Mobilbox Kontener Kereskedelmi Kft. Hungary, Business Services

SCOPE BB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	32.0x	115.3x	-25.0x	41.8x
Scope-adjusted debt/EBITDA	0.7x	0.7x	0.7x	0.6x
Scope-adjusted funds from operations/debt	133%	127%	131%	144%
Scope-adjusted free operating cash flow/debt	-5%	23%	19%	15%

Rating rationale

The rating affirmation reflects Mobilbox's sustained leadership position in the CEE container rental market combined with consistently high operating profitability driven by its high asset intensity, strong pricing power and lucrative used container sales and spare parts/services business. Scope-adjusted EBITDA margins were resilient in 2022-2023 and are expected to remain around 40% over the forecast period. The business risk profile is restrained by the company's small size and high concentration with regard to customers, suppliers, products and geography.

Mobilbox's rating is supported by its further improved financial risk profile, driven by very low leverage and strong interest cover, even beyond the exceptionally high level reached in 2022-2023. The financial risk profile is, however, somewhat constrained by cash flow volatility due to the company's investment cycle.

We continue to put much greater emphasis on the business risk profile than on the financial risk profile in view of the company's small size.

Outlook and rating-change drivers

The Outlook is Stable. It reflects our view that Mobilbox will continue to execute its long-term strategy geared toward expanding its container fleet both domestically and internationally while maintaining a high EBITDA margin of around 40%. The Outlook also incorporates our expectation that the group will maintain a prudent financial policy, notably in terms of dividend payments and discretionary capex (bolt-on acquisitions), keeping Scope-adjusted debt/EBITDA around 1x.

We view a rating upgrade as remote at this stage, but a positive rating action could be warranted by significant growth in Mobilbox's size, leading to improved diversification in terms of customers, products and geographies, while keeping credit metrics in line with our rating case.

A negative rating action could occur if Scope-adjusted debt/EBITDA increased to around 4x on a sustained basis. This could be caused by much weaker-than-expected revenues due to changes in market conditions or the competitive landscape, leading to profitability well below our base case.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
06 Feb 2024	Affirmation	BB/Stable
02 Feb 2023	Affirmation	BB/Stable
10 Feb 2022	New	BB/Stable

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BB+

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Related Methodologies

General Corporate Rating Methodology; October 2023

European Business and Consumer Services Rating Methodology; January 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Strong track record in terms of operating profitability, with limited volatility, Scope-adjusted EBITDA margin above 40% in 2015-2022 • Solid leadership positions in key CEE markets • Core business supported by lucrative spare parts and services activities • Strong cash position, providing high financial flexibility	• Small absolute size • Limited diversification (product, suppliers, geography) • Free operating cash flow vulnerable to high working capital requirements and capex volatility

Positive rating-change drivers	Negative rating-change drivers
• Significant growth in size, leading to improved diversification with regard to business lines, products, customers or geographies, while keeping credit metrics in line with our rating case	• Scope-adjusted debt/EBITDA increasing to around 4x on a sustained basis.

Corporate profile

Founded in 1997, the Mobilbox group is headed by Mobilbox Kontener Kereskedelmi Kft., headquartered in Budapest (Hungary). The group provides services in the renting and selling of office, storage, sanitary and special containers (including spare parts and accessories), primarily in Central and Eastern Europe (CEE). The Mobilbox group generated HUF 25.3bn in revenues in 2022 (EUR 65m). Its Scope-adjusted EBITDA margin has exceeded 40% since 2015.

Mobilbox is 100% owned by Hungarian private individuals via three shareholding structures: Wintco Kft (72%), Tüzo Kft (24%) and Ador Kft (4%). Since 1997, the group has been led by Zoltan Nyemecz, managing director and co-owner (via Tüzo Kft.)

