S&P Global
Ratings

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Deutsche Bahn AG

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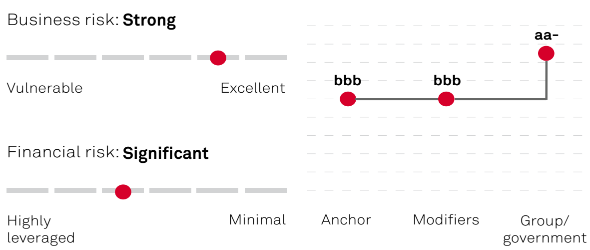
Ratings Score Snapshot



AA-/Positive/A-1+

Issuer credit rating

Credit Highlights

Overview

Key strengths	Key risks
Vertical integration, position as a sole owner and manager of Germany's rail infrastructure, main provider of passenger and freight transportation services.	Large planned investments in modernization and capacity expansion in railway infrastructure and fleet are subject to execution risks and weigh on free operating cash flows (FOCF), even factoring in higher government grants.
Operations in a stable and supportive legal environment, based on the German government's constitutional obligation to finance rail infrastructure capital expenditure (capex) and additional support for infrastructure maintenance in line with the Federal Rail Infrastructure Expansion Act (BSWAG).	Potential uncertainties regarding the timing and trajectory of recovery in credit metrics from current subdued level toward levels we view commensurate with the current stand-alone credit profile (SACP) assessment, i.e., funds from operations (FFO) to debt above 9%.
Very strong and potentially increasing ongoing and extraordinary government support given the group's strategic importance and its central role in the German government's ambitious energy transition policy, as highlighted by €20 billion equity injections planned over 2025-2029.	Profitability below that of most rated European railway peers.

We believe that Deutsche Bahn's (DB's) importance to the government is increasing, as highlighted by the adjustments to the legal framework in 2024. As Germany's monopoly operator of railway infrastructure and the leading provider of passenger and freight services, DB plays a very important strategic and socioeconomic role, and is of crucial importance in the execution of the government's ambitious climate targets. Germany's focus on DB's role in the nation's infrastructure and mobility transition is intensifying, supported by a robust legal framework for financing. In addition, the German government has a constitutional obligation to provide financial support for railway infrastructure capex. This year, the government updated the legal framework and announced the planned €20 billion equity injections over 2024-2029 period. DB also established DB InfraGO AG, a new infrastructure entity within the group, with a stated public policy mandate, as well as adjustments to a financing package to cover certain maintenance operating expenditure on top of infrastructure capex. This, in our view, underpins DB's increasing importance to the German government and the strengthening alignment between DB and the state. We do not expect the ongoing disposal of DB Schenker to derail or replace government support. Despite ongoing discussions surrounding the German debt brake rule, we believe the government is well-positioned to provide elevated support to DB in the medium term.

We view the ongoing disposal of DB's logistics subsidiary DB Schenker will contribute to greater business stability and debt reduction, but execution risks remain. We view DB Schenker disposal as positive for the rating because DB will be able to focus on its inherently less volatile German rail business segment and it will use the proceeds for deleveraging.

On Sept.13, 2024, DB announced it had signed the agreement to sell its logistics subsidiary DB Schenker for an enterprise value of €14.3 billion (€14.8 billion including expected interest income), following long negotiations with potential buyers and in line with its long-articulated plans to focus on the core rail business in accordance with its Strong Rail strategy. Management aims to finalize the transaction in 2025. With €19 billion of 2023 revenue, DB Schenker is one of the largest freight forwarding and logistics companies worldwide, which contributed over 40% of DB's consolidated EBITDA during the last several years. DB has reiterated its plans to apply the expected net €11.3 billion-€11.8 billion proceeds toward repaying debt and funding capex over 2025-2026, which, together with ongoing efficiency increases in the rail business, should contribute to deleveraging.

That said, due to the sheer size and complexity of the DB Schenker disposal, uncertainties and execution risks remain. We will closely monitor the progress of the disposal, including the final sale price and any related execution interests.

We believe that after closing the disposal of DB Schenker in 2025, DB's SACP will remain at 'bbb'. While the 2024 financial metrics will be significantly affected by the difference between deconsolidation of DB Schenker's profits in 2024 and expected disposal proceeds in 2025, we will focus on post-disposal performance within the revised group structure. Our projections indicate S&P Global Ratings-adjusted FFO to debt will improve to at least 9% from 2025 compared with 6.6% in 2023 (pre disposal). DB's future deleveraging will be primarily influenced by anticipated profitability improvements within the core rail business, the debt repayment from the expected disposal proceeds, and government support.

DB's execution of its ongoing asset modernization and cost efficiency plan should strengthen profitability. Following the relatively weak financial performance in 2023 and the first half of 2024, we anticipate a recovery in profitability for DB's core business in the upcoming quarters and years. This recovery is expected to be driven by ongoing capex aimed at asset modernization and alleviating existing infrastructure bottlenecks to boost traffic volumes and revenue, alongside the implementation of efficiency and cost-cutting measures that will enhance margins across the rail transportation business units to 10%-13% under S&P forecast, compared with 6.6% in 2023.

DB has recently announced specific targets to bolster rail operations earnings, develop infrastructure, and enhance profitability, including a 20% reduction in infrastructure-related delays, reaching 75%-80% punctuality for DB Long-Distance services and achieving about €2 billion in EBIT by 2027. Still, the effectiveness of ongoing efficiency, reliability, and punctuality initiatives, as well as the impact of modernization efforts on transportation volumes and margins, will significantly influence the pace of improvement in DB's financial metrics. For example, traffic volumes could be affected by construction and modernization works on frequently used routes. While we believe that DB is on a path toward profitability improvements, uncertainties remain regarding the pace and trajectory of this improvement.

We expect rising government funding to help offset DB's large and growing capex needs. We expect DB's gross capex in the rail business to increase to about €19 billion-€20 billion per year on average in the period of 2024-2028 compared with around €15.9 billion in 2023 and €14.2 billion in 2022.This is due to the ongoing modernization of the network to increase punctuality and reliability in the system to accommodate a solid volume growth. As part of its climate policy, the government is targeting to double the number of long-distance passengers travelling by rail and to increase the rail's market share of freight transport to 25%. Still, we expect government funding contributions to increase accordingly, so that 70%-80% of DB's gross capex in 2024-2028 will be financed by the federal government. We expect the government to provide €20 billion in equity injections in the period from 2024 to 2029, excluding an additional €4.5 billion in 2025 to cover capex and infrastructure needs. Approximately €5.5 billion was allocated in the 2024 budget (including Climate Action Program), with another €5.9 billion in the 2025 draft budget. We understand that Germany's federal budget is likely to be finalized only after the federal elections take place in February 2025. Although DB continues to receive funding for its ongoing projects within interim financial management framework, new financing contracts may not be accommodated, and there could be uncertainty about the timing of repayment of DB's prefinanced costs. Overall, we believe that the fluctuations and any timing differences between DB's capex plans and anticipated government funding may influence financial metrics and the pace of deleveraging.

