DSV A/S

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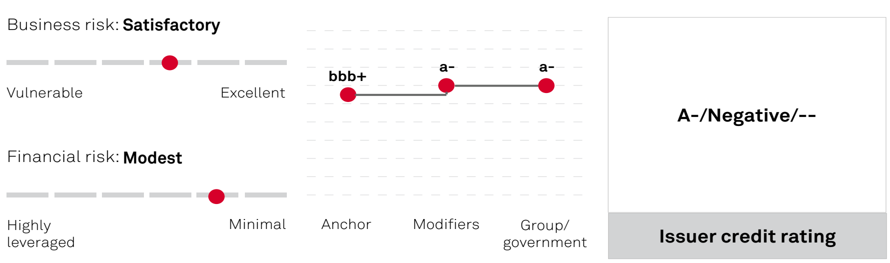
Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Currently No. 3 freight forwarder in the world (to become No. 1 post the Schenker acquisition) by revenue, offering transport and logistics services along the entire supply chain thanks to a broad global transport and logistics network.	The Schenker acquisition is margin-dilutive for the group, but DSV will likely restore combined group margins to the existing industry-leading average over the medium term, based on DSV's strong track record of integrating logistics targets.
An asset-light business model in which shipments are booked via trucking, railroad, ocean shipping, and air freight companies. This allows DSV to scale-up service offerings without acquiring additional equipment, and avoiding excess equipment when volumes dip.	Concentration of the business model on facilitating the physical transportation of goods; the related logistics linked to transportation; and its small global market share of only 4% currently (6%-7% at the acquisition's close) in a highly fragmented industry.
Low capital expenditure (capex), the flexibility to react quickly to secular shifts, scalable IT infrastructure, and standardized workflows all support the group's industry-leading profitability. Strong liquidity is underpinned by high EBITDA to free operating cash flow (FOCF) conversion. The group also has a transparent financial policy, and shareholder remuneration is contingent on the group adhering to its clearly communicated financial gearing target of less than 2.0x.	Use of acquisition debt financing will likely drag DSV's adjusted funds from operations (FFO) to debt below our 45% downside trigger by the close of the Schenker acquisition, but we expect the ratio to improve toward the rating commensurate level within 18 months after the deal's close. Underlying business model is exposed to volatile global trade and GDP growth, similar to other freight forwarders.

Financial results for the first nine months of 2024 confirm that DSV is well on track to reach its 2024 EBIT (before special items) guidance of Danish krone (DKK) 16 billion-DKK17 billion. The group's top line continued to increase in third-quarter 2024, as expected, with revenue rising by 25% year-on-year to DKK44 billion (about €5.9 billion). This was mainly fueled by solid demand, reflected in higher freight volumes, with no typical seasonal drop in volumes during the summer holidays; market share gains in both the air and sea divisions supported by commercial initiatives related to large customers; and elevated shipping freight rates, partly due to the Red Sea rerouting absorbing capacity. This contributed to first nine months of 2024 revenue increasing 9.2% year-on-year to DKK123.6 billion. Combined with DSV's focus on productivity, cost control, and pricing discipline--all offsetting pressure from cost inflation and volatility in freight rates--this has led to a slightly higher gross profit of DKK11.1 billion in third-quarter 2024 (from DKK10.6 billion in third-quarter 2023) and largely stable EBIT of about DKK4.4 billion. DSV also confirmed the envisaged full-year effect on EBIT, of DKK750 million, from a new cost efficiency program announced in second-quarter 2024 and expected to take effect from the fourth quarter. Furthermore, the group appears to be on track to achieve its 2024 EBIT (before special items) guidance, which it had narrowed to DKK16 billion-DKK17 billion, from DKK15.5 billion-DKK17 billion previously.

DSV's acquisition of Germany-based logistics company Schenker AG will be an all-cash transaction. The transaction values Schenker at €14.3 billion (about DKK107 billion) on an enterprise value basis and at €11.3 billion on an equity value basis. DSV will finance the acquisition through a combination of proceeds from new equity shares of about €5 billion (completed in October), available cash (suspension of share buybacks will be supportive), and new debt (bonds and loans). We anticipate the group's use of acquisition debt financing will likely drag its S&P Global Ratings-adjusted FFO to debt below our 45% downside trigger by transaction close. After that, our base case is that adjusted FFO to debt will gradually improve, absent any unexpected major integration missteps or other business disruptions.

After the transaction closes, we expect DSV to prioritize debt reduction. In our view, EBITDA expansion from organic business growth, the phasing out of transaction- and integration-related expenses, and the realization of cost synergies and economies of scale will likely enable deleveraging toward adjusted FFO to debt of 45% within 18 months post-transaction. This reflects our view of DSV's strong track record of integrating logistics targets, and our current base-case assumptions. We forecast the combined entity will generate FOCF before lease amortization of DKK25 billion-DKK26 billion (€3.3 billion-€3.5 billion) in 2025 and 2026, pro forma the consolidation of Schenker from Jan. 1, 2025. We assume DSV will maintain its current base-case dividend payout of 10%-15% of net profit, but hold back share buybacks until its net debt to EBITDA ("gearing" as defined by DSV) reaches its publicly stated target of below 2x. We assume DSV will use excess cash flow beyond the base-case dividend for debt reduction after closing, which is expected in second-quarter 2025, subject to the customary closing conditions and regulatory approvals.

