

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: 28 Apr 2023, 17:36 GMT+2

DCM Research

**Vasakronan**

Property



## **Q1: Stable and with rating affirmation from Moody's**

**The decline in unrealised value amounted to 2.7% in Q1 and was mainly driven by higher yield requirements. Credit metrics were slightly weaker sequentially, albeit no drama. Moody's affirmed Vasakronan's A3/Stable rating after the end of the period. Our revised financial forecast assumes continued healthy performance and credit quality. All in all, credit neutral.**

## **Q1: Unrealised value decline of 2.7%, negative net lettings but a tad lower vacancy**

In Q1, Vasakronan's rental income increased by 17% y/y (14% on a comparable portfolio), mainly driven by positive indexation effects, and completed projects. The NOI margin held up fairly well in the quarter at 71% (72% a year-earlier) and increased by 12% on a l-f-l basis. Net lettings were negative in Q1 amounting to SEK -46m (still positive at SEK 99m on a LTM basis), although, the majority of this was due to the JM's decision to leave its HQ in Frösunda at the end of 2024.

Nevertheless, Vasakronan's occupancy rate improved slightly q/q from 91.2% to 91.7% (c. 1% of the vacancy is attributable to project developments). The company said it noted some slowdown and

greater restraint among tenant expansion, while demand for high quality offices in good locations remains good. Looking at renegotiation for the first quarter of 2023 for the whole portfolio, the price change averaged 5% above index, which can be compared to 7% last year. Renegotiations in the office portfolio increased by 7% while retail was down 1%.

Regarding property revaluations, unrealised value changes amounted to SEK -5,048m in Q1, (we expected SEK -5,650m), corresponding to 2.7% of the total portfolio value. Vasakronan's average yield requirement increased by 14bp q/q due to rising market interest rates and more uncertain market conditions, standing at 4.09% as of end-Q1 2023.

### **Slightly weaker credit metrics sequentially, albeit no drama**

Key credit metrics weakened slightly q/q, driven by unrealised value changes and lower financial costs, albeit with no drama. The net LTV increased marginally from 39.5% to 40.5%, with a sequential reduction in total debt by c. SEK 1bn balancing some of the impact from the property revaluations made. Vasakronan's 12-month interest coverage decreased from 4.8x to 4.4x according to our calculations. The average interest rate increased by 0.3% q/q to 2.4%. As of end-Q1, the average debt maturity profile and fixed interest period were 5.6 and 3.9 years, respectively. At the same date, fixed interest maturity within 12 months amounted to 28% (43% a year earlier). Vasakronan's decision to not distribute any dividend for the financial year 2022 together with a slightly lower pace of investment in projects are mitigating some of the pressure on credit metrics. Also, the company's EBITDA will be supported by recent and upcoming project completions.

### **A3/Stable rating affirmed by Moody's in April 2023**

After the end of the period, Moody's affirmed Vasakronan's A3/Stable rating. The stable outlook reflects Moody's expectation that debt/asset will stay well below 45% (40% per end-Q1/23) and EBITDA interest coverage around 3.5x (4.0x per end-Q1/23) in the next 12-18 months. The solid rating provides continuously good access to the capital market, and the company benefits from a diversified funding mix and

low share of secured assets. All in all, we view Vasakronan's Q1 report as stable and credit neutral as such.

### Deviation between actual Q1 results and SEB DCM Research estimates (SEKm)

<b>Deviation table</b>	<b>Q1/22</b>	<b>Q2/22</b>	<b>Q3/22</b>	<b>Q4/22</b>	<b>Q1/23E</b>	<b>Q1/23</b>	<b>Q1 vs SEB</b>
Rental income	1 902	1 990	2 132	2 143	2 290	2 221	-3%
NOI	1 360	1 459	1 472	1 517	1 642	1 580	-4%
EBITDA	1 332	1 430	1 446	1 484	1 610	1 557	-3%
FFO	996	1 066	1 211	1 125	1 281	1 083	-15%
FOCF	268	399	1 003	651	724	427	
Interest expense	-244	-266	-327	-401	-428	-435	2%
Net interest expense	-243	-265	-319	-381	-428	-409	-4%
Investment properties	185 034	195 809	194 037	188 317	183 224	183 809	0%
Total debt	73 751	79 629	78 676	77 425	76 550	76 447	0%
Net debt	70 280	75 604	74 809	74 441	73 717	74 358	1%
Total debt / EBITDA (x)	13,3x	14,5x	13,8x	13,3x	12,5x	12,6x	
Net debt / EBITDA (x)	12,7x	13,8x	13,1x	12,8x	12,1x	12,3x	
EBITDA / net interest (x)	5,4x	5,4x	5,3x	4,8x	4,4x	4,4x	
FFO / net debt (%)	6,1%	5,6%	5,9%	5,9%	6,3%	6,0%	
Gross LTV	39,9%	40,7%	40,5%	41,1%	41,8%	41,6%	
Net LTV	38,0%	38,6%	38,6%	39,5%	40,2%	40,5%	

