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DCM Research

Vasakronan

Property



Q3: Stable underlying earnings

Vasakronan's underlying operation portfolio performed well in Q3 under current market condition, supported by lower operating expenses, improved NOI-margin, and growth in profit from property management. Key credit metrics remained in line with our expectations and Moody's rating requirement, despite a decreasing ICR headroom. Overall, a stable and credit-neutral Q3 report.

Q3: Stable underlying operation under current market condition

Vasakronan's underlying operation portfolio performed well in Q3, underpinned by stable earnings and lower operating expenses (probably benefitting from lower energy prices and sustainability investments). In comparable portfolio the rental income and NOI grew by 11% and 13% respectively. The company's 12-months NOI-margin was 73% per end-September 2023 (71% a year-earlier). Net lettings were small but positive in Q3 at SEK 17m (SEK -79m YTD). Vasakronan's economic occupancy rate decreased 0.4% q/q and stood at 91.1% at end-Q3 (of which 0.5% of the vacancy is attributable to project developments). Commenting on the rental market, the company is noting a slight slowdown in the market with more companies being increasing cautious (mix of weaker economic conditions and hybrid working). Looking at renegotiations' lettings during the first nine months, it taken place 2% above index compared to previous rent payable

(4% among offices and -3% among retail). Unrealised value changes amounted to SEK -1.5bn in Q3, corresponding to a 0.8% value decline. Vasakronan's yield requirement has increased by about 53bps last five quarters meanwhile unrealised value changes are down c. 9% since the peak. The company's average yield requirement increased 5 bps q/q and stood at 4.24% as of end-Q3 2023.

Unchanged LTV and improved PFFM, but ICR drift lower as expected

The company's net LTV remained more or less unchanged at 41%, underpinned by modest property revelations, controlled investment activities and slightly lower net debt q/q. Vasakronan invested SEK 643m during the third quarter and c. SEK 2.7bn in remaining investments among major projects. Despite higher interest rates and funding cost, the profit from property management increased by 13% during Q3. Looking at 12-month cash flow metrics, ND/EBITDA improved slightly to 11.5x meanwhile the ICR deteriorated from 4.0x to 3.8x on our calculations. The average interest rate increased by 0.1% q/q to 2.7%. As of end-Q3, the average debt maturity profile and fixed interest period were 5.4 and 3.5 years, respectively and the fixed interest maturity within 12 months amounted to 28% (39% a year earlier).

Another credit-neutral quarter; key metrics in line with Moody's rating requirements

As we previously reported on, Moody's affirmed Vasakronan's A3/Stable rating at the beginning of the year. As of end-Q3 2023, we calculate an effective leverage of 40.5% (35-45% required) and fixed-charge coverage of 3.6x (3.5-4.5x) according to Moody's definitions. Despite expectations of more challenging market will remain for a while and some further pressure on the ICR headroom, we believe Vasakronan benefits from its high-quality office portfolio in good location, diversified funding structure and strong ownership group.

Deviation between actual Q3 results and SEB DCM Research estimates (SEKm)

Deviation table	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23E	Q3/23	Q3 vs SEB
Rental income	2 132	2 143	2 221	2 283	2 295	2 322	1%
NOI	1 472	1 517	1 580	1 651	1 696	1 759	4%
EBITDA	1 446	1 484	1 557	1 614	1 664	1 733	4%
FFO	1 211	1 125	1 083	1 010	1 237	1 271	3%
FOCF	1 003	651	427	122	613	695	
Interest expense	-327	-401	-435	-467	-481	-492	2%
Net interest expense	-319	-381	-409	-432	-461	-453	-2%
Investment properties	194 037	188 317	183 809	181 926	179 821	181 088	1%
Total debt	78 676	77 425	76 447	77 230	77 111	77 142	0%
Net debt	74 809	74 441	74 358	74 288	73 673	73 738	0%
Total debt / EBITDA (x)	13,8x	13,3x	12,6x	12,4x	12,2x	12,1x	
Net debt / EBITDA (x)	13,1x	12,8x	12,3x	11,9x	11,7x	11,5x	
EBITDA / net interest (x)	5,3x	4,8x	4,4x	4,0x	3,8x	3,8x	
FFO / net debt (%)	5,9%	5,9%	6,0%	6,0%	6,1%	6,1%	
Gross LTV	40,5%	41,1%	41,6%	42,5%	42,9%	42,6%	
Net LTV	38,6%	39,5%	40,5%	40,8%	41,0%	40,7%	

Property	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23E	Q3/23	DEV
Net acquisitions	150	393	0	0	0	0	
Investments in existing properties	-517	-783	-540	-748	-624	-643	
Property revaluation	-2 140	-6 111	-5 048	-2 631	-2 729	-1 481	
Yield	3,82%	3,95%	4,09%	4,19%	4,25%	4,24%	

