MOODY'S
INVESTORS SERVICE

CREDIT OPINION
15 April 2020

Update

Rate this Research

RATINGS

Avinor AS

Domicile	Norway
Long Term Rating	A1 , Possible Downgrade
Type	LT Issuer Rating - Dom Curr
Outlook	Rating(s) Under Review

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.

Contacts

Joanna Fic +44.20.7772.5571
Senior Vice President
joanna.fic@moodys.com

Jonathan Dolbear +44.20.7772.1099
Associate Analyst
jonathan.dolbear@moodys.com

Andrew Blease +33.1.5330.3372
Associate Managing Director
andrew.blease@moodys.com

Avinor AS

Update following placement of A1 rating under review

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, although this is concentrated among a small number of airlines with very weak credit profiles; (4) a fairly high financial leverage and significant capital expenditure programme; and (5) the 100% ownership by the Government of Norway.

Avinor's fundamentals are, however, currently significantly challenged by the spread of the coronavirus (COVID-19) outbreak that prompted introduction of severe restrictions to travel, with the company closing nine of its airports in mid-March 2020. As a result, international air travel has been suspended with only very limited aircraft movement permitted. We currently assume that while the coronavirus pandemic will lead to a period of severe cuts in passenger traffic over the upcoming weeks, there will be a gradual recovery in passenger volumes starting by the third quarter 2020. There is, however, a higher than usual degree of uncertainty around the length of travel restrictions and drop in travel demand.

The longer term impact of the coronavirus pandemic still remains difficult to assess, given airports' exposure to airlines, which are themselves under significant stress. However, and notwithstanding the significantly reduced cash flow over at least the next few weeks, we still consider Avinor's airport network to be a key infrastructure provider, with a potential for traffic recovery once the coronavirus outbreak and its effects have been contained. Given the patterns of population distribution in Norway and certain geographical features, air travel is an essential facilitator of domestic mobility.

Avinor's liquidity position was solid before the coronavirus outbreak. However, traffic reduction as a result of interruption in flight activity and the company's decision not to collect aeronautical fees until end of June will result in significantly lower cash flow. As of end-December 2019, Avinor had approximately NOK1 billion of cash on balance sheet, NOK600 million of available overdraft facility and NOK4 billion availability under credit facilities due in June 2024. The company has around NOK1.5 billion in debt maturities this year and will need to access additional sources of funding or capital in order to cover its expenditure, given its largely fixed cost base and sizeable investments, and ensure that it has sufficient liquidity to see itself through the next few months.

Credit strengths

» Monopolistic position and modest transmodal competition

» 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 flows due to the coronavirus outbreak and travel restrictions

» Weak liquidity and risk of the company breaching its minimum equity ratio requirement

» Some airline concentration and very weak credit profile of the main carriers

» Significant capital expenditure programme

» Exposure to Norway's economic environment, which can negatively impact revenue

Rating outlook

The rating is under review. The review for downgrade takes account of Avinor's rising credit and liquidity risks to due to the sharp decline in traffic as a result of implementation of travel restrictions and the uncertainties around traffic rebound prospects, including because of the company's exposure to a weak carrier base, with Norwegian Air Shuttle ASA and SAS AB (B2, rating under review) accounting for over 75% of Avinor's traffic before the coronavirus outbreak.

Factors that could lead to an upgrade

Given the current review for downgrade, upward rating pressure on Avinor's ratings is unlikely in the near term. However, Avinor's ratings could be confirmed if (1) the company strengthened its liquidity profile; (2) it appeared likely that the company would be able to restore its financial profile to the levels commensurate with the current rating; or (3) there was evidence of government support that could warrant an increase in the uplift to the company's baseline credit assessment.

Factors that could lead to a downgrade

Avinor's ratings could be downgraded if (1) the company failed to strengthen its liquidity profile; (2) the company's credit metrics were to weaken with funds from operations (FFO)/debt below 10% and FFO interest cover ratio below 4.0x on a sustained basis; (3) there was a risk of covenant breaches; or (4) it appeared likely that the coronavirus outbreak had medium to longer term impact on the airport traffic, either because of travel restrictions or failures of major airlines. Any downwards move in the Government of Norway's rating could also put downward pressure on Avinor's rating.