<b>Property</b>	<b>Q1/22</b>	<b>Q2/22</b>	<b>Q3/22</b>	<b>Q4/22</b>	<b>Q1/23E</b>	<b>Q1/23</b>	<b>DEV</b>
Net acquisitions	0	0	150	393	0	0	
Investments in existing properties	-536	-530	-517	-783	-557	-540	
Property revaluation	2 922	10 246	-2 140	-6 111	-5 650	-5 048	
Yield	3,82%	3,71%	3,82%	3,95%	4,17%	4,09%	

<b>Operating costs</b>	<b>Q1/22</b>	<b>Q2/22</b>	<b>Q3/22</b>	<b>Q4/22</b>	<b>Q1/23E</b>	<b>Q1/23</b>	
Central administration	-28	-29	-26	-33	-32	-23	-28%
Running costs	-218	-197	-215	-234	-258	-249	-3%
Repairs and maintenance	-29	-25	-29	-34	-35	-36	3%
Property administration	-87	-103	-78	-111	-105	-107	2%
Property taxes	-168	-166	-298	-207	-202	-209	3%
Leasehold rents	-40	-40	-40	-40	-48	-40	-17%
Total property costs	-542	-531	-660	-626	-648	-641	-1%

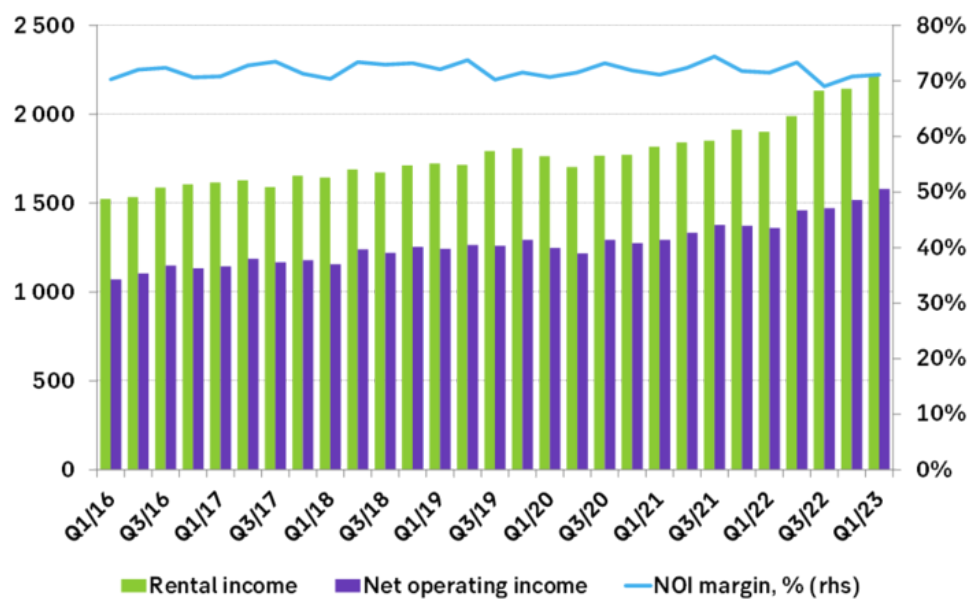
Source: Company data, SEB DCM Research estimate

