

Strong passenger numbers support sales

Finnair's traffic data in April-June indicates Q2'19 revenue of EUR 806m. We expected Q2 revenue of EUR 785m while consensus was at EUR 778m. Capacity growth in Q2 was above the company's 2019E guidance (14.8% vs. 10% 2019E guidance) and our Q2 expectation of 12%. Fuel price continued to move up in Q2. We maintain our rating "HOLD" with to TP of EUR 8 ahead of Q2.

Strong passenger number growth and improved load factor

Finnair's passenger numbers in Q2 grew by 13% y/y and hit the monthly all-time company record in June with 1.4m passengers in total. Overall capacity (ASK) grew by 14.8% y/y which was above our expectation of 12%. Capacity increase was mainly supported by three new A350-aircrafts that entered the service in December 2018, February 2019 and April 2019 and by one new A321-aircraft that was added to European routes. In North America, capacity increased following the new Los Angeles route and frequency additions to San Francisco. Sold capacity (RPK) growth was in line with the capacity growth at 14.7% y/y and clearly beat our growth expectation of 10%. Q2 passenger load factor (PLF) improved from Q1 and was 82.5% (-0.1% y/y growth vs. our expectation of -1.4% y/y).

Fuel price continued to move up in Q2

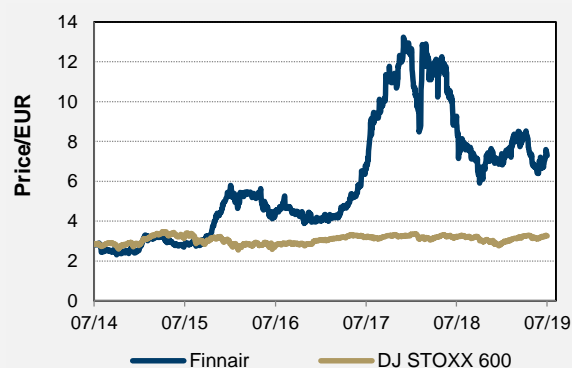
Jet fuel price development has continued in line with Q1. In Q2, the average spot price of jet fuel in USD moved up by 4% from Q1. On a y/y basis, the average Q2 USD price was down by 8%. Similarly, the average sport price of jet fuel in EUR moved up by 5% q/q and was down by 3% on a y/y basis.

"HOLD" with TP of EUR 8

As a result of Finnair's strong April-June traffic data we have increased our Q2 revenue expectation from EUR 785m to EUR 806m (12% y/y) while keeping other estimates intact. We foresee Q2 adj. EBIT of EUR 65m (8.0% margin). We maintain our rating "HOLD" and TP of EUR 8 intact ahead of Q2.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 7.29

Target price, EUR 8.0

Latest change in rating 13-Nov-17

Latest report on company 25-Apr-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 934

Free float, % 44.0

Exchange rate EUR/USD 1.170

Reuters code FIA1S.HE

Bloomberg code FIA1S FH

Average daily volume, EURm na.

Next interim report 17-Jul-19

Web site www.finnair.com

Analyst Anna-Liisa Rissanen

E-mail annaliisa.rissanen@evli.com

Telephone +358401579919

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	3,116	203	6.5%	90	0.47	15.6	0.5	2.0	8.2	0.30
2020E	3,213	205	6.4%	77	0.38	19.2	0.5	1.9	8.4	0.35
2021E	3,341	245	7.3%	105	0.56	13.1	0.5	1.6	7.0	0.40
Market cap, EURm		934		BV per share 2019E, EUR		7.4		CAGR EPS 2018-21, %		11.8
Net debt 2019E, EURm		731		Price/book 2019E		1.0		CAGR sales 2018-21, %		5.4
Enterprise value, EURm		1,665		Dividend yield 2019E, %		4.1		ROE 2019E, %		6.5
Total assets 2019E, EURm		4,119		Tax rate 2019E, %		19.7		ROCE 2019E, %		7.4
Goodwill 2019E, EURm		0		Equity ratio 2019E, %		25.0		PEG, P/E 19/CAGR		1.0

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

Guidance for 2019 is given as part of Q2 report

Finnair will report its guidance for 2019 as part of its half-year report. The company has guided 2019E capacity growth of ~10% while revenue is expected to grow at a somewhat slower pace (we have estimated revenue growth of ~9%). We see Finnair's 2019E EBIT to stay below last year at EUR 203m with 6.5% EBIT margin (2018: EBIT EUR 218m, 7.7% EBIT margin) as weak Q1'19 and increasing hedged fuel price weigh down our 2019 estimates.

