Mobilbox Kontener Kereskedelmi Kft.
Hungary, Business Services

BB STABLE

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 21.6bn in revenues in 2021E (EUR 60m). Its Scope-adjusted EBITDA margin has averaged 43% since 2015.

Key metrics

		Scope estimates		
Scope credit ratios	**2020**	**2021E[1]**	**2022E**	**2023E**
EBITDA/interest cover (x)	24.8x	39.7x	21.7x	22.0x
Scope-adjusted debt (SaD)/EBITDA	0.5x	0.7x	1.1x	1.1x
Scope-adjusted funds from operations/SaD	173%	121%	80%	85%
Free operating cash flow/SaD	70%	-20%	-13%	17%

Rating rationale

Scope Ratings has assigned a first-time corporate rating of BB/Stable to Mobilbox Kft. along with a first-time senior unsecured debt rating of BB+.

The ratings are driven primarily by the company's leading positions in its relevant markets and its highly profitable business model. Rating constraints include Mobilbox's small size, moderate diversification and volatile cash flow cover. We put much greater emphasis on the business risk profile than on the financial risk profile in view of the company's small size.

The company's business risk profile (assessed at BB) is restricted by its small size in the wide-ranging business services industry and moderate diversification by business lines, products, customers and geographical outreach.

Mobilbox's competitive position is supported by its solid positions in the relevant CEE markets as well as its consistently and structurally high operating profitability thanks to its high asset-intensity, disciplined pricing policy and expansion of its lucrative spare parts and services activities. Scope-adjusted EBITDA margins have averaged 43% since 2015 and we expect them to remain at around 40%+ in the next few years.

The financial risk profile (assessed at BBB) is primarily supported by the low leverage. Scope-adjusted debt (SaD)/EBITDA has ranged between 0.5x and 1.3x since 2015. We expect SaD/EBITDA to be remain in the 1-2x range, even after the planned bond issuance under the Hungarian National Bank's scheme and given the estimated HUF 0.8bn restriction on cash for M&A in Europe. The financial risk profile is constrained by the volatile cash flow cover, expected to be negative in 2021 and 2022 before returning to positive territory in 2023 with the normalisation in Capex.

Liquidity is adequate. The group has maintained a significant cash balance that safely covers short-term maturities. The negative free operating cash flow (FOCF) caused by the planned capex expansion and higher working capital needs will weigh on liquidity in

[1] This was amended on 11 February, in the original text 2021 was displayed as actual instead of estimates.

Ratings & Outlook

Corporate rating	BB/Stable
Senior unsecured rating	BB+

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Related Methodology

Corporate Rating Methodology: July 2021

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2021 and 2022. We expect liquidity to improve significantly in 2023 after FOCF regains a positive level.

The company's limited size and outreach compared to other entities rated BB+ hinder it to exceed the assigned BB issuer rating (reflected by a negative one notch adjustment on the standalone rating).

Outlook and rating-change drivers

The Outlook is Stable based on our expectation that Mobilbox will successfully issue the planned HUF 3bn senior unsecured bond in 2022, with proceeds invested in accordance with the business plan. The Outlook also incorporates our expectation that the group will maintain a prudent financial policy, notably in terms of dividend payments and discretionary spending (bolt-on acquisitions) helping to keep Scope-adjusted debt/EBITDA between 1-2x

Although a rating upgrade is deemed remote at this stage, it may be warranted by a significant growth in Mobilbox's size, leading to improved diversification in terms of products, customers or geography, while credit metrics remain in line with Scope's rating case.

A negative rating action could take place if SaD/EBITDA increased to around 4x on a sustained basis.

