

## Public ratings

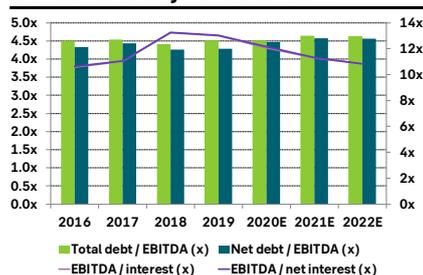
Moody's: A3/Stable

S&amp;P: N.R.

Fitch: N.R.

Market cap (SEKm) Not listed

## Vasakronan key credit metrics



Source: SEB and Bloomberg

## Stable metrics, negative value changes

Vasakronan reported a value decline of SEK 1.8bn, with many of its retail tenants seeming to be struggling as we have expected. Credit metrics remained stable and within Moody's requirements for the rating. The dividend has been cancelled and the liquidity position is strong. We keep Marketweight on selected bonds.

## SEK 1.8bn decline in retail property value

The decline in property value amounted to SEK 1.8bn (1.1% of total property value). The entire decline related to retail properties declining by 5-10% depending on proportion of office and retail space in each property. Credit metrics were mostly stable sequentially, including net LTV and interest cover of about 40% and 4.5x. The liquidity position is strong with SEK 6bn of cash which, together with unutilised credit facilities covering 1.5x of 12M debt maturities. Furthermore, on 27 March 2020, Vasakronan withdrew its previous dividend proposal of SEK 6m. We estimate that leeway against Moody's requirements for the A3 rating is adequate even though we forecast some deterioration in credit metrics.

## Retail is the problem so far

Vasakronan said that a little less than 20% of rental income stems from sectors mostly affected by the coronavirus pandemic. Like peers, Vasakronan has offered deferrals and monthly payments to those tenants that have been hit the hardest. For Q2, SEK 245m or about 16% of invoiced rental income had not been received as of the end of April. The company said that it had made deferral and payment terms agreements with most of those tenants. If the state rental support mechanism were to be utilised, the net effect would be that rental revenue would decline by about SEK 90m in Q2 (corresponding to about 5% of quarterly rental income).

## 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.

## Key credit metrics &amp; ratios

	2016	2017	2018	2019	2020E	2021E	2022E
Revenues (SEKm)	6,251	6,490	6,718	7,040	7,194	7,349	7,773
EBITDA (SEKm)	4,372	4,581	4,768	4,947	5,050	5,137	5,433
EBIT (SEKm)	4,372	4,581	4,768	4,947	5,050	5,137	5,433
FFO (SEKm)	3,137	3,383	3,729	3,973	3,871	3,819	3,976
FOCF (SEKm)	3,462	398	2,541	256	-129	319	476
Net debt (m)	53,093	56,998	58,872	62,616	62,745	65,425	68,949
Equity	46,117	51,377	60,271	70,178	71,039	71,164	70,877
EBITDA margin	69.9	70.6	71.0	70.3	70.2	69.9	69.9
EBIT margin (%)	69.9	70.6	71.0	70.3	70.2	69.9	69.9
Adjusted EBITDA net int. cover. (x)	3.8	3.9	4.6	4.4	4.3	4.0	3.9
Adjusted net debt to EBITDA (x)	12.1	12.4	12.3	12.7	12.4	12.7	12.7
Adjusted FFO / Net debt	6%	6%	6%	6%	6%	6%	6%
Adjusted net debt to capital	54%	53%	49%	47%	47%	48%	49%

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

We have updated our financial forecast following the Q1 2020 report. We have lowered our expectations for lfl rental growth given the retail exposure but assume that project completions, some substantial, will contribute to growth. We assume additional value declines in 2020 but that Vasakronan will maintain its credit ratios in line with Moody's expectations, helped in part by the dividend cancellation. [See also our sector comment published on 16 March: Resilient, but not invulnerable.](#)

