



Rating Action: Moody's affirms Avinor's A1 ratings, changes outlook to stable from negative

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London, November 04, 2022 -- Moody's Investors Service (Moody's) has today affirmed the A1 long-term issuer and senior unsecured ratings of Avinor AS (Avinor). It has also affirmed the (P)A1 long-term senior unsecured rating of the company's Euro Medium Term Note programme. Concurrently, Moody's has downgraded the company's Baseline Credit Assessment (BCA) to baa2 from baa1. The outlook was changed to stable from negative.

RATINGS RATIONALE

The rating affirmation takes account of Avinor's position as the owner and operator of the airport network in Norway and Moody's assumption of a continued high level of support from the Government of Norway (Aaa stable) if needed, and as evidenced by injections of NOK7.4 billion since the start of the pandemic. The strong linkages with the government are supportive of Avinor's credit quality despite a deterioration in the company's standalone assessment.

The downgrade of Avinor's BCA to baa2 reflects Moody's expectation that the company's funds from operations (FFO)/debt ratio will remain below the guidance previously set out for the BCA of baa1 despite a gradual traffic recovery. Avinor's passenger volumes have started to increase this year from the low point and Moody's expects traffic to recover to around 90% of pre-pandemic levels in 2023. Nevertheless, there remain uncertainties around the traffic recovery profile, given the current geopolitical environment and knock-on effects on the European economy, increasing cost of living pressures and the weak profile of Avinor's carriers. The weakness in traffic will not be offset by higher airport charges, while operating costs and capital expenditure will increase. Avinor's ability to achieve cost savings will be limited, given the inflationary environment and the need to increase investment, which was scaled back temporarily to help preserve cash flows. At the same time, commercial revenue will be negatively impacted by the government proposal to reduce by 50% the quota on imported tobacco products, which are an important duty-free offering. As a result, Moody's expects the company to be free cash flow negative, which will slow down the pace of deleveraging. Avinor's FFO/debt stood at 8.5% as of end-June 2022.

Overall, Avinor's A1 ratings reflect (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 a material share of domestic traffic; (4) the company's exposure to a weak carrier base; (5) high financial leverage; and (6) the government ownership and its support to the company.

Under Moody's Government-Related Issuers Methodology (GRI), Avinor's A1 rating reflects the company's standalone credit quality, expressed as a BCA of baa2, coupled with a four-notch uplift based on an assumption of high support from the government. Under the GRI methodology, Moody's assesses dependence as moderate. The high support assumption takes account of Avinor's central role in the provision of air travel in Norway, given its ownership of nearly all

airports in the country and its monopolistic position in the provision of air navigation services within Norwegian airspace. 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. The high support assumption further recognises the track record of the government support.

LIQUIDITY AND DEBT COVENANTS

As of end-June 2022, Avinor had cash on balance sheet of around NOK1.3 billion, NOK300 million of available overdraft facility and NOK4 billion availability under credit facilities due in June 2026. The company has fairly modest debt maturities in the near term related to amortization of loans of around NOK900 in each of 2023 and 2024.

Avinor's bank loans include a financial covenant of a minimum equity ratio of 30%. However, the company's by-laws include a more restrictive ratio of 40%. As of end-June 2022, Avinor's equity ratio as enshrined in the company's by-laws, stood at 39.8%, whilst the company was given permission to temporarily relax the minimum required equity ratio to 35% up to 31 December 2022.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Avinor's financial profile will be consistent with the current ratings, while the government support will remain high.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Avinor's ratings is unlikely in the near term and would require an upgrade of the company's BCA as well as an enhanced view of the level of government support. Avinor's BCA could be upgraded if the company were able to improve its operational and financial performance such that its FFO/debt ratio were comfortably in the low double digits in percentage terms on a sustainable basis.

Avinor's ratings could be downgraded if the company's FFO/debt ratio were below 8% on a sustained basis or if Moody's assessment of high support for the company was to be revised downwards.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Privately Managed Airports and Related Issuers published in September 2017 and available at <https://ratings.moodys.com/api/rmc-documents/63380>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

CORPORATE PROFILE

Avinor AS is a limited liability company fully owned by the Government of Norway. The company owns and operates 43 airports in Norway. It also provides the vast majority of air navigation services to both civilian and military flights within Norwegian airspace.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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