EVLI

FINNAIR

Transportation/Finland, November 25, 2020
Company report

Dim light at the end of the tunnel

Aviation industry has faced the worse ever crisis in 2020 due to the COVID-19. Finnair has been forced to scale down its traffic and the ramp-up is expected to start next summer. We expect heavy losses in 20E but also in H1/21E. We keep our rating "HOLD" with TP of EUR 0.60 (0.38).

Strategy focuses on the traffic between Asia and Europe

Finnair's strategy focuses on the growing traffic between Asia and Europe. The strategy is based on the geographic location of the Helsinki hub: the shortest route from (North-East) Asia to Europe goes over Helsinki. Additionally, the distance between Helsinki and most Asian destinations is such that Finnair is able serve most routes in 24h rotations, which enables high utilization rate of planes and reduces the need for additional crew. The most direct route to Asia is enabled by having Russian overflight rights. Flights through the Siberian corridor from Asia to Europe via Helsinki save ca. 2h on flight time compared to one-stop flights via European hubs and ca. 4h compared to routes via the Middle East.

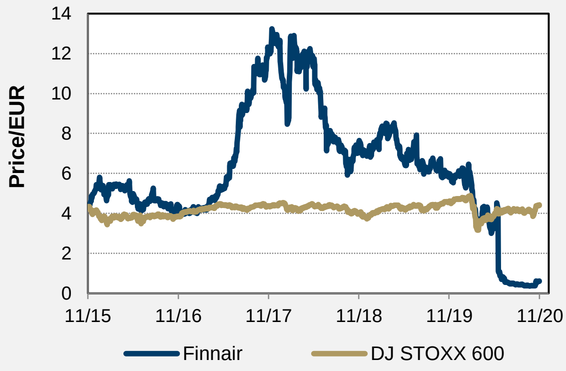
COVID-19 caused the worst ever crisis

The aviation industry faced the worst ever crisis in 2020 as the COVID-19 pandemic spread from China across the world in early 2020. Global lockdowns and travel restrictions forced also Finnair to scale down its traffic. Finnair estimates that the passenger numbers will recover in 2-3 years. The company continues to operate with a significantly limited network also in Q1/21E and the ramp-up is expected to start in the summer 2021. However, the visibility is extremely weak not only due to the pandemic situation itself but due to different travel restrictions. The company expects 20E revenue and capacity (ASK) to decrease more than 70%.

"HOLD" with TP of EUR 0.60 (0.38)

We expect Finnair's 20E ASK to decline by 72% y/y and revenue to decrease by 73% y/y while comparable operating loss is expected to be EUR 602m. We expect significant losses also during H1/21E. We expect air travel to recover relatively well in 2022E but passenger numbers are still expected to remain below 2019 levels. Due to Finnair's targeted annual cost savings of EUR 140m from 2022 onwards, we expect good profitability development after the crisis. Finnair's share price recently took off due to the optimistic vaccine news. The news are promising but we note that there are no effective vaccines in the global distribution yet. We retain "HOLD" with TP of EUR 0.60 (0.38).

Rating: HOLD



Share price, EUR (Last trading day's closing price)	0.62
Target price, EUR	0.6
Latest change in rating	16-Jul-20
Latest report on company	29-Oct-20
Research paid by issuer:	YES
No. of shares outstanding, '000's	1,407,192
No. of shares fully diluted, '000's	1,407,192
Market cap, EURm	872
Free float, %	42.9
Exchange rate EUR/USD	1.000
Reuters code	FIA1S.HE
Bloomberg code	FIA1S FH
Average daily volume, EURm	na.
Next interim report	18-Feb-21
Web site	investors.finnair.com

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	2,836.1	218.4	7.7%	267.6	0.40	10.2	0.6	7.4	29.5	0.27
2019	3,097.7	162.8	5.3%	-12.3	0.50	11.7	0.4	8.5	-1.6	0.00
2020E	841.1	-601.9	-71.6%	-902.1	-0.48	-1.3	2.3	-3.1	-103.4	0.00
2021E	1,788.9	-260.6	-14.6%	38.9	-0.21	-2.9	1.0	-7.1	4.5	0.00
2022E	2,952.4	145.6	4.9%	161.4	0.03	18.6	0.6	11.7	18.5	0.00

Market cap, EURm	872	Gearing 2020E, %	133.1	CAGR EPS 2019-22, %	-59.6
Net debt 2020E, EURm	1,020	Price/book 2020E	1.1	CAGR sales 2019-22, %	-1.6
Enterprise value, EURm	1,893	Dividend yield 2020E, %	0.0	ROE 2020E, %	-78.7
Total assets 2020E, EURm	3,915	Tax rate 2020E, %	18.4	ROCE 2020E, %	-22.7
Goodwill 2020E, EURm	0	Equity ratio 2020E, %	20.1	PEG, P/E 20/CAGR	0.0

Investment summary

Finnish network airline focusing on traffic between Asia and Europe

Finnair is a network airline focusing on traffic between Asia and Europe. In 2019, passenger traffic accounted for 80% of revenue, cargo traffic for 7%, travel services for 7% and ancillary sales for 6%. Asian and European traffic each contribute ~40% of passenger revenue.

The shortest route from (North-East) Asia to Europe goes over Helsinki

Finnair's strategy focuses on the growing traffic between Asia and Europe. The strategy is based on the geographic location of the Helsinki hub: the shortest route from (North-East) Asia to Europe goes over Helsinki. Additionally, the distance between Helsinki and most Asian destinations is such that Finnair is able serve most routes in 24h rotations, which enables high utilization rate of planes and reduces the need for additional crew. The most direct route to Asia is enabled by having Russian overflight rights. Flights through the Siberian corridor from Asia to Europe via Helsinki save ca. 2h on flight time compared to one-stop flights via European hubs and ca. 4h compared to routes via the Middle East.

Ambitious fleet investment plan almost finalized – three aircraft deliveries postponed

Finnair's fleet renewal and expansion strategy form the cornerstones of its cost management as well as revenue growth. Initially Finnair ordered 19 new Airbus A350 planes to replace old A340 models to expand its Asian long-haul capacity. At the end of 2019 Finnair had 14 A350s operational. In February 2020, one new A350 was delivered but due to the changed environment, Finnair made a sale-and-leaseback arrangement of the aircraft later in August. Another new A350 was delivered in Q3/20. Finnair and Airbus have agreed on postponing the deliveries of the three remaining A350s.

The worst crisis in the aviation history happened in 2020

Finnair has made several financing arrangements

The aviation industry faced the worst ever crisis in 2020 as the COVID-19 pandemic spread from Wuhan, China across the world in early 2020. Global lockdowns and travel restrictions forced also Finnair to scale down its traffic. During Q2, Finnair's ASK decreased by ~97% y/y and in Q3, by ~87% y/y. Cargo business has been supporting Finnair's operations during the lockdowns. Prior the pandemic, Finnair's balance sheet was healthy, and the company had a strong cash position which has supported the company during the crisis. Further, the company has executed several financing arrangements. For instance, approx. EUR 500m rights offering was issued during the summer. The company also got EUR 600m statutory premium pension loan of which EUR 400m were withdrawn by the end of September and re-issued its EUR 200m hybrid bond. Based on the company's ambitious cost savings program the company targets EUR 140m annual cost savings from 2022 onwards.

Expecting traffic to recover in 2-3 years

Finnair estimates that the passenger numbers will recover in 2-3 years (IATA expect normalizing air travel in 2024). This is based on the company's Asian strategy and the Asian outlook. Currently, Finnair expects to fly approx. 75 flights to ~50 destinations during the winter season (approx. 350 daily flights in 2019). The ramp-up is expected to start in the summer 2021. However, the visibility is extremely weak not only due to the pandemic situation itself but due to different travel restrictions. It is extremely important to have an effective vaccine as soon as possible. The company expects 20E revenue and capacity (ASK) to decrease more than 70%.

We expect 20E ASK to decline by 72% y/y and revenue to decline by 73% y/y

"HOLD" with TP of EUR 0.60

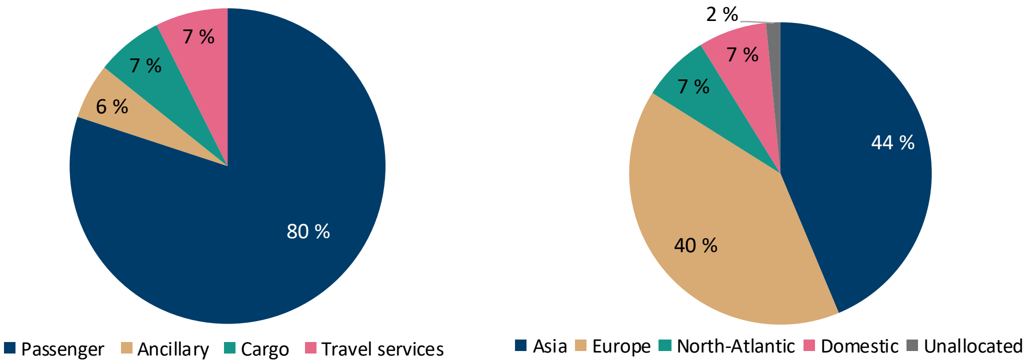
We expect Finnair's 20E ASK to decrease by 72% y/y and revenue to decrease by 73% y/y. We expect significant losses also during H1/21E. Better recovery is expected to start from next summer. We expect air travel to recover relatively well in 2022E but passenger numbers are expected to remain below 2019 levels. Due to Finnair's targeted cost savings of EUR 140m from 2022 onwards, we expect good profitability development after the crisis. Finnair's share price recently took off due to the optimistic vaccine news and even though the news are promising, we note that there are no effective vaccines in the global distribution yet. In addition, travel restrictions especially in Finland have remained very tight. We keep our rating "HOLD" with TP of EUR 0.60 (0.38).

Company overview

Finnair – Finnish network airline

Finnair is a network airline focusing on traffic between Asia and Europe. Passenger traffic (ticket sales) accounted for 80% of revenue, cargo traffic for 7%, travel services (package tours) for 7% and ancillary sales (extra services) for 6% in 2019. Asian and European traffic each contribute 40-44% of passenger revenue with the rest coming from domestic, North American and other traffic. Structurally the legacy airline industry has been hit over the last decade by the rise of low-cost carriers (LCCs), which have forced old network carriers to re-invent themselves. This development is likely to continue but with savings, fleet renewal and sharpened focus to Asian markets Finnair's results have improved notably in recent years. During 2020, the COVID-19 pandemic has had a dramatic impact on air traffic and airline business. The recovery to pre-COVID-19 levels will take several years.

Figure 1: Revenue by type and region 2019

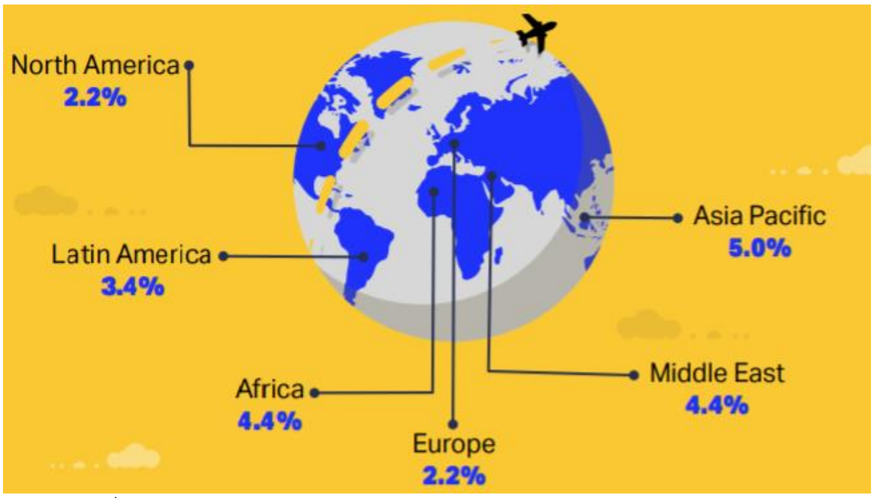


Source: Finnair

Despite the negative impact of COVID-19, the aviation industry is expected to grow in the long-term

During the current year, the COVID-19 has had a significant negative impact on the aviation industry and according to IATA's estimates, global passenger traffic will not return to pre-COVID-19 levels until 2024. Despite the COVID-19 is having a negative impact on airline industry in the near-term, growth is expected to continue in the long-term: IATA forecasts global passenger numbers to double to 8.0bn by 2039, which corresponds to 3.7% CAGR globally. Emerging middle class in developing countries is a key growth driver as the middle-class is an important socio-economic group for air travelling. Aviation's centre of gravity is shifting eastwards: according to IATA's estimates before COVID-19, China is expected to displace the U.S. as the largest air passenger market by 2025. The biggest driver of demand is expected to be the Asia-Pacific region, which will contribute more than half of new passengers over the next two decades. In addition to China's growth, IATA estimates India to surpass the UK's position as the third largest aviation market around 2025 and Indonesia to climb from the tenth place to the fourth largest market over the next ten years. The Asian market accounted for approximately 44% of Finnair's passenger revenues in 2019 and the share is on the rise. Estimated market growth (passenger growth) is 5.0% p.a. in the Asia-Pacific region, which puts Asia-Pacific among the fastest growing markets. European market growth is estimated at 2.2%. Domestic market is likely to grow approximately in tandem with European market but winter tourism from Asia to Lapland could give an additional growth boost.

Figure 2: Growth (%) in passenger journeys by region during next 20 years



Source: IATA/Tourism Economics Air Passenger Forecasts, May 2020

Strategy is based on the geographic location of the Helsinki hub

Geographic location and Russian overflight rights

Finnair's strategy focuses on the growing traffic between Asia and Europe. The strategy is based on the geographic location of the Helsinki hub: the shortest route from (North-East) Asia to Europe goes over Helsinki. Additionally, the distance between Helsinki and most Asian destinations is such that Finnair is able serve most routes in 24h rotations, which enables high utilization rate of planes and reduces the need for additional crew. The shortest route also saves fuel. The most direct route to Asia is enabled by having Russian overflight rights. Flights through the Siberian corridor from Asia to Europe via Helsinki save ca. 2h on flight time compared to one-stop flights via European hubs and ca. 4h compared to routes via the Middle East.

