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DCM Research

**Vasakronan**

Property



## **Q4: No dividend and softer ICR threshold from Moody's**

**Vasakronan reported another stable and credit neutral Q4 report, underpinned by good NOI development and growth in profit from property management. Key credit metrics remained in line with our expectations and Moody's rating requirements, despite the 4.1% unrealised value decline reported in Q4. The board once again take a responsible stance in that no dividend shall be distributed, a sound and credit protective proposal, in our view.**

## **Q4: Good NOI development, but valuation pressure due to higher yield requirements**

Vasakronan's high quality commercial portfolio continued to perform well during given the circumstances. The rental income and NOI increased by 9% and 13% y/y in Q4 (in line with our estimates), mainly attributable to completed projects and CPI-indexation. For comparable property holdings, the rental income and NOI grew by 10% and 12% y/y in 2023. The company's 12-months NOI-margin was 73% per end-December 2023 (71% a year-earlier). Net lettings were small but positive in Q4 at SEK 14m (SEK -65m FY 2023). Vasakronan's economic occupancy rate decreased 0.2% q/q and stood at 90.9% at end-Q4 (of which 0.3% of the vacancy is attributable to project developments). Commenting on the rental market, the CEO said it remains fairly stable, although a bit polarized, as the flight-to-quality trend

continues. Looking at renegotiations' lettings during 2023, it took place 1% above index compared to previous rent payable (3% among offices and -3% among retail). Unrealised value changes amounted to SEK -7.4bn in Q4 (we anticipated SEK -6.1bn), corresponding to a 4.1% value decline.

Vasakronan's yield requirement has increased by about 0.8% last six quarters meanwhile unrealised value changes are down c. 13% since the peak. The average yield requirement increased 27bps q/q to 4.51% as of end-Q4 2023.

#### Factors impacting property revaluations

Property value drivers	FY 2023	FY 2022
Yield requirement	-12.16%	-2.06%
Market rents	7.07%	7.41%
Vacancies and other valuation parameters	-3.64%	-2.58%
Total	-8.73%	2.76%

Source: Vasakronan

#### Stable ICR q/q but slightly higher LTV – BOD proposes no dividend (credit protective)

The sequential development in key credit metrics was mixed. Looking at the net LTV, it increased from 40.7% to 41.8%, with controlled investment activities and slightly lower net debt to some extent counterbalanced by negative property revaluation. Vasakronan invested SEK 871m in Q4 and c. SEK 2.3bn in remaining investments among major projects (average occupancy rate was 66% vs 58% a quarter-earlier). Despite upward pressure on funding costs, the profit from property management (PFPM) increased by 13% y/y in Q4 (8% for FY 2023). Looking at 12-month earnings metrics, ND/EBITDA improved slightly from 11.5x to 11.1x meanwhile the ICR was flat q/q at 3.8x according on our calculations. Following some active work with the derivative portfolio, Vasakronan's average interest rate was unchanged at 2.7% meanwhile the share of fixed interest maturity within 12-months decreased 6% q/q and stood at 22% as of end-Q4. Given the uncertain market conditions, Vasakronan's Board of Directors (BOD) take once again a responsible stance that no dividend shall be distributed. We view this credit protective measure as sound but note that BOD intends to re-evaluate the dividend situation after the summer.

## A3/Stable rating affirmed by Moody's while softer ICR thresholds were introduced

In November 2023, Moody's affirmed Vasakronan's long-term issuer rating of A3, while the stable outlook was left unchanged. The rating affirmation reflects the company's strong portfolio quality, good rental growth, solid liquidity position and access to financing, which together with the responsible dividend stance balancing the weakening ICR. Noteworthy is that Moody's lowered the ICR thresholds by 0.5x to 3.0x-4.0x (3.6x currently) in conjunction with the rating affirmation while the effective leverage thresholds were left unchanged at 35%-45% (42.2% currently). We do not assume any near-term rating pressure, given adequate ratio headroom, diversified funding structure, no dividends, and the fact that a meaningful portion of the asset devaluations have already been taken. Overall, a stable and credit neutral Q4 report.

### Deviation between actual Q4 results and SEB DCM Research estimates (SEKm)

Deviation table	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23E	Q4/23	Q4 vs SEB
Rental income	2,143	2,221	2,283	2,322	2,334	2,331	0%
NOI	1,517	1,580	1,651	1,759	1,697	1,707	1%
EBITDA	1,484	1,557	1,614	1,733	1,669	1,682	1%
FFO	1,125	1,083	1,010	1,271	1,195	1,214	2%
FOCF	651	427	122	695	565	467	
Interest expense	-401	-435	-467	-492	-491	-490	0%
Net interest expense	-381	-409	-432	-453	-465	-436	-6%
Investment properties	188,317	183,809	181,926	181,088	175,766	174,569	-1%
Total debt	77,425	76,447	77,230	77,142	74,753	76,259	2%
Net debt	74,441	74,358	74,288	73,738	73,149	73,034	0%
Total debt / EBITDA (x)	13.3x	12.6x	12.4x	12.1x	11.4x	11.6x	
Net debt / EBITDA (x)	12.8x	12.3x	11.9x	11.5x	11.1x	11.1x	
EBITDA / net interest (x)	4.8x	4.4x	4.0x	3.8x	3.7x	3.8x	
FFO / net debt (%)	5.9%	6.0%	6.0%	6.1%	6.3%	6.4%	
Gross LTV	41.1%	41.6%	42.5%	42.6%	42.5%	43.7%	
Net LTV	39.5%	40.5%	40.8%	40.7%	41.6%	41.8%	

Property	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23E	Q4/23	DEV
Net acquisitions	393	0	0	0	0	0	
Investments in existing properties	-783	-540	-748	-643	-819	-871	
Property revaluation	-6,111	-5,048	-2,631	-1,481	-6,141	-7,390	
Yield	3.95%	4.09%	4.19%	4.24%	4.46%	4.51%	

