

Vacse

Corporate rating: **BBB/Positive**

Public ratings

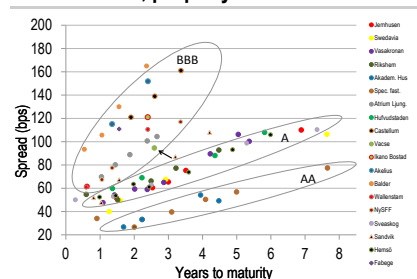
Moody's: N.R.

S&P: N.R.

Fitch: N.R.

Market cap (SEKm) Not listed

Relative value, property SEK bonds



Source: SEB and Bloomberg

Interest payments kept very safe

- Strong but uneventful quarter, long-term story very interesting**
 We reaffirm our BBB rating and positive outlook on Vacse following strong, but uneventful Q3 results. The main restricting factors for the rating are the company's relatively small size, its limited history and its fairly ambitious growth targets (which have been paused during 2016 due to several management changes). However, as Vacse develops into a larger company, and due to the extremely stable government related tenants, we believe there is potential upside in the rating. We believe that over time, Vacse should be compared to property companies such as Rikshem (S&P: A-) and Hemsö (S&P: A-). Although not government or quasi-government owned like some peers, Vacse benefits from strong ownership (seven Swedish pension funds linked to Apoteket AB, Atlas Copco, Ericsson, Sandvik, Skanska, Stora Enso and Volvo), which we believe would support the company in times of stress.
- Bonds remain Overweight**
 We reiterate Overweight on Vacse's 2019 bonds as they are attractively priced relative to "future" peers such as Hemsö, Rikshem and Vasakronan.
- Very solid Q3 figures – will growth story continue with new management?**
 Loan to value was 46% at the end of Q3, slightly lower than 49% at the end of 2015. We believe Vacse's leverage is moderate. We treat Vacse's subordinate shareholder loans as equity due to the long tenor (they mature in 2053) and deferrable interest payments. The secured debt remains low, 18% at the end of the quarter. Our credit rating is strongly supported by Vacse's rental revenues, which are solely from public sector tenants (government bodies, municipalities or other public institutions). The occupancy rate is 100% and the average maturity lease contracts are 11.1 years. At the end of Q3 2015, Vacse had a property portfolio with a market value of about SEK 5.2bn. Sales and profits have basically been flat the last year, as the growth strategy has been paused, due to several management changes.

Analyst

Michael Andersson

(46) 8 522 29671

michael.x.andersson@seb.se

The estimates in this research report have been produced in collaboration with SEB equity research analysts

Key credit metrics & ratios

	2012	2013	2014	2015	2016E	2017E	2018E
Revenues (SEKm)	133.0	186.6	268.0	336.0	338.0	403.0	468.0
EBITDA (SEKm)	117.5	158.5	225.4	277.0	271.0	330.0	385.0
EBITDA margin	88.4%	85.0%	84.1%	82.4%	80.2%	81.9%	82.3%
FOCF (SEKm)	19.9	51.1	142.5	74.6	171.4	159.6	203.8
Adjusted EBITDA net int. cover. (x)	3.7	3.7	3.9	4.4	3.6	4.0	4.1
Adjusted net debt to EBITDA (x)	6.2	10.0	10.9	8.9	11.1	10.7	11.3
Adjusted FFO / Net debt	4%	2%	3%	5%	4%	5%	5%

Source: SEB

Credit strengths

- Revenues entirely from public sector tenants.
- Committed owners.
- High quality assets with many long-term rental contracts.
- Successful business model.

Credit concerns

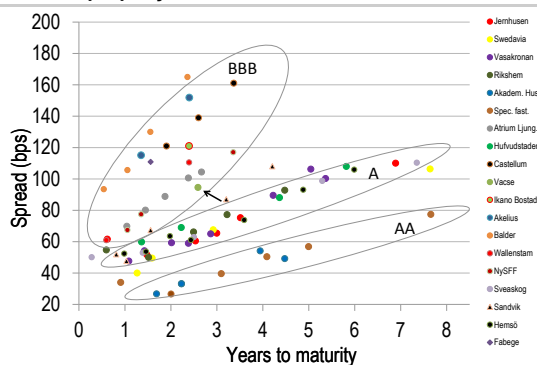
- Fairly small with a limited market share.
- Limited track record as the company was created in 2009.
- Ambitious growth target could potentially lead to increased risks.

