

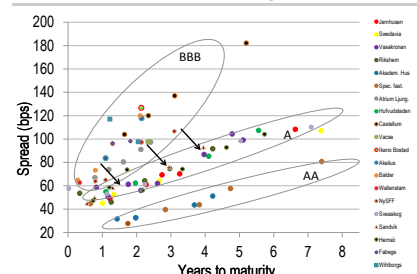
Please note: the statement at the rear of this report contains details of investment banking services recently provided by SEB which could be considered relevant to the subject matter of this report.

## Vasakronan

### Public ratings

Moody's:	N.R.
S&P:	N.R.
Fitch:	N.R.
Market cap (SEKm)	Not listed

### Relative value, SEK property bonds



Source: SEB and Bloomberg

## Powering on

- Stronger than ever, reliance on short term funding main concern**  
 Vasakronan's property portfolio is now valued at an impressive SEK 116bn. As we commented in the last couple of quarters, Vasakronan ranks highly among the top property companies in Europe. In the European rated space only a few players such as the French companies Unibail-Rodamco (S&P: A, shopping centres), Klépierre (S&P: A-, shopping centres) and Foncière des Régions (S&P: BBB, offices) are today larger in terms of property value. Being owned by the Swedish national pension's funds (AP-fonderna) with a loan-to-value of less than 50% makes Vasakronan a very strong issuer. Sweden has a massive housing shortage in the coming 10 years, and Stockholm is one of the fastest-growing capitals internationally, with one of the lowest office building rates (see chart on the next page). Our main concern when it comes to Vasakronan (and the Swedish property sector as a whole) is the reliance on short term funding. Average debt maturity of 3.4 years and one third of the total debt portfolio is maturing within a year, is relatively aggressive compared to European peers. Although Vasakronan has a very high standing in the Swedish debt market, basically all Swedish peers are even more aggressive when it comes to short-term funding, which could cause funding problems if the credit market got into trouble. However, Vasakronan has reduced its commercial paper lending, and broadened and lengthened the debt maturities (for example, issuing a 10-year NOK bond in 2016), which we see as positive.
- Bonds trading in line with peers, but attractive compared to other sectors**  
 Vasakronan's bonds, unsurprisingly, are trading in line with government and semi-government owned real estate peers such as Jernhusen, Swedavia, Rikshem and Hemsö. However, we continue to be a bit puzzled by the pricing of Vasakronan's bond curve which is fairly similar to many BBB-rated (and unrated) cyclical issuers such as Sandvik, Hexagon, Electrolux, Skanska and ICA. We thus continue to like Vasakronan's SEK curve.
- Solid FY results, view on the rental market remains very positive**  
 2016 rental income of SEK 6.3bn and EBITDA of SEK 4.4bn were both in line with our estimates. LTV of 46% was stable. The interest coverage ratio of 3.8x remains comfortably above Vasakronan's target of 1.9x and fully commensurate with the A-rating.

### Analyst

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### Key credit metrics & ratios

	2013	2014	2015	2016	2017E	2018E	2019E
Revenues (SEKm)	6,032	5,899	6,009	6,251	6,439	6,567	6,699
EBITDA (SEKm)	4,192	4,079	4,186	4,372	4,479	4,557	4,684
EBITDA margin	69.5%	69.1%	69.7%	69.9%	69.6%	69.4%	69.9%
FOCF (SEKm)	-1,305	89.0	70.4	1,346	972.6	984.8	1,052
Adjusted EBITDA net int. cover. (x)	2.8	3.2	3.7	3.8	4.0	3.9	3.8
Adjusted net debt to EBITDA (x)	10.2	11.1	11.6	12.2	12.5	13.0	13.3
Adjusted FFO / Net debt	6%	6%	6%	6%	6%	6%	6%

Source: SEB

The estimates in this research report have been produced in collaboration with SEB equity research analysts

