

# *SAS*

## **Q4 2018/2019**



5 December 2019

# Highlights Q4/19

## Financial drivers

- Continued strong development of unit revenue and passenger yield
- Domestic and European performance stronger than anticipated
- Maintained operational quality resulting in reduced cost for traffic disturbances
- Improved underlying CASK (adjusted for currency effects)
- Issued MSEK 1,500 hybrid bond to strengthen equity position

## Headwinds and tailwinds

- + Reduced market capacity supporting positive yield and unit revenue trend
- Soft economic indicators
- Weak Swedish and Norwegian krona
- Large European order book of new aircraft

Q4-19	CHANGE VS. Q4-18
<b>EBT *</b>	
<b>MSEK 1 226</b>	<b>MSEK +404</b>
<b>Capacity</b> (ASK, total, mill. km)	
<b>14 610</b>	<b>+1.6%</b>
<b>Unit Revenue, PASK</b> (SEK, currency adjusted)	
<b>0.77</b>	<b>+2.7%</b>
<b>Passenger yield</b> (SEK, currency adjusted)	
<b>1.01</b>	<b>+3.1%</b>
<b>CASK* ex. fuel</b> (SEK, currency adjusted)	
<b>0.56</b>	<b>-3.1%</b>

2 \* Before items affecting comparability

# SAS' focus in FY19 has resulted in a strong momentum in Q4

## Focus areas FY19

- 1 Improved customer offering
- 2 Accelerated sustainability efforts
- 3 Improved operational performance

## Strong momentum in fourth quarter

	Q4-19	Q4-18	Change
<b>EBT*</b> (MSEK)	1 226	821	+404
<b>Passengers</b> (million)	8.5	8.3	+0.2
<b>Customer satisfaction (CSI)</b>	72	70	+2
<b>Regularity</b> (72h, %)	98.9	98.3	+0.6

3 \* Before items affecting comparability

# 1 Improved customer offering

	Quarter Q4 (vs LY)	Full year NOV-OCT (vs LY)
<b>Passengers</b> (million)	<b>8.5 (+2.3%)</b>	<b>29.8 (-1.1%)</b>
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<b>Yield</b> (SEK, currency adj.)	<b>1.01 (+3.1%)</b>	<b>0.99 (+3.2%)</b>
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<b>PASK</b> (SEK, currency adj.)	<b>0.77 (+2.7%)</b>	<b>0.73 (+2.5%)</b>
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<b>Customer satisfaction</b>	<b>72 (+2)</b>	<b>72 (+2)</b>

## Q4 highlights

- Improvements in customer offering
  - 5 new destinations and 14 new direct routes in summer 2020
  - New EuroBonus-features
  - Improvements in digital channels
  
- Four-year contract with the Norwegian armed forces
  
- Scandinavian Olympic and Paralympics partnership
  
- Launch of new livery

## 2 Accelerated sustainability efforts

### Q4 highlights



- 1 A320neo phased-in
- Store removed
- Sustainable “cube”



Biofuel integrated into booking flow



Best in class noise and emissions performance at Heathrow



SAS charring one of 13 climate partnerships in Denmark

### Progress (as of October 31<sup>st</sup>)

<b>Fleet renewal*</b> (% completed)	<b>34%</b>
<b>CO<sub>2</sub>-emissions</b> (R12 reduction)	<b>-2.5%</b>
<b>CO<sub>2</sub>/ASK</b> (R12 reduction)	<b>-1.7%</b>
<b>Sustainable aviation fuels</b> (R12 sourced)	<b>455mt</b> (biofuel)
<b>CO<sub>2</sub>-compensation</b> (% in quarter)	<b>40%</b>

### 2030 targets

**25% reduction of CO<sub>2</sub> emissions**

**SAS' domestic flights 100% biofuel powered**

5 \* Percent of fleet orders delivered incl. A320neo, A321LR, A330E, A350XWB

### 3 Improved operational performance

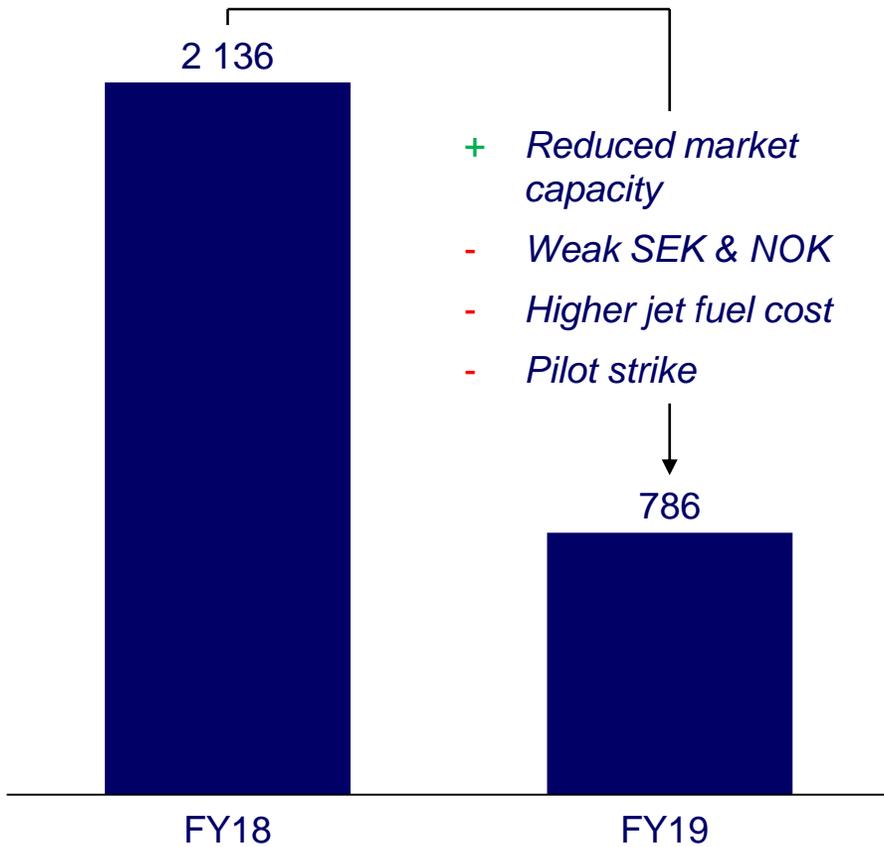
	Q4	Full year NOV-OCT
<b>CASK incl. fuel*</b> (SEK, currency adj.)	<b>0.75</b> (-1.7%)	<b>0.79</b> (+4.4%)
<b>Efficiency Program</b> (SEKbn)	<b>0.2</b> (on target)	<b>0.9</b> (on target)
<b>Regularity</b> (%)	<b>98.9</b> (+0.6 p.p.)	<b>97.5</b> (-0.5 p.p.)
<b>Punctuality</b> (%)	<b>82.5</b> (+1.7 p.p.)	<b>80.3</b> (+2.6 p.p.)

