

Swedavia AB

Q2 19: Moderate revenue growth despite falling passenger volumes

We regard Swedavia's performance in Q2 19 as mildly encouraging. Due mainly to the earlier implemented increase in airport tariffs, the company managed to deliver moderate growth in revenues and earnings despite falling passenger volumes. However, due to continued high investments, free cash flow was negative in the quarter, with adjusted net debt to EBITDA of 5.7x at end-June, unchanged sequentially from Q1. We continue to regard Swedavia's bond spreads as somewhat tight versus the SEK 'A' corporate curve and maintain our Underweight recommendation.

Swedavia's revenues grew by 5.7% y/y in Q2 19. Revenues in the Aviation Business grew by 6.7% despite lower passenger volumes year on year due to higher airport fees. Passenger volumes fell by 4.7% in Q2, with declines of 2% in international passenger volumes and 10.5% in domestic passenger volumes. The EBIT margin fell slightly to 17% (Q2 18 18%). Adjusted for one-offs, the EBIT margin rose to 19% (Q2 18 15%).

Funds from operations fell to SEK516m (Q2 18 SEK529m), with operating cash flow of SEK501m (Q2 18 SEK348m). With continued high investments in airport infrastructure and capacity of SEK924m (Q2 18 SEK787m), free cash flow remained negative.

Net debt (including pensions and operating leases) rose to SEK11.1bn (Q1 19 SEK10.8bn), with a fully adjusted net debt to EBITDA ratio of 5.7x at end-June (unchanged from Q1). As of end June, Swedavia's debt had an average capital fixing of 4.5 years, with an average interest fixing of 3.9 years and an average interest rate of 1%. In June, Swedavia signed a SEK2bn credit facility with a maturity of maximum 10 years with the German state-owned bank KfW-IPEX.

Key figures

SEKm Year end Dec	Q2 18	Q1 19	Q2 19	y/y	q/q
Total sales	1,511	1,474	1,597	5.7%	8.3%
EBITDA (rep.)	536	368	576	7.5%	56.5%
EBITDA (adj.)	504	368	576	14.3%	56.5%
Net income	258	47	212	-17.8%	351.1%
FFO (rep.)	530	338	516	-2.6%	52.7%
FFO (adj.)	540	338	516	-4.4%	52.7%
Equity	7,859	8,036	8,193	4.2%	2.0%
Net debt	7,651	9,768	10,137	32.5%	3.8%
Net debt (adj.)	9,466	10,751	11,120	17.5%	3.4%
Ratios year-end Dec	Q2 18	Q1 19	Q2 19	y/y	q/q
EBITDA margin	32%	25%	36%	4pp	11pp
Net debt/EBITDA (x)	4.3	5.4	5.3	1.0	-0.1
Adj. net debt/adj. EBITDA (x)	5.1	5.7	5.7	0.6	0.0
FFO/net debt	18%	17%	16%	-2pp	-1pp
Adj. FFO/adj. net debt	15%	16%	15%	0pp	-1pp
Adj. total debt/total capital	55%	57%	58%	3pp	1pp
Net debt/total capital	49%	55%	55%	6pp	0pp

Source: Company data, Danske Bank DCM Research

Underweight

Sector: Industrials, Transportation

Corporate ticker: SWEDAV

Equity ticker: 0256996D SS

Ratings:

S&P: NR / NR

Moody's: NR / NR

Fitch: NR / NR

ESG rating:

Sustainalytics ESG Risk Rating: NR

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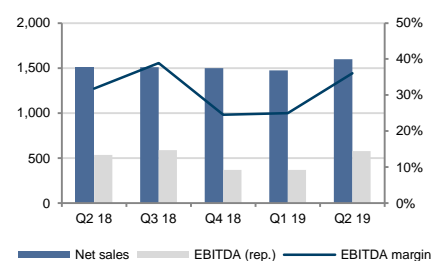
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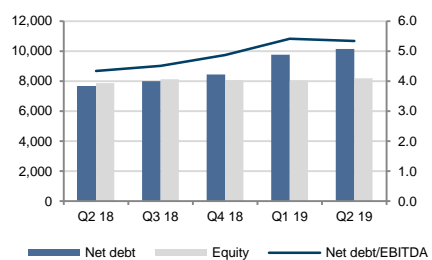
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Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



