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Research Update:

Norwegian Toll Road Company Fjellinjen AS 'AA' Rating Affirmed; Outlook Stable

June 13, 2024

Overview

- We expect Fjellinjen AS to continue operating as a monopoly in charging road tolls to finance infrastructure investments in the Oslo region.
- Investment levels in the Oslo Package 3 plan will increase, so we expect the company will require debt to fund its contributions to the National Public Roads Administration (NPRA), which will negatively affect its debt service coverage ratios (DSCRs).
- This is mitigated by our view that Fjellinjen is a break-even entity that will balance its coverage as debt is being amortized during periods with lower contributions.
- We therefore affirmed our 'AA/A-1+' long- and short-term ratings on Fjellinjen. The outlook is stable.

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Rating Action

On June 13, 2024, S&P Global Ratings affirmed its 'AA/A-1+' long-term and short-term issuer credit rating on Norwegian toll road company Fjellinjen AS. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Fjellinjen's status will not change and that its financial evolution will remain in line with its multiyear plans, consistent with its legal and contractual setup.

Downside scenario

We could lower the rating if we expect the main public sector stakeholders--primarily the NPRA--to constrain Fjellinjen's ability to generate sufficient cash flow and liquidity to honor its financial obligations, for instance by demanding transfers that structurally exceed cash generation ability. We could also lower the ratings if the likelihood of Fjellinjen receiving timely and sufficient support from Norway weakens, for example because of a diminished role in supporting regional infrastructure development in the Oslo region.

Upside scenario

We could raise the rating if Fjellinjen's DSCR and liquidity improve significantly and result in a considerable strengthening of its financial 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 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, which finance investments in roads and public transport locally carried out through Oslo Package 3, a plan for Norwegian krone (NOK) 36 billion of investments in the City of Oslo and County of Akershus from 2024-2027. The size of these contributions is negotiated annually between the parties in Oslo Package 3, with the overarching intention that Fjellinjen's toll revenue--and, in rare cases, net new borrowing--should cover budgeted contributions. The company doesn't own the underlying road infrastructure, so its operational risk is limited to systems and processes linked to toll collection.

In our view, the industry risk of toll roads is lower than 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 area of operations and monopoly position in collecting road tolls. Together with the City of Oslo, County of Akershus, and central government, Fjellinjen is a key player for financing investments within the Oslo Package 3 scheme. We expect the company to remain in this advantageous position. Its owners (Oslo and Akershus) and the NPRA initiate and manage projects in the package. Every year, the steering group presents an updated four-year action plan that lays out the project's direction, including Fjellinjen's strategic direction in terms of operating performance and debt accumulation. Ultimately, this plan needs the central government's approval.

The tolls levied by Fjellinjen are used as a sustainability measure to limit traffic volumes and reduce emissions in the Oslo area, by increasing the cost of driving in the city. Importantly, since operations span the whole region, with toll stations covering all entrances to the city as well as key points within the toll ring, Fjellinjen has diversification should specific roads be closed for any reason. In fall 2023, the one-hour rule was extended to cover all passages, from previously just the passages with AutoPass agreements. It stipulates one charge per hour regardless of how many tolls are passed in that time. This aims to decrease the impact of unfavorable routes within the toll system and can also be seen as a system adaption since the increase in number of toll stations in the city. While this will lead to a significant loss of revenue for Fjellinjen, we expect contributions to the NPRA will be adjusted for the same amount, all else equal.

We assess Fjellinjen's management as very strong, based on its organizational effectiveness, good track record of fulfilling plans, and high degree of transparency. The company'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 Oslo Package 3, it is in frequent dialogue with the plan's steering group before it submits its budget to the Norwegian government. Combined 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 the break-even enterprise status mitigate the challenging DSCR

Fjellinjen has limited expenditure responsibilities and the company's strong cash-generating capacity, 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 the NPRA vis-à-vis financial debt to external bondholders and some ability for the company to indirectly influence toll rates.