#### Q4 highlights

- MSEK 230 realized in efficiency improvements
- Improved operational performance despite fewer aircraft reserves
- New organizational structure to increase accountability and drive additional efficiency
- New digital tools deployed in ground handling

# Despite strong fourth quarter, SAS delivers a result below previous year

## EBT bef. items affecting comparability MSEK



## Financial Targets FY19

ROIC >12% 

Financial preparedness >25% 

Adj. net debt / EBITDAR <3x 

## Strategic initiatives



Effects from single type fleet



Accelerated pace in digitalization and lean



Improved asset and crew utilization through enhanced planning



Further enhanced operating model

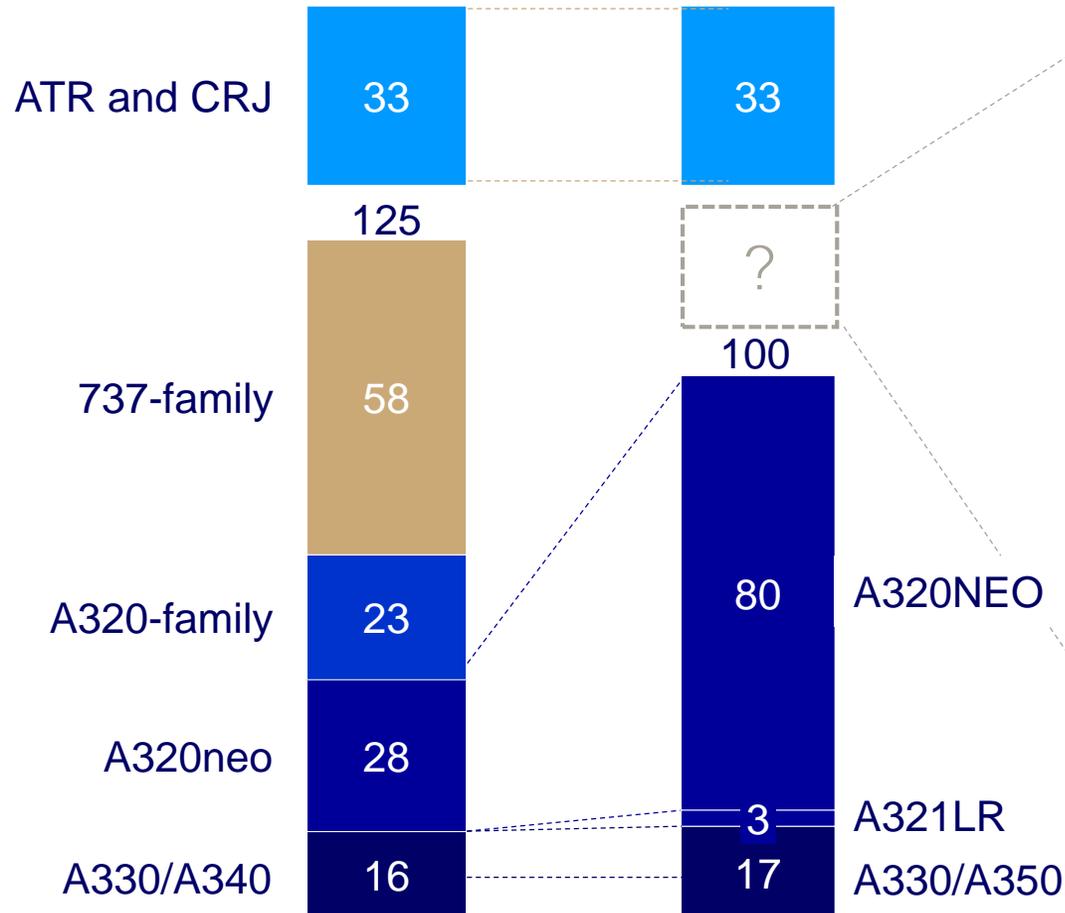
# SAS estimate gross efficiency potential of SEK 1.5-2.0bn to FY23 and beyond

Initiative	Description	Progress
 <p><b>Single type fleet</b></p>	<ul style="list-style-type: none"> <li>▪ Single type airbus fleet across bases</li> <li>▪ Increased operational stability while reducing training cost, spare aircraft and maintenance cost</li> <li>▪ Initially higher training volumes during phase-in</li> </ul>	<ul style="list-style-type: none"> <li>▪ CPH ✓</li> <li>▪ ARN in FY20</li> <li>▪ OSL in FY23</li> </ul>
 <p><b>Digitalization and lean</b></p>	<ul style="list-style-type: none"> <li>▪ Increased level of self-service and automation in all areas of business</li> <li>▪ Continued lean transformation in Airline Services and administration</li> </ul>	<ul style="list-style-type: none"> <li>▪ MSEK 120 reservation made for admin cost reduction</li> <li>▪ Full effect of Airline Service digitalization in FY23</li> </ul>
 <p><b>Enhanced planning</b></p>	<ul style="list-style-type: none"> <li>▪ Integrated planning of aircraft and personnel through new digital tools and ways-of-working</li> <li>▪ Increased productivity and operational robustness through better allocation of buffers</li> </ul>	<ul style="list-style-type: none"> <li>▪ MSEK 75 cost reduction in FY20</li> <li>▪ Fully implemented in FY23</li> </ul>
 <p><b>Further enhanced operating model</b></p>	<ul style="list-style-type: none"> <li>▪ Continued enhancement of operating model to increase productivity and flexibility</li> <li>▪ Need to identify future replacement for 120-150 seat aircraft while securing single type operations in all platforms</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluating options</li> </ul>

# SAS is evaluating replacement in mid-size segment

**SAS' fleet**  
as of 31<sup>st</sup> October

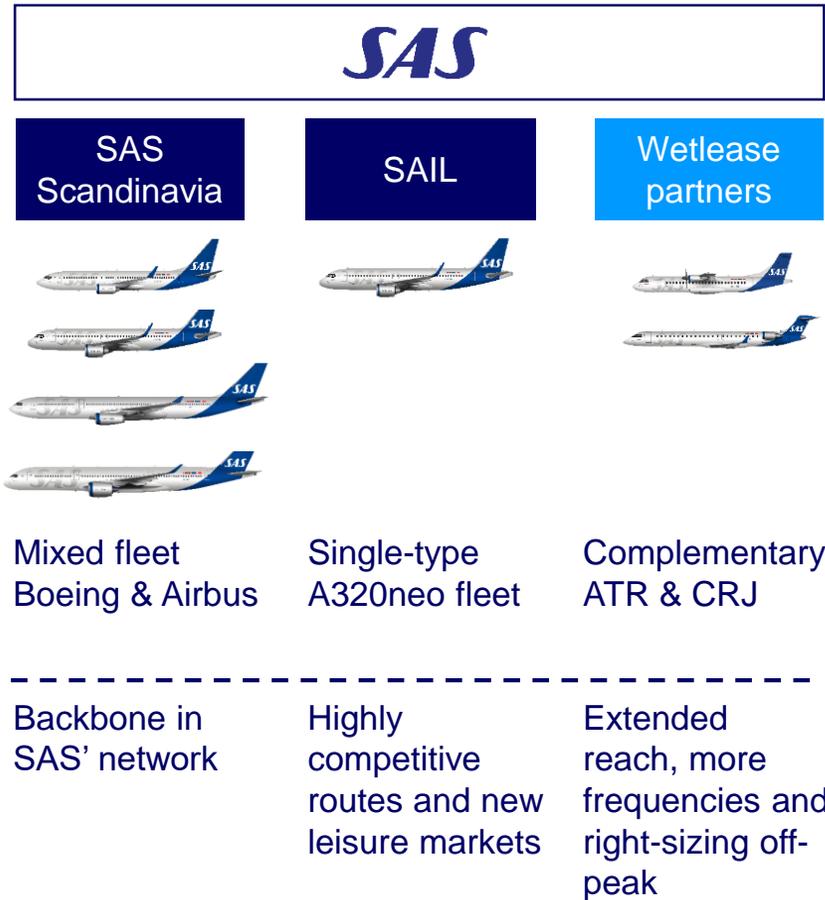
**Future fleet**  
delivered & firm orders



