

Weaker 19E profitability expectations

Finnair's Q2 profitability fell short of expectations. The company issued new FY19E guidance for profitability. Global market uncertainties and weaker outlook for cargo business are likely to impact H2'19. We have cut our 19E-20E adj. EBIT estimates after Q2 result. Despite of the sizeable drop in share price we do not see valuation being particularly attractive considering the weakening profitability trend. Hence, we retain "HOLD" with TP of EUR 7.4 (prev. 8.0).

FY19E outlook remains volatile

Finnair expects EBIT% of 4.5%-6.0% for 2019E, which is clearly weaker than 2018 EBIT% of 7.7%. Increased fuel costs and high irregular maintenance costs in Q2 as well as weak profitability Q1 are burdening profitability expectations for FY19E. The operating environment is expected to remain volatile and continued uncertainties in global trade, such as Brexit and US-China trade talks could have an impact on air travel and cargo.

Good capacity growth in 2019E

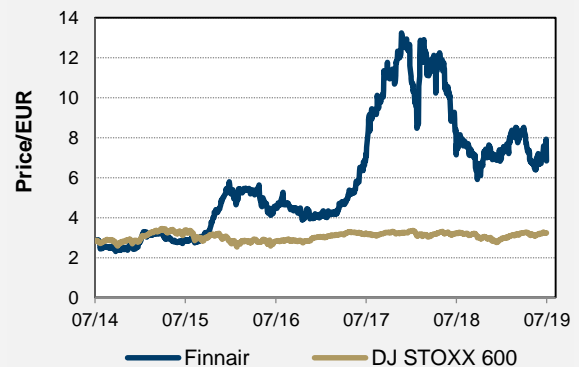
Finnair's capacity growth in Q2 (+14.8%) was good and the company strengthened its market share in both Asia and Europe. Finnair updated its guidance for 19E capacity growth as the new route to Beijing's Daxing International Airport will be opened in early November. The company expects capacity growth to be 11%-12% (previously 10%) and revenue growth slightly below that in 2019E. Our capacity growth estimate is 11%, while we expect revenue to grow 9% in 2019E.

"HOLD" with TP of EUR 7.4 (prev. 8.0)

As a result of updated FY19E guidance and weak H1 profitability we have decreased our 2019E EBIT expectation from EUR 203m to EUR 181m resulting EBIT% of 5.8% (prev. 6.5%). We see revenue of EUR 3104m for 2019E. Considering the weakening profitability trend and market outlook uncertainties we do not see valuation being particularly attractive for 2019E-2020E. With our new TP of EUR 7.4 (prev. 8.0) Finnair trades on our estimates at its 3yr historical average NTM EV/EBITDA of 3.4x. We retain our rating "HOLD".

Rating

■ HOLD



Share price, EUR (Last trading day's closing price) 6.83

Target price, EUR 7.4

Latest change in 13-Nov-17

Latest report on company 10-Jul-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 875

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 22-Oct-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	3,104	181	5.8%	87	0.45	15.3	0.5	1.9	8.9	0.30
2020E	3,202	189	5.9%	91	0.47	14.6	0.5	1.9	8.7	0.35
2021E	3,330	218	6.5%	116	0.63	10.9	0.5	1.6	7.5	0.40
Market cap, EURm	875		BV per share 2019E, EUR		7.3		CAGR EPS 2018-21, %		16.3	
Net debt 2019E, EURm	733		Price/book 2019E		0.9		CAGR sales 2018-21, %		5.3	
Enterprise value, EURm	1,608		Dividend yield 2019E, %		4.4		ROE 2019E, %		6.2	
Total assets 2019E, EURm	4,113		Tax rate 2019E, %		19.7		ROCE 2019E, %		6.5	
Goodwill 2019E, EURm	0		Equity ratio 2019E, %		25.0		PEG, P/E 19/CAGR		0.5	

