Vasakronan

Q2: Stable metrics and valuations but challenging rental market

Vasakronan reported a mixed but overall stable Q2 report that corresponded well with our expectations. On the positive side, investment activity remains controlled, and the company maintained largely stable and healthy credit metrics q/q. Conversely, the rental market remains a bit challenging, reflected in negative net lettings and higher vacancy than a year-ago (unchanged q/q). Vasakronan's rating and outlook remained intact following Moody's periodic review in June.

Q2: Stable valuations and yield requirement but negative net lettings

Vasakronan's rental income and NOI grew by 4% and 5% respectively for the first six months of 2024 in comparable property holdings. Last 12-months profitability margins improved a bit, including a NOI-margin of 73% (71% a year-earlier) and EBITDA-margin of 72% (71%). Nonetheless, the rental market remains a bit challenging due to economic downturn resulting in high mobility in the letting market with some tenants reducing their lettable space in renegotiations. Net lettings were negative at SEK -67m (SEK -92m YTD). That said, the CEO said the "flight-to-quality" trend is continuing and customers are more discerning than ever. Vasakronan's economic occupancy rate was roughly unchanged q/q (declined by 0.1%) to 90.0% per end June-2024 (91.5% a year-earlier). Looking at renegotiations' lettings during H1, it took place 1.2% above index compared to previous rent payable. Of all the contracts that have been the subject of renegotiation and extension in the past 12 months, about 74% have chosen to remain as tenants. Unrealised value changes amounted to SEK 230m in Q2, corresponding to a smaller 0.1% value uplift. The entire property portfolio was valued externally in the quarter and the average yield requirement was 4.54% (unchanged q/q) per end-Q2/24.

Broadly stable credit metrics and financial position

The company managed to maintain stable credit metrics and financial position. This was underpinned by controlled investment activity (SEK 651m in existing properties), a tad lower net debt (SEK 662m) and more stable property revaluations. Given the current economic conditions, challenges in the lettings market and increased construction prices, Vasakronan has soundly decided to remain cautious in terms of starting new projects in recent years. SEK 2.8bn remains to be invested in ongoing projects, corresponding to a 51% capitalisation rate. As of end-Q2, we calculate 12M EBITDA/net interest of at 3.6x (3.7x a quarter-earlier), net LTV at 41.6% (42.2%) and net debt/EBITDA of 10.9x (11.1x). Vasakronan's average interest rate remained flat q/q at 2.8% per end-Q2. At the same time, the average fixed-interest duration was prolonged sequentially to 4.2 years (3.8 years a quarter-ago) while the average debt duration was shortening a bit but remains long at 5.0 years (5.2 years).

A3/Stable rating intact following Moody's periodic review in June 2024

In June 2024, Moody's completed a periodic review of Vasakronan's long-term issuer rating, where the rating and outlook (A3/Stable) were unchanged. This was underpinned by the company's high asset quality, strong ownership profile and good liquidity position. As of end-Q2 2024, we calculate an effective leverage of 41.8% (35-45% required) and fixed-charge coverage of 3.4x (3.0x-4.0x) according to Moody's definitions. All in all, we view Vasakronan's Q2 report as credit neutral.

Deviation between actual Q2 results and SEB DCM Research estimates (SEKm)

Deviation table	Q2/23	Q3/23	Q4/23	Q1/24	Q2/24E	Q2/24	Q2 vs SEB
Rental income	2,283	2,322	2,331	2,338	2,370	2,366	0%
NOI	1,651	1,759	1,707	1,698	1,701	1,692	-1%
EBITDA	1,614	1,733	1,682	1,679	1,666	1,654	-1%
FFO	1,010	1,271	1,214	1,070	1,139	1,091	-4%
FOCF	122	695	467	554	511	428	
Interest expense	-467	-492	-490	-525	-534	-530	-1%
Net interest expense	-432	-453	-436	-468	-508	-486	-4%
Investment properties	181,926	181,088	174,569	175,455	175,820	176,369	0%
Total debt	77,230	77,142	76,259	76,797	75,883	75,641	0%
Net debt	74,288	73,738	73,034	73,975	73,462	73,313	0%
Total debt / EBITDA (x)	12.4x	12.1x	11.6x	11.5x	11.3x	11.3x	
Net debt / EBITDA (x)	11.9x	11.5x	11.1x	11.1x	10.9x	10.9x	
EBITDA / net interest (x)	4.0x	3.8x	3.8x	3.7x	3.6x	3.6x	
FFO / net debt (%)	6.0%	6.1%	6.4%	6.3%	6.4%	6.4%	
Gross LTV	42.5%	42.6%	43.7%	43.8%	43.2%	42.9%	
Net LTV	40.8%	40.7%	41.8%	42.2%	41.8%	41.6%	

Property	Q2/23	Q3/23	Q4/23	Q1/24	Q2/24E	Q2/24	DEV
Net acquisitions	0	0	0	-692	0	0	
Investments in existing properties	-748	-643	-871	-652	-628	-685	
Property revaluation	-2,631	-1,481	-7,390	-458	-263	230	
Yield	4.19%	4.24%	4.51%	4.54%	4.56%	4.54%	

Operating costs	Q2/23	Q3/23	Q4/23	Q1/24	Q2/24E	Q2/24	
Central administration	-37	-26	-25	-19	-36	-38	7%
Running costs	-223	-190	-236	-243	-232	-231	0%
Repairs and maintenance	-31	-29	-41	-42	-39	-41	5%
Property administration	-131	-96	-106	-93	-133	-132	-1%
Property taxes	-207	-208	-196	-209	-218	-220	1%
Leasehold rents	-40	-40	-45	-53	-47	-50	5%
Total property costs	-632	-563	-624	-640	-669	-674	1%

Source: Company data, SEB DCM Research estimate

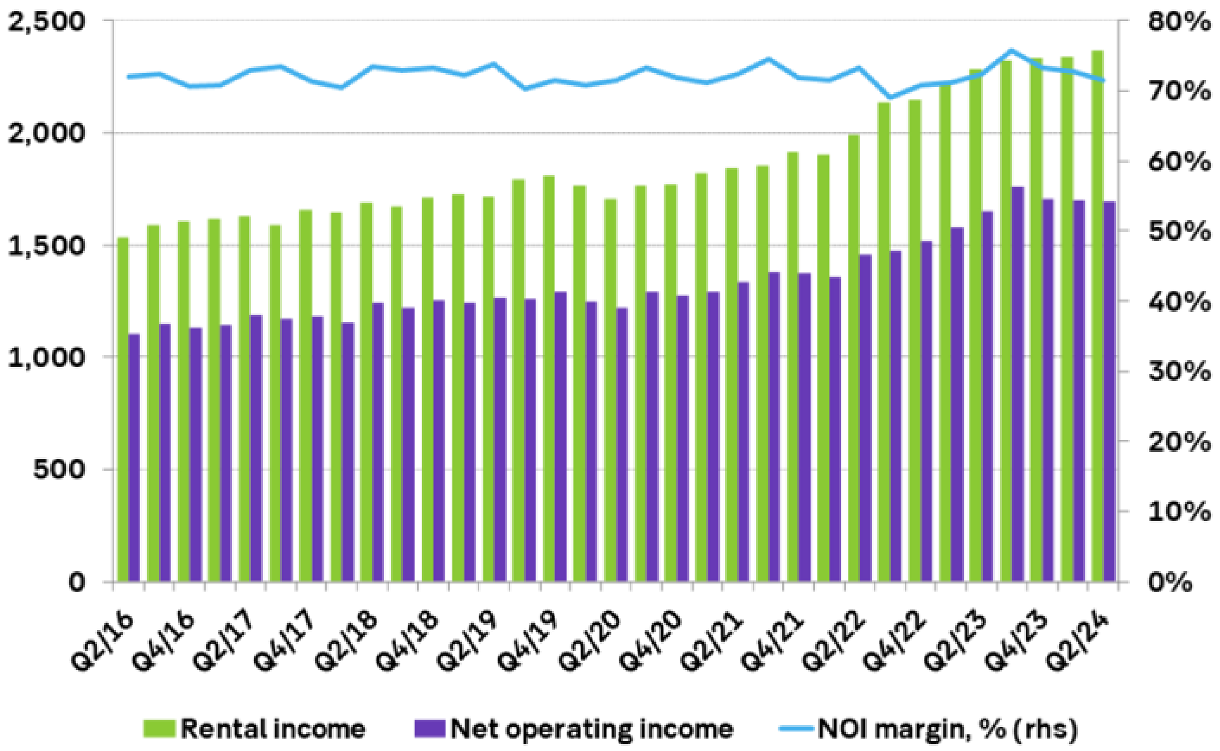
Vasakronan's LTM financial accounts and forecast, SEB DCM Research base case

