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DCM Research

Vasakronan

Property



Q1: Stable values and financials balance a softer rental market

Vasakronan's property valuations and key credit metrics remained relatively stable sequentially in the first quarter. Despite higher financial expenses, the company managed to improve its profit from property management by 5% y/y. However, the vacancy and net lettings development were on the softer side. Overall, a credit-neutral Q1 report.

Q1: Stable valuations and NOI development, but softer on vacancy and net lettings

Vasakronan's rental income and NOI increased by 5% and 7% y/y in Q1, mainly attributable to CPI-indexation and occupancy in completed projects. About two-thirds of Vasakronan's portfolio has quarterly indexation, while the remaining portion has annual indexation. Profitability margins remained healthy, including a 12-month NOI margin of 73% (71% a year ago) and EBITDA margin of 72% (71%). Nevertheless, net lettings were negative in Q1 at SEK -25m (SEK -43m LTM) while the vacancy increased somewhat. The economic occupancy rate decreased 0.8% q/q and stood at 90.1% at end-Q1 (of which 0.6% of the vacancy is attributable to projects). At the same date, Vasakronan's occupancy rate was 88.8% among offices (90.1% a quarter earlier) and 95.2% among retail (95.6%). Looking at renegotiations' lettings during Q1, it took place 2% above index compared to previous rent payable. The rental market is softer in general due to current conditions and the office

market remains polarised (greater tenant demand for high-quality and central premises). Unrealised value changes amounted to SEK -458m in Q1, corresponding to a smaller 0.3% value decline. Vasakronan's yield requirement has increased by about 83bps in the last seven quarters (unrealised value changes are down 13.5%). The average yield requirement increased 3bps q/q to 4.54% as of end-March 2024.

Relatively stable credit metrics despite a bit higher quarterly net investment volume

The company managed to maintain moderately stable key financial metrics despite a tad higher net investment volume than previously quarters (SEK 1,344m in Q1). Investments in the existing portfolio/projects amounted to SEK 652m while SEK 692m related to Vasakronan's first acquisition since 2019 (Uggleborg 14/Sthlm HUB). Looking at 12-month earnings metrics, ND/EBITDA remained unchanged q/q at 11.1x, meanwhile the net ICR declined 0.1x q/q to 3.7x, according to our calculations. Looking at the net LTV, it marginally increased from 41.8% to 42.2% (supported by more stable property values this quarter). The company's average interest rate increased 0.1% q/q to 2.8% per end-Q1. At the same date, the average debt maturity profile and fixed interest period were 5.2 and 3.7 years, respectively. Despite upwards pressure on financial expenses, Vasakronan managed to increase its profit from property management by 5% in Q1.

Credit neutral - stable financials balancing a somewhat softer rental market

Vasakronan's stable financial position, with healthy metrics maintained and no dividend distribution for financial year 2023 are mostly balancing the somewhat softer rental market and a bit higher vacancy (not least among offices). As we stated before, Vasakronan's A3/Stable rating was affirmed by Moody's during last quarter, where lower ICR thresholds were introduced. As of end-Q1 2024, we calculate an effective leverage of 42.2% (35-45% required) and fixed-charge coverage of 3.6x (3.0x-4.0x) according to Moody's definitions. We view today's report as credit neutral as such.

Deviation between actual Q1 results and SEB DCM Research estimates (SEKm)

Deviation table	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24E	Q1/24	Q1 vs SEB
Rental income	2,221	2,283	2,322	2,331	2,374	2,338	-2%
NOI	1,580	1,651	1,759	1,707	1,711	1,698	-1%
EBITDA	1,557	1,614	1,733	1,682	1,686	1,679	0%
FFO	1,083	1,010	1,271	1,214	1,190	1,070	-10%
FOCF	427	122	695	467	592	554	
Interest expense	-435	-467	-492	-490	-530	-525	-1%
Net interest expense	-409	-432	-453	-436	-497	-468	-6%
Investment properties	183,809	181,926	181,088	174,569	174,747	175,455	0%
Total debt	76,447	77,230	77,142	76,259	76,388	76,797	1%
Net debt	74,358	74,288	73,738	73,034	73,157	73,975	1%
Total debt / EBITDA (x)	12.6x	12.4x	12.1x	11.6x	11.4x	11.5x	
Net debt / EBITDA (x)	12.3x	11.9x	11.5x	11.1x	10.9x	11.1x	
EBITDA / net interest (x)	4.4x	4.0x	3.8x	3.8x	3.7x	3.7x	
FFO / net debt (%)	6.0%	6.0%	6.1%	6.4%	6.5%	6.3%	
Gross LTV	41.6%	42.5%	42.6%	43.7%	43.7%	43.8%	
Net LTV	40.5%	40.8%	40.7%	41.8%	41.9%	42.2%	

Property	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24E	Q1/24	DEV
Net acquisitions	0	0	0	0	-715	-692	
Investments in existing properties	-540	-748	-643	-871	-598	-652	
Property revaluation	-5,048	-2,631	-1,481	-7,390	-1,135	-458	
Yield	4.09%	4.19%	4.24%	4.51%	4.57%	4.54%	

Operating costs	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24E	Q1/24	
Central administration	-23	-37	-26	-25	-25	-19	-23%
Running costs	-249	-223	-190	-236	-261	-243	-7%
Repairs and maintenance	-36	-31	-29	-41	-38	-42	9%
Property administration	-107	-131	-96	-106	-106	-93	-12%
Property taxes	-209	-207	-208	-196	-211	-209	-1%
Leasehold rents	-40	-40	-40	-45	-46	-53	14%
Total property costs	-641	-632	-563	-624	-663	-640	-3%

