

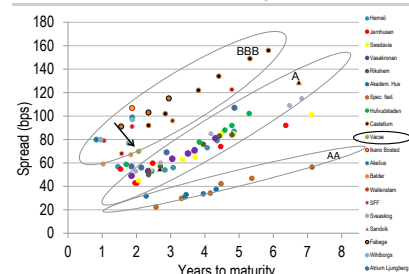
## Vacse

### Public ratings

Moody's: N.R.  
S&P: N.R.  
Fitch: N.R.

Market cap (SEKm) Not listed

### Relative value SEK property bonds



Source: SEB and Bloomberg

## Safeguarding investors' money

### ● Vacse should eventually be compared to higher rated peers

We have raised our credit view on Vacse to BBB+ (from BBB) following the strong but uneventful 2016 and start to 2017. The main restricting factors for our view are the company's relatively small size, its limited history and its fairly ambitious growth targets (which was paused during 2016 due to several management changes). However, as Vacse develops into a larger company and due to the stable government related tenants, we believe there is continued potential upside in view of Vacse's creditworthiness. We believe that over time Vacse should be compared to property companies such as Rikshem (S&P: A-) and Hemsö (S&P: A-) and potentially, albeit remotely, fully government owned Specialfastigheter (S&P: AA+). Although not government or quasi-government such as the peer mentioned above, 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 during times of stress.

### ● Bonds remain Overweight

We reiterate Overweight on Vacse's 2019 bonds as they are attractively priced relative to potential future peers such as Hemsö, Rikshem and Vasakronan.

### ● Stable Q1 2017, growth should slowly start to pick up again

Loan-to-value was 44% at the end of Q1, slightly lower than 47% at the end of Q1 2016. We believe Vacse's leverage is moderate. We treat Vacse's subordinate shareholder loans as equity due to the long tenor (mature in 2053) and deferrable interest payments. The secured debt remains low, 14% at the end of the quarter. Our credit view 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 years. At the end of Q1 2017, Vacse had a property portfolio with a market value of about SEK 5.3bn. Sales and profits were flat during last year, as the growth strategy has been paused due to several management changes. Vacse is currently involved in three major projects, the expansion of the Attunda district court in Sollentuna, a new elementary school in Linköping and the new head office of MSB (Swedish Civil Contingency Agency) in Karlstad.

### Analyst

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### Key credit metrics & ratios

	2013	2014	2015	2016	2017E	2018E	2019E
Revenues (SEKm)	186.6	268.0	336.0	339.0	345.8	352.7	359.7
EBITDA (SEKm)	158.5	225.4	277.0	269.0	274.9	280.9	287.0
EBITDA margin	85.0%	84.1%	82.4%	79.4%	79.5%	79.6%	79.8%
FOCF (SEKm)	51.1	142.5	74.6	134.5	55.8	41.8	49.0
Adjusted EBITDA net int. cover. (x)	3.7	3.9	4.4	3.9	5.3	5.5	5.7
Adjusted net debt to EBITDA (x)	10.0	10.9	8.9	8.7	8.3	8.0	7.6
Adjusted FFO / Net debt	2%	3%	5%	4%	6%	6%	7%

Source: SEB

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

## Credit strengths

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

## Credit concerns

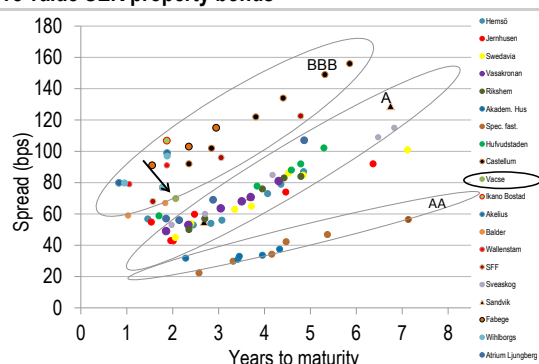
- Fairly small with a limited market share.
- Limited track record as the company was created in 2009.
- Ambitious growth target could potentially lead to increased risks.

