

Capacity growth as expected

Finnair's capacity growth in Q1 was in line with the guidance for 2019E (10.4% vs. guidance 10%) and with our Q1 expectation of 11 %. Passenger growth on the other hand was weaker than expected. We have implemented the IFRS 16 changes to our estimates and kept Q1 expectations mainly intact. We keep our rating "HOLD" and target price of EUR 8.0 ahead the Q1.

Soft start in Q1 traffic information

Finnair's traffic continued soft in Q1. Overall capacity (ASK) grew by 10.4 %, which is somewhat in line with our 11 % expectation. Sold capacity (RPK) growth was only 4.2 % which stayed clearly below our estimation of 7 %. As a result of that, passenger load factor (PLF) continued decline by 4.6 % percentage points in Q1 to 78,3 %. Largest drop was in Asia (-6.2pp) but also in Europe (-3.2pp) and domestic (-3.2pp).

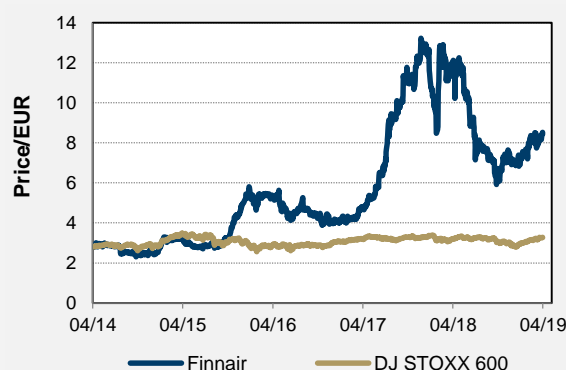
Fuel prices rising from its lowest point

Jet fuel prices reached its lowest point during the turn of the year but has increased since then. Average price moved on q/q basis by -7% in EUR and by -8% in USD compared to the average prices of 4Q18. Also, on a y/y basis the prices moved by -3% in USD when compared to the average price of 1Q18. However, the average price in EUR was 5% higher.

IFRS 16 changes implemented to our estimates

The effects of IFRS 16 to Finnair's financials are noteworthy. Liabilities in 2018 increased by 1,1b euros and assets by 992 million euros. 2018 EBIT improved from EUR 169m (margin 6,0 %) to EUR 218m (margin 7.7%). We have kept Q1 estimates largely unchanged apart from the changes caused by IFRS16 and the changes in the accounting principle of aircraft frame components. We expect Finnair's Q1 revenue to be EUR 679m (6 % growth) while foreseeing adj. EBIT of -6m (margin -0.9 %). We keep our rating "HOLD" and TP (EUR 8.0).

Rating

■ HOLD

 Share price, EUR (Last trading day's closing price) **8.52**

 Target price, EUR **8.0**

 Latest change in rating **13-Nov-17**

 Latest report on company **27-Feb-19**

 Research paid by issuer: **Yes**

 No. of shares outstanding, '000's **128,136**

 No. of shares fully diluted, '000's **128,136**

 Market cap, EURm **1,092**

 Free float, % **44.0**

 Exchange rate EUR/USD **1.170**

 Reuters code **FIA1S.HE**

 Bloomberg code **FIA1S FH**

 Average daily volume, EURm **0.0**

 Next interim report **24-Apr-19**

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■ BUY ■ HOLD ■ SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	2,568	170	6.6%	157	0.88	14.6	0.5	4.3	8.2	0.30
2018	2,850	218	7.7%	89	0.40	17.7	0.6	2.4	7.4	0.27
2019E	3,071	203	6.6%	103	0.55	15.6	0.6	2.2	8.9	0.30
2020E	3,211	234	7.3%	106	0.56	15.1	0.6	2.0	7.7	0.35
2021E	3,339	270	8.1%	130	0.72	11.9	0.5	1.9	6.6	0.40
Market cap, EURm		1,092		BV per share 2019E, EUR		7.4		CAGR EPS 2018-21, %		21.4
Net debt 2019E, EURm		707		Price/book 2019E		1.1		CAGR sales 2018-21, %		5.4
Enterprise value, EURm		1,799		Dividend yield 2019E, %		3.5		ROE 2019E, %		7.5
Total assets 2019E, EURm		4,084		Tax rate 2019E, %		20.0		ROCE 2019E, %		7.4
Goodwill 2019E, EURm		0		Equity ratio 2019E, %		25.5		PEG, P/E 19/CAGR		1.4

All the important disclosures can be found on the last pages of this report.

