

Research Update:

Vygruppen AS Outlook Revised To Stable On Improving Profitability; 'A-/A-2' Ratings Affirmed

September 26, 2025

Rating Action Overview

- We expect Norway-based state-owned rail operator Vygruppen AS (VY)'s group revenue and profitability will be higher than previously expected, with the adjusted EBITDA margin increasing to 17% by 2027, from 15% in 2024, supported by leisure-related traffic growth and by the early integration of Flytoget's Airport Express services from second quarter of 2025.
- As a result, we forecast the group's S&P Global Ratings-adjusted funds from operations (FFO) to debt to average 18%-19% over 2025-2027, with improving profitability and operating cash flow generation after leases mitigating the potential higher spending associated to new rolling stocks investments under the rail contracts and VY's expansion plan in the bus segment.
- In our view, the Ministry of Transport's decision to award the Southern Line, Jæren Line, and Arendal Line (package 1 South) directly to VY from December 2027, further consolidates the issuer's competitive position in the country. This supports our view that in the medium term, the rail business will generate more than half of the group's total EBITDA, mitigating the higher volatility/cyclicality of the group's bus operations.
- We therefore revised the outlook on VY to stable from negative and affirmed the 'A-/A-2' long- and short-term issuer credit ratings.
- The stable outlook reflects our expectation that FFO to debt will, on average, be about 18%-19% over 2025-2027, and free cash flow will be positive, driven by improving net profit generation based on solid traffic and new contracts on the bus segment.

Rating Action Rationale

We expect that VY will, on average, post an FFO to debt of 18%-19% and a positive cash flow over the next three years, commensurate with current rating level. The improving net profit and operating cash flow generation after leases reduce the rating downside, triggering the outlook revision. The improved metrics reflect strengthening revenue, net profit, and cash flow generation, supported by traffic growth and robust performance in both rail and bus segments. VY's capital rail spending is fully funded by the government, with lease payments ultimately being

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reimbursed by the Norwegian Railway Directorate through its public purchases over the life of the leasing contract. We view this as less risky than traditional infrastructure companies that would depend on operational factors such as price increases or traffic volumes more to recuperate its capital outlay.

We expect that VY's rail revenue and profit generation over the next three years will strengthen from the positive traffic outlook and from the early integration of the airport express services. We anticipate that the S&P Global Ratings-adjusted EBITDA margins for the railway segment will trend toward 18%-19% by 2027. We expect that the traffic growth pattern recorded in 2024 and over the first four months of 2025 (+6% year over year) to continue, supported by the positive momentum of leisure and international travel, as well as the gradual softening of the work-from-home practices. We assess VY's ongoing efforts to improve punctuality and service reliability as positive, which may further support passenger growth over the coming months, following some network disruption caused by infrastructure failures which affected operational performance in 2024.

We anticipate the merger of Airport Express (Flytoget) in April 2025 will improve the revenue and profitability outlook over the next three years. We expect that its integration in the Eastern Norway regional train services from 2028, which we already included under our previous base case, will further increase passenger growth through routes and timetable efficiency. The Norwegian government decided the early merger of Vy and Flytoget to ensure a smooth and efficient transition. We estimate that the early integration of Airport Express will add about Norwegian krone (NOK) 1.1 billion-NOK1.2 billion to annual group revenue and about NOK200 million-NOK250 million to annual EBITDA over 2025-2027.

We expect that the group's bus segment's EBITDA margin will increase to about 17% by 2027, from about 15% in 2024, supported by higher profitability envisaged under the newly awarded contracts in Norway. In 2024, the group won six new contracts in Norway which increased the visibility on the revenue outlook over the next three years, amid several existing concessions coming to maturity, especially in Sweden. These new contracts are scheduled to commence between 2025 and 2026 with durations ranging from two to 12 years, we understand that the contracts offer higher profitability margins than those awarded in the last few years. This reflects the high financing costs associated with the acquisition of buses, which increased over the last few years as result of both higher costs for electric fleets and the higher interest rate environment. This has reduced the number of operators participating in tenders, overall leading to a softening of competition and to an improvement in the price levels and margins embedded in such contracts. Leveraging its strong competitive position, we expect that VY will continue to win new contracts in Norway, while the acquisition of electric buses is expected to further enhance profitability, as they typically require higher compensation from public transport authorities.

The direct award of the package 1 South further supports our expectation that transportation infrastructure will continue to contribute more than 50% of the group's EBITDA in the medium term. The operations on the package 1 South will start in December 2027, with the signing of the contract expected by early 2026. The terms of concession are still subject to discussion with the Norwegian Rail Directorate, and we understand the maximum concession length will be five years. Although we expect the effect on group revenue will be limited, package 1 South revenue represents roughly 8% of 2024 passenger train division turnover, we think that the direct award further consolidates the competitive position of the issuer on rail transport in Norway and also confirms the very important role of VY for the Government.