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	24.8x	32.0x	115.3x	-25.0x	41.8x	38.9x
Scope-adjusted debt/EBITDA	0.5x	0.7x	0.7x	0.7x	0.6x	0.6x
Scope-adjusted funds from operations/debt	172%	133%	127%	131%	144%	162%
Scope-adjusted free operating cash flow/debt	70%	-5%	23%	19%	15%	14%
Scope-adjusted EBITDA in HUF m						
EBITDA	6,375	8,521	11,412	10,707	11,682	12,355
Operating lease payments	198	220	289	306	344	386
Scope-adjusted EBITDA	**6,573**	**8,742**	**11,702**	**11,014**	**12,026**	**12,741**
Funds from operations in HUF m						
Scope-adjusted EBITDA	6,573	8,742	11,702	11,014	12,026	12,741
less: (net) cash interest paid	-156	-149	37	594	-120	-154
less: cash tax paid per cash flow statement	-303	-423	-991	-823	-854	-922
less: interest component operating leases	-110	-124	-139	-153	-168	-174
Funds from operations (FFO)	**6,005**	**8,046**	**10,609**	**10,632**	**10,884**	**11,491**
Free operating cash flow in HUF m						
Funds from operations	6,005	8,046	10,609	10,632	10,884	11,491
Change in working capital	-781	-2,000	277	-849	-987	-935
Non-operating cash flow	-771	-833	-2,668	-1,324	-720	-757
less: capital expenditure (net)	-1,918	-5,408	-6,173	-6,783	-7,854	-8,592
less: lease amortization	-89	-96	-150	-153	-176	-212
Free operating cash flow (FOCF)	**2,446**	**-291**	**1,894**	**1,524**	**1,147**	**995**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	156	149	-37	-594	120	154
add: interest component, operating leases	110	124	139	153	168	174
Net cash interest paid	**265**	**273**	**101**	**-441**	**288**	**328**
Scope-adjusted debt in HUF m						
Reported gross financial debt	3,949	7,174	9,880	9,421	8,650	8,023
less: cash and cash equivalents	-2,718	-3,833	-8,644	-9,209	-9,084	-8,953
add: non-accessible cash[1]	0	0	4,322	4,604	4,542	4,477
add: operating lease obligations	2,255	2,722	2,826	3,303	3,430	3,528
Scope-adjusted debt (SaD)	**3,486**	**6,064**	**8,384**	**8,119**	**7,537**	**7,074**

[1] Non accessible cash represents 50% of cash and cash equivalents in the respective year

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Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

ESG considerations

No material ESG risk has been identified.

The group has initiated various actions to reduce its carbon footprint but has not set any specific numerical target in terms of CO2 emissions. To reduce its energy and electricity needs, Mobilbox uses solar cells for electricity and geothermic energy for heating and cooling of buildings at its central depot in Budapest. The depot was 100% self-supporting in 2023. The group is also increasing the use of smart equipment for heating and cooling in containers, with the objective of reducing energy consumption by 10-15% per year.

In terms of governance, the ‘key person risk’ is addressed by a separation of business functions and the strengthening of functional leaders. In addition, Mobilbox plans to set up an advisory board and an independent supervisory board by 2025-2026.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity’s cash flow and, by extension, its credit quality.

Business risk profile: BB

Industry risk profile: BBB

The industry risk assessment remains unchanged at BBB following the publication of the applicable sector methodology for European Business and Consumer Services companies in January 2024. Mobilbox is classified as an asset-heavy company operating with a high share of specialised workforce (project and development managers, designers, architects, electrical and mechanical engineers, drawing software specialists). Such sub-sector has high cyclicality, high entry barriers and low substitution risk.

Figure 1: Scope's industry matrix for European business and consumer services companies

Cyclicality \ Entry barriers	Low	Medium	High
High	CCC/B	B/BB	BB/**BBB**
Medium	**B/BB**	BB/BBB	BBB/A
Low	BB/BBB	BBB/A	A/AA

Source: Scope Ratings

Top three player in CEE with several leading positions

Mobilbox's business risk profile (assessed at BB) mainly benefits from its solid positions in the CEE markets, which strongly support its competitive position. The CEE container market is moderately fragmented, with Containex and Algeco as the most relevant players, competing closely with Mobilbox. The competitive landscape also includes larger equipment rental companies (such as Boels or Loxam/Ramirent) which primarily rent equipment/machinery.

Mobilbox is the undisputed leader in the container rental market in Hungary (49% share vs 39% for Containex and 6% for Algeco). It also holds dominant positions in Romania and claims to have outpaced Algeco in Poland in 2023, thanks to a higher fleet utilisation. Overall, Mobilbox remains one of the top three players in the CEE region, with an estimated market share of close to 16% based on fleet size. In 2023, the company increased its rental fleet by 7% to 30,200 containers, primarily driven by Poland (up 12%), which has the largest fleet size within the group (45% vs. 28% in Hungary). Mobilbox's business is moderately scalable across regions due to the need for specialised workforce.