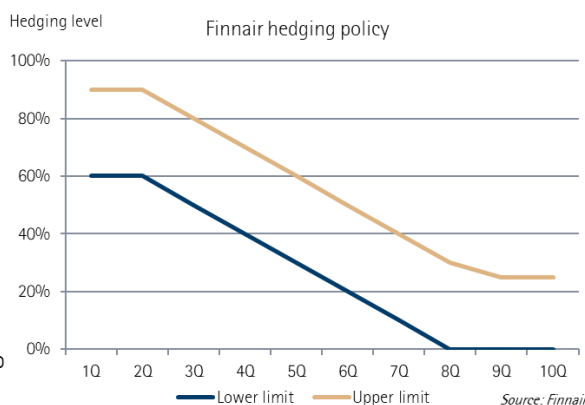
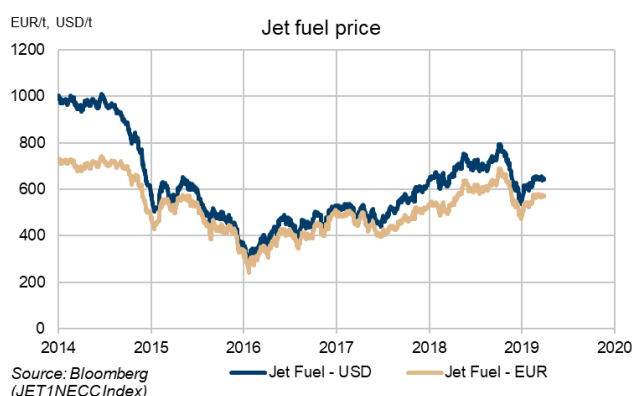
Operating model

FINNAIR	2015	2016	2017	2018	2018	2018	2018	2018	2018	2019E	2019E	2019E	2019E	2019E
EURm	FY	FY	FY	Q1	Q2	Q3	Q4	FY	FY	Q1	Q2	Q3	Q4	FY
Passengers (thousands)	10294	10866	11905	3018	3456	3653	3155	13281	13281	3148	3797	3991	3451	14387
y/y change	7%	6%	10%	16%	13%	12%	7%	12%	12%	4%	10%	9%	9%	8%
ASK (mkm)	31 836	33 914	36 922	9 666	10 718	11 528	10 473	42 386	42 386	10 670	11 989	12 597	11 457	46 713
y/y change	3%	7%	9%	19%	18%	14%	9%	15%	15%	10%	12%	9%	9%	10%
RPK (mkm)	25 592	27 065	30 749	8 016	8 847	9 743	8 055	34 660	34 660	8 356	9 733	10 642	8 884	37 615
y/y change	3%	6%	14%	21%	16%	11%	4%	13%	13%	4%	10%	9%	10%	9%
Load factor (RPK/ASK), PLF	80,4%	79,8%	83,3%	82,9%	82,5%	84,5%	76,9%	81,8%	81,8%	78,3%	81,2%	84,5%	77,5%	80,5%
y/y change	0,2% <i>-p</i>	-0,6% <i>-p</i>	3,5% <i>-p</i>	1,5% <i>-p</i>	-1,2% <i>-p</i>	-2,7% <i>-p</i>	-3,4% <i>-p</i>	-1,5% <i>-p</i>	-1,5% <i>-p</i>	-4,6% <i>-p</i>	-1,4% <i>-p</i>	0,0% <i>-p</i>	0,6% <i>-p</i>	-1,2% <i>-p</i>
Total revenue	2255	2317	2569	641	718	807	683	2850	2850	679	775	879	738	3071
YoY change	-1%	3%	11%	16%	13%	10%	6%	11%	11%	6%	8%	9%	8%	8%
Other income	85	76	77	20	18	18	19	74	74	18	18	18	18	72
Staff costs	-353	-363	-423	-123	-133	-124	-119	-500	-500	-128	-139	-131	-136	-534
y/y change	2%	3%	17%	36%	24%	10%	5%	18%	18%	4%	5%	5%	14%	7%
% of revenue	16%	16%	16%	19%	18%	15%	17%	18%	18%	19%	18%	15%	18%	17%
Fuel	-596	-492	-472	-127	-145	-163	-145	-581	-581	-155	-172	-185	-166	-678
y/y change	-10%	-17%	-4%	14%	27%	31%	19%	23%	23%	21%	18%	14%	14%	17%
% of revenue	26%	21%	18%	20%	20%	20%	21%	20%	20%	23%	22%	21%	23%	22%
Other OPEX	-1160	-1268	-1314	-324	-327	-346	-334	-1330	-1330	-339	-346	-366	-353	-1403
y/y change	3%	9%	4%	0%	0%	6%	-1%	1%	1%	5%	6%	6%	6%	5%
% of revenue	51%	55%	51%	50%	46%	43%	49%	47%	47%	50%	45%	42%	48%	46%
Comparable EBITDA	132	161	300	87	131	191	104	513	513	75	135	216	101	527
Depreciation	-108	-106	-129	-72	-72	-73	-78	-294	-294	-81	-81	-81	-81	-324
Comparable EBIT	24	55	171	15	59	118	26	218	218	-6	54	135	20	203
Comp. EBIT-%	1,0%	2,4%	6,6%	2,3%	8,2%	14,6%	3,9%	7,7%	7,7%	-0,9%	7,0%	15,4%	2,7%	6,6%
IAC & fair value changes	98	61	54	2	-8	-3	47	38	38	0	0	0	0	0
EBIT	122	116	225	17	51	116	73	256	256	-6	54	135	20	203

