

RatingsDirect®

Summary:

Avinor AS

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Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

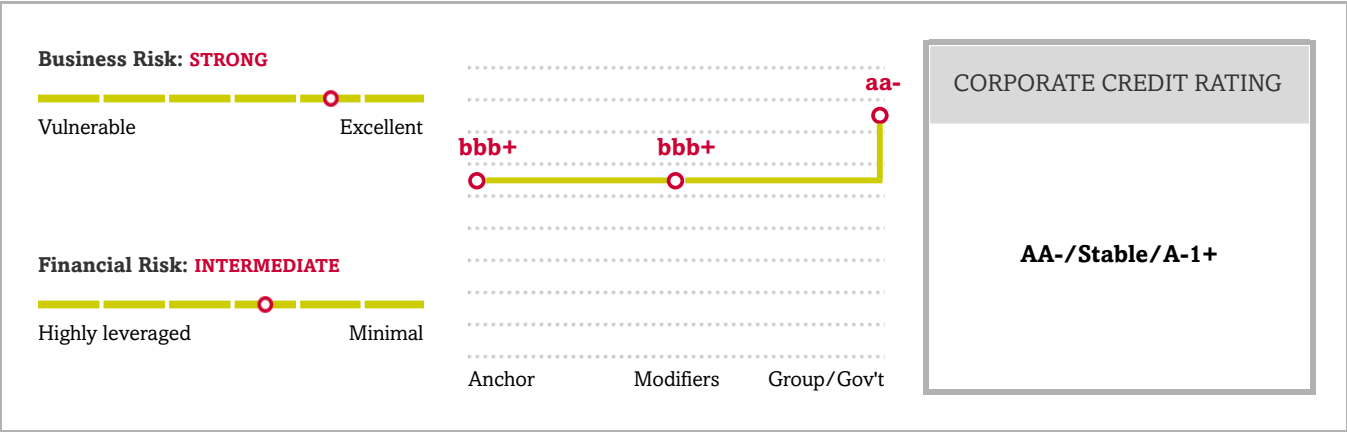
Group Influence

Ratings Score Snapshot

Related Criteria And Research

Summary:

Avinor AS



Rationale

Business Risk: Strong	Financial Risk: Intermediate
<ul style="list-style-type: none">• A strong, near-monopoly competitive position as an integrated airport network operator in Norway and as the sole air traffic controller over Norwegian airspace.• A high share of origin-and-destination traffic, which is generally less susceptible to passenger choice and airline performance than transfer traffic.• A generally favorable regulatory framework.• Profitability constrained by loss-making local/regional airports and a limited ability to dispose of unprofitable operations.	<ul style="list-style-type: none">• Predictable and solid operating cash flows.• Our expectation that high infrastructure investments will continue, which would raise debt and weaken credit measures in 2015-2016.• Some flexibility and discretion over the magnitude and timing of capital spending, which we expect will support credit measures consistent with an "intermediate" financial risk profile.

Outlook: Stable

The stable outlook on Norwegian government-owned airport operator Avinor AS reflects Standard & Poor's Ratings Services' view that the likelihood of timely and sufficient extraordinary support for the group from the Norwegian government will remain "very high" and that the group's stand-alone credit profile (SACP) will remain unchanged at 'bbb+'. We expect that Avinor will be able to maintain its ratings-commensurate credit measures, including a weighted average ratio of adjusted funds from operations (FFO) to debt of more than 13%, despite accelerated capital spending to expand and enhance its airports' infrastructure. We believe that Avinor's sizable expansionary investments will be mitigated by, for example, a rebound in Norwegian passenger traffic from the second half of 2015; Avinor's operating performance, which is strongly underpinned by expanding commercial business and further cost efficiencies; and proceeds from asset disposals.

Downside scenario

We could lower the ratings if the stance of the Norwegian government became inconsistent with a "very high" likelihood of support. We believe this could stem from, among other factors, an unexpected privatization or a revocation of Avinor's mandate to provide air navigation services. A negative rating action might also be triggered if Avinor's SACP deteriorated. For example, if the group's profitability deteriorated (such as a fall in the EBITDA margin sustainably below 30%) leading to a lower business risk profile assessment and likely weakened credit metrics. Credit metrics could also fall below our expectations if higher investments than we currently forecast are made and not sufficiently mitigated by discretionary cash inflows, for example from assets disposals.

Upside scenario

We could raise the ratings if Avinor's financial profile sustainably strengthened. This would most likely occur thanks to 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 about 20%. We believe the group is unlikely to achieve this in the next 18-24 months.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics				
<ul style="list-style-type: none">Norway's GDP growth falling to 1.1% in 2015, 1.2% in 2016, and 1.8% in 2017 (after 2.2% in 2014) (see "Sovereign Risk Indicators," published June 30, 2015, on RatingsDirect), as well as a 1.6% growth of eurozone GDP this year and a further improvement to 1.8% in 2016 and 1.6% in 2017 (after a 0.9% in 2014) (see "Eurozone Economic Outlook: Steady For Now, Despite Slower World Trade," published Sept. 30, 2015, on RatingsDirect).Annual passenger volume growth for Avinor of 0%-1% in 2015 (incorporating a rebound in traffic in the second half of 2015, after negative growth of 1.3% in the first half of 2015 year on year), 3% in 2016, and 4% in 2017. We typically see a strong relationship between GDP growth rates and passenger numbers at the airport and their retail spending.Revenues rising at a higher pace than traffic in 2015-2017 because of steadily improving/expanding commercial operations and average tariffs increasing in line with the Norwegian Consumer Price Index.Average EBITDA margin of about 32%-35% in 2015-2017, thanks to cost control and gradually declining operating costs related to maintaining uninterrupted operations during the development of T3 Oslo Airport.Acceleration in annual capital expenditures to Norwegian krone (NOK)5.6 billion (€0.6 billion) in 2015, followed by an average of NOK3.0 billion-NOK4.0 billion in 2016-2017.Our estimation of NOK1.2 billion-NOK1.3 billion in proceeds from the disposal of a hotel to be completed in the next few months.Distribution of dividends at a constant payout ratio of 50% but not more than NOK500 million annually.					
		2014a	2015e	2016e	
	EBITDA margin (%)	31.1	32-34	32-34	
	FFO/debt (%)	14.4	13-14	12-13	
	FFO cash interest coverage (x)	5.6	5-6	5-6	
	a--Actual. e--Estimate. FFO--Funds from operations.				

