

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

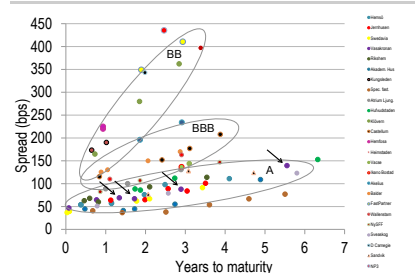
Corporate rating: **A-/Stable**
Stand-alone rating: **BBB**

Public ratings

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

Market cap (SEKm) Not listed

Relative value, SEK bonds



Source: SEB and Bloomberg

Attractive pricing and fundamentals

- Vasakronan is very strong issuer, also in an international perspective**
 Vasakronan's property portfolio is now valued at an impressive SEK 106bn. As we commented in the last couple of quarters, Vasakronan now qualifies for the major league, ranking 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. The main downside risks in our view are a significant slowdown in the Swedish economy, rapid and substantial rate hikes, or a crash in the Swedish property markets with significantly falling valuations as a result. As we do not expect any one of these three things to happen, and certainly not simultaneously, we expect Vasakronan's creditworthiness to remain very strong, and it could even strengthen.
- 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. One reason is probably the very large share of property bonds in the Swedish market (over 50%) creating some resistance among the investor community, but we also think that many investors are perhaps somewhat too concerned that the Swedish real estate market is overheated. 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 next page). We thus continue to like Vasakronan's SEK curve.
- Solid Q1 results, positive view on the rental markets, relatively high CP usage**
 Q1 2016 rental income of SEK 1.5bn and EBITDA of SEK 1.05bn were both marginally higher than Q1 2015 and in line with our estimates. LTV of 46% was lower than 48% a year ago and slightly better than our estimates. The interest coverage ratio of 3.9x remains comfortably above Vasakronan's target of 1.9x and fully commensurate with the A- rating. We continue to note the relatively high commercial paper (CP) usage (22% of total debt).

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

	2012	2013	2014	2015	2016E	2017E	2018E
Revenues (SEKm)	5,969	6,032	5,899	6,009	6,128	6,276	6,401
EBITDA (SEKm)	4,191	4,192	4,079	4,186	4,209	4,306	4,371
EBITDA margin	70.2%	69.5%	69.1%	69.7%	68.7%	68.6%	68.3%
FOCF (SEKm)	-2,849	-1,305	89.0	70.4	678.9	527.6	493.6
Adjusted EBITDA net int. cover. (x)	2.7	2.8	3.2	3.7	3.5	3.3	3.2
Adjusted net debt to EBITDA (x)	10.3	10.2	11.1	11.6	12.5	13.2	14.0
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.

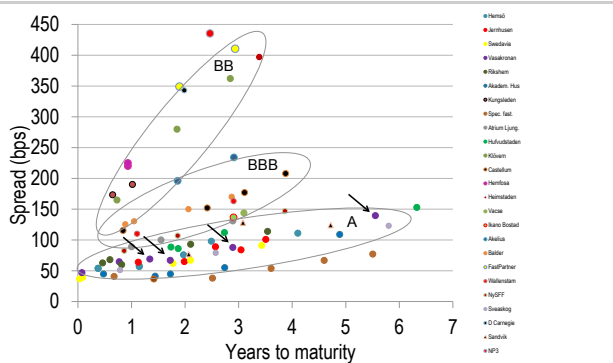
Credit concerns

- 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.

Selected outstanding bonds

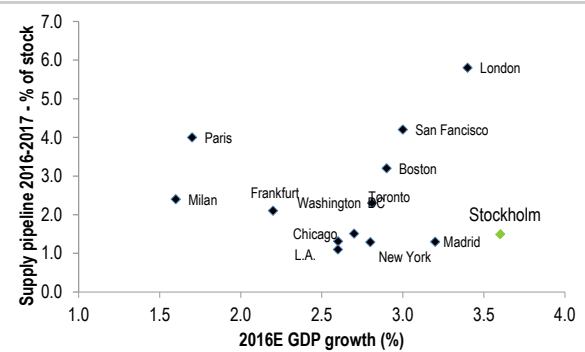
Source: Bloomberg and SEB

Relative value, SEK bonds



Source: SEB and Bloomberg

Growth vs office supply pipeline



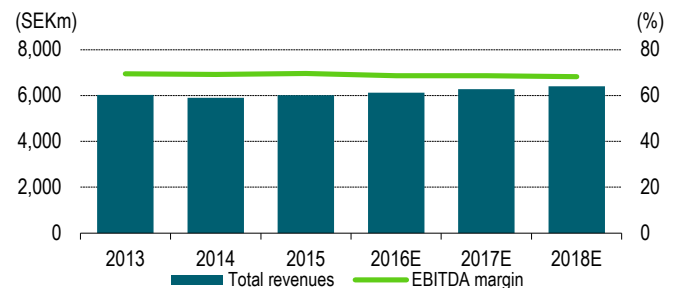
Source: SEB, Oxford Economics and JLL

Financial statement summary - Adjusted numbers (SEKm)