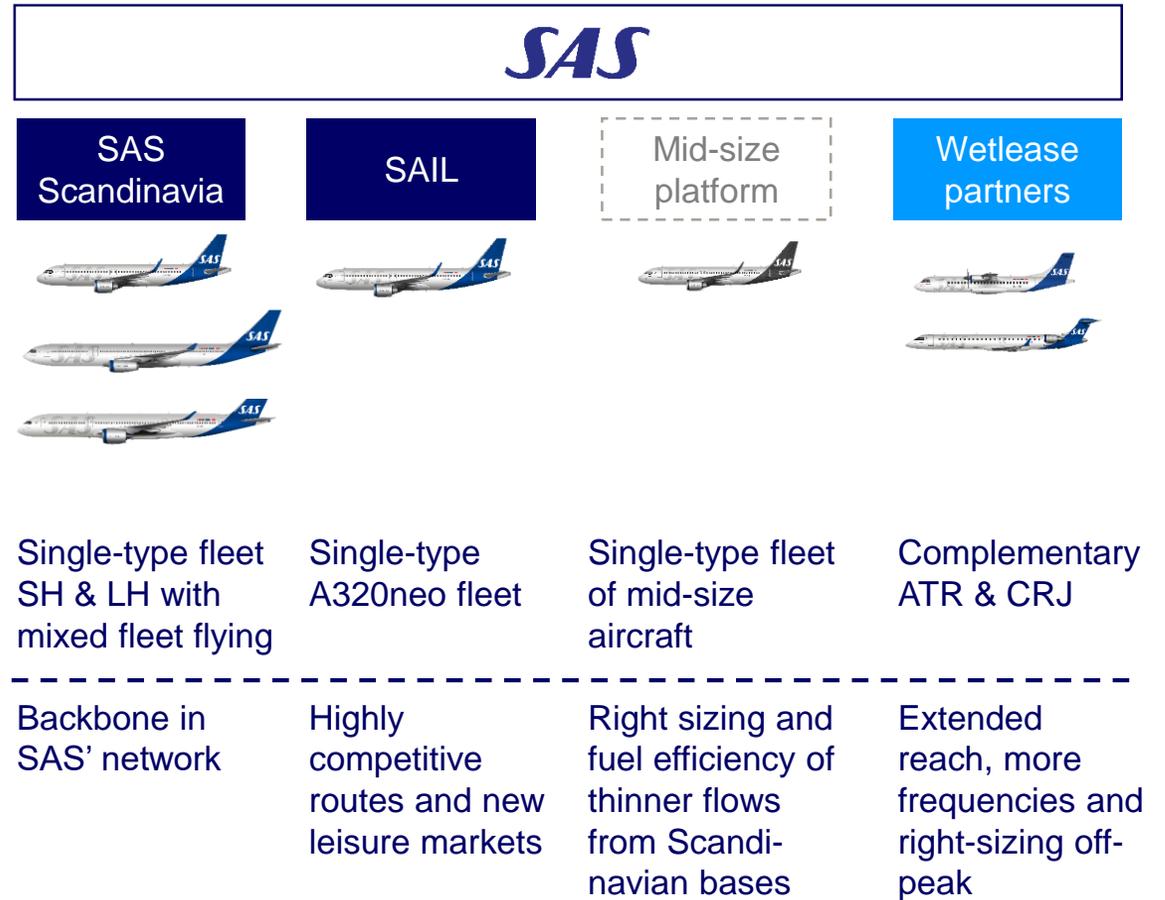
- Currently, no aircraft order placed to bridge future gap in fleet plan
- Approximately 20% of destinations in SAS network is optimal to serve with an aircraft size in-between A320neo and CRJ
- From a profitability perspective, a 120-150 seat aircraft is preferred to serve this segment
- This would also allow SAS to right-size thinner flows to further reduce CO<sub>2</sub>-emissions per departure by 10-15%
- However, three important requirements must be fulfilled:
  - Securing single type fleet benefits
  - Duty agreements appropriate for mid-size operation
  - Proven aircraft technology available

# Further conceptual operating model

## Current operating model



## Future conceptual operating model



*SAS*

**FINANCIALS**



# Highlevel Summary – Q4 & Fiscal Year 2019

## CAPACITY

Q4-19	FY19
↑ 1.9%	↓ 1.1%
ASK <sup>1</sup> vs. LY	

## TRAFFIC

Q4-19	FY19
↑ 1.4%	↓ 1.8%
RPK <sup>1</sup> vs. LY	

## PASK<sup>2</sup>

Q4-19	FY19
↑ 2.7%	↑ 2.5%
vs. LY	

## CASK EXCL. FUEL<sup>3</sup>

Q4-19	FY19
↓ 3.1%	↑ 2.1%
vs. LY	



## REVENUE (MSEK)

Q4-19	FY19
<b>13,463</b>	<b>46,736</b>
+785	+2,018

## EBT (MSEK)<sup>4</sup>

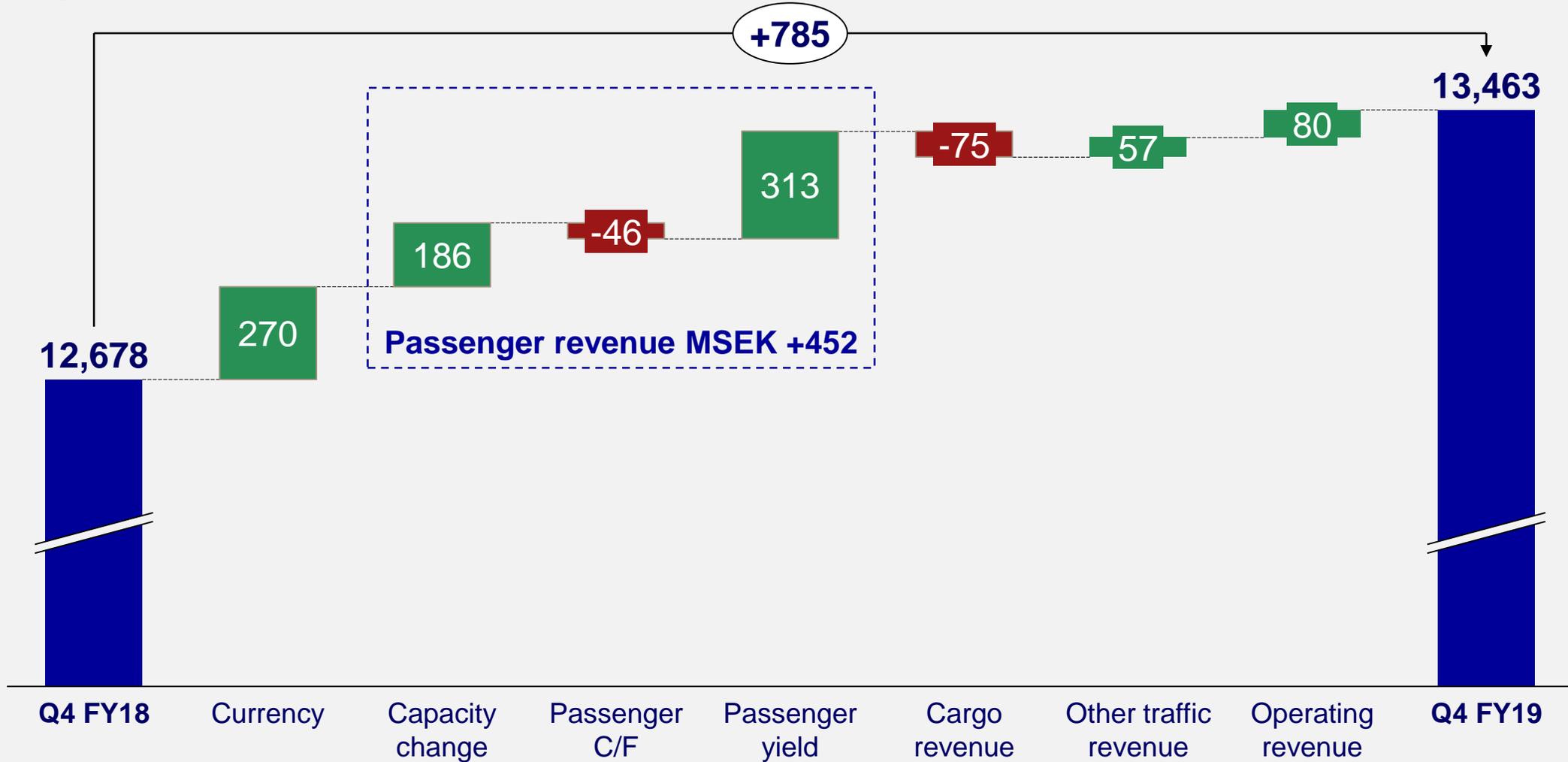
Q4-19	FY19
<b>1,226</b>	<b>786</b>
+404	-1,350