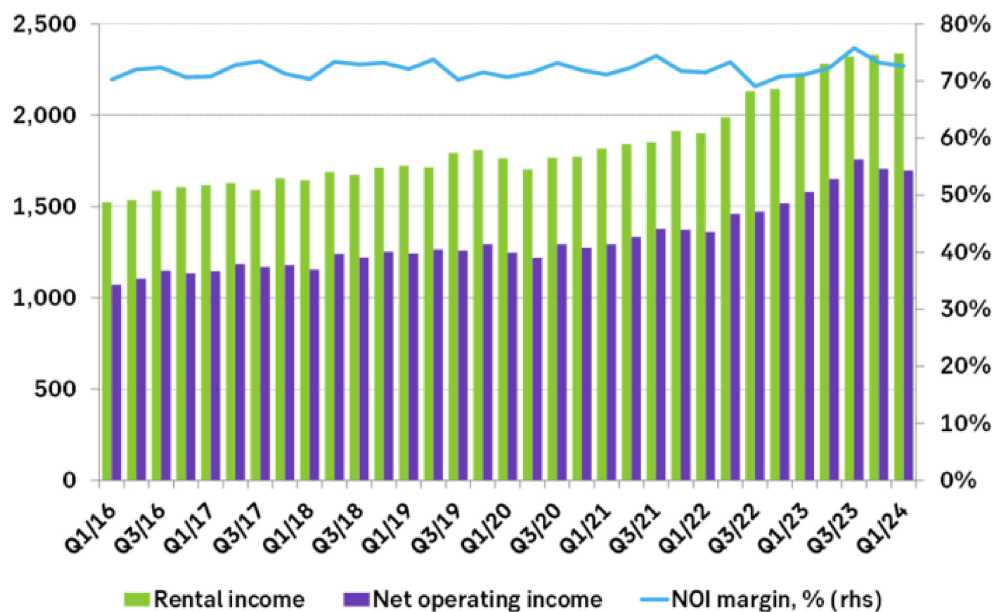
Source: Company data, SEB DCM Research estimate

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

SEKs	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Rental income	8,486	8,779	8,969	9,157	9,274	6,718	7,040	7,006	7,425	8,167	9,157	9,719	9,984	10,194
NOI	6,028	6,220	6,507	6,697	6,815	4,869	5,060	5,032	5,377	5,808	6,697	7,095	7,299	7,452
EBITDA	6,050	6,223	6,387	6,575	6,672	4,942	5,268	4,961	5,461	5,832	6,575	6,991	7,191	7,342
FFO	4,436	4,444	4,472	4,645	4,683	3,761	3,899	3,608	4,090	4,384	4,665	4,892	5,075	5,165
Y/Y growth in rental income (%)	13%	15%	13%	12%	9%	4%	5%	0%	6%	10%	12%	6%	3%	2%
NOI margin (%)	71%	71%	73%	73%	73%	72%	72%	72%	72%	71%	73%	73%	73%	73%
EBITDA margin (%)	71%	71%	71%	72%	72%	74%	75%	71%	74%	71%	72%	72%	72%	72%
Interest expense	-1,429	-1,630	-1,795	-1,884	-1,974	-1,046	-1,135	-1,127	-1,055	-1,238	-1,884	-2,207	-2,190	-2,195
Net interest expense	-1,374	-1,541	-1,675	-1,730	-1,789	-1,043	-1,131	-1,118	-1,081	-1,208	-1,730	-2,078	-2,045	-2,110
Hybrid / preferred interest/dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted interest expense	-1,374	-1,541	-1,675	-1,730	-1,789	-1,043	-1,131	-1,118	-1,081	-1,208	-1,730	-2,078	-2,045	-2,110
Investment properties	183,809	181,926	181,088	174,569	175,455	138,934	150,071	162,420	181,575	188,317	174,569	174,569	179,065	182,587
Total debt	76,447	77,230	77,142	76,259	76,797	61,087	66,638	69,317	73,838	77,425	76,259	75,785	73,111	72,000
Cash and equivalents	2,089	2,942	3,404	3,225	2,822	2,215	3,515	2,558	3,521	2,984	3,225	4,541	2,830	1,871
Net debt	74,358	74,288	73,738	73,034	73,975	58,872	63,123	66,759	70,317	74,441	73,034	71,244	70,281	70,129
Hybrid / preferred debt / capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted debt	79,508	79,436	78,899	79,364	80,508	58,872	68,367	71,923	75,475	79,592	79,364	77,874	76,611	76,489
Secured debt	11,131	11,131	11,131	11,131	11,131	12,907	11,603	10,971	7,866	11,131	11,131	11,785	13,111	11,000
Equity	86,458	85,205	84,558	78,902	79,646	60,271	70,156	70,869	85,290	89,767	78,902	80,559	84,286	86,658
Adjusted equity	86,458	85,205	84,558	78,902	79,646	60,271	70,156	70,869	85,290	89,767	78,902	80,559	84,286	86,658
Net debt+equity	160,816	159,493	158,296	151,936	153,621	119,143	133,279	137,628	155,607	164,208	151,936	151,803	154,568	156,797
Credit metrics	Q1/23	Q2/23	Q3/23	Q4/23	Q1/24	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Total debt / EBITDA (x)	12.6x	12.4x	12.1x	11.6x	11.5x	12.4x	12.6x	14.0x	13.5x	13.3x	11.6x	10.8x	10.2x	9.8x
Net debt / EBITDA (x)	12.3x	11.9x	11.5x	11.1x	11.1x	11.9x	12.0x	13.5x	12.9x	12.8x	11.1x	10.2x	9.8x	9.6x
Adjusted debt / EBITDA (x)	12.8x	12.4x	12.1x	11.8x	11.8x	11.6x	12.6x	14.1x	13.4x	13.3x	11.5x	10.8x	10.4x	10.1x
EBITDA / interest (x)	4.2x	3.8x	3.6x	3.5x	3.4x	4.7x	4.6x	4.4x	5.2x	4.7x	3.5x	3.2x	3.3x	3.3x
EBITDA / net interest (x)	4.4x	4.0x	3.8x	3.8x	3.7x	4.7x	4.7x	4.4x	5.2x	4.8x	3.8x	3.4x	3.5x	3.5x
EBITDA / adjusted interest (x)	4.0x	3.8x	3.6x	3.6x	3.5x	4.3x	4.2x	4.0x	4.6x	4.4x	3.3x	3.2x	3.3x	3.3x
Fixed charge coverage (x)	0.4x	0.5x	0.4x	0.5x	0.4x	0.3x	0.4x	0.3x	0.4x	0.5x	0.5x	0.4x	0.5x	0.5x
FFO / total debt (%)	5.8%	5.8%	5.8%	6.1%	6.1%	6.2%	5.9%	5.2%	5.5%	5.7%	6.1%	6.5%	6.9%	7.2%
FFO / net debt (%)	6.0%	6.0%	6.1%	6.4%	6.3%	6.4%	6.2%	5.4%	5.8%	5.9%	6.4%	6.9%	7.2%	7.4%
FFO / adjusted debt (%)	5.8%	5.8%	5.9%	6.1%	6.0%	6.6%	5.9%	5.2%	5.6%	5.7%	6.3%	6.8%	6.9%	7.0%
Gross LTV	41.6%	42.5%	42.6%	43.7%	43.8%	44.0%	42.7%	42.7%	40.7%	41.1%	43.7%	43.3%	40.8%	39.4%
Net LTV	40.5%	40.8%	40.7%	41.8%	42.2%	42.4%	40.4%	41.1%	38.7%	39.8%	41.8%	40.7%	39.2%	38.4%
Adjusted LTV	42.1%	42.5%	42.4%	43.9%	44.2%	42.4%	42.4%	42.9%	40.4%	41.1%	43.9%	42.8%	41.3%	40.5%
Net debt / debt+equity	46.2%	46.6%	46.6%	48.1%	48.2%	49.4%	47.4%	48.5%	45.2%	45.3%	48.1%	46.9%	45.5%	44.7%
Adjusted debt / debt+equity	49.4%	49.8%	49.8%	52.2%	52.4%	49.4%	51.3%	52.3%	48.5%	48.5%	52.2%	51.1%	49.6%	48.8%
Secured LTV	6.1%	6.1%	6.1%	6.4%	6.3%	9.3%	7.4%	6.8%	4.3%	5.0%	6.4%	6.7%	7.3%	6.0%
Equity ratio	42.4%	41.9%	41.6%	40.5%	40.4%	41.5%	41.2%	40.2%	43.5%	43.0%	40.5%	41.0%	42.4%	43.0%