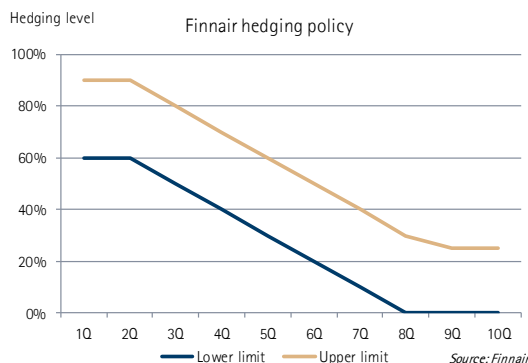
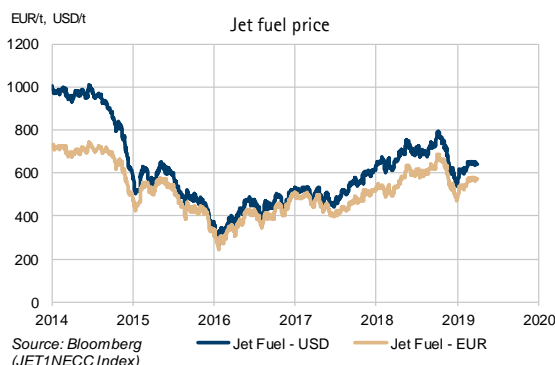
Operating model

FINNAIR EURm	2015 FY	2016 FY	2017 FY	2018 FY	2019E Q1	2019E Q2	2019E Q3	2019E Q4	2019E FY
Passengers (thousands)	10294	10866	11905	13281	3148	3910	3991	3451	14500
<i>y/y change</i>	7 %	6 %	10 %	12 %	4 %	13 %	9 %	9 %	9 %
ASK (mkm)	31 836	33 914	36 922	42 386	10 670	12 308	12 597	11 457	47 031
<i>y/y change</i>	3 %	7 %	9 %	15 %	10 %	15 %	9 %	9 %	11 %
RPK (mkm)	25 592	27 065	30 749	34 660	8 356	10 152	10 614	8 812	37 935
<i>y/y change</i>	3 %	6 %	14 %	13 %	4 %	15 %	9 %	9 %	9 %
Load factor (RPK/ASK), PLF	80,4 %	79,8 %	83,3 %	81,8 %	78,3%	82,5%	84,3%	76,9%	80,7 %
<i>y/y change</i>	0,2%-p	-0,6%-p	3,5%-p	-1,5%-p	-4,6%-p	-0,1%-p	-0,2%-p	0,0%-p	-1,1%-p
Total revenue	2255	2317	2569	2850	673	806	889	748	3116
YoY change	-1 %	3 %	11 %	11 %	5 %	12 %	10 %	9 %	9 %
Other income	85	76	77	74	15	18	18	18	69
Staff costs	-353	-363	-423	-500	-130	-137	-131	-136	-533
<i>y/y change</i>	2 %	3 %	17 %	18 %	5 %	3 %	5 %	14 %	7 %
<i>% of revenue</i>	16 %	16 %	16 %	18 %	19 %	17 %	15 %	18 %	17 %
Fuel	-596	-492	-472	-581	-145	-174	-182	-170	-671
<i>y/y change</i>	-10 %	-17 %	-4 %	23 %	14 %	20 %	12 %	17 %	16 %
<i>% of revenue</i>	26 %	21 %	18 %	20 %	22 %	22 %	20 %	23 %	22 %
Other OPEX	-1160	-1268	-1314	-1330	-353	-370	-377	-367	-1467
<i>y/y change</i>	3 %	9 %	4 %	1 %	9 %	13 %	9 %	10 %	10 %
<i>% of revenue</i>	51 %	55 %	51 %	47 %	52 %	46 %	42 %	49 %	47 %
Comparable EBITDA	132	161	300	513	60	143	218	93	513
Depreciation	-108	-106	-129	-294	-76	-78	-78	-78	-310
Comparable EBIT	24	55	171	218	-16	65	140	15	203
Comp. EBIT-%	1,0 %	2,4 %	6,6 %	7,7 %	-2,4 %	8,0 %	15,7 %	2,0 %	6,5 %
IAC & fair value changes	98	61	54	38	0	0	0	0	0
EBIT	122	116	225	256	-16	65	140	15	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. On our estimates Finnair generates ROCE of ~7-8% in FY19-21E vs. our WACC of 8.9%.

FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA			EV/EBIT			P/E			P/B		
		19	20	21	19	20	21	19	20	21	19	20	21
Primary European peers													
SAS AB	5226	5,7x	4,3x	3,8x	19,3x	10,5x	8,6x	17,2x	5,0x	3,8x	0,8x	0,7x	0,6x
International Consolidated Airlines Group S	8792	2,6x	2,6x	2,4x	4,3x	4,3x	3,9x	4,9x	4,6x	4,1x	1,4x	1,2x	1,1x
Air France-KLM SA	3685	2,6x	2,4x	2,1x	8,5x	7,3x	5,9x	6,1x	5,3x	4,4x	1,6x	1,3x	1,0x
Deutsche Lufthansa AG	7093	2,9x	2,6x	2,5x	6,3x	5,3x	4,8x	4,9x	3,9x	3,5x	0,7x	0,6x	0,5x
Norwegian Air Shuttle ASA	6231	11,2x	9,5x	8,3x	112,9x	38,2x	24,3x			21,2x	1,9x	2,4x	2,0x
Other European peers													
Aegean Airlines SA	578	1,4x	1,4x	1,2x	3,1x	3,0x	2,7x	8,8x	8,1x	7,4x	2,0x	1,8x	1,7x
easyJet plc	3892	4,4x	4,4x	3,9x	8,9x	8,5x	7,2x	11,5x	10,3x	8,8x	1,2x	1,1x	1,0x
Flybe Group PLC													
Ryanair Holdings Plc	11657	7,3x	6,2x	5,4x	12,6x	10,1x	8,7x	13,3x	10,5x	8,9x	2,1x	1,7x	1,5x
Wizz Air Holdings Plc	2566	3,9x	3,1x	2,7x	6,4x	5,1x	4,5x	14,6x	12,1x	10,1x	2,4x	2,0x	1,6x
North American peers													
American Airlines Group, Inc.	14395	6,7x	6,1x	5,4x	10,2x	9,2x	8,2x	6,4x	5,7x	5,0x	8,0x	3,7x	2,4x
Delta Air Lines, Inc.	38598	5,3x	5,0x	4,8x	7,5x	7,2x	6,8x	8,5x	8,0x	7,4x	2,6x	2,1x	1,7x
JetBlue Airways Corporation	5715	5,1x	4,5x	4,0x	8,1x	7,0x	6,2x	9,7x	8,0x	7,1x	1,1x	0,9x	0,8x
Southwest Airlines Co.	28071	6,3x	5,5x	5,1x	8,8x	7,6x	7,0x	11,5x	9,8x	8,8x	2,3x	2,0x	1,6x
Spirit Airlines, Inc.	3475	6,1x	5,5x	4,3x	8,3x	7,7x	6,2x	8,9x	8,1x	7,2x	1,5x	1,2x	1,0x
WestJet	3506	5,7x	5,0x	3,7x	19,8x	14,3x	9,0x	24,8x	17,0x	10,6x	1,5x	1,4x	
Primary European peers median		2,9x	2,6x	2,5x	8,5x	7,3x	5,9x	5,5x	4,8x	4,1x	1,4x	1,2x	1,0x
Finnair (Evl est)*		3,2x	3,3x	2,7x	8,2x	8,4x	7,0x	15,6x	19,2x	13,1x	1,0x	1,0x	1,0x
<i>Finnair discount/premium to primary peer group median*</i>		11%	24%	12%	-4%	15%	18%	180%	299%	217%	-31%	-19%	-6%

