# Scope Hamburg affirms B+/Stable issuer credit rating on Hungarian logistic company Trans-Sped Kft.

**The rating is mainly driven by the group's operations within the fragmented and highly cyclical transportation industry and currently increasing corporate leverage due to ongoing growth investments along with only weak free cash flow generation potential.**

The latest information on the rating, including rating reports and related methodologies, is available on this **LINK**.

## Rating action

Scope Hamburg GmbH (Scope) has affirmed the B+/Stable issuer credit rating on Hungarian logistic company Trans-Sped Logisztikai Szolgáltató Központ Kft. (Trans-Sped). Based on an assigned senior unsecured debt category rating of B+ the debt instrument ratings for the HUF 5bn senior unsecured bonds were likewise affirmed at B+.

## Rating rationale

Trans-Sped's business risk profile, assessed at B+, is mainly driven by the rather small size of the company and by the fact that the core business is concentrated in the transportation & logistics industry which Scope assesses 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 2020/21 global pandemic crisis Trans-Sped's operations were affected only slightly and proved to be fairly stress resistant with no impact on EBITDA. The group`s operations show an only moderate concentration around certain customers or industries (e.g. automotive, chemicals) with often recurring and long-term business relations which ensure a solid degree of stability in Scope's view. To limit business risk, Trans-Sped ensures flexibility as half of the vehicle fleet is owned and operated by subcontractors. With view to the asset intense warehouse business, however, we see a limited flexibility but acknowledge the growing future demand for additional capacities while large scale foreign direct investments are currently being realised in the Debrecen region (BMW - electric car manufacturing, CATL – battery manufacturing).

Trans-Sped’s financial risk profile, assessed at B+, is mainly driven by the currently low to negative free cash flow generation potential and elevated financial leverage. Both is due to a cycle of growth investments which peaked in 2021/22, and a rather delayed development in earnings which will keep leverage temporarily at slightly increased, yet declining, levels between 4.0x and 5.0x over the next two years, with the potential to decrease further once the effects of the recent expansionary investments begin to materialize (expected from 2023/24). Overall, we appreciate the track record of sustainably achieving positive and stable operating margins which mainly rest on established customer relations, long-term contracts and the power for a timely pass on of adverse cost increases.

Over the course of 2021/22 a number of substantial growth investments (e.g. warehouse building & technical equipment, vehicles, Euro-Log acquisition) were mainly funded by the accumulated bond proceeds (HUF 5bn issue 2020), leaving FOCF temporarily negative. As Trans-Sped plans to scale down its future investment activities, however, Scope expects FOCF to turn positive from 2023, providing headroom to deleverage. Nevertheless, we also think, that current and future asset returns will remain at rather weak levels mainly due to the asset intense nature of Trans-Sped’s operations (vehicle fleet / warehouse capacities) and the challenging market environment, which will keep operating margins tight looking forward.

Scope considers Trans-Sped’s liquidity to be adequate. The group’s current financial flexibility rests on adequate cash sources, unutilised over-draft/guarantee facilities, no major near- or medium-term maturities and a good standing in credit markets, demonstrated by solid relationships with banks and restrictive dividend policies. Near-term negative FOCF caused by the 2021/22 investment cycle peak are well covered by liquid funds, committed/unutilized credit facilities and inflows from additional bank pre-financing facilities for granted investment subsidies. In addition, Scope notes that Trans-Sped’s HUF 5bn senior unsecured bonds (issued 2020) are subject to a specific financial covenant linked to a minimum issuer credit rating of B+, which (in case of a violation) provides adequate room (24 months) to restore the required minimum as long as the rating stays within the B-category.

No drivers in this credit rating action are considered as ESG-related factors with a substantial impact on the overall assessment on credit risk.

## Outlook and rating-change drivers

The stable outlook reflects Scope’s expectation that the group is able to maintain a solid operational track record with financial leverage expressed as SaD/EBITDA not exceeding 5.0x sustainably going forward. The outlook further incorporates Scope’s expectation that the group will successfully complete its asset expansion, helping to diversify and extend its earnings base with the potential of bringing SaD/EBITDA to below 4.0x over the medium term.

