FitchRatings

Hamburger Hochbahn AG

The affirmation of Hamburger Hochbahn AG's (Hochbahn) Issuer Default Ratings (IDRs) reflects its government-related entity (GRE) support score of 40. This in turn reflects an extraordinary support score from the State of Hamburg (AAA/Stable) assessed as 'Extremely Likely' under our *GRE Rating Criteria* and our assumption of no changes in Hochbahn's legal status tantamount to a guarantee allowing equalisation of its ratings with its sponsor, irrespective of the GRE factors assessment.

Fitch Ratings has revised Hochbahn's Standalone Credit Profile (SCP) to 'bbb' from 'bb' under its updated *Public Policy Revenue-Supported Rating Criteria*.

Key Rating Drivers

Support Score Assessment – 'Extremely Likely': We consider that an extraordinary support from Hamburg would be 'Extremely Likely' in case of need, reflecting a score of 40 out of 60 under our *GRE Criteria*.

Factors relative to the 'Responsibility of Support' are both assessed as 'Very Strong', reflecting the tight control from its owner and the support mechanisms it benefits from the state, including the profit-and-loss transfer agreement. Factors relative to the 'Incentive to Support' are both assessed at 'Strong', reflecting Hochbahn's essential public service provided for the regional economy and the contagion risk on other GREs if it were to default on its debt.

Standalone Credit Profile – 'bbb': Hochbahn's SCP has been revised from 'bb' to 'bbb' and reflects the combination of a 'Stronger' risk profile and a financial profile assessed in the middle of the 'bb' category, especially a leverage ratio (net adjusted debt/EBITDA) expected at 16.3x in 2028 according to our rating-case scenario (2023: 16.5x). We also expect a debt service coverage ratio of 1x ('bb' category) and a gross interest coverage ratio of 2.2x ('bbb' category) in 2028.

Public Finance
Government-Related Entities
Germany

Ratings

Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Debt Ratings

Senior Unsecured Debt - Long-Term Rating	AAA

Issuer Profile Summary

HOCHBAHN provides local transportation services via its metro lines and buses, serving 1.85 million people in Hamburg and 3.5 million people in the metropolitan region. Its service area covers 755 sq km (Hamburg) and 8,616 sq km (metropolitan region).

Financial Data Summary

(EURm)	2023	2028rc
Net adjusted debt/EBITDA (x)	16.5	16.3
EBITDA/gross interest coverage (x)	3.9	2.2
Operating revenue	984	1,146
EBITDA	88	145
Net adjusted debt	1,458	2,364
Total assets	2,134	-

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Applicable Criteria

Public Policy Revenue-Supported Entities Rating Criteria (January 2024)

Government-Related Entities Rating Criteria (July 2024)

Related Research

Fitch Affirms Hamburger Hochbahn AG at 'AAA'; Outlook Stable (July 2024)

State of Hamburg (December 2023)

Analysts

Guido Bach
+49 69 768076 111
guido.bach@fitchratings.com

Stefanie Wezel
+49 69 768076 102
stefanie.wezel@fitchratings.com

Rating Synopsis

Hamburger Hochbahn AG Rating Derivation

Summary	
Government LT IDR	AAA
GRE Standalone Credit Profile (SCP)	bbb
Support category	Extremely likely
Notching expression	Top down -1
Single equalisation factor	Yes
GRE LT IDR	AAA

GRE Key Risk Factors and Support Score	
Responsibility to support	20
Decision making and oversight	Very Strong
Precedents of support	Very Strong
Incentives to support	20
Preservation of government policy role	Strong
Contagion risk	Strong
Support score	40 (max 60)

Standalone Credit Profile	
Risk profile	Stronger
Revenue risk	Stronger
Expenditure risk	Stronger
Liabilities and liquidity risk	Stronger
Financial profile	bb
Qualitative factors adjustments	Neutral
GRE SCP	bbb

Distance \ Support score	>=45	35-42.5	30-32.5	20-25	15	12.5	<=10
-2	0	0	0	+1	S-A	S-A	S-A
-3	0	0	-1	+1	S-A	S-A	S-A
-4	0	-1	-2	+1	S-A	S-A	S-A
-5	0	-1	-2	+2	+1	S-A	S-A
-6	0	-1	-2	+3	+2	+1	S-A
-7	0	-1	-2	+4	+2	+1	S-A
-8	0	-1	-2	+4	+3	+1	S-A
-9	0	-1	-2	+5	+3	+1	S-A
-10	0	-2	-3	+5	+3	+1	S-A
-11	-1	-2	-4	+5	+3	+1	S-A
-12	-1	-3	-4	+5	+3	+1	S-A
-13	-2	-3	-5	+5	+3	+1	S-A

Stylized Notching Guideline Table: refer to GRE criteria for details

Analytical Outcome Guidance Table

Risk profile	Financial profile					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome	aaa	aa	a	bbb	bb	b

