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Bulletin:

Deutsche Bahn's Solid 2022 Results Should Facilitate Large Planned Investments

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This report does not constitute a rating action.

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PARIS (S&P Global Ratings) April 3, 2023--S&P Global Ratings today said that solid 2022 results at vertically integrated railway operator **Deutsche Bahn AG** (DB; AA-/Stable/A-1+) should help it face large planned infrastructure investments over the next five years. The positive trends in the group's 2022 results confirm our expectations that last year's funds from operations (FFO) to debt could remain comfortably above 9%, and this is commensurate with our 'bbb+' assessment of DB's stand-alone credit profile (SACP). We continue to expect that rating headroom could reduce over 2023-2025 amid a sizable capital expenditure (capex) plan and inflationary pressures (see "Deutsche Bahn AG Outlook Revised To Stable From Negative On Traffic Recovery And Strong State Support; 'AA-' Affirmed," published July 29, 2022, on RatingsDirect). Our adjusted metrics for 2022 will be finalized once we have applied S&P Global Ratings' analytical adjustments. .

The recovery of DB's long-distance segment was stronger than we expected. The division's revenue was broadly in line with 2019 levels, compared with our expectations of 85.0%-90.0% of pre-pandemic levels and despite traffic volumes remaining at 87.6% of pre-pandemic levels. This compares with the revenue of the long-distance and high-speed segment of French rail group SNCF (AA-/Negative/-1+), DB's close peer, reaching 103% of 2019 levels. We take into account that revenue from regional services surpassed 2019 levels on the back of the launch of the €9 ticket in the summer, a measure that was fully funded by the German government (with regional rail traffic reaching 81.4% of 2019 levels). We assume further traffic growth over the next 12-24 months, supported by the new "Deutschland-Ticket", although at a slower pace given the weaker macro-environment.

We continue to assume that rating headroom could likely reduce over 2023-2025. This will mainly stem from high capex on required modernization and expansion of its network and operations, despite significant grants from the state (which covered 56% of total capex in 2022). Those investments are key for the group achieving its passenger growth targets and will support the German government's plan to achieve its decarbonization objectives. Net capex reached €6.7 million in 2022, which was at the high end of our estimates, and the company expects it will reach more than €8.5 billion in 2023, which is within our expected range. These anticipated expenditures, combined with our expectations for higher costs amid inflationary pressure, especially for staff and energy costs, will likely constrain deleveraging over 2023-2025.

We assume that improved earnings were the key driver behind DB's material leverage reduction in 2022. DB reported debt to EBITDA of 6.3x at end-2022, versus 15.4x a year before, while its net financial debt decreased only marginally to €28.8 billion from €29.1 billion in 2021 (and higher than 2019 levels at €24.2 billion). DB reported adjusted EBITDA of €5.2 billion in 2022 (€2.3 billion in 2021), translating to an EBITDA margin of 9.3% (4.9% in 2021), which remains below the 12.2% it reported before the pandemic. The EBITDA increase was supported by stronger-than-anticipated recovery of traffic, a high hedging of energy costs, as well as increase in staff costs below German inflation rate, as agreed under the fixed wage agreement secured with staff until 2023. Furthermore, the company's logistics subsidiary DB Schenker improved its margin by 110 bps to 9.1%. This division contributes close to 48% of the company's total EBITDA, and we assume its performance will start normalizing in 2023. Although the company announced at the end of last year a potential sale of the logistics division, we include it in our base case pending progress on the transaction (see "Deutsche Bahn's Sale Of DB Schenker Signals Focus On Large Mobility Transition Investments," published Dec. 21, 2022).

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