MOODY'S
INVESTORS SERVICE

CREDIT OPINION
14 January 2021

Update

Rate this Research

RATINGS

Avinor AS

Domicile	Norway
Long Term Rating	A1
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Avinor AS

Update to credit analysis

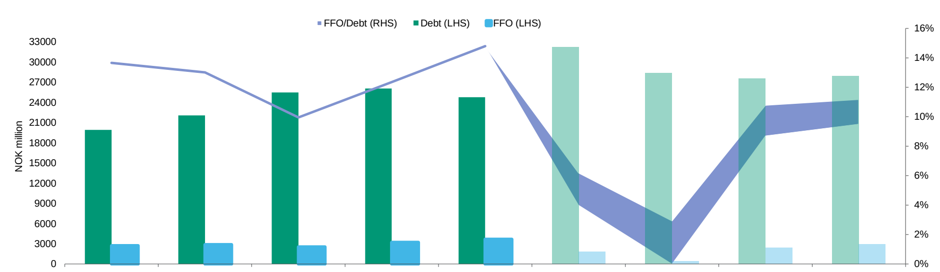
Summary

Avinor AS (Avinor)'s credit quality takes account of (1) the company's near-monopoly position and modest transmodal competition for medium-long distance travel within Norway; (2) a supportive strategic framework established by the State, highlighting the importance of Avinor's operations to achieve societal objectives; (3) a high share of origin and destination traffic with material share of domestic traffic, which we expect to recover more quickly; (4) the company's exposure to a weak carrier base; (5) an expectation of a recovery in the company's financial ratios to the levels commensurate with the current ratings in the next three years; and (6) the 100% ownership by and support from the Government of Norway (Aaa, stable).

Avinor's credit quality is susceptible to the risks associated with the coronavirus outbreak, which has resulted in a severe reduction in passenger traffic. Given traffic declines, Avinor's cash flow will be significantly reduced despite a reduction in operating costs and investments, coupled with the receipt of a government financial grant last year. The pace of improvement in Avinor's financial profile will be primarily driven by traffic recovery, but it will further depend on changes to the airport charges and a consideration of any further government support that would strengthen Avinor's equity in line with the minimum ratio requirement enshrined in the company's bylaws.

Exhibit 1

Avinor's financial profile will take time to recover under our current central traffic scenario
Funds from operations (FFO), debt and FFO/debt



The estimates represent Moody's forward view; not the view of the issuer. There are greater than usual uncertainties around the projections, with a potential for materially different outcomes than currently expected.
Source: Avinor's reports, Moody's Investors Service

Credit strengths

» Monopolistic position and modest transmodal competition

» High share of domestic traffic, which has been more resilient and will recover more quickly

» Supportive strategic framework underpinned by government policy

» 100% ownership by the Government of Norway and high likelihood of government support

Credit challenges

» Expectation of material loss of cash flow because of the coronavirus outbreak and travel restrictions

» Uncertain pace of traffic recovery, further challenged by a very weak and highly concentrated carrier base

» Exposure to Norway's economic environment dependent on commodity markets

» Highly-leveraged financial profile

Rating outlook

The negative outlook reflects the continued downside risks to Avinor's credit profile linked to the consequences of the coronavirus outbreak and the significant uncertainties around traffic recovery prospects.

Factors that could lead to an upgrade

Given the negative outlook, upward rating pressure on Avinor's ratings is unlikely in the near term. However, the outlook could be stabilised if (1) traffic recovery looked more certain; (2) it appeared likely that the company would be able to restore its financial profile to the levels commensurate with the current rating; and (3) the company's liquidity was solid.

Factors that could lead to a downgrade

Avinor's ratings could be downgraded if (1) it appeared likely that company's credit metrics will not recover to the levels commensurate with the current ratings over the medium term, namely funds from operations (FFO)/debt of at least 10% and FFO interest cover ratio above 4.0x; (2) there was a risk of covenant breaches without adequate mitigating measures in place; or (3) there were concerns about the company's liquidity.

