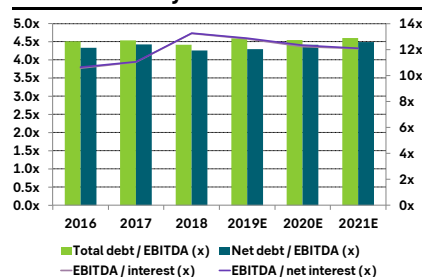


Public ratings

Moody's:	A3/Stable
S&P:	N.R.
Fitch:	N.R.

Market cap (SEKm)	Not listed
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Vasakronan key credit metrics



Source: SEB and Bloomberg

Focus on own projects

Vasakronan said that it still saw market conditions as strong. It had several new lettings in its project portfolio, which remains sizeable. Some credit metrics were a little better than we had expected. We maintain a Marketweight recommendation on selected Vasakronan bonds.

Market conditions remain strong

Vasakronan said that several new lettings and successful renegotiations were indications of key rental markets remaining strong. L-f-l rental growth was 7%, although part of the increase related to passed on increases in property taxation. Reported property value changes in the quarter amounted to SEK 2.1bn, significantly above our expectations. We believe that prospects for further value increases in the near term remain good. This is reflected in our updated forecast. Meanwhile, Vasakronan continues to focus on its project portfolio, which currently amounts to an investment volume of SEK 13bn (about SEK 7bn remains to be invested). The company reported several new lettings in its Sergelhuset project in Stockholm, to be completed at the end of 2021.

Net LTV improved beyond our expectations

Net LTV stood at 42% – we had expected 43%. 12M interest coverage was 4.6x, down insignificantly sequentially and more or less in line with our estimates. Capital binding stayed at 5.2 years while Vasakronan has lengthened its interest binding to 6.2 years from 5.7 years previously. We assess that Vasakronan continues to enjoy adequate headroom in key credit metrics measured against requirements for the A3 rating by Moody's.

We maintain Marketweight

Vasakronan's SEK maturities are indicated roughly in line with A- rated peers Willhem, Hemsö and Rikshem and we are Marketweight on selected bonds. That said, we maintain a slight preference for Vasakronan based on our expectations of good prospects for continued strong operating performance, and lower leverage compared with peers.

Key credit metrics & ratios

	2016	2017	2018	2019E	2020E	2021E
Revenues (SEKm)	6,251	6,490	6,718	7,034	7,293	7,507
EBITDA (SEKm)	4,372	4,581	4,768	5,244	5,434	5,604
EBIT (SEKm)	4,372	4,581	4,768	5,244	5,434	5,604
FFO (SEKm)	3,137	3,383	3,729	4,020	4,122	4,235
FOCF (SEKm)	3,462	398	2,541	-795	622	735
Net debt (m)	53,093	56,998	58,872	63,667	67,045	70,310
Equity	46,117	51,377	60,271	66,361	67,843	68,941
EBITDA margin	69.9	70.6	71.0	74.6	74.5	74.6
EBIT margin (%)	69.9	70.6	71.0	74.6	74.5	74.7
Adjusted EBITDA net int. cover. (x)	3.8	3.9	4.6	4.5	4.4	4.3
Adjusted net debt to EBITDA (x)	12.1	12.4	12.3	12.1	12.3	12.5
Adjusted FFO / Net debt	6%	6%	6%	6%	6%	6%
Adjusted net debt to capital	n.a.	54%	53%	49%	49%	50%

Source: SEB

Analyst

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The estimates in this research report have been produced in collaboration with SEB equity research analysts

Financial forecast

Our updated financial forecast assumes continued healthy demand over the short to medium term, even in a scenario where economic growth slows down in 2019 and 2020. This is based on a combination of limited new supply, primarily in Stockholm, and our view of Vasakronan's property locations as attractive. We are assuming contracting yields over the short term and flat to marginally widening over the medium term. Higher rents, as projects are completed and contracts are renegotiated, continue to drive additional positive revaluations. We factor in some increases in interest costs based on our view of elevated risks in funding conditions in the real estate sector.