SEKm	Q2/23	Q3/23	Q4/23	Q1/24	Q2/24	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Rental income	8,779	8,969	9,157	9,274	9,357	6,718	7,040	7,006	7,425	8,167	9,157	9,630	9,874	10,042
NOI	6,220	6,507	6,697	6,815	6,856	4,869	5,060	5,032	5,377	5,808	6,697	7,309	7,504	7,632
EBITDA	6,225	6,387	6,575	6,672	6,713	4,942	5,268	4,961	5,461	5,832	6,575	7,206	7,398	7,523
FFO	4,444	4,472	4,645	4,683	4,670	3,761	3,899	3,608	4,090	4,384	4,645	5,145	5,239	5,340
Y/Y growth in rental income (%)	15%	13%	12%	9%	7%	4%	5%	0%	6%	10%	12%	5%	3%	2%
NOI margin (%)	71%	73%	73%	73%	73%	72%	72%	72%	72%	71%	73%	76%	76%	76%
EBITDA margin (%)	71%	71%	72%	72%	72%	74%	75%	71%	74%	71%	72%	75%	75%	75%
Interest expense	-1,630	-1,795	-1,884	-1,974	-2,037	-1,046	-1,135	-1,127	-1,055	-1,238	-1,884	-2,171	-2,185	-2,187
Net interest expense	-1,541	-1,675	-1,730	-1,789	-1,843	-1,043	-1,131	-1,118	-1,051	-1,208	-1,730	-2,041	-2,086	-2,116
Hybrid / preferred interest /dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1701	-1835	-1895	-1967	-2031	-1189	-1278	-1276	-1211	-1368	-2083	-2229	-2279	-2312
Investment properties	181,926	181,088	174,569	175,455	176,369	138,934	156,071	162,420	181,575	188,317	174,569	174,604	178,525	181,664
Total debt	77,230	77,142	76,259	76,797	75,641	61,087	66,638	69,317	73,838	77,425	76,259	74,285	72,344	72,222
Cash and equivalents	2,942	3,404	3,225	2,822	2,328	2,215	3,515	2,558	3,521	2,984	3,225	3,294	2,580	2,986
Net debt	74,288	73,738	73,034	73,975	73,313	58,872	63,123	66,759	70,317	74,441	73,034	70,991	69,764	69,236
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	79,436	78,896	79,364	80,508	79,844	58,872	68,367	71,923	75,475	79,592	79,364	77,321	76,094	75,566
Secured debt	11,131	11,131	11,131	11,131	11,130	12,907	11,603	10,971	7,866	11,131	11,131	11,785	12,000	11,222
Equity	85,205	84,558	78,902	79,646	80,331	60,271	70,156	70,869	85,290	89,767	78,902	80,520	84,264	86,635
Adjusted equity	85,205	84,558	78,902	79,646	80,331	60,271	70,156	70,869	85,290	89,767	78,902	80,520	84,264	86,635
Net debt+equity	159,493	158,296	151,936	153,621	153,644	119,143	133,279	137,628	155,607	164,208	151,936	151,512	154,028	155,871

Credit metrics	Q2/23	Q3/23	Q4/23	Q1/24	Q2/24	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Total debt / EBITDA (x)	12.4x	12.1x	11.6x	11.5x	11.3x	12.4x	12.6x	14.0x	13.5x	13.3x	11.6x	10.3x	9.8x	9.6x
Net debt/ EBITDA (x)	11.9x	11.5x	11.1x	11.1x	10.9x	11.9x	12.0x	13.5x	12.9x	12.8x	11.1x	9.9x	9.4x	9.2x
Adjusted debt / EBITDA (x)	12.4x	12.1x	11.8x	11.8x	11.6x	11.6x	12.6x	14.1x	13.4x	13.3x	11.5x	10.5x	10.0x	9.8x
EBITDA / interest (x)	3.8x	3.6x	3.5x	3.4x	3.3x	4.7x	4.6x	4.4x	5.2x	4.7x	3.5x	3.3x	3.4x	3.4x
EBITDA / net interest (x)	4.0x	3.8x	3.8x	3.7x	3.6x	4.7x	4.7x	4.4x	5.2x	4.8x	3.8x	3.5x	3.5x	3.6x
EBITDA / adjusted interest (x)	3.8x	3.6x	3.6x	3.5x	3.4x	4.3x	4.2x	4.0x	4.6x	4.4x	3.3x	3.3x	3.3x	3.3x
Fixed charge coverage (x)	0.5x	0.4x	0.5x	0.4x	0.4x	0.3x	0.4x	0.3x	0.4x	0.5x	0.5x	3.5x	3.5x	3.6x
FFO / total debt (%)	5.8%	5.8%	6.1%	6.1%	6.2%	6.2%	5.9%	5.2%	5.5%	5.7%	6.1%	6.9%	7.2%	7.4%
FFO / net debt (%)	6.0%	6.1%	6.4%	6.3%	6.4%	6.4%	6.2%	5.4%	5.8%	5.9%	6.4%	7.2%	7.5%	7.7%
FFO / adjusted debt (%)	5.8%	5.9%	6.1%	6.0%	6.1%	6.6%	5.9%	5.2%	5.6%	5.7%	6.3%	6.9%	7.1%	7.3%
Gross LTV	42.5%	42.6%	43.7%	43.8%	42.9%	44.0%	42.7%	42.7%	40.7%	41.1%	43.7%	42.5%	40.5%	39.8%
Net LTV	40.8%	40.7%	41.8%	42.2%	41.6%	42.4%	40.4%	41.1%	38.7%	39.5%	41.8%	40.7%	39.1%	38.1%
Adjusted LTV	42.5%	42.4%	43.9%	44.2%	43.7%	42.4%	42.4%	42.9%	40.4%	41.1%	43.9%	42.7%	41.2%	40.2%
Net debt/ debt+equity	46.6%	46.6%	48.1%	48.2%	47.7%	49.4%	47.4%	48.5%	45.2%	45.3%	48.1%	46.9%	45.3%	44.4%
Adjusted debt / debt + equity	49.8%	49.8%	52.2%	52.4%	52.0%	49.4%	51.3%	52.3%	48.5%	48.5%	52.2%	51.0%	49.4%	48.5%
Secured LTV	6.1%	6.1%	6.4%	6.3%	6.3%	9.3%	7.4%	6.8%	4.3%	5.9%	6.4%	6.7%	6.7%	6.2%
Equity ratio	41.9%	41.6%	40.5%	40.4%	40.8%	41.5%	41.2%	40.2%	43.5%	43.0%	40.5%	41.3%	42.6%	43.0%

