

Swedavia AB

Q4 18: Introducing airport tariff increases and a cost-reduction programme

Swedavia showed moderate year-on-year revenue growth in Q4 18, with somewhat lower passenger volumes. As investments remained at a high level, leverage rose further sequentially, with adjusted net debt to EBITDA of 5.5x at YE 2018 (Q3 18 5.2x). For 2019, Swedavia has announced major increases in its airport tariffs, while also launching a cost-reduction programme and a new organisation structure. Swedavia hopes these measures will help strengthen earnings ahead. As we continue to regard Swedavia's bond spreads as tight versus the SEK 'A' corporate curve, we maintain our Underweight recommendation.

Swedavia's revenues grew by 2.2% y/y in Q4 18, with an increase of 3.0% for FY 2018. Revenues were up in both the Aviation Business and Commercial Services. Passenger volumes fell in Q4, with declining domestic passenger volumes (-4.8% y/y) only partly offset by slightly increasing international passenger volumes (+0.3% y/y). For FY 2018, the EBIT margin rose slightly to 11.5% (2017 11.3%), with EBIT of SEK16m in Q4 18 (Q4 17 negative SEK123m).

Funds from operations rose to SEK266m (Q4 17 SEK193m), with operating cash flow of SEK491m (Q4 17 SEK350m). With continued high investments in airport infrastructure and capacity of SEK921m (Q4 17 SEK1.3bn), free cash flow remained negative. Net debt (including pensions) rose to SEK9.4bn (Q3 18 SEK9bn), with a fully adjusted net debt to EBITDA ratio of 5.6x at YE 2018 (end-September 5.2x). Swedavia does not intend to pay a dividend for 2018.

Key figures

SEKm Year end Dec	Q4 17	Q3 18	Q4 18	y/y	q/q
Total sales	1,466	1,511	1,498	2.2%	-0.9%
EBITDA (rep.)	261	587	368	41.0%	-37.3%
EBITDA (adj.)	435	610	391	-10.1%	-35.9%
Net income	-144	240	-17	-88.2%	-107.1%
FFO (rep.)	193	514	266	37.8%	-48.2%
FFO (adj.)	203	524	276	36.0%	-47.3%
Equity	7,665	8,113	8,066	5.2%	-0.6%
Net debt	6,560	8,001	8,430	28.5%	5.4%
Net debt (adj.)	8,121	9,745	10,119	24.6%	3.8%
Ratios year-end Dec	Q4 17	Q3 18	Q4 18	y/y	q/q
EBITDA margin	28%	39%	25%	-4pp	-14pp
Net debt/EBITDA (x)	3.5	4.5	4.9	1.3	0.4
Adj. net debt/adj. EBITDA (x)	4.2	5.2	5.6	1.3	0.3
FFO/net debt	20%	18%	18%	-3pp	0pp
Adj. FFO/adj. net debt	16%	15%	15%	-1pp	0pp
Adj. total debt/total capital	52%	55%	56%	4pp	1pp
Net debt/total capital	46%	50%	51%	5pp	1pp

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

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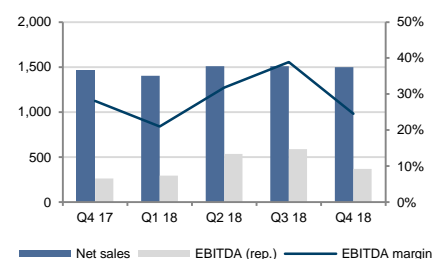
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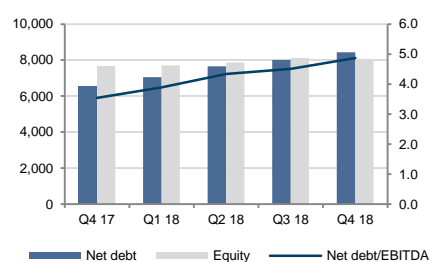
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Profitability (SEKm)



Source: Company data, Danske Bank DCM Research

Financial metrics (SEKm)



Source: Company data, Danske Bank DCM Research

Recommendation

As Swedavia is in the middle of a heavy investment programme at its airports, the company's leverage has recently been on a rising trend. In order to strengthen its operating efficiency, the company has recently taken several actions, including the introduction of a new organisation structure and the launch of a cost-reduction programme. In addition, Swedavia communicated that it has decided to raise its airport fees by 7.8% from 1 January 2019, in addition to the previous 2.7% tariff increase, implemented as of 15 January. The decision on the tariff increase also includes a temporary extra tariff increase of 2.1%, set to be in place until 31 December 2019.

