

# Swedavia AB

## Q2 17: Good growth with high investments

Swedavia's revenues and earnings showed good growth in Q2, supported by the strong traffic growth at its airports. Due to the high ongoing investment level, leverage rose somewhat further with a net debt to EBITDA of 3.4x at end-June. Still, assuming that leverage measured as net debt to EBITDA remains around 3.5-4.0x and when also factoring in Swedavia's state ownership, we believe that this should be consistent with the current bond pricing versus A- rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem. We maintain a Marketweight recommendation on Swedavia's bonds.

### Good growth with high investments

In Q2 17 Swedavia's revenues rose by 3.9% y/y as passenger volumes across the company's airports continued to rise. Once again, international traffic was the main driver, with 11.2% higher y/y passenger volumes, while domestic traffic increased by a more moderate 2.4% y/y. The Aviation Business segment saw 3% higher revenues, while revenues in Commercial Services rose by 6%. The adjusted EBIT margin increased slightly y/y to 20% (Q2 16: 18%).

Swedavia's funds from operations rose to SEK431m (Q2 16: SEK400m). The investment level remains high and more than doubled to SEK985m in Q2 (Q2 16: SEK443m). Ongoing projects include various development projects at the larger airports Arlanda, Bromma and Landvetter. Consequently, leverage increased somewhat further with adjusted net debt / EBITDA at 3.4x at end-Q2 (Q1: 3.1x).

### Key figures

SEKm Year end Dec	Q2 16	Q1 17	Q2 17	y/y	q/q
Total sales	1,425	1,347	1,480	3.9%	9.9%
EBITDA (rep.)	636	337	527	-17.1%	56.4%
EBITDA (adj.)	496	343	533	7.5%	55.4%
Net income	326	80	204	-37.4%	155.0%
FFO (rep.)	400	223	431	7.8%	93.3%
FFO (adj.)	405	228	436	7.7%	91.3%
Equity	7,015	7,439	7,517	7.2%	1.0%
Net debt	3,744	4,492	5,019	34.1%	11.7%
Net debt (adj.)	4,838	5,597	6,122	26.5%	9.4%
Ratios year-end Dec	Q2 16	Q1 17	Q2 17	y/y	q/q
EBITDA margin	34%	25%	36%	1pp	11pp
Net debt/EBITDA	2.2x	2.5x	2.8x	0.6x	0.2x
Adj. net debt/adj. EBITDA	2.7x	3.1x	3.4x	0.6x	0.2x
FFO/net debt	35%	33%	30%	-5pp	-3pp
Adj. FFO/adj. net debt	27%	27%	25%	-2pp	-2pp
Adj. Total debt/total capital	42%	44%	46%	4pp	2pp
Net debt/total capital	34%	37%	39%	5pp	2pp

Source: Company data, Danske Bank DCM Research

## Marketweight

Sector: Industrials, Transportation

Corporate ticker: SWEDAV

Equity ticker Q256996D SS

### Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

### Analysts

Louis Landeman

[llan@danskebank.com](mailto:llan@danskebank.com)

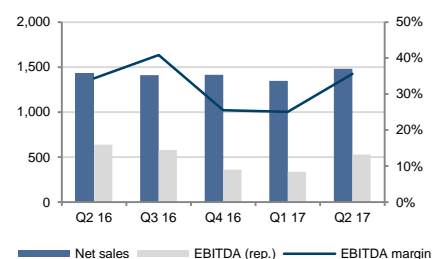
+46 8 568 80524

Gabriel Bergin

[gabe@danskebank.com](mailto:gabe@danskebank.com)

