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DCM Research

Vasakronan

Property

The logo for SEB (Swedish Export Bank) is a green square with the letters 'SEB' in white, where the 'E' is stylized with a vertical line through it.

Q2: Largely stable as expected

Vasakronan had a stable and credit neutral Q2 report. The unrealised value decline amounted to 1.4% in Q2 driven by 10bps sequentially higher yield requirements due to a more uncertain transaction market (limited evidence so far from the market). The company's credit metrics tightened slightly q/q, although it benefitted from controlled investments and no dividend distribution. In our view, Vasakronan is in a stable position despite the challenging macro environment.

Q2: Unrealised value decline of 1.4%; rental market appears rather stable so far

In Q2, Vasakronan's rental income and NOI increased by 15% y/y and 13% y/y, respectively. Through June 2023, rental income in its comparable portfolio grew by 13% (4% a year-earlier) mainly due to indexation, but also thanks to completed projects and onward invoicing of property tax. Net lettings were again negative in Q2, amounting to SEK -49m (SEK -95m YTD). Vasakronan's economic occupancy rate declined negligibly q/q from 91.7% to 91.5% (of which 1% of the vacancy is attributable to project developments). The result of renegotiations for first two quarter among office leases amounted to 4% (versus 8% a year earlier) and for retail the result was a decrease

of 1% (0%). Commenting on the rental market, the company said that occupier demand for Vasakronan's premises has remained stable, even if there is increased caution in the market among tenants making decisions.

Regarding property revaluations, unrealised value changes amounted to SEK -2,613m in Q2 (we expected SEK -3.6bn). The 1.4% value decline reported corresponds predominantly to the higher yield requirement, which increased 10bps q/q and stood at 4.19% as of end-Q2. During this period, the entire property portfolio was externally valued. Vasakronan's yield requirement has increased by 48bp LTM (back to early-2020 levels), while unrealised value changes are down -8.3% since the peak.

Some deterioration in key credit metrics, yet they remain in line rating requirements

The company reported some sequential changes in key credit metrics, while the profit from property management increased by 3% y/y. Net debt was unchanged q/q, but the net LTV increased marginally from 40.5% to 40.8% on the back of recent property revaluations. Looking at 12-month cash flow metrics, ND/EBITDA improved to c. 12x meanwhile the ICR deteriorated from 4.4x to 4.0x on our calculations. The average interest rate increased by 0.2% q/q to 2.6%. As of end-Q1, the average debt maturity profile and fixed interest period were 5.5 and 3.7 years, respectively and the fixed interest maturity within 12 months amounted to 26% (47% a year earlier). Deciding to cancel the dividend for the financial-year 2022 (distribution is normally made during Q2) but Vasakronan has continued with its controlled development portfolio, with SEK 748m invested during the quarter and c. SEK 2.4bn in remaining investments among major projects. The occupancy rate for major projects was 74 % as of end-Q2. As we noted previously , Vasakronan's A3/Stable rating was affirmed in April 2023, and key metrics continues to be in line with the rating requirements.

Stable quarter and position despite a challenging macro environment

Vasakronan reported an overall stable report in line with our expectations. The company is in a relatively good position despite the tougher macro environment, with rising interest rates putting pressure on the sector's funding costs and property valuations. Nevertheless, according to the company's financial policy, no dividend distribution will

take place if the value of the properties declines, which is supportive. Also, Vasakronan has recently worked to reduce its exposure to rising interest rates while demonstrating good access to capital via both the domestic and international bond markets.

Deviation between actual Q2 results and SEB DCM Research estimates (SEKm)

Deviation table	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23E	Q2/23	Q2 vs SEB
Rental income	1 990	2 132	2 143	2 221	2 260	2 283	1%
NOI	1 459	1 472	1 517	1 580	1 638	1 651	1%
EBITDA	1 430	1 446	1 484	1 557	1 603	1 614	1%
FFO	1 066	1 211	1 125	1 083	1 083	1 010	-7%
FOCF	399	1 003	651	427	438	122	
Interest expense	-266	-327	-401	-435	-463	-467	1%
Net interest expense	-265	-319	-381	-409	-445	-432	-3%
Investment properties	195 809	194 037	188 317	183 809	180 825	181 926	1%
Total debt	79 629	78 676	77 425	76 447	76 555	77 230	1%
Net debt	75 604	74 809	74 441	74 358	73 944	74 288	0%
Total debt / EBITDA (x)	14,5x	13,8x	13,3x	12,6x	12,3x	12,4x	
Net debt / EBITDA (x)	13,8x	13,1x	12,8x	12,3x	11,9x	11,9x	
EBITDA / net interest (x)	5,4x	5,3x	4,8x	4,4x	4,0x	4,0x	
FFO / net debt (%)	5,6%	5,9%	5,9%	6,0%	6,0%	6,0%	
Gross LTV	40,7%	40,5%	41,1%	41,6%	42,3%	42,5%	
Net LTV	38,6%	38,6%	39,5%	40,5%	40,9%	40,8%	

