

Vasakronan

Q2 16: Strong performance with good growth

Vasakronan delivered a solid set of numbers for the second quarter of 2016. Margins remained high and interest coverage improved slightly. A lower yield requirement combined with higher rental levels contributed to a valuation gain of SEK4.3bn and a property portfolio with a market value of SEK109bn at end-June 2016. The economic occupancy rate improved by 1.2% over the quarter to 93.6%. The reported loan-to-value increased by 3% from the previous quarter to 49% at end-June 2016. We maintain our view of Vasakronan as an 'A-' credit, including two notches uplift for ownership support. We see the company's bonds as fairly valued.

Moderate rental growth and improved profitability

Vasakronan reported rental income of SEK1.5bn for the second quarter of 2016, an increase by 1% on a comparable portfolio basis. The economic occupancy rate improved by 1.2% from Q1 16 and was 93.6% at end-June 2016. Valuation changes to the property portfolio of SEK4.3bn and acquisitions and net investments of SEK500m resulted in a property portfolio with a market value of SEK109bn. The interest coverage ratio was 3.8x, the average maturity for the loan portfolio was 3.3 years and the average interest maturity was 4.2 years.

Slight increase in leverage

Funds from operations increased to SEK877m (Q1 16 SEK695m) and cash flow from operations increased to SEK951m (Q1 16 SEK472m). Net debt increased by SEK4bn over the quarter and amounted to SEK53bn, due mainly to the large extra dividend of SEK6bn in the quarter. Total debt increased to SEK57bn (Q1 16 SEK55bn) and cash and cash equivalents decreased and amounted to SEK3.8bn (Q1 16 SEK5.8bn) at end-June 2016. The reported loan-to-value increased by 3% from the previous quarter to 49% at end-June 2016.

Overview (SEKm)					
SEKm	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Rental income	1,504	1,489	1,517	1,542	1,534
EBITDA	1,032	1,048	1,016	1,068	1,072
Net interest expenses	-280	-269	-271	-173	-281
Net income	3,711	1,222	4,085	1,503	3,564
CFO	880	677	724	472	951
Investment properties	98,048	99,115	103,894	106,064	109,132
Total debt	54,026	52,249	50,750	55,022	57,034
Net debt	49,285	48,426	48,449	49,274	53,243
Equity	36,734	37,958	41,245	42,630	41,708
Ratios	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
LTM NOI margin	70%	71%	71%	71%	72%
LTM EBITDA margin	68%	68%	68%	69%	69%
Gross LTV	55%	53%	49%	52%	52%
LTM EBITDA interest coverage (x)	3.4	3.6	3.7	4.2	4.2
Debt/LTM EBITDA (x)	13.2	12.8	12.3	13.2	13.6
Total debt/total capital	60%	58%	55%	56%	58%

Source: Company data, Danske Bank Markets

FACTS

Sector: Real estate

Market cap: Not listed

Equity value: SEK41.7bn

Equity ticker: 1276Z SS

Ratings:

No official rating

Danske Bank Markets:

Issuer rating A- /S

Senior unsecured: A- /S

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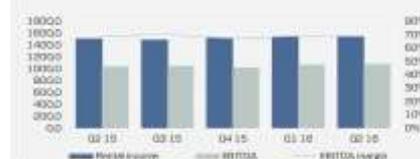
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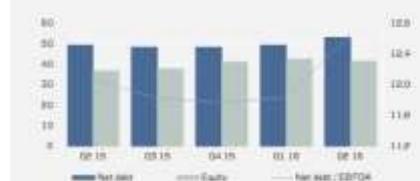
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Profitability