Sources: Finnair, Evli estimates

Fuel spot price development and hedging

Finnair hedges its fuel purchases for 24 months forward on a rolling basis, with the degree of hedging decreasing towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90% and 60% for the following six months.



Finnair valuation vs. peers

Our model treats Finnair's EUR 200m hybrid bond as 100% equity. The estimates exclude IAC and fair value changes but include hybrid interest. Our estimates generate ROCE of ~7-9% in FY19-21E vs. our WACC of 8.9%. It is notable that the peer multiples might not reflect the changes of IFRS 16 yet which makes the comparison challenging.

FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA 19	EV/EBITDA 20	EV/EBITDA 21	EV/EBIT 19	EV/EBIT 20	EV/EBIT 21	P/E 19	P/E 20	P/E 21	P/B 19	P/B 20	P/B 21
Primary European peers													
SAS AB	7 357	5,0x	4,4x	3,8x	9,6x	8,9x	7,2x	7,2x	5,4x	4,3x	1,1x	0,9x	0,7x
International Consolidated Airlines Group	1 0968	3,0x	3,1x	3,0x	4,4x	4,5x	4,4x	5,6x	5,1x	4,7x	1,6x	1,3x	1,2x
Air France-KLM SA	4 786	2,8x	2,5x	2,2x	8,8x	7,5x	6,0x	7,3x	6,1x	5,0x	1,6x	1,3x	1,2x
Deutsche Lufthansa AG	1 0588	3,1x	2,9x	2,8x	5,8x	5,2x	5,0x	5,3x	4,9x	4,5x	0,9x	0,8x	0,7x
Norwegian Air Shuttle ASA	5 477	12,5x	10,6x	9,0x	101,5x	34,2x	22,6x			9,2x	1,5x	1,6x	1,5x
Other European peers													
Aegean Airlines SA	601	1,0x	2,6x	2,7x	3,7x	3,6x	3,8x	8,8x	8,5x	7,8x	2,0x	1,8x	1,8x
easyJet plc	4 769	6,5x	6,2x	5,4x	10,2x	9,6x	8,1x	13,0x	11,6x	9,7x	1,4x	1,3x	1,2x
Flybe Group PLC	2												
Ryanair Holdings Plc	1 3805	7,5x	6,2x	4,9x	11,8x	9,5x	7,2x	12,8x	10,4x	8,5x	2,4x	2,0x	
Wizz Air Holdings Plc	2 509	3,4x	2,7x	1,4x	5,0x	3,9x	3,3x	14,3x	11,7x	10,6x	2,3x	1,9x	1,9x
North American peers													
American Airlines Group, Inc.	1 5281	6,3x	5,9x	5,3x	9,3x	8,7x	7,9x	6,0x	5,6x	4,9x	8,0x	3,8x	2,4x
Delta Air Lines, Inc.	3 8062	5,1x	4,8x	4,4x	7,3x	6,9x	6,2x	8,7x	8,1x	7,4x	2,4x	1,9x	1,5x
JetBlue Airways Corporation	5 080	4,7x	4,2x	3,8x	7,7x	6,6x	5,8x	9,4x	7,6x	6,5x	1,0x	0,8x	0,7x
Southwest Airlines Co.	2 8852	6,2x	5,5x	5,1x	8,6x	7,6x	7,0x	11,4x	9,9x	8,8x	2,4x	2,0x	1,7x
Spirit Airlines, Inc.	3 763	6,1x	5,7x	4,7x	8,2x	7,7x	6,5x	9,1x	8,3x	7,3x	1,6x	1,4x	1,2x
United Continental Holdings, Inc.	2 2508	5,0x	4,6x	4,3x	7,6x	7,1x	6,6x	7,7x	7,0x	6,2x	1,8x	1,5x	1,3x
