Credit Research

Swedavia

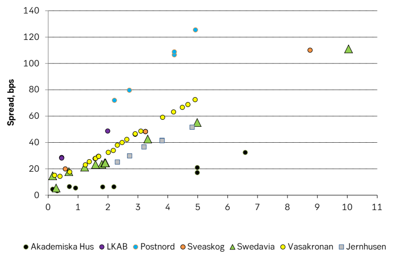
Please note: the statement at the rear of this report contains details of investment banking services recently provided by SEB which could be considered relevant to the subject matter of this report.

Company Update	Property	Sweden	28 June 2019

Public ratings

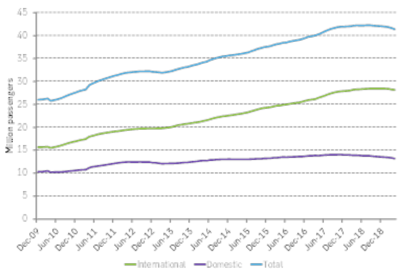
Moody's:	N.R.
S&P:	N.R.
Fitch:	N.R.
Market cap (SEKm)	Not listed

Relative value



Source: SEB and Bloomberg

Passenger volumes



Source: SEB, Swedavia

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

Please prepare for gate departure

Operating at its capacity limits following years of growth, Swedavia is in the middle of major expansion investments. This and recently weak traffic data put pressure on cash flow and credit metrics. However, recent price increases demonstrate its pricing power and offset these impacts, and the dividend policy change signals flexibility from the owner. We maintain Marketweight on the bonds.

Overall solid credit profile thanks to competitive position, ownership

Swedavia's solid credit profile is supported by its very strong competitive position in Sweden (90% of traffic), strong pricing power and cash generation capacity, together with supportive ownership structure. The strengths are partly offset by the ongoing investments that will continue to put pressure on credit metrics in the coming years, together with a significant airline customer concentration. Swedavia operating close to its capacity limit and expected growth in aviation globally validate the capacity expansion. Swedish traffic volumes have now been sluggish for several months however, partly explained by increased environmental concerns. Swedavia's targets to reduce its own and also its customers' CO_2 emissions aim to address these concerns.

We maintain Marketweight on the bonds

We maintain Marketweight recommendations on Swedavia's bonds. The spreads are indicated tight but the relative value to local peers seems fair to us; Swedavia's spreads are broadly in line with Jernhusen, slightly tighter than Vasakronan and at a premium to Akademiska Hus.

Price increases partly offset investments and recent weak traffic

We have revisited our estimates in connection with an analyst change. While we assume passenger volume growth to return only from 2021, price increases and the impact from efficiency should assist earnings growth. Reflecting the investments, Swedavia needs to grow its net debt through the forecast period. We estimate a slight weakening in credit metrics through 2019-21, but expect the company to remain within its 70-150% gearing target. FFO/adjusted net debt at 14-17% for 2019-21E remains comparable to key peers.

Key credit metrics & ratios

	2015	2016	2017	2018	2019E	2020E	2021E
Revenues (SEKm)	5,416	5,546	5,745	5,922	6,264	6,513	6,842
EBITDA (SEKm)	2,670	1,954	1,703	1,784	2,407	2,285	2,562
EBIT (SEKm)	1,755	966.0	651.0	681.0	1,139	941.9	1,144
FFO (SEKm)	1,397	1,483	1,330	1,496	1,982	1,884	2,094
FOCF (SEKm)	185	-500	-2,238	-1,688	-1,610	-1,726	-1,492
Net debt (m)	4,486	4,896	7,290	10,350	11,960	13,706	15,239
Equity	6,863	7,351	7,665	8,066	8,923	9,590	10,374
EBITDA margin	49.3	35.2	29.6	30.1	38.4	35.1	37.4
EBIT margin (%)	32.4	17.4	11.3	11.5	18.2	14.5	16.7
Adjusted EBITDA net int. cover. (x)	7.6	10.7	13.6	15.2	16.8	16.2	14.0
Adjusted net debt to EBITDA (x)	2.6	3.2	4.1	5.2	5.8	6.0	6.3
Adjusted FFO / Net debt	31%	26%	17%	15%	17%	14%	14%
Adjusted net debt to capital	40%	45%	52%	56%	57%	59%	59%

Source: SEB

Credit profile summary

We believe Swedavia's solid credit profile is supported by its very strong competitive position in Sweden, barriers to entry that enable strong pricing power and cash generation capacity, and its supportive ownership structure. These strengths are partly offset by the ongoing investment programme, which requires debt accumulation and will put pressure on credit metrics in the coming years together with significant airline customer concentration.

Following the passenger growth in the 2010s, Swedavia is operating close its capacity limits and with an expectation of growth in aviation globally, Swedavia is expanding its capacity. Traffic volumes in Sweden have been sluggish lately however, partly explained by increased environmental concerns, which underscore the importance of Swedavia executing on its sustainability targets.

Credit strengths:

- Very strong competitive position demonstrated by 90% market share of Swedish passenger volumes.
- High likelihood of extraordinary support from the Swedish government reflecting 100% ownership, the definition of airports as national infrastructure, and the overall importance of the sector to the economy
- Strong pricing power and solid cash flow generation capacity.
- Favourable long-term outlook for passenger volume growth globally.

Credit concerns:

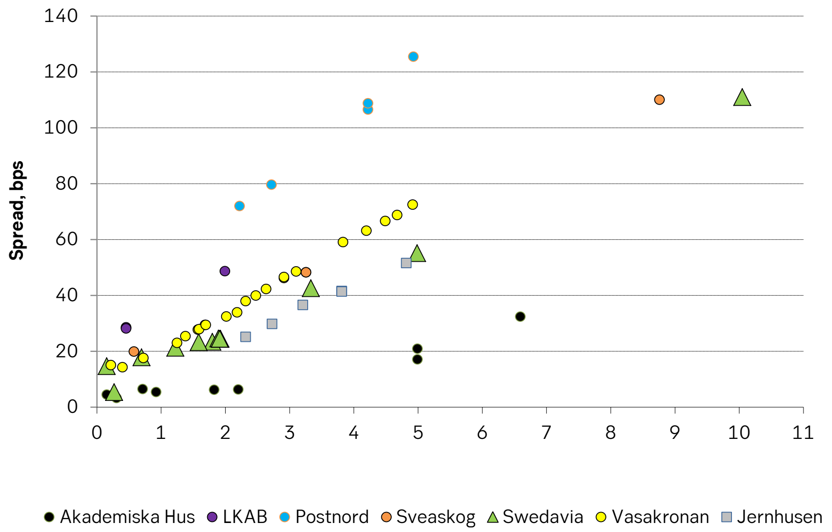
- Current expansion investment programme of SEK 44bn in 2016-25 suggests continued debt accumulation and some deterioration in credit metrics through the period.
- Passenger volumes in Sweden have been sluggish for several months in a row.
- Significant exposure to a few airlines, including SAS and Norwegian.
- Somewhat limited liquidity in the context of large investments.

Bond valuation

We rate the bonds Marketweight

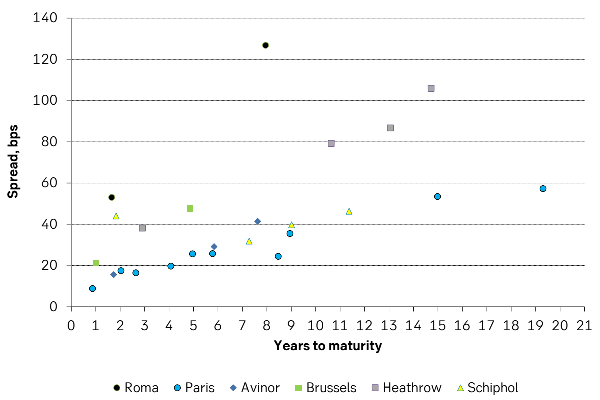
Swedavia's bonds are in our view fairly price in the credit qualities on a relative basis to local peers with similar characteristics or ownership structure; the bond spreads are indicated broadly in line with Jernhusen (-/A), slightly tighter than Vasakronan's (A3/-) curve and with a premium over Akademiska Hus (-/AA), with all these companies benefiting from ownership by the Swedish government. We assign Marketweight recommendations to Swedavia bonds.