## CASH FLOW FROM OPERATIONS (MSEK)

Q4-19	FY19
<b>1,199</b>	<b>3,318</b>
+354	-1,241

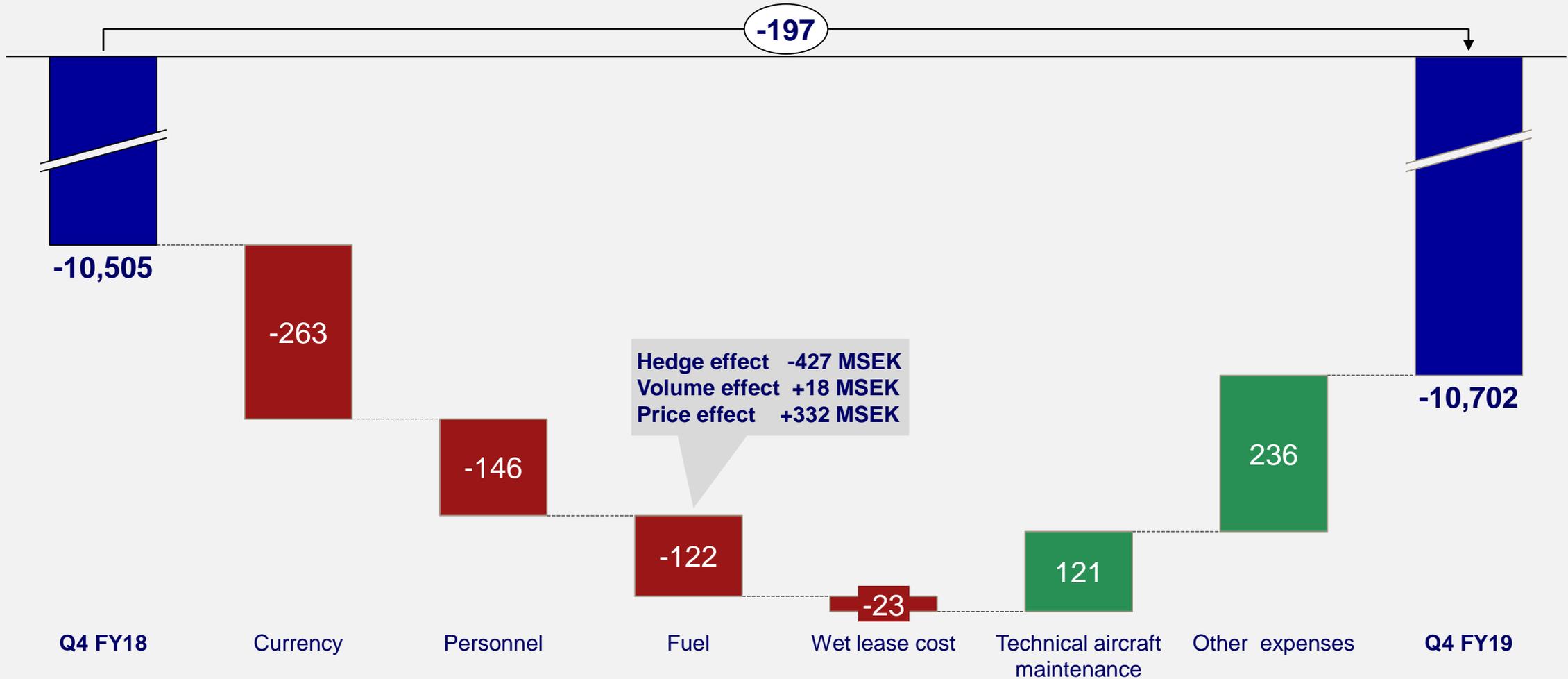
# Revenue Development – Q4/19

MSEK



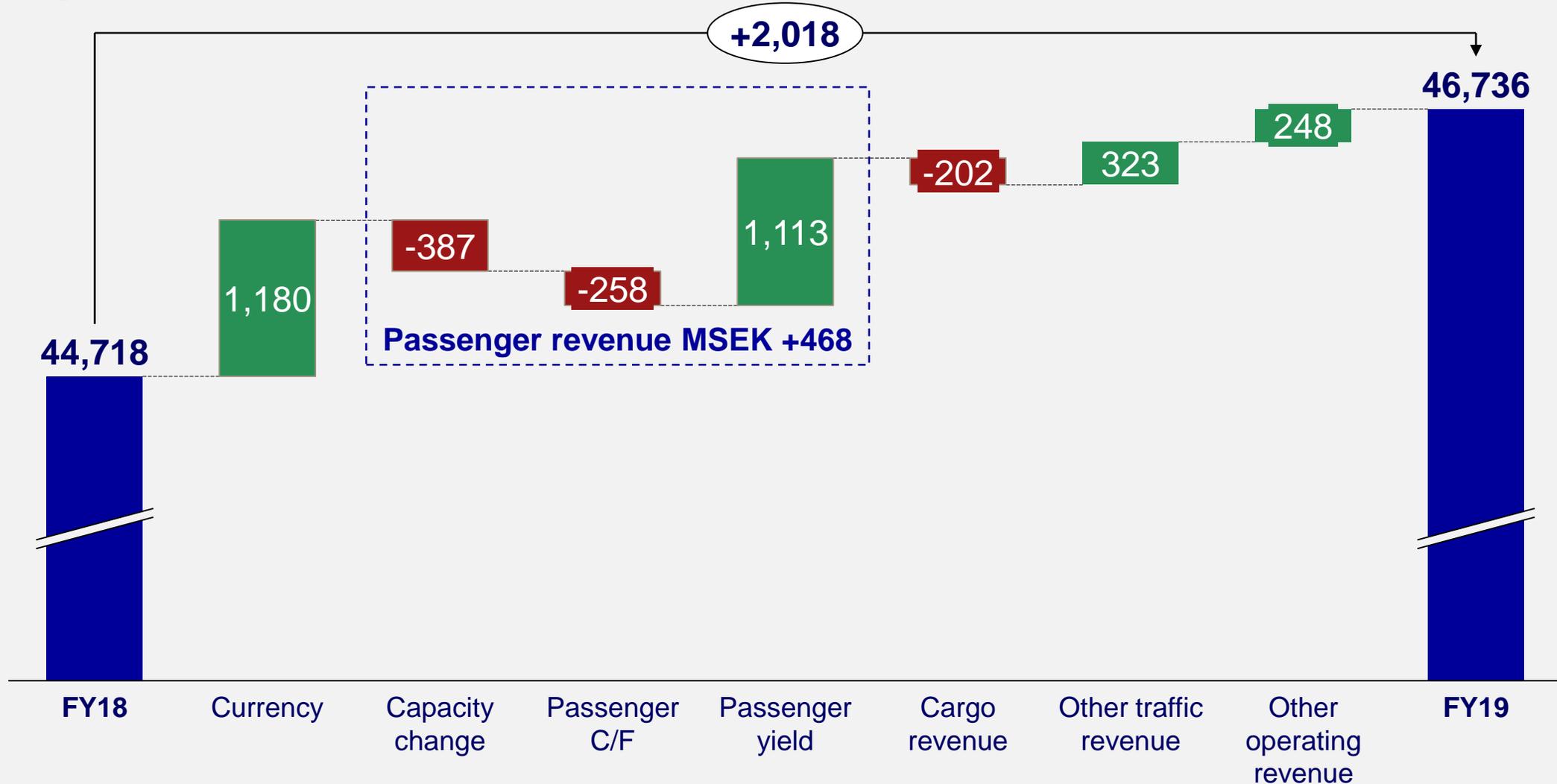
# Development in Operating Expenses – Q4/19