Strategic and financial targets

After a period of accelerated growth, Finnair seeks to grow in line with the market growth and targets sustainable and profitable growth. Finnair updated its strategy and announced new financial targets for the 2020-2025 strategy period in November 2019:

- Comparable EBIT of over 7.5% over the cycle
- ROCE of over 10% over the cycle
- On-time-performance of over 85%
- Positive development of Net Promoter Score and employee Net Promoter Score

Company's additional guidance for the 2020-2025 strategy period consists of following indicative items (we highlight that the metrics have been impacted by the COVID-19 and might not be valid anymore. Finnair will reassess these metrics at a later point):

- Capacity growth, measured in available seat kilometers (ASK) of 3-5% CAGR
- Optimizing liquity by keeping cash to sales ratio above 15%
- Gearing ratio 175% at maximum
- Assess renewal and downsizing of the hybrid bond
- Increase the share of owned vs. leased aircraft (see more on page 7).
- Keep the dividend policy unchanged (dividend policy is to pay on average at least 1/3 of the earnings per share as a dividend during an economic cycle)

Finnair's sustainability targets remain unchanged

Finnair's sustainability targets will remain unchanged despite the COVID-19. The company will however reassess how its action plan to reach the targets should be amended due to the virus. Finnair targets carbon neutrality by 2045, with a 50% reduction in net emissions by the end of 2025 compared to 2019 level. The company plans to reduce fuel consumption by 15,000 tonnes annually. Finnair also aims to halve the amount of its single use plastics and food waste by the end of 2022.

Strategy and long-term financial targets remain unchanged, but the schedule will be reassessed due to COVID-19

The strategy is driven by the high quality of operations, Helsinki's favorable geographical position, growing focus markets, clear goals to increase revenue, modern fuel-efficient fleet and a strong balance sheet. According to Finnair, the aim is to deliver these financial targets through a focused strategy that leverages the geographical advantage of Finnair's hub in connecting Europe and Asia. It should be noted that due to the COVID-19-pandemic, Finnair is reassessing its financial targets and the schedule for reaching them taking into account the assumption of the company's management that the traffic is expected to recover in 2-3 years on the 2019 level. Finnair estimates that it will return to the path of sustainable, profitable growth after a rebuilding period of 2-3 years. Long-term financial targets remain unchanged, but the ramp-up period is longer than expected due to the rebuilding period. The company notes that the financial targets, the timing for their implementation, or both may be amended depending on the length and impact of the COVID-19 pandemic.

Targeting to ~140 MEUR cost reductions by 2022

Finnair is also targeting to approximately EUR 140 million in permanent cost base reductions compared to 2019 levels by 2022. The company seeks savings in all cost categories, which include for example real estate costs, aircraft leasing costs, compensation structures, sales and distribution costs, IT costs as well as administration costs. Finnair will also continue streamlining of its operations and digitalisation and automation of customer processes. In addition, the company will renegotiate its supplier and partner agreements. As a part of targeted cost reductions, Finnair has completed co-operation negotiations, which resulted to a global cut of 700 jobs. The company estimates that the personnel will decline by almost 1 100 employees compared to the beginning of 2020. The company has also an agreement with some of employee groups targeting permanent cost savings and these employee groups participate in an incentive plan which will reward the employees for successful rebuild efforts. Finnair also continues temporary layoffs of employees.

The hybrid bond was refinanced by issuing a new 200 MEUR hybrid bond

In August, Finnair refinanced its existing hybrid bond by issuing a new EUR 200 million hybrid bond. The new hybrid bond bear interest at a fixed interest rate of 10.25% until 3 September 2023 and 15.25% thereafter. The new hybrid bond does not have a specified maturity date but the company is entitled to redeem the New Capital Securities at par on any day during the three month period prior to and including the step-up date, and subsequently, on each annual interest payment date thereafter. Finnair was already planning to refinance and downsize the hybrid bond before COVID-19. Thus, refinancing was expected. We estimated the interest rate of the new hybrid bond to be at lower level (~8%), but given the current circumstances, the higher interest rate did not come as a surprise. The hybrid bond is likely to be renegotiated before the interest rate rises, assuming that the situation has normalized.

EBITDA, EBIT and net debt increased with IFRS 16 in 2019

Finnair's EBITDA and EBIT increased with IFRS 16 from start of 2019. In connection with the IFRS 16 changes, the figures from the comparison period (2018) were also restated. Comparable EBIT (EUR 169m) improved by EUR 49m to EUR 218m in 2018. On the balance sheet side Finnair's assets increased by almost EUR 1.0bn due to recognition of right-of-use assets, and liabilities increased in total by EUR 1.1bn due to the recognition of lease liabilities. Equity decreased by EUR 99m due to IFRS 16. Equity ratio decreased by 11.5 %-points to 23.3%, while gearing increased significantly by 115.5 %-points to approximately 76.9%. Balance sheet looks healthy also with IFRS 16.

2020E Guidance

Finnair updated its guidance during Q3 report in October. Due to the continued strict travel restrictions, the comparable operating loss in Q4 will be of a similar magnitude as in Q2 and Q3.

Finnair also announced in connection with the Q3 report that certain amendments to the terms of Finnair pension fund have been approved and these and potential other similar changes are expected to have a significant positive one-off impact on Finnair's operating result in Q4. This impact is not included in the expected comparable operating result.

Based on the current assumptions, revenue and capacity (measured in ASKs) will both decrease more than 70% in 2020 compared to 2019. The company will update its outlook and guidance in connection with the financial statement bulletin for 2020.

Performance will be highly dependent on the development of the COVID-19 situation

It should be noted that the performance of the end of 2020 will be highly dependent on the development of the pandemic situation and travel restrictions. Finnair has also had to constantly cut the number of flights from its planned traffic programme as the demand has recovered slowly due to the development of the corona pandemic and related travel restrictions. The company for instance expected in the summer that it will operate approximately 200 daily flights in October, but it was actually able to operate only 76 daily flights.

Fleet renewal and expansion schedule will be postponed

Finnair has concluded sale- and leaseback transactions and postponed deliveries of A350s to strengthen its financial position

Finnair's fleet renewal and expansion strategy form the cornerstones of its cost management as well as revenue growth. Finnair states that A350 is up to 25% more fuel-efficient than the replaced A340s. Initially Finnair ordered 19 new Airbus A350 XWB to replace old A340 models and to expand its Asian long-haul capacity in 2015. At the end of Q3'2020 Finnair had 16 A350 aircraft. Between Q1 and Q3, two A350s were delivered. To strengthen the financial position, Finnair sold and leased back one A350 aircraft for its own operation. According to the company, Finnair will likely continue sale-and-leaseback transactions to strengthen its cash position. In November, Finnair concluded an agreement that the deliveries of the remaining three A350 aircraft will be postponed. The delivery schedule was originally two planes in 2021 and one plane in 2022, but the new delivery dates will be on average 24 months later than scheduled. As a result, cash flow from investing activities will be EUR ~200 million less in 2021.

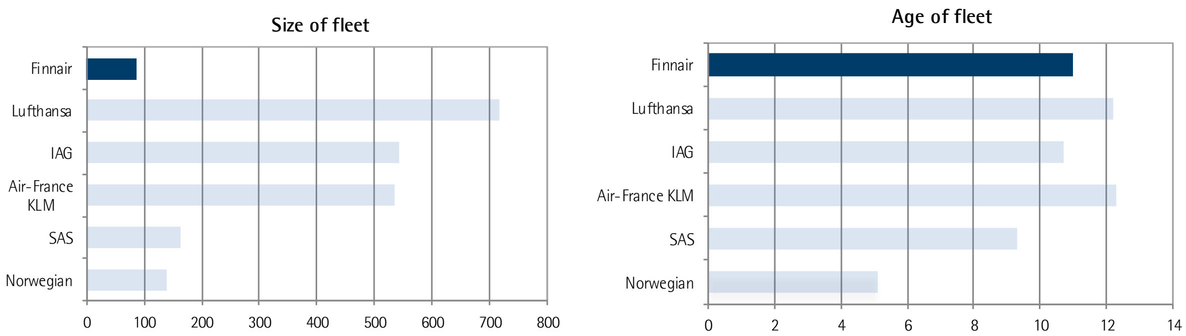
Fleet age in line with competitors

Finnair's fleet age is in line with European competitors. Nordic competitor Norwegian has by far the youngest fleet with an average fleet age of 5.1 years. However, the company has suffered from the worldwide grounding of Boeing 737 MAX aircrafts during the last year. Finnair's wide-body fleet is significantly younger compared to its narrow-body fleet. The average age of Finnair's wide-body fleet is 5.8 years whereas narrow-body fleet is 13.9 years. Investments to renew narrow-body aircraft are likely to decrease the average fleet age in the future. In addition to Finnair, also other airlines (e.g. IAG, SAS, Air France – KLM, Lufthansa) have been investing in fleet modernization to reduce costs, improve efficiency and reduce carbon footprint.

Fleet investments to renew narrow-body fleet will be postponed

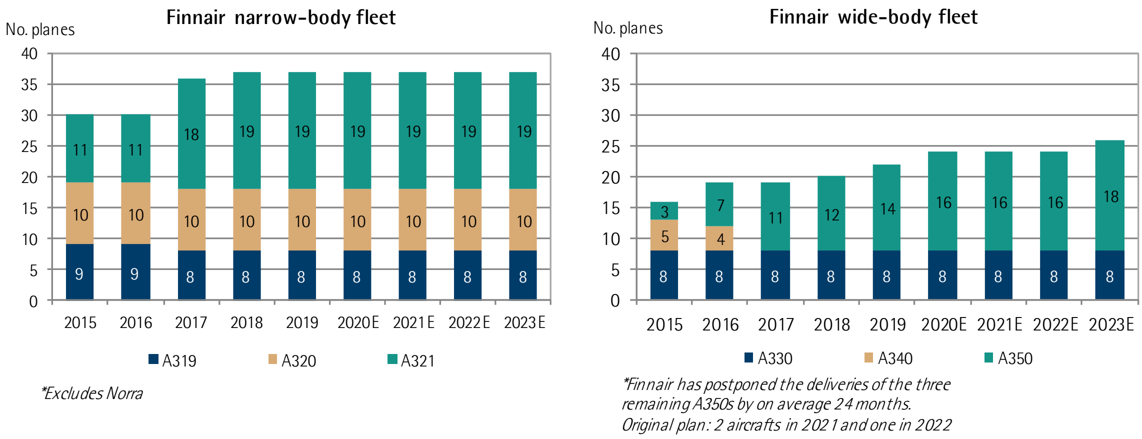
In November 2019, Finnair updated its strategy and announced new fleet investments. Finnair is going to invest 3.5-4 billion euros to boost its efficiency and reduce carbon footprint. Two-thirds of fleet investment is planned mainly to renew narrow-body fleet and one-third is invested into growth. However, fleet investments will be postponed, and investment plans will probably be reassessed due to COVID-19. The company also aimed to increase the share of owned aircraft through fleet investments, but currently Finnair has been strengthening its financial position through sale-and-leaseback transactions.

Figure 3: Fleet size and average age vs. peers



Source: Finnair (Q3/2020), company information

Figure 4: Finnair's fleet



Source: Finnair, Evli Research

Competitive landscape

Competing with both LCCs and FSCs

Finnair's competitive landscape can be roughly divided into two parts; short haul point-to-point traffic in Europe and long-haul transfer traffic between Asia and Europe. In short haul point-to-point traffic, airlines with the lowest cost structures typically have the strongest competitive positions, and competition is mainly driven by price. In long-haul traffic, the significance of a comprehensive network, comfort of travel, customer service and smooth transfers are highlighted.

Key competitors in intra-European traffic are SAS, Norwegian and others

Regionally the number of competitors varies and is typically both direct (overlapping routes) and indirect (via stops and nearby airports). Finnair is a market leader in Finnish markets with 16 domestic destinations. In domestic traffic Norwegian is a key competitor, offering flights regularly from Helsinki to Oulu and Rovaniemi and also to Kittilä and Ivalo during the winter season. In intra-European traffic competition is more scattered. SAS and Norwegian are key competitors in traffic within the Nordics. Additionally, Norwegian serves tens of routes between Helsinki and Europe. Currently, Norwegian has suspended many of its routes from Helsinki due to COVID-19 and the company's difficult financial situation. Although Norwegian has reopened some of its routes, there are likely to be changes in their network in the future. Other competitors in traffic between Helsinki and Europe include (at least) Lufthansa, Air France-KLM, British Airways (IAG) and Air Baltic.

Competition comes from many directions in EU-Asia traffic

In long-haul routes between Europe and Asia, Finnair competes with European, Asian and Middle Eastern carriers. Among European carriers Lufthansa, British Airways and Air France-KLM are key competitors. Each offer certain direct routes between European and Asian megacities, and also a comprehensive network from their European hubs. Of Nordic competitors, SAS is focused on serving Nordic customers and it currently has only four destinations in Asia. Norwegian has been interested in expanding in Asia, but for the time being it does not have overflight rights with Russia.

Asian competitors offer typically flights between Asian and European megacities

The number of Asian competitors flying between Asia and Europe is higher, but their routes are typically direct point-to-point flights between Asian and European megacities, i.e. they are not able to offer similar network connectivity to smaller European destinations. However, recently some Asian airlines have expanded their route selection and in 2019, three Chinese airlines have started direct flights between China and Helsinki. Juneyao Air is operating between Shanghai and Helsinki, Tibet Airlines is operating between Jinan and Helsinki, and Sichuan Airlines is operating between Chengdu and Helsinki. Japan Airlines has been flying daily between Tokyo and Helsinki already for over five years. In addition, there are number of Asian airlines that operate in Helsinki through codesharing with other airlines. Meanwhile Finnair has also managed to expand its route network with new destinations in Asia. For example, Finnair is going to open a route to Busan as the first European airline and Finnair was one of the first international airlines to start operating at Beijing Daxing International Airport.

Qatar Airways, Etihad and Emirates are also competitors in EU-Asia routes

Middle Eastern carriers Qatar Airways, Etihad and Emirates are also significant competitors in routes between Europe and Asia. Qatar Airways started to fly between Helsinki and Doha in 2016, Emirates started codeshare flights with flydubai from Helsinki in 2018 and Etihad has also codeshare flights from Helsinki. These carriers provide low-cost connection flights via for example Doha and Dubai to Asian cities. In addition, Turkish Airlines is operating routes with wide-body aircraft from Helsinki to Asia via Istanbul.

