

NOT FOR DISTRIBUTION IN CANADA, AUSTRALIA OR JAPAN OR IN ANY OTHER JURISDICTION WHERE TO DO SO WOULD BE UNLAWFUL. MAY ONLY BE DISTRIBUTED IN THE US TO QUALIFIED INSTITUTIONAL BUYERS.

Published: 27 Apr 2022, 20:51 GMT+2

DCM Research

Vasakronan

Property

The SEB logo consists of the letters 'SEB' in a white, bold, sans-serif font, centered within a solid green square.

Q1: Slightly stronger metrics than expected

Vasakronan maintained positive net lettings in the quarter and said the occupier demand remains good, particular in the Stockholm CBD. Furthermore, the company's key credit metrics improved sequentially above our expectations, mainly due to positive revaluations and lower financial costs. Vasakronan's A3/Stable rating was affirmed by Moody's in April. We regard today's Q1 report as stable and credit-neutral.

Q1: Positive net lettings and good occupier demand in Stockholm City

Vasakronan's rental income and NOI increased by 5% y-o-y in Q1 (3% in a comparable portfolio), just marginally behind our estimates. Net lettings remained positive in the quarter at SEK 125m, and the company's economic occupancy rate improved 0.4% q-o-q to 91.8% (1.4% of the vacancy is attributed to projects). The company said the positive trend from the end-of 2021 continued in Q1, with continued good occupier demand for high-quality premises in prime locations, particular in Stockholm city. Renegotiations with an annual rent of SEK 285m were completed in Q1, with an average price increase of 7% (16% in Q1-2021). According to the company, a high share of environmental certification is important for both financing and letting activities. As of end-March 2022, 94% of portfolio value was environmentally certified.

Key credit metrics improved somewhat ahead of expectations

The company's key credit metrics improved sequentially due to positive revaluations and lower financial costs. The net LTV improved to 38%, mainly due to the 1.6% asset uplift in Q1 and modest investment activities in the quarter (SEK 536m). Unrealised value changes amounted to positive SEK 2.9bn, mainly driven by lower yield requirements in Stockholm and Gothenburg (5bp compression in total). The 12-month interest coverage improved to 5.4x (we had expected 5.2x). Net financial items, which amounted to SEK 243m in Q1, declined in the quarter and were 12% lower than our expectations. The average interest rate on the debt portfolio (including derivatives) remained flat in the quarter at 1.3%.

Vasakronan continues to enjoy adequate ratings leeway. As of end-Q1 2021, we calculated an adjusted leverage of (35-45% required for the A3 rating) and fixed-charge coverage of (3.5-4.5x required) according to Moody's definitions.

A3 rating affirmed by Moody's in April: Outlook remains stable

We believe Vasakronan to be financial well-prepared for poorer capital market conditions. The company benefits from a diversified funding mix and the average debt maturity profile and fixed-interest period stand at 5.6 and 4.5 years respectively. Moreover, all foreign currency bonds are fully hedge according to our understanding, which protects against FX movements and changing interest rates. Furthermore, short after the end of Q1, Vasakronan's A3/Stable rating was affirmed by Moody's.