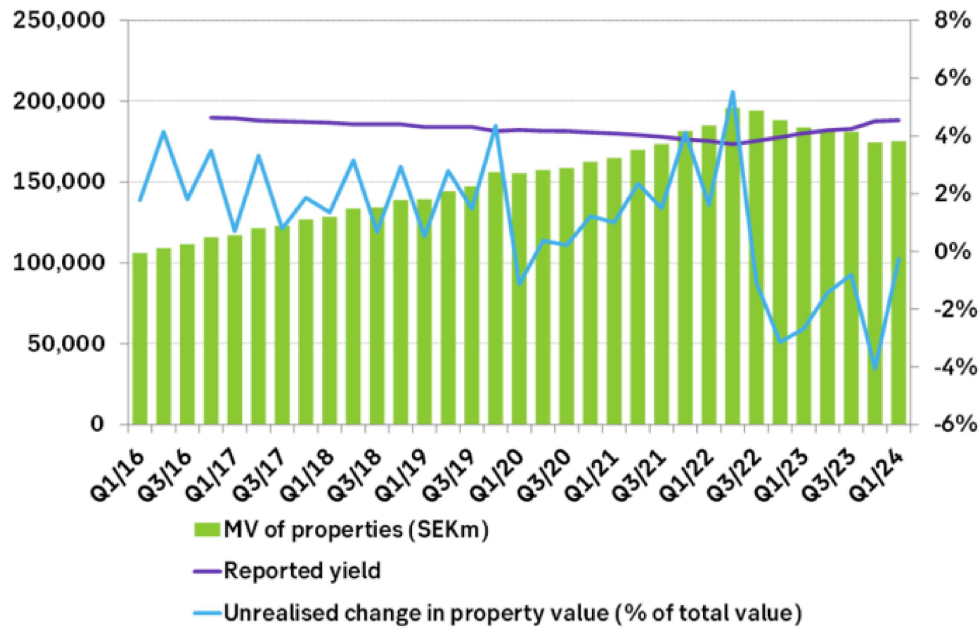
Source: Company data, SEB DCM Research estimate

Quarterly rental income and NOI (SEKm)



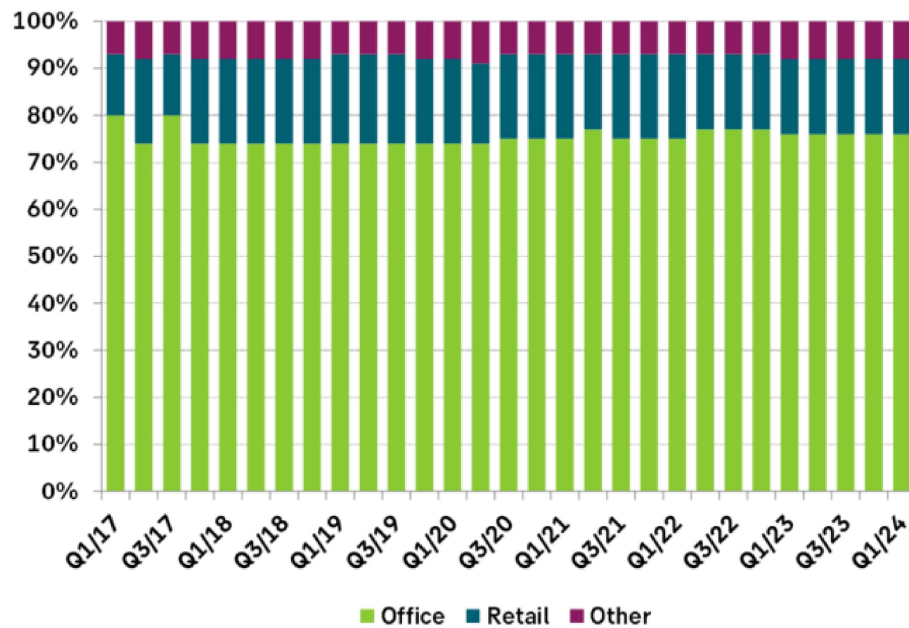
Source: Company reports, SEB

Property portfolio statistics (SEKm)



