FINNAIR

Transportation/Finland, October 29, 2018
Spot comment

Competition and fuel concerns

Finnair's Q3 earnings were somewhat better than expected, but guidance for FY18E adj. EBIT was cut to reflect increased competition and fuel. Combination of increased competition and higher fuel price keeps the outlook tough. We retain "Hold" rating with TP of EUR 6.8 intact.

Guidance cut due to increased competition and fuel

Finnair cut its guidance for adj. EBIT. Company now expects adj. EBIT to somewhat weaken vs. be flat previously. Guidance was cut to reflect increased competition, especially in the Nordics, and the fuel price increase. Increased capacity by competitors was visible in Q3 traffic and suggests yield compression is likely to continue at least in European traffic in the short-term, despite fuel price has been increasing for almost two years now.

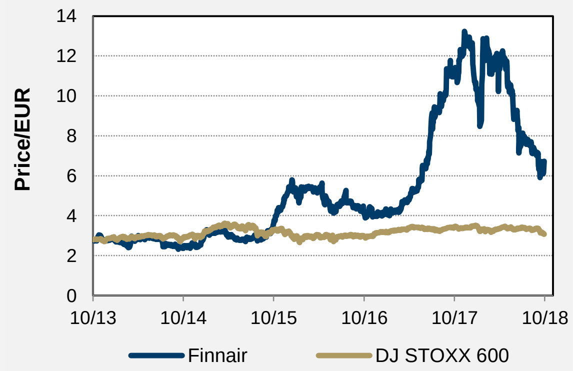
Fuel price looks to be moving up further in Q4

Fuel price looks to be moving up further in Q4, with USD spot prices in October averaging 8% higher compared to the average spot of Q3. Current spot price is 4% higher than the Q3 average.

Challenging outlook – "Hold" intact

On our estimates Finnair trades at an EV/EBITDA discount, but at a P/E premium to its primary peers. On P/B Finnair trades 0.8x in FY18-19E, or 1.0-0.9x when the EUR 200m hybrid removed from equity, while generating ROCE of ~7-8% in FY18-19E, slightly below our WACC. We think valuation does not look too attractive, considering increasing competition and fuel. We retain "Hold" rating with TP of EUR 6.8. Our TP values the shares at a discount to Finnair's 3yr historical average NTM EV/EBITDA, but close to par with P/E on our FY19E estimates.

Rating: HOLD



Share price, EUR (Last trading day's closing price)	6.72
Target price, EUR	6.8
Latest change in recommendation	13-Nov-17
Latest report on company	25-Ect-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	861
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	-
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	2,837	158	5.6%	140	0.77	8.7	0.3	2.9	4.5	0.30
2019E	2,988	140	4.7%	120	0.65	10.3	0.3	3.1	5.7	0.30
2020E	3,131	166	5.3%	144	0.80	8.4	0.3	2.7	5.0	0.35

Market cap, EURm	861	BV per share 2018E, EUR	8.4	CAGR EPS 2017-20, %	-3.1
Net debt 2018E, EURm	-147	Price/book 2018E	0.8	CAGR sales 2017-20, %	6.8
Enterprise value, EURm	714	Dividend yield 2018E, %	4.5	ROE 2018E, %	9.5
Total assets 2018E, EURm	3,207	Tax rate 2018E, %	20.0	ROCE 2018E, %	8.5
Goodwill 2018E, EURm	0	Equity ratio 2018E, %	37.3	PEG, P/E 18/CAGR	1.0

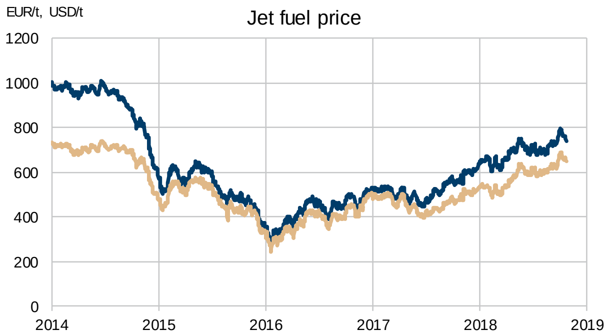
All the important disclosures can be found on the last pages of this report.