Competitive advantage based on location

The geographical location of the Helsinki hub gives Finnair a competitive advantage. Finnair is able to serve most Asian routes in 24h rotations, which enables high utilization rate of planes, reduces the need for additional crew and saves fuel due to shorter distances. Additionally, flights through the Siberian corridor from Asia to Europe via Helsinki save ca. 2h on flight time compared to one-stop flights via European hubs and ca. 4h compared to routes via the Middle East. Finnair is currently the only European airline that operates most Asian destinations on a 24-hour aircraft rotation from Helsinki. Still, intense competition is expected to continue, especially with Asian airlines most likely further expanding operations to intercontinental flights. Further, low-cost and high-service government-backed Middle Eastern carriers may continue opening more routes to Europe and increasing competition. However, Middle Eastern operators do not offer point-to-point services between Asia and Europe and they lose on flight duration.

North America is not a main competitive area of Finnair

Finnair has 8 destinations in Americas. The competition in North American routes is tough because the competitive field includes both traditional airlines and low-cost airlines such as Norwegian and Icelandair that offer connection flights to North America. Finnair is the only airline offering direct flights from Helsinki to North America. However, North American routes brought only 7% of passenger revenue in 2019 and therefore, it is not a main competitive area of Finnair. Currently, the strict travel restrictions imposed by Finland affect North American traffic and for example, Finnair did not operate scheduled flights to North America in Q3/2020.

Capacity of Finnair and competitors declined more than 50% in 1-9/2020

Over the past three years, Finnair's capacity has grown faster than the median of its competitors. Due to travel restrictions and cancellations caused by COVID-19, the capacity of Finnair and its competitors declined by more than 50% y/y in Q1-Q3/2020. The government of Finland has imposed strict travel restrictions and Finnair's capacity in

Q3 was down by 86.8% y/y. Finnair also cut more than half of its planned flights in October. At the same time, competitors operating from countries with looser travel restrictions have reopened more routes compared to Finnair. During 2020, ASK has decreased the least among Asian airlines and, for example, Air China's and Japan Airlines' ASKs have decreased by ~50% y/y, while Finnair's ASK has decreased by 67% y/y. Strict travel restrictions may negatively affect Finnair's Asian traffic as restrictions can reduce the number of passengers flying to Asia from other European countries via the Helsinki hub. This may weaken Finnair's market position in traffic between Europe and Asia.

Figure 5: ASK growth (y/y) 2014-Q3/2020

	2014	2015	2016	2017	2018	2019	Q1-Q3/20
IAG	9.3 %	8.2 %	9.4 %	2.6 %	6.1 %	4.0 %	-64.3 %
Lufthansa	2.1 %	2.2 %	4.6 %	12.7 %	8.2 %	2.9 %	-66.8 %
AF-KLM	-0.6 %	2.3 %	0.7 %	2.6 %	2.1 %	2.5 %	-59.6 %
Turkish Airlines	16.2 %	13.2 %	11.0 %	1.8 %	5.2 %	3.1 %	-59.9 %
Air Baltic					24.7 %	21.5 %	-58.4%[1]
Norwegian	35.4 %	5.5 %	18.1 %	24.9 %	37.2 %	0.8 %	-78.2 %
SAS	4.0 %	1.3 %	10.0 %	5.9 %	1.2 %	-0.9 %	-62.3 %
Air China	10.2 %	10.9 %	8.6 %	6.3 %	10.4 %	5.2 %	-50.1 %
Japan Airlines	0.8 %	2.9 %	-0.4 %	1.7 %	4.0 %	-0.6 %	-51.5 %
Median	6.6 %	4.2 %	9.0 %	4.2 %	6.1 %	2.9 %	-59.9 %
Finnair	-0.9 %	3.1 %	6.5 %	8.9 %	14.8 %	11.3 %	-67.2 %

[1] H1/2020

Source: Company reports, Evli Research

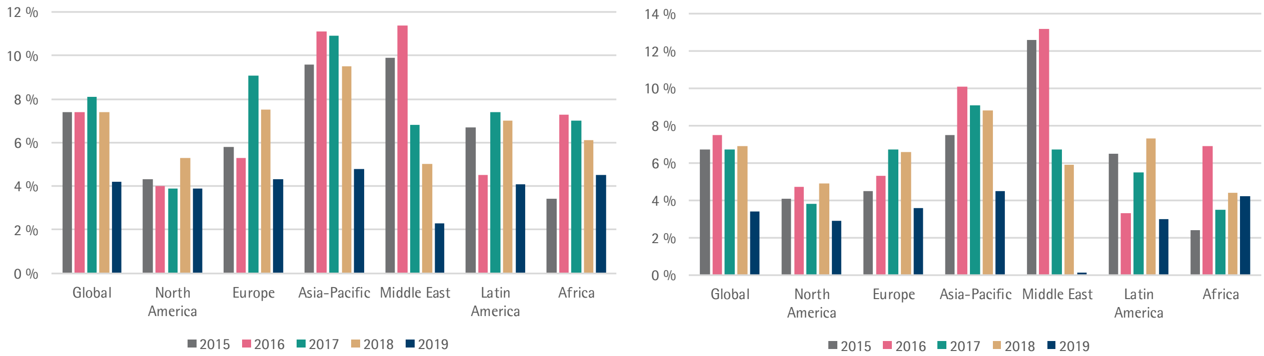
LCC capacity is recovering faster than the overall European capacity

According to CAPA, low-cost carriers (LCCs) have almost doubled their capacity in Europe over the past decade, which has led to overcapacity and deteriorated profits. LCCs have built strong positions on short haul intra-European routes and their market share has increased: CAPA reported that LCCs accounted for 41.7% of seats within Europe in 2019. Consequently, European flag carriers have formed LCC subsidiaries that now function as growth engines for large legacy groups, like Lufthansa and IAG. Although LCCs have also reduced previous capacity recovery plans due to the ongoing uncertainty and travel restrictions, LCC capacity is still recovering more quickly than the overall European market. According to CAPA, LCC share of intra-Europe seats was projected at 46% in September 2020.

The European airline sector is fragmented compared to the U.S.

Overall, consolidation has been a global industry trend, but progress varies by region. In the U.S. market share of the three largest carriers is ca. 50-60%, while Europe lags behind at ca. 30%. The European airline sector is more fragmented and less profitable, with average sector EBIT margin at ~5-8% in recent years vs. North American airlines at ~9-14% in recent years, according to IATA. Passenger traffic (RPK) and passenger capacity (ASK) growth has been faster in Europe compared to North America. RPK growth in recent years has been ~4-9% in Europe and ~3-5% in North America, while ASK growth has been ~4-7% in Europe and ~3-5% in North America, respectively. More consolidated North American market is often associated with stricter capacity discipline. Recently, many European airlines, e.g. Norwegian, SAS and Finnair, have balanced the ASK growth and focused more on profitability by reducing costs, optimizing routes and improving operational efficiency. The importance of cost reduction, route optimization and operational efficiency will be emphasized, especially as ASK growth and margins have turned clearly negative due to COVID-19. IATA forecasts full year 2020 traffic to decrease by 66% and total industry revenues to be down by 46% compared to 2019. Consolidation may increase in the aftermath of the corona pandemic and the fragmented nature of the European airline industry should also present opportunities for more consolidation and collaboration, but political and regulatory barriers slow down progress. National carriers - like Finnair - seem to appeal to national interest.

Figure 6: Passenger traffic RPK and ASK growth (%) 2015-2019



Source: IATA

Profit margins expected to be devastated in 2020 and remain negative in 2021

According to IATA, profitability and ROIC of the European airline sector improved in 2012-2017. ROIC surpassed the industry average WACC between 2015 and 2018 and exceeded 10% level in 2017. Improved profitability in 2015-2017 was supported by a clear fall in jet (hedged) fuel price. Jet fuel spot bottomed in Q1'16 and rose throughout 2016 until late 2018. Profitability in Europe has weakened to the level of ~8% from the peak of 2017. IATA expects profit margins to be devastated worldwide in 2020 and losses are expected to narrow in 2021, but still remain negative. Airlines are not expected to turn cash positive until 2022. Overall, intra-European competition is likely to continue to be driven by price and margins to remain tight. Although rising competition puts pressure on margins, European airlines overall have managed to create value by cost management and ancillaries' sales according to IATA. Finnair's growth strategy in Asia requires increasing short-haul feeder traffic to Helsinki hub from Europe, where sustaining profitability will be challenging.

Several bankruptcies have been seen in Europe in 2017-2020

Several bankruptcies have been seen in Europe between 2017-2020. In 2017, Alitalia, Air Berlin and Monarch went bankrupt. Competitors bid for several of their assets. In 2018, smaller airlines including SkyWork, VLM, Cobalt Air, Small Planet Airlines Germany, Primera Air, Sparrow Aviation and NextJet went out of business. In 2019, Germania, BMI Regional, WOW Air, Aigle Azur, Thomas Cook, XL Airways and Adria Airways went bankrupt. Turkish Atlas Global, Italian Ernest Airlines and Air Italy suspended their operations in early 2020 before COVID-19 had a significant impact on the airline industry. Consolidation is healthy for the fragmented European industry, but we believe this is still far from sufficient to boost margins to US levels.

Despite the crisis, the number of bankruptcies has so far been relatively low

COVID-19 has caused a massive blow to airline industry with a series of cancelled flights and travel restrictions, which have led to further bankruptcies. Coronavirus has struck especially with the indebted and financially distressed airlines. For example, a British airline Flybe collapsed in March 2020. Less than two months before collapsing, the company had reached an agreement on a rescue deal with the UK government. The next collapses had to wait until June 2020, when LEVEL Europe (an Austrian subsidiary of IAG) and SunExpress Deutschland (the German subsidiary of SunExpress, Lufthansa and Turkish Airlines) ceased their operations. Despite the crisis, the number of bankruptcies in European airlines has so far been relatively low thanks to state aid and growing debt. If restrictions and uncertainties persist for a long time, then it is likely that more bankruptcies will be seen. According to ICAO, COVID-19 could cost approximately USD 392-399 billion loss in gross passenger operating revenues in 2020 and USD 76-96 billion in Q1/2021. IATA expects 2020 to be the worst year in history for airlines and significant losses will also occur during 2021. As the government of Finland is the major shareholder of Finnair, we see that the company is well-positioned to survive from COVID-19.

Competitor Norwegian needs additional working capital to meet its obligations

The situation of the Nordic competitor Norwegian is interesting for Finnair. During 1-9/2020, Norwegian had grounded most of its aircraft, furloughed most of its employees, converted debt to equity, completed a public offering and received state aid of NOK 3 billion in loan guarantees. Conversion of debt to equity and public offering added NOK 18.2 billion to the company's equity. In November, the government of Norway announced that they declined further financial support. Combined with recently imposed strict COVID-19 measures, Norwegian is in a challenging situation. Norwegian estimates that it will need additional working capital during the Q1/21 to meet its obligations in the upcoming 12-month period. Although the company believes that there are reasonable prospects to resolve potential defaults and obtain necessary working capital, there is a significant risk of insolvency and bankruptcy. The company has filed for bankruptcy protection in Ireland.

Some acquisitions in 2019

M&A has also been at the table during 2019, with Ryanair acquiring Austrian airline operator LaudaMotion and Connect Airways acquiring UK-based Flybe Group. The consolidation in European markets is expected to continue and IAG announced in November 2019 that they have signed an agreement to acquire Air Europa, one of the leading private airlines in Spain, for 1 billion euros. With a series of completed acquisitions during recent years, the top four carriers in Europe; Lufthansa Group, Ryanair, IAG and Air France-KLM, had approximately 40% market share before COVID-19. Finnair has also been rumoured to be a takeover target a few years ago, with IAG-owned British Airways interested.

Three major alliances; Star Alliance, SkyTeam and Oneworld

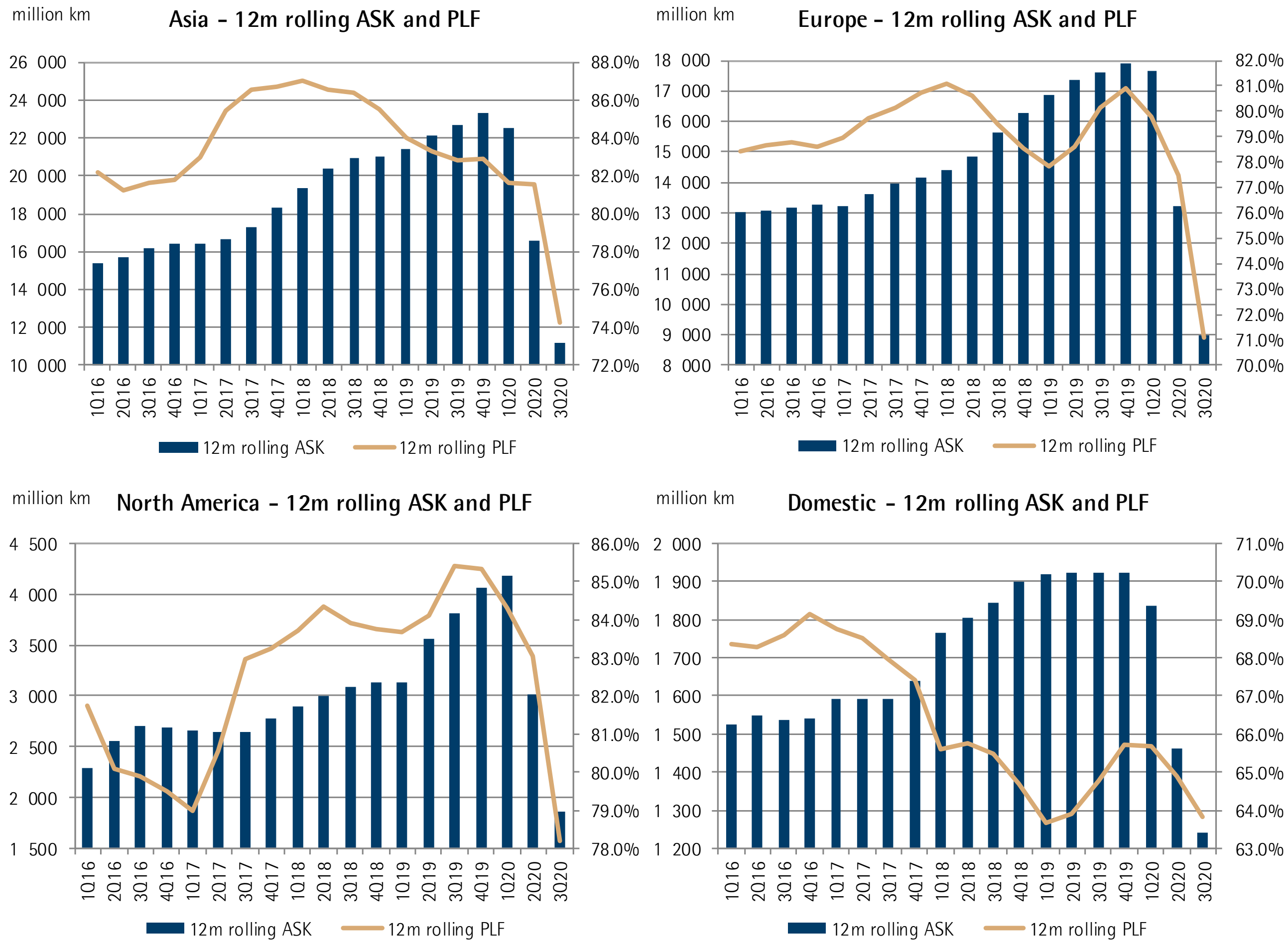
Intense competition has also highlighted the role of alliances and joint ventures in the industry. Currently, there are three major airline alliances; Star Alliance, SkyTeam and Oneworld. Finnair is part of Oneworld and it collaborates with 12 other airlines. The alliance offers a global network for Finnair's customers to fly over 1 100 destinations in 185 countries. Finnair has engaged in closer collaboration with certain Oneworld partners through participation in joint businesses; the Siberian Joint Business (SJB) and the Atlantic Joint Business (AJB). SJB is a joint venture between Japan Airlines, British Airways, Iberia and Finnair, and AJB is formed by American Airlines, British Airways, Iberia and Finnair. SJB operates on flights between Europe and Japan, while AJB is focused on traffic between Europe and USA. According to Finnair, SJB's market share is 25% and AJB's 20%, respectively. Finnair is also continuing the preparations to launch a JB with Chinese Juneyao Airlines in H1/2021. In addition, Finnair has a strategic partnership with Norra which is an operations partner for regional flying.

