

AB Transitio

Full Rating Report

LONG-TERM RATING

AA-

OUTLOOK

Stable

SHORT-TERM RATING

N1

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RATING RATIONALE

Our 'AA-' long-term issuer rating on Sweden-based provider and manager of passenger railway rolling stock AB Transitio reflects the company's heavily regulated financial and commercial relationship with its owners, which are its sole customers. The company is jointly owned by 20 Swedish counties, which have significant financial capacity to honour their commitments. According to a shareholder agreement, all debt maturities, costs, and loss exposures are guaranteed by the county (or counties) using the company's services. We see the guarantees extended by the owners as irrevocable, unconditional, and timely, broadly aligning the company's financial strength with that of its owners. The rating further reflects the company's insulated competitive position and the high barriers to entry in the Swedish passenger rolling stock leasing market. It is also supported by the company's long average debt maturity of 11.6 years and low refinancing risk.

The rating is constrained by Transitio's limited size and diversity. The company owns about one-fourth of the regional railway rolling stock in Sweden, which limits its geographic diversity, and is notably smaller than its European peers. Transitio has minimal book equity as a not-for-profit entity, which results in comparatively high leverage in comparison with its peers. Conversely, the not-for-profit policy allows for full pass through of all interest and operating costs to its owners. Guarantees from the owners ensure stability and support the company's overall financial risk profile.

The rating reflects our expectations that potential debt issues will have similar guarantees to those on Transitio's existing loans, given the structure of the company's shareholder and leasing agreements. We would likely rate such instruments one notch above the issuer rating, at 'AA' (see Issue ratings section). We expect the company to receive support from its owners, should any of the owner counties encounter financial trouble, even though not all debt is cross guaranteed.

STABLE OUTLOOK

The outlook is stable, reflecting our expectations that Transitio's risk profile will remain strong thanks to the extensive shareholder guarantees and the company's increasing importance for fulfilling the political targets of its owners. The long-term planning structure of Swedish railways contributes to stability and predictability of operations. The outlook incorporates our view that the company's owners will remain its sole customers and that the guarantee structure will remain unchanged.

POTENTIAL POSITIVE RATING DRIVERS

- Reintroduction of cross-county guarantees; and
- Substantially higher utilisation by owners, significantly increasing the scale of operations.

POTENTIAL NEGATIVE RATING DRIVERS

- Changes in ownership profile.
- A decline in credit quality among the combined owner pool.
- Any change in financial and/or operational guarantees.

Figure 1. Transitio key credit metrics, 2019–2025e

SEKm	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	559	700	787	786	962	1,095	1,173
NCR-adjusted EBITDA	370	477	508	514	681	743	790
NCR-adjusted EBITDA margin (%)	66.2	68.2	64.5	65.4	70.8	67.9	67.4
NCR-adjusted FFO	246	346	391	389	448	471	536
NCR-adjusted net debt	6,212	7,836	8,283	8,665	9,601	9,925	10,341
NCR-adjusted total assets	7,364	8,811	9,865	10,047	11,181	11,455	11,591
NCR-adjusted net debt/EBITDA (x)	16.8	16.4	16.3	16.9	14.1	13.4	13.1
NCR-adjusted EBITDA/net interest (x)	3.0	3.6	4.4	4.1	2.9	2.7	3.1
NCR-adjusted FFO/net debt (%)	4.0	4.4	4.7	4.5	4.7	4.7	5.2
NCR-adjusted FOCF/net debt (%)	-13.2	-28.0	-13.1	-11.4	-12.5	-5.7	-11.6

Based on NCR estimates and company data. e—estimate. FFO—funds from operations. FOCF—free operating cash flow. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Transitio was founded in 1999 by six of Sweden's 21 counties, when county-level traffic authorities were charged with running the country's regional railways, with the purpose of centralising acquisition and financing of rolling stock on behalf of the respective counties' regional public transport companies. The company also provides rolling stock support services and carries out heavy maintenance. Since restructuring in 2012, Transitio has been owned directly and indirectly by 20 Swedish counties (excluding the island county of Gotland), with each owner holding a 5% ownership stake. The owners' commitment to the company is regulated through a shareholder agreement and rolling stock financing is guaranteed by the county (or counties) that lease individual units of rolling stock. Because of its public ownership, the company must issue public tenders when purchasing rolling stock and related equipment. The owners provide financial guarantees for all rolling stock leased through Transitio.

BUSINESS RISK ASSESSMENT

Business risk
assessment 'a-'

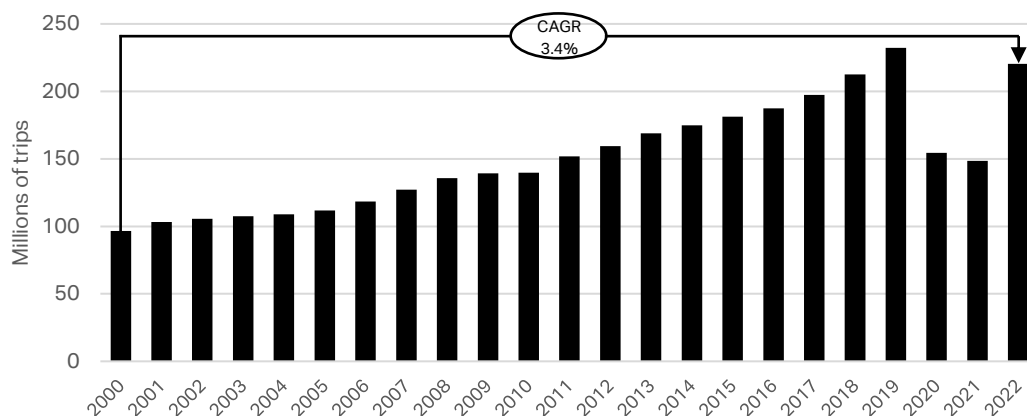
Our business risk assessment reflects Transitio's strong competitive position due to the integration of owner guarantees into the operating model, which effectively eliminates re-leasing and repricing risk. We take a positive view of the company's exposure to the less cyclical passenger rolling stock leasing market and the structure of its leasing contracts, which effectively limit operational risk. The company's low cost-efficiency relative to the rest of its peer group, limited size, and geographic diversity have a negative impact on our business risk assessment.