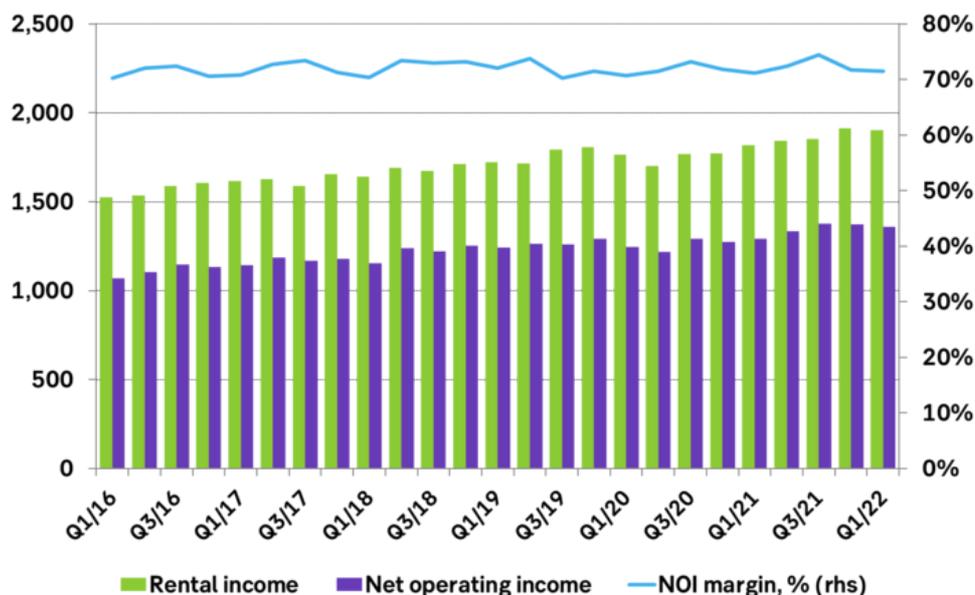
SEB DCM Research deviation table (SEKm)

Deviation table	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22E	Q1/22	Q1 vs SEB
Rental income	1,818	1,842	1,852	1,913	1,921	1,902	-1%
NOI	1,293	1,333	1,378	1,373	1,369	1,360	-1%
EBITDA	1,260	1,293	1,346	1,353	1,336	1,332	0%
FFO	798	1,150	1,023	783	1,037	996	-4%
FOCF	-333	126	363	18	137	268	
Interest expense	-271	-269	-270	-245	-279	-244	-13%
Net interest expense	-270	-268	-269	-244	-277	-243	-12%
Investment properties	164,819	169,863	173,471	181,575	183,362	185,034	1%
Total debt	73,167	73,700	73,763	73,838	74,000	73,751	0%
Net debt	68,752	70,311	69,478	70,317	70,180	70,280	0%
Total debt / EBITDA (x)	14.6x	14.0x	13.8x	13.5x	13.4x	13.5x	
Net debt / EBITDA (x)	13.7x	13.4x	13.0x	12.9x	12.7x	12.7x	
EBITDA / net interest (x)	4.5x	4.9x	5.0x	5.2x	5.2x	5.4x	
FFO / net debt (%)	5.3%	5.6%	5.8%	5.8%	6.1%	6.1%	
Gross LTV	44.4%	43.4%	42.5%	40.7%	40.4%	39.9%	
Net LTV	41.7%	41.4%	40.1%	38.7%	38.3%	38.0%	

Property	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22E	Q1/22	DEV
Net acquisitions	183	1	-26	77	0	0	
Investments in existing properties	-945	-1,156	-1,030	-1,006	-900	-536	
Property revaluation	1,637	3,889	2,553	7,176	885	2,922	
Yield	4.08%	4.03%	3.97%	3.87%	3.86%	3.82%	