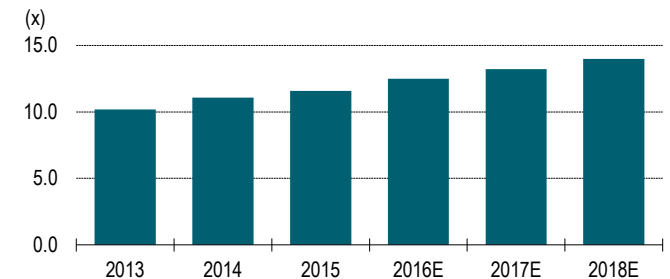
	2014	2015	2016E	2017E
Income statement				
Revenues	5,899	6,009	6,128	6,276
EBITDA	4,079	4,186	4,209	4,306
Net income (reported)	2,722	10,944	3,636	3,733
Cash flow statement				
Funds from operations (FFO)	2,789	2,855	2,926	2,924
Operating Cash Flow	2,902	3,210	2,879	2,928
Free Operating cash flow	89.0	70.4	678.9	527.6
Pre-financing cash flow	-2,371	-3,489	-4,110	-4,261
Balance sheet				
Cash (and equivalents)	1,757	2,301	2,301	2,301
Total debt	46,869	50,780	54,890	59,151
Net debt	45,112	48,479	52,589	56,850
Equity	35,094	41,245	40,092	39,036
Total assets (reported)	97,184	109,786	113,564	117,614
Key credit metrics & ratios				
Net debt to EBITDA (x)	11.1	11.6	12.5	13.2
Net debt to capital	56%	54%	57%	59%
FFO / Net debt	6%	6%	6%	5%
Equity ratio	36%	38%	35%	33%

Source: SEB and Vasakronan financial reports

Revenues and EBITDA margin



Adjusted net debt / EBITDA



Source: SEB and Vasakronan financial reports

Profit & loss statement

(SEKm)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Total revenues	3,343	2,805	3,937	5,367	5,508	6,048	5,969	6,032	5,899	6,009	6,128	6,276	6,401
Total expenses	-1,195	-1,145	-1,493	-1,973	-1,901	-1,928	-1,778	-1,840	-1,820	-1,823	-1,919	-1,970	-2,030
EBITDA	2,148	1,660	2,444	3,394	3,607	4,120	4,191	4,192	4,079	4,186	4,209	4,306	4,371
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0	0	-21	-71	0	0	0
EBIT	2,148	1,660	2,444	3,394	3,607	4,120	4,191	4,192	4,058	4,115	4,209	4,306	4,371
Associated companies	0	0	25	12	2	-3	-1	0	-1	-1	0	0	0
Net interest expenses	-547	-556	-1,103	-1,320	-1,274	-1,649	-1,577	-1,503	-1,256	-1,121	-1,192	-1,288	-1,387
Value changes	3,722	3,565	-2,902	-4,534	4,120	2,815	639	3,052	563	10,810	1,528	1,649	1,700
Other financial items	0	0	0	0	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	5,323	4,669	-1,536	-2,448	6,455	5,283	3,252	5,741	3,364	13,803	4,545	4,666	4,685
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Total taxes	-1,220	-1,374	1,133	672	-1,647	-1,345	671	-923	-642	-2,859	-909	-933	-937
Net profit	4,103	3,295	-433	-1,354	5,310	3,938	3,923	4,818	2,722	10,944	3,636	3,733	3,748
EBITDA margin	64.3	59.2	62.1	63.2	65.5	68.1	70.2	69.5	69.1	69.7	68.7	68.6	68.3
EBIT margin (%)	64.3	59.2	62.1	63.2	65.5	68.1	70.2	69.5	68.8	68.5	68.7	68.6	68.3
Tax rate (%)	22.9	29.4	73.8	27.5	25.5	25.5	(20.6)	16.1	19.1	20.7	20.0	20.0	20.0
Growth rates y-o-y (%)													
Total revenues	12.9	(16.1)	40.4	36.3	2.6	9.8	(1.3)	1.1	(2.2)	1.9	2.0	2.4	2.0
EBITDA	n.a.	(22.7)	47.2	38.9	6.3	14.2	1.7	0.0	(2.7)	2.6	0.6	2.3	1.5
EBIT	19.8	(22.7)	47.2	38.9	6.3	14.2	1.7	0.0	(3.2)	1.4	2.3	2.3	1.5
Pre-tax profit	40.7	(12.3)	0.0	0.0	0.0	(18.2)	(38.4)	76.5	(41.4)	310.3	(67.1)	2.7	0.4