Key indicators

Avinor AS

Historical and projected key credit metrics

	Dec-17	Dec-18	Dec-19	Dec-20 (E)	Dec-21 (E)	Dec-22 (E)
(FFO + Interest Expense) / Interest Expense	4.2x	5.0x	5.9x	2.5x - 3.5x	1.0x - 2.0x	4.5x - 5.5x
FFO / Debt	9.5%	12.4%	14.8%	4.0% - 6.0%	0.0% - 3.0%	8.5% - 10.5%
Debt Service Coverage Ratio	3.6x	5.2x	6.9x	2.5x - 3.5x	1.0x - 2.0x	4.0x - 5.0x
RCF / Debt	7.4%	11.4%	12.4%	4.0% - 6.0%	0.0% - 3.0%	8.5% - 10.5%

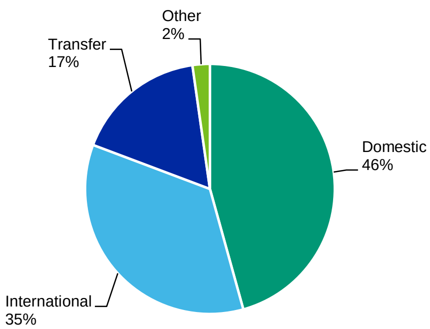
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] Estimates represent Moody's forward view; not the view of the issuer. There are greater than usual uncertainties around the projections, with a potential for materially different outcomes than currently expected.
Source: Moody's Financial Metrics, Moody's estimates

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Profile

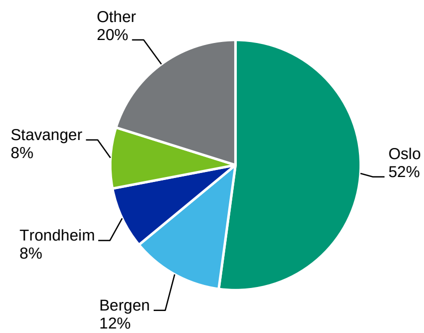
Avinor AS owns 45 airports and operates a network of 43 airports in Norway, handling some 96% of Norwegian passenger traffic in 2019. The company is also the sole provider of air navigation services to both civilian and military flights within Norwegian airspace. Oslo Airport is by far the largest and accounts for over half of total traffic and just over 70% of the country's international traffic. Other large airports with sizeable share of international traffic are Bergen, Stavanger and Trondheim.

Exhibit 3
Traffic breakdown by type
Data for 2019



Total passenger traffic of 55 million.
Source: Company's reports, Moody's Investors Service

Exhibit 4
Traffic breakdown by airport
Data for 2019



Total passenger traffic of 55 million.
Source: Company's reports, Moody's Investors Service

Avinor is 100% owned by the Government of Norway (Aaa, stable), but is incorporated as a limited liability company subject to normal laws. It is viewed as an important entity by the state on the basis that it fulfills “national sectoral political” objectives.

Detailed credit considerations

Key infrastructure provider subject to limited competition

Avinor owns 45 airports and controls all key aviation infrastructure in Norway. The company handles around 99% of domestic air traffic and some 93% of international scheduled flights. In 2019, Avinor's airports handled around 55 million passengers (PAX).

Avinor's airports face limited competition from rail and road. Although the main population centres are linked by road and rail services, the topography of the country and large distances mean that air travel is the most efficient mode of travel. Fast rail connections are limited to the Oslo region and cover relatively short distances. Also, the location of Norway on the periphery of Europe means that air travel is largely required when traveling internationally.

Significant uncertainty around traffic levels

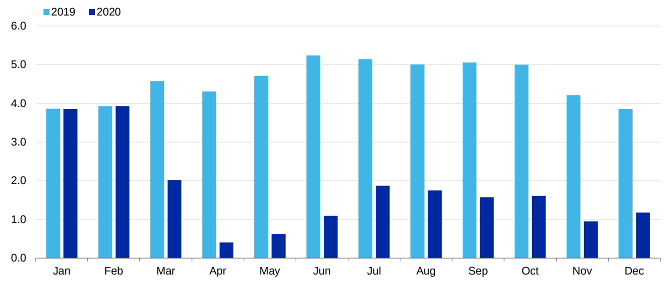
Avinor's credit profile reflects the uncertainties linked to the impact of the coronavirus pandemic and travel restrictions on traffic levels.