Operating costs	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23E	Q4/23	
Central administration	-33	-23	-37	-26	-29	-25	-12%
Running costs	-234	-249	-223	-190	-245	-236	-4%
Repairs and maintenance	-34	-36	-31	-29	-34	-41	20%
Property administration	-111	-107	-131	-96	-101	-106	5%
Property taxes	-207	-209	-207	-208	-214	-196	-8%
Leasehold rents	-40	-40	-40	-40	-43	-45	5%
Total property costs	-626	-641	-632	-563	-637	-624	-2%

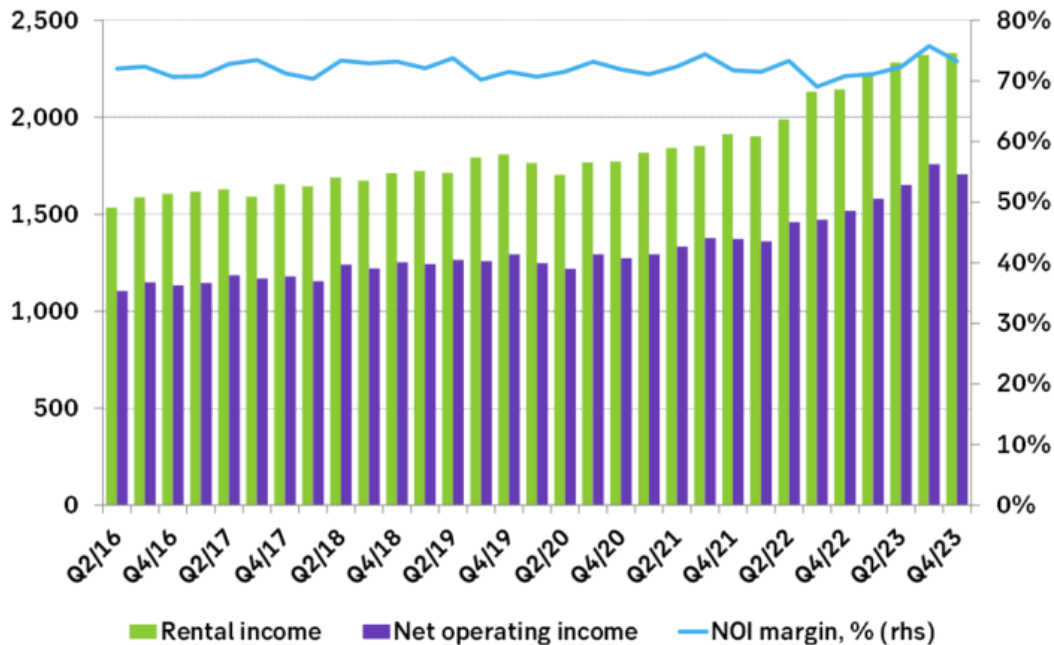
Source: Company data, SEB DCM Research estimate