## Selected outstanding bonds

Issuer	Sector	Public	Issue date	Maturity date	Cpn type	Cpn	Amount	Spread	Recommendation
Vacse	Property	N.R./N.R.	03/06/2014	03/06/2019	Floating	3mS+130	SEK 1150m	70	Overweight

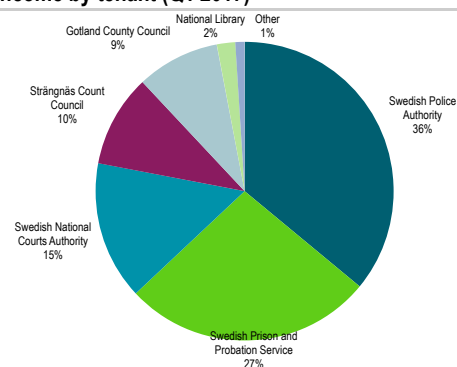
Source: Bloomberg and SEB

## Relative value SEK property bonds



Source: SEB and Bloomberg

## Rental income by tenant (Q1 2017)



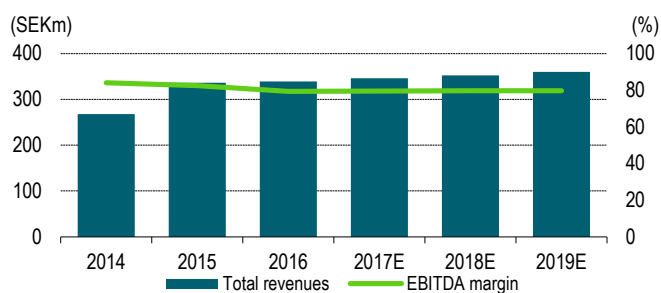
Source: SEB, Vacse

## Financial statement summary - Adjusted numbers (SEKm)

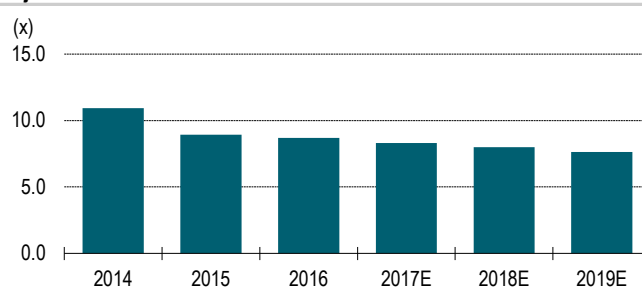
Income statement	2015	2016	2017E	2018E
Revenues	336.0	339.0	345.8	352.7
EBITDA	277.0	269.0	274.9	280.9
Net income (reported)	256.2	328.5	136.3	141.8
Cash flow statement	2015	2016	2017E	2018E
Funds from operations (FFO)	118.8	91.5	134.8	141.8
Operating Cash Flow	82.6	153.5	155.8	141.8
Free Operating cash flow	74.6	134.5	55.8	41.8
Pre-financing cash flow	-6.4	134.5	55.8	41.8
Balance sheet	2015	2016	2017E	2018E
Cash (and equivalents)	46.0	106.0	106.0	106.0
Total debt	2,517	2,445	2,389	2,347
Net debt	2,471	2,339	2,283	2,241
Equity	2,226	2,554	2,690	2,832
Total assets (reported)	5,134	5,472	5,594	5,734
Key credit metrics & ratios	2015	2016	2017E	2018E
Net debt to EBITDA (x)	8.9	8.7	8.3	8.0
Net debt to capital	53%	48%	46%	44%
FFO / Net debt	5%	4%	6%	6%
Equity ratio	43%	47%	48%	49%

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	2016	2017E	2018E	2019E
Total revenues	116	133	187	268	336	339	346	353	360
Total expenses	-14	-15	-28	-43	-59	-70	-71	-72	-73
<b>EBITDA</b>	<b>102</b>	<b>118</b>	<b>159</b>	<b>225</b>	<b>277</b>	<b>269</b>	<b>275</b>	<b>281</b>	<b>287</b>
Depreciation	0	0	0	0	0	0	0	0	0
Intangibles amortisation	0	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>102</b>	<b>118</b>	<b>159</b>	<b>225</b>	<b>277</b>	<b>269</b>	<b>275</b>	<b>281</b>	<b>287</b>
Net interest expenses	-17	-32	-43	-57	-63	-69	-52	-51	-50
Value changes	-8	23	90	-4	203	278	40	40	40
Other financial items	-61	-59	-76	-87	-88	-89	-88	-88	-88
<b>Reported pre-tax profit</b>	<b>15</b>	<b>50</b>	<b>130</b>	<b>78</b>	<b>329</b>	<b>389</b>	<b>175</b>	<b>182</b>	<b>189</b>
Minority interests	0	0	0	0	0	0	0	0	0
Total taxes	-6	-9	-31	-17	-72	-61	-38	-40	-42
<b>Net profit</b>	<b>10</b>	<b>40</b>	<b>99</b>	<b>61</b>	<b>256</b>	<b>328</b>	<b>136</b>	<b>142</b>	<b>147</b>
EBITDA margin	88.1	88.4	85.0	84.1	82.4	79.4	79.5	79.6	79.8
EBIT margin (%)	88.1	88.4	85.0	84.1	82.4	79.4	79.5	79.6	79.8
Tax rate (%)	35.8	18.9	23.9	21.8	22.0	15.7	22.0	22.0	22.0
<b>Growth rates y-o-y (%)</b>									
Total revenues	0.0	15.0	40.3	43.6	25.4	0.9	2.0	2.0	2.0
EBITDA	n.a.	15.3	34.9	42.2	22.9	(2.9)	2.2	2.2	2.2
EBIT	0.0	15.3	34.9	42.2	22.9	(2.9)	2.2	2.2	2.2
Pre-tax profit	0.0	220.3	161.6	(40.3)	323.6	18.6	(55.1)	4.0	3.9

