

# Vasakronan AB

## Q1 18: A3 rating assigned by Moody's

Vasakronan reported a satisfactory result, with continued positive rental growth and a slight decline in leverage. In addition, Vasakronan strengthened its green profile further as the share of certified buildings rose to 84% (Q1 17: 81%) as of end-March. While Vasakronan was a net seller of properties under the quarter, the property portfolio fair value increased by SEK1.5bn q/q to SEK128bn, mainly attributable to unrealised valuation gains amounting to SEK1.7bn. After the period, Vasakronan was assigned an 'A3' credit rating with stable outlook from Moody's. We see Vasakronan's SEK bonds as fairly valued compared with 'A-' rated publicly-owned real estate companies such as Hemsö, Rikshem, Wilhelm and, consequently, maintain our Marketweight recommendation.

### Satisfactory like-for-like development

For Q1, Vasakronan posted 5% like-for-like growth in rental income, driven by positive net movement and renegotiation of leases. Renegotiations of 57,000 sqm led to a 10.7% increase in rent levels compared to previous levels. As NOI margins remained unchanged y/y, NOI also rose 5% on a like-for-like basis amounting to SEK1.2bn for the quarter. While economic occupancy rate fell slightly sequentially to 92.8%, this was widely expected and largely explained by vacancies due to ongoing projects. Net LTV declined sequentially from 45% to 44% as unrealised revaluation gains boosted property portfolio fair value by some SEK1.7bn. Also, net secured LTV declined by 2p.p. q/q to a low 9%. Furthermore, net debt/EBITDA declined sequentially by 0.2x to 12.3x.

During the quarter, Vasakronan was a net seller with some SEK1bn of asset disposals and SEK80m of acquisitions. Instead, in order to make use of the current market momentum, Vasakronan focuses on project development. As of end-Q1 18, the project portfolio stood at SEK9bn. Still, for the full-year 2018, we estimate modest capex of SEK2.5bn or 2% of gross assets.

### Key figures

SEKm	Q1 17	Q4 17	Q1 18	y/y	q/q
Rental income	1,617	1,654	1,643	1.61%	-0.67%
EBITDA (rep.)	1,122	1,130	1,132	0.89%	0.18%
Net income	1,386	2,436	2,027	46.25%	-16.79%
Investment properties	117,037	126,875	128,339	9.66%	1.15%
Total debt	55,181	58,421	58,903	6.75%	0.83%
Ratios	Q1 17	Q4 17	Q1 18	y/y	q/q
Gross LTV	47.1%	46.0%	45.9%	-1.3pp	-0.1pp
LTM NOI margin	70.8%	71.3%	70.4%	-0.5pp	-0.9pp
LTM EBITDA interest coverage (x)	3.8	3.9	4.0	0.2pp	0.0pp
Net debt/LTM EBITDA (x)	11.9	12.5	12.3	0.4pp	-0.2pp
Total debt/total capital	53.7%	53.2%	52.4%	-1.3pp	-0.8pp

Source: Company data, Danske Bank DCM Research

## Marketweight

Sector: Real estate

Corporate ticker: FASTIG

Equity ticker 1276Z SS

### Ratings:

S&P: NR / NR

Moody's: A3 / S

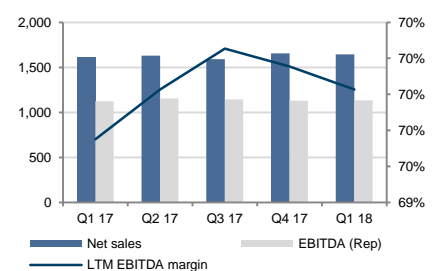
Fitch: NR / NR

### Analysts

Christopher Hellesnes  
[cahe@danskebank.com](mailto:cahe@danskebank.com)  
 +46 8 568 80547

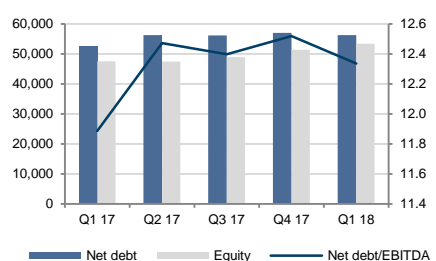
Gabriel Bergin  
[gabe@danskebank.com](mailto:gabe@danskebank.com)  
 +46 8 568 80602

### Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

### Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

Funds from operations totalled SEK770m and with SEK183m working capital release, cash flow from operations was SEK953m. Moreover, as cash flow increased and effective interest rate on the debt portfolio declined somewhat, EBITDA interest coverage strengthened from 3.9x in Q4 17 to 4.0x in Q1 18.