Government LT IDR	GRE SCP	GRE LT IDR
AAA	aaa	AAA
AA+	aa+	AA+
AA	aa	AA
AA-	aa-	AA-
A+	a+	A+
A	a	A
A-	a-	A-
BBB+	bbb+	BBB+
BBB	bbb	BBB
BBB-	bbb-	BBB-
BB+	bb+	BB+
BB	bb	BB
BB-	bb-	BB-
B+	b+	B+
B	b	B
B-	b-	B-
CCC+	ccc+	CCC+
CCC	ccc	CCC
CCC-	ccc-	CCC-
CC	cc	CC
C	c	C
RD	rd	RD
D	d	D

LT IDR – Long-Term Issuer Default Rating; GRE – Government-related entity
Source: Fitch Ratings

Fitch views Hochbahn as a GRE of Hamburg, as it believes Hochbahn's direct owner, HGV – Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV), has a neutral role in terms of extraordinary support provision. We have consequently looked beyond the chain of control and the rating reflects Hochbahn's strong link to its ultimate government owner and the high likelihood of extraordinary state support in case of financial distress.

The assessment of the four extraordinary support factors under Fitch's *GRE Rating Criteria* results in a score of 40 out of a maximum of 60 and support assessed as 'Extremely Likely'. This would lead to HOCHBAHN being rated one notch below the IDR of Hamburg, as Hochbahn's SCP of 'bbb' is eight notches below Hamburg's rating of 'AAA'. However, Hochbahn's IDR is equalised with that of Hamburg as its legal status is tantamount to a guarantee, irrespective of its GRE assessment.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- The rating is the highest level on Fitch's rating scale and cannot be upgraded.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A weakening of the legal status leading to reduced confidence on the government guarantee and loosening links between Hochbahn and Hamburg, including a perceived dilution of support, could lead to a downgrade of the ratings to one notch below Hamburg's ratings.

Negative rating action on Hamburg would be reflected in Hochbahn's ratings, assuming that their links are unchanged.

Issuer Profile

Hochbahn was established 1911 as a stock-holding company according to German Law and is wholly owned by the city-state of Hamburg via HGV. HOCHBAHN provides local public transport services to 1.85 people in Hamburg and 3.7 million people in the metropolitan region, covering 755 sq km and 8,616 sq km, respectively. It is one of the leading local public transport companies in Germany, with its four metro lines and 114 bus lines used by 1.2 million people on a daily basis, covering over half of all local public transport services and employing 6,645 people. On 27 November 2019, HOCHBAHN signed a direct award of a service contract (Direktvergabe), allowing it to provide bus services for an additional 10 years and metro services for 22.5 years.

Hamburg sees Hochbahn as core to meeting the growing demand for public transport in the state and for achieving its climate goals by 2030. Hamburg aims to establish supply-driven local services, ensuring that its citizens have access to public transport within five minutes. This should increase the share of public transport in Hamburg to 30% from

22% by 2030, which may double the bus services provided within the transport association Hamburger Verkehrsverbund[1] (HVV). Of these, Hochbahn will operate about 67%, which will mean a 2,000 increase in staff.

The four metro lines have 93 stops and 929 trains covering 1,278 million km and moving almost 245 million people annually. Bus services includes more than 1,000 buses, 1,466 stations, 114 bus lines covering 746 million km and moving more than 224 million people annually. Hamburg aims to have an emission-free bus fleet by 2030.

HOCHBAHN – Ownership Structure

Source: Fitch Ratings, Hochbahn

Support Rating Factors

Summary

Responsibility to support		Incentives to support			
Decision making and oversight	**Precedents of support**	**Preservation of government policy role**	**Contagion risk**	**Support score**	**Support category**
Very Strong	Very Strong	Strong	Strong	40 (max 60)	Extremely Likely

Source: Fitch Ratings

Decision Making and Oversight

Fitch's assessment reflects Hamburg's full ownership via HGV and the company's role as the largest local public transport provider in Hamburg with a market share of about 47% in 2023. Hamburg is the public transport provider, so it controls Hochbahn, similar to its administrative units. Hochbahn's management board consists of four members that are appointed by its supervisory board, ensuring Hamburg largely controls Hochbahn.

As the company operates under private/commercial law, Hochbahn could be subject to bankruptcy proceedings. However, based on its control and the profit-and-loss transfer agreement between HGV and Hochbahn, this is very unlikely. In case of bankruptcy, the contract would need to be terminated and, based on German equity law, HGV would need to provide security to Hochbahn's creditors. Consequently, we view a liquidation of Hochbahn as very unlikely and assume additional support prior to a default as highly likely.

