

Swedavia

Continued growth in passenger numbers

- High capex has led to increased debt
- Liquidity still a weak spot
- Reasonable relative value; we upgrade to Market Perform

Operating numbers in line with previous years

The worldwide trend of increasing air traffic continues and Swedavia reported a 7.2% y-o-y increase in passenger numbers in H1 2017. EBIT excluding capital gains in H1 was SEK 419m (386m), which translated into a margin of 14.8% (14.2%). Cash flow generation was satisfactory and largely in line with recent years.

High capex on capacity expansions at Arlanda and Landvetter

In order to handle the growth in passenger numbers, Swedavia has increased capex and spent around SEK 3bn over the last twelve months up to Q2 2017. In 2015, Swedavia divested a real estate portfolio with SEK 4bn in book value to a 50%-owned joint venture (Alecta owns the other 50%). We adjust the balance sheet for the real estate JV and include 50% of the JV on a line-by-line basis. The higher capex has led to a debt increase over the past year and adjusted metrics are hence now weaker (if excluding one-offs). We expect adjusted metrics such as net debt/EBITDA in the 3-4x range and FFO/net debt above 20% in order to retain a solid financial profile.

We upgrade to Market Perform (from Underperform)

We upgrade our recommendation for bonds issued by Swedavia to Market Perform (from Underperform). The bonds now trade in line with peers such as Sveaskog and no longer appear expensive on a relative value basis.

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Key figures

SEKm	2013	2014 *	2015*	2016*	LTM 2017*
Revenues	5,233	5,538	5,510	5,956	5,939
EBITDA	1,887	2,004	1,705	1,927	1,800
EBITDA margin	36.1%	36.2%	30.9%	32.4%	30.3%
EBIT	955	1,057	812	966	852
EBIT margin	18.2%	19.1%	14.7%	16.2%	14.3%
Net income	492	926	1,411	717	588
Funds from operations (FFO)	1,498	1,765	1,397	1,483	1,517
Capex (inc. disposals)	-2,258	-378	-1,096	-2,075	-2,956
Dividends	-9	-10	-231	-232	-143
Total debt (adjusted)	9,121	7,505	5,547	6,636	6,635
Net debt (adjusted)	9,069	7,393	5,541	6,466	6,375
Net debt to EBITDA, x (adjusted)	2.5	3.7	3.2	3.4	3.5
EBITDA to interest expense, x (adjusted)	13.8	8.3	7.4	19.9	18.2
FFO to net debt (adjusted)	16.5%	23.9%	25.2%	22.9%	23.8%
Return on equity	10.7%	17.7%	22.7%	10.1%	7.9%

* Figures adj. for disposals; real estate JV

Source: Company reports and Handelsbanken Capital Markets

Recommendation, senior unsecured:

Market Perform

Recommendation currency: SEK

Public ratings

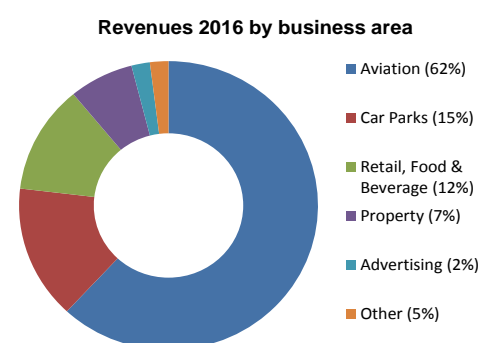
No public ratings

Company data

Web address: www.swedavia.com

Swedavia is a 100% government-owned airport operating company, managing ten airports in Sweden identified by the state as key holdings; National Basic Infrastructure (NBI). Swedavia had revenue of over SEK 5.5bn in 2016 and close to 3,000 employees.