Vasakronan financial forecast, SEB Credit Research base case

(SEKm)	Q3/18	Q4/18	Q1/19	Q2/19	Q3/19	2016	2017	2018	2019E	2020E	2021E
Rental income	6,660	6,718	6,799	6,824	6,944	6,251	6,490	6,718	7,034	7,293	7,507
NOI	4,795	4,869	4,956	4,981	5,020	4,459	4,678	4,869	5,142	5,331	5,499
EBITDA	4,872	4,942	5,026	5,050	4,982	4,379	4,596	4,942	5,314	5,446	5,616
FFO	3,682	3,761	3,804	3,747	3,627	3,179	3,416	3,761	4,032	4,134	4,247
Y/Y growth in rental income (%)	3%	4%	4%	4%	4%		4%	4%	5%	4%	3%
NOI margin (%)	72%	72%	73%	73%	72%	71%	72%	72%	73%	73%	73%
EBITDA margin (%)	73%	74%	74%	74%	72%	70%	71%	74%	76%	75%	75%
Interest expense	-1,107	-1,046	-1,023	-1,074	-1,095	-1,162	-1,167	-1,046	-1,162	-1,247	-1,304
Net interest expense	-1,104	-1,043	-1,020	-1,070	-1,091	-1,152	-1,165	-1,043	-1,156	-1,236	-1,299
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1,265	-1,189	-1,161	-1,216	-1,228	-1,314	-1,330	-1,189	-1,304	-1,389	-1,457
Investment properties	134,303	138,934	139,381	144,215	147,385	115,922	126,875	138,934	151,238	157,196	162,563
Total debt	61,244	61,087	64,090	65,423	64,971	55,240	58,421	61,087	68,310	69,310	72,310
Cash and equivalents	2,152	2,215	5,910	3,082	3,373	2,147	1,423	2,215	4,387	2,010	1,745
Net debt	59,092	58,872	58,180	62,341	61,598	53,093	56,998	58,872	63,922	67,300	70,565
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	59,092	58,872	63,243	67,387	66,843	53,093	56,998	58,872	69,167	72,545	75,810
Secured debt	11,885	12,907	11,905	13,173	12,105	0	15,290	12,907	15,310	16,310	17,310
Equity	56,279	60,271	61,088	61,302	63,487	46,117	51,377	60,271	66,358	67,706	68,676
Adjusted equity	56,279	60,271	61,088	61,302	63,487	46,117	51,377	60,271	66,358	67,706	68,676
Net debt+equity	115,371	119,143	119,268	123,643	125,085	99,210	108,375	119,143	130,281	135,005	139,240
Credit metrics											
Total debt / EBITDA (x)	12.6x	12.4x	12.8x	13.0x	13.0x	12.6x	12.7x	12.4x	12.9x	12.7x	12.9x
Net debt / EBITDA (x)	12.1x	11.9x	11.6x	12.3x	12.4x	12.1x	12.4x	11.9x	12.0x	12.4x	12.6x
Adjusted debt / EBITDA (x)	11.7x	11.6x	12.2x	13.0x	13.1x	11.7x	12.0x	11.6x	12.7x	13.0x	13.1x
EBITDA / interest (x)	4.4x	4.7x	4.9x	4.7x	4.5x	3.8x	3.9x	4.7x	4.6x	4.4x	4.3x
EBITDA / net interest (x)	4.4x	4.7x	4.9x	4.7x	4.6x	3.8x	3.9x	4.7x	4.6x	4.4x	4.3x
EBITDA / adjusted interest (x)	4.0x	4.3x	4.5x	4.3x	4.2x	3.5x	3.6x	4.3x	4.2x	4.0x	4.0x
Fixed charge coverage (x)	0.3x	0.3x	0.3x	0.3x	0.4x	0.3x	0.3x	0.3x	4.6x	4.4x	4.3x
FFO / total debt (%)	6.0%	6.2%	5.9%	5.7%	5.6%	5.8%	5.8%	6.2%	5.9%	6.0%	5.9%
FFO / net debt (%)	6.2%	6.4%	6.5%	6.0%	5.9%	6.0%	6.0%	6.4%	6.3%	6.1%	6.0%
FFO / adjusted debt (%)	6.5%	6.6%	6.2%	5.8%	5.6%	6.3%	6.3%	6.6%	6.0%	5.9%	5.8%
Gross LTV	45.6%	44.0%	46.0%	45.4%	44.1%	47.7%	46.0%	44.0%	45.2%	44.1%	44.5%
Net LTV	44.0%	42.4%	41.7%	43.2%	41.8%	45.8%	44.9%	42.4%	42.3%	42.8%	43.4%
Adjusted LTV	44.0%	42.4%	43.8%	45.1%	43.8%	45.8%	44.9%	42.4%	44.2%	44.7%	45.2%
Net debt / debt+equity	51.2%	49.4%	48.8%	50.4%	49.2%	53.5%	52.6%	49.4%	49.1%	49.8%	50.7%
Adjusted debt / debt + equity	51.2%	49.4%	53.0%	54.5%	53.4%	53.5%	52.6%	49.4%	53.1%	53.7%	54.4%
Secured LTV	8.8%	9.3%	8.5%	9.1%	8.2%	0.0%	12.1%	9.3%	10.1%	10.4%	10.6%
Equity ratio	40.1%	41.5%	39.5%	38.7%	39.2%	37.8%	38.8%	41.5%	40.0%	39.9%	39.3%