Consistently high operating profitability

Mobilbox's consistently high operating profitability is the main supportive factor for the business risk profile. This is driven by the company's high asset intensity, strong pricing power (courtesy of oligopolistic markets), highly profitable sales of used containers and spare parts and the continued expansion in services. Scope-adjusted EBITDA margins have constantly exceeded 40% since 2015 and remained resilient in crisis periods, as evidenced by the FY 2022 performance (EBITDA margin up 4.8pp YoY) and projected profitability for the full year 2023. We expect EBITDA margins to remain around 40% in the next few years, driven by further optimisation of the fleet utilisation across the group, improved performance at the most recently established subsidiaries and continued expansion in the most profitable markets (Poland in particular).

Its comparatively small size is a major constraint

The business risk profile is restrained by the company's comparatively small size (2023 revenues estimated at HUF 25.9bn, equivalent to EUR 68m) in the wide-ranging business services industry and by its moderate level of diversification with regard to customers, suppliers, products and geography.

Limited diversification remains a restraining factor

Diversification remains a mixed bag. Concentration is high in terms of business lines and products. Mobilbox's core business consists of selling and renting containers and providing spare parts, accessories and equipment as well as associated services (e.g.

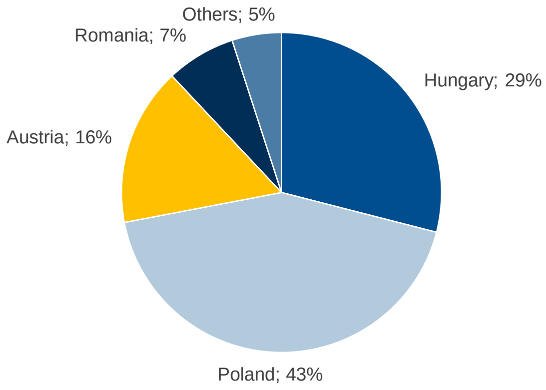
design, transport, installation, maintenance & repair, dismantling and fitting). In 2022, sales of new/used containers accounted for 38% of total income, rental for 41% and spare parts/services for 21%. Mobilbox intends to keep a healthy balance between sales and rental, while expanding services, including value-added services provided during the rental period. A new container damage management service (similar to a general insurance available during the rental period) was developed in 2023 and launched in January 2024. New businesses, such as mobile fences, self-storage and solar power solutions for container roofs (Powertop) were added in 2023.

The group's business is primarily driven by one product (containers) but is admittedly well-diversified by usage (e.g. offices, storage, sanitary, reefer, shipping and specialty) and customer sectors (e.g. construction, public sector, industry and services). Demand from services has been the main provider of new clients over the past three years. There is some customer concentration in Hungary (with the top ten clients representing around 19% of sales) and in individual subsidiaries, but customer granularity is much higher when assessed at the group level, which limits the potential impact the loss of key customers or customer defaults could have on cash generation. Distribution network is relatively concentrated and primarily hinges on direct sales due to the tailor-made nature of the container business.

High exposure to Poland, Hungary, Austria and Romania

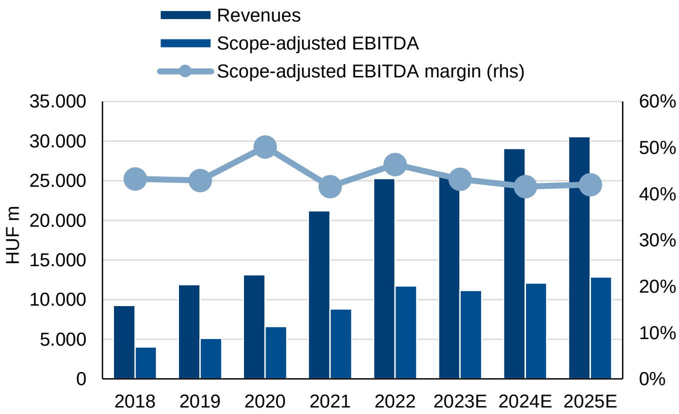
In terms of geography, Poland and Hungary remain the key revenue and profit contributors (72% of revenues and 78% of EBITDA, on a combined basis). This concentration could bear increased risks in case of economic downturn spilling out over the whole region. Over time, thanks to the performance alignment of its foreign subsidiaries, Mobilbox anticipates some geographic rebalancing, with the share of Mobilbox Hungary expected to decline toward 10-15% of group revenues. Furthermore, the company intends to bolster its international presence in selected markets outside of the CEE region (e.g. in Germany or Benelux).

