

Weaker traffic, more expensive fuel

Finnair's traffic performance in July-September indicate Q3 revenue of EUR 801m. We expected EUR 814m while consensus was at EUR 816/817m. On the cost side fuel moved up further in Q3. We expect earnings to weaken in Q3 after 15 quarters of improvement and have cut FY18-19E adj. EBIT estimates by ~10%.

Q3 traffic: capacity growth in line, PLF below our estimates
 Finnair's capacity (ASK) continued double-digit growth in Q3 at +14% and was close to our +15% expectation. Sold capacity (RPK), however, grew somewhat less than we expected at +11% vs. +14% our expectation and hence passenger load factor (PLF) came in below our estimate at 84.5% vs. 86.5%. Unit revenue (RASK) declined by 4.6%, ie. at about the same rate as in H1 and what we expected in Q3. Overall, Jul-Sep traffic and revenue came in slightly below our expectations driven by weaker PLF.

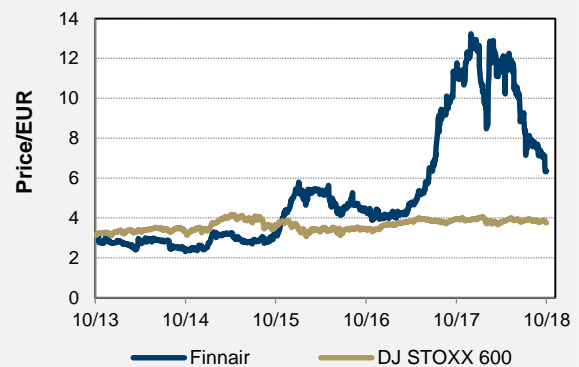
Fuel moved up and reached multi-year high at end of Q3

Jet fuel moved up further in Q3. Average price increased by +1% in USD and by +4% in EUR compared to average price of Q2. Average price for Q3 was ~37% higher than last year in USD and ~39% higher in EUR. Fuel reached new multi-year high at the end of Q3. We foresee EUR 60m+ negative earnings impact from higher fuel price in 2018E (incl. FX and hedges but excl. impact of capacity growth), assuming price remains at the average level of Q3 for the remainder of the year.

Estimates cut

Finnair has improved its adj. EBIT for 15 straight quarters, but we expect this trend to turn in Q3, due to higher fuel costs. We foresee Q3 adj. EBIT at EUR 102m vs. EUR 119m last year. Following estimate cuts our FY18-19E adj. EBIT estimates are down by ~10%. With lower estimates and somewhat lower multiples among peers, we cut TP to EUR 6.8 (8.0) and keep "Hold" intact ahead of Q3. We think valuation still does not look too attractive considering the weakening earnings trend.

Rating

■ HOLD


Share price, EUR (Last trading day's closing price) **6.35**
 Target price, EUR **6.8**

Latest change in recommendation 13-Nov-17
 Latest report on company 18-Jul-18
 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 814
 Free float, % 44.0
 Exchange rate EUR/USD 1.15
 Reuters code FIA1S.HE
 Bloomberg code FIA1S FH
 Average daily volume, EURm na.
 Next interim report 25-Oct-18
 Web site www.company.finnair.com

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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
2016	2,317	55	2.4%	45	0.16	24.9	0.2	2.4	7.6	0.10
2017	2,568	170	6.6%	157	0.88	14.6	0.5	4.3	8.2	0.30
2018E	2,854	159	5.6%	141	0.78	8.1	0.2	2.8	4.2	0.30
2019E	3,021	156	5.2%	136	0.75	8.5	0.2	2.8	4.7	0.30
2020E	3,131	175	5.6%	154	0.86	7.4	0.2	2.5	4.4	0.35
Market cap, EURm		814	BV per share 2018E, EUR			8.4	CAGR EPS 2017-20, %			-0.7
Net debt 2018E, EURm		-147	Price/book 2018E			0.8	CAGR sales 2017-20, %			6.8
Enterprise value, EURm		667	Dividend yield 2018E, %			4.7	ROE 2018E, %			9.6
Total assets 2018E, EURm		3,218	Tax rate 2018E, %			20.0	ROCE 2018E, %			8.5
Goodwill 2018E, EURm		0	Equity ratio 2018E, %			37.2	PEG, P/E 18/CAGR			0.7