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

SEKm	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Rental income	8,167	8,486	8,779	8,969	9,157	6,718	7,040	7,006	7,425	8,167	9,157	9,725	10,021	10,231
NOI	5,808	6,028	6,220	6,507	6,697	4,869	5,060	5,032	5,377	5,808	6,697	7,141	7,351	7,505
EBITDA	5,832	6,050	6,225	6,387	6,575	4,942	5,268	4,961	5,461	5,832	6,575	7,036	7,242	7,394
FFO	4,384	4,436	4,444	4,472	4,645	3,761	3,899	3,608	4,090	4,384	4,645	4,892	5,081	5,209
Y/Y growth in rental income (%)	10%	13%	15%	13%	12%	4%	5%	0%	6%	10%	12%	7%	3%	2%
NOI margin (%)	71%	71%	71%	73%	73%	72%	72%	72%	72%	71%	73%	73%	73%	73%
EBITDA margin (%)	71%	71%	71%	71%	72%	74%	75%	71%	74%	71%	72%	72%	72%	72%
Interest expense	-1,238	-1,429	-1,630	-1,795	-1,886	-1,046	-1,135	-1,127	-1,055	-1,238	-1,886	-2,185	-2,161	-2,189
Net interest expense	-1,208	-1,374	-1,541	-1,675	-1,730	-1,043	-1,131	-1,118	-1,051	-1,208	-1,730	-2,121	-2,086	-2,117
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1,368	-1,534	-1,701	-1,835	-1,895	-1,189	-1,278	-1,276	-1,211	-1,368	-1,895	-2,287	-2,251	-2,286
Investment properties	188,317	183,809	181,926	181,088	174,569	138,934	156,071	162,420	181,575	188,317	174,569	174,475	179,061	182,583
Total debt	77,425	76,447	77,230	77,142	76,259	61,087	66,638	69,317	73,838	77,425	76,259	74,285	73,111	72,000
Cash and equivalents	2,984	2,089	2,942	3,404	3,225	2,215	3,515	2,558	3,521	2,984	3,225	3,781	3,575	2,661
Net debt	74,441	74,358	74,288	73,738	73,034	58,872	63,123	66,759	70,317	74,441	73,034	70,504	69,536	69,339
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	79,592	79,508	79,436	78,896	79,364	58,872	68,367	71,923	75,475	79,592	79,364	76,834	75,866	75,669
Secured debt	11,131	11,131	11,131	11,131	11,131	12,907	11,603	10,971	7,866	11,151	11,131	11,785	13,111	11,000
Equity	89,767	86,458	85,205	84,558	78,902	60,271	70,156	70,869	85,290	89,767	78,902	80,806	84,886	87,304
Adjusted equity	89,767	86,458	85,205	84,558	78,902	60,271	70,156	70,869	85,290	89,767	78,902	80,806	84,886	87,304
Net debt+equity	164,208	160,816	159,495	158,296	151,936	119,143	133,279	137,628	155,607	164,208	151,936	151,310	154,422	156,642
Credit metrics	Q4/22	Q1/23	Q2/23	Q3/23	Q4/23	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Total debt / EBITDA (x)	13.3x	12.6x	12.4x	12.1x	11.6x	12.4x	12.6x	14.0x	13.5x	13.3x	11.6x	10.6x	10.1x	9.7x
Net debt / EBITDA (x)	12.8x	12.3x	11.9x	11.5x	11.1x	11.9x	12.0x	13.5x	12.9x	12.8x	11.1x	10.0x	9.6x	9.4x
Adjusted debt / EBITDA (x)	13.3x	12.8x	12.4x	12.1x	11.8x	11.6x	12.6x	14.1x	13.4x	13.3x	11.8x	10.7x	10.2x	10.0x
EBITDA / interest (x)	4.7x	4.2x	3.8x	3.6x	3.5x	4.7x	4.6x	4.4x	5.2x	4.7x	3.5x	3.2x	3.4x	3.4x
EBITDA / net interest (x)	4.8x	4.4x	4.0x	3.8x	3.8x	4.7x	4.7x	4.4x	5.2x	4.8x	3.8x	3.3x	3.5x	3.5x
EBITDA / adjusted interest (x)	4.4x	4.0x	3.8x	3.6x	3.6x	4.3x	4.2x	4.0x	4.6x	4.4x	3.6x	3.1x	3.3x	3.3x
Fixed charge coverage (x)	0.5x	0.4x	0.5x	0.4x	0.5x	0.5x	0.4x	0.3x	0.4x	0.5x	0.5x	3.3x	3.5x	3.5x
FFO / total debt (%)	5.7%	5.8%	5.8%	5.8%	6.1%	6.2%	5.9%	5.2%	5.5%	5.7%	6.1%	6.6%	6.9%	7.2%
FFO / net debt (%)	5.9%	6.0%	6.0%	6.1%	6.4%	6.4%	6.2%	5.4%	5.8%	5.9%	6.4%	6.9%	7.3%	7.5%
FFO / adjusted debt (%)	5.7%	5.8%	5.8%	5.9%	6.1%	6.6%	5.9%	5.2%	5.6%	5.7%	6.1%	6.6%	6.9%	7.1%
Gross LTV	41.1%	41.6%	42.5%	42.6%	43.7%	44.0%	42.7%	42.7%	40.7%	41.1%	43.7%	42.6%	40.8%	39.4%
Net LTV	39.5%	40.5%	40.8%	40.7%	41.8%	42.4%	40.4%	41.1%	38.7%	39.5%	41.8%	40.4%	38.8%	38.0%
Adjusted LTV	41.1%	42.1%	42.5%	42.6%	43.9%	42.4%	42.4%	42.9%	40.4%	41.1%	43.9%	42.5%	40.9%	40.1%
Net debt / debt+equity	45.3%	46.2%	46.6%	46.6%	48.1%	49.4%	47.4%	48.5%	45.2%	45.3%	48.1%	46.6%	45.0%	44.3%
Adjusted debt / debt+equity	48.5%	49.4%	49.8%	49.8%	52.2%	49.4%	51.3%	52.3%	48.5%	48.5%	52.2%	50.8%	49.1%	48.3%
Secured LTV	5.9%	6.1%	6.1%	6.1%	6.4%	9.3%	7.4%	6.8%	4.3%	5.9%	6.4%	6.8%	7.3%	6.0%
Equity ratio	43.0%	42.4%	41.9%	41.6%	40.5%	41.5%	41.2%	40.2%	43.5%	43.0%	40.5%	41.4%	42.5%	43.2%

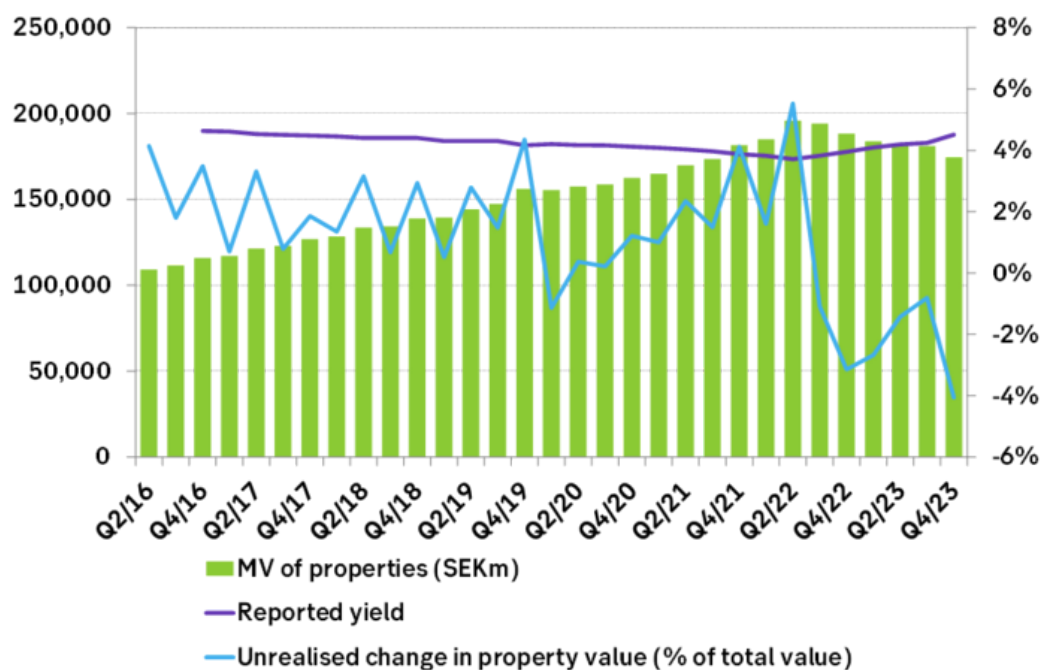
Source: Company data, SEB DCM Research estimate