Source: SEB

Long-term credit profile

The credit profile and the A3/Stable Moody's rating are underpinned by Vasakronan's very large portfolio and dominant position in central office locations in major Swedish cities. The rating is also supported by the indirect government ownership, good liquidity and high interest coverage. Conversely, Vasakronan is geographically concentrated in Sweden and it engages in development activities, some speculative.

SEK 147bn portfolio

A Swedish giant

With a property portfolio valued at about SEK 147bn, Vasakronan is Sweden's largest real estate company. The portfolio consists of about 170 properties located in central locations in Stockholm, Gothenburg, Uppsala and Malmö/Lund. Vasakronan, in its current form, was established in 2008. It is owned by the Swedish pension funds and, consequently, indirectly owned by the Swedish government.

A3 rating supported by ownership structure

A3/Stable by Moody's since May, 2018

Vasakronan has been rated A3 by Moody's since May 2018. The rating is underpinned by Vasakronan's large property portfolio with a dominant market position in the prime office segment, high quality assets, and a high share of public tenants. The rating agency also considers additional strengths, for example the strong liquidity position and good interest coverage. The A3 rating includes a one-notch uplift relating to the likelihood of extraordinary government support.

Conversely, Moody's believes that Vasakronan is exposed to potential regulatory changes which could limit the AP funds' exposure to real estate. It also highlights a geographic concentration to Sweden and a moderate development pipeline as factors which counterbalance credit strengths.

Secured LTV is low at about 8%. This is sufficiently low not to warrant any notching from the issuer rating under rating agency methodology.

