

Vasakronan AB

Q3 17: Growing project development portfolio

Vasakronan showed a steady operating performance in Q3, with moderate growth in rental income, boosted by the current strong market conditions for commercial properties in Sweden. While the occupancy rate fell sequentially, this was widely expected and fully explained by increased vacancies in ongoing projects. Leverage fell somewhat sequentially from Q2, with a gross LTV of 48% at end-September. We see Vasakronan's SEK bonds as fairly valued compared with 'A-' rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation. We note positively the company's ambitious green bond framework, which has received a dark green shading from Cicero.

Moderate organic growth with slight decline in leverage

Vasakronan reported rental income of SEK1,590m for Q3 17 (Q3 16 SEK1,588m). On a comparable portfolio basis, rental income rose by 5% in Q1-Q3 17, with a net operating income margin of 72%, unchanged from the previous year.

For lease contracts that were renegotiated in Q1-Q3 17, the average lease rose by some 10.7%. The average lease term amounted to 4.2 years at end-September, while the economic occupancy rate fell from Q2 and was 92.7% at end-September (end-June 94.1%) as one large tenant (SEB) moved out and a major renovation project began.

Valuation changes to the property portfolio amounted to SEK957m in Q3. The total property portfolio's market value stood at SEK123bn as of end-September. Ongoing development projects amounted to SEK7.9bn. The reported interest coverage ratio was 3.9x, with an average maturity for the debt portfolio of 3.8 years, unchanged from Q2.

Funds from operations fell to SEK899m (Q3 16 SEK907m), with free cash flow after investments of SEK259m (Q3 16 SEK439m). Net debt fell slightly to SEK56.1bn (Q2 17 SEK56.2bn). The gross LTV stood at 48% (Q2 17 49%).

Key figures

SEKm	Q3 16	Q2 17	Q3 17	y/y	q/q
Rental income	1,588	1,629	1,590	0.13%	-2.39%
EBITDA (rep.)	1,129	1,156	1,145	1.42%	-0.95%
Net income	2,042	3,936	1,512	-25.95%	-61.59%
Investment properties	111,566	121,403	122,999	10.25%	1.31%
Total debt	55,920	58,956	59,058	5.61%	0.17%
Ratios	Q3 16	Q2 17	Q3 17	y/y	q/q
Gross LTV	50.1%	48.6%	48.0%	-2.1pp	-0.5pp
LTM NOI margin	72.4%	72.8%	73.5%	1.1pp	0.7pp
LTM EBITDA interest coverage (x)	4.1	3.8	3.9	-0.2pp	0.1pp
Net debt/LTM EBITDA (x)	12.6	12.5	12.4	-0.2pp	-0.1pp
Total debt/total capital	56.1%	55.4%	54.7%	-1.4pp	-0.7pp

Source: Company data, Danske Bank DCM Research

Marketweight

Sector: Real estate

Corporate ticker: FASTIG

Equity ticker 1276Z SS

Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

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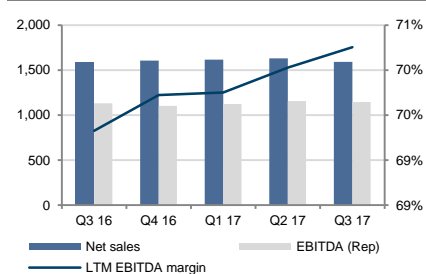
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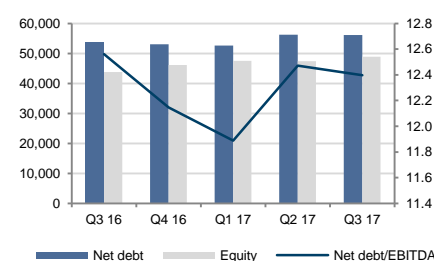
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Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

