



Rating Action: Moody's assigns first time Aa1 rating to DSB; outlook stable

15 May 2023

Paris, May 15, 2023 – Moody's Investors Service (Moody's) today assigned a first time Aa1 long-term issuer rating to the Danish state-owned full-service public transport provider DSB (the company). Concurrently, Moody's assigned a (P)Aa1 rating to the company's proposed senior unsecured Euro Medium Term Note (EMTN) programme, and a (P)Aaa rating to the company's proposed backed senior unsecured Euro Medium Term Note (EMTN) programme. The total amount available under the combined senior unsecured EMTN programmes is EUR3billion. The outlook is stable.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

DSB's Aa1 long-term issuer rating combines its baa2 Baseline Credit Assessment (BCA) with Moody's confidence in a high likelihood of the company receiving extraordinary support from the Government of Denmark (Aaa stable) in times of need. This assessment is based on the government's very strong ability to provide support to DSB, given the sovereign's ample financial reserves, as reflected in its Aaa rating. Moody's assessment is also based on the Danish government's willingness to support the company which it has consistently demonstrated with regular contractual payments which are written into the finance act, ad hoc cash injections through contract revenue for special circumstances (ie COVID, inflation adjustments), and with a commitment to provide state guarantees for borrowings, at the company's option. Moody's assessment results in a seven-notch uplift to the company's BCA for a final issuer rating of Aa1.

DSB's baa2 BCA is supported by the company's robust market position as Denmark's national passenger railway, the stability and predictability of the legal framework and institutional strength in Denmark and excellent liquidity. The rating is constrained by the relatively high Moody's-adjusted leverage expected going forward, rising to above total Debt/EBITDA of 5.0x in the next 12-18 months because of capex financings, and its free cash flow (FCF) which will be significantly negative for at least the next 12-18 months.

Denmark provides a stable and predictable operating environment for DSB with its very high standard of living, high quality legislative and executive institutions, a strong civil society and high-quality judiciary. The company also benefits from the forward-looking nature of successive governments, and a sustained commitment and broad consensus to preserving strong public finances.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Governance considerations were considered key rating drivers in line with Moody's ESG framework, incorporating Moody's views on management credibility, track record, financial policies and board independence.

Environmental considerations were also considered material since the company is increasing debt levels to convert most of the remaining diesel trains to electric.

LIQUIDITY

Moody's expects DSB to have excellent liquidity over the next 12 months, supported by its cash position of DKK2.2 billion (including short-term securities) as of 31 of December 2022; its fully available committed credit lines of DKK4.5

billion; its undrawn DKK3.5 billion uncommitted credit lines, all as of 31st December 2022; its expected positive cash flow from operations going forward; and the planned government support.

DSB's main cash need in the coming years will be for capital spending, which Moody's estimates will be around DKK3.5 billion for 2023 and 2024.

RATING OUTLOOK

The stable outlook is in line with the stable outlook on the Danish government's rating and reflects Moody's expectation that the company's strategic importance to Denmark and strong support from the government, if and when needed, will remain intact for the foreseeable future. The stable outlook also reflects Moody's expectation that the company's leverage - although expected to increase due to capex investments - will not exceed 6.5x in the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade is unlikely because DSB's rating is one notch lower than Denmark's sovereign rating, and we expect this gap to remain.

The BCA could be upgraded if: (1) DSB's Moody's-adjusted debt/EBITDA decreases to below 4.5x on a sustained basis; (2) operating performance improves, illustrated by a sustained increase in its Moody's-adjusted EBIT margin to the mid-single digits in percentage terms, and; (3) the company achieves a sustainable, positive free cash flow.

A downgrade of Denmark's sovereign rating could result in a downgrade of DSB's ratings.

In addition, we could downgrade DSB's ratings if the likelihood of extraordinary support from the government decreases or if the BCA deteriorates and is not adequately compensated by stronger government support.

DSB's BCA could be downgraded if the company's: (1) Moody's-adjusted debt/EBITDA increases to above 6.5x on a sustained basis; (2) EBIT margin falls below 3%, or; (3) liquidity weakens.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: DSB

.... Baseline Credit Assessment, Assigned baa2

.... LT Issuer Rating, Assigned Aa1

....BACKED Senior Unsecured MTN Program, Assigned (P)Aaa

....Senior Unsecured MTN Program, Assigned (P)Aa1

Outlook Action:

..Issuer: DSB

....Outlook, Assigned Stable

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Passenger Railways and Bus Companies published in December 2021 and available at <https://ratings.moody.com/rmc-documents/360649>, and Government-Related Issuers

Methodology published in February 2020 and available at <https://ratings.moodys.com/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

COMPANY PROFILE

DSB, Danske Statsbaner, is Denmark's national passenger railway operator. The company employs around 6,000 people, and as a full-service provider of passenger transportation services transports around 450,000 passengers daily. DSB is also one of Denmark's largest land and property owners including 196 active railway stations and also operates 63 7-Eleven kiosks. Founded in 1885, DSB has a special legal status as a SOV (independent public institution) due to the long-standing ownership by the Danish government and due to its function as a public service provider, receiving contract payments and other government support.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Kristin Yeatman
Vice President - Senior Analyst
Corporate Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Victoria Maisuradze
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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