S&P Global
Ratings

RatingsDirect®

Research Update:

Avinor AS 'A' Rating Affirmed On Traffic Recovery Expectations Despite End To State Aid; Outlook Negative

February 4, 2022

PRIMARY CREDIT ANALYST

Annabelle C Teo
Milan
+ 39-2-7211-1216
annabelle.teo
@spglobal.com

SECONDARY CONTACT

Gonzalo Cantabrana Fernandez
Madrid
+ 34 91 389 6955
gonzalo.cantabrana
@spglobal.com

Rating Action Overview

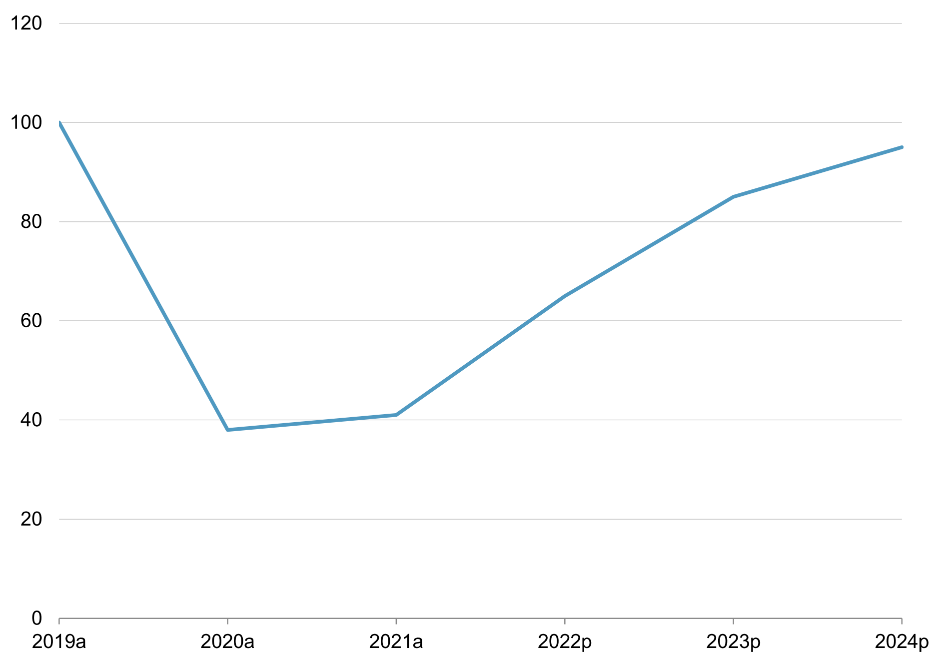
- S&P Global Ratings expects a slower passenger recovery for Avinor's network, with traffic likely to be 65%-70% of 2019 levels for 2022, rising to around 85% in 2023, with a full recovery unlikely before 2025. We believe the potential for travel disruptions or renewed border restrictions will drag on recovery for European airports.
- That said, these assumptions compare better than rated European peers', because we expect that the company's larger proportion of domestic traffic to support faster recovery.
- With no further government grants anticipated to mitigate the pandemic's impact in 2022, we forecast that Avinor's adjusted funds from operations (FFO) to debt will remain in low-single-digit territory in 2022 but could recover to 8% by 2023 based on our traffic assumptions.
- We therefore affirmed our 'A/A-1' long- and short-term issuer credit rating on Avinor, and our 'A' issue rating on its debt.
- The negative outlook on Avinor reflects the uncertainty in its traffic recovery path, which if not mitigated could mean that the company might not return its weighted-average S&P Global Ratings-adjusted FFO to debt toward 8.0% by 2023.

Rating Action Rationale

We expect Avinor's larger domestic passengers base will support a potentially faster traffic recovery than peers, although slower than previously expected, in the face of COVID-19 variants and varying cross-border restrictions. We believe the recovery path for airports will continue to be volatile, given the potential for travel disruptions and renewed border restrictions. We believe the response to omicron, and more broadly the uncertainty of further variants and efficacy of current vaccines, could severely weaken consumer confidence to travel. As such, we anticipate a more modest recovery trajectory for Avinor. We now project that the company's passenger volumes will be 65%-70% of 2019 levels in 2022 (compared with 45%-65% based on our rated European airports) followed by 85% in 2023, and around 95% in 2024.

Nevertheless, these assumptions compare positively to rated European peers. With more than 60% of Avinor's traffic related to domestic passenger movements, we anticipate that the company will have some relatively better recovery path than hub airports, which have limited domestic traffic and a higher proportion of long-haul destinations and are more exposed to cross-border travel restrictions.

