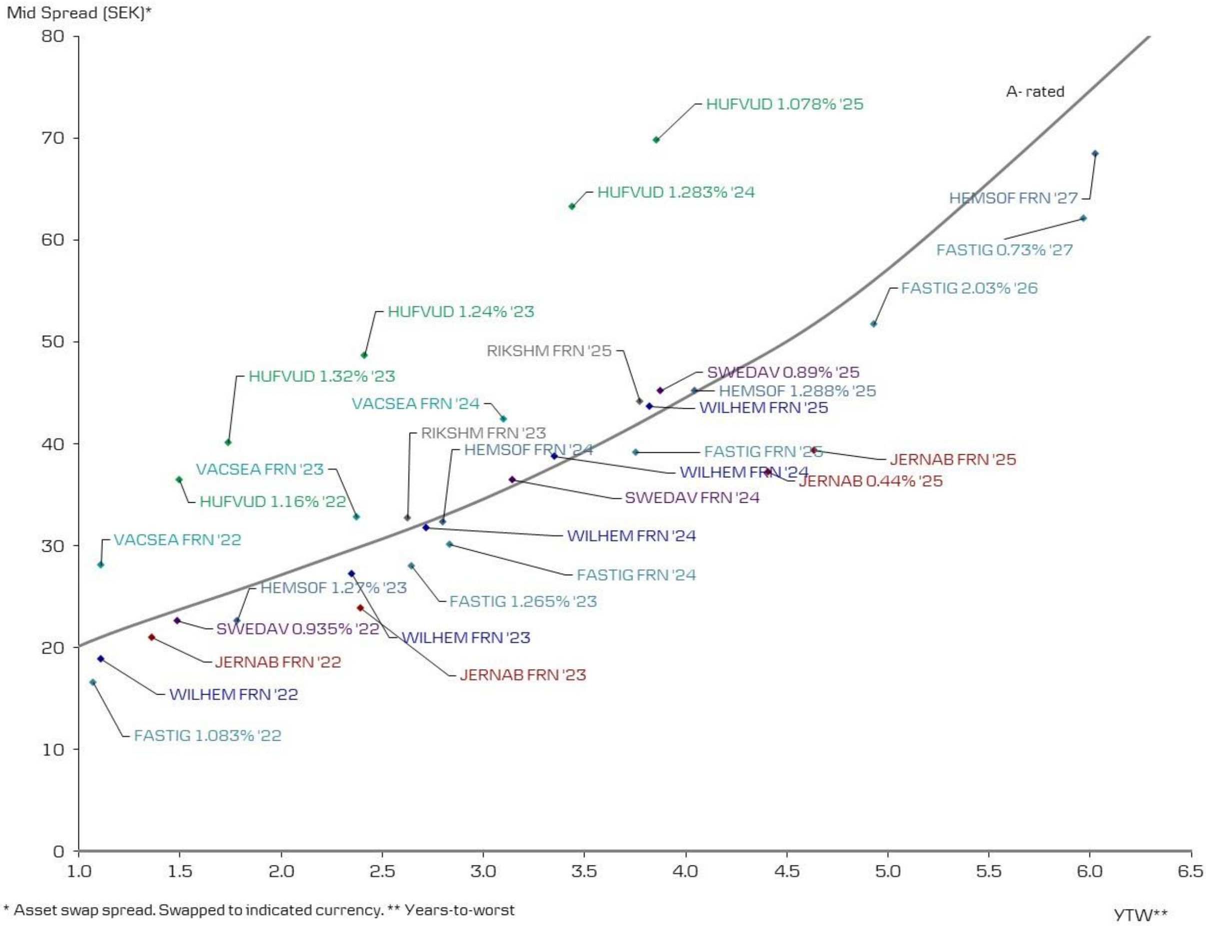
In Q1, Vasakronan also finished its 2020 environmental report. The report showed that the company continued to reduce its use of purchased energy (Scope 2 emissions) during the year, due to reduced energy consumption. Vasakronan has an ambitious environmental agenda and has set a target of becoming climate neutral throughout the entire value chain by 2030.

