

Vasakronan AB

Q2 21: Activity picking up

Vasakronan showed stable performance overall in Q2 21. Net lettings remained somewhat negative at SEK39m for the quarter, with an economic occupancy rate of 92.1% as of end-June (Q1 21: 91.5%). According to Vasakronan the activity in the rental market is picking up with high demand for efficient space in prime locations. The average increase in the rent on renegotiated leases during the quarter was 5% for offices, while it was negative 10% for retail. Leverage was unchanged sequentially from Q1, with a net LTV of 43% as of end-June. We continue to regard the company's bonds as fairly valued and maintain our Marketweight recommendation.

In Q2 21, Vasakronan reported an increase in rental income of 8% y/y, with an increase in operating surplus of 9% y/y. For comparable property holdings, rental income increased by 2% in H1 2021, compared with the previous year. According to Vasakronan, the activity in the rental market is picking up with high demand for efficient space in prime locations. The average increase in the rent on renegotiated leases during the quarter was 5% for offices while it was negative 10% for retail.

Net lettings remained somewhat negative at SEK39m during the quarter, with an economic occupancy rate of 92.1% as of end-June (Q1 21: 91.5%). Out of total vacancies some 1.5 percentage points were attributable to ongoing projects and vacant development properties. According to Vasakronan, rent relief offered due to COVID-19, together with provisions for doubtful receivables, had a negative impact of SEK14m on rental income in H1 2021.

Unrealised value changes in the property portfolio amounted to SEK3.9bn, mainly due to lower yield requirements and raised market rent assumptions. As of end-June, Vasakronan's total property portfolio market value was SEK170bn. Leverage was unchanged sequentially from Q1, with a net LTV of 43% as of end-June. The secured LTV stood at a low 5% as of end-June, with an average capital fixing of 5.3 years and an average interest rate of 1.5%.

Key figures

SEKm	Q2 20	Q1 21	Q2 21	y/y	q/q
Rental income	1,703	1,818	1,842	8.16%	1.32%
EBITDA (rep.)	940	1,321	1,471	56.49%	11.36%
Net income	512	2,313	4,215	723.24%	82.23%
Investment properties	162,625	169,981	175,023	7.62%	2.97%
Total debt	72,924	78,330	78,861	8.14%	0.68%
Ratios	Q2 20	Q1 21	Q2 21	y/y	q/q
Gross LTV	44.8%	46.1%	45.1%	0.2pp	-1.0pp
LTM NOI margin	73.8%	73.3%	74.3%	0.5pp	1.0pp
LTM EBITDA interest coverage (x)	3.8	3.9	4.4	0.6pp	0.5pp
Net debt/LTM EBITDA (x)	13.8	15.0	13.8	0.1pp	-1.2pp
Total debt/total capital	50.8%	51.7%	51.1%	0.3pp	-0.6pp

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: 10

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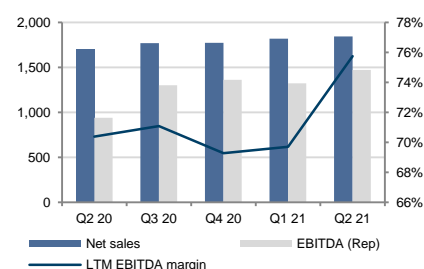
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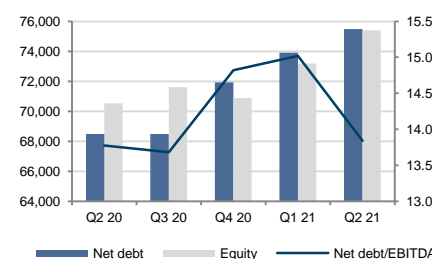
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Profitability (SEKm)



Source: Company data, Danske Bank Credit Research

Financial metrics (SEKm)



Source: Company data, Danske Bank Credit Research

Recommendation

Vasakronan showed stable performance overall in Q2 21, even though net lettings were somewhat negative for the quarter. The company maintains a prime focus on organic growth, with a large portfolio of own development projects. In addition, the company's property portfolio is located in prime locations in Sweden's four largest cities, implying a stable demand profile among both tenants and potential property investors. According to the company, 76% of tenants with contracts up for renegotiation in H1 2021 decided to remain a tenant of Vasakronan. The average remaining rent maturity amounted to 3.9 years as of end June.

