

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.

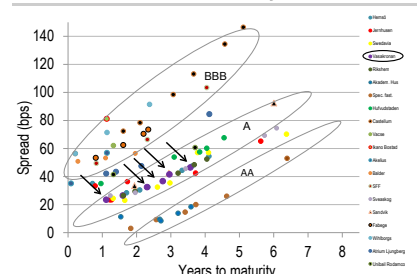
## Vasakronan

### Public ratings

Moody's: N.R.  
S&P: N.R.  
Fitch: N.R.

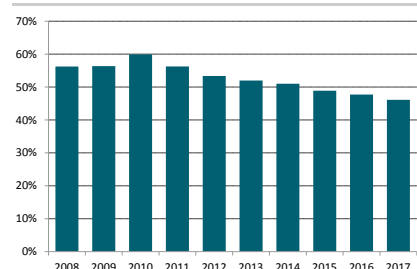
Market cap (SEKm) Not listed

### Relative value, SEK property bonds



Source: SEB and Bloomberg

### Loan-to-value (LTV)



Source: Vasakronan, SEB

## Solid end to a solid year

- Further rent increases ahead, but yield requirements could be about to rise**  
 2017 marked the eighth consecutive year with rising portfolio value for Vasakronan. Some of the increases have come from investments and acquisitions but the bulk is the result of higher valuations of existing properties. In 2017 the value increase was 6.9%, mainly explained by higher rents even if lower yield requirements also contributed. In 2018 we would expect valuation gains to be more moderate. The Swedish office rental market, especially Stockholm, remains strong (office rents expected to continue up, vacancies expected to remain low), but yield requirements are showing signs of stabilising or even rising. Vasakronan is however well positioned to deal with potential future lower valuations with LTV at a historically low 45% and the interest cover ratio at a solid 3.9x. This is well in line with our A- credit assessment. Our main concern from a credit perspective remains the reliance on short-term funding. Vasakronan is making an effort to extend its maturity profile and the average debt maturity has increased to 3.8 years from 3.4 years at the end of 2016, but this is still relatively aggressive in our view.

- In line with peers, but attractive compared to other sectors**  
 Vasakronan's bonds, unsurprisingly, are trading in line with government and quasi-government owned peers such as Jernhusen, Swedavia, Rikshem and Hemsö. However, we continue to regard the pricing of Vasakronan's bond curve as relatively attractive compared with many BBB rated (and unrated) industrial, and consumer issuers in the SEK market.

- Solid Q4 results**  
 Rental income for the year increased 4% to SEK 6.5bn (6.3bn). For comparable properties the rental increase was 5%. EBITDA increased 5% to SEK 4.6bn (4.4bn). The value of the property portfolio increased by SEK 8bn over the year, of which SEK 2.3bn in Q4, to SEK 127bn at year-end. The portfolio yield was stable at 4.5% (4.6%). The occupancy rate was down slightly to 93% from 94% at year-end 2016. The refurbishment of Sergelhuset (old SEB building) has affected the occupancy rate negatively by 1.4%.

### Analyst

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

### Key credit metrics & ratios

	2014	2015	2016	2017	2018E	2019E	2020E
Revenues (SEKm)	5,899	6,009	6,251	6,490	6,620	6,752	6,887
EBITDA (SEKm)	4,079	4,186	4,372	4,581	4,610	4,737	4,872
EBITDA margin	69.1%	69.7%	69.9%	70.6%	69.6%	70.2%	70.7%
FOCF (SEKm)	89.0	70.4	1,346	-481.0	340.9	397.3	389.1
Adjusted EBITDA net int. cover. (x)	3.2	3.7	3.8	3.9	3.6	3.5	3.3
Adjusted net debt to EBITDA (x)	11.1	11.6	12.2	12.5	13.2	13.6	13.9
Adjusted FFO / Net debt	6%	6%	6%	6%	6%	5%	5%

Source: SEB

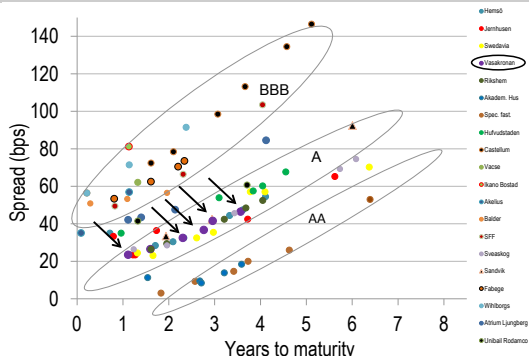
**Credit strengths**

- 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**

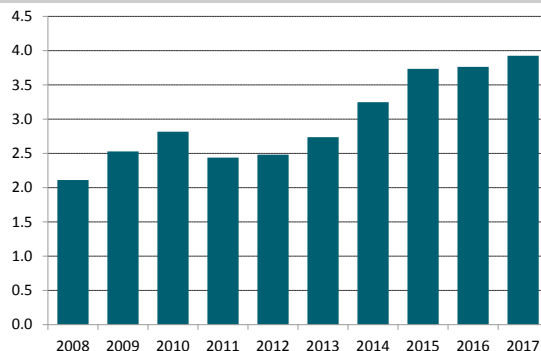
- Demand and valuations are cyclical, although the effect is mitigated by the attractive locations of Vasakronan's properties, which makes them easy to rent out.
- Vasakronan is dependent on short-term funding, although to date it has always been able to access the capital markets.