Traffic performance

Capacity will decrease by more than 70% in 2020E

Finnair's capacity has grown in all markets in 2017-2019. Passenger load factors (PLF) improved in most markets in 2019 despite a fairly rapid 11.3% ASK growth, whereas PLFs were generally in decline in 2018, impacted in part by capacity growth accelerating to 15%. Load factor development in the short-term is typically impacted by capacity growth: when capacity grows fast load factor typically declines as not all new seats are filled immediately. This can be seen for example in Asian markets, where the capacity has increased following the three new A350 aircraft entered service between December 2018 and April 2019, but the same time 12 month rolling PLF has decreased. Finnair guides that its capacity will decrease by more than 70% in 2020 compared to 2019. In Q3/2020, Finnair operated only ~13% of its capacity compared to Q3/2019. Finnair has announced that it will operate with a limited network also in Q4/2020 and Q1/2021 before the estimated ramp-up starting from summer 2021.

Figure 7: Finnair's 12m rolling capacity (ASK) and passenger load factor (PLF) by region

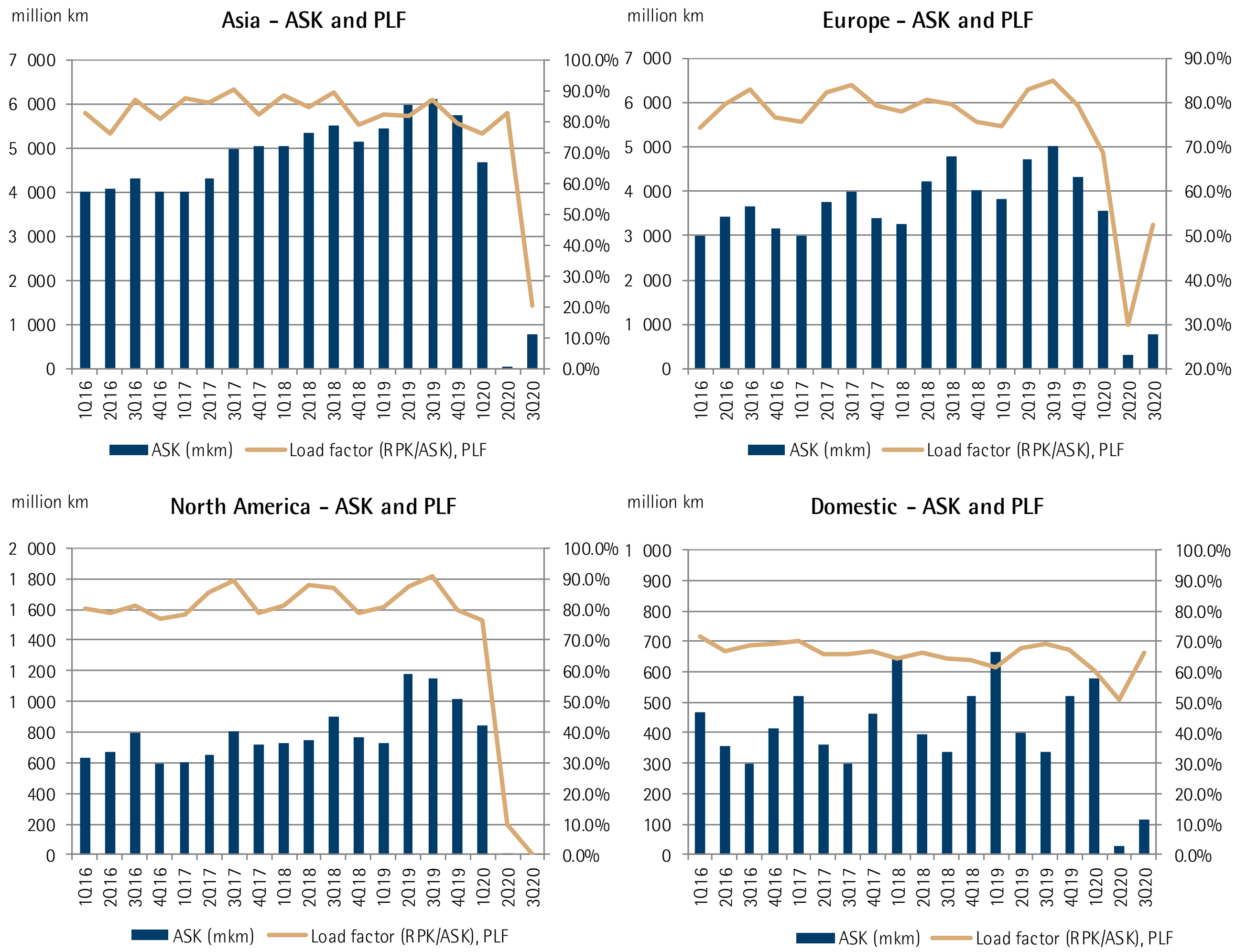


Source: Finnair, Evli Research

COVID-19 has a significant negative impact on traffic figures

The COVID-19 pandemic has had a significant negative impact on Finnair's traffic figures as can be seen in Figure 7. In Q3, ASK decreased by 86.8% and RPK by 94.1% compared to Q3/19. The number of passengers dropped drastically to 453 800 passengers from 4.1 million passengers year ago. Passenger load factor (PLF) was 38.7% (86.2%). Q3 traffic decreased mostly in North America as no scheduled flights were operated and in Asia, where the number of scheduled flights was limited. PLFs came down significantly in all geographical areas.

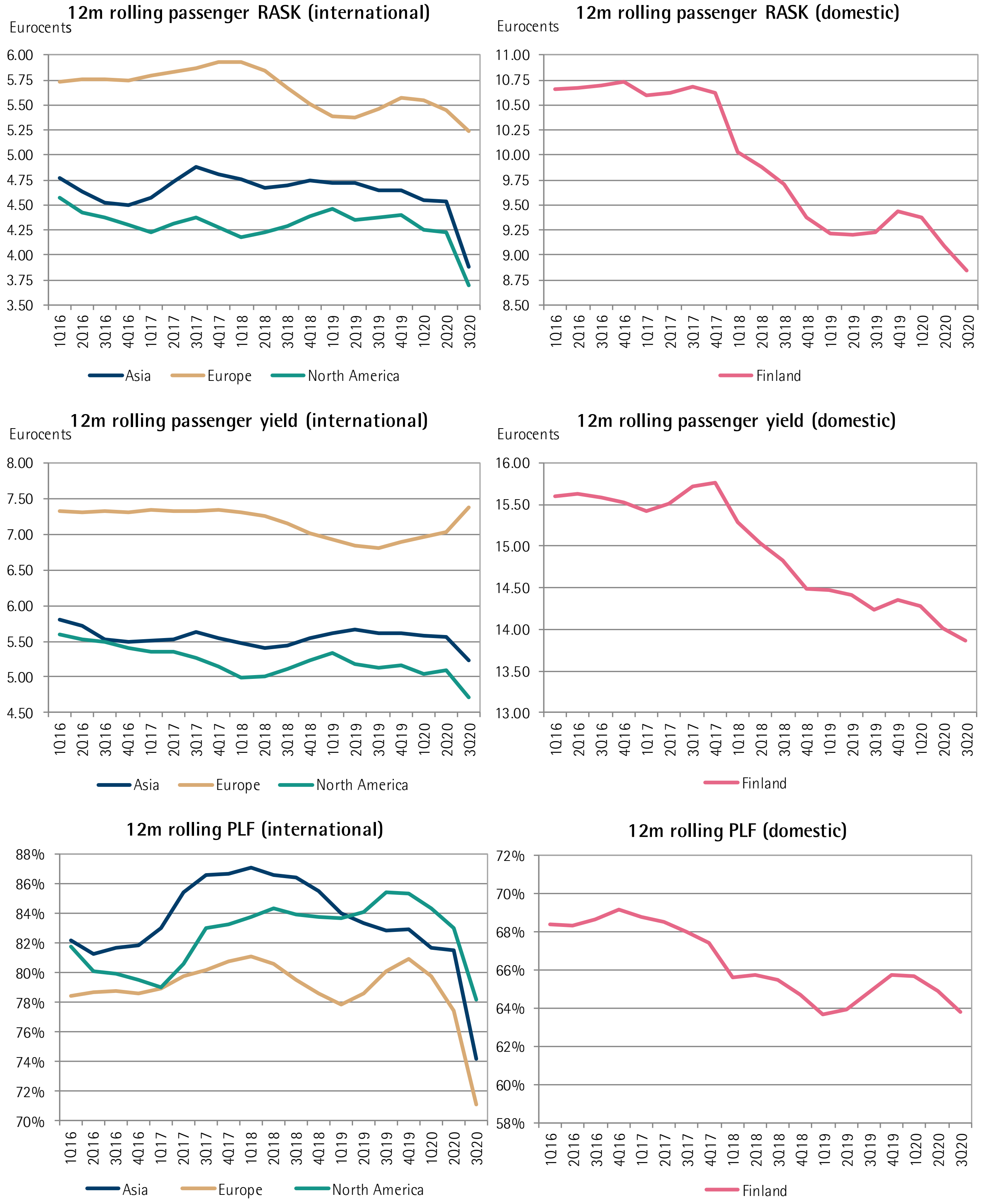
Figure 8: Finnair's quarterly capacity (ASK) and passenger load factor (PLF) by region



Source: Finnair, Evli Research

Finnair's passenger RASKs (passenger revenue/ASK) are determined by passenger yields (passenger revenue/RPK) and passenger load factors (PLF). Passenger yields reflect average fares per passenger (per km). Yield development was flattish in most markets in 2019. PLFs increased in North America and Europe, but PLF in Asia decreased due to increased capacity. During 2020, PLFs have decreased clearly in Asia, Europe and North America, while domestic PLF was only 2.6 %-points lower in Q3 compared to previous year. In Q2/2020, RASK increased by over 200% and amounted to 19.92 eurocents as cargo revenue impact was overemphasized due to the significant decline in passenger revenue and capacity. RASK decreased by 14.7% and amounted to 5.85 eurocents in Q3. 12m rolling RASK has also decreased in all markets during 2020.

Figure 9: Finnair's 12m rolling RASK, passenger yield and PLF by region



Source: Finnair, Evli Research

Ancillary income, cargo and travel services

Ancillary income supports overall EBIT margin

Worldwide, airlines are seeking new ancillary revenue sources to complement traditional baggage and seat fees with last minute upgrades, extra legroom seats, empty seat options, onboard Wi-Fi and other services offering new revenue streams. Increasing high-margin ancillary sales will be one main profit drivers in the industry. Finnair aims to be defined as a modern, premium airline and an extensive destination and product portfolio, supplemented by various ancillary products for customers to tailor their travel will help to achieve this status. Margins in many ancillary categories are high and boost overall EBIT margin.

Ancillary sales per passenger have been flattish at EUR 12

Finnair's ancillary sales per passenger improved in 2016-2017 from EUR 11 level to EUR 12 level, but average ancillary sales per passenger have been flattish at EUR 12 level during 2017-2019. In Q3/2020, ancillary revenue decreased by 80.8% due to low number of passengers and the COVID-19 impact. On the other hand, 12m rolling ancillary revenue per passenger has increased and was boosted by cancellation fees and other service fees in H1/2020. It should be noted that the latest figures are not fully comparable due to the significantly lower number of passengers and exceptional circumstances.

Finnair Cargo – one of the largest air cargo carriers in the Nordics and Baltic region

Cargo revenue is another important revenue source for Finnair. Finnair Cargo is one of the largest air cargo carriers in the Nordics and Baltic region, and it is specialized in air cargo traffic between Europe and Asia. Key products are consumer electronics, pharma and perishables such as fish and seafood. Shift away from bulk to specialty cargo is a key margin driver. Growth in Cargo revenue is supported by increased capacity both on the air and on the ground: The new A350s have increased Finnair's cargo capacity significantly, while Finnair's new EUR 80m COOL Nordic Cargo Terminal, which was brought live in early 2018, has been built to meet that load increase and is stated to be one of the world's most modern air cargo terminals with high automation and a leader in temperature-controlled logistics. The new terminal can be enlarged further if needed.