Property	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23E	Q2/23	DEV
Net acquisitions	0	150	393	0	0	0	
Investments in existing properties	-530	-517	-783	-540	-645	-748	
Property revaluation	10 246	-2 140	-6 111	-5 048	-3 630	-2 631	
Yield	3,71%	3,82%	3,95%	4,09%	4,17%	4,19%	

Operating costs	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23E	Q2/23	
Central administration	-29	-26	-33	-23	-35	-37	6%
Running costs	-197	-215	-234	-249	-224	-223	0%
Repairs and maintenance	-25	-29	-34	-36	-32	-31	-2%
Property administration	-103	-78	-111	-107	-122	-131	7%
Property taxes	-166	-298	-207	-209	-199	-207	4%
Leasehold rents	-40	-40	-40	-40	-45	-40	-12%
Total property costs	-531	-660	-626	-641	-622	-632	2%

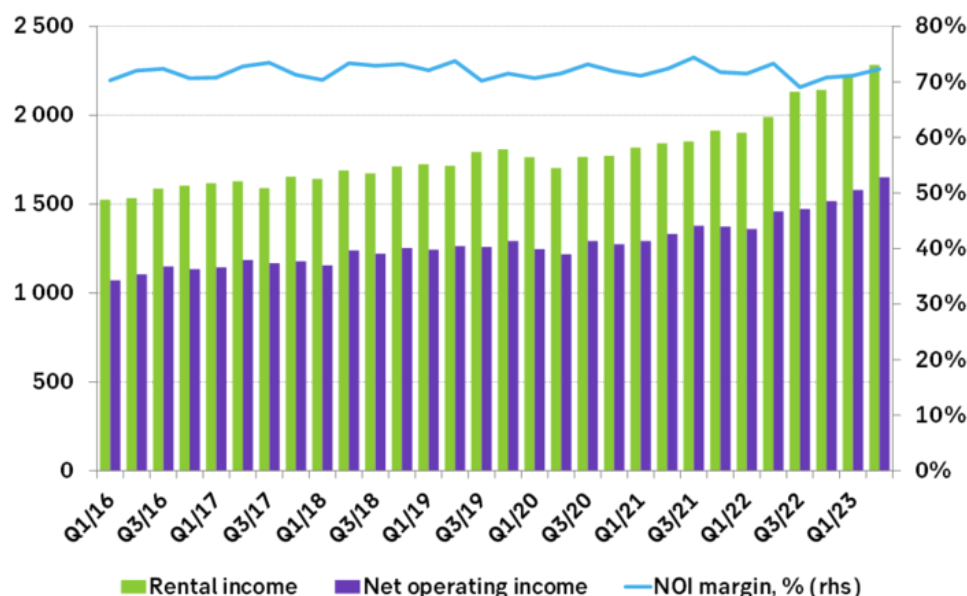
Source: Company data, SEB DCM Research estimate

