DFDS A/S
Denmark, Transportation/Logistics

BBB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	14.8x	7.7x	5.6x	6.1x
Scope-adjusted debt/EBITDA	2.9x	2.9x	3.4x	2.9x
Scope-adjusted funds from operations/debt	31%	28%	23%	28%
Scope-adjusted free operating cash flow/debt	6%	9%	8%	9%

Rating rationale

The rating is primarily driven by DFDS' diversified business model in European ferry and logistics operations, with the acquired FRS Ibera/Maroc and upcoming Ekol acquisition further improving geographical outreach. The rating remains constrained by a moderate financial risk profile. We maintain our view that DFDS will sustain financial leverage (Scope-adjusted debt/EBITDA) of around or below 3x despite an expected weakening in 2024.

Outlook and rating-change drivers

The Outlook is Stable, reflecting our expectation that DFDS' leverage (debt/EBITDA) will improve to around 3x or below in 2025-2026, while the company maintains its strong market shares in the North Sea and Mediterranean/Turkey routes. The Outlook further assumes that DFDS will follow its financial policy including the target for reported net interest-bearing debt/EBITDA of 2x-3x over the business cycle, which is used to balance the level of shareholder remuneration and discretionary investment.

The upside scenario for the ratings and Outlooks is:

- Scope-adjusted debt/EBITDA sustained at significantly below 2.5x in connection with more conservative financial policy targets.

The downside scenario for the ratings and Outlooks is:

- Scope-adjusted debt/EBITDA sustained at 3.5x or above.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
5 Sep 2024	Affirmation	BBB-/Stable
6 Sep 2023	Affirmation	BBB-/Stable
30 Aug 2022	New rating	BBB-/Stable

Ratings & Outlook

Issuer	BBB-/Stable
Short-term debt	S-2
Senior unsecured debt	BBB-

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Related Methodologies

General Corporate Rating Methodology; October 2023

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Strong market shares on freight ferry routes in the North Sea and Mediterranean/Turkey • Diversification in customer segments (i.e. freight and passenger) and geographies • Overlapping ferry and logistics networks enable growth and complementary service offering • Low cyclicality of passenger demand • Track record of staying committed to financial policy targets over the business cycle	• Freight business linked to macroeconomic environment and potential slowdowns • Significant capital expenditure inherent in the upkeep of business model • Moderate financial risk profile • Execution risk related to the announced acquisition of Ekol to be completed in Q4 2024

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA sustained at significantly below 2.5x in connection with more conservative financial policy targets	• Scope-adjusted debt/EBITDA sustained at 3.5x or above

Corporate profile

DFDS was founded in 1866 and is headquartered in Copenhagen, Denmark. It operates specialised transport corridors combining ferry infrastructure (including port terminals and rail connections) and logistics solutions (including door-to-door full and part loads for dry cargo, cold chains and contract logistics for selected industries). Passenger transport is also offered in ferry corridors with corresponding demand. The company has about 14,000 employees in 21 countries and generated revenues of DKK 27.3bn in 2023.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	14.8x	7.7x	5.6x	6.1x	6.7x
Scope-adjusted debt/EBITDA	2.9x	2.9x	3.4x	2.9x	2.7x
Scope-adjusted funds from operations/debt	31%	28%	23%	28%	31%
Scope-adjusted free operating cash flow/debt	6%	9%	8%	9%	10%
Scope-adjusted EBITDA in DKK m					
EBITDA	4,973	5,035	4,930	5,676	5,995
Other items	-	-	-	-	-
Scope-adjusted EBITDA	**4,973**	**5,035**	**4,930**	**5,676**	**5,995**
Funds from operations in DKK m					
Scope-adjusted EBITDA	4,973	5,035	4,930	5,676	5,995
less: Scope-adjusted interest	(337)	(656)	(873)	(927)	(896)
less: cash tax paid per cash flow statement	(109)	(240)	(94)	(132)	(162)
Other non-operating charges before FFO	(53)	10	-	-	-
Funds from operations (FFO)	**4,474**	**4,149**	**3,963**	**4,617**	**4,937**
Free operating cash flow in DKK m					
Scope-adjusted FFO	4,474	4,149	3,963	4,617	4,937
Change in working capital	6	(338)	(58)	(92)	(26)
less: capital expenditure (net)	(2,709)	(1,567)	(1,500)	(2,000)	(2,300)
less: operating lease payments	(963)	(935)	(1,000)	(1,025)	(1,050)
Free operating cash flow (FOCF)	**808**	**1,309**	**1,405**	**1,500**	**1,561**
Net cash interest paid in DKK m					
Net cash interest per cash flow statement	338	655	872	926	895
Add: other interest	(1)	1	1	1	1
Net cash interest paid	**337**	**656**	**873**	**927**	**896**
Scope-adjusted debt in DKK m					
Reported gross financial debt	15,535	15,470	17,889	17,417	16,777
less: cash and cash equivalents	(1,189)	(737)	(962)	(888)	(899)
add: non-accessible cash	175	14	14	14	14
add: pension adjustment	32	32	32	32	32
Scope-adjusted debt	**14,553**	**14,779**	**16,973**	**16,575**	**15,924**