Before the coronavirus outbreak, Avinor's traffic had been subject to some volatility but the overall passenger volumes were growing over the last few years. In particular, over the decade to 2019, passenger growth averaged almost 3% per annum across Avinor's network, while its main managed airport, Oslo, reported average growth of around 4% over the same period.

In the first two months of 2020, traffic volumes remained broadly flat, with the situation changing rapidly in March, when a number of countries globally started to implement international travel bans and Avinor shut down nine of its airports. Avinor's airports' traffic in April was over 90% below the 2019 level.

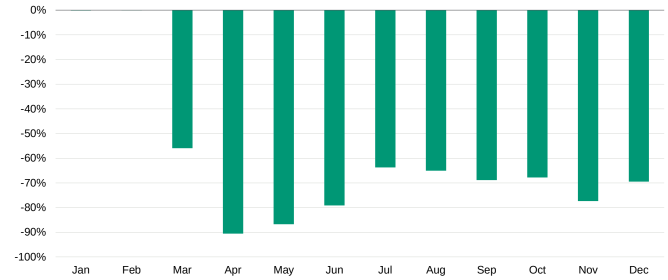
Restrictions were gradually eased from June, which prompted airlines to commence or ramp up capacity during the summer season. Domestic traffic performed significantly better than international traffic. Over the June-September period, domestic passenger volumes were some 48% below the 2019 level. In comparison, international travel was down some 88% in the same period. Total traffic reduction was 62% in the full year 2020.

Exhibit 5
Avinor's traffic was significantly down in 2020
Passenger volumes, in million PAX



Data including transit.
Source: Company's website, Moody's Investors Service

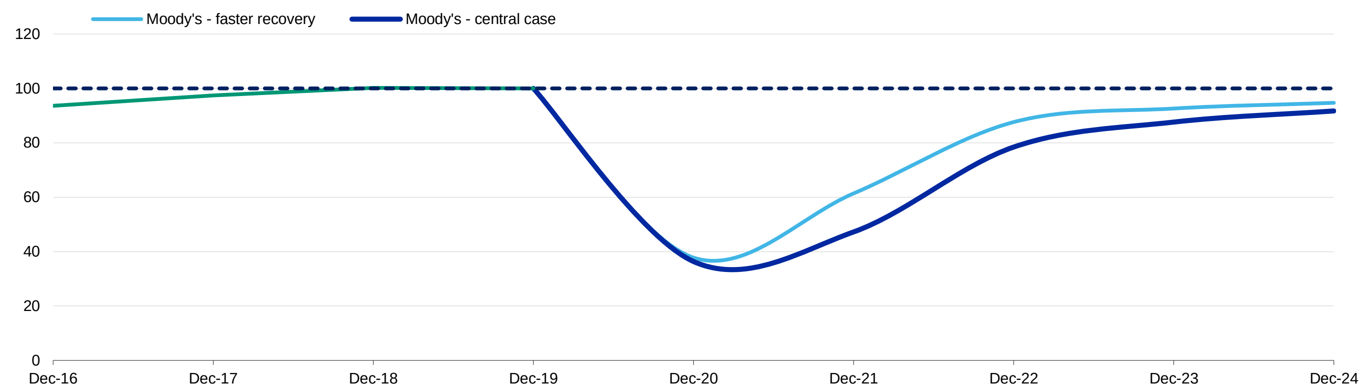
Exhibit 6
Reduction in traffic was significant in the summer season
Change in monthly traffic, year-on-year



Source: Company's website, Moody's Investors Service

Our central case assumes that traffic will not recover to pre-pandemic levels before 2024 (see Airlines – Global: More infections, stringent travel restrictions will slow air travel recovery in 2021, November 2020). There is, however, significant uncertainty around the timing and profile of any recovery, in particular in the context of the recent surge in the number of cases and restrictions to air travel. The benefits of the vaccine to air travel remain highly uncertain at present.