Contractually fixed revenues and low cyclicity ensure operating environment remains stable

Operating environment
'a'

Transitio operates in the Swedish passenger rolling stock leasing market, with all of its revenues guaranteed by or derived from its owners. The market depends on demand for public transport and is influenced by the structure of the Swedish railway system. Demand for rail travel has surged, with the number of trips more than doubling since 2000. In 2020-2021, the COVID-19 pandemic put a temporary halt to the growth of rail travel, with dramatically decreased passenger volumes as a result of social distancing measures. Although demand and revenues have rebounded as the pandemic has receded, travel volumes are still below 2019 levels (see Figure 2). We expect growth in rail travel and increased demand for rolling stock to accommodate higher passenger volumes. We also expect urbanisation to drive demand for rolling stock despite an increase in working from home and digital meetings.

Figure 2. Passenger volumes on regional Swedish rail routes, 2000–2022



Source: Transport Analysis. CAGR—Compound annual growth rate.

We assess the leasing market for passenger rolling stock as less cyclical than the leasing of freight wagons, capital goods, and passenger cars. It carries less correlation with economic activity and has lower dependence on discretionary purchasing power. The passenger rolling stock market typically has more predictable cash flows and longer contracts with strong counterparties. We see the risk of non-renewal of contracts and substitution risk as limited due to the capital intensity of the industry and long lead times for new rolling stock. These factors reduce the risk of regional traffic operators obtaining their own rolling stock rather than leasing from counties, which typically supply operators with rolling stock to ensure sufficient availability and meet their public transport targets. Further, the

need for public tenders to supply counties with rolling stock makes it harder for leasing providers to enter the market as they would need to compete on price against counties or Transitio itself, which are likely to have competitive financing advantages. We believe that direct ownership by counties and their stake in Transitio deter new entrants.

Swedish railways are mostly underinvested and heavily congested, increasing susceptibility to disruptions and amplifying the impact of delays. The railways have not been sufficiently expanded to meet increased frequency of departures and accommodate higher passenger volumes. In addition, fewer trains run on time, reducing the reliability of rail travel. We see some risk of substitution from other modes of transport, especially in regions with several viable alternatives, unless railways are upgraded, and punctuality improved.

Strong position as centralised provider, but exposed to substitution risk

Market position 'a'

In our view, Transitio has a strong market position because of the commercial relationship with its owners. The company's main objective is to supply its owners with rolling stock along with related materials and services. In 2012, the ownership structure was revised to include all but one Swedish county. Transitio specialises in acquiring and maintaining rolling stock on behalf of its owners, using its scale and financing advantages to improve cost-efficiency for them.

Transitio owns only about one-fourth of Sweden's regional rolling stock. Despite owning Transitio, larger counties with direct access to capital markets tend to own and manage their own rail fleets. For example, local and regional rolling stock operating in Stockholm, Skåne and Västra Götaland are owned directly by the respective counties. In addition, six of the larger counties are not owner-members of the Swedish municipal financing company Kommuninvest, limiting Transitio's available financing channels in those locations. Where Transitio is the preferred leasing partner for its owners, we expect an increasing proportion of rolling stock to be financed through the company rather than on a standalone basis by the respective counties. In addition, Stockholm is a partner in joint regional rail operator, Mälardalstrafik, which recently took delivery of 50 double-decker passenger carriages.

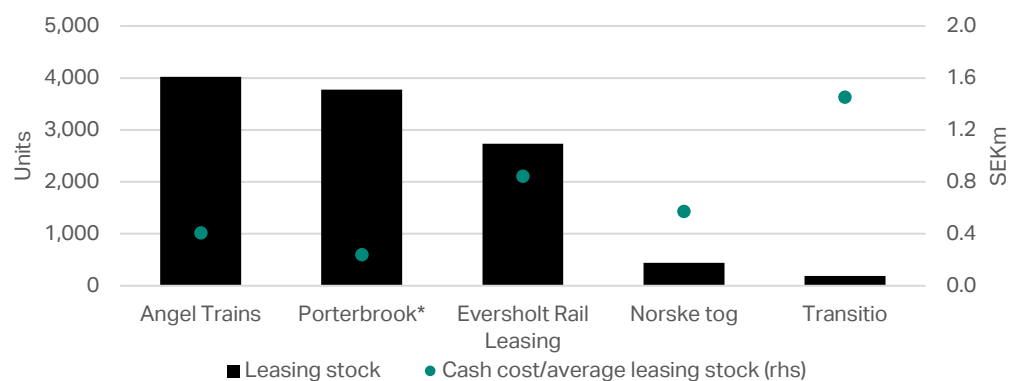
Direct ownership by counties poses some substitution risk to the company's business model. For example, Halland and Skåne counties assumed ownership of six units of rolling stock upon expiry of a financial lease in 2021. We understand that the choice of obtaining rolling stock on a standalone basis instead of using Transitio is a result of a preference on the part of some counties for direct ownership and not based on the quality of service provided by Transitio. As Transitio grows and gains scale, we expect the benefits of pooled procurement to increase. Nonetheless, in our view, the current preferences of some owners have negative implications for the company's market position, especially given Transitio's narrow customer base. Substitution risk beyond direct county ownership is low due to Transitio's competitive advantage in financing costs over peers which have no access to municipal linked financing. Unlike its private-sector peers, operational risk is offset by limited ownership, integration into the owners' commercial model, and owner guarantees for cost coverage and loss exposure. These features reduce re-leasing and repricing risk and enable a more cost-competitive product offering.