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Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

DFDS is exposed to transition risk given the usage of carbon-intensive fuel in ferry and road transportation and the need to reduce CO2 emissions to remain competitive under increasingly strict European environmental regulations. The company has clear policies regarding the reduction of carbon emissions. It has also demonstrated the willingness and ability to make investments in green technology, including fuel-efficient vessels and non-fossil fuel sources such as methanol, ammonia and hydrogen as well as batteries for shorter routes.

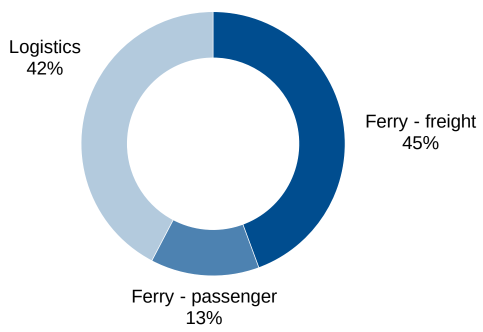
[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB

Ferry business benefits from medium-to-high entry barriers

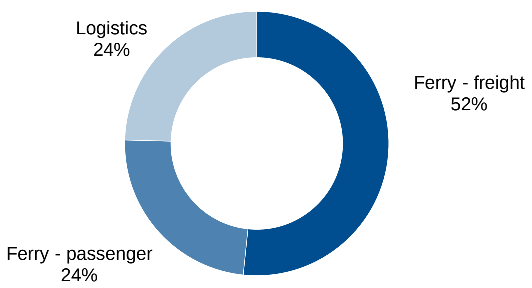
Our blended industry risk profile is based on DFDS' exposure to the ferry and logistics industries. The assessment is supported by medium-to-high entry barriers for ferry operations and is constrained by the higher industry risk for logistics, driven by low entry barriers.

Figure 1: Exposure of revenues, 2023



Sources: DFDS, Scope

Figure 2: Exposure of reported EBITDA, 2023



Sources: DFDS, Scope

Strong market shares on ferry routes in North Sea and Turkey

Our assessment of DFDS' competitive positioning reflects its strong, established position in freight ferry transport. Here, the achievement of high capacity and utilisation depends to a large extent on individual routes and regional markets, not necessarily across all parts of Europe. The company has high market shares in the North Sea and Turkey, with a capacity share of over 75% on a number of routes.

Passenger transport, including on Ro-Pax ferries, made up around 13% of group revenues in 2023. This exposure increased with the acquisition of FRS Iberia/Maroc in Q1 2024, which operates between Spain and Morrocco and has an overweight of passenger revenue. In contrast with freight, passenger transport tends to be less correlated with economic cycles and therefore supports diversification.