Relative value (SEK)



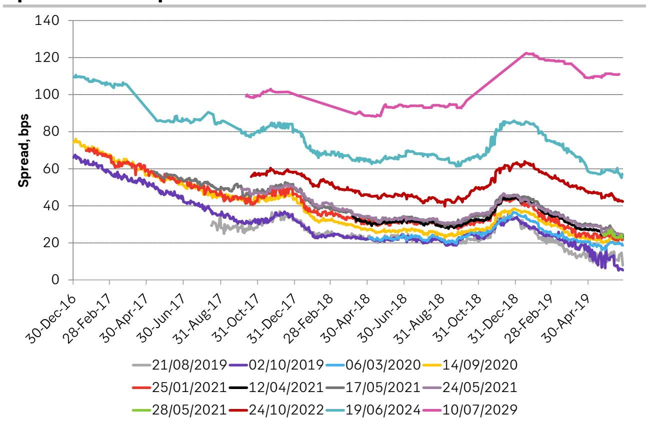
Source: SEB, Bloomberg

Relative value (EUR)



Source: SEB, Bloomberg

Spread development



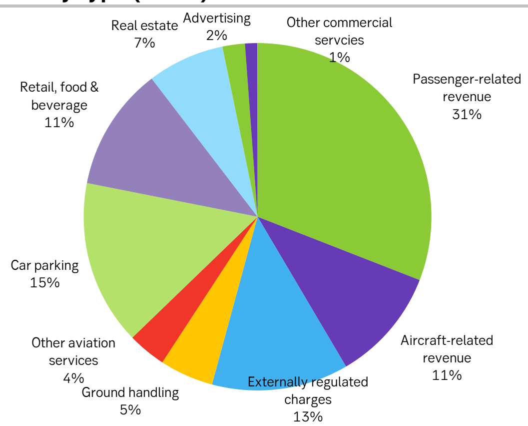
Source: SEB, Bloomberg

Business profile

Company overview

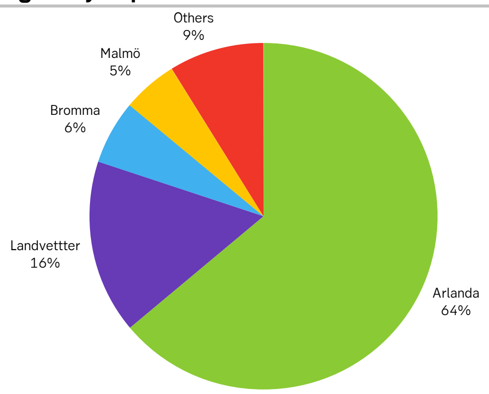
Swedavia operates and develops 10 airports in Sweden, which are part of the national airport infrastructure and account for around 90% of total aviation passenger volumes in Sweden. The three largest airports, Arlanda, Landvetter and Bromma handled nearly 90% of Swedavia's total passenger volume of 42m in 2018 and the majority of international connections.

Revenues by type (2018)



Source: SEB, Swedavia

Passengers by airport

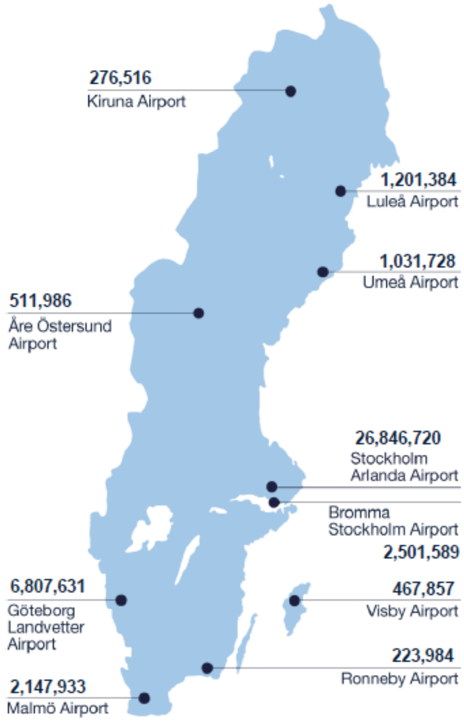


Source: SEB, Swedavia

Swedavia's revenues amounted to SEK 5.9bn in 2018. The Swedish government is the sole shareholder of the company. Its main customers are passengers, airlines and tenants in its business premises. The number of passengers is the main revenue driver for most of its business activities. Aviation-related revenue accounted for 62%, car parking 15% and retail 12% of total revenues in 2018, with the rest from properties, advertising and other services. The two business areas are Aviation Business and Commercial Services:

- Revenue from Aviation Business (62% of sales) consists of passenger-related revenue, aircraft-related revenue, external regulated charges, ground handling and other supplementary services. This revenue is related to the provision of infrastructure aimed at airlines and ground handling companies for take-offs and landings.
- Revenue from Commercial Services (37% of sales) consists of revenue from car parking services, retail, food & beverage, property revenue, advertising and other commercial services. This revenue is related to services associated with the airports such as the leasing of premises, car park facilities and the provision of advertising space.

Airports and passenger volumes



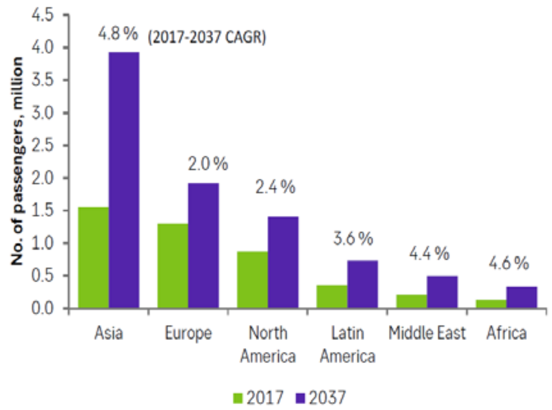
Source: Swedavia

Global air travel in long-term growth

IATA expect 3.5% long-term annual growth in air travel globally, led by Asia

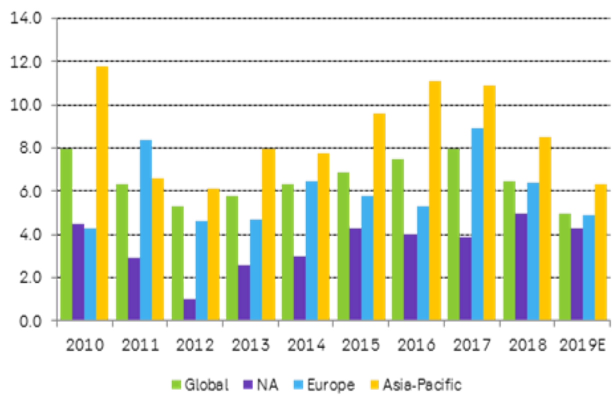
According IATA's (the International Air Transport Association) estimates, the number of airline passengers globally will approximately double to 8.2bn by 2037, implying a CAGR of 3.5% for the next 20 years. This growth is expected to be led by Asian markets, supported by the growing middle class and growing popularity of overseas tourism. In Europe, IATA foresees annual growth of around 2%.

Global air travel set to grow, driven by Asia



Source: SEB, IATA

Growth in revenue passenger kilometres



Source: SEB, IATA

Relatively strong growth also in Europe in recent years

Over the past five years, growth (measured in passenger revenue kilometres) has been driven especially by Asia and the Middle East. Passenger traffic growth in Europe has been more modest, but still relatively robust in the context of slow GDP growth. In 2019, IATA expects passenger volume growth to slow somewhat from 2018 across regions.

Demand for aviation is driven by the general economy and is hence cyclical, while also driven by megatrends. Industry risk associated with airlines (Swedavia's customers) is typically high for a number of reasons, including volatile income and cost drivers, fragmented markets, competition etc.

Airports benefit from significant barriers to entry, but growth requires investments

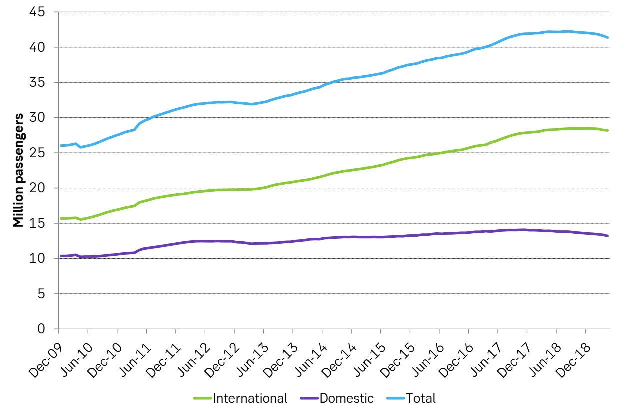
Airports on the other hand typically benefit from strong/monopolistic local market positions with regulation and capital intensity providing barriers to entry. The typical pricing mechanisms between airports and airlines also bring visibility and limit the volatility of cash flow profiles. Therefore, the industry risk profile of airports is typically stronger than their customers or that of many other industries. The projected growth in aviation is also putting pressure on the capacity of airport infrastructure globally – implying high capacity utilization rates and pricing power, but also a requirement for capacity expansion capex.

