

2 February, 2017

# Vasakronan

## Biggest may also be the best

- Well positioned for future challenges
- Stable credit metrics
- Bonds fairly priced - Marketweight

### Well positioned for future challenges

Vasakronan appear to have positioned themselves well for the potential situation of a weakening real estate market. During 2016, they have only made two small acquisitions (SEK 58m) whereas they have divested for SEK 2.1bn. The market value of the property portfolio (SEK 115.9bn) has still risen quite significantly due to positive revaluations of properties, amounting to SEK 12.1bn during the year. This is mainly driven by increased rents as well as yield compression. From our perspective, it appears that Vasakronan has taken the opportunity to consolidate their portfolio at a time where the transaction intensity as well as prices are high.

### Stable credit metrics

Rental income amounted to SEK 6.3bn in 2016 (SEK 6.0bn in 2015), whereas net income was up 5% y/y to SEK 11.5bn. EBITDA/interest was kept steady at 3.8x (3.7x) and so was FFO/debt at 5.8% (6.0%). Looking at the q/q change, debt/EBITDA came in equal to 12.6x (13.0x in LTM Q3 2016), debt/debt + equity improved to 54.5% (56.1%), LTV decreased to 47.7% (50.1%) and the equity ratio increased to 37.8% (36.6%). The vacancy rate continued its trend and was yet again lowered, now equal to 5.8%. The company's debt- and interest maturity periods were relatively stable but fairly weak at 2.9 and 3.5 years, respectively.

During the previous quarter, Vasakronan transformed its shareholder loan from AP 1-4 to a non-conditional equity injection. This is positive as it reduces question marks how rating agencies would view the situation and it also strengthens the balance sheet. This action most certainly brings Vasakronan closer to getting an official rating, and we believe they are one of the next real estate companies in Sweden to get one. Although they are tightly priced in the SEK-market already, an official rating is necessary to reach the EUR-market.

### Bonds fairly priced - Marketweight

As clarified above, we are of the opinion that Vasakronan are doing a lot of good things at the moment. They appear to be able to withstand an increase in market values without the implied risk increasing significantly and, the fairly high capital expenditure instead of acquiring will make their properties attractive when demand becomes weaker (especially given the strong locations in the four largest cities in Sweden). Looking at their bonds, they are trading in line with Rikshem (S&P: A-/Negative) and tighter than Hemsö (S&P: A-/Stable). Given that both these are officially rated, one would perhaps expect them to trade tighter than Vasakronan. However, given Hemsö's high leverage, we think the current situation is fair. We keep our Marketweight recommendation.

### Vasakronan

#### Real Estate Investment & Services

Bloomberg Equity: 1276Z SS  
Bloomberg Debt: FASTIG

#### Corporate Ratings

Moody's: -  
S&P: -  
Fitch: -

#### Recommendations

Marketweight

#### Credit Strengths

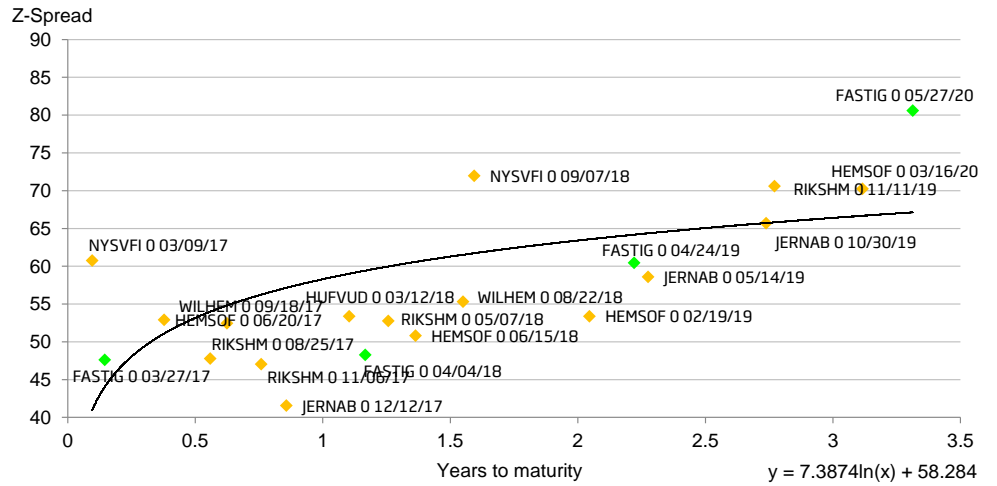
- Large, high-quality property portfolio.
- Owned by state pension funds (AP 1-4).
- Specific guarantee of SEK 18bn, which can be used to refinance capital-market financing if markets are volatile.
- Moderately leveraged relative to many Swedish sector peers.
- High level of governmental tenants.

#### Credit Weaknesses

- Focus on commercial properties mitigated by attractive locations, tenant diversification and large share of public-sector tenants.
- High proportion of short funding, but with proven access to capital markets, a diversified funding structure and strong owners.