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

SEKm	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	2018	2019	2020	2021	2022	2023E	2024E	2025E
Rental income	7 657	7 937	8 167	8 486	8 779	6 718	7 040	7 006	7 425	8 167	9 091	9 503	9 773
NOI	5 570	5 664	5 808	6 028	6 220	4 869	5 040	5 032	5 377	5 808	6 437	6 728	6 919
EBITDA	5 491	5 709	5 832	6 050	6 225	4 942	5 268	4 961	5 461	5 832	6 344	6 630	6 817
FFO	4 221	4 389	4 384	4 436	4 444	3 761	3 899	3 608	4 090	4 384	4 786	4 610	4 526
Y/Y growth in rental income (%)	6%	9%	10%	13%	15%	4%	5%	0%	6%	10%	11%	5%	3%
NOI margin (%)	73%	71%	71%	71%	71%	72%	72%	72%	72%	71%	71%	71%	71%
EBITDA margin (%)	72%	72%	71%	71%	71%	74%	75%	71%	74%	71%	70%	70%	70%
Interest expense	-1 025	-1 082	-1 238	-1 429	-1 630	-1 046	-1 135	-1 127	-1 055	-1 238	-1 853	-2 046	-2 177
Net interest expense	-1 021	-1 071	-1 208	-1 374	-1 541	-1 043	-1 131	-1 118	-1 051	-1 208	-1 749	-2 006	-2 147
Hybrid / preferred interest/dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1 181	-1 231	-1 368	-1 534	-1 701	-1 189	-1 278	-1 276	-1 211	-1 368	-1 927	-2 192	-2 338
Investment properties	195 809	194 037	188 317	183 809	181 926	138 934	156 071	162 420	181 575	188 317	177 685	176 126	180 213
Total debt	79 629	78 876	77 425	76 447	77 230	61 087	66 638	69 317	73 838	77 425	74 236	73 500	73 250
Cash and equivalents	4 025	3 867	2 984	2 089	2 942	2 215	3 515	2 558	3 521	2 984	2 001	1 495	1 591
Net debt	75 604	74 809	74 441	74 358	74 288	58 872	63 123	66 759	70 317	74 441	72 235	72 005	71 659
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	80 759	79 962	79 592	79 508	79 436	58 872	68 367	71 923	75 475	79 592	77 386	77 156	76 810
Secured debt	10 143	10 143	11 131	11 131	11 131	12 907	11 603	10 971	7 866	11 131	11 000	12 500	13 250
Equity	94 896	94 064	89 767	86 458	85 205	60 271	70 156	70 869	85 290	89 767	82 991	81 494	84 605
Adjusted equity	94 896	94 064	89 767	86 458	85 205	60 271	70 156	70 869	85 290	89 767	82 991	81 494	84 605
Net debt+equity	170 500	168 873	164 208	160 816	159 493	119 143	133 279	137 628	155 607	164 208	155 226	153 499	156 264
Credit metrics	Q2/22	Q3/22	Q4/22	Q1/23	Q2/23	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total debt / EBITDA (x)	14.5x	13.6x	13.3x	12.6x	12.4x	12.4x	12.6x	14.0x	13.5x	13.3x	11.7x	11.1x	10.7x
Net debt / EBITDA (x)	13.8x	13.1x	12.8x	12.3x	11.9x	11.9x	12.0x	13.5x	12.9x	12.8x	11.4x	10.9x	10.5x
Adjusted debt / EBITDA (x)	14.3x	13.6x	13.3x	12.8x	12.4x	11.6x	12.6x	14.1x	13.4x	13.3x	11.9x	11.3x	11.0x
EBITDA / interest (x)	5.4x	5.3x	4.7x	4.2x	3.8x	4.7x	4.6x	4.4x	5.2x	4.7x	3.4x	3.2x	3.1x
EBITDA / net interest (x)	5.4x	5.3x	4.8x	4.4x	4.0x	4.7x	4.7x	4.4x	5.2x	4.8x	3.6x	3.3x	3.2x
EBITDA / adjusted interest (x)	4.8x	4.8x	4.4x	4.0x	3.8x	4.3x	4.2x	4.0x	4.6x	4.4x	3.4x	3.1x	3.0x
Fixed charge coverage (x)	0.3x	0.4x	0.5x	0.4x	0.5x	0.3x	0.4x	0.3x	0.4x	0.5x	0.6x	0.3x	0.2x
FFO / total debt (%)	5.3%	5.6%	5.7%	5.8%	5.8%	6.2%	5.9%	5.2%	5.5%	5.7%	6.4%	6.3%	6.2%
FFO / net debt (%)	5.6%	5.9%	5.9%	6.0%	6.0%	6.4%	6.2%	5.4%	5.8%	5.9%	6.6%	6.4%	6.3%
FFO / adjusted debt (%)	5.4%	5.7%	5.7%	5.8%	5.8%	6.6%	5.9%	5.2%	5.6%	5.7%	6.4%	6.2%	6.1%
Gross LTV	40.7%	40.5%	41.1%	41.6%	42.5%	44.0%	42.7%	42.7%	40.7%	41.1%	41.8%	41.7%	40.6%
Net LTV	38.6%	38.6%	39.5%	40.5%	40.8%	42.4%	40.4%	41.1%	38.7%	39.5%	40.7%	40.9%	39.8%
Adjusted LTV	40.2%	40.1%	41.1%	42.1%	42.5%	42.4%	42.4%	42.9%	40.4%	41.1%	42.3%	42.6%	41.4%
Net debt / debt+equity	44.3%	44.3%	45.3%	46.2%	46.6%	49.4%	47.4%	48.5%	45.2%	45.3%	46.5%	46.9%	45.9%
Adjusted debt / debt+equity	47.4%	47.4%	48.5%	49.4%	49.8%	49.4%	51.3%	52.3%	48.5%	48.5%	49.9%	50.3%	49.2%
Secured LTV	5.2%	5.2%	5.9%	6.1%	0.0%	9.3%	7.4%	6.8%	4.3%	5.9%	6.2%	7.1%	7.4%
Equity ratio	43.8%	43.5%	43.0%	42.4%	41.9%	41.5%	41.2%	40.2%	43.5%	43.0%	42.1%	41.8%	42.5%

