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Company Comment	Property	Sweden	06 February 2025
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Q4: Credit-neutral despite resumed dividend

Vasakronan posted relatively stable Q4 results despite the continued challenging office rental market. The company's financial position remains solid with good access to diversified funding and adequate rating leeway. The board has proposed a SEK 2bn dividend for 2025, reflecting a reasonable level to the owners after suspending dividends during 2023-24.

Q4: Stable yield and property revaluations in an otherwise challenging rental market

In Q4, Vasakronan's rental income and NOI increased by 2.9% and 1.3%, respectively, driven by indexation, completed projects, and the acquisition of Sthlm HUB. For the full year 2024, rental income and NOI grew by 1% on a like-for-like basis, which are softer than most peers. The CEO maintained a cautious outlook on the rental market, especially for offices in Stockholm, as many companies remain hesitant to expand, leading to a rise in vacant office spaces across all markets. The economic occupancy rate, including projects, declined by 0.2% q/q, reaching 89.1% by year-end 2024 (88.0% among office and 95.7% among retail), and can be compared to 90.9% at the end of 2023. Net lettings were modest but positive in Q4 at SEK 24m, though negative for the full year at SEK -196m. Looking at renegotiations' lettings taking place in 2024, it took place 0.4% below index compared to previous rent payable (1.0% in 2023). Despite the market challenges, the full-year NOI-margin remained stable y/y at 72.4% (healthy level). Unrealised value changes in Q4 amounted to SEK -141m, a 0.1% decrease, while the average yield requirement dropped by 1bp to 4.52%.

Solid financially with adequate rating leeway maintained

The company stands on solid financial grounds with adequate rating leeway and good access to diversified funding sources. Investment activity remains controlled while the ongoing project portfolio has gradually decreased (SEK). Net investments amounted to about SEK 700m in Q4 while the average cost of debt declined 0.1% to 2.6%. As of end-December, 48% of the SEK 5.4bn in ongoing projects have been capitalised (of which three larger projects are ongoing, with an average occupancy rate of 71%). As of end-Q4, we calculate 12M EBITDA/net interest of 3.6x (unchanged q/q) and net debt/EBITDA of 10.6x (10.7x). The net LTV declined 0.6% sequentially to 39.8%. At the same time, we calculated an effective leverage of 41.4% (35-45% required) and fixed-charge coverage of 3.3x (3.0-4.0x) according to Moody's definitions. Hence, adequate rating headroom against threshold is maintained. As of end-December 2024, Vasakronan had credit commitments and cash that 163% covers loans maturing in the coming 12-months.

Dividend to owners restored after two years absence – SEK 2bn in total (in line with 2021 level)

Following a period of cautious capital allocation and credit protective actions, which included the cancellation of the dividend in 2023-24, the board of directors has proposed a SEK 2bn dividend to be paid semi-annually in 2025. This dividend represents 41.3% of the profit from property management in 2024, aligning with 2021 levels, but notably lower than the historical average, which has typically been around SEK 4bn. We view this as a reasonable distribution to shareholders, one that was already factored into our financial base case. Overall, the Q4 report appears stable and credit-neutral, with a resilient balance sheet and lower interest rates offsetting a somewhat softer operational performance.

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

Deviation table	Q4/23	Q1/24	Q2/24	Q3/24	Q4/24E	Q4/24	Q4 vs SEB
Rental income	2 331	2 338	2 366	2 344	2 368	2 399	1%
NOI	1 707	1 698	1 692	1 728	1 697	1 729	2%
EBITDA	1 682	1 679	1 654	1 700	1 670	1 702	2%
FFO	1 214	1 070	1 091	1 191	1 071	1 076	1%
FOCF	467	554	428	622	524	727	
Interest expense	-490	-525	-530	-510	-513	-504	-2%
Net interest expense	-436	-468	-486	-468	-471	-463	-2%
Investment properties	174 569	175 455	176 369	177 625	178 053	178 183	0%
Total debt	76 259	76 797	75 641	74 479	75 243	74 767	-1%
Net debt	73 034	73 975	73 313	71 676	72 604	70 889	-2%
Total debt / EBITDA (x)	11,6x	11,5x	11,3x	11,1x	11,3x	11,1x	
Net debt / EBITDA (x)	11,1x	11,1x	10,9x	10,7x	10,9x	10,6x	
EBITDA / net interest (x)	3,8x	3,7x	3,6x	3,6x	3,5x	3,6x	
FFO / net debt (%)	6,4%	6,3%	6,4%	6,4%	6,3%	6,4%	
Gross LTV	43,7%	43,8%	42,9%	41,9%	42,3%	42,0%	
Net LTV	41,8%	42,2%	41,6%	40,4%	40,8%	39,8%	

Property	Q4/23	Q1/24	Q2/24	Q3/24	Q4/24E	Q4/24	DEV
Net acquisitions	0	-692	0	0	-23	-87	
Investments in existing properties	-871	-652	-685	-467	-616	-611	
Property revaluation	-7 390	-458	230	788	-211	-140	
Yield	4,51%	4,54%	4,54%	4,53%	4,54%	4,52%	

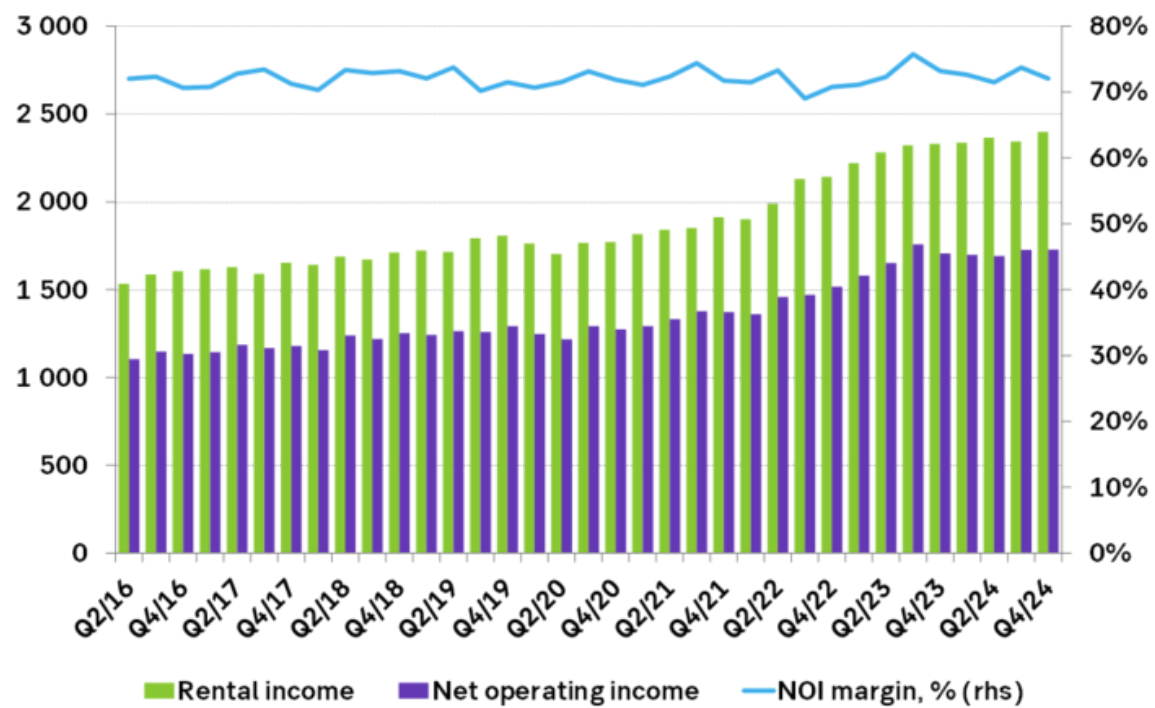
Operating costs	Q4/23	Q1/24	Q2/24	Q3/24	Q4/24E	Q4/24	
Central administration	-25	-19	-38	-28	-28	-27	-2%
Running costs	-236	-243	-231	-200	-251	-248	-1%
Repairs and maintenance	-41	-42	-41	-32	-47	-48	2%
Property administration	-106	-93	-132	-119	-108	-110	2%
Property taxes	-196	-209	-220	-215	-213	-209	-2%
Leasehold rents	-45	-53	-50	-50	-52	-55	5%
Total property costs	-624	-640	-674	-616	-671	-670	0%