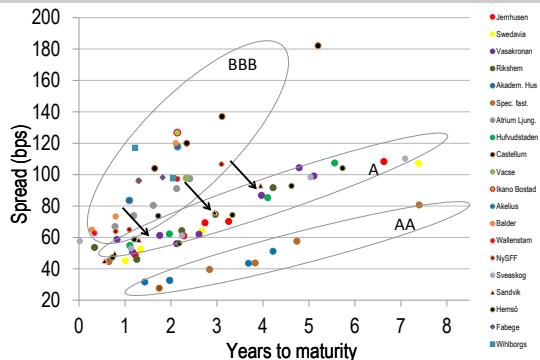
### Credit strengths

- Strong and stable ownership by the Swedish National Pension Funds and thus indirectly the Swedish government.
- Change-of-control clause in capital market funding and bank debt.
- Diversified property portfolio in growth regions and high occupancy rates.
- A large share of government-related tenants.
- Diversified funding base.

### Credit concerns

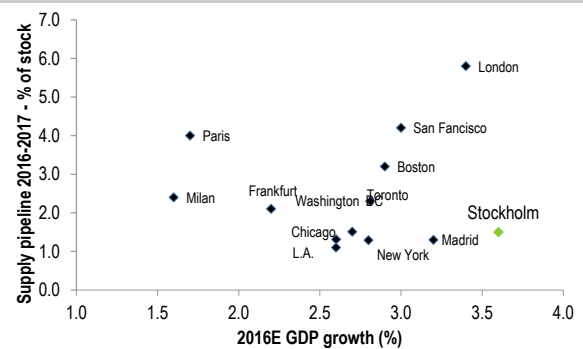
- Demand and valuations are cyclical, although the effect is mitigated by the attractive locations of Vasakronan's properties, which makes them easy to rent out.
- Vasakronan is dependent on short-term funding, although to date it has always been able to access the capital markets.

### Relative value, SEK property bonds



Source: SEB and Bloomberg

### Growth vs office supply pipeline



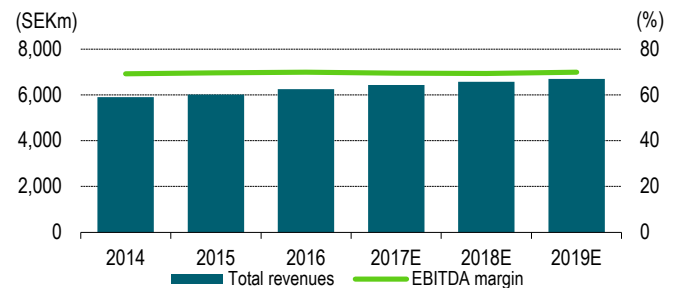
Source: SEB, Oxford Economics and JLL

### Financial statement summary - Adjusted numbers (SEKm)

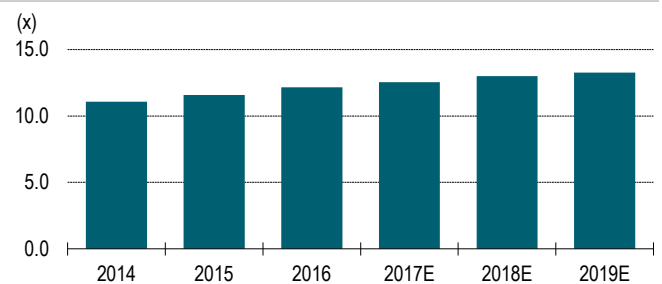
	2015	2016	2017E	2018E
<b>Income statement</b>				
Revenues	6,009	6,251	6,439	6,567
EBITDA	4,186	4,372	4,479	4,557
Net income (reported)	10,944	11,472	5,027	5,042
<b>Cash flow statement</b>				
Funds from operations (FFO)	2,855	3,137	3,363	3,382
Operating Cash Flow	3,210	3,439	3,373	3,385
Free Operating cash flow	70.4	1,346	972.6	984.8
Pre-financing cash flow	-3,489	-3,920	-3,018	-3,006
<b>Balance sheet</b>				
Cash (and equivalents)	2,301	2,147	2,147	2,147
Total debt	50,780	55,320	58,338	61,344
Net debt	48,479	53,173	56,191	59,197
Equity	41,245	46,117	47,154	48,205
Total assets (reported)	109,786	122,056	127,509	132,910
<b>Key credit metrics &amp; ratios</b>				
Net debt to EBITDA (x)	11.6	12.2	12.5	13.0
Net debt to capital	54%	54%	54%	55%
FFO / Net debt	6%	6%	6%	6%
Equity ratio	38%	38%	37%	36%