## Vasakronan's LTM financial accounts and forecast, SEB DCM Research base case

SEKm	Q1/22	Q2/22	Q3/22	Q4/22	Q1/23	2018	2019	2020	2021	2022	2023E	2024E	2025E
Rental income	7 509	7 057	7 957	8 107	8 480	6 718	7 040	7 000	7 425	8 107	9 071	9 407	9 740
NOI	5 444	5 570	5 604	5 808	6 028	4 809	5 000	5 032	5 377	5 808	6 422	6 703	6 890
EBITDA	5 537	5 491	5 709	5 832	6 050	4 942	5 208	4 901	5 401	5 832	6 332	6 605	6 795
FFO	4 204	4 221	4 389	4 384	4 430	3 701	3 899	3 008	4 090	4 384	4 703	4 688	4 643
Y/Y growth in rental income (%)	0%	6%	9%	10%	13%	4%	5%	0%	6%	10%	11%	4%	3%
NOI margin (%)	72%	73%	71%	71%	71%	72%	72%	72%	72%	71%	71%	71%	71%
EBITDA margin (%)	74%	72%	72%	71%	71%	74%	75%	71%	74%	71%	70%	70%	70%
Interest expense	-1 028	-1 025	-1 082	-1 238	-1 429	-1 046	-1 135	-1 127	-1 055	-1 238	-1 739	-1 876	-2 058
Net interest expense	-1 024	-1 021	-1 071	-1 208	-1 374	-1 043	-1 131	-1 118	-1 051	-1 208	-1 733	-1 872	-2 053
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1 184	-1 181	-1 231	-1 308	-1 534	-1 189	-1 278	-1 270	-1 211	-1 308	-1 910	-2 057	-2 244
Investment properties	185 034	195 809	194 037	188 317	183 809	138 934	150 071	162 420	181 575	188 317	178 737	178 345	180 122
Total debt	73 751	79 029	78 070	77 425	70 447	61 087	60 038	69 317	73 838	77 425	74 230	71 824	70 935
Cash and equivalents	3 471	4 025	3 807	2 984	2 089	2 215	3 315	2 958	3 321	2 984	2 103	2 149	1 873
Net debt	70 280	75 004	74 809	74 441	74 358	58 872	56 723	66 359	70 517	74 441	72 127	69 675	69 062
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	75 430	80 759	79 902	79 592	79 508	58 872	58 307	71 923	75 475	79 592	77 284	74 820	74 213
Secured debt	7 800	10 143	10 143	11 131	11 131	12 907	11 003	10 971	7 800	11 131	11 000	12 000	13 000
Equity	89 172	94 890	94 004	89 707	80 458	60 271	70 150	70 809	85 290	89 707	83 948	85 575	87 057
Adjusted equity	89 172	94 890	94 004	89 707	80 458	60 271	70 150	70 809	85 290	89 707	83 948	85 575	87 057
Net debt+equity	159 452	170 500	168 873	164 208	160 810	119 143	133 279	137 028	155 607	164 208	156 080	155 250	150 118
<b>Credit metrics</b>	<b>Q1/22</b>	<b>Q2/22</b>	<b>Q3/22</b>	<b>Q4/22</b>	<b>Q1/23</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Total debt / EBITDA (x)	13,3x	14,5x	13,8x	13,3x	12,0x	12,4x	12,0x	14,0x	13,5x	13,3x	11,7x	10,9x	10,4x
Net debt / EBITDA (x)	12,7x	13,8x	13,1x	12,8x	12,3x	11,9x	12,0x	13,5x	12,9x	12,8x	11,4x	10,5x	10,2x
Adjusted debt / EBITDA (x)	13,2x	14,3x	13,0x	13,3x	12,8x	11,0x	12,0x	14,1x	13,4x	13,3x	11,9x	11,0x	10,0x
EBITDA / interest (x)	5,4x	5,4x	5,3x	4,7x	4,2x	4,7x	4,0x	4,4x	5,2x	4,7x	3,0x	3,5x	3,3x
EBITDA / net interest (x)	5,4x	5,4x	5,3x	4,8x	4,4x	4,7x	4,7x	4,4x	5,2x	4,8x	3,7x	3,5x	3,3x
EBITDA / adjusted interest (x)	4,8x	4,8x	4,8x	4,4x	4,0x	4,3x	4,2x	4,0x	4,0x	4,4x	3,4x	3,3x	3,1x
Fixed charge coverage (x)	0,4x	0,3x	0,4x	0,5x	0,4x	0,3x	0,4x	0,3x	0,4x	0,5x	3,7x	3,5x	3,3x
FFO / total debt (%)	5,8%	5,3%	5,0%	5,7%	5,8%	0,2%	5,9%	5,2%	5,5%	5,7%	0,4%	0,5%	0,5%
FFO / net debt (%)	0,1%	0,0%	0,0%	0,0%	0,0%	0,4%	0,2%	0,4%	0,5%	0,5%	0,0%	0,7%	0,7%
FFO / adjusted debt (%)	5,9%	5,4%	5,7%	5,7%	5,8%	0,0%	5,9%	5,2%	5,0%	5,7%	0,4%	0,5%	0,5%
Gross LTV	39,9%	40,7%	40,5%	41,1%	41,0%	44,0%	42,7%	42,7%	40,7%	41,1%	41,5%	40,3%	39,4%
Net LTV	38,0%	38,0%	38,0%	39,5%	40,5%	42,4%	40,4%	41,1%	38,7%	39,5%	40,4%	39,1%	38,3%
Adjusted LTV	39,7%	40,2%	40,1%	41,1%	42,1%	42,4%	42,4%	42,9%	40,4%	41,1%	42,0%	40,8%	40,1%
Net debt / debt+equity	44,1%	44,3%	44,3%	45,3%	46,2%	49,4%	47,4%	48,5%	45,2%	45,3%	40,2%	44,9%	44,2%
Adjusted debt / debt + equity	47,3%	47,4%	47,4%	48,5%	49,4%	49,4%	51,3%	52,3%	48,5%	48,5%	49,5%	48,2%	47,5%
Secured LTV	4,3%	5,2%	5,2%	5,9%	0,1%	9,3%	7,4%	0,8%	4,3%	5,9%	0,2%	0,7%	7,2%
Equity ratio	44,1%	43,8%	43,5%	43,0%	42,4%	41,5%	41,2%	40,2%	43,5%	43,0%	42,4%	43,3%	43,7%

