

Swedavia

**Recommendation,
senior unsecured:
Underperform**

Recommendation currency: SEK

Satisfactory numbers in H1 2016

- Continued growth in passenger numbers
- Lower leverage after real estate JV with Alecta
- Liquidity still a weak spot; downgrade to Underperform

Operating numbers in line with previous years

The worldwide trend of increasing air traffic continues and Swedavia reported a 5.1% y-o-y increase in passenger numbers in H1 2016. Revenue decreased 0.4% y-o-y where price reductions more than offset the increased passenger volumes. Costs for security increased due to higher regulations, which took the adjusted operating margin to 14% (19%). Cash flow generation was satisfactory and largely in line with recent years.

Real estate portfolio divested to a 50%-owned JV

In 2015, Swedavia divested a real estate portfolio with SEK 4bn in book value to a 50%-owned joint venture (Alecta owns the other 50%). We have adjusted the balance sheet for the real estate JV and included 50% of the JV on a line-by-line basis. Adjusted metrics are now a touch stronger than over the past few years, which gives some headroom in metrics for the planned investments over the coming years.

Expensive bonds; downgrade to Underperform

We downgrade our recommendation for bonds issued by Swedavia to Underperform (from Market perform). The bonds now trade significantly inside the unrated GRI SEK curve and we see better value in other government-related issuers.

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Public ratings

No public ratings

Company data

Web address: www.swedavia.com

Swedavia is a 100% government-owned airport operating company, managing ten airports in Sweden identified by the state as key holdings; National Basic Infrastructure (NBI). Swedavia had revenue of over SEK 5.5bn in 2015 and over 2,700 employees.

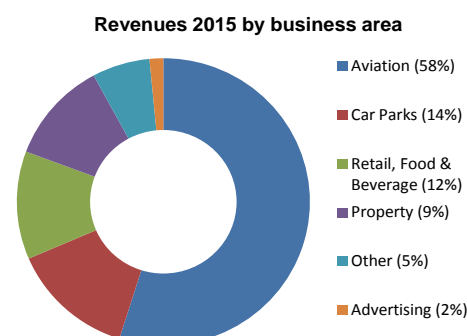
Key figures

Swedavia (mSEK)	2012	2013	2014 *	2015*	LTM 16*
Revenues	4,965	5,233	5,538	5,510	5,512
EBITDA	1,681	1,887	2,004	1,705	1,614
EBITDA margin	33.9%	36.1%	36.2%	30.9%	29.3%
EBIT	850	955	1,057	812	738
EBIT margin	17.1%	18.2%	19.1%	14.7%	13.4%
Net income	436	492	926	1,411	788
Funds from operations (FFO)	1,188	1,498	1,765	1,397	1,356
Capex (inc. disposals)	-3,341	-2,258	-378	-1,096	-1,385
Dividends	-9	-9	-10	-231	-231
Total debt (adjusted)	8,299	9,121	7,505	5,547	5,753
Net debt (adjusted)	8,170	9,069	7,393	5,541	5,575
Net debt to EBITDA, x (adjusted)	2.5	4.8	3.7	3.2	3.5
EBITDA to interest expense, x (adjusted)	11.1	7.0	8.3	7.4	17.2
FFO to net debt (adjusted)	14.5%	16.5%	23.9%	25.2%	24.3%
Return on equity	10.5%	10.7%	17.7%	22.7%	11.4%

* Figures adj. for disposals; real estate JV

Source: Company reports and Handelsbanken Capital Markets

Revenue distribution, 2015



Source: Company reports

Key credit considerations

Key credit strengths

- Strong business risk profile benefitting from the near-monopoly position as principal airport operator, with a supporting worldwide trend with increasing air traffic.
- Solid cash flow generation capacity.
- Moderate financial leverage.
- Directly owned by the Swedish government and with a strategic role within airport infrastructure.
- Some diversification with a combination of aviation fees and income from commercial services.

Key credit concerns

- Some cyclicalities in the revenue from passenger traffic.
- Customer exposure risk for specific airlines.
- Liquidity is a weak spot.
- High capex plans over the coming years.
- Some exposure to development and project risk, e.g. environmental permits required for the development plans.

Recommendation structure and allocations

Handelsbanken Capital Markets Credit Research (HCM) employs a three-graded recommendation scale. The recommendations reflect the analyst's assessment of the bond's total return on a 12-month time horizon in relation to a relevant benchmark. Investment recommendations are based on one or more methods of valuation, such as cash flow analysis, recovery assignments, sector performance, market movements, etc. The recommendations reflect the analyst's assessment of the expected total return on the instrument compared to the relevant benchmark (i.e. the expected return on a relevant benchmark with regard to similar credit quality, sector, currency, maturity, seniority, documentation, etc.). This assessment is not based on a proprietary HCM model and the basis for the analyst's assessment is dependent on the characteristics of the sector and the company and a multitude of fundamental and timing factors are incorporated. The recommendation is made in total return terms relative a relevant benchmark on a 12-month time horizon and takes into account risks related to the investment. The recommendations do not represent the analyst's or the bank's assessment of the company's fundamental value or quality. All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The recommendations, together with the allocation of the rating categories amongst companies under coverage and amongst companies under coverage for which Handelsbanken has provided investment banking services in the past 12 months are listed below:

Recommendations: definitions and allocations

HCM recommendation ¹	HCM universe secured ²	HCM universe unsecured ²	IB services ³
Outperform	19%	20%	6%
Market perform	64%	80%	15%
Underperform	17%	0%	9%

1 Recommendation definitions:

Outperform: Over the next 12 months, the bond's total return is expected to exceed the total return of the relevant benchmark

Market perform: Over the next 12 months, the bond's total return is expected to be in line with the total return of the relevant benchmark

Underperform: Over the next 12 months, the bond's total return is expected to be below the total return of the relevant benchmark

2 Percentage of companies under coverage within each recommendation

3 Percentage of companies within each recommendation (unsecured) for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 17/10 2016

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