Key indicators

Exhibit 1

Avinor AS

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
(FFO + Interest Expense) / Interest Expense	4.8x	4.9x	5.1x	4.2x	5.0x
FFO / Debt	14.0%	13.7%	13.0%	10.0%	13.1%
Debt Service Coverage Ratio	4.1x	4.2x	4.3x	3.8x	5.5x
RCF / Debt	11.5%	11.1%	10.8%	7.8%	12.1%

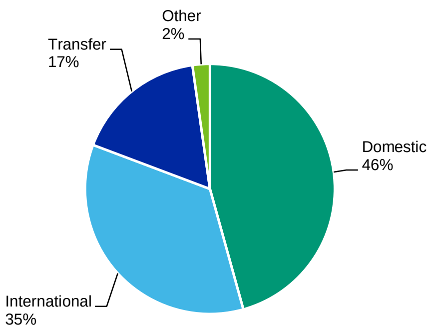
Note: All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics

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

Profile

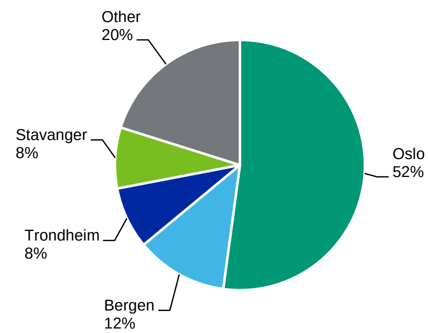
Avinor AS owns and operates a network of 44 airports in Norway, handling some 96% of the country's air passenger traffic. The company is also the sole provider of air navigation services to both civilian and military flights within Norwegian airspace. Oslo Airport is by far the largest and accounts for 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 2
Traffic breakdown by type
Data for 2019



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

Exhibit 3
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 classified in Norway as a category 4 company on the scale of state-owned enterprises, and is thus 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 and operates 44 airports in Norway, and controls all key aviation infrastructure. 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).

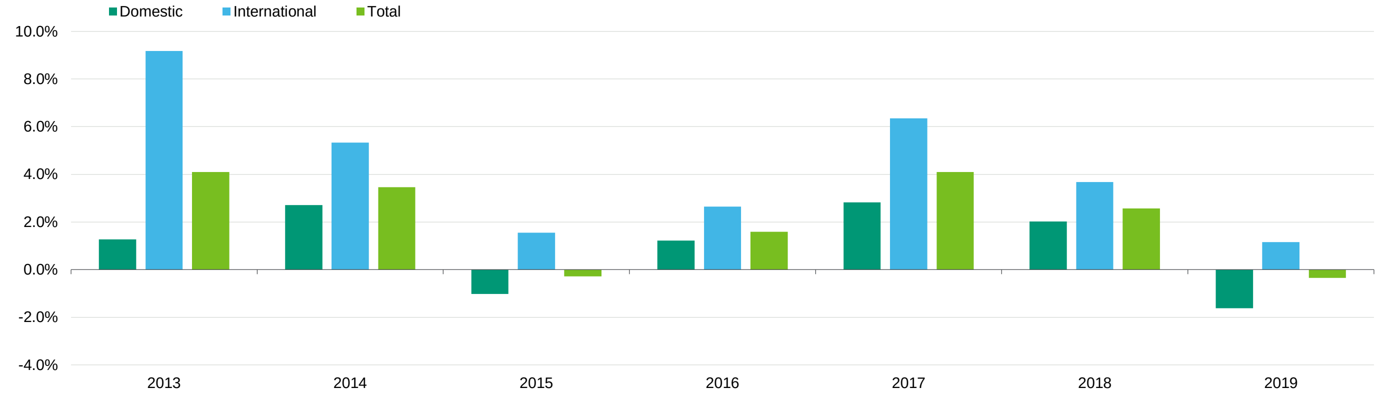
The airports face limited competition from rail and road. Although the main population centres are linked by road and rail services, the topography of the country and large distances mean that air travel is the most efficient mode of travel. Fast rail connections are limited to the Oslo region and cover 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, given restrictions to travel and exposure to weak airlines

Before the COVID-19 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 last decade, passenger growth has 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.

Following a period of growth, domestic traffic was down 1.6% in 2019. International segment performed better, with passenger volumes up 1.2%. This was a deceleration in growth compared with prior years, when increase in international segment traffic averaged around 4%. Overall traffic volumes decreased by around 0.4% last year.

Exhibit 4
Traffic was increasing or remained broadly flat before the coronavirus outbreak
% change y-o-y



Does not show separately offshore and transit traffic.
Source: Company's website, Moody's Investors Service

In the first two months of this year, traffic volumes remained broadly flat, with weakness in domestic traffic showing a 1.2% decline somewhat offset by international segment, which reported an increase in passenger volumes of 1.5% over the period. However, the situation rapidly changed in March, when a number of countries globally started to implement international travel bans and Avinor shut down its nine airports. Traffic in the last weeks of March was some 93% below the levels in the comparable period of last year.

