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DCM Research

Vasakronan

Property

The logo for SEB, consisting of the letters 'SEB' in white on a green square background.

Q4: Stable quarter with canceled dividend

Vasakronan reported fairly stable Q4 results, which corresponded well with our expectations and Moody's rating requirements. For the second consecutive quarter, Vasakronan reported a negative value decline of -3.1%, albeit no drama. Net LTV remains healthy at 39.5% (negative rating threshold 45%) while the 12M ICR deteriorated somewhat due to higher funding costs. Nevertheless, the Board is proposing no dividend for 2022, a sound and credit-friendly decision, in our view.

Q4: 3.1% unrealised value decline driven by higher yield requirements

Vasakronan's rental income increased by 10% in 2022 (6% on a comparable portfolio), mainly driven by four major projects completed. Net lettings were negligible but negative in Q4 amounting to SEK -4m (SEK 279m YTD). Nevertheless, the company's occupancy rate improved slightly q/q from 90.8% to 91.2% (1.2% of the vacancy is attributable to project developments). The company said occupier demand is yet healthy, with greatest interest and rental activity among offices with modern characteristics in prime locations.

Unrealised value changes were negative at SEK -6.1bn in Q4, corresponding to -3.1% of the portfolio value (we expected SEK -6.7bn). Vasakronan's average yield requirement of 3.95% as of end-December 2022, which represents a 13bps increase from the previous quarter, reflects rising market interest rates and more uncertain market conditions. Some downward adjustments in the value of development rights have also been done according to our understanding. Nevertheless, Vasakronan reported still an overall positive value development of 2.8% for the full-year 2022, but a negative development for H2 of -4.2%.

Overall stable financial metrics and credit quality given the market circumstance

As could be expected, Vasakronan's metrics deteriorated somewhat q/q due to negative property revaluation and higher financial expenses. The net LTV increased sequentially from 38.6% to 39.5%, with a sequential reduction in total debt by SEK 1,250m balancing out the biggest impact from the unrealised value decline. As of end-Q4 2022, we calculate 12-months interest coverage at 4.8x (4.8 expected). The average interest rate was only up 0.1% q/q to 2.1%. Vasakronan continues to work actively to reduce the share of debt carrying floating interest (fixed-interest maturity within 1 year decreased q-o-q from 39% to 29%). As of end-Q4, the average debt maturity profile and fixed-interest period were 5.7 and 4.0 years, respectively. At the same date, we calculate an effective leverage of 40% (35-45% required for the A3 rating) and fixed-charge coverage of 4.4x (3.5-4.5x required) according to Moody's definitions. Overall, ratings leeway remains adequate for now. That said, we will mainly be monitoring the ICR development going forward.

Cancelled dividend – a sound and credit-friendly decision from the Board

Vasakronan's Board proposes no dividend for the fiscal-year 2022, reflecting more uncertain market conditions ahead. This can be compared to the SEK 4bn that was distributed to the owners the previous year (almost the entire annual FFO). We view the cancelled dividend as a sound and credit-friendly act supporting the company's liquidity position and providing greater financial flexibility. Vasakronan has credit commitments and cash available that cover all debt maturities within 1 year by 192% (155% a quarter earlier). Moreover, remaining investments in ongoing projects amount to SEK 2,292m as of year-end 2022. At the same date the average occupancy rate among major projects was 70%.

SEB DCM Research deviation table - Q4 vs SEB (SEKm)

Deviation table	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22E	Q4/22	Q4 vs SEB
Rental income	1 913	1 902	1 990	2 132	2 126	2 143	1%
NOI	1 373	1 360	1 459	1 472	1 496	1 517	1%
EBITDA	1 353	1 332	1 430	1 446	1 456	1 484	2%
FFO	783	996	1 066	1 211	1 176	1 125	-4%
FOCF	18	268	399	1 003	654	651	
Interest expense	-245	-244	-266	-327	-395	-401	2%
Net interest expense	-244	-243	-265	-319	-382	-381	0%
Investment properties	181 575	185 034	195 809	194 037	187 577	188 317	0%
Total debt	73 838	73 751	79 629	78 676	77 983	77 425	-1%
Net debt	70 317	70 280	75 604	74 809	74 105	74 441	0%
Total debt / EBITDA (x)	13.5x	13.3x	14.5x	13.8x	13.4x	13.3x	
Net debt / EBITDA (x)	12.9x	12.7x	13.8x	13.1x	12.8x	12.8x	
EBITDA / net interest (x)	5.2x	5.4x	5.4x	5.3x	4.8x	4.8x	
FFO / net debt (%)	5.8%	6.1%	5.6%	5.9%	6.1%	5.9%	
Gross LTV	40.7%	39.9%	40.7%	40.5%	41.6%	41.1%	
Net LTV	38.7%	38.0%	38.6%	38.6%	39.5%	39.5%	

