Trans-Sped Kft.
Hungary, Logistics

SCOPE B+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2020	2021	2022E	2023E
Scope-adjusted EBITDA/interest cover	10.4x	11.2x	6.3x	4.7x
Scope-adjusted debt/EBITDA	5.4x	5.5x	5.6x	5.1x
Scope-adjusted funds from operations/debt	16%	16%	15%	15%
Scope-adjusted free operating cash flow/debt	5%	-28%	-13%	-6%

Rating rationale

The issuer's business risk profile (assessed at B) is supported by Trans-Sped's stable operating profit margins. The issuer has generated Scope-adjusted EBITDA margins between 7-9% in the previous years, which we expect to gradually improve towards 10%, mainly as a result of the capital-intensive investment cycle expected to end in 2024. The business risk profile is constrained by the issuer's limited size and relatively weak market position in a highly competitive market, dominated by multinationals. The business risk profile is further constrained by its limited geographical scope (focusing on Hungary and the Central and Eastern European area) making the issuer vulnerable to macroeconomic shifts in these economies. This is mitigated by the well-diversified customer portfolio, with exposure of various industries (automotive, chemical, pharmaceutical, fast-moving consumer goods, etc.).

The financial risk profile (assessed at B+) of the issuer is supported by the debt protection, measured by Scope-adjusted EBITDA interest cover, consistently above 4.5x and expected to improve towards 7.5x by 2025. We expect financial leverage, measured by Scope-adjusted debt/EBITDA, to remain around 5x until 2024, with a gradual improvement afterwards. Trans-Sped has historically generated negative free operating cash flow, due to intensive investment in plants and equipment in the previous years, which has typically been financed by external debt. Liquidity is adequate as sources fully cover uses (the company's short-term debt at YE 2021 is HUF 462m).

Outlook and rating-change drivers

The Outlook is Stable, based on our assumption that the Scope-adjusted EBITDA margin of Trans-Sped will gradually improve in the upcoming years, thanks to investments increasing capacity and improving efficiency. We expect the capex-heavy period starting in 2020 to end in 2024, with no new significant financial debt drawn after 2023. A positive rating action is remote at this point but may be warranted in case Trans-Sped manages to improve its business risk profile.

A positive rating action can also be considered in case Scope-adjusted Debt/EBITDA improves significantly below 4.0x either through repayment of financial debt or higher profitability, while generating positive free operating cash flow.

A negative rating action might occur in case the issuer fails to improve profitability, leading to increased financial leverage sustained above 5.0x.

Rating history

Date	Rating action	Issuer rating & Outlook
27 February 2023	New	B+/Stable

Ratings & Outlook

Issuer	B+/Stable
Senior unsecured debt	B+

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Related Methodology

General Corporate Rating Methodology; July 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Stable operating profit margins in a highly competitive market • Improving service diversification and strong growth potential • Highly diversified customer portfolio across sectors and industries • Strong interest cover	• Limited company size and geographical scope • Relatively high leverage • Negative FOCF • Low visibility on CAPEX strategy beyond 2023

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA below 4.0x while generating positive FOCF	• Scope-adjusted debt/EBITDA above 5.0x in the medium term

Corporate profile

Trans-Sped Kft. is a Hungarian, family-owned SME active in the logistics sector. Founded in 1990 by Mr. Zsolt Fülöp as an international transport company, the company has since then expanded its scope to multiple different branches of the logistics sector, such as warehousing, freight forwarding, on-site logistics and more recently, e-commerce. Headquartered in Debrecen, Hungary, Trans-Sped currently has 16 regional warehouses offering more than 200,000 m^2 of warehousing space, a vehicle fleet of 230 trucks and more than 800 employees.