Source: Company data, SEB DCM Research estimate

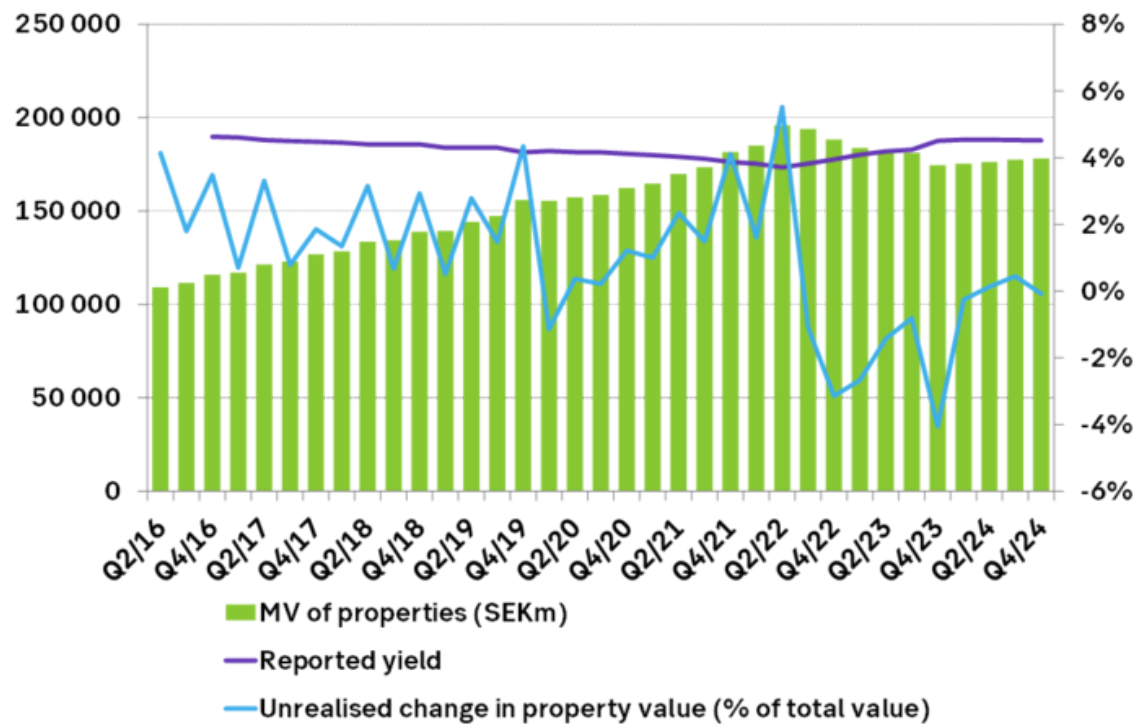
Vasakronan's LTM financial accounts and forecast, SEB DCM Research base case

SEKm	Q1/24	Q2/24	Q3/24	Q4/24	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Rental income	9 274	9 357	9 379	9 447	6 718	7 040	7 006	7 425	8 167	9 157	9 447	9 629	9 764	9 951
NOI	6 815	6 856	6 825	6 847	4 869	5 060	5 032	5 377	5 808	6 697	6 847	6 977	7 075	7 211
EBITDA	6 672	6 713	6 680	6 710	4 942	5 268	4 961	5 461	5 832	6 575	6 710	6 861	6 958	7 092
FFO	4 683	4 670	4 622	4 517	3 761	3 899	3 608	4 090	4 384	4 645	4 517	4 845	4 849	4 956
Y/Y growth in rental income (%)	9%	7%	5%	3%	4%	5%	0%	6%	10%	12%	3%	2%	1%	2%
NOI margin (%)	73%	73%	73%	72%	72%	72%	72%	72%	71%	73.1%	72.5%	72%	72%	72%
EBITDA margin (%)	72%	72%	71%	71%	74%	75%	71%	74%	71%	72%	71%	71%	71%	71%
Interest expense	-1 974	-2 057	-2 055	-2 069	-1 046	-1 135	-1 127	-1 055	-1 238	-1 884	-2 069	-2 070	-2 088	-2 111
Net interest expense	-1 789	-1 843	-1 858	-1 885	-1 043	-1 131	-1 118	-1 051	-1 208	-1 730	-1 885	-1 953	-2 039	-2 066
Hybrid / preferred interest / dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1 967	-2 031	-2 056	-2 093	-1 189	-1 278	-1 276	-1 211	-1 368	-2 103	-2 093	-2 163	-2 252	-2 283
Investment properties	175 455	176 369	177 625	178 183	158 934	156 071	162 420	181 575	188 317	174 569	178 183	182 026	186 574	191 130
Total debt	76 797	75 641	74 479	74 767	61 087	66 638	69 317	73 838	77 425	76 259	74 767	72 755	73 345	75 079
Cash and equivalents	2 822	2 328	2 803	3 878	2 215	3 515	2 558	3 521	2 984	3 225	3 878	2 311	2 250	2 390
Net debt	73 975	73 313	71 676	70 889	58 872	63 123	66 759	70 317	74 441	73 034	70 889	70 444	71 095	72 689
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	80 508	79 844	78 205	78 444	58 872	68 367	71 923	75 475	79 592	79 364	78 444	77 999	78 650	80 244
Secured debt	11 131	11 130	11 130	11 138	12 907	11 603	10 971	7 866	11 131	11 131	11 138	11 200	11 200	11 200
Equity	79 646	80 331	81 550	82 701	60 271	70 156	70 869	85 290	89 767	78 902	82 701	85 782	88 355	89 981
Adjusted equity	79 646	80 331	81 550	82 701	60 271	70 156	70 869	85 290	89 767	78 902	82 701	85 782	88 355	89 981
Net debt+equity	153 621	153 644	153 226	153 590	119 143	133 279	137 628	155 607	164 208	151 936	153 590	156 227	159 451	162 670
Credit metrics	Q1/24	Q2/24	Q3/24	Q4/24	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Total debt / EBITDA (x)	11.5x	11.5x	11.1x	11.1x	12.4x	12.6x	14.0x	13.5x	13.5x	11.6x	11.1x	10.6x	10.5x	10.6x
Net debt / EBITDA (x)	11.1x	10.9x	10.7x	10.6x	11.9x	12.0x	13.5x	12.9x	12.8x	11.1x	10.6x	10.3x	10.2x	10.2x
Adjusted debt / EBITDA (x)	11.8x	11.6x	11.4x	11.3x	11.6x	12.6x	14.1x	13.4x	13.3x	11.4x	11.3x	11.0x	11.0x	11.0x
EBITDA / interest (x)	3.4x	3.3x	3.3x	3.2x	4.7x	4.6x	4.4x	5.2x	4.7x	3.5x	3.2x	3.3x	3.3x	3.4x
EBITDA / net interest (x)	3.7x	3.6x	3.6x	3.6x	4.7x	4.7x	4.4x	5.2x	4.8x	3.8x	3.6x	3.5x	3.4x	3.4x
EBITDA / adjusted interest (x)	3.5x	3.4x	3.3x	3.3x	4.3x	4.2x	4.0x	4.6x	4.4x	3.3x	3.3x	3.3x	3.2x	3.2x
Fixed charge coverage (x)	0.4x	0.4x	0.4x	0.4x	0.3x	0.4x	0.3x	0.4x	0.5x	0.5x	0.4x	3.5x	3.4x	3.4x
FFO / total debt (%)	6.1%	6.2%	6.2%	6.0%	6.2%	5.9%	5.2%	5.5%	5.7%	6.1%	6.0%	6.7%	6.6%	6.6%
FFO / net debt (%)	6.3%	6.4%	6.4%	6.4%	6.4%	6.2%	5.4%	5.8%	5.9%	6.4%	6.4%	6.9%	6.8%	6.8%
FFO / adjusted debt (%)	6.0%	6.1%	6.2%	6.0%	6.0%	5.9%	5.2%	5.6%	5.7%	6.3%	6.0%	6.5%	6.4%	6.4%
Gross LTV	43.8%	42.9%	41.9%	42.0%	44.0%	42.7%	42.7%	40.7%	41.1%	43.7%	42.0%	40.0%	39.3%	39.3%
Net LTV	42.2%	41.6%	40.4%	39.8%	42.4%	40.4%	41.1%	38.7%	39.5%	41.8%	39.8%	38.7%	38.1%	38.0%
Adjusted LTV	44.2%	43.7%	42.5%	42.2%	42.4%	42.4%	42.9%	40.4%	41.1%	43.9%	42.2%	41.1%	40.5%	40.4%
Net debt / debt+equity	48.2%	47.7%	46.8%	46.2%	49.4%	47.4%	48.5%	45.2%	45.3%	48.1%	46.2%	45.1%	44.6%	44.7%
Adjusted debt / debt+equity	52.4%	52.0%	51.0%	51.1%	49.4%	51.3%	52.3%	48.5%	48.5%	52.2%	51.1%	49.9%	49.3%	49.3%
Secured LTV	6.3%	6.3%	6.3%	6.3%	9.3%	7.4%	6.8%	4.3%	5.9%	6.4%	6.3%	6.2%	6.0%	5.9%
Equity ratio	40.4%	40.8%	41.5%	41.6%	41.5%	41.2%	40.2%	43.5%	43.0%	40.5%	41.6%	42.6%	43.0%	42.8%