Limited scale offset by strong counterparties

Size and diversification
'bb'

Transitio's customers are exclusively Swedish counties, which have strong financial capacity and carry minimal risk, thereby creating indirect counterparty exposure to Sweden's central government. The company has a narrow product line of rolling stock models and focuses exclusively on passenger rolling stock. This narrow business focus relies on the continued relevance of rail as a mode of regional transport. The company's small size relative to other European rolling stock leasing companies (see Figure 3) is not a major constraint in achieving its owners' objectives thanks to its insulated competitive position. We believe that larger entities can generally leverage their scale to gain more favourable purchasing prices and achieve greater cost-efficiency than smaller companies. Transitio's cash operating costs (excluding depreciation) to average rolling stock are nearly three times higher than those of Norwegian peer Norske tog AS, which manages all of Norway's regional rolling stock and is directly state owned. We are aware, however, of differences in the mix of rolling stock and scope of operations that affect the comparability of cost efficiency between rolling stock leasing companies.

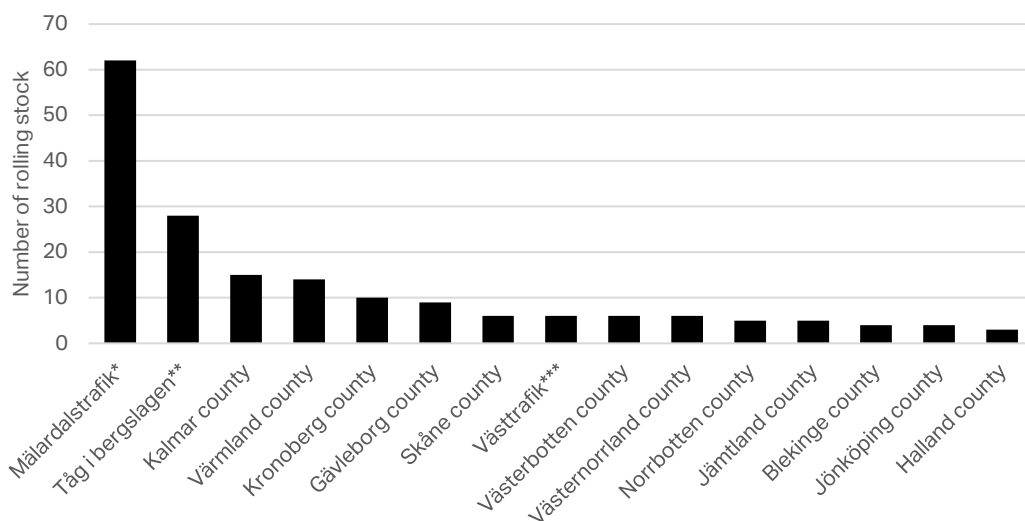
Figure 3. Transitio regional peer group by fleet size, 31 Dec. 2022



Source: companies. Based on annual average exchange rates, SEK/NOK of 1.05 and SEK/GBP of 12.5 *Porterbrook's cash cost to average leasing stock is based on FY2021.

Demand for passenger rolling stock is more predictable and stable than that for freight wagons. Long contracts with well-spread maturities reduce sensitivities to business cycles and help balance the cost profile. Transitio has relatively broad exposure to its different owners and has cross-guarantees for shared public procurement by jointly owned operations (see Figure 4). Conversely, the company has a narrow range of suppliers, with the two largest, Alstom and Stadler, accounting for 80% of its rolling stock models. We understand that increased competition among suppliers could reduce Transitio's reliance on individual suppliers. For example, the company recently ordered 28 units of rolling stock from Spanish supplier CAF with an option for additional purchases. Negatively, we believe that Transitio's concentrated supplier base could impede the company's access to components and delay maintenance or upgrades if bottlenecks arise in the supply chain or if its suppliers prioritise larger customers. To counter this, the company maintains its own stock of high-value components that it offers to both its leasing operators and operators that own their own fleets.

Figure 4. Counterparty diversity of leased rolling stock by county, 30 Jun. 2023



Source: companies. *Owned by Stockholm county (35%), Sörmland county (13%), Uppsala county (13%), Västmanland county (13%), Örebro county (13%) and Östergötland county (13%). **Owned by Dalarna county (25%), Örebro county (25%), Västmanland county (25%) and Gävleborg county (25%). ***Owned by Västra Götaland county (100%).

