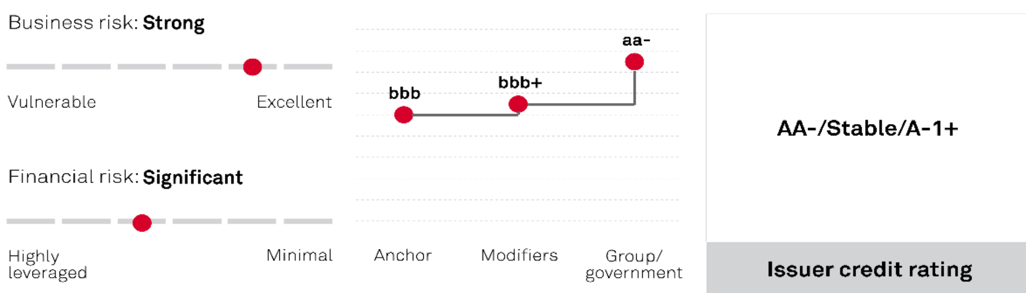
Deutsche Bahn AG

November 23, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Integrated operator, sole owner, and manager of Germany's rail infrastructure. Provider of passenger and freight transportation services.	Large planned investments in modernization and capacity expansion in railway infrastructure and fleet, as well as higher financing costs, will weigh on free operating cash flows (FOCF) and constrain deleveraging, with funds from operations (FFO) to debt unlikely to return to 2019 levels (12%) over the next five years.
Main provider of passenger and freight services in Germany, albeit with a reduced market share in regional transportation services (slightly above 60% in 2022) due to intense competition.	Temporarily weaker expected credit metrics in 2023, reflecting DB's prefinancing of some infrastructure measures this year, which should be compensated by the German government in 2024.
Operations in a stable and supportive legal environment, based on the German government's constitutional obligation to finance rail infrastructure capital expenditure (capex).	Still high contribution from less stable logistics' operations at DB Schenker (43% of EBITDA in first half of 2023) but expected to return to less than 30% of the group's total EBITDA by 2027 and pending a potential disposal the group is contemplating.
Very strong ongoing and extraordinary government support given its strategic importance for the country and its central role in the German government's strong carbon reduction objectives, as highlighted by around €7	Weak profitability compared to rated European railway peers, further constrained by the current high inflationary environment.

billion of pandemic-related government support over 2020-2022, and planned €11 billion pledged under the Climate Action Program.

We expect Deutsche Bahn's (DB) credit metrics to weaken temporarily in 2023 given high infrastructure expenditure (capex), but strengthen from 2024. This is when DB should have received compensation from the federal government, and earnings from its core rail activities should have recovered. To accelerate modernizing its rail network, DB will pre-finance part of its expenditure through its own funds this year. It is entitled to compensation from the federal government for these investments, but with a one-year delay. As such, we expect net capex (net of government financing and lease capex), to increase to more than €7.0 billion in 2023 (then below €6.0 billion thereafter) while operating expenses could increase significantly (before mitigating measures) due to higher maintenance expenses and volumes affected by service disruptions, weighting negatively on cash flow generation this year. We expect the EBITDA contribution from its core rail activities to improve thanks to volume increases, price adjustments, cost pass-throughs, and efficiency and quality improvements. We therefore think DB's credit metrics will normalize from 2024, with FFO to debt reverting to around 9% and debt to EBITDA to around 7x-8x on average over 2024-2027, from around 6% and around 11x, respectively, in 2023.

Large investments will constrain DB's deleveraging in the next few years but should support future traffic growth and eventually improve profitability. We assume yearly gross capex will almost double by 2027 (to around €15.4 billion in 2022 compared to around €30.7 billion in 2027), reflecting large investments in the modernization and expansion of its rail network. This encompasses a general upgrade of the network to increase punctuality and reliability as well as prepare for strong expected traffic growth in line with 2030 targets to double the number of passengers travelling by rail. A large part of rail infrastructure capex (70%-80% of DB's total capex between 2023-2027) is financed by the federal government, and the rest will be mainly for procuring new trains. We expect that these measures will temporary impact DB's financial metrics but drive future operational improvements.

The New Deal on infrastructure, agreed between DB and the federal government, should facilitate the required network development and quality improvements. And despite uncertainties related to the recent freeze of payments from the Climate and Transformation Fund, DB should be able to preserve its metrics by adjusting its capex according to the timing and availability of funding. We understand that total government funding for infrastructure capex is planned to increase, funded by a share of the income from the carbon dioxide surcharge on trucks. This reinforces our view that very strong support from the German government will continue to reinforce DB's credit profile and reflect the railway network's key role in achieving climate transition goals. Although the Constitutional Court ruling in November 2023 led to the freeze of payments from the Climate and Transformation Fund, we expect federal government support to continue, even if the specific mechanisms are yet to be determined. We believe that the court ruling affects only part of the new funding that DB expected to receive, and that DB will be able and willing to adjust its spending in line with funding availability.