Outlook

The positive outlook reflects our view that the importance of DB's role to the German government could further increase, which could lead to a higher likelihood of extraordinary government support. This could provide rating upside for the company if, after the DB Schenker disposal is complete, DB's credit metrics stabilize above 9% thanks to deleveraging from disposal proceeds, continuing equity infusions by the government, and improvements in the core rail business, in line with our base-case expectations and despite execution and volatility risks.

This is based on our opinion that the government's focus on DB's role in the country's infrastructure and mobility transition is strengthening, along with the legal framework for government financing of DB, because DB Schenker's disposal will further reinforce the focus on DB's core rail business. Strengthening government support is illustrated by the €20 billion additional equity injections over 2024-2029 (excluding the additional €4.5 billion equity increase replacing investment grants in 2025) announced by the government and other measures, which we do not expect to be impaired or replaced by the ongoing DB Schenker disposal and contribute to further deleveraging.

Also, we expect further strengthening of government's oversight of DB strategy, which will be centered on the core rail business, and growing coordination between the government and DB over infrastructure development and financing needs. Despite ongoing discussions on the German debt brake, we believe the German government has the means to support DB further on a higher level in the medium term.

The outlook also reflects our view that the company's credit metrics will stabilize due to gradual margin recovery at the passenger and freight transportation segments from ongoing construction works on highly frequented corridors, strong cost controls, efficiency measures, and ongoing government support. This should translate in FFO to debt improving to above 9% on average after the transaction's close in 2025.

Downside scenario

We would consider revising our outlook on DB to stable under any of the following circumstances:

- DB's deleveraging is hampered by any significant backtracking on the announced government support for DB's investments and operations, or any changes in the use of DB Schenker disposal proceeds.
- The group cannot stabilize its credit metrics and improve its FFO to debt to above 9% on average beyond 2025-2026; this could follow from materially lower traffic volume growth than anticipated, or if DB's cost-saving initiatives and cost efficiency measures cannot contain earnings pressures from the current inflationary environment. It could also occur if, despite substantial investments, the company failed to improve its competitiveness, attract more passengers, and improve profitability such that leverage remains materially higher than what we expect.
- The company's link with, or role for, the state weakened compared with what we currently expect.

Upside scenario

We could upgrade DB if:

- DB's SACP stabilizes, with FFO to debt improving to above 9% on average beyond 2025, as proceeds from the DB Schenker disposal, continuing government funding, and gradual recovery of the core rail business performance support deleveraging in line with our base-case scenario; or
- We see further evidence that the importance of DB's role to the German government has increased, including support being implemented with no backtracking because of, for example, the German debt brake rule or if DB Schenker disposal proceeds effectively replace government injections as a funding source for DB's capex.

Our Base-Case Scenario

Assumptions
• We assume DB Schenker to already be classified as discontinued operations in 2024, and €11.8 billion cash disposal proceeds to be received by DB in 2025 (excluding debt and factoring at the DB Schenker level). We reflect that all the proceeds from the sale will be applied to debt repayment and financing needs over 2025-2026.

- German GDP growth of 0.2% in 2024 and about 1.2%-1.3% over 2025-2026.
- German consumer price index growth of 2.7% in 2024, 2.2% in 2025, and 1.9% in 2026.
- Revenue decline of 32% in 2024, reflecting mainly the sale of DB Schenker and the impact of strikes and extreme weather events in the first half of the year that hindered traffic volumes; followed by about 5%-7% growth in 2025 and 2%-4% thereafter, mainly from rail passenger volume growth in both regional and long-distance sectors.
- Flat long-distance segment revenue in 2024, followed by a rebound of 8%-10% in 2025 and 5%-6% thereafter, fueled by 2%-3% growth in volumes sold mainly in leisure and international traffic and integrating fleet and fast rail services expansion; and a 2%-3% ticket price increase, broadly in line with German inflation and supported by strong yield management. We expect volumes to be affected by strikes and extreme weather in 2024, followed by a rebound in 2025 as strikes end and a new collective agreement with the unions signed.
- Regional rail segment revenue to increase 5%-6% in 2024, mainly from increased concession fees; 4%-6% in 2025, factoring in the lessening impact from strikes; and 1%-3% thereafter, mainly due to volume growth slightly above GDP growth.
- DB Cargo benefiting from state support of single-wagon transport, amounting to about €300 million per year at least until 2027 and supporting an improvement in earnings. We do not factor in the full benefit from the expected transformation measures in single-wagon transport and staff productivity because we see some execution risks.
- EBITDA margin (excluding compensation for 2023 pre-financed expense) broadly stable in 2024 from 7.8% in 2023, reflecting mainly no prefinancing of capex and government and grants. In 2024, we expect staff costs to increase above inflation and the impact from the strikes to offset lower energy costs. Thereafter, we expect adjusted EBITDA margins to improve to 10%-13% as inflation starts to ease and the company benefits from stabilizing punctuality and the gradually improving condition of the network and efficiency measures, which will mitigate restructuring costs.
- The €20 billion equity injection (excluding the additional €4.5 billion equity increase replacing investment grants in 2025), which is reflected in our net capex figure.
- Capex, net of investment grants and newly approved equity increases, to remain high at €3 billion-€6 billion per year over 2024-2026 (excluding €0.9 billion-€1 billion International Financial Reporting Standard [IFRS] 16 effects per year), mostly for rolling-stock procurement. Our net capex figure factors the €4.4 billion of additional equity approved in the 2024 federal budget to cover for investment grants (of which €1.5 billion relates to funding for pre-financed capex). We assume €10.4 billion equity inflow in 2025 (€5.9 billion in addition to € 4.5 billion equity increase replacing investment grants) and €2.3 billion-€3.1 billion of yearly equity inflow over 2025-2029. This is based on the 2025 Federal Budget draft and the Financial Plan for 2024-2028, which the Federal Government adopted on Aug. 16, 2024.
- Capital injection of €1.1 billion under the Climate Action Program in 2024 and €0.9 billion of investment grants yearly thereafter until 2030.