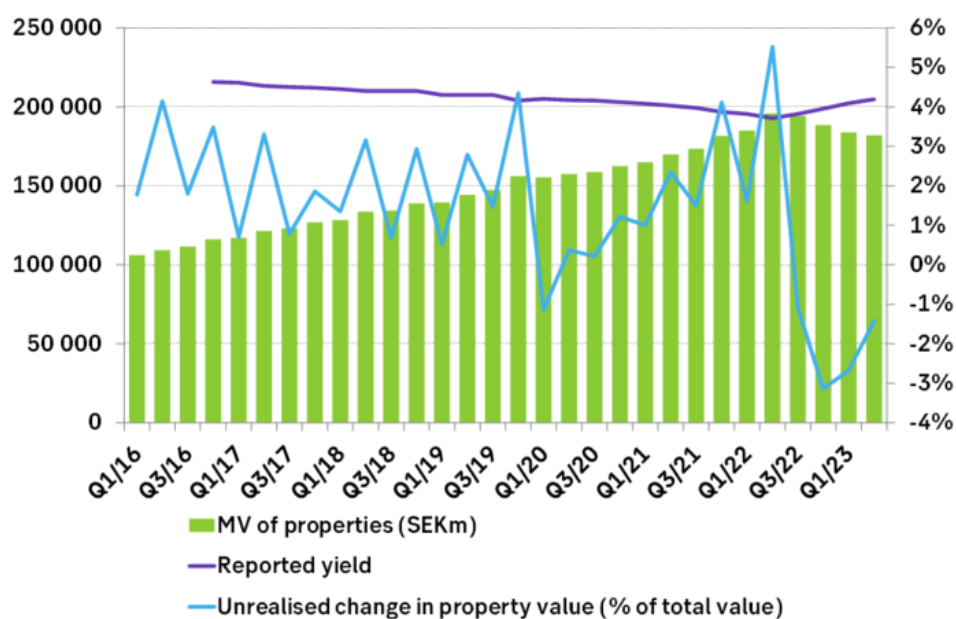
Source: Company data, SEB DCM Research estimate

Quarterly rental income and NOI (SEKm)



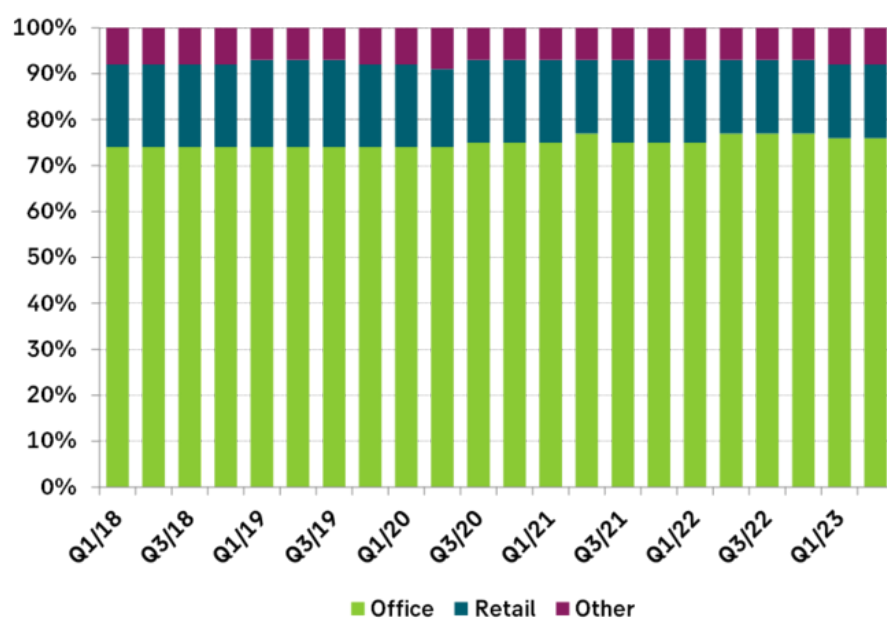
Source: Company reports

Property portfolio statistics (SEKm)



