

Research Update:

# Fjellinjen AS 'AA/A-1+' Ratings Affirmed; Outlook Stable

June 28, 2023

## Overview

- We expect Fjellinjen AS to continue operating as a monopoly in charging road tolls to finance infrastructure investments in the Oslo region.
- Although we consider Fjellinjen's contributions to the National Public Road Administration (NPRA) as debt-like, we note that these transfers are forecast to increase and negatively affect its debt service coverage ratios (DSCRs).
- This is mitigated by Fjellinjen's close dialogue with NPRA, which has generally led to well-measured cash flows and subordination of debt service payments for loans to NPRA.
- We affirmed our 'AA/A-1+' long-term and short-term ratings on Fjellinjen and maintained our stable outlook.

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## Rating Action

On June 28, 2023, S&P Global Ratings affirmed its 'AA/A-1+' long- and short-term issuer credit ratings on Norwegian toll road company Fjellinjen AS. The outlook remains stable.

## Outlook

The stable outlook reflects our expectation that Fjellinjen's status will remain unchanged, and that its financial evolution will remain in line with its multiyear plans, in a way consistent with its legal and contractual setup.

## Downside scenario

We could lower the rating if we see a weakening in the likelihood of Fjellinjen receiving timely and sufficient support from Norway. We could also lower the rating if we expect the main public sector stakeholders'--primarily NPRA--to constrain Fjellinjen's ability to generate sufficient cash flow and liquidity to honor its financial obligations. We could also downgrade Fjellinjen if its role in

supporting regional infrastructure development in the Oslo region were to weaken.

## **Upside scenario**

We may raise the rating if Fjellinjen's DSCR and liquidity improve significantly and result in a considerable strengthening of its financial risk profile, or if its relevance for the Norwegian government and its infrastructure development policies are enhanced, leading us to expect a higher likelihood of extraordinary support.

## **Rationale**

### **Enterprise profile: Fjellinjen benefits from a favorable market position and solid interaction with its public sector stakeholders**

Fjellinjen's scope of operations and dialogue with the NPRA have led to a very strong and stable market position. It holds a monopoly, based on legislation, in collecting road tolls in the wealthy Oslo region of Norway. Unlike most international road toll-collecting companies, Fjellinjen's operational mandate is restricted to collecting tolls on government-owned roads, and subsequently delivering contributions to the NPRA. The size of these contributions is negotiated between the parties in Oslo package 3 annually, with the overarching intention that Fjellinjen's toll revenue--and in rare cases together with net new borrowing--should cover budgeted contributions. Fjellinjen doesn't own the underlying road infrastructure and its operational risk is therefore limited to systems and processes linked to toll collection.

In our view, the industry risk of toll roads is low relative to that of other sectors, reflecting low exposure to economic cyclicality, as well as low risk associated with competition and growth. Fjellinjen's market position is very strong given its geographical area of operations and monopoly position in collecting road tolls. Together with the City of Oslo, County of Viken, and central government, Fjellinjen is a key player for financing investments within the Oslo Package 3 scheme. Therefore, we expect the company to remain in this advantageous position. Furthermore, the tolls that Fjellinjen collects are used as a sustainability measure to limit traffic flows and reduce emissions in the Oslo area. Importantly, we do not consider Fjellinjen to be exposed to single-asset risk, since its operations span the whole region, with toll stations covering all entrances to the city as well as key points within the toll ring.

We assess Fjellinjen's management as very strong, based on its organizational effectiveness, good track record of fulfilling plans, and high degree of transparency. Furthermore, there is close dialogue between the NPRA and Fjellinjen with regard to budgeting and planning. Fjellinjen's financial policies are prudent, and its loan portfolio has primarily long-term maturities, limiting short-term refinancing risks. Even if Fjellinjen has a somewhat limited ability to control the scope of the Oslo Package 3, it is in frequent dialogue with the Oslo Package 3's steering group before they submit its budget to the Norwegian central government for approval. Through this dialogue--in combination with prudent risk policies, instructions, and debt limits--Fjellinjen's risk management practices translate into very low risk of deterioration in its risk profile.

### **Financial profile: Minimal debt and break-even enterprise status mitigate challenging DSCR**

The financial risk profile is supported by the company's break-even status and extremely low debt.

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Fjellinjen has limited expenditure responsibilities and strong cash-generating capacity, which, combined with its status as a break-even enterprise, its strong liquidity, and extremely low debt, translate into a strong financial risk profile. Furthermore, in assessing Fjellinjen's stand-alone credit profile (SACP), we note positively the flexibility in transfer payments to NPRA vis-à-vis financial debt to external bondholders and some ability by Fjellinjen to indirectly influence toll rates.