Source: Company data, SEB DCM Research estimate

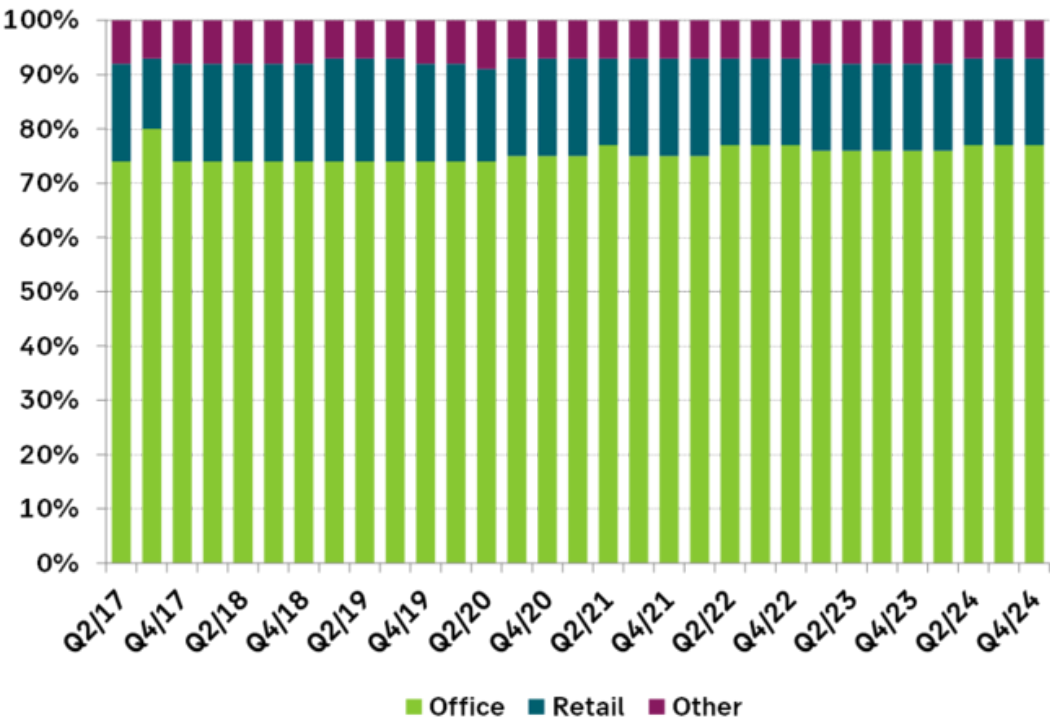
Quarterly rental income and NOI (SEKm)

Source: Company reports, SEB

Property portfolio statistics (SEKm)

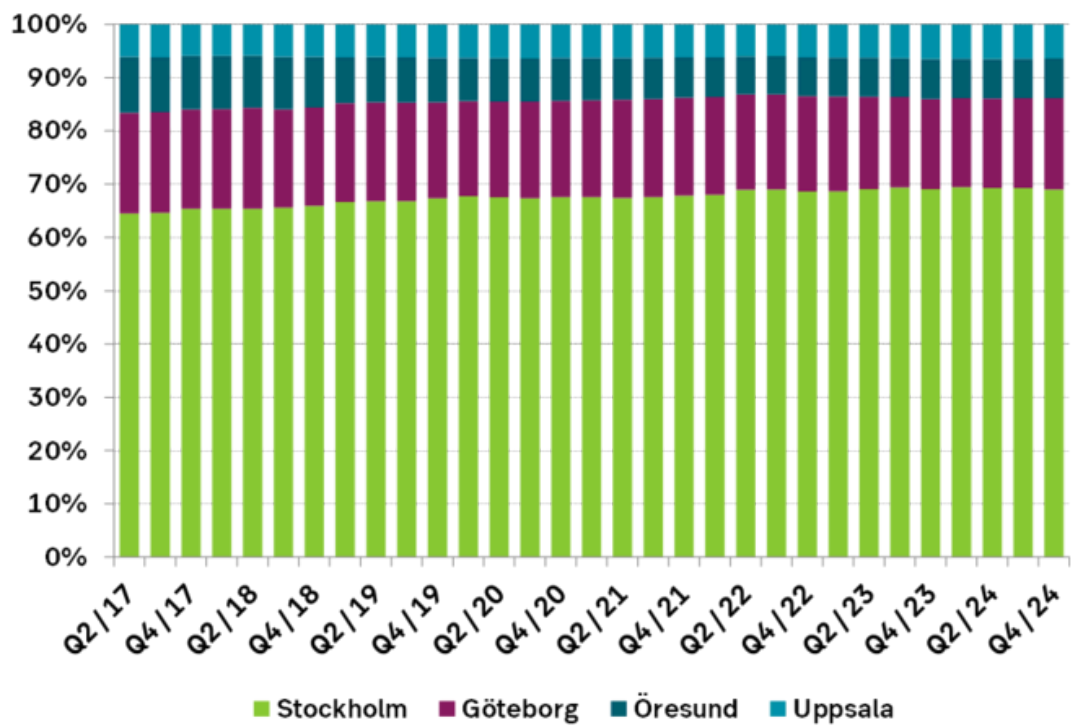
Source: Company reports, SEB

Property portfolio composition by property type (%)



