EULER HERMES Rating

Issuer Rating (Short report)

Trans-Sped Logisztikai Szolgáltató Központ Kft.		18 November 2020	B+
		Issuer rating	
		Outlook	stable
Industry	Transportation and Logistics	2019 Revenues*	HUF 21,398m
		2019 Employees*	743

* consolidated group accounts (DELOG Debreceni Logisztikai Központ és Ipari Park Kft.)

BUSINESS RISK: increased
FINANCIAL RISK: slightly increased
→ ANCHOR RATING: B+ → Modification 1 (Operational risks) → STAND-ALONE-RATING: B+ → Modification 2 (External influence) → ISSUER RATING: B+

BUSINESS RISK — increased

- Highly cyclical industry largely driven by macroeconomics
- Highly fragmented and competitive market with typically weak profits and low barriers to entry
- Tight domestic labour market forces consolidation
- Moderate concentration with end markets / customers

OPERATIONAL RISKS — +/- 0

- Operational risk profile consistent with the anchor rating; no modification required

FINANCIAL RISK — slightly increased

- Track record of positive but rather weak earning power
- Low capital returns due to rather asset intense operations
- Capital structure with solid equity buffer
- Leverage increased due to corporate growth activities

EXTERNAL INFLUENCE — +/- 0

- Assessment of intra-group or public-sector relations causes no modification

Key financial ratios *	2017	2018	2019	FC 2020	2021e	2022e
EBITDA-Margin (%)	9.6	8.6	8.9	9.2	10.5	11.1
ROCE (%)	8.6	6.4	6.6	7.1	8.1	8.7
Equity ratio (%)	33.5	31.1	31.6	29.5	33.5	38.1
Leverage ratio (%)	52.9	55.9	56.5	51.9	56.1	50.0
Total liabilities / EBITDA	6.1	6.9	6.5	7.9	6.0	5.2
Net financial liabilities / EBITDA	3.4	3.9	3.9	3.6	3.9	3.2
EBIT interest coverage	9.2	6.6	7.2	5.3	7.9	8.7
EBITDA interest coverage	16.5	14.8	15.8	10.8	14.1	15.4

* - based on consolidated group accounts (DELOG Debreceni Logisztikai Központ és Ipari Park Kft.)
- adjusted on the basis of EHR's analytical methodology

Rating Rationale

Euler Hermes Rating confirms the B+ issuer credit rating of Trans-Sped Logisztikai Szolgáltató Központ Kft. The underlying factors are a combination of an increased business risk profile and a slightly increased financial risk profile with no further modifications. The rating outlook remains stable.

Increased business risk due to operations in highly cyclical, highly competitive and highly fragmented market environment

In our view Trans-Sped is subject to an increased business risk profile. The group's core business is concentrated in the transportation & logistics industry which we assess as highly cyclical in relation to other industries. This includes the strong link to macroeconomic drivers such as GDP, goods traffic or oil/fuel prices. The sector is further characterised by high competitive risks with low barriers to entry, low profit margins and a highly fragmented landscape in a mix of multinational and domestic players driving consolidation. Despite these harsh conditions, we acknowledge that Trans-Sped has managed to grow its business steadily during recent years thanks to a favourable economic climate and generally rising foreign direct investments in the Visegrád countries. Even during the prevailing 2020 global pandemic crisis Trans-Sped's operations were affected only slightly and proved to be fairly stress resistant. For 2021, however, we expect a rather cautious market development due to the prevailing uncertainties (EU politics/Brexit), currently damped economic prospects (Covid-19) and prevailing capacity constraints (esp. labour). Trans-Sped's operations show a moderate concentration around certain customers or industries (e.g. automotive, chemicals) with often recurring and long-term business relations which also ensure a certain degree of stability. To limit business risk, Trans-Sped provides for some flexibility as half of the vehicle fleet is owned and operated by subcontractors. With view to the growing asset intense warehouse business, however, we see an overall limited flexibility. Nevertheless, we think that the group pursues a reasonable corporate growth strategy with a still moderately balanced risk policy, underpinned by a prudent retention policy and a positive alignment of shareholder interests with long-term business viability.