WestJet	2 197	4,3x	3,9x	3,1x	10,9x	9,2x	6,8x	11,9x	9,3x	7,3x	0,8x	0,8x	0,7x
Primary European peers median		3,1x	3,1x	3,0x	8,8x	7,5x	6,0x	6,4x	5,3x	4,7x	1,5x	1,3x	1,2x
Finnair (Evli est)*		3,4x	3,1x	2,8x	8,8x	7,7x	6,6x	15,6x	15,1x	11,9x	1,1x	1,1x	1,1x
<i>Finnair discount/premium to primary peer group median*</i>		8 %	0 %	-7 %	0 %	3 %	9 %	144 %	186 %	162 %	-26 %	-13 %	-10 %
FINNAIR PEER GROUP	Div yield	Div yield	Div yield	EBIT-%	EBIT-%	EBIT-%	ROCE-%	ROCE-%	ROCE-%	ROE-%	ROE-%	ROE-%	
	19	20	21	19	20	21	19	20	21	19	20	21	
Primary European peers													
SAS AB	SAS-SE	0,0%	0,0%	0,0%	3,9%	5,2%	6,1%	8,4%	10,1%	11,3%	15,5%	16,6%	17,2%
International Consolidated Airlines Group	IAG-GB	4,9%	5,0%	5,4%	12,3%	12,5%	12,7%	17,1%	17,2%	17,1%	28,1%	25,5%	25,4%
Air France-KLM SA	AF-FR	0,2%	0,7%	1,3%	4,8%	5,2%	5,9%	7,3%	7,9%	9,5%	22,2%	20,9%	23,3%
Deutsche Lufthansa AG	LHA-DE	3,9%	4,3%	4,6%	7,3%	7,7%	8,2%	11,5%	11,8%	12,0%	16,9%	16,0%	16,1%
Norwegian Air Shuttle ASA	NAS-NO	0,0%	0,1%	0,4%	1,5%	4,6%	7,2%	1,0%	3,0%	4,9%	-49,8%	-13,5%	15,8%
Other European peers													
Aegean Airlines SA	AEGN-GR	5,9%	6,1%	7,2%	8,3%	9,0%	10,0%	14,7%	16,3%	18,1%	22,7%	21,3%	23,2%
easyJet plc	EZJ-GB	4,0%	4,5%	5,3%	7,6%	7,8%	8,8%	8,9%	9,1%	10,1%	10,7%	11,2%	12,2%
Flybe Group PLC	FLYB-GB												
Ryanair Holdings Plc	RY4C-IE	0,2%	0,2%	0,0%	14,6%	16,2%	18,0%	12,8%	14,2%	15,0%	18,7%	19,1%	
Wizz Air Holdings Plc	WIZZ-GB	0,0%	0,0%		14,5%	15,3%	13,4%	18,4%	20,5%		15,9%	15,8%	17,7%
North American peers													
American Airlines Group, Inc.	AAL-US	1,2%	1,2%	1,2%	8,8%	8,5%	8,5%	9,5%	9,5%	10,5%	132,1%	68,7%	49,7%
Delta Air Lines, Inc.	DAL-US	2,4%	2,7%	3,0%	13,4%	13,0%	13,2%	14,7%	14,3%	14,8%	27,2%	23,4%	20,4%
JetBlue Airways Corporation	JBLU-US	0,0%	5,9%	0,0%	10,1%	10,9%	11,6%	9,6%	10,3%	11,5%	10,2%	10,8%	10,8%
Southwest Airlines Co.	LUV-US	1,3%	1,5%	1,9%	14,3%	14,6%	14,4%	17,4%	18,1%	19,9%	20,8%	20,4%	18,8%
Spirit Airlines, Inc.	SAVE-US	0,0%	1,8%	0,0%	15,4%	14,5%	14,6%	12,3%	11,5%	11,3%	18,0%	16,3%	15,8%
United Continental Holdings, Inc.	UAL-US	0,0%	0,0%	0,0%	10,0%	9,8%	9,9%	11,8%	11,4%	12,2%	23,6%	21,2%	20,5%
WestJet	WJA-CA	2,9%	2,9%	2,9%	5,9%	6,6%	7,3%	6,3%	7,4%		7,1%	8,4%	9,8%
Primary European peers median		0,2%	0,7%	1,3%	4,8%	5,2%	7,2%	8,4%	10,1%	11,3%	16,9%	16,6%	17,2%
Finnair (Evli est)*	FIA1 S-FI	3,5%	4,1%	4,7%	6,6%	7,3%	8,1%	7,4%	8,2%	9,2%	7,5%	7,4%	9,1%

