

# Vasakronan AB

## Q3 16: Further improvement in occupancy rate

Vasakronan posted a stable performance in Q3, with moderate growth in rental income and limited property transactions. Margins remained high and leverage declined slightly with a net LTV of 48% at end September. The economic occupancy rate improved somewhat further in the quarter to 93.7%. We see Vasakronan's SEK bonds as fairly valued compared with A- rated peers such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation.

### Moderate growth in rental income with rising occupancy rate

Vasakronan reported rental income of SEK1.6bn for the third quarter of 2016 (Q3 15: SEK1.5bn). On a comparable portfolio basis, rental income rose by 3% during the first nine months of 2016, with a net operating income margin of 72% (2015: 71%). The economic occupancy rate improved slightly further and was 93.7% at end-September (end-June: 93.6%). Valuation changes to the property portfolio amounted to SEK2bn in Q3. The total property portfolio's market value stood at SEK112bn as of end-September. The reported interest coverage ratio was 3.8x, with an average maturity for the debt portfolio of 3.2 years.

### Slight decline in leverage

Funds from operations were stable at SEK753m (Q3 15: SEK758m) and cash flow from operations increased to SEK907m (Q3 15 SEK677m). Net debt rose slightly to SEK53.8bn (Q2 16: SEK53.2bn). Cash and cash equivalents decreased and amounted to SEK2.1bn at end-September (Q2 16 SEK3.8bn). Still, thanks to the higher property values, the net loan-to-value fell slightly to 48% (end-June 2016: 49%).

At end-September, Vasakronan's debt structure consisted of 70% bonds and certificates and 30% bank debt (of which green bonds SEK4.7bn). In Q1-3 2016, Vasakronan issued bonds amounting to SEK5.5bn in Sweden and NOK2.2bn in Norway. Vasakronan also increased its bank debt by SEK4.3bn. The total amount of secured debt amounted to 13% (financial policy: maximum 20% of total assets).

### Key figures

SEKm	Q3 15	Q2 16	Q3 16	y/y	q/q
Rental income	1,489	1,534	1,588	6.65%	3.52%
EBITDA (rep.)	1,048	1,072	1,129	7.73%	5.32%
Net income	1,222	3,564	2,042	67.10%	-42.70%
Investment properties	99,115	109,132	111,566	12.56%	2.23%
Total debt	52,249	57,034	55,920	7.03%	-1.95%
Ratios	Q3 15	Q2 16	Q3 16	y/y	q/q
Gross LTV	52.7%	52.3%	50.1%	-2.6pp	-2.1pp
LTM NOI margin	74.3%	72.0%	72.4%	-1.9pp	0.3pp
LTM EBITDA interest coverage	3.6x	4.2x	4.1x	0.5pp	-0.1pp
Net debt / LTM EBITDA	11.8x	12.7x	12.6x	0.7pp	-0.1pp
Total debt/Total capital	57.9%	57.8%	56.1%	-1.8pp	-1.7pp

Source: Company data, Danske Bank Markets Credit estimates

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Important disclosures and certifications are contained from page 7 of this report

## 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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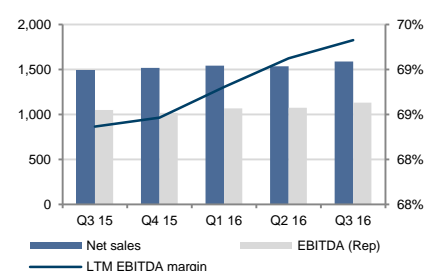
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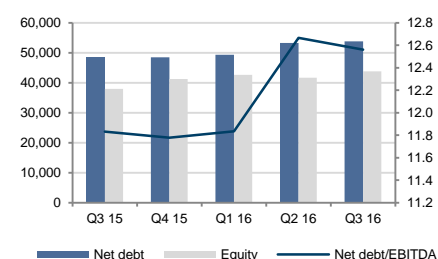
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### Profitability