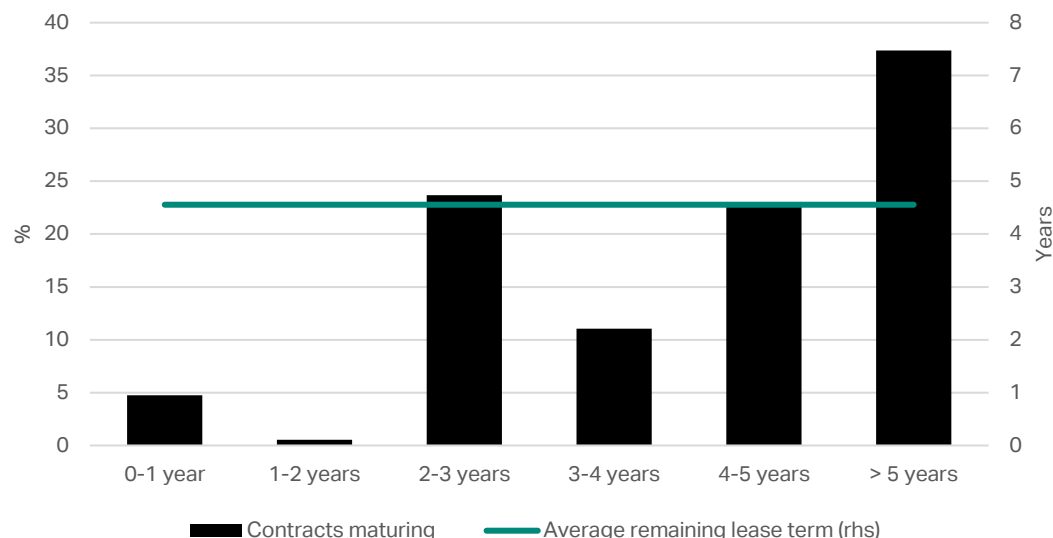
Flexible leasing structure ensures cost coverage supporting strong operating efficiency

Transitio's strong operating efficiency is driven by the limited downside risk and low cyclicality of the company's long contracts with its owners. The company adjusts all contractual payments annually to cover all expected input costs, including financing, enabling it to operate continuously on a not-for-profit basis. The average remaining lease term for outstanding contracts was 4.6 years as of 30 Jun. 2023. New contracts are typically signed for 10 years and are automatically renewed for five-year periods unless an owner provides one year's notice to cancel. The risk associated with the company's leases is considerably lower than that of its peers due to the owner guarantees. If contracts are

Operating efficiency 'a'

cancelled, the leasing county covers associated costs, including potential disposal losses, eliminating re-leasing and resale risk that private-sector peers would face.

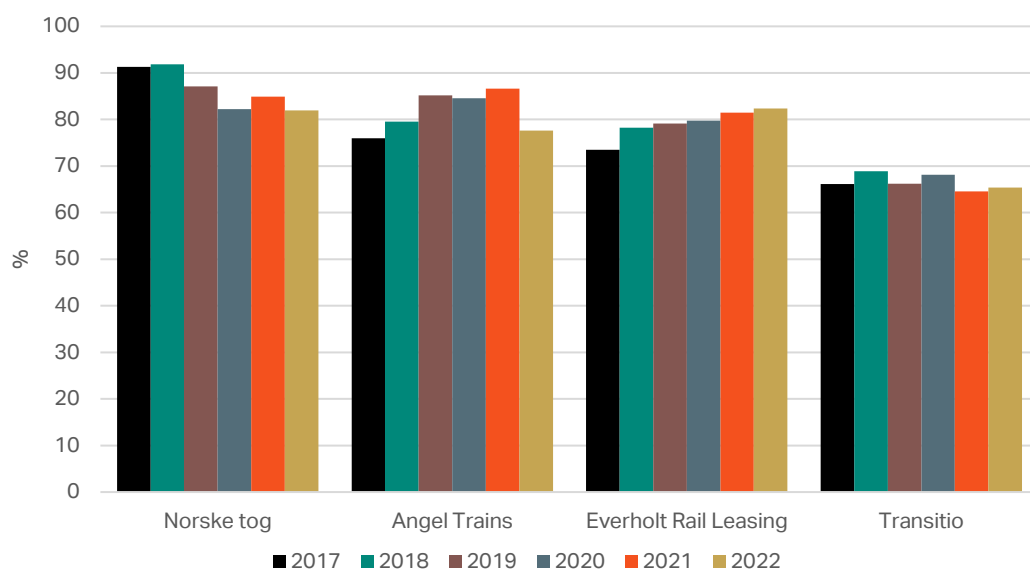
Figure 5. Transitio lease maturity profile, 30 Jun. 2023



Source: company.

Rolling stock typically has a lifecycle of 30-40 years. As of 30 Jun. 2023, the average age of Transitio's rolling stock was 9.1 years with diverse levels of end of product life, reducing the risk of having to acquire new rolling stock in unfavourable market conditions. On-train equipment has lower average lifespans of 10-15 years and is replaced according to a maintenance schedule, avoiding operational disruptions. In a bid to increase the rate of rolling stock utilisation and lower sensitivity to supply chain disruptions, Transitio has a strategic inventory of high value components with long lead times, while operators maintain their own inventories of more common spare parts. The company has launched several projects, including but not limited to, the installation of new European safety monitoring systems and climate optimisation in carriages, which should support the value of the fleet.