A negative rating action could occur if the company shows financial leverage of substantially more than 5.0x SaD/EBITDA on a sustained basis, which could be triggered by a significant deterioration of operating profitability in its core segments or higher-than-expected external financing requirements for expansionary investments.

A positive rating action is seen remote at present but may be warranted in the case of significant growth in Trans-Sped's size and improved geographic diversification (outside domestic markets). At the same time, we would expect an improvement in operating profitability to >10% Scope-adjusted EBITDA while Scope-adjusted debt/EBITDA stays below 3.5x on a sustained basis.

## Long-term and short-term debt ratings

In 2020 Trans-Sped has issued senior unsecured bonds (HUF 5bn; ISIN: HU0000359500) under the Hungarian National Bank's Bond Funding for Growth Scheme. The bonds are structured as partially amortising balloon notes with a term of 10 years. Allocation and settlement took place on 16 Mar 2020, since 11 Sep 2020 the bonds are registered with the Budapest Stock Exchange (BÉT Xbond). The net proceeds were mainly utilised to realise Trans-Sped's business expansion plans.

Scope's recovery analysis follows a hypothetical default scenario and is based on an assumed liquidation of Trans-Sped's assets, as Scope assumes the sum of assets to be of a higher value than the group as a whole. Scope's view is driven by the relatively high level of vertical integration represented by individual assets that form part of the group (warehouse facilities, vehicle fleet, production logistic equipment). Based on the recovery analysis, Scope expects an 'average recovery' for the company's senior unsecured debt category, resulting in a B+ rating (in line with the underlying issuer rating).

### Stress testing & cash flow analysis

No stress testing was performed. Scope Hamburg performed its standard cash flow forecasting for the company.

### Methodology

The methodologies used for these Credit Ratings and/or Outlook, (Corporate Rating Methodology, 15 July 2022), are available on **https://scoperatings.com/governance-and-policies/rating-governance/methodologies**.
Scope Ratings GmbH, Scope Ratings UK Limited and Scope Hamburg GmbH apply the same methodologies/models and key rating assumptions for their credit rating services.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Basic Principles for Assigning Credit Ratings and Other Services 8 June 2022', published on **https://scopehamburg.com/seiten/SH_Basic_Principles_July_2022.pdf**. Historical default rates of the entities rated by Scope Hamburg can be viewed in the 'Credit Rating Transition and Default Study' at **https://scopehamburg.com/seiten/Default_Study_2022_Scope_Hamburg.pdf**. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): **https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml**. A comprehensive clarification of Scope Hamburg's definitions of default and Credit Rating notations can be found at **https://scopehamburg.com/seiten/SH_Basic_Principles_July_2022.pdf**. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on **https://scoperatings.com/governance-and-policies/rating-governance/methodologies**.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

### Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Hamburg's internal sources.

Scope Hamburg considers the quality of information available to Scope Hamburg on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Hamburg considers to be reliable and accurate. Scope Hamburg does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

### Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Hamburg GmbH, Ferdinandstraße 29-33, D-20095 Hamburg, Tel +49 40 607781 200.

Lead analyst: Matthias Peetz, Senior Analyst

Person responsible for approval of the Credit Ratings: Werner Stäblein, Managing Director

The Credit Ratings/Outlook were first released by Scope Hamburg or its predecessor on 13 November 2019. The Credit Ratings/Outlook were last updated on 11 November 2021.

### Potential conflicts

See **www.scoperatings.com** under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

### Conditions of use/exclusion of liability

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With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors world-wide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several Europe-an countries. More on **www.scopegroup.com**

## Contact

| | | |
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| Analyst: | Matthias Peetz | **m.peetz@scopehamburg.com** |
| Team leader: | Werner Stäblein | **w.staeblein@scopehamburg.com** |

For questions and comments, please contact us via: **press@scopegroup.com**.

**Scope Hamburg GmbH**
Managing Director: Werner Stäblein, Vincent Wald, Christian Werner • Commercial Register Hamburg: HRB 60759

**scopehamburg.com**