## Rating

After the period, Vasakronan was assigned an 'A3' credit rating with a stable outlook from Moody's. According to Moody's, the rating reflects its strong market position as one of the leading real estate companies in Sweden, focused on commercial buildings in prime locations. Furthermore, the rating reflects the likelihood of extraordinary support from its owners in an adverse scenario. Moody's has awarded Vasakronan a baseline credit assessment of 'Baa1' and a one-notch uplift to 'A3' due to the likelihood of extraordinary support. Although we see limited tightening potential on outstanding bonds from current levels in connection with the assigned rating, we positively note that the rating enables Vasakronan to fund itself on longer maturities, especially via the NOK and EUR markets.

## Ownership support

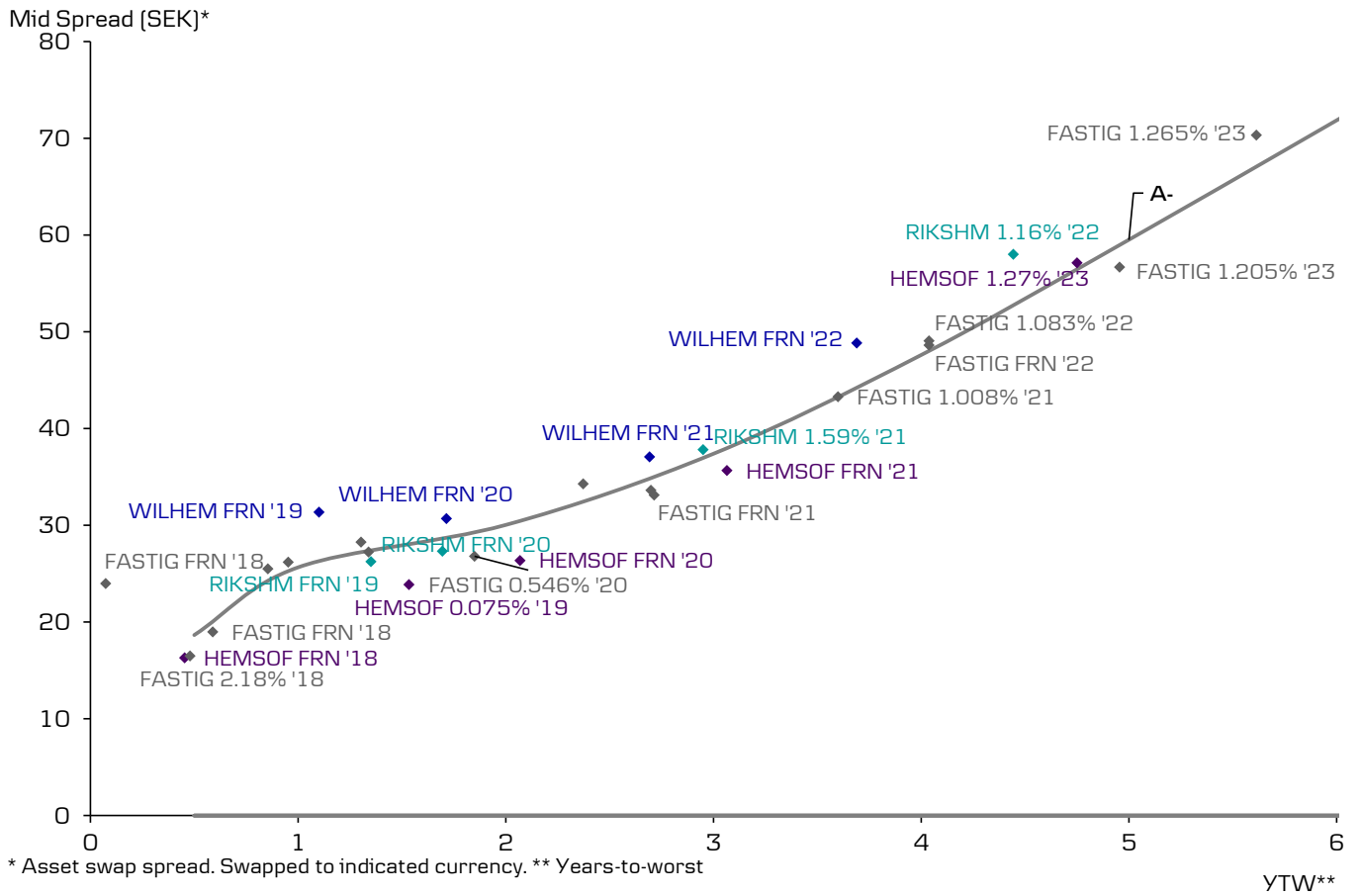
In 2014, Vasakronan announced that it had entered into an agreement with its owners AP1, AP2, AP3 and AP4 related to a funding commitment from the owners. The agreement stipulates that the owners, upon request by Vasakronan, commit to purchasing commercial paper issued by the company up to a maximum volume of SEK18bn. The agreement also stipulates a notice period of 24 months. If the agreement is not terminated, the maturity will automatically be extended, with a notice period of 24 months. At end-Q1 18, Vasakronan's outstanding commercial papers amounted to SEK7.3bn.

