

Vasakronan

Few credit concerns

- Healthy but increasingly cautious rental markets
- Slightly weaker credit metrics but rating confirmed
- The strongest issuers have also seen bond spreads widen again

Healthy but increasingly cautious rental markets

Like-for-like rental income grew by 13% y-o-y in H1 2023, supported by CPI indexation. Net letting was negative, as was the case in Q1, 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 largely unchanged at about 8%. Value changes amounted to SEK -2.6bn (-2.7%), mainly as a result of higher yield requirements. The average yield requirement increased by 10bp in the quarter, from 4.09% to 4.19%.

Slightly weaker credit metrics but rating confirmed

As of Q2 2023, Vasakronan's reported interest coverage ratio (ICR) stood at 4.0x on a rolling twelve-month basis or 3.7x when assessing Q2 separately (Moody's adjusted ICR typically somewhat lower). Reported LTV, as well as Moody's adjusted LTV, were up slightly standing at about 41%.

Moody's affirmed the A3 rating in April, 2023, 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.

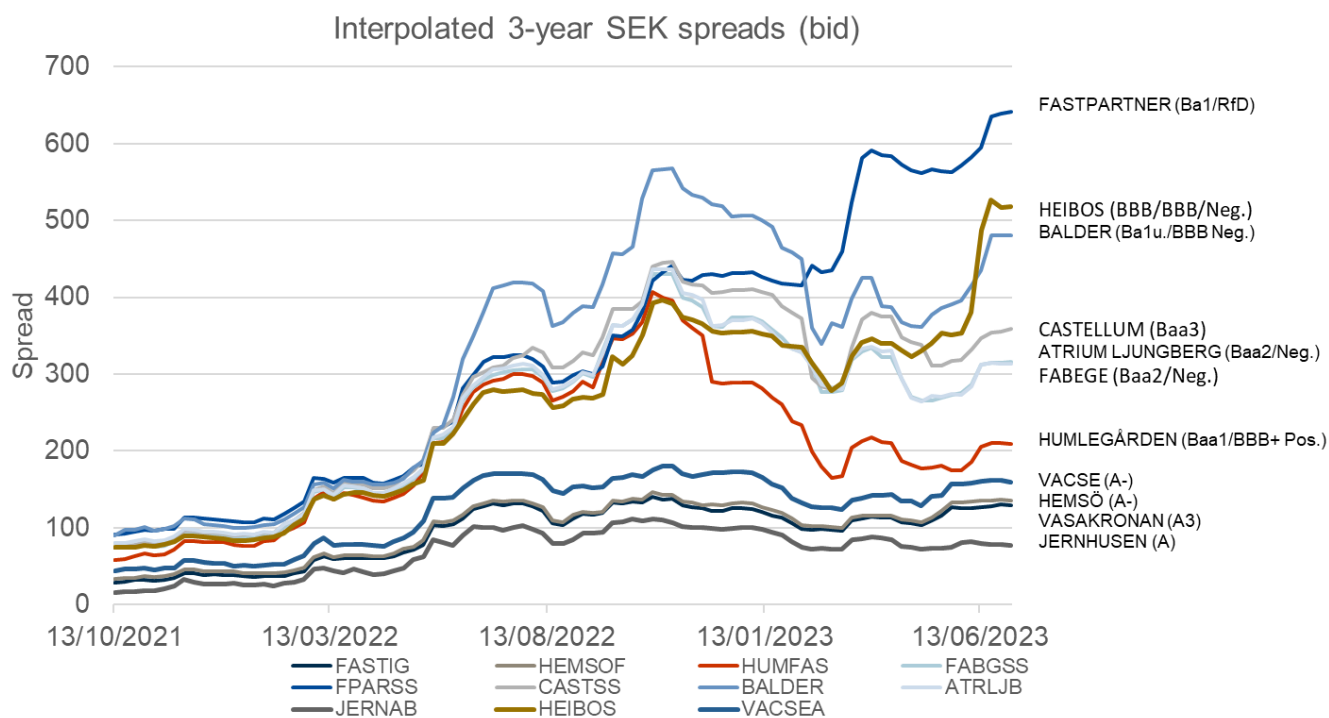
The strongest issuers have also seen bond spreads widen again

We continue to view Vasakronan as one of the stronger issuers in the Nordic real estate sector and view the Q2 results as credit neutral. Although Vasakronan's bond spreads remain much tighter and less affected than most real estate peers, they have widened lately as renewed investor worries affect even the strongest in the sector.