Our base case still consolidates the logistics' subsidiary DB Schenker, because the timing and details of the contemplated sale are unclear at this stage. On Dec. 15, 2022, DB announced that its management board had been mandated to examine and prepare the possible sale of up to 100% of DB Schenker. The effects on DB's credit quality will depend on the timing of the disposal, the size of the stake, and the amount of proceeds, all of which remain unclear. Depending on the stake, DB's absolute size and diversification could shrink, as the division represented about 43% of EBITDA in first-half 2023 and we estimate its long-term potential contribution at 25%-30%. However, DB would refocus on its core German passenger railway operations, which we view as less cyclical and generating higher margin than the logistic operations. Anyway, the supervisory board has decided that the related proceeds would remain entirely within DB to, among others, significantly reduce its leverage. The sale of DB Schenker could therefore offer additional sources of funds to mitigate the impact of DB's large investment plans on its financial leverage (see "Deutsche Bahn's Sale Of DB Schenker Signals Focus On Large Mobility Transition Investments," published Dec. 21, 2022).

We expect the disposal of DB’s international rail and bus operator DB Arriva announced in October 2023 to be marginal for DB’s financial metrics. DB Arriva’s contribution to the group’s EBITDA was only about 8% in the first half of 2023, and we assume that the deleveraging proceeds will not influence DB’s deleveraging progress. We believe this disposal will further strengthen DB’s focus on its core rail operations in Germany. We had already been deconsolidating the U.K. train operating businesses consolidated in DB Arriva from DB's reported figures and forecasts, because their earnings and cash were not freely available to the parent company.

Outlook

The stable outlook reflects the government's very strong ongoing and extraordinary support of DB.

Under the Climate Action Program, the federal government has pledged €11 billion by 2030, in addition to ongoing funds for infrastructure measures that will cover more than 70% of DB's capex yearly from 2024 onward. This will help it modernize track infrastructure and improve passenger travel comfort. The outlook reflects that, although we assume a temporary weakening of DB's credit metrics in 2023, we forecast S&P Global Ratings-adjusted FFO to debt to revert to above 9% from 2024 onward. This is because DB is entitled to federal government's compensation for these prefunded infrastructure measures in 2024. Its metrics will also be boosted by passenger volume growth and cost control measures.

Downside scenario

We could lower the rating to 'A+' if we expect DB's weighted-average FFO to debt to drop below 9%. This could happen if the company's cost-saving initiatives cannot contain earnings pressures in the current inflationary environment. It could also occur if, despite substantial investments, the company fails to improve its attractiveness to passengers and its profitability, such that leverage remains materially higher than we expect.

Although not expected, we could also lower the rating if the company's corporate structure changes, such that infrastructure or passenger transport is no longer part of DB's operations, or if we believed that its link with or role for the federal government had weakened.

Upside scenario

We could raise the long-term rating to 'AA' if DB's FFO to debt improves to 13% or higher, which could result from a substantial recovery in profitability or additional equity injections from the government.

Rating upside could also follow if we revise up our assessment of extraordinary support to extremely high from very high.

Our Base-Case Scenario

Assumptions

- German GDP growth of -0.2% in 2023, 0.6% in 2024, and 1.4% in 2025.
- German CPI growth of 6.3% in 2023, 2.8% in 2024, and 2.0% in 2025.
- We do not factor the sale of DB Schenker and any potential proceeds, because transaction execution, details and schedule remain uncertain. We assume the disposal of DB Arriva in October 2023 will be marginal for DB's credit metrics.
- Total revenue decline of about 8%-10% in 2023 and another 1-2% In 2024, mainly due to a decline in revenues in the logistics subsidiary DB Schenker as freight rates normalize and DB Arriva deconsolidation. Thereafter, we assume 2.5%-3.5% revenue growth, above German GDP growth and in line with the expected network development and services improvement.
- Strong revenue growth in the long-distance segment of well above 20% in 2023, reflecting volumes approaching 2019 levels for full-year 2023, from about 90% of 2019 levels in 2022, and an average tariff increase of 4.9%. Thereafter, we assume the segment grows slightly above GDP, reflecting fleet expansion and improved services. Regional rail segment revenue to grow by 7%-8% in 2023 boosted by the volume increase, €49 euro ticket launch from May 2024 and tariff increases.
- Adjusted EBITDA margin to decline to 7%-8% in 2023, from 10.9% in 2019, reflecting exceptionally high expenses due to pre-financing some infrastructure-related maintenance costs with DB's own funds that year, with compensation from the federal government received in 2024. Margins to improve to 10%-11% in 2024, as the normalization of maintenance spending mitigates the strong expected increase in staff costs and still-high energy costs, followed by 11%-12% in 2025 as inflationary pressures start to ease.
- Capex, net of investment grants, to increase temporarily to more than €7.0 billion in 2023 (excluding around €1 billion International Financial Reporting Standard [IFRS] 16 effects per year), from €5.6 billion in 2022, reflecting the pre-funding of some infrastructure capex that year. We assume net capex of around €5.5 billion in 2024 and €4.5 billion-€5.0 billion thereafter, mostly for rolling-stock upgrades and factoring in the DB Arriva deconsolidation.
- Dividends of about €650 million per year over 2023-2024 and €700 million per year from 2025 onward. Dividends are returned to DB via investment grants for rail infrastructure.
- Capital injections under the Climate Action Program of €11 billion until 2030 (in the form of equity injections and investment grants).
- We assume that the €2 billion hybrid instrument issued in 2019, which we view as having intermediate equity content, will be refinanced in due course; no other new hybrid issuance is included in our base case.