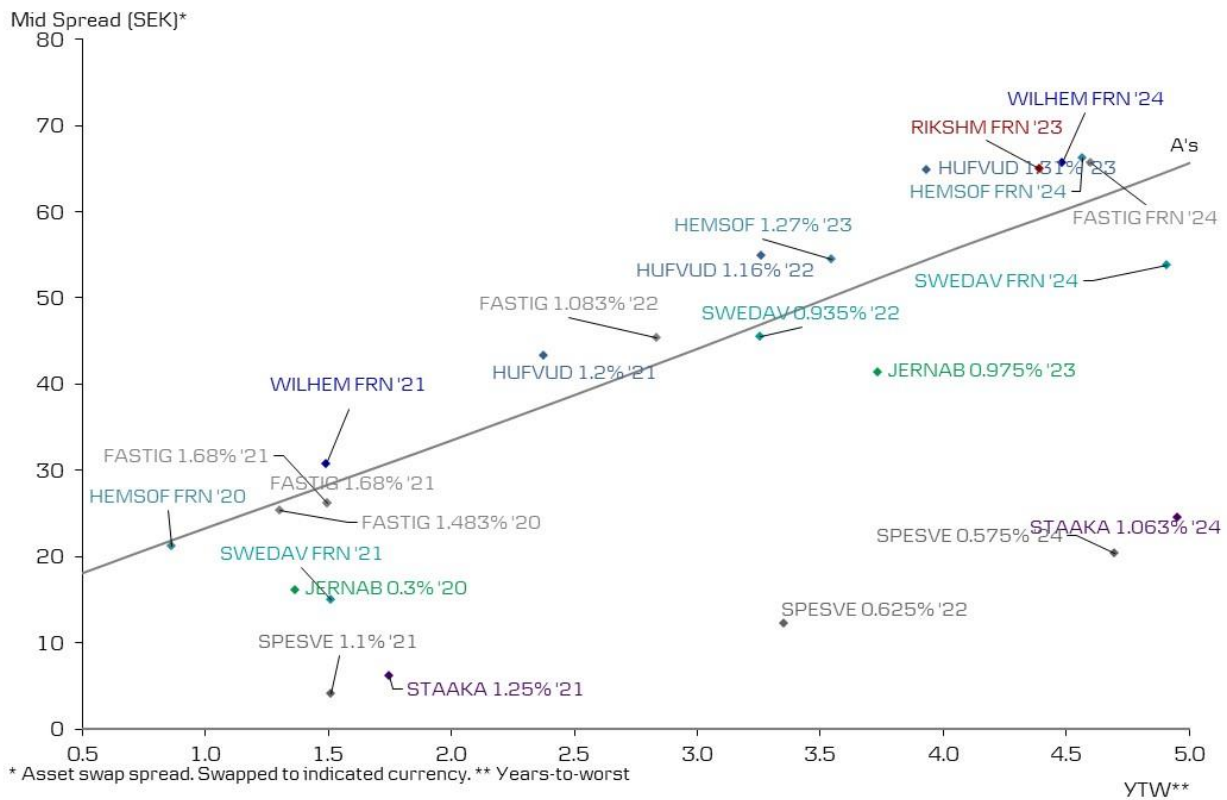
Source: Company data, Danske Bank DCM Research

Recommendation

We regard Swedavia's performance in Q2 19 as mildly encouraging. Due mainly to the earlier implemented increase in airport tariffs, the company managed to deliver moderate growth in revenues and earnings despite falling passenger volumes. In addition, the company's restructuring programme appears to be progressing according to plan. However, due to continued high investments, free cash flow remained negative in the quarter, with adjusted net debt to EBITDA of 5.7x at end-June, unchanged sequentially from Q1.

We continue to regard Swedavia's bond spreads as somewhat tight versus the SEK 'A' corporate curve and maintain our Underweight recommendation.

SEK relative value



Source: Bloomberg, Danske Bank DCM Research

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Company summary

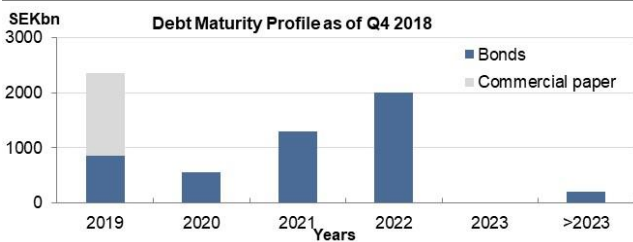
Company description

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.
- Being 100% government owned means some likelihood of extraordinary financial support.