Estimates

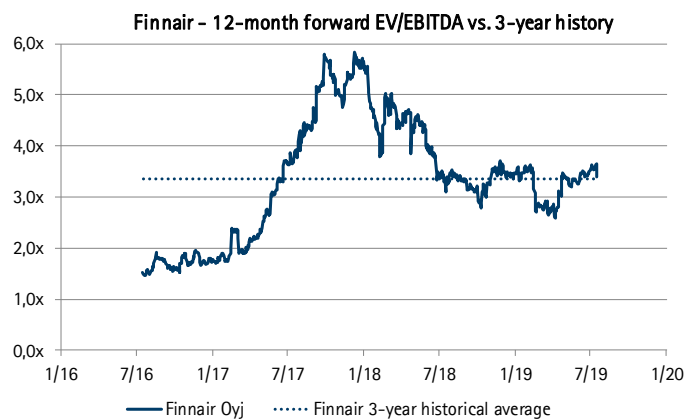
Finnair expects 2019E capacity growth of 11-12% in 2019E (14.8% in 2018) which is higher than the previous guidance of 10%. This is mainly impacted by the new route to Beijing's Daxing International Airport which will be opened in early November. Revenue growth is expected to be slightly below capacity growth in 2019E. We expect capacity growth of 11% and revenue growth of 9% for 2019E. We have slightly cut our 2019E revenue estimate to EUR 3104m (prev. estimate EUR 3116m). We have kept our cost estimates largely intact as Q2 costs were partly impacted by high irregular maintenance costs. Due to Finnair's updated guidance for FY19E we have cut our FY19E EBIT expectation to EUR 181m (prev. estimate EUR 203m) resulting EBIT% of 5.8% (prev. estimate 6.5%).

FINNAIR EURm	2015 FY	2016 FY	2017 FY	2018 FY	2019E Q1	2019E Q2	2019E Q3	2019E Q4	2019E FY
Passenger transportation									
Passenger revenue	1766	1816	2021	2244	517	645	719	573	2454
<i>y/y change</i>	7,7 %	2,8 %	11,3 %	11,1 %	6,7 %	11,8 %	10,3 %	8,0 %	9,4 %
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 %	14,8 %	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 %	14,8 %	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	793	889	748	3104
YoY change	-1 %	3 %	11 %	11 %	5 %	10 %	10 %	9 %	9 %
Other income	85	76	77	74	15	13	18	18	64
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	-181	-187	-170	-683
<i>y/y change</i>	-10 %	-17 %	-4 %	23 %	14 %	24 %	15 %	17 %	18 %
<i>% of revenue</i>	26 %	21 %	18 %	20 %	22 %	23 %	21 %	23 %	22 %
Other OPEX	-1160	-1268	-1314	-1330	-353	-363	-377	-367	-1460
<i>y/y change</i>	3 %	9 %	4 %	1 %	9 %	11 %	9 %	10 %	10 %
<i>% of revenue</i>	51 %	55 %	51 %	47 %	52 %	46 %	42 %	49 %	47 %
Comparable EBITDA	132	161	300	513	60	126	213	93	492
Depreciation	-108	-106	-129	-294	-76	-79	-78	-78	-311
Comparable EBIT	24	55	171	218	-16	47	135	15	181
Comp. EBIT-%	1,0 %	2,4 %	6,6 %	7,7 %	-2,4 %	5,9 %	15,2 %	2,0 %	5,8 %
IAC & fair value changes	98	61	54	38	0	0	0	0	0
EBIT	122	116	225	256	-16	47	135	15	181

Sources: Finnair, Evli estimates

Finnair valuation vs. peers

Our model treats Finnair's EUR 200m hybrid bond as 100% equity. Our estimates exclude IAC and fair value changes, but include hybrid interest. On our estimates, Finnair trades at EV/EBIT multiple of 8.9x and 8.7x and EV/EBITDA multiple of 3.3x and 3.2x in 19E-20E, which translates into 5-20% premium compared to the peer group. Our new target price of EUR 7.4 (prev. 8.0) values the shares at Finnair's 3yr historical average NTM EV/EBITDA (3.4x) on our FY19E estimates.