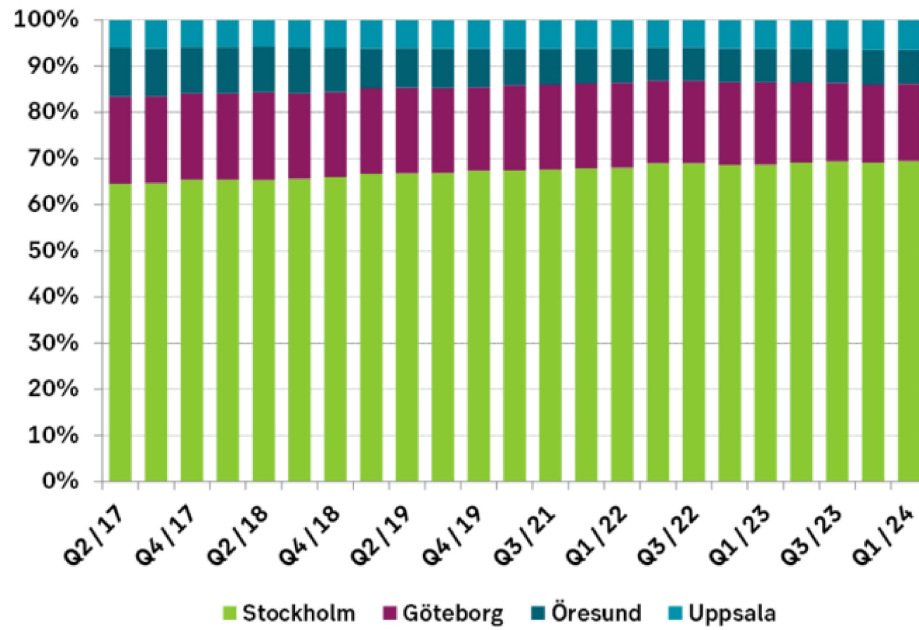
Source: Company reports, SEB

Property portfolio composition by property type (%)



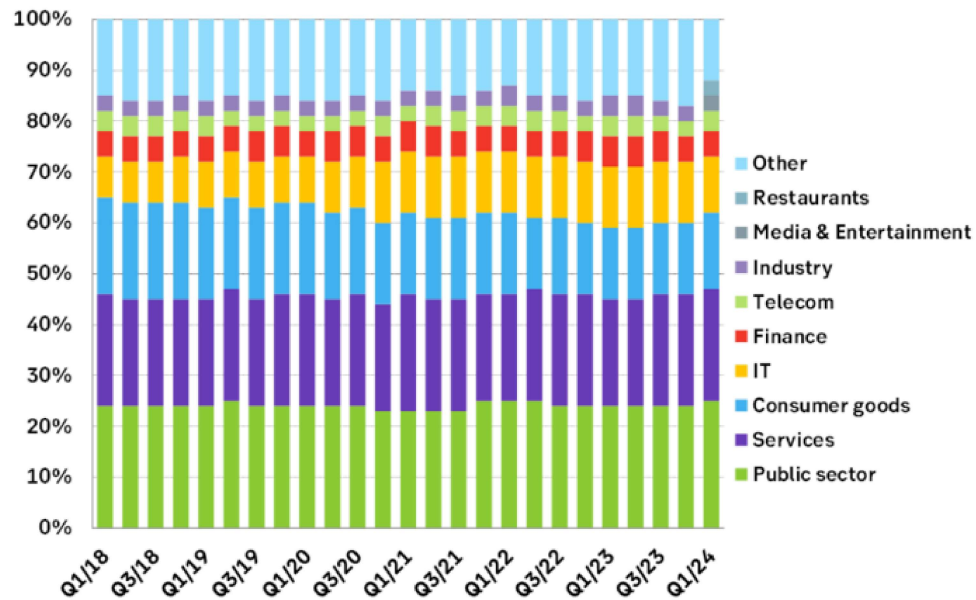
Source: Company reports

Property portfolio composition by region (%)



