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Research Update:

Avinor Downgraded To 'A+/A-1' On Effect Of COVID-19 Travel Restrictions; Outlook Negative

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Rating Action Overview

- The airports sector in Europe is facing an unprecedented decline in air traffic as the region has become the epicenter of the COVID-19 pandemic.
- We consequently expect a sharp reduction in Avinor's revenue and cash flow, translating into much weaker credit metrics in 2020, relative to its 2019 results and our previous expectations.
- Our current base case is a 25% decrease in passenger traffic for 2020, and we believe Avinor's countermeasures might not be sufficient to offset any deterioration of the company's credit metrics.
- As we announced on March, 26 2020, we lowered to 'A+' from 'AA-' our long-term issuer and issue credit ratings on Avinor and its debt. We also lowered the short-term rating on Avinor to 'A-1' from 'A-1+'.
- The negative outlook indicates that we could lower the ratings further if the pandemic proves more severe and longer lasting than we currently expect, further constraining Avinor's credit metrics, notably pushing the group's S&P Global Ratings-adjusted funds from operations (FFO) to debt below 10%.

Rating Action Rationale

We expect Avinor's credit metrics to weaken sharply in 2020, relative to our prior expectations, due to the effects of the coronavirus pandemic. Our downgrade reflects the collapse in demand for air travel because of COVID-19 and our expectations that Avinor's credit metrics will be considerably weaker than previously anticipated. Avinor's EBITDA and revenue will materially drop, consuming the already tight headroom in its credit metrics. Based on our forecast of 25% lower passenger traffic in 2020, and a full recovery by 2022, S&P Global Ratings weighted-average adjusted FFO to debt for Avinor will deteriorate to about 10%, compared with our previous expectations of 13%-14% for our 'AA-' rating. This is notwithstanding Avinor's measures to offset the steep decline in demand, including operational efficiencies as well as reducing capital expenditure (capex) and dividends.

Liquidity remains adequate, despite our expectations of lower cash flow generation over the next 12 months. One of Avinor's credit strengths in the current environment is its liquidity position, even despite our expectations for lower cash generation over the next 12 months. This leads us to expect that the group's sources of liquidity will be more than 1.2x over this period. As of Dec. 31, 2019, Avinor had Norwegian krone (NOK) 7.8 billion-NOK8.0 billion of liquidity sources, which includes about NOK1.0 billion of cash, NOK2.1 billion-NOK2.3 billion of FFO, and NOK4.6 billion of long-term committed credit facilities. This should sufficiently cover Avinor's NOK2 billion of short-term maturities, €2.7 billion of capex, and no dividends. We have not included any potential sources of additional liquidity, such as new funding to finance capex. We acknowledge Avinor's flexibility to defer further planned capex, and reduce or even suspend shareholder remuneration if necessary.

Outlook

The negative outlook reflects Avinor's weaker-than-expected credit metrics following the COVID-19 pandemic and the resulting adverse effects on air travel. The outlook indicates that there is a one-in-three possibility of a downgrade if the company is unable to sustain its credit metrics commensurate with the 'A+' rating, notably adjusted FFO to debt sustained above 10%.

Downside scenario

We could lower the ratings should the pandemic prove more severe and longer lasting than we currently expect, leading the group's adjusted weighted-average FFO to debt to decline below 10% over fiscals 2021 and 2022. This could also happen if the recessionary macroeconomic backdrop is harsher or more prolonged than expected, thereby affecting overall mobility.

Upside scenario

We could revise the outlook to stable if passenger traffic recovers in late 2020 and into 2021, resulting in FFO to debt sustainably above 10% over the next 18-24 months.

Ratings Score Snapshot

Issuer Credit Rating: A+/Negative/A-1

Business risk: Strong

- Country risk: Very low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/leverage: Significant

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: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile : bbb

- Likelihood of government support: Very high (+4 notches from SACP)

Related Criteria

- 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
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Coronavirus Impact: Key Takeaways From Our Articles, March 27, 2020
- Negative Rating Actions Taken On European Airports Due To COVID-19 Restrictions, March 26, 2020

- Economic Research: COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020