Property	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22E	Q4/22	DEV
Net acquisitions	77	0	0	150	410	393	
Investments in existing properties	-1 006	-536	-530	-517	-667	-783	
Property revaluation	7 176	2 922	10 246	-2 140	-6 716	-6 111	
Yield	3.87%	3.82%	3.71%	3.82%	3.90%	3.95%	

Operating costs	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22E	Q4/22	
Central administration	-20	-28	-29	-26	-39	-33	-16%
Running costs	-200	-218	-197	-215	-226	-234	4%
Repairs and maintenance	-28	-29	-25	-29	-39	-34	-13%
Property administration	-103	-87	-103	-78	-115	-111	-4%
Property taxes	-169	-168	-166	-298	-207	-207	0%
Leasehold rents	-40	-40	-40	-40	-43	-40	-7%
Total property costs	-540	-542	-531	-660	-631	-626	-1%

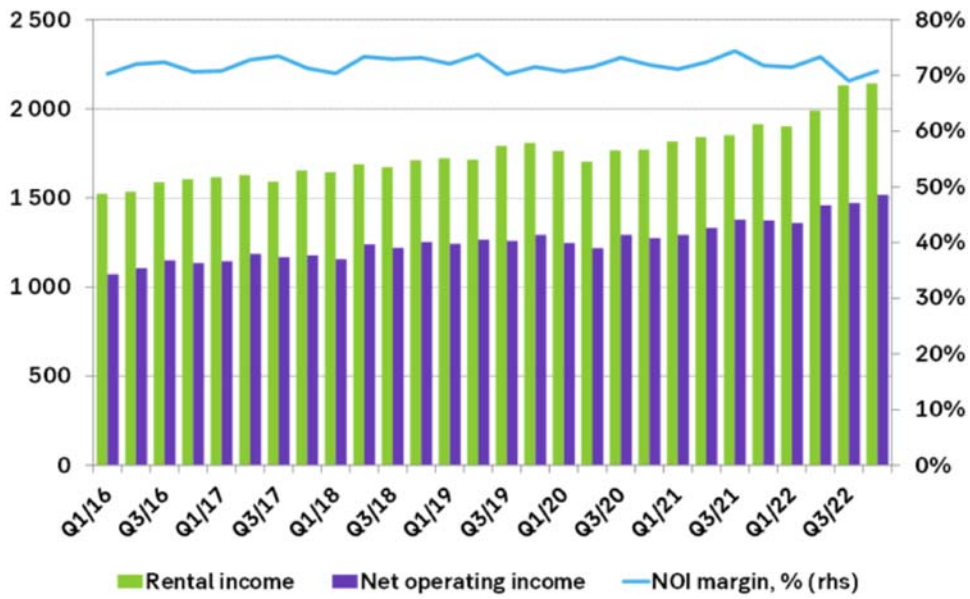
Source: Company data, SEB DCM Research estimates