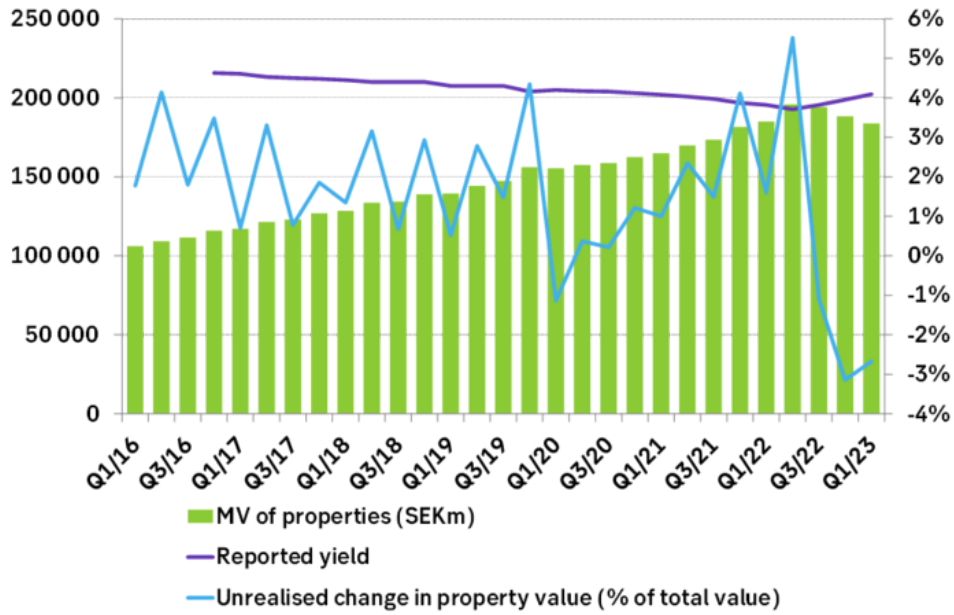
Source: Company data, SEB DCM Research estimate