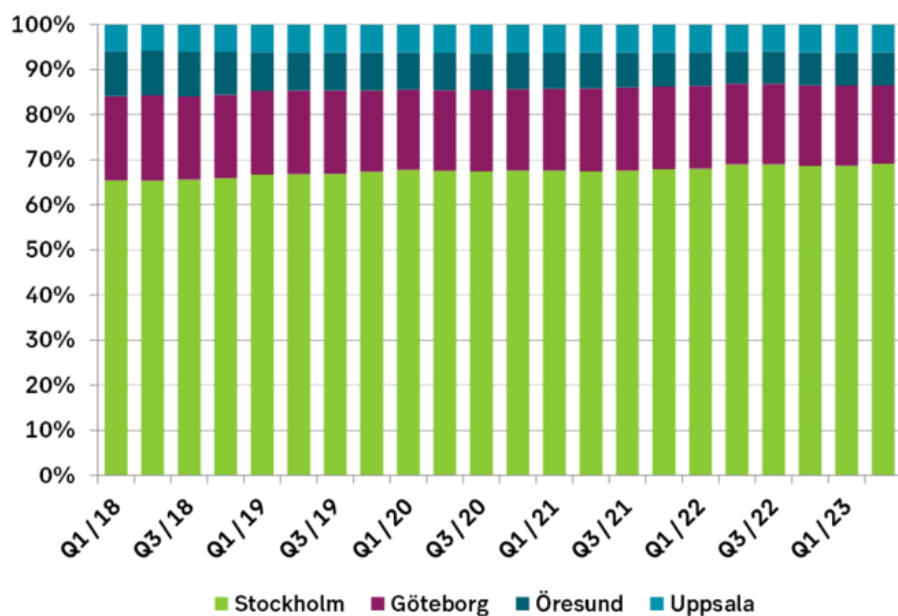
Source: Company reports

Property portfolio composition by property type (%)



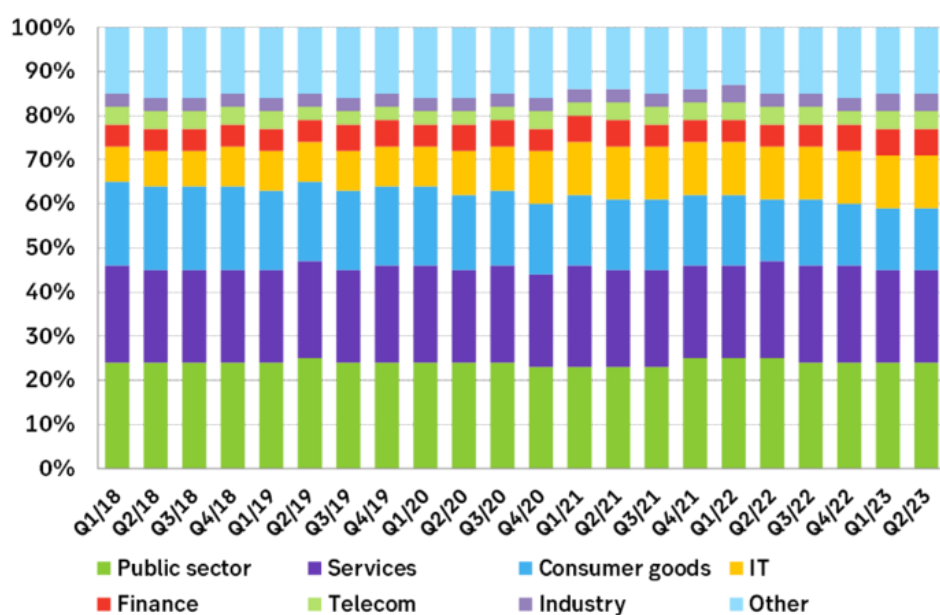
Source: Company reports

Property portfolio composition by region (%)



