

Vasakronan

Standing firm in a more challenging rental market

- Continued rental growth as vacancies rise
- Stable credit metrics in line with Moody's requirements
- One of the stronger issuer in the Nordic real estate sector

Continued rental growth as vacancies rise

Rental income grew by 5% y-o-y in Q1 2024 (also 5% on a like-for-like basis). Net letting was slightly negative and the vacancy rate increased by 0.8pp, q-o-q, standing at 9.9% at the end of the quarter. Value changes amounted to a minor SEK -458 (-0.3%), and the average yield requirement was largely unchanged at 4.54%. Over the last six quarters, Vasakronan has written down total property values by about 13%. The CEO describes the rental markets as more challenging with rising market vacancies, similar to what Atrium Ljungberg and Fabege stated in their Q1 reports.

Stable credit metrics in line with Moody's requirements

The reported interest coverage ratio (ICR) was slightly down q-o-q at 3.7x (Moody's adjusted ICR is typically somewhat lower), which can be compared with Moody's demand of an ICR of minimum 3.0x for the A3 rating. Reported (as well as Moody's adjusted) LTV was unchanged at about 42% at the end of the quarter which can be compared to Moody's 45% threshold. No dividends will be paid out in 2024, which was also the case in 2023. This is clearly credit positive in our view, and also something Moody's sees as positive. The funding profile remains one of the longer ones among rated, and unrated, Nordic real estate peers. The liquidity profile remain strong, as is Vasakronan's access and standing in the capital markets. Moody's affirmed the A3 rating, and stable outlook in November, 2023, which was the second time in 2023.

One of the stronger issuer in the Nordic real estate sector

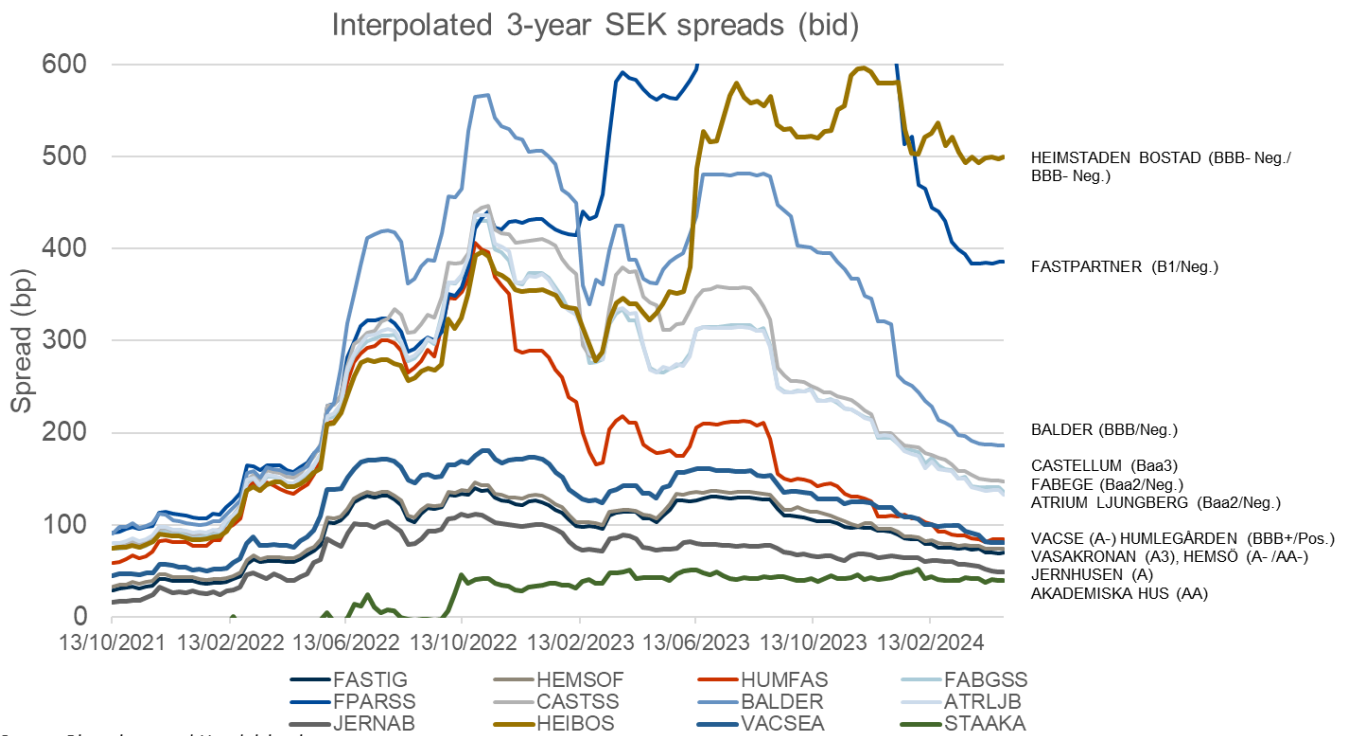
We continue to view Vasakronan as one of the stronger issuers in the Nordic real estate sector and see the Q1 2023 results as credit neutral. A continued weakening rental market could become a source of some investor concern going forward, although we believe interest rate expectations will remain the main factor with regards to the capital markets view of the Nordic real estate sector.

Key figures

SEKm	2019	2020	2021	2022	2023	Q1-24LTM
Rental revenues	7,040	7,006	7,425	8,167	9,157	9,274
Op. net (NOIRE)	5,200	5,189	5,533	5,968	6,862	6,993
Income fr property mgmt adj	4,914	3,577	4,391	4,333	4,645	4,726
Net income adj	13,983	3,714	16,359	8,465	-10,858	-6,804
Property value	161,314	167,583	186,732	193,467	180,898	181,987
Gross debt adj	71,882	74,481	78,996	82,576	82,589	83,330
Net debt to prop value adj (%)	42.4	42.9	40.4	41.1	43.9	44.2
Total debt to total assets adj (%)	42.4	42.3	40.3	39.6	42.4	42.2
FFO/gross debt adj (%)	5	5	5	5	6	6
Gross debt/EBITDA adj (x)	14.1	14.7	14.6	14.1	12.1	12.1
EBITDA/interest expense adj (x)	4.0	4.0	4.5	4.2	3.3	3.2
Dividends/FFO adj (%)	109	84.6	56.0	93.6	n.m	0
Vacancy rate (%)	5.9	8.1	9.0	9.1	9.1	9.9
Pledged assets to total assets (%)	6.9	6.2	4.0	5.5	5.9	n.m
Secured debt to total assets (%)	6.8	6.2	4.0	5.3	5.7	5.6
Valuation yield (%)	4.2	4.1	3.9	4.0	4.5	4.5

Source: Handelsbanken

Interpolated 3-year SEK spreads (bid)



Source: Bloomberg and Handelsbanken

Sources: Bloomberg and Handelsbanken

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29 Apr 2024: Vasakronan - Handelsbanken's analyst Michael Andersson has no position in Vasakronan or a related instrument.

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On 2024-01-05 the recommendation (SEK Senior unsecured) Underperform, which was set on 28 Nov 2022, was changed to the current recommendation Market Perform.

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