The acquisition of Schenker will significantly expand DSV's scale and scope. Although it will be margin-dilutive at closing, we believe that, based on its strong profitability track record, DSV will likely restore combined group margins to current industry-leading averages over the medium term. We understand that the combined entity will become a new global leader in the third-party logistics sector, as measured by 2023 revenue, with Schenker adding large volumes to DSV's air and sea freight forwarding business and strengthening its presence in European road freight, noting that the latter is typically a lower-margin sector. Schenker (€19.1 billion in revenue and €1.1 billion in adjusted EBIT in 2023) currently operates as a stand-alone division of German rail operator Deutsche Bahn AG. This, combined with DSV's established track record of successfully integrating logistics companies and Schenker's business model similarities, could enable a relatively smooth integration. That said, this is DSV's largest acquisition to date and could entail higher execution risk than DSV's smaller historical deals. Based on initial leverage falling short of our rating guidelines, there is limited financial leeway under the current 'A-' rating for unforeseen integration challenges or other operational setbacks that would alter our forecasted deleveraging trend. We currently view the transaction as business profile neutral for DSV. However, we would review our assessment once we gain more certainty on how the group is managing the integration and if it is able to lift profitability, such that the combined group reaches reported EBIT margins consistent with DSV's existing industry-leading average of about 10% (9.7% in first-half 2024, 11.8% in 2023, and 10.7% in 2022) versus an average of 6%-7% at the Schenker level.

We apply our positive comparable rating analysis modifier. This is because DSV has a favorable position compared with logistics peers in terms of high EBIT margins supporting our business risk profile assessment. This, combined with our strong assessment of its management and governance, lifts the anchor by one notch, resulting in our 'A-' rating. We factor in management's long tenure and track record of productivity and cost controls, reflected in above-industry-average profitability. It also has a history of effectively integrating acquisitions while articulating and maintaining a transparent financial policy anchored at a net debt to EBITDA ("gearing" as defined by DSV) target of below 2x.

Outlook

The negative outlook reflects that we could lower the rating if DSV faces unexpected operational adversities, its FOCF generation trends consistently below our base case, and it fails to reduce debt and restore credit measures to the rating commensurate level within 18 months after the deal closes.

Downside scenario

We could lower the rating if we expect the weighted average adjusted FFO to debt to decrease and remain below 45% due to weaker financial performance compared with our forecast. This could stem, for example, from integration challenges or fading industry fundamentals that lead to stalling organic growth and deteriorating profitability. Additional unexpected leveraging transactions that indicated a deviation from management's financial policy and commitment to rapidly reduce debt could also trigger a downgrade.

Upside scenario

We could revise the outlook to stable if DSV successfully integrates Schenker, while making progress toward deleveraging, such that the weighted average adjusted FFO-to-debt ratio improves to above 45%, and its financial policy ensures that such a level is sustainable.

We would revise the outlook to stable if we no longer expected the proposed transaction to close, all else being equal.

Company Description

Denmark based DSV currently is the No.3 third-party logistics services provider worldwide, as measured by revenue, behind Germany-based DHL Logistics and Switzerland-based Kuehne + Nagel. It has No.3 global positions in sea and air freight, and a No.3 position in road freight in

Europe, offering transport and logistics services that support the entire supply chain. The company 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 DKK151 billion and adjusted EBITDA of DKK23 billion in 2023.

After the acquisition close, DSV would become a new global leader in the third-party logistics sector as measured by 2023 revenue, with Schenker adding large volumes to DSV's air and sea freight forwarding business and strengthening its presence in European road freight offering.