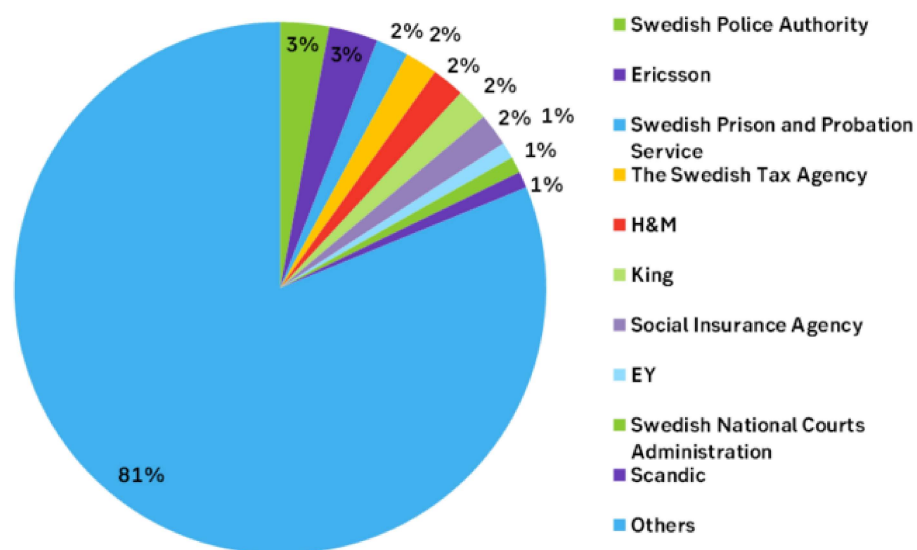
Source: Company reports

Breakdown of tenant by sector, % of contracted rent



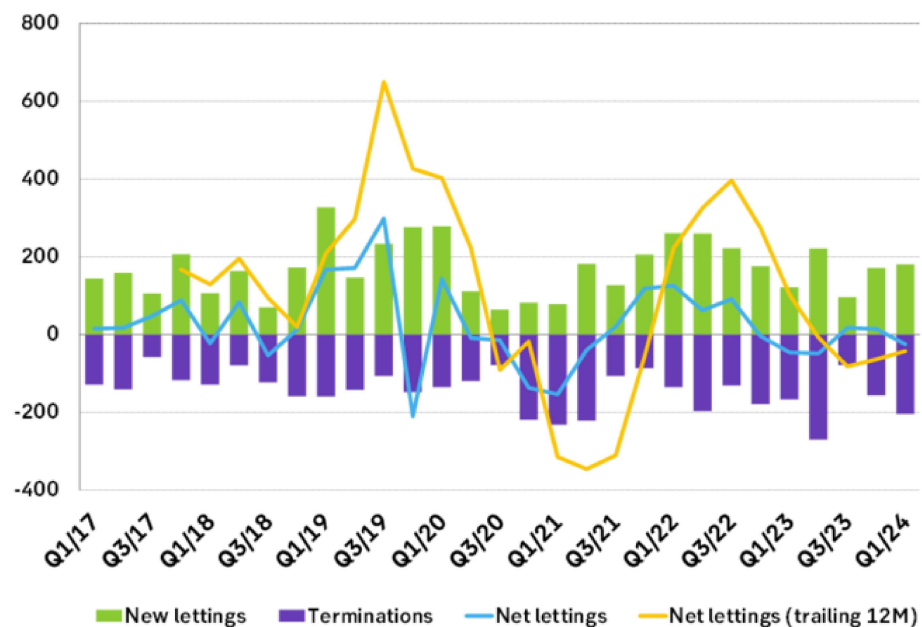
Source: Company reports

Tenant composition per end-Q1/24 (%)



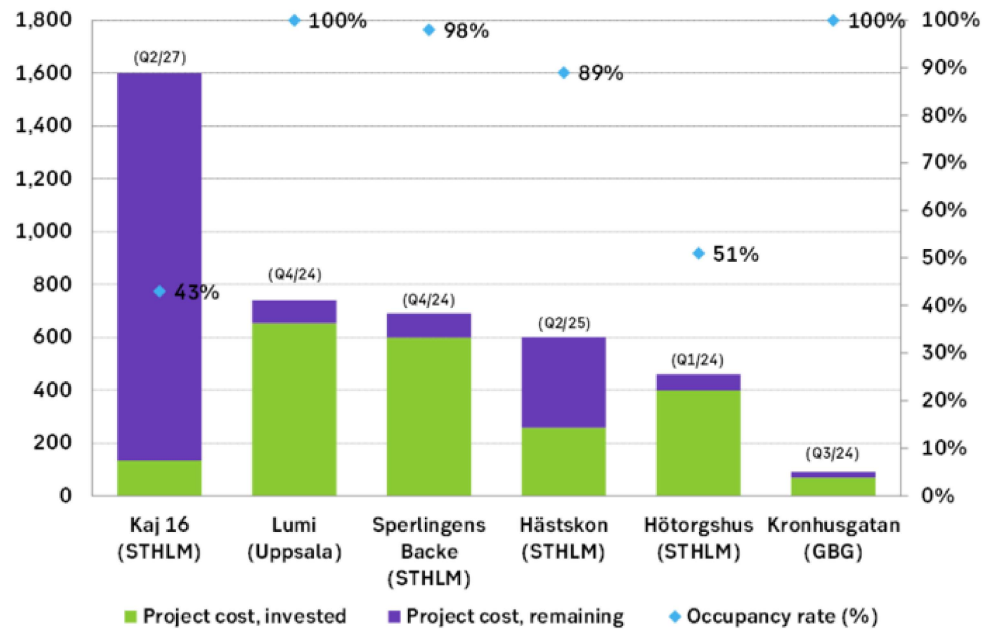
Source: Company report

Historical evolution of net leasing per quarter (SEKm)