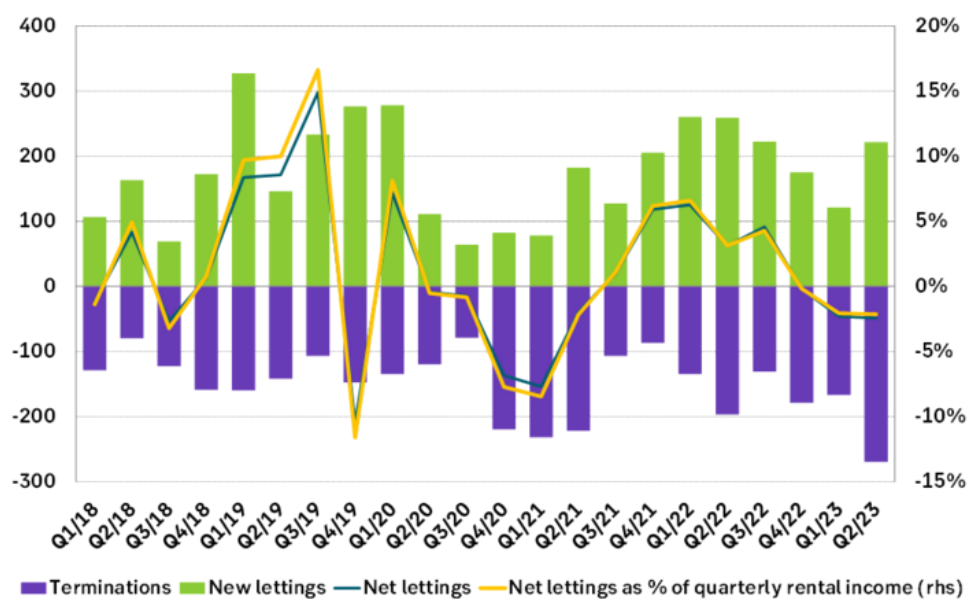
Source: Company reports

Breakdown of tenant by sector, % of contracted rent



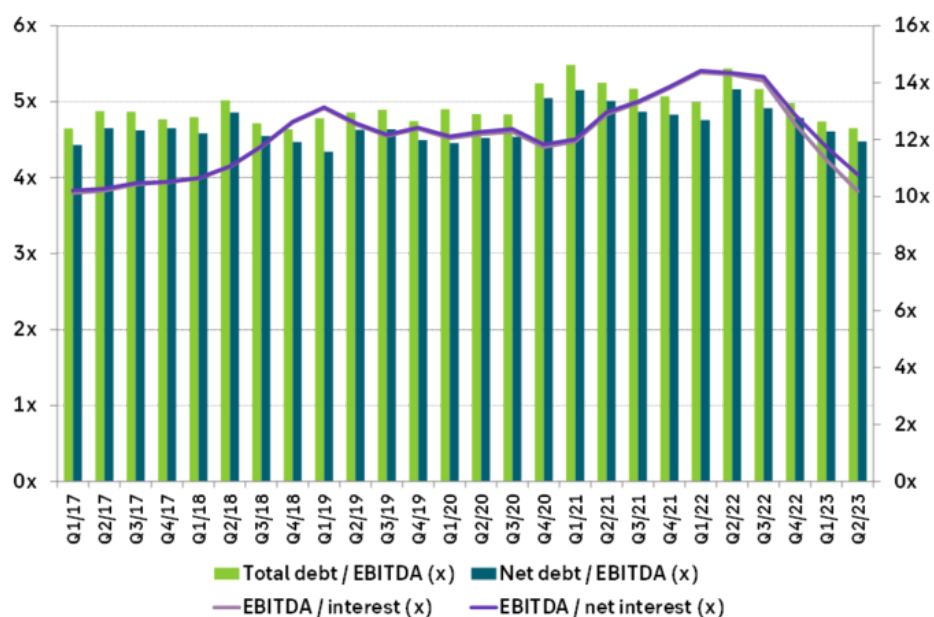
Source: Company reports

Historical evolution of net leasing per quarter (SEKm)



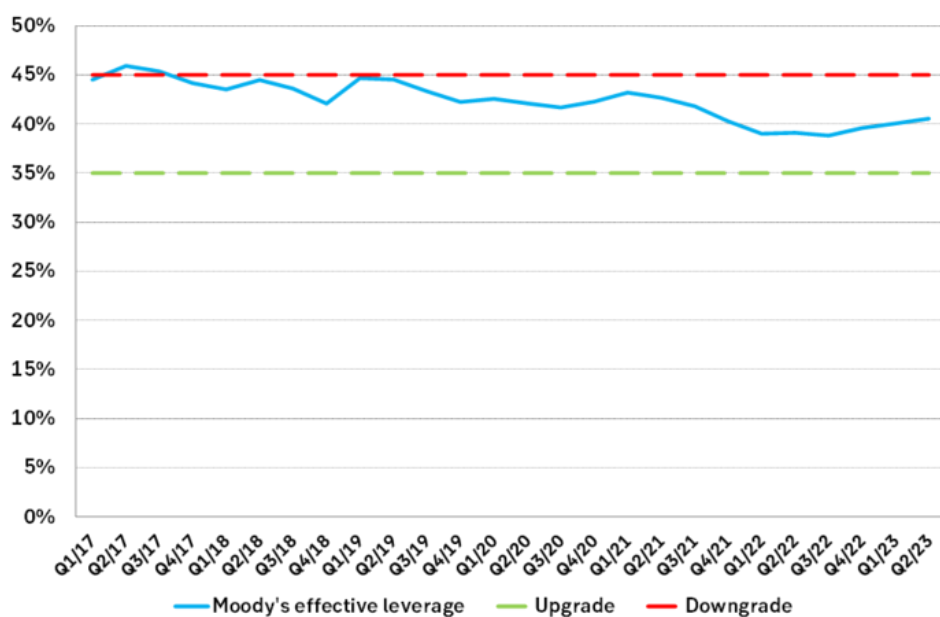
Source: Company reports

LTM leverage and interest coverage (x)



