

Handelsbanken Capital Markets

Vasakronan - Well equipped to meet diverging office trends

- Strong year-end results
- One of the strongest issuers in the Nordic real estate sector, in our view
- Bond spreads appear fair

Strong year-end results

In our view, Vasakronan's solid Q4 2021 numbers were, overall, credit-neutral. Rental income grew by 6% in FY 2021 (+2% like-for-like) due to higher gross rents. Net lettings were up significantly in Q4 (SEK 132m), while the vacancy rate remained somewhat elevated at 9%. Renegotiated rents were up 10% for offices, on average, a negative 4% for retail premises, in the quarter. Value changes in 2021 amounted to a whopping SEK 15.3bn (up 9.5% compared with the property value at the end of 2020), due to lower yield requirements and higher market rent assumptions. The CEO's comments were positive in regards to the rental market, transaction market as well as financing. The jury is still out on "the office of tomorrow" though, with no clear trend in regards to tenants wanting more space, less space, more flexibility, or leaving the office space unchanged. With its scale, strong asset quality and good locations, Vasakronan should be able to successfully meet tenant demands going forward, in our view.

One of the strongest issuers in the Nordic real estate sector, in our view

With reported LTV of 39%, interest coverage of 5.2x and an average debt maturity of 5.0 years (diversified over different debt types and currencies), we find that Vasakronan's financial risk profile remains very solid. Total property assets amounted to SEK 182bn. Supported by its strong AP fund ownership, we argue that Vasakronan remains one of the strongest issuers in the Nordic real estate market. Vasakronan also stated that a vast majority of their green assets should most likely qualify as green under the EU-taxonomy. Further information and data to be expected in the 2021 annual report.

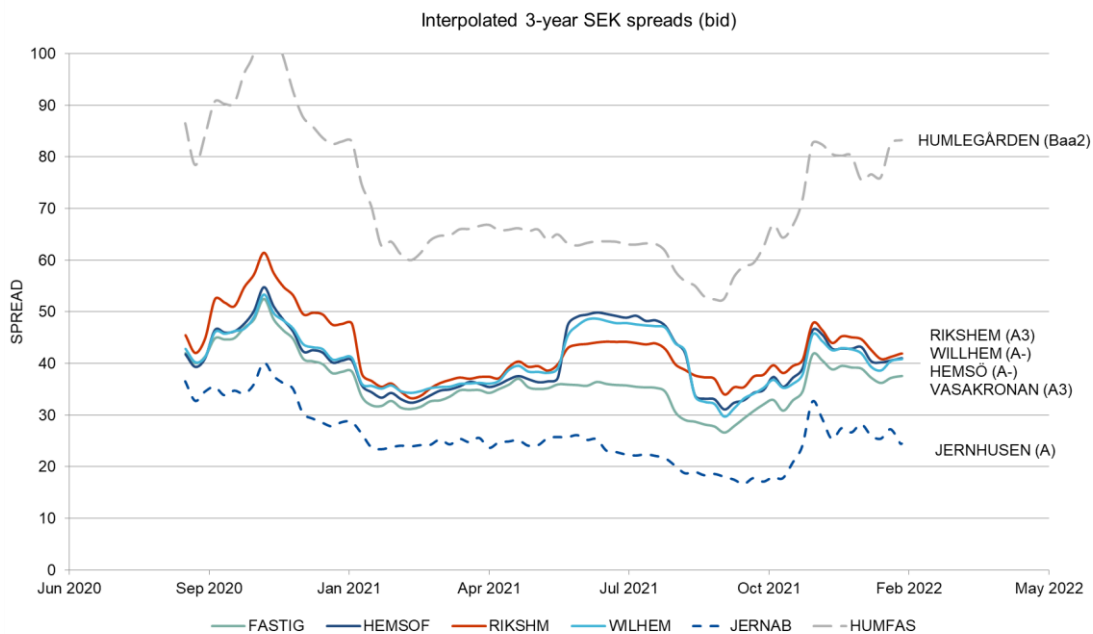
Bond spreads appear fair

Vasakronan's bond spreads continue to trade inside its A3/A- rated peers such as Hemsö, Rikshem and Willhem. Due to our view of Vasakronan's stronger stand-alone credit profile (i.e. excluding ownership support notching), we view this as fair.

Credit key figures - Vasakronan

SEKm	2017	2018	2019	2020	2021
Rental revenues	6,490	6,718	7,040	7,006	7,425
Op. net (NOIRE)	4,678	4,869	5,200	5,189	5,533
Income fr property mgmt adj	3,413	3,884	4,914	3,577	4,391
Net income adj	9,295	12,964	13,983	3,714	16,359
Property value	126,875	138,934	161,314	167,583	186,732

Gross debt adj	58,421	61,087	71,882	74,481	78,996
Net debt to prop value adj (%)	44.9	42.4	42.4	42.9	40.4
Total debt to total assets adj (%)	44.2	42.1	42.4	42.3	40.3
FFO/gross debt adj (%)	6	6	5	5	5
Gross debt/EBITDA adj (x)	12.7	12.8	14.1	14.7	14.6
EBITDA/interest expense adj (x)	3.9	4.6	4.0	4.0	4.5
Dividends/FFO adj (%)	118	112	109	84.6	56.0
Vacancy rate (%)	6.9	6.9	5.9	8.1	9.0
Pledged assets to total assets (%)	11.7	9.0	6.9	6.2	n.m
Secured debt to total assets (%)	11.6	8.9	6.8	6.2	4.0
Valuation yield (%)	4.5	4.3	4.2	4.1	3.9



Source: Macrobond

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