Swedish traffic has declined recently

Strong passenger volume growth in 2009-17, but sluggish traffic in recent months

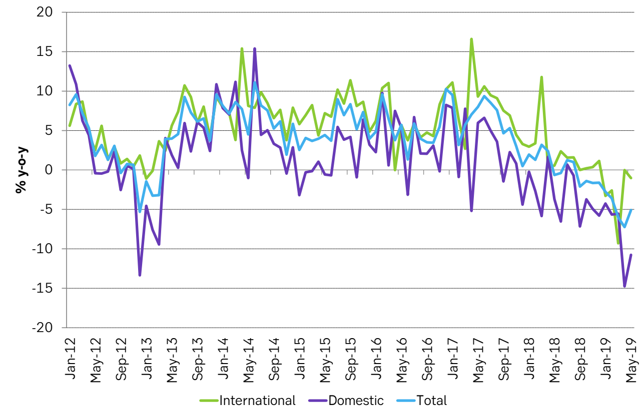
Swedavia's passenger volumes experienced strong growth in 2009-17 at 6.1% CAGR with international flights at 7.5% and domestic at 3.9%. Since September 2018, all monthly passenger volume releases have shown negative numbers, driven by a reduction in domestic volumes and slower growth in international volumes. In May, passenger volumes at 42.1m were down by 2% from the previous year on a 12-month rolling basis.

Passenger volumes, 12m



Source: SEB, Swedavia

Monthly passenger growth volumes



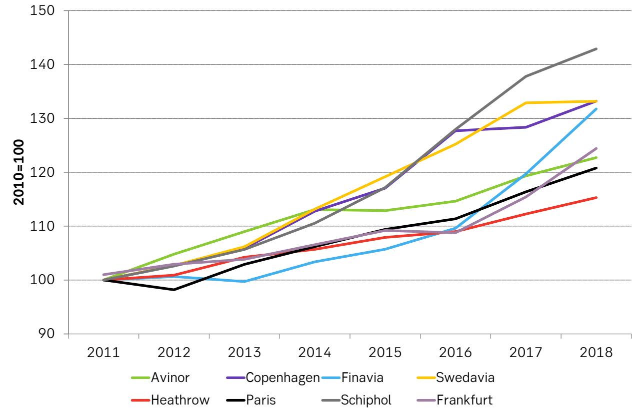
Source: SEB, Swedavia

We believe the recent decline reflects a combination of:

- A flight tax that was introduced in Sweden in 2018.
- Intensive media publicity on carbon emissions in the media leading to people avoiding flying.
- A weak Swedish krona limiting enthusiasm for travel.
- SAS's pilot strike impacting recent readings.
- Tough comparisons following very strong growth previously.

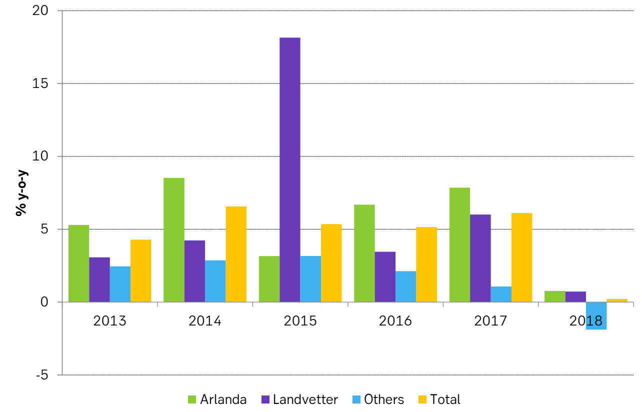
With passenger volume as the key income driver, the trend for flight avoidance in particular is to some extent concerning and requires follow up. While recent data points have been quite sluggish, CAGR of 5.5% from 2009 still remains relatively strong. We estimate Swedavia's passenger volume growth to be muted in 2019-20, but return to growth from 2021, supported by the industry's growth globally.

Passenger volumes compared to peers



Source: SEB, company reports

Passenger volume growth by airport



Source: SEB, Swedavia

Strong competitive position

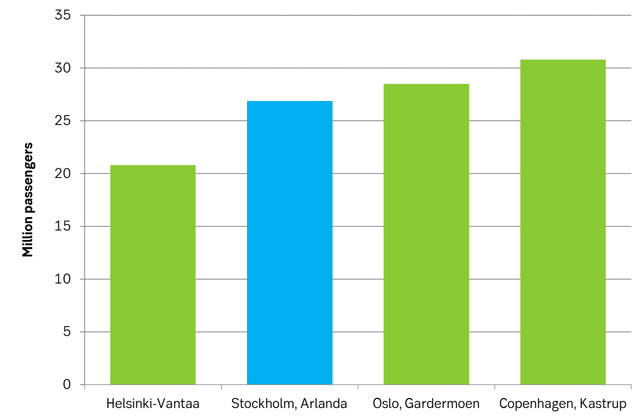
Swedavia accounts for 90% of passenger volumes in Sweden

With around 90% of Swedish passenger volumes, Swedavia has a dominant role in air travel in Sweden. All 10 of its airports are considered as national basic infrastructure by the Swedish government and Swedavia owns the land on which they are located except for Bromma. Two of the airports are operated in co-operation with Swedish Air Force. Other airports in Sweden are mostly local, except for Stockholm Skavsta, which is owned by Vinci, and which focuses on low cost airlines.

Competitive airport fees compared to peers

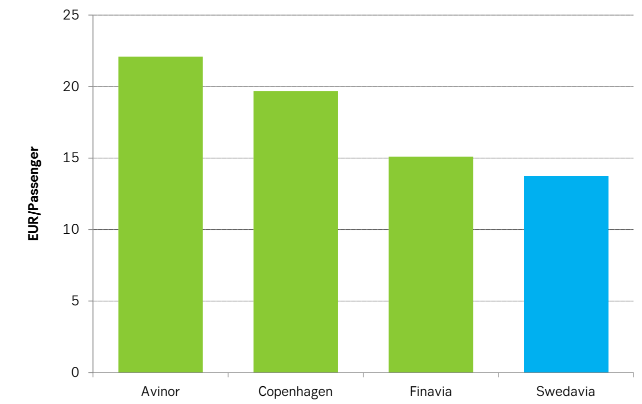
In international traffic, Arlanda competes in particular with other Nordic capital cities. According to Swedavia, its airport fees have been around 20% lower than those of its main competitors in recent years (comparison on revenue per passengers supports this thesis), which has been an intentional strategy to attract higher volumes. With significant price increases at the beginning of 2019, the pricing gap has likely narrowed to some extent.

Passenger volumes in Nordic capitals



Source: SEB, company reports

Revenue per passenger



Source: SEB, company reports

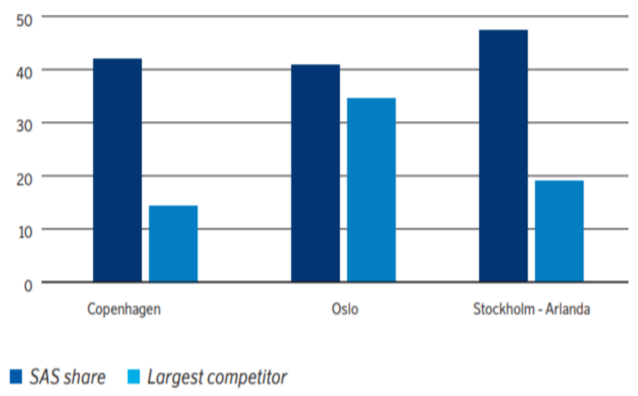
Swedavia's targets include reaching a passenger satisfaction index of 85% by 2025, a target which was recently postponed reflecting the large investments that consequently also impact the customer experience. In 2018, the score was 74% .

High airline customer concentration

Two airlines make up close to 70% of volumes in Arlanda

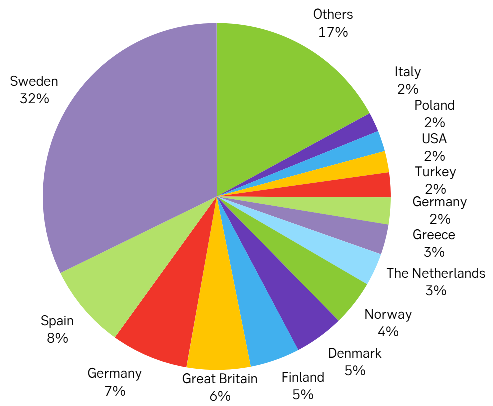
According to Swedavia, its four largest airline customers (in alphabetical order) are Bra, Lufthansa, Norwegian and SAS . Based on company reports, we assume the two largest are SAS (B1/B+) and Norwegian Air Shuttle (unrated), together making up close to 70% of departures from Arlanda airport.

SAS share of departures from major Scandinavian airports



Source: SEB, SAS (2018)

Passengers by destination (2018)



Source: SEB, Swedavia

Bankruptcy of a large client would put pressure on earnings in the short term

If any of the largest customers were to cease to operate, due to bankruptcy for example, it would likely cause a material revenue shortfall in the short term. We however believe competing airlines would take over these volumes over time in such a scenario, limiting the medium- to longer-term impact. However, that could still mean changes in passenger volumes through rerouting, impacting the number of transfer passengers for instance.