Key metrics

Deutsche Bahn AG--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	42,397	38,729	46,034	55,197	50,000-50,500	49,313-49,813	50,635-51,115	52,293-52,793
EBITDA	4,620	301	3,264	5,189	3,500-3,800	4,722-5,222	5,382-5,882	6,223-6,773
Less: Cash interest paid	(559)	(530)	(535)	(452)	(807)	(921)	(1,144)	(1,355)
Less: Cash taxes paid	(137)	(152)	(249)	(452)	(333)	(436)	(494)	(550)
Funds from operations (FFO)	3,925	(380)	2,480	4,286	2,649	3,366-3,866	3,744-4,244	4,188-4,618
Capital expenditure (capex)	3,757	4,557	4,956	5,574	7,503	5,240-5,740	4,500-5,000	5,126-5,626
Free operating cash flow (FOCF)	(569)	(2,973)	(1,456)	(180)	(4,883)	(1,611-2,111)	(492)-(992)	(245)-(745)
Dividends	660	646	20	10	663	663	770	770
Debt	31,983	39,094	37,731	35,600	39,683	42,420-41,920	45,394-45,394	50,488-50,988
Adjusted ratios								
Debt/EBITDA (x)	6.9	129.8	11.6	6.9	10.0-11.0	8.0-9.0	7.7-8.7	7.5-8.2
FFO/debt (%)	12.3	(1.0)	6.6	12.0	6.0-7.0	8.5-9.5	8.5-9.5	8.5-9.5
FFO cash interest coverage (x)	8.0	0.3	5.6	10.5	4.3	4.7-5.1	4.3-4.7	4.0-4.4
EBITDA interest coverage (x)	6.6	0.4	5.2	8.6	3.5-4.5	5.2-5.6	4.7-4.9	4.4-4.8
Annual revenue growth (%)	1.2	(8.7)	18.9	19.9	(10.0)-(8.0)	(3)-0	2.2-3.2	2.7-3.2
EBITDA margin (%)	10.9	0.8	7.1	9.4	7.0-8.0	9.5-10.5	10.6-11.6	11.5-12.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Company Description

DB is Germany's integrated rail company and the largest regional rail 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.

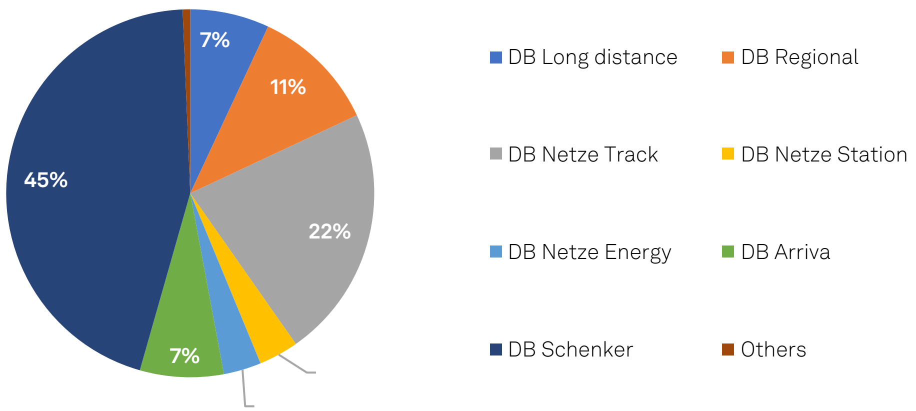
With about €56.3 billion of reported revenue and €5.2 billion of adjusted EBITDA in 2022, DB is one of the largest rail and logistics companies in the world, operating in more than 130 countries.

For the first half of 2023, DB generated about 30% of its EBITDA from passenger transport services (mostly from Germany and only about 8% internationally through DB Arriva). The infrastructure segment generated about 23% of EBITDA, the remainder coming from the more volatile transport and logistics segment via DB Schenker and DB Cargo (respectively generating around 45% and less than 1%).

Chart 1.