MSEK



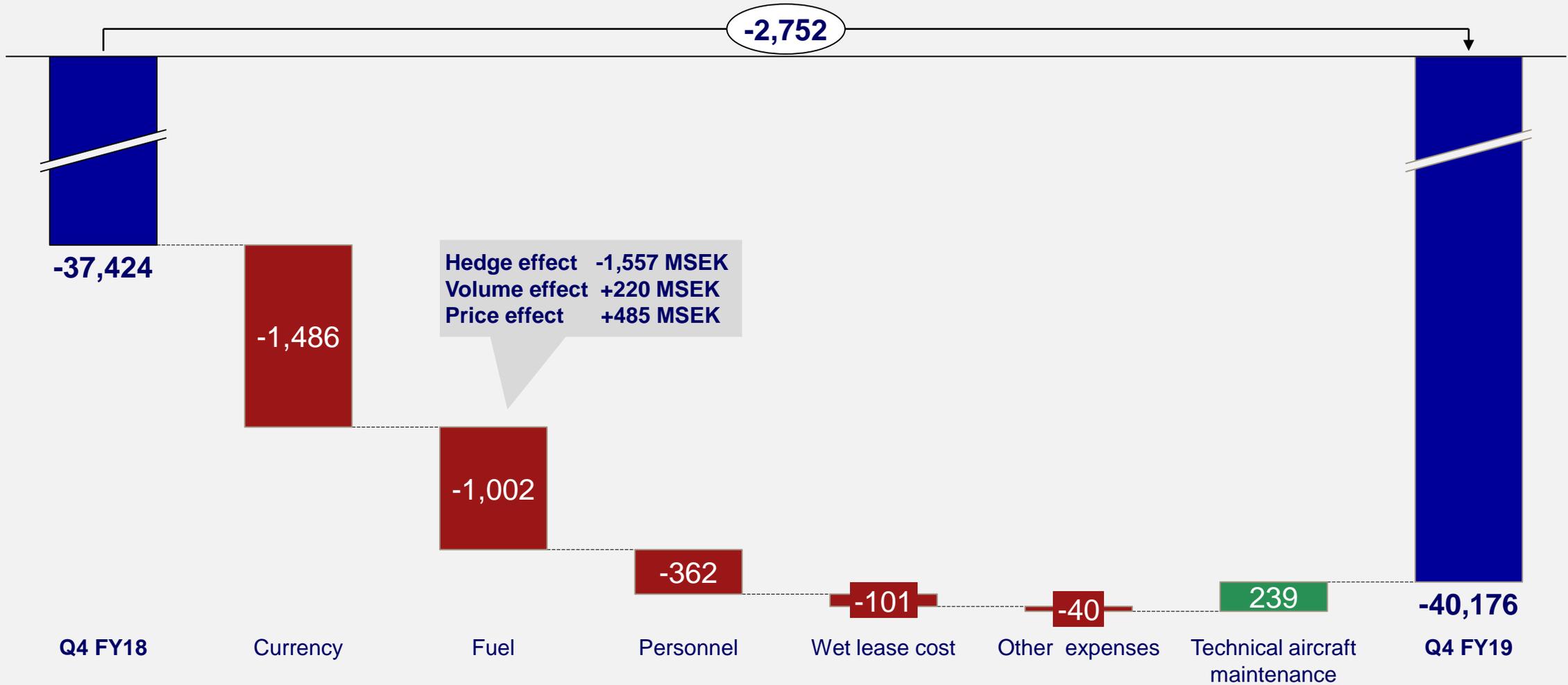
# Revenue Development – FY19

MSEK

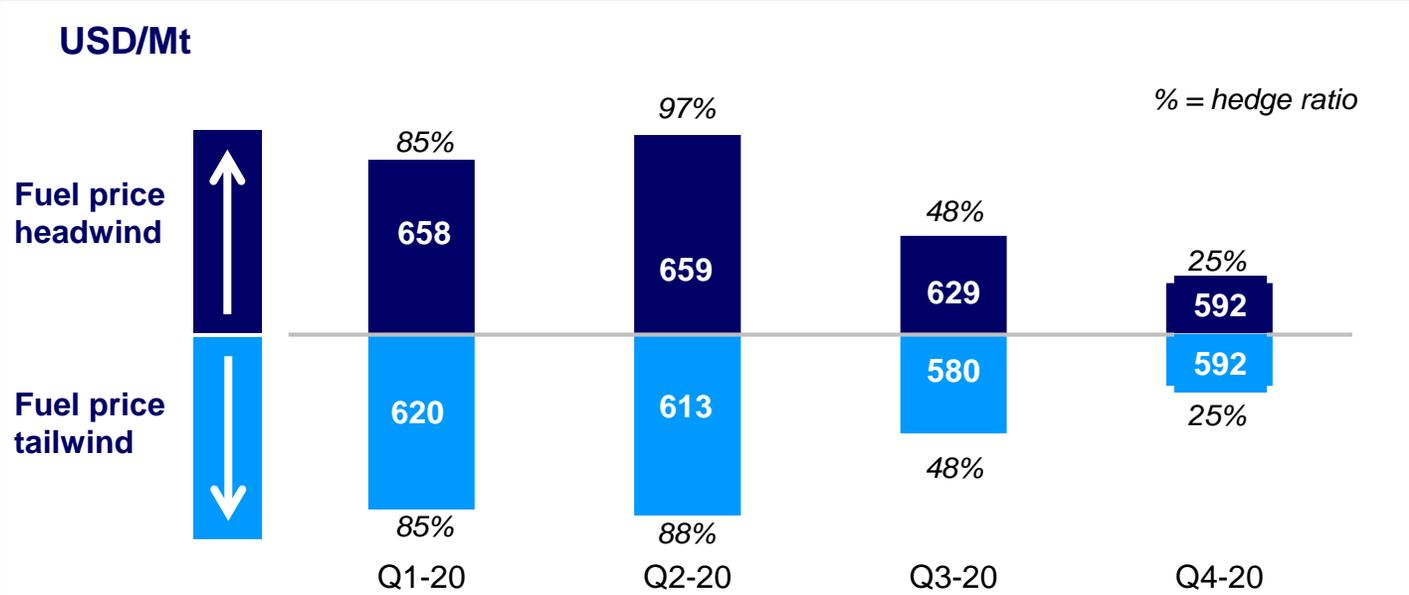


# Development in Operating Expenses – FY19

MSEK



# Jet fuel and currency hedges



## Sensitivity analysis, jet fuel cost Nov 2019-Oct 2020\*

Market price	Exchange rate USD/SEK				
	8.5	9.0	9.5	10.0	10.5
USD 500/tonne	7.4	7.8	8.2	8.6	9.1
USD 600/tonne	7.8	8.3	8.7	9.2	9.7
USD 700/tonne	8.5	9.0	9.5	10.0	10.5
USD 800/tonne	8.9	9.5	10.0	10.5	11.1