Recommendation

Vasakronan showed a stable performance overall in Q1 21, even though net lettings were somewhat negative for the quarter. While the company has some exposure to project development risk, this is, in our opinion, mitigated by its strong balance sheet and the high occupancy rate on its major projects. Also, the company's property portfolio is located in prime locations in Sweden's four largest cities, implying a stable demand profile among both tenants and potential property investors. Furthermore, Vasakronan's credit profile is supported by its strong ownership by Swedish government pension funds.

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

Relative valuation (SEK Real Estate 'A')



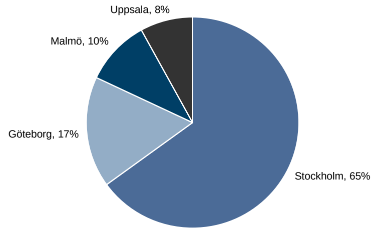
Source: Bloomberg, Danske Bank Credit Research

Company summary

Company description

Vasakronan is the largest property company in Sweden. The portfolio is concentrated to Sweden's largest citities 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.

Sales breakdown, segments



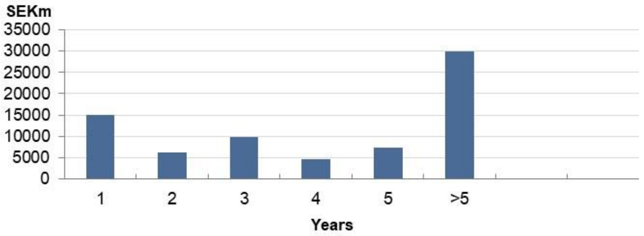
Key credit strengths

- 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

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

Debt maturity profile



Main shareholders

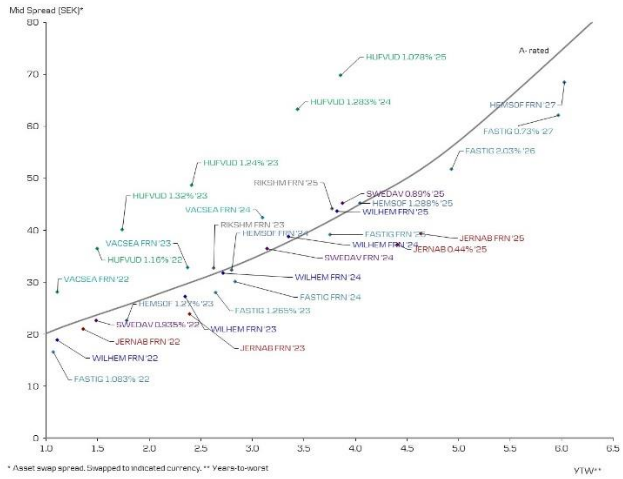
Name	Votes (%)	Capital (%)
AP1	25.0%	25.0%
AP2	25.0%	25.0%
AP3	25.0%	25.0%
AP4	25.0%	25.0%

Selected outstanding bonds

Isin	Coupon	Currency	Maturity /Call	Seniority	Rating*
SE0010494351	1.205%	SEK	24/04/2023	Sr Unsecured	NR/NR
SE0010869156	FRN	SEK	01/03/2024	Sr Unsecured	NR/NR
XS1958644970	1.369%	EUR	05/03/2029	Sr Unsecured	NR/NR
NO0010917396	2.035%	NOK	15/01/2031	Sr Unsecured	NR/NR