Financial overview

			Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	10.4x	11.2x	6.3x	4.7x	5.2x
Scope-adjusted debt/EBITDA	5.4x	5.5x	5.6x	5.1x	4.7x
Scope-adjusted funds from operations/debt	16%	16%	15%	15%	17%
Scope-adjusted free operating cash flow/debt	5%	-28%	-13%	-6%	1%
Scope-adjusted EBITDA in HUF '000					
EBITDA	1,850,128	1,940,244	2,548,390	2,950,103	3,117,600
Other items	0	0	0	0	0
Scope-adjusted EBITDA	**1,850,128**	**1,940,244**	**2,548,390**	**2,950,103**	**3,117,600**
Funds from operations in HUF '000					
Scope-adjusted EBITDA	1,850,128	1,940,244	2,548,390	2,950,103	3,117,600
less: (net) cash interest paid	-177,460	-173,049	-404,839	-624,844	-598,735
less: cash tax paid per cash flow statement	-82,831	-55,419	-85,571	-57,087	-51,684
add: dividends from associates	0	24,000	40,000	0	0
Change in provisions	0	0	0	0	0
Funds from operations (FFO)	**1,589,837**	**1,735,776**	**2,097,980**	**2,268,172**	**2,467,181**
Free operating cash flow in HUF '000					
Funds from operations	1,589,837	1,735,776	2,097,980	2,268,172	2,467,181
Change in working capital	334,578	533,676	-252,196	-97,825	-109,480
Non-operating cash flow	0	0	0	0	0
less: capital expenditure (net)	-1,406,246	-5,307,674	-3,644,715	-3,000,000	-2,171,458
Free operating cash flow (FOCF)	**518,169**	**-3,038,222**	**-1,798,931**	**-829,652**	**186,243**
Net cash interest paid in HUF '000					
Net cash interest per cash flow statement	-177,460	-173,049	-404,839	-624,844	-598,735
Change in other items	0	0	0	0	0
Net cash interest paid	**-177,460**	**-173,049**	**-404,839**	**-624,844**	**-598,735**
Scope-adjusted debt in HUF '000					
Reported gross financial debt	9,899,074	10,085,398	13,743,222	14,305,451	13,962,451
less: cash and cash equivalents[1]	NA	NA	NA	NA	NA
add: rental guarantees and deposits	0	438,763	438,763	438,763	438,763
add: other guarantees	0	200,000	200,000	200,000	200,000
Other items	0	0	0	0	0
Scope-adjusted debt	**9,899,074**	**10,724,161**	**14,381,986**	**14,944,214**	**14,601,214**

[1] No cash netting done for a B category rating.

Table of Content

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 Strategy in development, with goals achievable by 2030

Trans-Sped is a family-owned SME, with the founder Mr. Fülöp and his son in the top managerial roles. They are supported by a team of independent operational directors, each an expert in their respective fields, reducing key person risk. The issuer has no independent supervisory board.

In 2022 Trans-Sped started to formulate a dedicated ESG strategy, setting targets achievable by the year 2030. As a first step, they are aiming to improve the corporate governance structure, by improving the separation of business functions and employing related functional leaders. Additionally, they are planning to publish their ESG report in 2023.

We currently see no ESG factors which are deemed to have a substantial impact on the overall assessment of credit risk.

[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: B

Blended industry risk profile: B+

Blended industry risk is deemed to be B+, using a blended industry risk weighted based on the EBITDA contribution. We have decided to put the core activity of the company (logistics, industry risk rating of B) at 60%. Commercial real estate, with an industry risk rating of BB, has a 30% weight and business services, with an industry risk rating of BBB, has a weight of 10%. The logistics unit, the most important contributor to the EBITDA, has been characterised by medium cyclicality, low entry barriers and medium to low substitution risks.

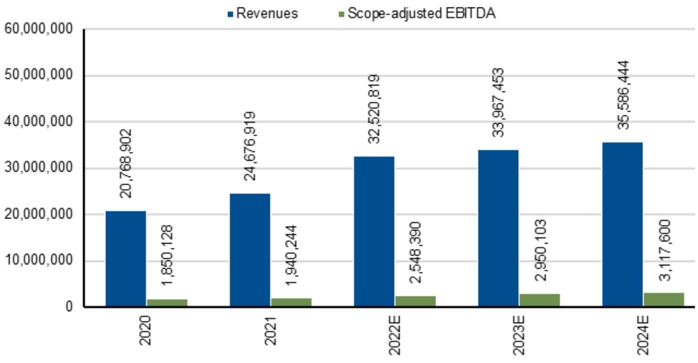
Trans-Sped's competitive position is the main constraint to the business risk profile. The company's limited market share and company size, along with the low geographical diversification has been partially mitigated by the stabile operating profitability.

Limited market share in a highly fragmented market

Trans-Sped is a medium-sized player in the heavily fragmented Hungarian freight and logistics market. Currently, there are more than 40,000 logistics companies in Hungary, employing 259,000 people. In 2021, the sales of the transport and warehousing sector were HUF 2.521bn, up 9% from the previous year, which was heavily influenced by Covid-19. The domestic market, and especially road transportation, is expected to grow by 6% YoY in the next 1-2 years, fuelled by strong FDI inflow, such as the BMW factory or the largest investment in the history of Hungary, the battery manufacturer CATL's new plant, both located in Debrecen.