Key metrics

Deutsche Bahn AG--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	38,729	46,034	55,197	45,191	30,576	32,407	33,423	34,454
EBITDA (reported)	615	3,506	5,464	2,639	2,975	4,022	4,138	4,504
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--

Deutsche Bahn AG--Forecast summary

Plus/(less): Other	(314)	(242)	(275)	901	(579)	(479)	21	21
EBITDA	301	3,264	5,189	3,540	2,396	3,543	4,159	4,525
Less: Cash interest paid	(530)	(535)	(452)	(643)	(857)	(723)	(623)	(695)
Less: Cash taxes paid	(152)	(249)	(452)	(318)	(283)	(382)	(393)	(428)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	(380)	2,480	4,286	2,580	1,256	2,438	3,143	3,402
EBIT	(3,302)	(484)	1,502	(53)	(346)	680	1,214	1,447
Interest expense	695	630	607	854	1,024	877	777	849
Cash flow from operations (CFO)	1,584	3,501	5,395	2,364	2,358	2,993	3,198	3,408
Capital expenditure (capex)	4,557	4,956	5,574	6,760	4,695	3,268	5,716	3,416
Free operating cash flow (FOCF)	(2,973)	(1,456)	(180)	(4,397)	(2,337)	(275)	(2,518)	(8)
Dividends	646	20	10	673	13	(13)	(13)	(13)
Share repurchases (reported)	--	--	--	--	--	1,000	--	--
Discretionary cash flow (DCF)	(3,619)	(1,476)	(190)	(5,069)	(2,350)	(1,262)	(2,505)	5
Debt (reported)	28,393	29,427	30,093	33,321	32,671	25,075	23,689	24,709
Plus: Lease liabilities debt	4,931	5,059	5,180	4,787	4,787	4,787	4,787	4,787
Plus: Pension and other postretirement debt	6,633	5,092	3,050	3,576	3,576	3,576	3,576	3,576
Less: Accessible cash and liquid Investments	(2,431)	(3,430)	(4,363)	(3,144)	(800)	(5,716)	(800)	(800)
Plus/(less): Other	1,568	1,583	1,640	514	240	1,298	1,298	1,298
Debt	39,094	37,731	35,600	39,054	40,474	29,019	32,549	33,570
Equity	6,269	9,620	13,678	11,125	11,337	10,411	10,608	10,932
FOCF (adjusted for lease capex)	(4,289)	(2,546)	(1,272)	(5,285)	(3,362)	(1,300)	(3,543)	(1,033)
Interest expense (reported)	508	510	482	653	845	710	610	682
Capex (reported)	13,284	14,182	14,310	16,204	18,816	17,940	21,091	18,906
Cash and short-term investments (reported)	3,412	4,592	5,640	3,150	1,000	5,916	1,000	1,000
Adjusted ratios								
Debt/EBITDA (x)	129.8	11.6	6.9	11.0	16.9	8.2	7.8	7.4
FFO/debt (%)	(1.0)	6.6	12.0	6.6	3.1	8.4	9.7	10.1
FFO cash interest coverage (x)	0.3	5.6	10.5	5.0	2.5	4.4	6.0	5.9
EBITDA interest coverage (x)	0.4	5.2	8.6	4.1	2.3	4.0	5.4	5.3
CFO/debt (%)	4.1	9.3	15.2	6.1	5.8	10.3	9.8	10.2
FOCF/debt (%)	(7.6)	(3.9)	(0.5)	(11.3)	(5.8)	(0.9)	(7.7)	(0.0)
DCF/debt (%)	(9.3)	(3.9)	(0.5)	(13.0)	(5.8)	(4.3)	(7.7)	0.0
Lease capex-adjusted FOCF/debt (%)	(11.0)	(6.7)	(3.6)	(13.5)	(8.3)	(4.5)	(10.9)	(3.1)
Annual revenue growth (%)	(8.7)	18.9	19.9	(18.1)	(32.3)	6.0	3.1	3.1
EBITDA margin (%)	0.8	7.1	9.4	7.8	7.8	10.9	12.4	13.1
Return on capital (%)	(7.2)	(1.0)	3.1	(0.1)	(0.7)	1.5	2.9	3.3
Return on total assets (%)	(5.0)	(0.7)	2.0	(0.1)	(0.4)	0.9	1.8	2.1
EBITDA/cash interest (x)	0.6	6.1	11.5	5.5	2.8	4.9	6.7	6.5

Deutsche Bahn AG--Forecast summary

EBIT interest coverage (x)	(4.8)	(0.8)	2.5	(0.1)	(0.3)	0.8	1.6	1.7
Debt/debt and equity (%)	86.2	79.7	72.2	77.8	78.1	73.6	75.4	75.4
Debt fixed-charge coverage (x)	0.4	5.2	8.6	4.1	0.5	0.4	1.4	1.2
Debt/debt and undepreciated equity (%)	40.0	79.7	72.2	77.8	78.1	73.6	75.4	75.4
All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.								

We make a number of analytical adjustments to DB's 2023 reported financials, notably:

- We have added the €1.1 billion to our EBITDA in DB's 2023 adjusted EBITDA margins, resulting in a 7.8% margin, to avoid margin distortions based on timing issues (margin would have been 5.4% if we had not performed the adjustment). Reimbursement of the pre-financed infrastructure maintenance expense in 2023 will be effective partly in 2024 and 2025, as part of the 2024 federal budget and we exclude the compensation from our adjusted EBITDA in 2024-2025.
- The sale of international rail and bus operator DB Arriva was completed on May 31, 2024 (and was classified as discontinued operations in 2023). DB's reported figures already exclude the contribution from DB Arriva apart from DB's Arriva's debt which we adjust in our reported debt amounting to € 1.2 billion. Our adjusted figures exclude DB Arriva from 2023.
- The main adjustments to debt relate to:
- Addition of €475 million of trade receivable securitization and €296.5 million asset retirement obligation.
- Addition of €1,001 million of hybrids in line with the intermediate equity content.
- Addition of €4,787 million reported lease liabilities to debt and commitments related to postretirement benefits amounting to €3,576 million.
- We exclude surplus cash from debt to the tune of €3.1 billion. (the entire cash was accessible and hence was adjusted with the debt for 2023)
- We also exclude capitalized development cost of €260 million from EBITDA.