FINNAIR PEER GROUP	Ticker	Div yield			EBIT-%			ROCE-%			ROE-%		
		19	20	21	19	20	21	19	20	21	19	20	21
Primary European peers													
SAS AB	SAS-SE	0,1%	0,0%	0,0%	2,1%	4,6%	5,4%	4,1%	8,4%	9,4%	4,8%	13,7%	15,3%
International Consolidated Airlines Group S	IAG-GB	6,3%	6,0%	6,6%	12,9%	12,9%	13,3%	16,1%	16,1%	16,5%	29,5%	26,4%	26,0%
Air France-KLM SA	AF-FR	0,2%	0,7%	0,9%	4,6%	4,8%	5,4%	7,2%	7,6%	8,2%	25,9%	24,0%	23,1%
Deutsche Lufthansa AG	LHA-DE	5,0%	5,8%	6,3%	6,0%	6,8%	7,4%	9,2%	10,2%	10,5%	13,6%	15,4%	15,2%
Norwegian Air Shuttle ASA	NAS-NO	0,0%	0,2%	0,5%	1,5%	4,3%	6,6%	1,0%	2,8%	4,3%	-62,3%	-21,3%	9,3%
Other European peers													
Aegean Airlines SA	AEGN-GR	6,8%	6,8%	7,5%	8,5%	9,0%	9,5%	14,9%	16,5%	17,7%	22,2%	22,4%	23,2%
easyJet plc	EZJ-GB	4,5%	4,9%	5,8%	7,2%	7,5%	8,2%	8,8%	8,8%	9,6%	10,0%	10,5%	11,3%
Flybe Group PLC	FLYB-GB												
Ryanair Holdings Plc	RY4C-IE	0,6%	0,6%	0,8%	12,0%	13,7%	14,3%	10,7%	12,2%	12,8%	15,5%	16,6%	17,1%
Wizz Air Holdings Plc	WIZZ-GB	0,0%	0,0%	0,0%	14,8%	15,6%	16,7%	11,4%	12,0%	12,7%	16,6%	16,1%	16,1%
North American peers													
American Airlines Group, Inc.	AAL-US	1,2%	1,3%	1,2%	8,1%	8,1%	8,2%	8,4%	8,8%	9,5%	126,0%	65,4%	47,5%
Delta Air Lines, Inc.	DAL-US	2,4%	2,7%	3,0%	13,8%	13,2%	13,2%	14,5%	13,8%	13,6%	30,5%	25,6%	23,0%
JetBlue Airways Corporation	JBLU-US	0,0%	4,4%	0,0%	10,6%	11,5%	11,9%	9,9%	10,4%	10,9%	11,0%	11,6%	10,9%
Southwest Airlines Co.	LUV-US	1,3%	1,4%	1,6%	13,9%	14,3%	14,3%	17,4%	18,5%	21,0%	20,0%	20,1%	18,2%
Spirit Airlines, Inc.	SAVE-US	0,0%	1,6%	0,0%	14,6%	13,9%	14,1%	10,7%	10,3%	9,8%	16,9%	15,3%	14,3%
WestJet	WJA-CA				4,9%	6,3%	8,5%	4,7%	6,6%		6,0%	8,1%	
Primary European peers median		0,2%	0,7%	0,9%	4,6%	4,8%	6,6%	7,2%	8,4%	9,4%	13,6%	15,4%	15,3%
Finnair (Evl est)*	FIA1S-FI	4,1%	4,8%	5,5%	6,5%	6,4%	7,3%	7,4%	7,1%	8,2%	6,5%	5,1%	7,4%