Source: Company data, Danske Bank Markets

### Financial metrics



Source: Company data, Danske Bank Markets

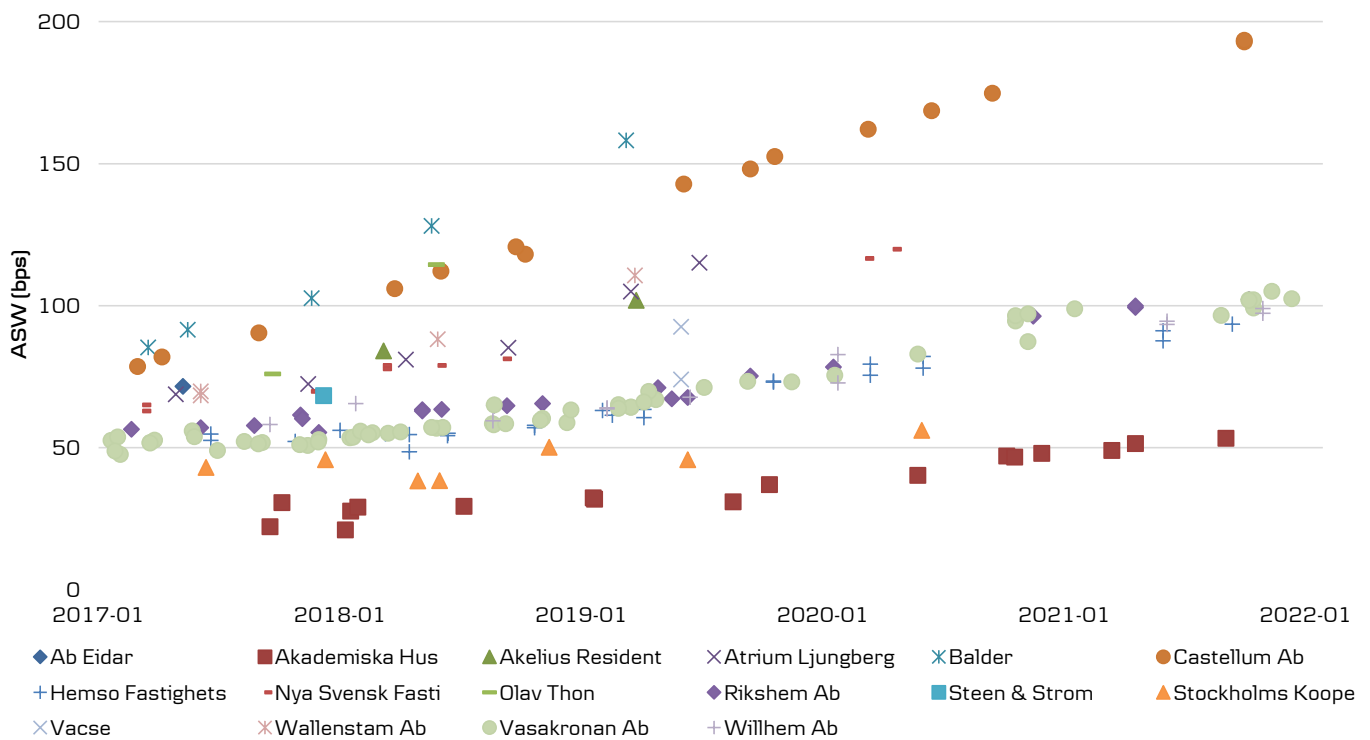
## Our view

Vasakronan posted a stable performance in Q3, with moderate growth in rental income and limited property transactions. Margins remained high and leverage declined slightly. Given Vasakronan’s high quality property portfolio, moderate secured leverage and strong ownership, our assessment of expected recovery for bondholders in a potential default scenario is 30-70%.

Given that the AP funds are long-term investors, we consider it likely that they would stand behind Vasakronan in difficult times and, for instance, participate in a capital increase if the need arose. The ownership commitment is strengthened further by the ‘change of control’ clauses of its bank loans and the MTN programme, which gives the investor the right (but not the obligation) to sell the bonds back to Vasakronan if at least 51% of the shares are not owned directly or indirectly by the AP1-AP4 funds.

We see Vasakronan’s SEK bonds as fairly valued compared with A- rated peers such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation.