Finnair estimates

FINNAIR EURm	2015 FY	2016 FY	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2017 FY	2018 Q1	2018 Q2	2018 Q3	2018E Q4	2018E FY	2019E FY
Passenger transportation													
Revenue	1766	1816	423	509	598	491	2021	485	577	652	521	2234	2342
y/y change	*7.7 %*	*2.8 %*	*4.6 %*	*11.1 %*	*15.9 %*	*12.2 %*	*11.3 %*	*14.6 %*	*13.4 %*	*9.1 %*	*6.0 %*	*10.6 %*	*4.8 %*
Passengers (thousands)	10294	10866	2604	3070	3275	2956	11905	3018	3456	3653	3281	13408	14095
y/y change	*7%*	*6%*	*4%*	*10%*	*10%*	*14%*	*10%*	*16%*	*13%*	*12%*	*11%*	*13%*	*5%*
ASK (mkm)	31 836	33 914	8 128	9 095	10 093	9 607	36 922	9 666	10 718	11 528	10 763	42 676	44 863
y/y change	*3%*	*7%*	*0%*	*7%*	*11%*	*17%*	*9%*	*19%*	*18%*	*14%*	*12%*	*16%*	*5%*
RPK (mkm)	25 592	27 065	6 617	7 617	8 798	7 718	30 749	8 016	8 847	9 743	8 456	35 061	36 801
y/y change	*3%*	*6%*	*3%*	*16%*	*15%*	*20%*	*14%*	*21%*	*16%*	*11%*	*10%*	*14%*	*5%*
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%	78.6%	82.2 %	82.0 %
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*	*-1.8%-p*	*-1.1%-p*	*-0.1%-p*
RASK (cents)	7.08	6.83	6.82	6.96	7.29	6.72	6.96	6.57	6.67	6.95	6.37	6.65	6.66
y/y change	*13.7 %*	*-3.5 %*	*3.2 %*	*4.0 %*	*3.4 %*	*-3.3 %*	*1.8 %*	*-3.6 %*	*-4.2 %*	*-4.6 %*	*-5.1 %*	*-4.4 %*	*0.2 %*
Yield (Traffic revenue / RPK), cents	6.90	6.71	6.39	6.69	6.79	6.37	6.57	6.05	6.52	6.69	6.16	6.37	6.36
y/y change	*4%*	*-3%*	*1%*	*-4%*	*1%*	*-7%*	*-2%*	*-5%*	*-2%*	*-2%*	*-3%*	*-3%*	*0%*
CASK (cents)	7.01	6.67	6.93	6.55	6.11	6.48	6.49	6.53	6.22	6.01	6.39	6.28	6.35
y/y change	*10%*	*-5%*	*2%*	*-2%*	*-3%*	*-6%*	*-3%*	*-6%*	*-5%*	*-2%*	*-1%*	*-3%*	*1%*
CASK ex-fuel (cents)	5.14	5.22	5.56	5.29	4.88	5.21	5.22	5.21	4.87	4.60	4.90	4.88	4.80
y/y change	*19%*	*2%*	*5%*	*2%*	*-1%*	*-6%*	*0%*	*-6%*	*-8%*	*-6%*	*-6%*	*-6%*	*-2%*
Ancillary and retail													
Revenue	103	126	34	36	37	37	145	39	41	42	42	163	186
Revenue growth	*30.5 %*	*21.6 %*	*13.8 %*	*19.5 %*	*10.7 %*	*17.7 %*	*15.3 %*	*15.7 %*	*11.9 %*	*12.3 %*	*12.1 %*	*12.9 %*	*13.5 %*
Cargo													
Revenue	184	174	39	49	52	57	197	41	52	55	59	206	221
Revenue growth	*-20.6 %*	*-5.4 %*	*-1.0 %*	*16.0 %*	*13.4 %*	*23.6 %*	*13.5 %*	*3.3 %*	*4.5 %*	*6.4 %*	*4.0 %*	*4.6 %*	*7.0 %*
Travel services													
Revenue	207	201	59	39	49	60	206	71	46	53	64	233	240
Revenue growth	*-3.2 %*	*-2.7 %*	*-6.8 %*	*0.0 %*	*6.6 %*	*10.4 %*	*2.1 %*	*21.1 %*	*18.4 %*	*7.8 %*	*7.0 %*	*13.4 %*	*3.0 %*