Rating drivers

Positive rating drivers	Negative rating drivers
• Strong operating profitability (EBITDA), with limited volatility; Scope-adjusted EBITDA margin was 50% in 2020 and averaged 43% over 2015-20 • Solid leading positions in key CEE markets • Core business supported by lucrative activities in spare parts and accessories	• Limited presence in European markets outside the CEE region • FOCF vulnerable to high working capital needs and capex

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Significant growth in size leading to improved diversification in terms of products, customers or geography, while credit metrics remain in line with Scope's rating case	• SaD/EBITDA sustained at around 4x

Financial overview

		Scope estimates		
Scope credit ratios	**2020**	**2021E[2]**	**2022E**	**2023E**
EBITDA/interest cover (x)	24.8x	39.7x	21.7x	22.0x
Scope-adjusted debt (SaD)/EBITDA	0.5x	0.7x	1.1x	1.1x
Scope-adjusted funds from operations/SaD	173%	121%	80%	85%
Free operating cash flow/SaD	70%	-20%	-13%	17%
Scope-adjusted EBITDA in HUF m	**2020**	**2021E**	**2022E**	**2023E**
EBITDA	6,375	8,755	8,951	9,682
Operating lease payments in respective year	220	256	274	296
Other	0	0	0	0
Scope-adjusted EBITDA	**6,595**	**9,011**	**9,225**	**9,978**
Scope-adjusted funds from operations in HUF m	**2020**	**2021E**	**2022E**	**2023E**
EBITDA	6,375	8,755	8,951	9,682
less: (net) cash interest as per cash flow statement	-156	-155	-305	-330
less: cash tax paid as per cash flow statement	-303	-625	-533	-592
add: depreciation component, operating leases	111	140	154	170
Scope-adjusted funds from operations	**6,027**	**8,115**	**8,267**	**8,930**
Scope-adjusted debt in HUF m	**2020**	**2021E**	**2022E**	**2023E**
Reported gross financial debt	3,949	7,114	9,989	9,780
less: hybrid bonds	-	-	-	-
less: cash and cash equivalents	-2,718	-2,784	-2,836	-2,544
add: cash not accessible[3]	0	0	800	800
add: pension adjustment	-	-	-	-
add: operating lease obligations	2,255	2,361	2,437	2,499
Other	-	-	-	-
Scope-adjusted debt	**3,486**	**6,691**	**10,391**	**10,535**

[2] This was amended on 11 February, in the original text 2021 was displayed as actual instead of estimates.

[3] We have assumed that part of the cash balance is not accessible and should be earmarked for the potential M&A activity highlighted by the company. We have factored in HUF 0.8bn i.e. the mid-point of the budget envisaged by the company for potential acquisitions.

Business risk profile (BB)

Asset-heavy business service company

Mobilbox was created in 1997 and is based in Budapest, Hungary. The company provides services in the renting and sale of containers and spare parts to a wide range of sectors. As the company's business is strongly and increasingly geared towards services, we view it as an 'asset-heavy' business services company (B2B) and therefore classify the company's core industry as business services, with an industry risk profile rated BBB.

Top three in CEE, with several leading market positions

The company's business risk profile is primarily supported by its strong market position and structurally high profitability. Mobilbox is a top three player in the CEE market and benefits from an oligopolistic market structure, especially in Hungary (top three, Mobilbox, Containex and Algeco, capture over 80% of the market; 44% held by Mobilbox). This gives the market leaders strong pricing power and solid, recurring profitability. Based on the estimated size of the container rental markets, Mobilbox is ranked first in Hungary and Romania, second in Poland and Bulgaria, and third in Austria and Slovenia.

Average Scope-adjusted EBITDA margin of 43% since 2015

Mobilbox's structurally high operating profitability is the main supportive factor for the business risk profile. It is driven by the company's high asset-intensity, disciplined pricing policy, relatively high margins generated by the sales of used containers and spare parts, and the expansion of its services. Scope-adjusted EBITDA margins have averaged 43% since 2015 and we expect them to remain at around 40%+ in the next few years.

