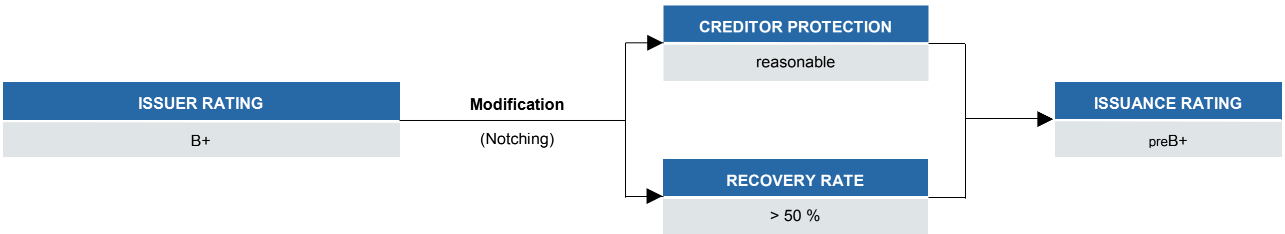
Preliminary Issuance Rating

Trans-Sped Logisztikai Szolgáltató Központ Kft. Proposed senior unsecured bond issue (2020/2030)		26 November 2019	preB+
		Issuance rating	
		Outlook	stable
Industry	Transportation and Logistics	Issuance volume	HUF 5bn
		Coupon (% p.a.)	tba.



ISSUER RATING	B+

- Increased business risks due operations in highly cyclical, highly competitive and fragmented markets
- Slightly increased financial risks due to rather weak earnings, low capital returns and increasing leverage
- No modification for operational risks or external influence

CREDITOR PROTECTION	reasonable

- Preliminary bond terms and conditions in preparation
- Reasonable, market standard terms expected, esp. with view to termination rights, covenants and negative clauses

BOND RANKING	senior unsecured

- Private placement process expected for Q1/2020
- Bond proceeds shall be predominantly utilized for warehouse expansion plans
- Unsecured bond will effectively rank below the remains of higher ranking secured bank debt

RECOVERY	> 50 %

- Hypothetical default scenario based on assumed liquidation of assets
- Expected recovery rate: > 50%

KEY DATA		
Listing	no	Proposed private placement (Q1/2020), secondary market listing may follow
Issuance volume	HUF 5bn	Subject to market conditions (target size)
Fixed coupon	tba.	Subject to market conditions; based on 10y govt. bond yield + risk spread
Repayment	bullet	Full redemption / refinancing at maturity (Q1/2030)
Term to maturity	10 years	Expected maturity date in Q1/2030
Collateral	none	Senior unsecured bond

Rating rationale

Euler Hermes Rating assigns a preliminary B+ issuance rating to Trans-Sped's proposed 2020/30 bond issue maturing in 2030 with a total proposed issuance volume of HUF 5bn. The rating was derived from Trans-Sped's current issuer credit rating (B+), the bond's proposed ranking, assumed reasonable creditor protections and a recovery expectation of > 50% in a hypothetical bond default scenario.

Unsecured bond will effectively rank below higher ranked secured debt

Trans-Sped has announced that, subject to market conditions, it intends to issue HUF 5bn of unsecured fixed rate notes ("senior unsecured bonds") with a term of 10 years and governed by Hungarian law. Overall we expect the proposed bond issue to be subject to a senior ranking, as the net proceeds from the offering shall rank pari passu with the existing providers of external senior debt financing ("OTP", "Erste", "K&H"). However, the bond shall only replace parts of existing debt. Hence, a notable proportion of effectively higher ranking secured bank debt (as of 30.09.19 c. HUF 4.8bn) may remain post issuance. This situation may put future bondholders at risk of relatively low recovery in a default scenario.

Reasonable creditor protection assumed

As outlined above, Trans-Sped's current asset base will remain pledged as collateral to the remaining providers of (secured) bank loans post issuance. For holders of unsecured debt it is important to mitigate the risk of becoming significantly disadvantaged in the event of additional debt issues, when permitted. For unregulated businesses we generally expect higher risks, as they are usually forced to raise new debt against any unencumbered assets should their credit quality deteriorate for some structural reasons. To ensure equal rights of payment and equal seniority with potentially new debt issues, we therefore assume a standard set of reasonable creditor protection clauses to be included in the proposed bond terms, such as pari passu / negative pledge clauses and financial covenants.