## Quarterly rental income and NOI (SEKm)



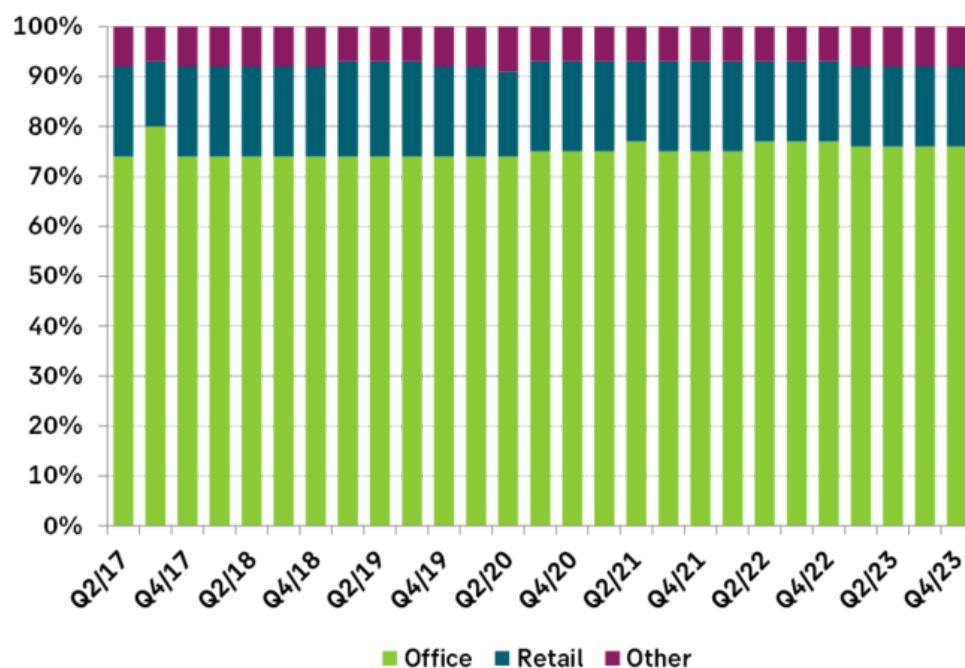
Source: Company reports, SEB

## Property portfolio statistics (SEKm)



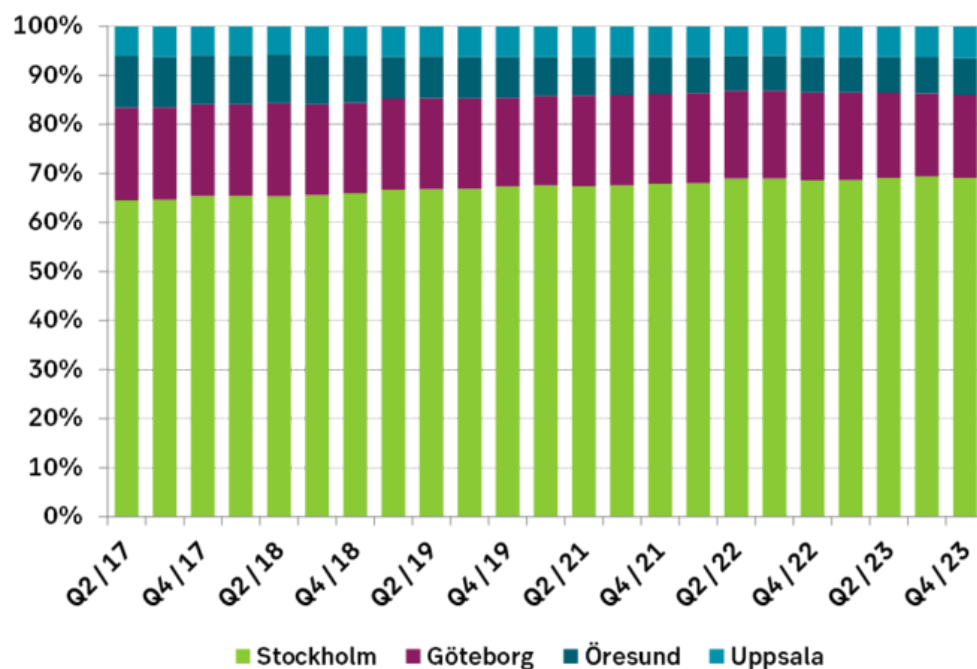
Source: Company reports, SEB

## Property portfolio composition by property type (%)



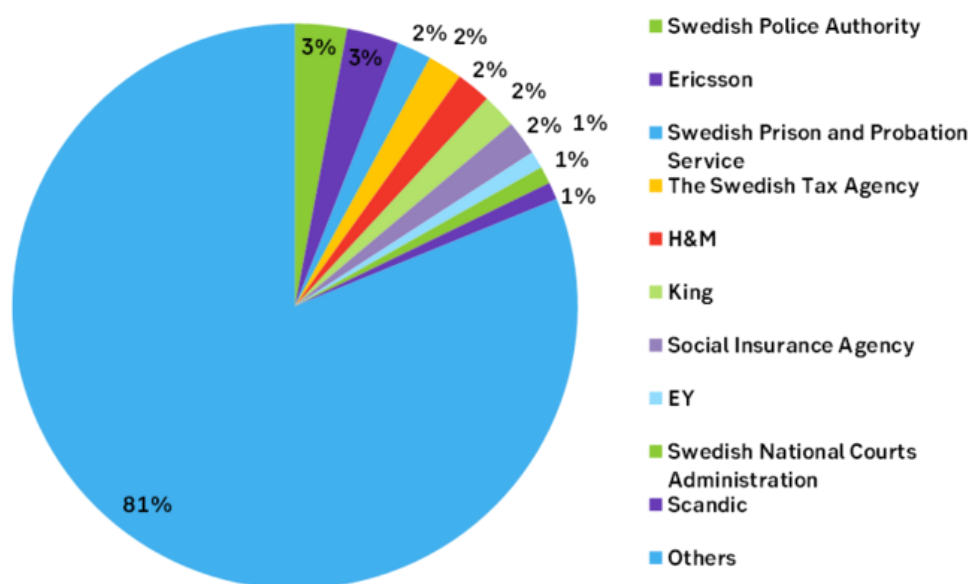
Source: Company reports