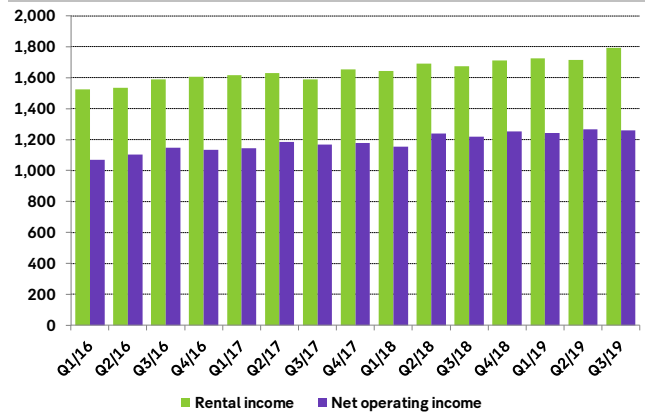
Stable outlook

Adequate ratings leeway

Moody's maintains a stable outlook on Vasakronan, expecting an adjusted debt-to-asset ratio of around 45% over the near term. We estimate the corresponding ratio at about 43% at Q3 2019, and we also expect it to remain below 45% in our financial base case. 12M interest rate coverage is also adequate in relation to the ratings requirement, with about 4.2x posted for Q3 2019, against a minimum of 3.5x required by Moody's in order to avoid ratings pressure.

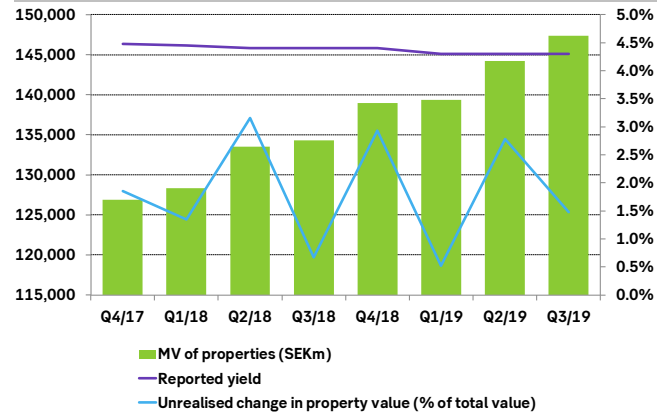
Company overview

Quarterly rental income and NOI (SEKm)



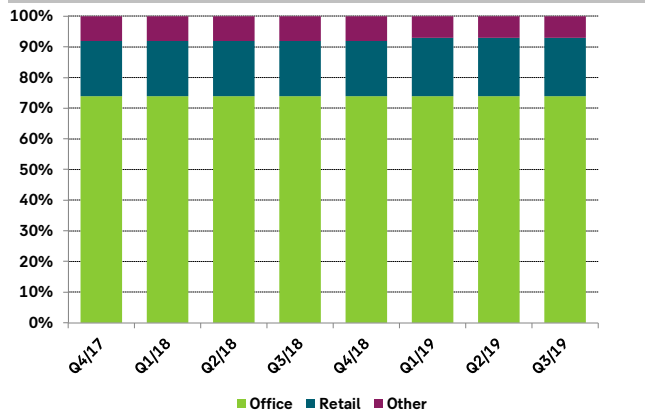
Source: Company reports

Property portfolio statistics (SEKm)



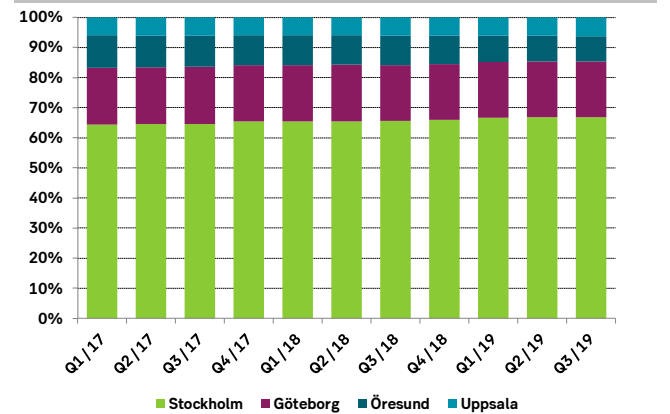
Source: Company reports

Property portfolio composition by segment (%)



