

Swedavia AB

Q4 17: Decent growth, but with some margin pressure

Swedavia continued to show good growth in passenger volumes in Q4. However, the operating margin came under some pressure as Swedavia's pricing model did not fully compensate for the increased passenger volumes. As investments remained at a high level, leverage rose further sequentially, with an adjusted net debt to EBITDA of 3.9x at YE 2017 (Q3 17: 3.6x). When also factoring in Swedavia's state ownership we believe that the company has headroom to increase leverage measured as net debt to EBITDA towards 4.5x over the coming next few years with an FFO to net debt of around 20%. Based on this assumption, we maintain a Marketweight recommendation on Swedavia's bonds, which we believe are trading at fair levels relative to the SEK 'A' corporate curve and versus other publicly owned companies.

In Q4 17 Swedavia's revenues rose by 3.8% y/y, with continued good passenger volume growth at the company's airports. International passenger volumes rose by 5.1% y/y, while domestic traffic volumes declined by 0.2% y/y. Both the Aviation Business segment and the Commercial Services segment saw 3% higher revenues y/y. Due to negative one off items totalling SEK151m, the operating result (EBIT) fell to negative SEK123m (Q4 16: positive SEK87m); positive SEK28m on an adjusted basis.

Swedavia's funds from operations fell to SEK193m (Q4 16: SEK412m). The investment level rose to SEK1.3bn in Q4 (Q4 16: SEK811m). For FY 2017 investments totalled SEK3.9bn (2016: SEK2.1bn). Ongoing projects include various development projects at the larger airports Arlanda, Bromma and Landvetter. Due to the high investment level, leverage increased further with adjusted net debt / EBITDA at 3.9x at end-December (end-September: 3.6x).

Key figures

SEKm Year end Dec	Q4 16	Q3 17	Q4 17	y/y	q/q
Total sales	1,412	1,452	1,466	3.8%	1.0%
EBITDA (rep.)	360	577	261	-27.5%	-54.8%
EBITDA (adj.)	366	583	418	14.2%	-28.3%
Net income	47	267	-144	-406.4%	-153.9%
FFO (rep.)	412	483	193	-53.2%	-60.0%
FFO (adj.)	417	488	198	-52.5%	-59.4%
Equity	7,351	7,818	7,665	4.3%	-2.0%
Net debt	4,161	5,602	6,560	57.7%	17.1%
Net debt (adj.)	5,266	6,660	7,305	38.7%	9.7%
Ratios year-end Dec	Q4 16	Q3 17	Q4 17	y/y	q/q
EBITDA margin	25%	40%	28%	3pp	-12pp
Net debt/EBITDA (x)	2.3	3.1	3.5	1.2	0.4
Adj. net debt/adj. EBITDA (x)	2.9	3.6	3.9	1.0	0.2
FFO/net debt	34%	28%	20%	-14pp	-7pp
Adj. FFO/adj. net debt	28%	24%	18%	-9pp	-5pp
Adj. total debt/total capital	43%	46%	49%	6pp	3pp
Net debt/total capital	36%	42%	46%	10pp	4pp