## Vasakronan financial forecast, SEB Credit Research base case

(SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	2016	2017	2018	2019	2020E	2021E	2022E
Rental income	6,799	6,824	6,944	7,040	6,251	6,490	6,718	7,040	7,194	7,349	7,773
NOI	4,956	4,981	5,020	5,060	4,459	4,678	4,869	5,060	5,165	5,255	5,558
EBITDA	5,026	5,050	4,982	5,268	4,379	4,596	4,942	5,268	5,062	5,149	5,445
FFO	3,804	3,747	3,627	3,899	3,179	3,416	3,761	3,899	3,883	3,831	3,988
Y/Y growth in rental income (%)	4%	4%	4%	5%		4%	4%	5%	2%	2%	6%
NOI margin (%)	73%	73%	72%	72%	71%	72%	72%	72%	72%	72%	72%
EBITDA margin (%)	74%	74%	72%	75%	70%	71%	74%	75%	70%	70%	70%
Interest expense	-1,023	-1,074	-1,095	-1,135	-1,162	-1,167	-1,046	-1,135	-1,176	-1,277	-1,409
Net interest expense	-1,020	-1,070	-1,091	-1,131	-1,152	-1,165	-1,043	-1,131	-1,167	-1,275	-1,407
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1161	-1216	-1228	-1278	-1314	-1330	-1189	-1278	-1318	-1430	-1570
Investment properties	139,381	144,215	147,385	156,071	115,922	126,875	138,934	156,071	156,754	160,059	163,927
Total debt	64,090	65,423	64,971	66,638	55,240	58,421	61,087	66,638	64,000	67,000	70,500
Cash and equivalents	5,910	3,082	3,373	3,515	2,147	1,423	2,215	3,515	748	1,068	1,044
Net debt	58,180	62,341	61,598	63,123	53,093	56,998	58,872	63,123	63,252	65,932	69,456
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	63,243	67,387	66,843	68,367	53,093	56,998	58,872	68,367	68,496	71,176	74,700
Secured debt	11,905	13,173	12,105	11,603	0	15,290	12,907	11,603	7,000	10,000	13,500
Equity	61,088	61,302	63,487	70,156	46,117	51,377	60,271	70,156	70,988	71,003	70,587
Adjusted equity	61,088	61,302	63,487	70,156	46,117	51,377	60,271	70,156	70,988	71,003	70,587
Net debt+equity	119,268	123,643	125,085	133,279	99,210	108,375	119,143	133,279	134,240	136,936	140,044
<b>Credit metrics</b>											
Total debt / EBITDA (x)	12.8x	13.0x	13.0x	12.6x	12.6x	12.7x	12.4x	12.6x	12.6x	13.0x	12.9x
Net debt / EBITDA (x)	11.6x	12.3x	12.4x	12.0x	12.1x	12.4x	11.9x	12.0x	12.5x	12.8x	12.8x
Adjusted debt / EBITDA (x)	12.2x	13.0x	13.1x	12.6x	11.7x	12.0x	11.6x	12.6x	13.1x	13.4x	13.3x
EBITDA / interest (x)	4.9x	4.7x	4.5x	4.6x	3.8x	3.9x	4.7x	4.6x	4.3x	4.0x	3.9x
EBITDA / net interest (x)	4.9x	4.7x	4.6x	4.7x	3.8x	3.9x	4.7x	4.7x	4.3x	4.0x	3.9x
EBITDA / adjusted interest (x)	4.5x	4.3x	4.2x	4.2x	3.5x	3.6x	4.3x	4.2x	4.0x	3.7x	3.6x
Fixed charge coverage (x)	0.3x	0.3x	0.4x	0.4x	0.3x	0.3x	0.3x	0.4x	4.3x	4.0x	3.9x
FFO / total debt (%)	5.9%	5.7%	5.6%	5.9%	5.8%	5.8%	6.2%	5.9%	6.1%	5.7%	5.7%
FFO / net debt (%)	6.5%	6.0%	5.9%	6.2%	6.0%	6.0%	6.4%	6.2%	6.1%	5.8%	5.7%
FFO / adjusted debt (%)	6.2%	5.8%	5.6%	5.9%	6.3%	6.3%	6.6%	5.9%	5.9%	5.6%	5.6%
Gross LTV	46.0%	45.4%	44.1%	42.7%	47.7%	46.0%	44.0%	42.7%	40.8%	41.9%	43.0%
Net LTV	41.7%	43.2%	41.8%	40.4%	45.8%	44.9%	42.4%	40.4%	40.4%	41.2%	42.4%
Adjusted LTV	43.8%	45.1%	43.8%	42.4%	45.8%	44.9%	42.4%	42.4%	42.3%	43.1%	44.2%
Net debt / debt+equity	48.8%	50.4%	49.2%	47.4%	53.5%	52.6%	49.4%	47.4%	47.1%	48.1%	49.6%
Adjusted debt / debt + equity	53.0%	54.5%	53.4%	51.3%	53.5%	52.6%	49.4%	51.3%	51.0%	52.0%	53.3%
Secured LTV	8.5%	9.1%	8.2%	7.4%	0.0%	12.1%	9.3%	7.4%	4.5%	6.2%	8.2%
Equity ratio	39.5%	38.7%	39.2%	41.2%	37.8%	38.8%	41.5%	41.2%	42.1%	41.2%	40.0%

