

NOT FOR DISTRIBUTION IN CANADA, AUSTRALIA OR JAPAN OR IN ANY OTHER JURISDICTION WHERE TO DO SO WOULD BE UNLAWFUL. MAY ONLY BE DISTRIBUTED IN THE US TO QUALIFIED INSTITUTIONAL BUYERS.

DCM Research - Company Comment

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

# Vasakronan

## Q3: Mixed quarterly development

**Vasakronan's property valuations and key credit metrics held steady in Q3 even as operational performance was pressured by a challenging rental market which contributed to negative net lettings and an increased vacancy rate. Despite these headwinds, Vasakronan maintained healthy profitability margins and preserved sufficient headroom against Moody's rating thresholds. Overall, a credit-neutral report with resilient financials balancing softer operational development.**

## Q3: Negative net lettings and increased vacancy but stable property revaluations

Vasakronan's operating development was on the softer side, constrained by a challenging letting market. The economic occupancy rate decreased by 0.7% sequentially to 89.3% (88.3% among offices and 95.2% among retail). The CEO noted high ongoing leasing activity as companies optimise spaces for better efficiency and quality, yet intense competition has impacted net leasing negatively. Net lettings amounted to SEK -128m in Q3 (SEK -220m YTD). Looking at renegotiations' lettings taking place in 2024, it took place 0.1% above index compared to previous rent payable (2.0% a year-ago). Rental income and NOI each grew by 2% for the first nine months of 2024 in comparable property holdings. Despite these challenges, Vasakronan maintained solid profitability, with a 12-months NOI margin of 73% and EBITDA margin of 71%, similar to last year. Moreover, unrealised value changes amounted to SEK 788m in Q3, marking a 0.4% increase, while the average yield requirement declined 1bp q/q to 4.53%.

## **Stable financially, some deleveraging alongside slightly lower cost of debt reported**

The company's financial performance remained stable sequentially, driven by targeted deleveraging, disciplined investments, and a slight reduction in average debt costs. Key earnings metrics held steady, while the LTV ratio improved modestly. As of end-Q3, we calculate 12M EBITDA/net interest of at 3.6x (3.6x a quarter-earlier), net LTV at 40.4% (41.6%) and net debt/EBITDA of 10.7x (10.9x). The company's average interest rate declined by 0.1% to 2.7%. Vasakronan emphasised its ability to secure new funding at similar levels as the average cost of debt, benefiting from declining interest rates and credit margins. The company invested SEK 467m in Q3 and reduced net debt by SEK 1,637m q/q. The total investment volume for major ongoing projects reached SEK 3,720m, with 57% of this already capitalised and high occupancy rates expected for projects completing in the coming year.

## **Adequate headroom against Moody's rating threshold maintained**

As of end-Q3 2024, we calculate an effective leverage of 41.2% (35-45% required) and fixed-charge coverage of 3.3x (3.0-4.0x) according to Moody's definitions. Hence, adequate rating headroom against threshold is maintained. Furthermore, Vasakronan's credit profile benefits from a broad and well-composed financing structure, along with cancellation of dividends, and restrained investment activities in recent years. Overall, the Q3 report appears credit-neutral, with stable financial metrics effectively offsetting softer operational performance.

### Deviation between actual Q3 results and SEB DCM Research estimates (SEKm)

<b>Deviation table</b>	<b>Q3/23</b>	<b>Q4/23</b>	<b>Q1/24</b>	<b>Q2/24</b>	<b>Q3/24E</b>	<b>Q3/24</b>	<b>Q3 vs SEB</b>
Rental income	2 322	2 331	2 338	2 366	2 370	2 344	-1%
NOI	1 759	1 707	1 698	1 692	1 762	1 728	-2%
EBITDA	1 733	1 682	1 679	1 654	1 733	1 700	-2%
FFO	1 271	1 214	1 070	1 091	1 209	1 191	-1%
FOCF	695	467	554	428	627	622	
Interest expense	-492	-490	-525	-530	-523	-510	-2%
Net interest expense	-453	-436	-468	-486	-488	-468	-4%
Investment properties	181 088	174 569	175 455	176 369	177 392	177 625	0%
Total debt	77 142	76 259	76 797	75 641	74 678	74 479	0%
Net debt	73 738	73 034	73 975	73 313	72 682	71 676	-1%
Total debt / EBITDA (x)	12,1x	11,6x	11,5x	11,3x	11,1x	11,1x	
Net debt / EBITDA (x)	11,5x	11,1x	11,1x	10,9x	10,8x	10,7x	
EBITDA / net interest (x)	3,8x	3,8x	3,7x	3,6x	3,6x	3,6x	
FFO / net debt (%)	6,1%	6,4%	6,3%	6,4%	6,4%	6,4%	
Gross LTV	42,6%	43,7%	43,8%	42,9%	42,1%	41,9%	
Net LTV	40,7%	41,8%	42,2%	41,6%	41,0%	40,4%	

<b>Property</b>	<b>Q3/23</b>	<b>Q4/23</b>	<b>Q1/24</b>	<b>Q2/24</b>	<b>Q3/24E</b>	<b>Q3/24</b>	<b>DEV</b>
Net acquisitions	0	0	-692	0	0	0	
Investments in existing properties	-643	-871	-652	-685	-582	-467	
Property revaluation	-1 481	-7 390	-458	230	441	788	
Yield	4,24%	4,51%	4,54%	4,54%	4,53%	4,53%	

<b>Operating costs</b>	<b>Q3/23</b>	<b>Q4/23</b>	<b>Q1/24</b>	<b>Q2/24</b>	<b>Q3/24E</b>	<b>Q3/24</b>	
Central administration	-26	-25	-19	-38	-28	-28	-2%
Running costs	-190	-236	-243	-231	-204	-200	-2%
Repairs and maintenance	-29	-41	-42	-41	-33	-32	-4%
Property administration	-96	-106	-93	-132	-109	-119	9%
Property taxes	-208	-196	-209	-220	-212	-215	1%
Leasehold rents	-40	-45	-53	-50	-50	-50	0%
Total property costs	-563	-624	-640	-674	-608	-616	1%

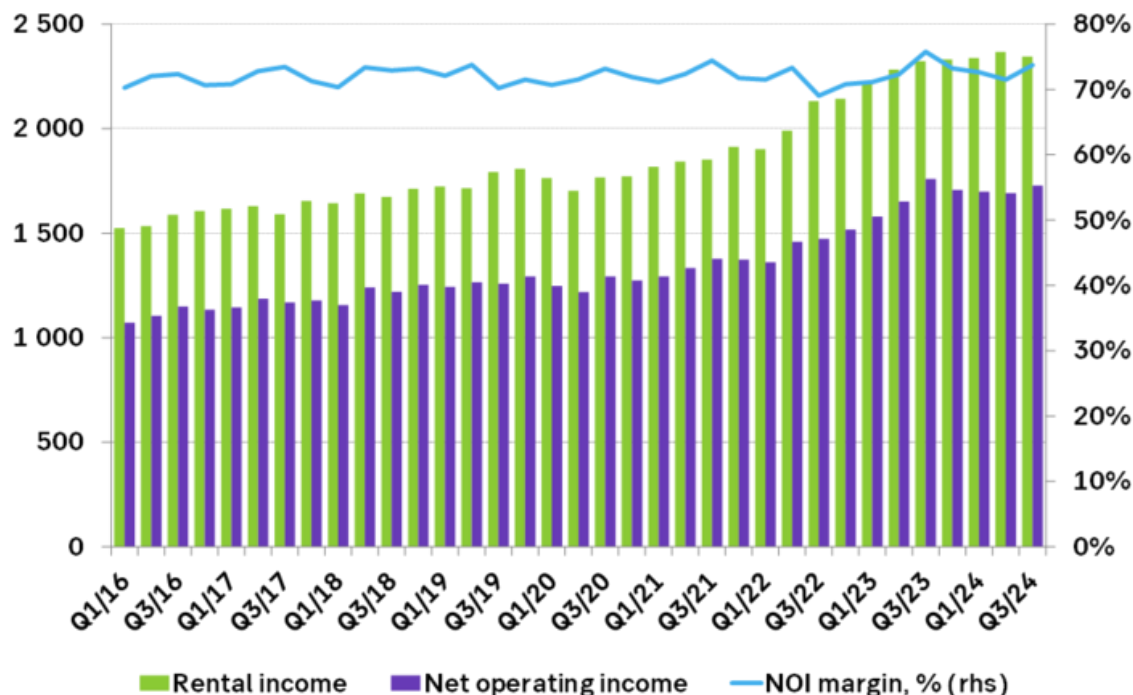
Source: Company data, SEB DCM Research estimate

