

Vasakronan AB

Q1 20: Feeling the impact of COVID-19

Vasakronan continued to show moderate growth in rental income in Q1 20, with a 4% increase y/y in a comparable property portfolio and positive net leasing. Leverage was unchanged sequentially, with a net LTV of a low 42% as of end-March. Given that just under 20% of Vasakronan's rental income is comprised of the retail sector, the company has experienced a certain impact from COVID-19. Due to a negative adjustment primarily related to its retail property segment, the company experienced an unrealised value loss on its properties of SEK1.8bn in Q1 20. On the positive side, Vasakronan's liquidity position remains solid, while the company's proposed dividend has been withdrawn in order to preserve financial flexibility. Vasakronan's credit profile is also supported by its strong ownership by Swedish government pension funds. Overall, we see Vasakronan's bonds as fairly valued and maintain our Marketweight recommendation.

In Q1 20, Vasakronan reported an increase in rental income of 2.3% y/y and net operating income growth of 0.6% y/y. For comparable property holdings, rental income rose by 4% y/y in the quarter, with an increase of 3% in the operating surplus. Renegotiations and lease extensions resulted in a rental increase of 10% in Q1 20. The result of lease renegotiations in the last 12 months related to retail amounted to 1%. Over the quarter, new lettings with an annual rent of SEK143m were signed. The economic occupancy rate was 94.2% at end-March (YE 2019: 94.1%).

Due to a negative adjustment primarily related to its retail property segment, the company experienced an unrealised value loss on its properties of SEK1.8bn in Q1 20, equivalent to a 1.1% decrease in value.

As of end-March, the total property portfolio market value of Vasakronan amounted to SEK155bn. The company's adjusted net LTV was unchanged sequentially at 42%. The secured LTV stood at 7% as of end-March. The average capital fixing was 5.2 years as of end-March, with an average interest fixing of 5.8 years and an average interest rate of 1.7%.

Key figures

SEKm	Q1 19	Q4 19	Q1 20	y/y	q/q
Rental income	1,724	1,808	1,764	2.32%	-2.43%
EBITDA (rep.)	1,142	1,512	1,253	9.72%	-17.13%
Net income	816	6,694	-151	-118.50%	-102.26%
Investment properties	144,444	161,314	160,711	11.26%	-0.37%
Total debt	69,153	71,882	74,110	7.17%	3.10%
Ratios	Q1 19	Q4 19	Q1 20	y/y	q/q
Gross LTV	47.9%	44.6%	46.1%	-1.8pp	1.6pp
LTM NOI margin	72.1%	73.7%	73.0%	0.9pp	-0.7pp
LTM EBITDA interest coverage (x)	4.8	5.0	4.8	0.0pp	-0.2pp
Net debt/LTM EBITDA (x)	12.9	11.3	11.0	-1.9pp	-0.3pp
Total debt/total capital	53.1%	50.6%	51.4%	-1.7pp	0.8pp

Source: Company data, Danske Bank Credit Research

Marketweight

Real Estate Holding, Development

Corporate ticker: FASTIG

Equity ticker: 1276Z SS

Ratings:

S&P: NR / NR

Moody's: A3 / S

Fitch: NR / NR

ESG rating:

Sustainalytics ESG Risk Rating: 11.2

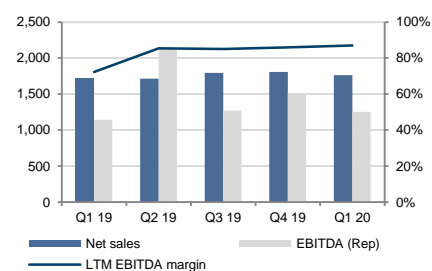
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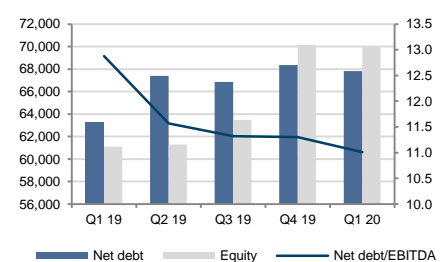
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Profitability (SEKm)



Source: Company data, Danske Bank Credit Research

Financial metrics (SEKm)



Source: Company data, Danske Bank Credit Research

COVID-19 impact

Given that just under 20% of Vasakronan's rental income is comprised of the retail sector, the company has experienced a certain impact from COVID-19. For the hardest hit tenants Vasakronan has offered monthly payment of quarterly rents and a deferral of rent payments. For Q2, Vasakronan has invoiced just over SEK1.5bn, of which around SEK245m had not been received as of end-April. This negative effect is partly offset by government support measures, whereby the state can pay part of the discounted rent.