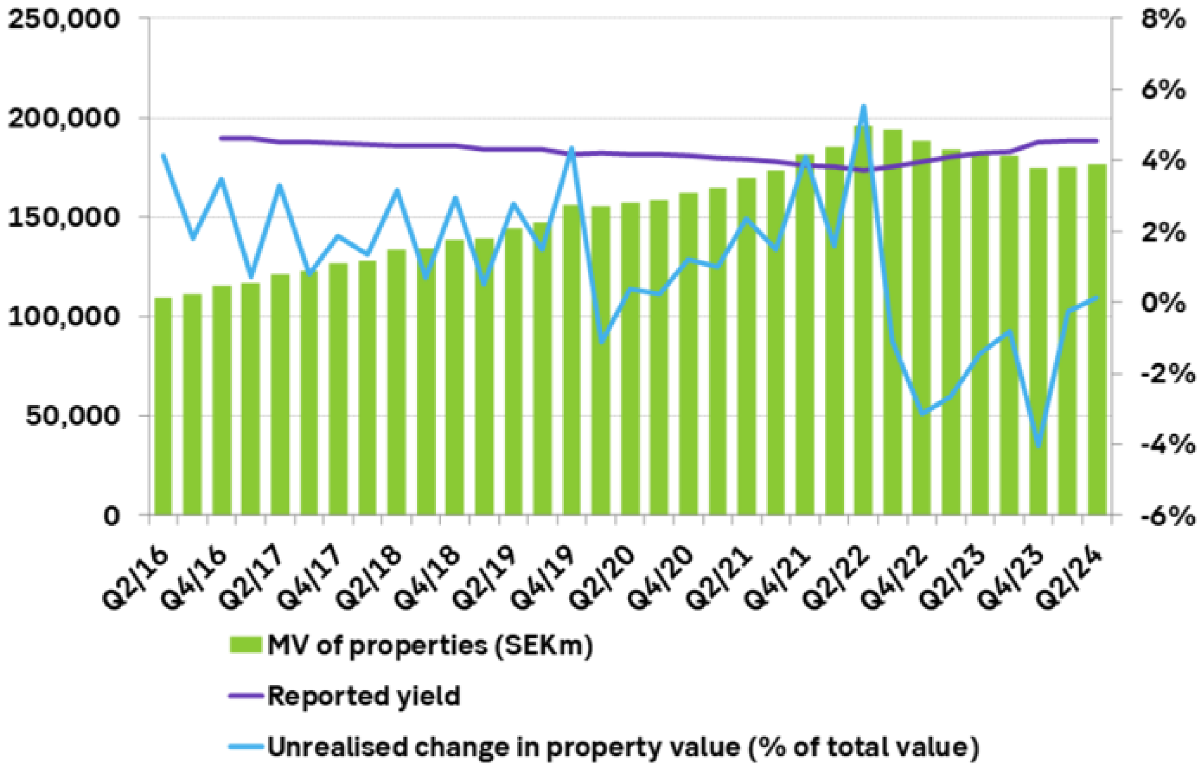
Source: Company data, SEB DCM Research estimate

Quarterly rental income and NOI (SEKm)



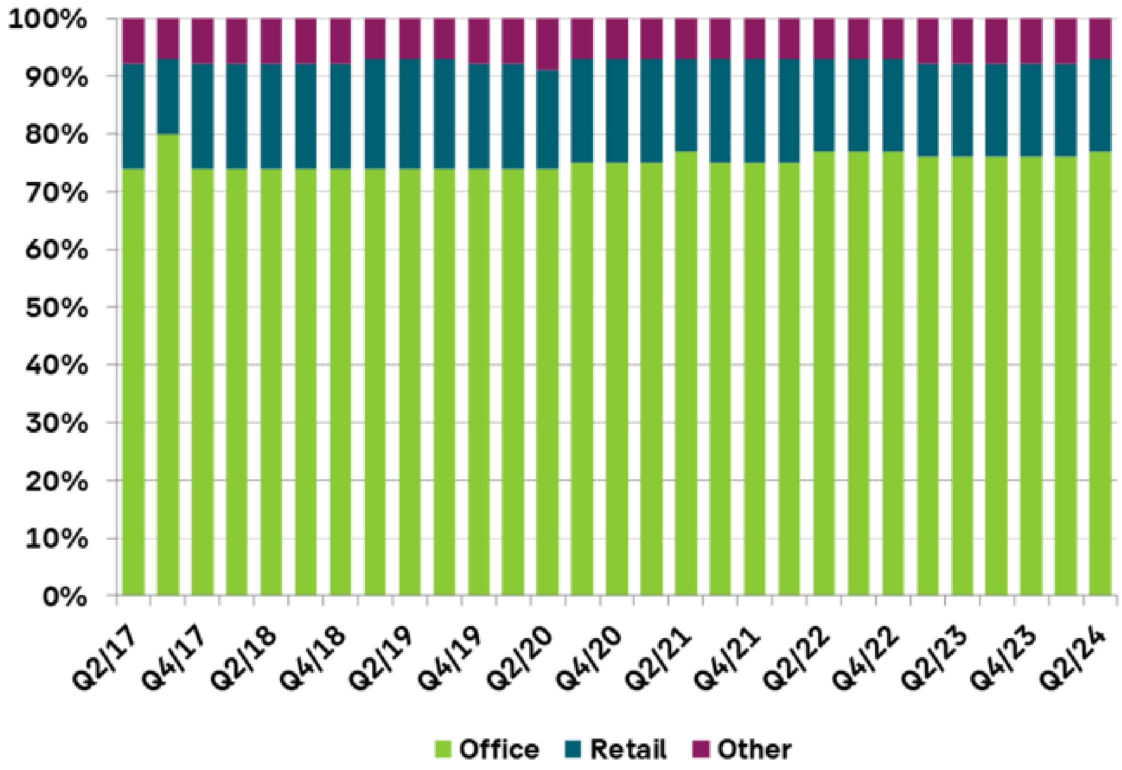
Source: Company reports, SEB

Property portfolio statistics (SEKm)



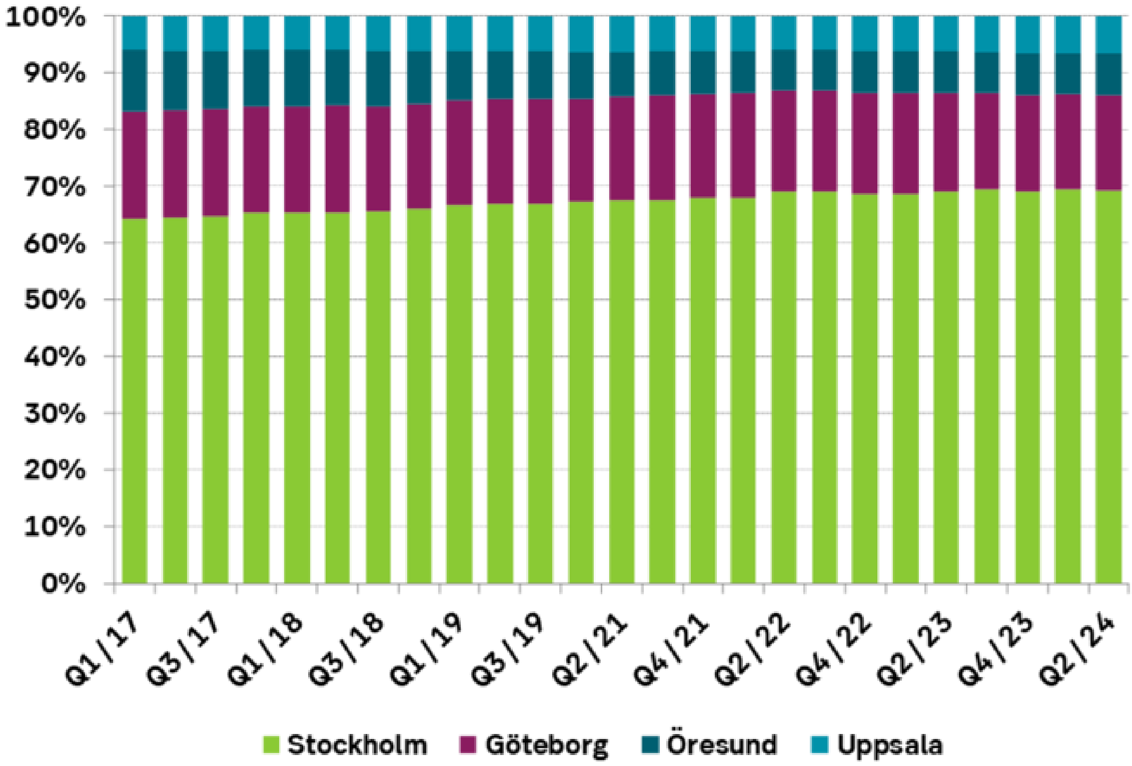
Source: Company reports, SEB

Property portfolio composition by property type (%)