Source: Company data, Danske Bank DCM Research

Marketweight

Sector: Industrials, Transportation

Corporate ticker SWEDAV

Equity ticker 0256996D SS

Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

Analysts

Louis Landeman

llan@danskebank.com

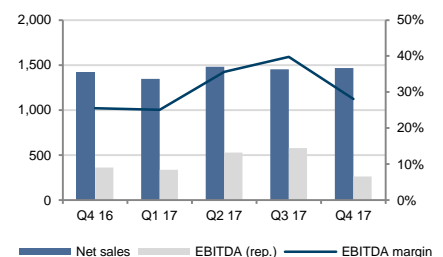
+46 8 568 80524

Gabriel Bergin

gabe@danskebank.com

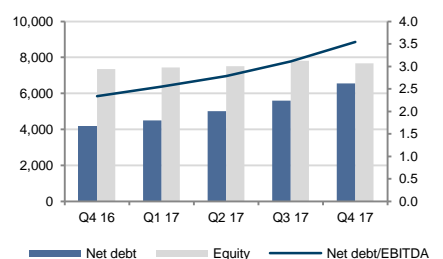
+46 8 568 80602

Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

Our view

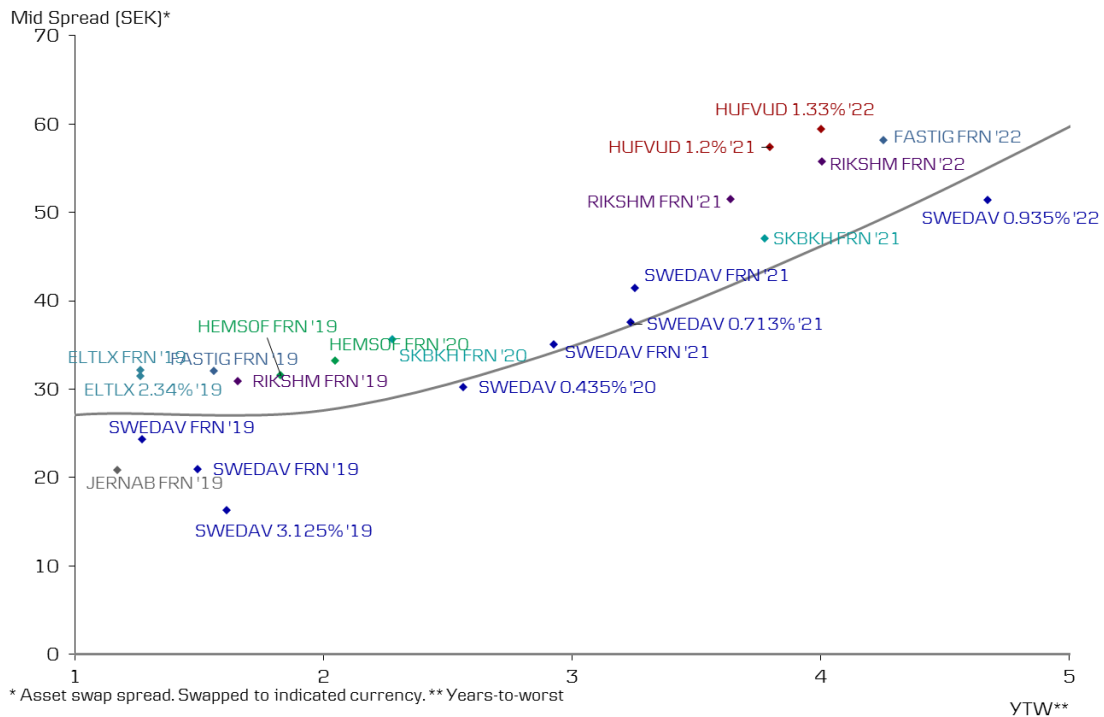
Swedavia continued to show good growth in passenger volumes in Q4. However, the operating margin came under pressure as Swedavia's pricing model did not fully compensate for the increased passenger volumes. As investments remained at a high level, leverage rose further sequentially, with an adjusted net debt to EBITDA of 3.9x at YE 2017 (Q3 17: 3.6x).

Swedavia has guided for continued high investments in the coming years. This suggests that leverage will continue to increase going forward. In conjunction with its Q4 earnings report Swedavia also stated that it intends to lower its airport fees in 2018 in order to defend its competitive position relative to other airport operators. While we are somewhat worried about this action, over time we assume that the company will seek to raise its airport fees in line with its passenger growth in order for its credit ratios not to be jeopardized.

According to Swedavia's guidance the company plans to invest a total of SEK15.6bn in the period 2018-2021, i.e. slightly less than SEK4bn per year. While part of these investments will be financed by internally generated cash flows, part will be debt-financed. When also factoring in Swedavia's state ownership we believe that the company has headroom to increase leverage measured as net debt to EBITDA towards 4.5x over the coming next few years with an FFO to net debt of around 20%.

Assuming that Swedavia remains within this leverage target, we believe this to be consistent with the current bond pricing relative to the SEK 'A' corporate curve and versus other publicly owned companies such as Jernhusen ('A' rating by Standard & Poor's) and Hemsö, Rikshem and Willhem ('A-' rating by Standard & Poor's). Consequently, we maintain a Marketweight recommendation on Swedavia's bonds.