EBITDA by segment

%



Footnote. Company, S&P Global

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-/Stable/A-1+	AA-/Negative/A-1+	BBB/Stable/A-2	A/Stable/A-1	A-/Stable/A-2
Local currency issuer credit rating	AA-/Stable/A-1+	AA-/Negative/A-1+	BBB/Stable/A-2	A/Stable/A-1	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	55,197	41,449	13,433	2,302	1,674
EBITDA	5,189	6,681	2,021	87	254
Funds from operations (FFO)	4,286	5,569	1,857	2	231

Deutsche Bahn AG--Peer Comparisons

Interest	607	926	188	51	25
Cash interest paid	452	902	163	84	23
Operating cash flow (OCF)	5,395	5,124	3,011	3	185
Capital expenditure	5,574	3,169	1,981	159	16
Free operating cash flow (FOCF)	(180)	1,955	1,030	(156)	169
Discretionary cash flow (DCF)	(190)	1,532	1,028	(156)	169
Cash and short-term investments	5,313	15,393	2,830	224	198
Gross available cash	4,363	13,398	2,830	224	198
Debt	35,600	33,250	10,304	2,453	556
Equity	13,678	27,622	42,068	(258)	339
EBITDA margin (%)	9.4	16.1	15.0	3.8	15.2
Return on capital (%)	3.1	5.9	0.6	6.7	4.4
EBITDA interest coverage (x)	8.6	7.2	10.8	1.7	10.2
FFO cash interest coverage (x)	10.5	7.2	12.4	1.0	11.2
Debt/EBITDA (x)	6.9	5.0	5.1	28.4	2.2
FFO/debt (%)	12.0	16.7	18.0	0.1	41.6
OCF/debt (%)	15.2	15.4	29.2	0.1	33.3
FOCF/debt (%)	(0.5)	5.9	10.0	(6.4)	30.4
DCF/debt (%)	(0.5)	4.6	10.0	(6.4)	30.4

Deutsche Bahn AG--Peer Comparisons

	Deutsche Bahn AG	NS Groep N.V.
Foreign currency issuer credit rating	AA-/Stable/A-1+	A/Stable/--
Local currency issuer credit rating	AA-/Stable/A-1+	A/Stable/--
Period	Annual	Annual
Period ending	2022-12-31	2022-12-31
Mil.	EUR	EUR
Revenue	55,197	3,341
EBITDA	5,189	434
Funds from operations (FFO)	4,286	420
Interest	607	14
Cash interest paid	452	14
Operating cash flow (OCF)	5,395	896
Capital expenditure	5,574	438
Free operating cash flow (FOCF)	(180)	458
Discretionary cash flow (DCF)	(190)	458
Cash and short-term investments	5,313	1,141
Gross available cash	4,363	1,141
Debt	35,600	1,162
Equity	13,678	2,309
EBITDA margin (%)	9.4	13.0
Return on capital (%)	3.1	0.5

Deutsche Bahn AG--Peer Comparisons

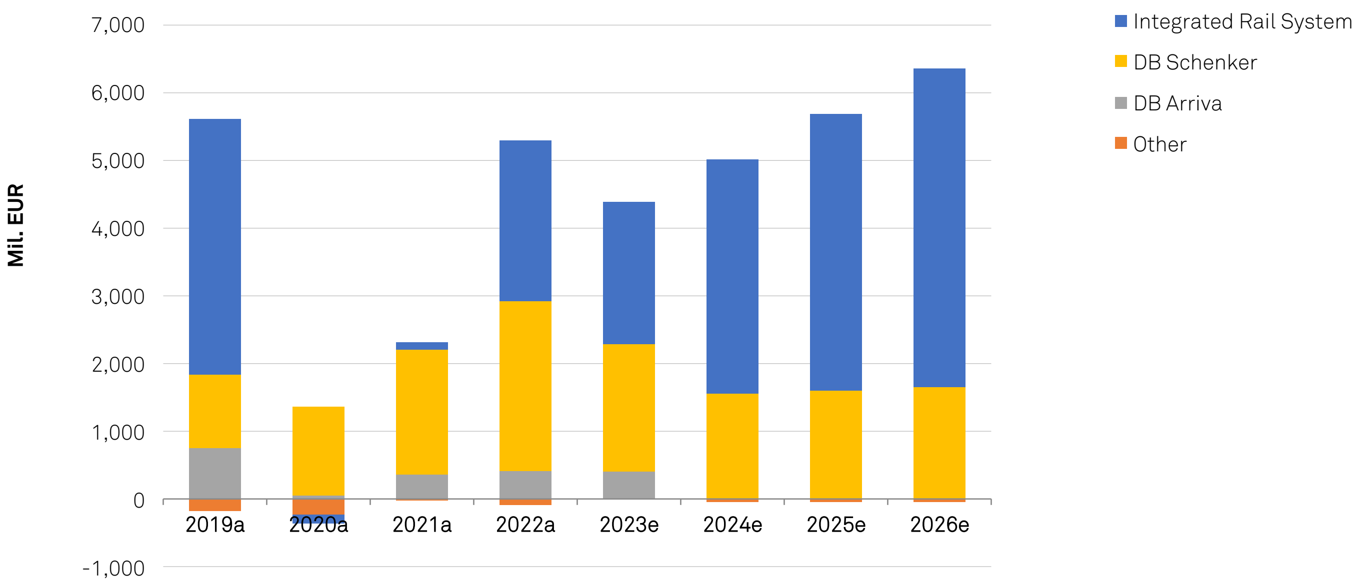
EBITDA interest coverage (x)	8.6	31.0
FFO cash interest coverage (x)	10.5	31.0
Debt/EBITDA (x)	6.9	2.7
FFO/debt (%)	12.0	36.2
OCF/debt (%)	15.2	77.1
FOCF/debt (%)	(0.5)	39.4
DCF/debt (%)	(0.5)	39.4