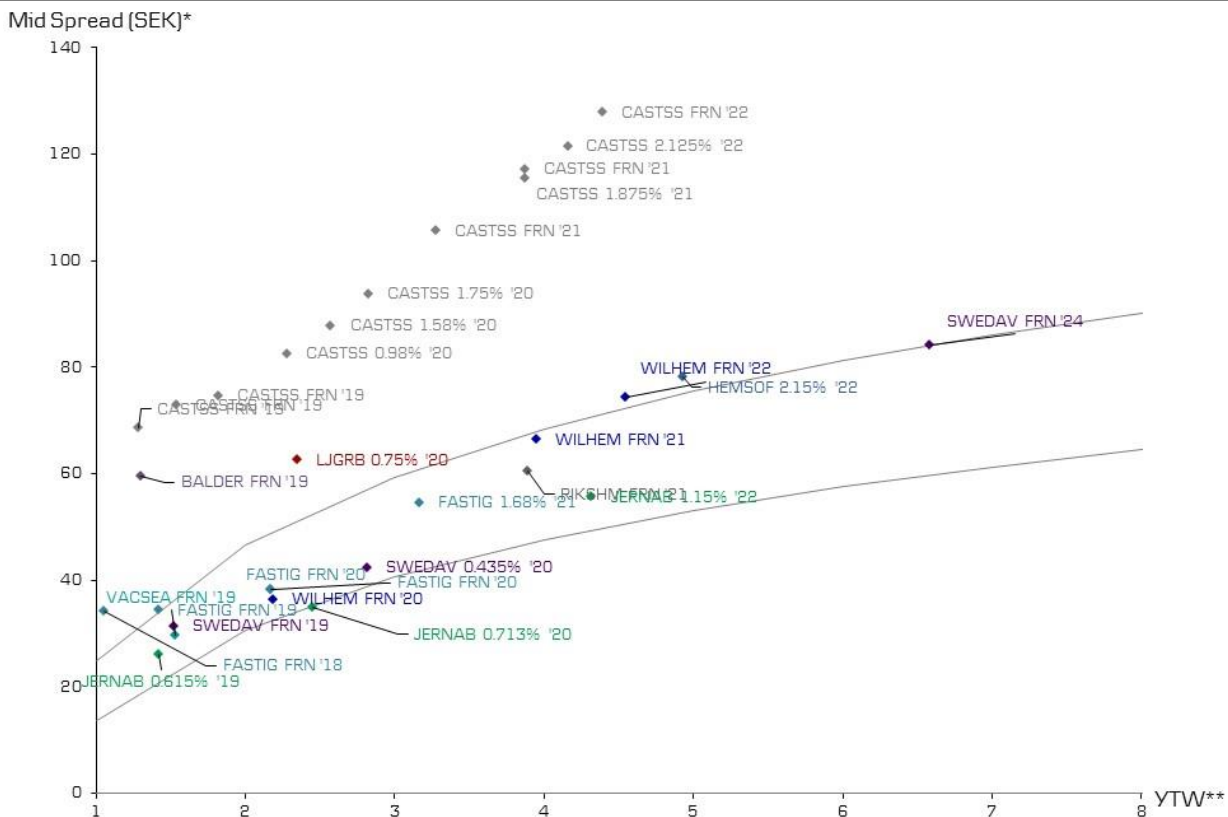
Our view

Vasakronan showed a steady operating performance in Q3, with moderate growth in rental income, boosted by the current strong market conditions for commercial properties in Sweden. While the occupancy rate fell sequentially, this was widely expected and fully explained by increased vacancies in ongoing projects.

Leverage fell somewhat sequentially from Q2, with a gross LTV of 48% at end September. In Q1-Q3 17, Vasakronan issued bonds amounting to SEK7.6bn in Sweden and NOK2.8bn in Norway. The company also increased its bank debt by SEK3.2bn. The total amount of secured debt amounted to 12% of assets as of end-September. Several new green financing deals have been signed throughout 2017 and in total the share of green financing (bonds and loans) amounted to 16% of Vasakronan's total debt funding at end-Q3.

We see Vasakronan's SEK bonds as fairly valued compared with 'A-' rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation. We note positively the company's ambitious green bond framework, which has received a dark green shading from Cicero.