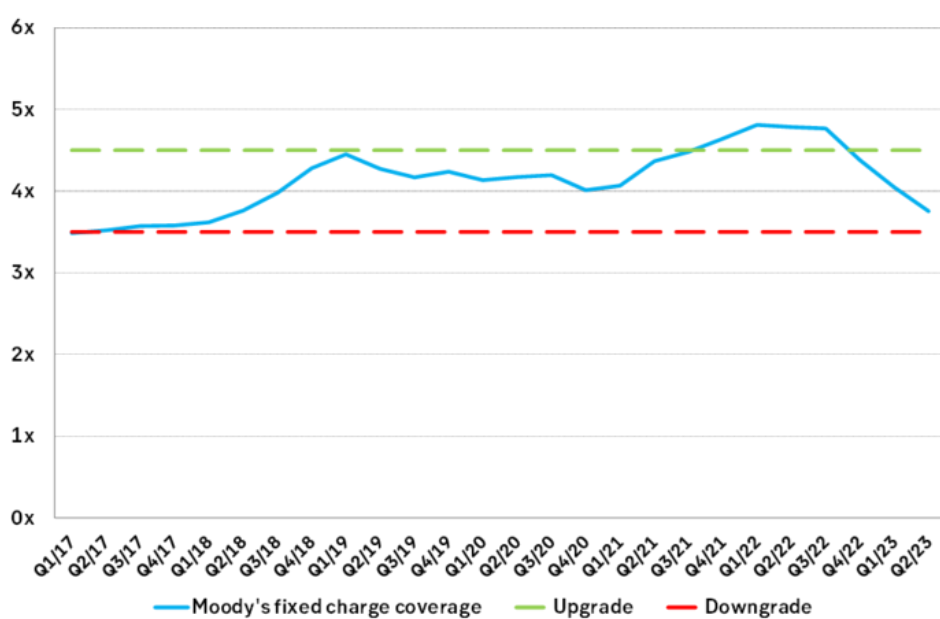
Source: Company reports, SEB

Moody's effective leverage and rating triggers



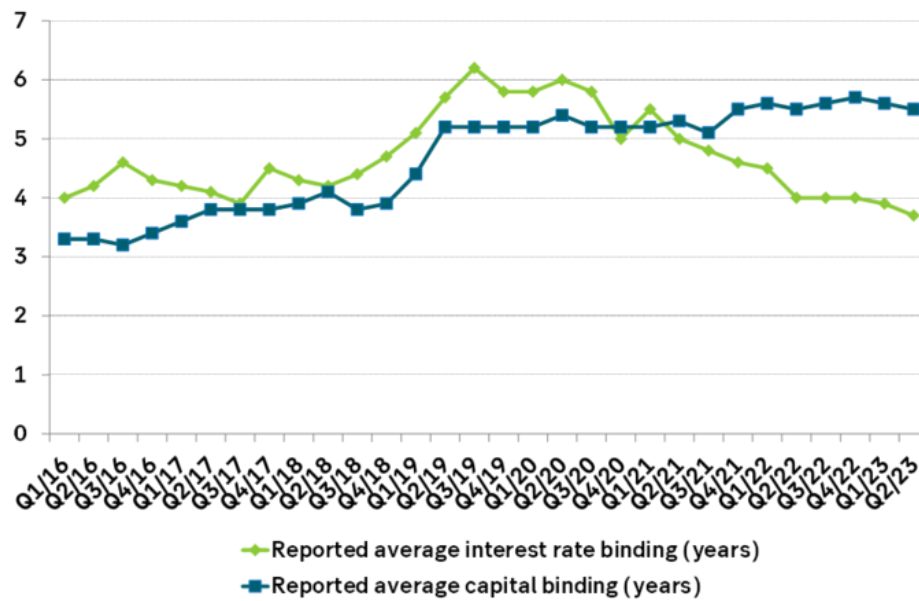
Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers



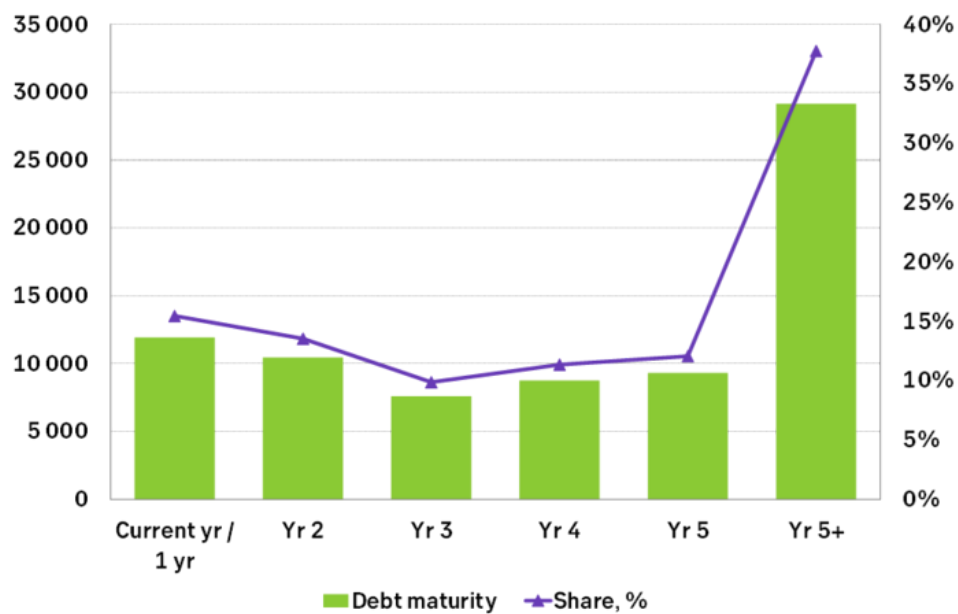
Source: SEB, Moody's

Capital and interest binding (years)



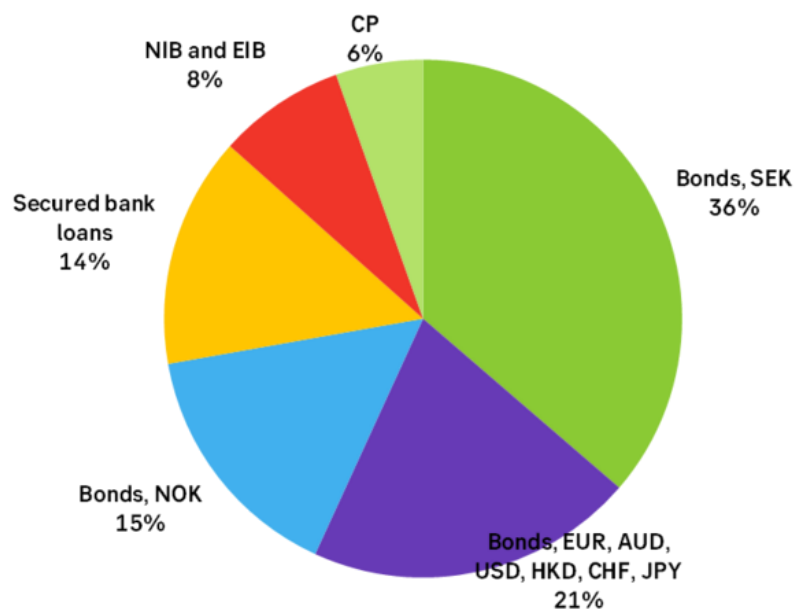
Source: Company reports

Debt maturity profile per end-Q2/23 (SEKm)



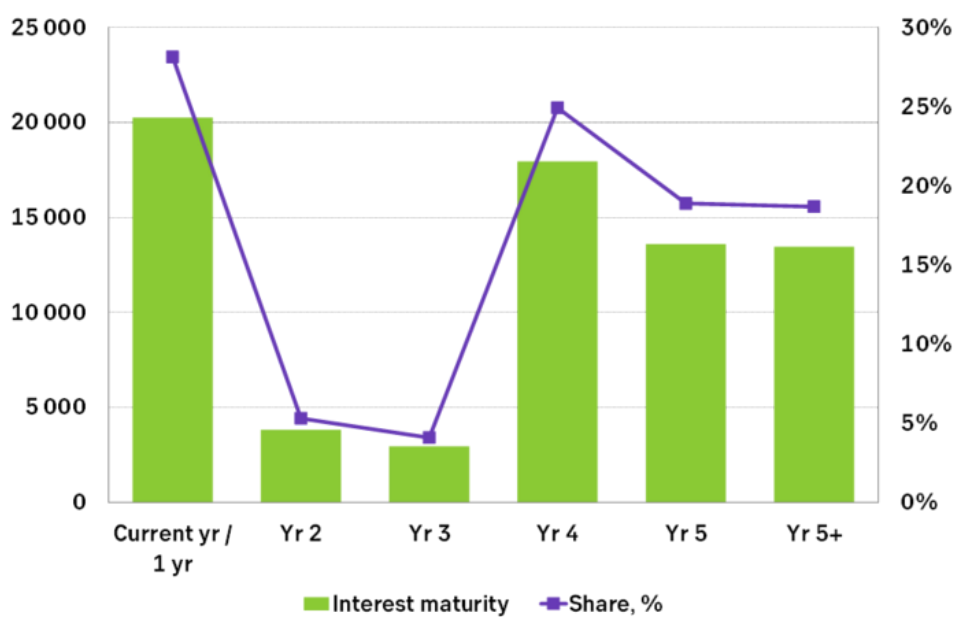
Source: Company reports

Distribution of funding sources per end-Q2/23 (%)



Source: Company reports

Interest maturity profile per end-Q2/23 (SEKm)



Source: Company report

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1) Formal terminology

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

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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.

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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.