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

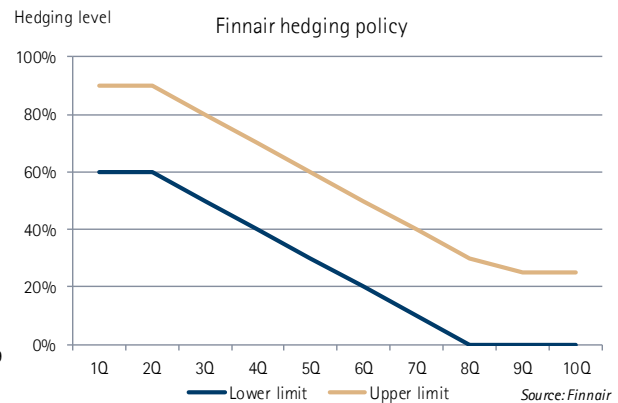
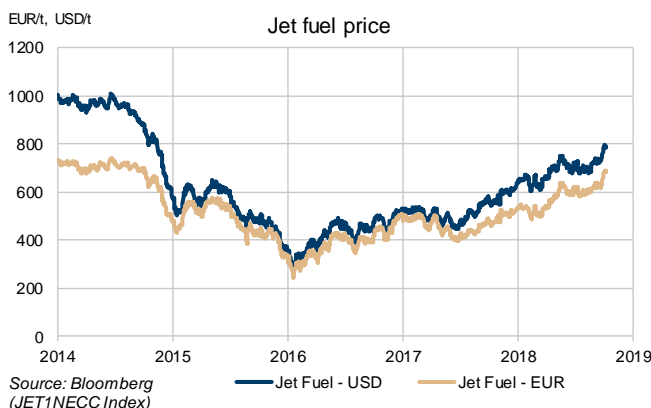
Operating model

FINNAIR	2015	2016	2017	2017	2017	2017	2017	2018	2018	2018E	2018E	2018E	2019E
EURm	FY	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	FY
Passengers (thousands)	10294	10866	2604	3070	3275	2956	11905	3018	3456	3731	3285	13489	14096
y/y change	7%	6%	4%	10%	10%	14%	10%	16%	13%	14%	11%	13%	4%
ASK (mkm)	31 836	33 914	8 128	9 095	10 093	9 607	36 922	9 666	10 718	11 528	10 696	42 608	44 525
y/y change	3%	7%	0%	7%	11%	17%	9%	19%	18%	14%	11%	15%	5%
RPK (mkm)	25 592	27 065	6 617	7 617	8 798	7 718	30 749	8 016	8 847	9 743	8 530	35 135	36 716
y/y change	3%	6%	3%	16%	15%	20%	14%	21%	16%	11%	11%	14%	4%
Load factor (RPK/ASK), PLF	80.4 %	79.8 %	81.4 %	83.7 %	87.2 %	80.3 %	83.3 %	82.9%	82.5%	84.5%	79.8%	82.5 %	82.5 %
y/y change	0.2%-p	-0.6%-p	2.6%-p	6.3%-p	2.9%-p	2.0%-p	3.5%-p	1.5%-p	-1.2%-p	-2.7%-p	-0.6%-p	-0.8%-p	0.0%-p
RASK (cents)	7.08	6.83	6.82	6.96	7.29	6.72	6.96	6.57	6.67	6.95	6.57	6.72	6.79
y/y change	13.7 %	-3.5 %	3.2 %	4.0 %	3.4 %	-3.3 %	1.8 %	-3.6 %	-4.2 %	-4.6 %	-2.2 %	-3.4 %	1.0 %
Total revenue	2255	2317	555	633	735	645	2569	635	715	801	702	2854	3021
YoY change	-1%	3%	3%	11%	15%	13%	11%	15%	13%	9%	9%	11%	6%
Other income	85	76	20	19	18	20	77	20	18	18	18	74	72
Staff costs	-353	-363	-91	-107	-113	-113	-423	-106	-116	-116	-116	-455	-471
y/y change	2%	3%	-2%	15%	29%	25%	17%	17%	8%	3%	3%	7%	3%
% of revenue	16%	16%	16%	17%	15%	18%	16%	17%	16%	15%	17%	16%	16%
Fuel	-596	-492	-112	-114	-124	-122	-472	-127	-145	-166	-159	-598	-690
y/y change	-10%	-17%	-8%	-9%	-4%	6%	-4%	14%	27%	34%	30%	27%	15%
% of revenue	26%	21%	20%	18%	17%	19%	18%	20%	20%	21%	23%	21%	23%
Other OPEX	-1160	-1268	-322	-328	-328	-336	-1314	-343	-349	-359	-364	-1415	-1457
y/y change	3%	9%	4%	5%	2%	3%	4%	6%	6%	10%	8%	8%	3%
% of revenue	51%	55%	58%	52%	45%	52%	51%	54%	49%	45%	52%	50%	48%
Comparable EBITDAR	231	270	50	103	189	94	436	79	123	177	81	460	476
Comp. EBITDAR-%	9.9 %	11.3 %	8.7 %	15.8 %	25.1 %	14.1 %	16.5 %	12.0 %	16.8 %	21.6 %	11.2 %	15.7 %	15.4 %
Lease payment for aircraft	-99	-110	-30	-35	-35	-36	-137	-39	-40	-40	-40	-157	-166
Comparable EBITDA	132	161	20	68	154	58	300	40	84	138	41	302	310
Depreciation	-108	-106	-29	-30	-35	-35	-129	-36	-36	-36	-37	-143	-154
Comparable EBIT	24	55	-9	37	119	23	171	4	48	102	5	159	156
Comp. EBIT-%	1.0 %	2.3 %	-1.5 %	5.7 %	15.8 %	3.4 %	6.4 %	0.6 %	6.6 %	12.5 %	0.7 %	5.4 %	5.0 %
IAC & fair value changes	98	61	-1	52	3	1	54	2	-8	0	0	-6	0
EBIT	122	116	-10	89	122	24	225	6	40	102	5	153	156