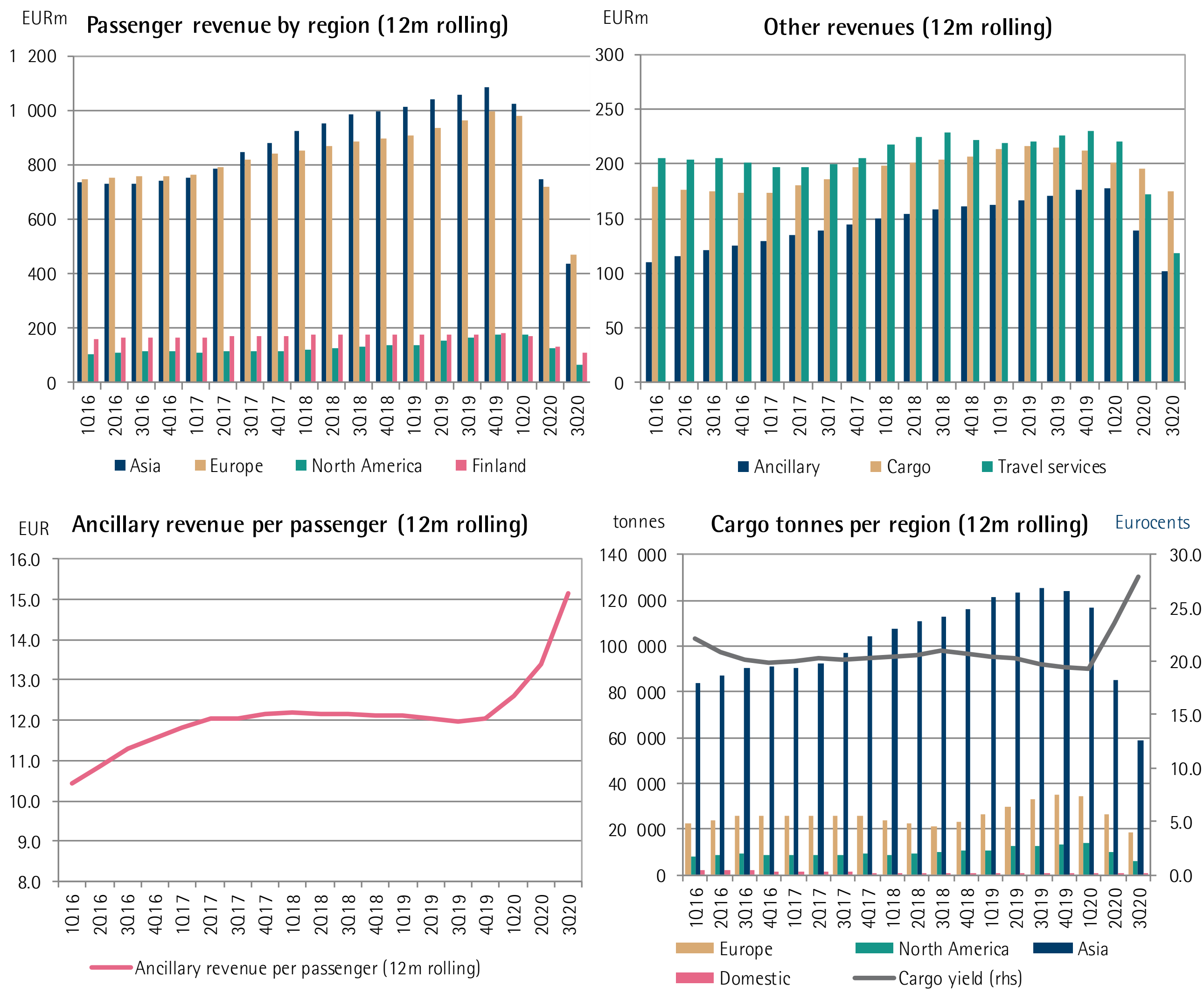
Cargo's role has been emphasized during the pandemic

Cargo's role has been emphasized during the pandemic as most of the regular passenger traffic has been halted. The global air freight market was also heavily impacted by COVID-19 and cargo volumes decreased significantly due to cut downs in the scheduled traffic capacity. However, the demand for cargo-only flights was high in Q3 and Finnair operated 235 cargo-only flights mainly to Asia. Despite the low number of scheduled flights, cargo revenue decreased only by 40% in Q3 and more than 32% of Finnair's revenue was generated by cargo. The profitability was also at a good level. For example, Tokyo, Seoul, Hong Kong, Shanghai and Singapore are currently important cargo destinations and cargo demand supports Asian routes and reopening scheduled flights to Asia.

Travel services' revenue and passengers down by 96% in Q3

Finnair offers also travel services under Aurinkomatkat and Finnair Holidays. These travel services mainly include package holidays to customers. Travel services financial development has also been significantly impacted by COVID-19 during the current year. The package holiday demand improved at the beginning of H1, but the lower allotment-based capacity in Q1 and later cancelled production both in allotment-based holidays and dynamic products as well as discontinued travel services in Estonia affected negatively to development. In Q3, Finnair operated only a limited number of destinations and the total number of passengers decreased by 96.3% while the revenue declined by 96%.

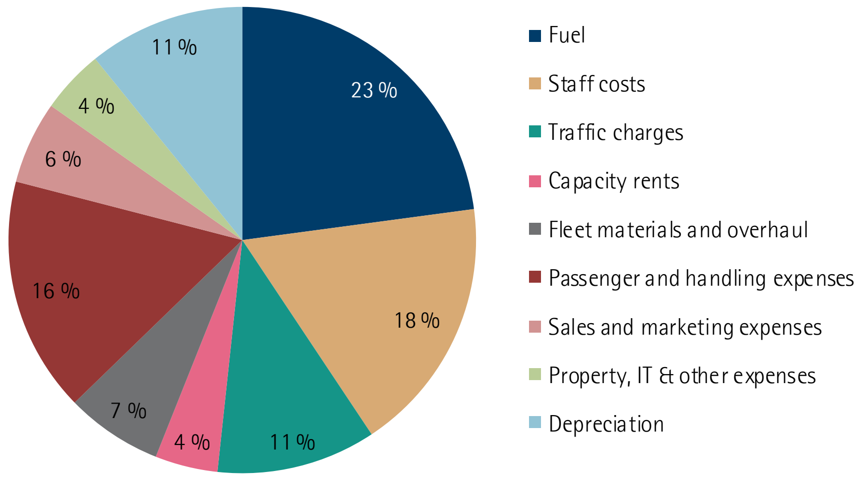
Figure 10: 12m rolling revenue sources



Source: Finnair, Evli Research

Finnair's cost structure

Figure 11: Finnair's cost structure in 2019



Source: Finnair, Evli Research

In normal conditions, jet fuel is the single largest cost item to Finnair

In normal conditions, jet fuel is the single largest cost item to Finnair. In 2019, fuel costs (EUR 687m) accounted for 23% of total expenses. Fuel is also the most volatile item. According to company, 10% change in fuel price translates into EUR 32m in yearly EBIT, taking hedging into account. Jet fuel principally tracks crude prices. Forecasting of price development is challenging, as OPEC-led production changes and political events can change the landscape rapidly. The COVID-19 has also had a significant impact on prices. The spot price of jet fuel has increased since 2016 and the upward curve continued until turning in late 2018. In 2019, the prices remained in a lower level. The COVID-19 has had a significant negative impact on fuel demand thus prices have dropped significantly in 2020. In normal circumstances, Finnair hedges its fuel purchases for the next 24 months on a rolling basis, and therefore changes in fuel price show up in cost figures with a delay. Weakening of USD is positive for Finnair as it reduces jet fuel prices in euros. Changes in fuel price should eventually be reflected in passenger RASK (traffic revenue per available seat kilometre), i.e. fuel price changes should pass through to ticket fares – however competition pricing dynamics, potentially preventing this from happening at least in the short term. Currently, Finnair has hedged fuel purchases for the coming c. 15 months but due to the COVID-19 impact, calculation of the hedging degrees would require better visibility on capacity development.

In normal circumstances, Finnair hedges its fuel purchases for the next 24 months on a rolling basis

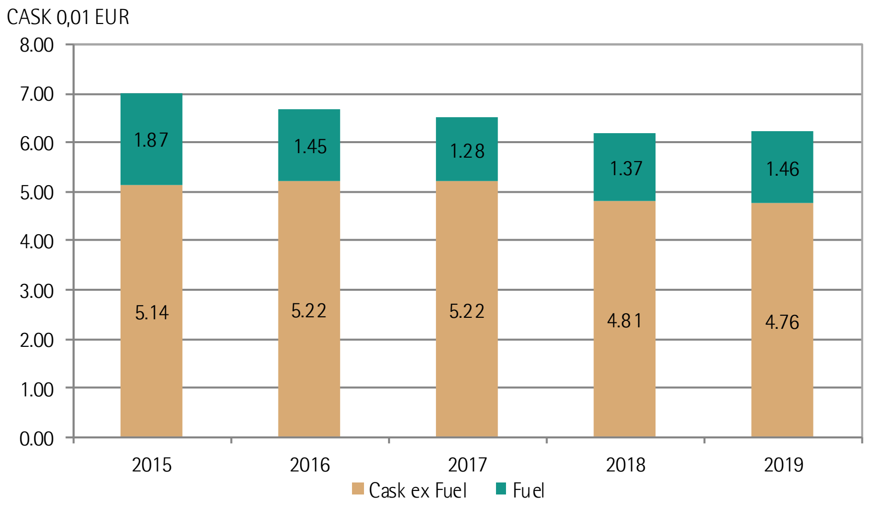
Staff costs were 18% of total costs in 2019

Staff costs are Finnair's second largest single expense, being ~18% of total costs in 2019. Staff costs grew by 7.0% to EUR 535m in 2019, in line with the increase in the average number of people employed by 6.5% and capacity growth.

Traffic charges and passenger & handling expenses are driven by passenger volumes

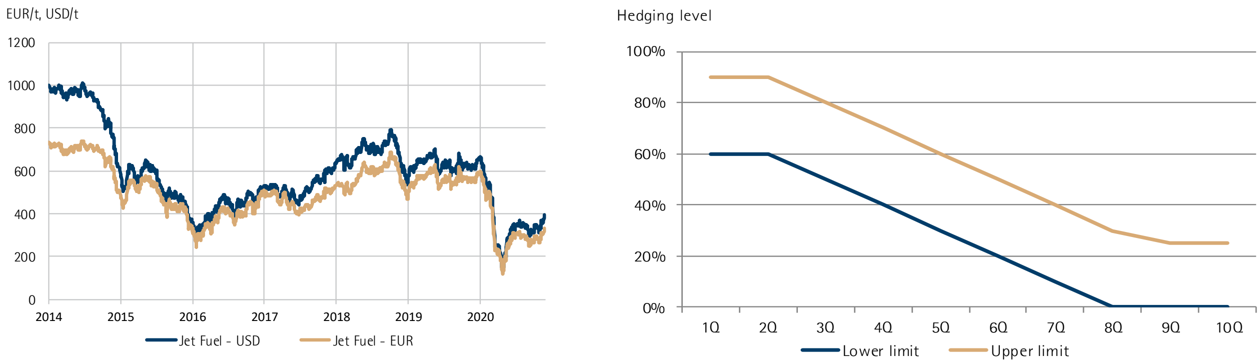
Traffic charges account for roughly 11% of total costs. Development in traffic charges is driven by the passenger volume and regular index adjustments by the airport authorities. Moreover, the charges are denominated in USD and thus, as a cost item, exposed to a currency risk. Passenger and handling expenses (16% of total costs) are also driven by passenger volumes. Finnair introduced its ambitious cost savings program in 2020, resulting from the rapidly changed market environment caused by the COVID-19. The company seeks costs savings from all of its operations. The company targets annual costs saving of EUR 140m starting from 2022 (compared to 2019 levels). More on page 5.

Figure 12: Cost move largely in line with ASK, except fuel



Source: Finnair, Evli Research

Figure 13: Jet fuel prices and Finnair's hedging policy (in normal circumstances)



Source: Bloomberg (JET1NECC index), Finnair

Figure 14: Finnair's fuel efficiency has improved with A350s

Fuel efficiency	2013	2014	2015	2016	2017	2018	2019
Fuel g/RPK	32.8	32.6	32.6	32.3	30.0	29.7	29.4
chg-%	-	-0.6%	0.0%	-0.9%	-7.1%	-1.0%	-1.0%
Fuel g/RTK	273.5	270.7	271.2	265.3	247.6	251.3	249.3
chg-%	-	-1.0%	0.2%	-2.2%	-6.7%	1.5%	-0.8%
Fuel g/ASK	26.3	26.4	26.2	25.8	25.0	24.3	24.0
chg-%	-	0.4%	-0.8%	-1.5%	-3.1%	-2.8%	-1.4%
L/Pax/100km	-	-	-	4.0	3.8	3.7	3.7
chg-%	-	-	-	-	-7.2%	-1.1%	-1.1%

Note: RPK and ASK describe passenger traffic performance, while RTK describes performance according to payload capacity (passengers+cargo).
L/PAX/100 = Liters consumed by one customer per 100 kilometers.
Source: Finnair

Financial performance and outlook

2017 was a strong year for Finnair

2017 marked a record year for Finnair. In May 2017, the Finnish government agreed with Russia over continuation of trans-Siberian overflight rights. New treaty allows Finnair to expand its Asian capacity by ca. 15% and open 10 new routes. Four new A350 planes were delivered in Q2-Q3 and with this, all A340s had been replaced. While the wide-body plane count did not grow in 2017, higher number of seats in A350s vs. the replaced A340s and 6 new narrow-body planes increased ASK by ~9% for the full 2017. Despite a fairly rapid capacity increase, Finnair's traffic increased more than capacity in 2017: passenger numbers grew by ~10% while RPK grew by as much as ~14%. Passenger load factors improved in all markets except domestic traffic. Finnair upgraded its revenue guidance in Q2 and guided adj. EBIT to broadly double from EUR 55m in 2016. Guidance was upgraded again in September 2017 for adj. EBIT, which was now seen at EUR 135-155m. A third guidance upgrade came in November: revenue was now seen growing faster than capacity and adj. EBIT exceeding EUR 155m. With strong traffic performance, continued decrease of fuel costs and finalization of the EUR 20m cost savings program initiated in 2016, Finnair ended the year with a record adj. EBIT of EUR 170m and met its 6% adj. EBIT margin target.