We expect VY's large capital expenditure (capex) plan to be mainly lease funded, with leases representing a major part of the group's debt. We anticipate that the group will continue to undertake significant capex to support its newly won and existing rail contracts, as well as

supporting the expansion on the bus segment. We estimate management expansion plan could lead total capex to exceed NOK15 billion over 2025-2029, which we expect will be almost entirely lease funded. Despite the large size of the capex plan, we estimate management retains significant flexibility, as about 60% relates to the bus segment, for which the spending is contingent upon the successful award of new contracts over the next years. We also understand that management is currently assessing the possibility to self-finance the acquisition of electric buses from 2028.

Although sudden revisions of assumptions may cause volatility in lease and operating grant forecasts, we expect the risk of lease revaluations to be low over the coming three years, as we understand no additional large tenders for rail are planned in Norway.

The improved metrics also reflects VY's business model and recent changes in its contract portfolio. Leverage typically peaks when a new rail or bus contract is signed, before gradually declining as it approaches maturity. Notably, the award of the Eastern Norway Packages 1 and 2 in 2023, and the update of the pricing assumptions underpinning the underlying lease contracts with Norske Tog AS led to the temporary spike in leverage metrics. While there is a cash flow mismatch between what VY receives in the form of public purchases and the high interest burden the group bears at the start of its new leasing contracts, we understand that this will balance itself out over the course of the lease contract. Rail margins should recover over the course of the leasing contract, contributing toward deleveraging.

We think there is a high likelihood that the Norwegian government will provide sufficient and timely extraordinary support to VY if needed, due to the group's important role and very strong link to the state. This translates into three notches of uplift on top of the 'bbb-' stand-alone credit profile, resulting in an issuer credit rating of 'A-'. We think that VY has an important role for the Norwegian government (AAA/Stable/A-1+) as the country's incumbent provider of passenger rail services and main railway freight operator. In our view, VY has maintained a very strong link with its sole owner, the Norwegian government, based on existing mechanisms and the government's capacity to provide support to VY.

Outlook

The stable outlook on VY indicates that FFO to debt will, on average, be about 18%-19% over 2025-2027, driven by improving net profit and cash flow generation based on solid traffic and new contracts, with a comfortable maturity schedule for the contract portfolio. We expect that the group will continue to generate most of its cash flow from rail operations.

Downside scenario

We could lower our rating on VY if the group's adjusted FFO to debt fell sustainably below 16%, or if its reported operating cash flow after deducting lease payments turned negative for a prolonged period. This could happen if, for instance, its margins are weaker than anticipated or if investments for its bus and train businesses lines are materially higher than expected. We could also lower the rating if bus operations increased to more than 50% of total EBITDA, or competitive pressures increased, such that VY experienced material deterioration in its market share and competitive position.

Upside scenario

We see limited rating upside in the near term, given our expectations of FFO to debt of about 18%-19%. Over time, we could raise our rating on VY if the group shows stronger net profit growth

than what we currently anticipate under our base case, while maintaining an FFO to debt sustainably above 30%. An upgrade would also require the group to maintain a positive reported operating cash flow after deducting lease payments and a comfortable maturity life of its rail portfolio, through either new concession awards or good visibility over extension prospects under the existing contracts.

Company Description

VY (formerly Norges Statsbaner) is a Norway-based, 100% state-owned group that provides passenger and freight transportation services. It derives more than 50% of its earnings from the railway business in Norway and the remainder from tourism and the bus business in Norway and Sweden.

Our Base-Case Scenario

Assumptions

- Adjusted revenue will increase by about 6% in 2025, reflecting the integration of the Airport Express from April 1, 2025. Revenue will increase by about 4% annually from 2026, with the integration of the package 1 South from December 2027.
- Public purchases of about NOK3.5 billion in 2025, NOK3.6 billion in 2026, and NOK3.9 billion in 2027.
- Adjusted EBITDA margins of about 15% in 2025, increasing to about 17% by 2027.
- Investments (primarily lease funded) of about NOK1.4 billion in 2025, increasing to about NOK4.4. billion-NOK4.6 billion annually in 2026 and 2027.
- No additional lending debt. The only obligations for VY will comprise financial leases, which we expect to be about NOK13.7 billion in 2025, increasing to NOK17.5 billion by 2027. We also include finance lease payments of NOK2.8 billion in 2025 and NOK3.0 billion-NOK3.6 billion in 2026 and 2027. This includes about 5.0% of interest payments.
- Dividend distribution of 50% of annual net profit.

