

Vasakronan AB

Q1 17: Healthy organic growth

Vasakronan showed a good performance in Q1. Due to the current strong Swedish property market, rental income rose by a healthy 6% on a comparable basis, while leverage declined due to the higher property values with a net LTV of a low 45% at the end of March. Recently, Vasakronan announced that it has established a new stricter framework for its issuance of green bonds, which we regard positively. Vasakronan estimates that some SEK15bn of buildings and projects qualify for green financing under the new framework (versus SEK5.2bn currently outstanding). We find Vasakronan's SEK bonds fairly valued compared with 'A-' rated peers such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation.

Healthy organic growth

Vasakronan reported rental income of SEK1.6bn for Q1 17 (Q1 16: SEK1.5bn). On a comparable portfolio basis, rental income rose by 6%, with a net operating income margin of 71% (Q1 16: 70%). The economic occupancy rate declined slightly from Q4 and was 93.9% at end-March (end-December: 94.2%). Valuation changes to the property portfolio amounted to SEK839m in Q1. The total property portfolio market value stood at SEK117bn as of end-March. The reported interest coverage ratio was 4.0x, with an average maturity for the debt portfolio of 3.6 years (end-Q4: 3.4 years).

Further decline in leverage

Funds from operations rose to SEK811m (Q1 16: SEK695m) and cash flow from operations increased to SEK704m (Q1 16: SEK472m). Net debt declined slightly to SEK52.6bn (Q4 16: SEK53.1bn). Due to the higher property values, the net loan-to-value fell slightly further to 45% (YE 2016: 46%). At YE 2016, Vasakronan's debt structure consisted of 70% bonds and certificates and 30% bank debt (of which green bonds were SEK5.2bn). In Q1, Vasakronan issued bonds amounting to SEK2.4bn in Sweden and NOK1.7bn in Norway. It also increased its bank debt by SEK1.2bn. The total amount of secured debt amounted to 13% (financial policy: maximum 20% of total assets).

Key figures

SEKm	Q1 16	Q4 16	Q1 17	y/y	q/q
Rental income	1,542	1,605	1,617	4.86%	0.75%
EBITDA (rep.)	1,068	1,102	1,122	5.06%	1.81%
Net income	1,503	4,483	1,386	-7.78%	-69.08%
Investment properties	106,064	115,922	117,037	10.35%	0.96%
Total debt	55,022	55,240	55,181	0.29%	-0.11%
Ratios	Q1 16	Q4 16	Q1 17	y/y	q/q
Gross LTV	51.9%	47.7%	47.1%	-4.7pp	-0.5pp
LTM NOI margin	70.6%	70.7%	70.8%	0.2pp	0.2pp
LTM EBITDA interest coverage	4.2x	4.1x	3.8x	-0.4pp	-0.3pp
Net debt / LTM EBITDA	11.8x	12.1x	11.9x	0.1pp	-0.3pp
Total debt/Total capital	56.3%	54.5%	53.7%	-2.6pp	-0.8pp

Source: Company data, Danske Bank Markets Credit estimates

Marketweight

Sector: Real estate

Corporate ticker: FASTIG

Equity ticker 1276Z SS

Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

Analysts

Louis Landeman

llan@danskebank.com

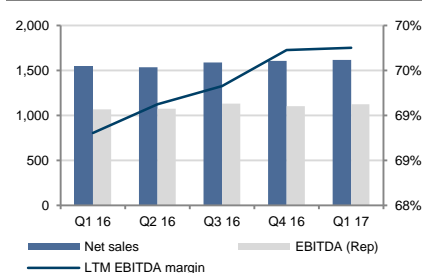
+46 8 568 80524

August Moberg

aumo@danskebank.com

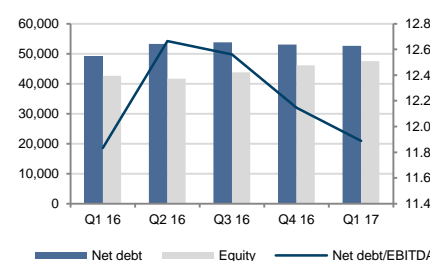
+46 8 568 80593

Profitability



Source: Company data, Danske Bank Markets

Financial metrics



Source: Company data, Danske Bank Markets

Stricter green bond framework

Last week, Vasakronan announced that the company has established a new stricter framework for its issuance of green bonds. In the new framework, new build and refurbishment projects that are financed with green bonds have to be certified with LEED at the level of Platina or BREEAM at the level of Outstanding and also have an energy efficiency that is 25% below the demands under Swedish building standards. In addition, the new framework allows for refinancing of existing building, but only those that have a certification of LEED at the level of Gold and an energy efficiency below 100 kWh per square metre and year. Vasakronan estimates that some SEK15bn of buildings and projects qualify for green financing under the new framework.