## Recommendation

Vasakronan displayed a steady operating performance in Q1, with good like-for-like rental growth, boosted by current favourable market conditions. While economic occupancy rate fell y/y, this was widely expected and explained by vacancies due to ongoing projects, especially in Sergelhuset.

Considering its solid fundamentals and strong ownership profile, we see Vasakronan's SEK bonds as fairly valued compared with 'A-' rated publicly-owned real estate companies such as Hemsö, Rikshem and Willhem, and maintain our Marketweight recommendation. We note positively the company's ambitious green bond framework, which has received a dark green shading from Cicero.

SEK Large Real Estate relative value



Note: ASW spreads based on indicative mid prices

Source: Bloomberg, Danske Bank DCM Research

## Company summary

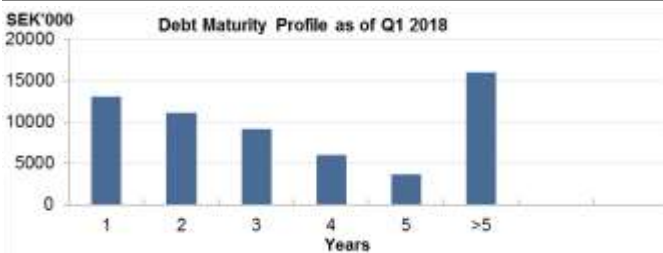
### Company description

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	Coupon	Currency	Maturity/Call	Seniority	Rating*
SE0008730774	FRN	SEK	12/12/2018	Sr Unsecured	NR/NR
SE0009241425	FRN	SEK	24/04/2019	Sr Unsecured	NR/NR
SE0006732087	FRN	SEK	22/01/2020	Sr Unsecured	NR/NR
SE0004357192	4%	SEK	01/12/2020	Sr Unsecured	NR/NR
SE0007953930	1.68%	SEK	20/01/2021	Sr Unsecured	NR/NR