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### Relative value, Real Estate Bonds



## Financial statements and analysis

<b>P&amp;L (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Rental Income	5 969	6 032	5 899	6 009	6 251
Operating expenses	-1 697	-1 753	-1 727	-1 735	-1 792
Net operating income (NOI)	4 272	4 279	4 172	4 274	4 459
Other financial items	64.0	34.0	0.0	0.0	0.0
Result from JV/associates	-1.0	0.0	-1.0	-1.0	-3.0
Interest Income	59.0	29.0	0.0	0.0	10.0
Interest expenses	-1 700	-1 566	-1 256	-1 121	-1 162
Income from property management	2 613	2 689	2 822	3 064	3 217
Realised gains/losses	0.0	0.0	0.0	0.0	0.0
Revaluation properties	1 254	1 952	3 519	10 212	12 056
Revaluations - derivatives	-615	1 100	-2 977	527	-764
Extraordinary items/others	-4.0	0.0	0.0	0.0	-18.0
Income before tax	3 252	5 741	3 364	13 803	14 491
Current tax	-282	-2.0	40.0	-45.0	0.0
Deferred taxes	953	-921	-682	-2 814	-3 019
Net income	3 919	4 818	2 722	10 944	11 472

Sources: Vasakronan and Swedbank Research

<b>Balance Sheet (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Market value properties	84 074	87 145	91 889	103 894	115 922
Holdings in associates	347	353	0.0	0.0	372
Financial fixed assets	158	144	0.0	550	423
Other non-current assets	2 330	2 280	2 259	2 188	2 229
Fixed assets	86 952	89 972	94 199	106 690	119 000
Cash	1 616	2 570	1 757	2 301	2 147
ST Financial assets	0.0	0.0	1 228	0.0	0.0
Other current assets	751	700	0.0	795	909
Current assets	2 367	3 270	2 985	3 096	3 056
Total Assets	89 319	93 242	97 184	109 786	122 056
Shareholder's equity	32 660	36 357	35 094	41 245	46 117
Interest rate derivatives	1 674	504	0.0	0.0	3 661
Deferred tax liability	6 942	7 859	8 532	11 356	14 362
Short-term interest bearing debt	13 234	13 740	12 199	15 766	15 906
Accounts and notes payable	145	193	0.0	0.0	132
Other short-term liabilities	3 065	3 055	6 719	6 435	2 544
Total Liabilities & Equity	89 319	93 242	97 184	109 786	122 056

Sources: Vasakronan and Swedbank Research

<b>Cash flow (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Income before tax	2 613	2 717	2 822	3 064	3 217
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Interest received	46.0	0.0	1 256	1 121	1 152
Interest paid	-1 774	-1 468	-1 309	-1 323	-1 191
Paid taxes	-17.0	-17.0	20.0	-15.0	-48.0
Dividend paid	0.0	0.0	0.0	0.0	0.0
Operating cash flow	2 432	2 685	2 789	2 855	3 137
Change in working capital	-91.0	105	113	355	302
Operating cash flow	2 341	2 790	2 902	3 210	3 439
Acquisitions of PP&E	0.0	0.0	-13.0	-22.0	0.0
Change in financial investments	0.0	0.0	-17.0	0.0	0.0
Investments in existing properties	-2 220	-2 557	-2 813	-2 224	-2 035
Sale of properties	4 370	2 988	1 574	1 387	2 121
Acquisition of subsidiaries	0.0	0.0	0.0	0.0	0.0
Dividends/share repurchases	-1 273	-1 117	-4 000	-4 924	-7 382
Share issues & buy-backs	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing liabilities	-1 469	2 189	1 558	4 033	4 285
Others	0.0	0.0	0.0	0.0	-519
Net cash flow	-864	2 587	-813	544	-154

Sources: Vasakronan and Swedbank Research

Ratios (SEKm)	2012	2013	2014	2015	2016
<b>Adjusted Ratio Elements</b>					
EBITDA	4 191	4 192	4 079	4 186	4 372
EBIT	4 191	4 192	4 079	4 186	4 372
FFO	2 186	2 550	2 863	3 020	3 220
Debt	44 833	45 274	46 839	50 750	55 240
Net Debt	43 217	42 704	45 082	48 449	53 093
Interest	-1 782	-1 669	-1 256	-1 121	-1 162
<b>Core Financial Ratios</b>					
EBITDA / Interest (x)	2.4	2.5	3.2	3.7	3.8
Unadjusted EBITDA /net interest (x)	2.6	2.7	3.2	3.7	3.8
Debt/EBITDA (x)	10.7	10.8	11.5	12.1	12.6
Net debt/EBITDA	10.3	10.2	11.1	11.6	12.1
FFO / Debt	0.0	0.1	0.1	0.1	0.1
Debt / Debt + Equity	0.6	0.6	0.6	0.6	0.5
LTV	0.5	0.5	0.5	0.5	0.5
LTV net of cash and liquid fin. assets	0.5	0.5	0.5	0.5	0.5
<b>Profitability</b>					
NOI margin	71.6%	70.9%	70.7%	71.1%	71.3%
EBITDA margin	70.2%	69.5%	69.1%	69.7%	69.9%
<b>Debt Structure</b>					
Secured debt	0.0	0.0	0.0	0.0	16 830
<b>Property key related ratios</b>					
Implied Yield	5.1%	4.9%	4.5%	4.1%	3.8%
Economic vacancy	7.0%	6.6%	8.0%	7.4%	5.8%
Lettable area (t sqm)	2 601	2 562	2 509	2 509	2 426
No. of properties	193	192	185	180	179
Lettable area per property (sqm)	13 477	13 344	13 562	13 939	13 553
MV per sqm	32 324	34 014	36 624	41 409	47 783
MV of properties	84 074	87 145	91 889	103 894	115 922
<b>Financial Flexibility</b>					

Sources: Vasakronan and Swedbank Research

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