Relative value SEK



Note: ASW spreads based on best observed offer price in market
 Source: Bloomberg, Danske Bank Markets

Company summary

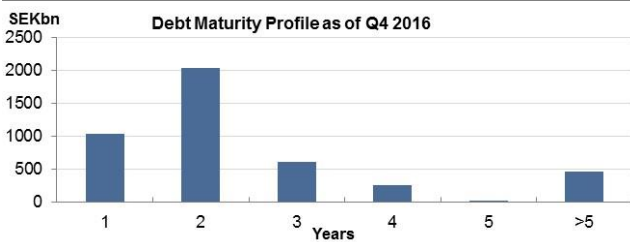
Company description

Swedavia AB is the main airport operator in Sweden. Swedavia owns and operates the 10 largest airports in Sweden, with Stockholm Arlanda Airport the largest by far, with the majority of all landings and take-offs at Swedavia airports. The main driver of Swedavia's business activity is the air traffic volume at Swedish airports. Within the Aviation Business segment, Swedavia provides services to airlines and cargo companies, while the Commercial Services segment is concerned with providing services for customers other than airlines.

Key credit strengths

- Strong regional market position as the owner of Sweden's 10 largest airports
- Very low share of transfer traffic at its airports
- 100% government owned with some likelihood of extraordinary financial support

Debt maturity profile

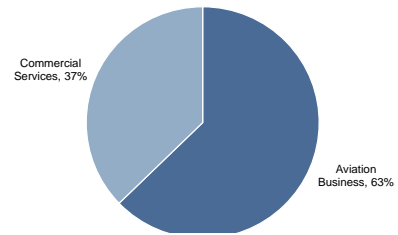


Selected outstanding bonds

Isin	Coupon	Currency	Maturity/Call	Seniority	Rating*
SE0005454907	3.125%	SEK	10/2/2019	Sr Unsecured	NR/NR
SE0008992523	0.435%	SEK	9/14/2020	Sr Unsecured	NR/NR
SE0009548480	FRN	SEK	1/25/2021	Sr Unsecured	NR/NR
SE0010494443	0.935%	SEK	10/24/2022	Sr Unsecured	NR/NR
SE0006055430	FRN	SEK	6/19/2024	Sr Unsecured	NR/NR

*Moody's/S&P

EBITDA breakdown, segments



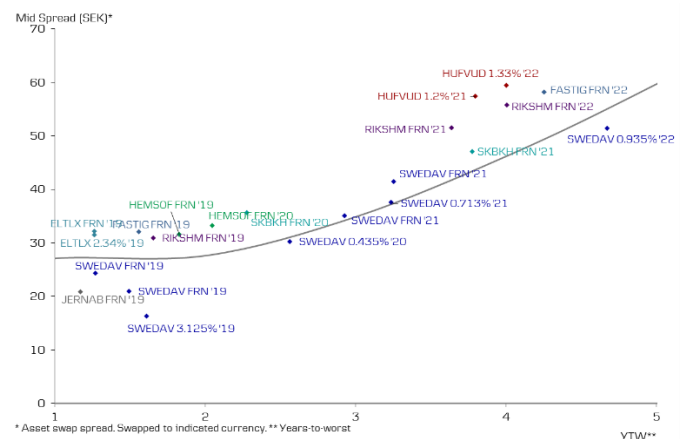
Key credit challenges

- Large ongoing capital-intensive investment programme that will weigh on credit metrics
- Lower margins than international peers
- At times high leverage in conjunction with investments in development projects

Main shareholders

Name	Votes (%)	Capital (%)
Swedish government	100.0%	100.0%

Relative valuation



Source: Company data, Bloomberg, Danske Bank DCM Research [all charts and tables]