Revenue distribution, 2016

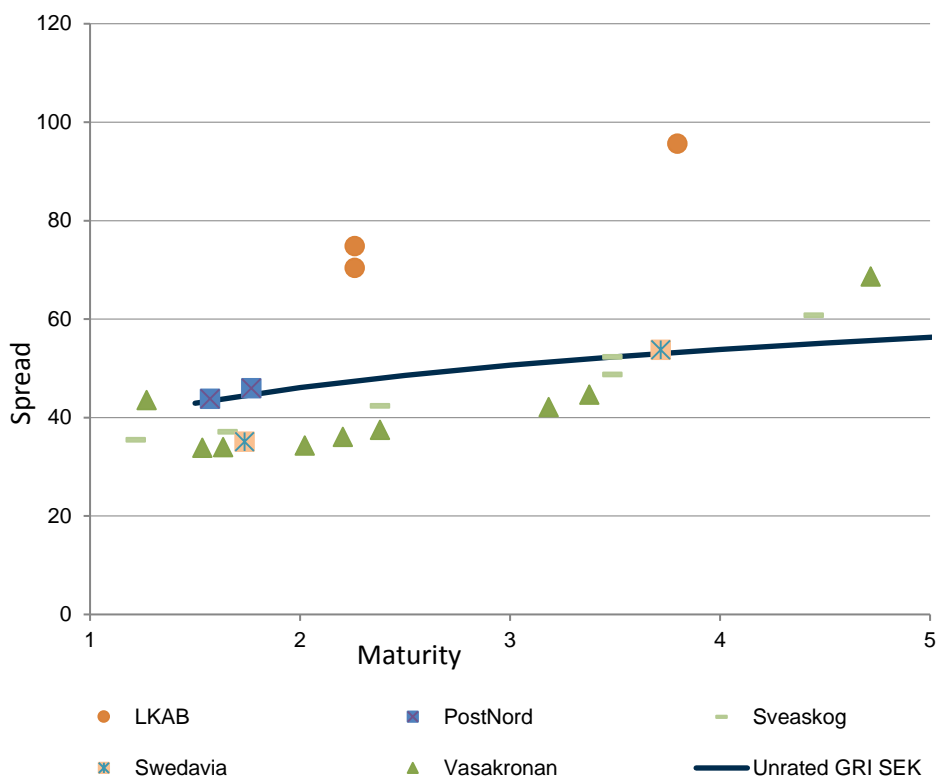


Source: Company reports

Relative value

We upgrade our recommendation for bonds issued by Swedavia to Market Perform (from Underperform). The bonds now trade in line with peers such as Sveaskog and no longer appear expensive on a relative value basis.

Figure 1: Swedavia SEK bonds vs. peers and the unrated GRI curve



Source: Bloomberg, Handelsbanken Capital Markets

Key credit strengths

- Strong business risk profile benefitting from the near-monopoly position as principal airport operator, with a supporting worldwide trend of increasing air traffic.
- Solid cash flow generation capacity.
- Moderate financial leverage.
- Directly owned by the Swedish government and with a strategic role within airport infrastructure.
- Some diversification with a combination of aviation fees and income from commercial services.

Key credit concerns

- Some cyclical in revenue from passenger traffic.
- Customer exposure risk for specific airlines.
- Liquidity is a weak spot.
- High capex plans over the coming years.
- Some exposure to development and project risk, e.g. environmental permits required for the development plans.

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Credit research disclaimer

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Recommendations: definitions and allocations

HCM recommendation ¹	HCM universe unsecured ²	HCM universe secured ²	IB services ³
Outperform	28%	40%	5%
Market perform	65%	60%	20%
Underperform	7%	0%	5%

1 Recommendation definitions:

Outperform: Over the next 12 months, the bond's total return is expected to exceed the total return of the relevant benchmark

Market perform: Over the next 12 months, the bond's total return is expected to be in line with the total return of the relevant benchmark

Underperform: Over the next 12 months, the bond's total return is expected to be below the total return of the relevant benchmark

2 Percentage of companies under coverage within each recommendation

3 Percentage of companies within each recommendation (unsecured) for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 04/09/2017

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Swedavia

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On 2017-09-05 the recommendation Underperform, which was set on 2016-10-18, was changed to the current recommendation Market Perform.

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