Source: SEB and Vasakronan financial reports

### Revenues and EBITDA margin



### Adjusted net debt / EBITDA



Source: SEB and Vasakronan financial reports

## Profit &amp; loss statement

(SEKm)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total revenues	2,805	3,937	5,367	5,508	6,048	5,969	6,032	5,899	6,009	6,251	6,439	6,567	6,699
Total expenses	-1,145	-1,493	-1,973	-1,901	-1,928	-1,778	-1,840	-1,820	-1,823	-1,879	-1,960	-2,010	-2,015
<b>EBITDA</b>	<b>1,660</b>	<b>2,444</b>	<b>3,394</b>	<b>3,607</b>	<b>4,120</b>	<b>4,191</b>	<b>4,192</b>	<b>4,079</b>	<b>4,186</b>	<b>4,372</b>	<b>4,479</b>	<b>4,557</b>	<b>4,684</b>
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0	-21	-71	-18	0	0	0
<b>EBIT</b>	<b>1,660</b>	<b>2,444</b>	<b>3,394</b>	<b>3,607</b>	<b>4,120</b>	<b>4,191</b>	<b>4,192</b>	<b>4,058</b>	<b>4,115</b>	<b>4,354</b>	<b>4,479</b>	<b>4,557</b>	<b>4,684</b>
Associated companies	0	25	12	2	-3	-1	0	-1	-1	-3	0	0	0
Net interest expenses	-556	-1,103	-1,320	-1,274	-1,649	-1,577	-1,503	-1,256	-1,121	-1,152	-1,115	-1,175	-1,235
Value changes	3,565	-2,902	-4,534	4,120	2,815	639	3,052	563	10,810	11,292	3,000	3,000	3,000
Other financial items	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Reported pre-tax profit</b>	<b>4,669</b>	<b>-1,536</b>	<b>-2,448</b>	<b>6,455</b>	<b>5,283</b>	<b>3,252</b>	<b>5,741</b>	<b>3,364</b>	<b>13,803</b>	<b>14,491</b>	<b>6,363</b>	<b>6,382</b>	<b>6,449</b>
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes	-1,374	1,133	672	-1,647	-1,345	671	-923	-642	-2,859	-3,019	-1,336	-1,340	-1,354
<b>Net profit</b>	<b>3,295</b>	<b>-433</b>	<b>-1,354</b>	<b>5,310</b>	<b>3,938</b>	<b>3,923</b>	<b>4,818</b>	<b>2,722</b>	<b>10,944</b>	<b>11,472</b>	<b>5,027</b>	<b>5,042</b>	<b>5,095</b>
EBITDA margin	59.2	62.1	63.2	65.5	68.1	70.2	69.5	69.1	69.7	69.9	69.6	69.4	69.9
EBIT margin (%)	59.2	62.1	63.2	65.5	68.1	70.2	69.5	68.8	68.5	69.7	69.6	69.4	69.9
Tax rate (%)	29.4	73.8	27.5	25.5	25.5	(20.6)	16.1	19.1	20.7	20.8	21.0	21.0	21.0
<b>Growth rates y-o-y (%)</b>													
Total revenues	(16.1)	40.4	36.3	2.6	9.8	(1.3)	1.1	(2.2)	1.9	4.0	3.0	2.0	2.0
EBITDA	n.a.	47.2	38.9	6.3	14.2	1.7	0.0	(2.7)	2.6	4.4	2.4	1.8	2.8
EBIT	(22.7)	47.2	38.9	6.3	14.2	1.7	0.0	(3.2)	1.4	5.8	2.9	1.8	2.8
Pre-tax profit	(12.3)	0.0	0.0	0.0	(18.2)	(38.4)	76.5	(41.4)	310.3	5.0	(56.1)	0.3	1.0

