Credit Rating Announcement

07 March 2025

Scope affirms BBB- issuer rating of Danish ferry, logistics firm DFDS, revises Outlook to Negative

The Negative Outlook reflects the weaker credit metrics observed in 2024, which will continue to be negatively impacted by profitability pressures in 2025, increasing the likelihood of a weaker financial risk profile for an extended period.

The latest information on the rating, including rating reports and related methodologies, is available on this LINK.

Rating action

Scope Ratings GmbH (Scope) has today affirmed the BBB- issuer rating of DFDS A/S (DFDS) and revised the Outlook to Negative from Stable. Concurrently, Scope has affirmed the senior unsecured debt rating at BBB- and the short-term debt rating at S-2.

The Outlook has been revised to Negative driven by the leverage increase to 3.9x in 2024 , and the likelihood of sustained higher leverage and weaker credit metrics for an extended period amid economic uncertainty and execution risks related to DFDS' initiatives to restore profitability and to deleverage.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: BBB (unchanged). DFDS' business risk profile continues to reflect its diversified business model in European ferry and logistics operations, which reduces concentration risks and supports the resilience of operating results. The company's ferry network is one of the largest in Europe across several geographies (the North Sea, the Channel, the Baltic Sea, the Strait of Gibraltar and the Mediterranean) with exposure to both freight and passenger transport. The short-sea transport service is complemented by logistics services. However, Scope notes that DFDS is currently under pressure in terms of profitability, and its potential to recover to historical profitability levels is considered unclear.

In 2024, the company's Scope-adjusted EBITDA margin* fell to 14.9% (2023: 17.9%). Profitability pressures intensified in the second half of 2024 with i) Grimaldi's launch of a competing route between Turkey and Europe in September 2024; ii) market headwinds in the northern European logistics networks; and iii) the acquisition of Ekol International Transport ("Ekol") in November 2024, which is currently loss-making. Therefore, given still limited macroeconomic tailwinds, the rating agency expects profitability to remain challenged, and that revenue growth in 2025 will mainly be driven by the consolidation of Ekol. Overall, this is in line with DFDS' most recent guidance for 5% revenue growth in 2025 with an EBIT of around DKK 1.0bn.

DFDS' iniatives to adapt its Mediterranean ferry network to Grimaldi's entry, combined with the turnaround project at Ekol and the delivery of the Logistics Boost projects initiated in 2024, could help the company to restore operating margins. However, execution risks remains at this stage.

Financial risk profile: BB (revised from BB+). Scope has revised DFDS' financial risk profile downwards by one notch due to a weakening of credit metrics.

Scope anticipates that expected capex and lease repayments of DKK 2.7bn-DKK 4.1bn per annum can be funded with operating cash flow, with forecasted cash flow cover (free operating cash flow/debt) of 0%-6% in 2025-2027. However, cash flow cover is expected to gradually weaken throughout the forecast period due to a step-up in capex related to DFDS' planned newbuilding programme.

Interest cover weakened to 5.5x in 2024 (2023: 7.6x) and is expected to range between 4.4x and 5.7x in 2025-2027. While the weakening is mainly due to lower EBITDA, Scope also expects a moderate increase in net interest paid to around DKK 0.9bn per annum in 2025-2027, up from DKK 0.8bn in 2024.

In terms of leverage, the company's debt/EBITDA increased to 3.9x in 2024 (2023: 3.0x). This was above Scope's expectation of around 3.5x, mainly driven by the deterioration of profitability in the second half of 2024, with the full-year EBITDA decreasing to DKK 4.4bn (2023: DKK 4.9bn). The rating agency expects that debt/EBITDA will remain around 4.0x in 2025 before improving to below 3.5x in 2026-2027, supported by stabilising debt levels and a gradual recovery of profitability and EBITDA performance. Funds from operations/debt decreased to 20% in 2024 (2023: 28%) and is expected to range between 19% and 25% in the next few years.

Scope notes that DFDS recently reaffirmed its commitment to its long-term leverage target of net interest-bearing debt/EBITDA (as defined by DFDS) of 2.0x-3.0x. The company is assessing measures to support leverage, including the suspension of shareholder distributions, working capital optimisation and the disposal of non-core assets. In the rating agency's view, this underpins the likelihood of a sustainable deleveraging over the next few years, which is needed to maintain the current rating.

Liquidity: adequate (unchanged). DFDS' liquidity profile is adequate given the sufficient coverage of short-term debt maturities by unrestricted cash, undrawn multi-year credit lines and positive free operating cash flow. This is underpinned by forecasted liquidity ratios of above 110% in 2025-2026.

Supplementary rating drivers: credit-neutral (unchanged). Supplementary rating drivers have no impact on the issuer rating.

Outlook and rating sensitivities

The **Negative Outlook** reflects the deterioration in profitability and credit metrics in 2024, structural competitive pressures and a significant capex programme expected to commence in around two years. This increases the risk that debt/EBITDA will remain above 3.5x for a prolonged period, amid market uncertainties and execution risks related to DFDS' turnaround initiatives to restore profitability and EBITDA performance.

The **upside scenario** for the ratings and Outlook is:

1. Debt/EBITDA returning below 3.5x.

The **downside scenari**o for the ratings and Outlook is:

1. Non-materialisation of the upside scenario in 2025-2026.

Debt ratings

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.

The short-term debt rating is affirmed at S-2. It is based on the BBB-/Negative issuer rating and reflects DFDS' better-than-adequate liquidity cover and adequate banking relationships and standing in capital markets.

Environmental, social and governance (ESG) factors

Overall, ESG factors have no impact on this credit rating action.

All rating actions and rated entities

DFDS A/S

Issuer rating: BBB-/Negative, Outlook change

Short-term debt rating: S-2, affirmation

Senior unsecured debt rating: BBB-, affirmation

**All credit metrics refer to Scope-adjusted figures*.

Stress testing & cash flow analysis
No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology
The methodology used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 14 February 2025), is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information
The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
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Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings and/or Outlook were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.
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The Credit Ratings/Outlook were first released by Scope Ratings on 30 August 2022. The Credit Ratings/Outlook were last updated on 5 September 2024.

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