

Vasakronan AB

Q4 21: A strong quarter

Vasakronan reported an overall strong set of results for Q4 21. Rental income and operating surplus rose 8% y/y, with unrealised value changes in the property portfolio of SEK7.2bn. Net lettings remained positive at SEK132m for the quarter, with a somewhat higher economic occupancy rate of 92.4% as of YE 2021 (Q3 21: 91.0%). The average increase in the rent on renegotiated leases during the quarter was 10% for offices, while it was negative 3.9% for retail. Leverage declined sequentially from Q3, with a net LTV of 40% as of YE 2021. In conjunction with its earnings announcement Vasakronan also proposed a dividend of SEK4bn. We continue to regard Vasakronan's bonds as fairly valued and maintain our Marketweight recommendation.

In Q4 21, Vasakronan reported an increase in rental income and operating surplus of 8% y/y. For comparable property holdings, rental income increased 2% for the FY 2021, compared with the previous year. The average increase in the rent on renegotiated leases during the quarter was 10% for offices while it was negative 3.9% for retail.

Net lettings remained positive at SEK132m during the quarter, with an economic occupancy rate of 92.4% as of YE 2021 (Q3 21: 91.0%). Out of total vacancies some 1.1 percentage points were attributable to ongoing projects and vacant development properties.

Unrealised value changes in the property portfolio amounted to SEK7.2bn, mainly due to lower yield requirements and raised market rent assumptions. As of YE 2021, Vasakronan's total property portfolio market value was SEK182bn. Leverage declined sequentially from Q3, with a net LTV of 40% as of YE 2021. The secured LTV stood at a low 4% as of YE 2021, with an average capital fixing of 5.0 years and an average interest rate of 1.3%. In conjunction with its earnings announcement Vasakronan also proposed a dividend of SEK4bn.

Key figures

SEKm	Q4 20	Q3 21	Q4 21	y/y	q/q
Rental income	1,772	1,852	1,913	7.96%	3.29%
EBITDA (rep.)	1,360	1,391	1,378	1.32%	-0.93%
Net income	2,265	3,150	6,681	194.97%	112.10%
Investment properties	167,583	178,630	186,732	11.43%	4.54%
Total debt	74,481	78,923	78,996	6.06%	0.09%
Ratios	Q4 20	Q3 21	Q4 21	y/y	q/q
Gross LTV	44.4%	44.2%	42.3%	-2.1pp	-1.9pp
LTM NOI margin	74.2%	76.6%	73.9%	-0.3pp	-2.7pp
LTM EBITDA interest coverage (x)	3.8	4.5	4.7	1.0pp	0.2pp
Net debt/LTM EBITDA (x)	14.8	13.5	13.6	-1.2pp	0.1pp
Total debt/total capital	51.2%	50.1%	48.1%	-3.1pp	-2.0pp

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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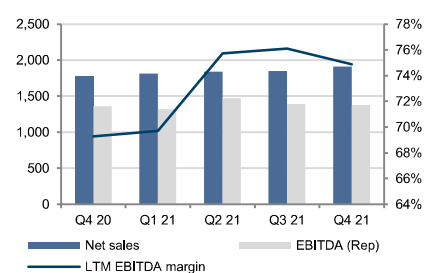
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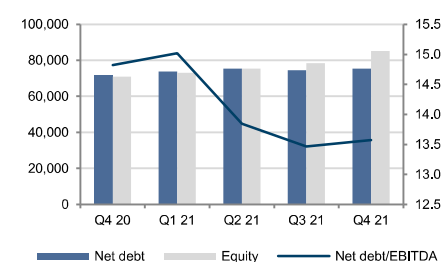
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Profitability (SEKm)



Source: Company data, Danske Bank Credit Research

Financial metrics (SEKm)



Source: Company data, Danske Bank Credit Research

Recommendation

Relative to some industry peers in Sweden Vasakronan has been relatively cautious in its growth strategy and refrained from making any larger acquisitions. Instead the company maintains a prime focus on organic growth, with a large portfolio of own development projects.