Vasakronan LTM financial accounts and forecast, SEB DCM Research base case

SEKm	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	2018	2019	2020	2021	2022	2023E	2024E	2025E
Rental income	7 425	7 509	7 657	7 937	8 107	6 718	7 040	7 006	7 425	8 107	9 071	9 327	9 550
NOI	5 377	5 444	5 570	5 604	5 808	4 809	5 060	5 032	5 377	5 808	6 322	6 603	6 761
EBITDA	5 461	5 537	5 491	5 709	5 832	4 942	5 268	4 961	5 461	5 832	6 410	6 493	6 649
FFO	4 090	4 264	4 221	4 389	4 384	3 761	3 899	3 608	4 090	4 384	4 604	4 731	4 720
Y/Y growth in rental income (%)	0%	0%	0%	9%	10%	4%	5%	0%	0%	10%	11%	3%	2%
NOI margin (%)	72%	72%	73%	71%	71%	72%	72%	72%	72%	71%	71%	71%	71%
EBITDA margin (%)	74%	74%	72%	72%	71%	74%	75%	71%	74%	71%	70%	70%	70%
Interest expense	-1 055	-1 028	-1 025	-1 082	-1 238	-1 046	-1 135	-1 127	-1 095	-1 238	-1 097	-1 777	-1 845
Net interest expense	-1 051	-1 024	-1 021	-1 071	-1 208	-1 043	-1 131	-1 118	-1 091	-1 208	-1 091	-1 770	-1 838
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1 211	-1 184	-1 181	-1 231	-1 308	-1 189	-1 278	-1 276	-1 211	-1 308	-1 809	-1 953	-2 025
Investment properties	181 575	185 034	195 809	194 037	188 317	138 934	150 071	162 420	181 575	188 317	184 461	181 835	183 498
Total debt	73 838	73 751	79 629	78 676	77 425	61 087	60 638	69 317	73 838	77 425	75 895	75 454	74 754
Cash and equivalents	3 521	3 471	4 025	3 807	2 984	2 215	3 315	2 958	3 521	2 984	3 588	3 448	3 138
Net debt	70 317	70 280	75 604	74 869	74 441	58 872	63 123	66 759	70 317	74 441	72 307	72 006	71 616
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	75 475	75 436	80 759	79 902	79 992	58 872	68 367	71 923	75 475	79 992	77 458	77 157	76 767
Secured debt	7 866	7 866	10 143	10 143	11 151	12 907	11 603	10 971	7 866	11 151	10 895	11 454	11 754
Equity	85 290	89 172	94 896	94 004	89 767	60 271	70 156	70 869	85 290	89 767	88 374	86 095	87 307
Adjusted equity	85 290	89 172	94 896	94 004	89 767	60 271	70 156	70 869	85 290	89 767	88 374	86 095	87 307
Net debt+equity	155 607	159 452	170 500	168 873	164 208	119 143	133 279	137 628	155 607	164 208	160 681	158 100	158 923
Credit metrics	Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total debt / EBITDA (x)	13.5x	13.3x	14.5x	13.8x	13.3x	12.4x	12.6x	14.0x	13.5x	13.3x	12.0x	11.6x	11.2x
Net debt / EBITDA (x)	12.9x	12.7x	13.8x	13.1x	12.8x	11.9x	12.0x	13.5x	12.9x	12.8x	11.4x	11.1x	10.8x
Adjusted debt / EBITDA (x)	13.4x	13.2x	14.3x	13.6x	13.3x	11.0x	12.0x	14.1x	13.4x	13.3x	11.9x	11.6x	11.2x
EBITDA / interest (x)	5.2x	5.4x	5.4x	5.3x	4.7x	4.7x	4.6x	4.4x	5.2x	4.7x	3.7x	3.7x	3.6x
EBITDA / net interest (x)	5.2x	5.4x	5.4x	5.3x	4.8x	4.7x	4.7x	4.4x	5.2x	4.8x	3.7x	3.7x	3.6x
EBITDA / adjusted interest (x)	4.6x	4.8x	4.8x	4.8x	4.4x	4.3x	4.2x	4.0x	4.6x	4.4x	3.5x	3.4x	3.4x
Fixed charge coverage (x)	0.4x	0.4x	0.3x	0.4x	0.5x	0.3x	0.4x	0.3x	0.4x	0.5x	3.7x	3.7x	3.6x
FFO / total debt (%)	5.5%	5.8%	5.3%	5.6%	5.7%	6.2%	5.9%	5.2%	5.5%	5.7%	0.1%	0.3%	0.3%
FFO / net debt (%)	5.8%	6.1%	5.6%	5.9%	5.9%	6.4%	6.2%	5.4%	5.8%	5.9%	0.5%	0.6%	0.6%
FFO / adjusted debt (%)	5.6%	5.9%	5.4%	5.7%	5.7%	6.6%	5.9%	5.2%	5.6%	5.7%	0.3%	0.4%	0.4%
Gross LTV	40.7%	39.9%	40.7%	40.5%	41.1%	44.0%	42.7%	42.7%	40.7%	41.1%	41.1%	41.5%	40.7%
Net LTV	38.7%	38.0%	38.6%	38.6%	39.5%	42.4%	40.4%	41.1%	38.7%	39.5%	39.2%	39.6%	39.0%
Adjusted LTV	40.4%	39.7%	40.2%	40.1%	41.1%	42.4%	42.4%	42.9%	40.4%	41.1%	40.9%	41.3%	40.7%
Net debt / debt+equity	45.2%	44.1%	44.3%	44.3%	45.3%	49.4%	47.4%	48.5%	45.2%	45.3%	45.0%	45.5%	45.1%
Adjusted debt / debt+equity	48.5%	47.3%	47.4%	47.4%	48.5%	49.4%	51.3%	52.3%	48.5%	48.5%	48.2%	48.5%	48.3%
Secured LTV	4.3%	4.3%	5.2%	5.2%	5.9%	9.3%	7.4%	6.8%	4.3%	5.9%	5.9%	6.3%	6.4%
Equity ratio	43.5%	44.1%	43.8%	43.5%	43.0%	41.5%	41.2%	40.2%	43.5%	43.0%	43.0%	42.5%	42.8%