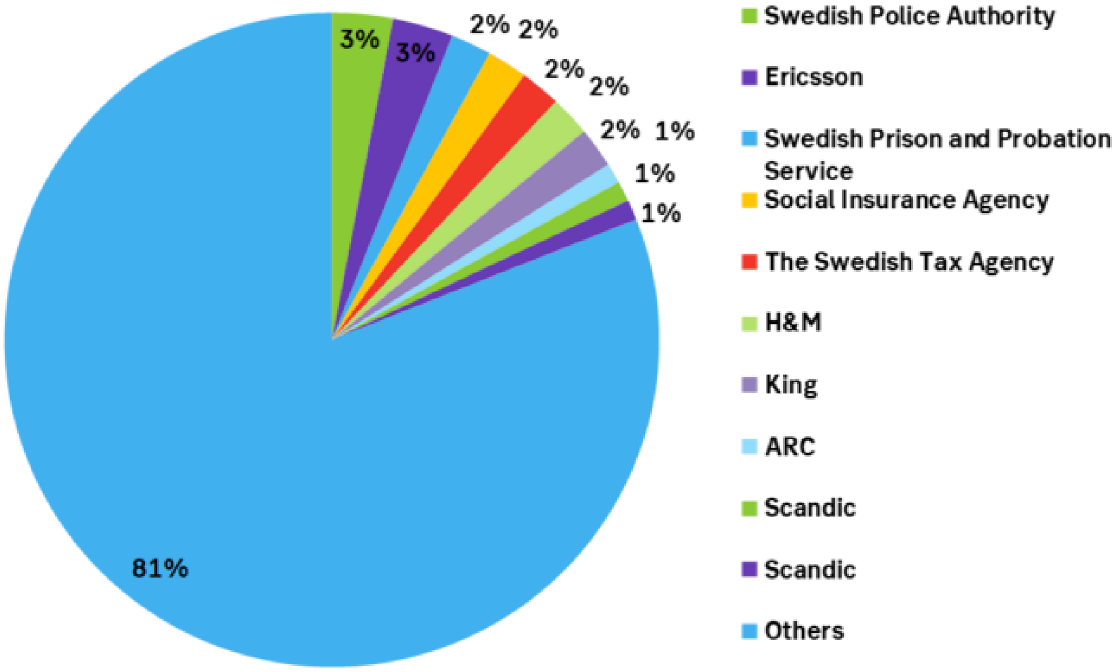
Source: Company reports

Property portfolio composition by region (%)



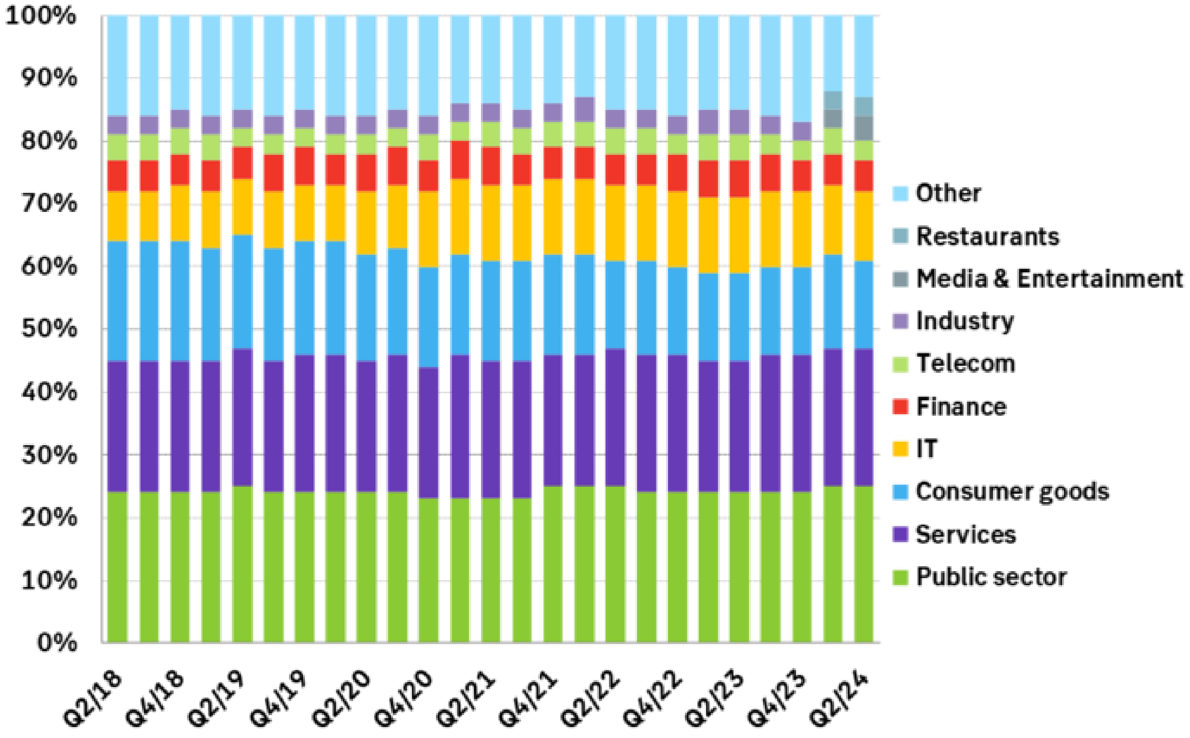
Source: Company reports

Tenant composition per end-Q2/24 (%)