Figure 6. Transitio peer group NCR-adj. EBITDA margins, 2017-2022

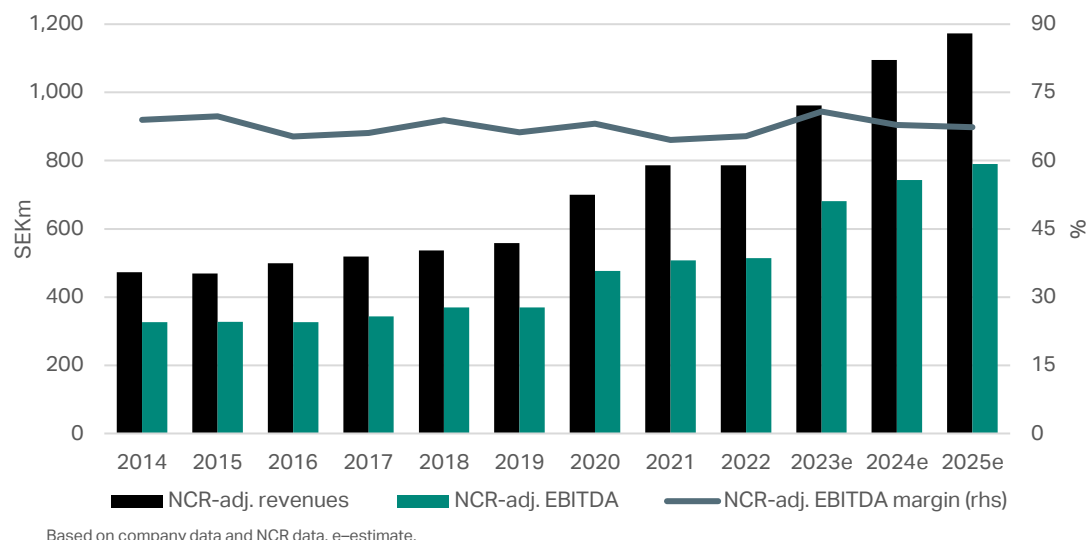


Based on company data.

Transitio's profit margins are not comparable with those of some of its peers as the company does not operate to generate profits. It charges no mark-ups to meet profitability targets and can change lease payments at its own discretion to reflect changes in cost structure instead of locking in lease rates to cover expected costs over a longer period. Assuming that the company's cost of sales and overhead costs are flat, increased financing costs or depreciation costs would drive higher EBITDA margins while lower financing costs or depreciation costs would reduce margins, while the latter factors would

be beneficial for the company's overall profitability. Because of contractual features, Transitio has had exceptionally stable margins relative to those of its peers, which have higher margin variations on a normalised basis. We expect the company's NCR-adjusted EBITDA margin to increase temporarily to 71% before stabilising at 67–68% over our forecast period. The projected revenue growth reflects the addition of newer rolling stock delivered through 2025.

Figure 7. Transitio NCR-adj. revenues, EBITDA and margins, 2014–2025e



FINANCIAL RISK ASSESSMENT

Financial risk
assessment 'a+'

Our assessment indicates that Transitio's financial risk profile is stronger than suggested by the company's high leverage and weak credit metrics. This is because Transitio's role is to maximise cost efficiency for its owners and the company has no return targets. The owners provide full coverage of leasing-related costs, including financing, based on projected costs and interest rates, which reduces financial risk. We attach greater weight to our assessment of risk appetite, including the available support and guarantees provided by the owners, because we consider it more reflective of financial risk than the company's financial ratios.

Weak credit metrics do not accurately reflect financial risk

Ratio analysis 'b'

Transitio operates on a not-for-profit basis. It is under no obligation to meet return requirements from the owners and channels all benefits to the owners by adjusting its leasing terms. The company has historically had high financial leverage and an equity ratio below 1%. Because the owners guarantee cost-coverage for financing, overheads, repairs, maintenance and debt maturities, we consider the company's key metrics to be less reflective of financial risk than they would if the company were less dependent on the financial capacity of its owners. Accordingly, we attach little weight to the company's financial ratios in our assessment of financial risk.

We expect financial gearing to earnings to remain stable due to the structure of the company's leasing contracts, with lessees providing sufficient funds to offset the impact of higher market rates and cost inflation. In addition, we expect the company to incur significant capital spending when acquiring new rolling stock or refinancing maturing financial leases on its own balance sheet (see Figure 11). We anticipate maintenance to account for a small proportion of the company's overall capital spending.

Transitio reports according to Swedish GAAP, under which financial leasing contracts are off-balance sheet and payments are recognised in EBITDA. We consider such leasing arrangements to be similar to capital investments, as leased rolling stock would otherwise have to be purchased using debt. Accordingly, we remove leasing payments from EBITDA and treat the payment as a combination of interest costs and depreciation. Further, we add the present value of lease payments to debt.

In our base-case forecast of Transitio's future performance, we assume:

- revenue growth of 22% in 2023, 14% in 2024, and 7% in 2025;
- an unadjusted EBITDA margin of 56–64% through 2025, driven by reduced lease payments;

- capital spending of SEK 1.6bn in 2023, SEK 1.1bn in 2024, and SEK 1.7bn in 2025;
- increased market rates, resulting in an average interest rate of 2.3% in 2023, 2.6% in 2024, and 2.4% in 2025;
- no current taxes through 2025 as a result of transfers to or from untaxed reserves; and
- no dividend payments.

On the basis of these assumptions, we estimate Transitio's financial metrics for 2023–2025 as follows:

- NCR-adjusted net debt to EBITDA between 13.1x and 14.1x;
- NCR-adjusted EBITDA to net interest of 2.7–3.1x; and
- NCR-adjusted FFO/net debt of 4.7–5.2%.