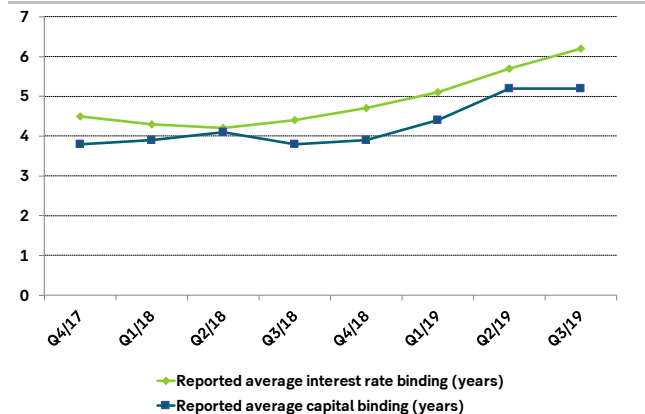
Source: Company reports

Property portfolio composition by geography (%)



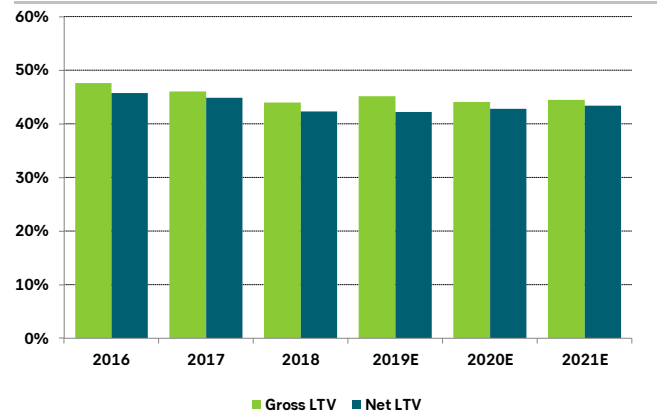
Source: Company reports

Capital and interest binding (years)



Source: Company reports

LTV (%)



Source: SEB

Credit strengths

- Very large portfolio of high-quality properties
- Indirectly owned by the Swedish government through AP1-4
- Strong liquidity, including commitment from owners
- A large share of public sector tenants.
- Strong interest coverage

Credit concerns

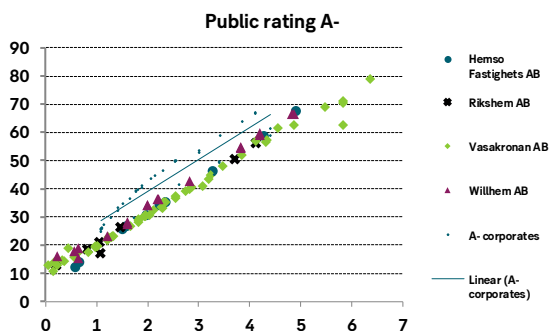
- Geographically concentrated to Sweden
- Engages in development activities with varying degree of speculation
- Exposed to commercial property segments where rent levels can be volatile

Selected outstanding bonds

Ticker	Issue date	Maturity date	Cpn type	Cpn	Amount	Spread/DM	Recommendation
FASTIG Float 02/11/22	29/01/2019	11/02/2022	FLOATING	QUARTLY STIB +59.00000	SEK 1600mn	33	Marketweight
FASTIG 1.205 04/24/23	24/10/2017	24/04/2023	FIXED	1.205	SEK 1250mn	48	Marketweight
FASTIG 1.265 12/20/23	20/04/2018	20/12/2023	FIXED	1.265	SEK 1000mn	57	Marketweight