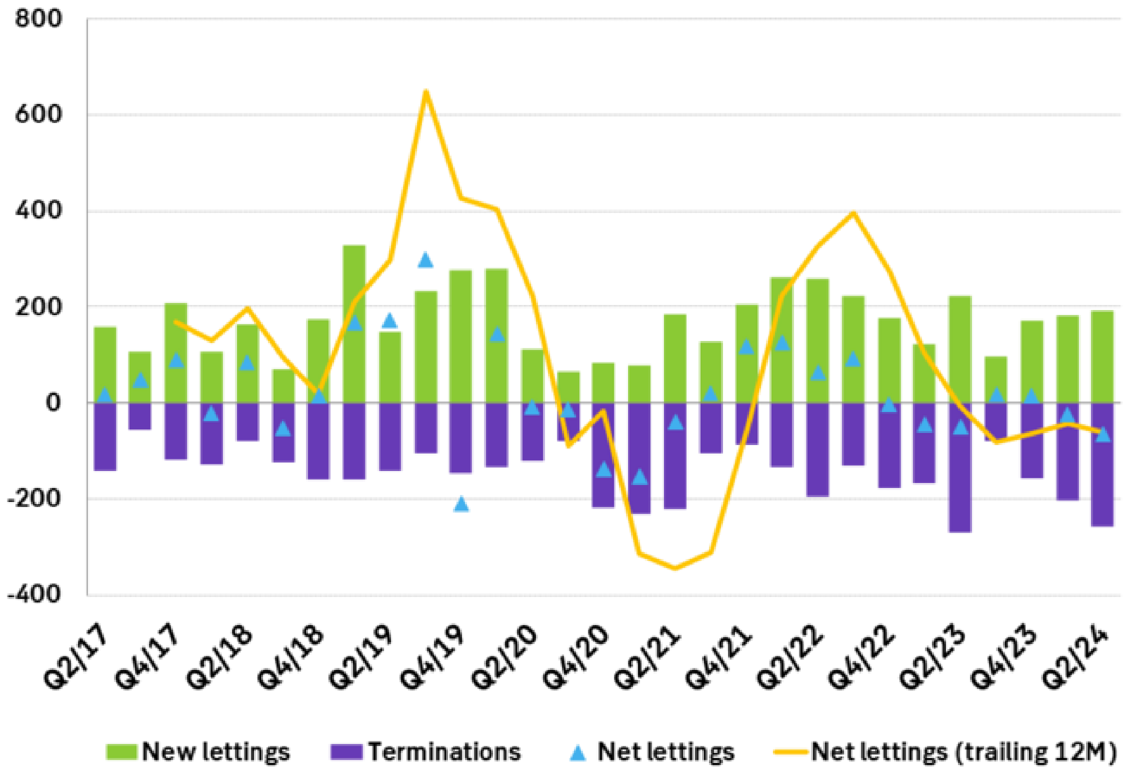
Source: Company reports

Breakdown of tenant by sector, % of contracted rent



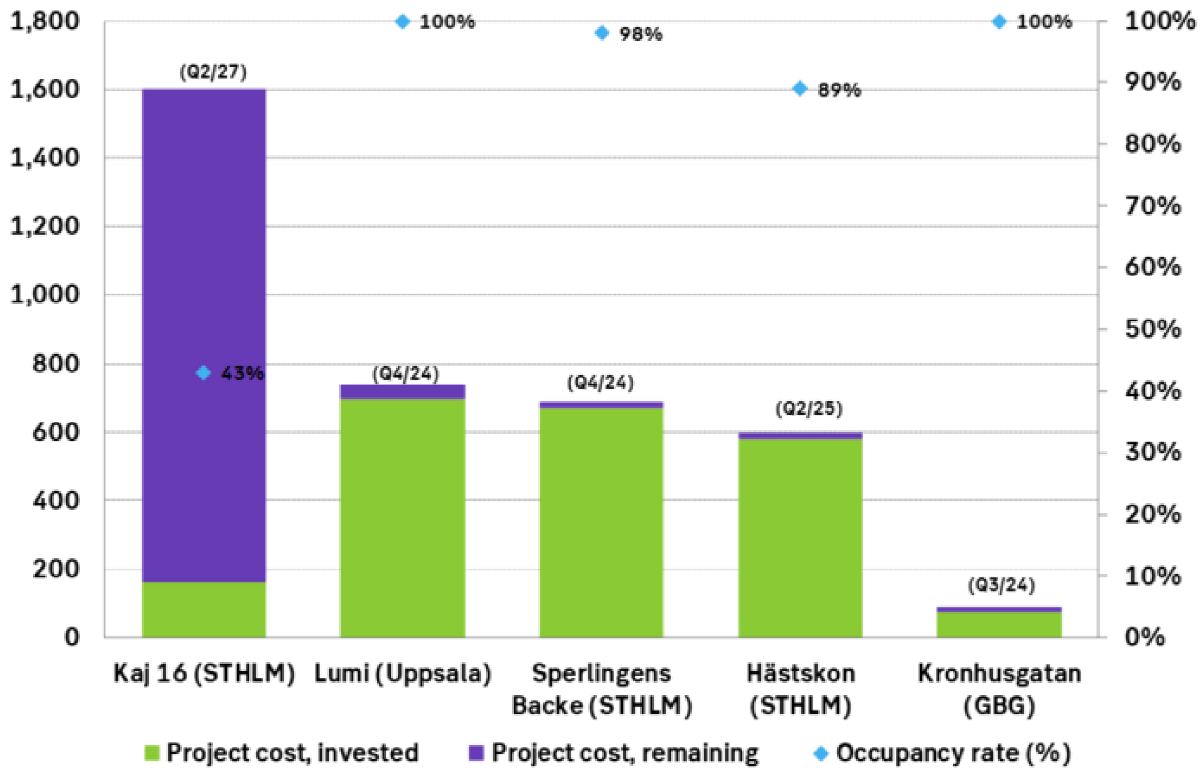
Source: Company reports

Historical evolution of net leasing per quarter (SEKm)



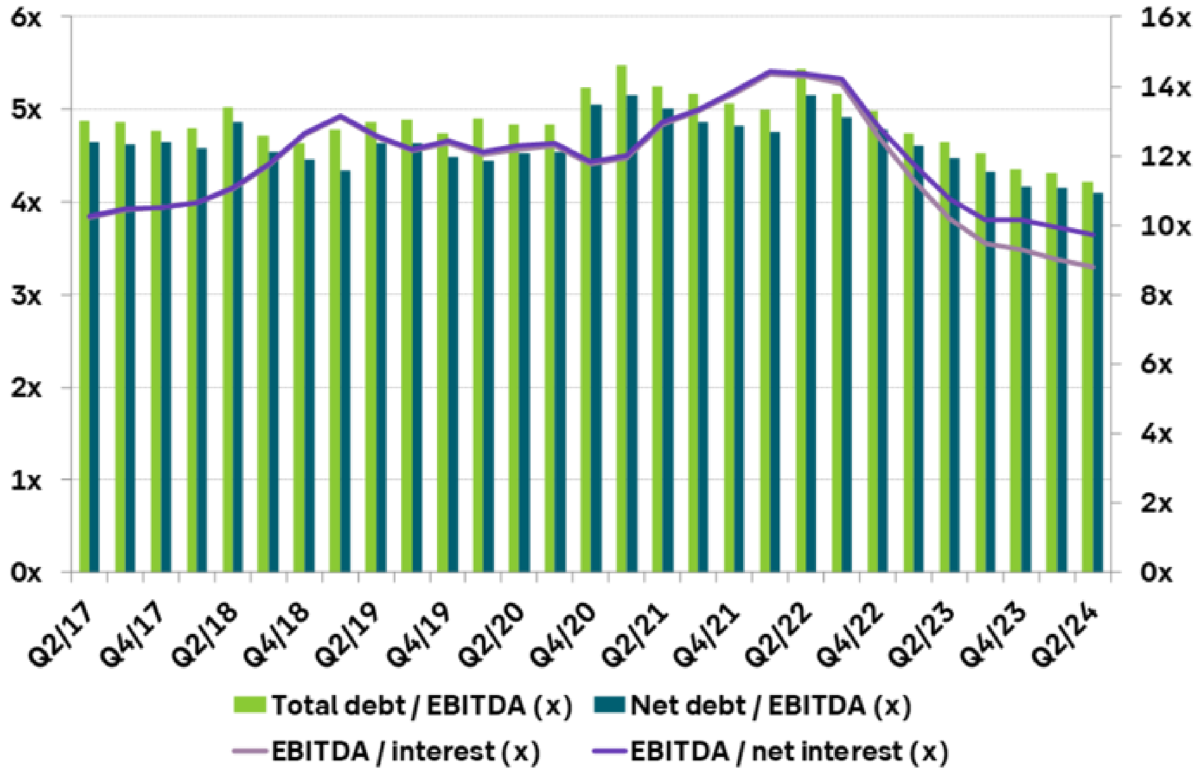
Source: Company reports, SEB

Overview of Vasakronan's major projects ongoing per end-Q2/24 (SEKm)



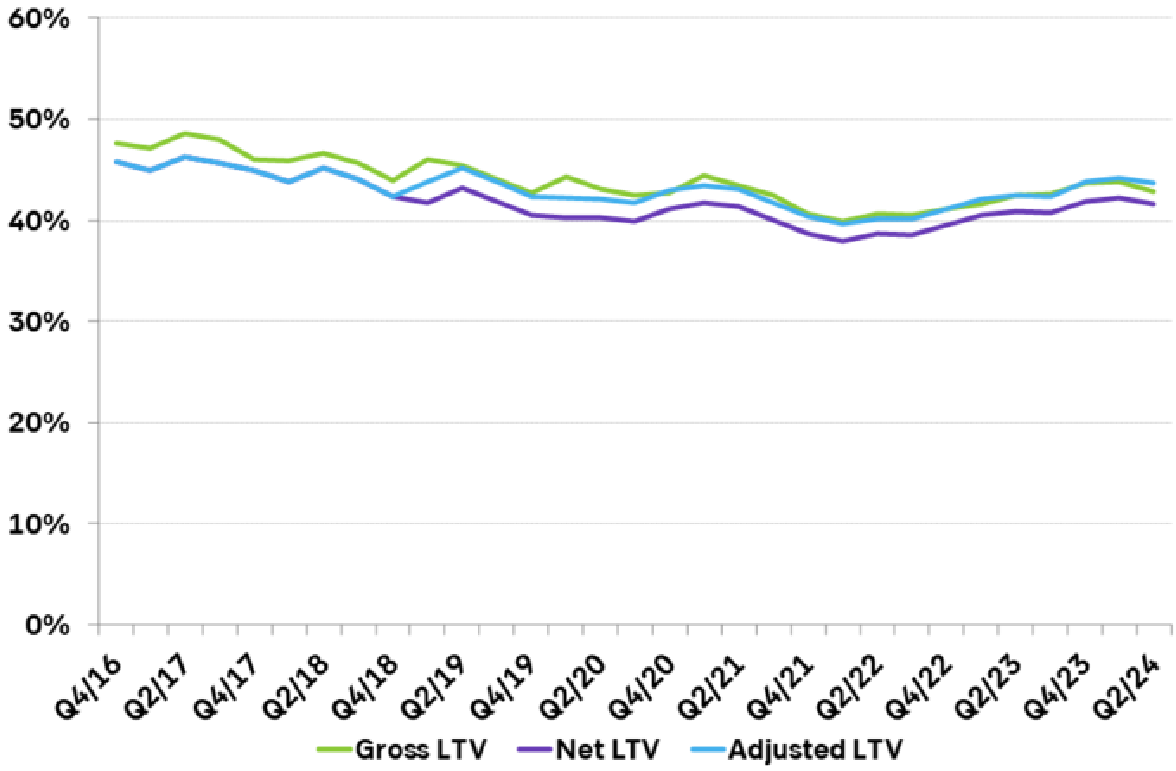
Source: Company reports, SEB

LTM leverage and interest coverage (x)