Norwegian's growth strategy has led to significant debt accumulation over the past years and while an equity raise in H1 2019 brought leeway to covenants, its financial metrics remain fairly weak. Additionally, Norwegian is exposed to the problems associated with 737 Max planes currently. SAS has improved its profitability compared to past years, but its leverage remains relatively high, which is reflected in its ratings.

SEK 44bn capex plan for 2016-25

Expansion investments to meet expected volume growth and to improve sustainability

Swedavia is currently implementing a major development and investment programme in its airports intended to increase its currently constrained capacity to meet its expectation for future passenger volume growth and for its airports to remain competitive. The company's plan is to invest SEK 44.4bn in 2016-25 across all airports, predominantly in Arlanda (SEK 29.1bn) where its target is to make it the leading Nordic airport and a role model in sustainability in an international perspective. We estimate annual maintenance capex at slightly above SEK 1bn.

The total amount of SEK 44.4bn includes SEK 7.2bn for a possible long-term "Masterplan", for which the go-ahead has not yet been decided, and SEK 5.1bn in real estate investments, of which most has been already sold to external parties and are expected to bring in sales gains. So far SEK 9bn of the programme has been invested, with SEK 28bn (excluding Masterplan) remaining for 2019-25.

Together with increased capacity for passengers and airlines, Swedavia' target is to build more meeting places, improved mass transit together with restaurants, shopping opportunities and hotels. among other things.

Planned investments by airport and business area

Investments 2016-2025	(SEKbn)
Stockholm Arlanda	29.1
Of which the development programme	17.3
Of which the Master Plan	7.2
Göteborg Landvetter	3.5
Bromma Stockholm	1.6
Regional Airports	1.8
Real Estate	5.1
Group-wide	3.3
Total	**44.4**

Source: SEB, Swedavia

Aims to lift Arlanda's capacity to 40m passengers from current 27m

Arlanda airport's passenger volume (27m) has grown by around 60% from 2010 and is currently operating close to its capacity limits. With current investments, Swedavia expects to be able to handle 40m passengers per year, securing capacity for growth well into the future. In its long-term planning, Swedavia estimates annual passenger volume growth slightly above 2%. In Landvetter, the SEK 3bn expansion project aims to lift passenger volumes to 8m from 6.8m currently.

The project in Arlanda covers a terminal expansion, a new airport maintenance area, more aircraft parking stands, improved baggage systems and more security screening flows among other things. Landvetter's expansion similarly involves a number of improvements, including a terminal expansion.

Kingdom of Sweden the sole owner

Swedavia is 100% owned by the Swedish state (Aaa/AAA). The corporate governance setup separates the responsibilities between the owners, the board and management, while the Ministry of Finance represents the state at Swedavia's AGM, which nominates Swedavia's board members.

Ownership, specific mission, national infrastructure and Sweden's economic structure signal importance

We believe the company's and sector's strategic importance to the government are underlined by the ownership structure, the specific mission that the government has set for the company, the treatment of Swedavia's assets as national infrastructure, and Sweden's export-oriented economy. This leads us to believe there are strong incentives for the government to support the company in a theoretical case of financial distress. The recent adjustment to Swedavia's dividend payout policy and zero dividends paid from 2018 signals to us the owner's flexibility regarding its cash return targets from the company. Additionally, the change of control clause in the Medium Term Note (MTN) programme would be trigged if the government were to reduce its ownership from 100%, adding to investor protection.

Clearly defined financial targets, but also expected to serve the public benefit

The Swedish Government has set Swedavia a mission to actively contribute to the development of the Swedish transport sector and to the transport policy objectives adopted by the Parliament, within the framework of its business operations. In practice, while Swedavia has clearly-defined financial targets, it is also expected to serve the public benefit. The Government's Aviation Strategy (Feb 2017) describes the role of aviation in providing accessibility in and out of Sweden and says that state-owned airports are the foundation of the system. Among other things, the strategy also separately notes the importance of Arlanda airport and requires aviation, along with other modes of transportation to help meet Sweden's CO2 reduction targets.

An assumed level of possible government support also plays a significant role in the rating agencies' views on airport infrastructure owning corporations. Following S&P's methodology, we assume the link to the government would be indicative of at least a "moderately high" likelihood of extraordinary government support, but possibly up to "very high". These classifications typically suggest from zero to four notches higher rating for an entity compared to its standalone credit assessment. For instance, S&P considers the likelihood as "very high" for Avinor (Swedavia's Norwegian peer) with four notches uplift, but a lower likelihood for many other peers with government ownership. Moody's on the other hand uses a three notch uplift to Avinor's stand-alone rating and no uplift in the case of Copenhagen Airports where the Danish government has a 40% stake in the company. These types of classifications however necessarily involve subjective elements.

We are not aware of technical obstacles to whether the Swedish state could provide financial support to Swedavia. However, any such support would need to be done in a way that would not breach the EU's anticompetitive rules. In this context, the European Commission this month started an investigation to assess whether capital injections granted by Denmark and Sweden to PostNord and Post Danmark are in line with EU state aid rules.

Financial and non-financial targets

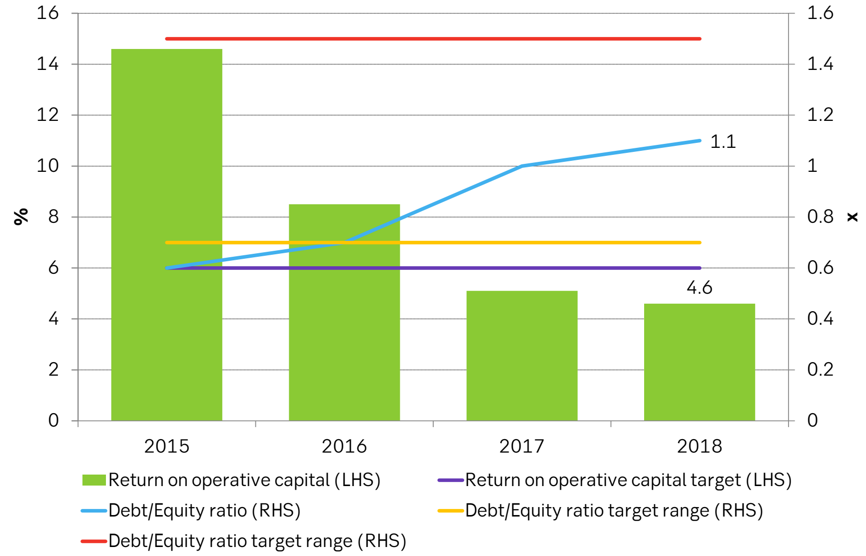
Targets 6% return on operating assets, 70-150% gearing, dividend policy recently revised

Swedavia's financial targets include 6% return on operating assets, 70-150% net debt to equity ratio and a recently updated dividend policy targeting 10-50% (previously 30-50%) payouts on annual net income. Non-financial targets include passenger satisfaction, employee engagement and renewable fuel usage targets by 2025.

Strategy summary

Source: Swedavia

Financial targets



Source: SEB

Emission reductions high on the agenda

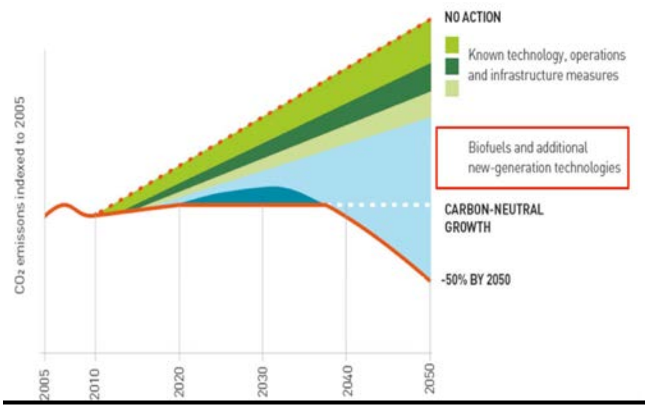
Targets zero own emissions by 2020 and 5% renewable fuel blending by 2025

In the context of expected global growth in passenger volumes, the key sustainability issue for the industry revolves around how to limit and reduce emissions associated with air travel, accounting for around 2% of global CO2 emissions. Swedavia's environmental targets include no fossil carbon dioxide emissions from its own operations starting in 2020 – an area in which it has made consistent progress. As a relatively new goal, Swedavia has introduced a target that 5% of the aviation fuel being refuelled at its airports must be renewable in 2025. The target is in line with Swedish government's target to make domestic flights fossil free by 2030 and all flight fossil free by 2045.

