MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms Avinor's A1 ratings, negative outlook

24 Jun 2020

London, 24 June 2020 -- Moody's Investors Service (Moody's) has today confirmed the A1 long-term issuer and senior unsecured ratings of Avinor AS (Avinor). Concurrently, Moody's has confirmed the (P)A1 long-term senior unsecured rating of the company's Euro Medium Term Note programme. The outlook has been changed to negative from ratings under review. This concludes the review process initiated on 31 March 2020.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The rating confirmation recognises that under Moody's current assumptions, Avinor's credit metrics may recover to the levels commensurate with the current ratings by 2022. The confirmation also reflects the consideration of the government support to Avinor and the company's improved liquidity.

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. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

Today's action takes account of the impact on Avinor of the breadth and severity of the shock, recognising the potential for recovery in the company's credit quality once the coronavirus outbreak and its effects have been contained.

Avinor's traffic has been severely impacted by the introduction of travel restrictions with a very limited number of flights permitted since mid-March this year. With restrictions gradually eased and airlines planning to commence or ramp up capacity during the summer season, Moody's expects flight activity to gradually resume in the second half of 2020 and continue to increase in 2021. Passenger volumes will remain, however, well below pre-coronavirus outbreak levels. The timing and profile of a recovery beyond 2021 also remains highly uncertain, with passenger volumes below 2019 levels until 2023 at the earliest.

Against this backdrop, Moody's has revised its traffic assumptions for European airports recognizing that the impact of the reduction in global air travel on European airports will not be even and will vary depending on the airport location, its airline mix and type of traffic served. Domestic flights will recover earlier, with a slower return for international and long-haul flights. In this context, as a large airport network with a high share of domestic traffic and limited viable transport alternatives within Norway, Avinor is somewhat better placed in the timing of traffic recovery in a more constrained economic environment. These factors are, however, partly balanced by the company's exposure to a weak carrier base, with Norwegian Air Shuttle ASA and SAS AB (Caa1, rating under review) accounting for over 75% of Avinor's traffic prior to the coronavirus outbreak.

Under updated traffic scenarios, Moody's assumes that the decline in Avinor's passenger traffic will be at least 55% in 2020, with 2023 passenger volumes still below 2019 levels. There are, however, high risks of more challenging downside scenarios, including deeper reduction in passenger volumes and a slower recovery.

Given traffic declines and temporary suspension of airport charges, Avinor's cash flows will be significantly reduced this year. The extent of the decline will be partly offset by a reduction in operating costs and investments coupled with the receipt of a government financial grant of NOK4.3 billion in 2020 [1] that will strengthen the company's equity. Moody's expects credit metrics to gradually improve starting from 2021 on the back of traffic recovery and the company's cash flow preservation measures, including reduction in investments. The pace of improvement in Avinor's financial profile 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 by-laws.

Overall, Avinor's A1 rating reflects (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 Moody's expects 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 by 2022; and (6) the government ownership and its track record of support to the company.

Under Moody's methodology for government-related issuers (GRI), Avinor's A1 rating reflects the company's standalone credit quality, expressed as a baseline credit assessment (BCA) of baa1, coupled with a three-notch uplift based on an assumption of a high support from the government of Norway (Aaa stable). 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

Avinor's liquidity became significantly constrained following severe traffic declines starting in mid-March 2020 and the Norwegian government's decision to suspend aeronautical charges until the end of June. The company's liquidity improved following the issuance of NOK2 billion of new debt in April 2020. Moody's understands that as of end-May 2020, Avinor had cash on balance sheet of around NOK850 million, NOK600 million of available overdraft facility and NOK4 billion availability under credit facilities due in June 2024. With the receipt of the state financial grant this year, the company's liquidity will be adequate in the months ahead and in the context of a sizeable debt maturity of NOK2.5 billion due in March 2021.

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%. In this context, Moody's considers that the receipt of the government support will be key in allowing Avinor to meet its minimum equity ratio requirement enshrined in its by-laws and maintain adequate headroom against covenants included in the company's bank loans.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects the continued uncertain prospects for traffic, with risks of extended disruption to travel leading to Avinor's weaker performance or liquidity.

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

Given the negative outlook, upward rating pressure on Avinor's ratings is unlikely in the near term. However, the outlook could be stabilized 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.

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.

The methodologies used in these ratings were Privately Managed Airports and Related Issuers published in September 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1092224, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Avinor AS is a limited liability company fully owned by the Government of Norway. The company owns 45 airports and operates a network of 43 airports in Norway, handling some 96% of Norwegian passenger traffic in 2019, and provides the vast majority of air navigation services to both civilian and military flights within Norwegian airspace.

LIST OF AFFECTED RATINGS

Confirmations:

..Issuer: Avinor AS

....LT Issuer Rating, Confirmed at A1

....Senior Unsecured Medium-Term Note Program, Confirmed at (P)A1

....Senior Unsecured Regular Bond/Debenture, Confirmed at A1

Outlook Actions:

..Issuer: Avinor AS

....Outlook, Changed To Negative From Rating Under Review

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

REFERENCES/CITATIONS

[1] Ministry of Finance - https://www.regjeringen.no/en/topics/the-economy/economic-policy/economic-measures-in-norway-in-response-to-covid-19/id2703484/

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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