Hochbahn is wholly owned by Hamburg via HGV. HGV is a group holding of Hamburg, which combines a large part of Hamburg's GREs and shareholdings. Hochbahn is also manager of the local network infrastructure. It has a strategic

[1] HVV is a transport association, comprising Hamburg and neighbouring areas in the German States of Schleswig-Holstein and Lower Saxony (both 'AAA'/Stable), founded on 29 November 1965. Transportation services are provided by 29 companies, such as Hochbahn, S-Bahn Hamburg AG, DB Regio und Start Unterelbe GmbH, VHH, HADAG etc. HVV is owned by its local and regional governments responsible for providing public transport in the service area. It is 85.5% owned by the State of Hamburg, 3% by Schleswig-Holstein, 2% by Lower Saxony and the remainder is owned by counties in the neighbouring areas of Hamburg.

role in Hamburg's local transportation and environmental planning policy. HOCHBAHN's financial figures are consolidated in Hamburg's group accounts. Based on a directive for public passenger transport services,

We view HGV as an organisational unit, but that Hamburg is ultimately liable for Hochbahn. It is the largest local public transport provider in Hamburg with a market share of about 47% in 2023 (calculated by revenue distribution). Hochbahn provides bus and metro services almost entirely within Hamburg. Hochbahn has a market share of almost 87.3%, and its only competitor is Verkehrsbetriebe Hamburg-Holstein (VHH; another GRE 100% owned by Hamburg), which holds the remaining 12.7% (calculated by revenue distribution). Hochbahn is also manager of the local network infrastructure. It has a strategic role in Hamburg's local transportation and environmental planning policy.

Hochbahn's financial figures are consolidated in Hamburg's group accounts. Based on a directive for public passenger transport services, Hamburg is the public transport provider and has control over Hochbahn, similar to its administrative units. In 2009, Hamburg put Hochbahn in charge of providing its public transport services. This was renewed in 27 November 2019, including metro and bus services with a tenor of 22.5 and 10 years, respectively.

The management board consists of four members that are appointed by the supervisory board. Hamburg has eight members in the 16-member supervisory board, including one representative of HGV and one from Hamburg's finance department. This ensures Hamburg largely controls Hochbahn.

Precedents of Support

Hochbahn is the most important transport provider in Hamburg, ensuring mobility even in remote areas, providing essential services for the public (Daseinsvorsorge), including provision of lines that are not profitable. Consequently, Hochbahn and Hamburg agreed on a profit-and-loss transfer agreement, which ensures annual deficit compensation (Fehlbetragsausgleich) by Hamburg. Under this agreement, Hochbahn is eligible for and receives consistent support from its owner covering its losses.

Hochbahn further receives funding for its investments. According to its business plan, it will invest EUR3,493 million in 2024-2028 and about 50% of its overall investments are supported. Hochbahn also has a cash pooling agreement with its owner. This means Hochbahn is not reliant on credit lines with financial institutions, but can access liquidity from HGV, preventing it lacking liquidity in case of need.

Hochbahn is not subject to EU competition rules and there are no restrictions on government support, following Hamburg prompting Hochbahn to meet the requirements for a direct award of a service contract. The agreement was signed with Hochbahn on 27 November 2019. The respective passenger transport act further ensures that Hochbahn is protected from competition for the entire duration of this contract.

Hamburg prompted Hochbahn and VHH to meet the requirements for a direct award of a service contract in line with the EU provision No. 1370/2007 in 2014. Hochbahn and VHH are both in compliance with this provision and the agreement was signed with Hochbahn on 27 November 2019. The respective passenger transport act further ensures that Hochbahn is protected from competition for the entire duration of this contract. This means that local public transport in Hamburg is provided by consolidated GREs based on exclusive special provisions for services for the public and is in line with the law for granting aid and EU competition law.

Hochbahn is the most important transport provider in Hamburg, ensuring mobility even in remote areas, providing essential services for the public. To ensure mobility in Hamburg and its metropolitan area, HOCHBAHN needs to operate lines that are not profitable. Due to this, Hochbahn and Hamburg agreed on a profit-and-loss transfer agreement, which ensures annual deficit compensation by Hamburg. Under this agreement, Hochbahn is eligible for and receives consistent support from its owner covering its losses.

Hochbahn further receives funding for its investments. According to Hochbahn's business plan, it will invest EUR3,493 million in 2024-2028. Investment grants may differ in their purpose, but according to Hochbahn, about half of its overall investments are supported.

Finally, Hochbahn has a cash pooling agreement with its owner. This means Hochbahn is not reliant on credit lines with financial institutions, but can access liquidity from HGV, preventing Hochbahn from lacking liquidity in case of need.

Preservation of Government Policy Role

A financial default would not materially affect the provision of Hochbahn's core services, in Fitch's view and its activities should remain operative. The 'Strong' assessment is therefore driven by Hochbahn's unique, not-for-profit-role on behalf of its owner, the City of Hamburg. Considering Hochbahn's long history of and being owning the transport infrastructure including service pints for the trains and busses alongside its service network, it will be very difficult to substitute Hochbahn by a private company. Hochbahn's services provided include non-profitable services, it reports ongoing deficits covered by a profit-and-loss transfer agreement and there are long-term service contracts in place.

Hochbahn is also embedded in Hamburg's holding structure and providing a key economic activity to ensure mass transport within one of the largest cities in Germany and is an essential part for Hamburg achieving its climate goals. Given this, Fitch believes Hamburg would not allow a bankruptcy of Hochbahn and would provide the necessary means to rather avoid a default and force a restructuring of HOCHBAHN if it defaulted.