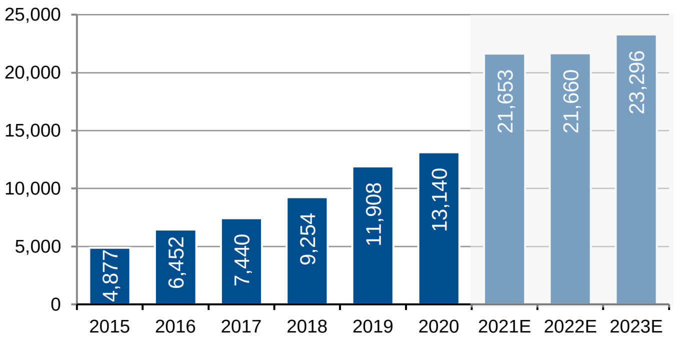
Small size a key constraint

The business risk profile is constrained by the company's small size (HUF 21.6bn in revenues in 2021e or EUR 60m) in the wide-ranging business services industry and by its moderate diversification by business lines, products and geographical outreach. Mobilbox is small in absolute terms despite its strong growth in the past few years (revenue CAGR of 22% in 2015-20) and the surge expected in 2021 (+65%, not be extrapolated).

Diversification a mixed bag

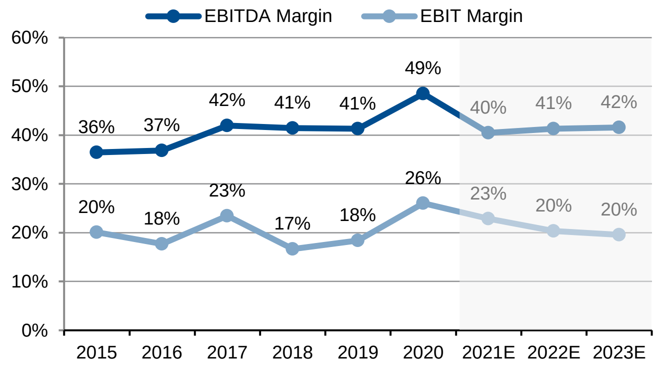
Diversification is a mixed bag. Concentrations are high in terms of business lines and products. Its core business consists of selling and renting containers and providing spare parts, accessories and equipment as well as associated services (e.g. design, installation, dismantling and fitting). Sales of new/used containers account for 58% of revenues, rental for 34% and spare parts/services for 8%. Mobilbox is aiming to better balance its businesses (to 40% sales, 40% rental, and 20% parts and services) and increase value-added services provided during the rental period. Its business is primarily driven by one product (containers) but admittedly it is diversified by uses (e.g. offices, storage, sanitary, reefer and specialty) and customer sectors (e.g. construction, public sector, industry and services) with over 2,200 active partners. There is some customer concentration, with the top three representing more than 10% of sales at the parent company. Finally, in terms of geography, despite numerous subsidiaries in the CEE region, Hungary remains the key growth driver. However, the group intends to bolster its international presence, possibly via bolt-on acquisitions in selected markets outside of the CEE region.

Figure 1: Revenue trend (HUF m)



Source: Mobilbox, Scope estimates

Figure 2: reported EBITDA and EBIT margins over time



Source: Mobilbox, Scope estimates

Financial risk profile (BBB)

Mobilbox's financial risk profile is supported by its low leverage and strong interest cover. Leverage as measured by SaD/EBITDA has ranged between 0.5x and 1.3x since 2015 (0.5x at year-end 2020).

SaD estimated at HUF 10.4 bn at year-end 2022

Assuming a successful bond issue (HUF 3bn), we expect SaD to increase to around HUF 10.4bn at year-end 2022, including an estimated HUF 0.8bn of restricted cash earmarked for M&A in Europe. [4]

Low leverage to be sustained even after planned bond issue

Despite this increase in SaD, we expect SaD/EBITDA in the 1-2x range in the next two years thanks to solid EBITDA development. EBITDA interest cover (less meaningful for Mobilbox) has been strong since 2015 at more than 20x. Despite additional debt issuances in 2021 and 2022 (including the planned bond issue), we anticipate no noticeable deterioration in this debt protection ratio in 2022 and 2023.

Volatile cash flow cover a key rating constraint

The financial risk profile is constrained by cash flow cover (FOCF/SaD), which has been more volatile than the other credit metrics in recent years. This reflects the evolution of the investment cycle and its impact on FOCF. The sizeable increase in net capex in 2021 and 2022 will lead to negative cash flow cover in 2021 (-20%) and 2022 (-13%) before a normalisation in 2023 (17%).