Source: Factset, Evli Research

Note: Our model treats Finnair's EUR 200m hybrid bond as 100% equity. Our estimates exclude IAC and fair value changes, but include hybrid interest.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	8.52 PV of Free Cash Flow	1,361 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	14.70 PV of Horizon value	1,265 WACC, %	8.9 Market risk premium, %
Share price potential, %	72.6 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	16.2 Marketable securities	1,067 Minimum WACC, %	8.4 Equity beta coefficient
Minimum value	13.4 Debt - dividend	-1,809 Maximum WACC, %	9.4 Target debt ratio, %
Horizon value, %	48.2 Value of stock	1,884 Nr of shares, Mn	128.1 Effective tax rate, %

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	2,850	3,071	3,211	3,339	3,455	3,525	3,595	3,667	3,740	3,815	3,891	3,969
<i>Sales growth, %</i>	<i>11.0</i>	<i>7.8</i>	<i>4.6</i>	<i>4.0</i>	<i>3.5</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	218	203	234	270	276	247	252	246	251	256	261	266
<i>EBIT margin, %</i>	<i>7.7</i>	<i>6.6</i>	<i>7.3</i>	<i>8.1</i>	<i>8.0</i>	<i>7.0</i>	<i>7.0</i>	<i>6.7</i>	<i>6.7</i>	<i>6.7</i>	<i>6.7</i>	<i>6.7</i>
+ Depreciation+amort.	294	324	348	367	375	343	324	307	294	291	288	
- Income taxes	-89	-41	-47	-54	-55	-49	-50	-49	-50	-51	-52	
- Change in NWC	50	1	1	1	1	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-26.3</i>	<i>-24.4</i>	<i>-23.4</i>	<i>-22.5</i>	<i>-21.7</i>	<i>-21.3</i>	<i>-20.9</i>	<i>-20.5</i>	<i>-20.1</i>	<i>-19.7</i>	<i>-19.3</i>	
+ Change in other liabs	-91	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-106	-360	-380	-400	-270	-260	-250	-250	-280	-280	-290	-296
<i>Investments / Sales, %</i>	<i>3.7</i>	<i>11.7</i>	<i>11.8</i>	<i>12.0</i>	<i>7.8</i>	<i>7.4</i>	<i>7.0</i>	<i>6.8</i>	<i>7.5</i>	<i>7.3</i>	<i>7.5</i>	<i>7.5</i>
- Other items	-103	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	
= Unlevered Free CF (FCF)	174	115	143	171	314	268	263	241	202	203	194	2,886
= Discounted FCF (DFCF)		108	124	136	229	179	162	136	105	97	85	1,265
= DFCF min WACC		109	125	138	233	183	166	141	109	101	89	1,426
= DFCF max WACC		108	123	134	225	176	158	132	101	93	81	1,128