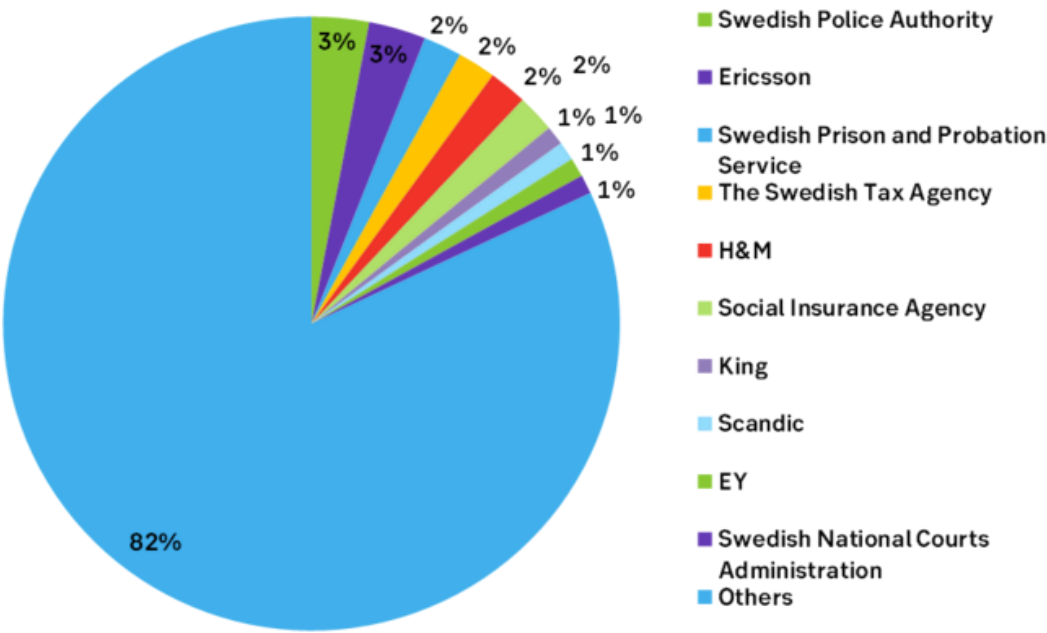
Source: Company reports

Property portfolio composition by region (%)



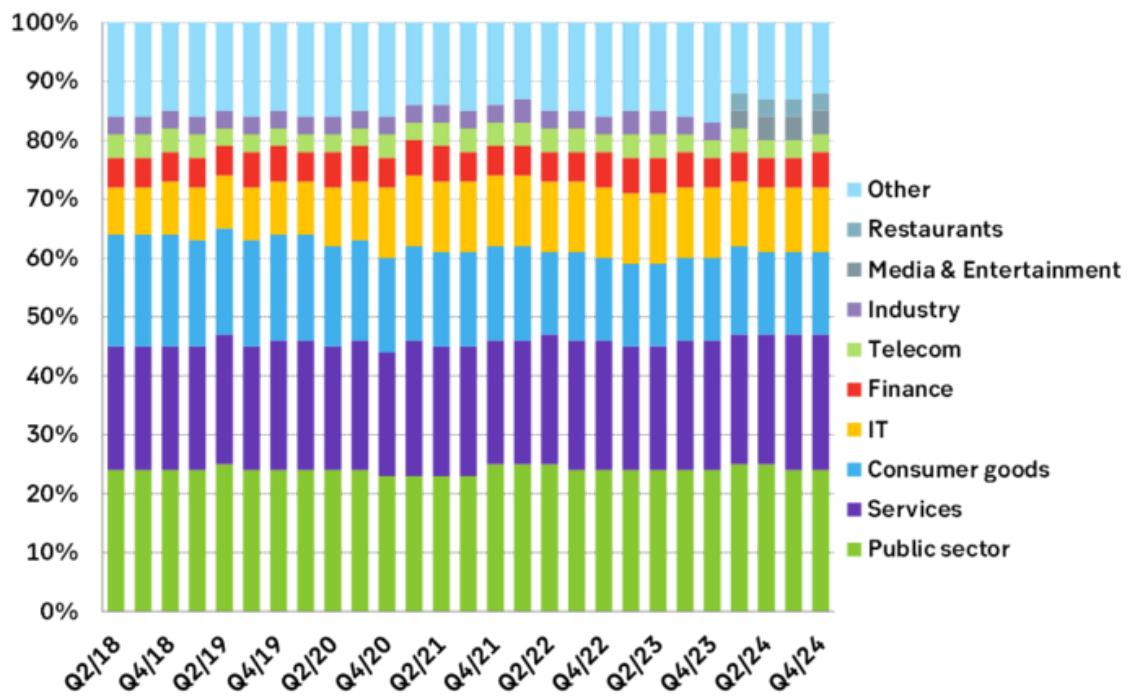
Source: Company reports

Tenant composition per end-Q4/24 (%)