Avinor's Passenger Number Recovery Path
Number of passengers, indexed (2019=100)



Source: S&P Global estimates. a--Actual. p--Projected.

Domestic air travel, coupled with good vaccination progress across a small population, is further supported by Norway's topography, which limits ground travel across the country. For Avinor, traffic in 2021 reached about 41% of 2019 levels (compared with 25% at some rated peers with higher cross-border traffic), with domestic traffic surpassing more than 80% of 2019 levels in fourth-quarter 2021. In comparison, airports with a high exposure to cross-border traffic and a limited domestic market, such as Heathrow and DAA PLC, were hit harder by the longer-than-expected restrictions on international flights in 2021. For these airports, traffic reached less than 25% of 2019 levels in 2021.

Despite no further government grants anticipated in 2022, we believe Avinor's FFO to debt will recover toward 8% in 2023, commensurate with the rating. With expected improving traffic levels in 2022 and 2023 and an economic recovery, the Norwegian national budget does not envision further state support for Avinor from 2022. With a slower traffic recovery, we anticipate that the company's leverage, as measured by FFO to debt, will be weaker than what we would expect for the rating in 2022. However, supported by what we expect to be a somewhat more robust recovery profile for Avinor, we forecast weighted-average FFO to debt over 2022 and 2024, commensurate with the rating. In our ratio calculation, we place more emphasis on 2023-2024. This is because we believe that 2021 and 2022 are not representative of long-term air passenger travel trends and airports are essential infrastructure.

Absent further direct state aid, Avinor's deleveraging will now depend more on the recovery in 2022 and 2023, as well as the company's ability to manage its capital spending in line with this. We believe Avinor will have some flexibility in its capital spending in the face of weaker-than-expected operations. In 2022, we expect that committed capital expenditure (capex) will account for about 65% of total spending (Norwegian krone [NOK]2.5 billion-NOK3.0 billion per year). Therefore, we believe the company will be able to control investment somewhat to manage its cash burn in line traffic recovery.

Despite the cessation of government grants, we continue to believe that there is a very high likelihood that the Norwegian government will provide sufficient and timely extraordinary support if required. We believe that the end of government grants is in line with the state's overall plan for extraordinary state aid, with the expectation that this would be withdrawn with improving economic and operational fundamentals. Furthermore, we view Norway's new government as potentially more supportive toward state-owned enterprises. This, coupled with a strong track record of direct state aid, leads us to believe that state support could be considered again if Avinor's operational environment were to materially weaken. We anticipate the cessation of government grants could lead the company's equity ratio to fall marginally below 40% in 2022. We believe that this will be temporary and not create a breach in financial covenants. Avinor is one of the few European rated airports that benefited from direct state aid, enabling the company to strengthen its liquidity and keep its leverage profile largely intact. As of the first nine months of fiscal 2021, FFO to debt is on track to recover above 8%, mainly driven by Avinor's receipt of state aid. In 2021, the company received up NOK3.8 billion in government grants, about NOK900 million higher than our expectations and corresponding to about 30% of pre-pandemic revenue. To date, it has received NOK7.4 billion of grants, which reinforces our view of very high likelihood of support from the Norwegian government.

The recent rapid spread of the omicron variant highlights the inherent uncertainties of the pandemic as well as the importance and benefits of vaccines. While the risk of new, more severe variants displacing omicron and evading existing immunity cannot be ruled out, our current base case assumes that existing vaccines can continue to provide significant protection against severe illness. Furthermore, many governments, businesses, and households around the world are tailoring policies to limit the adverse economic impact of recurring COVID-19 waves. Consequently, we do not expect a repeat of the sharp global economic contraction of second-quarter 2020. Meanwhile, we continue to assess how well each issuer adapts to new waves in its geography or industry.

Outlook

The negative outlook on Avinor reflects the uncertainty over the airports' traffic passenger recovery path. This hinges on travel restrictions, new variants, and the effectiveness of vaccination programs. Other factors, including passenger willingness to travel and weaker economic conditions, could also drive a longer recovery than expected. If not offset by mitigating actions, such as reduced investments or costs and potential further state aid if needed, Avinor might not be able to recover its weighted-average S&P Global Ratings-adjusted FFO to debt toward 8.0% from 2022-2024.