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1E	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	641	718	807	684	2,850	679	775	879	738	3,071	3,211	3,339
EBITDA	87	131	191	104	513	75	135	216	101	527	582	637
<i>EBITDA margin (%)</i>	<i>13.5</i>	<i>18.2</i>	<i>23.7</i>	<i>15.2</i>	<i>18.0</i>	<i>11.0</i>	<i>17.5</i>	<i>24.6</i>	<i>13.7</i>	<i>17.2</i>	<i>18.1</i>	<i>19.1</i>
EBIT	15	59	118	27	218	-6	54	135	20	203	234	270
<i>EBIT margin (%)</i>	<i>2.3</i>	<i>8.2</i>	<i>14.6</i>	<i>3.9</i>	<i>7.7</i>	<i>-0.9</i>	<i>7.0</i>	<i>15.4</i>	<i>2.7</i>	<i>6.6</i>	<i>7.3</i>	<i>8.1</i>
Net financial items	0	-70	-28	-31	-129	-25	-25	-25	-25	-100	-128	-140
Pre-tax profit	15	-11	90	-4	89	-31	29	110	-5	103	106	130
Tax	-3	4	-18	-9	-26	6	-6	-22	1	-21	-21	-26
<i>Tax rate (%)</i>	<i>22.8</i>	<i>35.5</i>	<i>19.5</i>	<i>-191.1</i>	<i>28.6</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	8	-10	70	-16	51	-28	20	85	-7	70	72	92
EPS	0.06	-0.08	0.54	-0.13	0.40	-0.22	0.16	0.66	-0.06	0.55	0.56	0.72
EPS adjusted (diluted no. of shares)	0.06	-0.08	0.54	-0.13	0.40	-0.22	0.16	0.66	-0.06	0.55	0.56	0.72
Dividend per share	0.00	0.00	0.00	0.00	0.27	0.00	0.00	0.00	0.00	0.30	0.35	0.40
SALES, EURm												
Group total	641	718	807	684	2,850	679	775	879	738	3,071	3,211	3,339
Total	641	718	807	684	2,850	679	775	879	738	3,071	3,211	3,339
SALES GROWTH, Y/Y %												
Group total	15.6	13.4	9.7	5.9	11.0	5.8	7.9	9.0	8.0	7.8	4.6	4.0
Total	15.6	13.4	9.7	5.9	11.0	5.8	7.9	9.0	8.0	7.8	4.6	4.0
EBIT, EURm												
Group total	15	59	118	27	218	-6	54	135	20	203	234	270
Total	15	59	118	27	218	-6	54	135	20	203	234	270
EBIT margin, %												
Group total	2.3	8.2	14.6	3.9	7.7	-0.9	7.0	15.4	2.7	6.6	7.3	8.1
Total	2.3	8.2	14.6	3.9	7.7	-0.9	7.0	15.4	2.7	6.6	7.3	8.1