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

SEKm	Q3/23	Q4/23	Q1/24	Q2/24	Q3/24	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Rental income	8 909	9 157	9 274	9 357	9 379	6 718	7 040	7 006	7 425	8 107	9 157	9 390	9 595	9 720
NOI	6 507	6 697	6 815	6 850	6 825	4 869	5 060	5 032	5 377	5 808	6 697	6 800	6 934	7 044
EBITDA	6 387	6 575	6 672	6 713	6 680	4 942	5 268	4 961	5 461	5 832	6 575	6 663	6 839	6 928
FFO	4 472	4 645	4 683	4 670	4 622	3 761	3 899	3 608	4 090	4 384	4 645	4 727	4 816	4 866
Y/Y growth in rental income (%)	13%	12%	9%	7%	5%	4%	5%	0%	6%	10%	12%	3%	2%	1%
NOI margin (%)	73%	73%	73%	73%	73%	72%	72%	72%	72%	71%	73%	72%	72%	72%
EBITDA margin (%)	71%	72%	72%	72%	71%	74%	75%	71%	74%	71%	72%	71%	71%	71%
Interest expense	-1 795	-1 884	-1 974	-2 037	-2 055	-1 046	-1 135	-1 127	-1 085	-1 238	-1 884	-2 075	-2 079	-2 099
Net interest expense	-1 675	-1 730	-1 789	-1 843	-1 858	-1 043	-1 131	-1 118	-1 051	-1 208	-1 730	-1 889	-1 959	-1 994
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1 835	-1 895	-1 967	-2 031	-2 056	-1 189	-1 278	-1 276	-1 211	-1 368	-2 100	-2 094	-2 168	-2 206
Investment properties	181 088	174 569	175 455	176 369	177 628	138 934	156 071	162 420	181 575	188 317	174 569	177 674	181 071	186 119
Total debt	77 142	76 259	76 797	75 641	74 479	61 087	66 638	69 317	73 838	77 425	76 259	74 285	73 555	73 367
Cash and equivalents	3 404	3 225	2 822	2 328	2 803	2 215	3 515	2 558	3 521	2 984	3 225	2 873	2 579	2 356
Net debt	73 738	73 034	73 975	73 313	71 676	58 872	63 123	66 759	70 317	74 441	73 034	71 412	70 976	71 061
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	78 806	79 364	80 508	79 844	78 205	58 872	68 367	71 923	75 475	79 592	79 364	77 742	77 306	77 391
Secured debt	11 131	11 131	11 131	11 130	0	12 907	11 603	10 971	7 866	11 131	11 131	11 785	12 000	11 222
Equity	84 558	78 902	79 646	80 331	81 550	60 271	70 156	70 869	85 290	89 767	78 902	82 641	85 786	88 801
Adjusted equity	84 558	78 902	79 646	80 331	81 550	60 271	70 156	70 869	85 290	89 767	78 902	82 641	85 786	88 801
Net debt+equity	158 296	151 936	153 621	153 644	153 226	119 143	133 279	137 628	155 607	164 208	151 936	154 053	156 763	159 862
Credit metrics	Q3/23	Q4/23	Q1/24	Q2/24	Q3/24	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Total debt / EBITDA (x)	12.1x	11.6x	11.5x	11.3x	11.1x	12.4x	12.6x	14.0x	13.5x	13.3x	11.6x	11.1x	10.8x	10.6x
Net debt / EBITDA (x)	11.5x	11.1x	11.1x	10.9x	10.7x	11.9x	12.0x	13.5x	12.9x	12.8x	11.1x	10.7x	10.4x	10.3x
Adjusted debt / EBITDA (x)	12.1x	11.8x	11.8x	11.6x	11.4x	11.6x	12.6x	14.1x	13.4x	13.3x	11.4x	11.3x	11.0x	10.8x
EBITDA / interest (x)	3.6x	3.5x	3.4x	3.3x	3.3x	4.7x	4.6x	4.4x	5.2x	4.7x	3.8x	3.2x	3.3x	3.3x
EBITDA / net interest (x)	3.8x	3.8x	3.7x	3.6x	3.6x	4.7x	4.7x	4.4x	5.2x	4.8x	3.8x	3.5x	3.5x	3.5x
EBITDA / adjusted interest (x)	3.6x	3.6x	3.5x	3.4x	3.5x	4.3x	4.2x	4.0x	4.6x	4.4x	3.3x	3.3x	3.3x	3.2x
Fixed charge coverage (x)	0.4x	0.5x	0.4x	0.4x	0.4x	0.3x	0.4x	0.3x	0.4x	0.5x	0.5x	0.5x	0.5x	0.5x
FFO / total debt (%)	5.8%	6.1%	6.1%	6.2%	6.2%	6.2%	5.9%	5.2%	5.5%	5.7%	6.1%	6.4%	6.5%	6.6%
FFO / net debt (%)	6.1%	6.4%	6.3%	6.4%	6.4%	6.4%	6.2%	5.4%	5.8%	5.9%	6.4%	6.6%	6.8%	6.8%
FFO / adjusted debt (%)	5.9%	6.1%	6.0%	6.1%	6.2%	6.6%	5.9%	5.2%	5.6%	5.7%	6.3%	6.3%	6.5%	6.6%
Gross LTV	42.6%	43.7%	43.8%	42.9%	41.9%	44.0%	42.7%	42.7%	40.7%	41.1%	43.7%	41.8%	40.5%	39.4%
Net LTV	40.7%	41.8%	42.2%	41.6%	40.4%	42.4%	40.4%	41.1%	38.7%	39.8%	41.8%	40.2%	39.1%	38.2%
Adjusted LTV	42.4%	43.9%	44.2%	43.7%	42.5%	42.4%	42.4%	42.9%	40.4%	41.1%	43.9%	42.3%	41.1%	40.2%
Net debt / debt+equity	46.6%	48.1%	48.2%	47.7%	46.8%	49.4%	47.4%	48.5%	48.2%	45.3%	48.1%	46.4%	45.3%	44.5%
Adjusted debt / debt+equity	49.8%	52.2%	52.4%	52.0%	51.0%	49.4%	51.3%	52.3%	48.5%	48.5%	52.2%	50.5%	49.3%	48.4%
Secured LTV	6.1%	6.4%	6.3%	6.3%	6.0%	9.3%	7.4%	6.8%	4.3%	5.9%	6.4%	6.6%	6.6%	6.0%
Equity ratio	41.6%	40.5%	40.4%	40.8%	41.5%	41.5%	41.2%	40.2%	43.5%	43.0%	40.5%	41.8%	42.7%	43.3%