Operating costs	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23E	Q3/23	
Central administration	-26	-33	-23	-37	-32	-26	-19%
Running costs	-215	-234	-249	-223	-218	-190	-13%
Repairs and maintenance	-29	-34	-36	-31	-31	-29	-7%
Property administration	-78	-111	-107	-131	-92	-96	5%
Property taxes	-298	-207	-209	-207	-218	-208	-5%
Leasehold rents	-40	-40	-40	-40	-40	-40	0%
Total property costs	-660	-626	-641	-632	-599	-563	-6%

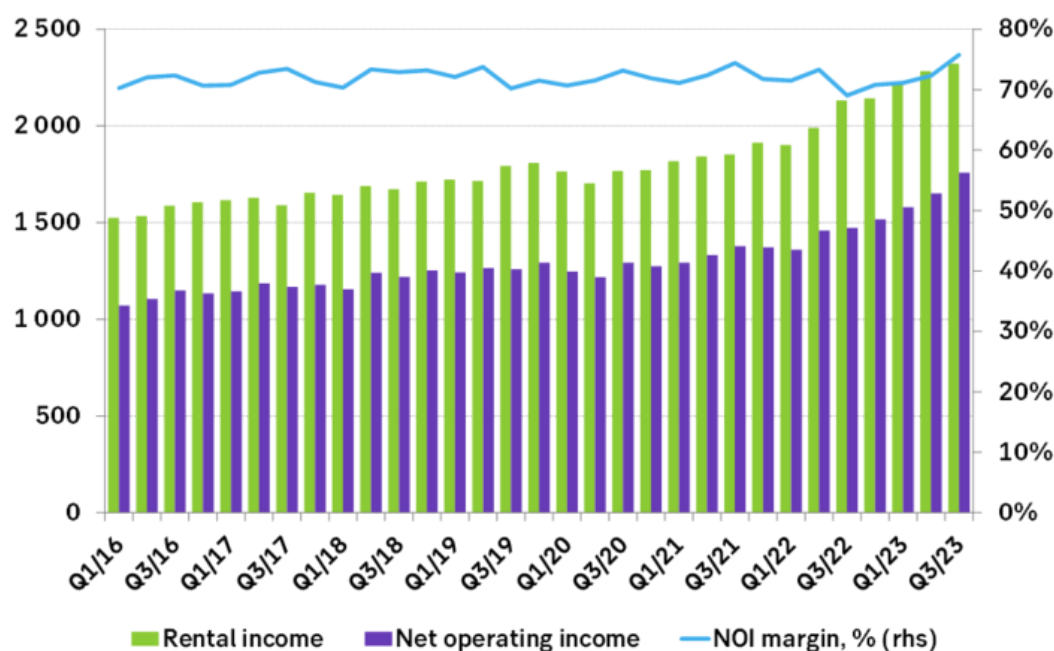
Source: Company data, SEB DCM Research estimate

