

Handelsbanken Capital Markets

Vasakronan - Flight to safety, again

- **Not surprisingly a stable set of Q3 numbers**
- **Market rents and yield requirements for offices unchanged**
- **Higher rated bonds again outperforming the large BBB segment**

Not surprisingly a stable set of Q3 numbers

Vasakronan today reported stable Q3 rental income compared to Q3, 2019. Changes in property value amounted to SEK 344m in the quarter. Total changes in property value amounted to a negative SEK 863m for the first nine months of 2020, mainly related to write-downs of retail properties in Q1. The property portfolio was valued at SEK 159bn at the end of Q3, 2020. LTV remained low at 37%. The Board is now proposing a SEK 3bn dividend for FY 2019, half of the SEK 6bn that was originally proposed and postponed in April, 2020.

Market rents and yield requirements for offices unchanged

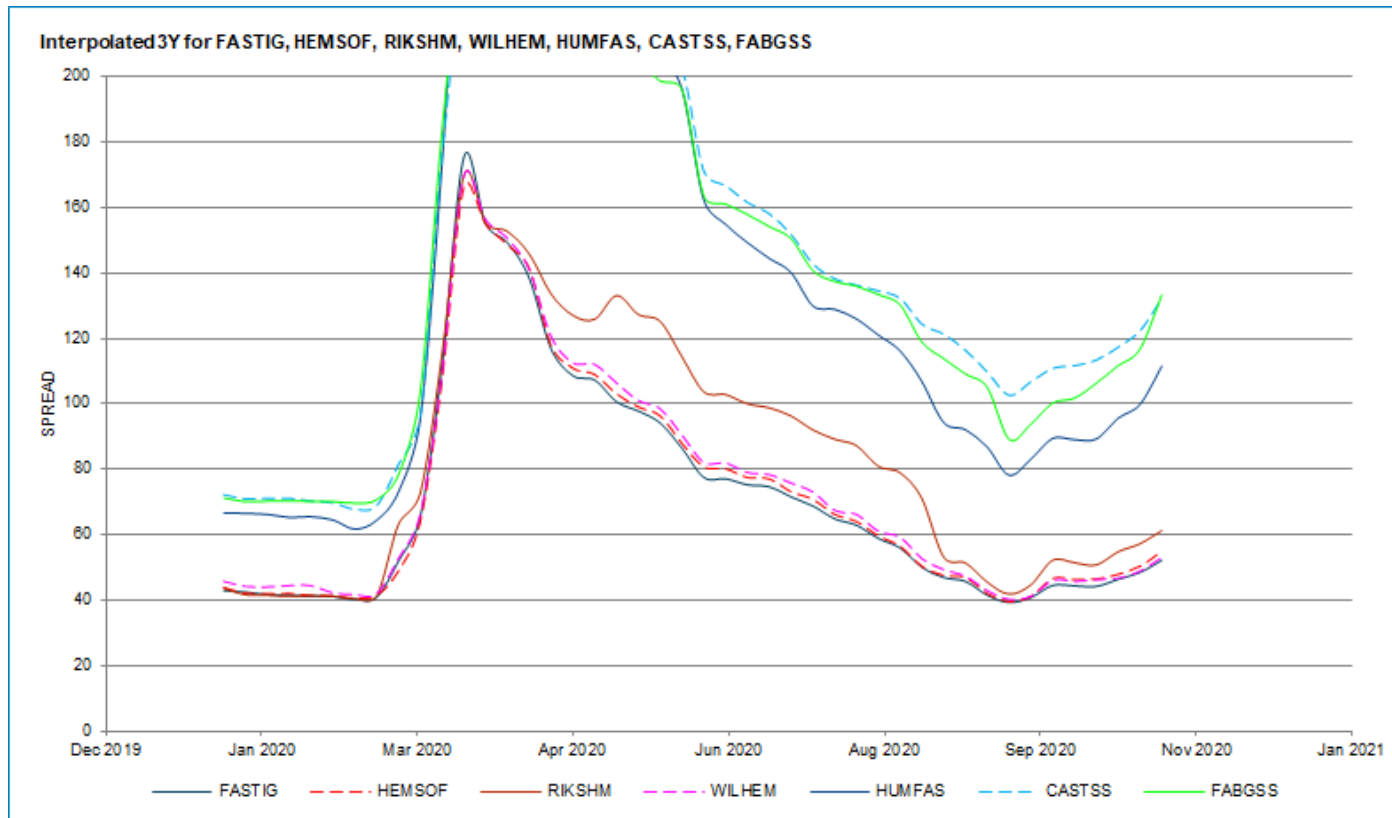
Vasakronan assesses that both market rents, as well as yield requirements for offices, were about the same level at the end of Q3 compared to the end of 2019. Yield requirements for retail properties have risen slightly, and Vasakronan have assessed a 5-10% value decline for these properties, dependent on the percentage of office space included. The rental market is described as cautious, but there is demand and willingness to pay for good products in the right locations.

Higher rated bonds again outperforming the large BBB segment

Vasakronan and its A- rated peers, such as Hemsö and Willhem, have seen their bond spreads widening significantly less compared to the broader real estate sector, dominated by the large BBB rated segment (represented by Castellum, Fabega and Humlegården in the chart below). Investor appetite for SEK real estate bonds has been low since mid-September, following the massive supply of bonds that came to the market in August and September of 2020. In combination with some renewed worry over the longer term outlook for the sector, higher rated issuers have performed better. This was also the case during the first half of 2020, at the height of the pandemic, when Vasakronan saw its bond spreads tighten faster than the broader real estate segment.

Credit key figures - Vasakronan

SEKm	2015	2016	2017	2018	2019	Q2-20LTM
Rental revenues	6,009	6,251	6,490	6,718	7,040	7,068
Op. net (NOIRE)	4,274	4,459	4,678	4,869	5,200	5,170
Income fr property mgmt adj	3,064	3,217	3,413	3,884	4,914	3,678
Net income adj	11,015	11,490	9,295	12,964	13,983	9,240
Property value	103,894	115,922	126,875	138,934	161,314	162,625
Gross debt adj	50,750	55,240	58,421	61,087	71,882	72,924
Net debt to prop value adj (%)	46.6	45.8	44.9	42.4	42.4	42.1
Total debt to total assets adj (%)	46.2	45.4	44.2	42.1	42.4	42.1
FFO/gross debt adj (%)	6	6	6	6	5	5
Gross debt/EBITDA adj (x)	12.1	12.6	12.7	12.8	14.1	14.4
EBITDA/interest expense adj (x)	3.7	3.8	3.9	4.6	4.0	3.9
Dividends/FFO adj (%)	172	235	118	112	109	0
Vacancy rate (%)	7.4	5.8	6.9	6.9	5.9	6.2
Pledged assets to total assets (%)	13.7	13.8	11.7	9.0	6.9	n.m
Secured debt to total assets (%)	13.2	12.7	11.6	8.9	6.8	6.9
Valuation yield (%)	4.9	4.6	4.5	4.3	4.2	4.2



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Disclosures

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Vasakronan

- Handelsbanken's analyst Michael Andersson has no position in Vasakronan or a related instrument.

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