### Property portfolio composition by region (%)



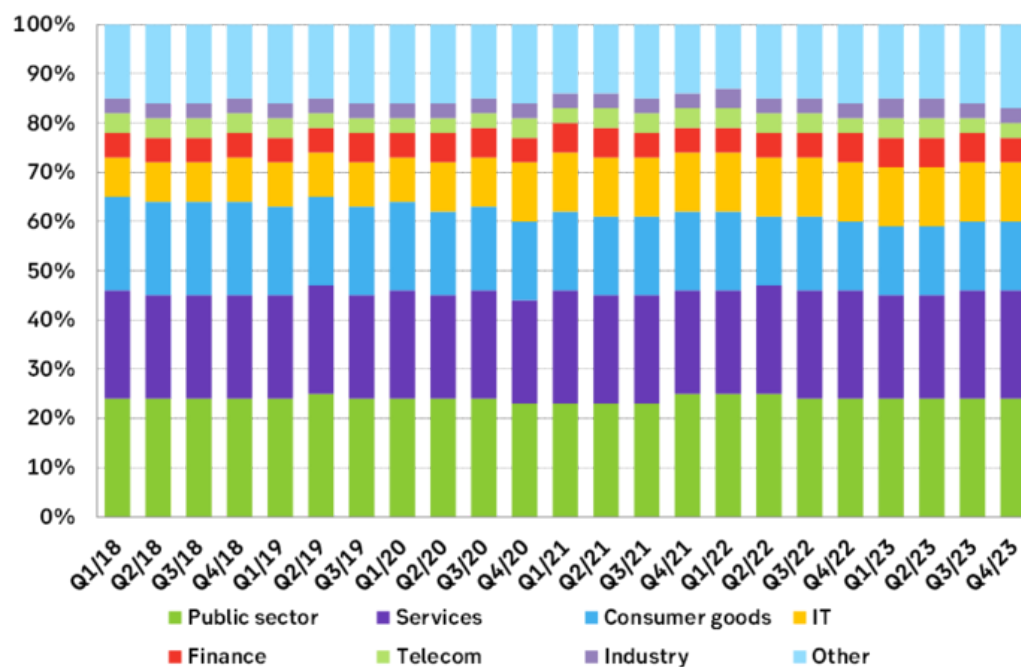
Source: Company reports

### Tenant composition per end-Q4/23 (%)



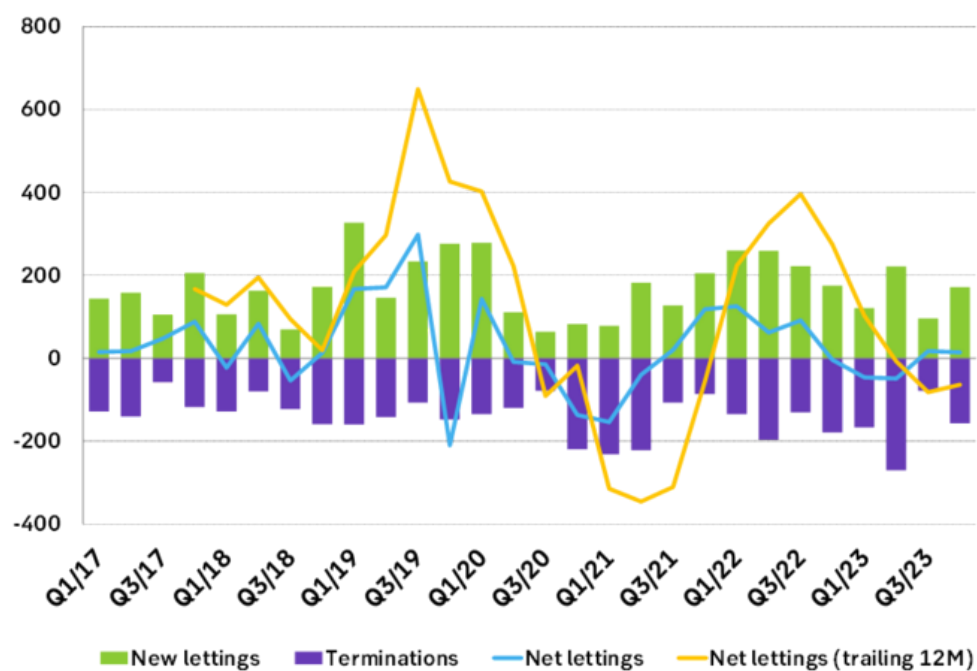
Source: Company report

### Breakdown of tenant by sector, % of contracted rent



Source: Company reports

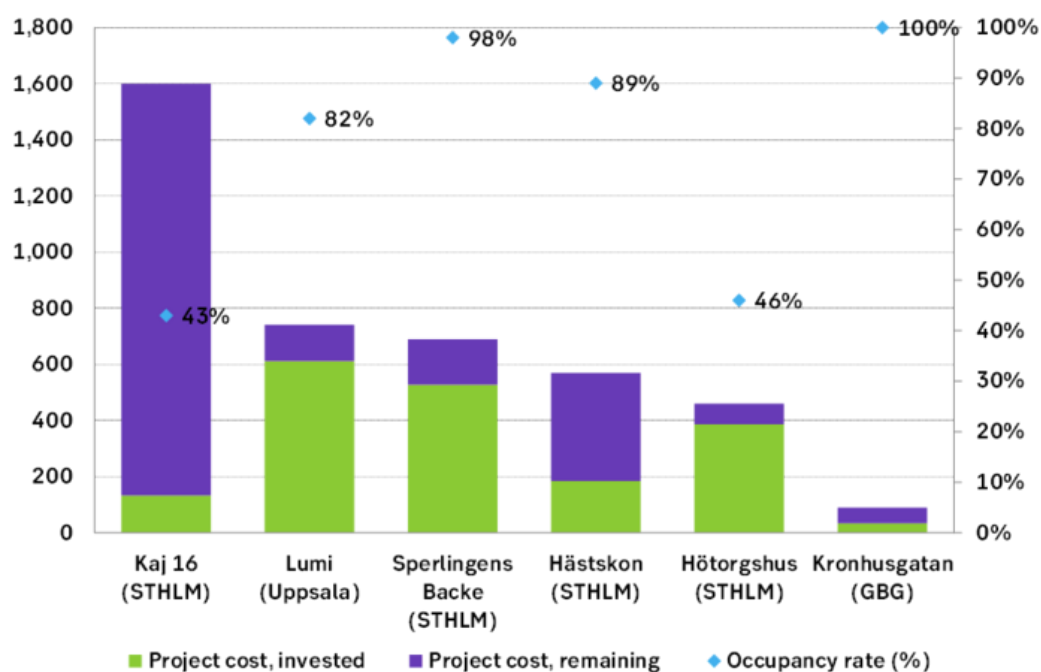
### Historical evolution of net leasing per quarter (SEKm)