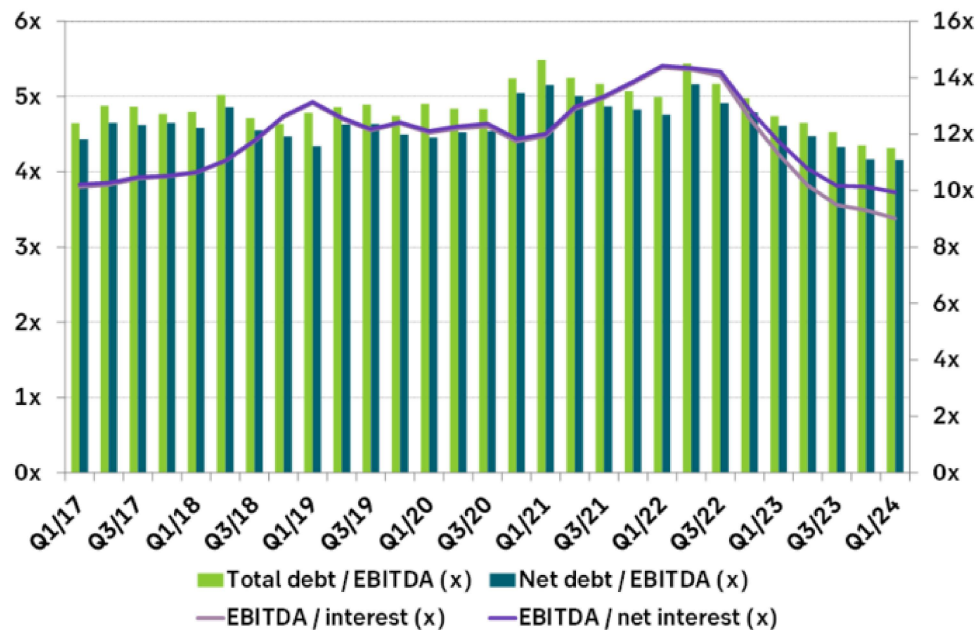
Source: Company reports, SEB

Overview of Vasakronan's major projects ongoing per end-Q1/23



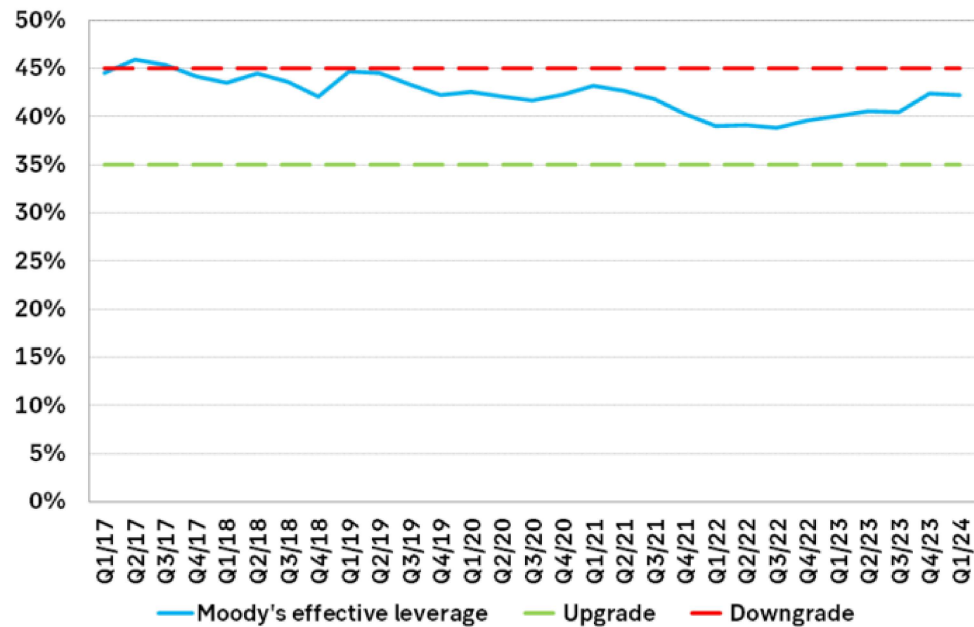
Source: Company reports, SEB

LTM leverage and interest coverage (x)