## Quarterly rental income and NOI (SEKm)



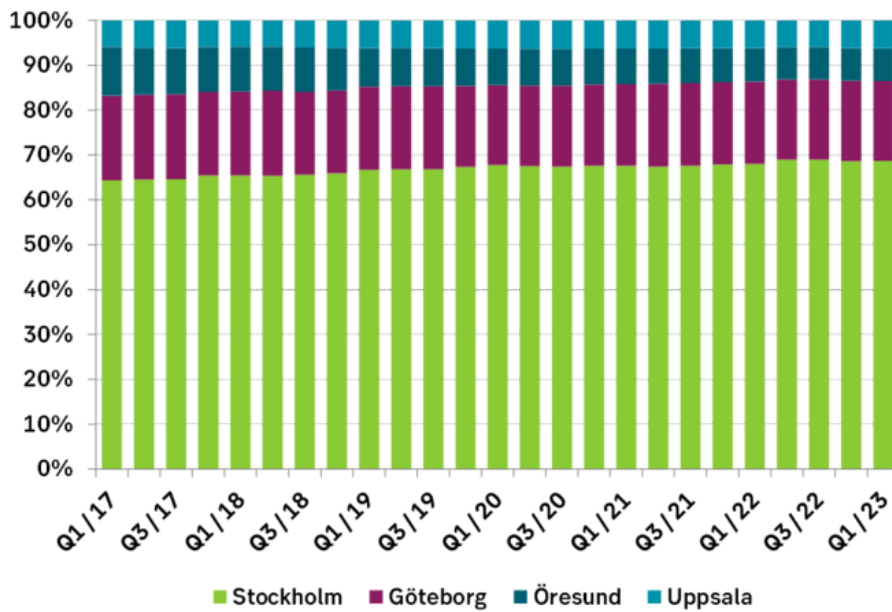
Source: Company reports

## Property portfolio statistics (SEKm)



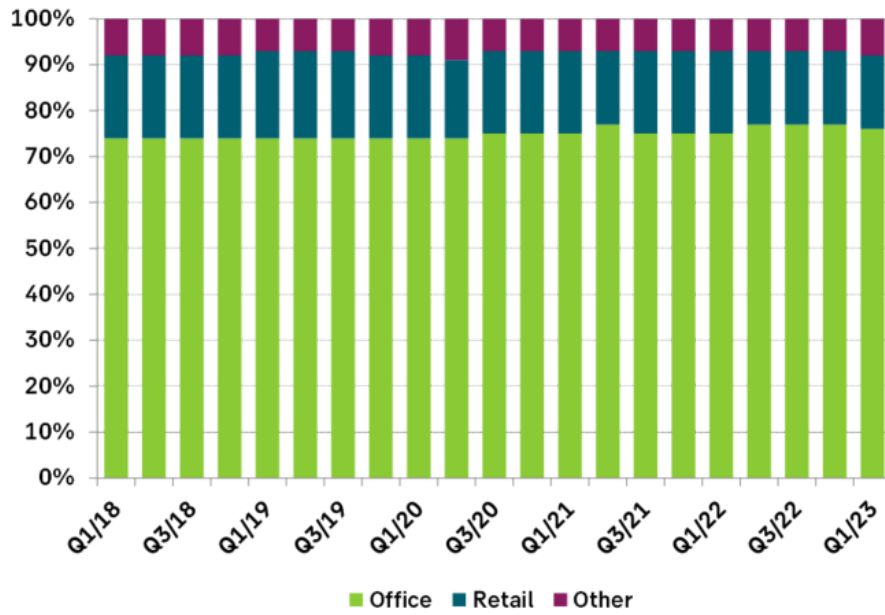
Source: Company reports

## Property portfolio composition by geography (%)



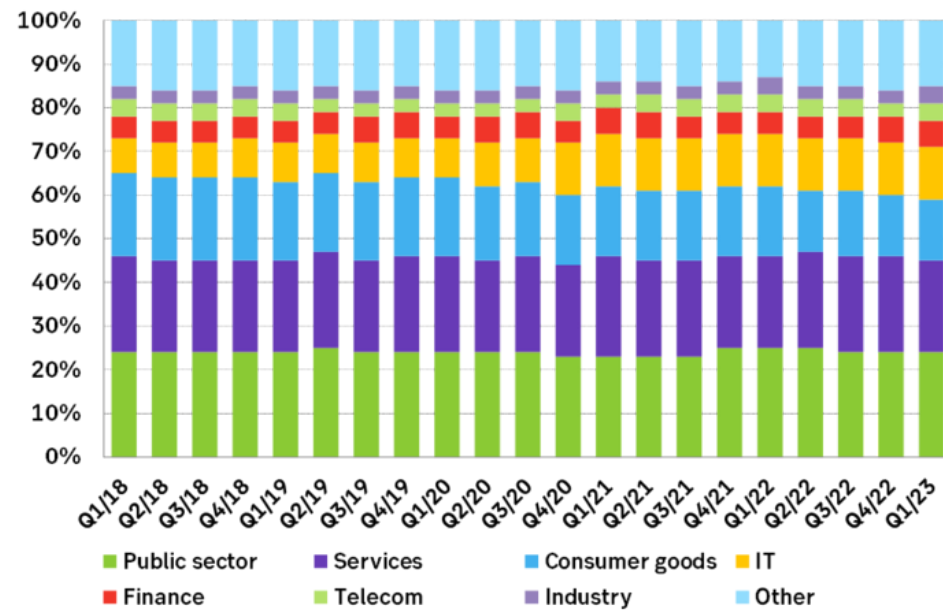
Source: Company reports