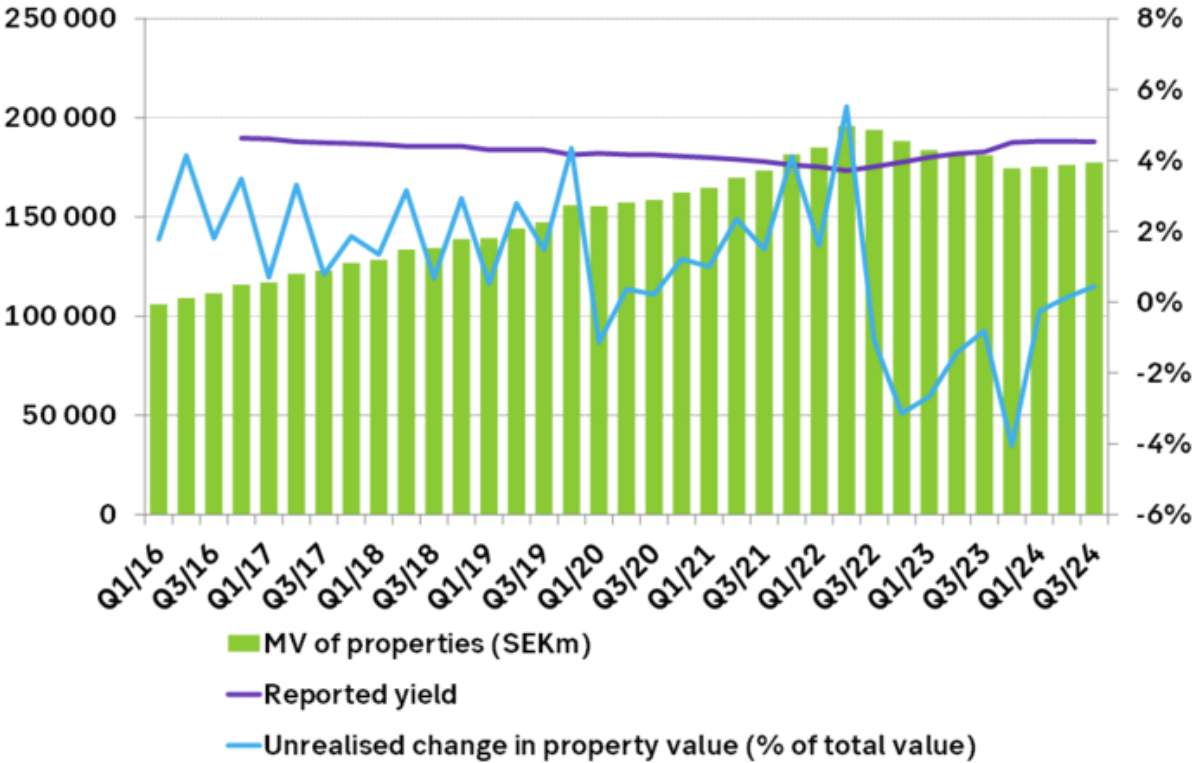
Source: Company data, SEB DCM Research estimate