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 155bn portfolio

#### A Swedish giant

With a property portfolio valued at about SEK 155bn, 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 that 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.

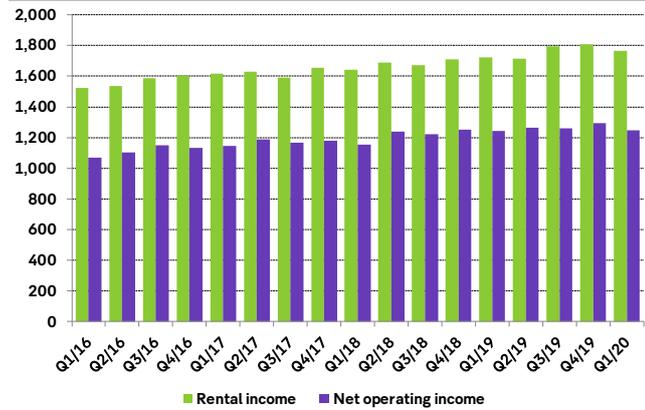
### Stable outlook

#### 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 Q1 2020, 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 4.1x posted for Q1 2020, against a minimum of 3.5x required by Moody's in order to avoid ratings pressure.

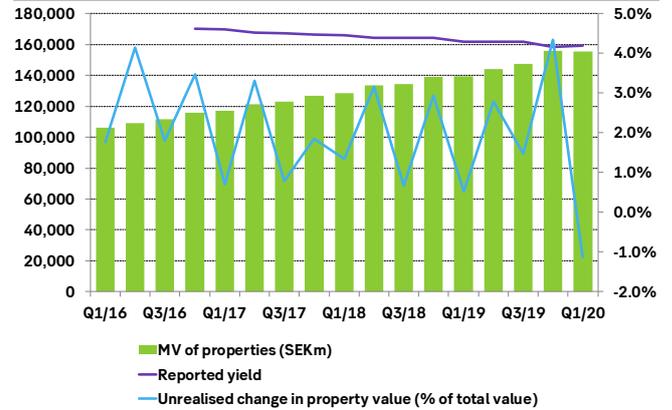
# Company overview

Quarterly rental income and NOI (SEKm)



Source: Company reports

Property portfolio statistics (SEKm)



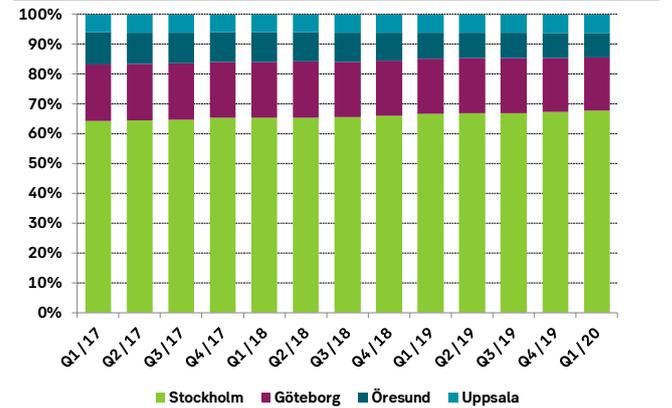
Source: Company reports

Property portfolio composition by segment (%)



