

Property

Instant Credit

Sweden

31 October 2016

Please note: the statement at the rear of this report contains details of investment banking services recently provided by SEB which could be considered relevant to the subject matter of this report.

Swedavia

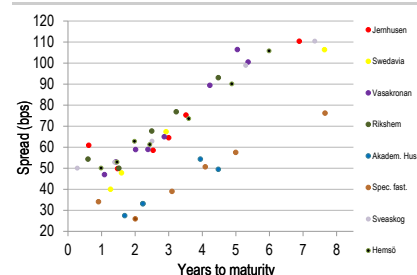
Corporate rating: **A/Stable**
Stand-alone rating: **BBB+**

Public ratings

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

Market cap (SEKm) **Not listed**

Relative value, SEK gov. related bonds



Source: SEB and Bloomberg

Passenger numbers and cost increasing

● **A rating reaffirmed, strong passenger numbers partly offset by weaker margin**
In Q3 2016, government-owned airport operator Swedavia experienced continued strong increase in passenger numbers. The total number of passengers in Swedavia's airports was 10.8m (of which 7.6m international and 3.2m domestic), a 4.4% increase compared with Q3 2015. This is slightly lower than the 5.4% passenger growth Swedavia experienced in 2015, but the long-term trend is clear. The higher growth numbers were in both international and domestic air travel. At the end of 2013, Swedavia decided to invest SEK 13bn through to 2042 in its Swedish airports (mainly Stockholm-Arlanda, Stockholm-Bromma and Gothenburg-Landvetter), of which SEK 7bn is to be invested by 2024. This is to meet future demand for capacity, technology and environmental standards, and to secure Swedish international access. Following the sale of its SEK 3.8bn property portfolio in June 2015, we believe that Swedavia is prepared. However, due to heavy investments, we expect leverage to increase in the coming years. We expect future net debt to EBITDA of 3-4x, which is higher than similar rated industrial companies. Swedavia's near monopolistic position and strong pricing power in a sector with strong growth fundamentals (domestic and international air travel), in combination with expected high government support, offsets this, in our view.

● **Bonds at Marketweight**

We reiterate our Marketweight recommendation on Swedavia's bonds as they trade fairly similar to government and quasi-government owned peers such as Jernhusen, Sveaskog, Rikshem and Hemsö.

● **Flat revenues and lower profits in the first three quarters of 2016**

Net revenue was flat in the first three quarters of 2016, compared with the same period in 2015. Passenger related revenue increased, offset by lower reduction in aviation charges and lower rental income following the sale of the property portfolio. As of 1 April 2015, Swedavia reduced its charges to airlines by 3.7%, which are now about 20pp below comparable airports. From 1 April the company communicated another 0.8% cut. EBIT, excluding one-offs, was SEK 733m in the first three quarters of 2016 compared with SEK 859m in the same period of 2015, due to higher staff and security costs, on the back of higher passenger numbers and stricter security regulations.

Analyst

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Key credit metrics & ratios

	2012	2013	2014	2015	2016E	2017E	2018E
Revenues (SEKm)	4,965	5,233	5,885	6,475	5,778	5,890	6,004
EBITDA (SEKm)	1,681	1,887	2,400	2,679	1,940	1,992	2,044
EBITDA margin	33.9%	36.1%	40.8%	41.4%	33.6%	33.8%	34.1%
FOCF (SEKm)	-195.0	279.0	1,168	256.0	-806.9	-858.6	-834.2
Adjusted EBITDA net int. cover. (x)	5.7	7.0	9.9	11.6	14.7	12.5	11.0
Adjusted net debt to EBITDA (x)	5.1	5.0	3.3	1.8	3.0	3.5	3.9
Adjusted FFO / Net debt	14%	16%	22%	29%	28%	24%	21%

Source: SEB

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

Credit strengths

- High likelihood of support from the Swedish government.
- Very strong competitive position in Sweden.
- Long-term passenger growth.
- Strong pricing power and solid cash flow capacity.

Credit concerns

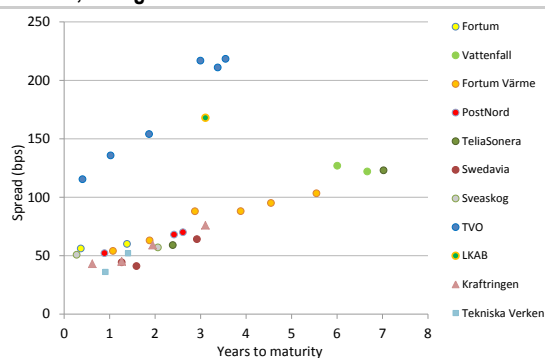
- Newly formed company with limited history.
- Significant capex programme.
- Large exposure to a few companies such as SAS.
- Exposed to cyclical demand with a relatively fixed cost base.