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. Our estimates exclude IAC and fair value changes, but include hybrid interest. If the EUR 200m hybrid bond is removed from equity, Finnair's P/B is 0.9x in FY18-19E. On our estimates Finnair generates ROCE of ~8% in FY18-19E, slightly below our WACC of 8.9%.

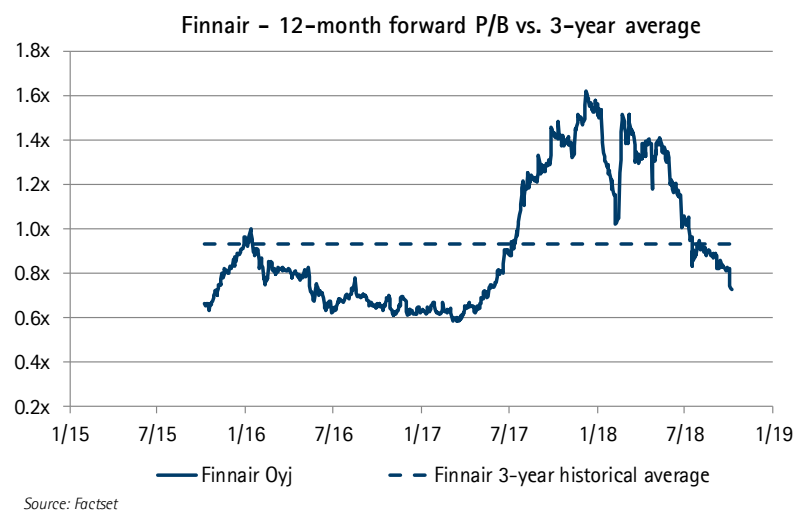
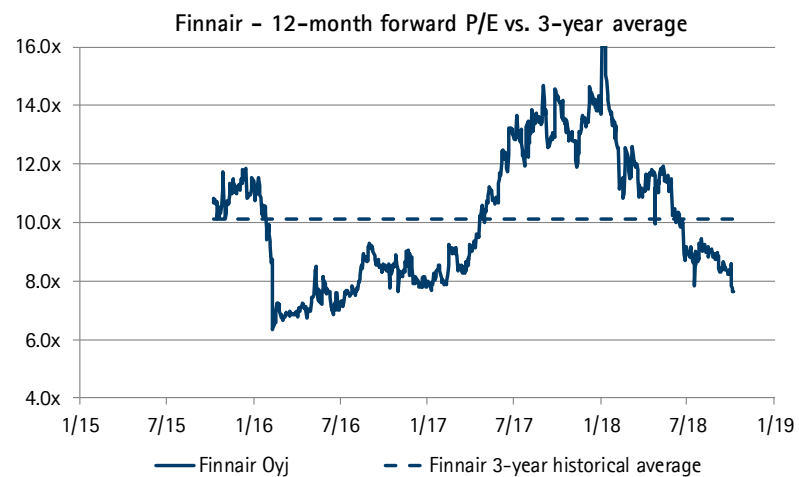
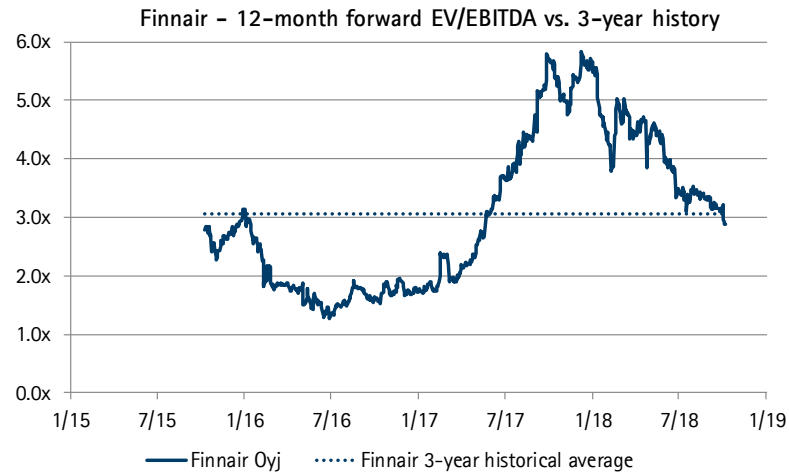
FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA	EV/EBITDA	EV/EBITDA	EV/EBIT	EV/EBIT	EV/EBIT	P/E	P/E	P/E	P/B	P/B	P/B
		18	19	20	18	19	20	18	19	20	18	19	20
Primary European peers													
SAS AB	7782	4.3x	4.6x	5.2x	7.2x	8.4x	9.8x	5.7x	6.7x	5.3x	1.0x	0.9x	0.8x
International Consolidated Airlines Group	12158	3.1x	2.9x	2.7x	4.3x	4.0x	3.8x	5.9x	5.7x	5.3x	1.6x	1.3x	1.2x
Air France-KLM SA	3775	2.4x	2.1x	1.9x	7.4x	6.2x	5.9x	6.4x	5.5x	5.0x	1.2x	1.0x	0.8x
Deutsche Lufthansa AG	9305	2.4x	2.5x	2.1x	4.1x	4.2x	3.6x	4.5x	4.4x	4.1x	0.8x	0.7x	0.6x
Norwegian Air Shuttle ASA	9605		35.9x	16.0x			44.5x				2.6x	3.8x	3.7x
Other European peers													
Aegean Airlines SA	496	2.1x	2.1x	2.5x	2.5x	2.6x	3.1x	8.1x	8.0x	7.2x	1.8x	1.7x	1.5x
easyJet plc	4795	6.2x	6.0x	6.0x	8.6x	8.5x	8.5x	10.3x	9.7x	9.4x	1.6x	1.5x	1.4x
Flybe Group PLC	72	3.4x	2.5x	1.9x	91.1x	12.8x	6.0x		10.8x	3.9x	0.8x	0.7x	0.7x
Ryanair Holdings Plc	13348	7.0x	6.6x	5.7x	10.3x	9.7x	8.2x	11.8x	10.9x	9.4x	2.7x	2.3x	1.9x
Wizz Air Holdings Plc	1815	2.0x	2.2x	2.0x	2.5x	3.0x	2.8x	11.4x	9.5x	7.8x	2.2x	1.5x	1.1x