Logistics market is fragmented with low entry barriers

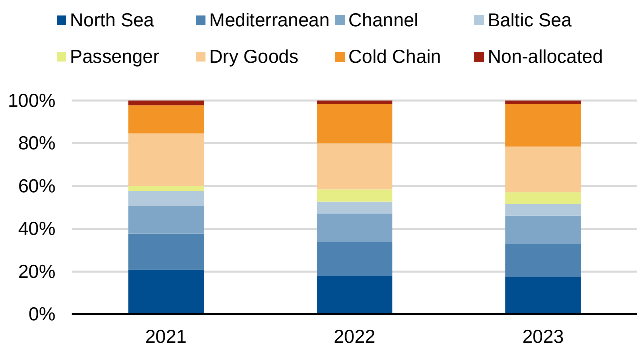
Barriers to entry in logistics can be lower than in ferry transport. This is due to lower capital intensity and relatively little regulation. DFDS has established several good regional positions despite the fragmented market, focusing on specific sectors, such as automotive and cold chain (e.g. meat, seafood and dairy products).

DFDS' integrated ferry and logistics offering supports operational synergies. While the logistics network has been concentrated in northern Europe, the planned acquisition of Ekol Logistics international transport network in Q4 2024 will expand the logistics segment to the Turkey-Europe routes. This will increase the exposure of the integrated ferry-logistics offering to a new, high-growth market.

Diversified business model

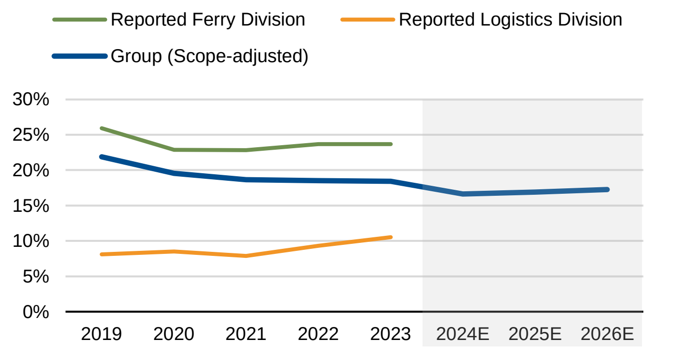
DFDS benefits from good diversification in terms of geographies, end customers, and business segments. This reduces exposure to headwinds in specific regions or segments and supports cash flow resilience, underpinned by established routes in different European regions (the North Sea, the Baltics, the Channel, the Mediterranean/Turkey, and the Strait of Gibraltar) combined with door-to-door transport solutions for dry goods and cold chain products.

Figure 3: Revenues by business area



Sources: DFDS, Scope

Figure 4: Profitability (EBITDA margin)



Sources: DFDS, Scope estimates

Good profitability

DFDS has good profitability in a peer group comparison. The Scope-adjusted EBITDA margin has been quite stable historically, ranging between 18% and 20%. This illustrates the benefit of diversification across segments and geographies and DFDS' ability to pass on costs under normal conditions.

DFDS has guided for full-year EBIT of DKK 1.7bn-2.1bn in 2024 (DKK 2.4bn in 2023) with corresponding revenue growth of 8%-11%. This supports our view that profitability will see downward pressure in the short and medium term, reflecting current pressure on freight rates as well as other headwinds like excess capacity in the Channel and Baltics and underperformance in certain logistics segments. In addition, the Ekol acquisition is expected to have a dilutive impact given the lower margin than in ferry operations.

Bunker price volatility largely passed through to customers

The bunker-adjustment-factor (BAF) mechanism enables DFDS to pass unfavourable bunker price increases on to customers through a surcharge. The mechanism is based on low-sulphur marine gas oil. A large share of DFDS' ferries have scrubbers and therefore use cheaper, traditional fuel oil with a high sulphur content. As a result, the net bunker cost of vessels with scrubbers can fluctuate over time based on the price spread between the two fuel types. Following an above-normal spread, which had a positive impact on earnings in 2022, the price difference is now more normalised. We expect this situation to continue over the forecast period.

EU ETS impact will begin in 2024

We expect the cost for carbon emission allowances under the EU Emission Trading System (EU ETS) to be passed through to customers. However, other risks are posed by the increasing importance of carbon efficiency for vessels' cost competitiveness and to which extent customers will adapt their supply chains to counteract increased margin pressure. Under the ramp-up period, ferry operators are required to purchase allowances for 40% of emissions in 2024, then 70% in 2025 and 100% in 2026.