Passenger revenue													
Asia	734	740	176	211	282	213	882	217	243	311	235	1006	1083
Europe	763	761	166	231	239	202	839	182	245	259	207	893	925
North Atlantic	99	116	23	30	40	26	119	25	36	46	29	136	144
Domestic	150	165	52	40	32	50	174	55	41	33	50	179	190
Total revenue	**2255**	**2317**	**555**	**633**	**735**	**645**	**2569**	**635**	**715**	**801**	**686**	**2837**	**2988**
YoY change	***-1%***	***3%***	***3%***	***11%***	***15%***	***13%***	***11%***	***15%***	***13%***	***9%***	***6%***	***10%***	***5%***
Other income	85	76	20	19	18	20	77	20	18	18	18	73	72
Staff costs	**-353**	**-363**	**-91**	**-107**	**-113**	**-113**	**-423**	**-106**	**-116**	**-109**	**-104**	**-435**	**-451**
y/y change	*2%*	*3%*	*-2%*	*15%*	*29%*	*25%*	*17%*	*17%*	*8%*	*-3%*	*-8%*	*3%*	*3%*
% of revenue	*16%*	*16%*	*16%*	*17%*	*15%*	*18%*	*16%*	*17%*	*16%*	*14%*	*15%*	*15%*	*15%*
Fuel	**-596**	**-492**	**-112**	**-114**	**-124**	**-122**	**-472**	**-127**	**-145**	**-163**	**-160**	**-596**	**-694**
y/y change	*-10%*	*-17%*	*-8%*	*-9%*	*-4%*	*6%*	*-4%*	*14%*	*27%*	*31%*	*31%*	*26%*	*16%*
% of revenue	*26%*	*21%*	*20%*	*18%*	*17%*	*19%*	*18%*	*20%*	*20%*	*20%*	*23%*	*21%*	*23%*
Other OPEX	**-1160**	**-1268**	**-322**	**-328**	**-328**	**-336**	**-1314**	**-343**	**-349**	**-363**	**-365**	**-1420**	**-1462**
y/y change	*3%*	*9%*	*4%*	*5%*	*2%*	*3%*	*4%*	*6%*	*6%*	*11%*	*9%*	*8%*	*3%*
% of revenue	*51%*	*55%*	*58%*	*52%*	*45%*	*52%*	*51%*	*54%*	*49%*	*45%*	*53%*	*50%*	*49%*
Comparable EBITDAR	**231**	**270**	**50**	**103**	**189**	**94**	**436**	**79**	**123**	**184**	**74**	**460**	**454**
Comp. EBITDAR-%	***9.9 %***	***11.3 %***	***8.7 %***	***15.8 %***	***25.1 %***	***14.1 %***	***16.5 %***	***12.0 %***	***16.8 %***	***22.5 %***	***10.5 %***	***15.8 %***	***14.8 %***
Operating lease payment for aircraft	-99	-110	-30	-35	-35	-36	-137	-39	-40	-38	-38	-155	-160
Comparable EBITDA	**132**	**161**	**20**	**68**	**154**	**58**	**300**	**40**	**84**	**146**	**36**	**305**	**294**
Depreciation	-108	-106	-29	-30	-35	-35	-129	-36	-36	-38	-38	-147	-154
Comparable EBIT	**24**	**55**	**-9**	**37**	**119**	**23**	**171**	**4**	**48**	**108**	**-2**	**158**	**140**
Comp. EBIT-%	***1.0 %***	***2.3 %***	***-1.5 %***	***5.7 %***	***15.8 %***	***3.4 %***	***6.4 %***	***0.6 %***	***6.6 %***	***13.2 %***	***-0.3 %***	***5.4 %***	***4.6 %***
IAC & fair value changes	98	61	-1	52	3	1	54	2	-8	-3	0	-9	0
EBIT	122	116	-10	89	122	24	225	6	40	106	-2	150	140