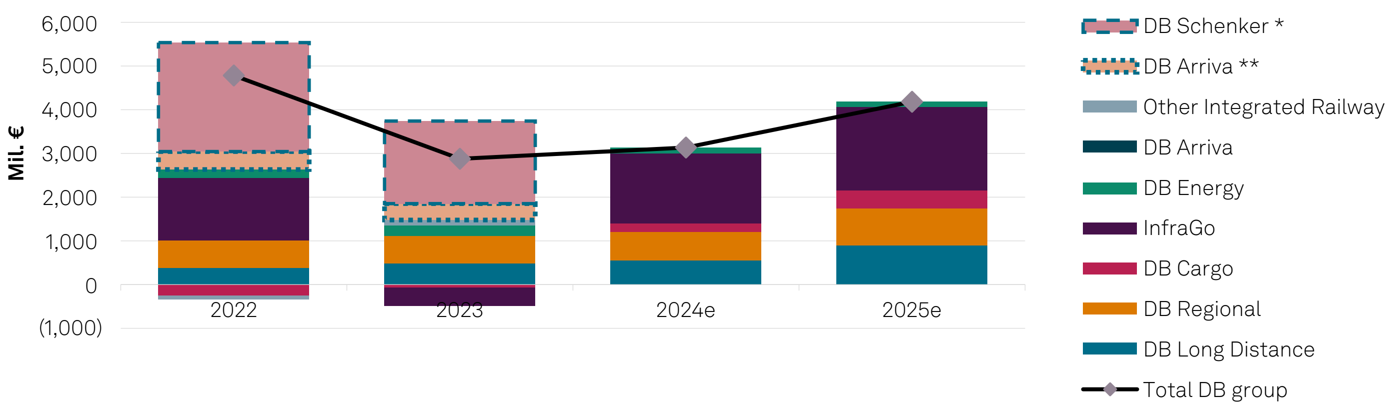
Company Description

DB is Germany's integrated rail company and the second-largest passenger transport company in Europe. It owns and manages Germany's rail network and is the country's dominant rail passenger and freight operator. Although DB is an integrated company, its railway transport services and infrastructure companies operate separately, in line with the fourth European Railway Package. DB is fully controlled by the German government.

With about €45.2 billion of reported revenue and €2.9 billion of adjusted EBITDA in 2023 (negatively affected by €1.1 billion of pre-financed maintenance expense), DB is one of the largest rail companies in the world. DB is in process of disposing its logistics subsidiary DB

Schenker, which in 2023 contributed an atypically high 66% of consolidated EBITDA. After the finalization of the logistics subsidiary DB Schenker disposal, and following the completion of the disposal of its international rail and bus operator DB Arriva in 2024, we expect DB's EBITDA to come from the core rail activities, including regional rail transportation services (€634 million), long-distance rail passenger transport (€483 million), DB Energy (€242 million). The infrastructure segment, DB InfraGo, includes DB Netze Track and DB Netze Stations, which were merged into DB InfraGo on Dec. 31, 2023, and had a negative contribution of €415 million, mainly due to the pre-financing of €1.1 billion of maintenance expense, which we expect to revert.

Reported EBITDA by segment



Source: S&P Global Ratings. Note: *DB Schenker is deconsolidated in 2024 as a discontinued operations following the disposal announcement. ** DB Arriva disposal was closed in 2024.

Peer Comparison

Deutsche Bahn AG--Peer Comparisons

	Deutsche Bahn AG	Societe Nationale SNCF	Ferrovie dello Stato Italiane	Societe Nationale des Chemins de Fer Belges	Vygruppen AS
Foreign currency issuer credit rating	AA-/Positive/A-1+	A+/Stable/A-1	BBB/Stable/A-2	A/Stable/A-1	A-/Negative/A-2
Local currency issuer credit rating	AA-/Positive/A-1+	A+/Stable/A-1	BBB/Stable/A-2	A/Stable/A-1	A-/Negative/A-2
SACP	bbb	bbb	bbb+	b	bbb-
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	45,191	41,760	14,560	2,571	1,701
EBITDA	3,540	6,442	2,147	201	242
Funds from operations (FFO)	2,580	4,822	1,794	115	213
Interest	854	1,082	355	53	33
Cash interest paid	643	1,476	334	78	28
Operating cash flow (OCF)	2,364	6,714	(858)	161	195

Deutsche Bahn AG--Peer Comparisons

Capital expenditure	6,760	3,123	2,533	143	31
Free operating cash flow (FOCF)	(4,397)	3,591	(3,391)	18	164
Discretionary cash flow (DCF)	(5,069)	2,569	(3,400)	18	158
Cash and short-term investments	3,144	13,120	2,250	127	198
Gross available cash	3,144	11,760	2,250	127	198
Debt	39,054	36,434	14,062	2,409	1,083
Equity	11,125	27,630	42,089	(82)	294
EBITDA margin (%)	7.8	15.4	14.7	7.8	14.2
Return on capital (%)	(0.1)	5.4	0.7	10.6	4.0
EBITDA interest coverage (x)	4.1	6.0	6.0	3.8	7.3
FFO cash interest coverage (x)	5.0	4.3	6.4	2.5	8.5
Debt/EBITDA (x)	11.0	5.7	6.6	12.0	4.5
FFO/debt (%)	6.6	13.2	12.8	4.8	19.7
OCF/debt (%)	6.1	18.4	(6.1)	6.7	18.0
FOCF/debt (%)	(11.3)	9.9	(24.1)	0.8	15.2
DCF/debt (%)	(13.0)	7.1	(24.2)	0.8	14.6

Deutsche Bahn AG--Peer Comparisons

	Deutsche Bahn AG	NS Groep N.V.
Foreign currency issuer credit rating	AA-/Positive/A-1+	A/Stable/--
Local currency issuer credit rating	AA-/Positive/A-1+	A/Stable/--
SACP	bbb	bbb
Period	Annual	Annual
Period ending	2023-12-31	2023-12-31
Mil.	EUR	EUR
Revenue	45,191	3,823
EBITDA	3,540	456
Funds from operations (FFO)	2,580	421
Interest	854	38
Cash interest paid	643	35
Operating cash flow (OCF)	2,364	232
Capital expenditure	6,760	548
Free operating cash flow (FOCF)	(4,397)	(316)
Discretionary cash flow (DCF)	(5,069)	(316)
Cash and short-term investments	3,144	1,074
Gross available cash	3,144	1,074
Debt	39,054	1,428
Equity	11,125	1,914
EBITDA margin (%)	7.8	11.9
Return on capital (%)	(0.1)	(0.1)