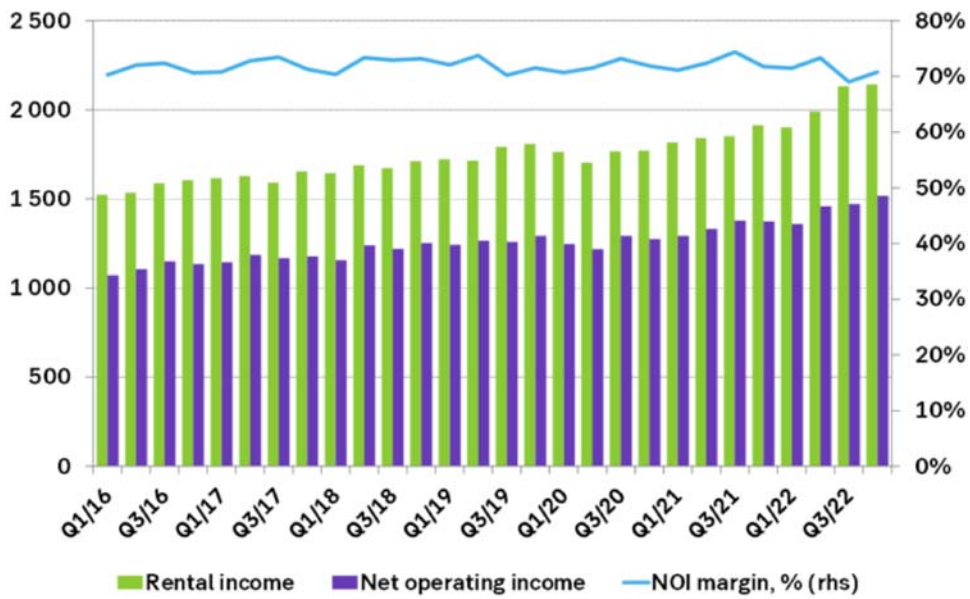
Source: Company data, SEB DCM Research estimates

Quarterly rental income and NOI (SEKm)



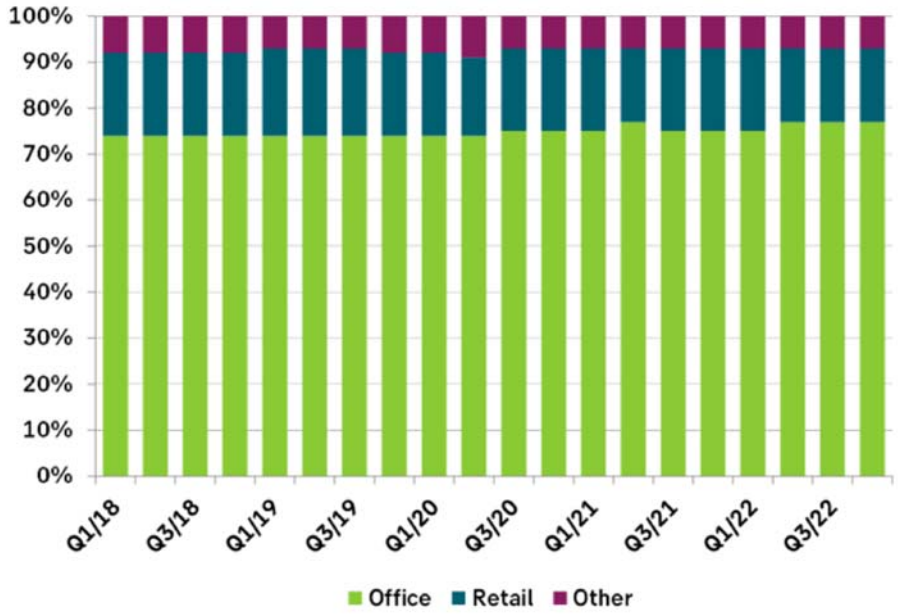
Source: Company reports

Property portfolio statistics (SEKm)