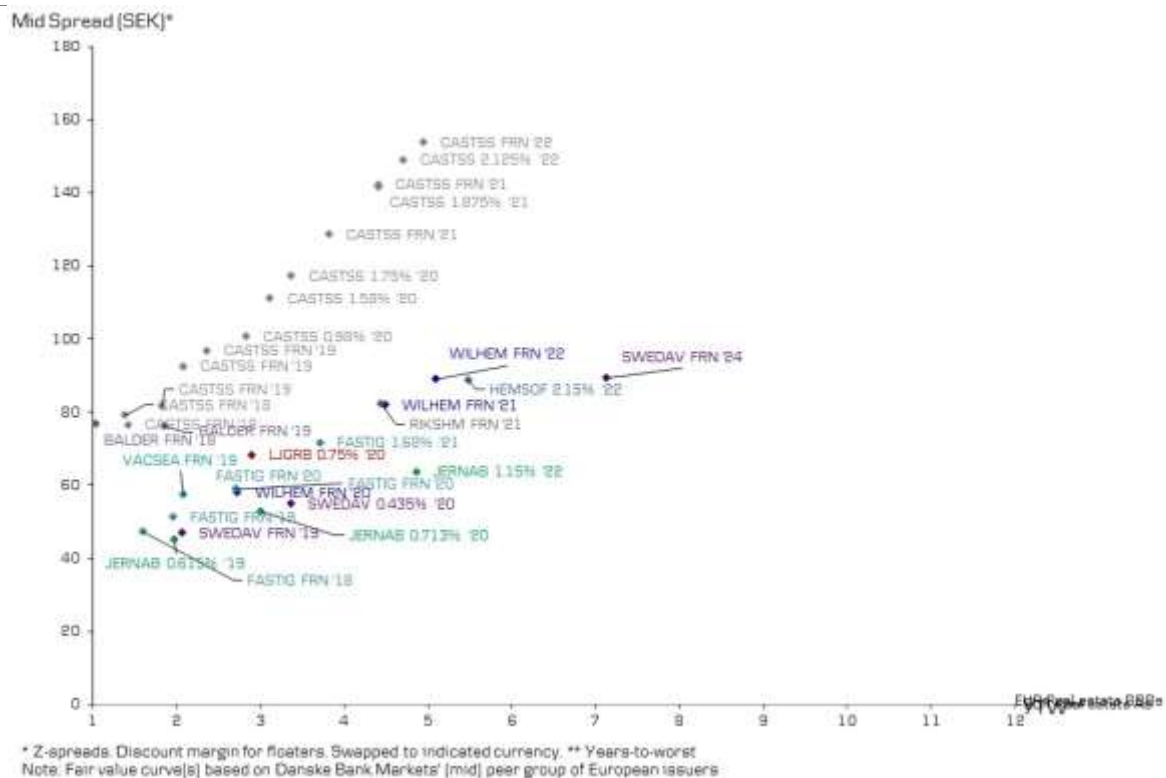
Our view

Vasakronan showed a strong performance in Q1, with healthy organic growth in rental income and operating earnings. Leverage declined somewhat further from Q4 with a net LTV of a low 45% at end March.

Given Vasakronan's high quality property portfolio, moderate secured leverage and strong ownership, our assessment of expected recovery for bondholders in a potential default scenario is 30-70%. Given that the AP funds are long-term investors, we consider it likely that they would stand behind Vasakronan in difficult times and, for instance, participate in a capital increase if the need arose.

We see Vasakronan's SEK bonds as fairly valued compared with 'A-' rated peers such as Hemsö, Rikshem and Willhem and keep our Marketweight recommendation.

Relative value SEK Real Estate



Note: ASW spreads based on best observed offer price in market
Source: Bloomberg, Danske Bank Markets

Company summary

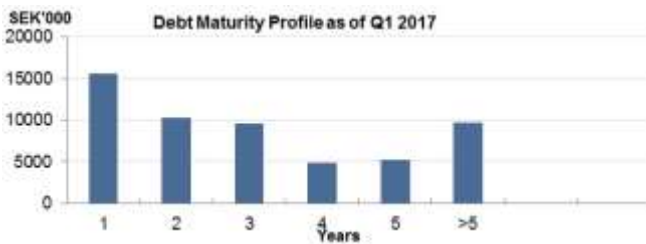
Company description

Vasakronan is the largest property company in Sweden. The portfolio is concentrated to Sweden's largest cities and in terms of property type, offices and retail make up for the large majority of the total. The current structure of the company was formed after AP Fastigheter (controlled by the state-owned AP funds) bought all the shares of Vasakronan from the Swedish government on 3 July 2008. The merged corporation changed its name to Vasakronan. It is the company's strategy to focus on growth markets in Sweden and own properties that provide a stable return over time.