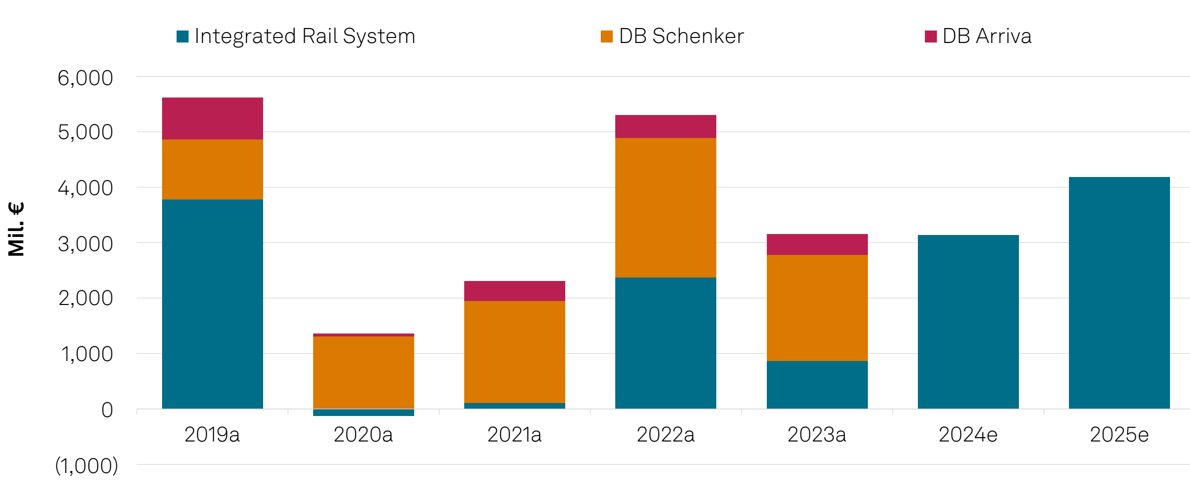
Deutsche Bahn AG--Peer Comparisons

EBITDA interest coverage (x)	4.1	12.0
FFO cash interest coverage (x)	5.0	13.0
Debt/EBITDA (x)	11.0	3.1
FFO/debt (%)	6.6	29.5
OCF/debt (%)	6.1	16.2
FOCF/debt (%)	(11.3)	(22.1)
DCF/debt (%)	(13.0)	(22.1)

Business Risk

The strong business risk assessment reflects our view that DB's strategic re-focus on its core rail operations should enhance earnings stability. The disposal of DB Schenker (expected to close in 2025), as well as the disposal of smaller international subsidiary DB Arriva in May 2024, will allow DB to strengthen its focus on the core railway business in Germany, which we consider more stable than the inherently cyclical and volatile logistics sector. After the sale, DB will maintain its dominant position in passenger transportation and its monopoly as the infrastructure owner in Germany, benefiting from a supportive regulatory environment and significant state funding. Although DB Schenker has contributed over 40% to the group's EBITDA in recent years, we have always viewed this as an atypical situation. Our projections for DB's future EBITDA are driven by anticipated profitability improvements in its core rail operations, supported by ongoing efficiency measures and investments. This shift allows the company to capitalize on its strengths in the rail sector, fostering a more predictable revenue stream and reducing exposure to fluctuations in other business areas.

DB EBITDA evolution: integrated rail system growth to offset DB Schenker deconsolidation



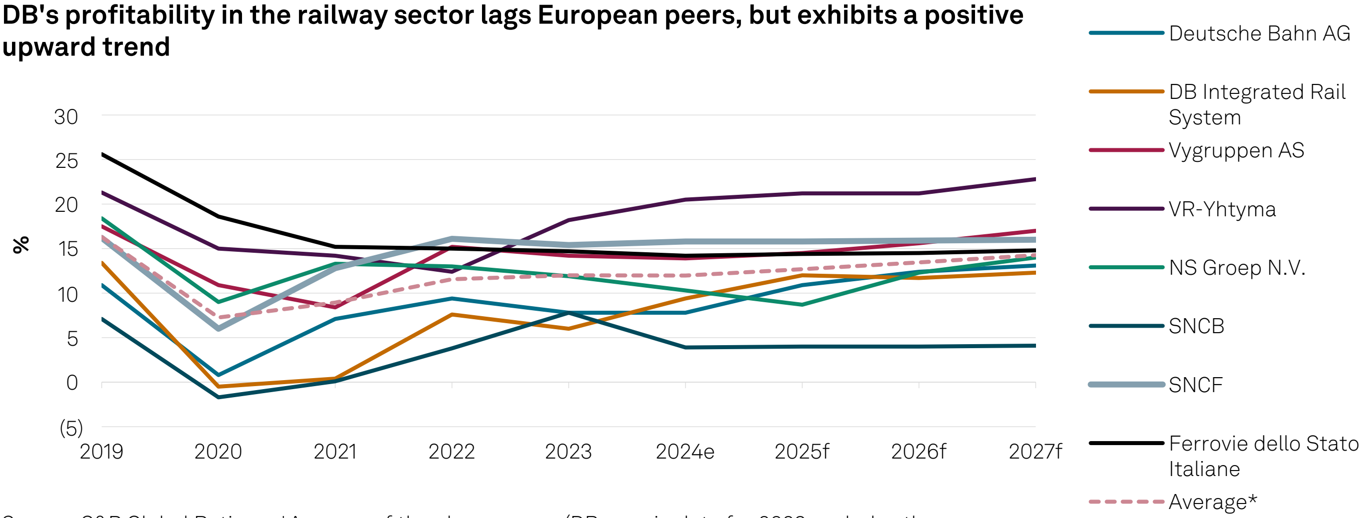
Source: S&P Global Ratings. No contribution from DB Schenker post the disposal in 2024

The vertical integration gives DB greater scale and more earnings stability compared with pure rail operators, although our assessment incorporates DB's exposure to competition in the highly liberalized German market. As an integrated owner of rail infrastructure in Germany and a dominant rail services provider, DB is less exposed to customer demand and competition risk compared with pure rail operators. DB is also a market leader in rail freight transport in Europe. In regional passenger transportation, DB competes with many railway operators, and although DB's market share has been fluctuating around 60% since 2021, its future position is open to uncertainty as up to 35% of the market is expected to be tendered by 2030. We assume less significant erosion of DB's solid 95% share of the long-distance market in the medium term because it requires significant investment in fleet and given the current shortage of additional network capacity. Still, in the longer term, DB may face increasing intramodal competition (e.g., from Eurostar group), especially if infrastructure shortages are resolved.