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	7.29 PV of Free Cash Flow	1,339 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	14.81 PV of Horizon value	1,301 WACC, %	8.9 Market risk premium, %
Share price potential, %	103.2 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	16.3 Marketable securities	1,067 Minimum WACC, %	8.4 Equity beta coefficient
Minimum value	13.5 Debt - dividend	-1,809 Maximum WACC, %	9.4 Target debt ratio, %
Horizon value, %	49.3 Value of stock	1,898 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	3,116	3,213	3,341	3,458	3,527	3,597	3,669	3,743	3,817	3,894	3,972
<i>Sales growth, %</i>	<i>11.0</i>	<i>9.4</i>	<i>3.1</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	205	245	277	247	252	246	251	256	261	266
<i>EBIT margin, %</i>	<i>7.7</i>	<i>6.5</i>	<i>6.4</i>	<i>7.3</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	310	320	377	382	348	328	310	296	293	290	
- Income taxes	-89	-40	-41	-49	-55	-49	-50	-49	-50	-51	-52	
- Change in NWC	50	1	0	1	1	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-26.3</i>	<i>-24.0</i>	<i>-23.3</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>11.6</i>	<i>11.8</i>	<i>12.0</i>	<i>7.8</i>	<i>7.4</i>	<i>6.9</i>	<i>6.8</i>	<i>7.5</i>	<i>7.3</i>	<i>7.4</i>	<i>7.4</i>
- Other items	-103	-13	-13	-13	-13	-13	-13	-13	-13	-13	-13	
= Unlevered Free CF (FCF)	174	102	92	161	321	274	267	244	205	205	196	2,911
= Discounted FCF (DFCF)		98	81	130	239	187	168	141	108	100	88	1,301
= DFCF min WACC		98	81	132	243	191	172	145	112	104	92	1,465
= DFCF max WACC		98	80	129	235	183	164	137	105	96	84	1,161

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	641	718	807	684	2,850	673	806	889	748	3,116	3,213	3,341
EBITDA	87	131	191	104	513	60	143	218	93	513	525	622
<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>8.9</i>	<i>17.7</i>	<i>24.5</i>	<i>12.4</i>	<i>16.5</i>	<i>16.3</i>	<i>18.6</i>
EBIT	15	59	118	27	218	-16	65	140	15	203	205	245
<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>-2.4</i>	<i>8.0</i>	<i>15.7</i>	<i>2.0</i>	<i>6.5</i>	<i>6.4</i>	<i>7.3</i>
Net financial items	0	-70	-28	-31	-129	-31	-28	-27	-27	-113	-128	-140
Pre-tax profit	15	-11	90	-4	89	-47	37	113	-12	90	77	105
Tax	-3	4	-18	-9	-26	10	-7	-23	2	-18	-15	-21
<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>20.6</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>19.7</i>	<i>20.0</i>	<i>20.0</i>
Net profit	8	-10	70	-16	51	-41	26	87	-13	60	49	72
EPS	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.20	0.68	-0.10	0.47	0.38	0.56
EPS adjusted (diluted no. of shares)	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.20	0.68	-0.10	0.47	0.38	0.56
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	673	806	889	748	3,116	3,213	3,341
Total	641	718	807	684	2,850	673	806	889	748	3,116	3,213	3,341
SALES GROWTH, Y/Y %												
Group total	15.6	13.4	9.7	5.9	11.0	5.0	12.2	10.2	9.5	9.4	3.1	4.0
Total	15.6	13.4	9.7	5.9	11.0	5.0	12.2	10.2	9.5	9.4	3.1	4.0
EBIT, EURm												
Group total	15	59	118	27	218	-16	65	140	15	203	205	245
Total	15	59	118	27	218	-16	65	140	15	203	205	245
EBIT margin, %												
Group total	2.3	8.2	14.6	3.9	7.7	-2.4	8.0	15.7	2.0	6.5	6.4	7.3
Total	2.3	8.2	14.6	3.9	7.7	-2.4	8.0	15.7	2.0	6.5	6.4	7.3