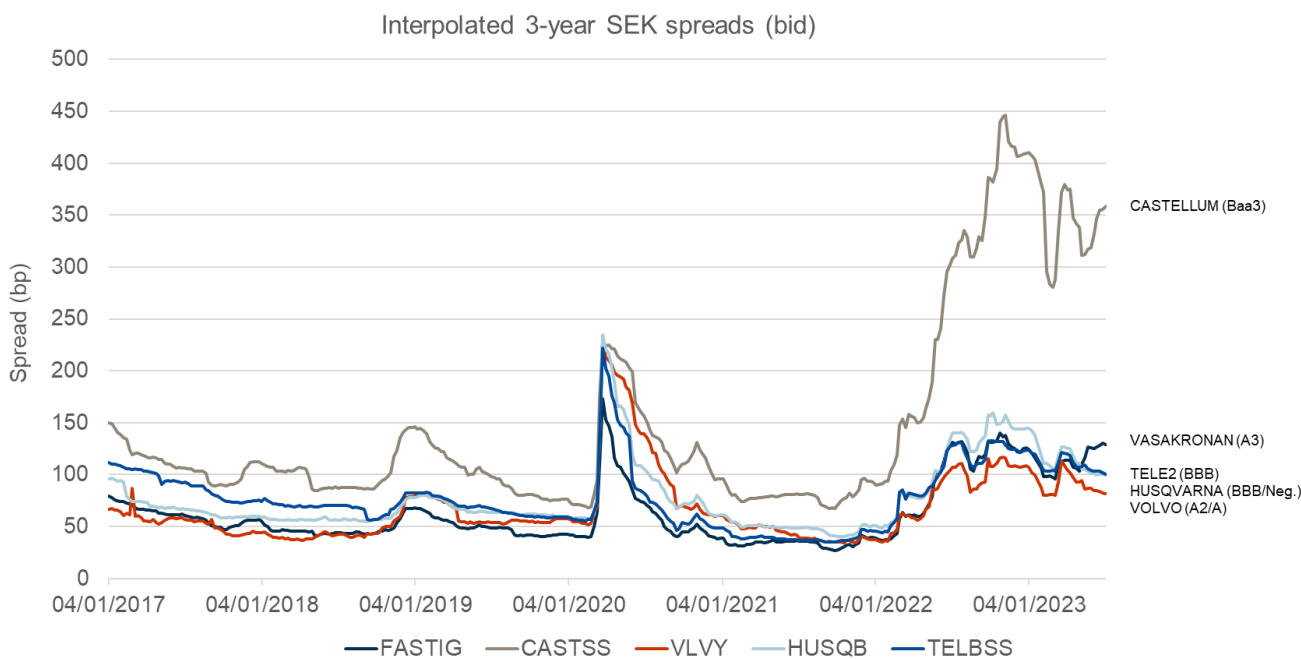
Key figures

SEKm	2018	2019	2020	2021	2022	Q2-23LTM
Rental revenues	6,718	7,040	7,006	7,425	8,167	8,779
Op. net (NOIRE)	4,869	5,200	5,189	5,533	5,968	6,380
Income fr property mgmt adj	3,884	4,914	3,577	4,391	4,333	4,348
Net income adj	12,964	13,983	3,714	16,359	8,465	-9,714
Property value	138,934	161,314	167,583	186,732	193,467	187,073
Gross debt adj	61,087	71,882	74,481	78,996	82,576	82,378
Net debt to prop value adj (%)	42.4	42.4	42.9	40.4	41.1	42.5
Total debt to total assets adj (%)	42.1	42.4	42.3	40.3	39.6	40.5
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	13.1
EBITDA/interest expense adj (x)	4.6	4.0	4.0	4.5	4.2	3.5
Dividends/FFO adj (%)	112	109	84.6	56.0	93.6	0
Vacancy rate (%)	6.9	5.9	8.1	9.0	9.1	8.5
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	4.2

Interpolated 3-year SEK spreads (bid)



Interpolated 3-year SEK spreads (bid)



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Jul 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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