**Relative value, SEK property bonds**



Source: SEB and Bloomberg

**EBITDA interest cover**



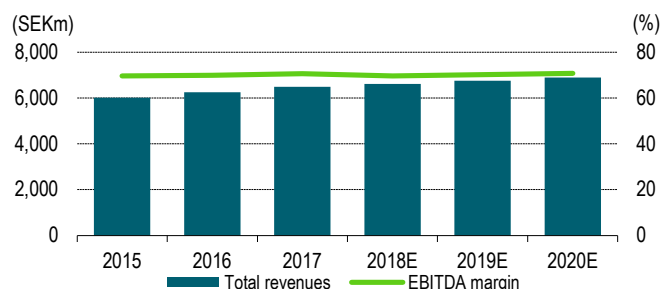
Source: SEB

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

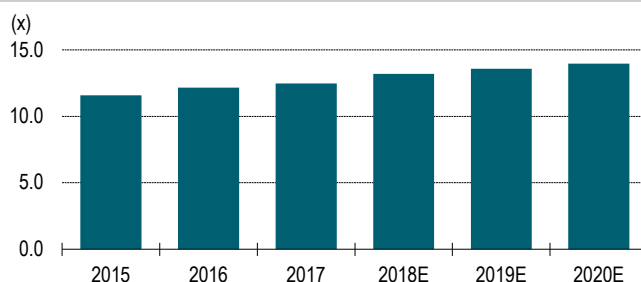
	2016	2017	2018E	2019E
<b>Income statement</b>				
Revenues	6,251	6,490	6,620	6,752
EBITDA	4,372	4,581	4,610	4,737
Net income (reported)	11,472	9,269	4,948	4,208
<b>Cash flow statement</b>				
Funds from operations (FFO)	3,137	3,383	3,344	3,395
Operating Cash Flow	3,439	3,111	3,341	3,397
Free Operating cash flow	1,346	-481.0	340.9	397.3
Pre-financing cash flow	-3,920	-3,874	-3,659	-3,603
<b>Balance sheet</b>				
Cash (and equivalents)	2,147	1,423	1,423	1,423
Total debt	55,320	58,507	62,166	65,769
Net debt	53,173	57,084	60,743	64,346
Equity	46,117	51,377	52,325	52,533
Total assets (reported)	122,056	132,283	138,289	143,290
<b>Key credit metrics &amp; ratios</b>				
Net debt to EBITDA (x)	12.2	12.5	13.2	13.6
Net debt to capital	54%	53%	54%	55%
FFO / Net debt	6%	6%	6%	5%
Equity ratio	38%	39%	38%	37%

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)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total revenues	3,937	5,367	5,508	6,048	5,969	6,032	5,899	6,009	6,251	6,490	6,620	6,752	6,887
Total expenses	-1,493	-1,973	-1,901	-1,928	-1,778	-1,840	-1,820	-1,823	-1,879	-1,909	-2,010	-2,015	-2,015
<b>EBITDA</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>4,581</b>	<b>4,610</b>	<b>4,737</b>	<b>4,872</b>
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	-21	-71	-18	0	0	0	0
<b>EBIT</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>4,581</b>	<b>4,610</b>	<b>4,737</b>	<b>4,872</b>
Associated companies	25	12	2	-3	-1	0	-1	-1	-3	-3	0	0	0
Net interest expenses	-1,103	-1,320	-1,274	-1,649	-1,577	-1,503	-1,256	-1,121	-1,152	-1,165	-1,266	-1,342	-1,485
Value changes	-2,902	-4,534	4,120	2,815	639	3,052	563	10,810	11,292	8,415	3,000	2,000	2,000
Other financial items	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Reported pre-tax profit</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>11,828</b>	<b>6,344</b>	<b>5,395</b>	<b>5,387</b>
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes	1,133	672	-1,647	-1,345	671	-923	-642	-2,859	-3,019	-2,559	-1,396	-1,187	-1,185
<b>Net profit</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>9,269</b>	<b>4,948</b>	<b>4,208</b>	<b>4,202</b>
EBITDA margin	62.1	63.2	65.5	68.1	70.2	69.5	69.1	69.7	69.9	70.6	69.6	70.2	70.7
EBIT margin (%)	62.1	63.2	65.5	68.1	70.2	69.5	68.8	68.5	69.7	70.6	69.6	70.2	70.7
Tax rate (%)	73.8	27.5	25.5	25.5	(20.6)	16.1	19.1	20.7	20.8	21.6	22.0	22.0	22.0
<b>Growth rates y-o-y (%)</b>													
Total revenues	40.4	36.3	2.6	9.8	(1.3)	1.1	(2.2)	1.9	4.0	3.8	2.0	2.0	2.0
EBITDA	n.a.	38.9	6.3	14.2	1.7	0.0	(2.7)	2.6	4.4	4.8	0.6	2.8	2.9
EBIT	47.2	38.9	6.3	14.2	1.7	0.0	(3.2)	1.4	5.8	5.2	0.6	2.8	2.9
Pre-tax profit	0.0	0.0	0.0	(18.2)	(38.4)	76.5	(41.4)	310.3	5.0	(18.4)	(46.4)	(15.0)	(0.2)