### Quarterly rental income and NOI (SEKm)



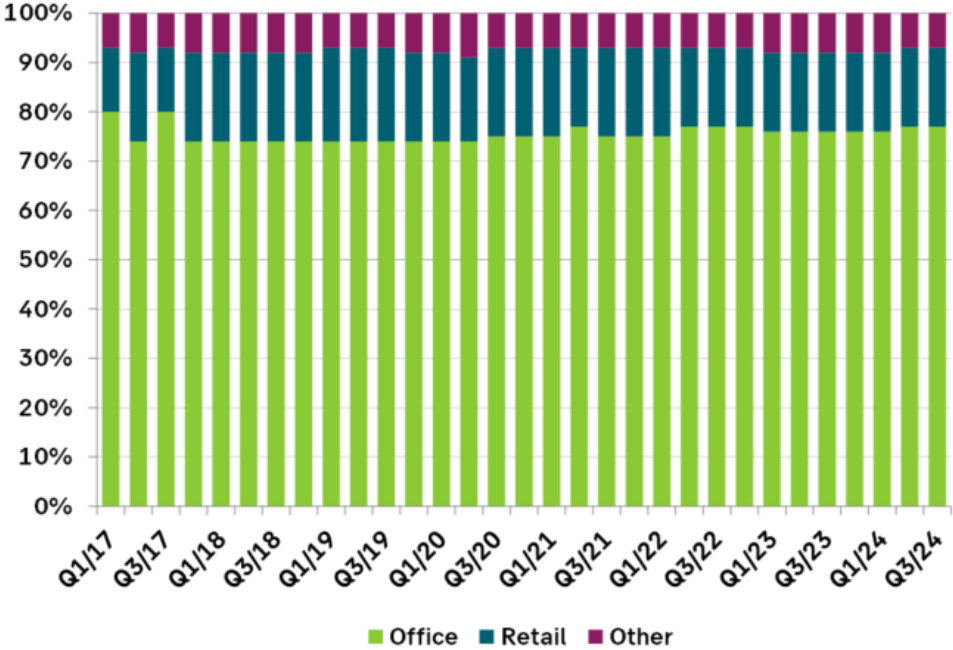
Source: Company reports, SEB

**Property portfolio statistics (SEKm)**



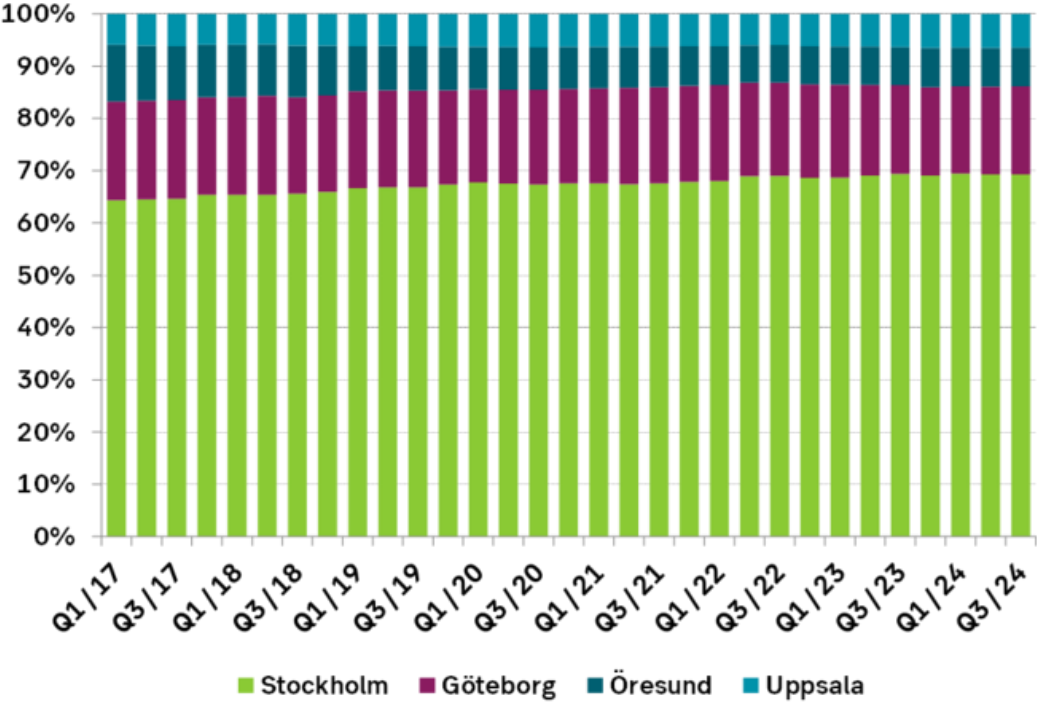
Source: Company reports, SEB

**Property portfolio composition by property type (%)**



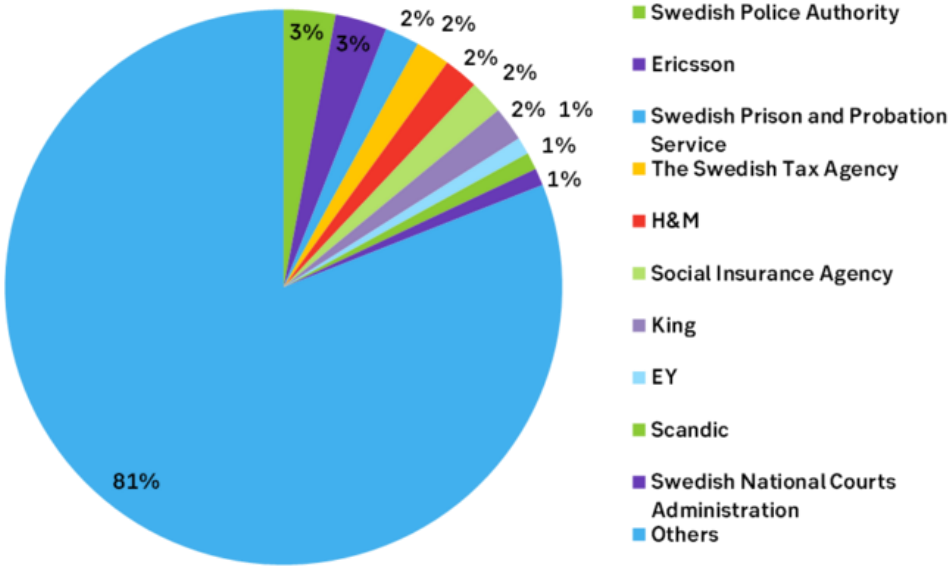
Source: Company reports

**Property portfolio composition by region (%)**



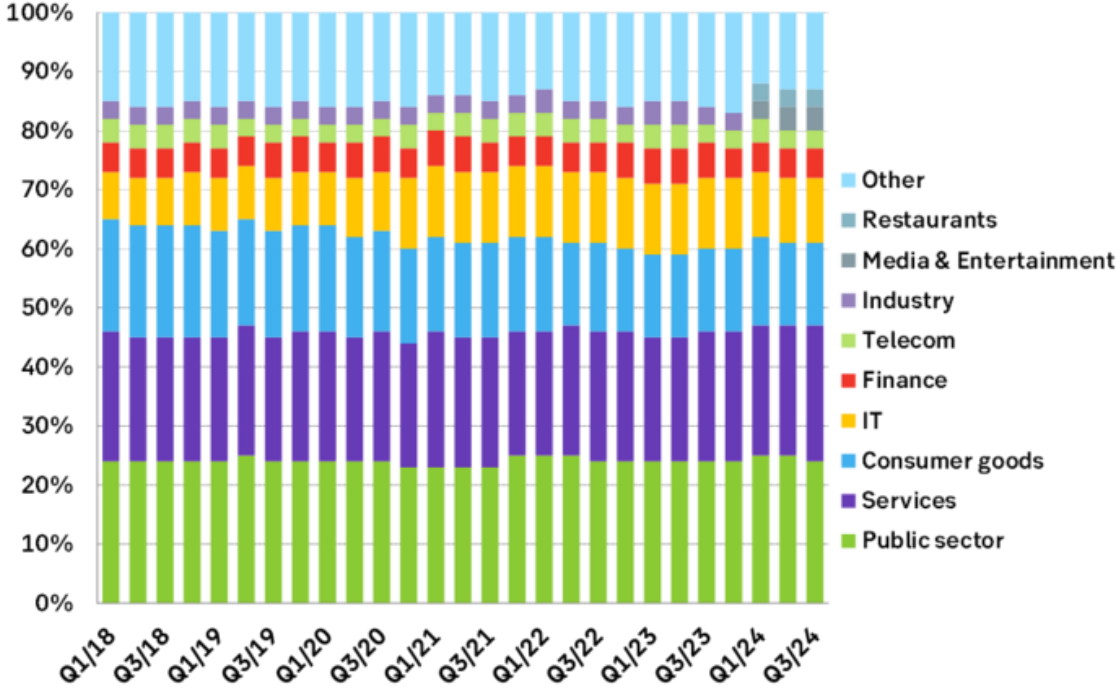
Source: Company reports

**Tenant composition per end-Q2/24 (%)**



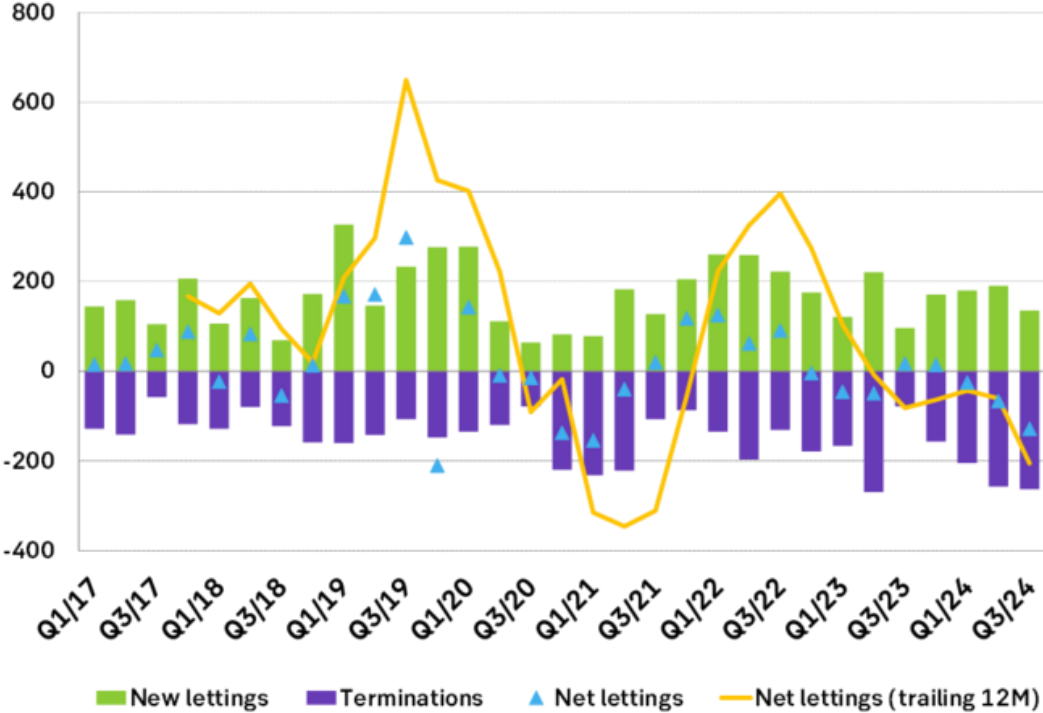
