

Norwegian Government-Owned Airport Operator And Air Navigation Services Provider Avinor Rated 'AA-'; Outlook Stable

- We believe Avinor AS, the Norway-based airport network operator and air navigation services provider fully owned by the Norwegian state, has a "very high" likelihood of extraordinary government support in the event of financial distress.
- We assess Avinor's stand-alone credit profile at 'bbb+', based on the group's "strong" business risk profile and "significant" financial risk profile.
- We are assigning our 'AA-' long-term rating and our 'A-1+' short-term rating to Avinor.
- The stable outlook reflects our view that the likelihood of government support will remain "very high" and that the group will be able to maintain its rating-commensurate credit measures in the medium term amid weaker economic conditions and accelerated capital spending.

FRANKFURT (Standard & Poor's) July 4, 2013--Standard & Poor's Ratings Services today assigned its 'AA-' long-term corporate credit rating and its 'A-1+' short-term corporate credit rating to the Norwegian government-owned airport network operator and air navigation services provider Avinor AS. The outlook is stable.

The ratings on Avinor reflect our view that there is a "very high" likelihood that Avinor would benefit from timely and sufficient extraordinary government support from its 100% owner, Norway (AAA/Stable/A-1+), in the event of financial distress. We rate Avinor according to our criteria for government-related entities. We assess the group's stand-alone credit profile (SACP) at 'bbb+', based on our view of its "strong" business risk profile and "significant" financial risk profile.

Our assessment of a "very high" likelihood of state support is based on our view of Avinor's:

- "Very important" role as operator of nearly all Norway's airports and sole provider of air navigation services for both civilian and military flights within Norwegian airspace. Due to Norway's unique topography and geography, combined with its high dependency on foreign trade, we believe that the integrated airport system constitutes essential infrastructure for the country to meet its key economic, social, and political objectives.
- "Very strong" link with the Norwegian government, based on the state's 100% ownership, the government's role in appointing Avinor's board members, its close oversight of the group's strategies, and track record of financial support. We also don't expect Avinor will be privatized over the medium term.

Our SACP for Avinor takes into account the following supportive factors:

- A strong and near monopoly position as an integrated airport network operator in Norway and status as the sole air traffic controller over Norwegian airspace, which imply a much larger scope of operations than other rated European airports. Furthermore, Avinor benefits from a high (about 85%) share of origin-and-destination traffic, which is generally less susceptible to passenger choice and airline performance than transfer traffic.
- Robust inherent demand for air travel in Norway, as reflected in strong and above-industry-average growth of passenger levels over recent years. We believe that a growing and wealthy local population, Norway's unique geography, and the country's economic growth prospects--albeit moderating but still well above those of the eurozone (European Economic and Monetary Union)--will support traffic volumes in the long term.
- Resilient operating margins, underpinned by strong profitability of the large airports, such as Oslo Airport Gardermoen, accounting for about two-thirds of the group's earnings and generating EBITDA margins among the highest of European airports we rate. We, nevertheless, believe that the group's consolidated profitability will continue to be constrained by loss-making local/regional airports, which operate as a part of Avinor's public service obligation. We consider that Avinor has a history of managing operating costs well. However, we forecast that there will be considerable, albeit to some extent temporary, cost increases in 2013 and 2014, mainly related to infrastructure works at Oslo Airport Gardermoen. Nonetheless, we anticipate that the group will sustain its EBITDA margins at about 30% in the medium term, supported by ongoing efficiency gains.
- Fairly predictable operating cash flows as a consequence of Avinor's protected market position and its high EBITDA-to-operating cash flow conversion rate, at 90%-100%.

We consider that the following factors constrain our SACP for Avinor:

- Loss-making local/regional airports and a limited ability to dispose of unprofitable operations. Nevertheless, we believe that operation of unprofitable airports without state subsidies strengthens Avinor's importance to the government.
- Our expectations of higher infrastructure investments, such as capacity expansion at Oslo Airport Gardermoen, which will raise debt and weaken credit measures.
- High reliance on two airlines, SAS AB and Norwegian Air Shuttle ASA (Norwegian Air), which account for about 70% of Avinor's passenger volumes. However, in the event of an airline failure, we would expect Avinor, given its strong market position, to fairly quickly fill any capacity gaps created.
- Exposure to domestic economic conditions, given that passenger volumes typically tend to move in the same direction as GDP.