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	2,285	2,255	2,317	2,568	2,850	3,116	3,213	3,341
<i>Sales growth (%)</i>	-4.8	-1.3	2.8	10.9	11.0	9.4	3.1	4.0
Costs	-2,187	-2,123	-2,156	-2,269	-2,337	-2,603	-2,688	-2,719
Reported EBITDA	98	132	161	300	513	513	525	622
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	16.5	16.3	18.6
Depreciation	-134	-108	-106	-129	-294	-310	-320	-377
EBITA	-36	24	55	170	218	203	205	245
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	-36	24	55	170	218	203	205	245
<i>EBIT margin (%)</i>	-1.6	1.1	2.4	6.6	7.7	6.5	6.4	7.3
Net financials	-27	-8	-10	-14	-129	-113	-128	-140
Pre-tax profit	-63	15	45	157	89	90	77	105
Extraordinary items	0	-11	-1	-1	0	0	0	0
Taxes	13	-3	-9	-31	-26	-18	-15	-21
Minority shares	0	0	0	0	0	0	0	0
Net profit	-51	-18	19	112	51	60	49	72
BALANCE SHEET, EURm								
Assets								
Fixed assets	1,053	957	1,189	1,446	2,545	2,595	2,655	2,679
<i>% of sales</i>	46	42	51	56	89	83	83	80
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	132	136	141
<i>% of sales</i>	1	1	1	1	4	4	4	4
Receivables	358	364	512	460	210	225	230	237
<i>% of sales</i>	16	16	22	18	7	7	7	7
Liquid funds	426	708	814	965	1,067	1,167	1,203	1,251
<i>% of sales</i>	19	31	35	38	37	37	37	37
Total assets	1,885	2,050	2,529	2,887	3,944	4,119	4,225	4,308
Liabilities								
Equity	514	727	857	1,016	918	943	954	980
<i>% of sales</i>	23	32	37	40	32	30	30	29
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	1,898	1,983	2,027
<i>% of sales</i>	19	15	31	28	62	61	62	61
Non-interest bearing current liabilities	601	682	519	566	285	312	322	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	4,119	4,225	4,308
CASH FLOW, EURm								
+ EBITDA	98	132	161	300	513	513	525	622
- Net financial items	-27	-8	-10	-14	-129	-113	-128	-140
- Taxes	0	0	33	-1	-52	-18	-15	-21
- Increase in Net Working Capital	-33	43	56	57	50	1	0	1
+/- Other	-15	5	-19	40	1	-13	-13	-13
= Cash flow from operations	23	171	220	382	383	371	369	449
- 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	11	-11	49
+/- Change in interest-bearing debt	-165	-81	372	1	1,056	124	85	44
+/- 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	100	36	48

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	694	516	1,643	908	934	934	934
Net debt	-362	-96	-246	707	731	780	776
Enterprise value	332	420	1,397	1,615	1,665	1,714	1,710
Sales	2,255	2,317	2,568	2,850	3,116	3,213	3,341
EBITDA	132	161	300	513	513	525	622
EBIT	24	55	170	218	203	205	245
Pre-tax	15	45	157	89	90	77	105
Earnings	-6	21	113	51	60	49	72
Book value	727	857	1,016	918	943	954	980
Valuation multiples							
EV/sales	0.1	0.2	0.5	0.6	0.5	0.5	0.5
EV/EBITDA	2.5	2.6	4.7	3.2	3.2	3.3	2.7
EV/EBITA	14.0	7.6	8.2	7.4	8.2	8.4	7.0
EV/EBIT	14.0	7.6	8.2	7.4	8.2	8.4	7.0
EV/operating cash flow	1.9	1.9	3.7	4.2	3.5	3.5	3.0
EV/cash earnings	2.3	2.3	4.7	4.9	4.4	4.5	3.7
P/E	-107.2	24.9	14.6	17.7	15.6	19.2	13.1
P/E excl. goodwill	-107.2	24.9	14.6	17.7	15.6	19.2	13.1
P/B	1.0	0.6	1.6	1.0	1.0	1.0	1.0
P/sales	0.3	0.2	0.6	0.3	0.3	0.3	0.3
P/CF	4.1	2.4	4.3	2.4	2.0	1.9	1.6
Target EV/EBIT	0.0	0.0	0.0	0.0	8.6	8.8	7.3
Target P/E	0.0	0.0	0.0	0.0	17.1	21.0	14.3
Target P/B	0.0	0.0	0.0	0.0	1.1	1.1	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	0.47	0.38	0.56
EPS excl. goodwill	-0.05	0.16	0.88	0.40	0.47	0.38	0.56
Cash EPS	1.13	1.43	2.31	2.59	2.99	2.98	3.60
Operating cash flow per share	1.33	1.71	2.98	2.99	3.70	3.78	4.48
Capital employed per share	2.83	5.92	5.99	12.68	13.07	13.53	13.71
Book value per share	5.68	6.69	7.93	7.17	7.36	7.44	7.65
Book value excl. goodwill	5.68	6.69	7.93	7.17	7.36	7.44	7.65
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	64.0	92.0	71.6
Dividend yield, %	0.0	2.5	2.3	3.9	4.1	4.8	5.5
Efficiency measures							
ROE	-1.0	2.6	12.0	5.3	6.5	5.1	7.4
ROCE	2.4	4.2	10.3	9.9	7.4	7.1	8.2
Financial ratios							
Capex/sales, %	-16.3	14.4	9.2	3.7	11.6	11.8	12.0
Capex/depreciation excl. goodwill,%	-339.6	314.7	183.2	35.9	116.2	118.8	106.2
Net debt/EBITDA, book-weighted	-2.7	-0.6	-0.8	1.4	1.4	1.5	1.2
Debt/equity, market-weighted	0.5	1.4	0.4	2.0	2.0	2.1	2.2
Equity ratio, book-weighted	40.6	37.8	39.1	25.4	25.0	24.7	24.9
Gearing	-0.50	-0.11	-0.24	0.77	0.77	0.82	0.79
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	521.347	55.8%
The Local Government Pensions Institution	6,250,875	45.569	4.9%
Ilmarinen Mutual Pension Insurance Company	2,744,025	20.004	2.1%
The State Pension Fund	2,150,000	15.673	1.7%
Oy Etra Invest Ab	1,700,000	12.393	1.3%
Veritas Pension Insurance Company Ltd.	1,000,000	7.290	0.8%
Laakkonen Mikko Kalervo	830,028	6.051	0.6%
Ten largest	86,190,354	628.328	67%
Residual	41,945,761	305.785	33%
Total	128,136,115	934.112	100%