Business Risk

The strong business risk assessment reflects our view that DB's low-risk transportation infrastructure operations will dominate its earnings in the medium term, returning to above 70% of group EBITDA by 2025-2026. We expect earnings from the Integrated Rail System to continue to recover, reflecting a further recovery in passenger numbers, average price increases for long-distance and regional transportation, easing of energy cost pressures (the electricity price break), and significant capex for improvements, which we assume will yield margin improvements in the medium term. We also expect the contribution from the freight forwarding and logistics service subsidiary, DB Schenker, to normalize sustainably at below 30% of total EBITDA after peaking in 2022 (about 47.3% of 2022 EBITDA), as air and ocean freight rates fall. Our current forecasts fully consolidate DB Schenker, until we have more details on the progress and details of a potential sale as announced at end-2022.

Chart 2.

We expect DB's lower risk transportation operation to remain the primary driver of EBITDA in the medium term



Source: S&P Global Ratings

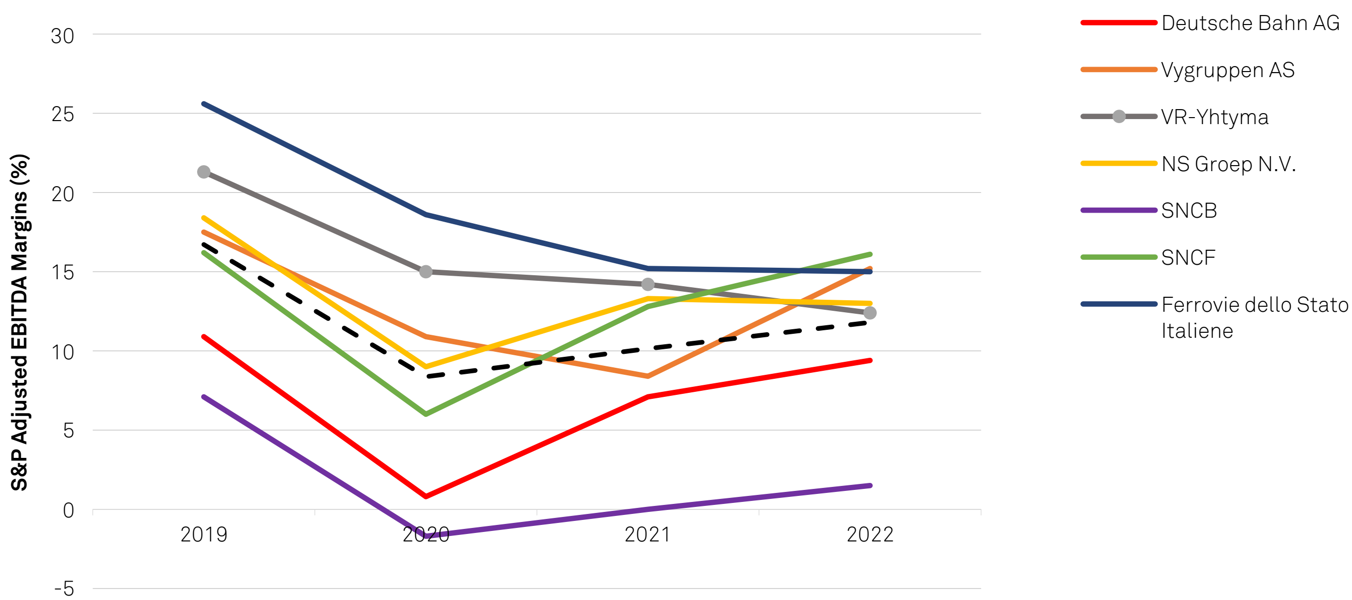
The vertical integration gives DB greater scale and more earnings stability compared to pure rail operators that are more exposed to competition and customer demand risk. DB operates as an integrated owner of rail infrastructure in Germany and a dominant rail services provider, with slightly more than 60% of the domestic regional rail passenger market and more than 95% of the domestic long-distance rail market. DB is also a market leader in rail freight and land transport in Europe. We think the recently announced disposal of its international subsidiary DB Arriva will further strengthen its focus on its core railway operations in Germany, with limited impact on financial metrics.

