

Vasakronan AB

Q2 17: Market conditions remain favourable

In Q2 17, Vasakronan continued to demonstrate a satisfactory operating trend, with good organic growth and further property valuation gains. Due to a SEK4bn dividend payment in Q2, leverage rose sequentially with a gross LTV of 49% at end-June (end-March: 47%). We see Vasakronan's SEK bonds as fairly valued compared to A- rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation.

Good organic growth with further valuation gains

Vasakronan reported rental income of SEK1.6bn for Q2 2017 (Q2 16: SEK1.5bn). On a comparable portfolio basis, rental income rose by 6%, with a net operating income margin in H1 17 of 72% (H1 16: 71%). For lease contracts that were renegotiated in H1 17, the average lease rose by some 10.4%. The average lease term amounted to 4.3 years at end-June, while the economic occupancy rate rose slightly from Q1 and was 94.1% at end-June (end-March: 93.9%).

Valuation changes to the property portfolio amounted to SEK3.9bn in Q1. The total property portfolio's market value stood at SEK121bn as of end-June. Ongoing development projects amounted to SEK7.3bn. The reported interest coverage ratio was 3.9x, with an average maturity for the debt portfolio of 3.8 years (end-Q1: 3.6 years).

Some increase in leverage following dividend payment

Funds from operations rose to SEK933m (Q2 16: SEK877m), with a free cash flow after investments of SEK166m (Q2 16: SEK2.2bn). Following a SEK4bn dividend payment, net debt rose to SEK56.2bn (Q1 17: SEK52.6bn). The gross LTV rose to 49% (Q1 17: 47%). In H1 17, Vasakronan issued bonds amounting to SEK5.4bn in Sweden and NOK2.7bn in Norway. Vasakronan also increased its bank debt by SEK2.2bn in H1 17. The total amount of secured debt amounted to 13% as of end-June. Several new green financing deals were signed in H1 17, and in total the share of green financing (bonds and loans) amounted to 15% of Vasakronan's total debt funding at end-June.

Key figures

SEKm	Q2 16	Q1 17	Q2 17	y/y	q/q
Rental income	1,534	1,617	1,629	6.19%	0.74%
EBITDA (rep.)	1,072	1,122	1,156	7.84%	3.03%
Net income	3,564	1,386	3,936	10.44%	183.98%
Investment properties	109,132	117,037	121,403	11.24%	3.73%
Total debt	57,034	55,181	58,956	3.37%	6.84%
Ratios	Q2 16	Q1 17	Q2 17	y/y	q/q
Gross LTV	52.3%	47.1%	48.6%	-3.7pp	1.4pp
LTM NOI margin	72.0%	70.8%	72.8%	0.8pp	2.0pp
LTM EBITDA interest coverage	4.2x	3.8x	3.8x	-0.4pp	0.0pp
Net debt / LTM EBITDA	12.7x	11.9x	12.5x	-0.2pp	0.6pp
Total debt/Total capital	57.8%	53.7%	55.4%	-2.3pp	1.7pp

Source: Company data, Danske Bank DCM Research estimates

Marketweight

Sector: Real estate

Corporate ticker: FASTIG

Equity ticker 1276Z SS

Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

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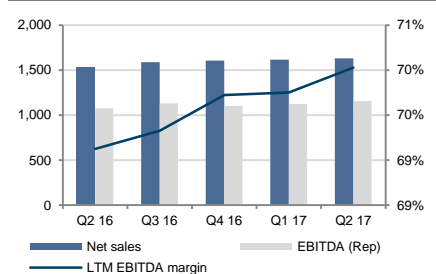
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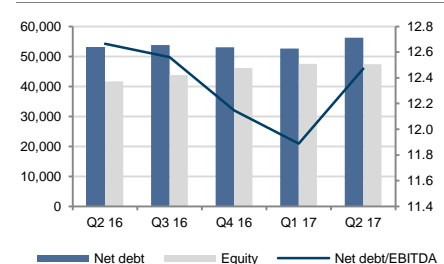
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Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