Figure 2: Revenues by geography (end-2023)



Sources: Mobilbox, Scope

Figure 3: Revenue and profitability over time



Sources: Mobilbox, Scope estimates

Medium service strength

Service strength is assessed as medium. Mobilbox's brand awareness is strong in Hungary, Poland, Austria and Romania. It is improving in the other CEE countries, thus contributing to the steady market share gains observed lately. The churn rate is moderate, reflecting solid customer loyalty, thus reducing business volatility. Service integration in the customers' business is seen as medium, which ensures a reasonably good protection to Mobilbox's business thanks to its tailor-made offering.

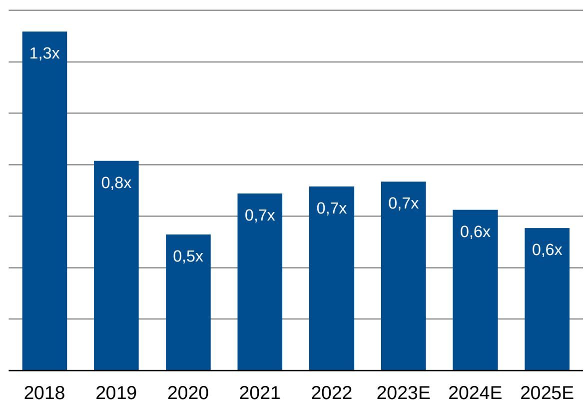
Financial risk profile: A-

The financial risk profile (revised to A- from BBB+) is primarily supported by the issuer's very low leverage and strong interest cover.

Leverage expected to remain low on a sustained basis

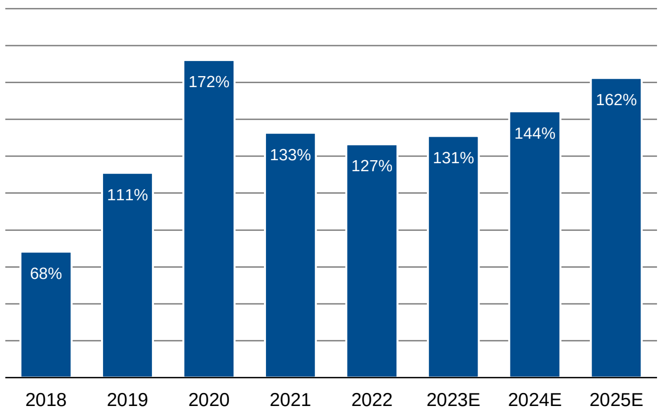
Leverage, as measured by Scope-adjusted debt/EBITDA, has fluctuated between 0.5x and 1.3x since 2015. Thanks to a consistently strong operating performance and despite the additional debt raised in 2022, this ratio was kept below 1x in 2022 and is expected to remain around 1x in 2023, despite a slight decrease in Scope-adjusted EBITDA. We expect this metric to stay around 1x over the forecast period, reflecting a solid EBITDA development combined with a gradual deleveraging. Likewise, we anticipate that the Scope-adjusted FFO/debt ratio, which had averaged 95% in 2015-2020 before rising to 144% in 2020-2022, will stay above 100% over the forecast period.

Figure 4: Scope-adjusted debt/EBITDA



Sources: Mobilbox, Scope estimates

Figure 5: Scope-adjusted FFO/debt



Sources: Mobilbox, Scope estimates

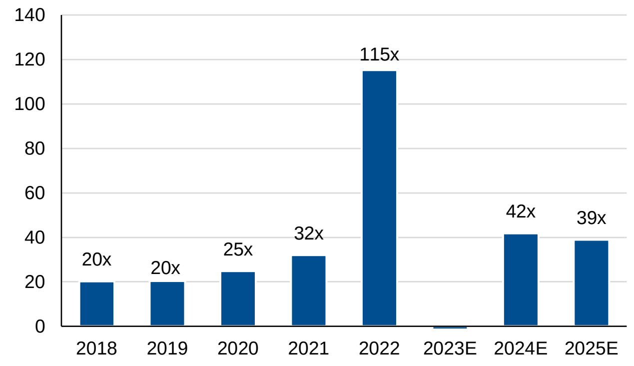
Interest cover to remain strong despite anticipated base rate normalisation in Hungary

EBITDA interest cover has been exceptionally strong over the past few years, exceeding 20x since 2015. Since 2022, this debt protection ratio has benefitted from the sharp rise in Hungarian interest rates, reflected in high interest income from HUF-denominated deposits in Hungary. We expect Mobilbox to generate a net interest income in 2023. With the anticipated decrease in Hungarian base rates, the return yielded on these time deposits (up to 15% last year) will steadily decline, leading to a continuous deterioration in interest cover from the historically high levels reached in 2022-2023. Nonetheless, we expect this metric to remain strong, at around 40x in 2024-2025.

