

VACSE AB (PUBL)

Sweden

29. Apr. 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 Q1 2019 financial report.

RESULTS AS EXPECTED

The Q1 2019 report for Vacse is in line with our expectations. The company reports that increased interest in community services has led to an unrealised increase in property value for the first quarter of SEK 57.4m resulting in a slightly lower than expected loan to value ratio of 41.2%.

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.

STABLE FINANCIAL POSITION

During the quarter, Vacse has expanded its floating rate note maturing in 2023 by SEK 300m and redeemed SEK 280m of its two outstanding bonds which mature in 2019. Outstanding bonds and commitments for planned acquisitions amount to a total funding need of SEK 625m. The company proposed its first dividend payout of SEK 70m to its owners resulting in total expenses of SEK 700m during second quarter 2019. This compares to SEK 550m in revolving credit facilities available and SEK 134m in liquid funds. Vacse's Q1 results support our expectations of the company's continued stable cash flow generation.

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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