Financial risk profile: BB+

Unchanged financial risk profile

Our unchanged assessment of DFDS' financial risk profile continues to be driven by moderate credit metrics. Our rating scenario assumes the following:

- Moderate organic revenue growth
- Ekol acquisition and the disposal of the Oslo-Frederikshavn-Copenhagen route to be completed in Q4 2024
- Scope-adjusted EBITDA margin to weaken and remain around 17% due to current pressure on freight rates but also the dilutive impact of Ekol acquisition from 2025
- Gross capex and lease payments of DKK 3.0bn-3.5bn per annum, including DKK 0.5bn in 2026 under the planned DKK 7bn green newbuilding programme

- Shareholder remuneration to be balanced against the capital structure target of reported net interest-bearing debt/EBITDA between 2x-3x over a business cycle
- No material M&A beyond 2024 given shift in strategy focus from network expansion to organic growth

Moderate leverage

Our assessment of leverage – as measured by Scope-adjusted debt/EBITDA – reflects a level of around 3x, which is moderate. We expect leverage to spike in 2024 to around 3.5x, compared to 2.9x over 2022-2023. This is driven by the acquisition of FRS Iberia/Maroc in Q1 and the planned Ekol acquisition in Q4, in combination with a drop in organic EBITDA performance amid the ongoing slowdown in freight markets. We then forecast a decrease in leverage to around or below 3x in 2025-2026, assuming a gradual recovery in market conditions and less debt-funded acquisitions than in the previous strategy period ('Win 23').

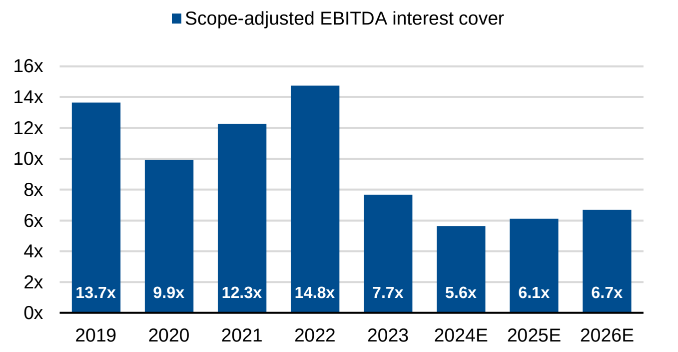
The forecasted deleveraging aligns with the company's ambition of reducing leverage (reported net interest-bearing debt/EBITDA) to around 2.5x in 2026. It is further based on our view that DFDS is committed to the target capital structure outlined in its financial policy.

Funds from operations-based leverage is expected to follow a similar trajectory as Scope-adjusted debt/EBITDA. We project a weakening to below 25% in 2024 and an improvement to around 30% in 2025-2026.

Good interest cover

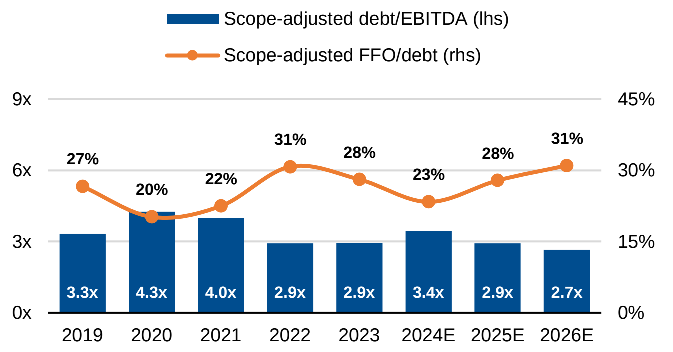
In parallel, interest cover remains good despite an expected decline to around 6x in the short and medium term, compared to a level of 7.7x in 2023. This reflects higher interest rates and the moderate, forecasted increase in debt levels.