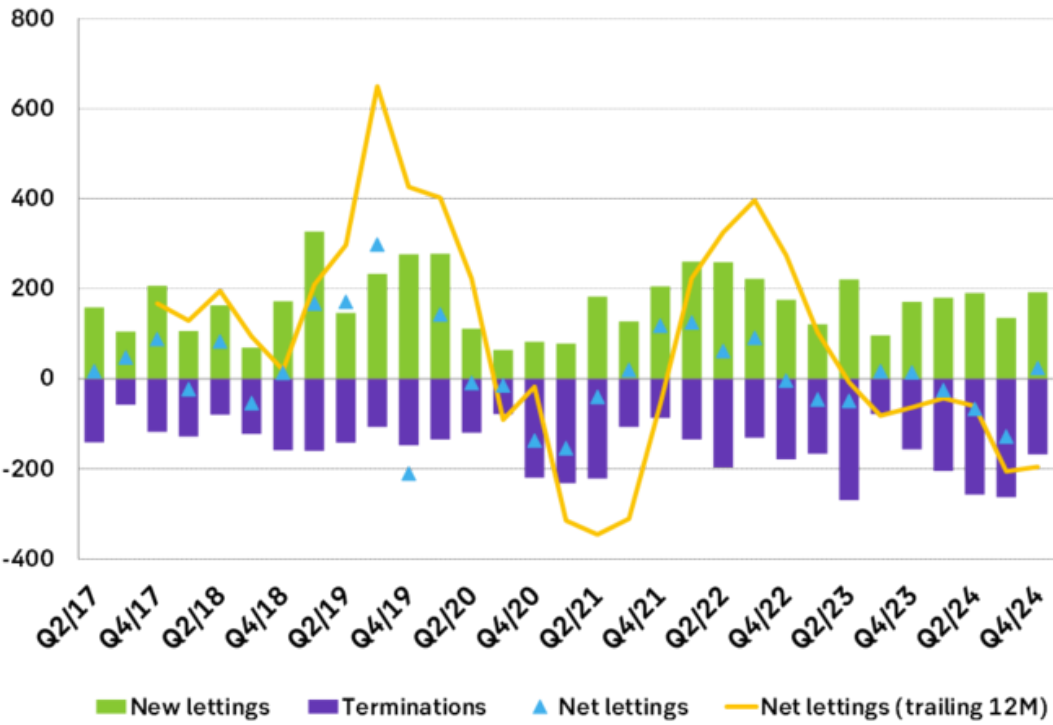
Source: Company reports

Breakdown of tenant by sector, % of contracted rent

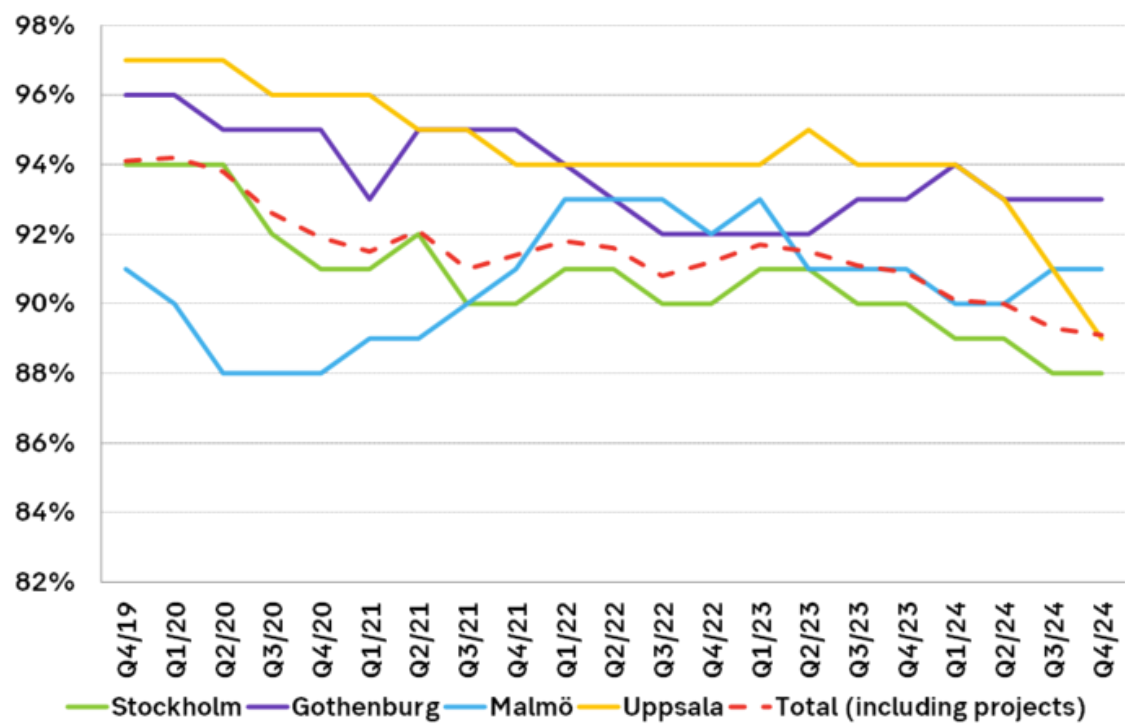


Source: Company reports

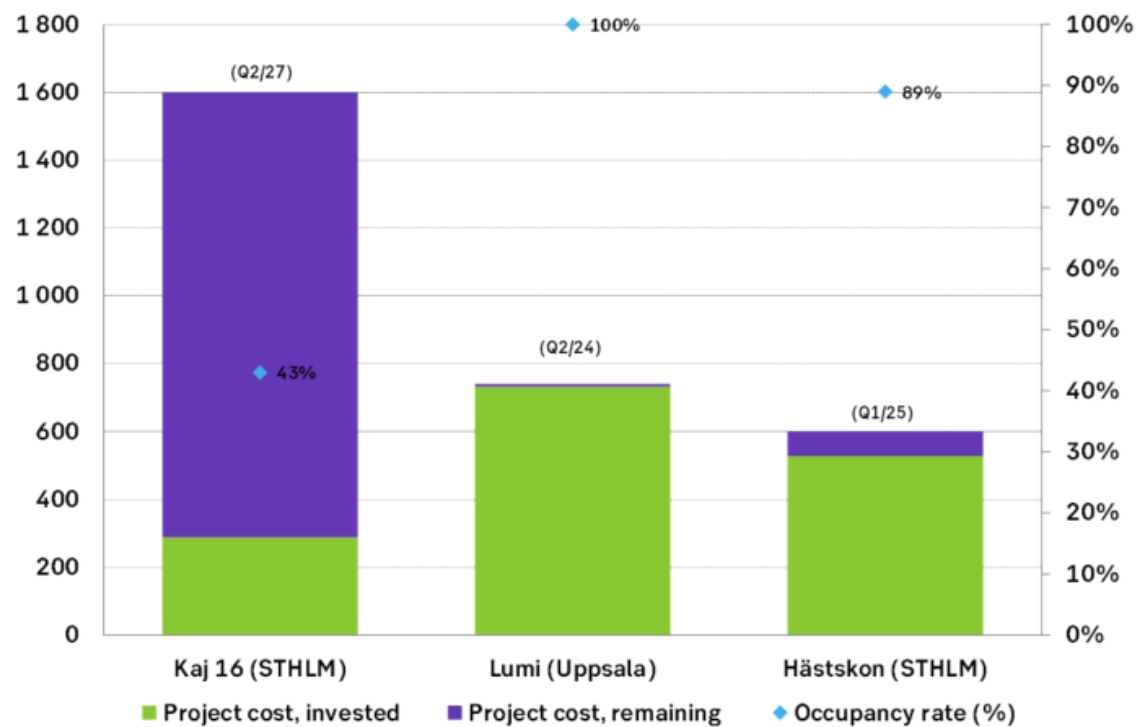
Historical evolution of net leasing per quarter (SEKm)