## Cash flow

(SEKm)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
FFO	1,373	2,101	2,339	2,386	2,432	2,600	2,789	2,855	3,137	3,383	3,344	3,395	3,387
Changes in working capital	269	-99	203	288	-91	202	113	355	302	-272	-3	2	2
<b>Operating cash flow</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>3,111</b>	<b>3,341</b>	<b>3,397</b>	<b>3,389</b>
Net capital expenditures	-5,994	-3,711	-7,673	-2,052	-5,190	-4,107	-2,813	-3,140	-2,093	-3,592	-3,000	-3,000	-3,000
<b>Free operating cash flow</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>-481</b>	<b>341</b>	<b>397</b>	<b>389</b>
Dividend paid	-5,000	-1,073	-4,156	-1,465	-1,273	-1,177	-4,000	-4,924	-7,382	-4,000	-4,000	-4,000	-4,000
Acquisitions, divestments net	-15,479	2,291	5,391	1,074	4,727	2,961	1,540	1,365	2,116	607	0	0	0
<b>Pre-financing cash flow</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>-3,874</b>	<b>-3,659</b>	<b>-3,603</b>	<b>-3,611</b>
Net loan proceeds	13,034	-1,457	6,051	-196	-1,469	475	1,558	4,033	4,285	3,509	3,659	3,603	3,611
Share issue	14,000	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	-519	-359	0	0	0
<b>Net change in cash</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>-724</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capex/sales (%)	152.2	69.1	139.3	33.9	86.9	68.1	47.7	52.3	33.5	55.3	45.3	44.4	43.6

## Balance sheet

(SEKm)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Cash and liquid assets	2,238	290	2,445	2,480	1,616	2,570	1,757	2,301	2,147	1,423	1,423	1,423	1,423
Other current assets	776	1,119	943	846	751	700	699	795	909	871	877	878	878
Long-term financial assets	807	975	671	505	505	497	529	550	853	923	923	923	923
Fixed tangible assets	74,301	71,842	77,688	82,422	84,117	87,195	91,940	103,952	115,976	126,921	132,921	137,921	142,921
Intangibles	2,521	2,434	2,419	2,393	2,330	2,280	2,259	2,188	2,171	2,145	2,145	2,145	2,145
<b>Total assets</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>132,283</b>	<b>138,289</b>	<b>143,290</b>	<b>148,290</b>
Interest bearing debt	41,743	40,439	46,490	46,294	44,833	45,274	46,839	50,750	55,240	58,421	62,080	65,683	69,294
Other liabilities	11,612	11,458	10,993	12,636	11,826	11,611	15,251	17,791	20,699	22,485	23,884	25,073	26,261
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	27,288	24,763	26,683	29,716	32,660	36,357	35,094	41,245	46,117	51,377	52,325	52,533	52,735
<b>Total liabilities and equity</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>132,283</b>	<b>138,289</b>	<b>143,290</b>	<b>148,290</b>
Net debt (m)	39,518	40,158	44,073	43,855	43,239	42,725	45,112	48,479	53,173	57,084	60,743	64,346	67,957
Net debt/equity (%)	144.8	162.2	165.2	147.6	132.4	117.5	128.5	117.5	115.3	111.1	116.1	122.5	128.9
Equity/total assets (%)	33.8	32.3	31.7	33.5	36.6	39.0	36.1	37.6	37.8	38.8	37.8	36.7	35.6
Net debt/EBITDA (x)	16.2	11.8	12.2	10.6	10.3	10.2	11.1	11.6	12.2	12.5	13.2	13.6	13.9
EBITDA Interest cover	2.1	2.5	2.8	2.4	2.5	2.7	3.2	3.7	3.8	3.9	3.6	3.5	3.3

## Main shareholders

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

Definitions of SEB's assessments of creditworthiness can be found on our website: <https://taz.vv.sebank.se/cgi-bin/pts3/mc6/MB/research.nsf?opendatabase&login>

**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 assessment of credit worthiness but the likely outcome is a negative 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 assessment of credit worthiness but the likely outcome is a positive 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 assessment of credit worthiness and the likely outcome is uncertain

**Methodology**

SEB's Credit Research makes its assessment of the creditworthiness of 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 assessment.

In addition to SEB's credit assessment of creditworthiness, 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 2017)**

	A*	B*
Overweight	17.7%	6.4%
Marketweight	68.8%	36.3%
Underweight	13.5%	8.3%

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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