Figure 8. NCR's adjustments to Transitio's credit metrics, 2019–2025e

SEKm	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	180	279	333	390	543	640	746
Leasing costs	190	198	175	124	138	103	44
NCR-adj. EBITDA	370	477	508	514	681	743	790
Net interest	-75	-94	-91	-89	-190	-240	-239
Financial costs from leasing	-48	-37	-25	-36	-43	-32	-15
Interest on retirement benefit obligations	-0	-0	-0	-0	-0	-0	-0
NCR-adj. net interest	-124	-131	-117	-125	-233	-273	-254
NCR-adj. EBITDA	370	477	508	514	681	743	790
NCR-adj. net interest	-124	-131	-117	-125	-233	-273	-254
Current tax*	0	0	0	0	0	0	0
NCR-adj. FFO	246	346	391	389	448	471	536
Changes in working capital	39	-107	39	59	-84	25	-72
Capital spending	-1,107	-2,431	-1,512	-1,436	-1,567	-1,062	-1,662
NCR-adj. FOCF	-822	-2,193	-1,082	-988	-1,203	-566	-1,198
Cash and cash equivalents	376	257	776	446	715	609	379
NCR-adj. cash and equivalents	376	257	776	446	715	609	379
Gross interest-bearing debt	3,179	5,243	6,877	7,524	9,092	9,623	10,620
Leasing liabilities	3,399	2,837	2,169	1,573	1,210	898	86
Retirement benefit obligations	11	13	14	14	14	14	14
NCR-adj. cash and equivalents	-376	-257	-776	-446	-715	-609	-379
NCR-adj. net debt	6,212	7,836	8,283	8,665	9,601	9,925	10,341

Based on NCR estimates and company data. e—estimate. *The company uses accounting appropriations to steer taxes paid to zero.

Figure 9. Transitio NCR-adj. EBITDA and NCR-adj. EBITDA/net interest, 2019–2025e

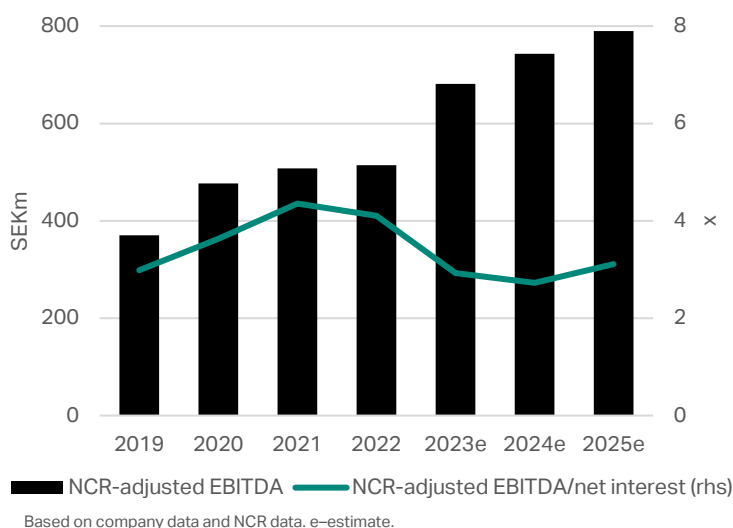
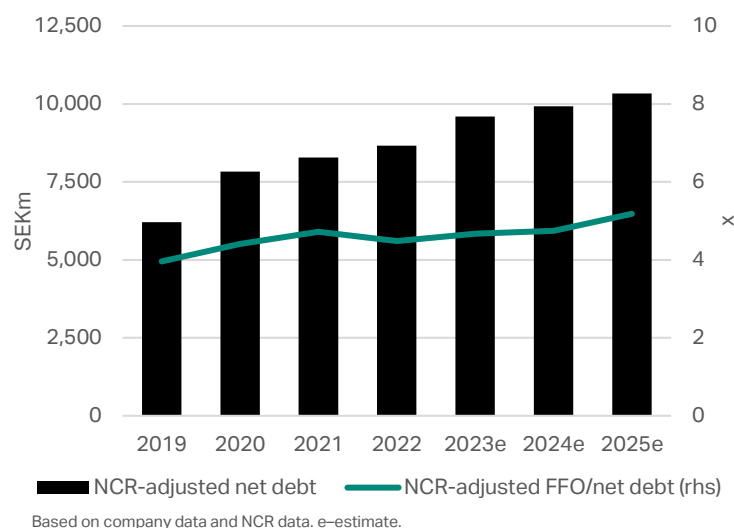


Figure 10. Transitio NCR-adj. net debt and FFO/net debt, 2019–2025e



Ownership operational and financial guarantees significantly reduce financial risk

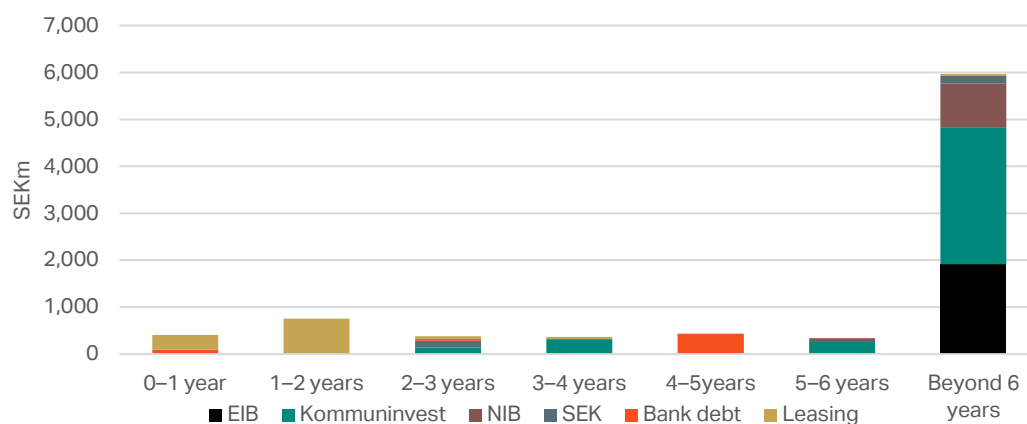
Risk appetite 'aa-'

We assess Transitio's risk appetite as significantly more prudent than warranted by its financial ratios. This is largely attributable to the owners' commercial and financial guarantees for both leasing and loans, which aligns the company's financial strength with that of the owners.