North American peers													
American Airlines Group, Inc.	15450	6.8x	6.1x	5.5x	10.6x	9.1x	8.2x	7.5x	6.2x	5.3x	9.0x	3.9x	2.1x
Delta Air Lines, Inc.	35161	5.5x	4.7x	4.3x	7.9x	6.7x	6.2x	9.2x	7.9x	7.2x	2.4x	1.9x	1.6x
JetBlue Airways Corporation	5437	5.3x	4.8x	3.5x	9.2x	8.0x	5.6x	11.9x	10.3x	7.6x	1.1x	1.0x	0.8x
Southwest Airlines Co.	34089	7.9x	6.7x	6.1x	11.0x	9.1x	8.2x	14.4x	11.9x	10.7x	3.1x	2.6x	2.3x
Spirit Airlines, Inc.	2991	8.4x	7.2x	6.0x	13.0x	10.7x	8.8x	13.1x	10.4x	8.6x	1.5x	1.3x	1.2x
United Continental Holdings, Inc.	22198	5.6x	5.1x	4.5x	9.3x	8.4x	7.2x	9.9x	8.5x	6.9x	2.3x	1.9x	1.7x
WestJet	2124	7.1x	5.2x	4.0x	29.9x	13.7x	8.7x	27.8x	11.7x	8.3x	0.9x	0.9x	0.8x
Primary European peers median		2.7x	2.9x	2.7x	5.8x	5.2x	5.9x	5.8x	5.6x	5.2x	1.2x	1.0x	0.8x
Finnair (Evli est)*		2.2x	2.4x	2.2x	4.2x	4.7x	4.4x	8.1x	8.5x	7.4x	0.8x	0.7x	0.7x
<i>Finnair discount/premium to primary peer group median*</i>		-20%	-18%	-20%	-27%	-10%	-27%	39%	51%	43%	-38%	-27%	-18%
FINNAIR PEER GROUP	Ticker	Div yield 18	Div yield 19	Div yield 20	EBIT-% 18	EBIT-% 19	EBIT-% 20	ROCE-% 18	ROCE-% 19	ROCE-% 20	ROE-% 18	ROE-% 19	ROE-% 20
Primary European peers													
SAS AB	SAS-SE	0.8%	0.2%	0.2%	5.2%	4.4%	5.6%	11.6%	9.9%	12.0%	18.0%	14.0%	14.9%
International Consolidated Airlines Group	IAG-GB	4.3%	4.6%	4.9%	13.2%	12.6%	12.6%	17.5%	16.4%	16.0%	26.9%	23.6%	21.7%
Air France-KLM SA	AF-FR	0.4%	0.9%	1.4%	4.8%	4.9%	4.7%	7.5%	8.0%	7.8%	19.1%	17.9%	16.3%
Deutsche Lufthansa AG	LHA-DE	4.2%	4.7%	5.1%	7.9%	8.0%	8.3%	11.8%	11.5%	11.5%	18.4%	16.1%	15.0%
