Research Update:

Norway-Based Airport Network Operator Avinor AS Upgraded To 'A+/A-1' On Approved Tariff Increase; Outlook Stable

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Rating Action Overview

- We expect Norway-based airport network operator Avinor AS will strengthen its financial performance in the next years following the Norwegian government's approval to boost aeronautical charges from Feb. 1, 2025, to make up for insufficient tariff adjustments in previous years.
- The tariff increase will allow Avinor to align its return on capital with regulatory benchmarks and achieve funds from operations (FFO) to debt of about 14%-15% in 2025, while supporting ongoing investments in airport maintenance and the completion of Bodo and Mo I Rana airports, strengthening connectivity for people and goods in Norway.
- The stronger projected financial metrics and our view that the tariff regime remains supportive have led us to raise our assessment of Avinor's stand-alone credit profile by one notch to 'bbb'. Our view on the very high likelihood of extraordinary support form the Norwegian government remains unchanged.
- Therefore, we raised our long-term issuer credit ratings and the issue credit ratings on Avinor's debt to 'A+' from 'A'. The 'A-1' short-term issuer credit rating remains unchanged.
- The stable outlook indicates that the company will maintain FFO to debt of at least 14% in the next two years, as further tariff rebalancing facilitates ongoing investments in expanding Norway's airport network and helps prevent asset impairments.

Rating Action Rationale

We expect Avinor's aeronautical revenues to increase by about 25% and overall revenue by 13%-14% in 2025 due to government-approved new charges rebalancing tariffs. Avinor operates under a single-till tariff regime, and its largest profitable airports--Oslo, Bergen, Stavanger, and Trondheim--cross-subsidize smaller non-profitable airports. Despite continued investments to expand the airport portfolio and enhance connectivity in the country, aeronautical charges have not been adequately adjusted in recent years, particularly during periods of reduced traffic due to the pandemic. As a result, EBITDA generation fell short of meeting the regulatory return benchmark, raising the risk of asset impairment. After several discussions between the company, the Norwegian government (which is ultimately the company's 100% owner and regulator), and third-party assessors, the government decided to implement new aeronautical charges (see table below) effective Feb. 1, 2025. These will allow Avinor to improve its profitability and gradually increase the return on investments, thereby preventing impairments. This also supports our view of the regulatory framework as generally supportive.

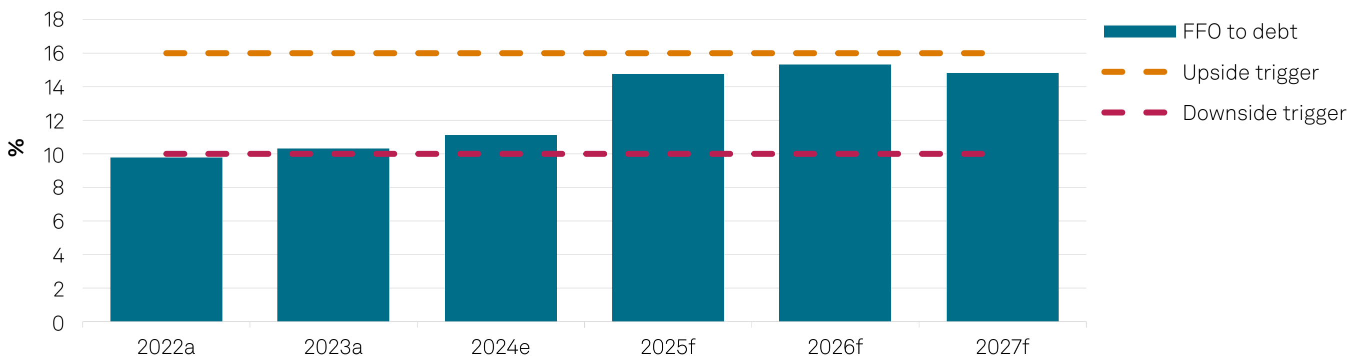
Avinor AS--Aeronautical charges

	Charges until Jan. 31, 2024 (NOK)	Charges from Feb. 1, 2025 (NOK)	Variation (%)
Passenger charge	55	88	60
Take-off charge	85	91	7.1
Take-off continental shelf charge	10,048	10,048	0
Security charge	62	67	8.1
Terminal navigation charge	1,737	2,795	60.9
En route charge	540	636	17.8
Average aeronautical revenue per passenger	111	135	21.6

Note: Tarrifs are in Norwegian krone (NOK). Source: S&P Global Ratings.