Vasakronan has some exposure to project development risk. However, in our opinion this is mitigated by the company's strong balance sheet and the high occupancy rate on its major projects. As of end-June, the company's total project development portfolio amounted to SEK14.1bn, of which SEK10.7bn had been capitalised. All of the major projects are due to be completed in the coming three years. Of the total projected surface area in the larger projects, some 80% has been pre-let (unchanged from Q1).

We believe that Vasakronan is adequately positioned in its A3 rating by Moody's. The A3 issuer rating on the company reflects a baseline credit assessment of Baa1 with a one-notch uplift due to the likelihood of extraordinary government support. As Vasakronan is indirectly owned by the Swedish government via the AP funds 1-4, Moody's regards the company as a government-related issuer. In its current rating assessment, Moody's expects Vasakronan to maintain a leverage "well below 45%" in the coming 12 to 18 months.

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

Company summary

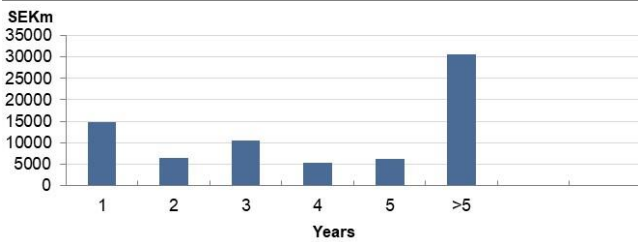
Company description

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

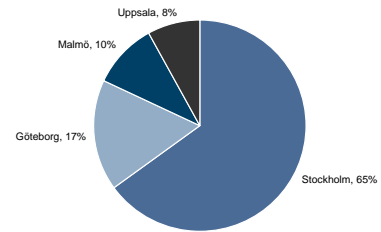


Selected outstanding bonds

Isin	Coupon	Currency	Maturity /Call	Seniority	Rating*
SE0010494351	1.205%	SEK	24/04/2023	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
NO0010917396	2.035%	NOK	15/01/2031	Unsecured Sr	NR/NR

*Moody's/S&P

Sales breakdown, segments



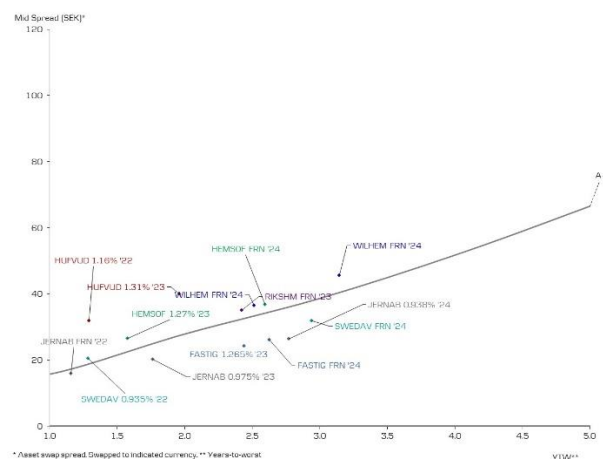
Key credit challenges

- 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



* Asset swap spread. Drapped to indicated currency. ** Years-to-worst

Source: Company data, Bloomberg, Danske Bank Credit Research [all charts and tables]