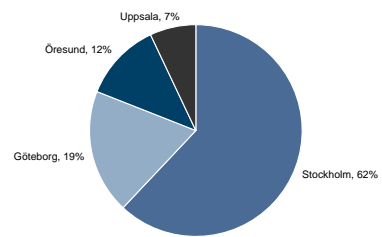
\*Moody's/S&P

### Rating migration



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

### Sales breakdown, segments



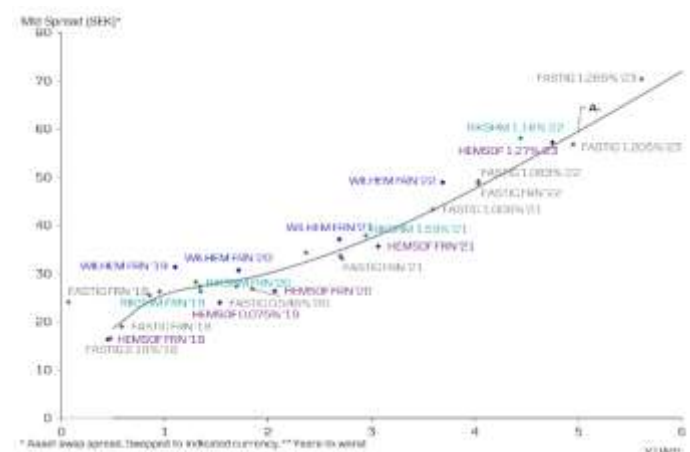
### Key credit challenges

- Earnings are exposed to swings in economic cycles
- Some, albeit manageable, exposure to project development
- Some sensitivity to interest rate movements, 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

<b>Income statement (SEKm)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>
Rental income	5,899	6,009	6,251	6,490	6,685
Other operating income	0	0	0	0	0
Total revenue	5,899	6,009	6,251	6,490	6,685
Total property related costs	1,727	1,735	1,792	1,812	1,939
Net operating income (NOI)	4,172	4,274	4,459	4,678	4,746
EBITDA	4,057	4,114	4,351	4,552	4,656
Net interest expenses	1,256	1,121	1,152	1,165	1,213
Profit from property management	2,823	3,065	3,220	3,416	3,443
Change in property values	3,519	10,212	12,056	7,973	2,538
Change in financial derivatives	-2,956	598	-764	468	0
Other	-22	-72	-21	-29	0
Pre-tax profit	3,364	13,803	14,491	11,828	5,980
Current tax	41	-45	0	-95	-120
Deferred tax	-683	-2,814	-3,019	-2,464	-3,000
Net income	2,722	10,944	11,472	9,269	2,861
<b>Balance sheet (SEKm)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>
Market value properties	91,889	103,894	115,922	126,875	132,913
Other Fixed Assets	51	58	54	46	0
Intangible assets	2,259	2,188	2,171	2,145	2,145
Deffered tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	1,757	2,301	2,147	1,423	1,138
Total assets	97,184	109,786	122,056	132,283	137,717
Equity	35,094	41,245	46,117	51,377	49,238
Shareholder loans	0	0	0	0	0
Deffered taxes	8,532	11,356	14,362	16,824	19,637
Total debt	47,764	51,575	55,240	58,421	62,921
Other liabilities	5,794	5,610	6,337	5,661	5,922
Total equity and liabilities	97,184	109,786	122,056	132,283	137,718
<b>Cash Flow Statement (SEKm)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>
FFO (adjusted)	2,789	2,855	3,137	3,711	3,323
Cash flow from operations (FFO)	2,902	3,210	3,439	3,439	3,715
Investment (properties)	-4	-916	-58	-1,049	-1,000
Disposals (properties)	1,574	1,387	2,121	612	0
Investments other (net)	-13	-22	-5	-5	0
Capex	-2,813	-2,223	-2,035	-2,543	-2,500
Free operating cash flow	1,659	1,458	3,467	459	215
Dividends and share repurchased	-4,000	-4,924	-7,382	-4,000	-5,000
Debt financing(net)	1,558	4,033	3,766	3,150	4,500
Change in cash	-813	545	-154	-396	-285