Since the NPRA is prohibited from issuing debt itself, Fjellinjen borrows on its behalf to finance road and public transportation infrastructure. Fjellinjen's revenue from its toll stations is used to first cover operational expenditure, then amortize debt. Further excess toll revenue is transferred back to the NPRA, primarily to finance important public transportation and road infrastructure projects within the Oslo Package 3 scheme. This mechanism makes Fjellinjen a break-even entity, as defined in our criteria, with stable financial performance despite some traffic volume volatility.

The company's owners (Oslo and Viken) and the NPRA initiate and manage projects in the Oslo Package 3. Every year, the steering group presents an updated four-year action plan that lays out the project's future direction, including Fjellinjen's strategic direction in terms of operating performance and debt accumulation. Ultimately, this plan needs the central government's approval.

We assess Fjellinjen's financial performance as vulnerable. Since Fjellinjen transfers all its surplus revenue to the NPRA, the DSCR assessment for financial performance tends to be below 1x, which is a comparably weak ratio. This is because this ratio is exposed to bullet loan maturities, which generates some degree of refinancing risk in case cash flow does not fully cover the annual gross debt repayment and transfers to the NPRA. However, our view takes into account Fjellinjen's nature as a break-even enterprise to explain this performance.

We expect Fjellinjen's revenue to reach about Norwegian krone (NOK) 4.6 billion in 2025, compared with NOK4.0 billion in 2022 (up in 2022 by NOK0.3 billion compared with 2021). We expect revenue to increase as traffic volumes increase and toll rates are changed. Even though Fjellinjen has introduced fees for electric vehicles, we expect a slight decrease in total toll revenue from the expected peak year 2024. This is because the share of electric vehicles is rising rapidly, but tolls levied on them are lower than those on cars with internal combustion engines. As such, our estimated coverage ratio amounts to 0.8x in 2025, slightly down from 0.9x in 2022, although much of the change is due to Fjellinjen's assumption of higher transfers to the NPRA. Furthermore, it is in line with our expectation given Fjellinjen's status as a break-even enterprise.

Our pro-forma estimates of Fjellinjen's debt at year-end 2025 include NOK2.8 billion of interest-bearing debt and NOK1.0 billion of interest-free loans from the NPRA. Fjellinjen has an extremely strong debt position, with debt to EBITDA estimated at 1.1x by year-end 2025, in line with previous years. At this point, we do foresee some additional debt funding in 2025-2027, although we expect debt metrics to remain extremely strong. Furthermore, we expect external interest-bearing debt would take priority over paying transfers to the NPRA as a supportive feature. We also note that the central government prescribes that Fjellinjen's outstanding loans are not allowed to exceed NOK6.3 billion in 2013 monetary value, mitigating the risk of debt accumulation beyond our estimates.

We believe Fjellinjen's liquidity and financial flexibility position are strong. By including its credit facilities, our pro-forma 2025 calculation of unrestricted days of cash is very strong at about 600 days and unrestricted reserves to debt is an adequate 13%.

## Government-related entity analysis

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In our view, there is a moderately high likelihood that the Norwegian government would provide timely and sufficient extraordinary support to Fjellinjen. The 'AA' rating on Fjellinjen is one notch higher than its 'aa-' SACP because we think Fjellinjen plays an important role for and has a strong link with the Norwegian government. Although Fjellinjen is owned by the City of Oslo and the County of Viken, we consider that possible extraordinary support would primarily come from the central government through the NPRA.

The entity has a strong link with the Norwegian government, due to the state's strong influence over Fjellinjen's activities. Strategic decisions on Fjellinjen's operations are taken by a steering group consisting of NPRA representatives, the Norwegian National Rail Administration, and the two owners. Furthermore, Fjellinjen's loan levels conform to those set out in the national budget and depend on the volume of projects initiated by its owners and the NPRA within Oslo Package 3.

Additionally, Fjellinjen plays an important role for the Norwegian government. We note Fjellinjen's established role in financing significant regional infrastructure development in the region of Oslo. Legally the NPRA cannot take up any debt for its projects, so it is dependent on funding from Fjellinjen. We also acknowledge that Fjellinjen plays a crucial role in implementing public policy goals regarding traffic flow in the Oslo region.

## Ratings Score Snapshot

### Fjellinjen AS--Ratings Score Snapshot

	Assessment
Enterprise risk profile	2
Economic fundamentals	1
Industry risk	2
Market position	2
Management and governance	2
Financial risk profile	3
Financial performance	5
Debt and liabilities	1
Liquidity and financial flexibility	3
Stand-alone credit profile	aa-
<b>Issuer credit rating</b>	<b>AA</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Governments | General: Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions , Nov. 2, 2020
- 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

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- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating , Oct. 1, 2010

## Ratings List

### Ratings Affirmed

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#### Fjellinjen AS

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Issuer Credit Rating AA/Stable/A-1+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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