We expect the adjustments will allow Avinor to end 2025 with FFO to debt between 14%-15%--well above the 10% we expected and the 10.5% the company posted on Sept. 30, 2024--leading to a higher assessment of Avinor's stand-alone credit profile. Although we expect credit metrics to improve in the next years, we still think Avinor will need further above-inflation adjustments to fully rebalance its single-till regime. We expect the Norwegian government, through its regulatory body, will likely grant Avinor further above-inflation adjustments in the next two years, or use similar offsetting measures--such as expense reallocation between government bodies or tax exemptions--to avoid further investment impairments and credit metric deterioration. We think the continued rebalancing of Avinor's tariffs will enable the company to strengthen its credit metrics despite the expected increase in investments to more than Norwegian krone (NOK) 5 billion in 2026-2027 from NOK3.2 billion in 2024. In addition to maintenance capex, the company continues its investments in completing Bodo and Mo I Rana airports near the Arctic Circle. That said, we acknowledge that Norway will hold elections this year, and we will monitor the elected government's strategy in relation to Avinor's tariffs.

Credit metrics align with the rating after the single-till tariff increase



Source: S&P Global Ratings. a--Actual. f--Forecast.

With 51.3 million passengers using Avinor's network in 2024 (about 95% of 2019 levels), we think traffic has normalized and expect only moderate growth in coming years. We expect passenger numbers to increase by 2.5% in 2025, and about 2.0% in 2026 and 2027, with 2019 levels likely being reached by 2027. We expect holiday and leisure travel, particularly tourists visiting the Northern Lights, will be the main traffic driver, while business travel continues to lag. That said, Avinor plays an important social role since some of Norway's remote locations are primarily accessible by air.

We continue to expect a very high likelihood of extraordinary support from the Norwegian government for Avinor. Based on its recent track record, we view the Norwegian government as supportive of state-owned enterprises. This was demonstrated during the pandemic, when Avinor received NOK7.4 billion in government aid to compensate for lost revenue and sustain airport operations. Avinor operates 43 of Norway's 46 airports, including profitable and nonprofitable assets. It is 100% owned by the Norwegian government, which at this stage has not demonstrated any willingness to privatize the company or its related businesses, such as the air navigation services previously considered for privatization. As a result, we incorporate a four-notch uplift from the 'bbb' stand-alone credit profile (SACP) to our 'A+' rating on Avinor.

Outlook

The stable outlook reflects our expectation that Avinor will maintain FFO to debt of at least 14% in the next two years--commensurate with the existing 'bbb' stand-alone credit profile--while rebalancing its single-till regime to support ongoing investments in expanding Norwegian airport connectivity and preventing impairments. At the same time, it also indicates our unchanged expectation of a very high likelihood of extraordinary support from the Norwegian government for Avinor, if needed.

Upside scenario

A rating upside could materialize from a stronger stand-alone credit profile, if Avinor is able to sustain a FFO to debt comfortably above 16% from 2026. This could be achieved, for example, through the combination of above-inflation rate hikes, cost control measures, and no dividend distributions until both Mo I Rana and Bodo airports are fully operational. A rating upside could also theoretically result from a higher likelihood of extraordinary government support, which at this stage is unlikely, in our view.

Downside scenario

A rating downside could stem from the company's performance deteriorating on a stand-alone basis, if FFO to debt falls below 11%. This could happen if the single-till tariff rebalancing is reversed in the coming years, signaling a less supportive regulatory regime and leading to deteriorating credit metrics, or if Avinor presents an aggressive dividend upstream to the Norwegian government while continuing investments in new airports.

We could also lower our ratings if we view a reduced likelihood of extraordinary support from the Norwegian government for Avinor. This could occur, for example, if the newly elected government pursues plans for partial or full privatization of the company, similar to past actions regarding air navigation services. This, however, is not our base case scenario.

Company Description

Avinor AS owns and operates 43 of the 46 airports in Norway, in addition to three air traffic control centers and one remote control center in the country. The airport network includes Norway's main airport in Oslo, which accounts for more than 70% of the country's international traffic. Avinor is 100% owned by the Norwegian government, which is in turn represented by the Ministry of Transport.

In the rolling 12 months ended Sep. 30, 2024, Avinor's total revenue was NOK11.9 billion, 2.6% higher than in the same period of 2023, and S&P Global Ratings-adjusted EBITDA amounted to NOK3.9 billion, 7.4% higher than the same period of 2023. The revenue base comprises aeronautical revenue (about 48% of total operating revenue), charged to airlines primarily for passenger facilities, take-off and landing, and aircraft parking. Under a single-till regulatory mechanism, revenue is subsidized by nonaeronautical income generated from retail, car parking, and property rental.

