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

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014 *</th>
<th>2015*</th>
<th>2016*</th>
<th>LTM 2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>5,233</td>
<td>5,338</td>
<td>5,510</td>
<td>5,956</td>
<td>5,939</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,687</td>
<td>2,004</td>
<td>1,705</td>
<td>1,927</td>
<td>1,800</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>36.1%</td>
<td>36.2%</td>
<td>30.9%</td>
<td>32.4%</td>
<td>30.3%</td>
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<tr>
<td>EBIT</td>
<td>955</td>
<td>1,057</td>
<td>812</td>
<td>966</td>
<td>852</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>18.2%</td>
<td>19.1%</td>
<td>14.7%</td>
<td>16.2%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Net Income</td>
<td>492</td>
<td>926</td>
<td>1,411</td>
<td>717</td>
<td>588</td>
</tr>
<tr>
<td>Funds from operations (FFO)</td>
<td>1,498</td>
<td>1,765</td>
<td>1,397</td>
<td>1,483</td>
<td>1,517</td>
</tr>
<tr>
<td>Capex (incl. disposals)</td>
<td>-2,258</td>
<td>-378</td>
<td>-1,096</td>
<td>-2,075</td>
<td>-2,956</td>
</tr>
<tr>
<td>Dividends</td>
<td>-9</td>
<td>-10</td>
<td>-231</td>
<td>-232</td>
<td>-143</td>
</tr>
<tr>
<td>Total debt (adjusted)</td>
<td>9,121</td>
<td>7,505</td>
<td>5,547</td>
<td>6,636</td>
<td>6,635</td>
</tr>
<tr>
<td>Net debt (adjusted)</td>
<td>9,069</td>
<td>7,393</td>
<td>5,541</td>
<td>6,466</td>
<td>6,375</td>
</tr>
<tr>
<td>Net to EBITDA, x (adjusted)</td>
<td>2.5</td>
<td>3.7</td>
<td>3.2</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>EBITDA to interest expense, x (adjusted)</td>
<td>13.8</td>
<td>8.3</td>
<td>7.4</td>
<td>19.9</td>
<td>18.2</td>
</tr>
<tr>
<td>FFO to net debt (adjusted)</td>
<td>16.5%</td>
<td>23.9%</td>
<td>25.2%</td>
<td>22.9%</td>
<td>23.8%</td>
</tr>
<tr>
<td>Return on equity</td>
<td>16.7%</td>
<td>17.7%</td>
<td>22.7%</td>
<td>19.1%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

* Figures adj. for disposals; real estate JV

Revenue distribution, 2016

Source: Company reports

For full disclaimer and definitions, please refer to the end of this report.
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 cyclicality 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.
Disclosures

Credit research disclaimer

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Handelsbanken Capital Markets Credit Research (HCM) employs a three-graded recommendation scale. The recommendations reflect the analyst’s assessment of the bond’s total return on a 12-month time horizon in relation to a relevant benchmark. The recommendations amongst companies under coverage and amongst companies under coverage for which Handelsbanken has provided investment banking services in the past 12 months are listed below:

<table>
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<tr>
<th>Recommendations: definitions and allocations</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCM recommendation¹</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>Outperform</td>
</tr>
<tr>
<td>Market perform</td>
</tr>
<tr>
<td>Underperform</td>
</tr>
</tbody>
</table>

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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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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