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Ratings

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DSV A/S

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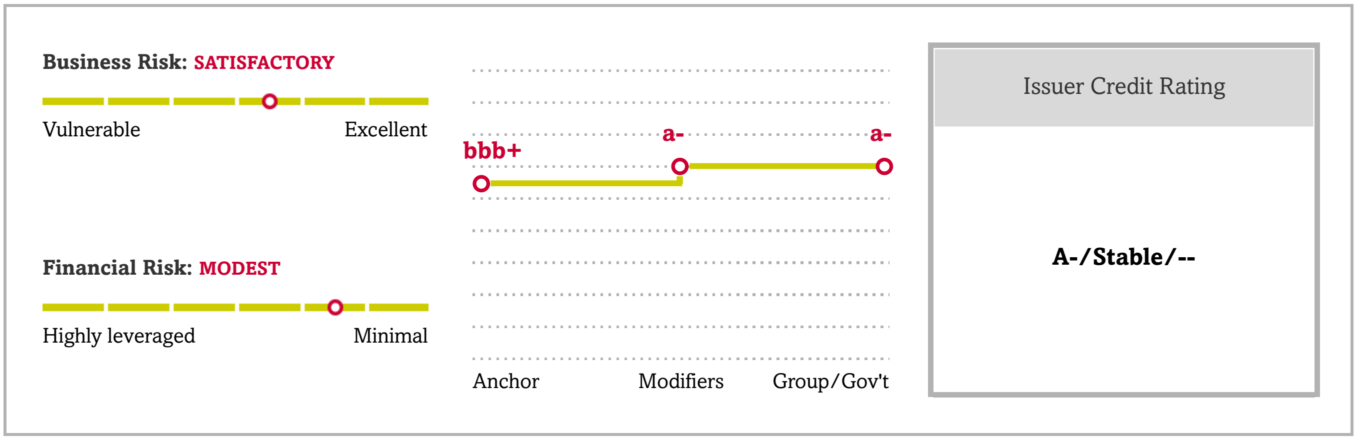
DSV A/S



Credit Highlights

Overview

Key strengths	Key risks
No. 3 freight forwarder globally by revenue, offering transport and logistics services along the entire supply chain thanks to a broad transport and logistics network, and serving customers on a global basis.	DSV's revenue generation tied to volatility of international trade and GDP growth similar to other freight forwarders.
An asset-light business model from booking shipment transportation via trucking, railroad, ocean shipping, and air freight firms. This allows the group to scale up service offerings without acquiring additional equipment, and not have excess equipment when volumes dip.	Potential debt-funded acquisitions, although we note DSV has demonstrated its ability to onboard acquired companies onto its platforms efficiently and realize synergies quickly, allowing it to preserve higher margins than logistics peers.
Low capital expenditure (capex), flexibility to react quickly to secular shifts, scalable IT infrastructure, and standardized work flows that support the group's industry-leading profitability.	FOCF is typically used for dividends and share repurchases, yet contingent on the group staying within the specified financial gearing target of less than 2.0x.
Strong liquidity, underpinned by high EBITDA to free operating cash flow (FOCF) conversion, transparent financial policy, and conservative risk tolerance.	Concentration of DSV's business model on facilitating the physical transport of goods and the logistics linked to transportation as well as its small global market share of only 5% in a highly fragmented industry.

DSV reported strong results in 2021 and it is better positioned to maintain its profitable growth. DSV's COVID-19-related cost-cutting program, the successful integration of Panalpina and GIL, and an overall strong underlying business have contributed to the group's profitability. DSV's S&P Global Ratings-adjusted EBITDA (after special items) reached about Danish krone (DKK) 20.1 billion (€2.7 billion) in 2021, which is well above our February 2021 forecast of DKK14.5 billion-DKK14.7 billion and the DKK11.6 billion achieved in 2020. To arrive at our adjusted EBITDA, we include special items (as defined by the group) of DKK0.4 billion from the integration of GIL and cost initiatives in operating expenses. We believe DSV will achieve adjusted EBITDA of DKK21 billion-DKK22 billion in 2022 and above DKK22 billion in 2023, thanks to the integration of GIL--which unlocked cost synergies and provided an enhanced platform for organic growth--and the group's streamlined cost base, further underpinned by the scalability of IT infrastructure, increasing standardization of workflows, implementation of new management systems, and efforts to improve digital customer interaction. We also factor into our base case that from 2023 GIL acquisition related transaction/integration costs (estimated at DKK1 billion in 2022) abate and full EBIT contribution (estimated at DKK3 billion in total) materialize.