## Cash flow

(SEKm)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
FFO	1,140	1,373	2,101	2,339	2,386	2,432	2,600	2,789	2,855	3,137	3,363	3,382	3,449
Changes in working capital	-63	269	-99	203	288	-91	202	113	355	302	9	3	3
<b>Operating cash flow</b>	<b>1,077</b>	<b>1,642</b>	<b>2,002</b>	<b>2,542</b>	<b>2,674</b>	<b>2,341</b>	<b>2,802</b>	<b>2,902</b>	<b>3,210</b>	<b>3,439</b>	<b>3,373</b>	<b>3,385</b>	<b>3,452</b>
Net capital expenditures	-827	-5,994	-3,711	-7,673	-2,052	-5,190	-4,107	-2,813	-3,140	-2,093	-2,400	-2,400	-2,400
<b>Free operating cash flow</b>	<b>250</b>	<b>-4,352</b>	<b>-1,709</b>	<b>-5,131</b>	<b>622</b>	<b>-2,849</b>	<b>-1,305</b>	<b>89</b>	<b>70</b>	<b>1,346</b>	<b>973</b>	<b>985</b>	<b>1,052</b>
Dividend paid	-2,000	-5,000	-1,073	-4,156	-1,465	-1,273	-1,177	-4,000	-4,924	-7,382	-3,991	-3,991	-3,991
Acquisitions, divestments net	46	-15,479	2,291	5,391	1,074	4,727	2,961	1,540	1,365	2,116	0	0	0
<b>Pre-financing cash flow</b>	<b>-1,704</b>	<b>-24,831</b>	<b>-491</b>	<b>-3,896</b>	<b>231</b>	<b>605</b>	<b>479</b>	<b>-2,371</b>	<b>-3,489</b>	<b>-3,920</b>	<b>-3,018</b>	<b>-3,006</b>	<b>-2,939</b>
Net loan proceeds	841	13,034	-1,457	6,051	-196	-1,469	475	1,558	4,033	4,285	3,018	3,006	2,939
Share issue	0	14,000	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	-519	0	0	0
<b>Net change in cash</b>	<b>-863</b>	<b>2,203</b>	<b>-1,948</b>	<b>2,155</b>	<b>35</b>	<b>-864</b>	<b>954</b>	<b>-813</b>	<b>544</b>	<b>-154</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capex/sales (%)	29.5	152.2	69.1	139.3	33.9	86.9	68.1	47.7	52.3	33.5	37.3	36.5	35.8

## Balance sheet

(SEKm)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash and liquid assets	35	2,238	290	2,445	2,480	1,616	2,570	1,757	2,301	2,147	2,147	2,147	2,147
Other current assets	156	776	1,119	943	846	751	700	699	795	909	962	963	964
Long-term financial assets	187	807	975	671	505	505	497	529	550	853	853	853	853
Fixed tangible assets	39,635	74,301	71,842	77,688	82,422	84,117	87,195	91,940	103,952	115,976	121,376	126,776	132,176
Intangibles	24	2,521	2,434	2,419	2,393	2,330	2,280	2,259	2,188	2,171	2,171	2,171	2,171
<b>Total assets</b>	<b>40,037</b>	<b>80,643</b>	<b>76,660</b>	<b>84,166</b>	<b>88,646</b>	<b>89,319</b>	<b>93,242</b>	<b>97,184</b>	<b>109,786</b>	<b>122,056</b>	<b>127,509</b>	<b>132,910</b>	<b>138,311</b>
Interest bearing debt	14,020	41,743	40,439	46,490	46,294	44,833	45,274	46,839	50,750	55,240	58,258	61,264	64,203
Other liabilities	6,675	11,612	11,458	10,993	12,636	11,826	11,611	15,251	17,791	20,699	22,097	23,441	24,800
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	19,342	27,288	24,763	26,683	29,716	32,660	36,357	35,094	41,245	46,117	47,154	48,205	49,309
<b>Total liabilities and equity</b>	<b>40,037</b>	<b>80,643</b>	<b>76,660</b>	<b>84,166</b>	<b>88,646</b>	<b>89,319</b>	<b>93,242</b>	<b>97,184</b>	<b>109,786</b>	<b>122,056</b>	<b>127,509</b>	<b>132,910</b>	<b>138,311</b>
Net debt (m)	13,985	39,518	40,158	44,073	43,855	43,239	42,725	45,112	48,479	53,173	56,191	59,197	62,136
Net debt/equity (%)	72.3	144.8	162.2	165.2	147.6	132.4	117.5	128.5	117.5	115.3	119.2	122.8	126.0
Equity/total assets (%)	48.3	33.8	32.3	31.7	33.5	36.6	39.0	36.1	37.6	37.8	37.0	36.3	35.7
Net debt/EBITDA (x)	8.4	16.2	11.8	12.2	10.6	10.3	10.2	11.1	11.6	12.2	12.5	13.0	13.3
EBITDA Interest cover	2.9	2.1	2.5	2.8	2.4	2.5	2.7	3.2	3.7	3.8	3.9	3.8	3.7

