

VACSE AB (PUBL)

Sweden

5 Feb. 2019

Real estate management

Result comment

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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This commentary does not reflect a rating action.

Our 'BBB+' issuer and issue ratings for Vacse AB are unchanged following the publication of its 2018 results.

RESULTS AS EXPECTED

The results for 2018 for Vacse are mostly as expected, except for a higher than anticipated increase in unrealised property value. The company decreased its yield requirement from 5.8% to 5.6% in 2018, resulting in an unrealised change in property value of SEK 267m, of which SEK 167m due to the revaluation dated 31 Dec. 2018. The NCR adjusted EBITDA/interest and LTV for 2018 is thus marginally stronger than expected due to lower interest costs and higher property values, however the improvement does not affect our view of the company.

STRONGER FINANCIAL POSITION

During the fourth quarter, Vacse settled its shareholder loan of SEK 1,454m, which did not affect our debt ratios as we exclude shareholder loans in our adjusted net debt calculations or net interest costs calculations. Since the end of the year, Vacse has expanded its 18/23 FRN by SEK 300m and redeemed SEK 280m of the two bonds maturing in June, supporting our expectations of a proactive refinancing strategy. Bonds maturing in June 2019 and commitments for planned acquisitions amount to a total funding need of SEK 625m. This compares to SEK 600m in revolving credit facilities available, and our expectations of continued stable cash flow generation.

Thus far in 2019, Vacse has entered into two new agreements; a 20-year contract commencing in the summer of 2022 for the Courts Administration and a 25-year contract with municipality of Öckerö for the primary school which commences in 2021.

OUTLOOK¹

Our stable outlook reflects our expectation that Vacse will continue to focus on similar types of properties with similar stable tenants and long contracts. We expect Vacse to continue to extend its relatively short debt maturity profile and proactively refinance the outstanding bond maturing June 2019. We further uphold our stable economic outlook for Sweden.

POTENTIAL POSITIVE RATING DRIVERS:

- Improvement in debt maturity profile.
- Significantly, and on a sustainable basis, lower leverage including LTV of less than 35% and an EBITDA/net interest ratio of more than 5.0x.

POTENTIAL NEGATIVE RATING DRIVERS:

- Increase leverage, including LTV of more than 50% over an extended period.
- An inability to refinance forthcoming debt maturities.
- A significant increase in development projects.

¹ The outlook and rating factors have not changed since our latest full report from 25 Oct. 2018, available at nordiccreditrating.com.

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