Source: Company reports, SEB

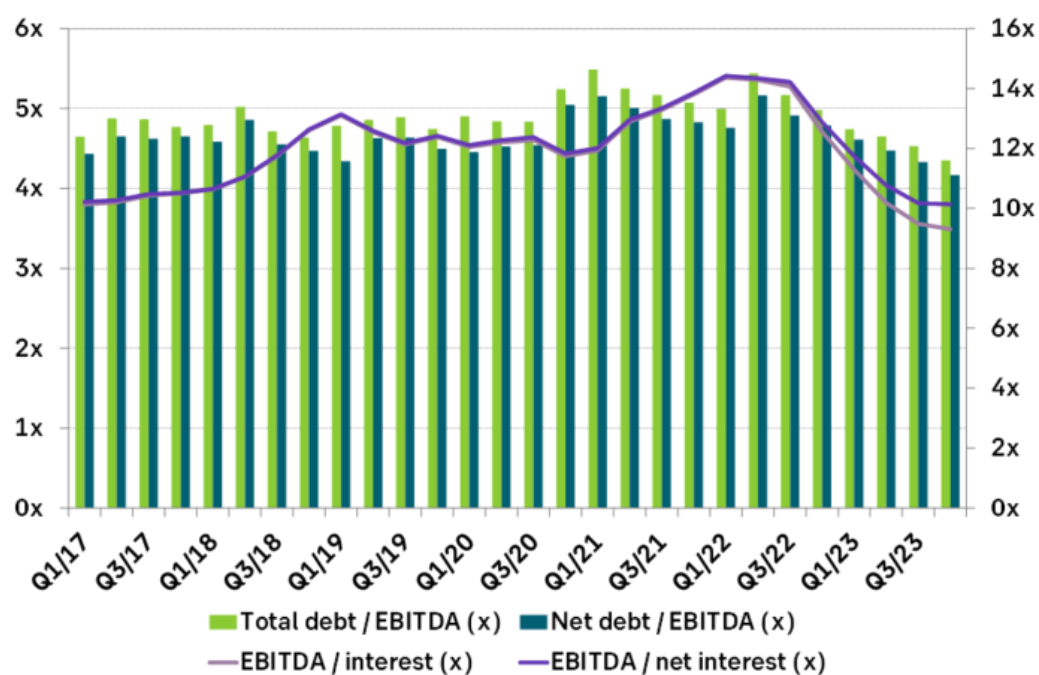


## Overview of Vasakronan's major projects ongoing per end-Q4/23



Source: Company reports, SEB

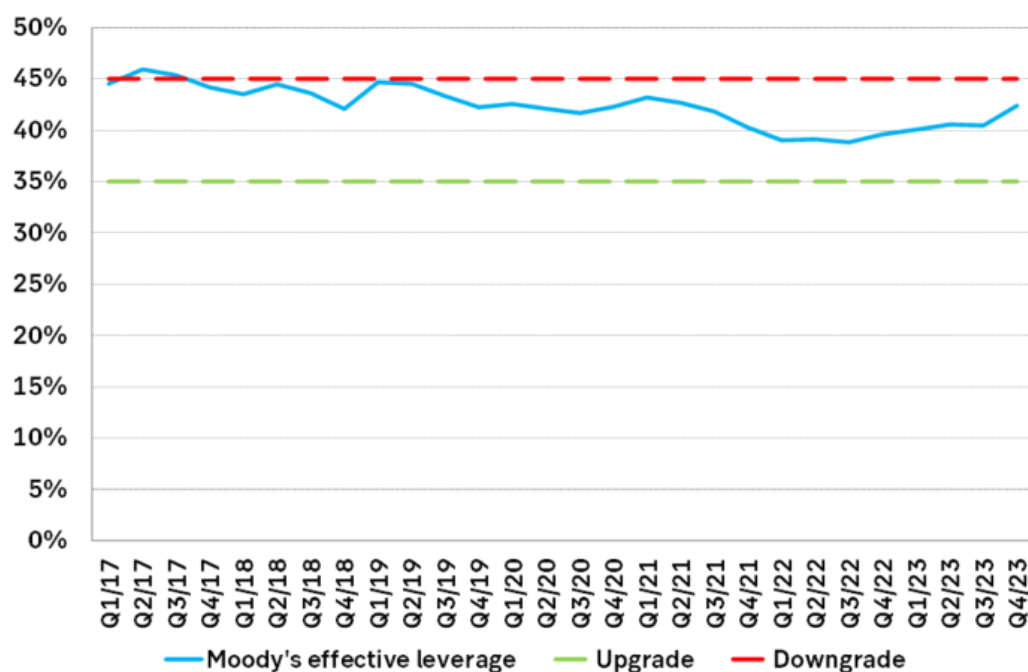
## LTM leverage and interest coverage (x)



