

Vasakronan

A bridge over troubled water

- Stable operational performance but significant value write-downs
- Credit rating affirmed twice in 2023
- Few credit concerns but property valuations will continue to be discussed

Stable operational performance but significant value write-downs

Rental income grew by 12% in FY 2023, 10% on a like-for-like basis, thus a slight slowdown in Q4 (and H2). Net letting was positive in Q4, but slightly negative for FY 2023. The vacancy rate was basically unchanged at around 9%. Value changes amounted to SEK -7.4bn (-4.1%), mainly as a result of higher yield requirements, reflecting continued uncertainty in the transaction market. The average yield requirement increased by 27bp in the quarter, from 4.24% to 4.51%. Over the last six quarters, Vasakronan has written down total property values by slightly more than 13%. The CEO describes the rental markets as stable but picky, and the transaction market as cautious.

Credit rating affirmed twice in 2023

The reported interest coverage ratio (ICR) was unchanged at 3.8x q-o-q (Moody's adjusted ICR is typically somewhat lower), which can be compared with Moody's demand of an ICR of minimum 3.0x for the A3 rating. Reported (as well as Moody's adjusted) LTV stood at about 42% at the end of Q4 2023, a slight increase q-o-q. Moody's expects LTV to remain well below 45% and that Vasakronan will take measures to maintain effective leverage, if property values continue to fall. The Board has proposed that no dividends will be paid out in 2024, which was also the case in 2023. This is clearly credit positive in our view, and also something Moody's sees as positive. The funding profile remains one of the longer ones among rated, and unrated, Nordic real estate peers. The liquidity profile remain strong, as is Vasakronan's access and standing in the capital markets. Moody's affirmed the A3 rating, and stable outlook in November, 2023, which was the second time in 2023.

Few credit concerns but property valuations will continue to be discussed

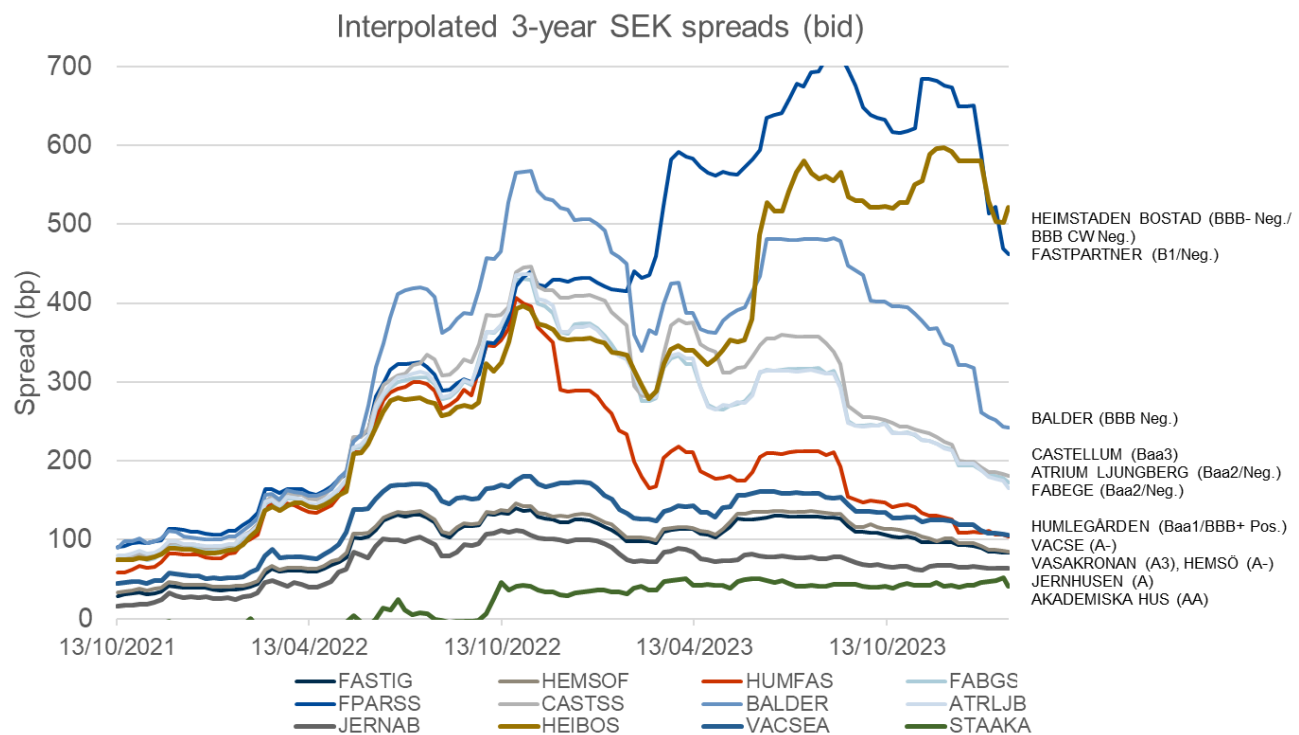
We continue to view Vasakronan as one of the stronger issuers in the Nordic real estate sector and see the Q4 2023 results as credit neutral. However, Vasakronan's significant value write-down in Q4, as well as the accumulated -13% since Q2 2022, will likely keep the ongoing discussion about property valuations and write-downs, in the sector, alive and healthy.

Key figures

SEKm	2019	2020	2021	2022	2023
Rental revenues	7,040	7,006	7,425	8,167	9,157
Op. net (NOIRE)	5,200	5,189	5,533	5,968	6,862
Income fr property mgmt adj	4,914	3,577	4,391	4,333	4,645
Net income adj	13,983	3,714	16,359	8,465	-10,858
Property value	161,314	167,583	186,732	193,467	180,898
Gross debt adj	71,882	74,481	78,996	82,576	82,589
Net debt to prop value adj (%)	42.4	42.9	40.4	41.1	43.9
Total debt to total assets adj (%)	42.4	42.3	40.3	39.6	42.4
FFO/gross debt adj (%)	5	5	5	5	6
Gross debt/EBITDA adj (x)	14.1	14.7	14.6	14.1	12.1
EBITDA/interest expense adj (x)	4.0	4.0	4.5	4.2	3.3
Dividends/FFO adj (%)	109	84.6	56.0	93.6	n.m
Vacancy rate (%)	5.9	8.1	9.0	9.1	9.1
Pledged assets to total assets (%)	6.9	6.2	4.0	5.5	n.m
Secured debt to total assets (%)	6.8	6.2	4.0	5.3	5.7
Valuation yield (%)	4.2	4.1	3.9	4.0	4.5

Source: Handelsbanken Capital Markets

Interpolated 3-year SEK spreads (bid)



Source: Bloomberg and Handelsbanken

Sources: Bloomberg and Handelsbanken Capital Markets

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

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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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