Norwegian Air Shuttle ASA	NAS-NO	0.0%	0.0%	0.0%	-4.0%	-0.6%	2.8%	-4.4%	-0.6%	2.8%	-50.6%	-45.4%	-3.9%
Other European peers													
Aegean Airlines SA	AEGN-GR	7.8%	7.9%	8.3%	7.1%	6.9%	7.1%	23.6%	22.3%	22.0%	22.3%	21.0%	21.1%
easyJet plc	EZJ-GB	4.4%	5.3%	5.6%	10.1%	9.5%	9.1%	12.5%	11.5%	10.8%	15.4%	15.2%	14.4%
Flybe Group PLC	FLYB-GB	0.0%	1.5%	1.5%	0.3%	1.6%	3.4%	0.6%	4.1%	10.1%	-3.8%	6.9%	17.0%
Ryanair Holdings Plc	RY4C-IE	0.6%	0.5%	0.9%	17.4%	16.2%	16.9%	14.4%	14.2%	15.2%	22.7%	20.9%	20.5%
Wizz Air Holdings Plc	WIZZ-GB	0.0%	0.0%	0.0%	14.6%	15.0%	15.3%	18.3%	18.0%	17.1%	19.7%	15.8%	14.6%
North American peers													
American Airlines Group, Inc.	AAL-US	1.3%	1.3%	1.5%	7.7%	8.5%	8.7%	9.1%	10.1%	11.4%	120.8%	62.7%	40.0%
Delta Air Lines, Inc.	DAL-US	2.5%	2.8%	2.8%	12.0%	12.8%	12.9%	14.8%	15.6%	16.2%	25.6%	23.9%	22.1%
JetBlue Airways Corporation	JBLU-US	0.0%	0.0%	0.0%	8.8%	9.3%	10.9%	8.4%	8.7%		9.0%	9.2%	10.9%
Southwest Airlines Co.	LUV-US	1.0%	1.1%	1.4%	14.4%	15.7%	15.7%	16.6%	18.5%	20.8%	21.3%	21.9%	21.4%
Spirit Airlines, Inc.	SAVE-US	0.0%	0.0%	0.0%	10.8%	11.8%	12.1%	7.9%	8.6%		11.7%	12.8%	13.5%
United Continental Holdings, Inc.	UAL-US	0.0%	0.0%	0.0%	8.4%	8.8%	9.5%	10.8%	10.9%		22.7%	22.6%	24.3%
WestJet	WJA-CA	3.0%	3.2%	3.5%	2.9%	5.6%	7.6%	2.9%	5.9%	7.6%	3.4%	7.6%	9.5%
Primary European peers median		0.8%	0.9%	1.4%	5.2%	4.9%	5.6%	11.6%	9.9%	11.5%	18.4%	16.1%	15.0%
Finnair (Evli est)*	SUY1V-FI	4.7%	4.7%	5.5%	5.6%	5.2%	5.6%	8.5%	7.4%	7.8%	9.6%	8.7%	9.4%