Figure 5: Interest cover



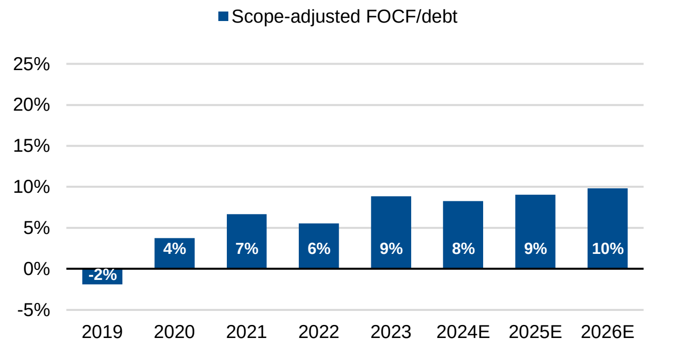
Sources: DFDS, Scope estimates

Figure 6: Leverage



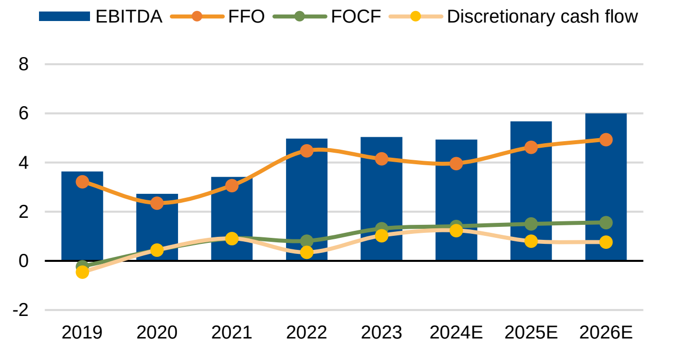
Sources: DFDS, Scope estimates

Figure 7: Cash flow cover



Sources: DFDS, Scope estimates

Figure 8: Scope-adjusted cash flows, DKK bn



Sources: DFDS, Scope estimates

High capex inherent in upkeep of business model

We expect total capex to progress towards DKK 2.3bn in 2026 and lease payments of DKK 1.0bn-1.1bn per annum. This reflects the capital-intensive nature of DFDS' operations with substantial investments needed for maintenance and vessel upgrades. Further capex growth is expected under the DKK 7bn newbuilding programme of six green ferries, which commences in 2026 but with most investments scheduled for 2027-2030.

Moderate cash flow cover

Our rating case anticipates that capex and lease payments can be funded by operating cash flow, with an expected cash flow cover (Scope-adjusted free operating cash flow/debt) of 5%-10% in 2024-2026. This compares to a level of 9%, which excludes the DKK 1.5bn of disposal proceeds from the sale and leaseback transaction of three ferries completed in Q4 2023, as we consider these non-recurring.

Shareholder remuneration

We expect total shareholder remuneration of DKK 600m in 2024, based on the dividend payment of DKK 169m in H1 2024 and the assumption that DFDS will fully utilise the ongoing DKK 431m share buyback programme. Our forecast includes continued shareholder remuneration in 2025-2026, but we expect the level to be pared back if needed to achieve the capital structure target. This corresponds with DFDS' financial policy and the flexibility it has shown in the past, with the suspension of dividends and share buybacks in 2020-2021 due to Covid-19 and related travel restrictions, as well as the reduced level in 2018-2019 following the large acquisition of U. N. Ro-Ro.

Adequate liquidity

Liquidity is adequate given the sufficient coverage of short-term financial maturities with unrestricted cash, available loan facilities and forecasted, positive free operating cash flow, as outlined in the table below.

Balance in DKK m	2023	2024E	2025E
Cash and cash equivalents (t-1)	1,189	737	962
Non-accessible cash (t-1)	(175)	(14)	(14)
Open committed credit lines (t-1)	1,722	2,673	1,323
Free operating cash flow	1,309	1,405	1,500
Short-term debt (t-1)	2,349	1,281	2,274
Coverage, internal	**99%**	**166%**	**108%**
Coverage, internal + external	**172%**	**375%**	**166%**

Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers

We have made no adjustments for supplementary rating drivers.

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB-

The senior unsecured debt rating has been affirmed at BBB-, in line with the issuer rating. The instrument rating applies to all senior unsecured debt issued or guaranteed by DFDS A/S.

Short-term debt rating: S-2

The short-term debt rating of S-2 is based on the issuer rating of BBB-/Stable. It reflects the company's better-than-adequate liquidity, adequate banking relationships and adequate standing in capital markets.

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