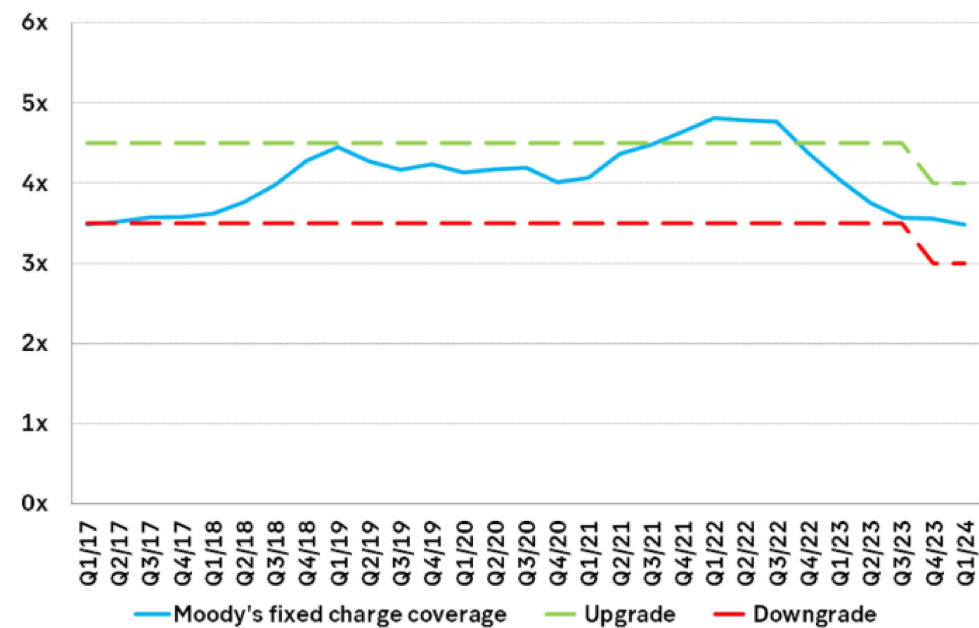
Source: Company reports, SEB

Moody's effective leverage and rating triggers



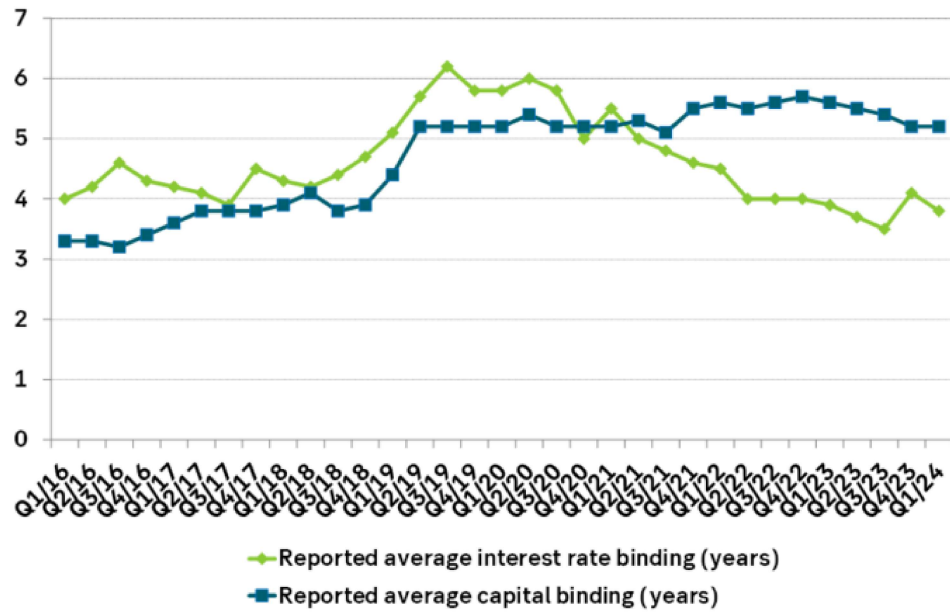
Source: SEB, Moody's

Moody's fixed charge coverage and current rating triggers



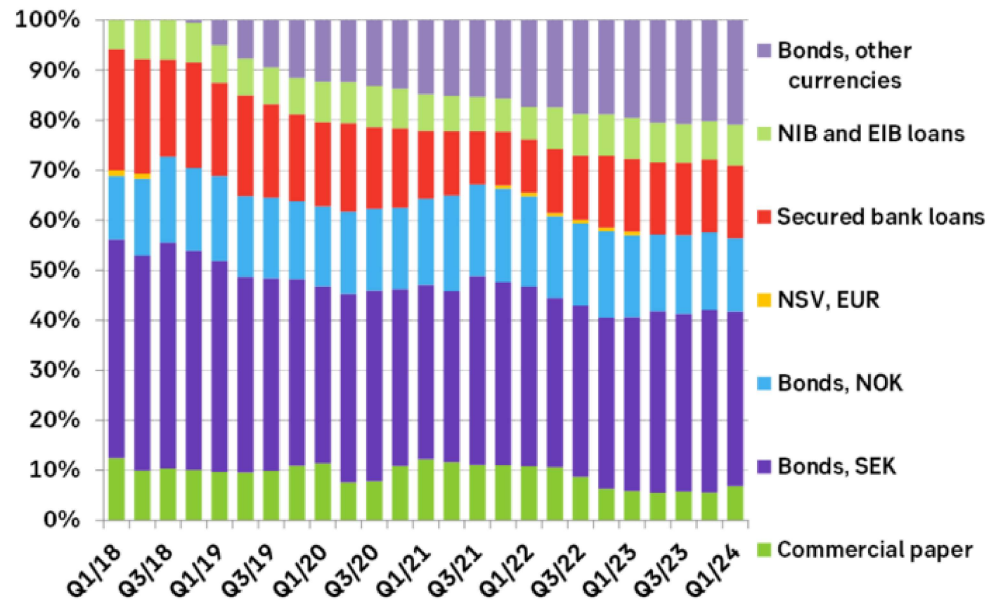
Source: SEB, Moody's

Capital and interest binding (years)



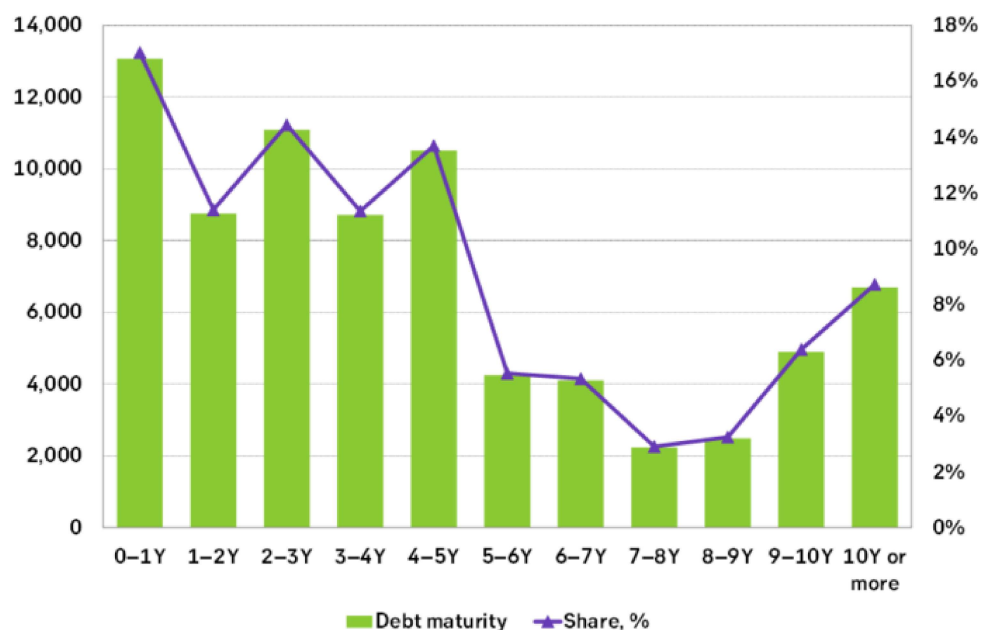
Source: Company reports

Funding composition over time (%)



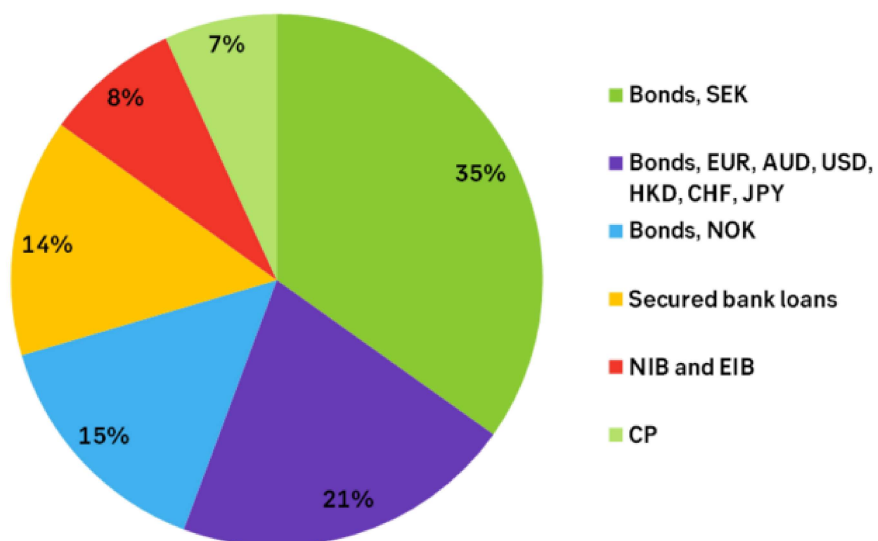
Source:

Debt maturity profile per end-Q1/24 (SEKm)