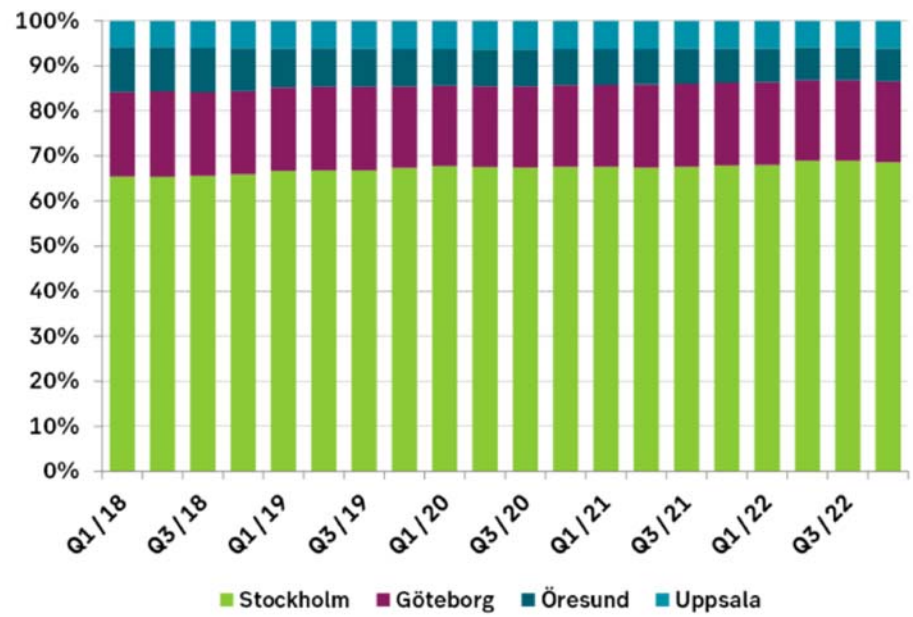
Source: Company reports

Property portfolio composition by segment (%)



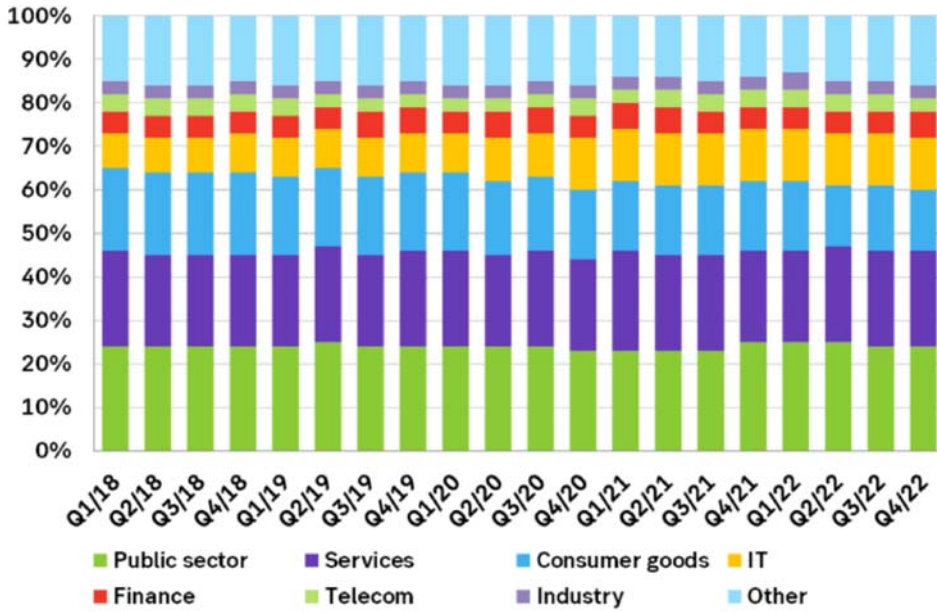
Source: Company reports

Property portfolio composition by geography (%)



