

Tear Sheet:

# Avinor AS

September 12, 2024

**Second-quarter results confirm our forecast for full-year 2024.** In the first six months of 2024, 24.3 million passengers used Avinor AS' airports, which is 4.6% higher than for the same period of last year. We believe the company is on track to meet our forecast of 50.0 million-51.5 million passengers by the year-end, representing 92%-95% of pre-pandemic levels. During the same period, the company's revenue and EBITDA grew by 2.7% and 12.3%, respectively, to Norwegian krone (NOK) 5.7 billion and NOK1.6 billion, thanks to a 15% traffic performance and tariff increase--despite of the temporarily closure of some of its airports earlier in the year due to severe weather conditions. Therefore, we think Avinor is on track to deliver our guidance for revenue and EBITDA by the end of 2024.

**Future funds from operations (FFO) to debt will largely depend on Avinor's capital expenditure (capex) program and future decisions on airport charges.** We anticipate a FFO-to-debt ratio around 10% in 2024. The stabilization is in line with our earlier expectation due to the strength of the recovery of international passengers at the same time that the domestic market, which contributes more to retail spending, is shrinking. The trajectory of Avinor's metrics will rely on the regulatory decisions that will impact both tariffs and costs for the company.

**We are closely monitoring the next developments on Avinor's regulatory framework.** We expect the Norwegian government, which is its ultimate shareholder, to release measures that could ultimately increase the return on capital under the single-till regulatory framework for the company. Among these measures, we the government could consider above-inflation tariff adjustments, a reduction of fiscal passenger charges, or for example certain expenses related to military operations not being under Avinor's responsibility anymore. We do not disregard that further measures could be taken, but it is still uncertain the magnitude of these adjustments and the timeframe they will be implemented. Given the cross-subsidized operations of Avinor's network, with profitable airports assuring the operations of the non-profitable ones, without any adjustment, the existing investments will not benefit of an adequate return and therefore should be impaired. Once we have full clarity on the government measures, we will incorporate them in our base-case scenario and take any rating action, if needed.

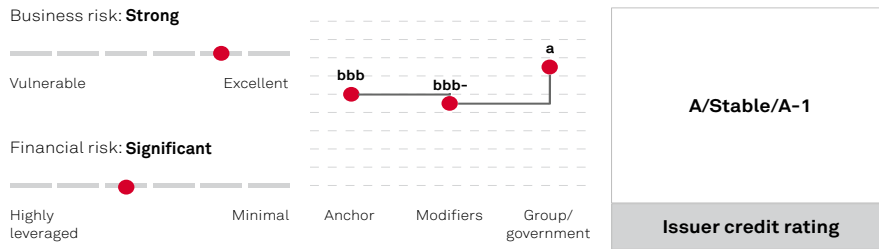
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## Ratings Score Snapshot



## Recent Research

- Industry Credit Outlook Update Europe: Transportation Infrastructure, July 18, 2024
- European Airports Trundle Along, May 13, 2024
- Tear Sheet: Avinor AS, Dec. 6, 2023
- Research Update: Avinor AS Outlook Revised To Stable On Recovering Air Traffic And Financial Performance; 'A/A-1' Ratings Affirmed, Oct. 11, 2023

## Company Description

Avinor AS owns and operates 43 of the 47 airports in Norway, in addition to three air traffic control centers and one remote control center in the country. The airport network includes Norway's main airport in Oslo, which accounts for more than 70% of the country's international traffic. Avinor is 100% owned by the Norwegian government, which is in turn represented by the Ministry of Transport.

In the rolling 12 months ended June 30, 2024, Avinor's total revenue was NOK11.7 billion, 3% higher than in the same period of 2023, and S&P Global Ratings-adjusted EBITDA amounted to NOK3.8 billion, 8.3% higher than the same period of 2023. The revenue base comprises aeronautical revenue (about 50% of total operating revenue), charged to airlines primarily for passenger facilities, take-off and landing, and aircraft parking. Under a single-till regulatory mechanism, revenue is subsidized by nonaeronautical income generated from retail, car parking, and property rental.

## Outlook

The stable outlook on the long-term issuer credit rating reflects our expectation that FFO to debt will remain commensurate with the current rating, consistently above 10%, and the regulatory framework assures an adequate investment return, without need for asset impairments.

## Downside scenario

We could lower the long-term ratings on Avinor by one notch if, in our view, the company is not able to sustain FFO to debt above 8% in the next years. This could occur if:

- Avinor's profitability decreases, either because of higher costs, or aeronautical tariffs not being adjusted to properly incorporate inflationary pressures and remuneration on investments;
- The company needs to issue further debt, beyond our expectations, either for additional investments or funding its operations; or
- The Norwegian government's stance unexpectedly becomes inconsistent with a very high likelihood of support. This could stem from a change in the government's overall plan for extraordinary state aid if an unexpected privatization or a revocation of the company's mandate to provide air navigation services is announced.

## Upside scenario

We could raise the long-term ratings by one notch if Avinor were able to sustain FFO to debt consistently above 10%. This could be achieved if:

- Avinor's aeronautical tariffs were periodically adjusted above inflation in the next few years, because of a balanced financial framework, increasing its profitability so that it could recover the gap between the ideal tariff needed to remunerate the investments and the current tariff; and
- The company were able to manage its costs, investments, and operations without distributing dividends in the next few years, so that it reduced the debt burden to fund expansion investments.