Reducing emissions could help to address sustainability concerns

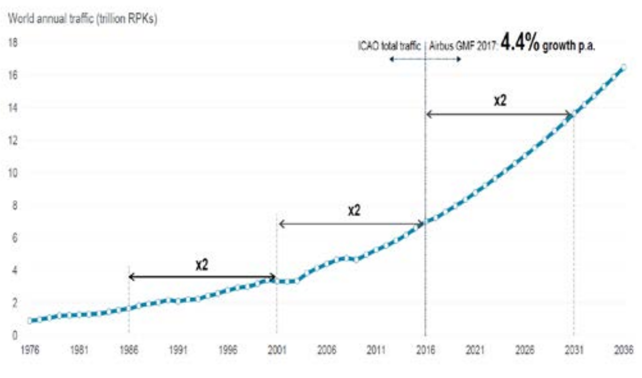
Renewable HVO fuels offer up to 90% reduction in CO2 emissions. Availability of the product has so far been the key bottleneck for airlines, but with new plants entering the market in 2021 and later, fulfilling the 5% target in 2025 appears realistic in our view (the 2030 target of fossil-free domestic flights would require around 200k m3 HVO, all flights would require around 1.2m m3). For Swedavia, this does not mean major new infrastructure to be built at airports. Evidence of reaching lower emissions could improve the industry's image and sustainability credentials, thereby assisting the long-term passenger volume outlook.

CO2 emissions from aviation



Source: SEB, Air France/KLM

Growth in revenue passenger kilometres



Source: SEB, Airbus

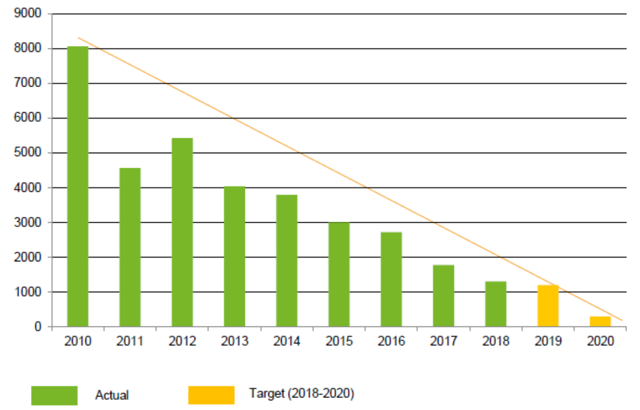
HVO more expensive than fossil fuels however

The cost of biofuels however is higher than for fossil fuels and an additional cost burden to airlines, which would likely be passed on to ticket prices. The risk to the industry and Swedavia is whether higher ticket prices would affect willingness to travel, or whether airlines would consider rerouting to airports without a similar cost burden. The latter is however mitigated by Swedish targets applying to domestic flights and with Norway and Finland also being in the process of implementing CO2 emission cut targets for aviation.

CORSIA and EU's emission trading scheme also aim to limit emissions

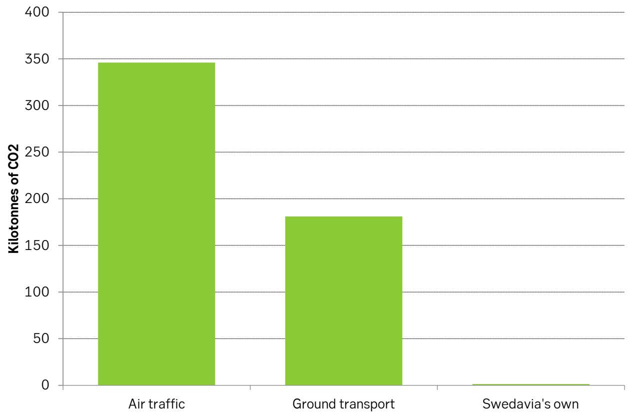
At the same time, CORSIA, the aviation industry's own mechanism targeting carbon neutral growth from 2020 implies that participating airlines need to find ways to reduce their emissions in the context of forecasted passenger volume growth. The key ways to achieve this based on today's technologies include more advanced aircraft technology, renewable fuels and other offsetting mechanisms. Airlines operating within the EU are also part of its emission trading scheme where increasing CO2 emission prices would imply a higher cost burden unless airlines find ways to reduce their emissions.

Swedavia's target on own CO2 emissions (tonnes)



Source: Swedavia

Direct and indirect CO2 emissions



Source: SEB, Swedavia (landing and take-off cycle, passengers' transportation to airports)

Financial profile

Income and profitability

Passenger volume key revenue driver…

Most of Swedavia's revenue lines are largely linked to the volume of passengers using its airports with 1% change in volume implying some SEK 40m impact on operating profit. Externally regulated charges (13% of revenues in 2019) relate to security checks for which Swedavia invoices the government based on providing this service.

…together with pricing, which is based on consultation processes with volume and WACC as key inputs

The mechanism by which Swedavia charges its customers are based on an annual consultation processes with the airport users, which is overseen by the Transportation Agency. The key drivers for the price setting process include estimates of passenger volumes and Swedavia's WACC requirement on its operating capital (5.9% for 2019). A traffic risk sharing programme mitigates the risk for different parties relating to traffic forecast deviations, and a similar system for investments protects the parties from deviations relating to actual and forecasted capex.

Major price increases were announced in early 2019

Price increases of around 12% at the beginning of 2019 demonstrate the company's pricing power. This comes in the context that Swedavia has historically set its pricing below peers and the return on invested capital (as well as WACC) has come down on the back of large investments.

We estimate a large share of Swedavia's operating costs is relatively fixed in the short term, with staff expenses the largest cost item (57% of opex in 2018). In January, Swedavia announced a plan to lay-off 125 employees (4% of total) as a result of its efficiency programme.

We estimate EBITDA growth in 2019-21 on pricing and efficiency measures

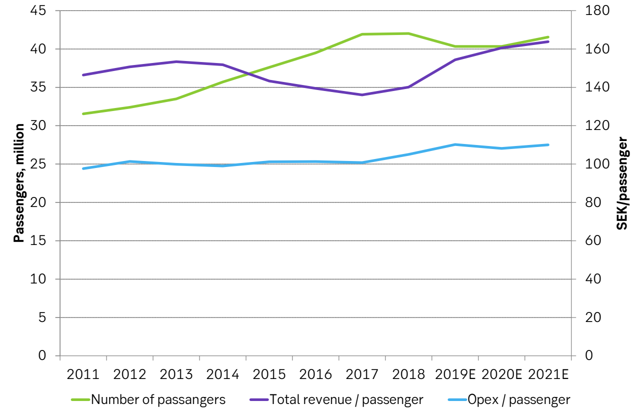
We estimate 2019 revenues to increase by 6% driven by the significant price increases that were announced at the start of the year on 4% lower passenger volumes (January-May was down 5% from 2018). We assume zero growth in passenger volumes in 2020 and growth of 3% in 2021 and that prices will be raised by 2-4% in 2020-21. The latter may be on the conservative side in the light of the weak passenger trend so far this year and the WACC that is used in pricing contracts. The impact from efficiency measures is likely more visible in H2 and more significantly so in 2020. These together imply 5-11% annual growth in EBITDA excluding non-recurring items for 2019-21E. Sales gains from the completing and already sold real estate projects should support lower P&L lines in late 2019 and 2021.

Summary P&L

(SEKm)	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Group Revenues	**5,233**	**5,538**	**5,416**	**5,546**	**5,745**	**5,922**	**6,264**	**6,513**	**6,842**
Operating expenses	-3,346	-3,187	-2,746	-3,592	-4,042	-4,138	-3,857	-4,229	-4,280
EBITDA	**1,886**	**2,351**	**2,670**	**1,954**	**1,703**	**1,784**	**2,407**	**2,285**	**2,562**
Depreciation & amortisation	-940	-946	-915	-988	-1,052	-1,103	-1,268	-1,343	-1,418
EBIT	**946**	**1,405**	**1,755**	**893**	**587**	**630**	**974**	**867**	**1,069**
Income from associated companies	8	0	22	41	37	53	55	57	60
Financial income	4	6	4	6	5	4	0	0	0
Financial expenses	-272	-248	-234	-144	-118	-96	-123	-141	-174
Pre-tax profit	**686**	**1,162**	**1,547**	**796**	**511**	**591**	**907**	**783**	**955**
Tax	-185	-236	-136	-152	-167	-125	-214	-172	-206
Net Income	**511**	**926**	**1,411**	**644**	**344**	**466**	**692**	**612**	**749**
EBITDA ex capital gains, impairments and disposals	**1,886**	**2,004**	**1,752**	**1,786**	**1,927**	**1,865**	**2,057**	**2,285**	**2,422**
NRI	0	347	918	168	-224	-81	350	0	140
EBITDA	1,886	2,351	2,670	1,954	1,703	1,784	2,407	2,285	2,562
Revenue growth, %	**5**	**6**	**-2**	**2**	**4**	**3**	**6**	**4**	**5**
EBITDA margin ex NRI, %	**36**	**36**	**32**	**32**	**34**	**31**	**33**	**35**	**35**

