

Rating Action: Moody's reviews Avinor's A1 ratings for downgrade

31 Mar 2020

London, 31 March 2020 -- Moody's Investors Service (Moody's) has today placed on review for downgrade the A1 long-term issuer and senior unsecured ratings of Avinor AS (Avinor). Concurrently, Moody's has placed on review for downgrade the (P)A1 long-term senior unsecured rating of the company's Euro Medium Term Note programme. The outlook has been changed to ratings under review from stable.

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

RATINGS RATIONALE

The rapid and widening spread of the coronavirus (COVID-19) outbreak, the deteriorating global economic outlook, falling oil prices and asset price declines 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 is among the 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 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.

Moody's current base case assumption is that the coronavirus pandemic will lead to a period of severe cuts in passenger traffic over the upcoming weeks given restrictions on travel, but that there will be a gradual recovery in passenger volumes starting by the third quarter 2020.

Unlike previous negative shocks such as the SARS epidemic in 2003, the prospects for traffic rebound is more uncertain because (1) travel restrictions in some form may continue for some time even if the spread of the virus seems contained; (2) the deteriorating global economic outlook would likely slow the recovery in traffic and consumer spending, even if travel restrictions are eased; and (3) the coronavirus outbreak is also weakening the credit profile of airlines, which have been drastically cutting capacity. As events continue to unfold, there is a higher than usual degree of uncertainty around the length of travel restrictions and drop in travel demand. Hence, it is difficult to predict the overall traffic volumes for 2020.

Nevertheless, Moody's currently assumes that the decline in Avinor's passenger traffic will be at least 30% in the financial year ending December 2020 compared to the previous year, 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 review for downgrade takes account of Avinor's rising credit and liquidity risks 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 prior to the coronavirus outbreak.

Notwithstanding the significantly reduced cash flow over at least the next few weeks, Avinor remains a key infrastructure provider in Norway with a potential for traffic recovery once the coronavirus outbreak and its effects have been contained.

Avinor's current 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, although this is concentrated amongst a small number of airlines with very weak credit profiles; (4) a fairly high financial leverage and significant capital expenditure programme; and (5) the company's conservative financial policy and government ownership.

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.

LIQUIDITY AND DEBT COVENANTS

Avinor's liquidity position was solid prior to 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.

FOCUS OF THE REVIEW

As part of the review process, Moody's will consider Avinor's access to liquidity as well as potential for measures, including those from its owner, to mitigate the impact of a substantial decline in traffic on the company's credit metrics.

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

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 BCA.

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.

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 and operates a network of 44 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

On Review for Downgrade:

..Issuer: Avinor AS

.... LT Issuer Rating, Placed on Review for Downgrade, currently A1

...Senior Unsecured Medium-Term Note Program, Placed on Review for Downgrade, currently (P)A1

...Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently A1

Outlook Actions:

..Issuer: Avinor AS

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

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.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating outcome announced and described above.

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