Sources: Finnair, Evli estimates

Fuel price



Source: Bloomberg (JET1NECC Index)

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 1.0-0.9x in FY18-19E. On our estimates Finnair generates ROCE of ~7-8% in FY18-19E vs. our WACC of 8.9%.

FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA 18	EV/EBITDA 19	EV/EBITDA 20	EV/EBIT 18	EV/EBIT 19	EV/EBIT 20	P/E 18	P/E 19	P/E 20	P/B 18	P/B 19	P/B 20
Primary European peers													
SAS AB	7491	4.2x	4.6x	5.3x	7.1x	8.6x	10.1x	5.5x	6.7x	5.2x	1.0x	0.9x	0.8x
International Consolidated Airlines Group	12054	3.1x	3.0x	2.9x	4.3x	4.2x	4.1x	5.8x	5.9x	5.5x	1.6x	1.3x	1.2x
Air France-KLM SA	3590	2.3x	2.1x	1.9x	7.5x	7.5x	6.7x	6.1x	5.9x	5.5x	1.2x	1.0x	0.8x
Deutsche Lufthansa AG	9033	2.4x	2.6x	2.3x	4.2x	4.4x	3.9x	4.5x	4.4x	4.2x	0.8x	0.7x	0.6x
Norwegian Air Shuttle ASA	9883		42.2x	18.2x			55.5x				2.6x	4.1x	4.4x
Other European peers													
Aegean Airlines SA	483	2.5x	2.6x	2.6x	3.1x	3.3x	3.3x	8.2x	8.2x	7.6x	1.8x	1.7x	1.5x
easyJet plc	4641	6.0x	6.1x	6.0x	8.4x	8.7x	8.7x	10.0x	9.8x	9.5x	1.5x	1.4x	1.3x
Flybe Group PLC	27	4.4x	2.9x	2.6x			25.2x			32.6x	0.3x	0.4x	0.4x
Ryanair Holdings Plc	13918	7.5x	7.0x	6.1x	11.3x	10.5x	9.0x	12.8x	11.8x	10.2x	2.9x	2.4x	2.0x
Wizz Air Holdings Plc	1825	1.9x	2.4x	2.2x	2.6x	3.4x	3.1x	11.7x	10.1x	8.3x	2.3x	1.6x	1.3x
North American peers													
American Airlines Group, Inc.	14907	6.9x	6.2x	5.6x	10.8x	9.5x	8.3x	7.4x	6.2x	5.2x	9.4x	4.1x	2.5x
Delta Air Lines, Inc.	36825	5.7x	4.9x	4.5x	8.2x	7.1x	6.5x	9.7x	8.5x	7.7x	2.5x	2.0x	1.7x
JetBlue Airways Corporation	5146	5.2x	4.7x	3.5x	9.1x	8.0x	5.4x	11.5x	9.9x	7.2x	1.0x	0.9x	0.8x
Southwest Airlines Co.	28599	6.8x	5.9x	5.1x	9.3x	8.0x	7.0x	12.1x	10.4x	9.2x	2.6x	2.2x	1.9x
Spirit Airlines, Inc.	3633	9.2x	8.0x	6.7x	13.7x	11.8x	9.8x	14.6x	12.0x	10.1x	1.8x	1.6x	1.4x
United Continental Holdings, Inc.	23323	5.7x	5.2x	4.4x	9.4x	8.3x	7.0x	10.1x	8.6x	7.2x	2.3x	1.9x	1.6x
WestJet	2163	7.2x	5.4x	4.1x	30.8x	15.0x	9.0x	29.3x	13.2x	8.4x	1.0x	0.9x	0.8x
Primary European peers median		**2.8x**	**3.0x**	**2.9x**	**5.7x**	**6.0x**	**6.7x**	**5.7x**	**5.9x**	**5.4x**	**1.2x**	**1.0x**	**0.8x**
Finnair (Evli est)*		**2.3x**	**2.7x**	**2.4x**	**4.5x**	**5.7x**	**5.0x**	**8.7x**	**10.3x**	**8.4x**	**0.8x**	**0.8x**	**0.7x**
*Finnair discount/premium to primary peer group median**		*-16%*	*-11%*	*-16%*	*-21%*	*-5%*	*-26%*	*53%*	*76%*	*56%*	*-32%*	*-20%*	*-11%*