Selected outstanding bonds

Issuer	Sector	Public	SEB	Issue date	Maturity date	Cpn type	Cpn	Amount	Spread	Recommendation
Vacse	Property	N.R./N.R.	BBB	03/06/2014	03/06/2019	Floating	3mS+130	SEK 1150m	95	Overweight

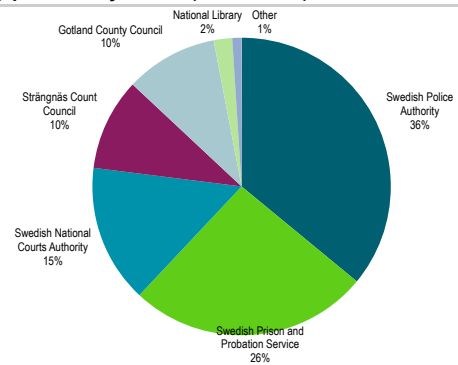
Source: Bloomberg and SEB

Relative value, property SEK bonds



Source: SEB and Bloomberg

Property portfolio by tenant (annual rent), Q3 2016



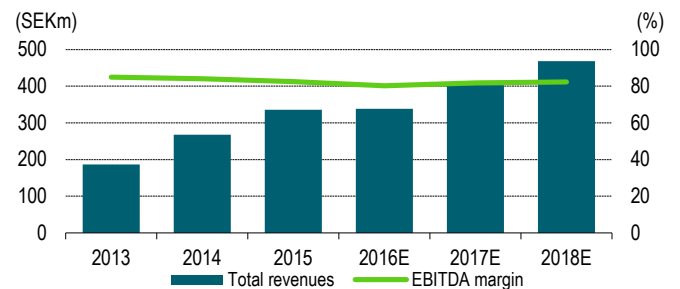
Source: SEB

Financial statement summary - Adjusted numbers (SEKm)

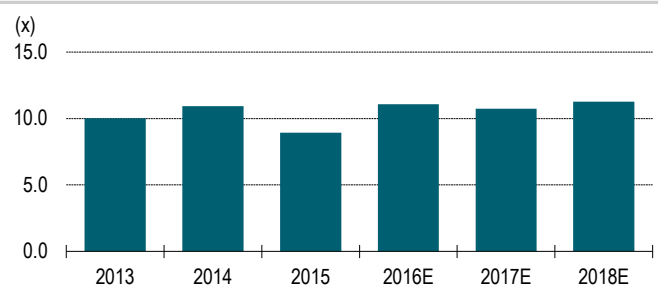
	2014	2015	2016E	2017E
Income statement				
Revenues	268.0	336.0	338.0	403.0
EBITDA	225.4	277.0	271.0	330.0
Net income (reported)	60.7	256.2	297.0	155.7
Cash flow statement				
Funds from operations (FFO)	85.6	118.8	108.4	159.6
Operating Cash Flow	142.5	82.6	171.4	159.6
Free Operating cash flow	142.5	74.6	171.4	159.6
Pre-financing cash flow	-1,258	-6.4	-828.6	-840.4
Balance sheet				
Cash (and equivalents)	81.0	46.0	46.0	46.0
Total debt	2,546	2,517	3,046	3,586
Net debt	2,465	2,471	3,000	3,540
Equity	1,970	2,226	2,823	3,279
Total assets (reported)	4,863	5,134	6,344	7,385
Key credit metrics & ratios				
Net debt to EBITDA (x)	10.9	8.9	11.1	10.7
Net debt to capital	56%	53%	52%	52%
FFO / Net debt	3%	5%	4%	5%
Equity ratio	41%	43%	44%	44%

Source: SEB and Vacse financial reports

Revenues and EBITDA margin



Adjusted net debt / EBITDA



Source: SEB and Vacse financial reports

Profit & loss statement

(SEKm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Total revenues	116	133	187	268	336	338	403	468
Total expenses	-14	-15	-28	-43	-59	-67	-73	-83
EBITDA	102	118	159	225	277	271	330	385
Depreciation	0	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	102	118	159	225	277	271	330	385
Net interest expenses	-17	-32	-43	-57	-63	-75	-82	-93
Value changes	-8	23	90	-4	203	270	40	40
Other financial items	-61	-59	-76	-87	-88	-88	-88	-88
Reported pre-tax profit	15	50	130	78	329	378	200	244
Minority interests	0	0	0	0	0	0	0	0
Total taxes	-6	-9	-31	-17	-72	-81	-44	-54
Net profit	10	40	99	61	256	297	156	190
EBITDA margin	88.1	88.4	85.0	84.1	82.4	80.2	81.9	82.3
EBIT margin (%)	88.1	88.4	85.0	84.1	82.4	80.2	81.9	82.3
Tax rate (%)	35.8	18.9	23.9	21.8	22.0	21.5	22.0	22.0
Growth rates y-o-y (%)								
Total revenues	0.0	15.0	40.3	43.6	25.4	0.6	19.2	16.1
EBITDA	n.a.	15.3	34.9	42.2	22.9	(2.2)	21.8	16.7
EBIT	0.0	15.3	34.9	42.2	22.9	(2.2)	21.8	16.7
Pre-tax profit	0.0	220.3	161.6	(40.3)	323.6	15.2	(47.3)	22.2