Our current base case assumption is that the coronavirus pandemic will lead to a period of severe cuts in passenger traffic over at least the next three months with partial or full flight cancellations and aircraft groundings. The base case assumes there is a gradual recovery in passenger volumes starting in the third quarter. However, there are high risks of more challenging downside scenarios and the severity and duration of the pandemic and travel restrictions is uncertain. In this regard, we consider that domestic traffic could recover more quickly if the coronavirus pandemic and its effects were contained, given the importance of airports for people's mobility in the country.

The additional uncertainty around traffic recovery stems from Avinor's exposure to airlines, which are themselves under significant stress. The company's carrier base is fairly concentrated, with SAS and Norwegian Air Shuttle each capturing some 38% of the airports' traffic. Both airlines are facing significant risks to operations, with ongoing discussions around the potential for government support. Exposure to weak airlines makes recovery in traffic more uncertain despite the 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 revenues triggered depreciation of the Norwegian krone, increasing the cost of overseas travel and weighing on demand for air travel, but benefitting inbound tourism.

Given the severe decline in oil prices and the already weak gas prices before the current crisis, we expect Avinor's traffic to be further impacted by the activity in the oil and gas industry.

Tariff system is reflective of the government policies, with no aviation charges to be collected until end of June

Norway is not an EU member state, 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). The charges are determined to include allowances for operating costs, depreciation, return on the RAB and taxation. From this revenue requirement the non-aeronautical revenues are 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 profits 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, we note that 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.

In the context of the coronavirus outbreak, the company decided not to collect aviation charges until the end of June.

Commercial revenues will not provide a relief as these are largely driven by passenger volumes

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

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

Some investments could be deferred but potential for immediate savings may be limited

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 roll-out of remotely controlled towers for air navigation services, a new terminal at Tromsø airport and a new airport at Bodø. In 2019, Avinor's 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. We caution, however, that Avinor's ability to cut expenditure may be limited. Operating costs are largely fixed and there could be a broader sensitivity around any potential cost cutting measures, given the company's broader role in delivering the government's policy objectives.

Financial leverage will increase, with a risk of the company breaching its minimum equity ratio requirement

We currently assume that the decline in Avinor's passenger traffic will be at least 30% in 2020 driven by dramatic declines in the first half of the year and a recovery in the second half, albeit phased over the period. There are, however, high risks of more challenging downside scenarios.

The sharp decline in demand and negative free cash flow generation will lead to a significant deterioration in leverage metrics. Avinor's debt facilities, which include loans from the European Investment Bank, Nordic Investment Bank and the commercial banks, contain a financial covenant defined as an equity ratio of at least 30%.

Given reduction in earnings, we expect Avinor's ratios to deteriorate with a potential for erosion of the company's headroom against covenants included in its debt documentation. We note, however, that as the company's financial ratios deteriorate, the minimum equity requirement ratio included in Avinor's bylaws would be triggered first. This raises the question of potential for support from the government, as the owner, in order to allow the company to meet obligations enshrined in its bylaws.

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, in order to promote competition and reduce costs, and instructed the company to prepare for a potential disposal of the air navigation subsidiary by 2021.

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 company's Board will not recommend the dividend payment for the last financial year. While there is no evidence that any further support may be forthcoming to Avinor at this stage, the existing legislative provisions would allow such subsidies to be provided at relatively short notice.

ESG considerations

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety that lead to severe restrictions to air travel, cancellation of airline routes and closing of borders, as well as enhanced health and safety standards and regulation potentially resulting in additional compliance expenses and potential non-compliance costs in the form of fines.

Liquidity

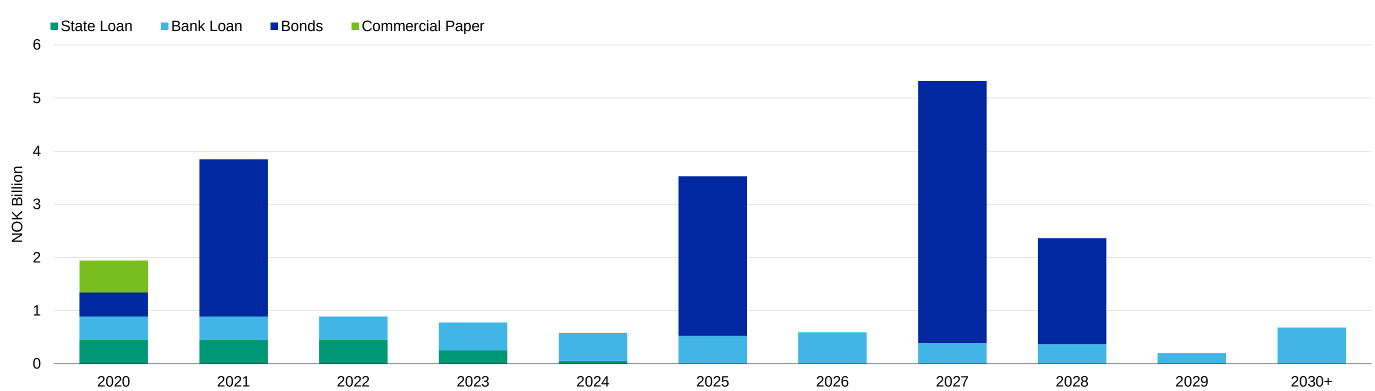
As of end-December 2019, Avinor had approximately NOK1 billion of cash on balance sheet, NOK600 million of available overdraft facility and NOK4 billion availability under credit facilities due in June 2024.