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

SEKm	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23	2018	2019	2020	2021	2022	2023E	2024E	2025E
Rental income	7 937	8 167	8 486	8 779	8 969	6 718	7 040	7 006	7 425	8 167	9 158	9 693	9 957
NOI	5 664	5 808	6 028	6 220	6 507	4 869	5 060	5 032	5 377	5 808	6 610	6 995	7 186
EBITDA	5 709	5 832	6 050	6 225	6 387	4 942	5 268	4 961	5 461	5 832	6 518	6 897	7 084
FFO	4 389	4 384	4 436	4 444	4 472	3 761	3 899	3 608	4 090	4 384	4 904	4 726	4 921
Y/Y growth in rental income (%)	9%	10%	13%	15%	13%	4%	5%	0%	6%	10%	12%	6%	3%
NOI margin (%)	71%	71%	71%	71%	73%	72%	72%	72%	72%	71%	72%	72%	72%
EBITDA margin (%)	72%	71%	71%	71%	71%	74%	75%	71%	74%	71%	71%	71%	71%
Interest expense	-1 082	-1 238	-1 429	-1 630	-1 795	-1 046	-1 135	-1 127	-1 055	-1 238	-1 912	-2 146	-2 068
Net interest expense	-1 071	-1 208	-1 374	-1 541	-1 675	-1 043	-1 131	-1 118	-1 051	-1 208	-1 808	-2 106	-2 017
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1 231	-1 368	-1 534	-1 701	-1 855	-1 189	-1 278	-1 276	-1 211	-1 368	-1 971	-2 279	-2 194
Investment properties	194 037	188 317	183 809	181 926	181 088	138 934	156 071	162 420	181 575	188 317	177 554	177 979	181 625
Total debt	78 676	77 425	76 447	77 230	77 142	61 087	66 638	69 317	73 838	77 425	74 236	72 285	71 250
Cash and equivalents	3 867	2 984	2 089	2 942	3 404	2 215	3 515	2 558	3 521	2 984	2 014	2 559	2 415
Net debt	74 809	74 441	74 358	74 288	73 738	58 872	63 123	66 759	70 317	74 441	72 222	69 726	68 835
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	79 962	79 592	79 508	79 456	78 896	58 872	63 123	66 759	70 317	74 441	72 222	69 726	68 835
Secured debt	10 143	11 131	11 131	0	0	12 907	11 603	10 971	7 866	11 131	11 000	11 785	13 250
Equity	94 064	89 767	86 458	85 205	84 558	60 271	70 156	70 869	85 290	89 767	82 897	85 195	88 388
Adjusted equity	94 064	89 767	86 458	85 205	84 558	60 271	70 156	70 869	85 290	89 767	82 897	85 195	88 388
Net debt + equity	168 873	164 208	160 816	159 493	158 296	119 143	133 279	137 628	155 607	164 208	155 119	154 921	157 224
Credit metrics	Q3/22	Q4/22	Q1/23	Q2/23	Q3/23	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total debt / EBITDA (x)	13.8x	13.3x	12.6x	12.4x	12.1x	12.4x	12.6x	14.0x	13.5x	13.5x	11.4x	10.5x	10.1x
Net debt / EBITDA (x)	13.1x	12.8x	12.3x	11.9x	11.5x	11.9x	12.0x	13.5x	12.9x	12.8x	11.1x	10.1x	9.7x
Adjusted debt / EBITDA (x)	13.6x	13.3x	12.8x	12.4x	12.1x	11.6x	12.6x	14.1x	13.4x	13.3x	11.6x	10.6x	10.2x
EBITDA / interest (x)	5.3x	4.7x	4.2x	3.8x	3.6x	4.7x	4.6x	4.4x	5.2x	4.7x	3.4x	3.2x	3.4x
EBITDA / net interest (x)	5.3x	4.8x	4.4x	4.0x	3.8x	4.7x	4.7x	4.4x	5.2x	4.8x	3.6x	3.3x	3.5x
EBITDA / adjusted interest (x)	4.8x	4.4x	4.0x	3.8x	3.6x	4.3x	4.2x	4.0x	4.6x	4.4x	3.4x	3.1x	3.3x
Fixed charge coverage (x)	0.4x	0.5x	0.4x	0.5x	0.4x	0.3x	0.4x	0.3x	0.4x	0.5x	3.6x	3.3x	3.5x
FFO / total debt (%)	5.6%	5.7%	5.8%	5.8%	5.8%	6.2%	5.9%	5.2%	5.5%	5.7%	6.6%	6.5%	6.9%
FFO / net debt (%)	5.9%	5.9%	6.0%	6.0%	6.1%	6.4%	6.2%	5.4%	5.8%	5.9%	6.8%	6.8%	7.1%
FFO / adjusted debt (%)	5.7%	5.7%	5.8%	5.8%	5.9%	6.6%	5.9%	5.2%	5.6%	5.7%	6.5%	6.5%	6.9%
Gross LTV	40.5%	41.1%	41.6%	42.5%	42.6%	44.0%	42.7%	42.7%	40.7%	40.7%	41.8%	40.6%	39.2%
Net LTV	38.6%	39.5%	40.5%	40.8%	40.7%	42.4%	40.4%	41.1%	38.7%	39.5%	40.7%	39.2%	37.9%
Adjusted LTV	40.1%	41.1%	42.1%	42.5%	42.4%	42.4%	42.4%	42.9%	40.4%	41.1%	42.3%	40.9%	39.6%
Net debt / debt + equity	44.3%	45.3%	46.2%	46.6%	46.6%	49.4%	47.4%	48.5%	45.2%	45.3%	46.6%	45.0%	43.8%
Adjusted debt / debt + equity	47.4%	48.5%	49.4%	49.8%	49.8%	49.4%	51.3%	52.3%	48.5%	48.5%	49.9%	48.3%	47.1%
Secured LTV	5.2%	5.9%	6.1%	0.0%	0.0%	9.3%	7.4%	6.8%	4.3%	5.9%	6.2%	6.6%	7.3%
Equity ratio	43.5%	43.0%	42.4%	41.9%	41.6%	41.5%	41.2%	40.2%	43.5%	43.0%	42.1%	43.1%	43.9%