Source: Factset

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	5100	5,6x	4,3x	3,8x	19,2x	10,4x	8,5x	16,8x	4,9x	3,7x	0,8x	0,7x	0,6x
International Consolidated Airlines Group S	9183	2,7x	2,7x	2,5x	4,4x	4,4x	4,0x	5,0x	4,7x	4,2x	1,5x	1,3x	1,1x
Air France-KLM SA	3786	2,7x	2,4x	2,1x	8,6x	7,3x	6,0x	6,3x	5,4x	4,5x	1,6x	1,3x	1,0x
Deutsche Lufthansa AG	7185	3,0x	2,6x	2,5x	6,4x	5,4x	4,8x	5,0x	3,9x	3,6x	0,7x	0,6x	0,5x
Norwegian Air Shuttle ASA	6232	10,4x	9,0x	7,9x	99,2x	34,0x	22,9x			16,9x	1,8x	2,1x	1,7x
Other European peers													
Aegean Airlines SA	583	1,5x	1,4x	1,3x	3,3x	3,1x	2,8x	8,9x	8,1x	7,4x	2,0x	1,8x	1,7x
easyJet plc	4094	4,6x	4,7x	4,1x	9,3x	9,0x	7,6x	12,2x	10,8x	9,3x	1,2x	1,1x	1,1x
Flybe Group PLC													
Ryanair Holdings Plc	11906	7,4x	6,4x	5,5x	13,1x	10,4x	8,8x	13,9x	10,7x	9,2x	2,1x	1,8x	1,6x
Wizz Air Holdings Plc	2601	3,9x	3,2x	2,6x	6,6x	5,3x	4,3x	14,8x	12,3x	10,1x	2,7x	2,2x	1,6x
North American peers													
American Airlines Group, Inc.	14795	6,5x	6,0x	5,4x	10,0x	9,2x	8,3x	6,4x	5,8x	5,1x	8,5x	3,9x	2,4x
Delta Air Lines, Inc.	40475	5,3x	5,0x	4,8x	7,6x	7,3x	6,9x	8,8x	8,3x	7,7x	2,6x	2,1x	1,8x
JetBlue Airways Corporation	5742	5,1x	4,5x	4,0x	8,1x	7,0x	6,2x	9,6x	8,0x	7,1x	1,1x	0,9x	0,8x
Southwest Airlines Co.	28402	6,4x	5,6x	5,2x	9,0x	7,7x	7,1x	11,6x	9,9x	8,9x	2,3x	2,0x	1,6x
Spirit Airlines, Inc.	3466	6,0x	5,5x	4,3x	8,2x	7,7x	6,1x	8,8x	8,1x	7,1x	1,5x	1,2x	1,0x
WestJet	3502	5,7x	5,0x	3,7x	19,5x	14,0x	9,0x	24,3x	16,8x	10,6x	1,5x	1,4x	
Primary European peers median		3,0x	2,7x	2,5x	8,6x	7,3x	6,0x	5,7x	4,8x	4,2x	1,5x	1,3x	1,0x
Finnair (Evli est)*		3,3x	3,2x	2,7x	8,9x	8,7x	7,5x	15,3x	14,6x	10,9x	0,9x	0,9x	0,9x
<i>Finnair discount/premium to primary peer group median*</i>		11 %	19 %	11 %	3 %	18 %	26 %	169 %	203 %	158 %	-38 %	-28 %	-16 %