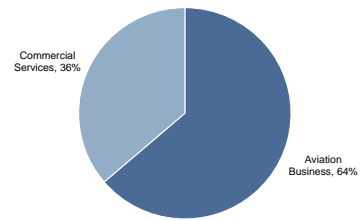
Debt maturity profile



Selected outstanding bonds

Isin	Coupon	Currency	Maturity/Call	Seniority	Rating*
SE0008992523	0.435%	SEK	14/09/2020	Sr Unsecured	NR/NR
SE0009548480	FRN	SEK	25/01/2021	Sr Unsecured	NR/NR
SE0010494443	0.935%	SEK	24/10/2022	Sr Unsecured	NR/NR
SE0010494443	0.935%	SEK	24/10/2022	Sr Unsecured	NR/NR
SE0006055430	FRN	SEK	19/06/2024	Sr Unsecured	NR/NR

EBITDA breakdown, segments



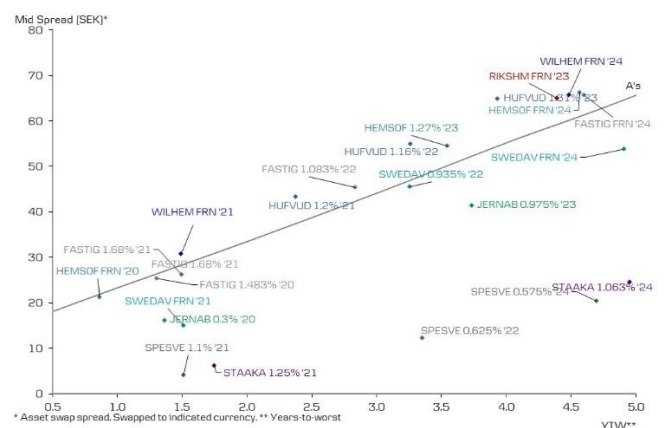
Key credit challenges

- Large ongoing capital-intensive investment programme that we expect to 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



* Moody's/Standard & Poor's

Source: Company data, Bloomberg, Moody's/Standard & Poor's/Danske Bank DCM Research [all charts and tables]

Summary tables

Income statement (SEKm)	2014	2015	2016	2017	2018
Total sales	5,384	5,416	5,546	5,745	5,922
Operating expenses	-3,033	-2,746	-3,619	-3,882	-4,137
EBITDA	2,351	2,670	1,927	1,863	1,785
EBITDA adjusted	2,492	2,674	1,974	1,954	1,785
Non-recurring items	0	0	0	-160	0
Depreciation and amortisation	-946	-915	-961	-1,052	-1,103
EBIT	1,405	1,755	966	651	682
EBIT adjusted	1,547	1,756	1,019	863	682
Net interest	-242	-230	-138	-113	-93
Other financial items (net)	0	0	0	-2	0
Pre-tax profit	1,163	1,525	828	536	589
Tax	-237	-115	-111	-129	-72
Net income	926	1,410	717	407	517
Balance sheet (SEKm)	2014	2015	2016	2017	2018
Fixed assets	10,625	10,781	11,897	14,741	16,257
Goodwill	352	352	632	618	777
Associates	0	0	0	0	0
Other non-current assets	376	1,252	1,091	1,088	1,191
Working capital assets	466	496	463	507	622
Cash and cash equivalents	112	6	170	58	10
of which restricted cash	0	0	0	0	0
Other current assets	307	372	463	575	425
Total assets	15,265	13,259	14,716	17,587	19,725
Total assets (adj.)	17,289	13,270	15,480	18,329	19,810
Total interest-bearing debt	6,907	3,727	4,331	6,618	8,440
Total interest-bearing debt adjusted	9,920	4,769	6,185	8,090	9,256
Net interest-bearing debt	6,795	3,721	4,161	6,560	8,430
Net interest-bearing debt adjusted	9,808	4,763	6,015	8,032	9,246
Working capital liabilities	793	893	1,222	1,592	812
Other current liabilities	174	165	148	119	871
Other non-current liabilities	1,736	1,610	1,664	1,593	1,534
Total equity	5,571	6,863	7,351	7,665	8,066
Total equity and liabilities	15,181	13,258	14,716	17,587	19,723
Total equity and liabilities (adj.)	17,205	13,269	15,480	18,329	19,808
Cash flow statement (SEKm)	2014	2015	2016	2017	2018
EBITDA	2,351	2,670	1,927	1,863	1,785
Tax paid	0	0	0	0	0
Other cash flow from operations	-586	-1,272	-444	-533	-289
Funds from operations (FFO)	1,765	1,398	1,483	1,330	1,496
FFO (adjusted)	1,764	1,401	1,477	1,369	1,496
Change in working capital	344	-24	167	207	-137
Operating cashflow (CFO)	2,109	1,374	1,650	1,537	1,359
CFO (adjusted)	2,108	1,377	1,644	1,576	1,359
Capex	170	24	-1,855	-3,765	-3,124
Divestments/acquisitions of businesses	0	0	0	0	0
Free operating cashflow (FOCF)	2,278	1,401	-211	-2,189	-1,765
FOCF (adjusted)	-10	-231	-232	-143	-122
Dividend paid	0	0	0	0	0
Share buyback	2,269	1,167	-437	-2,371	-1,887
Free cashflow (FCF)	0	0	0	0	0
Other investing activities	-6,663	-7,748	-1,548	-5,148	-1,980
Debt repayment	-4,394	-6,581	-1,985	-7,519	-3,867
Funding shortfall	5,001	4,563	2,141	7,383	3,805
New debt	0	0	0	0	0
New equity	-547	1,911	8	24	14
Other financing activities	60	-107	164	-112	-48
Change in cash	0	0	0	0	0