Slightly increased financial risks due to positive but rather weak earnings, low capital returns and increased leverage

Regarding financial risks we think that Trans-Sped is subject to a slightly increased risk profile. Overall, we appreciate the track record of positive, yet rather weak, earnings power which Trans-Sped could keep largely in line with the growing market volumes for transportation and logistics services in Hungary during recent years, and especially during the prevailing pandemic crisis. However, current and future capital return ratios (ROCE / ROA) will remain at rather weak levels in our opinion mainly due to the asset intense nature of Trans-Sped's operations (vehicle fleet / warehouse capacities) and the challenging market environment, which keeps earnings rather tight looking forward. Furthermore, we think that Trans-Sped's asset expansion plans will keep leverage at rather increased levels in the near-term future, which could affect our overall deleveraging assessment negatively during times of prolonged economic stress. On the other hand we think that Trans-Sped's overall capital structure benefits from a good equity ratio based on prudent profit retention policies and an adequate financial flexibility based on currently high liquid funds (bond proceeds), access to unutilised credit facilities and the established relationship to the funding banks underpinned by the successful first-time issue of a HUF 5bn corporate bond in 2020.

Assessment on operational risk and external influence requires no modification

In our opinion, Trans-Sped's structures, processes and systems for controlling its operations and handling its operational risk are in consistence with the current anchor rating. A rating modification is not required. The further assessment of external factors which might have an impact on Trans-Sped's stand-alone rating, such as intra-group or public-sector relations, does also not trigger a rating modification according to our methodology.

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Substantial improvements of the group's operating cash flow and profit margins as an effect of sustainable market growth or an improved competitive position
- Sustainable improvement of the group's capital structure and deleveraging potential (e.g. EHR's adjusted net debt/EBITDA < 3.5 or leverage < 50%)

Factors that could lead to a Downgrade

- Persistent market stress or deterioration of the group's competitive position combined with a substantial impact on the groups cash generation potential
- Substantial deterioration of the group's capital structure and deleveraging potential (e.g. EHR's adjusted net debt/EBITDA > 4.7 or leverage > 65%)
- Adverse changes to the groups shareholder structure (family ownership) or profit retention policy (e.g. through private equity investors)

Rating History

Company

Issuer

Major Hungarian transport & logistic group

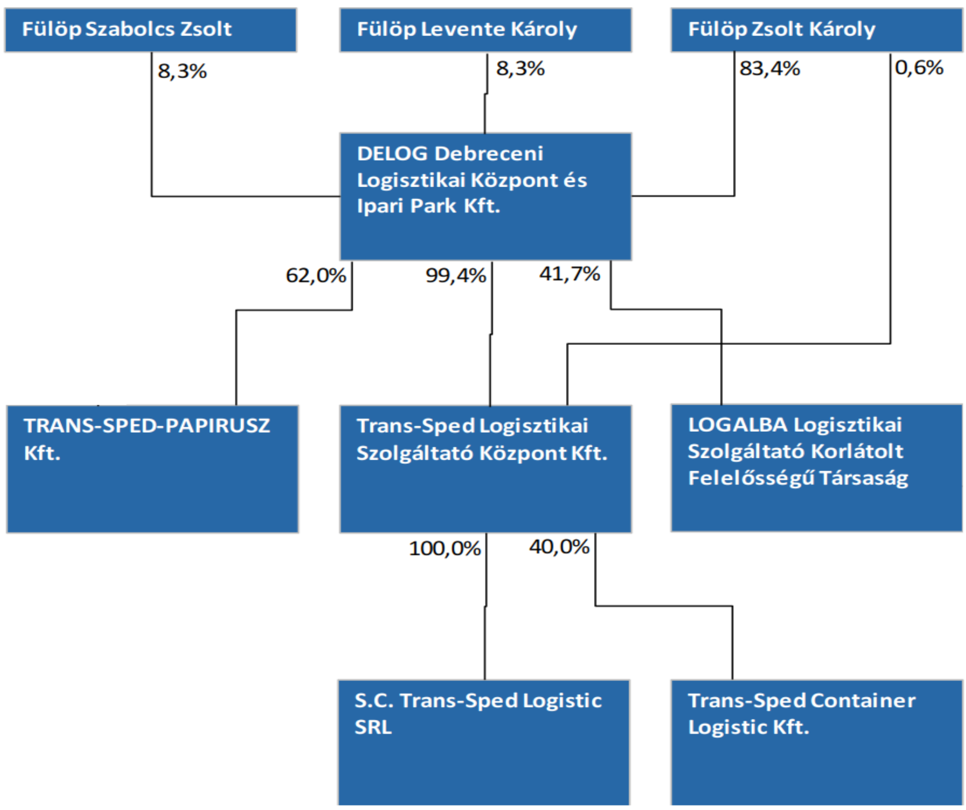
Trans-Sped Logisztikai Szolgáltató Központ Kft. ("Trans-Sped Kft." or "Trans-Sped") is the core operating entity within a group of companies engaged in the Transport & Logistics sector since 1990. Based in Debrecen, Trans-Sped is among the top Hungarian players offering a wide range of services ranging from transportation and freight-forwarding (c. 30% domestic / 70% cross-border) to modern warehousing and production logistic activities with value added services like (re)packaging, storing, labelling, assembling, quality control, returned goods handling, export/import customs administration etc. The group operates c. 185.000 m² of indoor warehouse capacity with c. 200 forklift trucks and cranes, a heavy duty vehicle fleet of 480 (thereof c. 250 subcontracted) and currently 16 regional centres across Hungary. Furthermore the group engages in technical maintenance tasks, warehouse construction projects and industrial park operations at its own 28 hectare industrial park site.