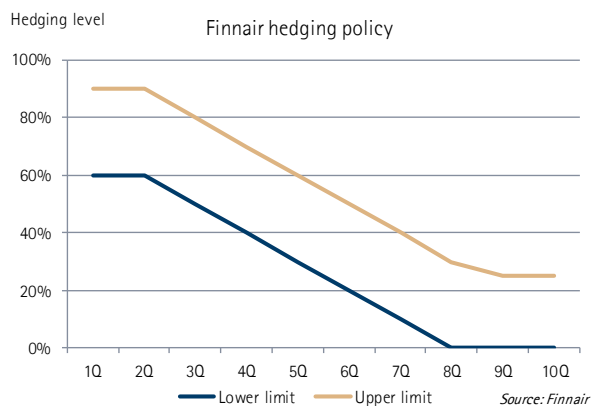
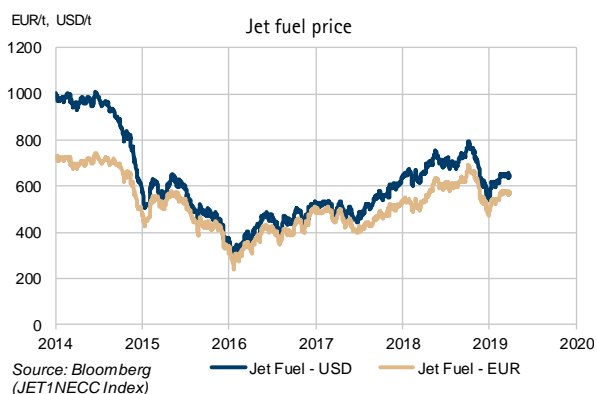
FINNAIR PEER GROUP	Ticker	Div yield 19	Div yield 20	Div yield 21	EBIT-% 19	EBIT-% 20	EBIT-% 21	ROCE-% 19	ROCE-% 20	ROCE-% 21	ROE-% 19	ROE-% 20	ROE-% 21
Primary European peers													
SAS AB	SAS-SE	0,1%	0,0%	0,0%	2,1%	4,6%	5,4%	4,1%	8,4%	9,4%	4,8%	13,7%	15,3%
International Consolidated Airlines Group S	IAG-GB	6,0%	5,7%	6,3%	12,8%	12,8%	13,3%	16,2%	16,1%	16,6%	29,8%	26,8%	26,5%
Air France-KLM SA	AF-FR	0,2%	0,7%	0,9%	4,6%	4,8%	5,4%	7,2%	7,6%	8,2%	25,8%	24,0%	23,3%
Deutsche Lufthansa AG	LHA-DE	5,0%	5,7%	6,3%	6,0%	6,8%	7,4%	9,2%	10,2%	10,5%	13,6%	15,3%	15,2%
Norwegian Air Shuttle ASA	NAS-NO	0,0%	0,2%	0,5%	1,6%	4,7%	6,7%	1,1%	3,1%	4,5%	-56,9%	-12,4%	10,1%
Other European peers													
Aegean Airlines SA	AEGN-GR	6,7%	6,8%	7,4%	8,7%	9,2%	9,9%	13,8%	14,8%	15,9%	22,4%	22,3%	22,4%
easyJet plc	EZJ-GB	4,3%	4,7%	5,6%	7,2%	7,5%	8,3%	8,8%	8,9%	9,7%	9,9%	10,6%	11,5%
Flybe Group PLC	FLYB-GB												
Ryanair Holdings Plc	RY4C-IE	0,6%	0,6%	0,8%	11,7%	13,7%	14,3%	10,7%	12,4%	13,0%	15,2%	16,6%	17,0%
Wizz Air Holdings Plc	WIZZ-GB	0,0%	0,0%	0,0%	14,8%	15,6%	16,8%	13,8%	14,2%	14,7%	18,0%	17,4%	16,4%
North American peers													
American Airlines Group, Inc.	AAL-US	1,2%	1,2%	1,2%	8,2%	8,2%	8,2%	8,6%	8,8%	9,5%	133,4%	67,3%	47,9%
Delta Air Lines, Inc.	DAL-US	2,5%	2,7%	3,0%	14,1%	13,4%	13,4%	14,9%	14,1%	13,9%	30,2%	25,6%	22,9%
JetBlue Airways Corporation	JBLU-US	0,0%	4,4%	0,0%	10,7%	11,6%	11,9%	9,9%	10,5%	10,9%	11,1%	11,7%	10,9%
Southwest Airlines Co.	LUV-US	1,3%	1,4%	1,6%	13,9%	14,4%	14,3%	17,3%	18,5%	21,0%	20,0%	20,1%	18,2%
Spirit Airlines, Inc.	SAVE-US	0,0%	1,6%	0,0%	14,9%	13,9%	14,1%	10,9%	10,3%	9,8%	17,1%	15,3%	14,3%
WestJet	WJA-CA				5,0%	6,4%	8,5%	4,8%	6,7%		6,2%	8,3%	
Primary European peers median		0,2%	0,7%	0,9%	4,6%	4,8%	6,7%	7,2 %	8,4 %	9,4 %	13,6%	15,3%	15,3%
Finnair (Evli est)*	FIA1S-FI	4,4%	5,1%	5,9%	5,8%	5,9%	6,5%	6,5 %	6,6 %	7,3 %	6,2%	6,3%	8,2%

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.

Fuel Price

The average hedged jet fuel price has increased in H1'19 and total fuel costs including hedging increased by 24% y/y in Q2. 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.



VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	6.83 PV of Free Cash Flow	1,293 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	14.43 PV of Horizon value	1,298 WACC, %	8.9 Market risk premium, %
Share price potential, %	111.3 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	15.9 Marketable securities	1,067 Minimum WACC, %	8.4 Equity beta coefficient
Minimum value	13.1 Debt - dividend	-1,809 Maximum WACC, %	9.4 Target debt ratio, %
Horizon value, %	50.1 Value of stock	1,849 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	3,104	3,202	3,330	3,446	3,515	3,585	3,657	3,730	3,805	3,881	3,958
<i>Sales growth, %</i>	<i>11.0</i>	<i>8.9</i>	<i>3.2</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	181	189	218	276	246	251	245	250	255	260	265
<i>EBIT margin, %</i>	<i>7.7</i>	<i>5.8</i>	<i>5.9</i>	<i>6.5</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	311	320	377	382	348	328	310	296	292	290	
- Income taxes	-89	-36	-38	-44	-55	-49	-50	-49	-50	-51	-52	
- Change in NWC	50	1	0	1	0	0	0	0	0	0	0	
<i>NWC/Sales, %</i>	<i>-26.3</i>	<i>-24.1</i>	<i>-23.4</i>	<i>-22.5</i>	<i>-21.8</i>	<i>-21.4</i>	<i>-21.0</i>	<i>-20.6</i>	<i>-20.2</i>	<i>-19.8</i>	<i>-19.4</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>11.9</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>7.4</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	84	79	139	321	273	266	244	204	204	195	2,900
= Discounted FCF (DFCF)		81	70	113	239	187	168	141	108	99	87	1,298
= DFCF min WACC		81	70	114	243	191	172	145	112	103	91	1,463
= DFCF max WACC		81	70	111	235	183	163	137	105	96	84	1,159