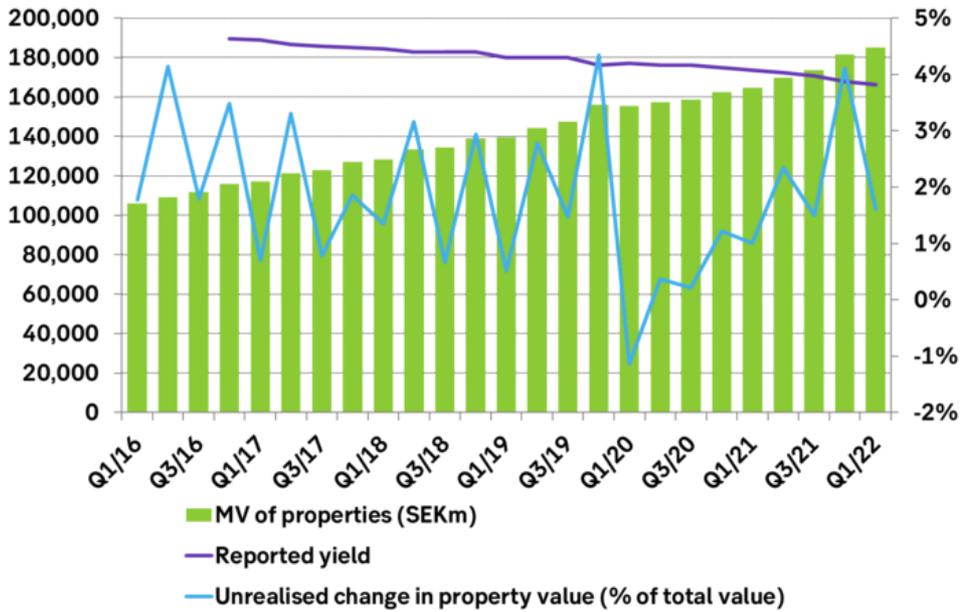
Operating costs	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22E	Q1/22	DEV
Central administration	-33	-40	-32	-20	-34	-28	-17%
Running costs	-208	-178	-173	-200	-219	-218	0%
Repairs and maintenance	-26	-29	-21	-28	-28	-29	4%
Property administration	-87	-99	-72	-103	-91	-87	-5%
Property taxes	-164	-163	-168	-169	-173	-168	-3%
Leasehold rents	-40	-40	-40	-40	-40	-40	-1%
Total property costs	-525	-509	-474	-540	-551	-542	-2%

Source: Company data, SEB DCM Research estimates

Quarterly rental income and NOI (SEKm)


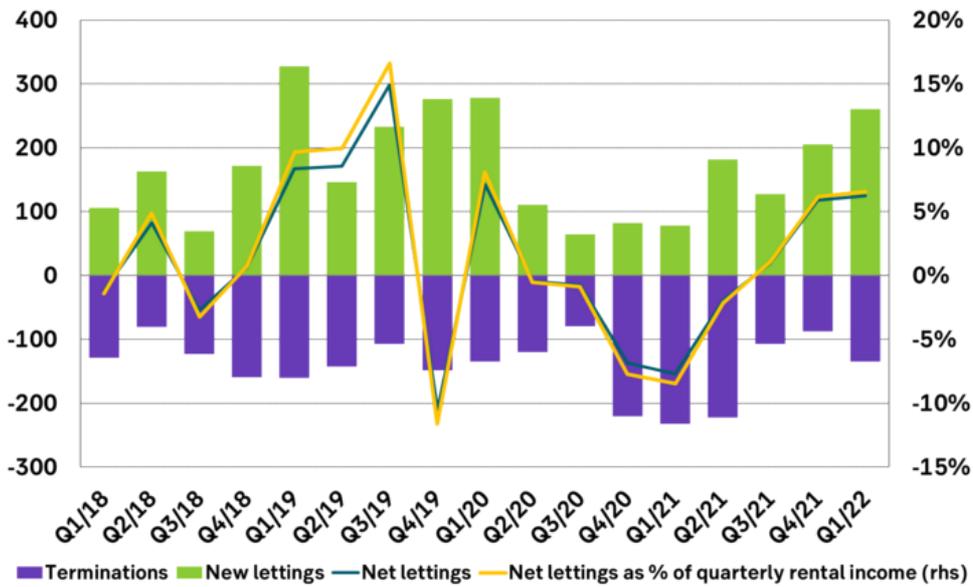
Source: Company reports

Property portfolio statistics (SEKm)