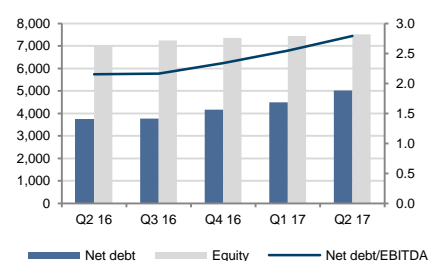
+46 8 568 80602

### Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

### Financial metrics (SEKm)



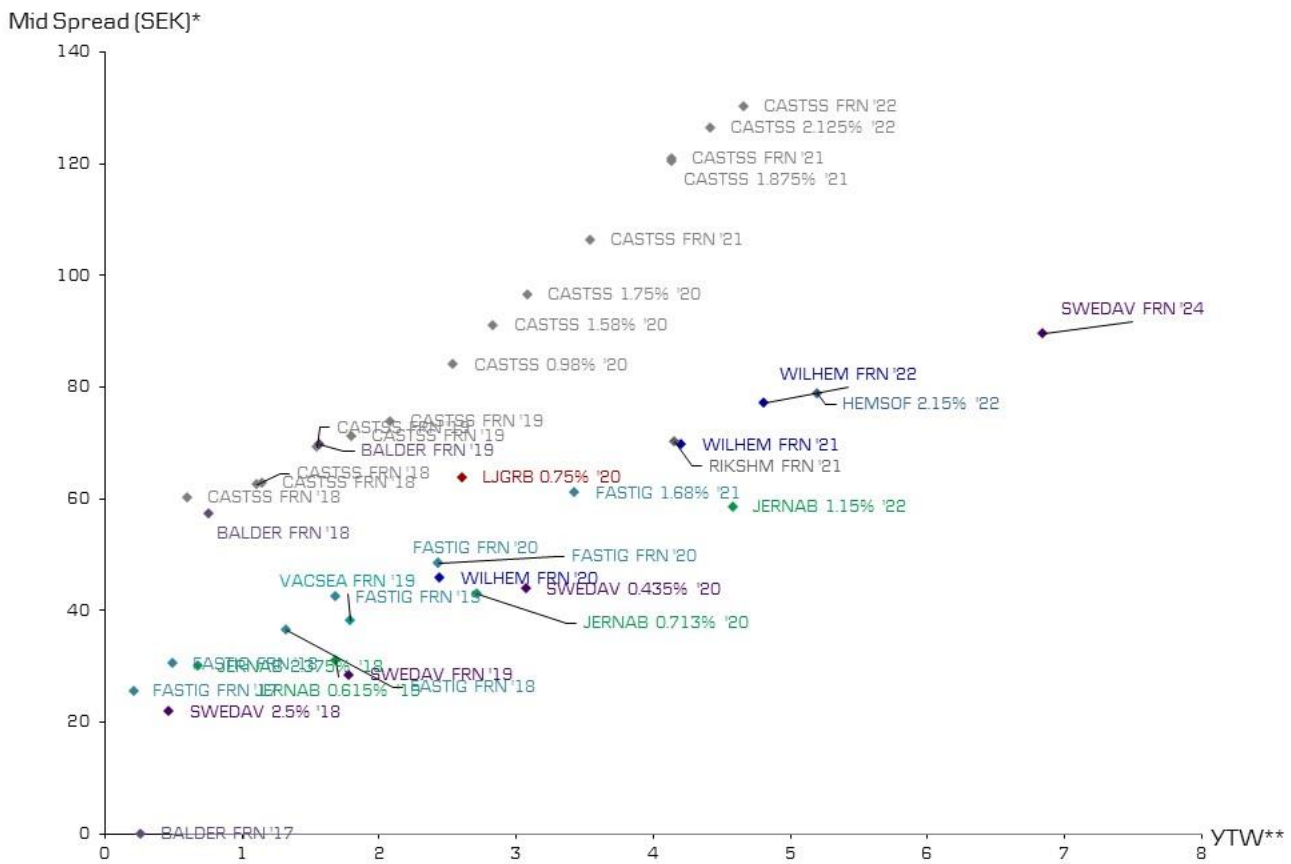
Source: Company data, Danske Bank DCM Research

# Our view

Swedavia's revenues and earnings showed good growth in Q2, supported by the strong traffic growth at its airports. Due to the high ongoing investment level, leverage rose somewhat further. As Swedavia has guided for continued high investments in the coming years – 'a tripling of the investment level per year' - this suggests that leverage will continue to increase.

Still, assuming that leverage measured as net debt to EBITDA remains around 3.5-4.0x and when also factoring in Swedavia's state ownership, we believe that this should be consistent with the current bond pricing versus A- rated publicly owned real estate companies such as Hemsö, Rikshem and Willhem. Consequently, we maintain a Marketweight recommendation.

## Relative value SEK Real Estate



\* Z-spreads. Discount margin for floaters. Swapped to indicated currency. \*\* Years-to-worst  
 Note: Fair value curve(s) based on Danske Bank Markets' (mid) peer group of European issuers

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

## Company summary

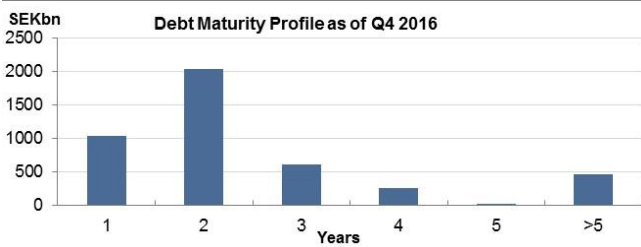
### Company description

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 52% 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