Key metrics

Vygruppen AS--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. NOK)	2022a	2023a	2024a	2025e	2026f	2027f	2028f	2029f
Revenue	17,631	19,063	19,359	20,479	21,322	22,311	23,545	23,938
EBITDA (reported)	2,689	2,756	2,827	3,096	3,356	3,763	4,221	4,403
Plus/(less): Other	(12)	(41)	(39)	(76)	(76)	(76)	(76)	(76)
EBITDA	2,677	2,715	2,788	3,020	3,280	3,687	4,145	4,327
Less: Cash interest paid	(238)	(319)	(691)	(685)	(787)	(875)	(849)	(816)
Less: Cash taxes paid	(4)	(4)	(4)	(114)	(69)	(91)	(99)	(134)

Vygruppen AS--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. NOK)	2022a	2023a	2024a	2025e	2026f	2027f	2028f	2029f
Plus/(less): Other	--	--	--	66	65	64	65	72
Funds from operations (FFO)	2,435	2,392	2,093	2,287	2,489	2,785	3,263	3,449
EBIT	456	494	614	763	922	1,212	1,527	1,669
Interest expense	262	372	733	730	758	853	884	854
Cash flow from operations (CFO)	1,952	2,182	2,029	2,128	2,556	2,847	3,356	3,524
Capital expenditure (capex)	169	342	458	145	52	92	77	25
Free operating cash flow (FOCF)	1,783	1,840	1,571	1,983	2,504	2,755	3,279	3,499
Dividends	--	67	27	80	98	158	158	205
Discretionary cash flow (DCF)	1,783	1,773	1,544	1,903	2,406	2,597	3,121	3,294
Debt (reported)	16	12	15	15	15	15	15	15
Plus: Lease liabilities debt	7,506	13,793	14,597	13,709	15,735	17,493	16,977	16,321
Plus: Pension and other postretirement debt	423	547	48	48	48	48	48	48
Less: Accessible cash and liquid Investments	(2,089)	(2,217)	(2,358)	(2,124)	(2,217)	(2,061)	(2,325)	(2,627)
Debt	5,856	12,135	12,302	11,647	13,580	15,494	14,714	13,757
Interest expense (reported)	238	362	711	708	736	831	862	832
Cash and short- term investments (reported)	2,662	2,641	2,775	2,541	2,634	2,478	2,742	3,044
Adjusted ratios								
Debt/EBITDA (x)	2.2	4.5	4.4	3.9	4.1	4.2	3.5	3.2
FFO/debt (%)	41.6	19.7	17.0	19.6	18.3	18.0	22.2	25.1
FFO cash interest coverage (x)	11.2	8.5	4.0	4.3	4.2	4.2	4.8	5.2
EBITDA interest coverage (x)	10.2	7.3	3.8	4.1	4.3	4.3	4.7	5.1
CFO/debt (%)	33.3	18.0	16.5	18.3	18.8	18.4	22.8	25.6
FOCF/debt (%)	30.4	15.2	12.8	17.0	18.4	17.8	22.3	25.4
DCF/debt (%)	30.4	14.6	12.6	16.3	17.7	16.8	21.2	23.9
Lease capex- adjusted FOCF/debt (%)	30.4	(51.8)	(6.9)	6.3	(13.5)	(11.3)	6.4	8.5
Annual revenue growth (%)	15.3	8.1	1.6	5.8	4.1	4.6	5.5	1.7

Vygruppen AS--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. NOK)	2022a	2023a	2024a	2025e	2026f	2027f	2028f	2029f
EBITDA margin (%)	15.2	14.2	14.4	14.7	15.4	16.5	17.6	18.1
EBITDA/cash interest (x)	11.2	8.5	4.0	4.4	4.2	4.2	4.9	5.3
EBIT interest coverage (x)	1.7	1.3	0.8	1.0	1.2	1.4	1.7	2.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. NOK--Norwegian krone.

Liquidity

We assess VY's liquidity as strong, with sources exceeding uses by more than 1.5x over the 12 months from June 30, 2025, and more than 1.0x in the following 12 months. As a government-related entity, VY has sound relationships with banks and generally prudent risk management, which supports our liquidity assessment.

Principal liquidity sources

- Cash and cash equivalents totaling about NOK2.6 billion;
- Undrawn committed bank lines of NOK400 million expiring in October 2028; and
- We forecast FFO of approximately NOK300 million, after considering finance lease payments.

Principal liquidity uses

- Working capital outflows of about NOK180 million;
- Self-financed capital investments of about NOK100 million; and
- Cash dividends of approximately NOK90 million.

Environmental, Social, And Governance

Environmental factors are a positive consideration in our credit rating analysis of VY. It has a principal role in helping Norway reduce emissions by 50% by 2030. Considering the increasing use of electric passenger and freight trains, as well as renewable energy buses, we think that the group is financially well positioned to advance its green objectives. Social risks are overall a neutral consideration. This balances the key social mandate of the group, which is reflected in a high likelihood of extraordinary government support, if needed. The group also plays an important role in servicing Norway's unprofitable lines to more remote destinations.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Satisfactory
Country risk	Very low risk
Industry risk	Intermediate risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb+
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Positive
Stand-alone credit profile	bbb-

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [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
- [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
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

Related Research

- [Norway](#), Sept. 8, 2025
- [Vygruppen AS Outlook Revised To Negative On Potentially Higer Leverage; 'A-/A-2' Ratings Affirmed](#), July 9, 2024

Ratings List

Ratings List

Ratings Affirmed; Outlook Action		
	To	From
Vygruppen AS		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2

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