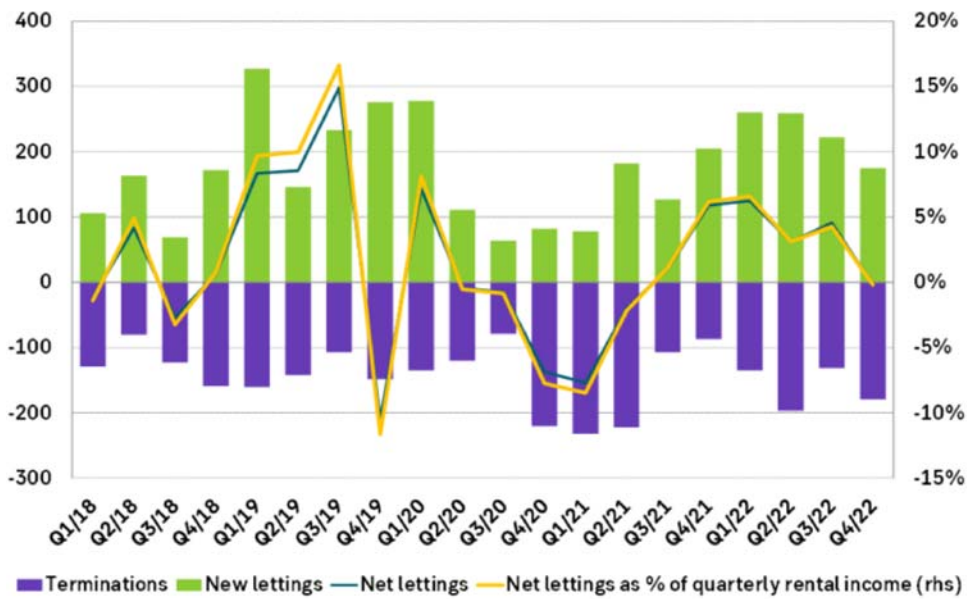
Source: Company reports

Breakdown of tenant by sector, % of contracted rent



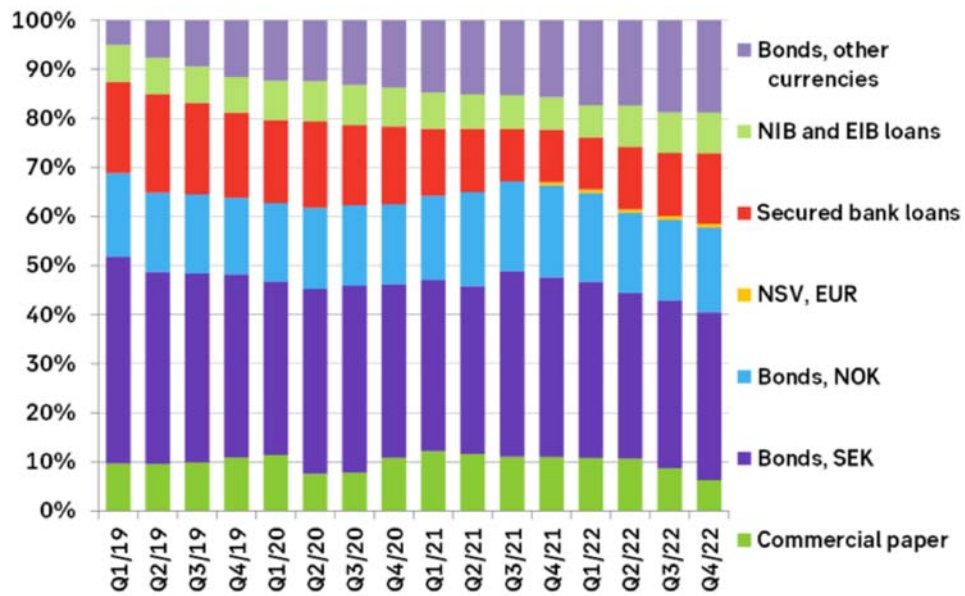
Source: Company reports

Historical evolution of net leasing per quarter (SEKm)