Four A350s were delivered during 2017

Competition increased in the Nordics in 2018

The start of 2018 was promising: the load factor improvement seen in 2017 continued in Q1 despite strong 19% capacity growth in Q1. In Q2 capacity growth remained strong at 18%, but load factor now turned to -1.2pp decline. A disappointing guidance for adj. EBIT was provided with Q2 earnings: with a clear increase in jet fuel prices Finnair saw 2018E adj. EBIT remaining broadly at last year's level of EUR 170m. In Q3, traffic disappointed and fuel moved up further, reaching multi-year high at the end of Q3. With weaker traffic and increased fuel, Finnair's 12m rolling adj. EBIT trend weakened for the first time in Q3'18 after 15 straight quarters of improvement. Guidance was also downgraded with Q3 earnings: adj. EBIT was now expected to somewhat weaken vs. be flat previously, reflecting increased competition especially in the Nordics (ie. European traffic) and higher fuel. In Q4, traffic again disappointed, as passenger load factor continued to weaken notably (-3.4pp) with increased competitive pressures. However, despite disappointing Q4 traffic, revenue and earnings surprised on the positive side in Q4: fuel and yield were behind the earnings beat and Finnair ended the year broadly at adj. EBIT level of the previous year. Yields improved in Asian and North American traffic (10-12% y/y) in Q4 and Finnair attributed this to the introduction of a new revenue management tool (during 2018) and to better demand/supply balance in Asia than in EU and domestic traffic. Management noted that the new revenue management tool puts more emphasis on optimizing profitability of the whole network rather than individual routes.

2019 was a volatile year for Finnair

2019 was a volatile year to Finnair but the market outlook improved towards the end of the year. Two new A350 aircrafts were delivered during Q1. In Q1, ASK growth remained strong at 10% but load factor turned to -4.6pp decline. Adj. EBIT during the seasonally weak quarter was EUR -16m. Profitability was hampered by increased costs related to the capacity increase and a rise in jet fuel prices. Uncertainties increased due to the continuing political risks related to global trade (i.e. US-China trade war and Brexit). Especially cargo demand was hampered by these. In Q2, ASK growth continued strong (~15%) but profitability continued to decline (adj. EBIT decreased by ~20% y/y to EUR 47m). Finnair expected to have 2019E ASK growth of ~11-12% and revenue to grow slower pace than capacity. The new capacity increases were mainly put in Asian routes (e.g. new service to Beijing Daxing Airport). The company expected 2019E adj. EBIT margin to be 4.5-6.0%. In Q3, Finnair's ASK increased by ~10%. Cargo revenue was negatively impacted weaker demand across the industry. Further, profitability was hampered by increase in jet fuel price paid (incl. hedging), a decline in dollar-based discount rate on maintenance reserves and negative exchange rates. The company also continued to renew its distribution strategy with a new distribution model and partnerships. Q4 was a strong quarter for Finnair as ASK increased by 11% and revenue

Political and economic uncertainties increased grew by 13%. Profitability development was also good and adj. EBIT totaled EUR 31m. Also, PLF increased by 2.1pp. Finnair's traffic especially in Europe developed favorably. FY2019 adj. EBIT margin of 5.3% was in line with the given guidance.

CMD was held in 2019

Massive fleet investment plan was introduced

Finnair held its CMD in November 2019. The company targeted to make significant fleet investments (EUR 3.5bn-4bn) in the upcoming years. One third of this was supposed to go for growth and the remaining to replacement/renewal. In addition to the ongoing A350 project, the company aimed to make investments to its narrow body fleet as well. Finnair targeted ASK growth of ~3-5% in the strategy period (2020-2025), in line with the Asian market growth.

2020 has been historically bad year for the aviation industry

Rights offering of approx. EUR 500m was issued during the summer

Year 2020 has been the worst in the global aviation history. In early 2020, Finnair still expected ASK growth of ~4% for 2020E. One new A350 aircraft was delivered in February. The coronavirus was quickly spread from China to all over the world and in mid-March, the Finnish government decided on movement restrictions and internal board control came into force. In Q1, ASK decreased by ~9% while revenue declined by ~16%. Adj. EBIT dropped to EUR -91m. Finnair indicated that the comparable operating loss will be EUR ~2m per day during Q2. For the whole year, Finnair expected significant decline in revenue and that the comparable operating loss will be significant. During April-June, Finnair's ASK decreased by 97% and revenue was down by 91%. Adj. EBIT was EUR -174m. In order to improve its cash position, Finnair issued a rights offering (net proceeds of EUR ~500m) during the summer. The company has also a statutory premium pension loan of EUR 600m, of which, EUR 200m was withdrawn in June. Revenue during the second quarter was greatly supported by the cargo business, which generated more than 70% of the revenue. At the end of the second quarter, the company expected to fly ~25% of its normal flight amount in July and to increase the share to 50% in September. The plan was to fly approx. 70% of its normal capacity by the end of the year.

Travel restrictions have remained tight especially in Finland

The travel restrictions however remained strict especially in Finland after the lockdown which had a negative impact on demand. Therefore, the company had to deviate from its previous plans and to continue to operate with a significantly limited network. The company renewed its EUR 200m hybrid bond with fixed annual interest rate of 10.250% (until Sept 2023 and after that 15.250%). The company also made a sale-and-leaseback agreement on the A350 aircraft which was delivered earlier in February. This had an immediate over EUR 100m positive cash effect. One new A350 was also delivered during the third quarter. In Q3, the comparable operating loss was of a similar magnitude than in Q2 (Q3: EUR -167m). ASK decreased by ~87% and revenue declined by ~89%. During the quarter, the company withdrew another EUR 200m part of the statutory premium pension loan (remaining EUR 200 still left in the statutory premium pension loan).

Finnair still has additional financing available

In addition to the remaining part of the statutory premium pension loan, at the end the third quarter Finnair still had a fully undrawn EUR 175m revolving credit facility (repaid in September), and EUR 200m short term commercial paper program. Further, the company has made arrangements related to the company's pension fund. Due to the amendments that relate to pension index increment removals, Finnair expects to have a positive one-off impact of 85 million euros on Finnair's operating result in Q4/2020. As the item is reported as IAC, it has no effect on the comparable operating result. It has no immediate cash flow effect either, but the impact is deferred to future years. The amendments form a part of Finnair's rebuild measures with which the company aims to ensure its competitiveness in the post-pandemic market. The company indicated that due to similar measures, the positive impact might increase significantly from the aforementioned EUR 85m.

Aiming to fly approx. 75 flights to ~50 destinations during the winter season

Finnair continues to fly with a limited network during the winter season. The company is aiming to fly approx. 75 daily flights to ~50 destinations in November 2020 – March 2021 (in 2019: ~ 350 daily flights). The ramp-up phase is expected to start next summer. Finnair also completed its massive cooperation negotiations. As a result of the negotiations, Finnair will cut approximately 700 jobs. The company however aims to secure the availability of its flying staff so that it can quickly add flights when the situation improves. Most of the company's staff has been temporarily laid off since the early spring. The company has an ambitious cost savings program. The first target was to have annual cost savings of EUR 80m from 2022 onwards. This was later increased to EUR 100m and then to EUR 140m. For Q4E, the company expects comparable operating loss to be similar compared to Q2 and Q3. 20E revenue and capacity (ASK) are expected to decrease more than 70% from 2019.

Finnair will be a much smaller airline after the crisis – at least in short term

Despite the challenging times, Finnair sticks with its Asian strategy. Finnair was scheduled to receive two A350s in 2021 and one more plane in 2022E. However, the company was able to negotiate with Airbus to postpone these deliveries. The new delivery dates for the aircrafts will be on average 24 months later than originally scheduled. The air travel is not expected to return to the levels prior the COVID-19 any time soon. IATA has estimated that better recovery will be seen 2024. Currently, Finnair estimates that it will take 2-3 years to recover from the crisis. The current assumption is based on the expectations of how quickly the Asian market will recover. However, after the crisis, the competition will be fierce and due to the tight competition, it is likely that we see further consolidation and bankruptcies in Europe. The current strict travel restrictions in Finland are disadvantageous for Finnair compared to its European peers. Prior the pandemic, Finnair had a healthy balance sheet and strong cash position which has supported the company during the unexceptional times. As the company still has tools to support its cash position (incl. the revolving credit facility etc., Finnair's cash reserves are over EUR 1bn), we see that the company will survive through the turbulence. After the crisis, the company will be a much smaller airline than it used to be, at least in short-term.

We expect FY20E ASK to decrease by 72% y/y and revenue to decline by 73% y/y

We expect heavy losses in Q4/20E and in H1/21E

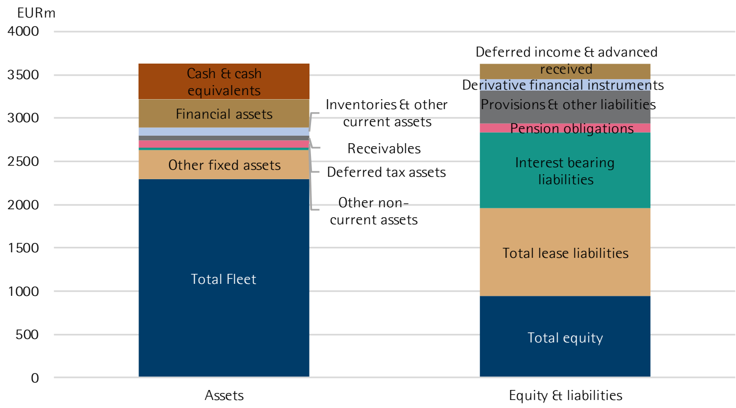
We expect Q4/20E ASK to decrease by 87% y/y and revenue to decline by 85% y/y. We expect comparable operating loss of EUR 170m. Hence, we expect FY20E ASK to decrease by 72% y/y and revenue to decline by 73% y/y. We expect FY20E comparable operating loss of EUR 602m. Our expectations of the beginning of next year aren't any better as we expect Q1/21E ASK to decline by 85% compared to Q1/19. We expect similar comparable operating loss than in the previous quarters. Gradual recovery is expected to start after this. A lot also depends on the possible vaccine which might speed up the recovery. Recently, there have been several good news about the vaccine testing results but at the moment, there are no effective vaccines in the global distribution. Further, the travel restrictions especially in Finland are extremely tight and the demand is impacted by these. Thus, there are significant uncertainties with our 2021E estimates as well. Losses in H1/2021E are expected to be significant in any case. We expect better recovery of air travel in 2022E, but passenger numbers are still expected to remain below 2019 levels. The competitive landscape is expected to tighten after the crisis, impacting also Finnair's operations.

Balance sheet

Fleet represents a large part of the total assets

Due to the nature of Finnair's business, fleet represents a large part of Finnair's assets. Total fleet was approx. 63% of the total assets at the end of Q3/20. The company's liquid funds (incl. financial assets and cash & cash equivalents) were approx. 20% of total assets. Finnair's total lease liabilities represented approx. 28% of total equity and liabilities. The share of other interest-bearing liabilities was some 24%.

Figure 15: Finnair's balance sheet (Q3/2020)

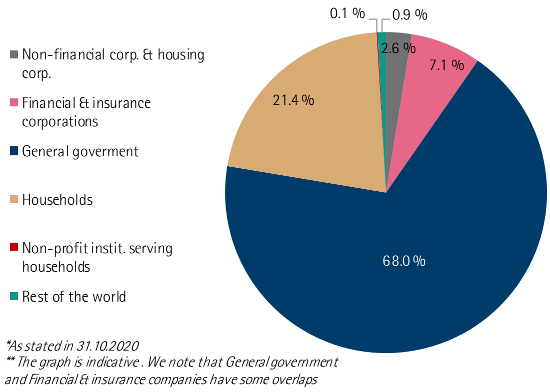


Source: Finnair, Evli Research

Ownership information

The Government of Finland is the largest shareholder of Finnair with an ownership of more than 55%. Other larger shareholders are mainly Finnish pension and insurance companies.