Source: Company data, Danske Bank Markets

Net debt and equity



Source: Company data, Danske Bank Markets

Our view

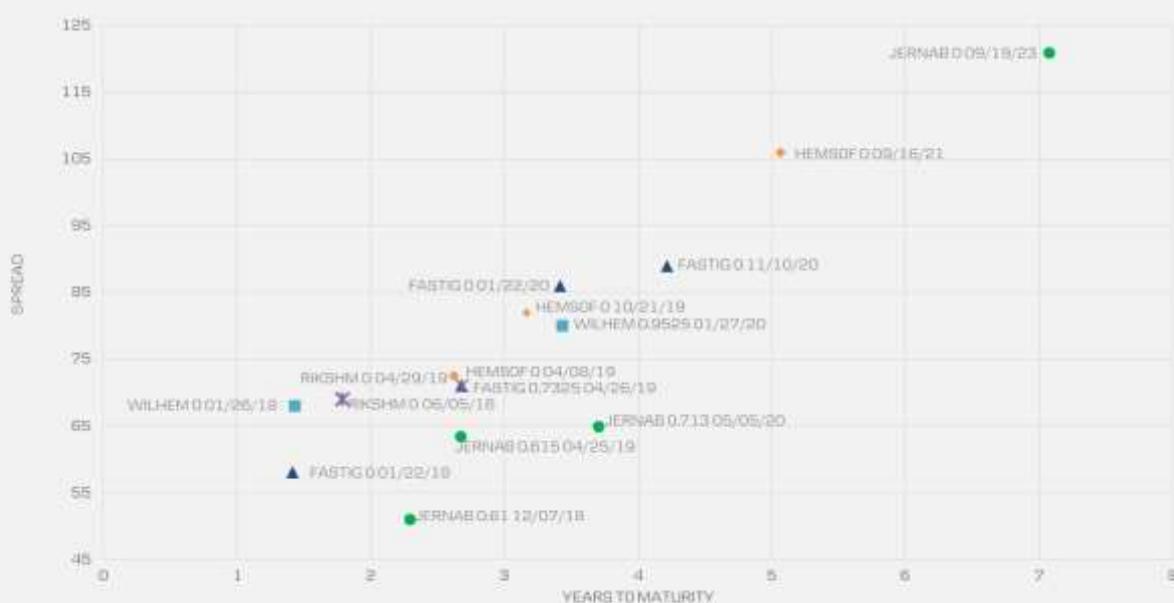
Vasakronan delivered a solid set of numbers for the second quarter of 2016. Margins remained high and interest coverage improved slightly. Valuation gains continue to be strong following a further decrease in the yield requirement (average 4.77%) and investments resulting in a property portfolio of SEK109bn at end-June 2016. At end-June 2016, Vasakronan's debt structure consisted of 69% bonds and certificates and 31% bank debt. In H1 16, Vasakronan issued bonds amounting to SEK3.8bn and NOK1.5bn. Vasakronan also increased its bank debt by SEK3.2bn. The total amount of secured debt amounted to 15% (financial policy: maximum 20% of total assets). While the large extra dividend of SEK6bn in itself is credit negative, we believe that Vasakronan currently has financial headroom for this payout within our credit view.

Liquidity is strong and cash and committed facilities (including the certificate guarantees by the owners) were 117% of debt maturities within the next 12 months (financial policy: at least 100%). Fixed interest maturity within the next 12 months was 46% (financial policy: maximum 70%). We maintain our view of Vasakronan as an 'A-' credit, including two notches uplift for ownership support. We see the company's bonds as fairly valued.

Forecast					
SEKm	2013	2014	2015	2016E	2017E
Rental income	6,032	5,899	6,009	6,610	6,663
EBITDA	4,141	4,057	4,114	4,603	4,641
Net interest expenses	-1,503	-1,256	-1,121	-1,073	-1,135
CFO	2,802	2,902	3,210	3,175	3,150
Market value properties	87,145	91,889	103,894	114,102	125,612
Total debt	46,249	47,764	51,575	59,575	66,575
Equity	36,357	35,094	41,245	46,610	53,227
EBITDA margin	69%	69%	68%	70%	70%
LTV gross	53%	52%	50%	52%	53%
EBITDA interest coverage (x)	2.7	3.2	3.7	4.3	4.1
Debt/EBITDA (x)	11.2	11.8	12.5	12.9	14.3
Total debt/total debt	56%	58%	56%	56%	56%

Source: Company data, Danske Bank Markets estimates

Peer pricing



Source: Bloomberg, Danske Bank Markets

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of the research report are Louis Landeman, Analyst, and Pegah Ahmarinejad, Analyst.

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See the front page of this research report for the date of first publication.

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Overweight	Outperformance relative to peer group	3 months	27%	33%
Marketweight	Performance in line with peer group	3 months	56%	19%
Underweight	Underperformance relative to peer group	3 months	16%	33%

Changes in recommendation within past 12 months:

Date	New recommendation	Old recommendation
None		

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