Transitio finances its operations through a mix of loans from the European Investment Bank (EIB), the Nordic Investment Bank (NIB), Kommuninvest, the Swedish Export Credit Corporation (SEK), bank debt, financial leasing arrangements and common equity. The latter constitutes a negligible proportion of funding as the company strives for to achieve complete cost coverage and no profits rather than paying dividends to its owners. Commercial leasing contracts allow Transitio to change lease payments on the basis of projected costs, which hedges the company's exposure to rising interest rates as well as inflation. This allows Transitio to operate with comparatively high leverage in comparison with its peers, but with lower financial risk.

We take a positive view of Transitio's long average debt maturity profile (11.6 years as of 30 Jun. 2023). The company typically repays a large proportion of loan balances before maturity, which reduces refinancing risk. We expect the company to continue to use long-term financing to match its lease commitments to its owners. Refinancing and liquidity risk is negligible given that the owners fully guarantee the company's debt and diverse debt maturities reduce sensitivity to point-in-time financing conditions. In addition, due to Transitio's relationship with its owners, the company has no debt covenants.

Figure 11. Transitio financial leasing and debt maturity profile, 30 Jun. 2023



Source: company. EIB–European Investment Bank. NIB–Nordic Investment Bank. SEK–Swedish Export Credit Corporation.

Transitio measures interest-rate risk as a function of interest cost to projected revenues from a 1pp increase in interbank borrowing rates, which stood at 4.2% as of 31 Dec. 2022 (see Figure 12).

Transitio has some exposure to foreign exchange rate risk, mainly via the euro, because of the international profile of suppliers of rolling stock and related equipment. We believe that the currencies used for international contracts influence the quotes that suppliers can offer on public tenders, irrespective of whether or not the tender is priced in Swedish krona. We see currency risk as limited as Transitio purchases financial instruments to lock in exchange rates when purchasing rolling stock and spare parts. In our view, the Swedish krona is unlikely to depreciate sufficiently to reduce the owners' ability to support the company.

Disposal of rolling stock could result in losses if repricing is unfavourable. However, the residual value is guaranteed by the counterparty in the leasing contract, thereby limiting risk.

Figure 12. Transitio financial policy, NCR-adj. maturity figures and reported figures

Metric	Financial policy	Reported (NCR method) 30 Jun. 2023	Reported (company method) 30 Jun. 2023
Debt maturity*	≥ 2 years	10.3	6.1
Avg. fixed-interest period*	2 ≤ years ≤ 5	1.4	2.6
Interest-rate risk	≤ 10%	n.a.	4.2%**

Source: company. n.a.–not applicable. *Financial policy and company method is based on the non-volume weighted average remaining time to maturity including leasing. **As of 31 Dec. 2022.

ADJUSTMENT FACTORS

Adjustment factors are assessed as neutral and have no effect on the rating.

Liquidity

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect a company with an investment grade rating ('BBB-' or above) to cover its liquidity needs, with limited need for external funding over the coming 12 months.

We assess Transitio's liquidity position as adequate. This is supported by net sources/uses of SEK 521m for the 12 months to 30 June 2024. In stressed conditions, we would expect the owners to honour their contractual commitments and provide the company with sufficient funds to meet all committed capital spending and debt maturities in addition to operational costs.

We estimate the following primary liquidity sources, totalling SEK 1.7bn:

- Unrestricted cash and equivalents of SEK 116m as of 30 Jun. 2023;
- SEK 345m in FFO, equalling 75% of estimated NCR-adjusted FFO over the period;
- SEK 1.1bn in shareholder commitments, equalling debt maturities and committed capital spending; and
- SEK 60m in unutilised credit facilities.

This compared with the following uses of liquidity, totalling SEK 1.1bn:

- SEK 92m in maturing debt and financial leases; and
- SEK 1bn in committed capital spending.

Environmental, social and governance factors

Transitio's environmental, social and governance (ESG) policies support our view of the company's overall business risk and competitive position. In our view, the company is implicitly bound by the ESG practices of Swedish counties due to its ownership structure and role in providing transport infrastructure. Acquisition of rolling stock and spare parts and provision of related services have to undergo a public procurement process, in which the sustainability efforts of bidding contractors are taken into account. We believe this encourages sustainability outside the scope of Transitio's operations. The company aims to have a recycling rate of at least 95% for new acquisitions or rolling

Adjustment factors
neutral

Liquidity adequate

ESG factors adequate

stock. We believe that some peers have come further in their reporting transparency than Transitio, which, in our view, communicates progression towards targets less efficiently.

Transitio aims to increase its level of green financing. In 2022, green financing accounted for 36% of refinancing, with older rolling stock being ineligible for green financing. Transitio seeks to finance at least 75% of new rolling stock with green financing. It was unable to meet this target in 2022 (70%) due to limited possibilities for obtaining green financing for projects started prior to 2016.