Exhibit 7
Traffic will not fully recover before the end of 2024 at the earliest
Passenger volumes for Avinor



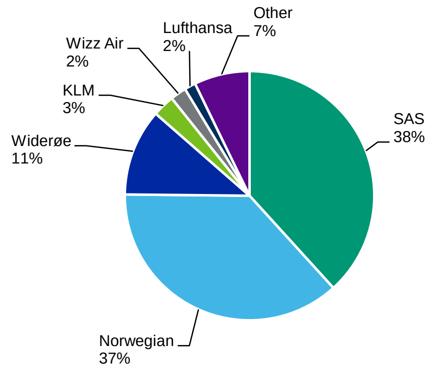
Source: Avinor's reports, Moody's estimates

Notwithstanding the uncertainty that is common across the sector, we expect Avinor to continue to exhibit stronger traffic performance than for most our rated airports in the near term. This is because we expect domestic traffic to remain more resilient and recover more quickly than international travel. (See Airports — Europe: Pace of recovery in traffic uncertain after unprecedented coronavirus hit, July 2020).

Exposure to a very weak carrier base makes traffic recovery prospects more uncertain

The additional uncertainty around traffic recovery stems from Avinor's exposure to airlines, which are themselves under significant stress. In particular, the company's carrier base is highly concentrated, with SAS AB (B3, stable) and Norwegian Air Shuttle each capturing some 38% of the airports' traffic.

Exhibit 8
Avinor's carrier base is highly concentrated
Total traffic breakdown, in 2019



Source: Avinor, Moody's Investors Service

Exposure to weak airlines makes recovery in traffic more uncertain despite the fairly high share of origin and destination (O&D) traffic (82% of the total) at Avinor's airports.

Exposure to the Norwegian economy and performance of the oil and gas industry

Avinor's traffic is strongly linked to the performance of the Norwegian economy, which is wealthy and well-developed, but heavily dependent on natural resources, including oil and gas.

The strong linkage between Avinor's performance and that of the Norwegian economy was evident in 2014-2015, when lower activity in the oil industry resulted in fewer trips to and from oil and gas offshore platforms. At the same time a fall in oil revenue triggered depreciation of the Norwegian krone, increasing the cost of overseas travel and weighing on demand for air travel, but benefiting inbound tourism.

Uncertainty around tariff evolution in the context of the government policies

Norway is a not a member of the EU, although the government has transposed the EU's Airport Charges Directive into Norwegian law. The directive sets out minimum requirements in terms of transparency, consultation with airlines and nondiscrimination of charges, and mandates the setting up of an independent supervisory authority.

At present, the state has a direct role in setting aeronautical charges, with the regulatory oversight exercised by the Ministry of Transport and Communications (MoTC), which owns 100% of the share capital of Avinor. In practice, charges are set after consultation with the airlines, given the company's and the Ministry's objective to encourage airlines to develop their route strategies in Norway rather than in nearby countries, such as Denmark and Sweden.