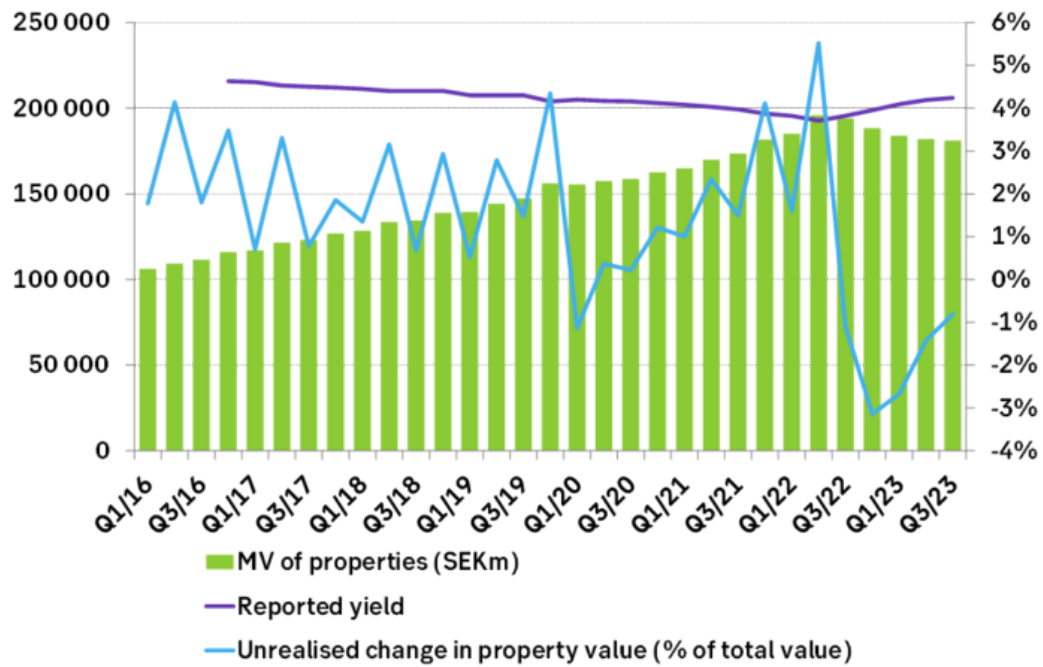
Source: Company data, SEB DCM Research estimate

Quarterly rental income and NOI (SEKm)



Source: Company reports, SEB

Property portfolio statistics (SEKm)



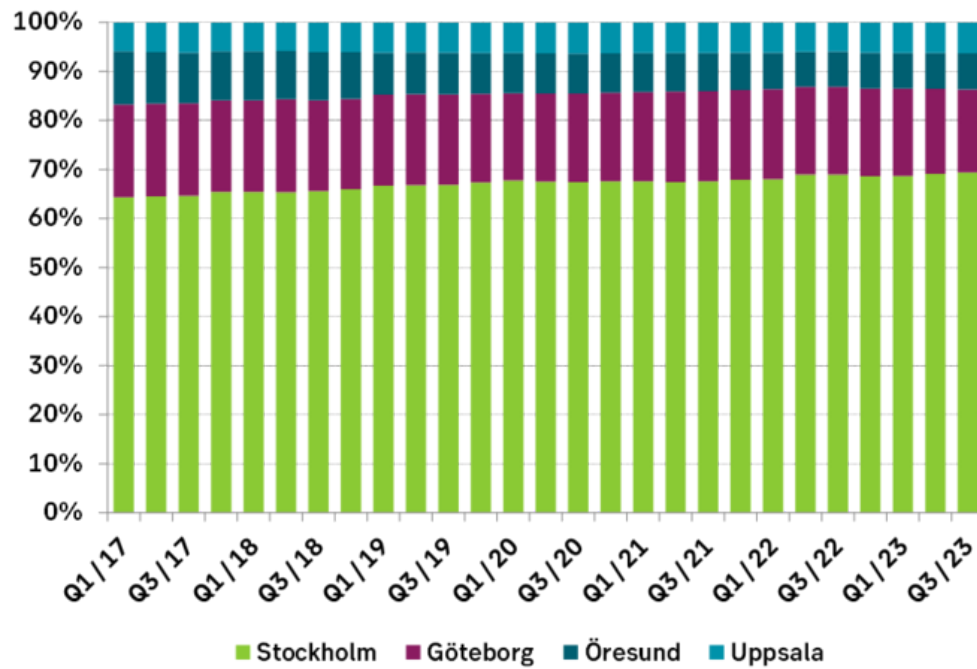
Source: Company reports, SEB

Property portfolio composition by property type (%)