EARNINGS CALENDAR

July 17, 2019

Q2 report

October 22, 2019

Q3 report

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

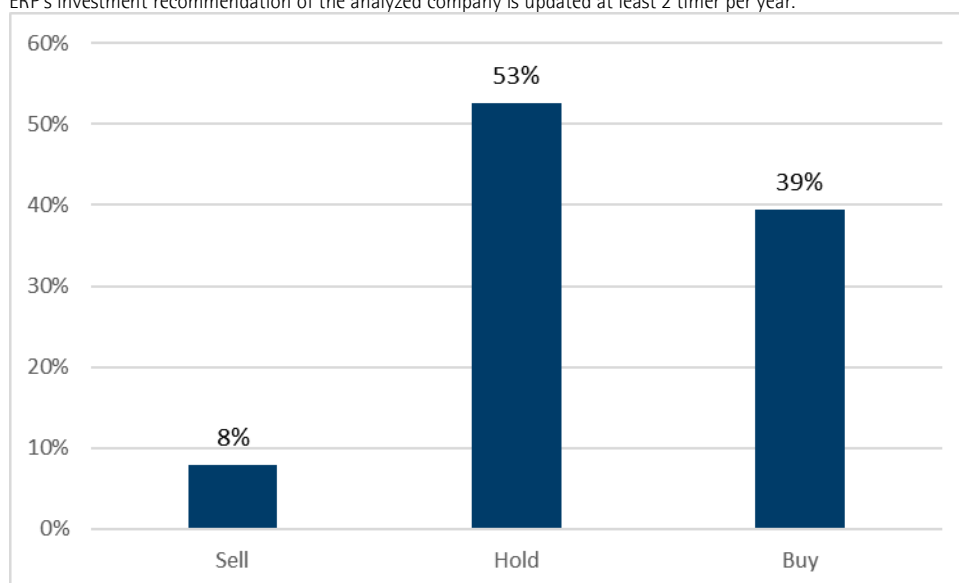
Important Disclosures

Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at <https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3>

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.



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

This research report has been prepared by Evli Research Partners Plc ("ERP" or "Evli Research"). ERP is a subsidiary of Evli Bank Plc. Production of the investment recommendation has been concluded on [10.7.2019, 8:30]. This report has been published on [10.7.2019, 8:50].

None of the analysts contributing to this report, persons under their guardianship or corporations under their control have a position in the shares of the company or related securities.

The date and time for any price of financial instruments mentioned in the recommendation refer to the previous trading day's closing price(s) unless otherwise stated in the report.