Expected recovery > 50% based on hypothetical default scenario

Our recovery expectation on Trans-Sped's proposed bond issue follows a hypothetical default scenario based on an assumed liquidation of assets. At present, Trans-Sped's overall creditworthiness is driven by a slightly increased probability of default mainly as a result of its operations in the transportation and logistics sector which we assess as highly cyclical and highly competitive with low barriers to entry, low profit margins and fragmented landscape. This set-up is not supportive in sustaining high long-term debt levels, usually seen with asset-intense transport and logistic companies (cp. B+ issuer rating report). In a hypothetical default scenario, however, we assume a further deterioration of the issuer's overall creditworthiness as a cause of prolonged market stress leading up to depressed long-term profit prospects, overcapacities (e.g. warehouses) and stressed net asset values (e.g. shrinking warehouse rent multiples). We also assume that ranking and size of debt claims could change prior to default, and that the issuer could be forced to pledge more assets to raise debt as its credit quality deteriorates. As a consequence, loss given default usually rises disproportionately the higher the probability of default is. This is especially true for unsecured debt. Nevertheless, we still expect recovery rates of at least 50% for the holders of the proposed unsecured senior bond, as the current net assets of Trans-Sped already contain a notable amount of hidden reserves (cp. c. HUF 3bn revaluation reserve), while Trans-Sped keeps expanding into new and very modern facilities which we expect to maintain higher values in distressed situations while being exempt from any unfavorable pledge agreements via assumed reasonable credit protections (pari passu / negative pledge). Our assessment leads to the equalization of the bond issuance rating with the current issuer rating of Trans-Sped (B+).

Rating History

	26 November 2019
Issuer rating	B+
Issuance rating	preB+
Outlook	stable

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Upgrade of Trans-Sped's issuer credit rating
- Lasting improvement of the bond's expected recovery rate

Factors that could lead to a Downgrade

- Downgrade of Trans-Sped's issuer credit rating
- Lasting deterioration of the bond's expected recovery rate

Issuance

HUF 5bn issue to fund warehouse expansion plans

Trans-Sped has announced that, subject to market conditions, it intends to issue HUF 5bn of unsecured fixed rate notes ("senior unsecured bonds") with a term of 10 years and governed by Hungarian law. Still subject to internal discussions, the net proceeds from the proposed offering shall predominantly be used for Trans-Sped's asset expansion plans. Potentially left-over amounts may be used for debt reductions. More precisely the company intends to build new warehouse capacities along with the expansion plans of its existing customers, e.g. from the automotive or chemical industry. Currently the company's capital structure contains secured long- and short-term bank loans ("OTP", "Erste", "K&H") and financial leases ("DLL", "Ober") in a total amount of HUF 7.3bn (thereof capitalized leases: HUF 2.5bn). Depending on the final issuance volume and the final utilization of funds we expect total financial liabilities of between HUF 11bn and HUF 12bn post issuance.

Private placement and market sounding process announced for Q1/2020

Trans-Sped aims to raise the funds via a private placement process involving the Central Bank of Hungary (MNB) and additional institutional investors who shall each sign up for half (HUF 2.5bn) of the proposed issuance volume. Trans-Sped applied for MNB's "Bond Funding for Growth Scheme" (BGS) and intends to initiate a bond roadshow and market sounding process during Q1/2020. At a later stage, a secondary market listing of the notes at the corporate bond market in Hungary remains an option. We expect further announcements to be made upon pricing of the offering. The coupon rate shall be based on the market conditions for the 10 year government bond yield of Hungary (12/11/19: 2.11% p.a.; 52 week range: 1.55% - 3.76%) plus a credit risk spread relative to the final issuance volume and the issuer rating of Trans-Sped.

Preliminary issuance rating assigned

During our assessment the actual bond terms and conditions were still in preparation. However, based on current proposals we made assumptions and assigned a preliminary issuance rating to the proposed issue at this stage. Assigning a final issuance rating depends on the provision of the terms and conditions for the proposed bond issue together with a clear definition of its intended purpose.

Appendix 1: Execution

Notice

This report represents a supplement to the issuer rating report from 13 November 2019. The issuance rating is derived from the current issuer rating. The full rationale for the issuer rating notation can be found in the issuer rating report.

Analysts

- Matthias Peetz, Senior Analyst / Project Lead
- Ildikó Rendes, Senior Analyst
- István Braun, Senior Analyst

Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

Principal sources of information

- Preliminary information on the envisaged bond structure
- Use of the proceeds – Business plan provided by the issuer
- Management interview

Rating methodology

- Euler Hermes Rating GmbH Issue Rating Methodology of December 2014 (formally amended on 14 November 2017) (https://www.ehrg.de/seiten/Methodology_Issue%20Rating_20171114.pdf)

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Appendix 2: Rating categories

Category	Explanation
AAA	In the opinion of EHR, AAA rated obligations demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated obligations demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated obligations demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated obligations demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated obligations demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated obligations demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated obligations demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated obligations demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, C rated obligations demonstrate a very low credit quality, an event of default is imminent.
D	D rated obligations have defaulted, as defined by the rating agency.
PLUS (+) MINUS (–)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

Disclaimer

Magyar Nemzeti Bank (client) engaged Euler Hermes Rating GmbH to conduct a rating of the envisaged bond issuance (rated obligation) of Trans-Sped Logisztikai Szolgáltató Központ Kft. (issuer) on 17 September 2019. An interview with the issuer was conducted on 4 November 2019.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 26 November 2019. This rating report was given to the client on 27 November 2019, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a certain obligation. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The issuer is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The issuer has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the issuer exercising reasonable and commercial care. The issuer's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the issuer cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

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Euler Hermes Rating GmbH

Hamburg, 27 November 2019