

22 August, 2016

Vasakronan

Q2 2016

- We recommend underweight for SEK bonds
- Stable or improving credit metrics in Q2
- A-/Stable rating affirmed

Underweight SEK bonds

Vasakronan's bonds are tightly priced. Nevertheless, for most maturities, Hemsö and Rikshem provide more attractive yields than Vasakronan's bonds. As officially rated companies, we would expect Hemsö and Rikshem to trade tighter than Vasakronan, which is a shadow-rated company with similar ratings for both issuer and instrument. For example, FASTIG 0 01/17/18 is trading with a discount margin of 52bp (64b in Q1, implying significant tightening in line with industry peers), while FASTIG 0 10/24/16 is at 43bp. This is slightly tighter or in line with publicly rated Rikshem's RIKSHM 0 06/05/18, which is trading at +60bp (63bp in Q1), or RIKSHM 0 11/03/17, which is trading at +55bp. We view Rikshem (A-/Stable) as a similar credit, although it is significantly smaller. Vasakronan has a high amount of outstanding bonds (about SEK 25bn) relative to industry peers. Industry peer Hemsö was publicly rated A- by S&P in March 2015, and its bonds have since traded in a tighter range. For example, HEMSOF 0 06/20/17 is trading with a discount margin of 59bp. However, Vasakronan's FASTIG 0 06/30/17 is trading with a discount margin of 49bps.

Solid numbers for Q2

Vasakronan presented solid figures for LTM Q2 2016 with NOI stable at SEK 4.4bn (4.2bn for LTM Q2 2015). Net income was strong due to positive revaluations of properties totaling SEK 11.3bn. The total value change during H1 2016 was SEK 6.2bn, which is a 6.0% increase. This was split between lower yields (2.9%) and higher rents (3.1%). Net income was SEK 10.3bn for LTM Q2 2016, which can be compared to SEK 7.0bn for LTM Q2 2015. Vasakronan's portfolio continued to grow in Q2, with the market value rising to SEK 109bn (SEK 106 in Q1).

Vasakronan's credit metrics were slightly stronger in LTM Q2 2016, with EBITDA/interest coverage at 3.9x (3.5x in LTM Q2 2015). LTV decreased to 52.3% (55.1% in Q2 2015) and debt/debt + equity decreased to 57.8% (59.5%). Debt/EBITDA weakened from 13.2x to 13.4x. Vasakronan's vacancy rate improved to 6.4% (7.6% in Q1 2016). Vasakronan's debt- and interest-maturity periods were relatively stable during the quarter at 2.8 years and 3.6 years, respectively.

We continue to view the ownership by AP Funds as rating positive. As a result, the issuer rating is notched up for ownership. This commitment confirms the importance of Vasakronan for AP Funds. We therefore reiterate our A- issuer rating with a stable outlook. However, the dividend has increased significantly over the past year to SEK 5.3bn.

Recent developments

Vasakronan signed leases on 46,000 sqm in Q2, which represent yearly rental income of SEK 160m. In Q2, Vasakronan started rebuilding "Drivhuset" in Gothenburg. The premise is 12,000 sqm and is expected to require an investment of SEK 170m. The construction is 87% pre-let. Vasakronan's project-development investments amount to SEK 3.4bn, which represents about 3% of the market value of the property portfolio. This is low, in our opinion.