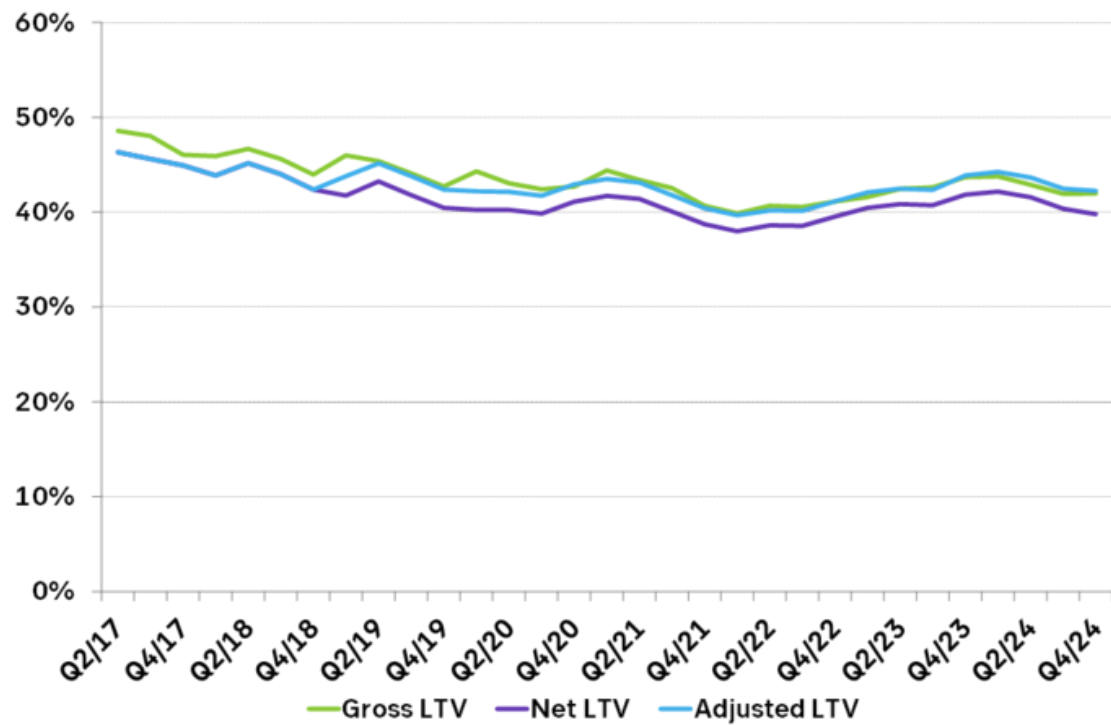
Source: Company reports, SEB

Overview of Vasakronan's major projects ongoing per end-Q4/24 (SEKm)

Source: Company reports

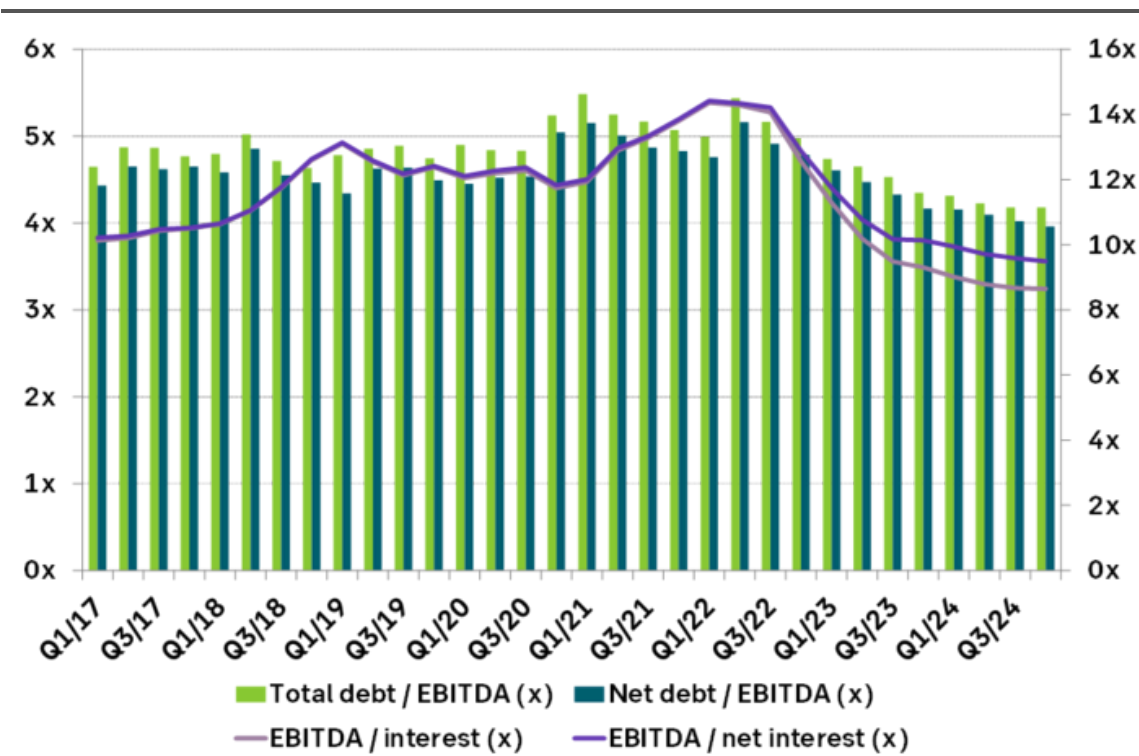
Overview of Vasakronan's major projects ongoing per end-Q4/24 (SEKm)

Source: Company reports

LTV (%)

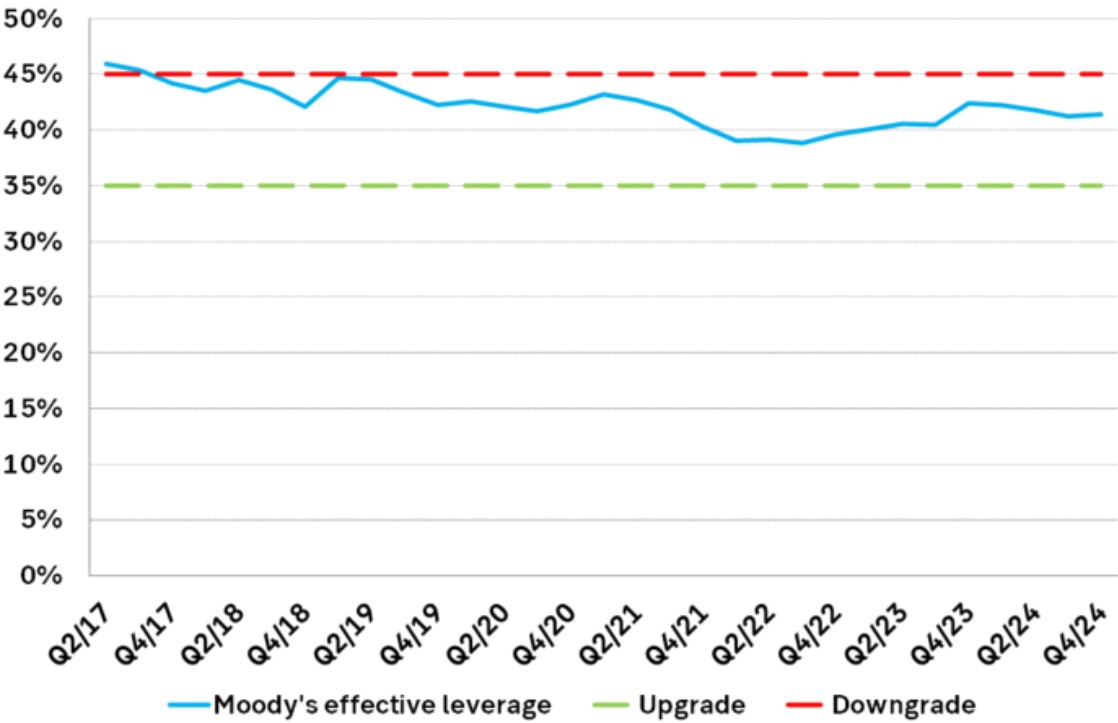
Source: Company reports, SEB

LTM leverage and interest coverage (x)