Source: Company reports

**Breakdown of tenant by sector, % of contracted rent**



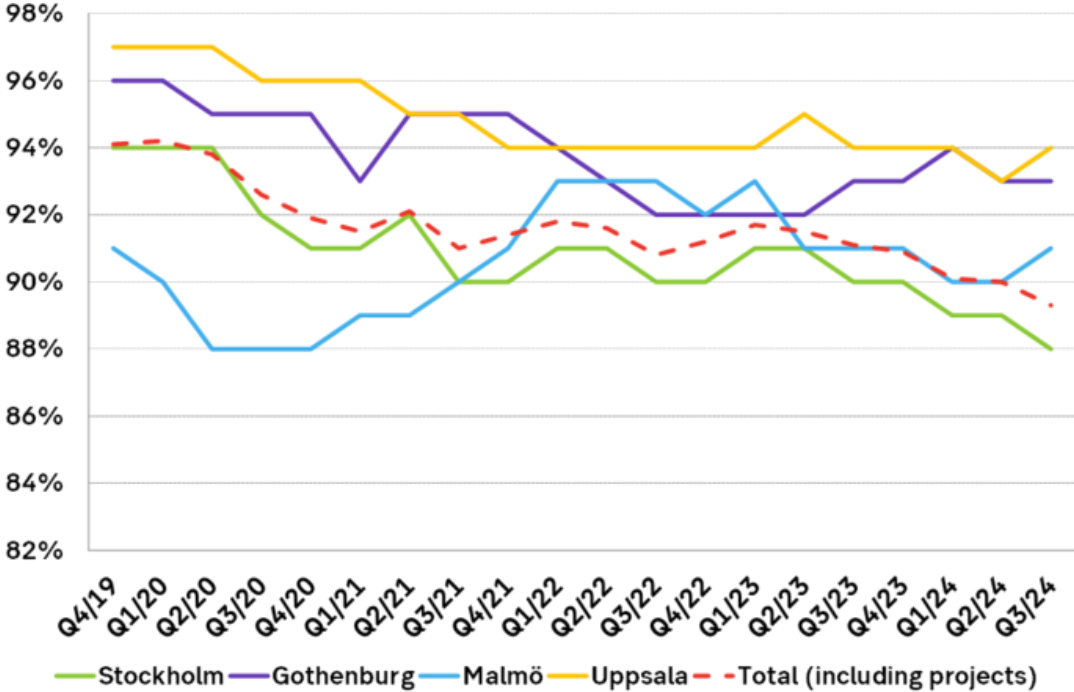
Source: Company reports

**Historical evolution of net leasing per quarter (SEKm)**



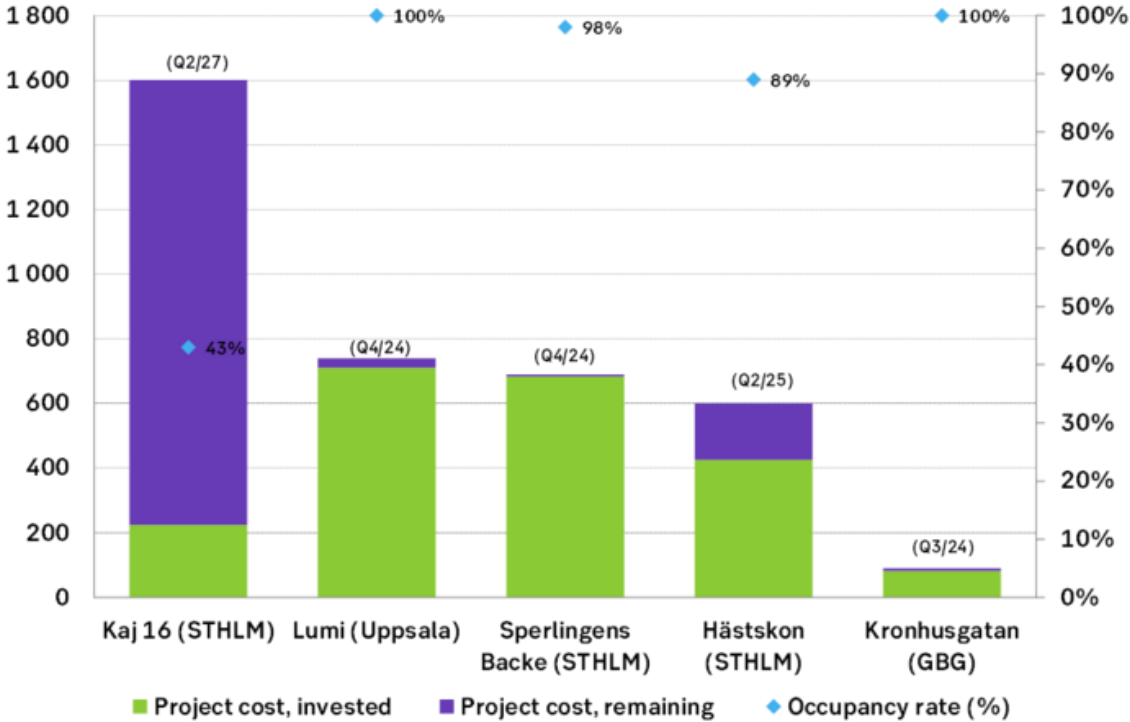
Source: Company reports, SEB

Overview of Vasakronan's major projects ongoing per end-Q3/24 (SEKm)



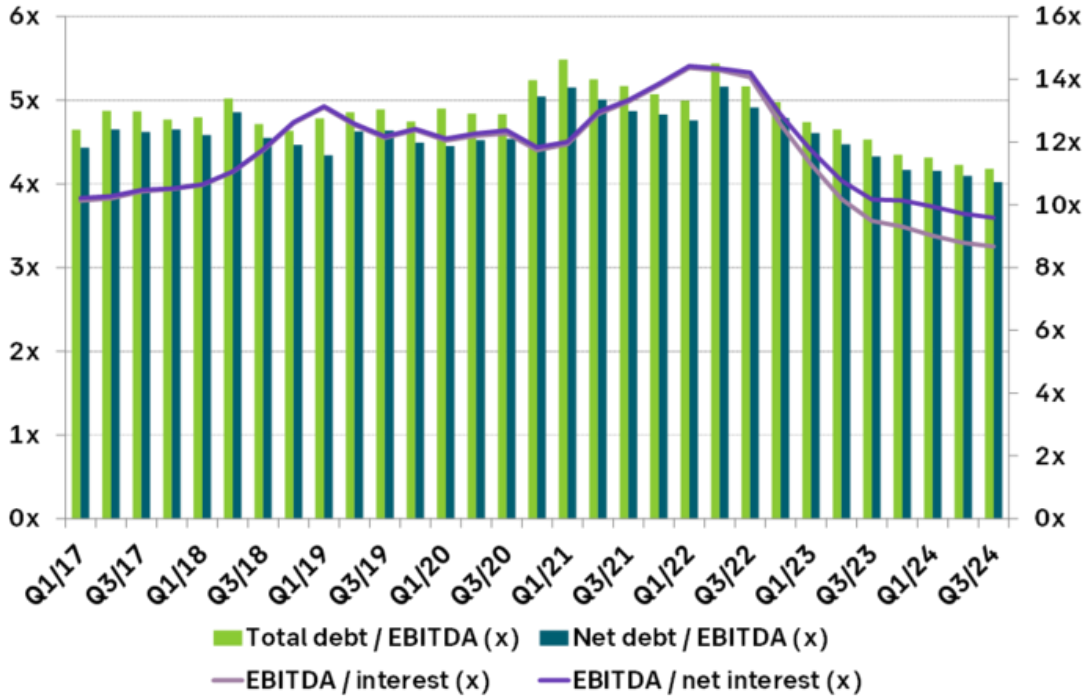
Source: Company reports

Overview of Vasakronan's major projects ongoing per end-Q3/24 (SEKm)