Summary tables

Income statement (SEKm)	2013	2014	2015	2016	2017
Total sales	5,233	5,384	5,416	5,546	5,745
Operating expenses	-3,347	-3,033	-2,746	-3,619	-3,882
EBITDA	1,886	2,351	2,670	1,927	1,863
EBITDA adjusted	1,886	2,354	2,676	1,927	1,863
Non-recurring items	0	0	0	0	-160
Depreciation and amortisation	-940	-946	-915	-961	-1,052
EBIT	946	1,405	1,755	966	651
EBIT adjusted	946	1,406	1,756	966	811
Net interest	-268	-242	-230	-138	-113
Other financial items (net)	0	0	0	0	-2
Pre-tax profit	678	1,163	1,525	828	536
Tax	-177	-237	-115	-111	-129
Net income	501	926	1,410	717	407
Balance sheet (SEKm)	2013	2014	2015	2016	2017
Fixed assets	14,524	10,625	10,781	11,897	14,741
Goodwill	352	352	352	632	618
Associates	0	0	0	0	0
Other non-current assets	246	376	1,252	1,091	1,088
Working capital assets	538	466	496	463	507
Cash and cash equivalents	52	112	6	170	58
of which restricted cash	0	0	0	0	0
Other current assets	421	307	372	463	575
Total assets	16,133	15,265	13,259	14,716	17,587
Total assets (adj.)	16,133	15,278	13,274	14,723	17,589
Total interest-bearing debt	8,524	6,907	3,727	4,331	6,618
Total interest-bearing debt adjusted	8,524	7,909	4,773	5,428	7,350
Net interest-bearing debt	8,472	6,795	3,721	4,161	6,560
Net interest-bearing debt adjusted	8,472	7,797	4,767	5,258	7,292
Working capital liabilities	1,136	793	893	1,222	1,592
Other current liabilities	140	174	165	148	119
Other non-current liabilities	1,416	1,736	1,610	1,664	1,593
Total equity	4,915	5,571	6,863	7,351	7,665
Total equity and liabilities	16,131	15,181	13,258	14,716	17,587
Total equity and liabilities (adj.)	16,131	15,194	13,273	14,723	17,589
Cash flow statement (SEKm)	2013	2014	2015	2016	2017
EBITDA	1,886	2,351	2,670	1,927	1,863
Tax paid	0	0	0	0	0
Other cash flow from operations	-389	-586	-1,272	-444	-533
Funds from operations (FFO)	1,497	1,765	1,398	1,483	1,330
FFO (adjusted)	1,497	1,767	1,403	1,483	1,330
Change in working capital	-158	344	-24	167	207
Operating cashflow (CFO)	1,339	2,109	1,374	1,650	1,537
CFO (adjusted)	1,339	2,111	1,379	1,650	1,537
Capex	80	170	24	-1,855	-3,765
Divestments/acquisitions of businesses	0	0	0	0	0
Free operating cashflow (FOCF)	1,419	2,281	1,403	-205	-2,228
FOCF (adjusted)	-9	-10	-231	-232	-143
Dividend paid	0	0	0	0	0
Share buyback	1,410	2,269	1,167	-437	-2,371
Free cashflow (FCF)	0	0	0	0	0
Other investing activities	-11,642	-6,663	-7,748	-1,548	-5,148
Debt repayment	-10,232	-4,394	-6,581	-1,985	-7,519
Funding shortfall	12,493	5,001	4,563	2,141	7,383
New debt	0	0	0	0	0
New equity	-2,338	-547	1,911	8	24
Other financing activities	-77	60	-107	164	-112
Change in cash	0	0	0	0	0