Business Risk: Strong

Our assessment of Avinor's "strong" business risk profile incorporates our view of the transportation infrastructure industry's "low" risk and "very low" country risk based on the group's domestic operations: All its assets are located in

Norway and it generates all revenues in Norway. Key considerations in our assessment of Avinor's "strong" competitive position are its near-monopoly position as an integrated airport network operator in Norway and its 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 we consider to be generally less susceptible to passenger choice and airline performance than transfer traffic.

Our assessment of Avinor's profitability reflects its fairly resilient EBITDA margins, which we forecast will range between 32% and 35% in 2015-2017. We consider the group's profitability to be underpinned by solid operating performance of the large airports, such as Oslo Gardermoen--accounting for about two-thirds of the group's earnings and generating EBITDA margins among the highest of European airports we rate--and expanding commercial activities. We also consider that Avinor has a history of managing operating costs well. However, we believe that the group's consolidated profitability will continue to be constrained by its loss-making local/regional airports, which operate as a part of Avinor's public service obligation, 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.

Financial Risk: Intermediate

Our "intermediate" assessment of Avinor's financial risk profile is based on:

- Avinor's ample operating cash flows as a consequence of its protected market position and high EBITDA-to-operating cash flow conversion rate.
- Our expectation of increasing financial leverage and deteriorating credit measures in 2015-2016, due to the accelerated and partly debt-funded capital investments to expand and enhance the airports' infrastructure.
- Flexibility and discretion over the magnitude and timing of uncommitted capital spending.
- Our expectation that the group's financial policy will continue to support credit measures consistent with the "intermediate" financial risk profile, such as the weighted average core ratio of adjusted FFO to debt remaining at more than 13% over 2015-2017.

Liquidity: Strong

Our short-term rating on Avinor is 'A-1+'. We consider the group's liquidity to be "strong," as defined in our criteria, supported by its liquidity sources on hand (such as the undrawn long-term revolving credit facility and available cash holding), its ability to generate solid operating cash flows, and its demonstrated access to capital markets. These sources compare favorably with liquidity uses, in particular mandatory debt repayments and high capital expenditures.

Our base-case liquidity assessment as of June 30, 2015, reflects the following factors and assumptions:

- We expect the group's liquidity sources will exceed liquidity uses by at least 1.5x in the upcoming 12 months. Even if measured over the next 24 months, the ratio remains above 1.0x.
- Liquidity sources will continue to exceed uses, even if EBITDA were to decline by 30%.
- We understand that Avinor is in compliance with its financial covenant and we expect the group will be able to manage the upcoming covenant tests. The group's loan documentation includes one maintenance covenant: a ratio

of equity to equity plus interest bearing debt of at least 40%. As of June 30, 2015, Avinor's equity ratio was about 45%, which implies "tight" headroom, as defined in our criteria. We understand that the company is in final discussions with lenders to amend the covenant in the loan documentation to ensure a lower threshold of 30% and thus more leeway during the investment period, which we assume will be finalized this year. We understand the most recent loan deals include the lower 30% threshold.

- The group appears to have well-established, solid relationships with banks and generally high standing in credit markets. In April 2015, Avinor issued 1.0% senior unsecured notes of €300 million maturing in April 2025. The 1.0% interest rate on these notes is even lower than the 1.75% interest rate on Avinor's inaugural Eurobond issue in March 2014. Furthermore, Avinor has demonstrated an uninterrupted access to commercial paper- and loan markets.
- Avinor has the likely ability to absorb high-impact, low-probability events without refinancing given its capability to reduce capital spending or increase tariffs in times of stress.

Principal Liquidity Sources	Principal Liquidity Uses
<p>Principal sources of liquidity over the next 12 months as of June 30, 2015, include:</p> <ul style="list-style-type: none"> • Available cash and cash equivalents of about NOK1.54 billion. • A fully available NOK4 billion revolving credit line due June 2019. • A fully available NOK800 million revolving credit line due November 2017. • A fully available committed 20-year NOK1 billion credit line from the Nordic Investment Bank for capital investments. • Operating cash flows of about NOK3.0 billion, as in our base-case forecast. 	<p>Principal uses of liquidity over the next 12 months as of June 30, 2015, include:</p> <ul style="list-style-type: none"> • Short-term debt of about NOK1.35 billion. • Expansionary (and to some extent discretionary) and maintenance capital expenditures of NOK4.5 billion-NOK5.0 billion. • Discretionary dividends of NOK500 million.

Group Influence

In accordance with our criteria for government-related entities, our view of a "very high" likelihood of government support is based on our assessment 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 don't expect Avinor will be privatized in the next 24 months.

Ratings Score Snapshot

Corporate Credit Rating

AA-/Stable/A-1+

Business risk: Strong

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

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (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 And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov.19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+ / a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+ / a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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