Source: Company data, Danske Bank DCM Research

Summary tables

Adjusted ratios (SEKm)	2014	2015	2016	2017	2018
Sales growth	3%	1%	2%	4%	3%
EBITDA margin	43.7%	49.3%	34.7%	32.4%	30.1%
Adj. EBITDA margin	46.3%	49.4%	35.6%	34.0%	30.1%
EBIT margin	26.1%	32.4%	17.4%	11.3%	11.5%
Adj. EBIT margin	28.7%	32.4%	18.4%	15.0%	11.5%
EBITDA interest coverage (x)	10.1	18.6	16.4	19.4	n.m.
Adj. EBITDA interest coverage (x)	10.6	13.6	11.6	20.4	n.m.
EBIT interest coverage (x)	6.0	12.2	8.2	6.8	n.m.
Adj. EBIT interest coverage (x)	6.0	8.9	5.7	6.8	n.m.
FFO interest coverage (x)	7.6	9.8	12.6	13.9	n.m.
Adj. FFO interest coverage (x)	7.5	7.1	8.7	14.3	n.m.
CFO interest coverage (x)	9.0	9.6	14.0	16.0	n.m.
Adj. CFO interest coverage (x)	9.0	7.0	9.7	16.4	n.m.
Net debt/EBITDA (reported) (x)	2.9	1.4	2.2	3.5	4.7
Net debt/EBITDA (x)	2.9	1.4	2.2	3.5	4.7
Adj. net debt/adj. EBITDA (x)	3.9	1.8	3.0	4.1	5.2
Debt/EBITDA (x)	2.9	1.4	2.2	3.6	4.7
Adj. debt/adj. EBITDA (x)	4.0	1.8	3.1	4.1	5.2
Debt/EBITDA (reported) (x)	2.9	1.4	2.2	3.6	4.7
FFO/net debt	26.0%	37.6%	35.6%	20.3%	17.7%
Adj. FFO/adj. debt	17.8%	29.4%	23.9%	16.9%	16.2%
Adj. FFO/adj. net debt	18.0%	29.4%	24.5%	17.0%	16.2%
FFO/debt	25.6%	37.5%	34.2%	20.1%	17.7%
Adj. total debt/total capital	64.0%	41.0%	45.7%	51.3%	53.4%
Net debt/total capital	54.5%	35.1%	35.6%	45.9%	51.1%
Adj. net debt/adj. total capital	63.3%	40.9%	44.4%	51.0%	53.4%
Quarterly overview year-end Dec (SEKm)	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Net sales	1,511	1,511	1,498	1,474	1,597
EBITDA	536	587	368	368	576
Adj. EBITDA	504	610	391	368	576
EBIT	274	335	16	70	278
Net income	258	240	-17	47	212
Capex	-787	-715	-921	-633	-924
FFO	530	514	266	338	516
Total debt	7,832	8,013	8,440	9,854	10,334
Net debt	7,651	8,001	8,430	9,768	10,137
Adjusted net debt	9,466	9,745	10,119	10,751	11,120
Equity (incl. minorities)	7,859	8,113	8,066	8,036	8,193
Ratios					
Net debt/EBITDA (x)	4.3	4.5	4.9	5.4	5.3
Adj. net debt/EBITDA (x)	5.1	5.2	5.6	5.7	5.7
FFO/net debt	18%	18%	18%	17%	16%
Adj. FFO/net debt	15%	15%	15%	16%	15%

Source: Company data, Danske Bank DCM Research

Fixed Income Credit Research



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More information about the valuation and/or methodology and the underlying assumptions is accessible via <http://www.danskebank.com/en-uk/ci/Products-Services/Markets/Research/Pages/researchdisclaimer.aspx>. Select Credit Research Methodology.

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Overweight	Outperformance relative to peer group	6 months	27%	39%
Marketweight	Performance in line with peer group	6 months	63%	27%
Underweight	Underperformance relative to peer group	6 months	10%	20%

Changes to recommendation in the past 12 months:

Date	Old rec.	New rec.
5 Nov 2018	Marketweight	Underweight

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