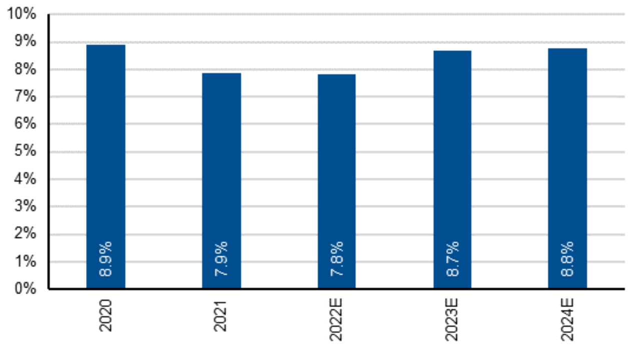
Comparing Trans-Sped's 2021 revenue (HUF 24.7bn) to the EU sector output for the respective year (EUR 372bn) we get a market share below 1%. In terms of revenue, the issuer is the 16th largest logistics company in Hungary, a market led by well-known multinational names such as Waberer's, DHL or Duvenbeck. The company has only entered the Slovakian and Romanian market recently, its market share abroad is negligible.

Figure 1: Revenues and Scope-adjusted EBITDA of Trans-Sped, HUF '000



Sources: Trans-Sped, Scope (estimates)

Figure 2: Scope-adjusted EBITDA margin



Sources: Trans-Sped., Scope (estimates)

Improving service diversification

In addition to the core transportation business, Trans-Sped has strived to offer additional, more complex services to its clients. The investments in the past two years were clearly aimed at enabling growth from new, higher added valued business lines (such as production logistics or warehousing services) on top of modernising the already existing vehicle fleet. In 2022 the issuer also entered the e-commerce market, providing warehouse logistics and distribution services for web shops.

Geographical scope, still narrow, constrains the rating

Historically the geographical focus of the company was eastern Hungary, in the Debrecen region. This has been extended in the past years, with heavy investments in increasing the geographical scope and it now operates in 16 sites around the country and is expanding to two sites in Slovakia and Romania. The geographical scope is still considered limited, geographical diversification is weak, and the company remains highly exposed to macroeconomic shifts in the Hungarian economy.

Highly diversified customer portfolio, servicing clients across multiple industries and sectors

The customer portfolio of the company is relatively well diversified, with top 10 customers accounting for 26% of the total revenue as of Q3 2022. The largest customer, a subsidiary of MOL Group, accounts for approx. 8% of total revenues. Trans-Sped generally has long-term, multi-year relationship with its customers, with multiple business lines servicing a single entity or group through the supply chain. The well-diversified customer portfolio is considered credit-positive, as losing one or more key customers is not likely to cause significant decline in revenue.

Stable operating profitability, expected to improve in the medium term

Trans-Sped was able to achieve relatively stable operating profit margins (Scope-adjusted EBITDA between 7-9%) in recent years, despite the increasingly challenging business environment. From 2023 onwards, we forecast a gradual improvement of operating profitability, as we expect the currently ongoing investments (warehouse capacity extension, procurement of additional logistics equipment) to drive profitability upwards, while we assume a higher profit margin in the business lines supplying the e-commerce segment.

Financial risk profile: B+

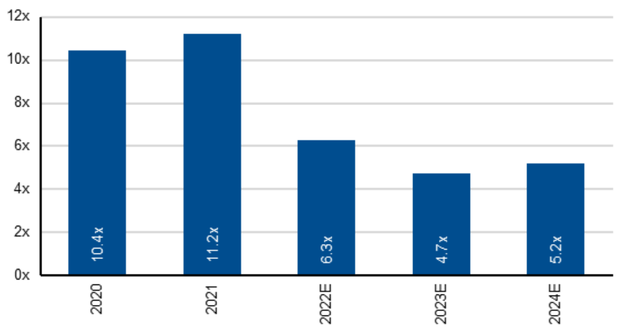
Key adjustments to the rating case include:

- Slower buildup of topline and bottom line compared to the management forecast, to account for the more challenging business environment
- Addition of off-balance sheet items to the Scope-adjusted debt (rental guarantees and guarantees related to customs clearance activity) in accordance with our General Corporate Ratings Methodology

