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Research Update:

Oresundsbro Konsortiet, Owner/Operator Of Oresund Bridge, Affirmed At 'AA+'; Outlook Stable

May 31, 2021

Overview

- In 2020, revenue from road traffic took a big hit due to COVID-19, while freight traffic was hardly affected.
- Potential volatility in debt service coverage due to an upcoming bullet maturity, and exposure to a single asset constitute risks and weaken the intrinsic credit strength.
- We continue to assess an extremely high likelihood that either Denmark, Sweden, or both would assist the entity in the event of financial stress.
- We therefore affirmed our 'AA+' long-term rating on Oresundsbro Konsortiet.
- The stable outlook reflects our expectation that the entity will maintain its financial performance, allowing for continued amortization of debt.

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Rating Action

On May 31, 2021, S&P Global Ratings affirmed its 'AA+' long-term issuer credit ratings on Danish-Swedish fixed-link connection Oresundsbro Konsortiet. The outlook is stable.

Rationale

We view the Oresund Bridge as playing a very important role in linking the economies of Sweden (AAA/Stable/A-1+) and Denmark (AAA/Stable/A-1+). Oresundsbro Konsortiet operates on behalf of its two government owners, and we believe it's unlikely that operations could be carried out by a private entity. In our view, there is an extremely high likelihood that in a financial stress scenario either Sweden, Denmark, or both would provide timely and sufficient extraordinary support to Oresundsbro Konsortiet. In our view, the two governments' limited contingent liabilities do not constrain their capacity and willingness to support the entity.

Oresundsbro Konsortiet is, through Svedab AB and A/S Oresund, owned 50% each by the Swedish and Danish governments. We base our assessments of support from the owner to the company on the entity's:

- Integral link with the Danish and Swedish governments, being fully owned by the two governments. Any decision to sell the bridge (which we view as unlikely) would require the agreement of both states, as would any other changes to the existing contractual structure. We believe it is very unlikely that a private entity would take over the bridge. If, for whatever reason, the company were dissolved, it would be more likely that the two governments would take over operations themselves; and
- Very important role for the Danish and Swedish governments. We view that a disruption of Oresundsbro Konsortiet's debt service would lead to a significant negative impact for the funding of other infrastructure investment for Sweden and Denmark.

We revised our stand-alone credit profile (SACP) on Oresundsbro Konsortiet to 'a' from 'a+', reflecting the company's weaker financial performance due to potential volatility in debt service coverage due to upcoming bullet maturity.

Oresundsbro Konsortiet's market position is strong because it offers a fixed crossing between Sweden and Denmark, which is important for the region, with only limited competing solutions available (such as ferry services). Our assessment of the market position is somewhat constrained by the fact that the company operates a single asset, which narrows the revenue stream the business can rely on. In our opinion, the bridge has a strong competitive position as the leading route connecting Swedish business to Denmark and continental Europe. Since the link opened in 2000, traffic volumes have increased substantially, although with a pronounced decline during COVID-19 pandemic. We see additional potential for higher revenue when the tunnel across Fehmarnbelt is completed, scheduled for 2029.

We regard Oresundsbro Konsortiet's management as strong, reflecting a management team that is experienced and effective at managing toll road finances, operations, and maintenance. We believe the management team has considerable expertise in toll-road operations and employing prudent and conservative financial and debt management practices.

In our opinion, Oresundsbro Konsortiet has maintained very strong debt and liabilities profile due to its solid cash flow, despite the decline in revenue in 2020. When assessing the company's financial performance, we look at net revenue to debt service, which has exceeded 5x over the past three years. We expect debt service coverage to fall to 1.35x in 2022. Our view on the financial performance is limited by the bullet maturities of its debt profile, which generates refinancing risk because cash flow does not fully cover these. For example, without proactive management, debt coverage ratio could fall below 1x in 2023. We assume in our base-case scenario that Oresundsbro Konsortiet will start paying dividends in 2022, although we understand that the entity's owners have not yet decided to do so.

Oresundsbro Konsortiet regularly updates its long-term financial planning. The company expects to fully repay debt outstanding by 2050, 50 years after the link opened. Debt is declining steadily, although the ratio of debt to net revenue weakened in 2020 to just 9.6x, owing to COVID-19's effects, compared with 6.4x the year before. In addition, the company has full autonomy in setting toll rates for passenger cars, buses, and lorries, and that its revenue increase potential consequently is high.

COVID-19 had a big impact on revenue in 2020. The traffic volume for passenger cars dropped around 40%, resulting in a sharp decline in road revenue. However, freight traffic was hardly affected and Oresundsbro Konsortiet still met its financial engagements solely with fees from its rail operations. We expect 2021 will be another challenging year, although we expect traffic volumes to gradually return to normal levels by 2022, as vaccination drives progress and restrictions are slowly eased. This should improve financial performance.

We regard the entity's liquidity profile as very strong, including available credit facilities of Danish krone 2 billion, cash holdings less debt maturities. We also view Oresundsbro Konsortiet as having strong access to external liquidity, which strengthens its liquidity position. The liquidity position could worsen, however, if the company decides to pay an annual dividend to its owners.

Outlook

The stable outlook reflects our expectation that Oresundsbro Konsortiet will maintain its financial performance, allowing for continued amortization of debt.

Downside scenario

We could lower the ratings if, structurally, traffic levels were to decline significantly or the upcoming bullet maturity were not proactively managed, resulting in materially weaker financial performance or a substantial higher debt burden. We could also lower the rating if our view of likelihood of extraordinary support from Sweden and Denmark weakens. The rating could also come under pressure if we lowered our rating on either country.

Upside scenario

We could raise the ratings if debt declined below 5x net revenue while the entity considerably strengthened its unrestricted reserves as a proportion of debt.

Related Criteria

- Criteria | Governments | General: Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions, Nov. 2, 2020
- Criteria | Governments | U.S. Public Finance: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Oresundsbro Konsortiet	
Issuer Credit Rating	AA+/Stable/--
Oresundsbro Konsortiet	
Senior Unsecured	AA+

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 for further information. A description of each of

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