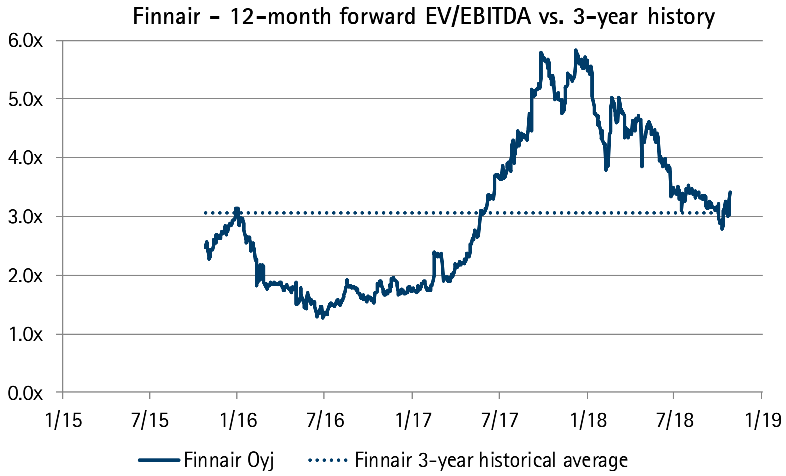
FINNAIR PEER GROUP	Ticker	Div yield 18	Div yield 19	Div yield 20	EBIT-% 18	EBIT-% 19	EBIT-% 20	ROCE-% 18	ROCE-% 19	ROCE-% 20	ROE-% 18	ROE-% 19	ROE-% 20
Primary European peers													
SAS AB	SAS-SE	0.9%	0.2%	0.2%	5.2%	4.2%	5.4%	11.6%	9.5%	11.7%	18.0%	13.6%	14.6%
International Consolidated Airlines Group	IAG-GB	4.3%	4.5%	4.9%	13.4%	12.3%	12.3%	18.1%	16.5%	16.1%	27.0%	22.8%	21.0%
Air France-KLM SA	AF-FR	0.4%	0.7%	1.2%	4.8%	4.2%	4.2%	7.0%	6.3%	6.6%	19.3%	16.4%	14.9%
Deutsche Lufthansa AG	LHA-DE	4.3%	4.7%	5.0%	7.7%	7.6%	7.8%	11.7%	11.1%	11.1%	18.2%	15.7%	14.6%
Norwegian Air Shuttle ASA	NAS-NO	0.0%	0.0%	0.0%	-4.3%	-1.2%	2.3%	-4.7%	-1.1%	2.1%	-48.7%	-54.2%	-13.4%
Other European peers													
Aegean Airlines SA	AEGN-GR	7.9%	8.0%	8.1%	7.1%	7.0%	7.0%	23.5%	22.7%	21.9%	21.7%	20.2%	20.2%
easyJet plc	EZJ-GB	4.6%	5.1%	5.5%	9.9%	8.9%	8.6%	12.3%	11.0%	10.3%	15.4%	14.7%	14.0%
Flybe Group PLC	FLYB-GB	0.0%	0.0%	0.6%	-2.2%	-0.7%	0.8%				-25.8%	-13.4%	1.1%
Ryanair Holdings Plc	RY4C-IE	0.8%	0.7%	0.9%	16.7%	15.5%	16.1%	13.9%	13.8%	14.9%	22.3%	20.2%	19.7%
Wizz Air Holdings Plc	WIZZ-GB	0.0%	0.0%	0.0%	14.1%	13.7%	14.1%	17.2%	16.3%	17.3%	19.4%	16.0%	15.8%
North American peers													
American Airlines Group, Inc.	AAL-US	1.3%	1.4%	1.5%	7.4%	8.1%	8.7%	8.8%	9.6%	10.6%	126.4%	65.5%	48.4%
Delta Air Lines, Inc.	DAL-US	2.4%	2.7%	3.1%	11.9%	12.4%	12.5%	14.7%	15.2%	15.6%	25.6%	23.7%	21.8%
JetBlue Airways Corporation	JBLU-US	0.0%	0.0%	0.0%	8.6%	9.1%	10.9%	8.3%	8.5%		8.9%	9.1%	10.8%
Southwest Airlines Co.	LUV-US	1.2%	1.3%	1.7%	14.3%	15.0%	15.1%	16.5%	17.6%	19.4%	21.2%	21.1%	20.9%
Spirit Airlines, Inc.	SAVE-US	0.0%	0.0%	0.0%	11.5%	11.9%	12.2%	8.5%	8.8%		12.6%	13.2%	13.6%
United Continental Holdings, Inc.	UAL-US	0.0%	0.0%	0.0%	8.6%	8.9%	9.7%	11.1%	11.3%		23.2%	22.3%	22.4%
WestJet	WJA-CA	3.0%	3.1%	3.5%	2.8%	5.2%	7.4%	2.8%	5.5%	8.0%	3.3%	6.9%	9.5%
Primary European peers median		**0.9%**	**0.7%**	**1.2%**	**5.2%**	**4.2%**	**5.4%**	**11.6 %**	**9.5 %**	**11.1 %**	**18.2%**	**15.7%**	**14.6%**
Finnair (Evli est)*	SUY1V-FI	**4.5%**	**4.5%**	**5.2%**	**5.6%**	**4.7%**	**5.3%**	**8.5 %**	**6.7 %**	**7.4 %**	**9.5%**	**7.6%**	**8.9%**

Source: Factset, Evli Research

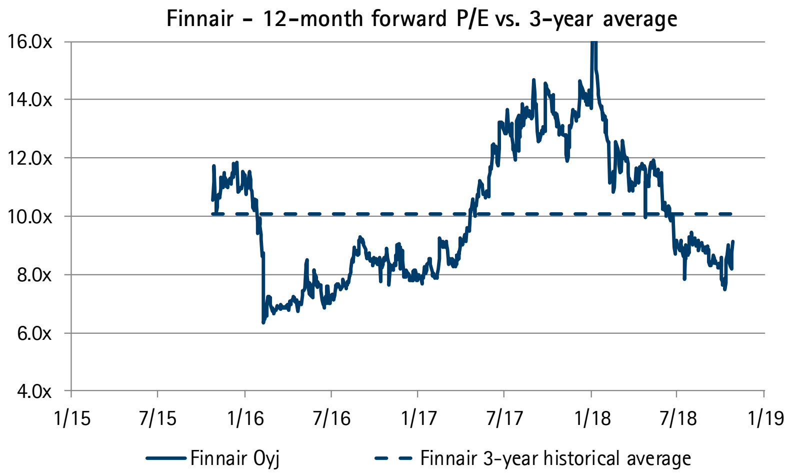
Note: Our model treats Finnair's EUR 200m hybrid bond as 100% equity. Our estimates exclude IAC and fair value changes, but include hybrid interest.

Finnair valuation vs. own 3yr history

Our TP of EUR 6.8 values Finnair shares at a discount to Finnair's 3yr historical average NTM EV/EBITDA, but close to par with P/E on our FY19E estimates.



