

Vasakronan

The strongest are also impacted by higher interest rates

- Solid operating performance
- Interest coverage ratio soon below Moody's rating trigger
- A negative outlook could affect tight bond pricing

Solid operating performance

Like-for-like rental income grew by 6% in 2022, net letting remained positive in Q4 and management states that the rental markets remain solid. The vacancy rate improved marginally, but remain somewhat high at almost 9%. Valuation changes amounted to SEK -6.1bn (-3.1%) mainly a result of higher yield requirements.

Interest coverage ratio soon below Moody's rating trigger

As of Q4 2022, Vasakronan's adjusted ICR stood at about 4.2x on a rolling twelve-month basis or 3.5x when assessing Q4 separately. As 29% of Vasakronan's fixed-rated interest expires in the next twelve months, we believe that the ICR will continue to weaken due to the significantly higher underlying interest rates (STIBOR and swap rates) and expect it will likely fall below Moody's minimum requirement of 3.5x. This is to some extent offset by Vasakronan's relatively modest LTV of 40% (compared to Moody's 45% trigger), and that the board has suggested that no dividend will be distributed in 2023, which we applaud. In addition Vasakronan's strong ownership support should also be a mitigating factor.

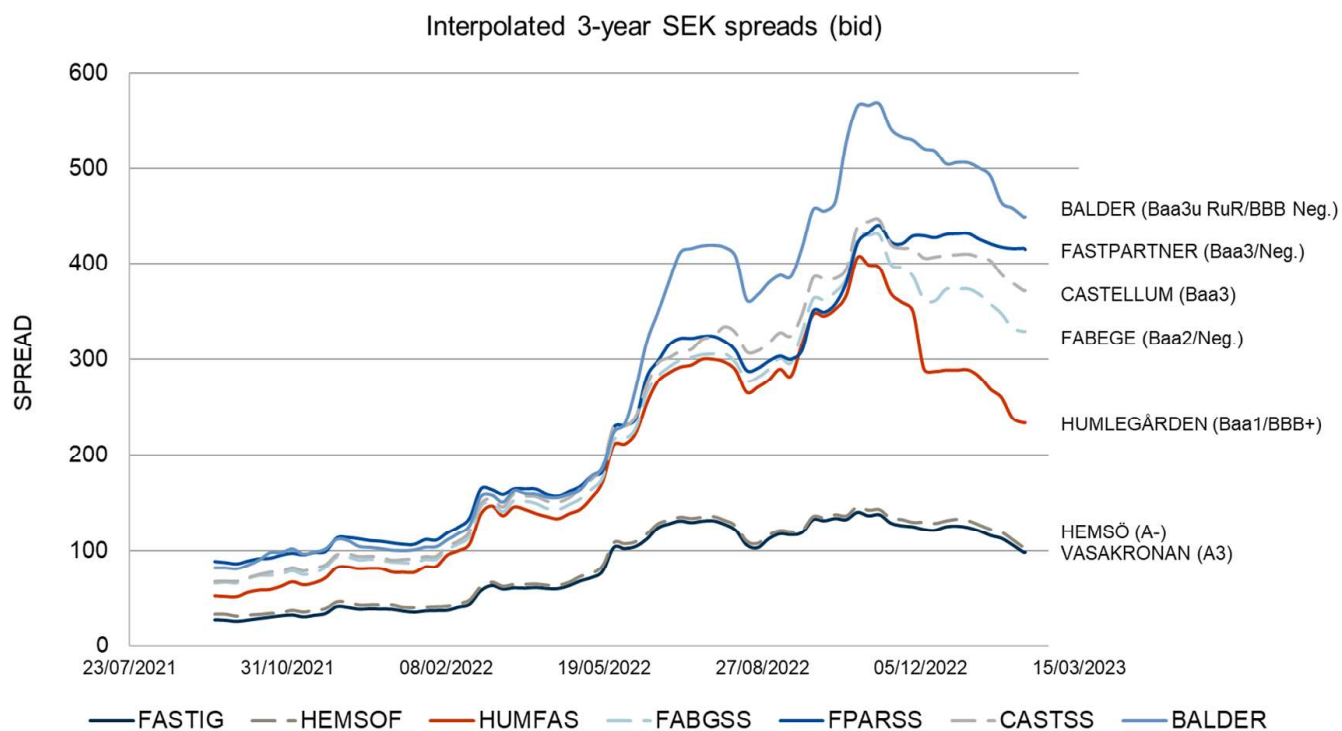
A negative outlook could affect tight bond pricing

Although we continue to view Vasakronan as one of the stronger issuers in the Nordic real estate sector, a negative rating action (which includes a negative outlook revision) would likely negatively impact bond pricing as many investors would not be able to hold the bonds if Vasakronan were to lose, or investors question, its A3 status.

Key figures

SEKm	2018	2019	2020	2021	2022
Rental revenues	6,718	7,040	7,006	7,425	8,167
Op. net (NOIRE)	4,869	5,200	5,189	5,533	5,968
Income fr property mgmt adj	3,884	4,914	3,577	4,391	4,333
Net income adj	12,964	13,983	3,714	16,359	8,465
Property value	138,934	161,314	167,583	186,732	193,467
Gross debt adj	61,087	71,882	74,481	78,996	82,576
Net debt to prop value adj (%)	42.4	42.4	42.9	40.4	41.1
Total debt to total assets adj (%)	42.1	42.4	42.3	40.3	39.6
FFO/gross debt adj (%)	6	5	5	5	5
Gross debt/EBITDA adj (x)	12.8	14.1	14.7	14.6	14.1
EBITDA/interest expense adj (x)	4.6	4.0	4.0	4.5	4.2
Dividends/FFO adj (%)	112	109	84.6	56.0	93.6
Vacancy rate (%)	6.9	5.9	8.1	9.0	9.1
Pledged assets to total assets (%)	9.0	6.9	6.2	4.0	n.m
Secured debt to total assets (%)	8.9	6.8	6.2	4.0	5.3
Valuation yield (%)	4.3	4.2	4.1	3.9	4.0

Interpolated 3-year SEK spreads (bid)



Sources: Bloomberg and Handelsbanken Capital Markets

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Feb 09. 2023: Vasakronan - Handelsbanken's analyst Michael Andersson has no position in Vasakronan or a related instrument.

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On 2022-11-28 the recommendation (SEK Senior unsecured) Market Perform, which was set on 2018-05-08, was changed to the current recommendation Underperform.

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