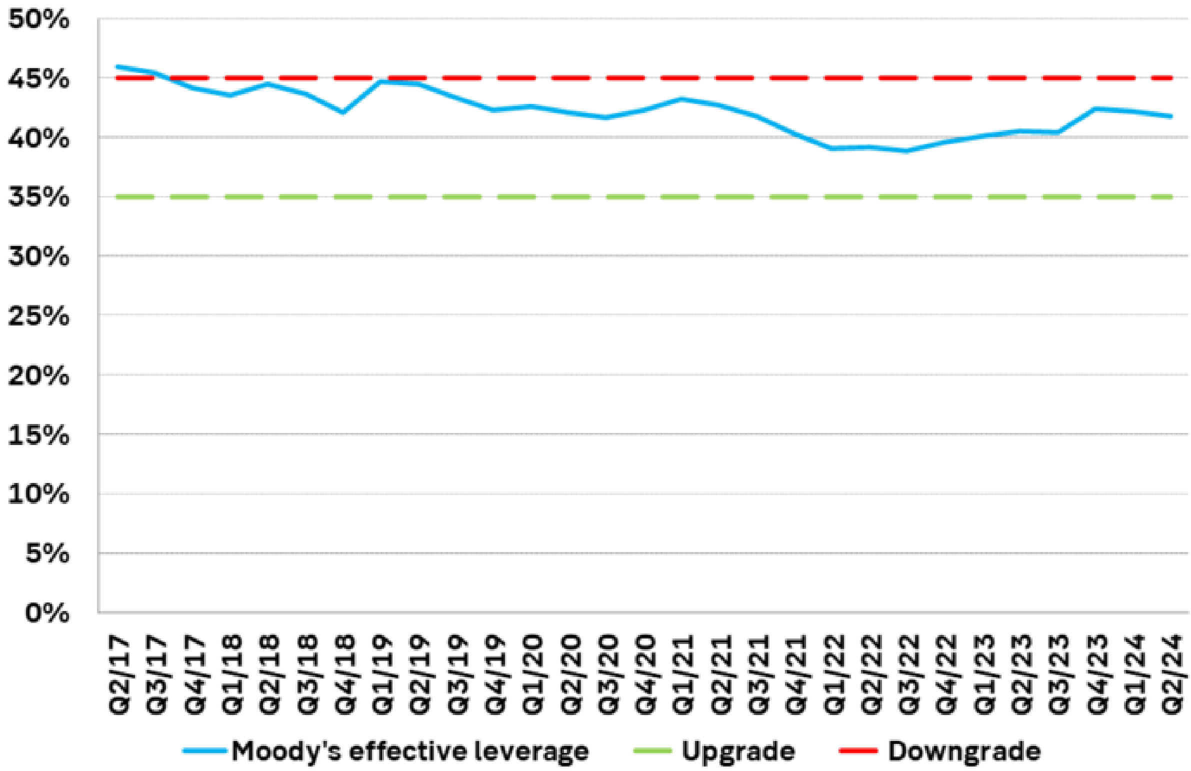
Source: Company reports, SEB

LTV (%)