The improved scale and diversification of the group's transportation network from the Panalpina and GIL acquisitions have strengthened DSV's business risk profile, positioning it at the stronger end of our satisfactory category. Taking advantage of its efficient IT infrastructure and standardized workflows, DSV will continue posting industry-leading profitability in our view. The group is now the third-largest freight forwarder in the world by revenue, offering transport and logistics services that support the entire supply chain, just ahead of Germany-based DB Schenker and also Japan-based Nippon Express and U.S.-based peer C.H. Robinson Worldwide Inc. Germany-based DHL Logistics and Switzerland-based Kuehne + Nagel remain the two largest players in the sector. DSV operates with an asset-light business model by booking the transportation of shipments from trucking, railroad, ocean shipping, and air freight firms. Since DSV does not rely on owning material transportation fixed assets, the group can scale up its service offerings without having to acquire additional equipment and is not hindered by excess equipment when volumes decline. The business model supports low gross capex requirements (typically less than 1% of revenue) and the flexibility to react quickly to secular shifts. DSV offers traditional freight services as well as a variety of value-added services like purchase order management, pick-up and delivery, cargo consolidation, customs clearance, and cargo insurance. About 75% of DSV's gross profit is generated from these value-added products, which highlights its service-focused value proposition. The integration of Panalpina and GIL has enhanced the group's scale and diversity. Typically, a large scale improves customer relationships, provides economies of scale, and increases bargaining power with clients and suppliers, supporting profitability. DSV's operations are not dependent on any single industry, supplier, or customer. Geographic diversity is decent, with about 60% of gross profit coming from Europe, about 20% from North and South America, and Asia-Pacific accounting for the remainder. Even though its customers are concentrated in Europe, DSV's broad transport and logistics network allows it to serve its customers globally.

Operating efficiency, as reflected in stronger profitability relative to industry peers', is the key credit strength. DSV's operating margins are superior to those of comparable peers including the largest logistics companies. As we expected, the group has lifted its margins and surpassed the pre-Panalpina acquisition profitability levels, amid difficult conditions where the COVID-19-impacted sluggish trade volumes diminish the advantages of economies of scale. We recognize that DSV achieved an adjusted EBIT margin of close to 9% in 2021 and we forecast 8%-9% in 2022, after DKK1 billion special costs, which will fully abate this year. The absence of special costs and full year EBIT contribution from the GIL acquisition alone should boost margins in 2023. The superior margins partly stem from DSV's proactive approach to cost control, effectiveness of recurring cost-saving measures, and efficient processes implemented across the group. DSV has demonstrated its ability to onboard acquired companies onto its platforms efficiently and realize synergies quickly. We understand an advantageous customer mix, with a large share of small-to-midsize customers, and limited exposure to the typically low-margin segments, such as the customer-controlled volumes in sea freight and perishables in air freight, also support DSV's margins.

DSV's strong cash flow profile and willingness to use FOCF to preserve a prudent gearing ratio below 2.0x (as defined by the group) support the current rating. We view DSV's financial risk profile as modest supported by its high EBITDA to FOCF (operating cash flow after cash interest and capital expenditure) conversion because of the asset-light nature of its business model. The group's adjusted FOCF (after repaying lease liabilities) reached about DKK7 billion in 2021 (above DKK5.7 billion in 2020) constrained by extraordinarily high working capital outflow of DKK4.6 billion because receivables from customers have surged due to the record-high freight rates. In 2022-2023, adjusted FOCF will largely mirror the EBITDA trend based on DSV's normalized and comparatively low gross capex of DKK1.3 billion-DKK1.5 billion (less than 1% of revenue). We forecast that the adjusted FOCF will surpass the solid 2021 level and reach DKK11 billion-DKK12 billion in 2022 and DKK12 billion-DKK13 billion in 2023, providing ample financial leeway for unforeseen operational setbacks, future external growth, or shareholder returns. Absent value-accretive acquisitions, we believe that the group will use FOCF for dividends and share repurchases; however, these payouts will be contingent on the group adhering to its clearly communicated financial gearing target of less than 2.0x. In April 2020, the group suspended share buybacks due to COVID-19-related uncertainties and shifted its priority to using FOCF for net debt reduction rather than shareholder returns. Our rating reflects DSV's conservative risk tolerance, as well as demonstrated commitment and uninterrupted capacity to maintain the gearing ratio below 2.0x.