Family-owned group of companies

Under company law Trans-Sped is a family-owned and family-managed business, indirectly owned via the asset holding company Debreceni Logisztikai Központ és Ipari Park Kft. ("DELOG Kft." or "DELOG") which holds strategic stakes in two other related, yet smaller, companies. At the end of 2019, the whole group of companies represented consolidated revenues of HUF 21,398 million and a workforce of 743. The main shareholder (Fülöp Zsolt Károly) and his son (Fülöp Szabolcs Zsolt) are the group's managing directors, exercising chief executive functions.

Intra-group asset merger as of 31 December 2019

Due to the high degree of interrelations through cross-guarantees and property ownership, the core assets and liabilities of DELOG were formally merged with Trans-Sped as of 31 December 2019. This shall provide a clearer picture to external funding partners such as banks in order to enhance transparency and help to access debt capital markets for corporate growth. Nevertheless, we consider the whole group of companies and its respective consolidated accounts for our assessment.



Appendix 1: Execution

Analysts

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

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Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

  [x] Solicited Rating
  [ ] Unsolicited Rating
    [ ] No participation of the rated entity or related third party
    [ ] With participation of the rated entity or related third party
      [ ] Access to internal documents
      [ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Audited financial statements on the consolidated group accounts for 2017, 2018 and 2019
  - Unaudited interim financing statements Q1-2020 / Q2-2020 / Q3-2020
  - Liquidity status and loan portfolio – November 2020
  - Financial Plan 2020-2022 and CAPEX budget 2020-2022
  - Group Presentation and Business Plan
  - Management interview and market research

Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016 (https://www.ehrg.de/seiten/Methodology_Issuer_Rating_20171114.pdf)
- Basic principles for Assigning Credit Ratings and Other Services as of July 2020 (https://www.ehrg.de/seiten/Principles_200701.pdf)
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020 (https://www.ehrg.de/seiten/ESG_2020.pdf)

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of EHR, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
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.

* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services (https://www.ehrg.de/seiten/Principles_200701.pdf)

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

Cash flow return on investment (Cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total assets

Capital structure

Indebtedness

Equity-to-total assets ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total assets

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Deleveraging potential

Total liabilities / EBITDA
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expenses

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

Magyar Nemzeti Bank (client) engaged Euler Hermes Rating GmbH to conduct a rating update of Trans-Sped Logisztikai Szolgáltató Központ Kft. (rated entity) on 28 August 2020. A management interview was conducted on 10 November 2020.

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 18 November 2020. This rating report was given to the client on 27 November 2020, thereby concluding the rating process.

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The rated entity 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 rated entity 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 rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity 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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Euler Hermes Rating GmbH

Hamburg, 27 November 2020