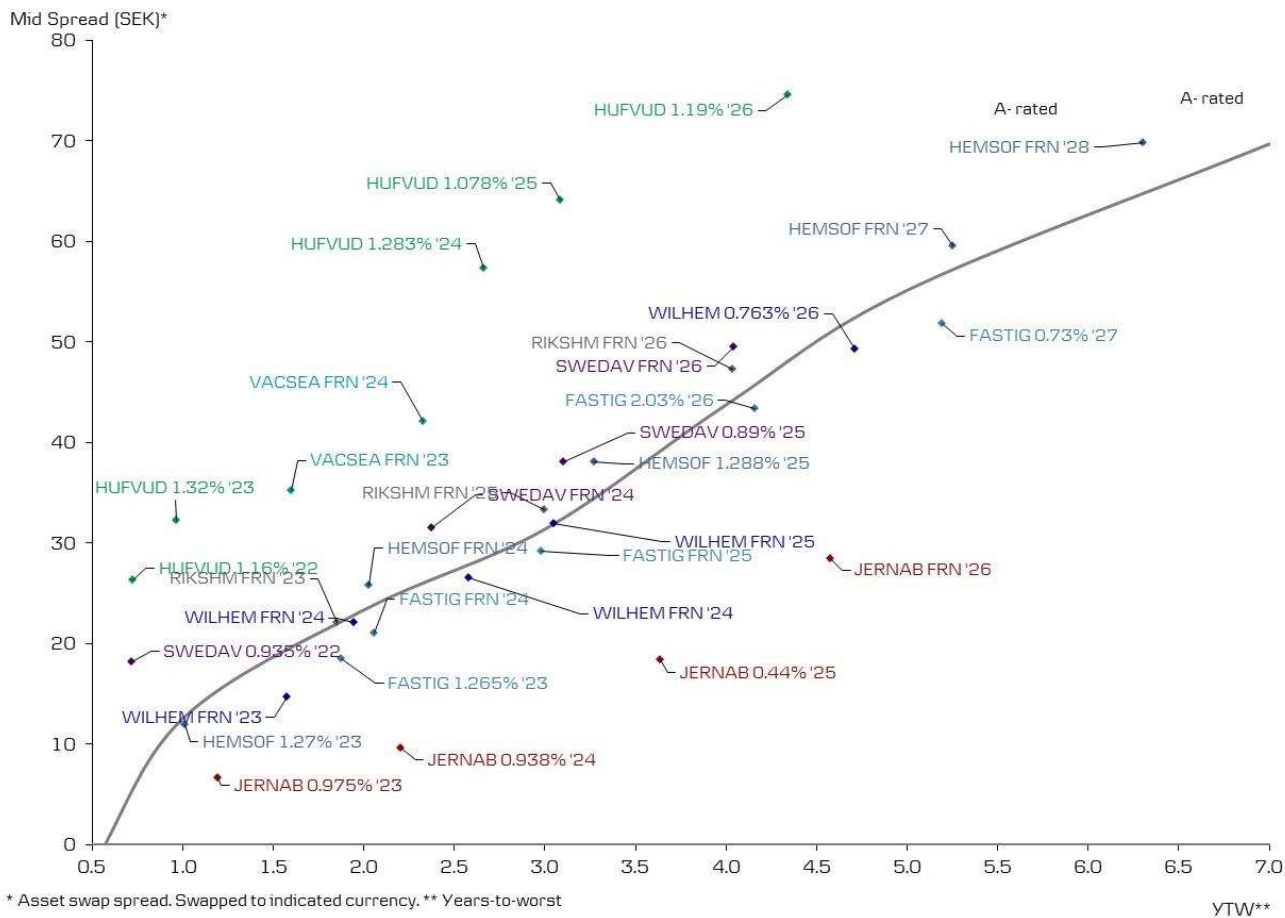
Consequently, Vasakronan has some exposure to project development risk. However, in our opinion this is mitigated by the company's strong balance sheet and the high occupancy rate on its major projects. As of YE 2021, the company's total project development portfolio amounted to SEK10.1bn, of which SEK7.9bn had been capitalised. Of the total projected surface area in the larger projects, some 83% has been pre-let.

In addition, Vasakronan'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. As of YE 2021 the average remaining rent maturity amounted to 3.8 years, unchanged from the previous year.