We forecast that DSV will report strong and resilient EBITDA in 2022-2023, resulting in sustained credit metrics commensurate with an 'A-' rating. DSV's credit measures in 2021 were well in line with the level consistent with the 'A-' rating, with adjusted FFO to debt of 53%-54% and adjusted debt to EBITDA of 1.6x. The group's solid EBITDA and FOCF generation combined with predictable financial policy will allow it to preserve the rating commensurate financial profile. According to our base-case scenario with growth rates in the transport markets in line with an average global GDP growth of about 4%, DSV will maintain adjusted FFO to debt of about 50% and debt to EBITDA of less than 2.0x in 2022 and 2023.

We apply our positive comparable rating analysis modifier. This is because the group has a favorable position vis-a-vis peers in terms of high EBIT margins and this, combined with our strong assessment of management and governance, lift the anchor by one notch, resulting in the 'A-' rating. We factor in management's long tenure with the company and its track record of achieving above-industry average profitability and effectively integrating acquisitions, while articulating and maintaining a transparent financial policy and conservative risk tolerance.

Outlook: Stable

The stable outlook reflects our expectation that DSV will continue its profitable growth during 2022-2023, while capitalizing on its scalable IT infrastructure and standardized workflows, and maintain higher EBIT margins than logistics peers. We also believe that the group will generate solid FOCF and keep adjusted FFO to debt above 45% and adjusted debt to EBITDA below 2.0x.

Upside scenario

We could raise the rating if DSV's adjusted FFO-to-debt ratio improved above 60% because, for example, it consistently applies FOCF for debt reduction, while adjusting its financial policy to ensure that such a ratio level is sustainable.

We could also raise the rating if DSV significantly expands its revenue and EBITDA generation, global market share, and geographic scale outside Europe, while generating stable and above the industry-average EBIT margins.

Downside scenario

We could downgrade DSV if we expected the group's adjusted FFO to debt to fall significantly below 45%, with limited prospects for recovery. This could materialize, for example, from an unexpected shift in the group's financial policy toward shareholder remuneration destabilizing credit measures, or a large debt-funded acquisition resulting in credit measures falling short of our guidelines on a sustainable basis.

We could also consider a downgrade if DSV's business risk profile weakened. This could stem from macroeconomic headwinds or operational missteps resulting in a substantial and structural revenue decline; the EBIT margin falling below 5% for a prolonged period; or a significant increase in the volatility of the group's profitability.

Our Base-Case Scenario

Key metrics

DSV A/S--Key Metrics

	--Fiscal year ended--			
Mil. DKK	**2020a**	**2021a**	**2022e**	**2023f**
EBITDA	11,656	20,159	21,000-22,000	22,000-23,000
Debt to EBITDA (x)	1.7	1.6	1.6-1.8	1.6-1.8
FFO to debt (%)	47.8	53.5	45-50	45-50

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. DKK--Danish krone.

Company Description

Denmark-based DSV is the third largest third-party logistics services providers worldwide, as measured by 2020 revenue, behind DHL Logistics and Kuehne + Nagel. It enjoys top-three global positions in sea freight and air freight, and the top-three position in road freight in Europe, offering transport and logistics services that support the entire supply chain. The group operates an asset-light business model by booking the transportation of shipments from trucking, railroad, ocean shipping, and air freight firms. DSV is listed on the Copenhagen Stock Exchange and generated revenue of about DKK182 billion (about €20 billion) and adjusted EBITDA of DKK20 billion in 2021.

Peer Comparison

Table 1

DSV A/S--Peer Comparison

Industry sector: Misc. transportation					
	DSV A/S	**C.H. Robinson Worldwide Inc.**	**A.P. Moller - Maersk A/S**	**United Parcel Service Inc.**	**FedEx Corp.**
Ratings as of March 7, 2022	A-/Stable/--	BBB+/Stable/--	BBB+/Stable/--	A-/Stable/A-2	BBB/Stable/A-2
Business risk profile	Satisfactory	Satisfactory	Satisfactory	Excellent	Strong
Financial risk profile	Modest	Minimal	Minimal	Significant	Significant
	--Fiscal year ended 2021--				
	Dec. 31, 2021				May 31, 2021
(Mil. $)					
Revenue	27,885.7	23,102.1	61,787.0	97,287.0	83,959.0
EBITDA	3,083.5	1,388.9	24,335.0	17,269.0	12,698.0
Funds from operations (FFO)	2,593.9	1,100.4	22,974.0	14,579.9	10,055.4
Interest expense	152.0	54.4	813.0	817.1	1,297.6
Cash interest paid	143.5	61.0	779.0	820.1	1,323.6
Cash flow from operations	1,822.2	170.8	21,582.0	15,612.9	12,478.4
Capital expenditure	226.8	70.9	2,971.0	4,136.0	5,816.0