Comfortable interest coverage metrics

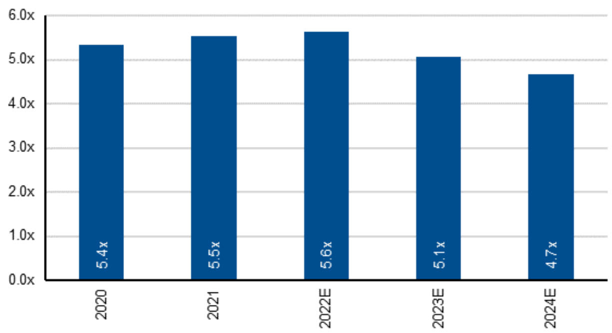
Interest cover, measured by Scope-adjusted EBITDA/interest, has historically been strong, consistently around 5x. While profitability has been improving, the increase in Scope-adjusted debt has resulted in increased interest costs and is expected to drive interest cover slightly below 5x at its peak in 2023. We deem this deterioration as only temporary, taking into consideration the anticipated increase in EBITDA, and the amortisation profile of the existing debt.

Figure 3: Debt protection (Scope-adjusted EBITDA interest cover)



Sources: Trans-Sped, Scope (estimates)

Figure 4: Leverage (Scope-adjusted debt/EBITDA)



Sources: Trans-Sped., Scope (estimates)

Increased leverage

We expect financial leverage, measured by Scope-adjusted debt/EBITDA, to remain around 5x until 2024, with a gradual improvement afterwards, based on two assumptions: i) the new investments (most notably the increased warehousing capacity) start to generate profit when construction is completed, increasing Scope-adjusted EBITDA; ii) the capital-intensive investment period is assumed to slow down, and no significant new financial debt will be drawn beyond 2023.

Negative FOCF until the end of the current investment cycle

Due to continuously increasing EBITDA, the issuer has been able to generate positive cash flow, both on the Scope-adjusted funds from operations (FFO) and on the Scope-adjusted CFO level. The Scope-adjusted FFO is expected to decrease in the FY 2022 accounts, mainly as a result of higher working capital needs of the company. Trans-Sped has generated negative FOCF, due to intensive capex in the previous years, which has typically been financed by external debt. Going forward, similar negative FOCF is expected for 2023, with a gradual improvement from 2024 when capex spending starts to slow.

Adequate liquidity

Liquidity is adequate as sources fully cover uses (the company's short-term debt at YE 2022 was HUF 462m). Sources comprise HUF 358m of free cash and a HUF 1.8bn open committed credit line available as at YE 2022. Negative FOCF of HUF 1.8bn forecasted for 2022 is financed from dedicated long-term investment credits. We note the rolling exposure related to the drawn credit facilities of Trans-Sped (approximately HUF 2.1bn as of December 2022), which have no definite maturity, but reviewed yearly by the financing banks, with the option to stop the annual extension. We see this scenario currently remote.

Balance in HUF '000	2021	2022E	2023E
Unrestricted cash (t-1)	3,152,919	357,782	539,701
Open committed credit lines (t-1)	1,000,000	1,843,695	1,577,549
Free operating cash flow	-3,038,222	-1,798,931	-829,652
Short-term debt (t-1)	440,241	461,756	2,917,922
Coverage	**2.5x**	**0.9x**	**0.4x**

Long-term debt rating

Senior unsecured debt rating: B+

In March 2020, Trans-Sped issued a HUF 5bn senior unsecured bond (ISIN: HU0000359500) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used for refinancing financial debt (HUF 2.8bn), for acquisitions (HUF 0.6bn) and capex (HUF 1.6bn). The bond has a tenor of 10 years and a fixed coupon of 2.5%. Bond repayment is in four tranches starting from 2026, with 7.5% of the face value payable yearly, and 70% balloon payment at maturity. In addition to the rating deterioration covenant (2-year grace period below B+, immediate acceleration below B-), bond covenants include a cap on the dividend payment (maximum 25% of profit before tax) and a change of control covenant for the Fülöp family.

We have rated Trans-Sped's senior unsecured debt at B+, the same level as the issuer rating. The recovery analysis is based on a hypothetical default scenario at YE 2024. We has used the liquidation scenario in the analysis due to the asset-rich nature of company, including fixed assets with high resale value (warehouses, vehicle fleet). Recovery is 'average' for senior unsecured debt holders in this scenario.

We note that the senior unsecured bond issued under the Hungarian Central Bank's bond scheme has an accelerated repayment clause. The clause requires Trans-Sped to repay the nominal amount (HUF 5bn) within 30 days after the bond rating falls below B-, which could have default implications.

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