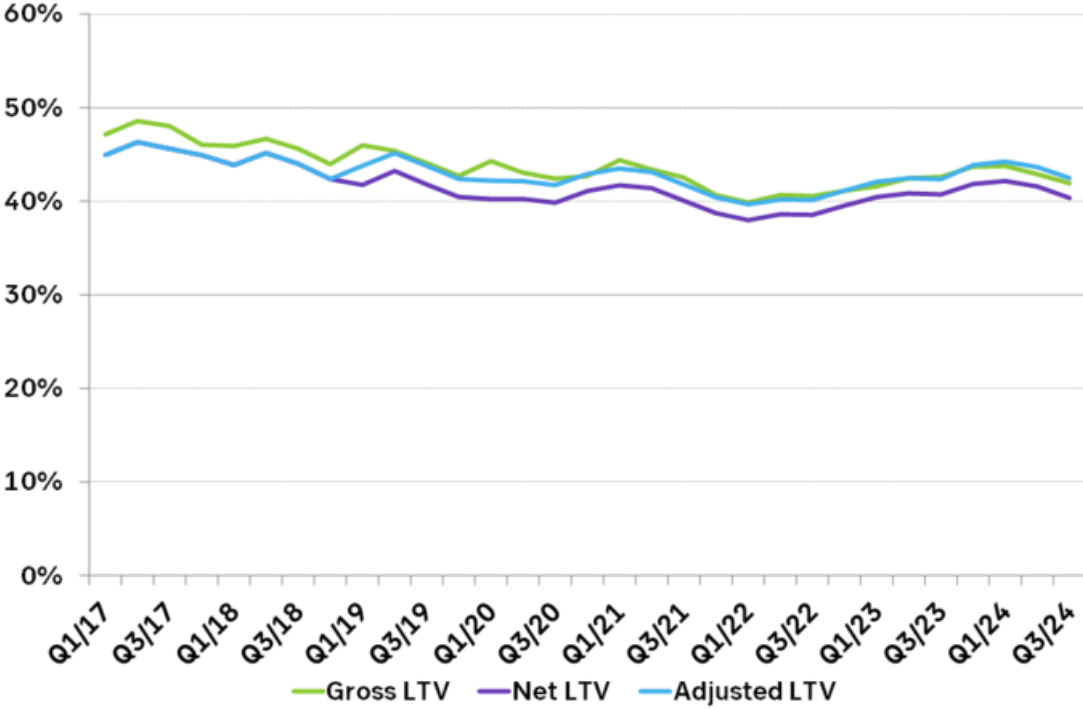
Source: Company reports, SEB

LTM leverage and interest coverage (x)



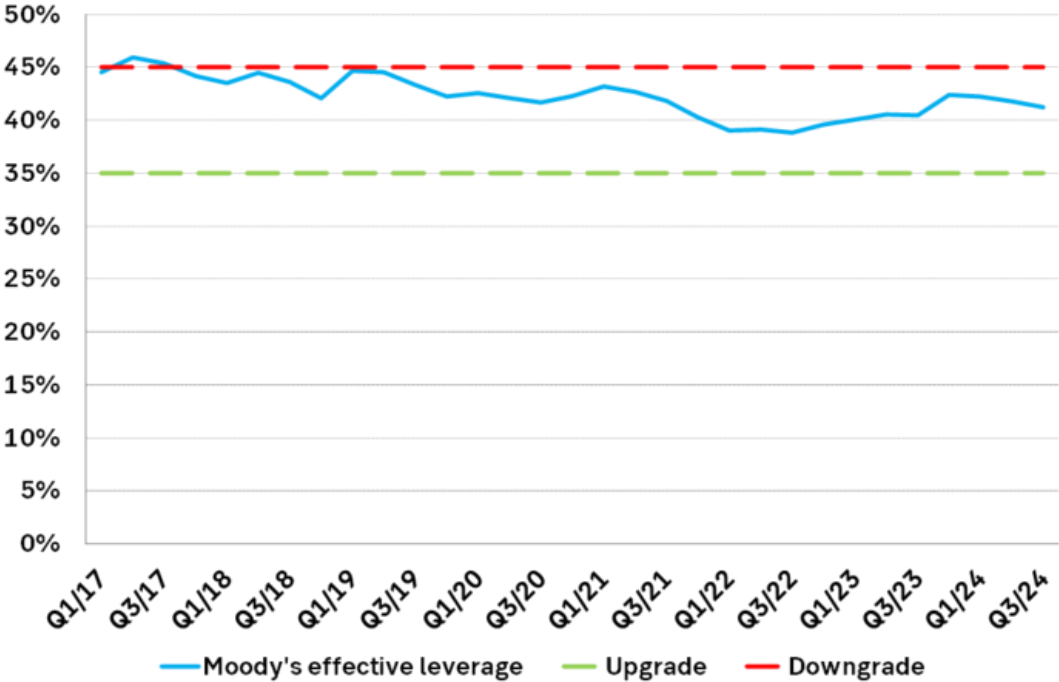
Source: Company reports, SEB

LTV (%)