Table 1

DSV A/S--Peer Comparison (cont.)					
Free operating cash flow (FOCF)	1,595.4	99.9	18,611.0	11,476.9	6,662.4
Discretionary cash flow (DCF)	(1,274.3)	(785.9)	15,547.0	7,539.9	5,976.4
Cash and short-term investments	1,269.4	257.4	10,535.0	10,593.0	7,087.0
Debt	4,847.4	1,981.8	4,800.0	24,392.0	32,196.9
Equity	11,361.6	2,021.9	45,588.0	14,269.0	24,168.0
Adjusted ratios					
EBITDA margin (%)	11.1	6.0	39.4	17.8	15.1
Return on capital (%)	18.5	30.8	42.8	34.6	11.5
EBITDA interest coverage (x)	20.3	25.6	29.9	21.1	9.8
FFO cash interest coverage (x)	19.1	19.0	30.5	18.8	8.6
Debt/EBITDA (x)	1.6	1.4	0.2	1.4	2.5
FFO/debt (%)	53.5	55.5	478.6	59.8	31.2
Cash flow from operations/debt (%)	37.6	8.6	449.6	64.0	38.8
FOCF/debt (%)	32.9	5.0	387.7	47.1	20.7
DCF/debt (%)	(26.3)	(39.7)	323.9	30.9	18.6

Financial Risk: Modest

Financial summary

Table 2

DSV A/S--Financial Summary				
Industry sector: Misc. transportation				
	--Fiscal year ended Dec. 31--			
	2021	**2020**	**2019**	**2018**
(Mil. DKK)				
Revenue	182,306.0	115,932.0	121,001.7	79,053.0
EBITDA	20,159.0	11,656.0	10,712.0	8,953.5
Funds from operations (FFO)	16,958.0	9,656.0	8,511.5	7,068.8
Interest expense	994.0	928.0	855.1	1,001.7
Cash interest paid	938.0	933.0	970.9	1,033.7
Cash flow from operations	11,913.0	10,271.0	6,802.0	6,332.8
Capital expenditure	1,483.0	1,341.0	1,406.5	1,210.0
Free operating cash flow (FOCF)	10,430.0	8,930.0	5,395.5	5,122.8
Discretionary cash flow (DCF)	(8,331.0)	3,311.0	84.5	581.8
Cash and short-term investments	8,299.0	4,060.0	2,043.0	1,158.0
Gross available cash	7,467.0	3,317.0	737.0	250.0
Debt	31,690.2	20,199.8	22,426.3	16,665.4
Equity	74,278.0	47,297.0	49,319.0	14,532.0

Table 2

DSV A/S--Financial Summary (cont.)

Industry sector: Misc. transportation

	--Fiscal year ended Dec. 31--			
	2021	**2020**	**2019**	**2018**
Adjusted ratios				
EBITDA margin (%)	11.1	10.1	8.9	11.3
Return on capital (%)	18.5	11.1	12.4	19.7
EBITDA interest coverage (x)	20.3	12.6	12.5	8.9
FFO cash interest coverage (x)	19.1	11.3	9.8	7.8
Debt/EBITDA (x)	1.6	1.7	2.1	1.9
FFO/debt (%)	53.5	47.8	38.0	42.4
Cash flow from operations/debt (%)	37.6	50.8	30.3	38.0
FOCF/debt (%)	32.9	44.2	24.1	30.7
DCF/debt (%)	(26.3)	16.4	0.4	3.5

DKK--Danish krone.