The COVID-19 impact is also noted in the company's property valuations, with a negative valuation change of SEK1.8bn over the quarter. While the uncertainties remain large, Vasakronan has assumed a value decline in its retail properties of some 5-10%.

On the positive side, Vasakronan's liquidity position remains solid, with total cash of SEK6.3bn at end-March. Vasakronan also has a credit facility with its owners amounting to SEK18bn. The agreement extends until further notice, with a notice period of two years. These liquidity sources together correspond to 150% of loans maturing in the next 12 months. Furthermore, Vasakronan has withdrawn its previously proposed SEK6bn dividend in order to secure long-term financial stability.

Vasakronan maintains a large portfolio of own development projects. As of end-March, the company's total project development portfolio amounted to SEK15bn (YE 2019 SEK14.4bn), of which SEK7.7bn has been capitalised. Of the total projected surface area in the larger projects, some 76% has been pre-let (Q4 19 69%). In the important Sergelhuset property in central Stockholm, the occupancy rate for office space is 92%.

On a separate note and with regards to sustainability, Vasakronan announced that it completed last year's emissions data in the quarter. In total, Scope 1 and 2 emissions decreased 36% over the year, with the largest decreases in the categories of district heating and electricity. Since 2006, Vasakronan has reduced its direct and indirect emissions from energy consumption by more than 95%.

Recommendation

Vasakronan continued to show moderate growth in rental income in Q1 20, with a 4% increase y/y in a comparable property portfolio and positive net leasing. Leverage was unchanged sequentially with a net LTV of a low 42% as of end-March. Vasakronan's liquidity position remains solid, while the company's proposed dividend has been withdrawn in order to preserve financial flexibility.

The company's credit profile is also supported by its strong ownership by Swedish government pension funds. While Vasakronan has some exposure to project development risk, this is, in our opinion, mitigated by the company's strong balance sheet and the high occupancy rate on its major projects.

Overall, we see Vasakronan's bonds as fairly valued and maintain our Marketweight recommendation.

Company summary

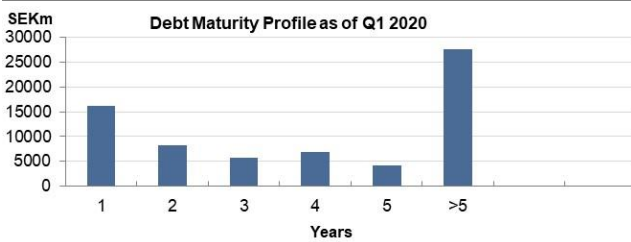
Company description

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

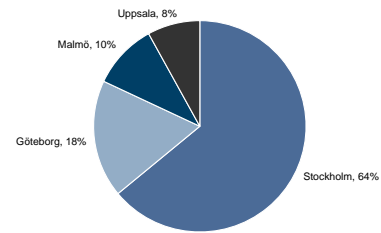


Selected outstanding bonds

Isin	Coupon	Currency	Maturity /Call	Seniority	Rating*
SE0007953930	1.68%	SEK	20/01/2021	Unsecured Sr	NR/NR
SE0010869156	FRN	SEK	01/03/2024	Unsecured Sr	NR/NR
XS1958644970	1.369%	EUR	05/03/2029	Unsecured Sr	NR/NR