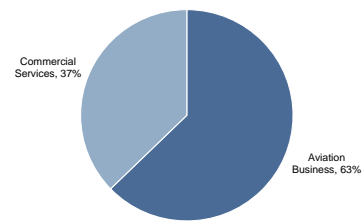


### Selected outstanding bonds

Isin	Cupon	Currency	Maturity/Call	Seniority	Rating*
SE0005035649	2.5%	SEK	2/5/2018	Sr Unsecured	NR/NR
SE0008992523	0.435%	SEK	9/14/2020	Sr Unsecured	NR/NR
SE0005454907	3.125%	SEK	10/2/2019	Sr Unsecured	NR/NR
SE0006055430		FRN	6/19/2024	Sr Unsecured	NR/NR

\*Moody's/S&P

### EBITDA breakdown, segments



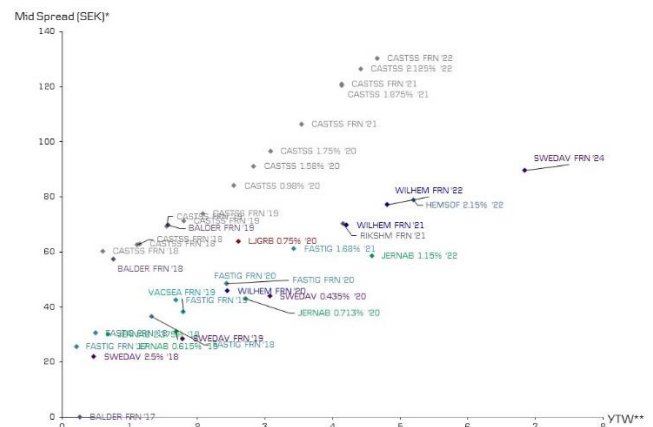
### Key credit challenges

- Capex programme under way, partly involving more risky real estate investments
- 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

<b>Income statement (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Total sales	4,965	5,233	5,384	5,416	5,546
Operating expenses	-3,284	-3,347	-3,033	-2,746	-3,619
EBITDA	1,681	1,886	2,351	2,670	1,927
EBITDA adjusted	1,681	1,886	2,354	2,676	1,927
Non-recurring items	0	0	0	0	0
Depreciation and amortisation	-850	-940	-946	-915	-961
EBIT	831	946	1,405	1,755	966
EBIT adjusted	831	946	1,406	1,756	966
Net interest	-296	-268	-242	-230	-138
Other financial items (net)	0	0	0	0	0
Pre-tax profit	535	678	1,163	1,525	828
Tax	-88	-177	-237	-115	-111
Net income	447	501	926	1,410	717
<b>Balance sheet (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Fixed assets	13,040	14,524	10,625	10,781	11,897
Goodwill	352	352	352	352	632
Associates	0	0	0	0	0
Other non-current assets	316	246	376	1,252	1,091
Working capital assets	593	538	466	496	463
Cash and cash equivalents	129	52	112	6	170
of which restricted cash	0	0	0	0	0
Other current assets	358	421	307	372	463
Total assets	14,788	16,133	15,265	13,259	14,716
Total assets (adj.)	14,788	16,133	15,278	13,274	14,723
Total interest-bearing debt	7,661	8,524	6,907	3,727	4,331
Total interest-bearing debt adjusted	7,661	8,524	7,909	4,773	5,428
Net interest-bearing debt	7,532	8,472	6,795	3,721	4,161
Net interest-bearing debt adjusted	7,532	8,472	7,797	4,767	5,258
Working capital liabilities	1,240	1,136	793	893	1,222
Other current liabilities	174	140	174	165	148
Other non-current liabilities	1,413	1,416	1,736	1,610	1,664
Total equity	4,300	4,915	5,571	6,863	7,351
Total equity and liabilities	14,788	16,131	15,181	13,258	14,716
Total equity and liabilities (adj.)	14,788	16,131	15,194	13,273	14,723
<b>Cash flow statement (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
EBITDA	1,681	1,886	2,351	2,670	1,927
Tax paid	0	0	0	0	0
Other cash flow from operations	-493	-389	-586	-1,272	-444
Funds from operations (FFO)	1,188	1,497	1,765	1,398	1,483
FFO (adjusted)	1,188	1,497	1,767	1,403	1,483
Change in working capital	305	-158	344	-24	167
Operating cashflow (CFO)	1,493	1,339	2,109	1,374	1,650
CFO (adjusted)	1,493	1,339	2,111	1,379	1,650
Capex	35	80	170	24	-1,855
Divestments/acquisitions of businesses	0	0	0	0	0
Free operating cashflow (FOCF)	1,528	1,419	2,281	1,403	-205
FOCF (adjusted)	-9	-9	-10	-231	-232
Dividend paid	0	0	0	0	0
Share buyback	1,519	1,410	2,269	1,167	-437
Free cashflow (FCF)	0	0	0	0	0
Other investing activities	-2,290	-11,642	-6,663	-7,748	-1,548
Debt repayment	-771	-10,232	-4,394	-6,581	-1,985
Funding shortfall	4,135	12,493	5,001	4,563	2,141
New debt	0	0	0	0	0
New equity	-3,376	-2,338	-547	1,911	8
Other financing activities	-12	-77	60	-107	164
Change in cash	0	0	0	0	0