Our Base-Case Scenario

Assumptions

Our base-case scenario on Avinor incorporates the latest aeronautical charges that will be effective from Feb. 1, 2025, the passenger-level growth in the coming years, and our most recent macroeconomic forecasts. Our main assumptions for the next years are:

- Passengers at Avinor airports reached 51.3 million in 2024 and will grow by 2.5% in 2025, 2.1% in 2026, and 1.8% in 2027 when we expect a total of 54.5 million, finally surpassing 2019 levels. We expect passenger growth will come mostly from international flow rather than domestic.
- We have incorporated the aeronautical charges shown in table 1 from Feb. 1, 2025. In 2026, we assume average aeronautical revenue per passenger will grow by at least 4.8% (compared to our expectation that Norwegian inflation will be 2.4%), while in 2027 it will follow inflation growth of 2.2%.
- We assume the average non-aeronautical expenditure per passenger--including retail, car parking, catering, kiosks, shops, and other activities--will grow at a slower pace than inflation,

reflecting a lower share of domestic airport passengers, who generally consume the most at Norwegian airports.

- Despite of the aeronautical rate hike, we expect Avinor will take initiatives to keep costs and expenses under control, so it can improve its EBITDA margins closer to 40% from 2025, compared to current margins of 32.6% as of Sept. 30, 2024.
- We forecast annual investments between NOK3.5 billion-NOK4.0 billion in 2025, NOK5.0 billion-NOK5.5 billion in 2026, and NOK5.5 billion-NOK6.0 billion in 2027, both for existing airport maintenance and for the construction of Mo I Rana and Bodo airports.
- We assume no dividends will be distributed in 2025, but that Avinor would start paying 50% of its previous year net income--in line with the company's dividend policy--to the Norwegian government from 2026, subject to maintaining a minimum equity ratio of 40% calculated as determined in its Articles of Association.

Key metrics

Avinor AS--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. NOK)	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	10,419	11,514	11,996	13,616	14,330	14,702
EBITDA	3,120	3,613	3,940	5,301	5,746	5,851
Less: Cash interest paid	(630)	(789)	(785)	(853)	(905)	(900)
Less: Cash taxes paid	--	--	(93)	(434)	(498)	(491)
Plus/(less): Other	--	--	--	--	--	--
Funds from operations (FFO)	2,490	2,824	3,063	4,014	4,342	4,460
EBIT	903	1,421	1,684	2,881	3,225	3,184
Interest expense	811	961	1,020	1,088	1,140	1,134
Cash flow from operations (CFO)	2,216	2,565	2,985	3,977	4,320	4,391
Capital expenditure (capex)	3,105	4,327	3,197	3,700	5,100	5,700
Free operating cash flow (FOCF)	(889)	(1,763)	(212)	277	(779)	(1,309)
Dividends	--	--	--	--	770	883
Discretionary cash flow (DCF)	(889)	(1,763)	(212)	277	(1,549)	(2,192)
Debt	25,481	27,393	27,523	27,205	28,741	30,938
Equity	13,358	13,461	14,120	15,660	16,657	17,513
Cash and short-term investments (reported)	1,189	1,423	6,273	5,455	7,838	639
Adjusted ratios						
Debt/EBITDA (x)	8.2	7.6	7.0	5.1	5.0	5.3
FFO/debt (%)	9.8	10.3	11.1	14.8	15.1	14.4
FFO cash interest coverage (x)	5.0	4.6	4.9	5.7	5.8	6.0
EBITDA interest coverage (x)	3.8	3.8	3.9	4.9	5.0	5.2
CFO/debt (%)	8.7	9.4	10.8	14.6	15.0	14.2
FOCF/debt (%)	(3.5)	(6.4)	(0.8)	1.0	(2.7)	(4.2)
DCF/debt (%)	(3.5)	(6.4)	(0.8)	1.0	(5.4)	(7.1)
Annual revenue growth (%)	11.9	10.5	4.2	13.5	5.2	2.6

Avinor AS--Forecast summary

EBITDA margin (%)	29.9	31.4	32.8	38.9	40.1	39.8

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. NOK--Norwegian krone.

Liquidity

We view Avinor's liquidity as adequate. We estimate the group's liquidity sources will exceed uses by at least 1.2x in the upcoming 12 months. Liquidity sources will continue to exceed uses even if EBITDA were to decline by 15%.