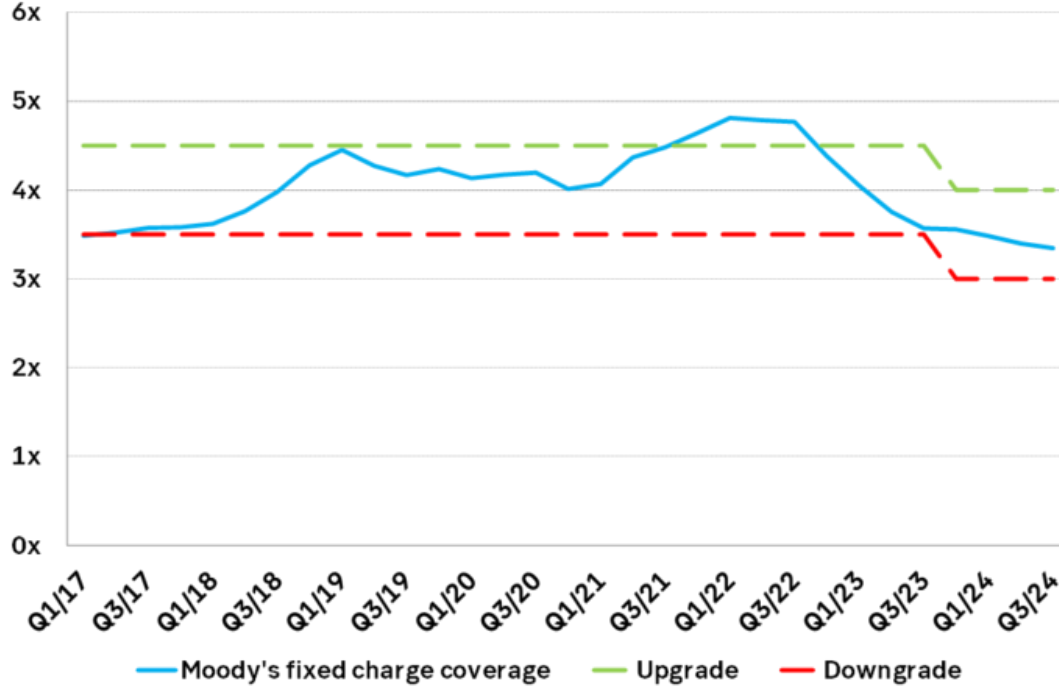
Source: SEB, Moody's

**Moody's effective leverage and rating triggers**



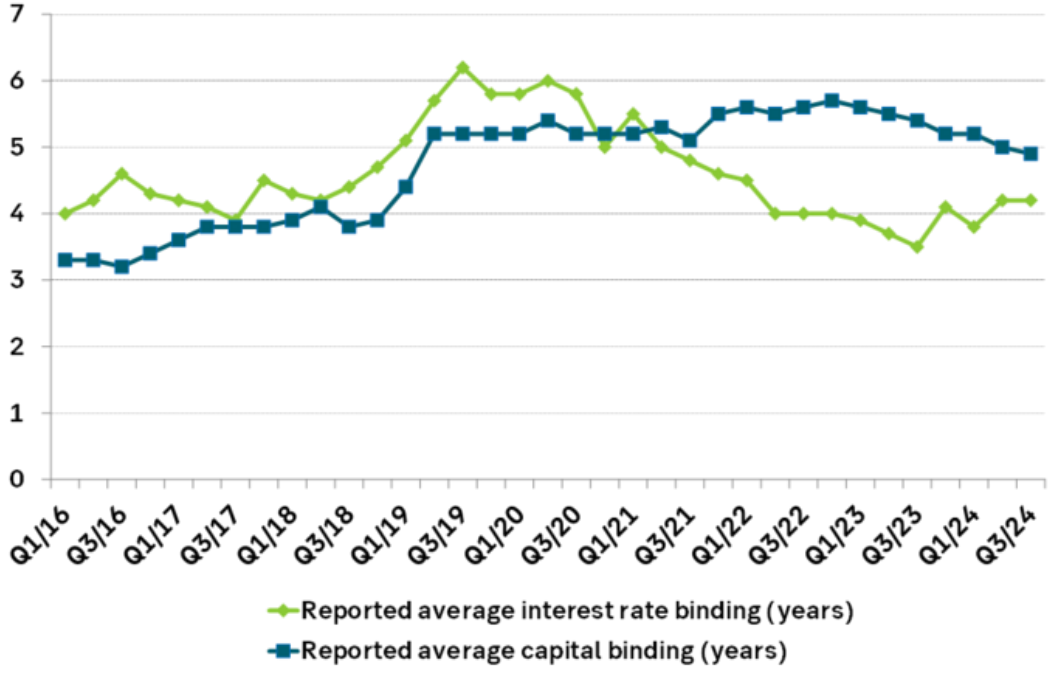
Source: SEB, Moody's

**Moody's fixed charge coverage and current rating triggers**



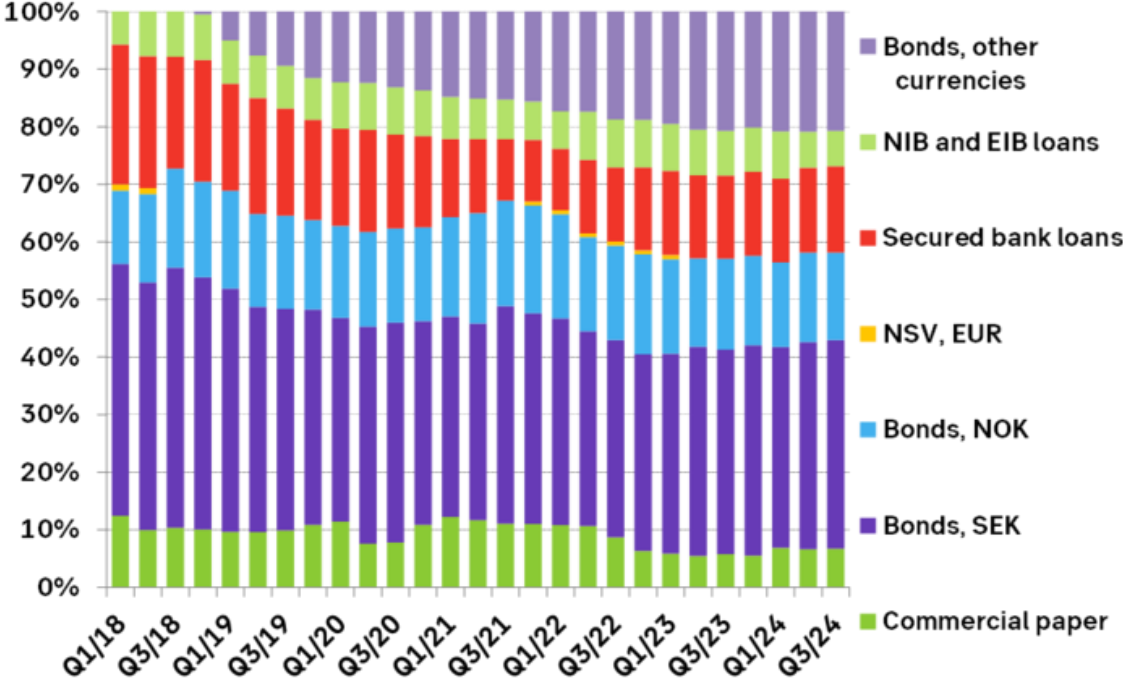
Source: SEB, Moody's

**Capital and interest binding (years)**



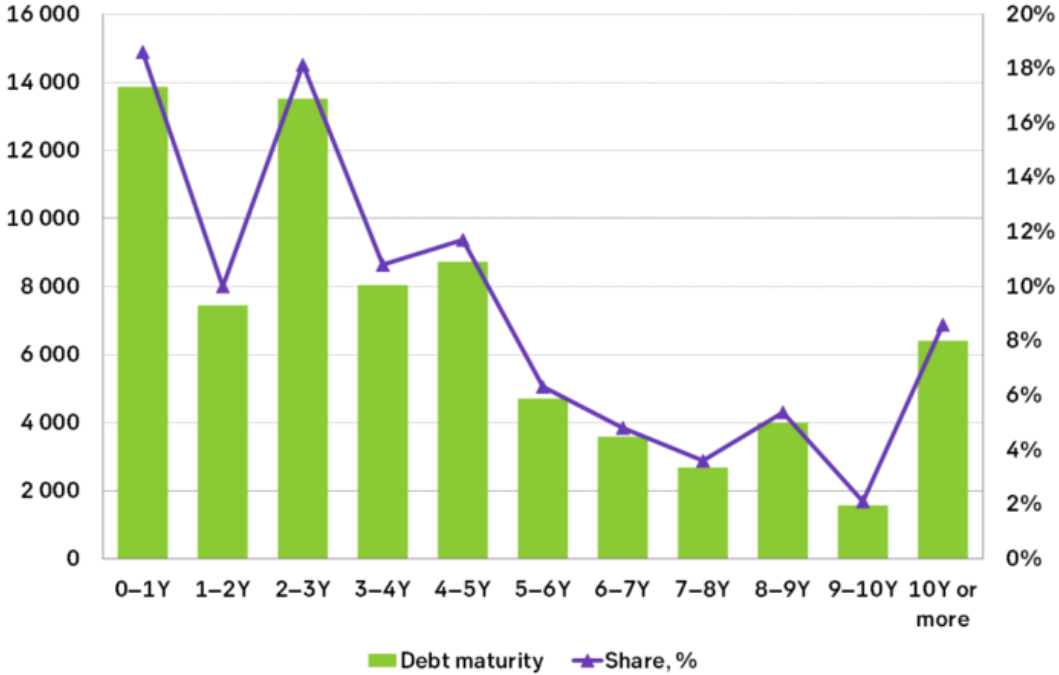
Source: Company reports

**Funding composition over time (%)**



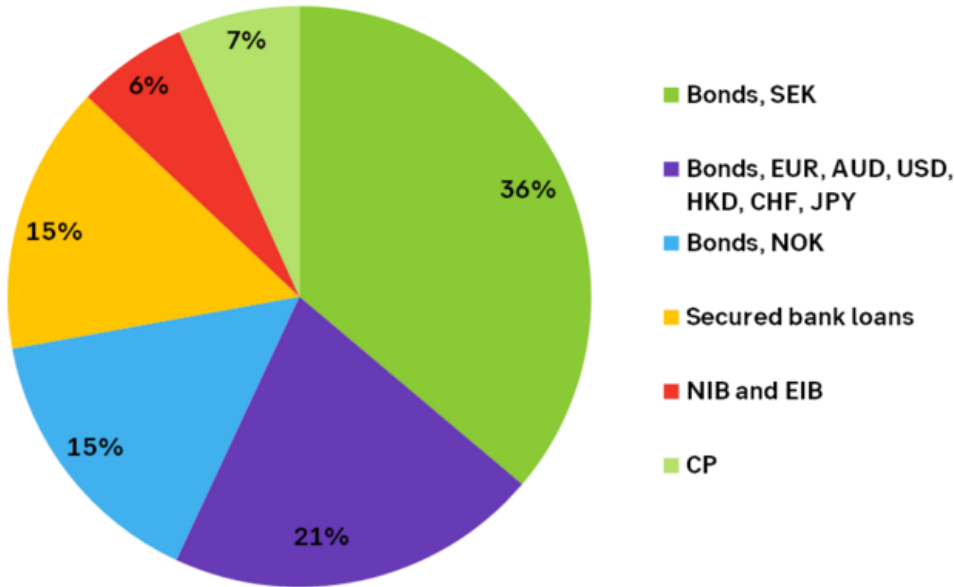
Source: Company reports

Debt maturity profile per end-Q3/24 (SEKm)