Source: Company data, Danske Bank DCM Research estimates

**Summary tables**

<b>Adjusted ratios (SEKm)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>
Sales growth	-2.2%	1.9%	4.0%	3.8%	3.0%
EBITDA margin	68.8%	68.5%	69.6%	70.1%	69.7%
NOI margin	70.7%	71.1%	71.3%	72.1%	71.0%
EBITDA interest coverage (x)	3.2	3.7	3.8	3.9	3.8
FFO/interest coverage (x)	3.2	3.5	3.7	4.2	3.7
FFO/debt (x)	5.8%	5.5%	5.7%	6.4%	5.3%
Net debt/EBITDA (x)	11.3	12.0	12.2	12.5	13.3
Gross LTV	52.0%	49.6%	47.7%	46.0%	47.3%
Net LTV	50.1%	47.4%	45.8%	44.9%	46.5%
Equity ratio	36.1%	37.6%	37.8%	38.8%	35.8%
Total debt/total capital	57.6%	55.6%	54.5%	53.2%	56.1%
<b>Quarterly overview (SEKm)</b>	<b>Q1 17</b>	<b>Q2 17</b>	<b>Q3 17</b>	<b>Q4 17</b>	<b>Q1 18</b>
Rental income	1,617	1,629	1,590	1,654	1,643
EBITDA	1,122	1,156	1,145	1,130	1,132
Net interest expenses	283	296	295	291	271
Net income	1,386	3,936	1,512	2,436	2,027
CFO	704	646	899	862	953
Investment properties	117,037	121,403	122,999	126,875	128,339
Total debt	55,181	58,956	59,058	58,421	58,903
Net debt	52,601	56,232	56,095	56,998	56,285
Equity	47,503	47,438	48,950	51,377	53,404
<b>Ratios</b>					
LTM NOI margin	70.8%	72.8%	73.5%	71.3%	70.4%
LTM EBITDA margin	69.8%	70.0%	70.3%	70.2%	70.0%
Direct yield	3.9%	3.8%	3.8%	3.7%	3.7%
Gross LTV	47.1%	48.6%	48.0%	46.0%	45.9%
LTM EBITDA interest coverage (x)	3.8	3.8	3.9	3.9	4.0
Net debt/LTM EBITDA (x)	11.9	12.5	12.4	12.5	12.3
Total debt/total capital	53.7%	55.4%	54.7%	53.2%	52.4%
FFO/debt	1.5%	1.6%	1.4%	1.4%	1.3%

Source: Company data, Danske Bank DCM Research 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, Real Estate  
+46 8 568 80602  
gabe@danskebank.com



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



**David Boyle**  
Industrials & Norwegian HY  
+47 85 40 54 17  
dboy@danskebank.com



**Jesper Damkjær**  
Financials  
+45 45 12 80 41  
damk@danskebank.com



**Bendik Engebretsen**  
Industrials & Norwegian HY  
+47 85 40 69 14  
bee@danskebank.com



**Christopher Hellesnes**  
Real Estate  
+46 8 568 80547  
cahe@danskebank.se



**Louis Landeman**  
TMT, Industrials  
+46 8 568 80524  
llan@danskebank.com



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



**Nicolai Pertou Ringkøbing**  
Financials  
+45 45 12 80 56  
nrin@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 & Norwegian HY  
+47 85 40 54 19  
hsy@danskebank.com

Find the latest Credit Research

Danske Bank DCM Research: <https://research.danskebank.com>

Bloomberg: *DN SK <GO>*

## Disclosures

This research report has been prepared by DCM Research, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report are Christopher Hellesnes and Gabriel Bergin.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Danske Bank is not registered as a Credit Rating Agency pursuant to the CRA Regulation (Regulation (EC) no. 1060/2009), hence Danske Bank does not comply with, or seek to comply with, the requirements applicable to Credit Rating Agencies.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Danske Bank, its affiliates, subsidiaries and staff may perform services for or solicit business from Vasakronan AB and may hold long or short positions in, or otherwise be interested in, the financial instruments mentioned in this research report. The Equity and Corporate Bonds analysts of Danske Bank and undertakings with which the Equity and Corporate Bonds analysts have close links are, however, not permitted to invest in financial instruments that are covered by the relevant Equity or Corporate Bonds analyst or the research sector to which the analyst is linked.