**Cash flow**

(SEKm)	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
FFO	24	26	40	86	119	91	135	142	149
Changes in working capital	2	-6	11	57	-36	62	21	0	0
<b>Operating cash flow</b>	<b>26</b>	<b>20</b>	<b>51</b>	<b>142</b>	<b>83</b>	<b>153</b>	<b>156</b>	<b>142</b>	<b>149</b>
Net capital expenditures	-6	0	0	0	-8	-19	-100	-100	-100
<b>Free operating cash flow</b>	<b>20</b>	<b>20</b>	<b>51</b>	<b>142</b>	<b>75</b>	<b>134</b>	<b>56</b>	<b>42</b>	<b>49</b>
Dividend paid	0	0	0	0	0	0	0	0	0
Acquisitions, divestments net	-327	0	-1,205	-1,400	-81	0	0	0	0
<b>Pre-financing cash flow</b>	<b>-308</b>	<b>20</b>	<b>-1,154</b>	<b>-1,258</b>	<b>-6</b>	<b>134</b>	<b>56</b>	<b>42</b>	<b>49</b>
Net loan proceeds	640	0	813	804	-29	-74	-56	-42	-49
Share issue	0	0	0	460	0	0	0	0	0
Other	-300	0	300	15	0	0	0	0	0
<b>Net change in cash</b>	<b>32</b>	<b>20</b>	<b>-41</b>	<b>21</b>	<b>-35</b>	<b>60</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capex/sales (%)	5.6	0.0	0.0	0.0	2.4	5.6	28.9	28.4	27.8

**Balance sheet**

(SEKm)	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash and liquid assets	76	96	55	81	46	106	106	106	106
Other current assets	6	2	5	18	63	21	3	3	3
Long-term financial assets	0	0	0	0	4	23	13	3	-7
Fixed tangible assets	1,992	2,025	3,247	4,764	5,021	5,322	5,472	5,622	5,772
Intangibles	0	0	0	0	0	0	0	0	0
<b>Total assets</b>	<b>2,074</b>	<b>2,124</b>	<b>3,307</b>	<b>4,863</b>	<b>5,134</b>	<b>5,472</b>	<b>5,594</b>	<b>5,734</b>	<b>5,874</b>
Interest bearing debt	830	830	1,643	2,546	2,517	2,445	2,389	2,347	2,298
Other liabilities	134	144	115	347	391	473	514	554	596
Minority interests	0	0	0	0	0	0	0	0	0
Shareholders' equity	1,110	1,150	1,549	1,970	2,226	2,554	2,690	2,832	2,980
<b>Total liabilities and equity</b>	<b>2,074</b>	<b>2,124</b>	<b>3,307</b>	<b>4,863</b>	<b>5,134</b>	<b>5,472</b>	<b>5,594</b>	<b>5,734</b>	<b>5,874</b>
Net debt (m)	754	734	1,588	2,465	2,471	2,339	2,283	2,241	2,192
Net debt/equity (%)	67.9	63.8	102.5	125.1	111.0	91.6	84.9	79.1	73.6
Equity/total assets (%)	53.5	54.2	46.9	40.5	43.4	46.7	48.1	49.4	50.7
Net debt/EBITDA (x)	7.4	6.2	10.0	10.9	8.9	8.7	8.3	8.0	7.6
EBITDA Interest cover	5.4	3.6	3.6	3.9	4.4	3.9	5.2	5.4	5.6

**Main shareholders**

Name	(%)	Votes	Capital	Management	Name	Company information
Ericsson Pensionsstiftelse (A)			21.4	COB	Daniel Jönsson	Internet <a href="http://www.vacse.se">www.vacse.se</a>
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 5.3bn at the end of 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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Overweight	21.4%	10.1%
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Underweight	12.2%	3.7%

A\* denotes recommendations for all companies covered

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### Recommendation History

Instrument	Recommendation	Date
Vacse 3 June 2019 3mS+130	Overweight	10 May 2017

Recommendation changes by SEB Credit Research Analysts in the subject company over the past 12 months. If no recommendation changes were made in that period, the most recent change is stated.

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