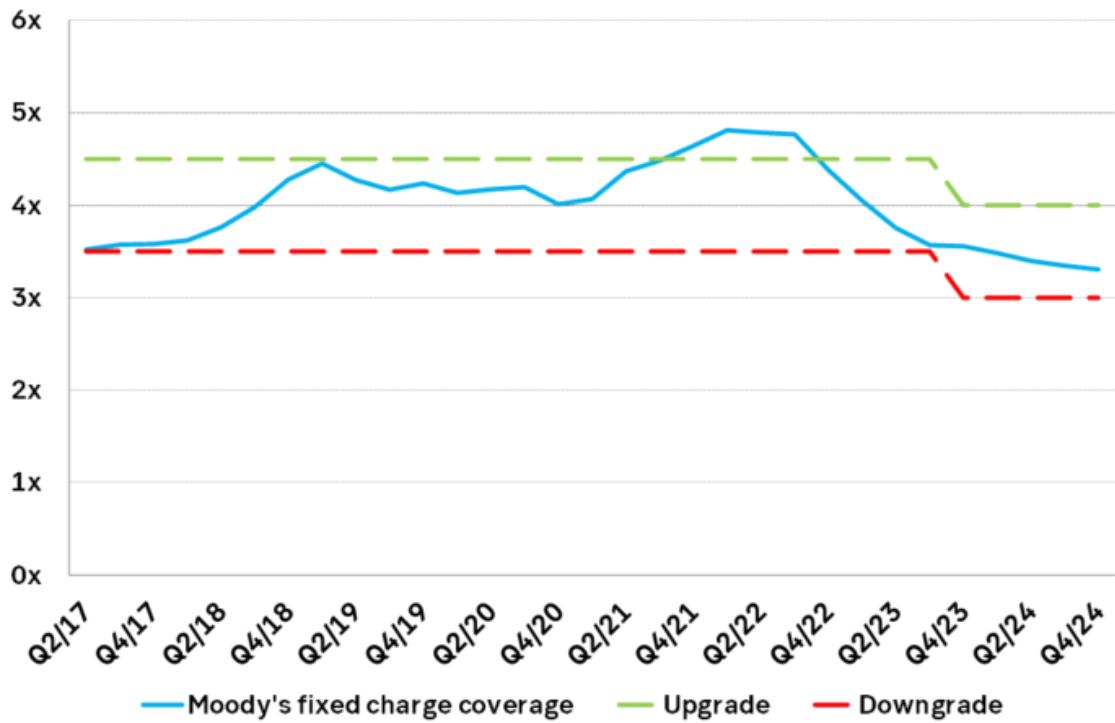
Source: Company reports, SEB

Moody's effective leverage and rating triggers



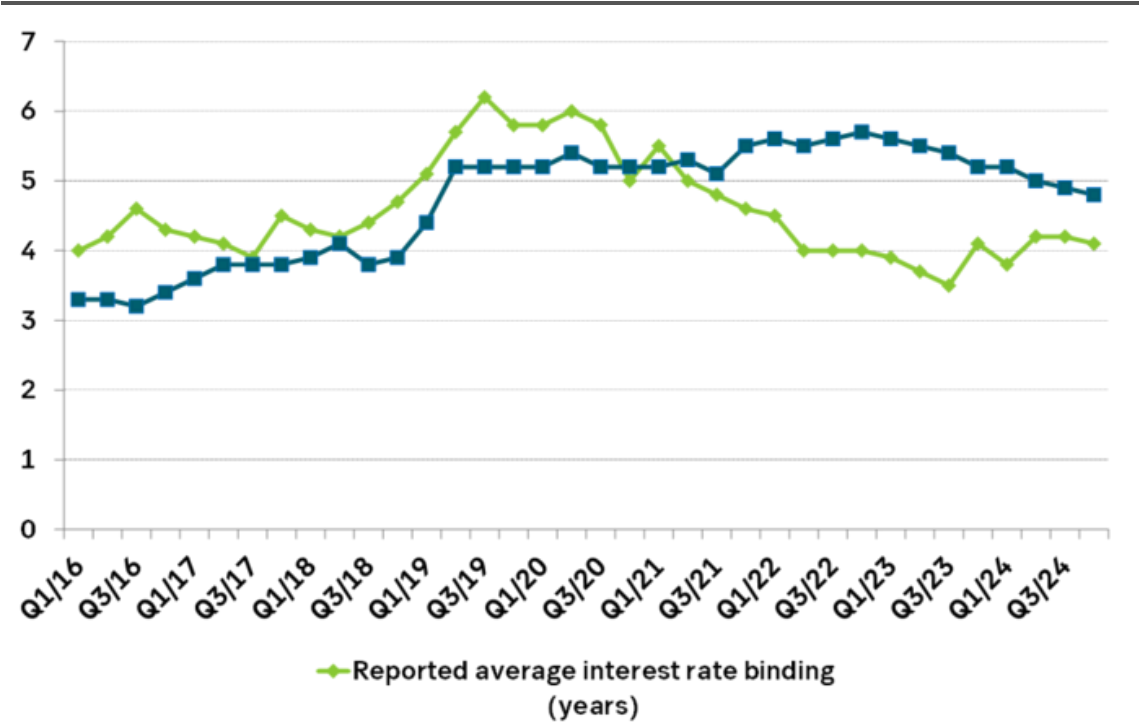
Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers

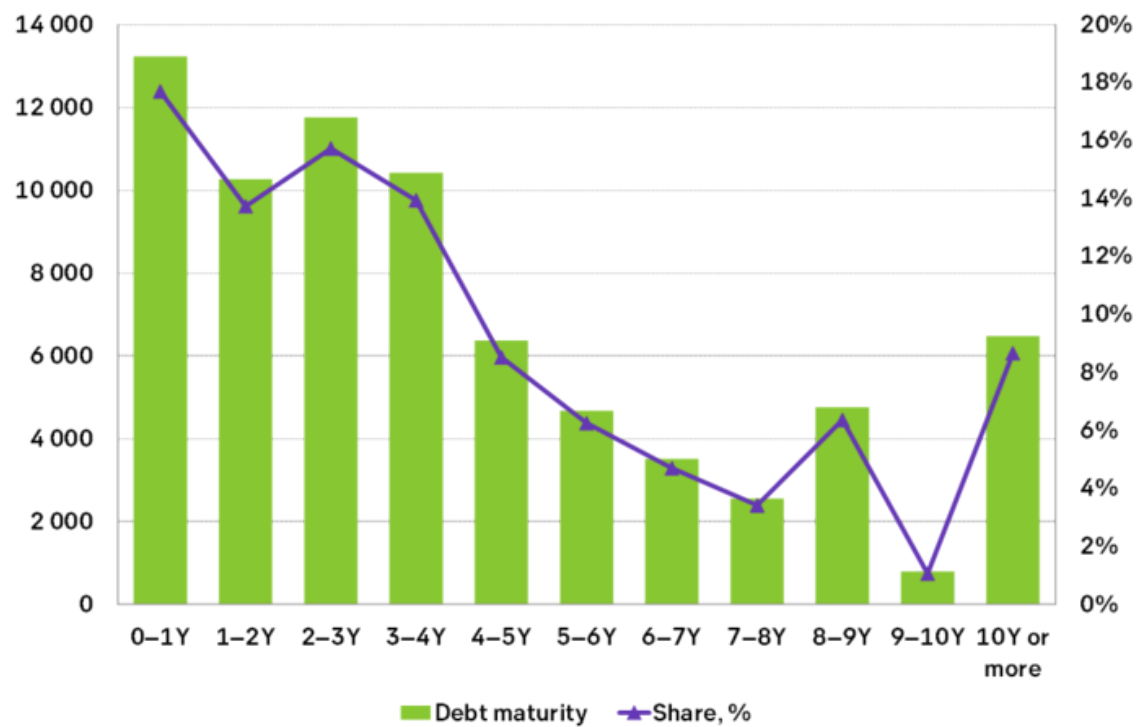


Source: SEB, Moody's

Capital and interest binding (years)