### Jet fuel

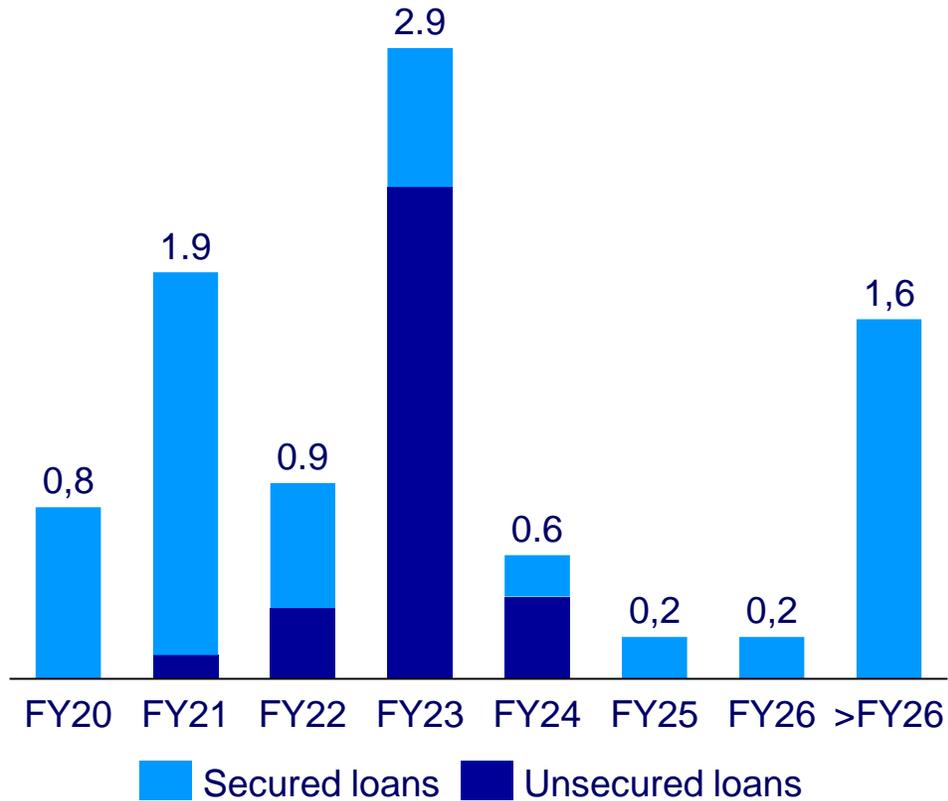
- Policy to hedge 40-80% of expected fuel consumption for the next 12 months and up to 50% for the following six months
- Position consists of a mixture of call options, collars and swaps
- For the forthcoming year, FY 2020, SAS has 62% of the fuel consumption hedged at a maximum price of USD 645/MT
- If the fuel price goes below USD 571/MT, 60% of SAS' fuel consumption would be hedged at an average price of USD 605/MT
- No hedging beyond Q4-20

### Currency

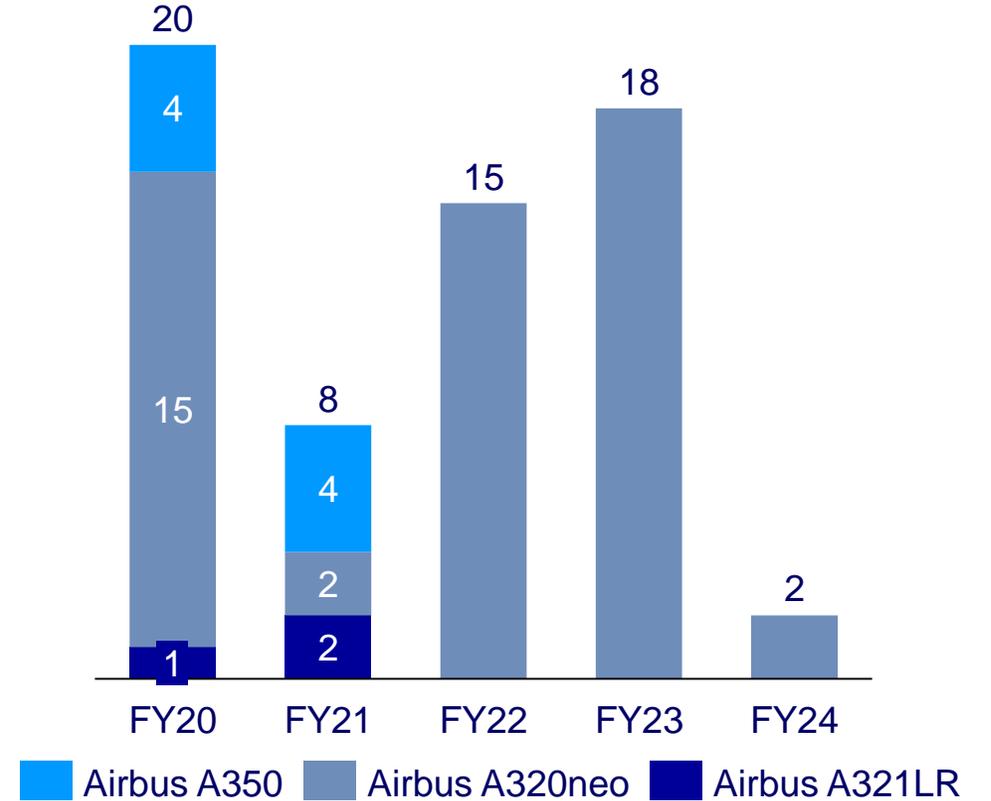
- Policy to hedge 40-80% of expected currency deficit/surplus for the next 12 months
  - 44% of USD hedged next twelve months
  - 65% of NOK hedged next twelve months