We think the NOK4.8 billion debt maturities in the next 12 months are manageable since Avinor has access to capital markets and well-established, solid relationships with banks. That said, we do not expect this to result in a high refinancing risk to the company. Additionally, the company has flexibility to defer investments, especially those related to the airport network's expansion, if needed.

As of Sept. 30, 2024, we expect Avinor to present the following sources and uses of cash:

Principal liquidity sources

- Available cash and cash equivalents of NOK5.7 billion;
- A NOK300 million credit facility maturing beyond the next 12 months (also a NOK4.0 billion undrawn revolving credit facility maturing in the next 12 months, which was not part of our calculation); and
- Estimated cash FFO of 3.8 billion in the next 12 months.

Principal liquidity uses

- Debt maturities of NOK4.8 billion in the next 12 months;
- Working capital outflow of NOK100 million;
- Minimum regulatory and maintenance investments of NOK2.5 billion; and
- No dividend distribution in the next 12 months.

Covenants

Avinor is compliant with the maintenance covenant on its loan agreements with the European Investment Bank, the Nordic Investment Bank, and on its unused credit facilities. The covenant requires the equity to equity-plus-interest-bearing-debt ratio to be at least 30%, measured on a semi-annually in June and December. As of June 30, 2024, the company reported a ratio of 37.7%, which is above the required threshold. In addition, Avinor has a change of control clause stipulating that the Ministry of Transport must not maintain 100% ownership at any time.

Environmental, Social, And Governance

Environmental factors are a neutral consideration in our credit rating analysis of Avinor. As the government’s agent to expand air connectivity throughout the country, the company develops and constructs new airports, resulting in additional land use and the reliance on carbon-intensive materials such as steel and cement, which could increase the airport’s scope 1 and scope 2 emissions if no mitigating measures are taken. Avinor has conducted biodiversity surveys at all airports to mitigate the impact of operations on surrounding ecosystems and plans to eliminate per-and poly fluoroalkyl substance pollution at main airports by 2027. Additionally, the company is investing to meet the goals of the Paris Agreement, focusing on reducing scope 1 and scope 2 emissions through initiatives, such as vehicle electrification, research and development for non-fossil runway de-icing chemicals, and converting airport heating to biogas. Additionally, Avinor is taking steps to address scope 3 emissions by promoting more efficient airspace operations through curved approaches and advocating for increased production and use of sustainable aviation fuel. Additionally, we think decarbonization targets may limit long-term airport traffic growth and increase investment needs.

Social factors do not affect Avinor’s credit quality. Although passengers are still 5.2% below 2019 levels--51.3 million passengers in 2024 compared to 54.1 million in 2019--we think the recent aeronautical rate hike will allow Avinor to start rebalancing the single-till regime so that the company will be fully compensated by lower passenger volumes in the next two years. We also expect the company will continue playing a key role connecting goods and services throughout Norway, given the country’s challenging topography and geography, so that flying remains the most time-efficient way to travel domestically.

Issue Ratings--Subordination Risk Analysis

Capital structure

Avinor's capital structure comprises senior unsecured debt issued at the parent level. As of Sept. 30, 2024, the group's S&P Global Ratings-adjusted net debt was NOK27.8 billion, which includes pension liabilities. Of the financial gross debt of NOK28.7 billion, more than 75% comprises bonds that are listed on the Oslo and Luxembourg stock exchanges.

Analytical conclusions

We rate Avinor's debt at the same level of its corporate credit rating because there is no significant element of subordination risk present in the capital structure, in our view. Therefore, we have raised the issue-level ratings on Avinor’s debts to 'A+' from ‘A’.

Rating Component Scores

Rating Component Scores	
Foreign currency issuer credit rating	**A+/Stable/A-1**
Local currency issuer credit rating	**A+/Stable/A-1**
Business risk	Strong
Country risk	Very low
Industry risk	Low
Competitive position	Strong
Financial risk	**Intermediate**
Volatility table	Low
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb**
Related government rating	AAA/Stable/A-1+
Likelihood of government support	Very high (+4 notches)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- EMEA Transportation Infrastructure: Handbook 2025, Jan. 23, 2025
- Industry Credit Outlook 2025: Transportation Infrastructure, Jan. 14, 2025
- European Airports Sector Update: Is It Time To Start Spending Again?, Dec. 5, 2024
- Tear Sheet: Avinor AS, Sept. 12, 2024

Ratings List

Ratings list		
Upgraded		
	To	**From**
Avinor AS		
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
Senior Unsecured	A+	A