Volatile cash flow cover remains a constraint

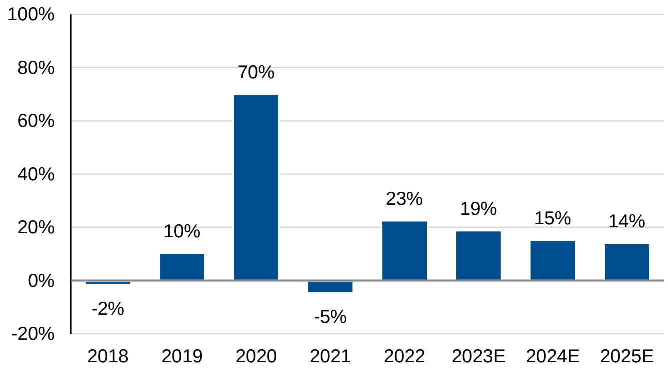
Cash flow cover (Scope-adjusted FOCF/debt) has been volatile in recent years. This reflects primarily the company's investment cycle and its impact on FOCF. The sizeable increase in net capex combined with unusual swings in working capital led to a negative FOCF in 2021, followed by a normalisation in 2022-2023. We expect cash flow cover to stay in the 15-25% range in the coming years, reflecting a stabilisation of the net capex ratio (capex to sales) in the 25-30% range combined with the anticipated debt reduction.

Figure 6: Scope-adjusted EBITDA interest cover



Net interest income in 2023 Sources: Mobilbox, Scope estimates

Figure 7: Scope-adjusted FOCF/debt



Sources: Mobilbox, Scope estimates

Adequate liquidity

We consider Mobilbox's liquidity to be adequate. The group has substantially increased its cash balances, from HUF 3.8bn at year-end 2021 to around HUF 9bn at year-end 2023. Short-term debt maturities remain safely covered by unrestricted cash alone (we assume that 50% of cash balances are restricted for potential M&A and discretionary capex). The outstanding MNB bond will not start amortising until 2027. Liquidity coverage is above 200% in all forecasted years.

Balance in HUF m	2022	2023E	2024E
Unrestricted cash (t-1)	3,833	4,322	4,604
Open committed credit lines (t-1)	0	0	0
FOCF	1,894	1,524	1,147
Short-term debt (t-1)	1,735	2,153	2,273
Coverage	**> 200%**	**>200%**	**>200%**

We highlight that the senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 3.3bn) if the debt rating of the bond stays below B+ for more than two years (grace period). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is 3 notches. We therefore see no significant risk of the rating-related covenant being triggered.

In our assessment of the company's stand-alone rating, we continue to overweight significantly the business risk profile over the financial risk profile to reflect the company's comparatively smaller size and its inherent vulnerabilities compared to bigger, more diversified and financially robust competitors.

Supplementary rating drivers: negative one notch

The company's limited size and outreach compared to other entities rated BB and above hinder it from exceeding the assigned BB issuer rating, which is reflected by a negative one notch adjustment on the standalone rating.

Long-term debt rating

In February 2022, Mobilbox issued a HUF 3.3bn senior unsecured bond (ISIN: HU0000361340) under the Hungarian National Bank's Bond Funding for Growth Scheme.

The bond features a tenor of 10 years, 10% annual amortisation of the principal amount between 2027 and 2031 and a 50% bullet repayment at maturity (2032). The bond coupon is fixed (4.9%) and payable on an annual basis.

Senior unsecured debt rating: BB+

We have affirmed the BB+ rating for Mobilbox's senior unsecured debt. We calculated an 'excellent' recovery based on the expected liquidation value in a hypothetical default scenario in 2025. However, we limit the up-notching to one notch to account for potential volatility in the capital structure on the path to default. This results in a BB+ rating, one notch above the assigned issuer rating.

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