### Property portfolio composition by property type (%)



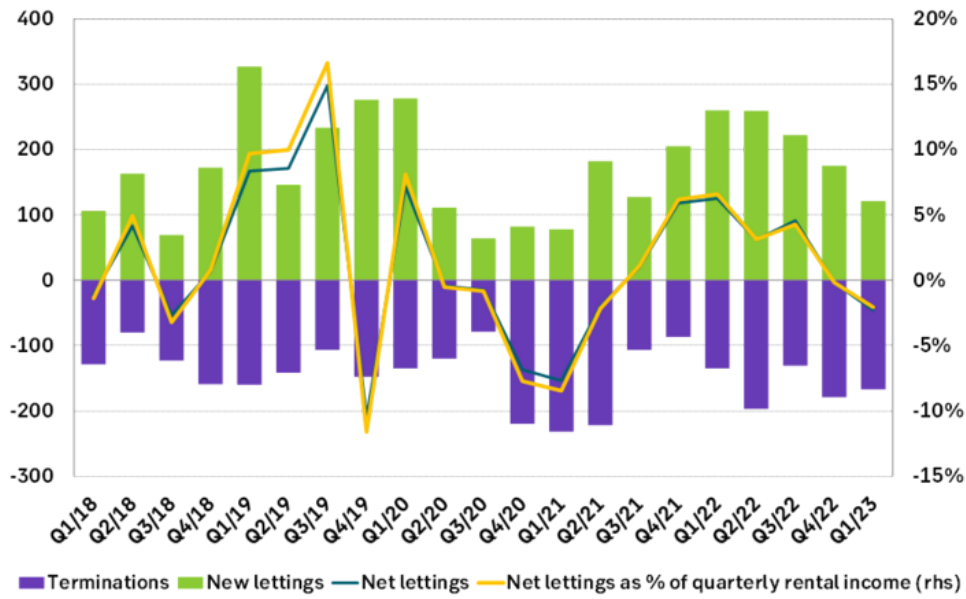
Source: Company reports

### Breakdown of tenant by sector, % of contracted rent



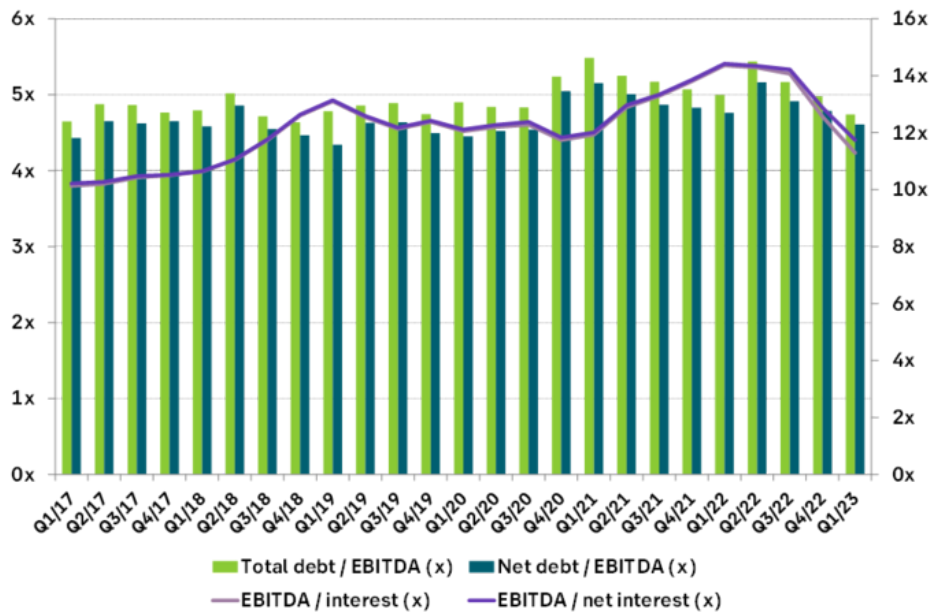
Source: Company reports

## Historical evolution of net leasing per quarter (SEKm)



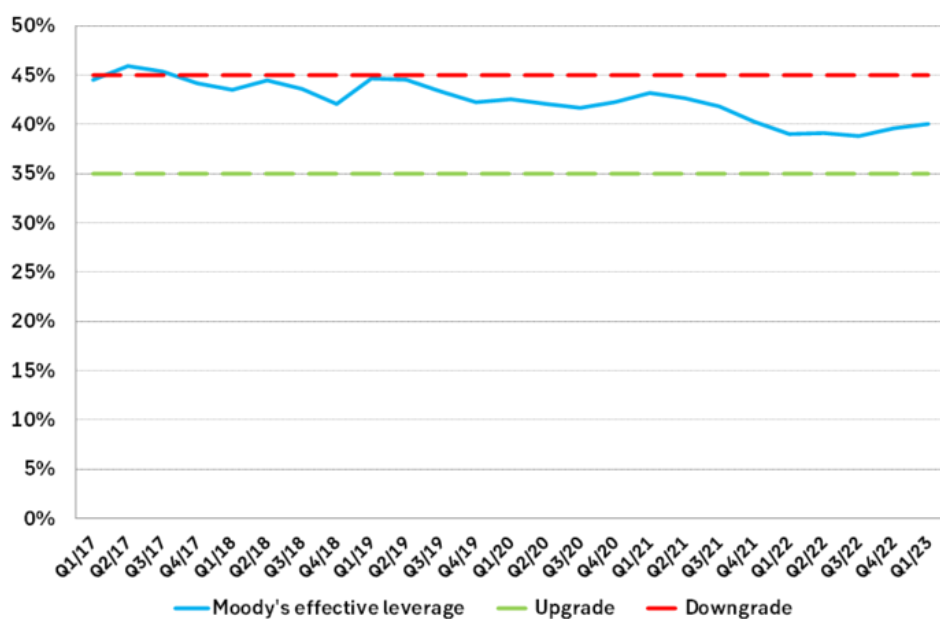