Danske Bank, its affiliates and subsidiaries are engaged in commercial banking, securities underwriting, dealing, trading, brokerage, investment management, investment banking, custody and other financial services activities, may be a lender to Vasakronan AB and have whatever rights as are available to a creditor under applicable law and the applicable loan and credit agreements. At any time, Danske Bank, its affiliates and subsidiaries may have credit or other information regarding Vasakronan AB that is not available to or may not be used by the personnel responsible for the preparation of this report, which might affect the analysis and opinions expressed in this research report.

Danske Bank is a market maker and a liquidity provider and may hold positions in the financial instruments of the issuer(s) mentioned in this research report.

Within the previous 12 months, Danske Bank has acted as Lead Manager of a public offer of credit bonds for Vasakronan and Lead Manager of an offer of credit bonds for Vasakronan.

As an investment bank, Danske Bank, its affiliates and subsidiaries provide a variety of financial services, including investment banking services. It is possible that Danske Bank and/or its affiliates and/or its subsidiaries might seek to become engaged to provide such services to Vasakronan AB in the next three months.

Danske Bank has made no agreement with Vasakronan AB to write this research report. No parts of this research report have been disclosed to Vasakronan AB. No recommendations or opinions have been disclosed to Vasakronan AB and no amendments have accordingly been made to the same before dissemination of the research report.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Post-results: This research report will be updated on a quarterly basis following the quarterly results statement from Vasakronan AB.

Scandi Handbook and Scandi High-Yield Handbook. These research reports contain updates on selected companies and are published annually, usually in April.

### Completion and first dissemination

The completion date and time in this research report mean the date and time when the author hands over the final version of the research report to Danske Bank's editing function for legal review and editing.

The date and time of first dissemination mean the date and estimated time of the first dissemination of this research report. The estimated time may deviate up to 15 minutes from the effective dissemination time due to technical limitations.

See the back page of this research report for the date and time of first dissemination.

### Financial models, valuation and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country.

We base our bond valuation conclusion on an estimation of a fair business and financial risk profile of the issuing entity. By combining these risk profiles with market technical and bond-specific issues such as documentation and structuring, we arrive at an overall bond risk profile. We compare the bond spread to those of peers with similar risk profiles and against this background we estimate whether the bond is attractively priced in the market. We express this view with either an Overweight, Marketweight or Underweight recommendation. This signals our opinion of the bond's performance potential compared with relevant peers in the coming six months.

More information about the valuation and/or methodology and the underlying assumptions is accessible via <http://www.danskebank.com/en-uk/ci/Products-Services/Markets/Research/Pages/researchdisclaimer.aspx>. Select Credit Research Methodology.



**Recommendation structure**

Investment recommendations are based on the expected development in the credit profile as well as relative value compared with the sector and peers.

As at 31 March 2018 Danske Bank DCM Research had investment recommendations on 159 corporate bond issuers. The distribution of recommendations is represented in the distribution of recommendations column below. The proportion of issuers corresponding to each of the recommendation categories above to which Danske Bank provided investment banking services in the previous 12 months ending 31 March 2018 is shown below.

Rating	Anticipated performance	Time horizon	Distribution of recommendations	Investment banking relationships
Overweight	Outperformance relative to peer group	6 months	35%	44%
Marketweight	Performance in line with peer group	6 months	58%	32%
Underweight	Underperformance relative to peer group	6 months	7%	18%

**No changes in recommendation in the past 12 months**

**Validity time period**

This communication and the communications in the list referred to below are valid until the earlier of (a) dissemination of a superseding communication by the author, or (b) significant changes in circumstances following its dissemination, including events relating to the market or the issuer, which can influence the price of the issuer or financial instrument.

**Investment recommendations disseminated in the preceding 12-month period**

A list of previous investment recommendations disseminated by the lead analyst(s) of this research report in the preceding 12-month period can be found at <http://www.danskebank.com/en-uk/ci/products-services/markets/research/pages/researchdisclaimer.aspx>. Select DCM Research recommendation history – Recommendation history.

Other previous investment recommendations disseminated by Danske Bank DCM Research are also available in the database.

**General disclaimer**

This research has been prepared by DCM Research (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

**Disclaimer related to distribution in the United States**

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 14 May 2018 at 09:28 CEST

Report disseminated: 14 May 2018 at 10:55 CEST