### Relative value SEK Real Estate



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

## Company summary

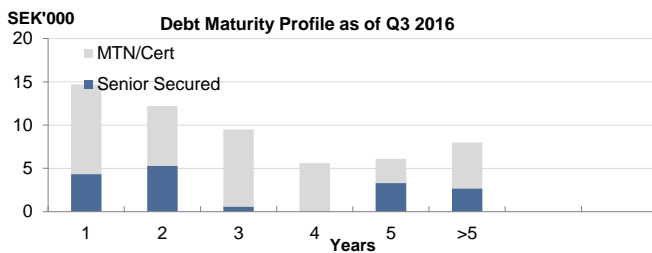
### Company description

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

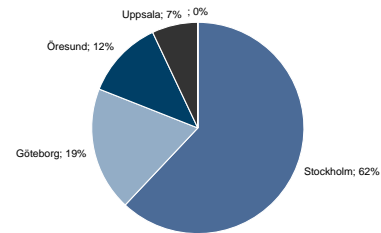


### Selected outstanding bonds

Isin	Cupon	Currency	Maturity/Call	Seniority	Rating*
SE0008730774	FRN	SEK	2018-12-12	Sr Unsecured	NR/NR
SE0009241425	FRN	SEK	2019-04-24	Sr Unsecured	NR/NR
SE0006732087	FRN	SEK	2020-01-22	Sr Unsecured	NR/NR

\*Moody's/S&P

### Sales breakdown, segments



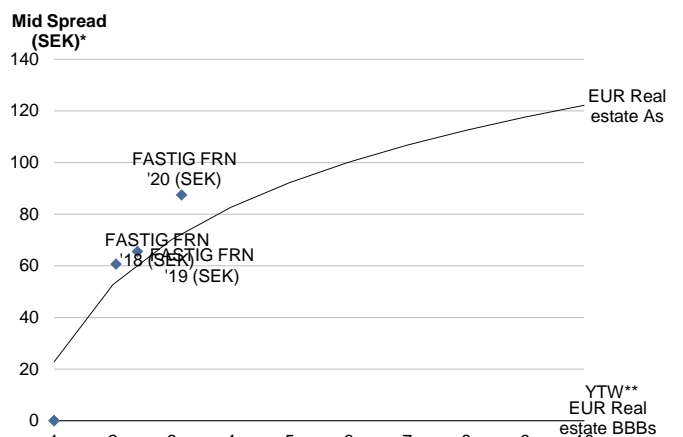
### Key credit challenges

- Moderate exposure to late cyclical real estate market
- High concentration of commercial properties
- Somewhat short debt maturity profile
- 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 floaters. Swapped to indicated currency. \*\* Years-to-worst  
Note: Fair value curve(s) based on Danske Bank Markets' peer groups of European issuers

Source: Company data, Bloomberg, Danske Bank Markets Credit estimates [all charts and tables]

**Summary tables**

<b>Income statement (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
Rental income	6,032	5,899	6,009	6,189	6,313
Other operating income	0	0	0	0	0
Total revenue	6,032	5,899	6,009	6,189	6,313
Total property related costs	1,753	1,727	1,735	1,857	1,894
Net operating income (NOI)	4,279	4,172	4,274	4,332	4,419
EBITDA	4,141	4,057	4,114	4,242	4,329
Net interest expenses	1,503	1,256	1,121	1,043	1,036
Profit from property management	2,689	2,823	3,065	3,199	3,293
Change in property values	1,952	3,519	10,212	10,108	2,242
Change in financial derivatives	1,151	-2,956	598	0	0
Other	-51	-22	-72	0	0
Pre-tax profit	5,741	3,364	13,803	13,307	5,535
Current tax	-2	41	-45	-266	-111
Deferred tax	-921	-683	-2,814	-2,000	-2,000
Net income	4,818	2,722	10,944	11,041	3,424
<b>Balance sheet (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
Market value properties	87,145	91,889	103,894	112,102	112,444
Other Fixed Assets	50	51	58	0	0
Intangible assets	2,280	2,259	2,188	2,188	2,188
Deferred tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	2,570	1,757	2,301	2,695	1,533
Total assets	93,242	97,184	109,786	118,330	117,865
Equity	36,357	35,094	41,245	44,936	42,360
Shareholder loans	0	0	0	0	0
Deferred taxes	7,859	8,532	11,356	11,356	11,356
Total debt	46,249	47,764	51,575	56,575	58,575
Other liabilities	2,777	5,794	5,610	5,908	6,159
Total equity and liabilities	93,242	97,184	109,786	118,775	118,450
<b>Cash Flow Statement (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
FFO (adjusted)	2,600	2,789	2,855	2,933	3,182
Cash flow from operations (FFO)	2,802	2,902	3,210	2,844	2,938
Investment (properties)	-1,690	-4	-916	-100	-100
Disposals (properties)	2,988	1,574	1,387	2,000	2,000
Investments other (net)	-21	-13	-22	0	0
Capex	-2,417	-2,813	-2,223	-2,000	-2,000
Free operating cash flow	1,683	1,659	1,458	2,744	2,838
Dividends and share repurchased	-1,177	-4,000	-4,924	-7,350	-6,000
Debt financing(net)	475	1,558	4,033	5,000	2,000
Change in cash	954	-813	545	394	-1,162