*Moodys/S&P

Relative valuation



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

Summary tables

Income statement (SEKm)	2017	2018	2019	2020	2021E
Rental income	6,490	6,718	7,040	7,006	7,006
Other operating income	0	0	0	0	0
Total revenue	6,490	6,718	7,040	7,006	7,006
Total property related costs	1,812	1,849	1,833	1,817	1,817
Net operating income (NOI)	4,678	4,869	5,207	5,189	5,189
EBITDA	4,553	4,927	5,020	4,852	4,852
Net interest expenses	1,165	1,043	1,278	1,275	1,275
Profit from property management	3,416	3,725	3,816	3,796	3,796
Change in property values	7,973	10,651	13,270	1,083	1,083
Change in financial derivatives	468	13	-681	167	167
Other	-28	159	-74	-219	-219
Pre-tax profit	11,829	14,486	16,324	4,821	4,821
Current tax	-95	-120	-230	-203	-203
Deferred tax	-2,464	-1,464	-3,090	-903	-903
Net income	9,270	12,902	13,004	3,715	3,715
Balance sheet (SEKm)	**2017**	**2018**	**2019**	**2020**	**2021E**
Market value properties	126,875	138,934	161,314	167,583	167,583
Other fixed assests	46	44	40	47	47
Intangible assets	2,145	2,089	2,024	2,044	2,044
Deffered tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	1,423	2,215	3,515	2,558	2,558
Total assets	131,970	145,201	170,179	176,226	176,226
Equity	51,377	60,271	70,156	70,869	70,869
Shareholder loans	0	0	0	0	0
Deferred taxes	16,824	18,286	21,368	22,269	22,269
Total debt	58,421	61,087	71,882	74,481	74,481
Other liabilities	5,661	2,698	3,511	8,353	8,353
Total equity and liabilities	132,283	145,201	170,179	176,226	176,226
Cash flow statement (SEKm)	**2017**	**2018**	**2019**	**2020**	**2021E**
FFO (adjusted)	3,383	3,567	3,663	3,547	3,547
Cash flow from operations (FFO)	3,111	3,635	3,829	3,818	3,818
Investment (properties)	440	-634	-977	-181	-181
Disposals (properties)	612	2,526	1,550	229	229
Investments other (net)	-5	146	-15	-37	-37
Capex	-1,489	-3,335	-4,440	-5,314	-5,314
Free operating cash flow	2,674	2,192	-38	-1,448	-1,448
Dividends and share repurchased	-4,000	-4,000	-3,691	-3,000	-3,000
Debt financing (net)	3,150	2,685	5,165	4,427	4,427
Change in cash	1,819	792	1,300	-957	-957

Source: Company data, Danske Bank Credit Research estimates

Summary tables

Adjusted ratios (SEKm)	2017	2018	2019	2020	2021E
Sales growth	3.5%	3.5%	4.8%	-0.5%	0.0%
EBITDA margin	70.2%	73.3%	71.3%	69.3%	69.3%
NOI margin	72.1%	72.5%	74.0%	74.1%	74.1%
EBITDA interest coverage (x)	3.9	4.7	3.9	3.8	3.8
FFO/interest coverage (x)	3.9	4.4	3.9	3.8	3.8
FFO/debt (x)	5.8%	5.8%	5.1%	4.8%	4.8%
Net debt/EBITDA (x)	12.5	11.9	13.6	14.8	14.8
Gross LTV	46.0%	44.0%	44.6%	44.4%	44.4%
Net LTV	44.9%	42.4%	42.4%	42.9%	42.9%
Equity ratio	38.9%	41.5%	41.2%	40.2%	40.2%
Total debt/total capital	53.2%	50.3%	50.6%	51.2%	51.2%

Quarterly overview (SEKm)	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Rental income	1,764	1,703	1,767	1,772	1,818
EBITDA	1,253	940	1,300	1,360	1,321
Net interest expenses	317	335	321	303	310
Net income	-151	512	1,087	2,265	2,313
CFO	418	845	1,170	1,385	612
Investment properties	160,711	162,625	163,806	167,583	169,981
Total debt	74,110	72,924	72,574	74,481	78,330
Net debt	67,818	68,513	68,478	71,923	73,915
Equity	70,007	70,518	71,610	70,896	73,186
Ratios					
LTM NOI margin	73.0%	73.8%	75.4%	74.2%	73.3%
LTM EBITDA margin	87.0%	70.4%	71.1%	69.3%	69.7%
Direct yield	3.2%	3.2%	3.2%	3.1%	3.1%
Gross LTV	46.1%	44.8%	44.3%	44.4%	46.1%
LTM EBITDA interest coverage (x)	4.8	3.8	3.9	3.8	3.9
Net debt/LTM EBITDA (x)	11.0	13.8	13.7	14.8	15.0
Total debt/total capital	51.4%	50.8%	50.3%	51.2%	51.7%
FFO/debt	1.0%	1.2%	1.3%	1.3%	1.0%

Source: Company data, Danske Bank Credit Research estimates

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