In conjunction with its Q4 earnings, Vasakronan commented that the Swedish real estate sector has agreed on a shared interpretation of which Swedish buildings should be considered among the top 15% from an energy perspective. These criteria should form the basis for deciding if an existing building can be considered as meeting the first environmental goal in the EU Taxonomy. According to the agreement, an office building with a primary energy figure of less than 89 kWh per square metre per year should be considered to be among the top 15% of buildings in Sweden. In this regard Vasakronan is well positioned as its property portfolio's average primary energy figure was around 88 kWh/sqm as of YE 2021.

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

Relative value (SEK)



Source: Bloomberg, Danske Bank Credit Research

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Company summary

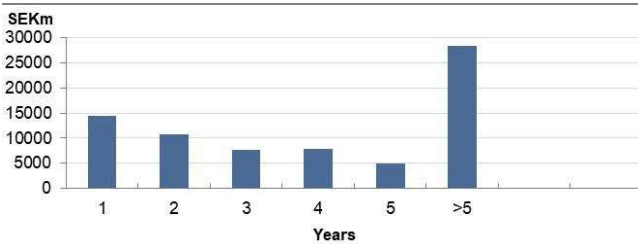
Company description

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 (YE 2021)

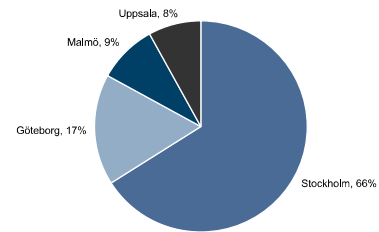


Selected outstanding bonds

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

*Moody's/S&P

Sales breakdown, segments



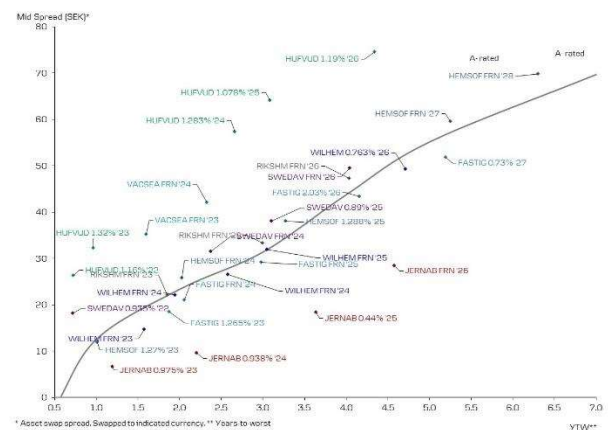
Key credit challenges

- 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



** Asset swap spread. Swapped to indicated currency. ** Years to worst

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

Summary tables

Income statement (SEKm)	2017	2018	2019	2020	2021
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	2021
Market value properties	126,875	138,934	161,314	167,583	167,583
Other fixed assets	46	44	40	47	47
Intangible assets	2,145	2,089	2,024	2,044	2,044
Deferred 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	2021
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

Summary tables

Adjusted ratios (SEKm)	2017	2018	2019	2020	2021
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)	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21
Rental income	1,772	1,818	1,842	1,852	1,913
EBITDA	1,360	1,321	1,471	1,391	1,378
Net interest expenses	303	310	308	309	244
Net income	2,265	2,313	4,215	3,150	6,681
CFO	1,385	612	918	1,393	1,024
Investment properties	167,583	169,981	175,023	178,630	186,732
Total debt	74,481	78,330	78,861	78,923	78,996
Net debt	71,923	73,915	75,472	74,638	75,475
Equity	70,896	73,186	75,401	78,552	85,290
Ratios					
LTM NOI margin	74.2%	73.3%	74.3%	76.6%	73.9%
LTM EBITDA margin	69.3%	69.7%	75.7%	76.1%	74.9%
Direct yield	3.1%	3.1%	3.1%	3.0%	3.0%
Gross LTV	44.4%	46.1%	45.1%	44.2%	42.3%
LTM EBITDA interest coverage (x)	3.8	3.9	4.4	4.5	4.7
Net debt/LTM EBITDA (x)	14.8	15.0	13.8	13.5	13.6
Total debt/total capital	51.2%	51.7%	51.1%	50.1%	48.1%
FFO/debt	1.3%	1.0%	1.2%	1.3%	1.0%

Source: Company data, Danske Bank Credit Research

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