Source: Company data, Danske Bank Markets Credit estimates

**Summary tables**

<b>Adjusted ratios (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
Sales growth	1.1%	-2.2%	1.9%	3.0%	2.0%
EBITDA margin	68.7%	68.8%	68.5%	68.5%	68.6%
NOI margin	70.9%	70.7%	71.1%	70.0%	70.0%
EBITDA Interest coverage	2.8x	3.2x	3.7x	4.1x	4.2x
FFO/Interest coverage	1.7x	2.2x	2.5x	2.8x	3.1x
FFO/Debt	5.6%	5.8%	5.5%	5.2%	5.4%
Net debt/EBITDA	10.5x	11.3x	12.0x	12.7x	13.2x
Gross LTV	53.1%	52.0%	49.6%	50.5%	52.1%
Net LTV	50.1%	50.1%	47.4%	48.1%	50.7%
Equity ratio	39.0%	36.1%	37.6%	38.0%	35.9%
Total debt / Total capital	56.0%	57.6%	55.6%	55.7%	58.0%
<b>Quarterly overview (SEKm)</b>	<b>Q3 15</b>	<b>Q4 15</b>	<b>Q1 16</b>	<b>Q2 16</b>	<b>Q3 16</b>
Rental income	1,489	1,517	1,542	1,534	1,588
EBITDA	1,048	1,016	1,068	1,072	1,129
Net interest expenses	269	271	173	281	313
Net income	1,222	4,085	1,503	3,564	2,042
CFO	677	724	472	951	907
Investment properties	99,115	103,894	106,064	109,132	111,566
Total debt	52,249	50,750	55,022	57,034	55,920
Net debt	48,426	48,449	49,274	53,243	53,823
Equity	37,958	41,245	42,630	41,708	43,749
<b>Ratios:</b>					
LTM NOI margin	74.3%	70.7%	70.6%	72.0%	72.4%
LTM EBITDA margin	68.4%	68.5%	68.8%	69.1%	69.3%
Direct yield	4.3%	4.1%	4.1%	4.0%	4.0%
Gross LTV	52.7%	48.8%	51.9%	52.3%	50.1%
LTM EBITDA interest coverage	3.6x	3.7x	4.2x	4.2x	4.1x
Net debt/ LTM EBITDA	11.8x	11.8x	11.8x	12.7x	12.6x
Total debt/Total capital	57.9%	55.2%	56.3%	57.8%	56.1%
FFO / Debt	1.5%	1.4%	1.3%	1.5%	1.3%

Source: Company data, Danske Bank Markets Credit estimates

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Marketweight	Performance in line with peer group	6 months	54%	31%
Underweight	Underperformance relative to peer group	6 months	13%	23%

### Changes to recommendation in the past 12 months:

Date	Old rec.	New rec.
12 Sep 2016	Not Rated	Marketweight
11 Sep 2016		Not Rated

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Report completed: 24 November 2016 at 14.43 GMT

Report disseminated: 24 November 2016 at 17:45 GMT