Source: Company reports, SEB

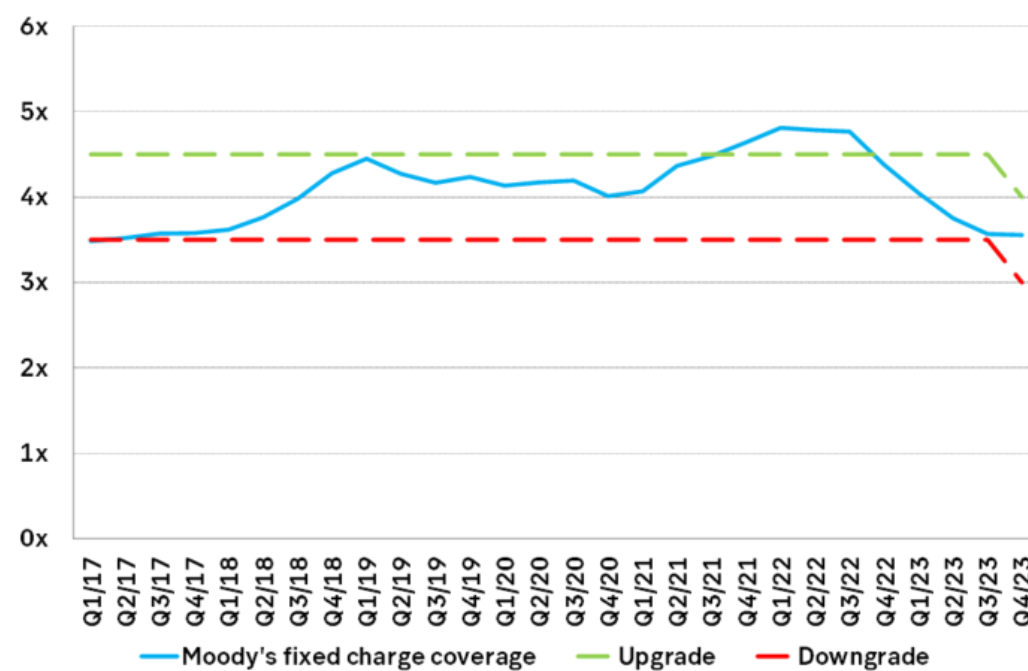


## Moody's effective leverage and rating triggers



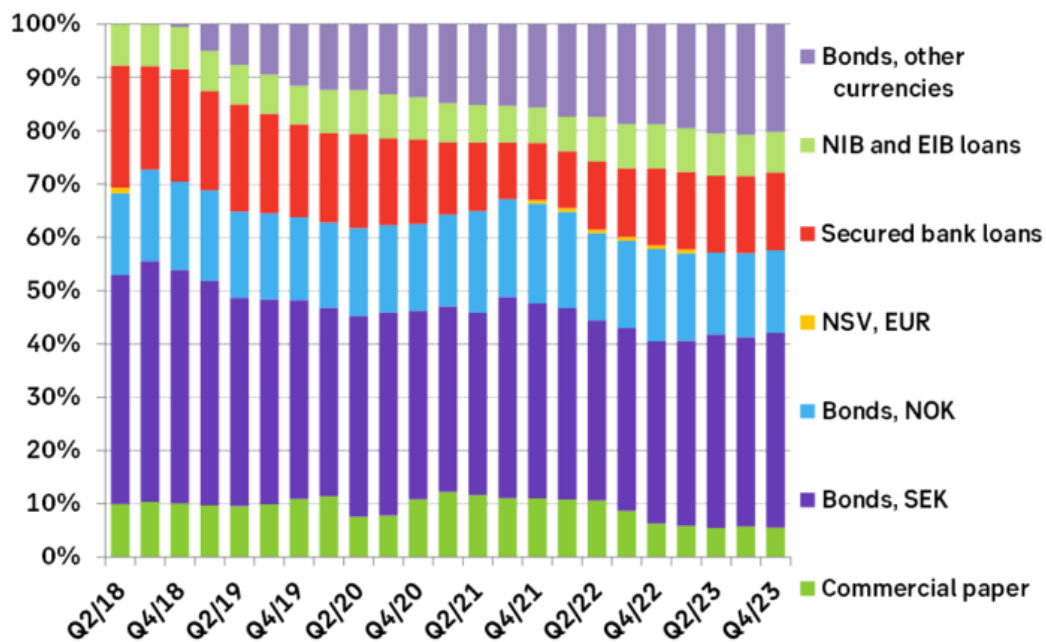
Source: SEB, Moody's

## Moody's fixed charge coverage and current rating triggers



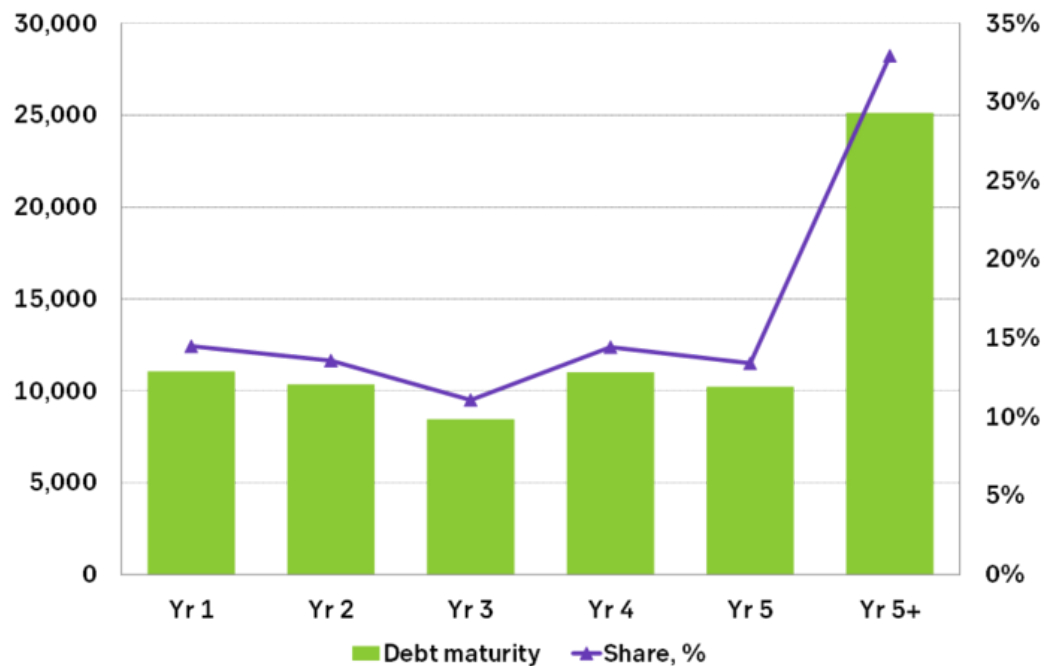
Source: SEB, Moody's

### Funding composition over time (%)



Source: Company reports

### Debt maturity profile per end-Q4/23 (SEKm)

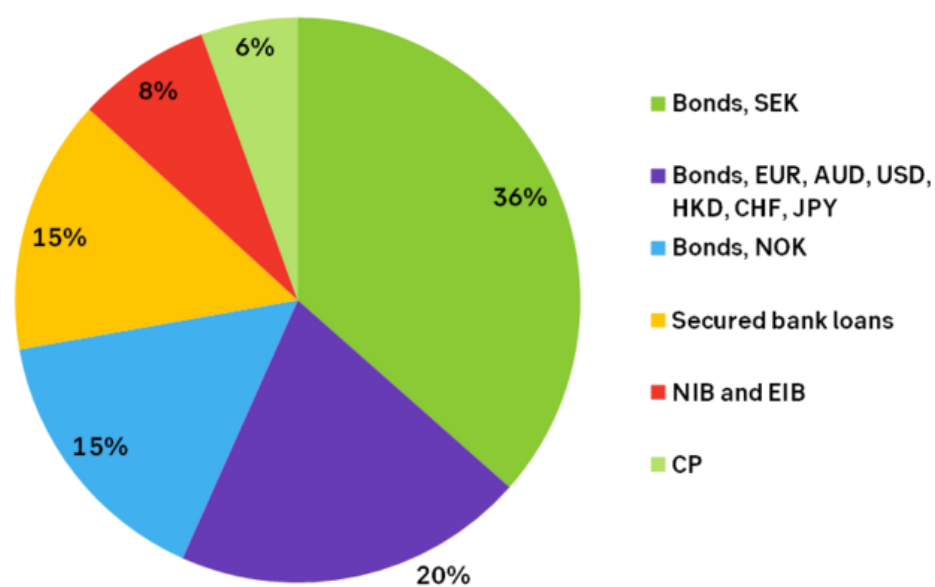


Source: Company reports

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**Distribution of funding sources per end-Q4/23 (%)**

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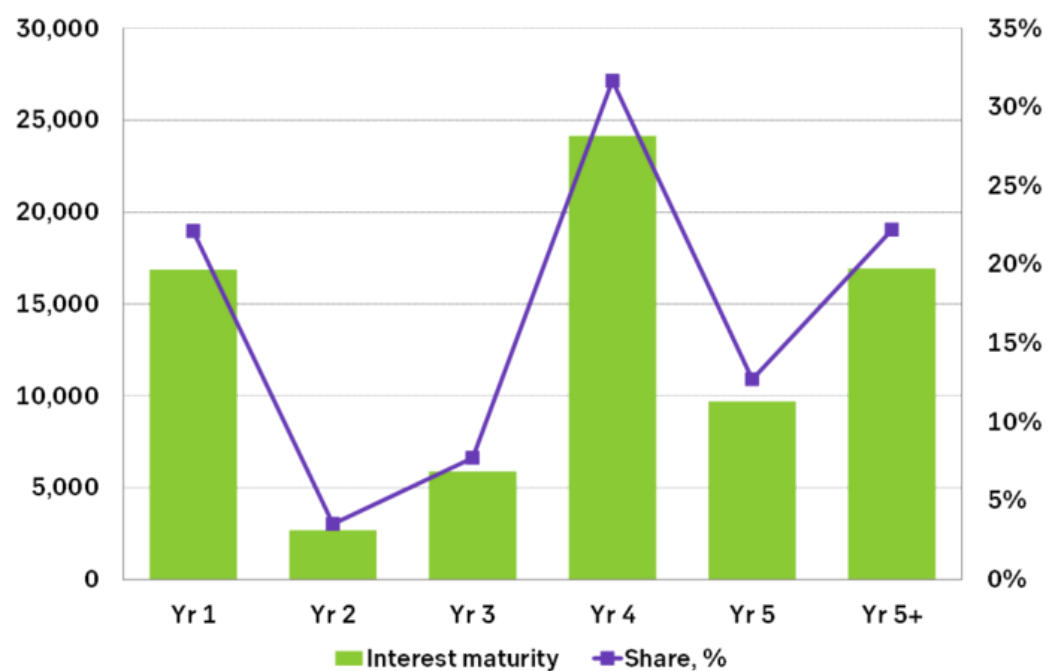


Source: Company report

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**Interest maturity profile per end-Q4/23 (SEKm)**

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Source: Company report

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## Relative value, selective SEK bonds

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Source: Bloomberg (BVAL, BGN), SEB

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The analyst(s) responsible for this research (jointly with their closely related persons) hold(s) 0 shares in Vasakronan and do(es) not have holdings in other instruments related to the company.

## **Explanation of DCM Research recommendations**

SEB derives its Recommendations from its appraisal of the credit quality of the issuer and issue in combination with the market price. The analyst may express a recommendation in various ways, depending on the complexity of the issuer's debt structure or the complexity of the analysed instrument, including:

### **1) Formal terminology**

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

**Marketweight** over the next six months we expect a position in this instrument to perform in line with the relevant index, sector or benchmark.

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

**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.

DCM Research recommendations are valid during the day of publication only and are therefore not necessarily updated or adjusted even if credit quality and market pricing have changed materially.

## **Methodology**

SEB's DCM Research makes its assessment of the creditworthiness of an issuer based on the assessment of an issuer's business risk profile as well as its financial risk profile. The business risk profile includes country risk, industry risk, competitive position, and profitability. The financial risk profile includes financial policies, accounting, cash flow adequacy, capital structure and liquidity. The outcome of the assessment of the two risk profiles is weighed together for a final overall assessment.

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.