Source: Company data, Danske Bank DCM Research

Summary tables

Adjusted ratios (SEKm)	2013	2014	2015	2016	2017
Sales growth	5%	3%	1%	2%	4%
EBITDA margin	36.0%	43.7%	49.3%	34.7%	32.4%
Adj. EBITDA margin	36.0%	43.7%	49.4%	34.7%	32.4%
EBIT margin	18.1%	26.1%	32.4%	17.4%	11.3%
Adj. EBIT margin	18.1%	26.1%	32.4%	17.4%	14.1%
EBITDA interest coverage (x)	7.6	10.1	18.6	16.4	n.m.
Adj. EBITDA interest coverage (x)	7.6	10.0	18.6	16.4	n.m.
EBIT interest coverage (x)	3.8	6.0	12.2	8.2	n.m.
Adj. EBIT interest coverage (x)	3.8	6.0	12.2	8.2	n.m.
FFO interest coverage (x)	6.1	7.6	9.8	12.6	n.m.
Adj. FFO interest coverage (x)	6.0	7.5	9.8	12.6	n.m.
CFO interest coverage (x)	5.4	9.0	9.6	14.0	n.m.
Adj. CFO interest coverage (x)	5.4	9.0	9.6	14.0	n.m.
Net debt/EBITDA (reported) (x)	4.5	2.9	1.4	2.2	3.5
Net debt/EBITDA (x)	4.5	2.9	1.4	2.2	3.5
Adj. net debt/adj. EBITDA (x)	4.5	3.3	1.8	2.7	3.9
Debt/EBITDA (x)	4.5	2.9	1.4	2.2	3.6
Adj. debt/adj. EBITDA (x)	4.5	3.4	1.8	2.8	3.9
Debt/EBITDA (reported) (x)	4.5	2.9	1.4	2.2	3.6
FFO/net debt	17.7%	26.0%	37.6%	35.6%	20.3%
Adj. FFO/adj. debt	17.6%	22.3%	29.4%	27.3%	18.1%
Adj. FFO/adj. net debt	17.7%	22.7%	29.4%	28.2%	18.2%
FFO/debt	17.6%	25.6%	37.5%	34.2%	20.1%
Adj. total debt/total capital	63.4%	58.7%	41.0%	42.5%	49.0%
Net debt/total capital	63.0%	54.5%	35.1%	35.6%	45.9%
Adj. net debt/adj. total capital	63.0%	57.8%	41.0%	41.1%	48.6%
Quarterly overview year-end Dec (SEKm)	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Net sales	1,412	1,347	1,480	1,452	1,466
EBITDA	360	337	527	577	261
Adj. EBITDA	366	343	533	583	418
EBIT	87	116	303	355	-123
Net income	47	80	204	267	-144
Capex	-811	-587	-985	-981	-1,275
FFO	412	223	431	483	193
Total debt	4,331	4,695	5,279	5,636	6,618
Net debt	4,161	4,492	5,019	5,602	6,560
Adjusted net debt	5,266	5,597	6,122	6,660	7,305
Equity (incl. minorities)	7,351	7,439	7,517	7,818	7,665
Ratios					
Net debt/EBITDA (x)	2.3	2.5	2.8	3.1	3.5
Adj. net debt/EBITDA (x)	2.9	3.1	3.4	3.6	3.9
FFO/net debt	34%	33%	30%	28%	20%
Adj. FFO/net debt	28%	27%	25%	24%	18%

Source: Company data, Danske Bank DCM Research

Fixed Income Credit Research



Thomas Hovard
Head of Credit Research
+45 45 12 85 05
hova@danskebank.com



Henrik René Andresen
Credit Portfolios
+45 45 13 33 27
hena@danskebank.com



Gabriel Bergin
Strategy, Financials
+46 8 568 80602
gabe@danskebank.com



Brian Børsting
Industrials
+45 45 12 85 19
brbr@danskebank.com



David Boyle
Industrials & Norwegian HY
+47 85 40 54 17
dboy@danskebank.com



Jesper Damkjær
Financials
+45 45 12 80 41
damk@danskebank.com



Bendik Engebretsen
Industrials & Norwegian HY
+47 85 40 69 14
bee@danskebank.com



Christopher Hellesnes
General Industrials
+46 8 568 80547
cahe@danskebank.se



Louis Landeman
TMT, Industrials
+46 8 568 80524
llan@danskebank.com



Jakob Magnussen
Utilities, Energy
+45 45 12 85 03
jakja@danskebank.com



August Moberg
Industrials & Construction
+46 8 568 80593
aumo@danskebank.com



Niklas Ripa
Credit Portfolios
+45 45 12 80 47
niri@danskebank.com



Mads Rosendal
Industrials, TMT
+46 8 568 80594
madro@danskebank.com



Haseeb Syed
Industrials & Norwegian HY
+47 85 40 54 19
hsy@danskebank.com

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