## Main shareholders

Name	(%)	Votes	Capital	Management	Name	Company information
Swedish National Pension Funds		100.0	100.0	Title		Contact
				COB	Mats Wäppling	Internet
				CEO	Fredrik Wirdenius	www.vasakronan.se
				CFO	Christer Nerlich	Phone number
						4.688E+09

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**Please note:** The data in several tables and charts in this document have been adjusted in line with common practice in the field of credit research. This mainly refers to adjustments of operating leases, pensions, derivatives and other contingent liabilities. For a detailed breakdown of the adjustments, please contact the author of this report.

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SEB or its affiliates is, or has within the last 12 months been or expects in the next 3 months to be, party to an agreement relating to the provision of investment banking services to Vasakronan or an affiliate, or has received from it fees or the promise of fees in respect of such services.

The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Vasakronan and do(es) not have holdings in other instruments related to the company.

**Explanation of Credit Research recommendations:**

SEB derives its Recommendations from its appraisal of the Credit Rating of the issuer (itself derived from business risk profile and financial risk profile and from other factors).

SEB uses the following recommendation system for the corporate bond market:

**Overweight** – over the next six months we expect a position in this instrument to exceed the relevant index, sector or benchmark.

**Marketweight** – over the next six months we expect a position in this instrument to perform in line with the relevant index, sector or benchmark.

**Underweight** – over the next six months we expect a position in this instrument to underperform the relevant index, sector or benchmark.

SEB uses the following recommendation system for CDS spreadsheets:

**Buy** – we expect the CDS to outperform the sector performance

**Neutral** – we take a neutral view on the CDS, and do not recommend either a buy or sell

**Sell** – we expect the CDS spreads to underperform the sector performance.

**Credit Watch Negative** – When an identifiable event or short term trend has occurred and when additional information is needed to evaluate the impact on the current rating but the likely outcome is a negative rating change.

**Credit Watch Positive** – When an identifiable event or short term trend has occurred and when additional information is needed to evaluate the impact on the current rating but the likely outcome is a positive rating change.

**Credit Watch Developing** – When an identifiable event or short term trend has occurred and when additional information is needed to evaluate the impact on the current rating and the likely outcome is uncertain

SEB also assigns credit ratings, definitions of which can be found on our website: <https://taz.vv.sebank.se/cgi-bin/pts3/mc6/MB/research.nsf?opendatabase&login>

**Methodology**

SEB's Credit Research assigns its credit rating to an issuer based on the assessment of an issuer's business risk profile as well as its financial risk profile. The business risk profile includes country risk, industry risk, competitive position, and profitability. The financial risk profile includes financial policies, accounting, cash flow adequacy, capital structure and liquidity. The outcome of the assessment of the two risk profiles is weighed together for a final overall rating.

In addition to SEB's credit rating assessment, other factors considered in a particular issuer include the credit ratings assigned to a specific issuer by independent agencies, the value and market price of its securities, macroeconomic factors such as interest rates, promised coupon or yield of the specific instruments, and historical spread developments.

**Credit Research Distribution (as of 1 Dec 2016)**

	A*	B*
Overweight	20.8%	9.0%
Marketweight	69.3%	30.0%
Underweight	9.9%	2.3%

A\* denotes recommendations for all companies covered

B\* denotes recommendation for companies to which SEB has provided investment banking services in the last 12 months.

**Recommendation History**

Instrument	Recommendation	Date
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Recommendation changes by SEB Credit Research Analysts in the subject company over the past 12 months. If no recommendation changes were made in that period, the most recent change is stated.

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