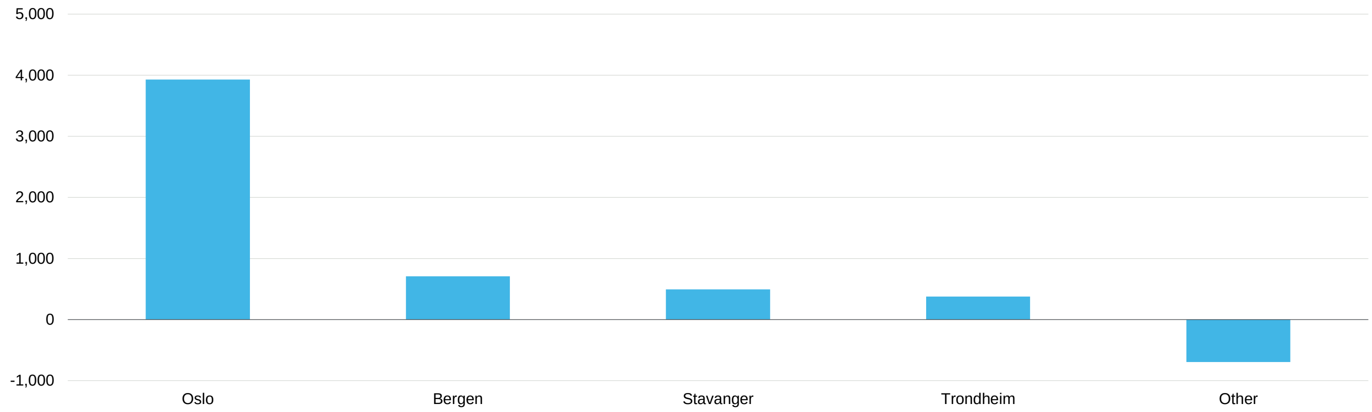
As a general principle, Avinor's tariffs are determined through the use of a price cap formula based on a fair return on a regulated asset base (RAB). Charges are determined to include allowances for operating costs, depreciation, return on the RAB and taxation. From this revenue requirement the non-aeronautical revenue is subtracted to determine the aeronautical revenue requirement (i.e., a "single till" approach), which is divided by anticipated volumes to determine the level of the anticipated unit price. Notwithstanding the above, not all the commercial profit may be used to subsidise airports charges in periods of high investments and in particular where the company's self-imposed minimum equity ratio of 40% could be at risk of being breached.

More generally, as the state requires Avinor to establish a uniform set of aviation charges across its network, this effectively leads to cross-subsidisation of the marginal rural airports by the more commercially viable larger airports, including Oslo, Bergen, Stavanger and Trondheim.

Exhibit 9

Profitability of larger airports supports loss-making regional airports

Reported EBITDA in NOK million, in 2019



Source: Avinor's reports, Moody's Investors Service

In the context of the coronavirus outbreak, the company did not collect aviation charges for around three months until June last year and there is uncertainty around the evolution of Avinor's tariffs over the medium term.

Commercial revenue is largely driven by passenger volumes

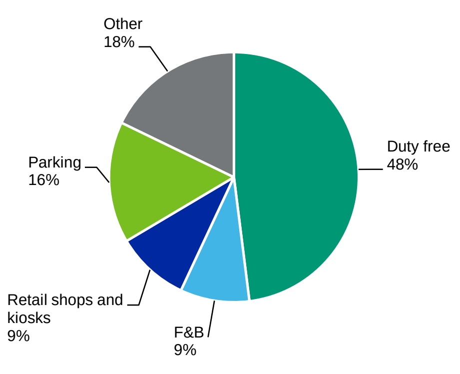
In 2019, commercial revenue accounted for some 54% of Avinor's total revenue and was mainly related to duty free (25% of total revenue) and car parks (8%). Other revenue streams included food and beverage, retail, car hire, advertising and other.

While commercial yields have been some 10% above those in the aeronautical segment, commercial revenue is largely driven by passenger volumes. In this regard, the disruption to air travel means that the company will not receive any significant cash flow from non-aeronautical activities. Avinor's cash flow will be further affected by the tenants' ability to pay.