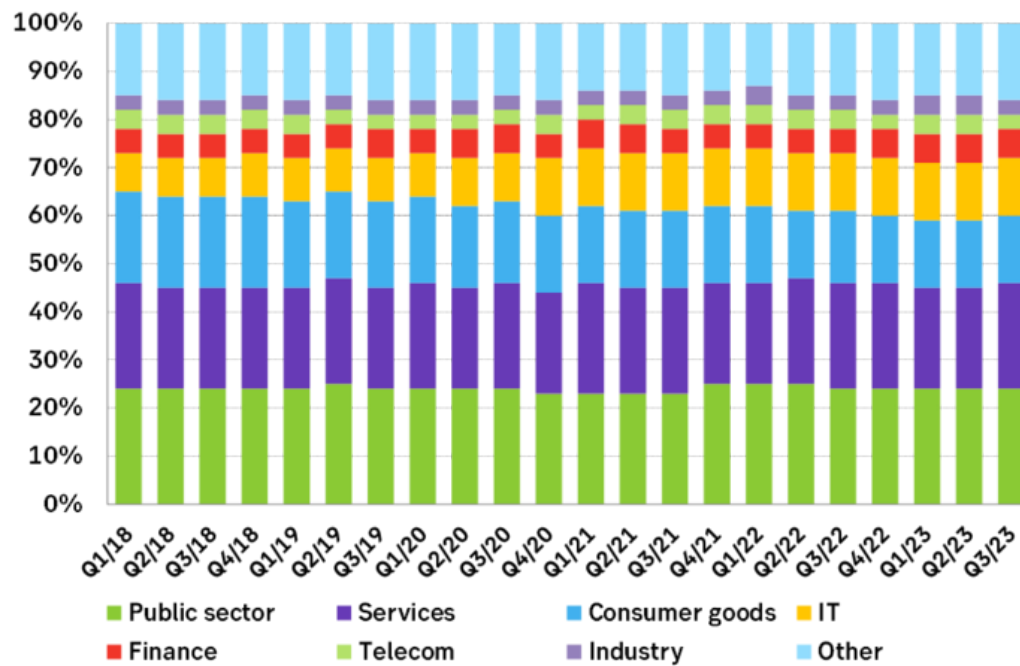
Source: Company reports

Property portfolio composition by region (%)



