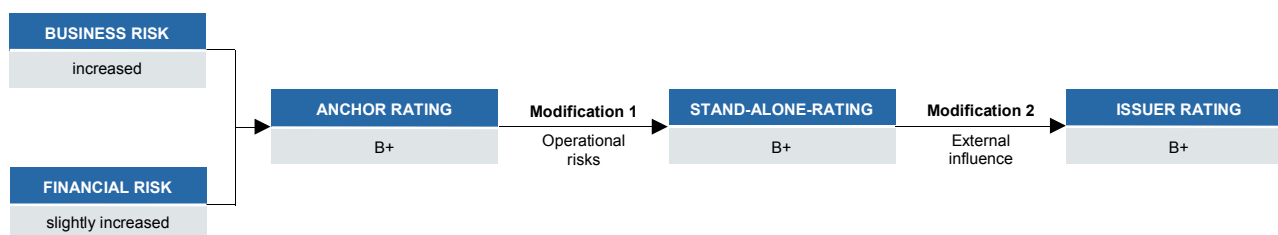


# Issuer Rating (Short report)

<b>Trans-Sped Logisztikai Szolgáltató Központ Kft.</b>		13 November 2019	<b>B+</b>
		Issuer rating	
		Outlook	stable
Industry	Transportation and Logistics	2018 Revenues*	HUF 20,416m
		2018 Employees*	732

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



<b>BUSINESS RISK</b>	<b>increased</b>
<ul style="list-style-type: none"> <li>Highly cyclical industry largely driven by macroeconomics</li> <li>Highly fragmented and competitive market with typically weak profits and low barriers to entry</li> <li>Tight domestic labour markets forces consolidation</li> <li>Moderate concentration with end markets / customers</li> </ul>	

<b>OPERATIONAL RISKS</b>	<b>+/- 0</b>
<ul style="list-style-type: none"> <li>Operational risk profile consistent with the anchor rating; no modification required</li> </ul>	

<b>FINANCIAL RISK</b>	<b>slightly increased</b>
<ul style="list-style-type: none"> <li>Track record of positive but rather weak earning power</li> <li>Low capital returns due to rather asset intense operations</li> <li>Capital structure with solid equity buffer</li> <li>Leverage and financial risks increasing due to corporate growth activities</li> </ul>	

<b>EXTERNAL INFLUENCE</b>	<b>+/- 0</b>
<ul style="list-style-type: none"> <li>Assessment of intra-group or public-sector relations causes no modification</li> </ul>	

Key financial ratios *	2016	2017	2018	FC 2019	2020e	2021e
EBITDA-Margin (%)	9.8	9.6	8.6	8.8	9.0	9.8
ROCE (%)	9.8	8.6	6.4	8.5	6.9	9.4
Equity ratio (%)	31.8	33.5	31.1	29.7	27.4	32.6
Leverage ratio (%)	51.7	52.9	55.9	57.3	64.0	54.5
Total liabilities / EBITDA	6.2	6.1	6.9	6.2	7.3	5.8
Net financial liabilities / EBITDA	3.1	3.4	3.9	3.5	4.9	3.4
EBIT interest coverage	9.3	9.2	6.6	7.9	6.2	8.0
EBITDA interest coverage	16.0	16.5	14.8	15.4	11.5	13.7

\* - 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 assigns a B+ issuer credit rating to 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. We expect the rating to remain stable over the next twelve months.**

***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. For the years ahead, however, we expect slight cut-backs due to the prevailing uncertainties (EU political crisis/Brexit), damped economic prospects (globally) and growing 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 no-dividend 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 increasing 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. 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 found that the ongoing asset expansion leads to an increasing leverage ratio, which we expect to move further into a rather weak range depending on the realisation of Trans-Sped's future expansion plans, and what could affect our overall deleveraging assessment negatively during times of an economic downturn. On the other hand we think that Trans-Sped's overall capital structure benefits from a good equity ratio based on prudent retention policies and a still adequate financial flexibility with access to unutilised credit facilities and additional funding offers from local banks.