Selected outstanding bonds

Issuer	Sector	Public	SEB	Issue date	Maturity date	Cpn type	Cpn	Amount	Spread	Recommendation
Swedavia	Property	N.R./N.R.	A	10/07/2014	10/07/2029	Floating	3mS+97	SEK 100m	121	Marketweight
Swedavia	Property	N.R./N.R.	A	19/06/2014	19/06/2024	Floating	3mS+80	SEK 100m	106	Marketweight
Swedavia	Property	N.R./N.R.	A	02/10/2013	02/10/2019	Fixed	3.125%	SEK 200m	67	Marketweight
Swedavia	Property	N.R./N.R.	A	04/06/2013	04/06/2018	Floating	3mS+65	SEK 500m	48	Marketweight
Swedavia	Property	N.R./N.R.	A	05/02/2013	05/02/2018	Floating	3mS+70	SEK 500m	40	Marketweight

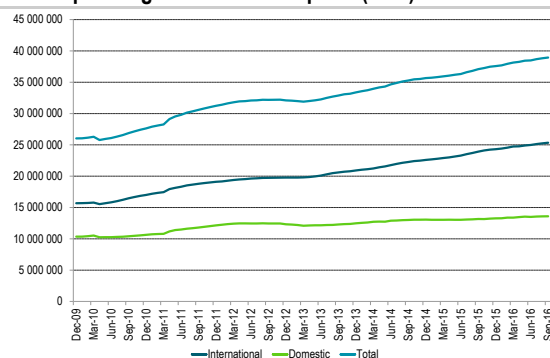
Source: Bloomberg and SEB

Relative value, SEK government related bonds



Source: SEB and Bloomberg

Number of passengers Swedavia airports (LTM)



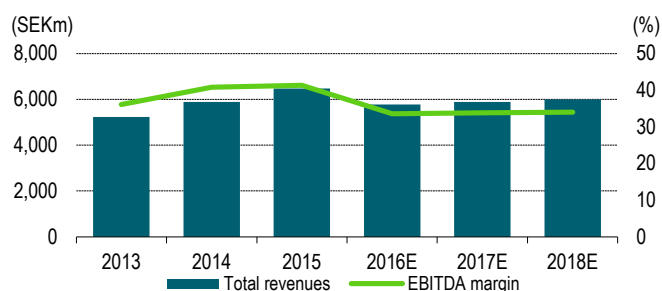
Source: Swedavia

Financial statement summary - Adjusted numbers (SEKm)

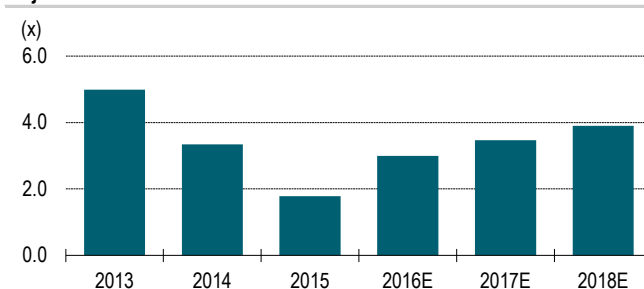
Income statement	2014	2015	2016E	2017E
Revenues	5,885	6,475	5,778	5,890
EBITDA	2,400	2,679	1,940	1,992
Net income (reported)	926.0	1,411	643.9	647.7
Cash flow statement	2014	2015	2016E	2017E
Funds from operations (FFO)	1,765	1,397	1,626	1,650
Operating Cash Flow	2,109	1,374	1,693	1,641
Free Operating cash flow	1,168	256.0	-806.9	-858.6
Pre-financing cash flow	1,721	3,086	-1,038	-1,091
Balance sheet	2014	2015	2016E	2017E
Cash (and equivalents)	112.0	6.0	6.0	6.0
Total debt	8,125	4,780	5,818	6,909
Net debt	8,013	4,774	5,812	6,903
Equity	5,571	6,863	7,276	7,692
Total assets (reported)	15,266	13,259	14,933	16,451
Key credit metrics & ratios	2014	2015	2016E	2017E
Net debt to EBITDA (x)	3.3	1.8	3.0	3.5
Net debt to capital	59%	41%	44%	47%
FFO / Net debt	22%	29%	28%	24%
Equity ratio	36%	52%	49%	47%