Contagion Risk

Hochbahn has incurred debt, is high profile for its government and has no financial tensions. The company is currently extending its service area and converting its transport fleet to emission-free. This requires debt-funded investments, including a green bond issue done in 2021.

If Hochbahn defaulted on its debt, it would not necessarily affect Hamburg in terms of refinancing costs, but since Hamburg reports group accounting and all its shareholdings are grouped under HGV, we assume the borrowing capacity of the remaining GREs would be significantly impaired. However, Hochbahn is not a reference issuer for Hamburg, as the city has much more established access to the capital market with much lower funding costs, limiting our view of Contagion Risk to 'Strong'.

Hochbahn provides essential public services. It is key for one of the city's most important projects, Hamburg-Takt, which aims to move to supply-driven public transport from demand-driven. With this project, Hamburg aims to ensure that its citizens are able to reach transport within five minutes and to reduce private transport. Hamburg aims to increase the share of public transport by 8% to 30% in 2030 from 22% in 2017. According to Hochbahn, this would mean a 50% increase in its annual customers.

Hochbahn is core to Hamburg achieving its climate goals, including the conversion of its transport fleet to emission-free. Hochbahn is leading a central government-supported project to test digital mobility solutions. Hochbahn receives subsidies for Hamburg-promoted investments, which requires it to increase its debt; we believe Hamburg is very likely to support Hochbahn, if needed.

Other Support Factors Considerations

Hochbahn's rating equalisation with Hamburg reflects our view that its legal status is tantamount to a guarantee. This is based on a profit-and-loss transfer agreement ensuring annual deficit compensation by Hamburg; the issuer's access to Hamburg's liquidity via cash pooling with HGV and that Hochbahn is excluded from competition based on its existing direct service agreement with Hamburg of 10 years (bus services) and 22.5 years (metro services). Consequently, there are no restrictions on support from its owner.

Standalone Credit Profile Assessment

Hochbahn's 'bbb' SCP results from a combination of a risk profile assessed as 'Stronger' and a financial profile assessed in the middle of the 'bb' category, particularly given an expected leverage ratio of 16.3x in 2028 under our rating case. Our financial profile assessment of Hochbahn remains is unchanged from the last review, but the upward revision of the SCP is driven by the updated *Public-Policy Revenue Supported Rating Criteria*, considering a risk profile which we assess at 'Stronger'.

Risk Profile Assessment

Summary

Revenue risk	Expenditure risk	Liabilities and liquidity risk	Operating environment score	Risk profile
Stronger	Stronger	Stronger	aa	**Stronger**

Source: Fitch Ratings

Fitch assesses Hochbahn's risk profile at 'Stronger', reflecting the following combination of assessments:

Revenue Risk: Stronger

Our assessment of Revenue Risk is driven by demand characteristic assessed at 'Stronger' and pricing assessed at 'Midrange'.

Hochbahn is the dominant provider of local transport (metro and bus services) and free from competition. The company had more than 468 million passengers in 2023, a significant increase from 388 million in 2022, marking a return to pre-pandemic levels. We believe demand for public transport is increasing, given the city's dynamics and envisaged population growth. Considering Hochbahn's role in supporting Hamburg climate goals targets, passenger growth will also come from the targeted reduction of cars in the city and Hochbahn's extension of services, like the construction of a new metro line.

Our assessment of pricing reflects a contractual framework enabling Hochbahn to adjust prices depending on changes in costs for staffing and maintenance. These adjustments are subject to political discussions, but Hochbahn is usually compensated for inflationary trends. We assume tariff changes are unlikely to drive demand.

However, considering its not-for-profit role and its supportive nature of its services, Hochbahn can't set prices to a level covering all its operating costs and although cost increase may not largely affect demand, the ticket prices should remain at affordable levels reflected in Hochbahn's existing profit-and-loss transfer agreement with its owner.

Fitch considers Hochbahn's revenue to be demand-based. It has demonstrated a lower-volatility user-based demand and we expect demand to decline marginally in an economic downturn. The Covid-19 pandemic resulted in a large decline of passengers, but we view this to be an extraordinary event where the population was forced to stay home not reflecting the ordinary economic cycles Hochbahn is facing.

Hochbahn has further a quite diverse customer base with no meaningful concentration of customers. Considering the ongoing growth of the city in terms of population and the city's goals to have a car free inner city to comply with the climate goals, the number of passengers is likely to increase further and the usage should reflect the entire population profile.

Demand growth is expected to remain strong due to the strong growth prospects in the region, with Hamburg being one of the most dynamic economic regions in Germany, accounting for the by far highest GDP per capita among all German states. We further view Demand not to be influenced by competition. Hochbahn is not subject to EU competition rules and there are no restrictions on government support. Hochbahn's bus and metro services are based on a direct service agreement with Hamburg, restricting any form of competition. The tenor is 10 years for the bus lines and 22.5 years for the metro lines. Given this, Hochbahn has an ensured and stable customer base, which is likely to increase further, as stated above.