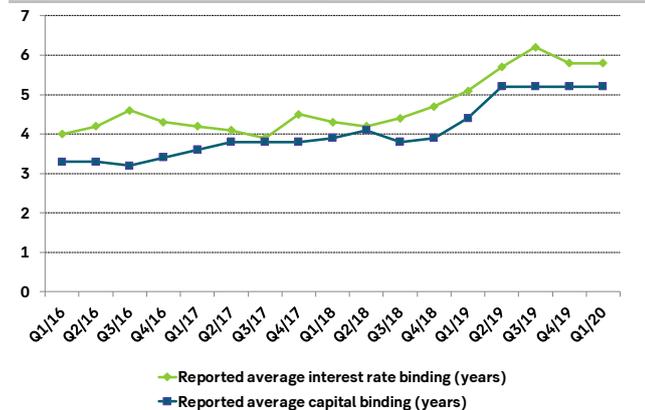
Source: Company reports

Property portfolio composition by geography (%)



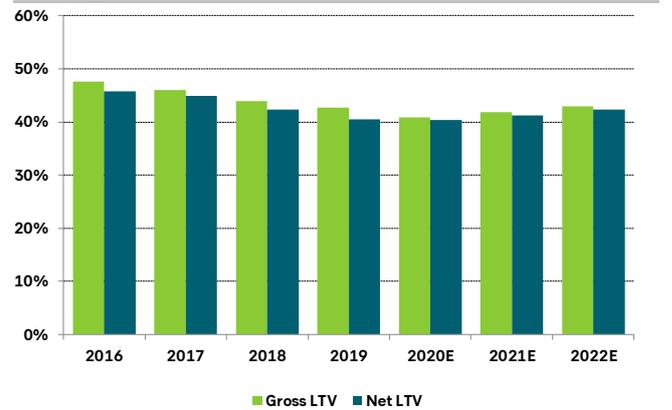
Source: Company reports

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**

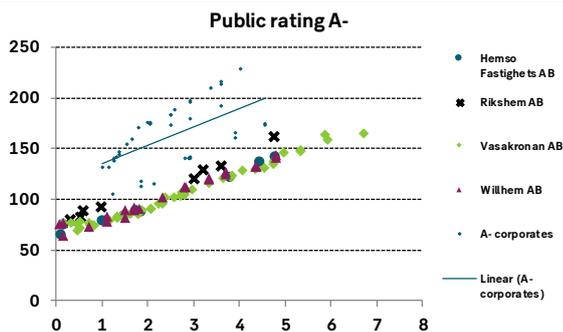
- Geographically concentrated to Sweden
- Engages in development activities with varying degree of speculation
- Exposed to commercial property segments where rent levels can be volatile

**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	85	Marketweight
FASTIG 1.205 04/24/23	24/10/2017	24/04/2023	FIXED	1.205	SEK 1250mn	105	Marketweight
FASTIG 1.265 12/20/23	20/04/2018	20/12/2023	FIXED	1.265	SEK 1000mn	120	Marketweight