Source: Factset



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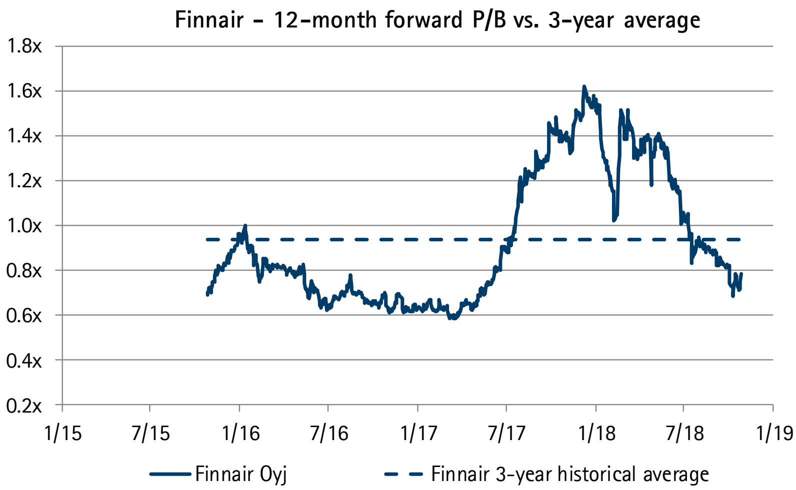


Source: Factset

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	6.72	PV of Free Cash Flow	415	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	9.64	PV of Horizon value	612	WACC, %	8.9	Market risk premium, %	5.8
Share price potential, %	43.5	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	10.3	Marketable securities	965	Minimum WACC, %	8.4	Equity beta coefficient	1.20
Minimum value	9.0	Debt - dividend	-757	Maximum WACC, %	9.4	Target debt ratio, %	20
Horizon value, %	59.6	Value of stock	1,235	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	2,837	2,988	3,131	3,256	3,370	3,488	3,610	3,737	3,868	3,945	4,024
Sales growth, %	*10.9*	*10.5*	*5.3*	*4.8*	*4.0*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*2.0*	*2.0*
Operating income (EBIT)	170	158	140	166	182	169	174	181	187	155	158	161
EBIT margin, %	*6.6*	*5.6*	*4.7*	*5.3*	*5.6*	*5.0*	*5.0*	*5.0*	*5.0*	*4.0*	*4.0*	*4.0*
+ Depreciation+amort.	129	147	154	174	186	196	197	198	200	203	207	
- Income taxes	-3	-32	-28	-33	-36	-34	-35	-36	-37	-31	-32	
- Change in NWC	57	24	13	13	11	10	11	11	11	12	7	
NWC / Sales, %	*-18.7*	*-17.8*	*-17.3*	*-16.9*	*-16.6*	*-16.4*	*-16.1*	*-15.9*	*-15.6*	*-15.4*	*-15.3*	
+ 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
Investments / Sales, %	*9.2*	*11.6*	*9.7*	*9.3*	*8.9*	*5.9*	*6.0*	*6.1*	*6.2*	*6.2*	*6.3*	*6.3*
- Other items	16	-13	-13	-13	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	211	-46	-23	17	53	141	137	133	131	99	90	1,335
= Discounted FCF (DFCF)		-45	-21	14	40	99	88	79	71	49	41	612
= DFCF min WACC		-45	-21	14	41	101	90	81	73	51	43	689
= DFCF max WACC		-45	-21	14	40	97	86	77	69	47	40	547

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3	2018Q4E	2018E	2019E	2020E
Net sales	554	633	735	645	2,568	635	715	801	686	2,837	2,988	3,131
EBITDA	20	68	154	58	300	40	84	146	36	305	294	340
EBITDA margin (%)	*3.6*	*10.7*	*20.9*	*9.0*	*11.7*	*6.2*	*11.7*	*18.2*	*5.3*	*10.7*	*9.8*	*10.9*
EBIT	-9	38	119	23	170	4	48	108	-2	158	140	166
EBIT margin (%)	*-1.6*	*5.9*	*16.2*	*3.5*	*6.6*	*0.6*	*6.7*	*13.5*	*-0.3*	*5.6*	*4.7*	*5.3*
Net financial items	0	-6	-5	-3	-14	-4	-5	-5	-4	-18	-20	-22
Pre-tax profit	-9	32	114	20	157	0	43	103	-6	140	120	144
Tax	2	-6	-23	-4	-31	0	-9	-21	1	-28	-24	-29
Tax rate (%)	*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	79	-8	99	83	103
EPS	-0.08	0.17	0.69	0.10	0.88	-0.03	0.24	0.62	-0.06	0.77	0.65	0.80
EPS adjusted (diluted no. of shares)	-0.08	0.17	0.69	0.10	0.88	-0.03	0.24	0.62	-0.06	0.77	0.65	0.80
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	686	2,837	2,988	3,131
Total	554	633	735	645	2,568	635	715	801	686	2,837	2,988	3,131
SALES GROWTH, Y/Y %												
Group total	*3.4*	*11.2*	*14.7*	*13.2*	*10.9*	*14.6*	*12.9*	*8.9*	*6.3*	*10.5*	*5.3*	*4.8*
Total	*3.4*	*11.2*	*14.7*	*13.2*	*10.9*	*14.6*	*12.9*	*8.9*	*6.3*	*10.5*	*5.3*	*4.8*
EBIT, EURm												
Group total	-9	38	119	23	170	4	48	108	-2	158	140	166
Total	-9	38	119	23	170	4	48	108	-2	158	140	166
EBIT margin, %												
Group total	*-1.6*	*5.9*	*16.2*	*3.5*	*6.6*	*0.6*	*6.7*	*13.5*	*-0.3*	*5.6*	*4.7*	*5.3*
Total	*-1.6*	*5.9*	*16.2*	*3.5*	*6.6*	*0.6*	*6.7*	*13.5*	*-0.3*	*5.6*	*4.7*	*5.3*