Our assessment incorporates the company's exposure to competition in the highly liberalized German rail passenger market as well as intense competition in rail freight, which has lower margins. This has led to DB losing its market share at a rate of about 1%-2% per year on regional rail network, although this has stabilized at slightly more than 60% since 2021. In regional transportation, DB competes with many railway operators. We expect DB's market share to broadly stabilize broadly supported by its competitive position and because about 45%-50% of market volumes will be tendered by 2030. In the capital-intensive long-distance service, DB holds more than 95% of its domestic market, despite increased competition from the three operators Thalys (since 2011), FlixTrain (since 2018), and WESTbahn (since 2022). We assume less significant erosion of DB’s long-distance market share in the medium term as it requires significant investment in fleet and given the current shortage of additional network capacity.

DB's low profitability weighs on its earnings profile. Despite benefiting from a relatively high margin in passenger transport and infrastructure operations (the integrated rail system reported a 10.9% EBITDA margin in 2019 and is still recovering, at 9.4% in 2022), the company's profitability is below average for the transportation industry. Profitability is constrained by increasing competition in both passenger and rail freight transport, and the large fixed-cost base, particularly personnel and energy, outpacing the company's ability to increase prices.

Chart 3.

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



*Average of the above five peers. Source: S&P Global Ratings

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.

Financial Risk

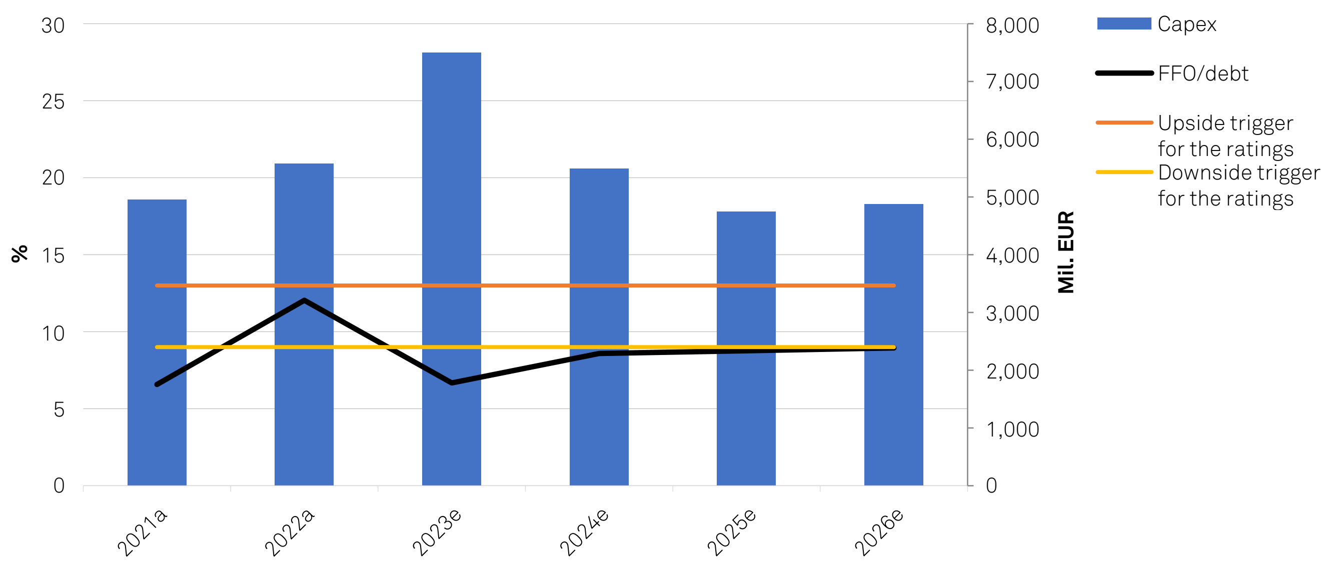
We assume FFO to debt will revert to above 9% over 2024-2026, after temporarily weakening in 2023. We expect DB's credit metrics will normalize from 2024 onward after exceptionally high investments (net of government funding) and maintenance spending on infrastructure in 2023. Similarly, we expect debt to EBITDA will gradually improve to around 8x in 2024 and 7x-8x thereafter, from a temporary peak of around 11x in 2023. This reflects that the expected increase in adjusted debt in the next few years will be mitigated by strong growth in the integrated rail system, which we expect to contribute more than 70% of EBITDA on a sustainable basis, making DB consistent with other large railway operators.