Vasakronan

Real Estate Investment & Services

Bloomberg Equity: 1276Z SS
Bloomberg Debt: FASTIG

Corporate Ratings

Moody's: -
S&P: -
Fitch: -
Swedbank: A-/Stable

Recommendations 22 August, 2016

SEK Bonds

Underweight

Credit Strengths

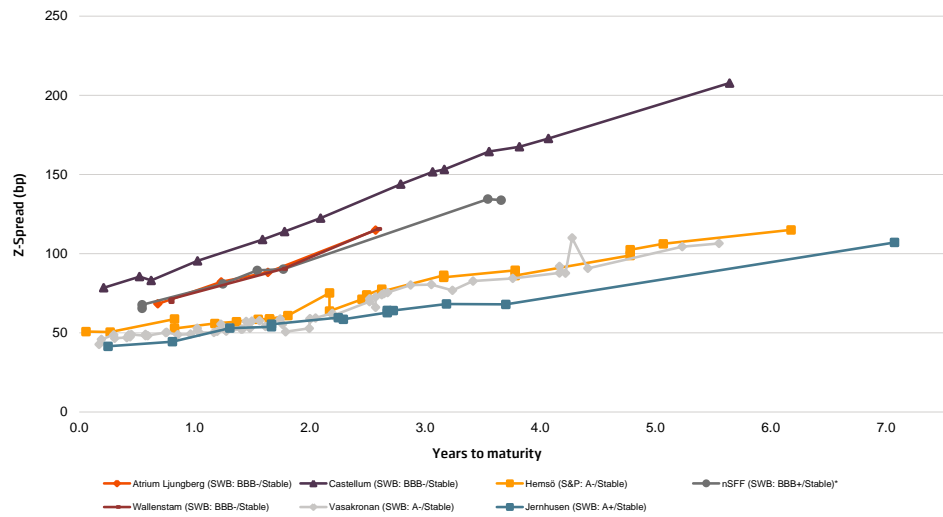
- Large, high-quality property portfolio.
- Owned by state pension funds (AP 1-4).
- Low country and industry risk, and stable market fundamentals.
- Moderately leveraged relative to many Swedish sector peers.

Credit Weaknesses

- Focus on commercial properties mitigated by attractive locations, tenant diversification and large share of public-sector tenants.
- High proportion of short funding, but with proven access to capital markets, a diversified funding structure and strong owners.

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Relative value, bond comparison



Sources: Bloomberg, Swedbank

Financial statements and analysis

Income Statement, SEK m	2013	2014	2015	LTM Q2 15	LTM Q2 16	Q2 15	Q2 16
Rental income	6032	5899	6009	5969	6064	1504	1534
Operating expenses	-1753	-1727	-1735	-1773	-1709	-448	-429
NOI	4279	4172	4274	4196	4355	1056	1105
SG&A	-87	-93	-88	-93	-87	-23	-24
Other income/expenses							
Operating income	4192	4079	4186	4103	4268	1033	1081
Result from JV/associates	0	-1	-1	-2	-1	-1	0
Interest income	29	0	0	0	0	0	0
Interest expense	-1566	-1256	-1121	-1184	-1094	-280	-281
Other financial items	34	0	0	0	0	0	0
Income from property Mgm	2689	2822	3064	2917	3173	752	800
Realised gains/losses							
Revaluation properties	1952	3519	10212	6928	11319	2852	4339
Revaluations - derivatives, etc	1100	-2977	527	-983	-1654	1146	-731
Other non-operating income/expense	0	0	0	0	-81	0	-9
Income before tax	5741	3364	13803	8862	12757	4750	4399
Extraordinary items/others							
Current tax	-2	40	-45	38	-214	0	-142
Deferred tax	-921	-682	-2814	-1914	-2287	-1039	-693
Net income	4818	2722	10944	6986	10256	3711	3564

Sources: Company reports, Swedbank

Balance sheet, SEK m	2013	2014	2015	Q1 15	Q2 15	Q1 16	Q2 16
MV properties	87145	91889	103894	94594	106064	106064	109132
Other tangible fixed assets	50	51	58	53	56	56	53
Holdings in associates	353	0	0	0	0	0	0
Financial fixed assets	144	0	550	433	510	510	450
Other non-current assets	2280	2259	2188	2259	2187	2187	2178
ST Financial assets	0	1228	0	1128	0	0	0
Cash	2570	1757	2301	3840	5748	5748	3791
Other current assets	700	0	795	0	1137	1137	2599
Total assets	93242	97184	109786	102307	115702	115702	118203
Equity	36357	35094	41245	37022	42630	42630	41708
Deferred tax liability	7859	8532	11356	9050	11682	11682	12389
LT debt	31534	34640	34984	33628	35517	35517	38408
Interest rate derivatives, other LT liabilities	504	0	0	0	0	0	4343
ST Debt	13740	12199	15766	15770	19505	19505	18626
Accounts payable	193	0	0	0	0	0	0
Other liabilities	3055	6719	6435	6837	6368	6368	2729
Total equity & liabilities	93242	97184	109786	102307	115702	115702	118203