Peer Comparison

DSV A/S--Peer Comparisons

	DSV A/S	C.H. Robinson Worldwide Inc.	A.P. Moller - Maersk A/S	United Parcel Service Inc.	FedEx Corp.
Foreign currency issuer credit rating	A-/Negative/--	BBB/Stable/--	BBB+/Stable/--	A/Stable/A-1	BBB/Stable/A-2
Local currency issuer credit rating	A-/Negative/--	BBB/Stable/--	BBB+/Stable/--	A/Stable/A-1	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2024-05-31
Mil.	DKK	DKK	DKK	DKK	DKK
Revenue	150,785	118,652	344,330	613,327	603,079
EBITDA	23,005	5,331	66,917	93,228	92,787
Funds from operations (FFO)	15,867	3,556	56,061	73,072	72,662
Interest	1,476	646	6,096	6,987	10,277
Cash interest paid	1,549	724	6,264	6,832	10,270
Operating cash flow (OCF)	16,716	5,514	68,138	73,140	74,883
Capital expenditure	2,375	567	23,688	33,985	35,039
Free operating cash flow (FOCF)	14,341	4,947	44,450	39,155	39,844
Discretionary cash flow (DCF)	(1,080)	2,380	(50,545)	(12,240)	13,993
Cash and short-term investments	4,534	981	38,280	40,943	44,708
Gross available cash	4,534	981	123,868	40,943	44,708
Debt	38,585	12,184	0	190,993	256,509
Equity	68,966	9,566	371,470	116,748	189,686
EBITDA margin (%)	15.3	4.5	19.4	15.2	15.4
Return on capital (%)	16.8	16.3	7.7	22.5	10.4
EBITDA interest coverage (x)	15.6	8.3	11.0	13.3	9.0
FFO cash interest coverage (x)	11.2	5.9	9.9	11.7	8.1
Debt/EBITDA (x)	1.7	2.3	0.0	2.0	2.8
FFO/debt (%)	41.1	29.2	NM	38.3	28.3
OCF/debt (%)	43.3	45.3	NM	38.3	29.2
FOCF/debt (%)	37.2	40.6	NM	20.5	15.5
DCF/debt (%)	(2.8)	19.5	NM	(6.4)	5.5

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Financial Risk

DSV A/S--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	DKK	DKK	DKK	DKK	DKK	DKK
Revenues	79,053	121,002	115,932	182,306	235,665	150,785
EBITDA	8,954	10,712	11,656	20,159	29,309	23,005
Funds from operations (FFO)	7,069	8,512	9,656	16,958	22,659	15,867
Interest expense	1,002	855	928	994	1,379	1,476
Cash interest paid	1,034	971	933	938	1,472	1,549
Operating cash flow (OCF)	6,333	6,802	10,271	11,913	26,254	16,716
Capital expenditure	1,210	1,406	1,341	1,483	1,794	2,375
Free operating cash flow (FOCF)	5,123	5,395	8,930	10,430	24,460	14,341
Discretionary cash flow (DCF)	582	84	3,311	(8,331)	2,827	(1,080)
Cash and short-term investments	1,158	2,043	4,060	8,299	8,383	4,534
Gross available cash	250	737	3,317	7,467	8,383	4,534
Debt	16,665	22,426	20,200	31,690	33,807	38,585
Common equity	14,532	49,319	47,297	74,278	71,741	68,966
Adjusted ratios						
EBITDA margin (%)	11.3	8.9	10.1	11.1	12.4	15.3
Return on capital (%)	19.7	12.4	11.1	18.5	23.0	16.8
EBITDA interest coverage (x)	8.9	12.5	12.6	20.3	21.3	15.6
FFO cash interest coverage (x)	7.8	9.8	11.3	19.1	16.4	11.2
Debt/EBITDA (x)	1.9	2.1	1.7	1.6	1.2	1.7
FFO/debt (%)	42.4	38.0	47.8	53.5	67.0	41.1
OCF/debt (%)	38.0	30.3	50.8	37.6	77.7	43.3
FOCF/debt (%)	30.7	24.1	44.2	32.9	72.4	37.2
DCF/debt (%)	3.5	0.4	16.4	(26.3)	8.4	(2.8)

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	22,143	68,703	150,785	22,997	17,723	1,429	23,005	16,458	1,424	2,375
Cash taxes paid	-	-	-	-	-	-	(5,589)	-	-	-

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Cash interest paid	-	-	-	-	-	-	(1,549)	-	-	-
Trade receivables securitizations	2,030	-	-	-	-	-	-	258	-	-
Lease liabilities	17,947	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	999	-	-	(259)	(259)	47	-	-	-	-
Accessible cash and liquid investments	(4,534)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	267	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	473	-	-	-	-	-
Noncontrolling/ minority interest	-	263	-	-	-	-	-	-	-	-
Total adjustments	16,442	263	-	8	214	47	(7,138)	258	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	38,585	68,966	150,785	23,005	17,937	1,476	15,867	16,716	1,424	2,375

Environmental, Social, And Governance

Governance factors are a 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. In our view, 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 its annual greenhouse gas emissions report for all modes of transport, which it provides to customers, and its commitment to the Science Based Targets Initiative.

Rating Component Scores	
Foreign currency issuer credit rating	**A-/Negative/--**
Local currency issuer credit rating	**A-/Negative/--**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Modest**
Cash flow/leverage	Modest
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**a-**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: DSV A/S Outlook Revised To Negative On Announced Acquisition Of Schenker; 'A-' Ratings Affirmed, Sep. 17, 2024

- Industry Credit Outlook Update Europe: Transportation, July 18, 2024

Ratings Detail (as of November 18, 2024)*	
DSV A/S	
Issuer Credit Rating	A-/Negative/--
Senior Unsecured	A-
Issuer Credit Ratings History	
17-Sep-2024	A-/Negative/--
15-Feb-2021	A-/Stable/--
19-Sep-2018	BBB+/Stable/--
Related Entities	
DSV Finance B.V.	
Issuer Credit Rating	A-/Negative/--

*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.