

Vasakronan

No surprises and few concerns

- Overall stable performance but some signs of slowing rental markets
- Credit metrics in line with Moody's expectations
- Few credit concerns

Overall stable performance but some signs of slowing rental markets

Like-for-like rental income grew by 13% y-o-y in the first nine months of 2023, 11% on a like-for-like basis, thus a slight slowdown in Q3. Net letting was positive in Q3, but negative for the first nine months of 2023, and the CEO stated that the rental market is increasingly cautious and she expects a higher discrepancy going forward when it comes to tenants' willingness to pay for differences in quality. The vacancy rate was up slightly in the quarter, standing just short of 9%. Value changes amounted to SEK -1.5bn (-0.8%), mainly as a result of higher yield requirements. The average yield requirement increased by 5bp in the quarter, from 4.19% to 4.24%. Over the last five quarters, Vasakronan has written down property values slightly more than 9%.

Credit metrics in line with Moody's expectations

As of Q3 2023, Vasakronan's reported interest coverage ratio (ICR) stood at 3.8x on a rolling twelve-month basis (down from 4.0x in Q2 2023), and also 3.8x when assessing Q3 separately (Moody's adjusted ICR typically somewhat lower). Reported LTV, as well as Moody's adjusted LTV, was unchanged 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 Moody's forecasts that ICR could fall slightly below the 3.5x demand for a period of time.

Few credit concerns

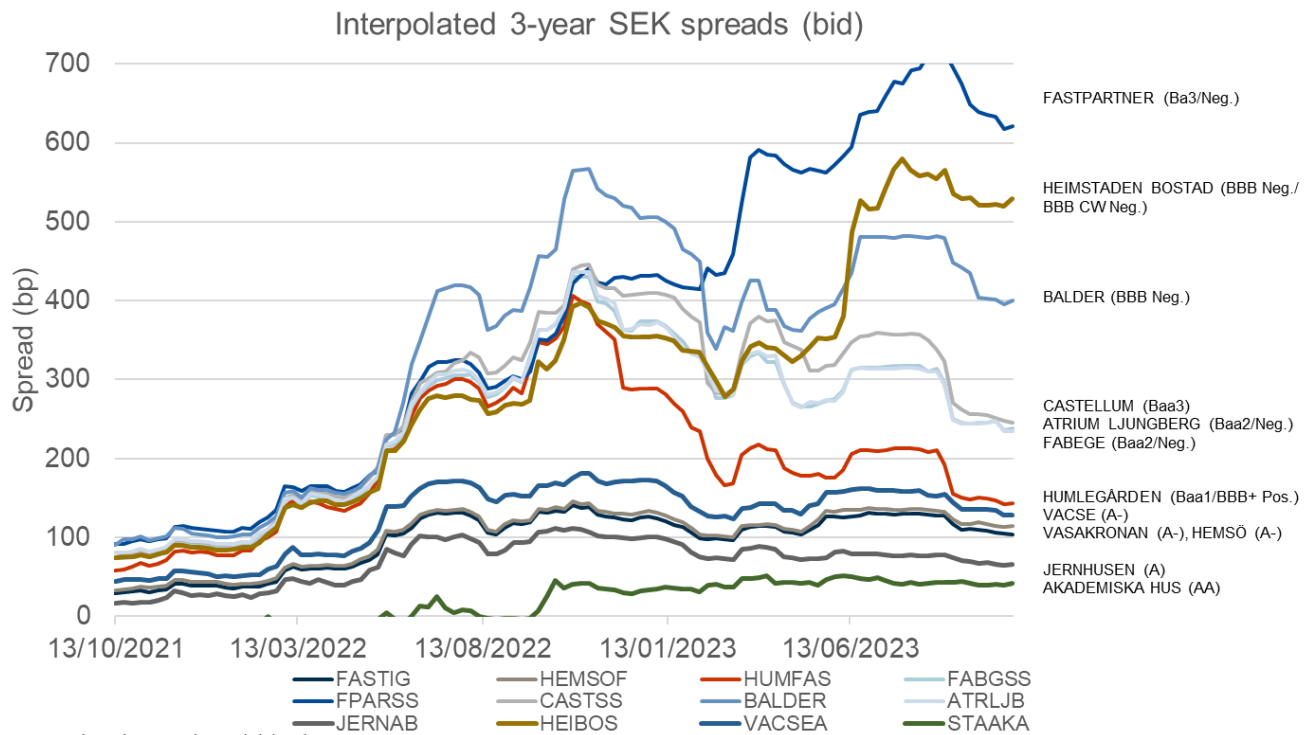
We continue to view Vasakronan as one of the stronger issuers in the Nordic real estate sector and view the Q3 results as credit neutral. Although Vasakronan's bond spreads remain much tighter and less affected than most Nordic real estate peers, they are likely to be impacted somewhat if we see a new round of negative rating actions in the sector.

Key figures

SEKm	2018	2019	2020	2021	2022	Q3-23LTM
Rental revenues	6,718	7,040	7,006	7,425	8,167	8,969
Op. net (NOIRE)	4,869	5,200	5,189	5,533	5,968	6,667
Income fr property mgmt adj	3,884	4,914	3,577	4,391	4,333	4,483
Net income adj	12,964	13,983	3,714	16,359	8,465	-9,530
Property value	138,934	161,314	167,583	186,732	193,467	186,245
Gross debt adj	61,087	71,882	74,481	78,996	82,576	82,300
Net debt to prop value adj (%)	42.4	42.4	42.9	40.4	41.1	42.4
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	12.6
EBITDA/interest expense adj (x)	4.6	4.0	4.0	4.5	4.2	3.4
Dividends/FFO adj (%)	112	109	84.6	56.0	93.6	0
Vacancy rate (%)	6.9	5.9	8.1	9.0	9.1	8.8
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

Source: Handelsbanken Capital Markets

Interpolated 3-year SEK spreads (bid)



Source: Bloomberg and Handelsbanken

Sources: Bloomberg and Handelsbanken Capital Markets

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Oct 30. 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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