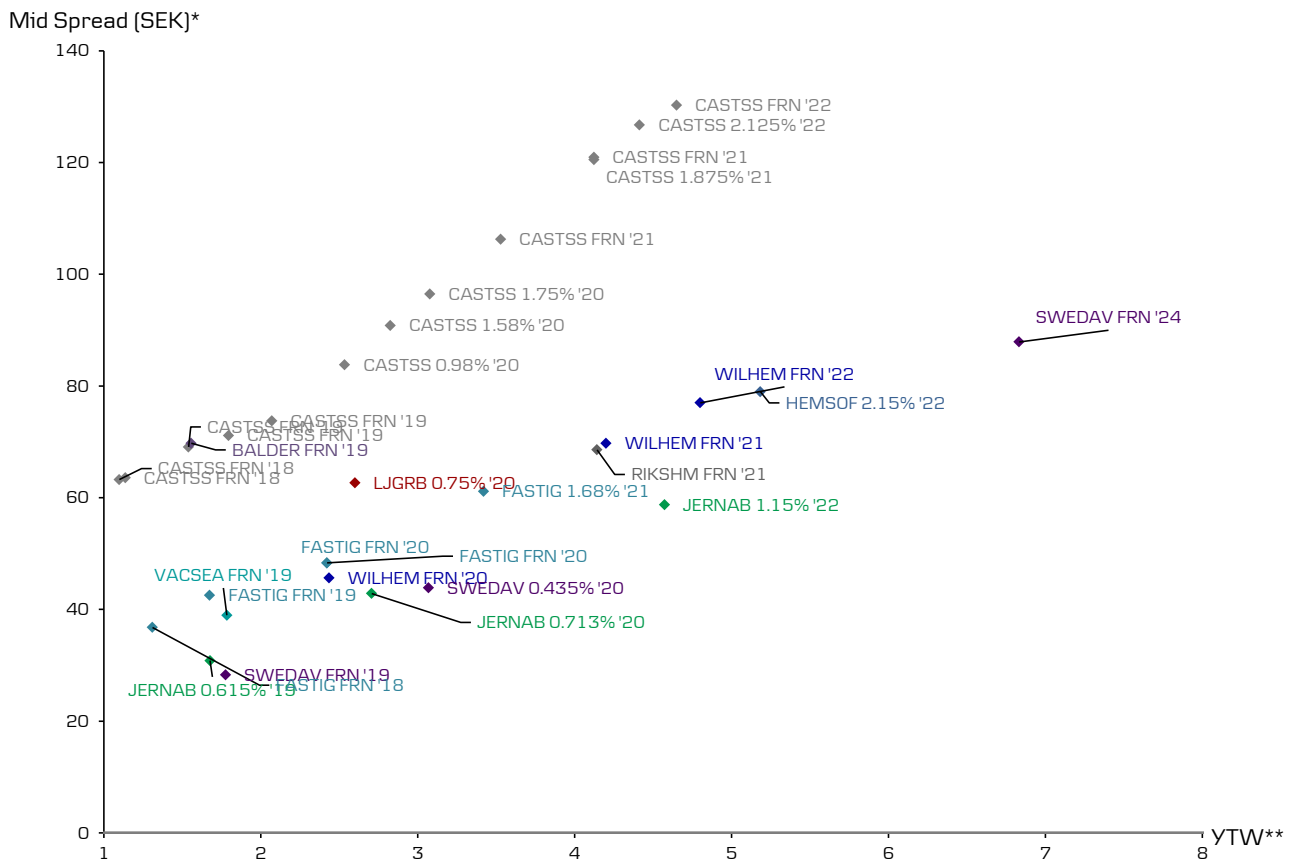
Our view

In Q2 17, Vasakronan continued to demonstrate a satisfactory operating trend, with good organic growth and further property valuation gains. Due to a SEK4bn dividend payment in Q2, leverage rose somewhat with a gross LTV of 49% at end-June (end March: 47%).

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 to A- rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem and maintain our Marketweight recommendation.

Relative value SEK Real Estate



* Z-spreads. Discount margin for floaters. Swapped to indicated currency. ** Years-to-worst
 Note: Fair value curve(s) based on Danske Bank Markets' (mid) peer group of European issuers