# Debt Maturity Profile and Aircraft Orders

Maturity profile, SEKbn

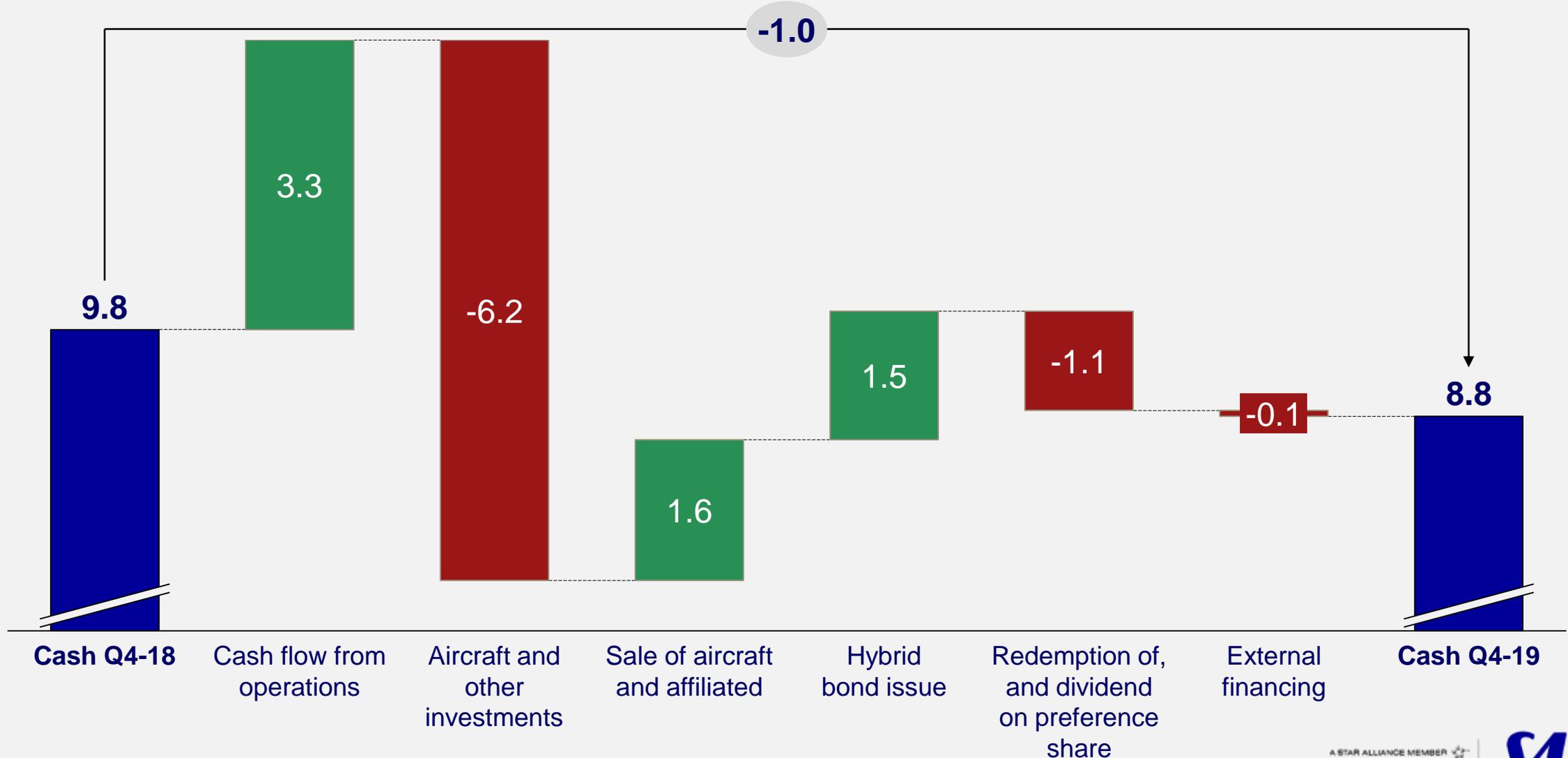


Aircraft orders, #



# Development in Cash & Cash Equivalents

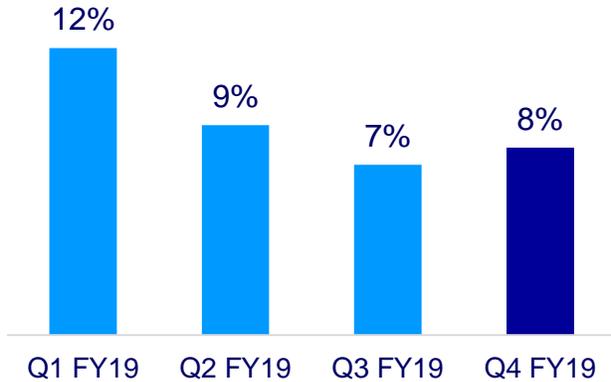
SEKbn



# Financial Targets

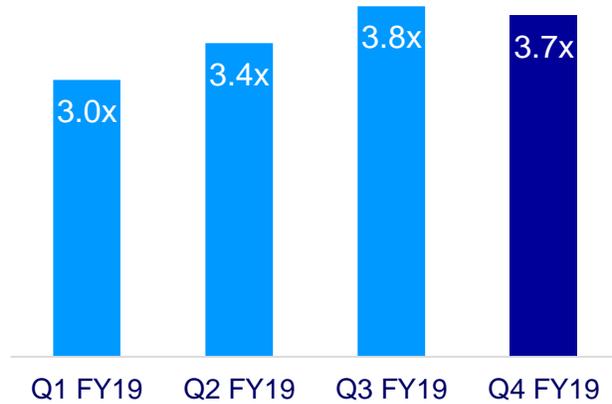
## RETURN ON INVESTED CAPITAL (ROIC)

