S&P Global
Ratings

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Fjellinjen AS

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Role in financing projects within the Oslo Package 3 is basically unchanged.	Operates as a breakeven entity, which normally equates to debt service coverage of just above 1x.
COVID-19-related risks have abated, and traffic volumes are back at pre-pandemic levels.	A moderate increase in debt expected in 2025-2026, although with continued debt amortization thereafter.
Payments to the Norwegian Public Roads Administration (NPRA) remain subordinated against payments to external holders of interest-bearing debt.	Moderately high likelihood that Norway (AAA/Stable/A-1+) would provide timely and sufficient extraordinary support in the event of financial distress.

Despite somewhat volatile traffic flows and the reprioritizing of capital projects within the Oslo Package 3 in recent years, Fjellinjen AS continues to experience stable coverage levels in line with its breakeven enterprise status. Minor surpluses against budgeted operating expenditure have allowed debt amortization over the past few years.

That said, forecast payments to the Oslo Package 3 are currently expected to require some additional debt over 2025-2026. Nevertheless, this should not change S&P Global Ratings' assessment of Fjellinjen’s extremely low indebtedness and our expectation that all its debt will be repaid by 2036.

Outlook

The stable outlook reflects our expectation that Fjellinjen will maintain a debt service coverage ratio of just above 1x, allowing continued debt amortization.

Downside scenario

We could lower the ratings if we see that the government's propensity to support Fjellinjen deteriorates, for example, if financial funding requirements change or its role in supporting regional infrastructure development weakens. We could also downgrade

Fjellinjen if the debt service coverage ratio falls persistently below 1x, for example, due to lower toll revenue that is not compensated by lower contributions to the NPRA.

Upside scenario

We may raise the ratings if Fjellinjen's debt service coverage ratio and liquidity improve materially to result in an extremely strong financial risk profile, or if it becomes so much more integrated with the Norwegian government that we estimate there is a higher likelihood of extraordinary support to the entity.

Rationale

Fjellinjen's scope of operations and dialogue with the NPRA equate 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 companies, Fjellinjen's operational mandate is restricted to collecting tolls at government-owned roads, and subsequently delivering contributions to the NPRA. The size of these contributions is negotiated with the NPRA on a yearly basis, with the overarching intention that Fjellinjen’s toll revenue--and in rare cases together with 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. The limited scope of activities, with no responsibility for maintenance and lifecycle expenditure of the infrastructure, support our assessment of its overall very strong enterprise risk profile.

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 tolling stations is used to first cover operational expenditure, then amortizing 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 breakeven entity, as per the definition in our criteria, with stable financial performance despite traffic volume volatility, particularly amid recent restrictions stemming from the COVID-19 pandemic.

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 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. Currently there is a discount on tolls for electric vehicles, with an expectation to gradually adjust the discount as they become an increasing share of the overall fleet. The reason for this is that electric vehicles have some (although reduced) negative environmental effects such as traffic congestion. Moreover, tolling the increasing number of electric vehicles provides an important contribution to investments in public transportation. Importantly, we do not consider Fjellinjen to be exposed to single-asset risk, since its operations span the whole region, with tollbooths 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 regards 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 enterprise risk profile.

The adequate financial risk profile is supported by the company's breakeven status and extremely low debt. Fjellinjen has limited expenditure responsibilities and strong cash-generating capacity, which combined with its status as breakeven enterprise, strong liquidity, and extremely low debt, translate into an adequate financial risk profile. Furthermore, in assessing Fjellinjen’s stand-alone credit profile (SACP), we note positively that the contractual agreement prescribes that payments to the NPRA are subordinate to debt service.

The company's owners 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. Fjellinjen's outstanding loans are not allowed to exceed Norwegian krone (NOK) 6.3 billion in 2013 monetary value.

We assess Fjellinjen's financial performance as adequate given its status as a breakeven enterprise. Since Fjellinjen transfers all its surplus revenue to the NPRA, the debt service coverage ratio assessment for financial performance (cash flow generation less expenditure, divided by the NPRA contribution, interest expenditure, and bullet maturities) tends to be close to 1x. Financial performance is somewhat exposed to bullet maturities in its debt profile. This generates some degree of refinancing risk in case cash flow does not fully cover the annual gross debt repayment and transfers to the NPRA.

We expect Fjellinjen's revenue to reach close to NOK4.7 billion in 2024, compared with NOK3.7 billion in 2021 and up 9% from NOK3.4 billion in 2020. We expect revenue to increase as traffic volume returns to pre-pandemic levels and due to changes in toll rates. Even though Fjellinjen has introduced fees for electric vehicles, we expect a slight decrease in total toll revenue from 2025. This is because the share of electric vehicles is rising rapidly but tolls levied on them are significantly lower than those on polluting cars. As such, our estimated coverage ratio amounts to 1.07x in 2024, slightly down from 1.18x in 2021, although much of the change is due to our assumption of higher transfers to the NPRA. Furthermore, it is in line with our expectation given Fjellinjen’s status as a breakeven enterprise.

Our pro-forma estimates of Fjellinjen's debt at year-end 2024 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 EBIDA estimated at 0.9x by year-end 2024, even lower than previous years. At this point, we do foresee some additional debt funding in 2025-2026, although we expect debt metrics to remain extremely strong. Furthermore, we view the fact that external interest-bearing debt has priority over its ongoing 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. Our pro-forma 2024 calculation of unrestricted day's cash is very strong at about 700 days and unrestricted reserves to debt is an adequate 15%.

We see a moderately high likelihood of support from the Norwegian government. 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. Therefore, we think there is a moderately high likelihood that the central government would provide timely and sufficient extraordinary support to Fjellinjen in the event of financial distress. 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.

This assessment is based on Fjellinjen's:

- 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. 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; and
- Important role for the Norwegian government. We note Fjellinjen's established role in financing important 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.

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

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Norway, March 14, 2022

Ratings Detail (as of June 23, 2022)*

Fjellinjen AS	
Issuer Credit Rating	AA/Stable/A-1+
Issuer Credit Ratings History	
15-Jun-2018	AA/Stable/A-1+
21-Jun-2017	AA-/Positive/A-1+
12-Jul-2011	AA-/Stable/A-1+

*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.