Each analyst responsible for the content of this report assures that the expressed views accurately reflect the personal views of each analyst on the covered companies and securities. Each analyst assures that (s)he has not been, nor are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

Companies in the Evli Group, affiliates or staff of companies in the Evli Group, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

Neither ERP nor any company within the Evli Group have managed or co-managed a public offering of the company's securities during the last 12 months prior to, received compensation for investment banking services from the company during the last 12 months prior to the publication of the research report.

ERP has signed an agreement with the issuer of the financial instruments mentioned in the recommendation, which includes production of research reports. This assignment has a limited economic and financial impact on ERP and/or Evli. Under the assignment ERP performs services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP or another company within the Evli Group does not have an agreement with the company to perform market making or liquidity providing services. months prior to, received compensation for investment banking services from the company during the last 12 months prior to the publication of the.

For the prevention and avoidance of conflicts of interests with respect to this report, there is an information barrier (Chinese wall) between Investment Research and Corporate Finance units concerning unpublished investment banking services to the company. The remuneration of the analyst(s) is not tied directly or indirectly to investment banking transactions or other services performed by Evli Bank Plc or any company within Evli Group.

This report has not been disclosed to the company prior to its dissemination.

This report is provided and intended for informational purposes only and may not be used or considered under any circumstances as an offer to sell or buy any securities or as advice to trade any securities.

This report is based on sources ERP considers to be correct and reliable. The sources include information providers Reuters and Bloomberg, stock-exchange releases from the companies and other company news, Statistics Finland and articles in newspapers and magazines. However, ERP does not guarantee the materialization, correctness, accuracy or completeness of the information, opinions, estimates or forecasts expressed or implied in the report. In addition, circumstantial changes may have an influence on opinions and estimates presented in this report. The opinions and estimates presented are valid at the moment of their publication and they can be changed without a separate announcement. Neither ERP nor any company within the Evli Group are responsible for amending, correcting or updating any information, opinions or estimates contained in this report. Neither ERP nor any company within the Evli Group will compensate any direct or consequential loss caused by or derived from the use of the information represented in this publication.

All information published in this report is for the original recipient's private and internal use only. ERP reserves all rights to the report. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, or stored in any retrieval system of any nature, without the written permission of ERP.

This report or its copy may not be published or distributed in Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or South Africa. The publication or distribution of this report in certain other jurisdictions may also be restricted by law. Persons into whose possession this report comes are required to inform themselves about and to observe any such restrictions.

Evli Bank Plc is not registered as a broker-dealer with the U. S. Securities and Exchange Commission ("SEC"), and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Evli Bank is not a member of the Financial Industry Regulatory Authority ("FINRA"). It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest. This research report is only being offered in U.S. by Auerbach Grayson & Company, LLC (Auerbach Grayson) to Major U.S. Institutional Investors and is not available to, and should not be used by, any U.S. person or entity that is not a Major U.S. Institutional Investor. Auerbach Grayson is a broker-dealer registered with the U.S. Securities and Exchange Commission and is a member of the FINRA. U.S. entities seeking more information about any of the issuers or securities discussed in this report should contact Auerbach Grayson. The securities of non-U.S. issuers may not be registered with or subject to SEC reporting and other requirements.

ERP is not a supervised entity but its parent company Evli Bank Plc is supervised by the Finnish Financial Supervision Authority.

Contact information**SALES, TRADING AND RESEARCH****Equity Sales**

Ari Laine +358 9 4766 9115
Lauri Ahokanto +358 9 4766 9117
Niclas Henelius +358 9 4766 9116

Trading

Lauri Vehkaluoto (Head) +358 9 4766 9130
Pasi Väisänen +358 9 4766 9120
Antti Kässi +358 9 4766 9120

ETFs and Derivatives

Tobias Björk (Head) +358 9 4766 9130
Joachim Dannberg +358 9 4766 9123
Kimmo Lijja +358 9 4766 9130
Sami Järvinen +358 9 4766 9110

Structured Investments

Heikki Savijoki +358 9 4766 9726
Aki Lakkisto +358 9 4766 9123

Equity Research

Jonas Forslund +358 9 4766 9314
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149
Anna-Liisa Rissanen +358 40 157 9919

Evli Investment Solutions

Johannes Asuja +358 9 4766 9205
Markku Reinikainen +358 9 4766 9669



EVLI BANK PLC
Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail firstname.lastname@evli.com

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001