Summary tables

Income statement (SEKm)	2017	2018	2019	2020	2021E
Rental income	6,490	6,718	7,040	7,006	7,006
Other operating income	0	0	0	0	0
Total revenue	6,490	6,718	7,040	7,006	7,006
Total property related costs	1,812	1,849	1,833	1,817	1,817
Net operating income (NOI)	4,678	4,869	5,207	5,189	5,189
EBITDA	4,553	4,927	5,020	4,852	4,852
Net interest expenses	1,165	1,043	1,278	1,275	1,275
Profit from property management	3,416	3,725	3,816	3,796	3,796
Change in property values	7,973	10,651	13,270	1,083	1,083
Change in financial derivatives	468	13	-681	167	167
Other	-28	159	-74	-219	-219
Pre-tax profit	11,829	14,486	16,324	4,821	4,821
Current tax	-95	-120	-230	-203	-203
Deferred tax	-2,464	-1,464	-3,090	-903	-903
Net income	9,270	12,902	13,004	3,715	3,715
Balance sheet (SEKm)	2017	2018	2019	2020	2021E
Market value properties	126,875	138,934	161,314	167,583	167,583
Other fixed assets	46	44	40	47	47
Intangible assets	2,145	2,089	2,024	2,044	2,044
Deferred tax assets	0	0	0	0	0
Investments in associated companies					
Cash and cash equivalents	1,423	2,215	3,515	2,558	2,558
Total assets	131,970	145,201	170,179	176,226	176,226
Equity	51,377	60,271	70,156	70,869	70,869
Shareholder loans	0	0	0	0	0
Deferred taxes	16,824	18,286	21,368	22,269	22,269
Total debt	58,421	61,087	71,882	74,481	74,481
Other liabilities	5,661	2,698	3,511	8,353	8,353
Total equity and liabilities	132,283	145,201	170,179	176,226	176,226
Cash flow statement (SEKm)	2017	2018	2019	2020	2021E
FFO (adjusted)	3,383	3,567	3,663	3,547	3,547
Cash flow from operations (FFO)	3,111	3,635	3,829	3,818	3,818
Investment (properties)	440	-634	-977	-181	-181
Disposals (properties)	612	2,526	1,550	229	229
Investments other (net)	-5	146	-15	-37	-37
Capex	-1,489	-3,335	-4,440	-5,314	-5,314
Free operating cash flow	2,674	2,192	-38	-1,448	-1,448
Dividends and share repurchased	-4,000	-4,000	-3,691	-3,000	-3,000
Debt financing (net)	3,150	2,685	5,165	4,427	4,427
Change in cash	1,819	792	1,300	-957	-957

Source: Company data, Danske Bank Credit Research estimates

Summary tables

Adjusted ratios (SEKm)	2017	2018	2019	2020	2021E
Sales growth	3.5%	3.5%	4.8%	-0.5%	0.0%
EBITDA margin	70.2%	73.3%	71.3%	69.3%	69.3%
NOI margin	72.1%	72.5%	74.0%	74.1%	74.1%
EBITDA interest coverage (x)	3.9	4.7	3.9	3.8	3.8
FFO/interest coverage (x)	3.9	4.4	3.9	3.8	3.8
FFO/debt (x)	5.8%	5.8%	5.1%	4.8%	4.8%
Net debt/EBITDA (x)	12.5	11.9	13.6	14.8	14.8
Gross LTV	46.0%	44.0%	44.6%	44.4%	44.4%
Net LTV	44.9%	42.4%	42.4%	42.9%	42.9%
Equity ratio	38.9%	41.5%	41.2%	40.2%	40.2%
Total debt/total capital	53.2%	50.3%	50.6%	51.2%	51.2%
Quarterly overview (SEKm)	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
Rental income	1,703	1,767	1,772	1,818	1,842
EBITDA	940	1,300	1,360	1,321	1,471
Net interest expenses	335	321	303	310	308
Net income	512	1,087	2,265	2,313	4,215
CFO	845	1,170	1,385	612	918
Investment properties	162,625	163,806	167,583	169,981	175,023
Total debt	72,924	72,574	74,481	78,330	78,861
Net debt	68,513	68,478	71,923	73,915	75,472
Equity	70,518	71,610	70,896	73,186	75,401
Ratios					
LTM NOI margin	73.8%	75.4%	74.2%	73.3%	74.3%
LTM EBITDA margin	70.4%	71.1%	69.3%	69.7%	75.7%
Direct yield	3.2%	3.2%	3.1%	3.1%	3.1%
Gross LTV	44.8%	44.3%	44.4%	46.1%	45.1%
LTM EBITDA interest coverage (x)	3.8	3.9	3.8	3.9	4.4
Net debt/LTM EBITDA (x)	13.8	13.7	14.8	15.0	13.8
Total debt/total capital	50.8%	50.3%	51.2%	51.7%	51.1%
FFO/debt	1.2%	1.3%	1.3%	1.0%	1.2%

Source: Company data, Danske Bank Credit Research estimates


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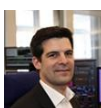
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Marketweight	Performance in line with peer group	6 months	70%	56%
Underweight	Underperformance relative to peer group	6 months	4%	57%

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