

Vasakronan

The song remains the same

- Rents and values continue to increase
- Vacancies down to near record lows
- Underperform recommendation unchanged

Rents up, valuation yield down

Value gains are accelerating, now primarily driven by rents but with a continued strong tailwind from declining valuation yields. In Q2 alone, valuations increased by 4.1%. The average valuation yield was 4.77% at the end of the quarter, down 11bp from Q1.

Historically low vacancies

Strong demand for offices in central Stockholm in particular is resulting in higher rents and low vacancies. At the end of Q2, Vasakronan's vacancy rate was only 6.4%. The group's vacancy rate has historically fluctuated around 7.5% and last fell below 6.5% at the beginning of 2012.

Unchanged recommendation

Vasakronan bond spreads have widened slightly in the past two months relative to our generic curves, but they remain expensive. We therefore retain our Underperform recommendation.

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Key figures

Key ratios Vasakronan (SEK m)	Rolling 12	2015	2014	2013	2012
Rental revenues	6,064	6,009	5,899	6,032	5,969
EBIT ex. value changes	4,267	4,185	4,078	4,192	4,190
Net financial items	-1,094	-1,121	-1,256	-1,503	-1,577
Funds from operations	3,061	2,855	2,789	2,600	2,432
Equity	41,708	41,245	35,094	36,357	32,660
Net debt	53,243	48,449	45,082	42,704	43,217
Property value	109,132	103,894	91,889	87,145	84,074
Total assets	118,203	109,786	97,184	93,242	89,319
Net debt/Equity, x	1.3	1.2	1.3	1.2	1.3
Equity ratio, %	35	38	36	39	37
Net debt/market value of properties, %	48.8	47	49	49	51
Gross loan-to-value, %	52.3	49	51	52	53
LTM Net interest coverage ratio (EBITDA),	3.9	3.7	3.3	2.8	2.7
LTM Debt/EBITDA, x	13.3	12.1	11.4	10.8	10.7
LTM FFO/debt %	5.4	5.6	6.0	5.7	5.4
Total debt/Total assets, %	48.3	46	48	49	50
Vacancy rate, %	6.4	7.4	8.0	6.6	7.0
Secured financing to total assets, %	15	13	16	17	17

Source: Company reports and Handelsbanken Capital Markets

Recommendation, senior unsecured: Underperform

Recommendation currency: SEK

Public ratings

Long-term	Outlook
No public ratings	

Indicative ratings

Corporate:	BBB+
Senior unsecured:	BBB+
Credit outlook:	Stable

Company data

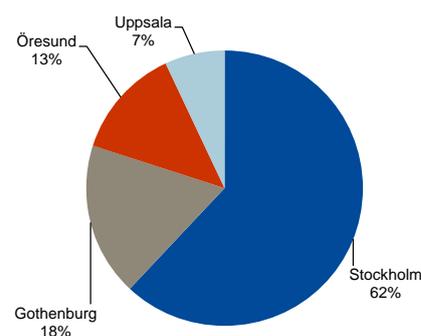
Web address: www.vasakronan.se

CEO: Fredrik Wirdenius

CFO: Christer Nerlich

Treasurer: Thomas Nystedt

Rental value distribution (SEK m), 2015



Source: Vasakronan

Credit view

Our indicative rating remains at BBB+, which includes a one-notch uplift due to ownership support. The outlook is stable.

Net-debt-to-property value below 50%

Standalone rating at BBB with a stable outlook

At the end of Q2, net-debt-to-property value was 49% and net-debt-to-EBIDA was 13.3x. There is some headroom to our mid-BBB standalone rating. Vacancies were down notably in the quarter, to 6.4%, from 7.6%. At the end of Q2, Vasakronan had projects with a total volume of SEK 3.4bn, which was up slightly but remains below 3% of total assets.

Purely commercial role limits support uplift to one notch

Support uplift to BBB+

Vasakronan's BBB+ indicative rating factors in a one-notch uplift due to 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 thus limited to one notch.

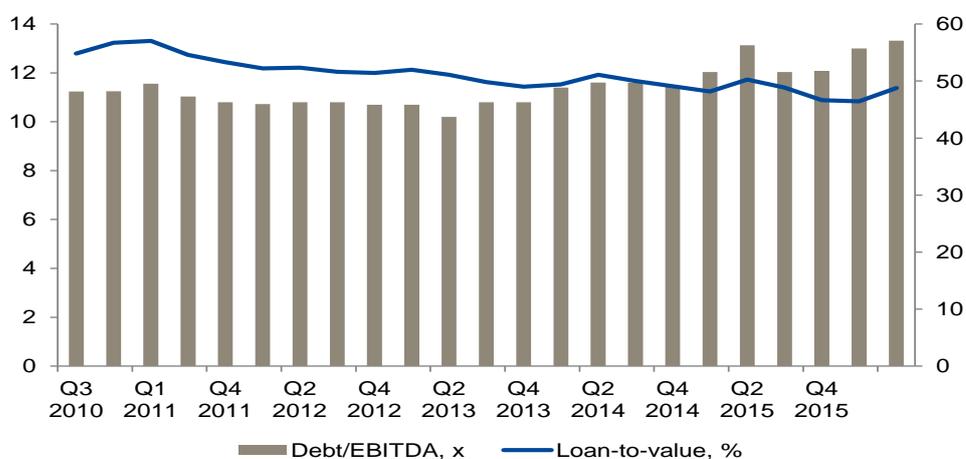
Key credit strengths:

- Large, high quality portfolio provides 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 paper represents 19% of total funding
- Exposure to the cyclical commercial real estate market

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

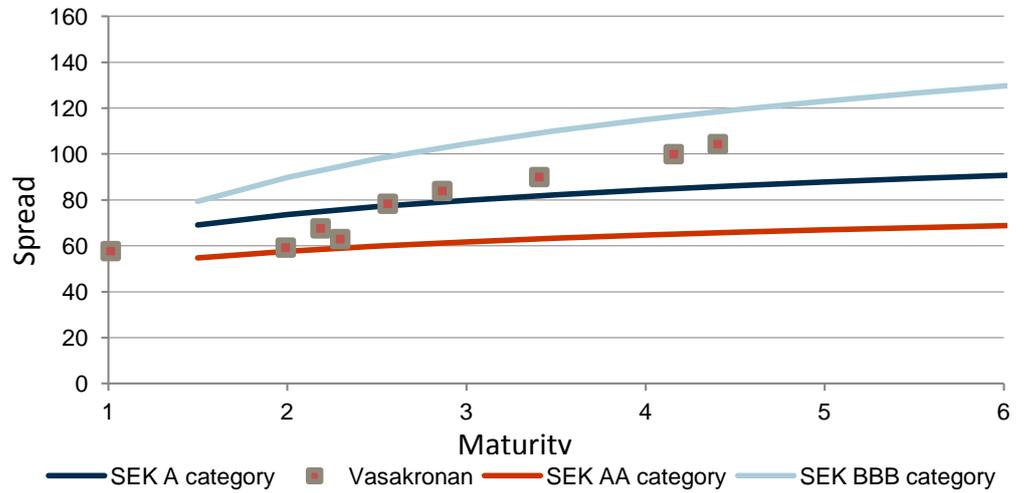


Source: Company reports and Handelsbanken Capital Markets

Recommendation

Although spreads for Vasakronan have widened slightly compared to our generic rating curves over the past two months, they remain close to the generic A curve and therefore seem expensive relative to our indicative rating of BBB+. We maintain our Underperform recommendation.

Figure 2: Vasakronan spread vs. generic rating curves



Source: Company reports and Handelsbanken Capital Markets

Recommendation structure and allocations

Handelsbanken Capital Markets Credit Research (HCM) employs a three-graded recommendation scale. The recommendations reflect the analyst's assessment of the bond's total return on a 12-month time horizon in relation to a relevant benchmark. Investment recommendations are based on one or more methods of valuation, such as cash flow analysis, recovery assignments, sector performance, market movements, etc. The recommendations reflect the analyst's assessment of the expected total return on the instrument compared to the relevant benchmark (i.e. the expected return on a relevant benchmark with regard to similar credit quality, sector, currency, maturity, seniority, documentation, etc.). This assessment is not based on a proprietary HCM model and the basis for the analyst's assessment is dependent on the characteristics of the sector and the company and a multitude of fundamental and timing factors are incorporated. The recommendation is made in total return terms relative a relevant benchmark on a 12-month time horizon and takes into account risks related to the investment. The recommendations do not represent the analyst's or the bank's assessment of the company's fundamental value or quality. All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The recommendations, together with the allocation of the rating categories amongst companies under coverage and amongst companies under coverage for which Handelsbanken has provided investment banking services in the past 12 months are listed below:

Recommendations: definitions and allocations

HCM recommendation ¹	HCM universe ²	IB services ³
Outperform	12%	0%
Market perform	73%	4%
Underperform	14%	2%

1 Recommendation definitions:

Outperform: Over the next 12 months, the bond's total return is expected to exceed the total return of the relevant benchmark

Market perform: Over the next 12 months, the bond's total return is expected to be in line with the total return of the relevant benchmark

Underperform: Over the next 12 months, the bond's total return is expected to be below the total return of the relevant benchmark

2 Percentage of companies under coverage (unsecured) within each recommendation

3 Percentage of companies within each recommendation (unsecured) for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 26/8 2016

At times, the expected total returns may fall outside of the above stated expectation because of price movement and/or volatility. Such interim deviations from specified expectations will be permitted but will become subject to review by Research Management. Recommendations are continuously reviewed by the analyst and monitored by the Research Management and will be updated and/or refreshed regularly. The rationale behind a change in recommendation will be explained in such a refresher/update. A list of all recommendations made by investment research during the preceding 12-month period is available here: <https://www.researchonline.se/desc/rechist>.

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