DB's profitability remains below that of key peers in the transportation industry. DB's profitability is constrained by ongoing issues related to significant modernization needs for its large infrastructure network, which affect efficiency, punctuality, and traffic volumes. In addition, DB's 2023-1H2024 profitability was affected by non-repeating events such as strikes, extreme weather events and by the prepayment of certain additional maintenance expense which will be offset with government compensation in 2024. We expect DB's profitability to improve as the company implements its Strong Rail strategy, which includes the infrastructural improvements, operational changes coupled with digitalization initiatives and cost saving measures backed by the Government. We believe this should eventually help resolve existing infrastructure bottlenecks, improve operating efficiency, and therefore benefit transportation volumes and margins. In September 2024, DB has announced its new business restructuring plan aiming among others to improve EBIT to about €2 billion by 2027.

That said, in our view, profitability improvement could be subject to execution risk and uncertainties, because the recovery trajectory of the rail business will depend on the actual outcome of ongoing efficiency, reliability, and punctuality measures, as well as on the impact of ongoing upgrade and modernization works. In particular, the company plans to upgrade about 40 highly frequented corridors by the end of 2030, and the modernization of the first rail corridor, the 70-kilometer long Riedban between Frankfurt-am-Main and Mannheim, is under way. Although this is factored in the forecast, actual execution could bring temporary volatility to our base case for traffic volume, revenue, and capex, before modernization works on highly used corridors deliver capacity and volume growth, as well as reliability improvements.

DB's profitability in the railway sector lags European peers, but exhibits a positive upward trend



Source: S&P Global Ratings. *Average of the above peers (DB margin data for 2023 excludes the pre-financed maintenance expense to avoid margin distortions based on timing issues)

DB operates in a stable and supportive legal environment. The German government has a constitutional obligation to finance infrastructure capex (Art. 87e of the German constitution). In addition, regional governments provide funds for the financing of local public transport services according to the German regionalization act. The new legal framework adopted in 2024 supports additional government funding for maintenance operating expenditures and stations, on top of capex support. Also, the Germany Ticket that enables unlimited travel throughout Germany and is subsidized by the government has a significant positive impact on demand for DB's passenger rail transportation services.

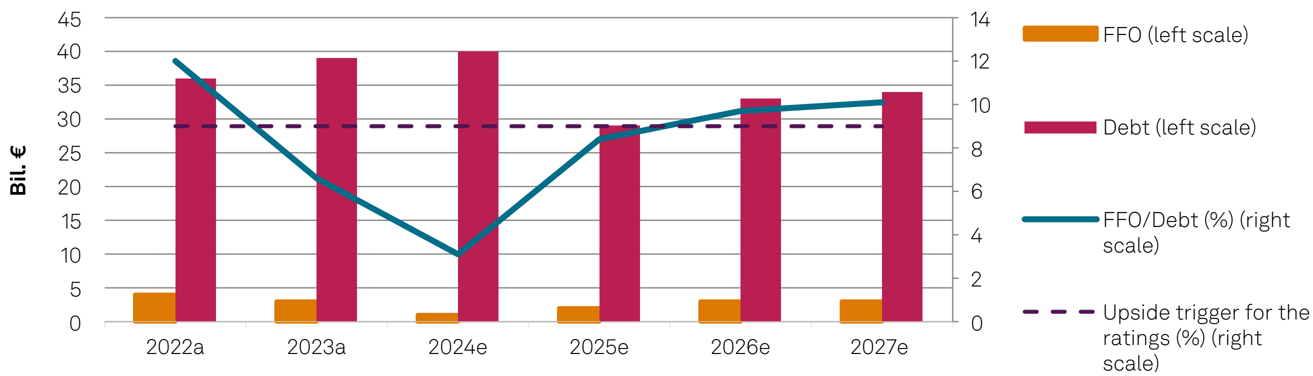
Financial Risk

We expect FFO to debt to increase from their current subdued levels and stabilize above 9% on average after closing the DB Schenker disposal in 2025, which is commensurate with our 'bbb' stand-alone credit quality assessment. DB has publicly reiterated its plans to utilize the anticipated net DB Schenker disposal proceeds of €11.3 billion-€11.8 billion for debt reduction and funding capex over 2025-2026. At the same time, we expect DB's EBITDA and FFO from the core railway business to improve from the 2023 trough, thanks to growth in traffic volumes and reflecting management's continuing efforts to address efficiency and punctuality issues through ongoing investments and the recently announced business restructuring program. As a result, we expect the DB Schenker disposal to be broadly neutral for our evaluation of DB's financial risk profile.

That said, DB's financial metrics' recovery from current subdued levels will significantly depend on the disposal execution and the ongoing implementation of the group's investment plan and efficiency measures in the core rail business.

While weaker 2023 performance stems somewhat from operating and punctuality issues, as well as from higher energy and staff costs, we understand that DB's reported credit metrics were also distorted by the pre-financing of €1.5 billion of infrastructure capex and €1.1 billion of maintenance expense, and we do not necessarily expect such timing differences to repeat. In 2024, we also expect DB's financial metrics to be uncharacteristic and significantly affected by the disposal, particularly due to the timing discrepancy between the deconsolidation date and the receipt of cash proceeds. Therefore, our analysis emphasizes post-disposal performance within the refined group perimeter and assumes no significant mismatch between DB's actual spending and government support.

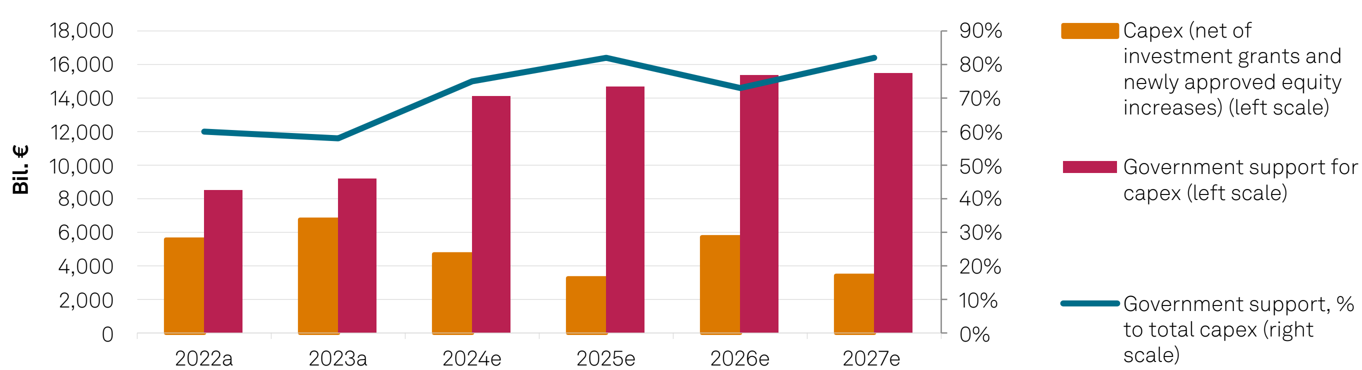
Evolution of FFO to debt for DB



Source: Adjusted by S&P Global Ratings. FFO--Funds from operations. a--Actual. e-Estimate. S&P Global Ratings.