Figure 16: Finnair's shareholders structure



Source: Finnair, Evli Research

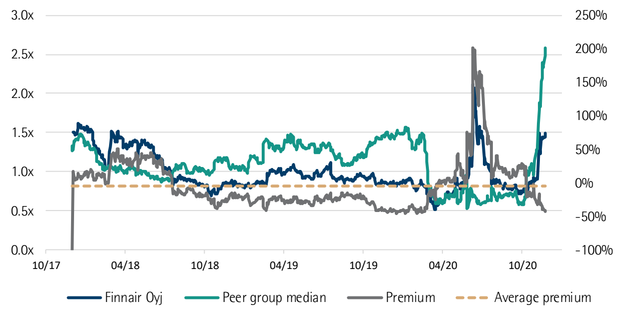
Estimates

FINNAIR EURm	2017 FY	2018 FY	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 FY	2020 Q1	2020 Q2	2020 Q3	2020E Q4	2020E FY	2021E FY	2022E FY
Passenger transportation														
Passenger revenue	2021	2244	513	642	710	616	2480	423	14	55	62	553	1358	2330
y/y change	*11.3 %*	*11.1 %*	*5.8 %*	*11.1 %*	*8.9 %*	*16.0 %*	*10.5 %*	*-17.4 %*	*-97.9 %*	*-92.3 %*	*-90.0 %*	*-77.7 %*	*145.4 %*	*71.5 %*
Passengers (thousands)	11905	13281	3148	3910	4088	3504	14650	2656	98	454	463	3671	7858	12614
y/y change	*10 %*	*12 %*	*4 %*	*13 %*	*12 %*	*11 %*	*10 %*	*-16 %*	*-97 %*	*-89 %*	*-87 %*	*-75 %*	*114 %*	*61 %*
ASK (mkm)	36 922	42 386	10 670	12 307	12 624	11 587	47 189	9 671	345	1 667	1 532	13 214	27 488	44 517
y/y change	*9 %*	*15 %*	*10 %*	*15 %*	*10 %*	*11 %*	*11 %*	*-9 %*	*-97 %*	*-87 %*	*-87 %*	*-72 %*	*108 %*	*62 %*
RPK (mkm)	30 749	34 660	8 356	10 150	10 877	9 151	38 534	7 025	114	645	648	8 432	20 903	35 695
y/y change	*14 %*	*13 %*	*4 %*	*15 %*	*12 %*	*14 %*	*11 %*	*-16 %*	*-99 %*	*-94 %*	*-93 %*	*-78 %*	*148 %*	*71 %*
Load factor (RPK/ASK), PLF	83.3 %	81.8 %	78.3%	82.5%	86.2%	79.0%	81.7%	72.6 %	33.1 %	38.7 %	42.3 %	63.8 %	76.0 %	80.2 %
y/y change	*3.5%-p*	*-1.5%-p*	*-4.6%-p*	*-0.1%-p*	*1.7%-p*	*2.1%-p*	*-0.1%-p*	*-5.7%-p*	*-49.4%-p*	*-47.5%-p*	*-36.7%-p*	*-17.9%-p*	*12.2%-p*	*4.1%-p*
Ancillary and retail	145	161	41	45	46	45	176	43	6	9	10	67	107	182
Cargo	197	207	47	55	53	57	212	37	50	32	40	158	201	213
Travel services	206	223	68	48	57	57	230	58	0	2	2	63	123	227
Total revenue	**2569**	**2835**	**668**	**789**	**865**	**775**	**3098**	**561**	**69**	**97**	**114**	**841**	**1789**	**2952**
YoY change	***11 %***	***10 %***	***5 %***	***10 %***	***8 %***	***13 %***	***9 %***	***-16 %***	***-91 %***	***-89 %***	***-85 %***	***-73 %***	***113 %***	***65 %***
Other income	77	74	15	13	13	15	56	14	11	11	12	48	52	52
Staff costs	**-423**	**-500**	**-130**	**-137**	**-132**	**-136**	**-535**	**-136**	**-48**	**-57**	**-61**	**-303**	**-401**	**-516**
y/y change	*17 %*	*18 %*	*5 %*	*3 %*	*6 %*	*14 %*	*7 %*	*5 %*	*-65 %*	*-57 %*	*-55 %*	*-43 %*	*32 %*	*29 %*
% of revenue	*16 %*	*18 %*	*19 %*	*17 %*	*15 %*	*18 %*	*17 %*	*24 %*	*70 %*	*59 %*	*54 %*	*36 %*	*22 %*	*17 %*
Fuel	**-472**	**-581**	**-145**	**-181**	**-190**	**-171**	**-687**	**-144**	**-33**	**-29**	**-32**	**-238**	**-405**	**-648**
y/y change	*-4 %*	*23 %*	*14 %*	*24 %*	*17 %*	*18 %*	*18 %*	*-1 %*	*-82 %*	*-85 %*	*-81 %*	*-65 %*	*70 %*	*60 %*
% of revenue	*18 %*	*20 %*	*22 %*	*23 %*	*22 %*	*22 %*	*22 %*	*26 %*	*48 %*	*30 %*	*28 %*	*28 %*	*23 %*	*22 %*
Other OPEX	**-1314**	**-1316**	**-348**	**-359**	**-375**	**-362**	**-1444**	**-304**	**-87**	**-104**	**-115**	**-610**	**-956**	**-1349**
y/y change	*4 %*	*0 %*	*8 %*	*10 %*	*8 %*	*9 %*	*10 %*	*-13 %*	*-76 %*	*-72 %*	*-68 %*	*-58 %*	*57 %*	*41 %*
% of revenue	*51 %*	*46 %*	*52 %*	*45 %*	*43 %*	*47 %*	*47 %*	*54 %*	*127 %*	*107 %*	*101 %*	*73 %*	*53 %*	*46 %*
Comparable EBITDA	**300**	**512**	**60**	**126**	**182**	**121**	**488**	**-9**	**-89**	**-82**	**-83**	**-262**	**79**	**491**
Depreciation	-129	-294	-76	-79	-81	-90	-325	-83	-85	-85	-87	-340	-340	-345
Comparable EBIT	**171**	**218**	**-16**	**47**	**101**	**31**	**163**	**-91**	**-174**	**-167**	**-170**	**-602**	**-261**	**146**
Comp. EBIT-%	***6.6 %***	***7.7 %***	***-2.4 %***	***5.9 %***	***11.6 %***	***4.0 %***	***5.3 %***	***-16.2 %***	***-254.1 %***	***-171.3 %***	***-148.9 %***	***-71.6 %***	***-14.6 %***	***4.9 %***
IAC & fair value changes	54	39	-2	1	-6	4	-3	-4	3	-16	85	67	0	0
EBIT	225	256	-18	48	95	35	160	-96	-171	-183	-85	-535	-261	146

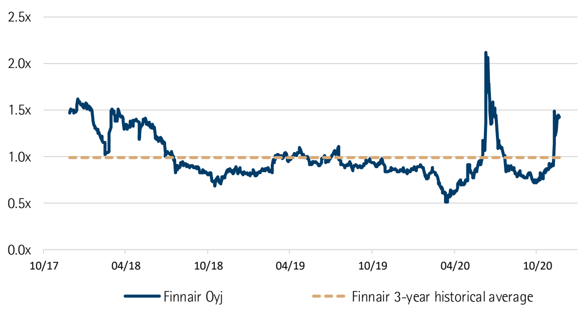
Sources: Finnair, Evli estimates

Historical valuation

Finnair - 12m forward P/B vs. primary peers



Finnair - 12-month forward P/B vs. 3-year average



Source: Factset

Valuation – we retain our rating "HOLD"

Valuation is challenging due to the heavy losses and uncertainties

Finnair's valuation is challenging at the moment as the company's 20E-21E valuation multiples don't provide any support due to the heavy losses. Finnair's 22E multiples are also impacted by the extraordinary situation. However, Finnair's cost savings scheme will support the company's profitability development 2022E onwards.

We keep our rating "HOLD" with TP of EUR 0.60

Finnair's share price recently took off due to the optimistic vaccine news. Even though the news are promising, we note that there are no vaccines in the global distribution yet and the risks are still high. However, there is light at the end of the tunnel and the company has taken right measures to secure its operations also in the future. We note that there are significant uncertainties with our estimates and the visibility is still extremely weak. We retain "HOLD" with TP of EUR 0.60 (0.38).

FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA 20	EV/EBITDA 21	EV/EBITDA 22	EV/EBIT 20	EV/EBIT 21	EV/EBIT 22	P/E 20	P/E 21	P/E 22	P/B 20	P/B 21	P/B 22
Primary European peers													
SAS AB	14532		8.9x	6.5x			18.3x			8.4x		8.5x	5.8x
International Consolidated Airlines Group	8467		11.4x	4.9x			9.5x			7.3x	2.6x	4.1x	2.8x
Air France-KLM SA	2114		15.2x	5.0x			26.4x						
Deutsche Lufthansa AG	6246		11.6x	4.3x			13.8x			14.7x	1.1x	1.3x	1.2x
Norwegian Air Shuttle ASA	1961		18.4x	7.3x			32.3x		5.9x	0.4x	0.0x	0.0x	0.0x
Other European peers													
Aegean Airlines SA	284			2.9x			7.1x			6.0x	2.3x	2.5x	1.9x
easyJet plc	3817		16.7x	5.2x			11.5x			13.8x	1.8x	1.8x	1.7x
Ryanair Holdings Plc	17324		12.3x	6.8x		25.1x	10.3x		28.7x	11.5x	3.9x	3.4x	2.6x
Wizz Air Holdings Plc	3937		10.9x	6.0x		33.7x	11.5x		44.8x	14.0x	7.1x	6.1x	4.0x
North American peers													
American Airlines Group, Inc.	8108			12.6x			31.3x			38.4x			
Delta Air Lines, Inc.	26313		12.1x	6.5x		30.8x	10.7x			9.7x	5.3x	5.9x	4.0x
JetBlue Airways Corporation	4322		15.0x	6.4x		764.8x	10.6x			16.1x	1.1x	1.2x	1.1x
Southwest Airlines Co.	28481		16.7x	6.8x		57.3x	10.1x		214.2x	16.1x	2.7x	2.8x	2.5x
Spirit Airlines, Inc.	2235		14.4x	7.4x		103.9x	13.3x			11.8x	1.0x	1.2x	1.1x
Primary European peers median		**-**	**11.6x**	**5.0x**	**-**	**-**	**18.3x**	**-**	**-**	**7.8x**	**1.1x**	**2.7x**	**2.0x**
Finnair (Evli est)*		**-7.2x**	**23.4x**	**3.5x**	**-3.1x**	**-7.1x**	**11.7x**	**-1.3x**	**-2.9x**	**18.6x**	**1.1x**	**1.9x**	**1.7x**
*Finnair discount/premium to primary peer group median**		*-*	*102 %*	*-31 %*	*-*	*-*	*-36 %*	*-*	*-*	*138 %*	*2 %*	*-31 %*	*-14 %*

FINNAIR PEER GROUP	Ticker	Div yield 20	Div yield 21	Div yield 22	EBIT-% 20	EBIT-% 21	EBIT-% 22	ROCE-% 20	ROCE-% 21	ROCE-% 22	ROE-% 20	ROE-% 21	ROE-% 22
Primary European peers													
SAS AB	SAS-SE	0.0%	0.0%	0.0%	-36.5%	-0.1%	6.8%	-20.9%	-0.1%	7.0%		-42.1%	69.0%
International Consolidated Airlines Group	IAG-GB	0.0%	0.0%	2.2%	-49.3%	-1.5%	11.0%	-19.4%	-1.0%	9.9%	-167.0%	-29.1%	38.7%
Air France-KLM SA	AF-FR	0.0%	0.0%	0.0%	-43.8%	-10.2%	3.1%	-31.5%	-10.4%	4.8%			
Deutsche Lufthansa AG	LHA-DE	0.0%	0.3%	0.7%	-38.6%	-4.7%	4.1%	-20.9%	-4.0%	4.3%	-101.0%	-29.5%	7.9%
Norwegian Air Shuttle ASA	NAS-NO	0.0%	0.0%	47.2%	-43.1%	-9.5%	5.1%	-10.2%	-4.0%	4.1%	-24.3%	0.6%	7.2%
Other European peers													
Aegean Airlines SA	AEGN-GR	15.4%	0.3%	2.4%	-41.9%	0.6%	8.8%	-21.6%	0.6%	12.0%	-151.7%	-13.0%	31.2%
easyJet plc	EZJ-GB	0.0%	0.0%	2.5%	-25.8%	-5.4%	7.7%	-16.7%	-4.1%	9.1%	-37.8%	-11.9%	12.2%
Ryanair Holdings Plc	RY4C-IE	0.0%	0.0%	0.2%	-36.6%	12.5%	21.1%	-9.3%	7.9%	16.5%	-17.9%	11.9%	22.4%
Wizz Air Holdings Plc	WIZZ-GB	0.0%	0.0%	0.7%	-51.5%	9.0%	17.0%	-14.9%	6.0%	14.2%	-49.3%	13.6%	28.8%
North American peers													
American Airlines Group, Inc.	AAL-US	0.8%	0.3%	0.3%	-65.3%	-9.6%	3.5%	-23.5%	-5.9%	3.0%			
Delta Air Lines, Inc.	DAL-US	0.7%	0.1%	1.2%	-45.7%	5.4%	10.9%	-14.2%	2.7%	7.4%	-134.9%	-2.8%	41.5%
JetBlue Airways Corporation	JBLU-US	0.0%	0.0%	0.0%	-66.5%	0.2%	9.8%	-16.8%	0.1%	6.3%	-39.6%	-6.6%	6.8%
Southwest Airlines Co.	LUV-US	0.5%	0.4%	0.8%	-52.5%	3.2%	13.0%	-19.0%	2.1%	10.8%	-36.5%	1.3%	15.7%
Spirit Airlines, Inc.	SAVE-US	0.0%	0.0%	0.0%	-43.4%	1.6%	10.9%	-11.5%	0.7%	6.2%	-36.6%	-4.3%	9.2%
Primary European peers median		**0.0%**	**0.0%**	**0.7%**	**-43.1%**	**-4.7%**	**5.1%**	**-20.9 %**	**-4.0 %**	**4.8 %**	**-101.0%**	**-29.3%**	**23.3%**
Finnair (Evli est)*	FIA1S-FI	**0.0%**	**0.0%**	**0.0%**	**-71.6%**	**-14.6%**	**4.9%**	**-22.7 %**	**-11.0 %**	**6.9 %**	**-78.7%**	**-48.7%**	**9.6%**

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.