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	641	718	807	684	2,850	673	793	889	748	3,104	3,202	3,330
EBITDA	87	131	191	104	513	60	126	213	93	492	509	594
<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>15.9</i>	<i>24.0</i>	<i>12.4</i>	<i>15.8</i>	<i>15.9</i>	<i>17.9</i>
EBIT	15	59	118	27	218	-16	47	135	15	181	189	218
<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>5.9</i>	<i>15.2</i>	<i>2.0</i>	<i>5.8</i>	<i>5.9</i>	<i>6.5</i>
Net financial items	0	-70	-28	-31	-129	-31	-9	-27	-27	-94	-99	-101
Pre-tax profit	15	-11	90	-4	89	-47	38	108	-12	87	91	116
Tax	-3	4	-18	-9	-26	10	-8	-22	2	-17	-18	-23
<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	27	83	-13	57	60	81
EPS	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.21	0.65	-0.10	0.45	0.47	0.63
EPS adjusted (diluted no. of shares)	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.21	0.65	-0.10	0.45	0.47	0.63
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	793	889	748	3,104	3,202	3,330
Total	641	718	807	684	2,850	673	793	889	748	3,104	3,202	3,330
SALES GROWTH, Y/Y %												
Group total	15.6	13.4	9.7	5.9	11.0	5.0	10.5	10.2	9.5	8.9	3.2	4.0
Total	15.6	13.4	9.7	5.9	11.0	5.0	10.5	10.2	9.5	8.9	3.2	4.0
EBIT, EURm												
Group total	15	59	118	27	218	-16	47	135	15	181	189	218
Total	15	59	118	27	218	-16	47	135	15	181	189	218
EBIT margin, %												
Group total	2.3	8.2	14.6	3.9	7.7	-2.4	5.9	15.2	2.0	5.8	5.9	6.5
Total	2.3	8.2	14.6	3.9	7.7	-2.4	5.9	15.2	2.0	5.8	5.9	6.5

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	2,285	2,255	2,317	2,568	2,850	3,104	3,202	3,330
<i>Sales growth (%)</i>	-4.8	-1.3	2.8	10.9	11.0	8.9	3.2	4.0
Costs	-2,187	-2,123	-2,156	-2,269	-2,337	-2,612	-2,693	-2,735
Reported EBITDA	98	132	161	300	513	492	509	594
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	15.8	15.9	17.9
Depreciation	-134	-108	-106	-129	-294	-311	-320	-377
EBITA	-36	24	55	170	218	181	189	218
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	-36	24	55	170	218	181	189	218
<i>EBIT margin (%)</i>	-1.6	1.1	2.4	6.6	7.7	5.8	5.9	6.5
Net financials	-27	-8	-10	-14	-129	-94	-99	-101
Pre-tax profit	-63	15	45	157	89	87	91	116
Extraordinary items	0	-11	-1	-1	0	0	0	0
Taxes	13	-3	-9	-31	-26	-17	-18	-23
Minority shares	0	0	0	0	0	0	0	0
Net profit	-51	-18	19	112	51	57	60	81
BALANCE SHEET, EURm								
Assets								
Fixed assets	1,053	957	1,189	1,446	2,545	2,595	2,655	2,678
<i>% of sales</i>	46	42	51	56	89	84	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	131	136	141
<i>% of sales</i>	1	1	1	1	4	4	4	4
Receivables	358	364	512	460	210	224	229	236
<i>% of sales</i>	16	16	22	18	7	7	7	7
Liquid funds	426	708	814	965	1,067	1,163	1,199	1,247
<i>% of sales</i>	19	31	35	38	37	37	37	37
Total assets	1,885	2,050	2,529	2,887	3,944	4,113	4,219	4,302
Liabilities								
Equity	514	727	857	1,016	918	941	962	998
<i>% of sales</i>	23	32	37	40	32	30	30	30
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	1,896	1,970	2,005
<i>% of sales</i>	19	15	31	28	62	61	62	60
Non-interest bearing current liabilities	601	682	519	566	285	311	321	333
<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	4,113	4,219	4,302
CASH FLOW, EURm								
+ EBITDA	98	132	161	300	513	492	509	594
- Net financial items	-27	-8	-10	-14	-129	-94	-99	-101
- Taxes	0	0	33	-1	-52	-17	-18	-23
- 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	369	380	458
- 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	9	0	58
+/- Change in interest-bearing debt	-165	-81	372	1	1,056	121	75	35
+/- 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	95	37	48