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.

Finnair valuation vs. own 3yr history

Our lowered TP of EUR 6.8 (8.0) values Finnair at 2.5x EV/EBITDA and at 9.1x P/E with 2019E estimates. This is a discount to Finnair's own 3yr historical levels, which we consider fair considering the weakening earnings trend.



VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	6.35 PV of Free Cash Flow	438 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	9.80 PV of Horizon value	610 WACC, %	8.9 Market risk premium, %	5.8
Share price potential, %	54.4 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	10.5 Marketable securities	965 Minimum WACC, %	8.4 Equity beta coefficient	1.20
Minimum value	9.2 Debt - dividend	-757 Maximum WACC, %	9.4 Target debt ratio, %	20
Horizon value, %	58.2 Value of stock	1,256 Nr of shares, Mn	128.1 Effective tax rate, %	25

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	2,568	2,854	3,021	3,131	3,256	3,370	3,488	3,610	3,737	3,868	3,945	4,024
<i>Sales growth, %</i>	<i>10.9</i>	<i>11.1</i>	<i>5.9</i>	<i>3.6</i>	<i>4.0</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	170	159	156	175	195	169	174	181	187	155	158	161
<i>EBIT margin, %</i>	<i>6.6</i>	<i>5.6</i>	<i>5.2</i>	<i>5.6</i>	<i>6.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>
+ Depreciation+amort.	129	143	154	174	186	196	197	198	200	203	207	
- Income taxes	-3	-32	-31	-35	-39	-34	-35	-36	-37	-31	-32	
- Change in NWC	57	25	15	10	11	10	11	11	11	12	7	
<i>NWC/Sales, %</i>	<i>-18.7</i>	<i>-17.7</i>	<i>-17.2</i>	<i>-16.9</i>	<i>-16.6</i>	<i>-16.4</i>	<i>-16.1</i>	<i>-15.9</i>	<i>-15.6</i>	<i>-15.4</i>	<i>-15.3</i>	
+ Change in other liabs	79	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-237	-330	-290	-290	-290	-200	-210	-220	-230	-240	-250	-255
<i>Investments/Sales, %</i>	<i>9.2</i>	<i>11.6</i>	<i>9.6</i>	<i>9.3</i>	<i>8.9</i>	<i>5.9</i>	<i>6.0</i>	<i>6.1</i>	<i>6.2</i>	<i>6.2</i>	<i>6.3</i>	<i>6.3</i>
- Other items	16	-13	-13	-13	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	211	-47	-9	22	63	141	137	133	131	99	90	1,337
= Discounted FCF (DFCF)		-46	-8	18	48	99	88	79	71	49	41	610
= DFCF min WACC		-46	-8	18	49	101	90	81	73	51	43	687
= DFCF max WACC		-46	-8	18	48	97	86	76	69	47	39	545

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3E	2018Q4E	2018E	2019E	2020E
Net sales	554	633	735	645	2,568	635	715	801	702	2,854	3,021	3,131
EBITDA	20	68	154	58	300	40	84	138	41	302	310	350
<i>EBITDA margin (%)</i>	3.6	10.7	20.9	9.0	11.7	6.2	11.7	17.2	5.9	10.6	10.2	11.2
EBIT	-9	38	119	23	170	4	48	102	5	159	156	175
<i>EBIT margin (%)</i>	-1.6	5.9	16.2	3.5	6.6	0.6	6.7	12.7	0.7	5.6	5.2	5.6
Net financial items	0	-6	-5	-3	-14	-4	-5	-4	-4	-17	-20	-22
Pre-tax profit	-9	32	114	20	157	0	43	98	1	141	136	154
Tax	2	-6	-23	-4	-31	0	-9	-20	0	-28	-27	-31
<i>Tax rate (%)</i>	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Net profit	-10	22	88	13	113	-3	31	75	-2	101	96	110
EPS	-0.08	0.17	0.69	0.10	0.88	-0.03	0.24	0.59	-0.02	0.78	0.75	0.86
EPS adjusted (diluted no. of shares)	-0.08	0.17	0.69	0.10	0.88	-0.03	0.24	0.59	-0.02	0.78	0.75	0.86
Dividend per share	0.00	0.00	0.00	0.00	0.30	0.00	0.00	0.00	0.00	0.30	0.30	0.35
SALES, EURm												
Group total	554	633	735	645	2,568	635	715	801	702	2,854	3,021	3,131
Total	554	633	735	645	2,568	635	715	801	702	2,854	3,021	3,131
SALES GROWTH, Y/Y %												
Group total	3.4	11.2	14.7	13.2	10.9	14.6	12.9	8.9	8.8	11.1	5.9	3.6
Total	3.4	11.2	14.7	13.2	10.9	14.6	12.9	8.9	8.8	11.1	5.9	3.6
EBIT, EURm												
Group total	-9	38	119	23	170	4	48	102	5	159	156	175
Total	-9	38	119	23	170	4	48	102	5	159	156	175
EBIT margin, %												
Group total	-1.6	5.9	16.2	3.5	6.6	0.6	6.7	12.7	0.7	5.6	5.2	5.6
Total	-1.6	5.9	16.2	3.5	6.6	0.6	6.7	12.7	0.7	5.6	5.2	5.6