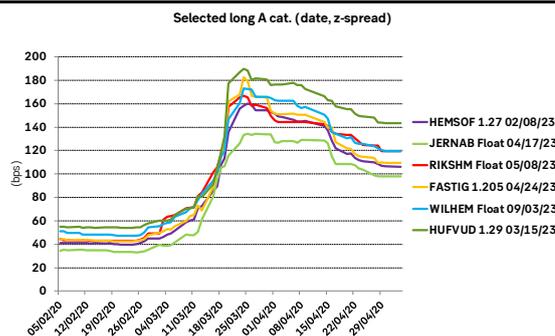
Source: Bloomberg and SEB

**Publicly rated A- issuer, SEK senior unsecured**



Source: SEB and Bloomberg

**Selected real estate bonds, historical spread evolution**



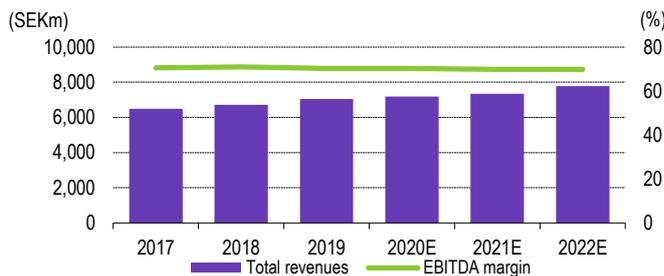
Source: SEB and Bloomberg

**Financial statement summary - Adjusted numbers (SEKm)**

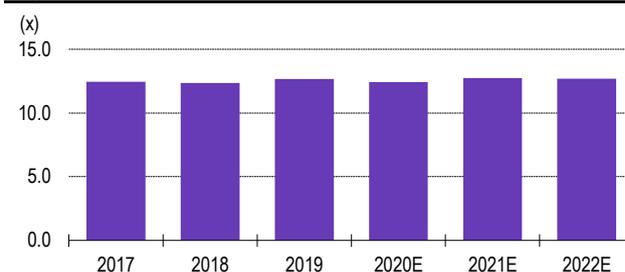
	2018	2019	2020E	2021E
<b>Income statement</b>				
Revenues	6,718	7,040	7,194	7,349
EBITDA	4,768	4,947	5,050	5,137
Net income (reported)	12,902	13,907	861.3	3,125
<b>Cash flow statement</b>				
Funds from operations (FFO)	3,729	3,973	3,871	3,819
Operating Cash Flow	4,000	4,138	3,871	3,819
Free Operating cash flow	2,541	256.0	-128.8	319.4
Pre-financing cash flow	-1,459	-3,744	-128.8	-2,681
<b>Balance sheet</b>				
Cash (and equivalents)	2,215	3,850	1,083	1,403
Total debt	61,087	66,466	63,828	66,828
Net debt	58,872	62,616	62,745	65,425
Equity	60,271	70,178	71,039	71,164
Total assets (reported)	145,201	164,445	162,862	166,685
<b>Key credit metrics &amp; ratios</b>				
Net debt to EBITDA (x)	12.3	12.7	12.4	12.7
Net debt to capital	49%	47%	47%	48%
FFO / Net debt	6%	6%	6%	6%
Equity ratio	42%	43%	44%	43%

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	2019	2020E	2021E	2022E
Total revenues	6,251	6,490	6,718	7,040	7,194	7,349	7,773
Total expenses	-1,879	-1,909	-1,950	-2,093	-2,144	-2,212	-2,340
<b>EBITDA</b>	<b>4,372</b>	<b>4,581</b>	<b>4,768</b>	<b>4,947</b>	<b>5,050</b>	<b>5,137</b>	<b>5,433</b>
Depreciation	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0
<b>EBIT</b>	<b>4,372</b>	<b>4,581</b>	<b>4,768</b>	<b>4,947</b>	<b>5,050</b>	<b>5,137</b>	<b>5,433</b>
Associated companies	-3	-3	159	1,105	500	200	200
Net interest expenses	-1,152	-1,165	-1,043	-1,133	-1,166	-1,271	-1,402
Value changes	11,274	8,415	10,602	12,308	-3,317	-196	368
Other financial items	0	0	0	0	0	0	0
<b>Reported pre-tax profit</b>	<b>14,491</b>	<b>11,828</b>	<b>14,486</b>	<b>17,227</b>	<b>1,067</b>	<b>3,871</b>	<b>4,599</b>
Minority interests	0	0	0	0	0	0	0
Total taxes	-3,019	-2,559	-1,584	-3,320	-206	-746	-886
<b>Net profit</b>	<b>11,472</b>	<b>9,269</b>	<b>12,902</b>	<b>13,907</b>	<b>861</b>	<b>3,125</b>	<b>3,713</b>
EBITDA margin	69.9	70.6	71.0	70.3	70.2	69.9	69.9
EBIT margin (%)	69.9	70.6	71.0	70.3	70.2	69.9	69.9
Tax rate (%)	20.8	21.6	10.9	19.3	19.3	19.3	19.3
<b>Growth rates y-o-y (%)</b>							
Total revenues	0.0	3.8	3.5	4.8	2.2	2.2	5.8
EBITDA	n.a.	4.8	4.1	3.8	2.1	1.7	5.8
EBIT	0.0	4.8	4.1	3.8	2.1	1.7	5.8
Pre-tax profit	0.0	(18.4)	22.5	18.9	(93.8)	262.8	18.8