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	694	516	1,643	908	875	875	875
Net debt	-362	-96	-246	707	733	771	758
Enterprise value	332	420	1,397	1,615	1,608	1,646	1,633
Sales	2,255	2,317	2,568	2,850	3,104	3,202	3,330
EBITDA	132	161	300	513	492	509	594
EBIT	24	55	170	218	181	189	218
Pre-tax	15	45	157	89	87	91	116
Earnings	-6	21	113	51	57	60	81
Book value	727	857	1,016	918	941	962	998
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	3.3	3.2	2.7
EV/EBITA	14.0	7.6	8.2	7.4	8.9	8.7	7.5
EV/EBIT	14.0	7.6	8.2	7.4	8.9	8.7	7.5
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	4.2	4.2	3.5
P/E	-107.2	24.9	14.6	17.7	15.3	14.6	10.9
P/E excl. goodwill	-107.2	24.9	14.6	17.7	15.3	14.6	10.9
P/B	1.0	0.6	1.6	1.0	0.9	0.9	0.9
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	1.9	1.9	1.6
Target EV/EBIT	0.0	0.0	0.0	0.0	9.3	9.1	7.8
Target P/E	0.0	0.0	0.0	0.0	16.6	15.8	11.8
Target P/B	0.0	0.0	0.0	0.0	1.0	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	0.45	0.47	0.63
EPS excl. goodwill	-0.05	0.16	0.88	0.40	0.45	0.47	0.63
Cash EPS	1.13	1.43	2.31	2.59	2.97	3.06	3.67
Operating cash flow per share	1.33	1.71	2.98	2.99	3.57	3.68	4.30
Capital employed per share	2.83	5.92	5.99	12.68	13.06	13.53	13.70
Book value per share	5.68	6.69	7.93	7.17	7.34	7.51	7.79
Book value excl. goodwill	5.68	6.69	7.93	7.17	7.34	7.51	7.79
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	67.2	74.8	63.6
Dividend yield, %	0.0	2.5	2.3	3.9	4.4	5.1	5.9
Efficiency measures							
ROE	-1.0	2.6	12.0	5.3	6.2	6.3	8.2
ROCE	2.4	4.2	10.3	9.9	6.5	6.6	7.3
Financial ratios							
Capex/sales, %	-16.3	14.4	9.2	3.7	11.6	11.9	12.0
Capex/depreciation excl. goodwill,%	-339.6	314.7	183.2	35.9	115.9	118.8	106.2
Net debt/EBITDA, book-weighted	-2.7	-0.6	-0.8	1.4	1.5	1.5	1.3
Debt/equity, market-weighted	0.5	1.4	0.4	2.0	2.2	2.3	2.3
Equity ratio, book-weighted	40.6	37.8	39.1	25.4	25.0	24.9	25.4
Gearing	-0.50	-0.11	-0.24	0.77	0.78	0.80	0.76
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	488.450	55.8%
The Local Government Pensions Institution	6,250,875	42.693	4.9%
Ilmarinen Mutual Pension Insurance Company	2,744,025	18.742	2.1%
The State Pension Fund	2,150,000	14.684	1.7%
Oy Etra Invest Ab	1,700,000	11.611	1.3%
Veritas Pension Insurance Company Ltd.	1,000,000	6.830	0.8%
Laakkonen Mikko Kalervo	830,028	5.669	0.6%
Ten largest	86,190,354	588.680	67%
Residual	41,945,761	286.490	33%
Total	128,136,115	875.170	100%

EARNINGS CALENDAR

October 22, 2019

Q3 report

OTHER EVENTS

March 20, 2018

AGM

COMPANY MISCELLANEOUS

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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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