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	2,285	2,255	2,317	2,568	2,850	3,071	3,211	3,339
<i>Sales growth (%)</i>	-4.8	-1.3	2.8	10.9	11.0	7.8	4.6	4.0
Costs	-2,187	-2,123	-2,156	-2,269	-2,337	-2,544	-2,629	-2,701
Reported EBITDA	98	132	161	300	513	527	582	637
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	4.3	5.8	6.9	11.7	18.0	17.2	18.1	19.1
Depreciation	-134	-108	-106	-129	-294	-324	-348	-367
EBITA	-36	24	55	170	218	203	234	270
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	-36	24	55	170	218	203	234	270
<i>EBIT margin (%)</i>	-1.6	1.1	2.4	6.6	7.7	6.6	7.3	8.1
Net financials	-27	-8	-10	-14	-129	-100	-128	-140
Pre-tax profit	-63	15	45	157	89	103	106	130
Extraordinary items	0	-11	-1	-1	0	0	0	0
Taxes	13	-3	-9	-31	-26	-21	-21	-26
Minority shares	0	0	0	0	0	0	0	0
Net profit	-51	-18	19	112	51	70	72	92
BALANCE SHEET, EURm								
Assets								
Fixed assets	1,053	957	1,189	1,446	2,545	2,581	2,613	2,646
<i>% of sales</i>	46	42	51	56	89	84	81	79
Goodwill	0	0	0	0	0	0	0	0
<i>% of sales</i>	0	0	0	0	0	0	0	0
Inventory	15	12	15	17	121	130	136	141
<i>% of sales</i>	1	1	1	1	4	4	4	4
Receivables	358	364	512	460	210	222	230	237
<i>% of sales</i>	16	16	22	18	7	7	7	7
Liquid funds	426	708	814	965	1,067	1,150	1,202	1,250
<i>% of sales</i>	19	31	35	38	37	37	37	37
Total assets	1,885	2,050	2,529	2,887	3,944	4,084	4,181	4,275
Liabilities								
Equity	514	727	857	1,016	918	953	987	1,034
<i>% of sales</i>	23	32	37	40	32	31	31	31
Deferred taxes	0	0	33	74	48	48	48	48
<i>% of sales</i>	0	0	1	3	2	2	1	1
Interest bearing debt	428	346	718	719	1,774	1,857	1,907	1,941
<i>% of sales</i>	19	15	31	28	62	60	59	58
Non-interest bearing current liabilities	601	682	519	566	285	307	321	334
<i>% of sales</i>	26	30	22	22	10	10	10	10
Other interest free debt	246	201	339	428	811	811	811	811
<i>% of sales</i>	11	9	15	17	28	26	25	24
Total liabilities	1,885	2,050	2,529	2,887	3,944	4,084	4,181	4,275
CASH FLOW, EURm								
+ EBITDA	98	132	161	300	513	527	582	637
- Net financial items	-27	-8	-10	-14	-129	-100	-128	-140
- Taxes	0	0	33	-1	-52	-21	-21	-26
- Increase in Net Working Capital	-33	43	56	57	50	1	1	1
+/- Other	-15	5	-19	40	1	-13	-13	-13
= Cash flow from operations	23	171	220	382	383	395	421	459
- Capex	-146	-81	-486	-394	-320	-360	-380	-400
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	268	448	153	157	214	0	0	0
= Net cash flow	144	538	-113	146	277	35	41	59
+/- Change in interest-bearing debt	-165	-81	372	1	1,056	83	50	34
+/- New issues/buybacks	143	231	110	60	-110	0	0	0
- Paid dividend	0	0	0	-13	-38	-35	-38	-45
+/- Change in loan receivables	-107	-291	-167	79	-91	0	0	0
Change in cash	15	397	202	273	1,094	83	52	48

