

April 29, 2016

Vasakronan

Indicative rating: BBB+
Credit quality outlook: Stable

Property portfolio value increased further

- Drop in average yield and higher rents raise asset values
- Loan-to-value at 47% while debt/EBITDA at 13x
- We reiterate our BBB+ rating

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Solid Q1 numbers

Vasakronan managed to renegotiate a 1% (y-o-y) like-for-like rent increase in Q1, while the vacancy rate increased sequentially by 0.2% to 7.6%. Q1 earnings before value changes and tax were up 3% y-o-y to SEK 1,071m, and pre-tax profit benefitted from SEK 1,847m in property gains.

Valuation yields decline further

Vasakronan saw its average valuation yield decline further in Q1 to 4.88% from 4.94%. The lower valuation yield contributed to a 1.2% increase in value, while higher rents contributed an additional increase of 0.7%. Over the past few years, higher asset values and only a slight increase in debt have led to a lower LTV ratio, while EBITDA has remained rather unchanged, thus causing debt/EBITDA to increase.

Unchanged credit view

The net-debt-to-property value remained at 47%, unchanged sequentially. The leverage is adequate for our BBB standalone credit profile by some margin. The senior unsecured rating remains unchanged at BBB+, and benefits from one notch of uplift based on implicit support from the owners.

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Key figures

Key ratios Vasakronan (SEK m)	Q1 2016	Q4 2015	Q1 2015	2015	2014	2013
Rental revenues	1 524	1 517	1 499	6 009	5 899	6 032
EBIT ex. value changes	1 051	1 046	1 018	4 185	4 078	4 192
Net financial items	-273	-271	-301	-1 121	-1 256	-1 503
Funds from operations	695	731	704	2 855	2 789	2 600
Equity	42 630	41 245	37 022	41 245	35 094	36 357
Net debt	49 274	48 449	45 558	48 449	45 082	42 704
Property value	106 064	103 894	94 594	103 894	91 889	87 145
Total assets	115 702	109 786	102 307	109 786	97 184	93 242
Net debt/Equity, x	1,2	1,2	1,2	1,2	1,3	1,2
Equity ratio, %	37	38	36	38	36	39
Net debt/market value of properties, %	46,5	46,6	48	47	49	49
Gross loan-to-value, %	52	49	52	49	51	52
LTM Net interest coverage ratio (EBITDA), x	3,9	3,7	3,3	3,7	3,3	2,8
LTM Debt/EBITDA, x	13,0	12,1	12,0	12,1	11,5	10,8
LTM FFO/debt %	5,2	5,6	5,7	5,6	6,0	5,7
Total debt/Total assets, %	47,6	46,2	48	46	48	49
Vacancy rate, %	7,6	7,4	7,8	7,4	8,0	6,6
Secured financing to total assets, %	14	13	15	13	16	17

Source: Company reports and Handelsbanken Capital Markets

Public ratings

	Long-term	Outlook
S&P:	n.r.	
Moody's:	n.r.	
Fitch:	n.r.	

Indicative ratings

Group:	BBB+
Senior unsecured:	BBB+

Company data

Web address: www.vasakronan.se

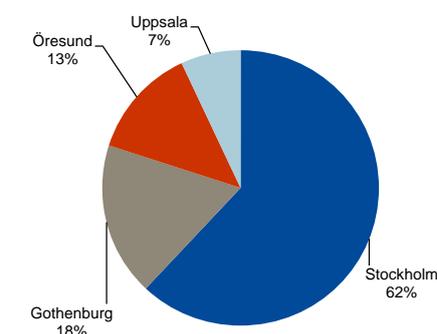
Vasakronan is Sweden's largest real estate company, with a property value of SEK 104bn at the end of 2015. Vasakronan's portfolio is focused on office and retail property in Stockholm, Uppsala, Gothenburg and Malmö/Lund.

CEO: Fredrik Wirdenius

CFO: Christer Nerlich

Treasury: Thomas Nystedt

Rental value distribution, 2015



Source: Vasakronan

Credit view

Vasakronan reported satisfactory numbers again in Q1 and credit metrics remain in line with our expectations for our mid-BBB standalone rating. We affirm the group rating at BBB+, which benefits from one notch of uplift due to ownership support.

Net-debt-to-property value below 50%

Standalone rating at BBB with a stable outlook

At the end of Q1, the net-debt-to-property value was 47% and debt-to-EBITDA was at 13.0x. There is some headroom in relation to our mid-BBB rating. Vacancies were up slightly in the quarter, from 7.4% in Q4 to 7.6% in Q1. At the end of Q1, Vasakronan ran property development projects with a total volume of SEK 3.2bn, which is less than 3% of its portfolio. In the larger projects, the pre-signed occupancy rate was 64%, so the risk to the company should be manageable.

Purely commercial role limits the support uplift to one notch

Support uplift of one notch to BBB+

Vasakronan's BBB+ rating factors in one notch of uplift from implicit ownership support. Generally, one notch represents the maximum uplift (within investment grade) for companies that we view as not having a policy role for the government. For companies with a purely commercial role, such as Vasakronan, the potential uplift is limited to one notch.

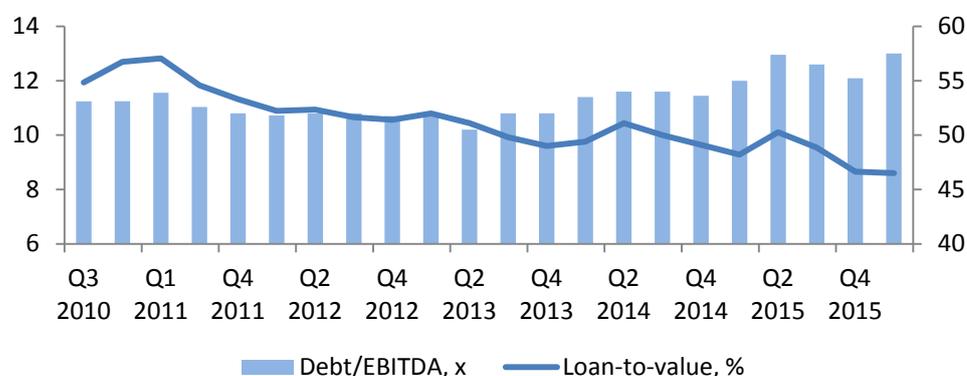
Key credit strengths:

- High quality portfolio with large size providing some diversification
- Manageable leverage (~50%) relative to portfolio quality
- Healthy and improving operating margins
- Change of control clause in borrowings and strong owners

Key credit concerns:

- High leverage versus EBITDA due to relatively low-yielding assets
- High share of short-term funding and generally greater appetite for financial risk than peers
- Commercial papers represent 22% of total funding
- Exposure to the cyclical commercial real estate market

Figure 1: Debt/EBITDA and net-debt-to-property value



Source: Handelsbanken Capital Markets

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Handelsbanken's analysts Ola Eriksson and Johan Sahlström have no positions in Vasakronan or a related instrument.

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