*Moody's/S&P

Sales breakdown, segments



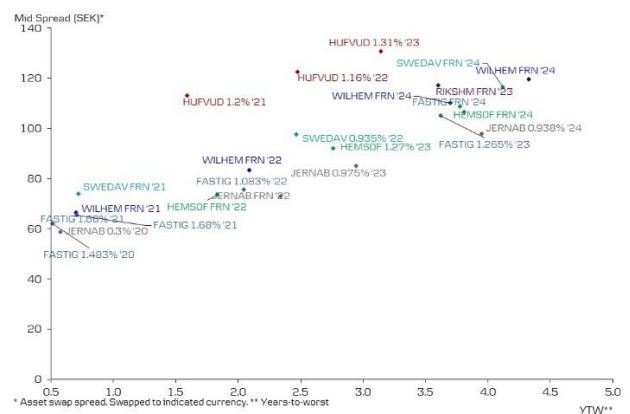
Key credit challenges

- 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

Income statement (SEKm)	2016	2017	2018	2019	2020E
Rental income	6,269	6,490	6,718	7,040	7,075
Other operating income	0	0	0	0	0
Total revenue	6,269	6,490	6,718	7,040	7,075
Total property related costs	1,792	1,812	1,849	1,833	1,888
Net operating income (NOI)	4,477	4,678	4,869	5,207	5,187
EBITDA	4,371	4,553	4,927	5,020	5,000
Net interest expenses	1,052	1,165	1,043	1,278	1,231
Profit from property management	3,338	3,416	3,725	3,816	3,844
Change in property values	12,056	7,973	10,651	13,270	-2,420
Change in financial derivatives	-764	468	13	-681	-681
Other	-19	-28	159	-74	-74
Pre-tax profit	14,611	11,829	14,486	16,324	669
Current tax	0	-95	-120	-230	-20
Deferred tax	-3,019	-2,464	-1,464	-3,090	-134
Net income	11,592	9,270	12,902	13,004	515
Balance sheet (SEKm)	2016	2017	2018	2019	2020E
Market value properties	115,922	126,875	138,934	161,314	163,894
Other fixed assets	54	46	44	40	0
Intangible assets	2,171	2,145	2,089	2,024	2,024
Deferred tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	2,147	1,423	2,215	3,515	3,265
Total assets	122,056	131,970	145,201	170,179	170,347
Equity	46,117	51,377	60,271	70,156	70,671
Shareholder loans	0	0	0	0	0
Deferred taxes	14,362	16,824	18,286	21,368	21,368
Total debt	55,240	58,421	61,087	71,882	75,882
Other liabilities	6,337	5,661	2,698	3,511	3,511
Total equity and liabilities	122,056	132,283	145,201	170,179	171,432
Cash flow statement (SEKm)	2016	2017	2018	2019	2020E
FFO (adjusted)	3,137	3,383	3,567	3,663	3,750
Cash flow from operations (FFO)	3,439	3,111	3,635	3,829	3,750
Investment (properties)	1,563	440	-634	-977	0
Disposals (properties)	2,120	612	2,526	1,550	0
Investments other (net)	0	-5	146	-15	0
Capex	-1,626	-1,489	-3,335	-4,440	-5,000
Free operating cash flow	5,496	2,674	2,192	-38	-1,250
Dividends and share repurchased	-7,933	-4,000	-4,000	-3,691	-3,000
Debt financing (net)	5,930	3,150	2,685	5,165	4,000
Change in cash	1,980	1,819	792	1,300	-250

Source: Company data, Danske Bank Credit Research estimates

Summary tables

Adjusted ratios (SEKm)	2016	2017	2018	2019	2020E
Sales growth	4.3%	3.5%	3.5%	4.8%	0.5%
EBITDA margin	69.7%	70.2%	73.3%	71.3%	70.7%
NOI margin	71.4%	72.1%	72.5%	74.0%	73.3%
EBITDA interest coverage (x)	4.2	3.9	4.7	3.9	4.1
FFO/interest coverage (x)	4.0	3.9	4.4	3.9	4.0
FFO/debt (x)	5.7%	5.8%	5.8%	5.1%	4.9%
Net debt/EBITDA (x)	12.1	12.5	11.9	13.6	14.5
Gross LTV	47.7%	46.0%	44.0%	44.6%	46.3%
Net LTV	45.8%	44.9%	42.4%	42.4%	44.3%
Equity ratio	37.8%	38.9%	41.5%	41.2%	41.5%
Total debt/total capital	54.5%	53.2%	50.3%	50.6%	51.8%
Quarterly overview (SEKm)	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
Rental income	1,724	1,715	1,793	1,808	1,764
EBITDA	1,142	2,126	1,269	1,512	1,253
Net interest expenses	248	315	335	309	317
Net income	816	4,214	2,185	6,694	-151
CFO	624	805	1,119	1,281	418
Investment properties	144,444	149,261	152,630	161,314	160,711
Total debt	69,153	70,469	70,216	71,882	74,110
Net debt	63,243	67,387	66,843	68,367	67,818
Equity	61,088	61,302	63,487	70,156	70,007
Ratios					
LTM NOI margin	72.1%	73.8%	72.3%	73.7%	73.0%
LTM EBITDA margin	72.2%	85.3%	85.0%	85.9%	87.0%
Direct yield	3.4%	3.3%	3.3%	3.2%	3.2%
Gross LTV	47.9%	47.2%	46.0%	44.6%	46.1%
LTM EBITDA interest coverage (x)	4.8	5.4	5.2	5.0	4.8
Net debt/LTM EBITDA (x)	12.9	11.6	11.3	11.3	11.0
Total debt/total capital	53.1%	53.5%	52.5%	50.6%	51.4%
FFO/debt	1.2%	1.3%	1.3%	1.3%	1.0%

Source: Company data, Danske Bank Credit Research estimates

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Changes to recommendation in the past 12 months:

Date	Old rec.	New rec.
9 May 2019	Overweight	Marketweight

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Report completed: 6 May 2020 at 17:37 CEST

Report disseminated: 6 May 2020 at 19:30 CEST