***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.

# Rating History

	13 November 2019
Issuer rating	B+
Stand-alone rating	B+
Outlook	stable

# Issuer

**Major Hungarian transport & logistic group**

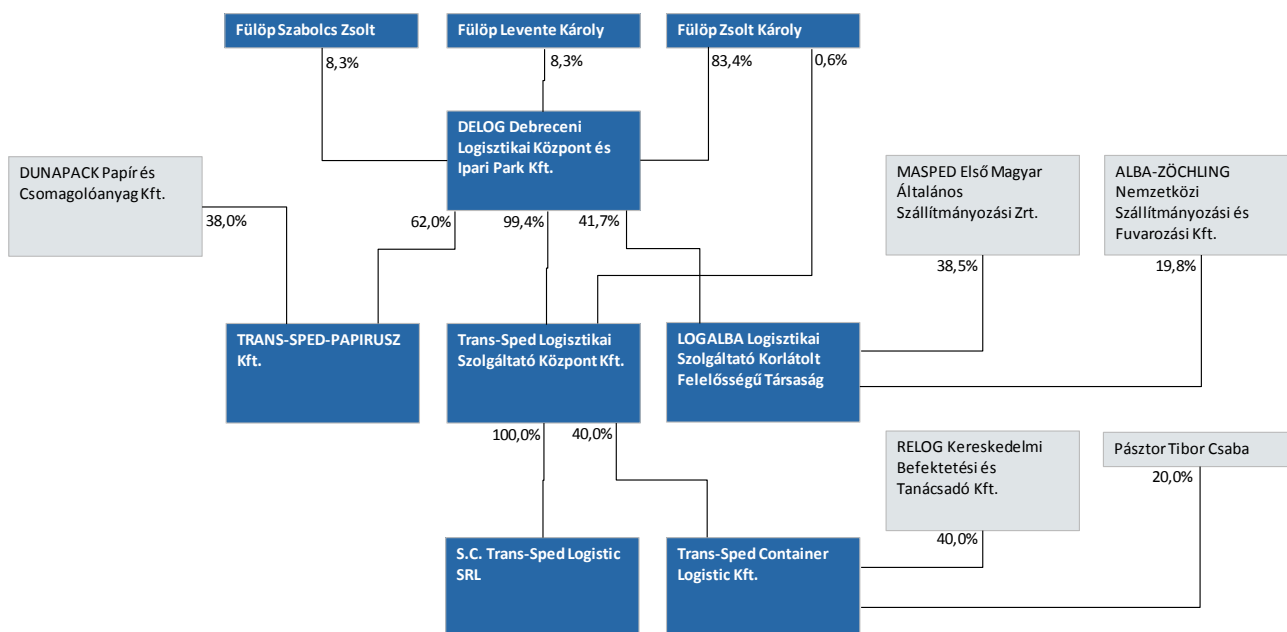
Trans-Sped Logisztikai Szolgáltató Központ Kft. (“Trans-Sped Kft.” or “Trans-Sped”) is the core operating entity within a group of companies engaged in the Transport & Logistics sector since 1990. Based in Debrecen, Trans-Sped is among the top Hungarian players offering a wide range of services ranging from transportation and freight-forwarding (c. 30% domestic / 70% cross-border) to modern warehousing and production logistic activities with value add services like (re)packaging, storing, labelling, assembling, quality control, returned goods handling, export/import customs administration etc. The group operates c. 185.000 m<sup>2</sup> 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. At the end of 2018, the core entity Trans-Sped employed a workforce of 631 and had generated revenues totalling HUF 18,446 million.

**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 operates and owns the premises and holds strategic stakes in two other related, yet smaller, companies. At the end of 2018, the whole group of companies represented consolidated revenues of HUF 20,416 million and a workforce of 732. The main shareholder (Fülöp Zsolt Károly) is the group’s managing director, exercising chief executive functions in both entities.

**Intra-group asset merger as of 31 December 2019**

Due to the already high degree of interrelations through cross-guarantees and the group-wide property management function of DELOG, it is envisaged to formally merge the core assets and liabilities of DELOG into 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. We will therefore consider the whole group and its respective consolidated accounts for our assessment.



## Appendix 1: Execution

### Analysts

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

### Rating committee

- Dörte Mähmann, Director
- Holger Ludewig, Director

### Principal sources of information

- Audited financial statements on the consolidated group accounts for 2016, 2017 and 2018
- Financial Plan 2019-2021 and CAPEX budget 2019-2021
- Group Presentation and Business Plan
- Management interview
- Market research

### Rating methodology

- Issuer rating of Euler Hermes Rating GmbH of 31 May 2016 (formally amended on 14 November 2017) (<https://www.ehrg.de/en/about-us/our-methods/>)

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## Appendix 2: Rating categories

Category	Explanation
<b>AAA</b>	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
<b>D / SD</b>	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.
<b>PLUS (+) MINUS (-)</b>	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.

## Appendix 3: Definition of financial ratios

### Earnings power

#### EBITDA margin

EBITDA margin	
<b>Numerator</b>	
	EBITDA
<b>Denominator</b>	
	Total revenues

#### Returns

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

Return on total assets	
<b>Numerator</b>	
	Adjusted operating and financial result + interest expense
<b>Denominator</b>	
	Adjusted total assets

#### Cash flow return on investment

Cash flow return on investment (Cash flow ROI)	
<b>Numerator</b>	
	EBITDA
<b>Denominator</b>	
	Adjusted total assets

## Capital structure

### Indebtedness

Equity-to-total assets ratio
<b>Numerator</b>
Adjusted equity (= economic capital)
<b>Denominator</b>
Adjusted total assets

Leverage
<b>Numerator</b>
Net debt
<b>Denominator</b>
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
<b>Numerator</b>
Total assets - economic capital (= total liabilities)
<b>Denominator</b>
EBITDA

Net debt / EBITDA
<b>Numerator</b>
Net debt
<b>Denominator</b>
EBITDA

### Interest coverage

EBIT interest coverage
<b>Numerator</b>
Adjusted operating result (= EBIT)
<b>Denominator</b>
Interest expenses

EBITDA interest coverage
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Interest expenses

## Disclaimer

Magyar Nemzeti Bank (client) engaged Euler Hermes Rating GmbH to conduct a rating of Trans-Sped Logisztikai Szolgáltató Központ Kft. (rated entity) on 17 September 2019. The rated entity was visited 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 13 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 rated entity. 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 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.

The rating is published on Euler Hermes Rating GmbH's website ([www.eulerhermes-rating.com](http://www.eulerhermes-rating.com)) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

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Euler Hermes Rating GmbH

Hamburg, 27 November 2019