The company has around NOK1.5 billion in debt maturities this year and will need to access additional sources of funding or capital in order to cover its expenditure, given its largely fixed cost base and sizeable investments, and ensure that it has sufficient liquidity to see itself through the next few months.

Exhibit 5

Avinor's maturities are reasonably well spread over the next ten years

As of December 2019



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. The company's baseline credit assessment (BCA) is below the scorecard-indicated outcome on a historical basis.

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 6

Avinor AS - Rating Factors Grid

Privately Managed Airports and Related Issuers Industry Grid [1][2]	Current LTM 9/30/2019		Moody's 12-18 Month Forward View As of April 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	A	A
c) Carrier Base	Baa	Baa	Baa	Baa
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)	5.0x	A	1x - 1.5x	Caa
b) FFO / Debt	13.1%	Baa	0% - 2%	Caa
c) Moody's Debt Service Coverage Ratio	5.5x	A	1x - 1.5x	Caa
d) RCF / Debt	12.1%	A	0% - 2%	Caa
Rating:				
Indicated Rating from Grid Factors 1-6		A2		B2
Rating Lift	**-**	**-**	**-**	**-**
a) Indicated Rating from Grid		A2		B2
b) Actual Rating Assigned				A1
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	baa1			
b) Government Local Currency Rating	Aaa			
c) Default Dependence	Moderate			
d) Support	High			
e) Final Rating Outcome	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 2018. [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 7

Category	Moody's Rating
AVINOR AS	
Outlook	Rating(s) Under Review
Issuer Rating -Dom Curr	A1[1]
Senior Unsecured	A1[1]

[1] Placed under review for possible downgrade on March 31 2020
Source: Moody's Investors Service

Appendix

Exhibit 8
Peer Comparison table

(in USD million)	Avinor AS A1 Rating(s) Under Review FYE Dec-16	FYE Dec-17	FYE Dec-18	Copenhagen Airports A/S Baa2 Rating(s) Under Review FYE Dec-17	FYE Dec-18	FYE Dec-19	Brussels Airport Company NV/SA Baa1 Negative FYE Dec-16	FYE Dec-17	FYE Dec-18
Revenue	612	662	678	674	704	652	510	594	671
EBITDA	434	458	524	401	404	359	315	345	382
EBITDA margin %	70.9%	69.1%	77.3%	59.4%	57.4%	55.0%	61.8%	58.1%	57.0%
Funds from Operations (FFO)	342	307	396	310	308	284	200	216	267
Total Debt	2,623	3,264	3,011	971	1,090	1,231	1,450	1,651	1,572
(FFO + Interest Expense) / Interest Expense	5.1x	4.2x	5.0x	10.0x	9.8x	10.3x	4.2x	4.0x	5.7x
FFO / Debt	13.0%	10.0%	13.1%	33.9%	27.3%	23.1%	13.2%	13.9%	16.4%
RCF / Debt	10.8%	7.8%	12.1%	14.1%	10.3%	12.0%	2.7%	6.1%	7.2%
Debt Service Coverage Ratio	4.3x	3.8x	5.5x	9.7x	9.0x	9.0x	4.1x	4.8x	5.9x

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 9
Avinor AS - Adjusted Debt Breakdown

(in NKRONE Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Total Debt	15,298	18,490	19,957	22,811	21,741
Pensions	2,483	1,716	2,278	3,540	4,067
Leases	368	339	347	350	269
Moody's Adjusted Total Debt	18,148	20,544	22,581	26,701	26,077

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

Exhibit 10
Avinor AS - Adjusted FFO Breakdown

(in NKRONE Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Funds from Operations (FFO)	**2,879**	**3,335**	**3,265**	**3,575**	**4,007.4**
Operating Leases	49	45	45	46	34.3
Capitalized Leases	-183	-275	-235	-48	-37.8
Pensions	52	0	0	8	24
Alignment FFO	-265	-387	-200	-630	-805
Unusual adjustment	0	2	0	-415	0.0
Moody's-Adjusted Funds from Operations (FFO)	**2,532**	**2,720**	**2,874**	**2,536**	**3,222**

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

REPORT NUMBER 1222376

MOODY'S
INVESTORS SERVICE