Our base-case credit scenario forecasts that Avinor will continue to perform well operationally in 2013-2014, underpinned by relatively robust air travel demand in Norway and additional air traffic supply, mainly coming from Norwegian Air's likely capacity expansion. We nevertheless anticipate that traffic volume growth will moderate in 2013 and further in 2014 given a weaker economic environment in Norway. We forecast GDP growth in Norway of 1.5% this year and 2.2% next year (compared with 3.2% in 2012). Against this backdrop, we forecast under our base-case credit scenario that Avinor's annual passenger volume growth will be 3.0%-3.5% over 2013-2015, which is higher than our base-case forecast for average traffic growth in Europe (0%-1% for 2013), but lower than 4.7% achieved by the group in 2012. We also project that the group's revenues will rise at a higher pace within this timeframe because of moderate charge increases and steadily improving and expanding commercial operations.

Our assessment of Avinor's financial risk profile as "significant" reflects the group's increasing financial leverage and deteriorating credit measures, with an adjusted funds from operations (FFO)-to-debt ratio that we believe will remain at about 15% in 2013-2015 (down from about 19% in 2012). This

incorporates our view that Avinor will accelerate partly debt-funded capital investments to expand and enhance the airports' infrastructure and continue to distribute dividends at a constant payout ratio of 50% of net income whilst maintaining prudent financial ratios. Due to the stability of the airport sector, financial leverage at the rating level can be somewhat higher than that described in our criteria "[Methodology: Business Risk/Financial Risk Matrix Expanded](#)," published Sept. 18, 2012.

The stable outlook reflects our view that the likelihood of timely and sufficient extraordinary support from the Norwegian government will remain "very high" and that the group's SACP will remain unchanged. We expect that Avinor will be able to maintain its rating-commensurate credit measures in the medium term, including a ratio of adjusted FFO to debt of about 15%, amid weaker economic conditions and accelerated capital spending to expand and enhance airports' infrastructure. We believe that likely sustained, albeit moderated, Norwegian air traffic growth and Avinor's operational performance, strongly underpinned by its solid and expanding commercial business, and also further cost efficiencies, will mitigate its sizable expansionary investments.

We could raise the rating if Avinor's financial profile sustainably

strengthened, most likely through a combination of increasing operating cash flow backed by a robust and expanding retail business and declining debt once capital investments slow, leading to a sustained ratio of adjusted FFO to debt of at least 23%. We believe the group is unlikely to achieve this in the medium term.

Conversely, we could lower the ratings if the stance of the Norwegian government became inconsistent with a "very high" likelihood of support, which could stem among others from an unexpected privatization or the loss of air navigation services provision by Avinor. A negative rating action might also be triggered if Avinor's SACP deteriorated, for example if its credit metrics fell below our expectations because of higher investments than currently forecast, or if the group's business risk profile weakened owing to an unexpected protracted drop in passenger traffic or commercial revenues.

RELATED CRITERIA AND RESEARCH

- [Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#), Nov. 13, 2012
- [Methodology: Business Risk/Financial Risk Matrix Expanded](#), Sept. 18, 2012
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Sept. 28, 2011
- [Rating Government-Related Entities: Methodology And Assumptions](#), Dec. 9, 2010
- [2008 Corporate Criteria: Ratios And Adjustments](#), April 15, 2008
- [2008 Corporate Criteria: Analytical Methodology](#), April 15, 2008

Ratings List

New Rating; CreditWatch/Outlook Action

Avinor AS

Corporate Credit Rating

AA-/Stable/A-1+

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Contact the analysts:

Izabela Listowska

Primary Credit Analyst, Frankfurt

P. (49) 69-33-999-127

E. izabela.listowska@standardandpoors.com

Olli Rouhiainen

Secondary Contact, London

P. (44) 20-7176-3769

E. olli.rouhiainen@standardandpoors.com

Industrial Ratings Europe

Additional Contact, undefined

P.

E. Corporate_Admin_London@standardandpoors.com