Reconciliation

Table 3

DSV A/S--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. DKK)

	--Fiscal year ended Dec. 31, 2021--						
DSV A/S reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	21,465.0	74,103.0	20,417.0	16,223.0	977.0	20,159.0	12,202.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(2,263.0)	--
Cash interest paid	--	--	--	--	--	(938.0)	--
Trade receivables securitizations	1,696.0	--	--	--	--	--	(289.0)
Reported lease liabilities	15,288.0	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	708.2	--	(26.0)	(26.0)	17.0	--	--
Accessible cash and liquid investments	(7,467.0)	--	--	--	--	--	--
Share-based compensation expense	--	--	160.0	--	--	--	--
Nonoperating income (expense)	--	--	--	206.0	--	--	--
Noncontrolling interest/minority interest	--	175.0	--	--	--	--	--
EBITDA: Restructuring costs	--	--	(392.0)	(392.0)	--	--	--
Total adjustments	10,225.2	175.0	(258.0)	(212.0)	17.0	(3,201.0)	(289.0)

Table 3

DSV A/S--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. DKK) (cont.)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations
Adjusted	31,690.2	74,278.0	20,159.0	16,011.0	994.0	16,958.0	11,913.0

DKK--Danish krone.

Liquidity: Strong

We view DSV's liquidity as strong, supported by solid cash flow generation, availability under the credit lines, and medium-term debt maturity profile. Excluding the share buybacks from uses because we view them as discretionary and do not expect them under a stress scenario, we anticipate that DSV's sources of liquidity will be 2.5x-3.0x its uses over the 12 months from Dec. 31, 2021, and at more than 3.0x in the following 12 months.

We also believe that net sources will remain positive even if EBITDA declined by 30% and that DSV will maintain significant headroom under the gearing covenant to support a strong liquidity assessment. In addition, we consider that DSV has well-established and solid relationships with banks, and could absorb high-impact negative credit events without the need to refinance, due to its low capex requirements and discretionary shareholder returns.

DSV has one financial covenant in the loan documentation: net debt to EBITDA of maximum 4.5x tested quarterly. As of Dec. 31, 2021, the ratio was 1.4x (as defined by the group). Based on the communicated net leverage target of less than 2.0x, we expect the group will maintain significant cushion under its covenant.

Principal liquidity sources

As of Dec. 31, 2021, we estimate DSV's liquidity sources for the upcoming 12 months mainly included:

- DKK7.5 billion of cash and short-term investments we view as readily available for debt repayment.
- DKK3.7 billion in unused and committed financing available for more than one year.
- FFO after lease amortization of DKK13 billion-DKK14 billion.

Principal liquidity uses

We estimate liquidity uses for the same period mainly included:

- Short-term borrowings of DKK4.4 billion.
- Gross capex of DKK1.3 billion-DKK1.5 billion.
- Working capital outflows averaging DKK1.0 billion annually, with potential intrayear volatility of up to DKK1.0 billion.
- Declared dividend distributions of DKK1.32 billion, in line with the guided pay-out ratio of 10%-15% of net profit.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	**G-1**	G-2	G-3	G-4	G-5
- N/A					- N/A					- Risk management, culture, and oversight.				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately positive consideration in our credit rating analysis of DSV, underpinned by management's long tenure and its track record of achieving above-industry-average profitability and effectively integrating acquisitions, while articulating and maintaining a conservative risk tolerance. Generally positive employee relations and procedures make DSV a safe place to work and minimize employee turnover. As a freight forwarder, the company is only indirectly exposed to environmental risks relevant to the transportation sector. We believe that DSV is well positioned to track and reduce its carbon footprint thanks to its cutting-edge IT systems and collaboration with its suppliers and customers, which have enabled it to optimize its supply chains while consolidating its freight and selecting the most fuel-efficient mode of transport. This initiative covers its overland transportation, new office, and terminal and warehouse buildings, in addition to its choice of trailer equipment. DSV's environmental awareness is further underpinned by the annual greenhouse gas emissions reports for all modes of transport it provides to its customers and its commitment to the Science Based Targets Initiative.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2021, DSV's capital structure consisted of DKK21.4 billion of unsecured debt, which included bank loans, bonds, and overdrafts; and DKK15.3 billion of leases.

Analytical conclusions

We rate DSV's unsecured debt 'A-', at the same level as the issuer credit rating on DSV, because the group has the financial risk profile assessment of modest indicating financial leverage that is sufficiently low to offset the potential subordination.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/--

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 10, 2022)*

DSV A/S	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Issuer Credit Ratings History	
15-Feb-2021	A-/Stable/--
19-Sep-2018	BBB+/Stable/--
Related Entities	
DSV Panalpina Finance B.V.	
Issuer Credit Rating	A-/Stable/--

*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.