

Vasakronan

The mother ship is in control

- No major signs of a cyclical slowdown yet
- Moody's affirmation a relief and a sign of strength
- Remains one of the stronger issuers in the Nordic real estate sector

No major signs of a cyclical slowdown yet

Like-for-like rental income grew by 14% y-o-y in Q1 2023, supported by CPI indexation, but was still a stronger number than most peers that have reported so far have posted. Net letting was negative, primarily due to one larger move, and the CEO stated that the rental market is cautious and expects a higher discrepancy going forward when it comes to tenants' willingness to pay for differences in quality. The vacancy rate was slightly lower at 8%. Value changes amounted to SEK 5bn (-2.7%), mainly as a result of higher yield requirements. The average yield requirement increased by 16bp in the quarter, from 3.95% to 4.09%.

Moody's affirmation a relief and a sign of strength

As of Q1 2023, Vasakronan's reported interest coverage ratio (ICR) stood at 4.4x on a rolling twelve-month basis or 3.8x when assessing Q1 separately (Moody's adjusted ICR typically somewhat lower). Reported LTV, as well as Moody's adjusted LTV, were unchanged at 40%. As Vasakronan has a relatively large share of debt (40%) that is set to mature in the coming three years, and 28% fixed interest that is set to mature in the next twelve months, we expect that the ICR will continue to weaken somewhat. However, Vasakronan has full access to the capital markets (domestic and international) as well as the bank market. In addition, its liquidity profile remains strong, backed by a SEK 18bn subscription commitment by its owners, among other things.

Moody's recently affirmed the A3 rating, and maintained a stable outlook, which is a sign of strength, and a relief, in our view, as we have been somewhat concerned that Moody's would revise the outlook to negative. Moody's continues to demand LTV of less than 45% and an ICR of more than 3.5x although it forecasts that ICR could fall slightly below the 3.5x demand for a period of time.

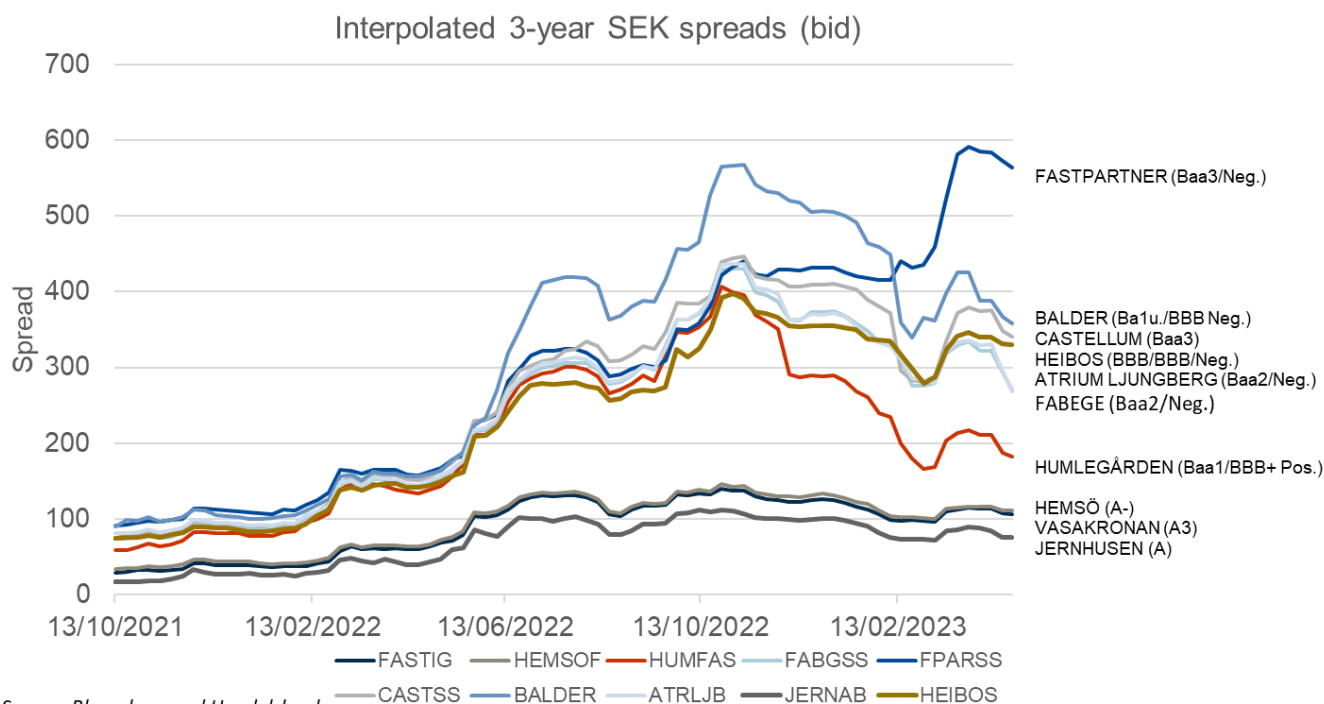
Still one of the stronger issuers in the Nordic real estate sector

We continue to view Vasakronan as one of the stronger issuers in the Nordic real estate sector and view the Q1 2023 report, in combination with Moody's rating and outlook affirmation, as somewhat credit positive.

Key figures

| SEKm | 2018 | 2019 | 2020 | 2021 | 2022 | Q1-23LTM |
|------------------------------------|---------|---------|---------|---------|---------|----------|
| Rental revenues | 6,718 | 7,040 | 7,006 | 7,425 | 8,167 | 8,486 |
| Op. net (NOIRE) | 4,869 | 5,200 | 5,189 | 5,533 | 5,968 | 6,188 |
| Income fr property mgmt adj | 3,884 | 4,914 | 3,577 | 4,391 | 4,333 | 4,367 |
| Net income adj | 12,964 | 13,983 | 3,714 | 16,359 | 8,465 | 1,261 |
| Property value | 138,934 | 161,314 | 167,583 | 186,732 | 193,467 | 188,957 |
| Gross debt adj | 61,087 | 71,882 | 74,481 | 78,996 | 82,576 | 81,597 |
| Net debt to prop value adj (%) | 42.4 | 42.4 | 42.9 | 40.4 | 41.1 | 42.1 |
| Total debt to total assets adj (%) | 42.1 | 42.4 | 42.3 | 40.3 | 39.6 | 40.0 |
| FFO/gross debt adj (%) | 6 | 5 | 5 | 5 | 5 | 5 |
| Gross debt/EBITDA adj (x) | 12.8 | 14.1 | 14.7 | 14.6 | 14.1 | 13.4 |
| EBITDA/interest expense adj (x) | 4.6 | 4.0 | 4.0 | 4.5 | 4.2 | 3.8 |
| Dividends/FFO adj (%) | 112 | 109 | 84.6 | 56.0 | 93.6 | 91.8 |
| Vacancy rate (%) | 6.9 | 5.9 | 8.1 | 9.0 | 9.1 | 9.2 |
| Pledged assets to total assets (%) | 9.0 | 6.9 | 6.2 | 4.0 | 5.5 | n.m |
| Secured debt to total assets (%) | 8.9 | 6.8 | 6.2 | 4.0 | 5.3 | 5.5 |
| Valuation yield (%) | 4.3 | 4.2 | 4.1 | 3.9 | 4.0 | 4.1 |

Interpolated 3-year SEK spreads (bid)



Sources: Bloomberg and Handelsbanken Capital Markets

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May 01, 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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