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3	2020Q4E	2020E	2021E	2022E
Net sales	668.3	789.1	865.4	774.9	3,097.7	561.2	68.6	97.4	113.9	841.1	1,788.9	2,952.4
EBITDA	60.2	125.6	181.8	120.7	488.2	-8.6	-89.2	-82.0	-82.5	-262.3	79.4	490.7
EBITDA margin (%)	*9.0*	*15.9*	*21.0*	*15.6*	*15.8*	*-1.5*	*-130.0*	*-84.1*	*-72.5*	*-31.2*	*4.4*	*16.6*
EBIT	-15.8	46.9	100.6	31.2	162.8	-91.1	-174.3	-167.0	-169.5	-601.9	-260.6	145.6
EBIT margin (%)	*-2.4*	*5.9*	*11.6*	*4.0*	*5.3*	*-16.2*	*-254.1*	*-171.3*	*-148.9*	*-71.6*	*-14.6*	*4.9*
Net financial items	-31.0	-8.8	-22.9	-4.3	-67.0	-82.7	-44.0	-66.3	-23.0	-216.0	-94.0	-66.5
Pre-tax profit	-46.8	38.1	77.7	26.9	95.8	-173.8	-218.3	-233.3	-192.5	-817.9	-354.6	79.1
Tax	9.7	-7.8	-14.4	-5.9	-18.4	35.6	43.1	49.9	21.5	150.1	70.9	-15.8
Tax rate (%)	*20.7*	*20.5*	*18.5*	*21.9*	*19.2*	*20.5*	*19.7*	*21.4*	*11.2*	*18.4*	*20.0*	*20.0*
Net profit	-40.3	27.1	60.1	17.8	64.6	-141.4	-178.3	-187.5	-175.1	-682.3	-300.1	46.9
EPS	-0.31	0.21	0.47	0.14	0.50	-0.10	-0.13	-0.13	-0.12	-0.48	-0.21	0.03
EPS adjusted (diluted no. of shares)	-0.31	0.21	0.47	0.14	0.50	-0.10	-0.13	-0.13	-0.12	-0.48	-0.21	0.03
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES, EURm												
Group total	668.3	789.1	865.4	774.9	3,097.7	561.2	68.6	97.4	113.9	841.1	1,788.9	2,952.4
Total	668.3	789.1	865.4	774.9	3,097.7	561.2	68.6	97.4	113.9	841.1	1,788.9	2,952.4
SALES GROWTH, Y/Y %												
Group total	*4.2*	*9.9*	*7.2*	*15.7*	*9.2*	*-16.0*	*-91.3*	*-88.7*	*-85.3*	*-72.8*	*112.7*	*65.0*
Total	*4.2*	*9.9*	*7.2*	*15.7*	*9.2*	*-16.0*	*-91.3*	*-88.7*	*-85.3*	*-72.8*	*112.7*	*65.0*
EBIT, EURm												
Group total	-15.8	46.9	100.6	31.2	162.8	-91.1	-174.3	-167.0	-169.5	-601.9	-260.6	145.6
Total	-15.8	46.9	100.6	31.2	162.8	-91.1	-174.3	-167.0	-169.5	-601.9	-260.6	145.6
EBIT margin, %												
Group total	*-2.4*	*5.9*	*11.6*	*4.0*	*5.3*	*-16.2*	*-254.1*	*-171.3*	*-148.9*	*-71.6*	*-14.6*	*4.9*
Total	*-2.4*	*5.9*	*11.6*	*4.0*	*5.3*	*-16.2*	*-254.1*	*-171.3*	*-148.9*	*-71.6*	*-14.6*	*4.9*

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	2,254.5	2,316.8	2,568.4	2,836.1	3,097.7	841.1	1,788.9	2,952.4
Sales growth (%)	*-1.3*	*2.8*	*10.9*	*10.4*	*9.2*	*-72.8*	*112.7*	*65.0*
EBITDA	131.8	161.0	299.6	512.6	488.2	-262.3	79.4	490.7
EBITDA margin (%)	*5.8*	*6.9*	*11.7*	*18.1*	*15.8*	*-31.2*	*4.4*	*16.6*
Depreciation	-108.1	-105.8	-129.2	-294.2	-325.4	-339.6	-340.0	-345.1
EBITA	23.7	55.2	170.4	218.4	162.8	-601.9	-260.6	145.6
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	23.7	55.2	170.4	218.4	162.8	-601.9	-260.6	145.6
EBIT margin (%)	*1.1*	*2.4*	*6.6*	*7.7*	*5.3*	*-71.6*	*-14.6*	*4.9*
Reported EBIT	12.4	53.8	169.5	218.3	160.0	-619.3	-260.6	145.6
EBIT margin (reported) (%)	*0.6*	*2.3*	*6.6*	*7.7*	*5.2*	*-73.6*	*-14.6*	*4.9*
Net financials	-8.3	-10.5	-13.7	-129.0	-67.0	-216.0	-94.0	-66.5
Pre-tax profit	15.4	44.7	156.7	89.4	95.8	-817.9	-354.6	79.1
Taxes	-3.1	-8.9	-31.3	-25.6	-18.4	150.1	70.9	-15.8
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-17.8	19.4	111.9	51.1	61.8	-699.7	-300.1	46.9
Cash NRIs	-11.3	-1.4	-0.9	-0.1	-2.8	-17.4	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	957	1,189	1,446	1,547	1,751	1,767	1,681	1,637
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	999	878	984	984	974
Inventory	12	15	17	121	80	101	21	30
Receivables	364	512	460	210	217	99	128	175
Liquid funds	708	814	965	1,067	952	964	548	886
Total assets	2,050	2,529	2,887	3,944	3,878	3,915	3,363	3,702
Liabilities								
Shareholder's equity	727	857	1,016	918	966	767	467	513
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	1,159	1,054	984	984	974
Deferred taxes	0	33	74	48	64	64	64	64
Interest bearing debt	346	718	719	615	521	1,000	550	736
Non-interest bearing current liabilities	682	519	566	285	243	66	268	384
Other interest-free debt	201	339	428	811	873	878	873	873
Total liabilities	2,050	2,529	2,887	3,944	3,878	3,915	3,363	3,702
CASH FLOW, EURm								
+ EBITDA	132	161	300	513	488	-262	79	491
- Net financial items	-8	-10	-14	-129	-67	-216	-94	-67
- Taxes	0	33	-1	-52	-2	150	71	-16
- Increase in Net Working Capital	43	56	57	50	-7	-80	253	61
+/- Other	-2	-19	40	1	-16	-32	-16	-16
= Cash flow from operations	164	220	382	383	397	-440	293	453
- Capex	-81	-486	-405	-330	-409	-462	-254	-291
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	448	153	157	214	0	0	0	0
= Free cash flow	531	-113	134	268	-12	-902	39	161
+/- New issues/buybacks	231	110	60	-110	21	500	0	0
- Paid dividend	0	0	-13	-38	-35	0	0	0
+/- Other	-480	108	-30	-17	-89	414	-455	177
Change in cash	282	105	151	103	-116	12	-416	338

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	516	1,643	908	753	872	872	872
Net debt (excl. convertibles)	-96	-246	707	623	1,020	986	825
Enterprise value	420	1,397	1,615	1,377	1,893	1,859	1,697
Sales	2,317	2,568	2,836	3,098	841	1,789	2,952
EBITDA	161	300	513	488	-262	79	491
EBIT	55	170	218	163	-602	-261	146
Pre-tax	45	157	89	96	-818	-355	79
Earnings	21	113	51	65	-682	-300	47
Equity book value (excl. minorities)	857	1,016	918	966	767	467	513
Valuation multiples							
EV/sales	0.2	0.5	0.6	0.4	2.3	1.0	0.6
EV/EBITDA	2.6	4.7	3.2	2.8	-7.2	23.4	3.5
EV/EBITA	7.6	8.2	7.4	8.5	-3.1	-7.1	11.7
EV/EBIT	7.6	8.2	7.4	8.5	-3.1	-7.1	11.7
EV/OCF	1.9	3.7	4.2	3.5	-4.3	6.4	3.7
EV/FCFF	-1.5	6.3	6.1	8.4	-4.0	7.4	4.8
P/FCFE	-4.6	12.2	3.4	-61.4	-1.0	22.4	5.4
P/E	24.9	14.6	10.2	11.7	-1.3	-2.9	18.6
P/B	0.6	1.6	1.0	0.8	1.1	1.9	1.7
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*-7.1*	*23.1*	*3.4*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*-3.1*	*-7.0*	*11.5*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*-2.1*	*47.1*	*10.3*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*1.1*	*1.8*	*1.6*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*-1.2*	*-2.8*	*18.0*
Per share measures							
Number of shares	128,136	128,136	128,136	128,136	1,407,192	1,407,192	1,407,192
Number of shares (diluted)	128,136	128,136	128,136	128,136	1,407,192	1,407,192	1,407,192
EPS	0.16	0.88	0.40	0.50	-0.48	-0.21	0.03
Operating cash flow per share	1.71	2.98	2.99	3.09	-0.31	0.21	0.32
Free cash flow per share	-0.88	1.05	2.09	-0.10	-0.64	0.03	0.11
Book value per share	6.69	7.93	7.17	7.54	0.54	0.33	0.36
Dividend per share	0.10	0.30	0.27	0.00	0.00	0.00	0.00
Dividend payout ratio, %	61.7	34.1	68.6	0.0	0.0	0.0	0.0
Dividend yield, %	2.5	2.3	3.9	0.0	0.0	0.0	0.0
FCF yield, %	-21.9	8.2	29.5	-1.6	-103.4	4.5	18.5
Efficiency measures							
ROE	2.6	12.0	5.3	6.9	-78.7	-48.7	9.6
ROCE	4.2	10.3	9.9	6.2	-22.7	-11.0	6.9
Financial ratios							
Inventories as % of sales	0.6	0.7	4.3	2.6	12.0	1.2	1.0
Receivables as % of sales	22.1	17.9	7.4	7.0	11.8	7.2	5.9
Non-interest bearing liabilities as % of sales	22.4	22.0	10.1	7.8	7.8	15.0	13.0
NWC/sales, %	-12.7	-18.7	-26.4	-23.9	-78.6	-51.1	-33.0
Operative CAPEX/sales, %	21.0	15.8	11.6	13.2	55.0	14.2	9.9
CAPEX/sales (incl. acquisitions), %	21.0	15.8	11.6	13.2	55.0	14.2	9.9
FCFF/EBITDA	-1.8	0.7	0.5	0.3	1.8	3.2	0.7
Net debt/EBITDA, book-weighted	-0.6	-0.8	1.4	1.3	-3.9	12.4	1.7
Debt/equity, market-weighted	1.4	0.4	0.7	0.7	1.1	0.6	0.8
Equity ratio, book-weighted	37.8	39.1	25.4	27.4	20.1	14.8	15.2
Gearing, %	-11.2	-24.2	77.0	64.5	133.1	211.4	160.7

COMPANY DESCRIPTION: Finnair is a network airline established in 1923. The company specializes in passenger and cargo traffic between Asia and Europe and it has over 100 destinations worldwide. The company has modern and eco-friendly fleet that consists of over 80 aircrafts.

INVESTMENT CASE: Finnair's investment case relies on growth and profitability improvement which stems from its competitive advantage of operating the transfer traffic between Europe and Asia due to its geographical position and operating a growing cost efficient and eco-friendly modern fleet.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Prime Minister's Office	786,669,687	487.735	55.9%
The local Government Pensions Institution	50,876,003	31.543	3.6%
Ilmarinen Mutual Pension Insurance Company	37,000,000	22.940	2.6%
Varma Mutual Pension Insurance Company	35,881,263	22.246	2.5%
The State Pension Fund	21,999,999	13.640	1.6%
Elo Mutual Pension Insurance Company	14,671,667	9.096	1.0%
Laakkonen Mikko Kalervo	7,200,000	4.464	0.5%
Veritas Pension Insurance Company Ltd.	6,984,267	4.330	0.5%
Finnair	4,100,001	2.542	0.3%
Länsiauto Oy	2,323,220	1.440	0.2%
Ten largest	967,706,106	599.978	69%
Residual	439,485,559	272.481	31%
Total	1,407,191,665	872.459	100%

EARNINGS CALENDAR	
February 18, 2021	FY 2020 Results
April 27, 2021	Q1 report
July 15, 2021	Q2 report
October 26, 2021	Q3 report

COMPANY MISCELLANEOUS	
CEO: Topi Manner	Tietotie 9, 01053 FINNAIR (VANTAA AIRPORT)
CFO: Mika Stirkkinen	Tel: +358 9 818 2780
IR: Erkka Salonen	

DEFINITIONS

P/E Price per share / Earnings per share	**EPS** Profit before extraord. items and taxes– income taxes + minority interest / Number of shares
P/BV Price per share / Shareholders' equity + taxed provisions per share	**DPS** Dividend for the financial period per share
Market cap Price per share * Number of shares	**OCF (Operating cash flow)** EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	**FCF (Free cash flow)** Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales Enterprise value / Sales	**FCF yield, %** Free cash flow / Market cap
EV/EBITDA Enterprise value / Earnings before interest, tax, depreciation and amortization	**Operative CAPEX/sales** Capital expenditure – divestments – acquisitions / Sales
EV/EBIT Enterprise value / Operating profit	**Net working capital** Current assets – current liabilities
Net debt Interest bearing debt – financial assets	**Capital employed/Share** Total assets – non-interest bearing debt / Number of shares
Total assets Balance sheet total	**Gearing** Net debt / Equity
Div yield, % Dividend per share / Price per share	**Debt/Equity, %** Interest bearing debt / Shareholders' equity + minority interest + taxed provisions
Payout ratio, % Total dividends / Earnings before extraordinary items and taxes – income taxes + minority interest	**Equity ratio, %** Shareholders' equity + minority interest + taxed provisions / Total assets – interest-free loans
ROCE, % Profit before extraordinary items + interest expenses+ other financial costs / Balance sheet total – non-interest bearing debt (average)	**CAGR, %** Cumulative annual growth rate = Average growth per year
ROE, % Profit before extraordinary items and taxes – income taxes / Shareholder's equity + minority interest + taxed provisions (average)	

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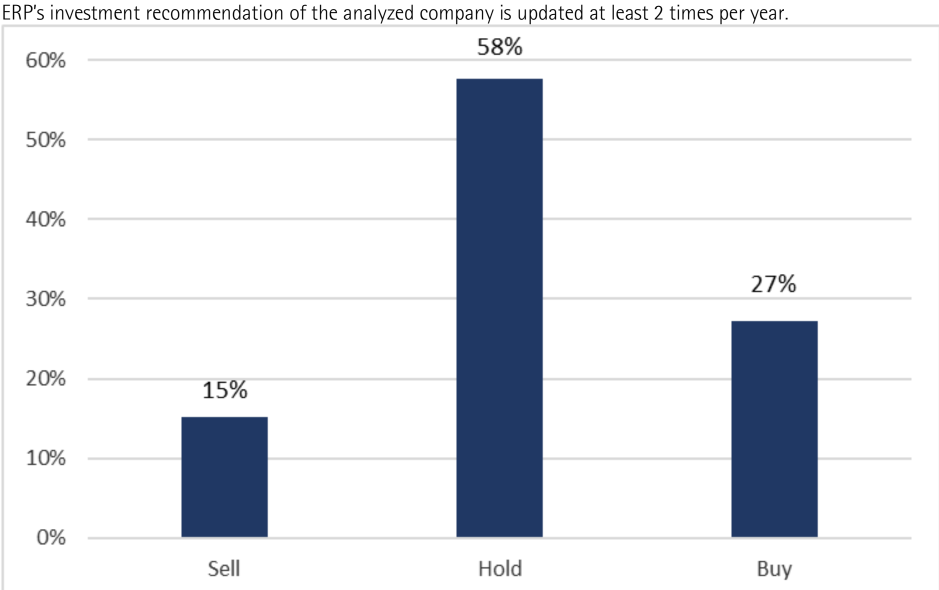
Investment recommendations are defined as follows:

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.



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

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