Cash flow

(SEKm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
FFO	24	26	40	86	119	108	160	204
Changes in working capital	2	-6	11	57	-36	63	0	0
Operating cash flow	26	20	51	142	83	171	160	204
Net capital expenditures	-6	0	0	0	-8	0	0	0
Free operating cash flow	20	20	51	142	75	171	160	204
Dividend paid	0	0	0	0	0	0	0	0
Acquisitions, divestments net	-327	0	-1,205	-1,400	-81	-1,000	-1,000	-1,000
Pre-financing cash flow	-308	20	-1,154	-1,258	-6	-829	-840	-796
Net loan proceeds	640	0	813	804	-29	529	540	0
Share issue	0	0	0	460	0	300	300	0
Other	-300	0	300	15	0	0	0	0
Net change in cash	32	20	-41	21	-35	0	0	-796
Capex/sales (%)	5.6	0.0	0.0	0.0	2.4	0.0	0.0	0.0

Balance sheet

(SEKm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash and liquid assets	76	96	55	81	46	46	46	-750
Other current assets	6	2	5	18	63	3	3	4
Long-term financial assets	0	0	0	0	4	-31	-41	-51
Fixed tangible assets	1,992	2,025	3,247	4,764	5,021	6,326	7,376	8,426
Intangibles	0	0	0	0	0	0	0	0
Total assets	2,074	2,124	3,307	4,863	5,134	6,344	7,385	7,629
Interest bearing debt	830	830	1,643	2,546	2,517	3,046	3,586	3,586
Other liabilities	134	144	115	347	391	475	520	574
Minority interests	0	0	0	0	0	0	0	0
Shareholders' equity	1,110	1,150	1,549	1,970	2,226	2,823	3,279	3,469
Total liabilities and equity	2,074	2,124	3,307	4,863	5,134	6,344	7,384	7,629
Net debt (m)	754	734	1,588	2,465	2,471	3,000	3,540	4,336
Net debt/equity (%)	67.9	63.8	102.5	125.1	111.0	106.3	108.0	125.0
Equity/total assets (%)	53.5	54.2	46.9	40.5	43.4	44.5	44.4	45.5
Net debt/EBITDA (x)	7.4	6.2	10.0	10.9	8.9	11.1	10.7	11.3
EBITDA Interest cover	5.4	3.6	3.6	3.9	4.4	3.6	4.0	4.3

Main shareholders

Name	(%)	Votes	Capital	Management		Company information	
Name			Title	Name	Contact		
Ericsson Pensionsstiftelse (A)			21.4	COB	Daniel Jönsson	Internet	www.vacse.se
Skanska Trean Allmän Pensionsstiftelse			21.4	CEO	Fredrik Linderborg	Phone number	0
Apoteket AB:s Pensionsstiftelse			14.3	CFO	Henrik Molin		

Company description: Vacse is a Swedish property company focusing on community service properties. Vacse has a property portfolio with a market value of SEK 5.2bn (Sep 2016). The company has a strong tenant base with leasing contracts with long maturities. Vacse is owned by seven Swedish pension funds linked to large Swedish companies.

Please note: The data in several tables and charts in this document have been adjusted in line with common practice in the field of credit research. This mainly refers to adjustments of operating leases, pensions, derivatives and other contingent liabilities. For a detailed breakdown of the adjustments, please contact the author of this report.

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Vacse 3 June 2019 3mS+130	Overweight	19 May 2014

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Copenhagen

Bernstorffsgade 50
DK-1577 Copenhagen
Telephone: +45 3336 8500
Capital Markets Sales
Telephone: +45 3317 7720
Treasury Sales
Telephone: +45 3315 8065

Frankfurt

Stephanstrasse 14-16
DE-60313 Frankfurt am Main
Telephone: +49 69 258 5190
Capital Markets Sales
Telephone: +49 69 9727 1145

Gothenburg

Östra Hamngatan 24
SE-405 04 Göteborg
Telephone: +46 31 62 10 00
Treasury Sales
Telephone: +46 31 774 91 10

Helsinki

Unioninkatu 30
FI-00100 Helsinki
Telephone: +358 9 616 280 00
Capital Markets Sales
Telephone: +358 9 616 285 60

Hong Kong

17/F Jardine House
1 Connaught Place, Central
Hong Kong
Telephone: +852 31592888

London

One Carter Lane
London EC4V 5AN
Telephone: +44 20 7246 4000
Forex & Money Market
Telephone: +44 20 7246 4282
Treasury Sales
Telephone: +44 20 7236 0593

Malmö

Östergatan 39
SE-205 20 Malmö
Telephone: +46 40 667 6910
Treasury Sales
Telephone: +46 40 667 6910

New York

245 Park Avenue, 33rd Floor
New York, New York 10167
Telephone: +1 212 907 4700
Capital Markets & Treasury Sales
Telephone: +1 212 351 4900

Oslo

Filipstad Brygge 1
NO-0123 Oslo
Telephone: +47 22 82 70 00
Capital Markets Sales
Telephone: +47 22 82 72 68
Treasury Sales
Telephone: +47 22 82 72 30

Stockholm

Kungsträdgårdsgatan 8
SE-106 40 Stockholm
Telephone: +46 8 763 80 00
Capital Markets Sales
Telephone: +46 8 506 232 18