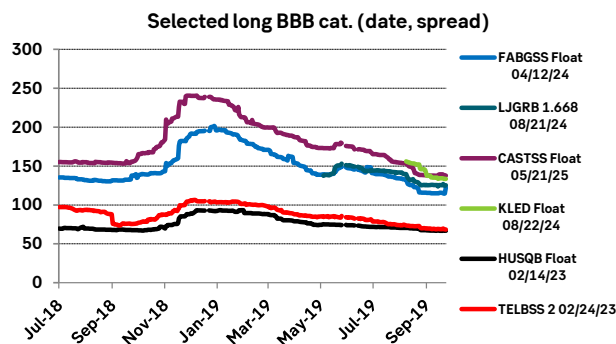
Source: Bloomberg and SEB

Publicly rated A- issuer, SEK senior unsecured



Source: SEB and Bloomberg

Selected real estate bonds, historical spread evolution



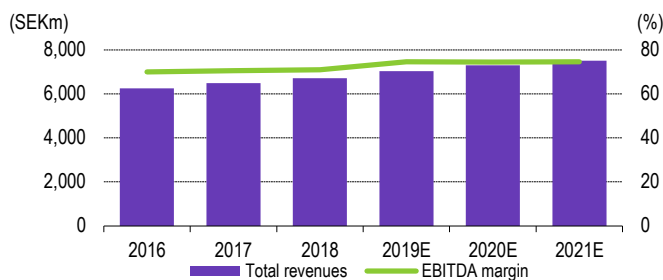
Source: SEB

Financial statement summary - Adjusted numbers (SEKm)

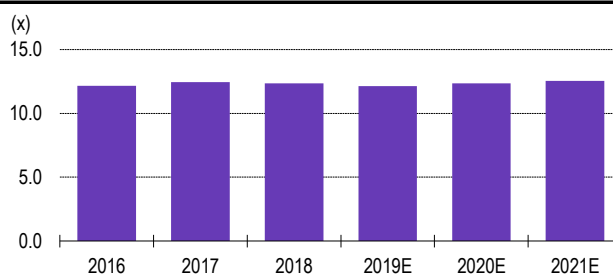
	2017	2018	2019E	2020E
Income statement				
Revenues	6,490	6,718	7,034	7,293
EBITDA	4,581	4,768	5,244	5,434
Net income (reported)	9,269	12,902	10,090	5,482
Cash flow statement				
Funds from operations (FFO)	3,383	3,729	4,020	4,122
Operating Cash Flow	3,383	4,000	3,870	4,122
Free Operating cash flow	398.0	2,541	-795.2	622.4
Pre-financing cash flow	-3,602	-1,459	-4,795	-3,378
Balance sheet				
Cash (and equivalents)	1,423	2,215	4,642	2,265
Total debt	58,421	61,087	68,310	69,310
Net debt	56,998	58,872	63,667	67,045
Equity	51,377	60,271	66,361	67,843
Total assets (reported)	132,283	145,201	160,786	164,566
Key credit metrics & ratios				
Net debt to EBITDA (x)	12.4	12.3	12.1	12.3
Net debt to capital	53%	49%	49%	50%
FFO / Net debt	6%	6%	6%	6%
Equity ratio	39%	42%	41%	41%

Source: SEB and Vasakronan financial reports

Revenues and EBITDA margin



Adjusted net debt / EBITDA



Source: SEB and Vasakronan financial reports

Profit & loss statement

(SEKm)	2016	2017	2018	2019E	2020E	2021E
Total revenues	6,251	6,490	6,718	7,034	7,293	7,507
Total expenses	-1,879	-1,909	-1,950	-1,790	-1,860	-1,903
EBITDA	4,372	4,581	4,768	5,244	5,434	5,604
Depreciation	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0
EBIT	4,372	4,581	4,768	5,244	5,434	5,604
Associated companies	-3	-3	159	880	200	200
Net interest expenses	-1,152	-1,165	-1,043	-1,153	-1,238	-1,299
Value changes	11,274	8,415	10,602	7,641	2,458	1,867
Other financial items	0	0	0	0	0	0
Reported pre-tax profit	14,491	11,828	14,486	12,612	6,853	6,372
Minority interests	0	0	0	0	0	0
Total taxes	-3,019	-2,559	-1,584	-2,522	-1,371	-1,274
Net profit	11,472	9,269	12,902	10,090	5,482	5,098
EBITDA margin	69.9	70.6	71.0	74.6	74.5	74.6
EBIT margin (%)	69.9	70.6	71.0	74.6	74.5	74.7
Tax rate (%)	20.8	21.6	10.9	20.0	20.0	20.0
Growth rates y-o-y (%)						
Total revenues	0.0	3.8	3.5	4.7	3.7	2.9
EBITDA	n.a.	4.8	4.1	10.0	3.6	3.1
EBIT	0.0	4.8	4.1	10.0	3.6	3.1
Pre-tax profit	0.0	(18.4)	22.5	(12.9)	(45.7)	(7.0)

