

Vasakronan AB

Q4 17: Further strengthening the green profile

Vasakronan continued to demonstrate a steady operating performance in Q4, with moderate rental income growth and slightly higher margins than in the preceding year. Leverage declined further from Q3, with a gross LTV of 46% at YE 2017. An unchanged dividend of SEK4bn was proposed. 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, with a dark green shading from Cicero. Vasakronan remains an active issuer of green bonds and loans. In total the share of green financing now makes up 20% of total debt funding.

Moderate growth and reduced leverage

Vasakronan reported rental income of SEK1,654m for Q4 17 (Q4 16 SEK1,605m). On a comparable portfolio basis, rental income rose by 5% in 2017, with a net operating income margin of 71.3% in Q4 (Q4 16: 70.7%).

For lease contracts that were renegotiated in 2017, the average lease rose by some 10.2% (Q4: +9%). The average lease term amounted to 4.2 years at YE 2017, while the economic occupancy rate rose slightly from Q3 and was 93.1% at YE 2017 (end-September 92.7%). Close to three percentage points of the vacancy is related to ongoing or planned renovation or development projects.

Valuation changes to the property portfolio amounted to SEK2.3bn in Q4. The total property portfolio's market value stood at SEK127bn as of YE 2017. Ongoing development projects amounted to SEK9.4bn. The reported interest coverage ratio was 3.9x, with an average maturity for the debt portfolio of 3.8 years, unchanged from Q3.

Funds from operations fell to SEK862m (Q4 16 SEK1.1bn), with free cash flow after investments of negative SEK704m (Q4 16 positive SEK655m). Consequently, net debt rose to SEK57bn (Q3 17 SEK56.1bn). The gross LTV stood at 46% (Q3 17 48%).

Key figures

SEKm	Q4 16	Q3 17	Q4 17	y/y	q/q
Rental income	1,605	1,590	1,654	3.05%	4.03%
EBITDA (rep.)	1,102	1,145	1,130	2.54%	-1.31%
Net income	4,483	1,512	2,436	-45.66%	61.11%
Investment properties	115,922	122,999	126,875	9.45%	3.15%
Total debt	55,240	59,058	58,421	5.76%	-1.08%
Ratios	Q4 16	Q3 17	Q4 17	y/y	q/q
Gross LTV	47.7%	48.0%	46.0%	-1.6pp	-2.0pp
LTM NOI margin	70.7%	73.5%	71.3%	0.6pp	-2.2pp
LTM EBITDA interest coverage (x)	4.1	3.9	3.9	-0.2pp	0.0pp
Net debt/LTM EBITDA (x)	12.1	12.4	12.5	0.4pp	0.1pp
Total debt/total capital	54.5%	54.7%	53.2%	-1.3pp	-1.5pp

Source: Company data, Danske Bank DCM Research estimates

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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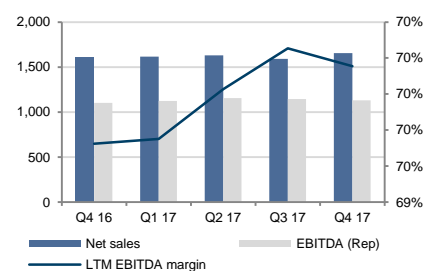
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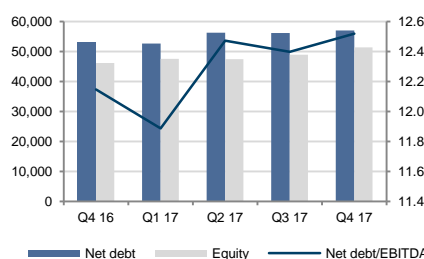
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Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