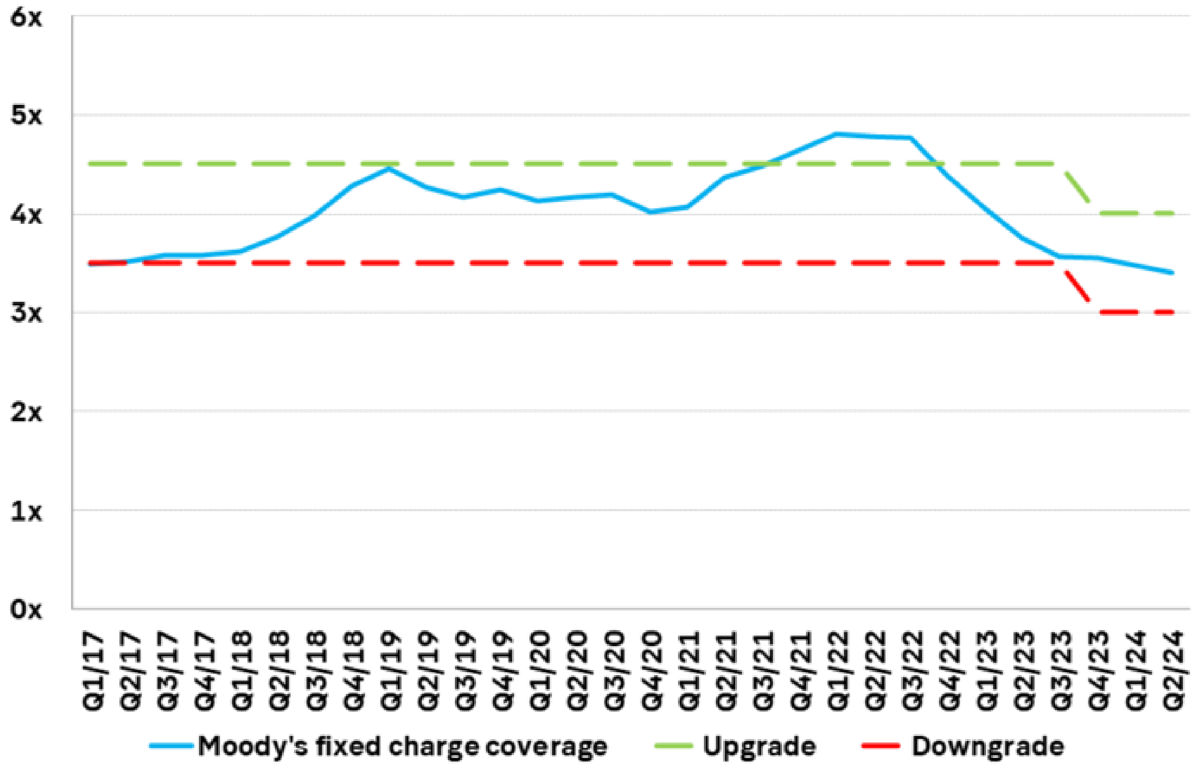
Source: SEB, Moody's

Moody's effective leverage and rating triggers



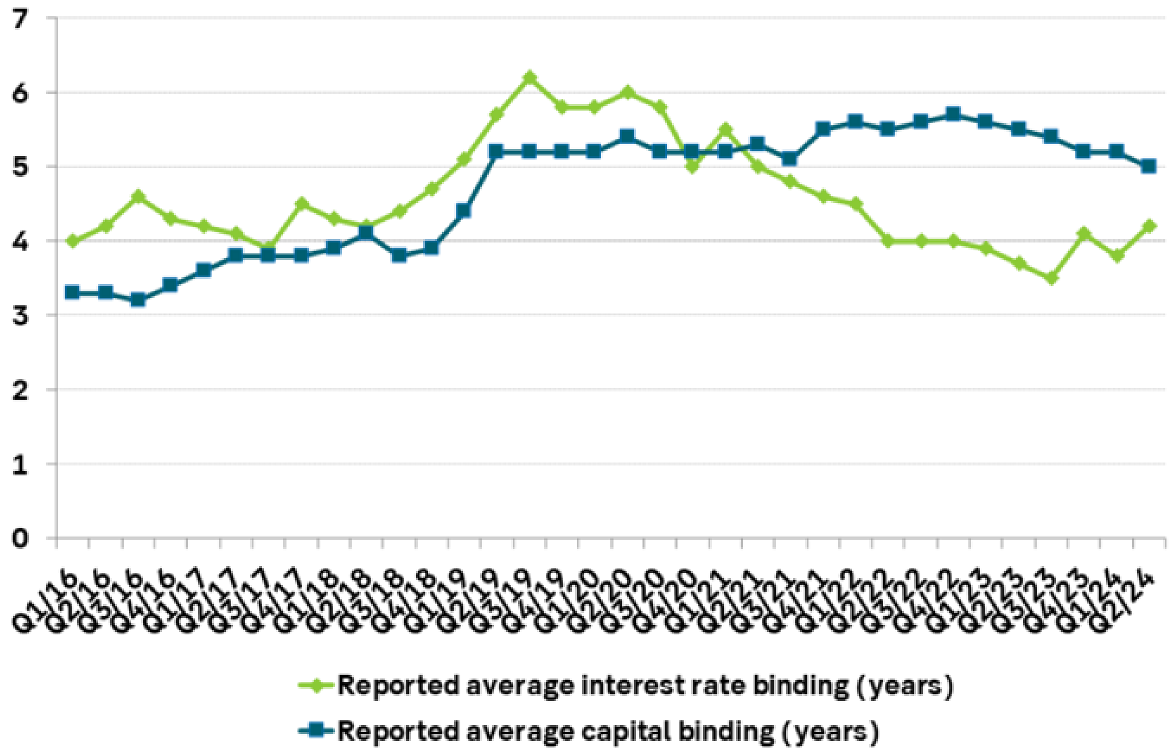
Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers



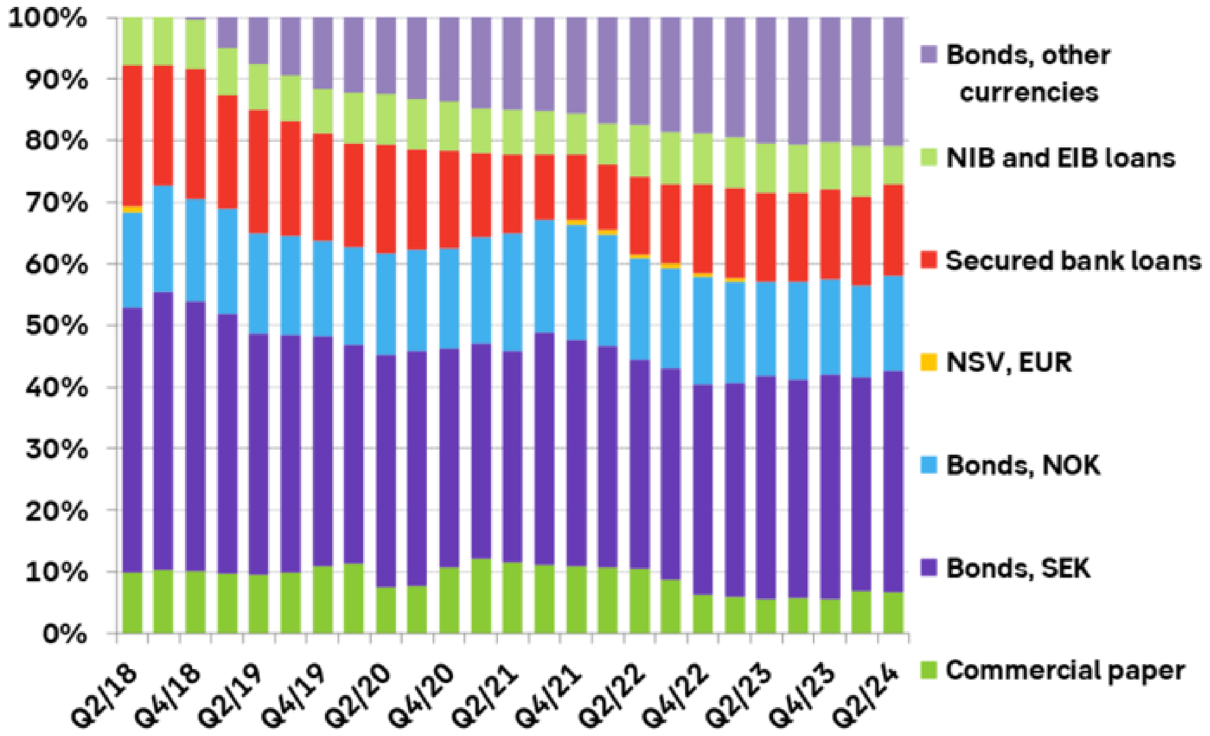
Source: SEB, Moody's

Capital and interest binding (years)



Source: Company reports

Funding composition over time (%)

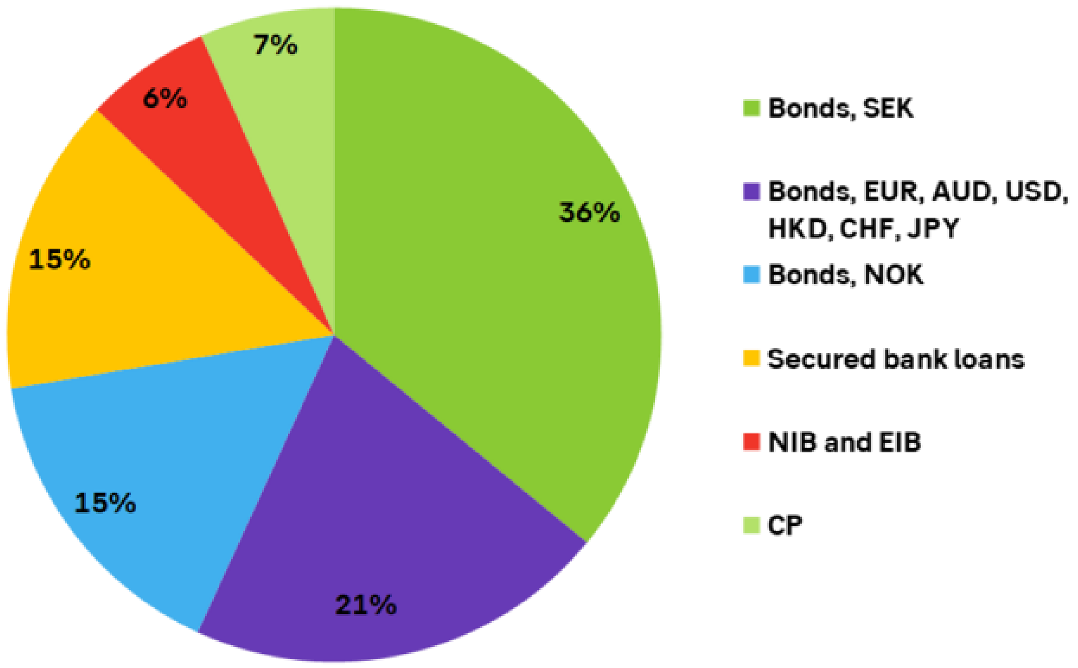


Source: Company reports

Debt maturity profile per end-Q2/24 (SEKm)