We expect DB's ability to deleverage over the medium term will continue to be hampered by its large capex requirements. Net capex (excluding lease capex) will exceed €7.0 billion in 2023, reflecting the pre-funding of some infrastructure capex that year, with expected compensation from the federal government in 2024, followed by €5 billion-€6 billion yearly over 2024-2026. As such we assume free operating cash flow will remain negative until 2026. We also believe DB's deleveraging will depend on its ability to deliver targeted efficiency and quality improvements.

Despite higher interest rates, we expect the company to maintain FFO cash interest coverage of above 4x over 2023-2026. We expect higher interest expenses as debt maturities are refinanced at higher interest rates. Still, 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, higher interest rates could somewhat reduce pension liability, which we include in adjusted debt.

Chart 4.

Evolution of S&P adjusted funds from operations/debt for DB

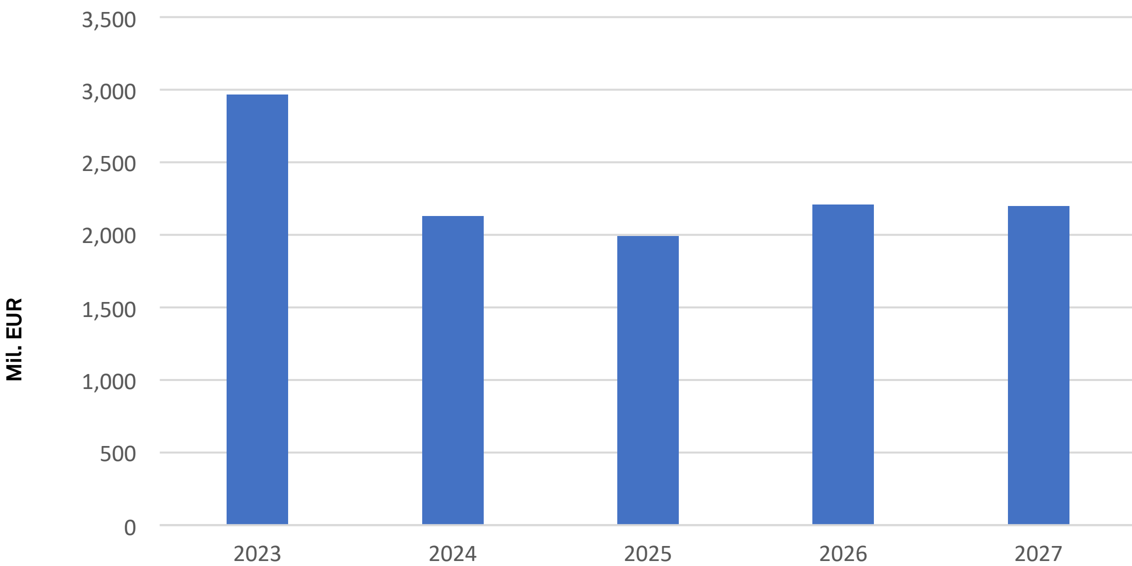


Note: As adjusted by S&P Global Ratings. a--Actual. e-Estimate. Source: S&P Global Ratings

Debt maturities

Chart 5.

DB's debt maturity profile



Source: S&P Global Ratings

Deutsche Bahn AG--Financial Summary

Period ending	**Dec-31-2017**	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	40,601	41,895	42,397	38,729	46,034	55,197
EBITDA	5,255	5,159	4,620	301	3,264	5,189
Funds from operations (FFO)	4,218	4,238	3,925	(380)	2,480	4,286
Interest expense	1,024	939	699	695	630	607
Cash interest paid	871	774	559	530	535	452
Operating cash flow (OCF)	2,936	4,148	3,188	1,584	3,501	5,395
Capital expenditure	3,505	3,729	3,757	4,557	4,956	5,574
Free operating cash flow (FOCF)	(568)	418	(569)	(2,973)	(1,456)	(180)
Discretionary cash flow (DCF)	(1,180)	(45)	(1,228)	(3,619)	(1,476)	(190)
Cash and short-term investments	3,069	3,185	3,635	2,994	4,163	5,313
Gross available cash	2,798	2,969	3,382	2,431	3,430	4,363
Debt	27,820	29,899	31,983	39,094	37,731	35,600
Common equity	14,238	13,592	13,931	6,269	9,620	13,678
Adjusted ratios						
EBITDA margin (%)	12.9	12.3	10.9	0.8	7.1	9.4

Deutsche Bahn AG--Financial Summary

Return on capital (%)	4.0	3.9	2.4	(7.2)	(1.0)	3.1
EBITDA interest coverage (x)	5.1	5.5	6.6	0.4	5.2	8.6
FFO cash interest coverage (x)	5.8	6.5	8.0	0.3	5.6	10.5
Debt/EBITDA (x)	5.3	5.8	6.9	129.8	11.6	6.9
FFO/debt (%)	15.2	14.2	12.3	(1.0)	6.6	12.0
OCF/debt (%)	10.6	13.9	10.0	4.1	9.3	15.2
FOCF/debt (%)	(2.0)	1.4	(1.8)	(7.6)	(3.9)	(0.5)
DCF/debt (%)	(4.2)	(0.1)	(3.8)	(9.3)	(3.9)	(0.5)