Source: Company data, Danske Bank DCM Research

**Summary tables**

<b>Adjusted ratios (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Sales growth	6%	5%	3%	1%	2%
EBITDA margin	33.9%	36.0%	43.7%	49.3%	34.7%
Adj. EBITDA margin	33.9%	36.0%	43.7%	49.4%	34.7%
EBIT margin	16.7%	18.1%	26.1%	32.4%	17.4%
Adj. EBIT margin	16.7%	18.1%	26.1%	32.4%	17.4%
EBITDA interest coverage (x)	6.2	7.6	10.1	18.6	n.m.
Adj. EBITDA interest coverage (x)	6.2	7.6	10.0	18.6	n.m.
EBIT interest coverage (x)	3.1	3.8	6.0	12.2	n.m.
Adj. EBIT interest coverage (x)	3.1	3.8	6.0	12.2	n.m.
FFO interest coverage (x)	4.4	6.1	7.6	9.8	n.m.
Adj. FFO interest coverage (x)	4.4	6.0	7.5	9.8	n.m.
CFO interest coverage (x)	5.5	5.4	9.0	9.6	n.m.
Adj. CFO interest coverage (x)	5.5	5.4	9.0	9.6	n.m.
Net debt/EBITDA (reported) (x)	4.5	4.5	2.9	1.4	2.2
Net debt/EBITDA (x)	4.5	4.5	2.9	1.4	2.2
Adj. net debt/adj. EBITDA (x)	4.5	4.5	3.3	1.8	2.7
Debt/EBITDA (x)	4.6	4.5	2.9	1.4	2.2
Adj. debt/adj. EBITDA (x)	4.6	4.5	3.4	1.8	2.8
Debt/EBITDA (reported) (x)	4.6	4.5	2.9	1.4	2.2
FFO/net debt	15.8%	17.7%	26.0%	37.6%	35.6%
Adj. FFO/adj. debt	15.5%	17.6%	22.3%	29.4%	27.3%
Adj. FFO/adj. net debt	15.8%	17.7%	22.7%	29.4%	28.2%
FFO/debt	15.5%	17.6%	25.6%	37.5%	34.2%
Adj. total debt/total capital	64.0%	63.4%	58.7%	41.0%	42.5%
Net debt/total capital	63.0%	63.0%	54.5%	35.1%	35.6%
Adj. net debt/adj. total capital	63.0%	63.0%	57.8%	41.0%	41.1%
<b>Quarterly overview year-end Dec (SEKm)</b>	<b>Q2 16</b>	<b>Q3 16</b>	<b>Q4 16</b>	<b>Q1 17</b>	<b>Q2 17</b>
Net sales	1,425	1,410	1,412	1,347	1,480
EBITDA	636	576	360	337	527
Adj. EBITDA	496	582	366	343	533
EBIT	406	347	87	116	303
Net income	326	257	47	80	204
Capex	-448	-571	-811	-587	-985
FFO	400	451	412	223	431
Total debt	3,922	4,030	4,331	4,695	5,279
Net debt	3,744	3,771	4,161	4,492	5,019
Adjusted net debt	4,838	4,909	5,266	5,597	6,122
Equity (incl. minorities)	7,015	7,243	7,351	7,439	7,517
<b>Ratios</b>					
Net debt/EBITDA (x)	2.2	2.2	2.3	2.5	2.8
Adj. net debt/EBITDA (x)	2.7	2.8	2.9	3.1	3.4
FFO/net debt	35%	35%	34%	33%	30%
Adj. FFO/net debt	27%	27%	28%	27%	25%

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



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



**Bendik Engebretsen**  
Industrials  
+47 85 40 69 14  
bee@danskebank.com



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



**Katrine Jensen**  
Financials  
+45 45 12 80 56  
katri@danskebank.com



**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  
+47 85 40 54 19  
hsy@danskebank.com

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Marketweight	Performance in line with peer group	6 months	62%	29%
Underweight	Underperformance relative to peer group	6 months	10%	38%

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Date	Old rec.	New rec.
31 Oct 2016	Not Rated	Marketweight

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