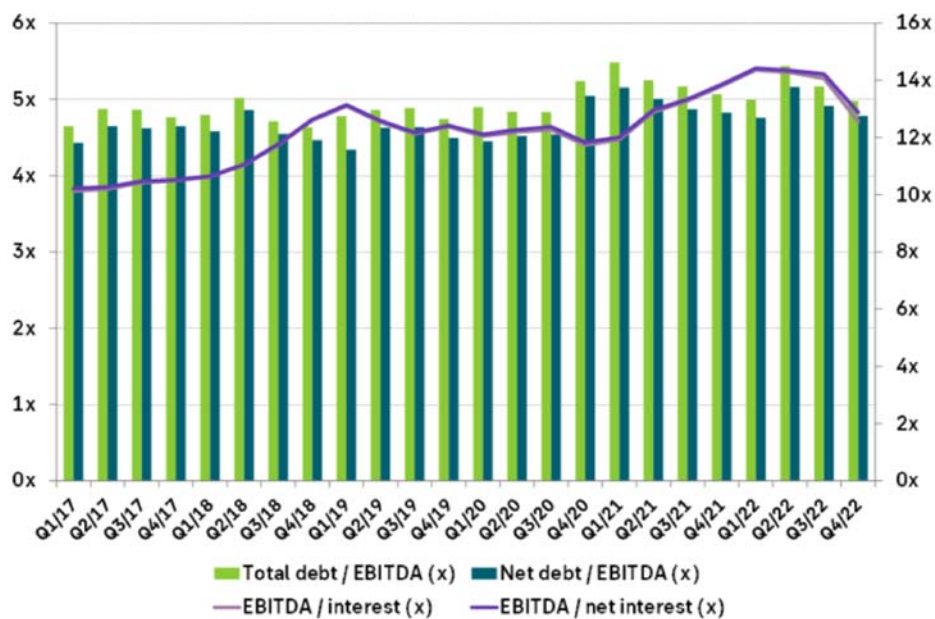
Source: Company reports

Sources of funding (%)



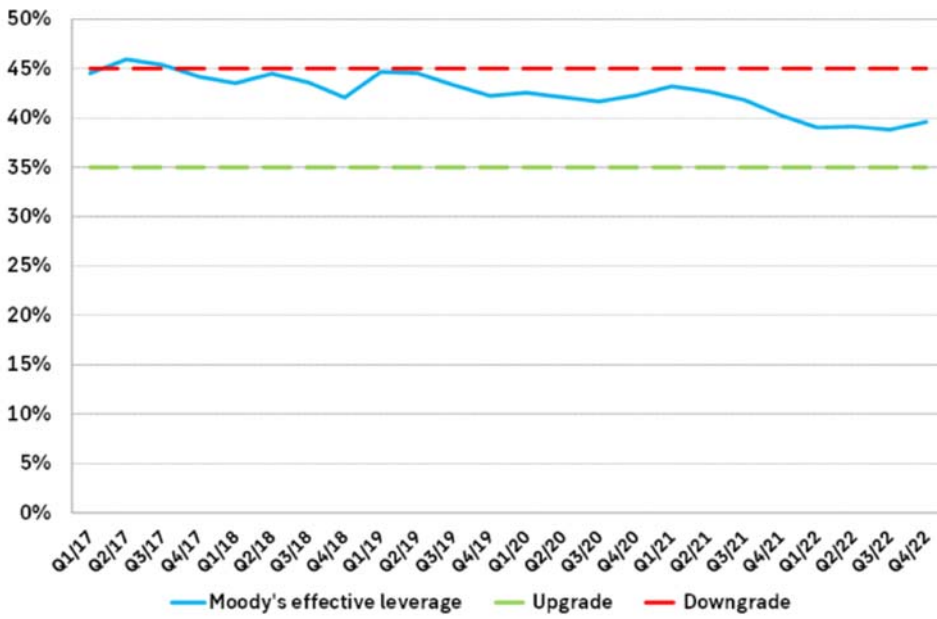
Source: Company reports

LTM leverage and interest coverage (x)