Exhibit 10

Duty free accounts for the bulk of commercial revenue

Non-aeronautical revenue breakdown, in 2019

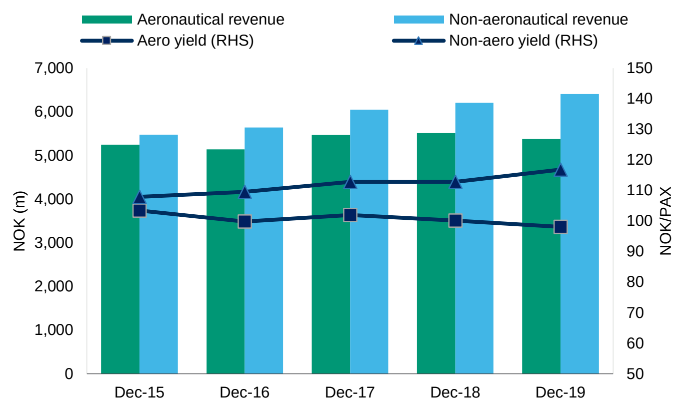


Source: Avinor's reports, Moody's Investors Service

Exhibit 11

Non-aeronautical yields were slightly higher last year

Evolution of revenue and yields



Source: Avinor's reports, Moody's Investors Service

We expect commercial yields to decline in the near term, partly because of the slower recovery in international passengers that tend to have a higher propensity to spend, exacerbating the impact of lower passenger volumes on airports' revenue.

Some investments could be deferred over the medium term

Over the last few years, Avinor has embarked on an extensive capital programme, which included the delivery of two new terminals (one at Oslo and one at Bergen) for a budgeted cost of some NOK18 billion. Terminal 2 at Oslo opened in April 2017, increasing passenger capacity by 50%. The new terminal at Bergen opened in August 2017 and almost doubled the capacity of the airport.

Before the coronavirus outbreak, the company's plan had assumed a continued high level of investments with a total spend of NOK26.7 billion over the 2019-2024 period. The main projects included expansion of the non-Schengen terminal area, the provision of US pre-clearance facilities and the replacement of the handling system at the Oslo airport, the expansion of the terminal at Trondheim airport, the rollout of remotely controlled towers for air navigation services, a new terminal at Tromsø airport and a new airport at Bodø. In 2019, Avinor's annual capital expenditure amounted to around NOK2.5 billion.

Given the spread of the coronavirus outbreak and travel restrictions, with uncertainty around future passenger flows, we believe that Avinor is likely to review its schedule of planned investments, which could be deferred. So far, relative to the initial plan, Avinor has scaled back its investments by NOK1 billion.

Immediate volume-dependent savings delivered a 15% decrease in operating costs yoy for the nine months ending September 2020. Furthermore, a new cost cutting programme targets a reduction in operating costs of NOK1 billion by 2022, which will be supported by the use of new technology, innovation and cost-cutting measures including employee layoffs. The potential for cost reduction is, however, fairly limited, given the high share of fixed expenditure. Staff costs account for over 52% of Avinor's operating costs. In this regard we note that there could be a broader sensitivity around any potential cost and investments cutting measures, given the company's role in delivering the government's policy objectives.

Minimum equity ratio requirement would be triggered before financial covenants are breached

Avinor's capital structure includes a mix of bonds, commercial bank loans and state loans. Bonds are not subject to any financial covenants. The company's borrowings from European Investment Bank, Nordic Investment Bank and the commercial banks, contain, however, a financial covenant defined as an equity ratio of at least 30%. This threshold is less demanding than the more restrictive 40% equity ratio included in the company's bylaws.

In this context, we consider that the receipt of the government support will be key in allowing Avinor to meet its minimum equity ratio requirement enshrined in its bylaws and maintain adequate headroom against covenants included in the company's bank loans this year. We caution, however, that further government support may be required to allow Avinor to meet its bylaws requirements and financial covenant ratio over the medium term.

High likelihood of extraordinary support from the Government of Norway

Avinor's credit quality takes account of the company's central role in the provision of air travel in Norway. Given the patterns of population distribution in Norway and certain geographical features, air travel is an essential facilitator of domestic mobility, and the government therefore sees Avinor as strategically important to meet some of its key economic, social and political objectives. While the state aims to ensure the state-owned entities make a fair return on capital employed, this is not the primary objective of Avinor.

The company's strategic objectives are outlined in the Ten-Year Transportation Plan, with specific operational and financial requirements set out in the Avinor Ownership Report. These government policy documents set out the focus for Avinor on quality improvements for, and financial returns from, the airport network and air navigation system in Norway. In this regard we note that the government indicated its plans to separate Avinor's air navigation system and the tower operation activities, to promote competition and reduce costs, and instructed the company to prepare for a potential disposal of the air navigation subsidiary, but the process is currently on hold.