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

Company summary

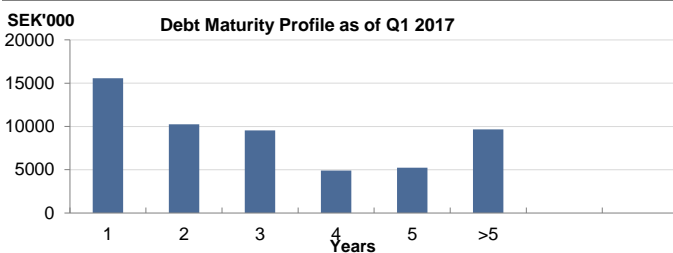
Company description

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

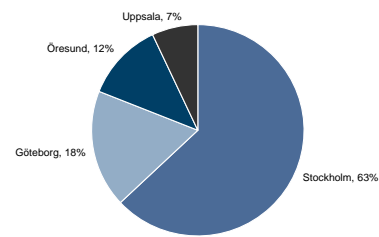


Selected outstanding bonds

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

Sales breakdown, segments



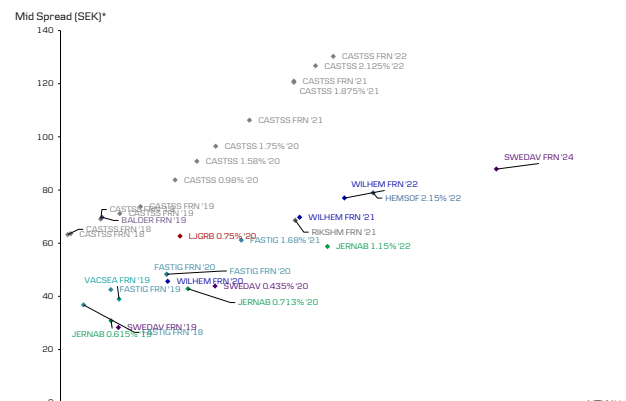
Key credit challenges

- 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



Source: Company data, Bloomberg, Danske Bank DCM Research [all charts and tables]

Summary tables

Income statement (SEKm)	2013	2014	2015	2016	2017E
Rental income	6,032	5,899	6,009	6,251	6,501
Other operating income	0	0	0	0	0
Total revenue	6,032	5,899	6,009	6,251	6,501
Total property related costs	1,753	1,727	1,735	1,792	1,950
Net operating income (NOI)	4,279	4,172	4,274	4,459	4,551
EBITDA	4,141	4,057	4,114	4,351	4,461
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	3,336
Change in property values	1,952	3,519	10,212	12,056	4,637
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	7,973
Current tax	-2	41	-45	0	-159
Deferred tax	-921	-683	-2,814	-3,019	-3,000
Net income	4,818	2,722	10,944	11,472	4,813
Balance sheet (SEKm)	2013	2014	2015	2016	2017E
Market value properties	87,145	91,889	103,894	115,922	121,659
Other Fixed Assests	50	51	58	54	0
Intangible assets	2,280	2,259	2,188	2,171	2,171
Deffered tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	2,570	1,757	2,301	2,147	2,081
Total assets	93,242	97,184	109,786	122,056	127,875
Equity	36,357	35,094	41,245	46,117	46,930
Shareholder loans	0	0	0	0	0
Deffered 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	125,120
Cash Flow Statement (SEKm)	2013	2014	2015	2016	2017E
FFO (adjusted)	2,600	2,789	2,855	3,137	3,176
Cash flow from operations (FFO)	2,802	2,902	3,210	3,439	3,034
Investment (properties)	-1,690	-4	-916	-58	-100
Disposals (properties)	2,988	1,574	1,387	2,121	1,000
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	1,934
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	-66

Source: Company data, Danske Bank DCM Research estimates

Summary tables

Adjusted ratios (SEKm)	2013	2014	2015	2016	2017E
Sales growth	1.1%	-2.2%	1.9%	4.0%	4.0%
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	4.0
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%	47.0%
Net LTV	50.1%	50.1%	47.4%	45.8%	45.3%
Equity ratio	39.0%	36.1%	37.6%	37.8%	36.7%
Total debt/total capital	56.0%	57.6%	55.6%	54.5%	54.9%
Quarterly overview (SEKm)	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Rental income	1,534	1,588	1,605	1,617	1,629
EBITDA	1,072	1,129	1,102	1,122	1,156
Net interest expenses	281	313	285	283	296
Net income	3,564	2,042	4,483	1,386	3,936
CFO	951	907	1,109	704	646
Investment properties	109,132	111,566	115,922	117,037	121,403
Total debt	57,034	55,920	55,240	55,181	58,956
Net debt	53,243	53,823	53,093	52,601	56,232
Equity	41,708	43,749	46,117	47,503	47,438
Ratios					
LTM NOI margin	72.0%	72.4%	70.7%	70.8%	72.8%
LTM EBITDA margin	69.1%	69.3%	69.7%	69.8%	70.0%
Direct yield	4.0%	4.0%	3.9%	3.9%	3.8%
Gross LTV	52.3%	50.1%	47.7%	47.1%	48.6%
LTM EBITDA interest coverage (x)	4.2	4.1	4.1	3.8	3.8
Net debt/LTM EBITDA (x)	12.7	12.6	12.1	11.9	12.5
Total debt/total capital	57.8%	56.1%	54.5%	53.7%	55.4%
FFO/debt	1.5%	1.3%	1.5%	1.5%	1.6%

Source: Company data, Danske Bank DCM Research estimates

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Date	Old rec.	New rec.
12 Sep 2016	Not Rated	Marketweight

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