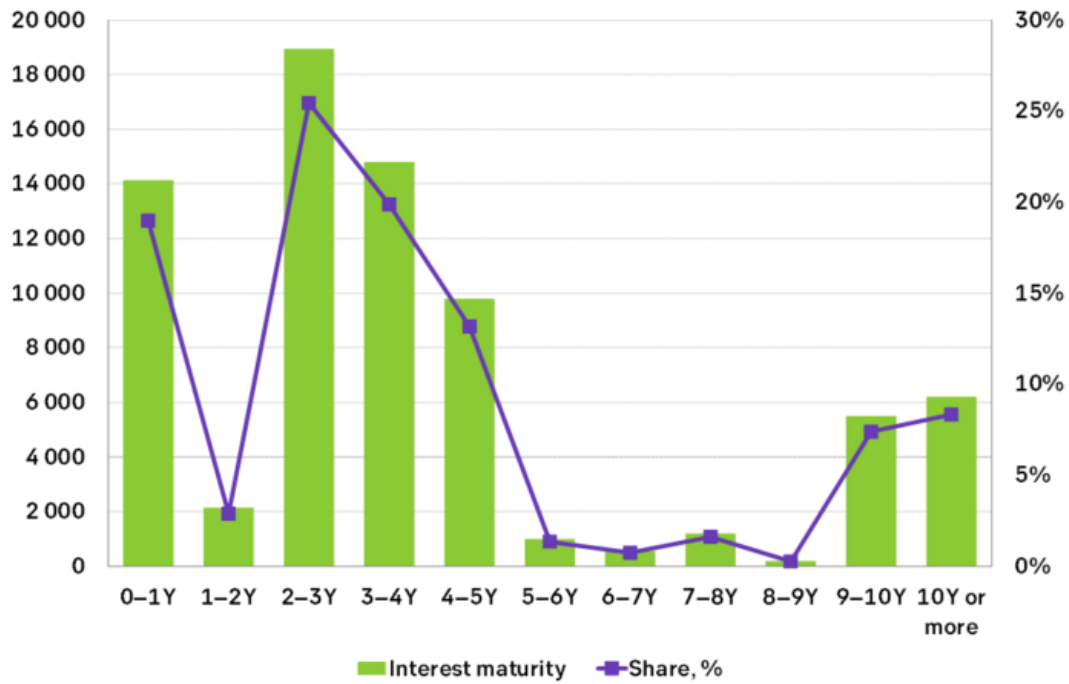
Source: Company reports

Distribution of funding sources per end-Q3/24 (%)



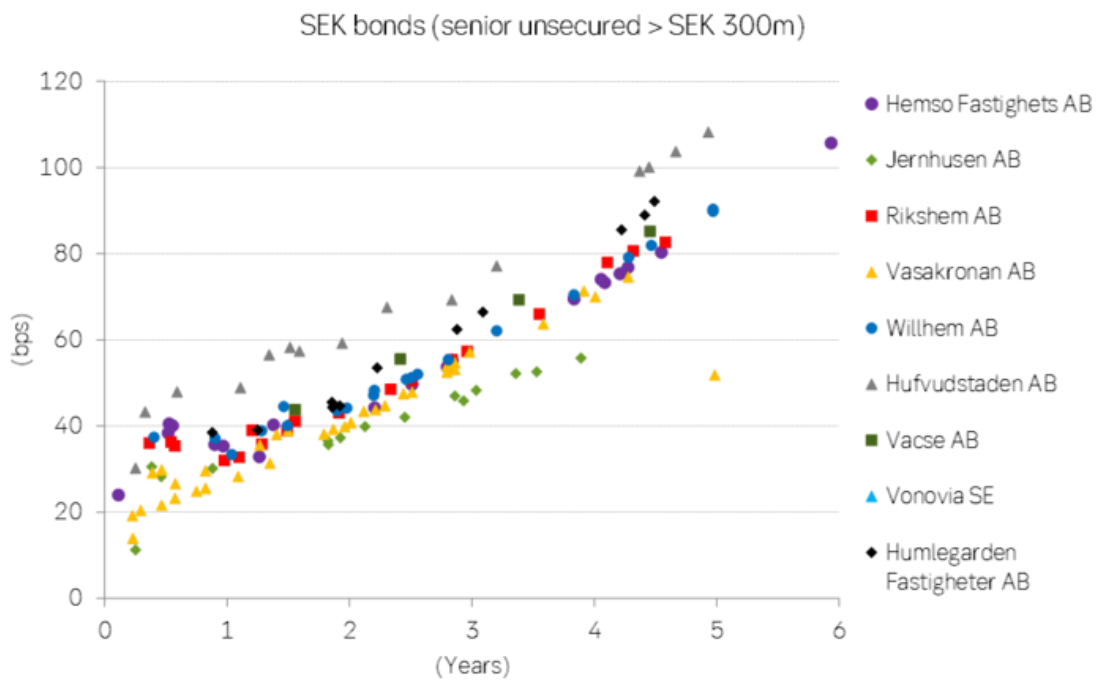
Source: Company report

### Interest maturity profile per end-Q3/24 (SEKm)



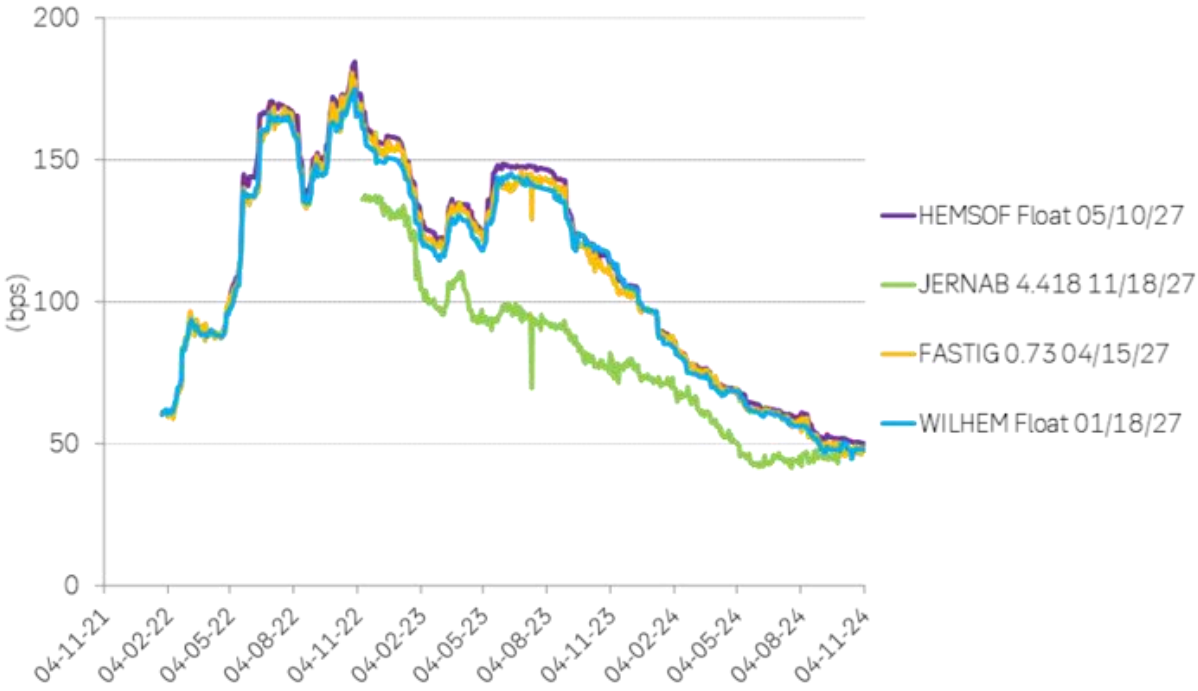
Source: Company reports

### Relative value, selective SEK bonds



Source: Bloomberg, SEB

Spread development, selective SEK bonds



Source: Bloomberg (BVAL, BGN), SEB