**Cash flow**

(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
FFO	3,137	3,383	3,729	3,973	3,871	3,819	3,976
Changes in working capital	302	0	271	165	0	0	0
<b>Operating cash flow</b>	<b>3,439</b>	<b>3,383</b>	<b>4,000</b>	<b>4,138</b>	<b>3,871</b>	<b>3,819</b>	<b>3,976</b>
Net capital expenditures	23	-2,985	-1,459	-3,882	-4,000	-3,500	-3,500
<b>Free operating cash flow</b>	<b>3,462</b>	<b>398</b>	<b>2,541</b>	<b>256</b>	<b>-129</b>	<b>319</b>	<b>476</b>
Dividend paid	-7,382	-4,000	-4,000	-4,000	0	-3,000	-4,000
Acquisitions, divestments net	0	0	0	0	0	0	0
<b>Pre-financing cash flow</b>	<b>-3,920</b>	<b>-3,602</b>	<b>-1,459</b>	<b>-3,744</b>	<b>-129</b>	<b>-2,681</b>	<b>-3,524</b>
Net loan proceeds	4,285	3,237	2,735	5,379	-2,638	3,000	3,500
Share issue	0	0	0	0	0	0	0
Other	-519	-359	-484	-335	0	0	0
<b>Net change in cash</b>	<b>-154</b>	<b>-724</b>	<b>792</b>	<b>1,300</b>	<b>-2,767</b>	<b>319</b>	<b>-24</b>
Capex/sales (%)	-0.4	46.0	21.7	55.1	55.6	47.6	45.0

**Balance sheet**

(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
Cash and liquid assets	2,147	1,423	2,215	3,850	1,083	1,403	1,379
Other current assets	909	871	905	1,141	1,141	1,141	1,141
Long-term financial assets	907	969	1,058	1,282	1,782	1,982	2,182
Fixed tangible assets	115,922	126,875	138,934	156,083	156,766	160,071	163,939
Intangibles	2,171	2,145	2,089	2,089	2,089	2,089	2,089
<b>Total assets</b>	<b>122,056</b>	<b>132,283</b>	<b>145,201</b>	<b>164,445</b>	<b>162,862</b>	<b>166,685</b>	<b>170,729</b>
Interest bearing debt	55,240	58,421	61,087	66,466	63,828	66,828	70,328
Other liabilities	20,699	22,485	23,843	27,801	27,994	28,693	29,524
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	46,117	51,377	60,271	70,178	71,039	71,164	70,877
<b>Total liabilities and equity</b>	<b>122,056</b>	<b>132,283</b>	<b>145,201</b>	<b>164,445</b>	<b>162,862</b>	<b>166,685</b>	<b>170,729</b>
Net debt (m)	53,093	56,998	58,872	62,616	62,745	65,425	68,949
Net debt/equity (%)	115.1	110.9	97.7	89.2	88.3	91.9	97.3
Equity/total assets (%)	37.8	38.8	41.5	42.7	43.6	42.7	41.5
Net debt/EBITDA (x)	12.1	12.4	12.3	12.7	12.4	12.7	12.7
EBITDA Interest cover	3.8	3.9	4.6	4.4	4.3	4.0	3.9

**Main shareholders**

Name	(%)	Votes	Capital	Management		Company information	
				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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	<b>A*</b>	<b>B*</b>
Overweight	13.3%	6.6%
Marketweight	72.5%	42.8%
Underweight	14.2%	8.8%

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