Source: Company reports

## LTM leverage and interest coverage (x)



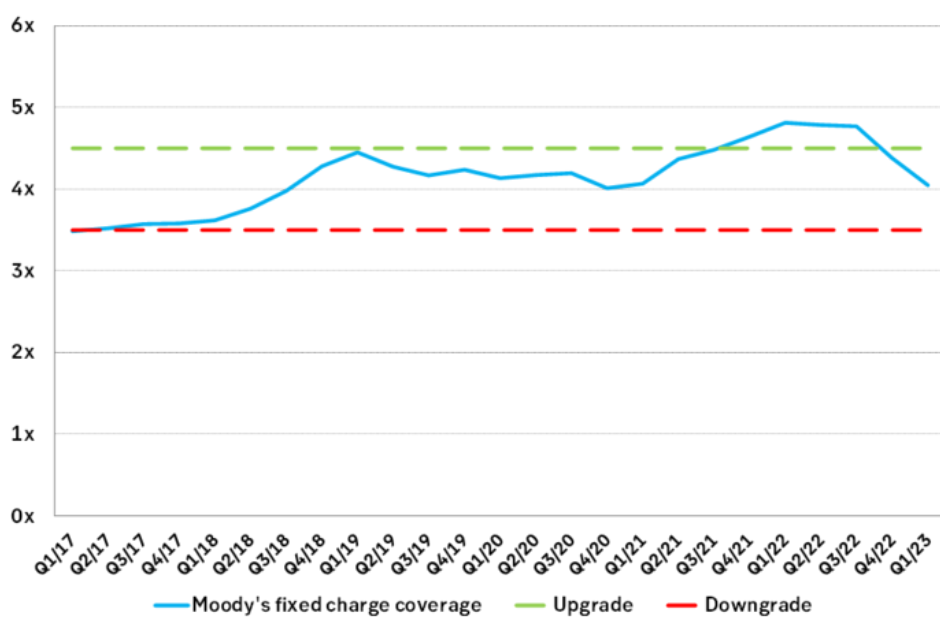
Source: Company reports, SEB

## Moody's effective leverage and rating triggers



Source: SEB, Moody's

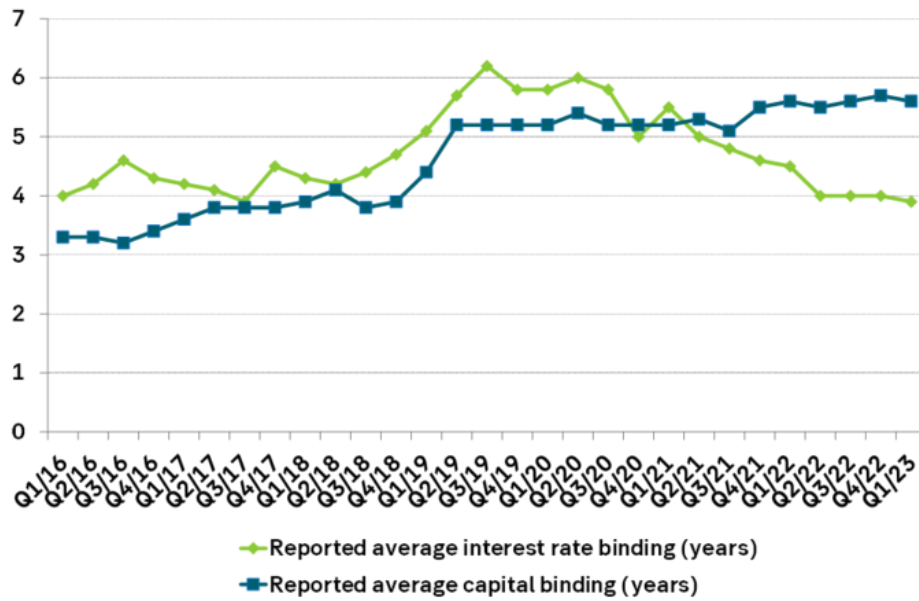
## Moody's fixed charge coverage and current rating triggers