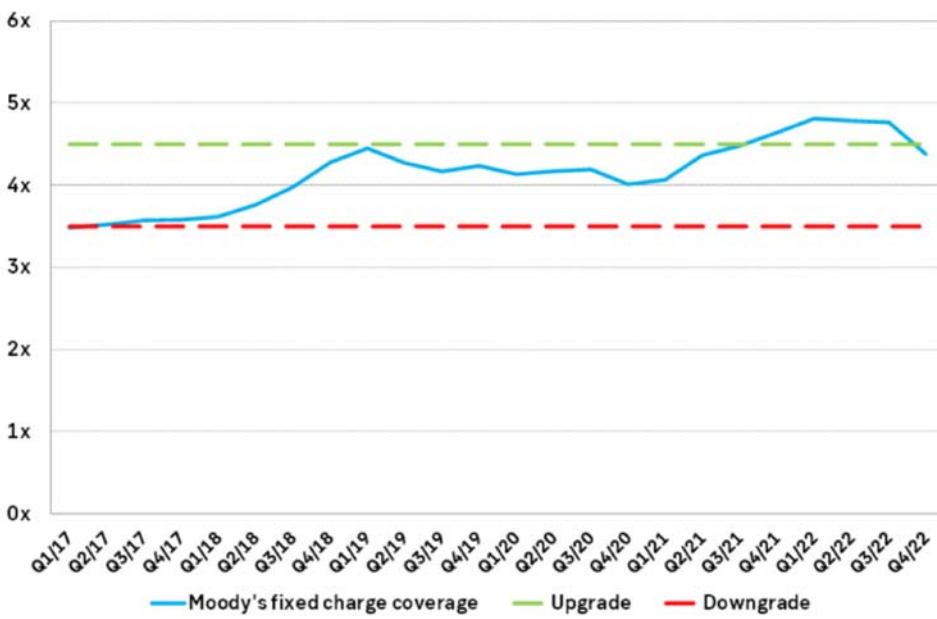
Source: Company reports, SEB

Moody's effective leverage and rating triggers



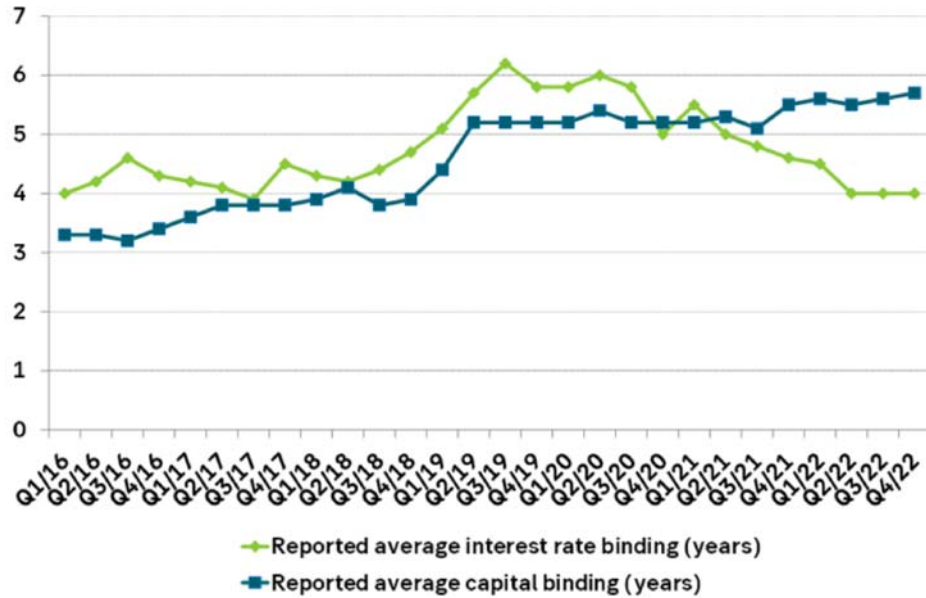
Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers



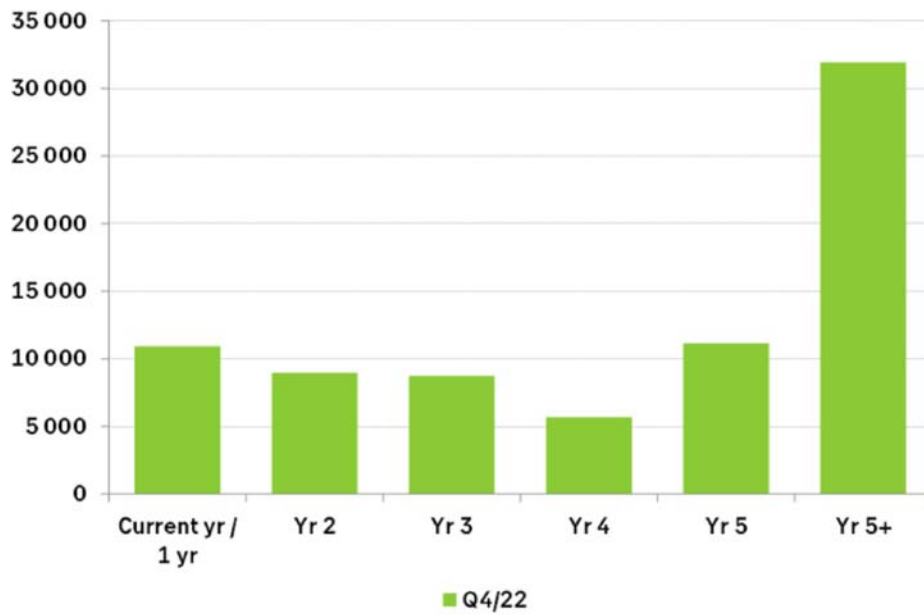
Source: SEB, Moody's

Capital and interest rate binding (years)



Source: Company reports

Debt maturity profile, including CPs within 1yr (SEKm)



Source: Company report

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Overweight over the next six months we expect a position in this instrument to exceed the relevant index, sector or benchmark.

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2) An expression of relative value compared with instruments or debt classes issued by peers or comparable entities.

3) A list of so called "Top Picks" from a group of issuers, instruments or debt classes.

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