The government has a track record of support to Avinor. This includes a payment holiday on the state loan provided to Avinor's subsidiaries, a relaxation of dividend payments in 2009 and 2010, and the decision to cap dividend payments at NOK500 million annually until 2018, to finance capital investments. The government promised up to NOK4.3 billion in financial support to Avinor last year. We understand that the company received a total of NOK3.7 billion, with the amount tailored to allow Avinor to comfortably meet its minimum equity ratio requirement.

ESG considerations

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices, and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airport sector has been one of the sectors most significantly affected by the shock, given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

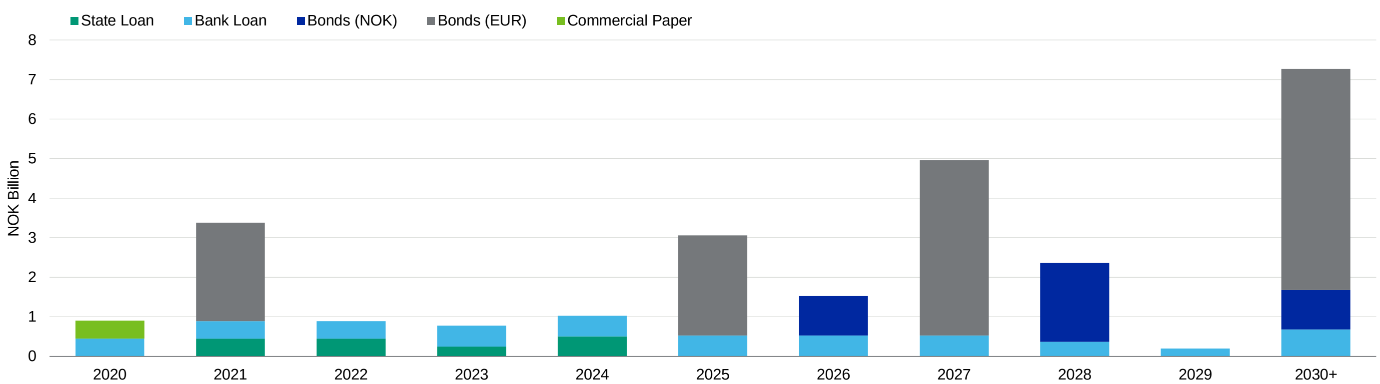
In October of 2020, the Norwegian aviation industry published its fourth report on sustainability and social benefit which for the first time presents a roadmap towards the 2050 goal of fossil-free aviation. This would mean that from 2050, on flights in and from Norway, fossil fuels will not be used. In 2018, air traffic (domestic and foreign) corresponded to around 5.5% of Norway's emissions.

Liquidity

As of end-September 2020, Avinor had cash on balance sheet of around NOK1.6 billion, NOK600 million of available overdraft facility and NOK4 billion availability under credit facilities due in June 2024. Given the disbursement of the state grant towards the end of last year, we consider the company's liquidity as adequate in the context of a sizeable debt maturity of NOK2.5 billion due in March 2021.

Exhibit 12

Avinor has significant debt maturities in 2021
As of October 2020



Source: Company; Moody's Investors Service

Rating methodology and scorecard factors

Avinor is rated in accordance with the rating methodology for Privately Managed Airports and Related Issuers, published in September 2017. Given the 100% ownership by the Government of Norway, Avinor is considered a Government-Related Issuer (GRI) under Moody's methodology for Government-Related Issuers, published in February 2020. The high support assumption takes into account Avinor's role as key infrastructure provider in Norway and its role in delivering the government's policy objectives.