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-31-2022									
Company reported amounts	30,093	14,542	56,296	5,464	1,268	482	5,189	5,644	34	14,310
Cash taxes paid	-	-	-	-	-	-	(457)	-	-	-
Cash interest paid	-	-	-	-	-	-	(443)	-	-	-
Trade receivables securitizations	507	-	-	-	-	-	-	36	-	-
Lease liabilities	5,180	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)	1,001	(1,001)	-	-	-	13	(13)	(13)	(13)	-
Postretirement benefit obligations/ deferred compensation	3,050	-	-	14	14	55	-	-	-	-
Accessible cash and liquid investments	(4,363)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	61	-	-	-	-
Capitalized development costs	-	-	-	(216)	(127)	-	-	(216)	-	(216)
Dividends from equity investments	-	-	-	9	-	-	-	-	-	-
Deconsolid./ consolid.	(191)	-	(1,099)	(26)	(22)	(4)	10	(57)	(11)	(9)
Asset-retirement obligations	323	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	229	-	-	-	-	-
Noncontrolling/ minority interest	-	137	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(25)	(25)	-	-	-	-	-
EBITDA: other	-	-	-	(31)	(31)	-	-	-	-	-

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
D&A: Impairment charges/ (reversals)	-	-	-	-	196	-	-	-	-	-
Working capital: other	-	-	-	-	-	-	-	(98)	-	-
OCF: other	-	-	-	-	-	-	-	98	-	-
Capex: other	-	-	-	-	-	-	-	-	-	(8,511)
Total adjustments	5,507	(864)	(1,099)	(275)	234	125	(903)	(250)	(24)	(8,736)

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	35,600	13,678	55,197	5,189	1,502	607	4,286	5,395	10	5,574

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 1.2x over the 12 months from June 30, 2023. 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.

Principal liquidity sources

- Unrestricted cash of about €4.7 billion;
- Availability on committed credit facilities expiring beyond 12 months of about €3.1 billion and undrawn portions of committed facilities used to meet working capital needs of about €100 million;
- FFO of about €2.1 billion;
- Debt issuance of €1686 million (July 1, 2023 - November 2023); and
- Committed equity injections from the government under the Climate Action Program of €1.1 billion

Principal liquidity uses

- Debt maturities of €2.7 billion in the next 12 months;
- Net capex (capex net of government grants and excluding IFRS16 effects) of €6.7 billion; and
- Dividend payments of €675 million.

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, pledged €5.5 billion of the €11 billion under the Climate Action Program as equity support to DB, alongside investment grants to cover approximately 85% of DB's infrastructure capex for 2020-2024 to further improve the network and attract more passengers and cargo. DB aims to reduce CO2 emissions by half by 2030 (compared to 2006) and increase the use of renewable energies for traction to 100% by 2038 from 65.2% in 2022. The federal government plans significantly higher funding for rail infrastructure measures, with the funding to come, among others, from using 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 in the coming years, in line with its Strong Rail targets.

Social factors are an overall neutral consideration in our credit rating analysis of DB. 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).

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 B.V. is equalized with our ratings on debt issued by DB.

Government Influence

Our 'AA-' long-term issuer credit rating on DB incorporates four notches of uplift from the stand-alone credit profile of 'bbb+', to reflect our view that there is a very high 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. Nevertheless, despite 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, in terms of subsidies and capital 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 (€30.1 billion on Dec. 31, 2022) 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 level of the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	AA-/Stable/A-1+
Local currency issuer credit rating	AA-/Stable/A-1+
Business risk	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
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	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- 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

- Deutsche Bahn's Solid 2022 Results Should Facilitate Large Planned Investments, Apr. 3, 2023
- Deutsche Bahn's Sale Of DB Schenker Signals Focus On Large Mobility Transition Investments, Dec. 21, 2022
- European Rail Looks To Ride The Energy Transition, Nov. 28, 2022
- European Railways Are On Track To A Fuller Recovery, July 4, 2022

Ratings Detail (as of November 23, 2023)*

Deutsche Bahn AG

Ratings Detail (as of November 23, 2023)*

Issuer Credit Rating	AA-/Stable/A-1+
Issuer Credit Ratings History	
29-Jul-2022	AA-/Stable/A-1+
11-Jun-2020	AA-/Negative/A-1+
08-Oct-2019	AA/Stable/A-1+
Related Entities	
Deutsche Bahn Finance GmbH	
Senior Unsecured	AA-

*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.