Source: SEB and Swedavia financial reports

Revenues and EBITDA margin



Adjusted net debt / EBITDA



Source: SEB and Swedavia financial reports

Profit & loss statement

(SEKm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Total revenues	4,693	4,965	5,233	5,885	6,475	5,778	5,890	6,004
Total expenses	-3,080	-3,284	-3,346	-3,485	-3,796	-3,838	-3,898	-3,959
EBITDA	1,613	1,681	1,887	2,400	2,679	1,940	1,992	2,044
Depreciation	-831	-850	-940	-995	-924	-1,004	-1,024	-1,045
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	782	831	947	1,405	1,755	936	967	1,000
Associated companies	14	19	8	0	22	22	22	22
Net interest expenses	-239	-296	-268	-243	-230	-132	-159	-186
Value changes	0	0	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0	0	0
Reported pre-tax profit	557	554	687	1,162	1,547	826	830	836
Minority interests	-9	-10	0	0	0	0	0	0
Total taxes	-118	-108	-185	-236	-136	-182	-183	-184
Net profit	430	436	502	926	1,411	644	648	652
EBITDA margin	34.4	33.9	36.1	40.8	41.4	33.6	33.8	34.1
EBIT margin (%)	16.7	16.7	18.1	26.1	32.4	16.8	17.0	17.2
Tax rate (%)	21.2	19.5	26.9	20.3	8.8	22.0	22.0	22.0
Growth rates y-o-y (%)								
Total revenues	0.0	5.8	5.4	2.9	0.6	3.0	2.0	2.0
EBITDA	n.a.	4.2	12.3	27.2	11.6	(27.6)	2.7	2.6
EBIT	0.0	6.3	14.0	48.4	24.9	(46.7)	3.4	3.3
Pre-tax profit	0.0	(0.5)	24.0	69.1	33.1	(46.6)	0.6	0.6

Cash flow

(SEKm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
FFO	1,108	1,188	1,499	1,765	1,397	1,626	1,650	1,675
Changes in working capital	46	305	-160	344	-23	67	-9	-9
Operating cash flow	1,154	1,493	1,339	2,109	1,374	1,693	1,641	1,666
Net capital expenditures	-1,042	-1,688	-1,060	-941	-1,118	-2,500	-2,500	-2,500
Free operating cash flow	112	-195	279	1,168	256	-807	-859	-834
Dividend paid	-9	-9	-9	-10	-231	-231	-232	-232
Acquisitions, divestments net	24	-1,653	-1,198	563	3,061	0	0	0
Pre-financing cash flow	127	-1,857	-928	1,721	3,086	-1,038	-1,091	-1,066
Net loan proceeds	-305	1,845	851	-1,662	-3,185	1,038	1,091	1,066
Share issue	0	0	0	0	0	0	0	0
Other	0	0	0	1	-8	0	0	0
Net change in cash	-178	-12	-77	60	-107	0	0	0
Capex/sales (%)	22.2	34.0	20.3	17.5	20.6	44.8	43.9	43.1

Balance sheet

(SEKm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash and liquid assets	141	129	52	112	6	6	6	6
Other current assets	875	951	959	773	868	1,024	1,044	1,065
Long-term financial assets	272	211	147	108	988	1,010	1,032	1,054
Fixed tangible assets	10,487	13,040	14,523	13,652	10,782	12,278	13,754	15,209
Intangibles	439	457	452	621	615	615	615	615
Total assets	12,214	14,788	16,133	15,266	13,259	14,933	16,451	17,949
Interest bearing debt	5,972	7,892	8,711	7,282	3,937	4,975	6,066	7,132
Other liabilities	2,251	2,595	2,507	2,413	2,459	2,682	2,694	2,706
Minority interests	9	10	11	0	0	0	0	0
Shareholders' equity	3,980	4,290	4,904	5,571	6,863	7,276	7,692	8,112
Total liabilities and equity	12,212	14,787	16,133	15,266	13,259	14,933	16,451	17,949
Net debt (m)	6,565	8,547	9,408	8,013	4,774	5,812	6,903	7,969
Net debt/equity (%)	164.6	198.8	191.4	143.8	69.6	79.9	89.7	98.2
Equity/total assets (%)	32.7	29.1	30.5	36.5	51.8	48.7	46.8	45.2
Net debt/EBITDA (x)	4.1	5.1	5.0	3.3	1.8	3.0	3.5	3.9
EBITDA Interest cover	6.5	5.6	6.9	9.7	11.4	14.6	12.5	11.0

Main shareholders

Name	(%)	Votes	Capital	Management		Company information	
				Title	Name	Contact	
The state of Sweden		100.0	100.0	COB	Åke Svensson	Internet	www.swedavia.com
				CEO	Karl Wistrand	Phone number	+46 10 109 00 00
				CFO	Mats Pålsson		

Company description: Swedavia was created in April 2010. It owns, operates and develops 10 airports in Sweden and is a part of the national airport infrastructure. Swedavia's most important customers are passengers, airlines and tenants. The main driver of revenues is the number of passengers. It is 100% owned by the Swedish state.

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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	A*	B*
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Underweight	10.2%	3.4%

A* denotes recommendations for all companies covered

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Recommendation History

Instrument	Recommendation	Date
Swedavia 5 Feb 2018 2.5	Marketweight	29 Apr 2013
Swedavia 5 Feb 2018 3mS+70	Marketweight	29 Apr 2013
Swedavia 30 May 2016 3mS+45	Marketweight	16 Aug 2013
Swedavia 4 June 2018 3mS+65	Marketweight	16 Aug 2013
Swedavia 9 May 2016 3mS+48	Marketweight	16 Aug 2013
Swedavia 2 Oct 2019 3.125	Marketweight	30 Oct 2013
Swedavia Jul 2029 3mS+97	Marketweight	8 Sep 2015
Swedavia Jun 2024 3mS+80	Marketweight	8 Sep 2015

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