Considering the high involvement of its owner and its services provided for the public, we view Hochbahn has neither the independent ability and full flexibility to collect revenue sufficient to cover all costs through increases in tariffs nor embedded in a highly supportive regulatory regime aiming to maintain compensation for services at a level consistently beyond solvency of the entity. Hochbahn's services are loss-making, as Hochbahn provides services even in very remote areas with low usage. It maintains these services to ensure any citizen is within five minutes' walk of a public transport connection, as laid out in its "Hamburg-Takt" strategy. To support public transport, Hamburg has entered into a profit-and-loss transfers agreement, which covers Hochbahn's losses and provides affordable public transport means to its population.

Revenue Breakdown Excluding Non-Cash Items, 2023

	(EURm)	% of operating revenue
Revenue from core business	588	62
Transfers from the government	295	31
Other operating revenue	60	6
Operating revenue	**943**	**100**
Interest revenue	9	-
Capital revenue	-1	-
Memo: Non-cash operating revenue	41	-

Note: Figures may not tally due to rounding.
Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Expenditure Risk: Stronger

Our assessment of Expenditure Risk reflects operating costs and supply risk and investment planning assessed as 'Stronger'.

Based on the profit-and-loss transfer agreement with its owner, there is a full pass through of operating costs, supply and volume risk to a financially strong counterparty. Hochbahn has well-identified cost drivers and low potential volatility on major items. However, Hochbahn reports ongoing deficits due to the supportive nature of its services provided to the public.

Hochbahn's investment planning has strong mechanisms for planning and funding and its investments benefit from clearly-documented construction plans with very limited execution risk. The expected economic life is significantly beyond the company's debt maturity.

Staffing costs made up around 48% of Hochbahn's operating costs in 2023. This share has been stable since 2018, when it accounted for 49% of opex. Service and maintenance costs accounted for another 41% of opex in 2023 (2018: 45%). Both items are pretty predictable and not subject to larger fluctuations. The growth of opex of 9.2% in 2018-2023 was balanced by a revenue growth of 9%. We expect these cost items to receive less pressure as the long-term strategy of Hochbahn focuses on automated transport with lower staff involvement and the modernisation of the fleet towards emission-free driving to make Hochbahn less dependent towards fuel prices, while the company may be better able to manage power costs.

Hochbahn's investment plan is subject to frequent updates and Hochbahn aims to invest EUR3.5 billion in 2024-2028, focused on an extension of a current metro line and the construction of a new one, modernisation of its fleet and the electronation of its bus service points. According to the issuer, roughly half of its investments get supported.

Expenditure Breakdown Excluding Non-Cash Items, 2023

	(EURm)	% of operating expenditure
Staff costs	413	48
Goods & services and maintenance costs	353	41
Other operating expenditure	89	10
Operating expenditure	**855**	**100**
Interest expenditure	23	-
Capital expenditure	193	-
Memo: Non-cash operating expenditure	123	-

Note: Figures may not tally due to rounding.
Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Liabilities and Liquidity Risk: Stronger

This assessment reflects Debt Characteristics and Liquidity Characteristics assessed as 'Stronger'.

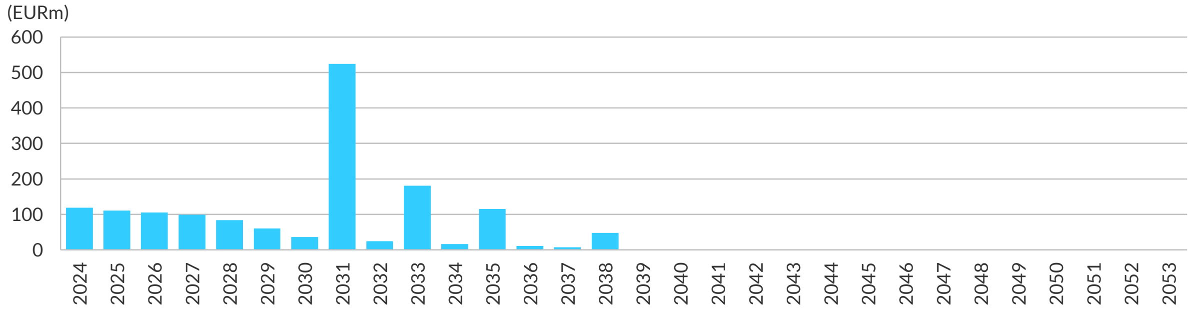
Hochbahn is embedded in a developed financial market and a solid national framework for debt and liquidity management. We view Hochbahn 's debt profile as 'Stronger', reflected in a smooth and long-term repayment profile and an average life of debt at seven years at end-2023. Hochbahn is not exposed to FX risk or floating interest rate risk and has almost no off-balance-sheet risks.

Our assessment of Hochbahn's liquidity risk is driven by its strong established liquidity support mechanism. Hochbahn has a cash-pooling agreement with its owner via HGV. Under this, Hochbahn is eligible for liquidity support from its owner at any time and can request short-term liquidity if required.