## Key Metrics

### Avinor AS--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Bil. NOK)	2022a	2023a	2024f	2025f	2026f
Passengers (million)	44.7	49.0	50.0-51.5	51.0-52.5	52.0-53.5
Revenue	10.4	11.5	11.5-12.0	12.5-13.0	13.0-13.5
EBITDA	3.1	3.6	3.8-4.0	4.0-4.2	4.3-4.5
Capital expenditure (capex)	3.1	4.3	3.0-3.5	4.5-5.0	4.5-5.0
Dividends	--	--	--	--	--
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	8.2	7.6	7.0-7.5	6.5-7.0	6.5-7.0
FFO/debt (%)	9.8	10.3	9.5-10.5	9.5-10.5	10.0-11.0
EBITDA margin (%)	29.9	31.4	30-35	30-35	30-35

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. NOK--Norwegian krone.

# Financial Summary

## Avinor AS--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	NOK	NOK	NOK	NOK	NOK	NOK
Revenues	11,724	11,785	8,183	9,314	10,419	11,514
EBITDA	4,184	4,588	2,035	3,081	3,120	3,613
Funds from operations (FFO)	3,351	3,670	1,106	2,407	2,490	2,824
Interest expense	758	741	715	707	811	961
Cash interest paid	717	627	630	689	630	789
Operating cash flow (OCF)	3,462	3,345	1,361	2,567	2,216	2,565
Capital expenditure	2,524	2,471	2,379	2,543	3,105	4,327
Free operating cash flow (FOCF)	939	874	(1,018)	24	(889)	(1,763)
Discretionary cash flow (DCF)	689	289	(1,018)	24	(889)	(1,763)
Cash and short-term investments	1,740	1,059	6,018	2,657	1,189	1,423
Gross available cash	1,740	1,059	6,018	2,657	1,189	1,423
Debt	24,042	24,281	26,856	25,746	25,481	27,393
Common equity	14,541	15,279	13,187	12,471	13,358	13,461
<b>Adjusted ratios</b>						
EBITDA margin (%)	35.7	38.9	24.9	33.1	29.9	31.4
Return on capital (%)	5.5	6.3	(0.3)	2.3	2.3	3.6
EBITDA interest coverage (x)	5.5	6.2	2.8	4.4	3.8	3.8
FFO cash interest coverage (x)	5.7	6.9	2.8	4.5	5.0	4.6
Debt/EBITDA (x)	5.7	5.3	13.2	8.4	8.2	7.6
FFO/debt (%)	13.9	15.1	4.1	9.3	9.8	10.3
OCF/debt (%)	14.4	13.8	5.1	10.0	8.7	9.4
FOCF/debt (%)	3.9	3.6	(3.8)	0.1	(3.5)	(6.4)
DCF/debt (%)	2.9	1.2	(3.8)	0.1	(3.5)	(6.4)

## Peer Comparison

### Avinor AS--Peer Comparisons

	Avinor AS	daa PLC	Aeroporti di Roma SpA	Flughafen Zurich AG
Foreign currency issuer credit rating	A/Stable/A-1	A/Stable/A-1	BBB/Stable/A-2	A+/Positive/--
Local currency issuer credit rating	A/Stable/A-1	A/Stable/A-1	BBB/Stable/A-2	A+/Positive/--
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	NOK	NOK	NOK	NOK

## Avinor AS

### Avinor AS--Peer Comparisons

Revenue	11,514	11,413	9,967	14,237
EBITDA	3,613	3,919	5,119	8,013
Funds from operations (FFO)	2,824	3,314	4,927	7,049
Interest	961	309	569	179
Cash interest paid	789	322	0	252
Operating cash flow (OCF)	2,565	2,420	5,328	8,053
Capital expenditure	4,327	2,016	3,663	5,271
Free operating cash flow (FOCF)	(1,763)	404	1,665	2,782
Discretionary cash flow (DCF)	(1,763)	342	752	1,462
Cash and short-term investments	1,423	9,028	10,192	6,495
Gross available cash	1,423	9,028	10,192	5,767
Debt	27,393	9,148	12,898	14,057
Equity	13,461	16,085	13,549	33,761
EBITDA margin (%)	31.4	34.3	51.4	56.3
Return on capital (%)	3.6	11.0	15.4	9.5
EBITDA interest coverage (x)	3.8	12.7	9.0	44.7
FFO cash interest coverage (x)	4.6	11.3	NM	29.0
Debt/EBITDA (x)	7.6	2.3	2.5	1.8
FFO/debt (%)	10.3	36.2	38.2	50.1
OCF/debt (%)	9.4	26.4	41.3	57.3
FOCF/debt (%)	(6.4)	4.4	12.9	19.8
DCF/debt (%)	(6.4)	3.7	5.8	10.4

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>A/Stable/A-1</b>
<b>Local currency issuer credit rating</b>	<b>A/Stable/A-1</b>
<b>Business risk</b>	<b>Strong</b>
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bbb</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	<b>bbb-</b>
Related government rating	AAA/Stable/A-1+
Likelihood of government support	Very high (+4 notches)

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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