We believe that Transitio has an important social role by providing equal accessibility to public transport, and in ensuring passenger safety by minimising technical malfunctioning. The company is indirectly financed by taxes and has a responsibility to ensure that its owners' objectives are met. As a state-related enterprise, we believe that Transitio has greater exposure to risk of corruption relative to private enterprises, although the impact on the company's operations would likely be limited. We would expect a government level investigation in the event of corruption charges arising from public procurement practices.

The main ESG issues that could impact our overall assessment are factors that could contribute to revenue loss, cost increases, higher capital spending, reputational damage and deteriorating financing terms (see Figure 13).

Figure 13. Transitio ESG considerations

Issue	Risk	Mitigating efforts	Result
CO ₂ emissions and other greenhouse gases	Increased costs due to regulatory and/or taxation changes. Regulatory changes could trigger increased capital spending.	Integration of environmental impact, energy efficiency and other evaluation metrics for public tenders.	The company does not report on its CO ₂ emissions or related targets, but considers environmental impacts in its policies. Most emissions are likely to be indirect, Scope 3 emissions.
Corruption and fraud	Reputational risk, risk of loss of business and bribery fines.	Code of conduct and public procurement policy. The company repeatedly raises awareness about countermeasures for corruption among employees.	The company has no incidents since creation.
Increased environmental focus on financial markets	Adverse effect on financing possibilities or higher financing costs.	Efforts to reduce CO ₂ emissions and encourage improved resource utilisation. New acquisitions of rolling stock should have a recycling rate above 95%.	Increased proportion of green financing for new rolling stock.

Source: company. See [ESG factors in corporate ratings](#).

OWNERSHIP ANALYSIS

Ownership positive

We raise the long-term issuer rating by two notches to reflect Transitio's active management by its owners and replaceable policy role. The company is owned directly and indirectly, through county-owned operators, by 20 Swedish counties, with each owner having a 5% stake. Only the island county of Gotland is not an owner. In our view, Swedish counties are strong owners with significant financial capacity to support the company, if necessary, given Transitio's policy role in the provision of public transport infrastructure.

We see Transitio's policy role as replaceable, reflected in part by the high volume of county-owned rolling stock, and we would expect counties to issue public tenders independently in the absence of a centralised entity for procurement. The shareholder agreement stipulates that owners should extend guarantees to provide full coverage for leasing-related costs and loss exposure when undertaking a leasing contract through Transitio. However, each county, or group of counties, only guarantee individual loan contracts, and since 2012 there has been no mutual, cross-region guarantee for all

loans. We view the counties' loan guarantees as timely and legally-binding. Owners have an active role in the management of the company through board participation. In aggregate, we see these factors as indicative of a high likelihood of ownership support, if necessary.

ISSUE RATINGS

As of 30 Jun. 2023, the company had no outstanding capital market debt instruments. If Transitio were to issue senior unsecured debt, the issue rating would likely be one notch higher than the issuer rating at 'AA'. This reflects our expectations that capital market instruments will have similar irrevocable, unconditional, and timely guarantees as those provided by the owners on Transitio's existing loans. We would therefore align the issue rating with our assessment of the creditworthiness of the relevant guarantor (or guarantors). In the absence of a methodology for rating sub-sovereign entities, we would expect to limit any uplift to one notch.

METHODOLOGIES USED

- (i) [Corporate Rating Methodology](#), 8 May 2023.
- (ii) [Rating Principles](#), 24 May 2022.
- (iii) [Group and Government Support Rating Methodology](#), 18 Feb. 2022.

Figure 14. Transito key financial data, 2019–2022

SEKm	2019	2020	2021	2022
INCOME STATEMENT				
Revenue	559	700	787	786
Cost of goods sold	-294	-339	-351	-310
Sales, general & admin. expenses	-85	-82	-103	-87
EBITDA	180	279	333	390
Depreciation	-109	-182	-234	-325
Net financial items, including appropriations	-72	-97	-99	-65
Pre-tax profit	-0	-0	-0	-0
Net profit	-0	-0	-0	-0
BALANCE SHEET				
Property, plant and equipment	2,416	4,666	6,632	7,720
Other non-current assets	961	809	61	64
Total non-current assets	3,378	5,475	6,693	7,784
Cash and cash equivalents	376	257	776	446
Total current assets	587	499	1,004	689
Total assets	3,965	5,974	7,697	8,474
Total equity	19	19	19	19
Long-term interest-bearing loans	2,961	4,895	5,816	7,192
Total non-current liabilities	3,142	5,097	6,082	7,513
Total current liabilities	803	858	1,596	942
Total equity and liabilities	3,965	5,974	7,697	8,474
CASH FLOW STATEMENT				
Pre-tax profit	-0	6	11	-20
Operating cash flow	157	108	353	454
Cash flow from investment activities	-1,107	-2,431	-1,463	-1,419
Cash flow from financing activities	982	2,203	1,628	635
Cash and cash equivalents at beginning of year	344	376	257	776
Cash flow for year	33	-119	519	-330
Cash and cash equivalents at end of year	376	257	776	446

Source: company.

Figure 15. Transio rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	a
Market position	10.0%	a
Size and diversification	10.0%	bb
Operating efficiency	10.0%	a
Business risk assessment	50.0%	a-
Ratio analysis		b
Risk appetite		aa-
Financial risk assessment	50.0%	a+
Indicative credit assessment		a
Liquidity		Adequate
ESG		Adequate
Peer calibration		Neutral
Stand-alone credit assessment		a
Support analysis		+2 notch
Issuer rating		AA-
Outlook		Stable
Short-term rating		N1

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