Key credit strengths

- High-quality urban property portfolio with low vacancy rates
- Strong ownership from government pension funds
- Diversified client base with large proportion of public sector
- Proven access to capital and bank markets

Debt maturity profile



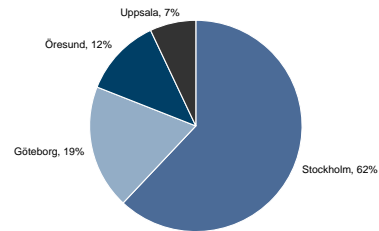
Selected outstanding bonds

Isin	Cupon	Currency	Maturity/Call	Seniority	Rating*
SE0008730774	FRN	SEK	12/12/2018	Sr Unsecured	NR/NR
SE0009241425	FRN	SEK	4/24/2019	Sr Unsecured	NR/NR
SE0006732087	FRN	SEK	1/22/2020	Sr Unsecured	NR/NR
SE0004357192	4%	SEK	12/1/2020	Sr Unsecured	NR/NR
SE0007953930	1.68%	SEK	1/20/2021	Sr Unsecured	NR/NR

*Moody's/S&P

Source: Company data, Bloomberg, Danske Bank Markets Credit estimates [all charts and tables]

Sales breakdown, segments



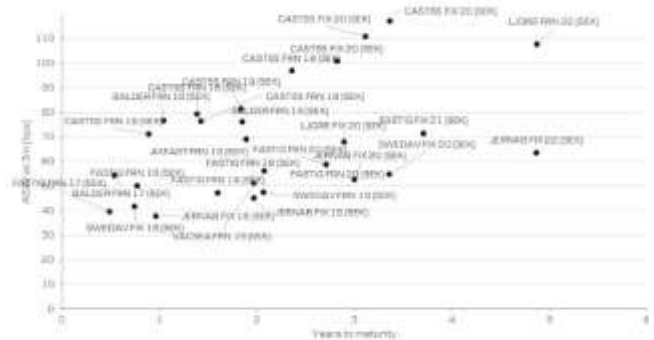
Key credit challenges

- Moderate exposure to late cyclical real estate market
- High concentration of commercial properties
- Somewhat short debt maturity profile
- Some interest rate sensitivity, although mitigated by strong balance sheet

Main shareholders

Name	Votes (%)	Capital (%)
AP1	25.0%	25.0%
AP2	25.0%	25.0%
AP3	25.0%	25.0%
AP4	25.0%	25.0%

Relative valuation



Summary tables

Income statement (SEKm)	2013	2014	2015	2016	2017E
Rental income	6,032	5,899	6,009	6,251	6,376
Other operating income	0	0	0	0	0
Total revenue	6,032	5,899	6,009	6,251	6,376
Total property related costs	1,753	1,727	1,735	1,792	1,913
Net operating income (NOI)	4,279	4,172	4,274	4,459	4,463
EBITDA	4,141	4,057	4,114	4,351	4,373
Net interest expenses	1,503	1,256	1,121	1,152	1,125
Profit from property management	2,689	2,823	3,065	3,220	3,248
Change in property values	1,952	3,519	10,212	12,056	2,318
Change in financial derivatives	1,151	-2,956	598	-764	0
Other	-51	-22	-72	-21	0
Pre-tax profit	5,741	3,364	13,803	14,491	5,567
Current tax	-2	41	-45	0	-111
Deferred tax	-921	-683	-2,814	-3,019	-3,000
Net income	4,818	2,722	10,944	11,472	2,456
Balance sheet (SEKm)	2013	2014	2015	2016	2017E
Market value properties	87,145	91,889	103,894	115,922	118,340
Other Fixed Assets	50	51	58	54	0
Intangible assets	2,280	2,259	2,188	2,171	2,171
Deferred tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	2,570	1,757	2,301	2,147	2,993
Total assets	93,242	97,184	109,786	122,056	125,469
Equity	36,357	35,094	41,245	46,117	44,573
Shareholder loans	0	0	0	0	0
Deferred taxes	7,859	8,532	11,356	14,362	14,362
Total debt	46,249	47,764	51,575	55,240	57,240
Other liabilities	2,777	5,794	5,610	6,337	6,588
Total equity and liabilities	93,242	97,184	109,786	122,056	122,763
Cash Flow Statement (SEKm)	2013	2014	2015	2016	2017E
FFO (adjusted)	2,600	2,789	2,855	3,137	3,137
Cash flow from operations (FFO)	2,802	2,902	3,210	3,439	2,946
Investment (properties)	-1,690	-4	-916	-58	-100
Disposals (properties)	2,988	1,574	1,387	2,121	2,000
Investments other (net)	-21	-13	-22	-5	0
Capex	-2,417	-2,813	-2,223	-2,035	-2,000
Free operating cash flow	1,683	1,659	1,458	3,467	2,846
Dividends and share repurchased	-1,177	-4,000	-4,924	-7,382	-4,000
Debt financing(net)	475	1,558	4,033	3,766	2,000
Change in cash	954	-813	545	-154	846