Swedavia hopes these measures will help strengthen its earnings. When also factoring in Swedavia's state ownership, we believe the company should maintain leverage measured as net debt to EBITDA at around 4.5x or below over the coming few years, with FFO to net debt of around 20% (versus the current levels of 5.6x and 15%, respectively).

Considering Swedavia's current high leverage, we continue to see the company's bond spreads as tight versus the SEK 'A' corporate curve and versus other publicly owned companies in the 'A' category such as Jernhusen ('A' rating from Standard & Poor's) and Hemsö, Rikshem, Vasakronan and Willhem ('A-'/'A3' ratings from Standard & Poor's and Moody's, respectively). Consequently, we maintain our Underweight recommendation.

Company summary

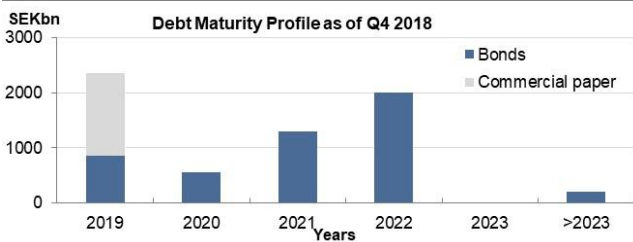
Company description

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.
- Swedavia is 100% government owned, with some likelihood of extraordinary financial support.

Debt maturity profile†



Selected outstanding bonds

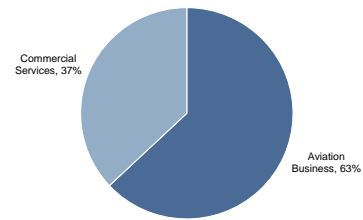
Isin	Coupon	Currency	Maturity/Call	Seniority	Rating*
SE0008992523	0.435%	SEK	14/09/2020	Sr Unsecured	NR/NR
SE0009548480	FRN	SEK	25/01/2021	Sr Unsecured	NR/NR
SE0010494443	0.935%	SEK	24/10/2022	Sr Unsecured	NR/NR
SE0010494443	0.935%	SEK	24/10/2022	Sr Unsecured	NR/NR

† Excluding bank loans

* Moody's/Standard& Poor's

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

EBITDA breakdown, segments



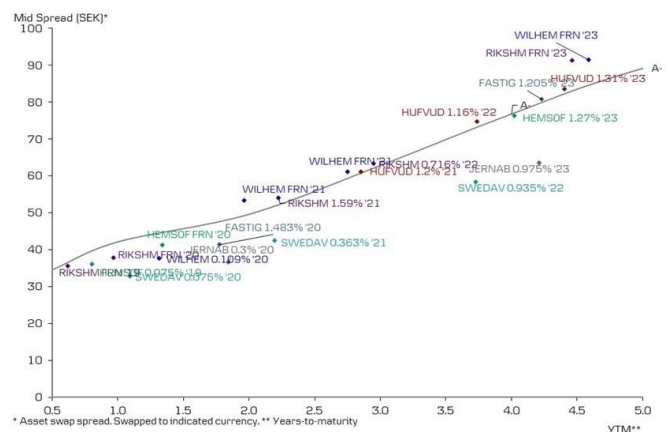
Key credit challenges

- 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



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)	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Net sales	1,466	1,403	1,511	1,511	1,498
EBITDA	261	295	536	587	368
Adj. EBITDA	435	318	504	610	391
EBIT	-123	58	274	335	16
Net income	-144	36	258	240	-17
Capex	-1,275	-681	-787	-715	-921
FFO	193	186	530	514	266
Total debt	6,618	7,175	7,832	8,013	8,440
Net debt	6,560	7,054	7,651	8,001	8,430
Adjusted net debt	8,121	8,612	9,466	9,745	10,119
Equity (incl. minorities)	7,665	7,715	7,859	8,113	8,066
Ratios					
Net debt/EBITDA (x)	3.5	3.9	4.3	4.5	4.9
Adj. net debt/EBITDA (x)	4.2	4.6	5.1	5.2	5.6
FFO/net debt	20%	18%	18%	18%	18%
Adj. FFO/net debt	16%	15%	15%	15%	15%

Source: Company data, Danske Bank DCM Research

Fixed Income Credit Research



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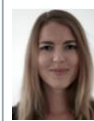
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Underweight	Underperformance relative to peer group	6 months	9%	23%

Changes to recommendation in the past 12 months:

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

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