Fjellinjen borrows on behalf of NPRA, since the latter is prohibited from issuing debt itself. Fjellinjen's revenue from its toll stations first covers operational expenditure, then amortize debt and contributions to the NPRA. As Fjellinjen acts as a buffer for financing of these projects, it can be required to contribute more than it is generating in toll income each year, which we expect in the coming three years. We expect cash flow will ultimately balance contributions and debt amortization. This mechanism makes Fjellinjen a break-even entity, with stable financial performance despite some traffic volume volatility.

We assess Fjellinjen's financial performance as vulnerable. Since the company transfers all its surplus revenue to the NPRA, the DSCR assessment for financial performance tends to be slightly 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.

We expect Fjellinjen's revenue to reach about NOK4 billion in 2026, in line with that of 2022. Revenue forecasts have fallen primarily because the expansion of the one-hour rule, which led to an estimated revenue loss of NOK600 million annually. We expect the contribution to the NPRA will be adjusted equally so the net effect on debt position will not change, although pace of investments in Oslo Package 3 will be adjusted accordingly. From 2025, we think its likely toll fees will be adjusted to generate revenue closer to the plan before the loss from the one-hour rule, which will help finance the contribution to the NPRA and keep the pace of projects up.

The government has also allowed a lower rebate on tolls for electrical vehicles (EVs), which can now amount to 30%, from previously 50% of the fee on vehicles with internal combustion engines (ICEs). Because Fjellinjen is a tool to both generate financing and also alter traffic volumes and composition, we don't expect that local politicians will take advantage of this potential increase in toll revenue. While the share of EVs has increased, several incentives for EVs have been scrapped recently, leaving the toll rebate as one of the few policy tools to encourage them. As such, our estimated coverage ratio amounts to 0.8x in 2026, down slightly from 1x in 2023, although much of the change is due to the company's assumption of higher transfers to the NPRA.

Fjellinjen will cover contributions with debt financing through 2026. The contribution to the Oslo Package 3 will remain higher than surpluses over at least the coming three years, we expect additional debt funding in 2024-2027. Overall, this will lead to a borrowing need of NOK800 million annually over 2024-2026. While debt is increasing, the company has an extremely strong debt position, with debt to EBITDA estimated at 1.9x by year-end 2026, up from 0.8x in 2023. Furthermore, we expect external interest-bearing debt would take priority over paying transfers to the NPRA as a supportive feature. Also, the central government prescribes that Fjellinjen's loans are not allowed to exceed NOK6.3 billion in 2013 monetary value, mitigating the risk of debt accumulation beyond our estimates.

We think Fjellinjen's liquidity and financial flexibility position are strong. 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 10%.

Government-related entity analysis

In our view, there is a moderately high likelihood the Norwegian government through NPRA would provide timely and sufficient extraordinary support to Fjellinjen in the case of financial stress. This results in the 'AA' rating on the company being one notch higher than the 'aa-' SACP.

Although Fjellinjen is owned by Oslo and Akershus, we consider that possible extraordinary support would primarily come from the central government through the NPRA. We think the state's strong influence over the company's activities support a strong link. 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. The company'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, we note Fjellinjen's established role in financing important regional infrastructure development in the Oslo region result in an important role for the government. Legally, the NPRA cannot take up any debt for its projects, so it depends on funding from Fjellinjen. Also, the company plays a crucial role in implementing public policy goals regarding traffic flow in the Oslo region.

Environmental, social, and governance

Environmental, social, and governance factors are a neutral consideration in our credit analyst of Fjellinjen. In our view, the company is an important policy tool to alter traffic volume and composition of ICE-EV traffic, which help the central and local government reach its environmental related targets while funding investment in public transport.

Ratings Score Snapshot

Fjellinjen--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

Fjellinjen--Ratings score snapshot (cont.)

	Assessment
Financial performance	5
Debt and liabilities	1
Liquidity and financial flexibility	3
Stand-alone credit profile	aa-
Issuer credit rating	AA

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 11, 2024

Ratings List

Ratings Affirmed	
Fjellinjen AS	
Issuer Credit Rating	AA/Stable/A-1+