Hochbahn's total debt increased considerably to EUR1,541 million in 2023 from EUR458 million in 2015 and the corresponding leverage ratio weakened to 16.5x from 6x. The high leverage is likely to persist considering the amount of investments Hochbahn has to undertake to fulfil the aforementioned goals by Hamburg. Hochbahn's current debt is entirely made of amortising bank loans with no concentration, currency and interest-rate risk. To diversify its funding mix and its increasing funding needs, Hochbahn issued its first green bond (EUR500 million) in 2021. The issue received high demand and was oversubscribed seven times. The 10-year issue changed Hochbahn's maturity profile towards some refinancing risk; previously, its debt consisted entirely of amortising loans. The bond has a low interest rate of 0.125% and we view this issue as positive as it expands Hochbahn's access to funding.

Hochbahn has a low level of liquidity with unrestricted cash amounting to just EUR82 million at end-2023. A large amount of its annual debt maturities is uncovered, with available credit lines amounting to EUR8 million only. However, we believe this low level of liquidity is not a risk, as Hochbahn has access to Hamburg's liquidity via cash-pooling with HGV.

Debt Repayment Profile (As of End 2023)



Source: Fitch Ratings, Hamburger Hochbahn

Debt and Liquidity Analysis

	End-2023
Total debt (EURm)	1,541
Cash and liquidity available for debt service (EURm)	82
Undrawn committed credit lines (EURm)	8
Debt in foreign currency (% of total debt)	0.0
Debt at floating interest rates (% total debt)	0.0
Short-term debt (% of total debt)	8.4
Issued debt (% of total debt)	52.5
Government-related debt (% of total debt)	0.0
Debt guaranteed by government (% of adjusted debt)	0.0
Apparent cost of debt (%)	0.8
Weighted average life of debt (years)	7.0

Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Financial Profile Assessment

Hochbahn 's passenger volume returned to pre-pandemic levels in 2023 and we expect it to increase further in line with the city's dynamic economy and its efforts to reduce traffic in the (inner) city. This should translate into an increase in its EBITDA to EUR145 million in 2028 under our rating case (2023: EUR88 million). However, we expect Hochbahn's debt to increase to over EUR2.5 billion by 2028 from EUR1.54 billion, considering the company's high spending needs, reflected in its medium-term investment plan 2024-2028. This will result in a still higher leverage of 16.3x by 2028 (2023: 16.5x), which remains in line with the financial profile assessment of 'bb'.

Peer Comparison

	Risk Profile	Financial Profile	SCP	Support Category	Single Equalisation Factor	LT IDR
Hamburger Hochbahn AG	Stronger	bb	bbb	Extremely likely	Yes	AAA (Sta)
Regie Autonome des Transports Parisiens (RATP)	High midrange	bbb	bbb+	Virtually certain	No	AA- (Sta)
Ile-de-France Mobilites	Stronger	bb	bbb+	Extremely likely	No	A+ (Pos)
Azienda Trasporti Milanesi SpA	High midrange	aa	a	Extremely likely	No	BBB (Sta)
Trentino Trasporti	-	-	n.a.	Extremely likely	Yes	A- (Sta)
Gdanskie Autobusy i Tramwaje Sp. z o.o.	Midrange	bbb	bb+	Extremely likely	No	n.a.
Transport for London	Stronger	bbb	a	Extremely likely	No	AA- (Sta)

Source: Fitch Ratings

The rating case incorporates additional stress on opex by 0.4% on average a year for 2025-2028, driven by additional stress of 1% applied to Hochbahn's salaries. No stress applied to its routine and maintenance costs, as we assume this cost item to have sufficient stress based on the issuer assumptions. We also put no additional stress to the cost of debt, as we deem 2.4% incorporating a sufficient amount of stress considering the current cost of debt at 0.8%.

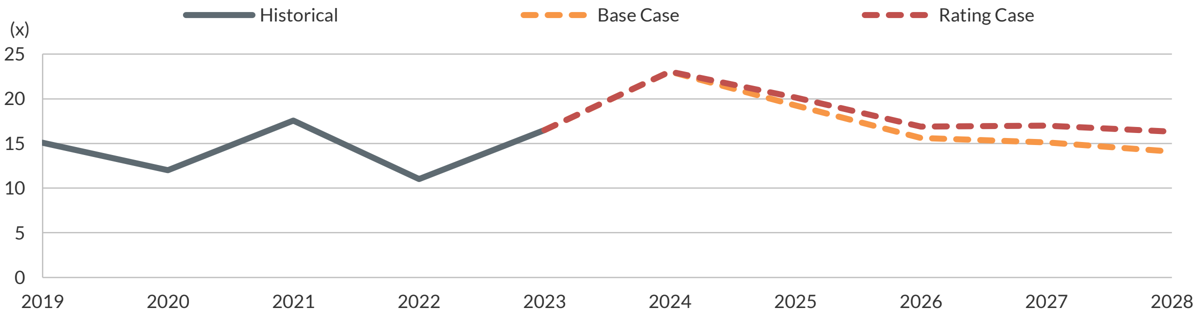
Fitch's Base and Rating Cases – Main Assumptions and Outcomes