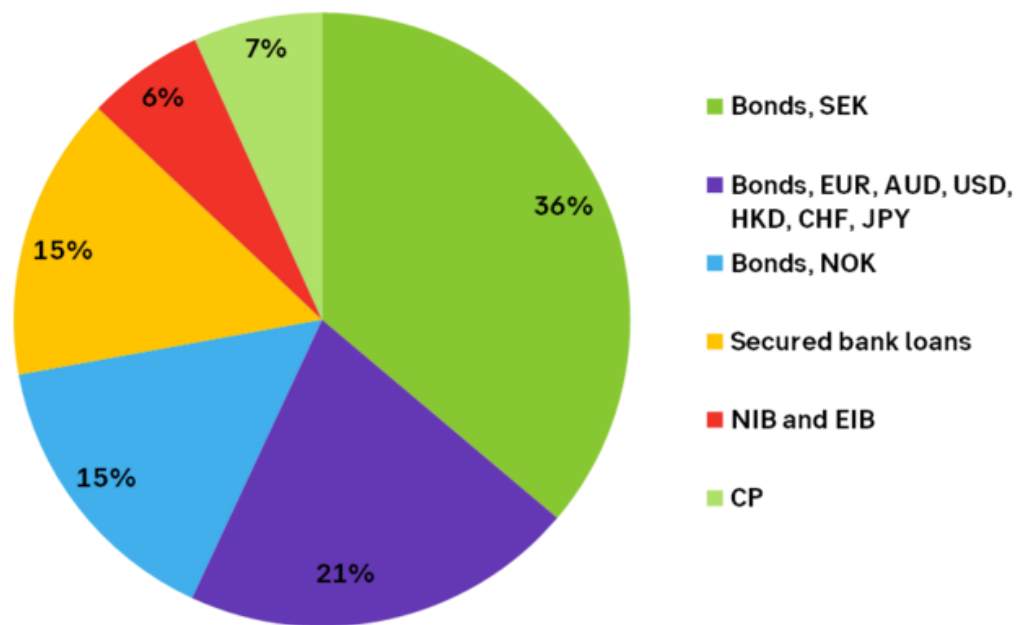


Source: Company reports

Debt maturity profile per end-Q4/24 (SEKm)

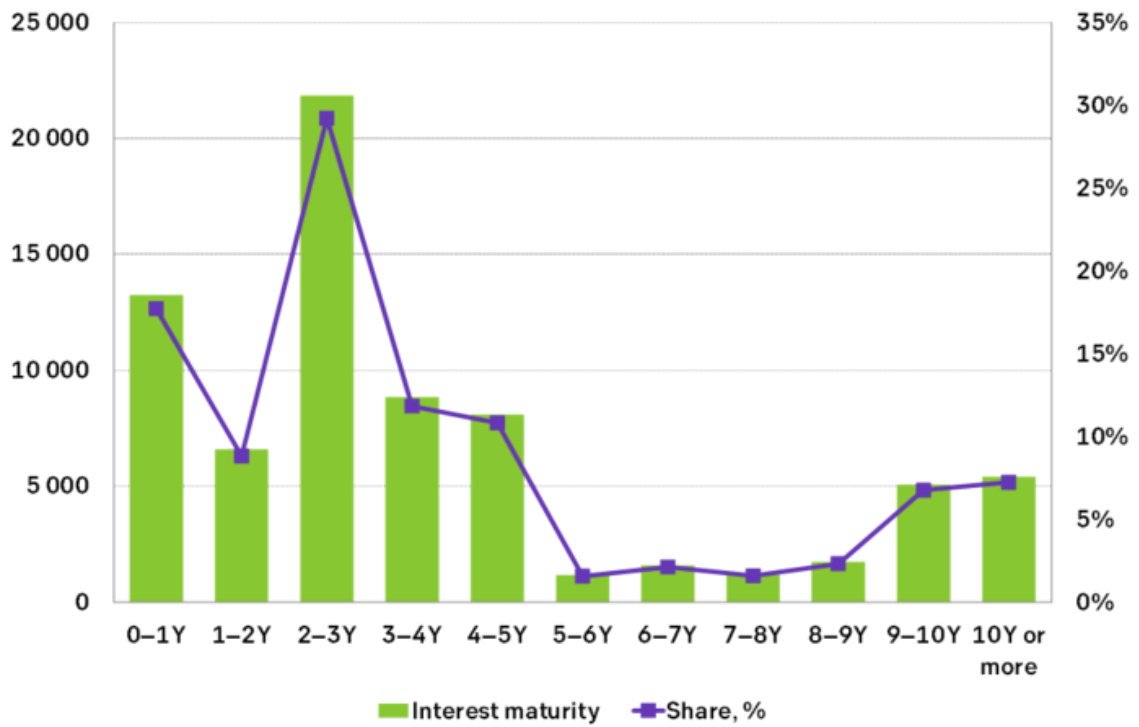
Source: Company reports

Distribution of funding sources per end-Q4/24 (%)



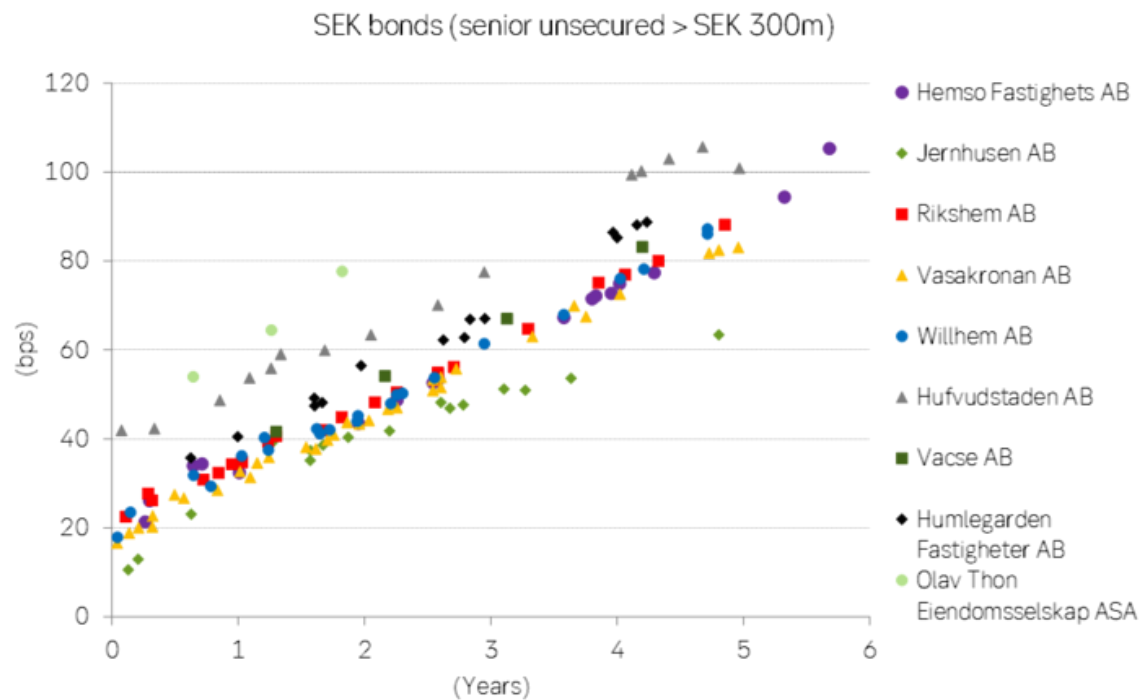
Source: Company reports

Interest maturity profile per end-Q4/24 (SEKm)



Source: Company reports

Relative value, selective SEK bonds



Source: Bloomberg, 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.