Although DB has large and increasing capex needs, the matching increase in government funding should contribute to stabilizing credit metrics. We expect DB's capex to increase because the group needs to modernize its rail infrastructure and improve punctuality and reliability. That said, the increasing share of DB's heavy capex needs will be covered by the government's equity infusions. This will accelerate DB's execution of its investment plan and support gradual recovery in DB's credit metrics from uncharacteristically low 2023 levels.

Solid government support to alleviate growing capex pressure

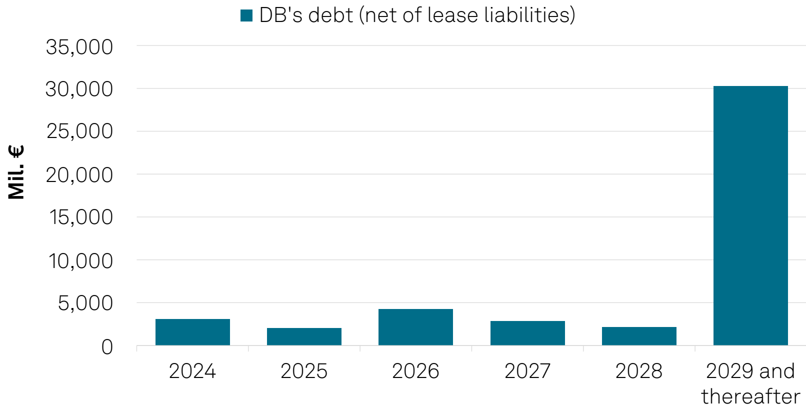


Source: S&P Global Ratings. As adjusted by S&P Global Ratings. a--Actual. E-Estimate. Capex--capital expenditure.

We expect the company to maintain FFO cash interest coverage of above 4x over 2025-2028 despite the relatively high interest rate environment. DB's exposure to interest-rate risk is limited as most of its debt is fixed-rate bonds (about 90% of its total reported debt). Also, high interest rates could somewhat reduce pension liability, which we include in adjusted debt.

Debt maturities

DB's debt maturity profile as of Dec. 31, 2023



Source: S&P Global Ratings.

Deutsche Bahn AG--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	41,895	42,397	38,729	46,034	55,197	45,191
EBITDA	5,159	4,620	301	3,264	5,189	3,540
Funds from operations (FFO)	4,238	3,925	(380)	2,480	4,286	2,580
Interest expense	939	699	695	630	607	854
Cash interest paid	774	559	530	535	452	643
Operating cash flow (OCF)	4,148	3,188	1,584	3,501	5,395	2,364
Capital expenditure	3,729	3,757	4,557	4,956	5,574	6,760
Free operating cash flow (FOCF)	418	(569)	(2,973)	(1,456)	(180)	(4,397)
Discretionary cash flow (DCF)	(45)	(1,228)	(3,619)	(1,476)	(190)	(5,069)
Cash and short-term investments	3,185	3,635	2,994	4,163	5,313	3,144
Gross available cash	2,969	3,382	2,431	3,430	4,363	3,144
Debt	29,899	31,983	39,094	37,731	35,600	39,054
Common equity	13,592	13,931	6,269	9,620	13,678	11,125
Adjusted ratios						
EBITDA margin (%)	12.3	10.9	0.8	7.1	9.4	7.8
Return on capital (%)	3.9	2.4	(7.2)	(1.0)	3.1	(0.1)
EBITDA interest coverage (x)	5.5	6.6	0.4	5.2	8.6	4.1
FFO cash interest coverage (x)	6.5	8.0	0.3	5.6	10.5	5.0
Debt/EBITDA (x)	5.8	6.9	129.8	11.6	6.9	11.0
FFO/debt (%)	14.2	12.3	(1.0)	6.6	12.0	6.6
OCF/debt (%)	13.9	10.0	4.1	9.3	15.2	6.1

Deutsche Bahn AG--Financial Summary

FOCF/debt (%)	1.4	(1.8)	(7.6)	(3.9)	(0.5)	(11.3)
DCF/debt (%)	(0.1)	(3.8)	(9.3)	(3.9)	(0.5)	(13.0)

Reconciliation Of Deutsche Bahn AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	33,321	11,983	45,191	2,639	(1,273)	653	3,540	2,604	685	16,204
Cash taxes paid	-	-	-	-	-	-	(318)	-	-	-
Cash interest paid	-	-	-	-	-	-	(630)	-	-	-
Trade receivables securitizations	475	-	-	-	-	-	-	32	-	-
Lease liabilities	4,787	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)	1,001	(1,001)	-	-	-	13	(13)	(13)	(13)	-
Postretirement benefit obligations/ deferred compensation	3,576	-	-	14	14	106	-	-	-	-
Accessible cash and liquid investments	(3,144)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	82	-	-	-	-
Capitalized development costs	-	-	-	(260)	(145)	-	-	(260)	-	(260)
Dividends from equity investments	-	-	-	7	-	-	-	-	-	-
Deconsolid./ consolid.	(1,259)	-	-	-	-	-	-	-	-	-
Asset-retirement obligations	297	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	211	-	-	-	-	-
Noncontrolling/ minority interest	-	143	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	22	22	-	-	-	-	-
EBITDA: other	-	-	-	1,118	1,118	-	-	-	-	-
Working capital: other	-	-	-	-	-	-	-	(64)	-	-
OCF: other	-	-	-	-	-	-	-	64	-	-

Reconciliation Of Deutsche Bahn AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Capex: other	-	-	-	-	-	-	-	-	-	(9,184)
Total adjustments	5,733	(858)	-	901	1,220	201	(961)	(241)	(13)	(9,444)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	39,054	11,125	45,191	3,540	(53)	854	2,580	2,364	673	6,760

Liquidity

The short-term rating on DB is 'A-1+'. We assess the company's liquidity as adequate because sources of liquidity cover uses by over 1.2x over the 12 months from June 30, 2024. DB's high standing in the capital markets, sound relationships with banks, and generally prudent risk management, all ensuring the maintenance of adequate liquidity, continue to support our assessment. We believe that DB will benefit from a more stabilized liquidity profile when the sale of DB Schenker is executed as proceeds from the sale will address upcoming maturities (including €2.5 billion maturing bridge loans) and refinancing needs and because we expect no change to the already agreed state support. Although our current calculation could point to a stronger assessment, we classify DB's liquidity as adequate in the absence of a longer track record of the company's commitment to maintaining strong liquidity levels amid large planned investments.