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	2,400	2,285	2,255	2,317	2,568	2,837	2,988	3,131
Sales growth (%)	*-2.0*	*-4.8*	*-1.3*	*2.8*	*10.9*	*10.5*	*5.3*	*4.8*
Costs	-2,248	-2,187	-2,123	-2,156	-2,269	-2,533	-2,695	-2,791
Reported EBITDA	153	98	132	161	300	305	294	340
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*6.4*	*4.3*	*5.8*	*6.9*	*11.7*	*10.7*	*9.8*	*10.9*
Depreciation	-141	-134	-108	-106	-129	-147	-154	-174
EBITA	12	-36	24	55	170	158	140	166
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	12	-36	24	55	170	158	140	166
EBIT margin (%)	*0.5*	*-1.6*	*1.1*	*2.4*	*6.6*	*5.6*	*4.7*	*5.3*
Net financials	19	-27	-8	-10	-14	-18	-20	-22
Pre-tax profit	31	-63	15	45	157	140	120	144
Extraordinary items	0	0	-11	-1	-1	0	0	0
Taxes	-4	13	-3	-9	-31	-28	-24	-29
Minority shares	0	0	0	0	0	0	0	0
Net profit	27	-51	-18	19	112	99	83	103
BALANCE SHEET, EURm								
Assets								
Fixed assets	1,358	1,053	957	1,189	1,446	1,629	1,765	1,881
% of sales	*57*	*46*	*42*	*51*	*56*	*57*	*59*	*60*
Goodwill	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Inventory	20	15	12	15	17	19	20	21
% of sales	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Receivables	281	358	364	512	460	493	512	530
% of sales	*12*	*16*	*16*	*22*	*18*	*17*	*17*	*17*
Liquid funds	203	426	708	814	965	1,066	1,122	1,176
% of sales	*8*	*19*	*31*	*35*	*38*	*38*	*38*	*38*
Total assets	1,862	1,885	2,050	2,529	2,887	3,207	3,419	3,607
Liabilities								
Equity	422	514	727	857	1,016	1,076	1,121	1,185
% of sales	*18*	*23*	*32*	*37*	*40*	*38*	*38*	*38*
Deferred taxes	3	0	0	33	74	74	74	74
% of sales	*0*	*0*	*0*	*1*	*3*	*3*	*2*	*2*
Interest bearing debt	593	428	346	718	719	919	1,053	1,145
% of sales	*25*	*19*	*15*	*31*	*28*	*32*	*35*	*37*
Non-interest bearing current liabilities	666	601	682	519	566	625	659	690
% of sales	*28*	*26*	*30*	*22*	*22*	*22*	*22*	*22*
Other interest free debt	67	246	201	339	428	428	428	428
% of sales	*3*	*11*	*9*	*15*	*17*	*15*	*14*	*14*
Total liabilities	1,862	1,885	2,050	2,529	2,887	3,207	3,419	3,607
CASH FLOW, EURm								
+ EBITDA	153	98	132	161	300	305	294	340
- Net financial items	19	-27	-8	-10	-14	-18	-20	-22
- Taxes	-3	0	0	33	-1	-28	-24	-29
- Increase in Net Working Capital	36	-33	43	56	57	24	13	13
+/- Other	-58	-15	5	-19	40	-13	-13	-13
= Cash flow from operations	147	23	171	220	382	269	251	289
- 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	-39	-1
+/- Change in interest-bearing debt	5	-165	-81	372	1	200	134	93
+/- 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	101	57	54