Source: Company data, Danske Bank Markets Credit estimates

Summary tables

Adjusted ratios (SEKm)	2013	2014	2015	2016	2017E
Sales growth	1.1%	-2.2%	1.9%	4.0%	2.0%
EBITDA margin	68.7%	68.8%	68.5%	69.6%	68.6%
NOI margin	70.9%	70.7%	71.1%	71.3%	70.0%
EBITDA interest coverage (x)	2.8	3.2	3.7	3.8	3.9
FFO/interest coverage (x)	2.7	3.2	3.5	3.7	3.8
FFO/debt (x)	5.6%	5.8%	5.5%	5.7%	5.5%
Net debt/EBITDA (x)	10.5	11.3	12.0	12.2	12.4
Gross LTV	53.1%	52.0%	49.6%	47.7%	48.4%
Net LTV	50.1%	50.1%	47.4%	45.8%	45.8%
Equity ratio	39.0%	36.1%	37.6%	37.8%	35.5%
Total debt/total capital	56.0%	57.6%	55.6%	54.5%	56.2%
Quarterly overview (SEKm)	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Rental income	1,542	1,534	1,588	1,605	1,617
EBITDA	1,068	1,072	1,129	1,102	1,122
Net interest expenses	173	281	313	285	283
Net income	1,503	3,564	2,042	4,483	1,386
CFO	472	951	907	1,109	704
Investment properties	106,064	109,132	111,566	115,922	117,037
Total debt	55,022	57,034	55,920	55,240	55,181
Net debt	49,274	53,243	53,823	53,093	52,601
Equity	42,630	41,708	43,749	46,117	47,503
Ratios					
LTM NOI margin	70.6%	72.0%	72.4%	70.7%	70.8%
LTM EBITDA margin	68.8%	69.1%	69.3%	69.7%	69.8%
Direct yield	4.1%	4.0%	4.0%	3.9%	3.9%
Gross LTV	51.9%	52.3%	50.1%	47.7%	47.1%
LTM EBITDA interest coverage (x)	4.2	4.2	4.1	4.1	3.8
Net debt/LTM EBITDA (x)	11.8	12.7	12.6	12.1	11.9
Total debt/total capital	56.3%	57.8%	56.1%	54.5%	53.7%
FFO/debt	1.3%	1.5%	1.3%	1.5%	1.5%

Source: Company data, Danske Bank Markets Credit estimates

Fixed Income Credit Research



Thomas Hovard
Head of Credit Research
+45 45 12 85 05
hova@danskebank.com



Henrik René Andresen
Credit Portfolios
+45 45 13 33 27
hena@danskebank.com



Gabriel Bergin
Strategy, Financials
+46 8 568 80602
gabe@danskebank.com



Brian Børsting
Industrials
+45 45 12 85 19
brbr@danskebank.com



Bendik Engebretsen
Industrials
+47 85 40 69 14
bee@danskebank.com



Katrine Jensen
Financials
+45 45 12 80 56
katri@danskebank.com



Louis Landeman
Industrials, Real Estate
+46 8 568 80524
llan@danskebank.com



Jakob Magnussen
Utilities, Energy
+45 45 12 85 03
jakja@danskebank.com



Jonas Meyer
Shipping
+47 85 40 70 79
mey@danskebank.com



August Moberg
Industrials & Construction
+46 8 568 80593
aumo@danskebank.com



Niklas Ripa
Credit Portfolios
+45 45 12 80 47
niri@danskebank.com



Mads Rosendal
Industrials, TMT
+46 8 568 80594
madro@danskebank.com



Haseeb Syed
Industrials
+47 85 40 54 19
hsy@danskebank.com

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12 September 2016	Marketweight	Not Rated

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