Sources: Company reports, Swedbank

Cash Flow, SEK m	2013	2014	2015	LTM Q2 15	LTM Q2 16	Q2 15	Q2 16
Net operating income	2717	2822	3064	2917	3173	752	800
D&A and adjustments	1453	0	8	4	8	1	2
Interest received	0	1256	1121	1184	1094	280	281
Interest paid	-1468	-1309	-1323	-1403	-1165	-368	-202
Taxes paid	-17	20	-15	23	-49	-3	-4
Dividends received							
Operating cash flow	2685	2789	2855	2725	3061	662	877
Working capital changes	105	113	355	482	-237	218	74
Net operating cash flow	2790	2902	3210	3207	2824	880	951
Acquisitions of properties	-1687	-4	-916	-126	-852	-57	-2
Acquisitions of PP&E	0	-13	-22	-13	0	0	0
Increase in financial investments							
Investments in existing properties	-2557	-2813	-2224	-2532	-2094	-545	-518
Sale of properties	2988	1574	1387	752	3220	0	1790
Sale of financial investments	0	-17	0	-17	0	0	0
Acquisition of subsidiaries							
Other investing activities	-19	0	0	-4	-16	-4	-1
Cash flow after investing activities	1515	1629	1435	1267	3082	274	2220
Share issue							
Dividends paid	-1117	-4000	-4924	-4924	-5324	-4000	-4500
Financial fixed assets, net							
Debt issues	15319	16013	16381	13343	15448	6415	4281
Debt repayments	-13130	-14455	-12348	-7695	-12421	-1788	-2345
Other financing activities	0	0	0	0	-1735	0	-1613
Net cash flow	2587	-813	544	1991	-950	901	-1957

Sources: Company reports, Swedbank

Adjusted Key ratios	2013	2014	2015	LTM Q2 15	LTM Q2 16	Q2 15	Q2 16
Adjusted ratio elements							
EBITDA	4192	4079	4186	4103	4268	1033	1081
FFO	2550	2863	3020	2957	2960	753	658
CFO	2790	2902	3210	3207	2824	880	951
FOCF	233	89	986	675	730	335	433
DCF	-884	-3911	-3938	-4249	-4594	-3665	-4067
Debt	45274	46839	50750	54026	57034	55022	57034
Net debt	42704	45082	48449	49285	53243	49274	53243
Interest	-1669	-1256	-1121	-1184	-1094	-280	-281
Core financial ratios							
EBITDA / Interest (x)	2.5x	3.2x	3.7x	3.5x	3.9x	3.7x	3.8x
Debt/EBITDA (x)	10.8x	11.5x	12.1x	13.2x	13.4x	13.3x	13.2x
Net debt/EBITDA	10.2x	11.1x	11.6x	12.0x	12.5x	47.7x	49.3x
Supplemental financial ratios							
FFO / Debt	5.6%	6.1%	6.0%	5.5%	5.2%	5.5%	4.6%
FFO/cash interest (x)	1.5x	2.3x	2.7x	2.5x	2.7x	2.7x	2.3x
CFO/Debt	6.2%	6.2%	6.3%	5.9%	5.0%	6.4%	6.7%
FOCF/Debt	0.5%	0.2%	1.9%	1.2%	1.3%	2.4%	3.0%
DCF/Debt	-2.0%	-8.3%	-7.8%	-7.9%	-8.1%	-26.6%	-28.5%
Debt / Debt + Equity	55.5%	57.2%	55.2%	59.5%	57.8%	56.3%	57.8%
LTV	52.0%	51.0%	48.8%	55.1%	52.3%	51.9%	52.3%
LTV net of cash and liquid fin. assets	49.0%	47.7%	46.6%	50.3%	48.8%	46.5%	48.8%
Equity ratio	39.0%	36.1%	37.6%	34.5%	35.3%	36.8%	35.3%
Profitability							
NOI margin	70.9%	70.7%	71.1%	70.3%	71.8%	70.2%	72.0%
EBITDA margin	69.5%	69.1%	69.7%	68.7%	70.4%	68.7%	70.5%
Property related							
Implied Yield	4.9%	4.5%	4.1%	4.3%	4.0%	4.0%	4.1%
Implied Yield, adj.	5.3%	4.9%	4.4%	4.6%	4.3%	4.3%	4.3%
Economic vacancy	6.6%	8.0%	7.4%	7.5%	6.4%	7.4%	6.4%
Lettable area (t sqm)	2562	2509	2509	2497	2446	2497	2446
No. of properties	192	185	180	186	181	186	181
Lettable area per property (sqm)	13344	13562	13939	13425	13514	13425	13514
MV per sqm	34014	36624	41409	39266	44617	42477	44617

Sources: Company reports, Swedbank

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