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	318	694	516	1,643	861	861	861
Net debt	1	-362	-96	-246	-147	-70	-31
Enterprise value	370	332	420	1,397	714	791	830
Sales	2,285	2,255	2,317	2,568	2,837	2,988	3,131
EBITDA	98	132	161	300	305	294	340
EBIT	-36	24	55	170	158	140	166
Pre-tax	-63	15	45	157	140	120	144
Earnings	-51	-6	21	113	99	83	103
Book value	514	727	857	1,016	1,076	1,121	1,185
Valuation multiples							
EV/sales	0.2	0.1	0.2	0.5	0.3	0.3	0.3
EV/EBITDA	3.8	2.5	2.6	4.7	2.3	2.7	2.4
EV/EBITA	-10.1	14.0	7.6	8.2	4.5	5.7	5.0
EV/EBIT	-10.1	14.0	7.6	8.2	4.5	5.7	5.0
EV/operating cash flow	15.9	1.9	1.9	3.7	2.4	2.8	2.6
EV/cash earnings	7.9	2.3	2.3	4.7	2.8	3.2	2.9
P/E	-6.3	-107.2	24.9	14.6	8.7	10.3	8.4
P/E excl. goodwill	-6.3	-107.2	24.9	14.6	8.7	10.3	8.4
P/B	0.6	1.0	0.6	1.6	0.8	0.8	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	2.9	3.1	2.7
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*4.6*	*5.7*	*5.1*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*8.8*	*10.4*	*8.5*
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	0.77	0.65	0.80
EPS excl. goodwill	-0.40	-0.05	0.16	0.88	0.77	0.65	0.80
Cash EPS	0.36	1.13	1.43	2.31	2.02	1.95	2.26
Operating cash flow per share	0.18	1.33	1.71	2.98	2.32	2.18	2.49
Capital employed per share	3.99	2.83	5.92	5.99	7.23	8.19	8.99
Book value per share	4.01	5.68	6.69	7.93	8.40	8.75	9.25
Book value excl. goodwill	4.01	5.68	6.69	7.93	8.40	8.75	9.25
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	38.7	46.1	43.7
Dividend yield, %	0.0	0.0	2.5	2.3	4.5	4.5	5.2
Efficiency measures							
ROE	-10.8	-1.0	2.6	12.0	9.5	7.6	8.9
ROCE	-4.1	2.4	4.2	10.3	8.5	6.7	7.4
Financial ratios							
Capex/sales, %	-5.3	-16.3	14.4	9.2	11.6	9.7	9.3
Capex/depreciation excl. goodwill,%	-90.2	-339.6	314.7	183.2	224.9	188.3	166.5
Net debt/EBITDA, book-weighted	0.0	-2.7	-0.6	-0.8	-0.5	-0.2	-0.1
Debt/equity, market-weighted	1.3	0.5	1.4	0.4	1.1	1.2	1.3
Equity ratio, book-weighted	31.5	40.6	37.8	39.1	37.3	36.4	36.5
Gearing	0.00	-0.50	-0.11	-0.24	-0.14	-0.06	-0.03
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	480.584	55.8%
The Local Government Pensions Institution	6,200,875	41.670	4.8%
Tiiviste-Group Oy	2,150,000	14.448	1.7%
Ilmarinen Mutual Pension Insurance Company	1,945,000	13.070	1.5%
The State Pension Fund	1,700,000	11.424	1.3%
Oy Etra Invest Ab	1,000,000	6.720	0.8%
Laakkonen Mikko Kalervo	640,000	4.301	0.5%
Veritas Pension Insurance Company Ltd.	607,993	4.086	0.5%
Varma Mutual Pension Insurance Company	382,486	2.570	0.3%
Finnairin Henkilöstörahasto Hr.	293,000	1.969	0.2%
Ten largest	86,434,780	580.842	67%
Residual	41,701,335	280.233	33%
Total	128,136,115	861.075	100%

EARNINGS CALENDAR

OTHER EVENTS

March 20, 2018	AGM

COMPANY MISCELLANEOUS

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

DEFINITIONS

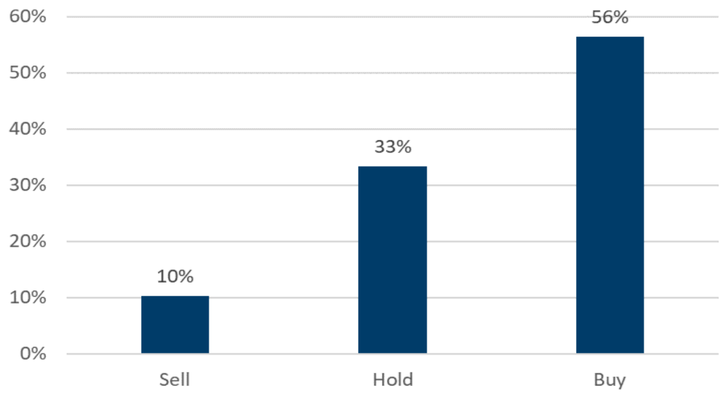
P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	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
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:
http://research.evli.com
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 in general updated 2 – 4 per year.



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Name(s) of the analyst(s): Häyhä

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