

Handelsbanken Capital Markets

Vasakronan - Long live the office

- High activity in the office market
- One of the strongest issuers in the Nordic real estate market
- Bond spreads will remain tight

High activity in the office market

Vasakronan's Q2 2021 numbers were, overall, credit-neutral, with a positive bias. Rental income grew by 6% in H1 2021 (+2% like-for-like) due to higher gross rents. Net lettings were slightly negative, while the vacancy rate improved somewhat to 7.9%. At the same time, renegotiated rents were up 10%, on average, and there is willingness to pay for good offices in the right locations, according to Vasakronan. Value changes in H1 amounted to a whopping SEK 5.5bn (3.4% compared to the property value at the end of 2020), due to lower yield requirements and higher market rent assumptions. The CEO comments were overall positive in regards to the rental market, transaction market as well as financing.

One of the strongest issuers in the Nordic real estate sector

With reported LTV of 41%, an interest coverage of 5.1x, and average debt maturity of 5.3 years (diversified over different debt types and currencies), Vasakronan's financial risk profile remains very solid. Total property assets amounted to SEK 170bn. Supported by its strong AP fund ownership, Vasakronan remains one of the strongest issuers in the Nordic real estate market.

Bond spreads will remain tight

We believe that Vasakronan's bond spreads will remain tight. We see this as fair. Our view is that the credit markets will remain strong, thanks to super-soft central bank policies. Vasakronan (A3) has also been unaffected by S&P's recent rating methodology debacle, which have affected the credit spreads of Hemsö (A-/CW neg.), Willhem (A-/CW Neg.), and to some extent Rikshem (A3/Sta.), negatively.

Credit key figures - Vasakronan

SEKm	2016	2017	2018	2019	2020	Q2-21LTM
Rental revenues	6,251	6,490	6,718	7,040	7,006	7,199
Op. net (NOIRE)	4,459	4,678	4,869	5,200	5,189	5,348
Income fr property mgmt adj	3,217	3,413	3,884	4,914	3,577	4,210
Net income adj	11,490	9,295	12,964	13,983	3,714	9,882
Property value	115,922	126,875	138,934	161,314	167,583	175,023
Gross debt adj	55,240	58,421	61,087	71,882	74,481	78,861
Net debt to prop value adj (%)	45.8	44.9	42.4	42.4	42.9	43.1
Total debt to total assets adj (%)	45.4	44.2	42.1	42.4	42.3	42.7
FFO/gross debt adj (%)	6	6	6	5	5	5
Gross debt/EBITDA adj (x)	12.6	12.7	12.8	14.1	14.7	15.1
EBITDA/interest expense adj (x)	3.8	3.9	4.6	4.0	4.0	4.2
Dividends/FFO adj (%)	235	118	112	109	84.6	134
Vacancy rate (%)	5.8	6.9	6.9	5.9	8.1	8.0
Pledged assets to total assets (%)	13.8	11.7	9.0	6.9	6.2	n.m
Secured debt to total assets (%)	12.7	11.6	8.9	6.8	6.2	5.1
Valuation yield (%)	4.6	4.5	4.3	4.2	4.1	4.0