		2024-2028 average	
Assumptions	Five-year historical average	Base case	Rating case
Operating revenue growth (%)	9.0	4.0	4.0
Transfers from public sector growth (%)	42.1	8.0	8.0
Operating expenditure growth (%)	9.2	2.8	3.2
Net capital expenditure (average per year, EURm)	-222	-252	-252
Apparent cost of debt, 2023 (%)	0.8	2.4	2.4

		2028	
Outcomes	2023	Base case	Rating case
EBITDA (EURm)	88	164	145
Net adjusted debt (EURm)	1,458	2,316	2,364
Net adjusted debt/EBITDA (x)	16.5	14.1	16.3

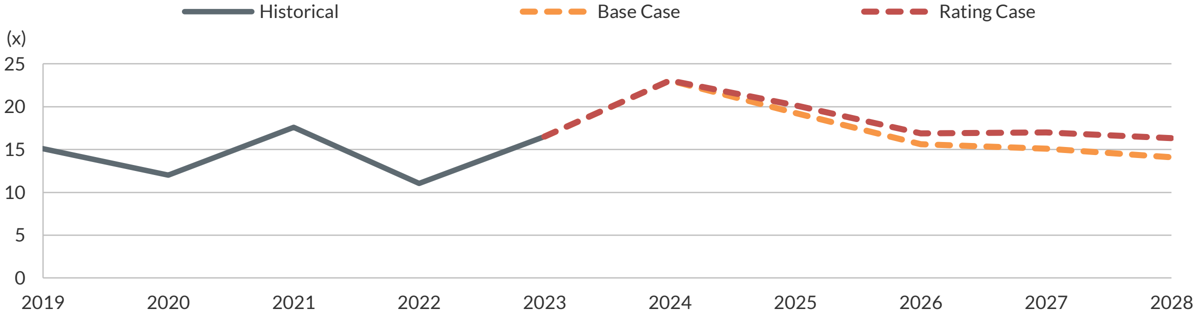
Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Net Adjusted Debt/EBITDA - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Net Adjusted Debt/CFADS - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Additional Risk Factor Considerations

Asymmetric Risk Considerations

Management and Governance	Accounting Policies, Reporting and Transparency	Country Risk and Legal Regime	Asymmetric Risk Impact (notches)
Neutral	Neutral	Neutral	No

Source: Fitch Ratings

Hochbahn's SCP is not affected by any asymmetric risk. Debt structure is sound. At end-2023, 100% of the reported debt was at fixed rates. The average maturity was seven years and the debt amortisation schedule is relatively smooth until 2031, when its EUR500 million green bond will needs to be refinanced. Hochbahn is not exposed to foreign-exchange risk. Fitch believes Hochbahn benefits from good management and governance, a strong regulatory framework and good information quality, making related risks neutral to the rating.

Short-Term Rating Derivation

Hochbahn's Short-Term IDR of 'F1+' maps to its Long-Term IDR.

Debt Ratings

The senior unsecured rating of 'AAA' is at the same level as Hochbahn's Long-Term IDR.

Peer Analysis

Hochbahn's IDR benefits from its legal status tantamount to a guarantee, its monopolistic position and a solid revenue framework, all of which help to explain the rating approach difference from the peers. Hochbahn's closest peers are RATP, Transport for London (AA-/Stable) and Azienda Trasporti Milanesi SpA (BBB/Stable). Transport for London's lower GRE score is mostly due to the lower expectation of support. Azienda Trasporti Milanesi's lower GRE score is due to its private law status and the weaker financial implications of default for its sponsor.

Criteria Variation

None.

Financial Adjustments

Fitch's adjusted debt includes Hochbahn's short-term debt (EUR130 million at end-2023) and long-term debt (EUR1,411 million).

Fitch's net adjusted debt corresponds to the difference between Fitch-adjusted debt and the cash at the end of the year viewed as unrestricted by Fitch (2023: EUR82 million).