Relative value SEK real estate



* Z-spreads. Discount margin for floaters. Swapped to indicated currency. ** Years-to-worst
 Note: Fair value curve(s) based on Danske Bank Markets' (mid) peer group of European issuers

Note: ASW spreads based on best observed offer price in market
 Source: Bloomberg, Danske Bank DCM Research

Company summary

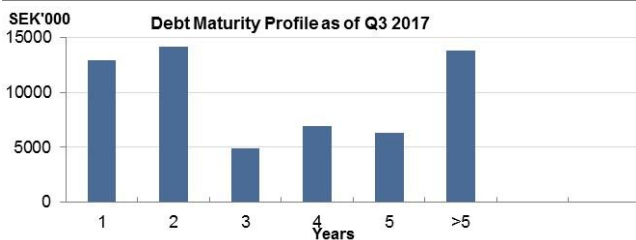
Company description

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



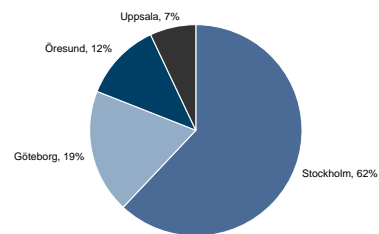
Selected outstanding bonds

Isin	Coupon	Currency	Maturity/Call	Seniority	Rating*
SE0008730774	FRN	SEK	12/12/2018	Sr Unsecured	NR/NR
SE0009241425	FRN	SEK	4/24/2019	Sr Unsecured	NR/NR
SE0006732087	FRN	SEK	1/22/2020	Sr Unsecured	NR/NR
SE0004357192	4%	SEK	12/1/2020	Sr Unsecured	NR/NR
SE0007953930	1.68%	SEK	1/20/2021	Sr Unsecured	NR/NR

* Moody's/Standard & Poor's

Source: Company data, Bloomberg, Moody's, Standard & Poor's, Danske Bank DCM Research

Sales breakdown, segments



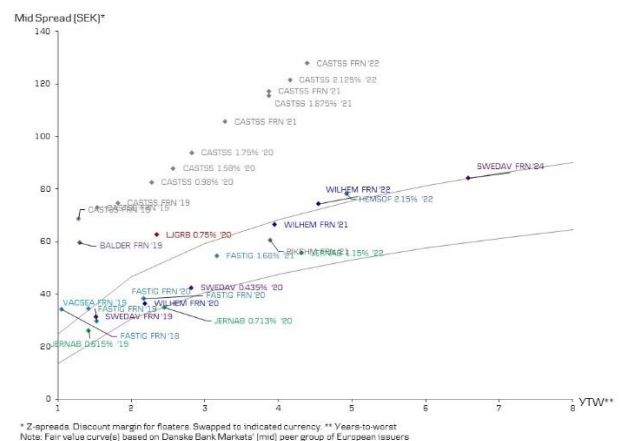
Key credit challenges

- Moderate exposure to late cyclical real estate market.
- High concentration of commercial properties.
- Somewhat short debt maturity profile, albeit recently lengthened.
- Some interest rate sensitivity, 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



* Z-spreads. Discount margin for features. Swapped to indicated currency. ** Years to worst.
Note: Fair value curve(s) based on Danske Bank Markets' [mid] peer group of European issuers