 >12%



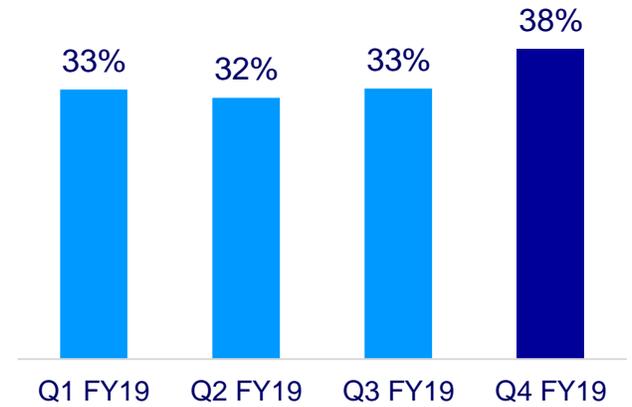
## ADJUSTED NET DEBT /EBITDAR

 <3x

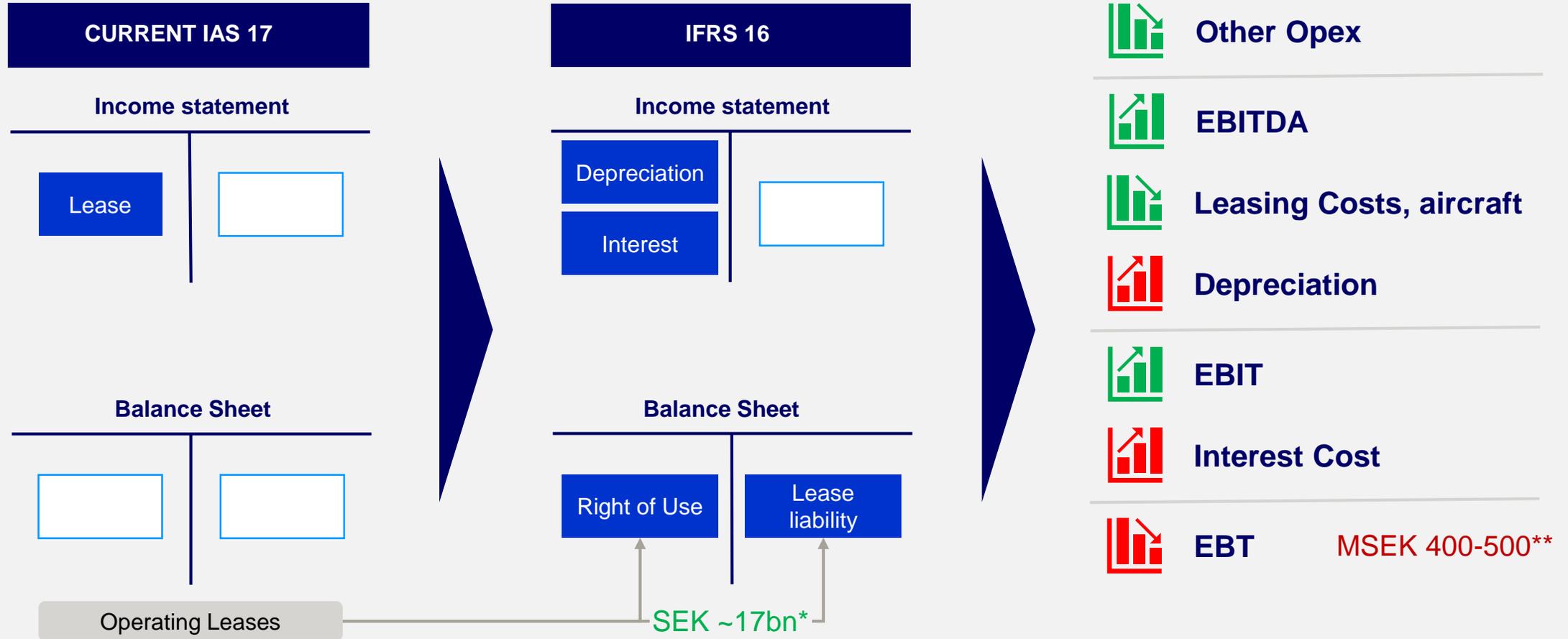


## FINANCIAL PREPAREDNESS

 >25%



# IFRS 16 Financial Statement Impacts



\* Balance Sheet increase per 1 Nov-19

\*\* Full year 2020 negative EBT impact at constant currency

# Outlook

## FY20 ASSUMPTIONS



FY20 Scheduled capacity growth (ASK) of ~5%



Continued weak SEK and NOK  
USD/SEK of ~9.8 and NOK/SEK ~1.08



Jet fuel price ~590 USD/Mt



Stagnant or reduced demand, mitigated in short term by reduced market capacity



- + Efficiency improvements of SEK 0.6bn
- Increased aircraft cost due to large number of phase-ins
- Reduced productivity due to high training volumes



Impact of IFRS 16

**SAS expects to report an EBIT-margin\* of 3-5 percent for the fiscal year 2020**

### GUIDANCE Q1

*SAS expects an increased loss in the first quarter of fiscal year 2020 compared to last year*

\* Before items affecting comparability  
The outlook is based on no unexpected events or material changes in the business environment

## Summary and key takeaways



**Strong Q4 driven by improved operational efficiency, attractive customer offering and reduced market capacity**



**Unsatisfactory full-year result and financial target development**



**Additional initiatives with gross efficiency potential of SEK 1.5-2.0bn to FY23 and beyond**



**Options for mid-size operation under evaluation**



**Full year EBIT-margin expectations of 3-5%. Increased loss in Q1 2020.**

*SAS*

# Income Statement Q4

Income statement	Aug-Oct 19	Aug-Oct 18	Change vs LY	Currency
<b>Total operating revenue</b>	<b>13,463</b>	<b>12,678</b>	<b>+785</b>	<b>+270</b>
Payroll expenditure	-2,479	-2,304	-175	
Jet fuel	-2,780	-2,455	-325	
Government charges	-1,179	-1,117	-62	
Other operating expenditure	-4,264	-4,629	+365	
<b>Total operating expenses*</b>	<b>-10,702</b>	<b>-10,505</b>	<b>-197</b>	<b>-263</b>
<b>EBITDAR before items affecting comparability</b>	<b>2,761</b>	<b>2,173</b>	<b>+588</b>	<b>+7</b>
<i>EBITDAR-margin*</i>	20.5%	17.1%	+3.4 p.u.	
Leasing costs, aircraft	-943	-817	-126	
Depreciation	-502	-426	-76	
Share of income in affiliated companies	1	23	-22	
<b>EBIT before items affecting comparability</b>	<b>1,317</b>	<b>953</b>	<b>+364</b>	<b>-62</b>
<i>EBIT-margin*</i>	9.8%	7.5%	+2.3 p.u.	
Financial items	-91	-131	+40	
<b>EBT before items affecting comparability</b>	<b>1,226</b>	<b>822</b>	<b>+404</b>	<b>-72</b>
Items affecting comparability	-130	-33	-97	
<b>EBT</b>	<b>1,096</b>	<b>789</b>	<b>+307</b>	<b>-72</b>

\*before items affecting comparability

# Balance Sheet 31 October 2019

Balance sheet, MSEK	31 October, 2019	31 October, 2018	Change
Intangible assets	1,416	1,498	-82
Tangible fixed assets	15,569	12,240	3,329
Financial fixed assets	5,296	7,389	-2,093
<b>Total fixed assets</b>	<b>22,281</b>	<b>21,127</b>	<b>1,154</b>
Other current assets	346	401	-55
Current receivables	2,622	2,915	-293
Cash and cash equivalents	8,763	9,756	-993
<b>Total current assets</b>	<b>11,731</b>	<b>13,072</b>	<b>-1,341</b>
<b>TOTAL ASSETS</b>	<b>34,012</b>	<b>34,199</b>	<b>-187</b>
Shareholders' equity	5,372	7,268	-1,896
Long-term liabilities	13,526	12,011	1,515
Current liabilities	15,114	14,920	194
<b>Total shareholders' equity and liabilities</b>	<b>34,012</b>	<b>34,199</b>	<b>-187</b>
<i>Financial net debt</i>	328	-2,432	2,760

# Income Statement – Rolling 12 Months

Income statement	Nov18-Oct19	Nov17-Oct18	Change vs LY	Currency
<b>Total operating revenue</b>	<b>46,736</b>	<b>44,718</b>	<b>2,018</b>	<b>+1,180</b>
Payroll expenditure	-9,775	-9,236	-539	
Jet fuel	-9,672	-7,994	-1,678	
Government charges	-4,194	-4,159	-35	
Other operating expenditure	-16,535	-16,035	-500	
<b>Total operating expenses*</b>	<b>-40,176</b>	<b>-37,424</b>	<b>-2,752</b>	<b>-1,486</b>
<b>EBITDAR before items affecting comparability</b>	<b>6,560</b>	<b>7,294</b>	<b>-734</b>	<b>-306</b>
<i>EBITDAR-margin*</i>	14.0%	16.3%	-2.3 p.u.	
Leasing costs, aircraft	-3,561	-3,156	-405	
Depreciation	-1,831	-1,557	-274	
Share of income in affiliated companies	-10	35	-45	
<b>EBIT before items affecting comparability</b>	<b>1,158</b>	<b>2,616</b>	<b>-1,458</b>	<b>-583</b>
<i>EBIT-margin*</i>	2.5%	5.8%	-3.3 p.u.	
Financial items	-372	-480	+108	
<b>EBT before items affecting comparability</b>	<b>786</b>	<b>2,136</b>	<b>-1,350</b>	<b>-593</b>
Items affecting comparability	8	-86	+94	
<b>EBT</b>	<b>794</b>	<b>2,050</b>	<b>-1,256</b>	<b>-593</b>

\*before items affecting comparability

# Investor Relations

## Most recent stock recommendations

Date	Institution	Recommendation	TP
2019-11-27	Sydbank	Hold	-
2019-11-25	HSBC	Buy	SEK 23
2019-11-12	Nordea	Buy	SEK 22
2019-11-11	DNB	Buy	SEK 20
Average			SEK 21.5

## Recommendations



## Analyst coverage

Institution	Analyst
DNB	Ole Martin Westgaard
HSBC	Andrew Lobbenberg and Achal Kumar
Nordea	Hans-Erik Jacobsen
Pareto Securities	Kenneth Sivertsen
Sparebank 1 Markets	Lars-Daniel Westby
Sydbank	Jacob Pedersen

## Selected Investor Relations events

- Q4 Roadshow, Oslo, 5 December
- Analyst meeting, Oslo, 5 December
- SEB Nordic Seminar, Copenhagen, 7 January

### For more information:

**Web:** <https://www.sasgroup.net/en/category/investor-relations/>

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