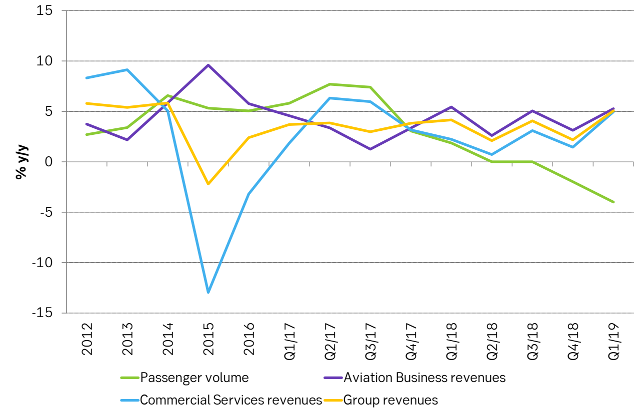
Source: SEB

Key assumptions



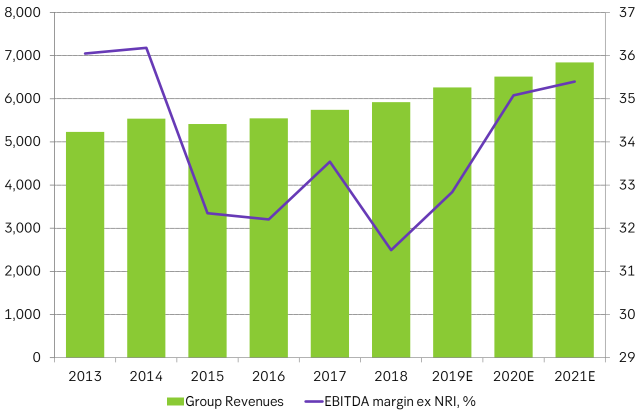
Source: SEB

Revenues up on price increases despite less passengers



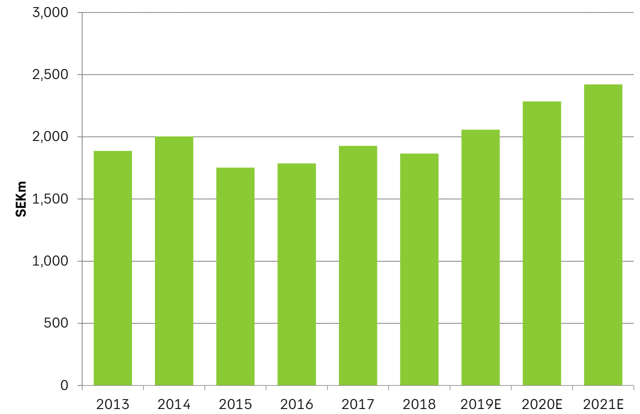
Source: SEB

Revenue and EBITDA margin



Source: SEB

EBITDA (ex NRI)



Source: SEB

Cash flow, balance sheet and key metrics

Investments imply a need for additional borrowing…

We estimate operating cash flow to improve in 2019-21 from 2018 mainly driven by the price increases and completion of the already-sold real estate projects. Assuming SEK 3.6bn in annual capex and zero or limited dividend payouts in 2019-21, this implies a need for additional borrowing of around SEK 5bn through the forecast period, and more so in 2022-25 until the investment programme is completed.

…which implies a slight deterioration in credit metrics

The estimate profile suggest some deterioration in key credit metrics, such as FFO/Adjusted net debt and Adjusted net debt to EBITDA through the forecast period, but enables Swedavia to maintain net debt to equity below the upper range of its 150% target, but with limited headroom.

We estimate FFO/adjusted net debt of 14-17% in 2019-21

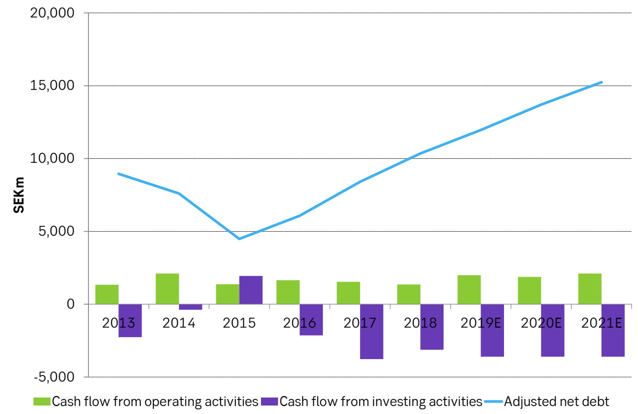
FFO / adjusted net debt of 14% in 2020-21 is close to the lower end of the range that S&P associates with an "Intermediate" financial risk profile for industries with low volatility (the range there is 13-23%). Swedavia's low financing costs make metrics such as FFO/adjusted net debt – where we focus the most – and interest coverage stand out positively. The metrics that take into its capital expenditure, such as DCF/adjusted net debt are indicative of a weaker credit profile.

Cash flow, net debt and key credit metrics

Cash flow summary	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
FFO	**1,498**	**1,765**	**1,397**	**1,483**	**1,330**	**1,496**	**1,982**	**1,884**	**2,094**
Change in working capital	-158	344	-23	167	207	-137	8	-10	13
Cash flow from operating activities	**1,340**	**2,109**	**1,374**	**1,650**	**1,537**	**1,359**	**1,990**	**1,874**	**2,108**
Cash flow from investing activities	**-2,258**	**-378**	**1,943**	**-2,138**	**-3,765**	**-3,124**	**-3,600**	**-3,600**	**-3,600**
Dividends paid	-9	-10	-231	-232	-143	-122	0	-20	-40
Cash flow before financing	**-2,267**	**-388**	**1,712**	**-2,370**	**-3,908**	**-3,246**	**-1,610**	**-1,746**	**-1,532**
Net debt adjustments									
Net debt	8,473	6,795	3,721	4,161	6,560	8,430	11,195	12,941	14,474
Lease adjustment	0	0	0	1,184	1,118	1,154	0	0	0
Pensions adjustment	479	807	765	735	730	765	765	765	765
Adjusted net debt	**8,952**	**7,602**	**4,486**	**6,080**	**8,408**	**10,349**	**11,960**	**13,706**	**15,239**
Key credit metrics									
FFO/ Adjusted net debt, (%)	17	23	31	24	16	14	17	14	14
Adjusted net debt / EBITDA, (x)	4.7	3.8	2.6	3.2	4.2	5.3	5.8	6.0	6.3
EBITDA / Interest expenses, (x)	7	8	7	12	16	19	17	16	14
FOCF/Adjusted net debt, (%)	-11	18	6	-13	-28	-18	-13	-13	-10
DCF/Adjusted net debt, (%)	-11	18	1	-16	-29	-19	-13	-13	-10
Net debt / Equity	182	136	65	67	95	114	134	143	147

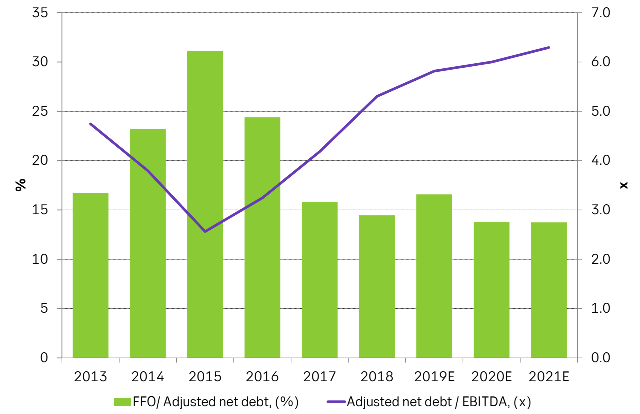
Source: SEB

Cash flow profile and adjusted net debt



Source: SEB

Credit metrics



Source: SEB

Levers available to improve metrics if needed

Possible actions in the company's tool box to limit the debt financing needs or to improve the net debt to equity ratio– except for a more benign passenger volume scenario or an equity issue – could include further price increases to support the revenue line (a 1% change in our price assumptions would change FFO/adjusted net debt by around 0.5pp for instance), the owner maintaining zero dividends and possible asset disposals among other things. At the end of 2018, Swedavia had investment properties worth SEK 0.7bn on its balance sheet (book value) with external valuations at around SEK 2.2bn (including the already sold hotels in Arlanda and Landvetter which are in estimates, but also the 2018 completed and yet unsold 15,000 sqm office in Arlanda). Swedavia also had SEK 1.2bn in non-current financial assets, of which the most significant is the SEK 0.9bn equity stake in the property JV Swedish Airport Infrastructure KB (hangars and offices).