Summary tables

Income statement (SEKm)	2013	2014	2015	2016	2017E
Rental income	6,032	5,899	6,009	6,251	6,439
Other operating income	0	0	0	0	0
Total revenue	6,032	5,899	6,009	6,251	6,439
Total property related costs	1,753	1,727	1,735	1,792	1,867
Net operating income (NOI)	4,279	4,172	4,274	4,459	4,571
EBITDA	4,141	4,057	4,114	4,351	4,481
Net interest expenses	1,503	1,256	1,121	1,152	1,125
Profit from property management	2,689	2,823	3,065	3,220	3,357
Change in property values	1,952	3,519	10,212	12,056	4,637
Change in financial derivatives	1,151	-2,956	598	-764	0
Other	-51	-22	-72	-21	0
Pre-tax profit	5,741	3,364	13,803	14,491	7,993
Current tax	-2	41	-45	0	-160
Deferred tax	-921	-683	-2,814	-3,019	-3,000
Net income	4,818	2,722	10,944	11,472	4,834
Balance sheet (SEKm)	2013	2014	2015	2016	2017E
Market value properties	87,145	91,889	103,894	115,922	122,159
Other Fixed Assests	50	51	58	54	0
Intangible assets	2,280	2,259	2,188	2,171	2,171
Deffered tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	2,570	1,757	2,301	2,147	1,602
Total assets	93,242	97,184	109,786	122,056	127,895
Equity	36,357	35,094	41,245	46,117	46,951
Shareholder loans	0	0	0	0	0
Deffered taxes	7,859	8,532	11,356	14,362	14,362
Total debt	46,249	47,764	51,575	55,240	57,240
Other liabilities	2,777	5,794	5,610	6,337	6,588
Total equity and liabilities	93,242	97,184	109,786	122,056	125,141
Cash Flow Statement (SEKm)	2013	2014	2015	2016	2017E
FFO (adjusted)	2,600	2,789	2,855	3,137	3,197
Cash flow from operations (FFO)	2,802	2,902	3,210	3,439	3,055
Investment (properties)	-1,690	-4	-916	-58	-100
Disposals (properties)	2,988	1,574	1,387	2,121	500
Investments other (net)	-21	-13	-22	-5	0
Capex	-2,417	-2,813	-2,223	-2,035	-2,000
Free operating cash flow	1,683	1,659	1,458	3,467	1,455
Dividends and share repurchased	-1,177	-4,000	-4,924	-7,382	-4,000
Debt financing(net)	475	1,558	4,033	3,766	2,000
Change in cash	954	-813	545	-154	-545

Source: Company data, Danske Bank DCM Research estimates

Summary tables

Adjusted ratios (SEKm)	2013	2014	2015	2016	2017E
Sales growth	1.1%	-2.2%	1.9%	4.0%	3.0%
EBITDA margin	68.7%	68.8%	68.5%	69.6%	69.6%
NOI margin	70.9%	70.7%	71.1%	71.3%	71.0%
EBITDA interest coverage (x)	2.8	3.2	3.7	3.8	4.0
FFO/interest coverage (x)	2.7	3.2	3.5	3.7	3.8
FFO/debt (x)	5.6%	5.8%	5.5%	5.7%	5.6%
Net debt/EBITDA (x)	10.5	11.3	12.0	12.2	12.4
Gross LTV	53.1%	52.0%	49.6%	47.7%	46.9%
Net LTV	50.1%	50.1%	47.4%	45.8%	45.5%
Equity ratio	39.0%	36.1%	37.6%	37.8%	36.7%
Total debt/total capital	56.0%	57.6%	55.6%	54.5%	54.9%
Quarterly overview (SEKm)	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17
Rental income	1,588	1,605	1,617	1,629	1,590
EBITDA	1,129	1,102	1,122	1,156	1,145
Net interest expenses	313	285	283	296	295
Net income	2,042	4,483	1,386	3,936	1,512
CFO	907	1,109	704	646	899
Investment properties	111,566	115,922	117,037	121,403	122,999
Total debt	55,920	55,240	55,181	58,956	59,058
Net debt	53,823	53,093	52,601	56,232	56,095
Equity	43,749	46,117	47,503	47,438	48,950
Ratios					
LTM NOI margin	72.4%	70.7%	70.8%	72.8%	73.5%
LTM EBITDA margin	69.3%	69.7%	69.8%	70.0%	70.3%
Direct yield	4.0%	3.9%	3.9%	3.8%	3.8%
Gross LTV	50.1%	47.7%	47.1%	48.6%	48.0%
LTM EBITDA interest coverage (x)	4.1	4.1	3.8	3.8	3.9
Net debt/LTM EBITDA (x)	12.6	12.1	11.9	12.5	12.4
Total debt/total capital	56.1%	54.5%	53.7%	55.4%	54.7%
FFO/debt	1.3%	1.5%	1.5%	1.6%	1.4%

Source: Company data, Danske Bank DCM Research estimates

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