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	2,400	2,285	2,255	2,317	2,568	2,854	3,021	3,131
<i>Sales growth (%)</i>	-2.0	-4.8	-1.3	2.8	10.9	11.1	5.9	3.6
Costs	-2,248	-2,187	-2,123	-2,156	-2,269	-2,552	-2,712	-2,781
Reported EBITDA	153	98	132	161	300	302	310	350
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	6.4	4.3	5.8	6.9	11.7	10.6	10.2	11.2
Depreciation	-141	-134	-108	-106	-129	-143	-154	-174
EBITA	12	-36	24	55	170	159	156	175
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	12	-36	24	55	170	159	156	175
<i>EBIT margin (%)</i>	0.5	-1.6	1.1	2.4	6.6	5.6	5.2	5.6
Net financials	19	-27	-8	-10	-14	-17	-20	-22
Pre-tax profit	31	-63	15	45	157	141	136	154
Extraordinary items	0	0	-11	-1	-1	0	0	0
Taxes	-4	13	-3	-9	-31	-28	-27	-31
Minority shares	0	0	0	0	0	0	0	0
Net profit	27	-51	-18	19	112	100	96	110
BALANCE SHEET, EURm								
Assets								
Fixed assets	1,358	1,053	957	1,189	1,446	1,632	1,768	1,884
<i>% of sales</i>	57	46	42	51	56	57	59	60
Goodwill	0	0	0	0	0	0	0	0
<i>% of sales</i>	0	0	0	0	0	0	0	0
Inventory	20	15	12	15	17	19	20	21
<i>% of sales</i>	1	1	1	1	1	1	1	1
Receivables	281	358	364	512	460	495	516	530
<i>% of sales</i>	12	16	16	22	18	17	17	17
Liquid funds	203	426	708	814	965	1,072	1,135	1,176
<i>% of sales</i>	8	19	31	35	38	38	38	38
Total assets	1,862	1,885	2,050	2,529	2,887	3,218	3,439	3,610
Liabilities								
Equity								
Equity	422	514	727	857	1,016	1,078	1,135	1,207
<i>% of sales</i>	18	23	32	37	40	38	38	39
Deferred taxes	3	0	0	33	74	74	74	74
<i>% of sales</i>	0	0	0	1	3	3	2	2
Interest bearing debt	593	428	346	718	719	925	1,051	1,127
<i>% of sales</i>	25	19	15	31	28	32	35	36
Non-interest bearing current liabilities	666	601	682	519	566	629	666	690
<i>% of sales</i>	28	26	30	22	22	22	22	22
Other interest free debt	67	246	201	339	428	428	428	428
<i>% of sales</i>	3	11	9	15	17	15	14	14
Total liabilities	1,862	1,885	2,050	2,529	2,887	3,218	3,439	3,610
CASH FLOW, EURm								
+ EBITDA	153	98	132	161	300	302	310	350
- Net financial items	19	-27	-8	-10	-14	-17	-20	-22
- Taxes	-3	0	0	33	-1	-28	-27	-31
- Increase in Net Working Capital	36	-33	43	56	57	25	15	10
+/- Other	-58	-15	5	-19	40	-13	-13	-13
= Cash flow from operations	147	23	171	220	382	269	265	295
- Capex	-109	-146	-81	-486	-394	-330	-290	-290
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	9	268	448	153	157	0	0	0
= Net cash flow	46	144	538	-113	146	-61	-25	5
+/- Change in interest-bearing debt	5	-165	-81	372	1	207	126	75
+/- New issues/buybacks	-162	143	231	110	60	0	0	0
- Paid dividend	-13	0	0	0	-13	-38	-38	-38
+/- Change in loan receivables	71	-107	-291	-167	79	0	0	0
Change in cash	-53	15	397	202	273	107	63	41