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix A: Financial Data

Hamburger Hochbahn AG

(EURm)	2019	2020	2021	2022	2023
Income statement					
Operating revenue	687	734	776	869	984
Operating expenditure	-673	-717	-762	-846	-977
Interest revenue	0	0	0	0	9
Interest expenditure	-23	-22	-20	-13	-23
Other non-operating items	10	6	7	1	9
Taxation	0	-1	-1	-2	-1
Profit (loss) after tax	0	0	0	9	0
Memo: Transfers and grants from public sector	69	113	151	162	295
Balance sheet summary					
Long-term assets	1,410	1,499	1,648	2,045	1,848
Stakes (equity investment)					
Stock	25	27	33	54	40
Trade debtors	60	67	370	239	158
Other current assets	24	23	20	25	6
Total cash, liquid investments, sinking funds	10	86	17	9	82
Total assets	1,529	1,701	2,088	2,372	2,134
Long-term liabilities	1,266	1,254	1,636	1,799	1,585
Trade creditors	81	264	269	336	227
Other short-term liabilities	15	16	15	160	155
Charter capital	167	167	167	162	89
Reserves and retained earnings	0	0	0	-87	79
Minority interests	0	0	0	2	0
Liabilities and equity	1,529	1,701	2,088	2,372	2,134
Net equity	167	168	168	77	167
Debt statement					
Short-term debt	0	0	0	136	130
Long-term debt	1,065	1,051	1,455	1,213	1,411
Total debt	1,065	1,051	1,455	1,349	1,541
Other Fitch-classified debt					
Adjusted debt	1,065	1,051	1,455	1,349	1,541
Unrestricted cash, liquid investments, sinking funds	10	86	17	9	82
Net adjusted debt	1,055	965	1,438	1,340	1,458
EBITDA reconciliation					
Operating balance	14	17	14	23	6
+ Depreciation	85	93	101	140	123
+ Provision and impairments					
+/- Other non-cash operating expenditures/revenues	-29	-29	-33	-41	-41
= EBITDA	70	81	82	122	88

Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Appendix B: Financial Ratios

Hamburger Hochbahn AG

	2019	2020	2021	2022	2023
Income statement ratios (%)					
Operating revenue annual growth	7.2	6.9	5.7	12.0	13.2
Operating expenditure annual growth	6.8	6.6	6.3	11.0	15.6
EBITDA/operating revenue	10.6	11.4	11.0	14.7	9.4
Personnel costs/operating expenditure	46.7	52.7	50.0	58.2	48.3
Total transfers from public sector/operating revenue and ad-hoc transfers	10.5	16.1	20.3	19.6	31.3
Balance sheet ratios (%)					
Current assets/adjusted debt	11.2	19.3	30.2	24.2	18.6
Current assets/total assets	7.8	11.9	21.1	13.8	13.4
Total assets/adjusted debt	143.6	161.9	143.5	175.8	138.5
Return on equity	0.0	0.0	0.1	11.2	-0.1
Return on assets	0.0	0.0	0.0	0.4	0.0
Debt and liquidity ratios					
Net adjusted debt/EBITDA (x)	15.1	12.0	17.6	11.0	16.5
EBITDA/debt service coverage (x)	3.0	3.6	4.0	9.1	0.6
EBITDA/gross interest coverage (x)	3.0	3.6	4.0	9.1	8.1
Liquidity coverage ratio (x)	1.4	1.3	4.6	1.9	0.1
Net adjusted debt/operating revenue (%)	153.7	131.6	185.3	154.2	148.2
Net adjusted debt/equity (%)	630.4	576.7	858.8	1,777.2	871.2
Debt in foreign currency/total debt (%)					
Debt at floating interest rates/total debt (%)					
Short-term debt/total debt (%)	0.0	0.0	0.0	10.1	8.4
Issued debt/total debt (%)	0.0	0.0	34.4	37.1	52.5
Government-related debt/total debt (%)					

Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

Appendix C: Fitch's Rating-Case Scenario

Hamburger Hochbahn AG

(EURm)	2024rc	2025rc	2026rc	2027rc	2028rc
Cash-adjusted income statement					
Operating revenue	1,015	1,053	1,086	1,106	1,146
Operating revenue annual growth (%)	7.7	3.8	3.1	1.9	3.6
Operating expenditure	-937	-955	-962	-978	-1,001
Operating expenditure annual growth (%)	9.6	2.0	0.7	1.7	2.4
EBITDA	79	98	124	128	145
Interest revenue	7	8	8	8	8
Interest expenditure	-34	-46	-51	-59	-65
Financial balance	-27	-38	-43	-51	-58
Net capital expenditure	-402	-230	-193	-163	-269
Capital injection and other cash-items	0	0	0	0	0
Dividend paid	0	0	0	0	0
Other cash-items (net)	-1	-1	-1	-1	-1
Net debt movement	283	231	193	163	185
Change in cash	-69	60	80	76	2
Debt and liquidity					
Adjusted debt	1,824	2,055	2,248	2,411	2,596
Memo: Non-cash movement in adjusted debt	0	0	0	0	0
Unrestricted cash	13	73	153	230	232
Net adjusted debt	1,811	1,981	2,094	2,181	2,364
Financial and liquidity ratios (x)					
Net adjusted debt/EBITDA	23.1	20.2	16.9	17.0	16.3
EBITDA/debt service coverage	0.5	0.6	0.8	0.8	1.0
EBITDA/gross interest coverage	2.3	2.1	2.4	2.2	2.2
Liquidity coverage ratio	0.5	0.1	0.5	1.0	1.5

rc - Fitch's rating-case scenario: a through-the-cycle scenario that incorporates a combination of revenue, cost or financial risk stresses.
Source: Fitch Ratings, Fitch Solutions, Hamburger Hochbahn AG

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES