

Vasakronan

Rating remains high and stable for a reason

- One of the stronger European real estate issuers
- A3 rating and stable outlook confirmed twice in 2023
- Upgrading to Market Perform (Underperform)

One of the stronger European real estate issuers

We continue to view Vasakronan as one of the stronger Nordic, if not European, real estate issuers. Vasakronan's credit profile is supported by its scale, strong property portfolio, and leading market positions, as well as its solid balance sheet, healthy liquidity position and robust ownership profile. In addition, Vasakronan is also a green bond pioneer and a leader within all aspects of ESG.

A3 rating and stable outlook confirmed twice in 2023

Our main, and basically only, concern with regard to Vasakronan over the last 12 months has been a potential negative rating action by Moody's. As Moody's has confirmed the A3 rating, and stable outlook, twice in 2023, we now regard the likelihood of a negative rating action as low. In addition, Moody's has relaxed the ICR requirement somewhat, at least for a period of time, which has also been the case for other Nordic real estate peers lately.

Upgrading to Market Perform (Underperform)

Since our Underperform recommendation was based on the risk of a negative rating action (outlook or rating change) by Moody's, which we now consider unlikely, we raise our recommendation to Market Perform. Vasakronan's credit spreads are typically somewhat tighter than its A3/A- rated peers, which we regard as fair based on our view of Vasakronan's somewhat stronger standalone credit profile.

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

For full disclaimer and definitions, please refer to the end of this report.

Main recommendation
Senior unsecured • SEK



Underperform



Market Perform

Profile

Vasakronan is one of Sweden's largest real estate companies with total assets of SEK 209bn as of December 31, 2022. The company focuses on office and retail properties in Stockholm, Uppsala, Gothenburg and Malmö. Vasakronan is jointly owned by the First, Second, Third and Fourth Swedish National Pension Funds. The borrowing programmes benefit from change of control language. Vasakronan was founded in 1993 and is headquartered in Stockholm, Sweden.

Website

[Link](#)

CEO Johanna Skogestig
CFO Christer Nerlich
Treasurer Thomas Nystedt

Public rating(s)

- Moody's / A3 / Stable

Michael Andersson

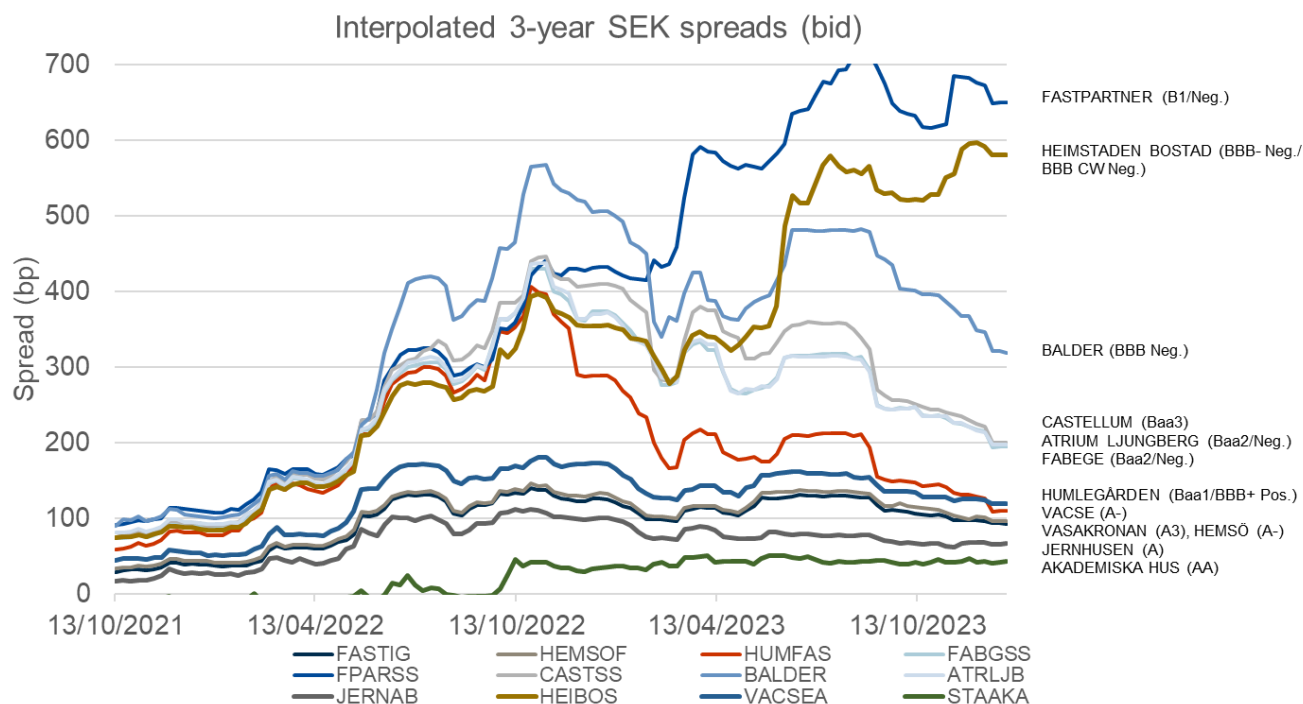
+46 738 042 894

michael.andersson@handelsbanken.se

Relative value

Since our Underperform recommendation was based on the risk of a negative rating action (outlook or rating change) by Moody's, which we now consider unlikely, we raise our recommendation to Market Perform. Vasakronan's credit spreads are typically somewhat tighter than its A3/A- rated peers, which we regard as fair based on our view of Vasakronan's somewhat stronger standalone credit profile. If market conditions were to start deteriorating again, we also believe that Vasakronan would be in a better position than most real estate peers in terms of bond market access, as has been the case over the last 18 months.

Interpolated 3-year SEK spreads (bid)



Source: Bloomberg and Handelsbanken

Sources: Bloomberg and Handelsbanken Capital Markets

Key figures

P&L accounts, annual data

SEKm	2018	2019	2020	2021	2022
Revenues	6,718	7,040	7,006	7,425	8,167
Total op expenses	-1,950	-1,953	-1,935	-2,016	-2,315
EBITDA	4,780	5,106	5,079	5,417	5,860
EBITDA adj	4,780	5,106	5,079	5,417	5,860
EBIT	4,927	6,192	4,852	5,602	5,701
Associated income	159	1,105	-219	193	-151
Interest income	3	4	9	4	30
Interest expense	-1,046	-1,282	-1,284	-1,215	-1,398
EBT	14,548	17,303	4,820	20,572	10,532
Paid tax	-120	-230	-203	-223	-135
Net income	12,964	13,983	3,714	16,359	8,465

Source: Handelsbanken Capital Markets

P&L, quarterly data

SEKm	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23
Revenues	2,132	2,143	2,221	2,283	2,322
Total op expenses	-646	-619	-624	-629	-549
EBITDA	1,488	1,526	1,599	1,656	1,775
EBITDA adj	1,488	1,526	1,599	1,656	1,775
EBIT	1,488	1,402	1,567	1,592	1,757
Associated income	2	-122	-30	-62	-16
Interest income	8	20	26	35	39
Interest expense	-367	-441	-475	-507	-532
EBT	-1,063	-5,556	-4,161	-1,538	-819
Paid tax	-106	159	-97	-140	-98
Minorities	1	0.0	-	-	-
Net income	-831	-4,321	-3,310	-1,252	-647

Source: Handelsbanken Capital Markets

Balance sheet, annual data

SEKm	2018	2019	2020	2021	2022
Financial assets	800	1,468	1,826	1,222	2,147
Total tangible assets	138,978	161,354	167,630	186,834	193,620
Total intangible assets	2,089	2,024	2,044	2,044	2,018
Other long-term assets	2,089	2,024	2,044	2,044	2,018
Other current assets	39	27	4	158	310
Cash and equivalents	2,215	3,515	2,558	3,521	2,984
Total assets	144,987	169,537	176,226	196,194	208,588
Equity	60,271	70,156	70,869	85,290	89,767
LT interest-bearing debt	45,956	58,926	60,823	64,500	71,635
Other long term liabilities	76	385	58	69	78
ST interest bearing debt	15,131	12,956	13,658	14,496	10,941
Other current liabilities	151	12	102	22	23
Total equity and liabilities	145,181	170,127	176,146	196,156	208,567
Total equity and liabilities adj	144,987	169,537	176,226	196,194	208,588
Total debt	61,087	71,882	74,481	78,996	82,576
Total debt adj	61,087	71,882	74,481	78,996	82,576

Source: Handelsbanken Capital Markets

Cash flow, annual data

SEKm	2018	2019	2020	2021	2022
Funds from operations (FFO)	3,567	3,664	3,547	3,572	4,272
FFO adj	3,567	3,664	3,547	3,572	4,272
Change in working capital	68	165	271	375	164
Operating cash flow (OCF)	3,635	3,829	3,818	3,947	4,436
Cash flow from investments	-1,297	-3,573	-5,269	-3,858	-1,792
Capex	-3,335	-4,440	-5,314	-4,137	-2,366
Dividends paid	-4,000	-4,000	-3,000	-2,000	-4,000
Discretionary cash flow	-3,700	-4,611	-4,496	-2,190	-1,930
Net change in debt	2,685	5,165	4,427	3,132	1,650
Cash flow from financing	-1,546	1,044	494	874	-3,181
Net cash flow	792	1,300	-957	963	-537

Source: Handelsbanken Capital Markets

Key metrics, annual data

%	2018	2019	2020	2021	2022
EBITDA adj margin	71.2	72.5	72.5	73.0	71.8
EBIT adj margin	73.3	88.0	69.3	75.4	69.8
Equity ratio	41.5	41.2	40.2	43.5	43.0
Equity ratio adj	41.6	41.4	40.2	43.5	43.0
Net debt/equity (x)	0.98	0.97	1.0	0.88	0.89
Net debt/EBITDA (x)	12.3	13.4	14.2	13.9	13.6
Net debt/EBITDA adj (x)	12.3	13.4	14.2	13.9	13.6
Debt/EBITDA (x)	12.8	14.1	14.7	14.6	14.1
Debt/EBITDA adj (x)	12.8	14.1	14.7	14.6	14.1
EBITDA/net interest adj (x)	4.6	4.0	4.0	4.5	4.3
EBIT/interest (x)	5	5	4	5	4
FFO/net debt	6.1	5.4	4.9	4.7	5.4
FFO/total debt adj	5.8	5.1	4.8	4.5	5.2
FFO/net debt adj	6.1	5.4	4.9	4.7	5.4
FOCF/debt	0.49	n.m	n.m	n.m	2.5

Source: Handelsbanken Capital Markets

Credit research disclaimer

Recommendation structure and allocations

Handelsbanken Capital Markets Credit Research (HCM) employs a three-graded recommendation scale. The recommendations reflect the analyst's assessment of the bond's total return on a 12-month time horizon in relation to a relevant benchmark. An issuer may have more than one recommendation. One of them is designated as the main recommendation for the company. The analyst determines which is the main recommendation for a company based on an assessment of factors such as outstanding volume and liquidity.

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Recommendations are continuously reviewed by the analyst and monitored by the Research Management and will be updated and/or refreshed regularly. The rationale behind a change in recommendation will be explained in such a refresher/update.

A list of all recommendations made by investment research during the preceding 12-month period is available here: <https://www.researchonline.se/desc/creditechist>.

Unless otherwise specified, prices and spreads mentioned in this report refer to the closing price of the previous day.

Recommendations: definitions and allocations

HCM recommendation ¹	HCM universe main ²	IB services ³
Outperform	10%	50%
Market Perform	69%	50%
Underperform	21%	25%

¹ Recommendation definitions:

Outperform: Over the next 12 months, the bond's total return is expected to exceed the total return of the relevant benchmark

Market perform: Over the next 12 months, the bond's total return is expected to be in line with the total return of the relevant benchmark

Underperform: Over the next 12 months, the bond's total return is expected to be below the total return of the relevant benchmark

² Percentage of companies under coverage within each recommendation

³ Percentage of companies within each recommendation (unsecured) for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 4 January 2024

Risk warning

All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested. At times, the expected total returns may fall outside of the above stated expectation because of price movement and/or volatility. Such interim deviations from specified expectations will be permitted but will become subject to review by Research Management.

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Vasakronan

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Jan 05. 2024: Vasakronan - Handelsbanken's analyst Michael Andersson has no position in Vasakronan or a related instrument.

Handelsbanken has participated in a public offering of financial instruments of the subject company during the past twelve months. Handelsbanken is party to an agreement with the following issuers relating to the provision of services of investment firms over the past twelve months.

On 2024-01-05 the recommendation (SEK Senior unsecured) Underperform, which was set on 2022-11-28, was changed to the current recommendation Market Perform.

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Completion date: 2024-01-04 15:27 CET