Our view

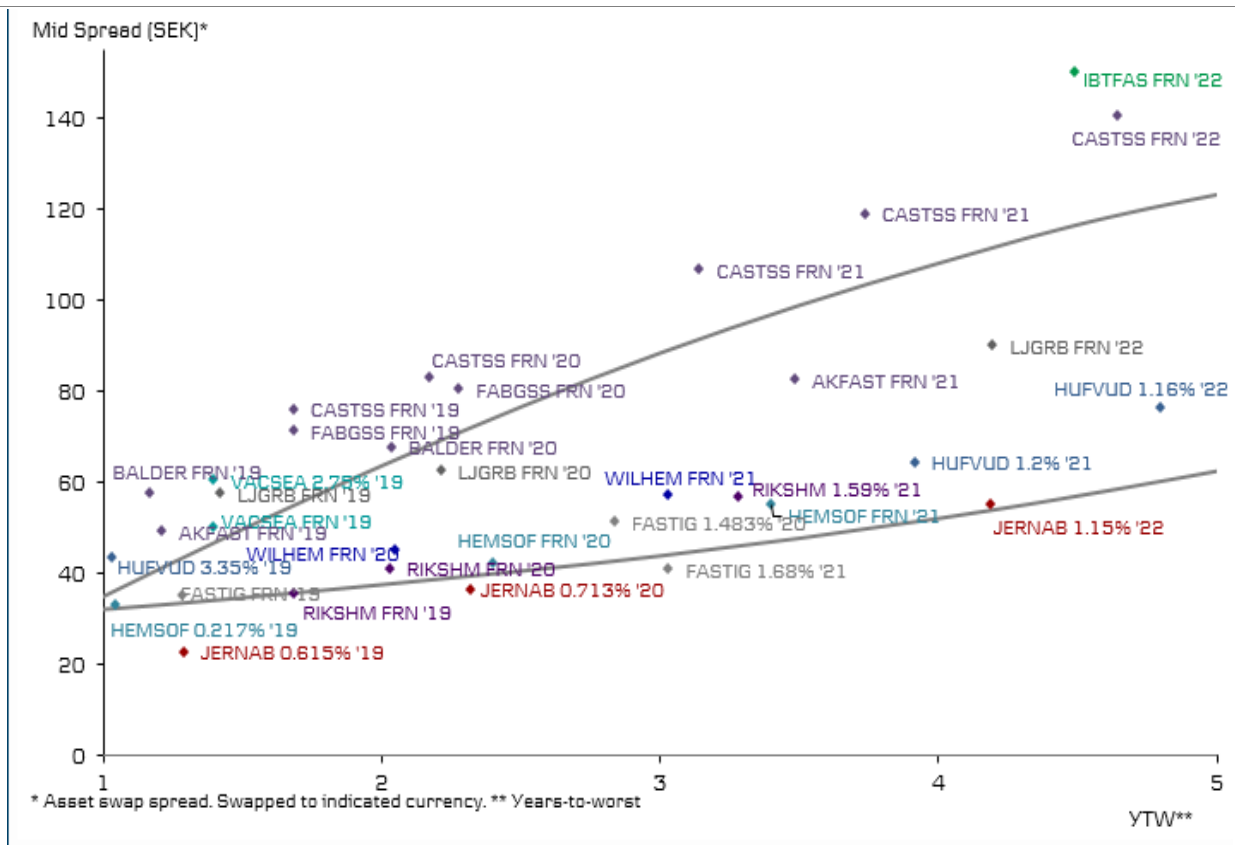
Vasakronan continued to demonstrate a steady operating performance in Q4, with moderate rental income growth and slightly higher margins than in the preceding year. The occupancy rate rose slightly sequentially from Q3. A large share of the vacancy is related to currently ongoing projects.

In Q4 Vasakronan acquired two properties for a total of SEK1bn, while also divesting properties for SEK300m. Still, leverage declined further from Q3, with a gross LTV of 46% at YE 2017. An unchanged dividend of SEK4bn was proposed.

Vasakronan remains an active issuer of green bonds, with a total of SEK8bn in green bonds outstanding as of YE 2017. In addition the company has raised a total of SEK4.3bn in unsecured green loans. The share of green financing (bonds and loans) rose further in Q4 and now amounts for some 20% of Vasakronan's total debt funding.

Considering its solid fundamentals and strong ownership profile, 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 Large real estate



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

Company summary

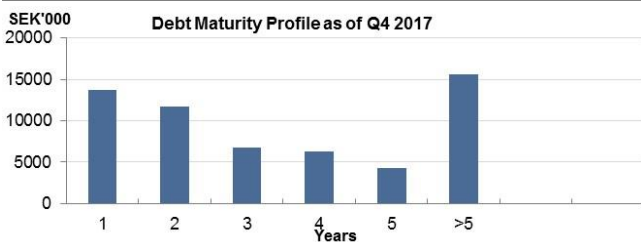
Company description

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



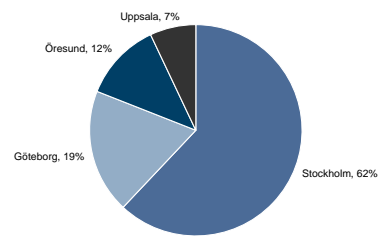
Selected outstanding bonds

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/S&P

Source: Company data, Bloomberg, Danske Bank DCM Research [all charts and tables]

Sales breakdown, segments



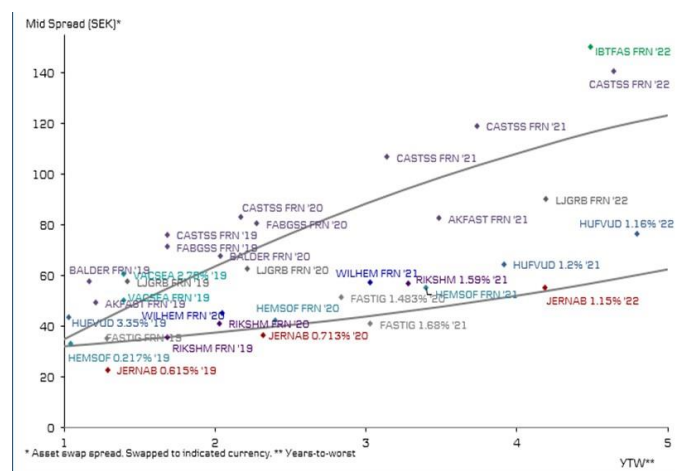
Key credit challenges

- Earnings are exposed to swings in economic cycles
- Some, albeit manageable, exposure to project development
- Some sensitivity to interest rate movements, 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