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	694	516	1,643	908	1,092	1,092	1,092
Net debt	-362	-96	-246	707	707	705	690
Enterprise value	332	420	1,397	1,615	1,799	1,796	1,782
Sales	2,255	2,317	2,568	2,850	3,071	3,211	3,339
EBITDA	132	161	300	513	527	582	637
EBIT	24	55	170	218	203	234	270
Pre-tax	15	45	157	89	103	106	130
Earnings	-6	21	113	51	70	72	92
Book value	727	857	1,016	918	953	987	1,034
Valuation multiples							
EV/sales	0.1	0.2	0.5	0.6	0.6	0.6	0.5
EV/EBITDA	2.5	2.6	4.7	3.2	3.4	3.1	2.8
EV/EBITA	14.0	7.6	8.2	7.4	8.9	7.7	6.6
EV/EBIT	14.0	7.6	8.2	7.4	8.9	7.7	6.6
EV/operating cash flow	1.9	1.9	3.7	4.2	3.7	3.4	3.1
EV/cash earnings	2.3	2.3	4.7	4.9	4.4	4.2	3.8
P/E	-107.2	24.9	14.6	17.7	15.6	15.1	11.9
P/E excl. goodwill	-107.2	24.9	14.6	17.7	15.6	15.1	11.9
P/B	1.0	0.6	1.6	1.0	1.1	1.1	1.1
P/sales	0.3	0.2	0.6	0.3	0.4	0.3	0.3
P/CF	4.1	2.4	4.3	2.4	2.2	2.0	1.9
Target EV/EBIT	0.0	0.0	0.0	0.0	8.5	7.4	6.3
Target P/E	0.0	0.0	0.0	0.0	14.6	14.2	11.2
Target P/B	0.0	0.0	0.0	0.0	1.1	1.0	1.0
Per share measures							
Number of shares	128,136	128,136	128,136	128,136	128,136	128,136	128,136
Number of shares (diluted)	128,136	128,136	128,136	128,136	128,136	128,136	128,136
EPS	-0.05	0.16	0.88	0.40	0.55	0.56	0.72
EPS excl. goodwill	-0.05	0.16	0.88	0.40	0.55	0.56	0.72
Cash EPS	1.13	1.43	2.31	2.59	3.17	3.38	3.68
Operating cash flow per share	1.33	1.71	2.98	2.99	3.80	4.18	4.56
Capital employed per share	2.83	5.92	5.99	12.68	12.96	13.20	13.46
Book value per share	5.68	6.69	7.93	7.17	7.44	7.70	8.07
Book value excl. goodwill	5.68	6.69	7.93	7.17	7.44	7.70	8.07
Dividend per share	0.00	0.10	0.30	0.27	0.30	0.35	0.40
Dividend payout ratio, %	0.0	61.7	34.1	68.6	54.9	62.2	55.9
Dividend yield, %	0.0	2.5	2.3	3.9	3.5	4.1	4.7
Efficiency measures							
ROE	-1.0	2.6	12.0	5.3	7.5	7.4	9.1
ROCE	2.4	4.2	10.3	9.9	7.4	8.2	9.2
Financial ratios							
Capex/sales, %	-16.3	14.4	9.2	3.7	11.7	11.8	12.0
Capex/depreciation excl. goodwill,%	-339.6	314.7	183.2	35.9	111.1	109.2	109.0
Net debt/EBITDA, book-weighted	-2.7	-0.6	-0.8	1.4	1.3	1.2	1.1
Debt/equity, market-weighted	0.5	1.4	0.4	2.0	1.7	1.7	1.8
Equity ratio, book-weighted	40.6	37.8	39.1	25.4	25.5	25.9	26.5
Gearing	-0.50	-0.11	-0.24	0.77	0.74	0.71	0.67
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION: Finnair is the Finnish flag carrier airline.

INVESTMENT CASE: Finnair has clearly improved its profitability in 2016-2017. Strategy relies on traffic between Asia and Europe with new A350 fleet.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Prime Minister's Office	71,515,426	609.311	55.8%
The Local Government Pensions Institution	6,250,875	53.257	4.9%
Tiiviste-Group Oy	2,150,000	18.318	1.7%
Ilmarinen Mutual Pension Insurance Company	1,945,000	16.571	1.5%
The State Pension Fund	1,700,000	14.484	1.3%
Oy Etra Invest Ab	1,000,000	8.520	0.8%
Veritas Pension Insurance Company Ltd.	818,946	6.977	0.6%
Laakkonen Mikko Kalervo	740,000	6.305	0.6%
Finnair Oyj	542,002	4.618	0.4%
Finnairin Henkilöstöraho Hr.	440,000	3.749	0.3%
Ten largest	87,102,249	742.111	68%
Residual	41,033,866	349.609	32%
Total	128,136,115	1,091.720	100%

EARNINGS CALENDAR	
April 24, 2019	Q1 report
July 17, 2019	Q2 report
October 22, 2019	Q3 report
OTHER EVENTS	
March 20, 2018	AGM

COMPANY MISCELLANEOUS	
CEO: Topi Manner	Tietotie 9, 01053 FINNAIR (VANTAA AIRPORT)
CFO: Pekka Vähähyyppä	Tel: +358 9 818 2780
IR: Mari Reponen	

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales	$\frac{\text{Market cap}}{\text{Sales}}$	DPS	Dividend for the financial period per share
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS	$\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF	$\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share	$\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share	$\frac{\text{Sales}}{\text{Number of shares}}$
Net debt	Interest bearing debt – financial assets	EBITDA/Share	$\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share	$\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share	$\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share	$\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets	Balance sheet total
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x)	$\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share	$\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year

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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 - (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.

Recommendation	Percentage
Sell	8%
Hold	53%
Buy	39%

The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Rissanen

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