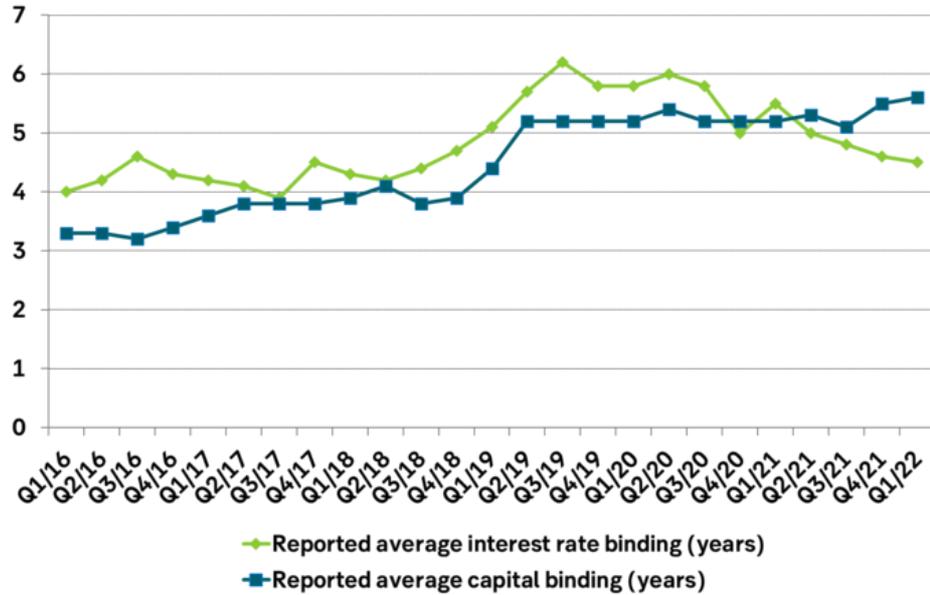
Source: Company reports

Historical evolution of net leasing per quarter (SEKm)



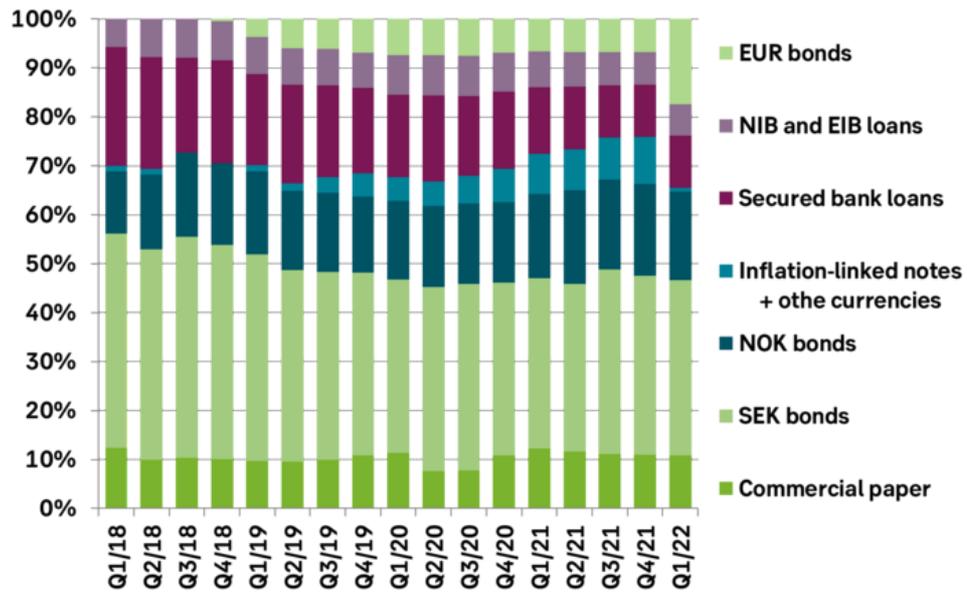
Source: Company reports

Capital and interest binding (years)



Source: Company reports

Title



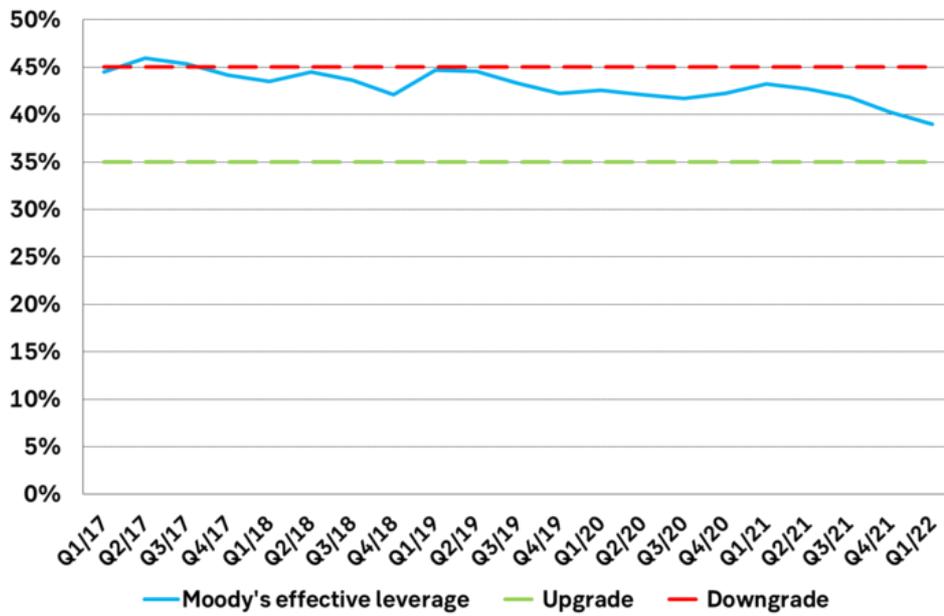
Source:

Title



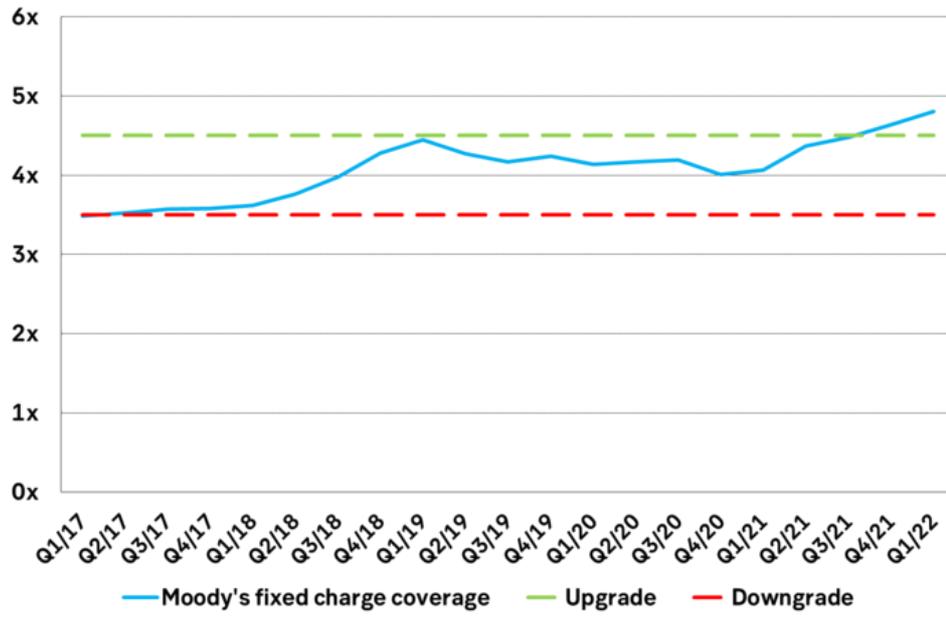
Source: Company report

Moody's effective leverage and current rating triggers



Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers



Source: SEB, Moody's

Gustav Johannesson
gustav.johannesson@seb.se
(46) 8 763 85 75

Authors' statement of Objectivity (Analyst Certification)

We, the authors of this report, hereby confirm that notwithstanding the existence of any potential conflicts of interest referred to herein, the views expressed in this report accurately reflect our personal views about the companies and securities covered. We further confirm that we have not been, nor are or will be, receiving direct or indirect compensation in exchange for expressing any of the views or the specific recommendation contained in the report. We are not registered or qualified as research analysts, representatives or associated persons under the rules of any US exchange, regulatory organization or State.

This statement affects your rights

This report is confidential and may not be reproduced, redistributed or republished by any recipient for any purpose or to any person.

Recipients

This marketing communication is approved and issued by Skandinaviska Enskilda Banken AB (publ) ("SEB"), a bank organized under the laws of the Kingdom of Sweden, on behalf of itself and its affiliates for institutional investors. SEB is not a registered Broker-Dealer under the US Securities and Exchange Act of 1934.

This marketing communication is produced for the private information of recipients - if you are not a client of ours, you are not entitled to this research report, and should destroy it. The document is not, and should not be construed as, an offer to sell or solicitation of an offer to buy any securities. Opinions contained in the report represent the author's present opinion only and may be subject to change. In the event that the author's opinion should change or a new analyst with a different opinion becomes responsible for our coverage of any company mentioned, we shall endeavour (but do not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within SEB, or other circumstances. If you are in doubt as to the meaning of the recommendation system used by SEB in this communication, please refer to the explanation below.

Good faith and limitations

All information, including statements of fact, contained in this marketing communication have been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by SEB with respect to the completeness or accuracy of its contents, and it is not to be relied upon as authoritative and should not be taken in substitution for the exercise of reasoned, independent judgement by you. Recipients are urged to base their investment decisions upon such investigations as they deem necessary. To the extent permitted by applicable law, no liability whatsoever is accepted by SEB for any direct or consequential loss arising from the use of this document or its contents.

Distribution

This marketing communication has been prepared by SEB or its affiliates and is being distributed by SEB offices in Stockholm, Copenhagen, Oslo, Helsinki, Frankfurt, London, Tallinn, Vilnius, Singapore and Hong Kong. This communication may only be distributed in the US by SEB Securities Inc. to recipients which are deemed 'Qualified Institutional Buyers' under Rule 144A of the Securities Act of 1933, and the communication is provided to these recipients as Institutional Debt Research under the exemptions in FINRA Rule 2242(j). The Communications are prepared and distributed in Lithuania by AB SEB bankas and in Estonia by AS SEB Pank in accordance with the requirements of the local laws and Financial Supervision Authority's conduct of business rules. Addresses and Phone numbers for each office can be found at the end of the report.

The SEB Group: members, memberships and regulators

SEB is a member of, inter alia, Nasdaq OMX Nordic, Oslo Stock Exchange, the London Stock Exchange, NYSE Euronext, Frankfurt Stock Exchange, Tallinn Stock Exchange as well as certain European MTF's such as BATS-Chi-X, Turquoise, Burgundy, XUBS, POSIT and Sigma-X. SEB is regulated by Finansinspektionen in Sweden and, for the conduct of investment services business, in (i) Denmark by Finanstilsynet, (ii) Norway by Finanstilsynet, (iii) Finland by Finanssivalvonta, (iv) Germany by Bundesanstalt für Finanzdienstleistungsaufsicht, (v) the UK by the Financial Conduct Authority and Prudential Regulation Authority (details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request), (vi) Estonia by the Estonian Financial Supervision Authority, (vii) Lithuania by the Bank of Lithuania, (viii) by the Monetary Authority of Singapore and (ix) Hong

Kong by Securities and Futures Commission. SEBSI is a U.S. broker-dealer, registered with the Financial Industry Regulatory Authority (FINRA). SEBSI is a subsidiary of SEB. SEBSI is authorized to engage in the underwriting of securities but does not make markets or otherwise engage in any proprietary trading in any securities.

Prevention and avoidance of conflicts of interest

All marketing communications produced by SEB are produced with due care, skill and integrity. While DCM Research and Equities sales and trading are part of the same organisational unit as its investment banking activities, care is taken to manage any conflict of interest. Our DCM Research communications are thus based solely on publicly available information. Following standard practice, recommendations and target share prices are removed from analytical comments on companies which are the subject of public offers on which SEB is advising. The remuneration of staff within DCM Research is determined by senior management of the Large Corporates & Financial Institutions division and may include discretionary awards based on the firm's total earnings, including investment banking and markets (sales and trading businesses) income; however, no such staff receive remuneration based upon specific investment banking or markets transactions. SEB's Compliance department monitors the production of research and the observance of the group's procedures designed to prevent any potential conflicts of interest from affecting the content of research; the latter are described in greater detail in the "Statement of Policies for dealing with potential conflicts of interest surrounding our Research activities" which is available on our Research website.

Your attention is also drawn to the fact that

Unless explicitly stated otherwise in this report, SEB expects (but does not undertake) to issue updates to this report following the publication of new figures or forecasts by the company subject to comment, or upon the occurrence of other events which could potentially have a material effect on it.

The securities discussed in this report may not be eligible for sale in all countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this report and its distribution, may be made only in countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. For US recipients which are 'Qualified Institutional Buyers' under Rule 144A of the Securities Act of 1933, any resulting transactions as a consequence of this communication may only be affected through SEB Securities Inc.

Additional recommendation history for the issuer is available at <https://research.sebgroup.com/>

Specific disclosures for institutional investors

The analysis and valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties; different assumptions could result in materially different results. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of the SEB Group or any person or entity within the SEB Group that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realized. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

Company specific disclosures and potential conflicts of interest

A member of, or an entity associated with, SEB or its affiliates, officers, directors, employees or shareholders of such members (a) is not, and has never been, represented on the board of directors or similar supervisory entity of Vasakronan, (b) has from time to time bought or sold the securities issued by the company or options relating to the company, and (c) SEB does not hold any short / long position exceeding 0.5% of the total issued share capital of Vasakronan as of 31 Mar 2022.

SEB is, or has within the last 12 months been or expects in the next 3 months to be, party to an agreement relating to the provision of investment banking services to Vasakronan or an affiliate, or has received from it fees or the promise of fees in respect of such services.

Within the past 12 months SEB has been involved in a public offering and/or underwriting of Vasakronan.

The analyst(s) responsible for this research (jointly with their closely related persons) hold(s) 0 shares in Vasakronan and do(es) not have holdings in other instruments related to the company.

Explanation of DCM Research recommendations

SEB derives its Recommendations from its appraisal of the credit quality of the issuer and issue in combination with the market price. The analyst may express a recommendation in various ways, depending on the complexity of the issuer's debt structure or the complexity of the analysed instrument, including:

1) Formal terminology

Overweight over the next six months we expect a position in this instrument to exceed the relevant index, sector or benchmark.

Marketweight over the next six months we expect a position in this instrument to perform in line with the relevant index, sector or benchmark.

Underweight over the next six months we expect a position in this instrument to underperform the relevant index, sector or benchmark.

2) An expression of relative value compared with instruments or debt classes issued by peers or comparable entities.

3) A list of so called "Top Picks" from a group of issuers, instruments or debt classes.

DCM Research recommendations are valid during the day of publication only and are therefore not necessarily updated or adjusted even if credit quality and market pricing have changed materially.

Methodology

SEB's DCM Research makes its assessment of the creditworthiness of an issuer based on the assessment of an issuer's business risk profile as well as its financial risk profile. The business risk profile includes country risk, industry risk, competitive position, and profitability. The financial risk profile includes financial policies, accounting, cash flow adequacy, capital structure and liquidity. The outcome of the assessment of the two risk profiles is weighed together for a final overall assessment.

In addition to SEB's credit assessment of creditworthiness, other factors considered in a particular issuer include the credit ratings assigned to a specific issuer by independent agencies, the value and market price of its securities, macroeconomic factors such as interest rates, promised coupon or yield of the specific instruments, and historical spread developments.