Summary tables

Income statement (SEKm)	2014	2015	2016	2017	2018E
Rental income	5,899	6,009	6,251	6,490	6,685
Other operating income	0	0	0	0	0
Total revenue	5,899	6,009	6,251	6,490	6,685
Total property related costs	1,727	1,735	1,792	1,812	1,939
Net operating income (NOI)	4,172	4,274	4,459	4,678	4,746
EBITDA	4,057	4,114	4,351	4,552	4,656
Net interest expenses	1,256	1,121	1,152	1,165	1,213
Profit from property management	2,823	3,065	3,220	3,416	3,443
Change in property values	3,519	10,212	12,056	7,973	2,538
Change in financial derivatives	-2,956	598	-764	468	0
Other	-22	-72	-21	-29	0
Pre-tax profit	3,364	13,803	14,491	11,828	5,980
Current tax	41	-45	0	-95	-120
Deferred tax	-683	-2,814	-3,019	-2,464	-3,000
Net income	2,722	10,944	11,472	9,269	2,861
Balance sheet (SEKm)	2014	2015	2016	2017	2018E
Market value properties	91,889	103,894	115,922	126,875	132,913
Other Fixed Assets	51	58	54	46	0
Intangible assets	2,259	2,188	2,171	2,145	2,145
Deferred tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	1,757	2,301	2,147	1,423	1,138
Total assets	97,184	109,786	122,056	132,283	137,717
Equity	35,094	41,245	46,117	51,377	49,238
Shareholder loans	0	0	0	0	0
Deferred taxes	8,532	11,356	14,362	16,824	16,824
Total debt	47,764	51,575	55,240	58,421	62,921
Other liabilities	5,794	5,610	6,337	5,661	5,922
Total equity and liabilities	97,184	109,786	122,056	132,283	134,905
Cash Flow Statement (SEKm)	2014	2015	2016	2017	2018E
FFO (adjusted)	2,789	2,855	3,137	3,711	3,323
Cash flow from operations (FFO)	2,902	3,210	3,439	3,439	3,715
Investment (properties)	-4	-916	-58	-1,049	-1,000
Disposals (properties)	1,574	1,387	2,121	612	0
Investments other (net)	-13	-22	-5	-5	0
Capex	-2,813	-2,223	-2,035	-2,543	-2,500
Free operating cash flow	1,659	1,458	3,467	459	215
Dividends and share repurchased	-4,000	-4,924	-7,382	-4,000	-5,000
Debt financing(net)	1,558	4,033	3,766	3,150	4,500
Change in cash	-813	545	-154	-396	-285

Source: Company data, Danske Bank DCM Research estimates

Summary tables

Adjusted ratios (SEKm)	2014	2015	2016	2017	2018E
Sales growth	-2.2%	1.9%	4.0%	3.8%	3.0%
EBITDA margin	68.8%	68.5%	69.6%	70.1%	69.7%
NOI margin	70.7%	71.1%	71.3%	72.1%	71.0%
EBITDA interest coverage (x)	3.2	3.7	3.8	3.9	3.8
FFO/interest coverage (x)	3.2	3.5	3.7	4.2	3.7
FFO/debt (x)	5.8%	5.5%	5.7%	6.4%	5.3%
Net debt/EBITDA (x)	11.3	12.0	12.2	12.5	13.3
Gross LTV	52.0%	49.6%	47.7%	46.0%	47.3%
Net LTV	50.1%	47.4%	45.8%	44.9%	46.5%
Equity ratio	36.1%	37.6%	37.8%	38.8%	35.8%
Total debt/total capital	57.6%	55.6%	54.5%	53.2%	56.1%
Quarterly overview (SEKm)	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Rental income	1,605	1,617	1,629	1,590	1,654
EBITDA	1,102	1,122	1,156	1,145	1,130
Net interest expenses	285	283	296	295	291
Net income	4,483	1,386	3,936	1,512	2,436
CFO	1,109	704	646	899	862
Investment properties	115,922	117,037	121,403	122,999	126,875
Total debt	55,240	55,181	58,956	59,058	58,421
Net debt	53,093	52,601	56,232	56,095	56,998
Equity	46,117	47,503	47,438	48,950	51,377
Ratios					
LTM NOI margin	70.7%	70.8%	72.8%	73.5%	71.3%
LTM EBITDA margin	69.7%	69.8%	70.0%	70.3%	70.2%
Direct yield	3.9%	3.9%	3.8%	3.8%	3.7%
Gross LTV	47.7%	47.1%	48.6%	48.0%	46.0%
LTM EBITDA interest coverage (x)	4.1	3.8	3.8	3.9	3.9
Net debt/LTM EBITDA (x)	12.1	11.9	12.5	12.4	12.5
Total debt/total capital	54.5%	53.7%	55.4%	54.7%	53.2%
FFO/debt	1.5%	1.5%	1.6%	1.4%	1.4%

Source: Company data, Danske Bank DCM Research estimates

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Marketweight	Performance in line with peer group	6 months	59%	34%
Underweight	Underperformance relative to peer group	6 months	8%	25%

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