

ISSUER COMMENT

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Contacts

Kristin Yeatman +33.6.7710.7241
VP-Senior Analyst
kristin.yeatman@moodys.com

Ivan Palacios +34.91.768.8229
Associate Managing Director
ivan.palacios@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Deutsche Bahn AG

Schenker divestment reduces Deutsche Bahn's diversification but will allow debt repayment

On 13 September, German passenger railway company [Deutsche Bahn AG](#) (DB, Aa1 stable) said it signed an agreement to sell logistics subsidiary DB Schenker to Danish transport and logistics group [DSV AS](#) (A3 stable). The sale has an enterprise value of €14.3 billion and an equity value of €11.3 billion. The transaction is subject to approval by Deutsche Bahn's supervisory board and the German Federal Ministry for Digital and Transport. Pending all regulatory approvals, the company expects the transaction to be completed next year.

The divestment will lead to DB becoming less diversified and significantly smaller with revenue of about €26.2 billion compared with €45.2 billion in fiscal 2023. However, the increased focus on its core business will benefit DB's strategic focus on infrastructure renewal, rail operations and profitability over the next three years. Post divestment, DB's revenue will be more concentrated in Germany, since Schenker had a global presence. The higher revenue concentration in Germany will put even more importance and relevance on DB's core contribution to the transport and climate policy goals of the German government. The government is aiming to increase rail passenger traffic and railways' share of freight traffic above other modes of transport.

The sale proceeds will remain entirely within the DB group and will be used to significantly reduce its debt, according to DB. Despite earmarking the bulk of sale proceeds for debt repayment, the deconsolidation will lead to a reduction in EBIT and cash flow such that the transaction in and of itself without the planned restructuring of the core business is unlikely to result in a material improvement in financial metrics. However, the company expects its restructuring plans to support its goal of achieving an EBIT of €2 billion (negative €2 billion in 2023 excluding DB Schenker) and a 12% increase in operating cash flow to adjusted net financial debt by 2027.

We will reassess the credit profile of the group once the transaction is definitive and there are further details on the financial profile of the group post disposal and its deleveraging trajectory.

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