Adequate liquidity

Mobilbox's liquidity is adequate. The group holds ample cash balances that safely cover short-term maturities. The negative FOCF caused by the planned capex expansion and higher working capital needs will weigh on liquidity in 2021 and 2022. We expect liquidity to improve significantly in 2023 thanks to the return to positive FOCF as capex normalises.

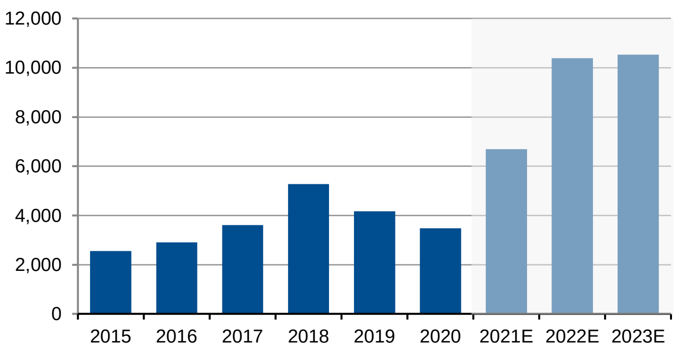
[4] This paragraph was amended on 11 February. In the original publication it started with this sentence: "We forecast SaD of HUF 6.7bn at year-end 2011, up from HUF 3.5bn at end-2020."

Figure 3: Liquidity (HUF m)

Liquidity	2020	2021E	2022E	2023E
Cash and marketable securities equivalents (t-1)	1,339	2,718	2,784	2,836
Restricted cash (t-1)	0	0	0	800
Committed unused bank facilities (t-1)	0	0	0	0
Short-term debt (t-1)	430	421	1,133	1,302
Free operating cash flow (t)	2,446	-1,361	-1,321	1,843
Liquidity (%) - internal	**8.8x**	**3.2x**	**1.3x**	**3.0x**
Liquidity (%) - internal+external	**8.8x**	**3.2x**	**1.3x**	**3.0x**

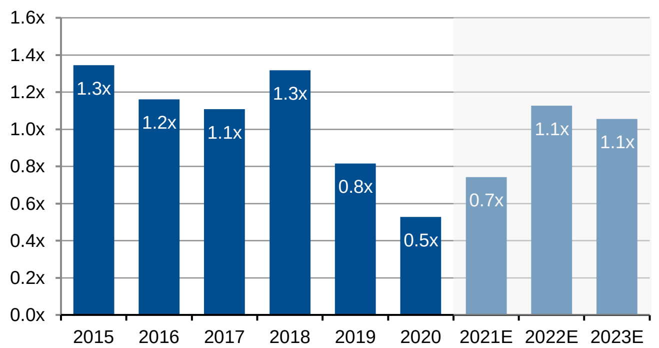
Source: Mobilbox, Scope estimates

Figure 4: Scope-adjusted debt (HUF m)



Source: Mobilbox, Scope estimates

Figure 5 [5]: Scope-adjusted debt/EBITDA



Source: Mobilbox, Scope estimates

More emphasis on business risk profile due to company's small size

In our assessment of the company's stand-alone rating, we put more emphasis on the business risk profile than the financial risk profile due to the company's smaller size than peers (and the inherent vulnerabilities against bigger, more financially solid and diversified competitors).

The company's limited size and outreach compared to other entities rated BB+ hinder it to exceed the assigned BB issuer rating (reflected by a negative one notch adjustment on the standalone rating).

Long-term debt rating

BB+ senior unsecured debt rating

We have assigned a rating of BB+ to the senior unsecured debt class [6], one notch above the issuer rating. We calculated an 'above average' expected rate of recovery based on a HUF 20.2bn estimated liquidation value in a hypothetical default in 2023. Mobilbox Kft. plans to issue a HUF 3bn senior unsecured corporate bond under the Hungarian National Bank's Bond Funding for Growth Scheme. The bond will feature 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 will be fixed (up to 5%) and payable on an annual basis. Proceeds from the bond issue are earmarked for the purchase of new containers to extend the rental fleet

[5] This chart was added on 11 February.

[6] This sentence was amended on 11 February, in the original publication the text stated "We rate the planned senior unsecured debt at BB+".

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