Source: SEB, Moody's

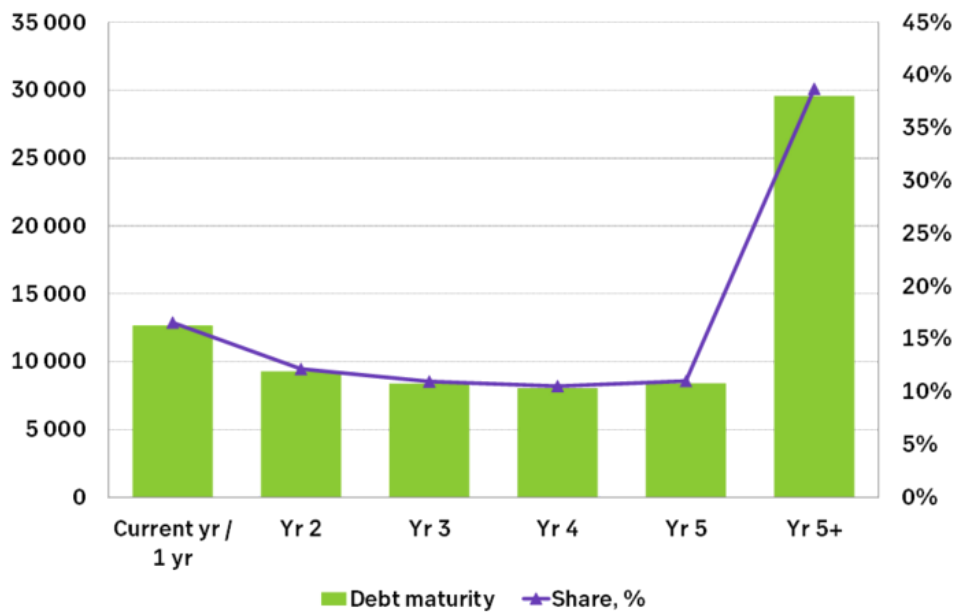


## Capital and interest binding (years)



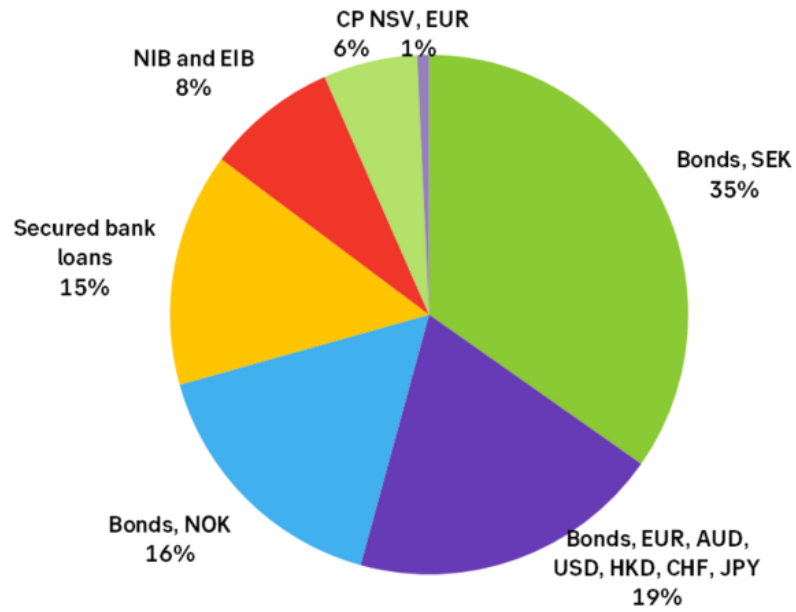
Source: Company reports

## Debt maturity profile per end-Q1/23 (SEKm)



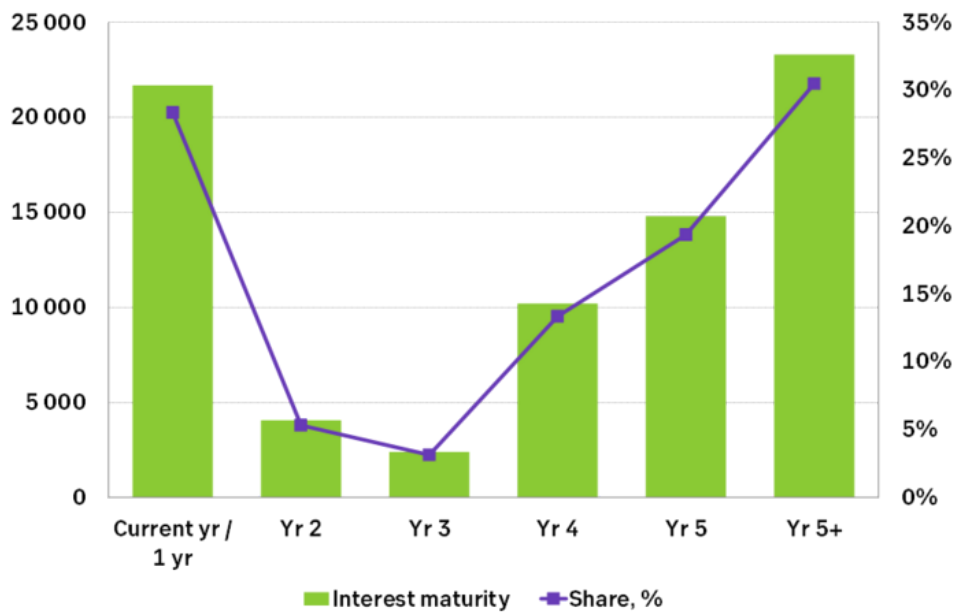
Source: Company report

## Distribution of funding sources per end-Q1/23 (%)



Source: Company report

## Interest maturity profile per end-Q1/23 (SEKm)



Source: Company report

**Gustav Johannesson**

[gustav.johannesson@seb.se](mailto:gustav.johannesson@seb.se)

(46) 8 763 85 75

US Investors must contact SEB Securities, Inc. at  
[SEBSIFixedIncome@sebny.com](mailto:SEBSIFixedIncome@sebny.com) with any questions.

## **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 2023.

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.