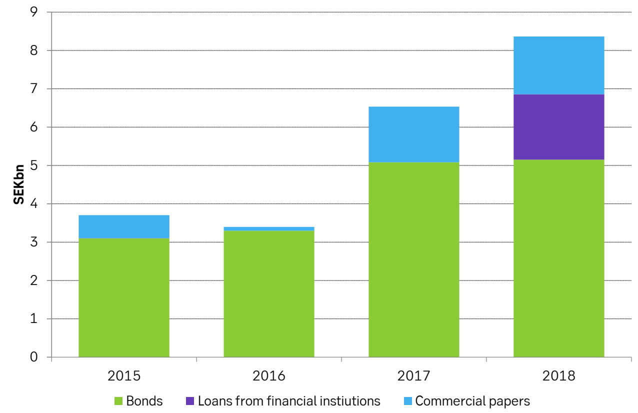
Peer group comparison

Peers 2018	Swedavia	Avinor	Royal Schiphol Group	Flughafen Zurich AG	Aeroports de Paris	Aeroporti di Roma
S&P	Not rated	AA-/Stable	A+/Stable	AA-/Stable	A+/Stable	BBB+/Negative
Moody's	Not rated	A1/Stable	A1/Stable	Not rated	Not rated	Baa2/Negative
Currency	SEK	NOK	EUR	CHF	EUR	EUR
Revenues	5,922	11,724	1,509	1,101	4,478	935
EBITDA	1,980	4,055	580	622	2,042	568
Funds from operations (FFO)	1,573	3,222	454	529	1,546	463
Capital expenditures	3,124	2,523	557	384	1,064	183
Free operating cash flow	-1,836	938	-31	152	407	270
Cash and short-term investments	10	1,740	387	545	2,056	328
Debt	10,360	24,042	2,381	729	6,610	1,129
Equity	8,066	14,541	4,117	2,415	5,801	1,107
EBITDA margin (%)	33%	35%	38%	56%	46%	61%
EBITDA interest coverage (x)	15	5	7	47	9	13
Return on capital (%)	4%	8%	7%	12%	10%	21%
FFO/debt (%)	15%	13%	19%	73%	23%	41%
Free operating cash flow/debt (%)	-18%	4%	-1%	21%	6%	24%
Debt/EBITDA (x)	5.2	5.9	4.1	1.2	3.2	2.0
Total debt/debt plus equity (%)	56%	62%	37%	37%	53%	50%
Business Risk Profile (S&P)	n.a.	Strong	Excellent	Strong	Excellent	Strong
Financial Risk Profile (S&P)	n.a.	Intermediate	Intermediate	Modest	Intermediate	Modest
Likelihood of Government support (S&P)	n.a.	Very high (+4)	Moderate (+1)	Moderate (+1)	Moderately high (0)	n.m.
Other modificators (S&P)	n.a.	-	-	Relative score(+1)	Relative score(+1)	Group structure (-3)
Ownership	Swedish gov. 100%	Norwegian gov. 100%	the Dutch gov and municipalities 92%	Zurich Canton and City 38%	French gov. 51%	Atlantia spa 99%

Source: SEB, S&P, Moody's

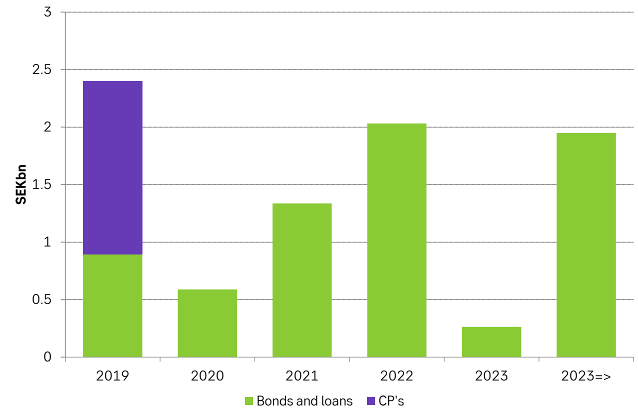
Debt mix and liquidity

Debt mix (Year-end)



Source: SEB, Swedavia

Debt maturity profile



Source: SEB, Swedavia

Bonds, loans and CP's

Swedavia's financing mix consists of bonds, loans from financial institutions and commercial paper. The company has a SEK 15bn MTN program, a SEK 5bn Swedish corporate certificate program, and a loan agreement with the Nordic Investment Bank of SEK 2bn with maturities up to 10 years. In June, Swedavia signed a credit facility for SEK 2bn with KfW IPEX. Capital tie-up period at the end of 2018 was 4.2 years with 2.7 years with interest rate lock-in period of 3.4 years.

Liquidity improved with recent loan, but more financing needed in the coming years

Together with the new loan from KfW, we estimate its liquidity covers the refinancing of long-term debt and net outflows to business operations in 2019. However, with high investments in the coming years, Swedavia is likely to require new lending in the form of bond issuance and/or new loans. We believe the refinancing risk is mitigated by its overall solid credit profile, the possibility of using commercial paper as a source of short-term liquidity, and good access to debt capital and loan markets. At the end of 2018, Swedavia had SEK 1.8bn in unutilized credit facilities on top of its SEK 10m cash balance.

Credit strengths

- Very strong competitive position
- 100% government owned
- Strong pricing power and solid cash flow capacity
- Favorable long term trends in aviation globally

Credit concerns

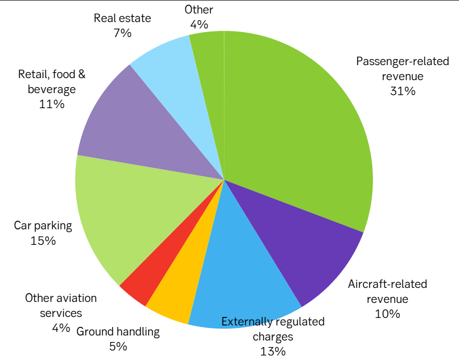
- Large investment program requiring continued debt accumulation in the coming years
- Weak passenger traffic in Sweden over the past year
- Significant exposure to a few airlines, including SAS and Norwegian
- Somewhat limited liquidity

Selected outstanding bonds

Issuer	Public	Issue date	Maturity date	Cpn type	Cpn	Amount (SEKm)	Z-sprd mid	Recommendation
Swedavia	N.R./N.R.	06-Mar-18	06-Mar-20	Fixed	0.075	300	18	Marketweight
Swedavia	N.R./N.R.	14-Sep-16	14-Sep-20	Fixed	0.435	250	21	Marketweight
Swedavia	N.R./N.R.	25-Jan-17	25-Jan-21	FRN	3mS+70	250	22	Marketweight
Swedavia	N.R./N.R.	12-Apr-18	12-Apr-21	Fixed	0.3625	500	23	Marketweight
Swedavia	N.R./N.R.	17-May-17	17-May-21	Fixed	0.7125	350	24	Marketweight
Swedavia	N.R./N.R.	24-May-17	24-May-21	FRN	3mS+100	200	24	Marketweight
Swedavia	N.R./N.R.	28-May-19	28-May-21	FRN	3mS+75	250	23	Marketweight
Swedavia	N.R./N.R.	24-Oct-17	24-Oct-22	Fixed	0.935	2000	42	Marketweight
Swedavia	N.R./N.R.	19-Jun-14	12-May-24	Fixed	3mS+80	100	55	Marketweight
Swedavia	N.R./N.R.	10-Jul-14	10-Jul-29	Fixed	3mS+97	100	111	Marketweight

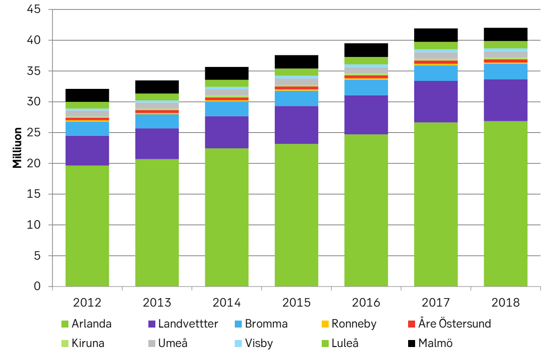
Source: Bloomberg and SEB

Revenues by type



Source: SEB, Swedavia

Passengers by airport



Source: SEB, Swedavia

Financial statement summary - Adjusted numbers (SEKm)

Income statement	2017	2018	2019E	2020E
Revenues	5,745	5,922	6,264	6,513
EBITDA	2,039	1,980	2,057	2,285
Net income (reported)	408.0	517.0	857.3	686.5

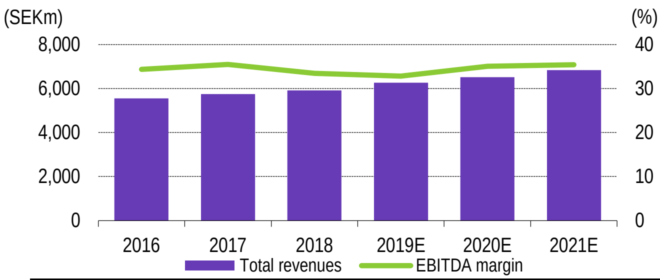
Cash flow statement	2017	2018	2019E	2020E
Funds from operations (FFO)	1,405	1,573	1,982	1,884
Operating Cash Flow	1,697	1,584	1,990	1,874
Free Operating cash flow	-2,163	-1,611	-1,610	-1,726
Pre-financing cash flow	-2,211	-1,662	-1,610	-1,746

Balance sheet	2017	2018	2019E	2020E
Cash (and equivalents)	58.0	10.0	9.6	8.8
Total debt	8,466	10,360	11,970	13,715
Net debt	8,408	10,350	11,960	13,706
Equity	7,665	8,066	8,923	9,590
Total assets (reported)	17,588	20,879	23,309	25,666