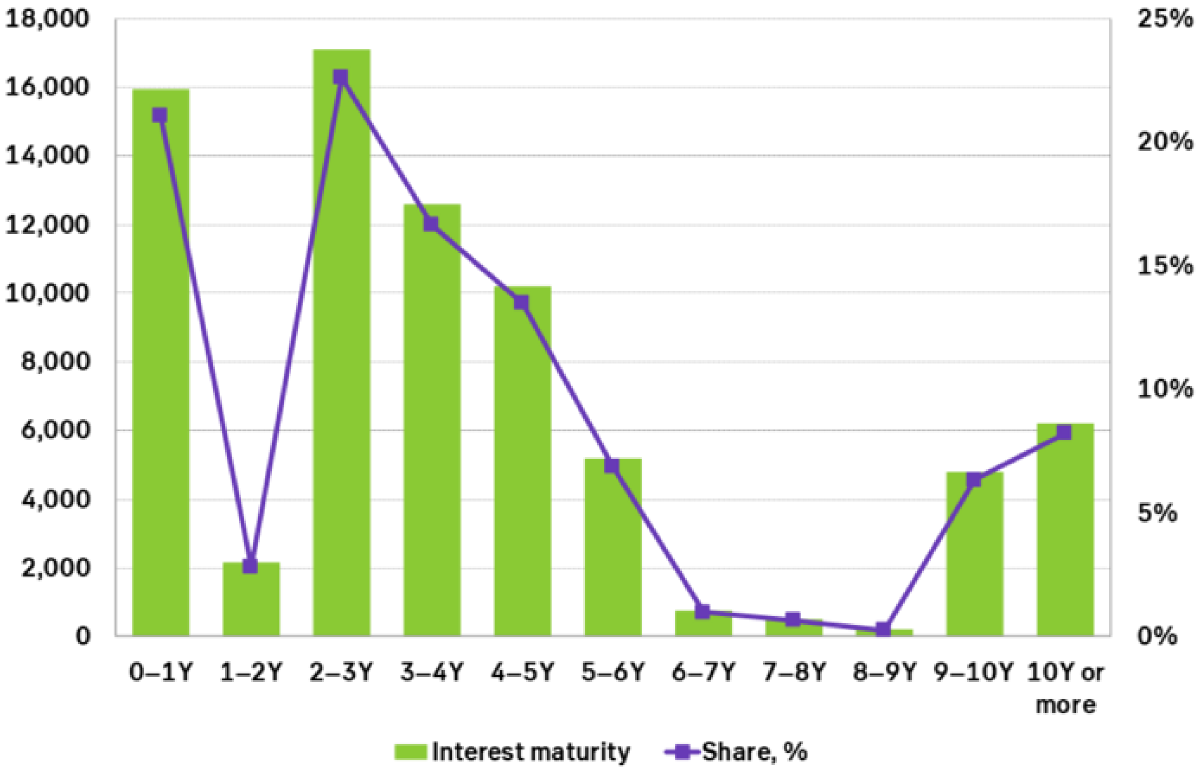
Source: Company report

Distribution of funding sources per end-Q2/24 (%)



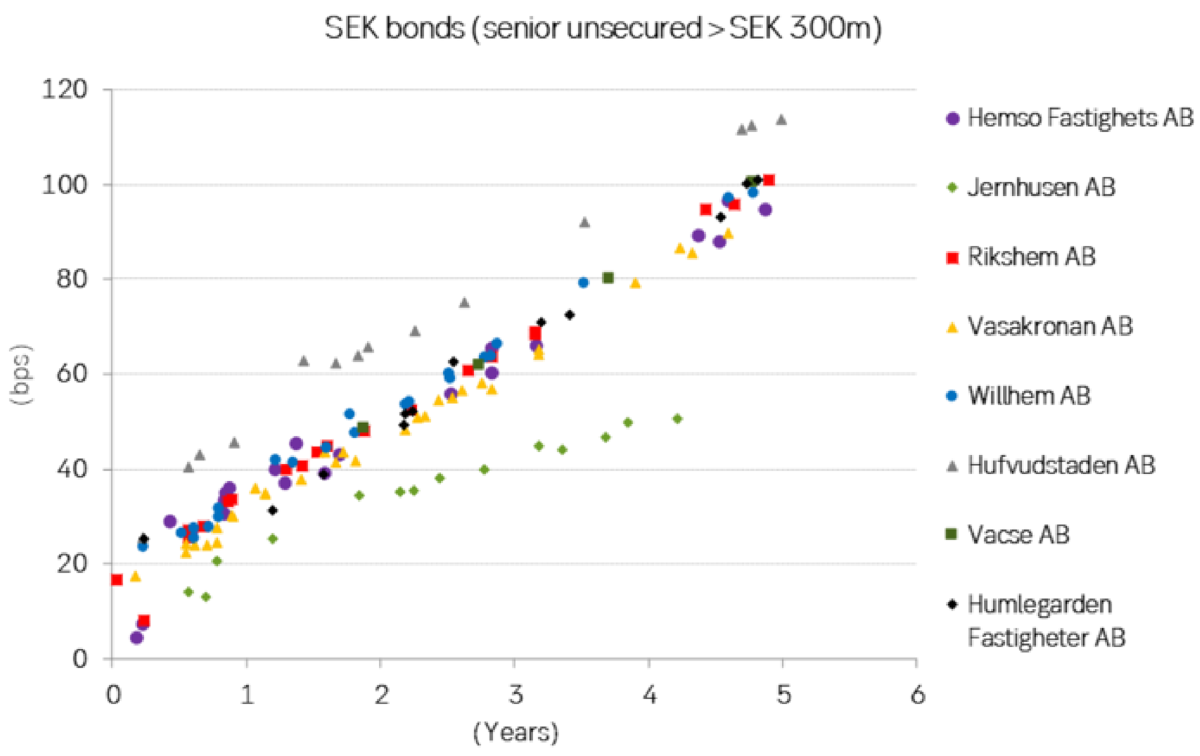
Source: Company report

Interest maturity profile per end-Q2/24 (SEKm)



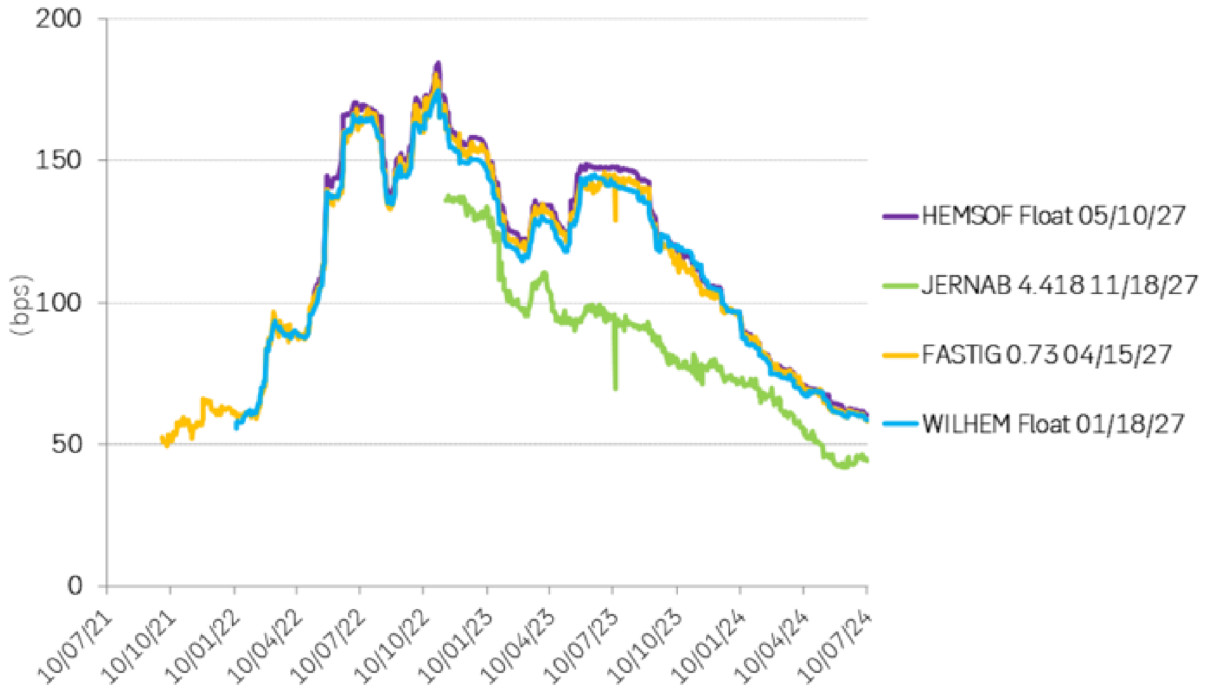
Source: Company report

Relative value, selective SEK bonds



Source: Bloomberg (BVAL, BGN), SEB

Spread development, selective SEK bonds



Source: Bloomberg (BVAL, BGN), SEB