Exhibit 13
Rating Factors Grid
Avinor AS

Privately Managed Airports and Related Issuers Industry [1][2]	Current FY 12/31/2019		Moody's Forward View of Dec-2023 As of Dec-2020 [3]	
Factor 1: Concession and Regulatory Frameworks (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Ability to Increase Tariffs	Baa	Baa	Baa	Baa
b) Nature of Ownership / Control	Aaa	Aaa	Aaa	Aaa
Factor 2: Market Position (15%)				
a) Size of Service Area	Aa	Aa	Aa	Aa
b) Economic Strength & Diversity of Service Area	Aa	Aa	Aa	Aa
c) Competition for Travel	Aaa	Aaa	Aaa	Aaa
Factor 3: Service Offering (15%)				
a) Passenger Mix	Aa	Aa	Aa	Aa
b) Stability of traffic performance	A	A	Baa	Baa
c) Carrier Base	Baa	Baa	Ba	Ba
Factor 4: Capacity and Capital (5%)				
a) Ability to accommodate expected traffic growth	Baa	Baa	Baa	Baa
Factor 5: Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 6: Leverage and Coverage (40%)				
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	5.9x	A	5x - 6x	A
b) FFO / Debt	14.8%	A	10% - 11%	Baa
c) Moody's Debt Service Coverage Ratio	6.9x	Aa	4.5x - 5.5x	A
d) RCF / Debt	12.4%	A	10% - 11%	A
Rating:				
Scorecard-Indicated Outcome Before Notch Adjustment		A1		A3
Notch Lift	0	0	0	0
a) Scorecard-Indicated Outcome		A1		A3
b) Actual Rating Assigned				A1
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	baa1			
b) Government Local Currency Rating	Aaa, Stable			
c) Default Dependence	Moderate			
d) Support	High			
e) Actual Rating Assigned	A1			

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31 December 2019. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Ratings

Exhibit 14

Category	Moody's Rating
AVINOR AS	
Outlook	Negative
Issuer Rating -Dom Curr	A1
Senior Unsecured	A1

Source: Moody's Investors Service

Appendix

Exhibit 15

Peer Comparison table

	Avinor AS A1 Negative			Copenhagen Airports A/S Baa2 Negative			Brussels Airport Company NV/SA Baa1 Negative		
(in USD million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenue	662	678	612	674	704	652	594	671	693
EBITDA	458	524	536	401	404	359	345	382	375
EBITDA margin %	69.1%	77.3%	87.6%	59.4%	57.4%	55.0%	58.1%	57.0%	54.2%
Funds from Operations (FFO)	307	396	417	310	308	284	216	267	269
Total Debt	3,264	3,011	2,820	971	1,090	1,231	1,651	1,572	1,656
(FFO + Interest Expense) / Interest Expense	4.2x	5.0x	5.9x	10.0x	9.8x	10.3x	4.0x	5.7x	5.9x
FFO / Debt	9.5%	12.4%	14.8%	33.9%	27.3%	23.1%	13.9%	16.4%	16.3%
RCF / Debt	7.4%	11.4%	12.4%	14.1%	10.3%	12.0%	5.7%	7.5%	13.1%
Debt Service Coverage Ratio	3.6x	5.2x	6.9x	9.7x	9.0x	9.0x	4.8x	5.9x	6.9x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 16

Avinor AS - Adjusted Debt Breakdown

(in NOK million)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Total Debt	18,490	19,957	22,811	21,741	21,295
Pensions	1,716	2,278	3,540	4,067	3,489
Leases	339	347	350	269	0
Non-Standard Private Adjustments	(635)	(504)	(1,216)	0	0
Moody's Adjusted Total Debt	20,544	22,581	26,701	26,077	24,784

All figures are calculated using Moody's estimates and adjustments.
Source: Moody's Financial Metrics™

Exhibit 17

Avinor AS - Adjusted FFO Breakdown

(in NOK million)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Funds from Operations (FFO)	3,335	3,265	3,575	4,007	3,331
Pensions	0	0	8	24	136
Leases	45	45	46	34	0
Capitalized Interest	(275)	(235)	(48)	(38)	(45)
Alignment FFO	(43)	220	(102)	(155)	(34)
Unusual Items - Cash Flow	0	0	(415)	0	0
Non-Standard Public Adjustments	(342)	(420)	(528)	(650)	278
Moody's Adjusted Funds from Operations (FFO)	2,720	2,874	2,536	3,222	3,667

All figures are calculated using Moody's estimates and adjustments.
Source: Moody's Financial Metrics™

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