Downside scenario

We could lower the ratings on Avinor one notch if, in our view, FFO to debt does not recover above 8% by 2023. We think this could occur if:

- Passenger volumes were to materially worsen from our current expectations due to, for example, COVID-19 variants, material tightening in travel restrictions, lasting changes in passenger willingness to travel, or weaker economic conditions. Passenger numbers lagging our assumption of 65% of 2019 levels for first-half 2022 could lead us to lower the rating absent any mitigating actions.
- The Norwegian government's stance unexpectedly became inconsistent with a very high likelihood of support. This could stem from a change in the government's overall plan for extraordinary state aid if Avinor's operating environment continues to be substantially weak, or an unexpected privatization or a revocation of the company's mandate to provide air navigation services.
- The economic recovery is slower or more prolonged than we anticipate or there are long-lasting effects on air travel.

Upside scenario

We could revise the outlook to stable if traffic improved continuously and the risk of further mobility restrictions eased, leading to a more stable operating environment. An outlook revision to stable would also require visibility about the company's ability to manage its costs, investment, and dividends, such that weighted-average FFO to debt is sustainably above 8%.

Company Description

Avinor is a 100% state-owned company that owns and operates 45 of the 51 airports in Norway, with more than 54 million passengers in 2019. The airport network includes Norway's main airport in Oslo, which accounts for more than 70% of the country's international traffic. The company also operates the control towers, control centers, and other technical infrastructure for safe air navigation in Norwegian airspace. The air navigation services are provided by a wholly owned subsidiary of Avinor.

Our Base-Case Scenario

Assumptions

Our base-case assumptions for 2022-2024 are as follows:

- Passenger traffic will be 65%-70% of 2019 levels in 2022, 85% in 2023, and around 95% in 2024.
- Aeronautical charges are partly dependent on the consumer price index (CPI), which we

forecast will rise by 2% in 2022 and 2023.

- No further government support from 2022 onward. We expect revenue to decline in 2022, before growing by 25%-30% in 2023, driven by passenger traffic recovery.
- EBITDA margins of 30%-35%, supported by sustained cost savings and recovery path.
- Annual capex of NOK2.5 billion-NOK3.0 billion.
- No dividend distributions to the Norwegian government.

Key metrics

Avinor--Key Metrics*

	--Fiscal year ended Dec. 31--				
(Bil. €)	**2019a**	**2020a**	**2021e**	**2022f**	**2023f**
Revenue	11.8	8.2	9.3-9.4	8.1-8.2	10.3-10.4
EBITDA	4.6	2.0	3.0-3.1	1.5-1.6	3.5-3.6
EBITDA margin (%)	38.9	24.9	32.0-33.0	18.0-19.0	33.0-34.0
FFO to debt (%)§	15.1	4.1	8.0-8.2	2.8-3.0	8.7-8.9

*All figures adjusted by S&P Global Ratings. §We adjust debt by adding lease liabilities, pension liabilities, and the company's environmental provision, and deducting surplus cash. a--Actual. e--Estimate. f--Forecast.

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%. Avinor does not face liquidity pressure given generous state aid in 2020 and 2021, no shareholder distributions, and relatively low debt maturities over the next 12 months. Liquidity is also supported by the company's flexibility to defer capex.

Principal sources of liquidity over the 12 months from Dec. 31, 2021, include:

- Available cash and cash equivalents of about NOK2.7 billion.
- A fully available NOK4.3 billion long-term committed credit facility due in October 2023 and June 2026.
- Estimated cash FFO of about NOK850 million.

Principal uses of liquidity in that time include:

- Debt maturities of about NOK892 million.
- Expansionary (and to some extent discretionary) and maintenance capex of NOK2.5 billion-NOK3.0 billion.
- No dividends.

Covenants

The group's loan documentation includes one maintenance covenant: a ratio of equity to equity-plus-interest-bearing-debt of at least 30%. As of Dec. 31, 2021, Avinor complied with this covenant, with an equity ratio of close to 40%.

Issue Ratings - Subordination Risk Analysis

Capital structure

Avinor's capital structure comprises senior unsecured debt issued at the parent level.

Analytical conclusions

We rate Avinor's debt 'A', the same as the issuer credit rating, because there is no significant element of subordination risk present in the capital structure.

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: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: bbb-

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

ESG credit indicators: E-2, S-3, G-2

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- 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

- Rating Actions Taken On Seven European Airports Due To More Protracted Passenger Recovery, July 14, 2020
- Avinor Downgraded To 'A+/A-1' On Effect Of COVID-19 Travel Restrictions; Outlook Negative, April 3, 2020

Ratings List

Ratings Affirmed	
Avinor AS	
Issuer Credit Rating	A/Negative/A-1
Senior Unsecured	A

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,