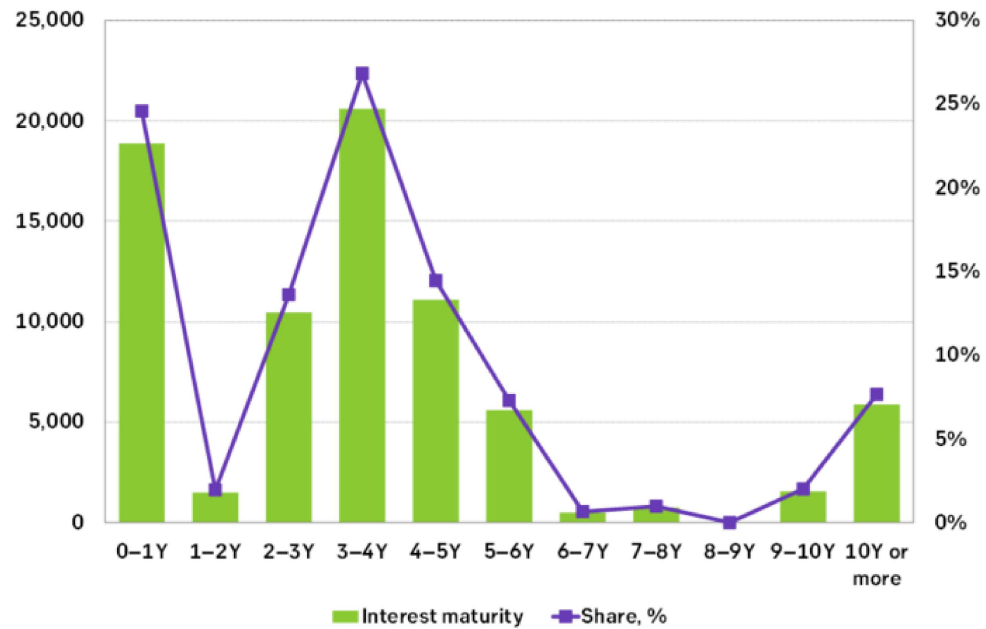
Source: Company report

Distribution of funding sources per end-Q1/24 (%)



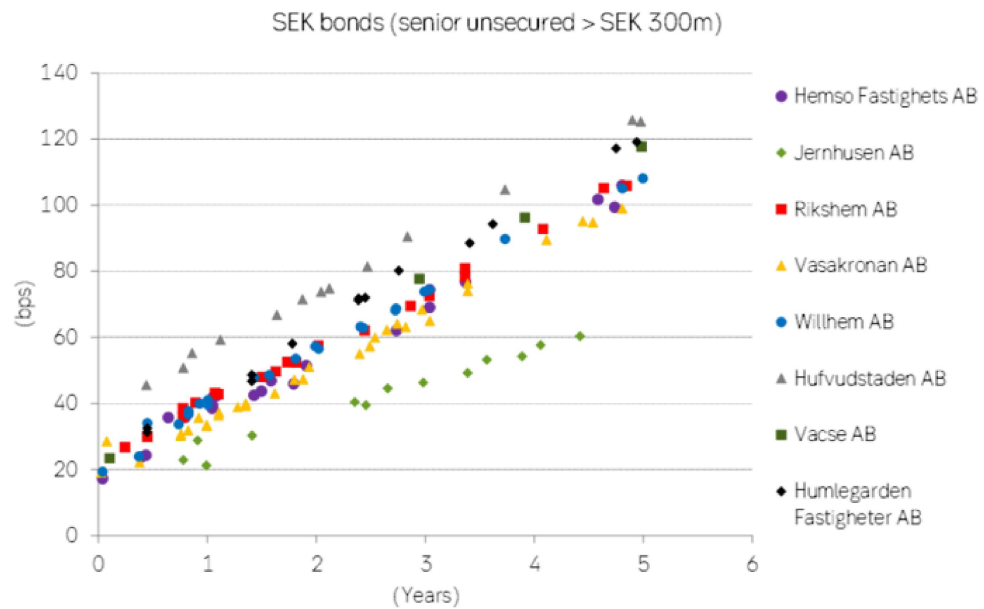
Source: Company report

Interest maturity profile per end-Q1/24 (SEKm)



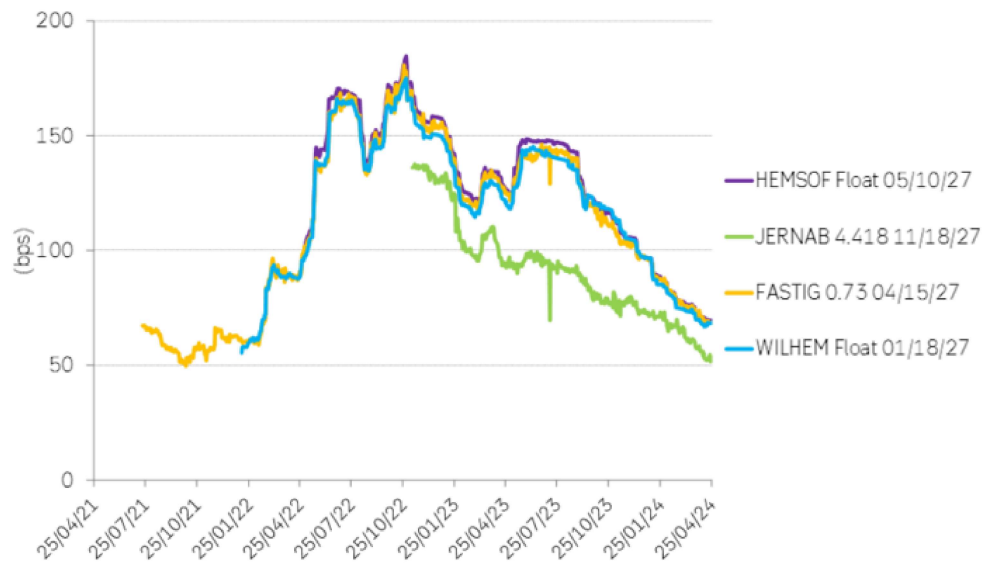
Source: Company report

Relative value, selective SEK bonds



Source: Bloomberg (BVAL, BGN), SEB

Spread development, selective SEK bonds



Source: Bloomberg (BVAL, BGN), SEB

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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.

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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.

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