Principal liquidity sources

- Unrestricted cash of about €4.6 billion;
- Availability on committed credit facilities expiring beyond 12 months of about €2.1 billion;
- FFO of about €1.4 billion (which excludes the contribution from DB Schenker);
- Net proceeds from the sale of DB Schenker of €11.3 billion-€11.8 billion; and
- Committed equity injections from the government under the Climate Action Program of €1.1 billion.

Principal liquidity uses

- Debt maturities of €4.8 billion in the next 12 months; and
- Total net capex of €5.4 billion, of which we expect some could be postponed to preserve liquidity if needed. Net capex is capex net of government grants and committed equity injections and excludes IFRS 16 effects.

Covenant Analysis

Requirements

We understand that DB's loan agreements and bond documentation do not have any material financial covenants.

Environmental, Social, And Governance

Environmental factors are a positive consideration in our rating analysis of DB, given its role in the German government's strong carbon reduction objectives. Its sole owner, the German government, recently announced equity increases of €20 billion over 2024-2029 in addition to €11 billion made available under the Climate Action Program by 2030 to DB to accelerate the rail infrastructure network's upgrade and attract more passengers and cargo in line with its Strong Rail targets. Funding sources include the CO2 surcharge in the truck toll, signaling the government's commitment to accelerate the shift to rail and away from road transport. This will benefit DB's volumes growth and profitability levels. DB aims to be climate neutral by 2040 and therefore, it plans to reduce CO2 emissions by half by 2030 (from 2006 levels), increase the use of renewable energies for the traction current mix, to 80% by 2030 and for its train operating companies, to 100% by 2038. DB is also working on replacing diesel-powered trains by trains powered by green fuels such as hydrogen and biofuels, as well as battery-powered trains and on implementing innovative charging solutions.

Social factors are an overall neutral consideration in our analysis. This balances the company's key social mandate--underscoring DB's very important role for and very strong link to the German government--versus any negative influences that health and safety risk and labor union actions may have. For example, the COVID-19 pandemic severely reduced passenger volumes, but this was mitigated by federal government support measures (about €5.4 billion) and COVID-19-related support for regional transport (about €1.6 billion). The strikes have impacted profitability in 2024 but Germany ticket which is subsidized by the government encourages domestic travel and increases passenger traffic.

Group Influence

We treat Deutsche Bahn Finance as a subsidiary created for the sole purpose of carrying out certain financial activities on behalf of its parent company, and as core to the group. It is wholly owned by DB, shares the same corporate name, and issues debt on the capital markets on behalf of the group. As a result, our senior unsecured issue rating on debt issued by Deutsche Bahn Finance is equalized with our ratings on debt issued by DB.

Government Influence

Our 'AA-' long-term issuer credit rating on DB incorporates five notches of uplift from the 'bbb' SACP, including one transition notch to reflect our view that there is a very high and potentially increasing likelihood that the German government would provide sufficient and timely extraordinary support to DB if needed.

This assessment is based on our view of DB's:

- Very important role fulfilling one of the key objectives of the government: building, maintaining, and operating the rail network. This is underpinned by DB's strategic, socioeconomic, and political importance as the country's leading provider of passenger rail services, as well as its position as the dominant rail-freight and logistics operator and the evidence of continuous financial support. We believe that the recent adjustments to the legal and regulatory framework (including massive increase in state funding for capex) highlight increasing importance and alignment between DB and the government in infrastructure modernization and execution of the government's climate goals. That said, DB does not benefit from any explicit and timely guarantee of its liabilities by the government.

- Very strong link to the government, reflecting 100% government ownership and a constitutional requirement that the federal government remains the owner of the country's rail infrastructure with responsibility for providing a functional rail network. Given this constitutional requirement and a lack of political will to even partially privatize DB, we expect that the group will remain in 100% government ownership in the foreseeable future. That said, as a private joint stock company (Aktiengesellschaft) DB is an independent legal entity with its own rights and obligations and is subject to the same bankruptcy regime as any other limited liability company in Germany.

Issue Ratings--Subordination Risk Analysis

Capital structure

DB's capital structure consists primarily of senior unsecured bonds (€30 billion on Dec. 31, 2023) issued by finance subsidiary Deutsche Bahn Finance GmbH, which continues to act as the only capital-market-focused legal entity within the DB group.

Analytical conclusions

The priority liabilities at the subsidiaries correspond to less than 15% of the group's debt. Therefore, we rate senior unsecured issuance at the issuer credit rating level.

Rating Component Scores

Foreign currency issuer credit rating	**AA-/Positive/A-1+**
Local currency issuer credit rating	**AA-/Positive/A-1+**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Significant**
Cash flow/leverage	Significant (low volatility table)
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Research Update: Deutsche Bahn AG Outlook Revised To Positive As Increasing Support From German Government Offsets Weaker SACP, August 07, 2024
- Industry Credit Outlook Update €ope: Transportation Infrastructure, July 18, 2024
- Société Nationale SNCF S.A. Downgraded To 'A+' Following Similar Action On France; Outlook Stable; SACP Revised Upward, June 7,2024
- Research Update: Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 22, 2024
- Tear Sheet: Ferrovie dello Stato Italiane, Nov. 20, 2023
- German Rail Operator Deutsche Bahn's Financing Vehicle's Proposed Hybrid Notes Assigned 'BBB' Rating, Oct. 8, 2019

Ratings Detail (as of December 10, 2024)*	
Deutsche Bahn AG	
Issuer Credit Rating	AA-/Positive/A-1+
Issuer Credit Ratings History	
07-Aug-2024	AA-/Positive/A-1+
29-Jul-2022	AA-/Stable/A-1+
11-Jun-2020	AA-/Negative/A-1+

Ratings Detail (as of December 10, 2024)*
*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.