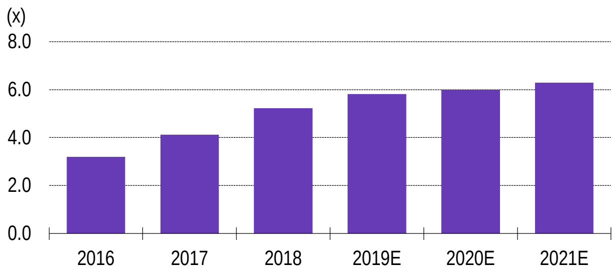
Key credit metrics & ratios	2017	2018	2019E	2020E
Net debt to EBITDA (x)	4.1	5.2	5.8	6.0
Net debt to capital	52%	56%	57%	59%
FFO / Net debt	17%	15%	17%	14%
Equity ratio	44%	39%	38%	37%

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	2016	2017	2018	2019E	2020E	2021E
Total revenues	4,693	4,965	5,233	5,538	5,416	5,546	5,745	5,922	6,264	6,513	6,842
Total expenses	-3,080	-3,284	-3,346	-3,187	-2,746	-3,592	-4,042	-4,138	-3,857	-4,229	-4,280
EBITDA	**1,613**	**1,681**	**1,886**	**2,351**	**2,670**	**1,954**	**1,703**	**1,784**	**2,407**	**2,285**	**2,562**
Depreciation	-831	-850	-940	-946	-915	-988	-1,052	-1,103	-1,268	-1,343	-1,418
Intangibles amortisation	0	0	0	0	0	0	0	0	0	0	0
EBIT	**782**	**831**	**946**	**1,405**	**1,755**	**966**	**651**	**681**	**1,139**	**942**	**1,144**
Associated companies	14	19	8	0	22	41	37	53	55	57	60
Net interest expenses	-239	-296	-268	-242	-230	-138	-113	-92	-123	-141	-174
Value changes	0	0	0	0	0	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	**557**	**554**	**686**	**1,162**	**1,547**	**869**	**575**	**642**	**1,072**	**858**	**1,030**
Minority interests	9	10	10	0	0	0	0	0	0	0	0
Total taxes	-118	-108	-185	-236	-136	-152	-167	-125	-214	-172	-206
Net profit	**448**	**456**	**511**	**926**	**1,411**	**717**	**408**	**517**	**857**	**687**	**824**
EBITDA margin	34.4	33.9	36.0	42.4	49.3	35.2	29.6	30.1	38.4	35.1	37.4
EBIT margin (%)	16.7	16.7	18.1	25.4	32.4	17.4	11.3	11.5	18.2	14.5	16.7
Tax rate (%)	21.2	19.5	27.0	20.3	8.8	17.5	29.0	19.5	20.0	20.0	20.0
Growth rates y-o-y (%)											
Total revenues	8.8	5.8	5.4	5.8	(2.2)	2.4	3.6	3.1	5.8	4.0	5.0
EBITDA	n.a.	4.2	12.2	24.6	13.6	(26.8)	(12.8)	4.8	34.9	(5.1)	12.1
EBIT	95.0	6.3	13.9	48.4	24.9	(45.0)	(32.6)	4.6	67.3	(17.3)	21.5
Pre-tax profit	309.6	(0.5)	23.9	69.4	33.1	(43.8)	(33.8)	11.7	66.9	(19.9)	20.0

Cash flow

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
FFO	1,108	1,188	1,498	1,765	1,397	1,483	1,330	1,496	1,982	1,884	2,094
Changes in working capital	2,405	456	-27	-7	-92	429	292	11	8	-10	13
Operating cash flow	**3,513**	**1,644**	**1,471**	**1,758**	**1,305**	**1,912**	**1,622**	**1,507**	**1,990**	**1,874**	**2,108**
Net capital expenditures	-1,042	-1,608	-2,333	-754	-1,120	-2,412	-3,860	-3,195	-3,600	-3,600	-3,600
Free operating cash flow	**2,471**	**36**	**-862**	**1,004**	**185**	**-500**	**-2,238**	**-1,688**	**-1,610**	**-1,726**	**-1,492**
Dividend paid	-9	-9	-9	-10	-231	-232	-143	-122	0	-20	-40
Acquisitions, divestments net	24	-1,733	75	376	3,063	274	95	71	0	0	0
Pre-financing cash flow	**2,486**	**-1,706**	**-796**	**1,370**	**3,017**	**-458**	**-2,286**	**-1,739**	**-1,610**	**-1,746**	**-1,532**
Net loan proceeds	-151	1,858	927	-1,722	-3,086	720	2,371	1,887	1,610	1,745	1,540
Share issue	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	1	0	0	0	0	0	0	0
Net change in cash	**2,335**	**152**	**131**	**-351**	**-69**	**262**	**85**	**148**	**0**	**-1**	**8**
Capex/sales (%)	22.2	32.4	44.6	13.6	20.7	43.5	67.2	54.0	57.5	55.3	52.6

Balance sheet

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Cash and liquid assets	141	129	52	112	6	170	58	10	10	9	16
Other current assets	875	951	958	773	868	926	1,082	1,047	1,090	1,133	1,190
Long-term financial assets	215	211	147	108	1,254	1,022	1,089	1,192	1,247	1,304	1,364
Fixed tangible assets	10,487	13,040	14,524	13,652	10,515	11,897	14,741	17,853	20,185	22,442	24,624
Intangibles	439	457	452	621	615	632	618	777	777	777	777
Total assets	**12,157**	**14,788**	**16,133**	**15,266**	**13,258**	**14,647**	**17,588**	**20,879**	**23,309**	**25,666**	**27,972**
Interest bearing debt	5,830	7,674	8,525	6,907	3,727	4,331	6,618	9,595	11,205	12,950	14,490
Other liabilities	2,338	2,813	2,692	2,786	2,665	2,967	3,304	3,219	3,181	3,127	3,109
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	3,989	4,300	4,915	5,571	6,863	7,351	7,665	8,066	8,923	9,590	10,374
Total liabilities and equity	**12,157**	**14,787**	**16,132**	**15,264**	**13,255**	**14,649**	**17,587**	**20,880**	**23,310**	**25,667**	**27,973**
Net debt (m)	6,423	8,329	8,952	7,602	4,486	4,896	7,290	10,350	11,960	13,706	15,239
Net debt/equity (%)	161.0	193.7	182.1	136.5	65.4	66.6	95.1	128.3	134.0	142.9	146.9
Equity/total assets (%)	32.8	29.1	30.5	36.5	51.8	50.2	43.6	38.6	38.3	37.4	37.1
Net debt/EBITDA (x)	4.0	5.0	4.7	3.2	1.7	2.5	4.3	5.8	5.0	6.0	5.9
EBITDA Interest cover	6.5	5.6	6.9	9.5	11.4	13.6	14.4	18.6	19.6	16.2	14.7

Main shareholders

Name	(%) Votes	Capital
The state of Sweden	100.0	100.0

Management

Title	Name
COB	Åke Svensson
CEO	Jonas Abrahamsson
CFO	Mats Påhlson

Company information

Contact	
Internet	www.swedavia.com
Phone number	+46 10 109 00 00

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*
Overweight	14.2%	7.5%
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Recommendation History

Instrument	Recommendation	Date
Swedavia Apr 2021 0.3625	Marketweight	27 Jun 2019
Swedavia Jan 2021 3m+70	Marketweight	27 Jun 2019
Swedavia Jul 2029 3m+97	Marketweight	27 Jun 2019
Swedavia Jun 2024 3m+80	Marketweight	27 Jun 2019
Swedavia Mar 2020 0.075	Marketweight	27 Jun 2019
Swedavia May 2021 0.7125	Marketweight	27 Jun 2019
Swedavia May 2021 3m+100	Marketweight	27 Jun 2019
Swedavia May 2021 3m+75	Marketweight	27 Jun 2019
Swedavia Oct 2022 0.935	Marketweight	27 Jun 2019
Swedavia Sep 2020 0.435	Marketweight	27 Jun 2019
Swedavia Apr 2021 0.3625	Marketweight	28 Jun 2019
Swedavia Jan 2021 3m+70	Marketweight	28 Jun 2019
Swedavia Jul 2029 3m+97	Marketweight	28 Jun 2019
Swedavia Jun 2024 3m+80	Marketweight	28 Jun 2019
Swedavia Mar 2020 0.075	Marketweight	28 Jun 2019
Swedavia May 2021 0.7125	Marketweight	28 Jun 2019
Swedavia May 2021 3m+100	Marketweight	28 Jun 2019
Swedavia May 2021 3m+75	Marketweight	28 Jun 2019
Swedavia Oct 2022 0.935	Marketweight	28 Jun 2019
Swedavia Sep 2020 0.435	Marketweight	28 Jun 2019

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