Cash flow

(SEKm)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
FFO	1,654	1,140	1,373	2,101	2,339	2,386	2,432	2,600	2,789	2,855	2,926	2,924	2,891
Changes in working capital	107	-63	269	-99	203	288	-91	202	113	355	-47	3	3
Operating cash flow	1,761	1,077	1,642	2,002	2,542	2,674	2,341	2,802	2,902	3,210	2,879	2,928	2,894
Net capital expenditures	0	-827	-5,994	-3,711	-7,673	-2,052	-5,190	-4,107	-2,813	-3,140	-2,200	-2,400	-2,400
Free operating cash flow	1,761	250	-4,352	-1,709	-5,131	622	-2,849	-1,305	89	70	679	528	494
Dividend paid	-2,000	-2,000	-5,000	-1,073	-4,156	-1,465	-1,273	-1,177	-4,000	-4,924	-4,789	-4,789	-4,789
Acquisitions, divestments net	620	46	-15,479	2,291	5,391	1,074	4,727	2,961	1,540	1,365	0	0	0
Pre-financing cash flow	381	-1,704	-24,831	-491	-3,896	231	605	479	-2,371	-3,489	-4,110	-4,261	-4,295
Net loan proceeds	-232	841	13,034	-1,457	6,051	-196	-1,469	475	1,558	4,033	4,110	4,261	4,295
Share issue	0	0	14,000	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	149	-863	2,203	-1,948	2,155	35	-864	954	-813	544	0	0	0
Capex/sales (%)	0.0	29.5	152.2	69.1	139.3	33.9	86.9	68.1	47.7	52.3	35.9	38.2	37.5

Balance sheet

(SEKm)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash and liquid assets	898	35	2,238	290	2,445	2,480	1,616	2,570	1,757	2,301	2,301	2,301	2,301
Other current assets	360	156	776	1,119	943	846	751	700	699	795	845	847	848
Long-term financial assets	92	187	807	975	671	505	505	497	529	550	550	550	550
Fixed tangible assets	35,290	39,635	74,301	71,842	77,688	82,422	84,117	87,195	91,940	103,952	107,680	111,728	115,828
Intangibles	24	24	2,521	2,434	2,419	2,393	2,330	2,280	2,259	2,188	2,188	2,188	2,188
Total assets	36,664	40,037	80,643	76,660	84,166	88,646	89,319	93,242	97,184	109,786	113,564	117,614	121,715
Interest bearing debt	13,179	14,020	41,743	40,439	46,490	46,294	44,833	45,274	46,839	50,750	54,860	59,121	63,416
Other liabilities	5,700	6,675	11,612	11,458	10,993	12,636	11,826	11,611	15,251	17,791	18,613	19,457	20,304
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	17,785	19,342	27,288	24,763	26,683	29,716	32,660	36,357	35,094	41,245	40,092	39,036	37,995
Total liabilities and equity	36,664	40,037	80,643	76,660	84,166	88,646	89,319	93,242	97,184	109,786	113,565	117,614	121,715
Net debt (m)	12,281	13,985	39,518	40,158	44,073	43,855	43,239	42,725	45,112	48,479	52,589	56,850	61,145
Net debt/equity (%)	69.1	72.3	144.8	162.2	165.2	147.6	132.4	117.5	128.5	117.5	131.2	145.6	160.9
Equity/total assets (%)	48.5	48.3	33.8	32.3	31.7	33.5	36.6	39.0	36.1	37.6	35.3	33.2	31.2
Net debt/EBITDA (x)	5.7	8.4	16.2	11.8	12.2	10.6	10.3	10.2	11.1	11.6	12.5	13.2	14.0
EBITDA Interest cover	3.8	2.9	2.1	2.5	2.8	2.4	2.5	2.7	3.2	3.7	3.5	3.3	3.1

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	Phone number
				CFO	Christer Nerlich	www.vasakronan.se
						4.688E+09

Company description: Vasakronan is Sweden's largest real estate company by far. It was created in 2008 through AP Fastigheter's acquisition of the "old" Vasakronan from the Swedish government. Vasakronan's strategy is to be a long-term owner of commercial real estate properties in regions enjoying high economic growth, mainly Stockholm, Gothenburg, Öresund and Uppsala. Commercial real estate properties comprise 95% of the total portfolio with the remainder consisting of residential real estate and other.

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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Underweight	8.9%	3.0%

A* denotes recommendations for all companies covered

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Instrument	Recommendation	Date
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