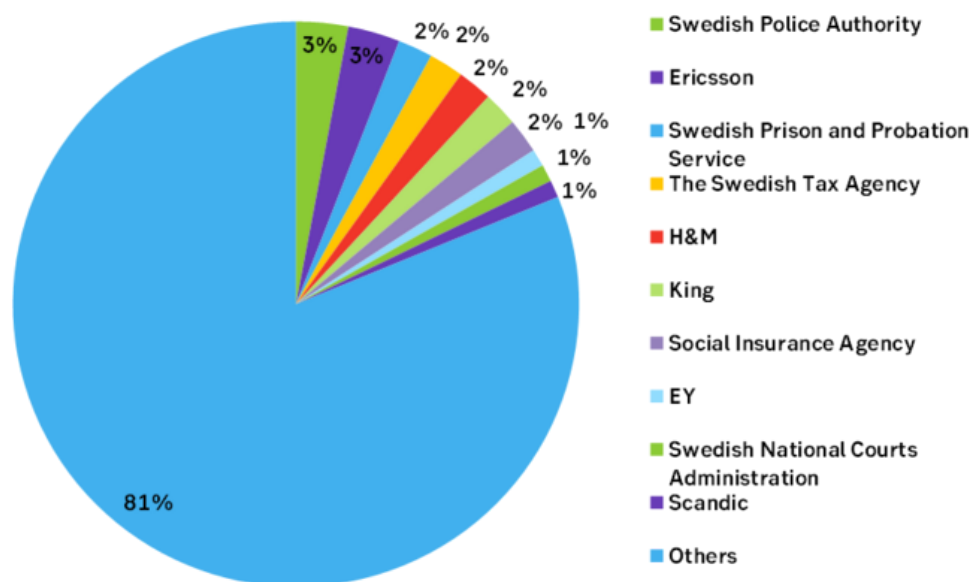
Source: Company reports

Breakdown of tenant by sector, % of contracted rent



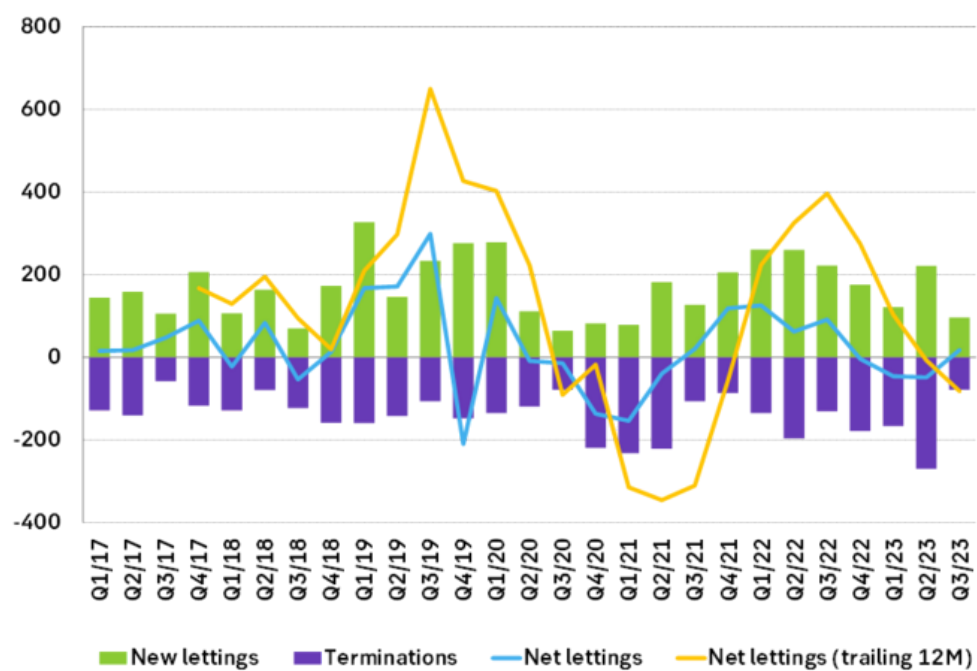
Source: Company reports

Tenant composition per end-Q3/23 (%)



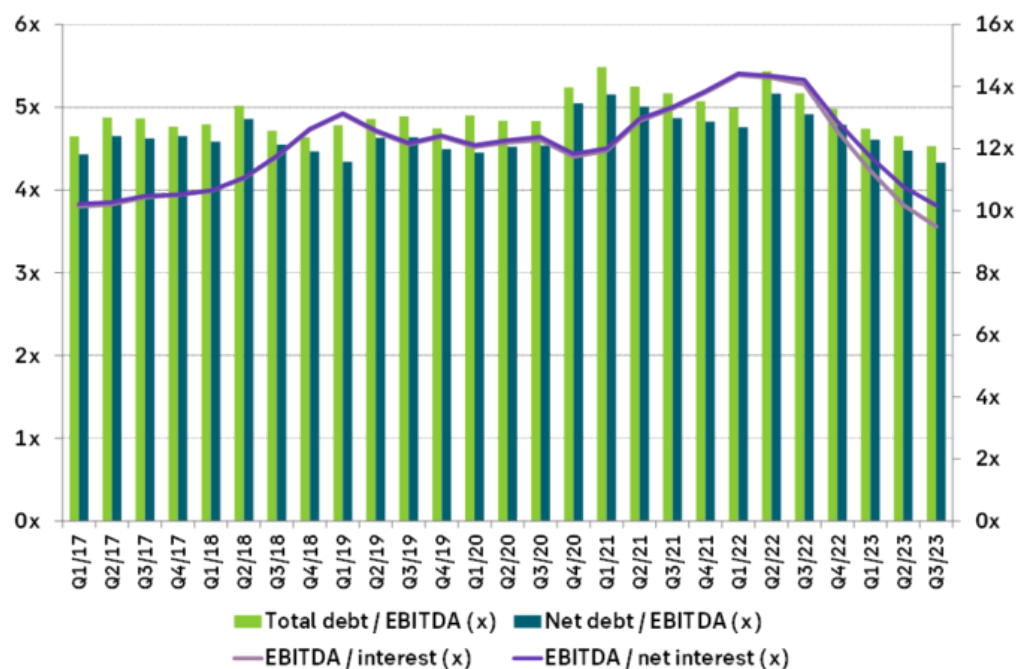
Source: Company reports

Historical evolution of net leasing per quarter (SEKm)



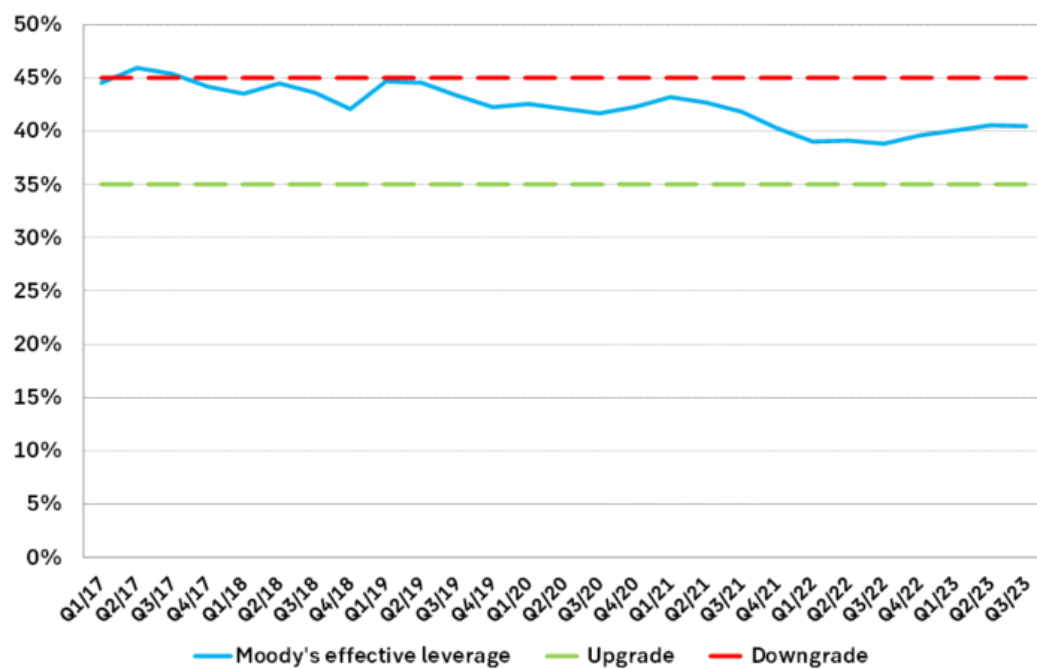
Source: Company reports, SEB

LTM leverage and interest coverage (x)



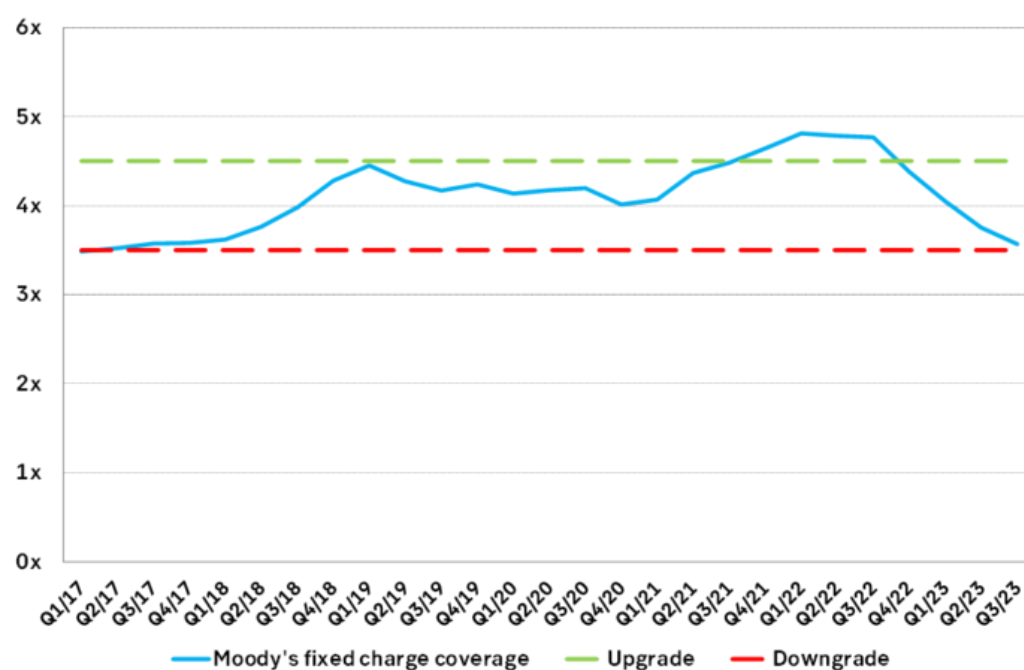
Source: Company reports, SEB

Moody's effective leverage and rating triggers



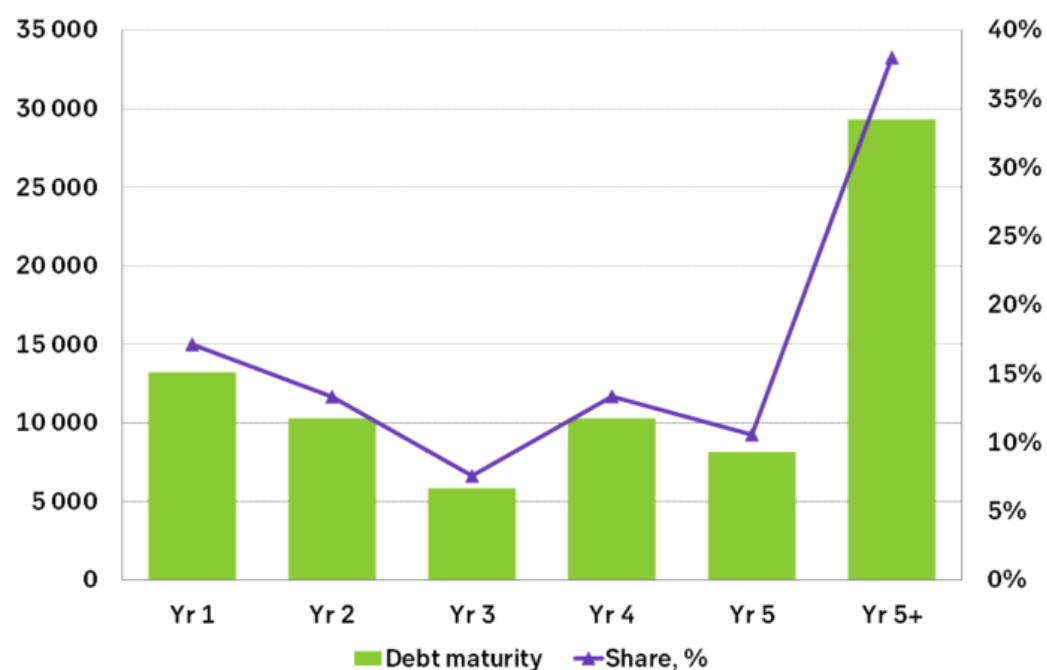
Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers



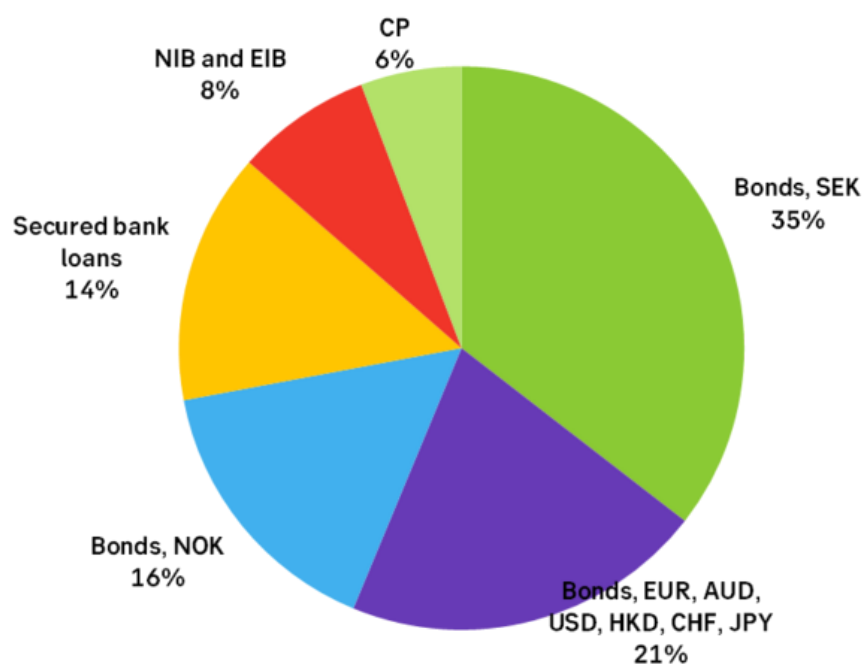
Source: SEB, Moody's

Debt maturity profile per end-Q3/23 (SEKm)



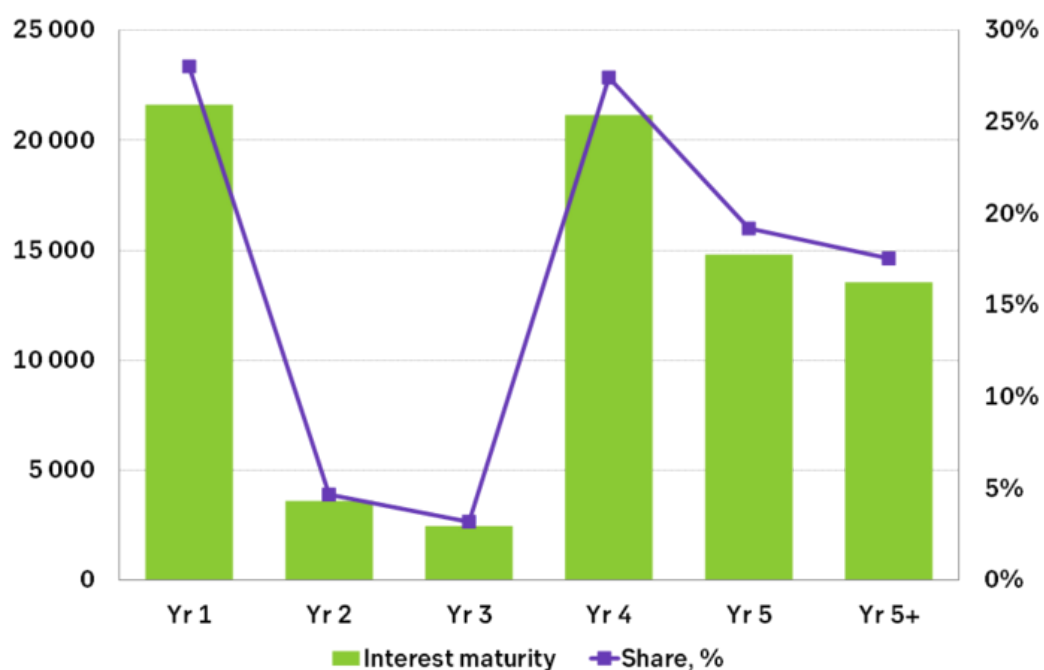
Source: Company reports

Distribution of funding sources per end-Q3/23 (%)



Source: Company reports

Interest maturity profile per end-Q3/23 (SEKm)



Source: Company report

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3) A list of so called "Top Picks" from a group of issuers, instruments or debt classes.

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