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	318	694	516	1,643	814	814	814
Net debt	1	-362	-96	-246	-147	-83	-49
Enterprise value	370	332	420	1,397	667	730	764
Sales	2,285	2,255	2,317	2,568	2,854	3,021	3,131
EBITDA	98	132	161	300	302	310	350
EBIT	-36	24	55	170	159	156	175
Pre-tax	-63	15	45	157	141	136	154
Earnings	-51	-6	21	113	101	96	110
Book value	514	727	857	1,016	1,078	1,135	1,207
Valuation multiples							
EV/sales	0.2	0.1	0.2	0.5	0.2	0.2	0.2
EV/EBITDA	3.8	2.5	2.6	4.7	2.2	2.4	2.2
EV/EBITA	-10.1	14.0	7.6	8.2	4.2	4.7	4.4
EV/EBIT	-10.1	14.0	7.6	8.2	4.2	4.7	4.4
EV/operating cash flow	15.9	1.9	1.9	3.7	2.3	2.5	2.4
EV/cash earnings	7.9	2.3	2.3	4.7	2.6	2.8	2.6
P/E	-6.3	-107.2	24.9	14.6	8.1	8.5	7.4
P/E excl. goodwill	-6.3	-107.2	24.9	14.6	8.1	8.5	7.4
P/B	0.6	1.0	0.6	1.6	0.8	0.7	0.7
P/sales	0.1	0.3	0.2	0.6	0.3	0.3	0.3
P/CF	13.6	4.1	2.4	4.3	2.8	2.8	2.5
Target EV/EBIT	0.0	0.0	0.0	0.0	4.6	5.1	4.7
Target P/E	0.0	0.0	0.0	0.0	8.7	9.1	7.9
Target P/B	0.0	0.0	0.0	0.0	0.8	0.8	0.7
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	-0.40	-0.05	0.16	0.88	0.78	0.75	0.86
EPS excl. goodwill	-0.40	-0.05	0.16	0.88	0.78	0.75	0.86
Cash EPS	0.36	1.13	1.43	2.31	2.00	2.05	2.32
Operating cash flow per share	0.18	1.33	1.71	2.98	2.31	2.29	2.53
Capital employed per share	3.99	2.83	5.92	5.99	7.24	8.19	9.01
Book value per share	4.01	5.68	6.69	7.93	8.41	8.86	9.42
Book value excl. goodwill	4.01	5.68	6.69	7.93	8.41	8.86	9.42
Dividend per share	0.00	0.00	0.10	0.30	0.30	0.30	0.35
Dividend payout ratio, %	0.0	0.0	61.7	34.1	38.2	40.0	40.7
Dividend yield, %	0.0	0.0	2.5	2.3	4.7	4.7	5.5
Efficiency measures							
ROE	-10.8	-1.0	2.6	12.0	9.6	8.7	9.4
ROCE	-4.1	2.4	4.2	10.3	8.5	7.4	7.8
Financial ratios							
Capex/sales, %	-5.3	-16.3	14.4	9.2	11.6	9.6	9.3
Capex/depreciation excl. goodwill, %	-90.2	-339.6	314.7	183.2	230.1	188.3	166.2
Net debt/EBITDA, book-weighted	0.0	-2.7	-0.6	-0.8	-0.5	-0.3	-0.1
Debt/equity, market-weighted	1.3	0.5	1.4	0.4	1.1	1.3	1.4
Equity ratio, book-weighted	31.5	40.6	37.8	39.1	37.2	36.7	37.1
Gearing	0.00	-0.50	-0.11	-0.24	-0.14	-0.07	-0.04
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	454.123	55.8%
The Local Government Pensions Institution	6,200,875	39.376	4.8%
Tiiviste-Group Oy	2,150,000	13.652	1.7%
Ilmarinen Mutual Pension Insurance Company	1,945,000	12.351	1.5%
The State Pension Fund	1,700,000	10.795	1.3%
Oy Etra Invest Ab	1,000,000	6.350	0.8%
Laakkonen Mikko Kalervo	640,000	4.064	0.5%
Veritas Pension Insurance Company Ltd.	607,993	3.861	0.5%
Varma Mutual Pension Insurance Company	382,486	2.429	0.3%
Finnairin Henkilöstörahassto Hr.	293,000	1.861	0.2%
Ten largest	86,434,780	548.861	67%
Residual	41,701,335	264.803	33%
Total	128,136,115	813.664	100%

EARNINGS CALENDAR

October 25, 2018 Q3 report

OTHER EVENTS

March 20, 2018 AGM

COMPANY MISCELLANEOUS

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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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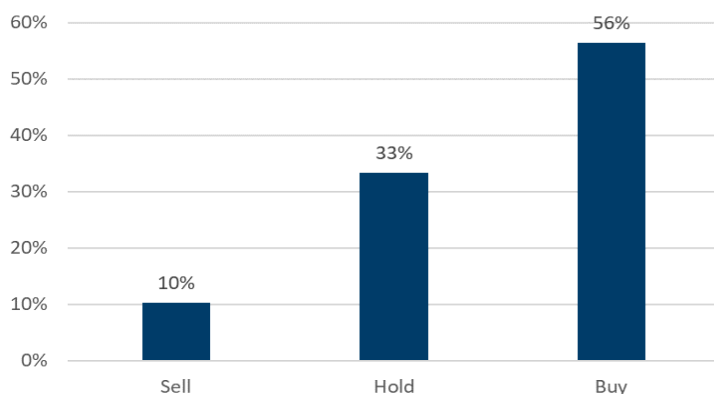
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Investment recommendations are defined as follows:

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

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Name(s) of the analyst(s): Häyhä

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