Cash flow

(SEKm)	2016	2017	2018	2019E	2020E	2021E
FFO	3,137	3,383	3,729	4,020	4,122	4,235
Changes in working capital	302	0	271	-150	0	0
Operating cash flow	3,439	3,383	4,000	3,870	4,122	4,235
Net capital expenditures	23	-2,985	-1,459	-4,665	-3,500	-3,500
Free operating cash flow	3,462	398	2,541	-795	622	735
Dividend paid	-7,382	-4,000	-4,000	-4,000	-4,000	-4,000
Acquisitions, divestments net	0	0	0	0	0	0
Pre-financing cash flow	-3,920	-3,602	-1,459	-4,795	-3,378	-3,265
Net loan proceeds	4,285	3,237	2,735	7,223	1,000	3,000
Share issue	0	0	0	0	0	0
Other	-519	-359	-484	0	0	0
Net change in cash	-154	-724	792	2,427	-2,378	-265
Capex/sales (%)	-0.4	46.0	21.7	66.3	48.0	46.6

Balance sheet

(SEKm)	2016	2017	2018	2019E	2020E	2021E
Cash and liquid assets	2,147	1,423	2,215	4,642	2,265	2,000
Other current assets	909	871	905	876	876	876
Long-term financial assets	907	969	1,058	1,938	2,138	2,338
Fixed tangible assets	115,922	126,875	138,934	151,240	157,198	162,565
Intangibles	2,171	2,145	2,089	2,089	2,089	2,089
Total assets	122,056	132,283	145,201	160,786	164,566	169,868
Interest bearing debt	55,240	58,421	61,087	68,310	69,310	72,310
Other liabilities	20,699	22,485	23,843	26,115	27,413	28,617
Minority interests	0	0	0	0	0	0
Shareholders' equity	46,117	51,377	60,271	66,361	67,843	68,941
Total liabilities and equity	122,056	132,283	145,201	160,786	164,566	169,868
Net debt (m)	53,093	56,998	58,872	63,667	67,045	70,310
Net debt/equity (%)	115.1	110.9	97.7	95.9	98.8	102.0
Equity/total assets (%)	37.8	38.8	41.5	41.3	41.2	40.6
Net debt/EBITDA (x)	12.1	12.4	12.3	12.1	12.3	12.5
EBITDA Interest cover	3.8	3.9	4.6	4.5	4.4	4.3

Main shareholders

Main shareholders				Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact	
Swedish National Pension Funds	100.0		100.0	COB	Ulrika Francke	Internet	www.vasakronan.se
				CEO	Johanna Skogestig	Phone number	+46 8 783 2100
				CFO	Christer Nerlich		

Company description: Vasakronan is Sweden's largest real estate company by far. It was created in 2008 through AP Fastigheter's acquisition of the "old" Vasakronan from the Swedish government. Vasakronan's strategy is to be a long-term owner of commercial real estate properties in regions enjoying high economic growth, mainly Stockholm, Gothenburg, Öresund and Uppsala. Commercial properties comprise 98% of the total portfolio with the remainder consisting of residential real estate and other.

Please note: The data in several tables and charts in this document have been adjusted in line with common practice in the field of credit research. This mainly refers to adjustments of operating leases, pensions, derivatives and other contingent liabilities. For a detailed breakdown of the adjustments, please contact the author of this report.

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