Bulletin:

Deutsche Bahn's 2024 Results Mirror Expectations; Profit Recovery And State Support Remain Key Rating Drivers

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LONDON (S&P Global Ratings) March 27, 2025--The results posted by Deutsche Bahn AG (DB; AA-/Positive/A1+) for full-year 2024 are in line with S&P Global Ratings' expectations. This, combined with DB's planned divestment of DB Schenker and the possibility of an increased likelihood of extraordinary support from the German government underpin our positive rating outlook.

On a preliminary basis, we estimate that, as we expected, DB's funds from operations (FFO) to debt in 2024 was lower than our 9% threshold for the rating. EBITDA before our adjustments totaled €2.94 billion, boosted by €1.1 billion from a timing difference in receiving compensation from the government for maintenance expenses that were prepaid by DB in 2023. The EBITDA figure already deconsolidates the logistics subsidiary DB Schenker, which DB is divesting. As we expected, DB's EBITDA was affected by several one-time situations in 2024, such as strikes in the first quarter (with an estimated impact of about €0.3 billion) and construction activities that weighed on operating performance and the punctuality of its trains.

Nevertheless, on a like-for-like basis, adjusted for disposals but before S&P Global Ratings' adjustments, DB's EBITDA from core rail activities increased to €2.94 billion in 2024 from €882 million in 2023. In addition to timing differences, this reflects the improving performance of DB's infrastructure subsidiary DB InfraGO AG, as well as its regional and cargo transportation business, and about €0.3 billion in savings from the group's spending control and monitoring program. Although long-distance and rail-freight transport volumes declined by 3.0% and 7.9% respectively, regional transport demonstrated a solid 8.3% increase. This was underpinned by the popular Germany ticket, which enables unlimited regional rail travel throughout Germany and is subsidized by the government.

DB's capital expenditure (capex) remains large, at about €18.2 billion on a gross reported basis in 2024, as it focuses on modernizing its asset base and alleviating infrastructure bottlenecks to boost traffic volumes and revenue, while achieving efficiency gains. A considerable part of capex is, however, financed by increasing grants and equity support from the federal government, which underscores our view of DB's increasing importance to the German government and supports our positive outlook.

In 2024, DB received €5.5 billion in equity infusions and €12.1 billion in infrastructure grants, including reimbursement of €1.1 billion in operating expenditure and €1.3 billion in capex which DB prefinanced in 2023. Although the final 2025 federal budget is still awaiting approval, at least €4.9 billion in capex grants and €8.5 billion in equity injections are already approved, of which DB received €4.24 billion on March 5, 2025. We expect DB's gross capex to remain elevated, reflecting the company's strategic plans and high investment needs. But a large part of the increases will be covered by government funding, which is set to rise to more than €15 billion this year from €10 billion-€11 billion annually in 2021-2023. Also, we believe that DB's capex program could be modular and flexible, depending on the availability of government financing and policy priorities.

We believe that, despite predictably subdued credit metrics in 2024, DB remains on track to achieve and maintain FFO to debt commensurate with our 9% threshold for its 'bbb' stand-alone credit profile, thanks to margin recovery in the core rail business and deleveraging from disposal proceeds. DB's results may differ from our base case forecasts, due to execution risks and the potential impact of macroeconomic volatility on volumes. However, we believe DB's capex, efficiency improvements, and cost-control measures should eventually boost margins. In addition, infrastructure availability issues related to modernization works and existing bottlenecks are gradually being addressed; for example, modernization of the frequently used Riedbahn corridor was completed in December 2024, thereby facilitating higher transport volumes. Also, we understand DB is on track to close the disposal of its logistics subsidiary DB Schenker by midyear 2025, and will likely use the €11.3 billion-€11.8 billion in cash proceeds for debt reduction and capex, in line with its long-articulated plans.

We will continue to monitor Germany's incoming government's strategic priorities and support to DB. We believe that, as the main provider of critical infrastructure, DB plays a key role in the country's economic and social development, climate goals, and mobility transition. Following the establishment of DB InfraGO AG, which has clear public policy goals, and adjustments to Germany's legal framework in 2024 (including to the Federal Railway Expansion Act), we will continue to monitor the development of state support mechanisms and alignment between government's transport policy priorities and DB's capex needs.

In March 2025, the German parliament's upper house approved the law to relax the government's debt brake rules for budgetary spending on defense and create a new €500 billion infrastructure spending program, a special fund for additional investments in infrastructure and climate neutrality. Allocations from this spending program have not yet been decided. However, based on recent public debates, we think a substantial part of the planned additional investments will go toward rail infrastructure, and thus benefit DB.

DB's decision to repay its €1 billion hybrid notes (NC5.5) on April 22, 2025, did not change our assessment of intermediate equity content for the remaining €1 billion hybrid notes (NC10). This is because the hybrids represent only a small part of DB's capital structure (4% before and 2% after repayment). DB's capex is mostly funded by internally generated funds, capital grants, and equity infusions, since under the German constitution, infrastructure development should be funded by the government. Also, DB has publicly confirmed that it will use part of the equity infusions received in 2024-2025 to replace 50% of the redeemed hybrid and that the remaining hybrids with effective maturity in 2029 will remain a material part of its financing strategy. We therefore will continue to treat 50% of the remaining hybrids as debt and 50% as equity. Our rating on DB's hybrids remain at 'BB+' two notches below our assessment of DB’s ‘bbb’ stand-alone credit profile, reflecting subordination and optional deferability of interest.

Related Research

- Research Update: Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Jan. 31, 2025
- Deutsche Bahn AG, Dec. 11, 2024
- Research Update: Deutsche Bahn 'AA-/A-1+' Ratings Affirmed After Schenker Disposal Announcement; Outlook Positive, Sept. 24, 2024
- Research Update: Deutsche Bahn AG Outlook Revised To Positive As Increasing Support From German Government Offsets Weaker SACP, Aug.7, 2024
- EMEA Transportation Infrastructure: Handbook 2025
- German Rail Operator Deutsche Bahn's Financing Vehicle's Proposed Hybrid Notes Assigned 'BBB' Rating, Oct. 8, 2019