Waberer's International Nyrt. Hungary, Road Logistics

B+ STABLE

Corporate profile

Waberer's International Nyrt. is a European road logistics company based in Budapest, Hungary. The company is active in international road transportation, regional contract logistics services and is the third largest provider of MTPL insurance in the Hungarian market. It is active in over 30 countries and has one of the largest European fleets of self-owned trucks. The company is currently undergoing operational restructuring, streamlining its international freight services and improving profitability.

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA interest cover (x)	7.7x	6.9x	6.2x	6.6x
Scope-adjusted debt (SaD)/SaEBITDA (x)	4.8x	3.6x	3.2x	3.3x
Scope-adjusted FFO/SaD (%)	-18%	5%	1%	6%
Scope-adjusted FOCF/SaD (x)	-4%	41%	-39%	-15%

Rating rationale

Scope assigns Waberer's International Nyrt. an issuer rating of B+/Stable and a debt category rating on senior unsecured debt of B+.

The company's business risk profile is driven by its robust market position in the fragmented European road freight logistics market. Moreover, Waberer's benefits from diversified operating profit contributions from its other segments, namely regional contract logistics, warehousing and e-commerce solutions as well as its insurance segment. These segments provide fairly stable cash flows based on multi-year contracts, mitigating the potential volatility of the road freight core business. Waberer's blended industry risk profile of B+ is constrained by its large exposure to the road logistics sector, which has very low entry barriers, as evidenced by the high market fragmentation, paired with medium cyclicality. The company's blended industry risk profile benefits from the recurring EBITDA contributions of its insurance segment.

Waberer's operating margin (EBIT) fell sharply from 2018 to 2020. This was – among other factors – the result of weakening fleet utilisation as well as an aging, less fuel-efficient fleet. Historically, Waberer's EBIT margins were 3% to 4% up to 2018. Thanks to comprehensive restructuring in 2020 (the introduction of the 'trade lane model'), the international transport (ITS) segment returned to EBIT-neutral figures and all the other segments made stable or growing EBIT contributions in the first quarter of 2021. Group operating profitability (EBITDA margin) has ranged from 6% to 12% in recent business years. We expect a return to pre-crisis numbers of 11% to 12% over the next two business years. The Q1 2021 group EBITDA margin amounted to 11.7% again. We see medium-term profitability upside once the current level has been reached on a sustained basis. However, profitability remains a constraint at this point due to the company's recent losses. We assess Waberer's overall business risk profile at B+.

Ratings & Outlook

Corporate ratings B+/Stable

Senior unsecured rating B+

Analysts

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Related Methodologies

Corporate Rating Methodology, February 2020

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The company's financial risk profile (B+) is a mixed picture. Financial leverage as measured by Scope-adjusted debt (SaD)/Scope-adjusted EBITDA has been increasing over the last few business years, up to 4.6x as of year-end 2019. In the second half of 2020 and the first months of 2021, a visible upswing in financial performance brought SaD/EBITDA back to below 4.0x. We expect leverage in a 3.0x to 3.5x range for the next two business years. This expectation is based on our financial base case, which incorporates the successful placement of a EUR 166m senior unsecured debt instrument in H1 2021. Planned investments from the proceeds of this debt instrument will lead to significantly negative free operating cash flows in the coming years.

We expect the recovery in revenues, and hence operating profits, of recent months to continue. This should gradually bring operating cash profits back to an EBIT margin of around 4% and a Scope-adjusted EBITDA margin of roughly 12% over the course of the next two years.

We see liquidity as adequate. Waberer's should only have limited short-term financial maturities following the assumed senior unsecured debt issuance, which will be partly used to refinance short-term debt.

Outlook and rating change drivers

The Outlook for Waberer's is Stable, based on our assumption of a continued recovery in its ITS segment in line with our financial base case forecast. This incorporates financial leverage of 3.0x to 3.5x going forward. The Outlook is also based on the successful issuance of a HUF 60bn senior unsecured bond in 2021, with proceeds earmarked for the acquisition of trucks, for infrastructure related investments at the core logistics segments, potential M&A and refinancing of debt.

A positive rating action may be warranted if the company generates operating profits significantly exceeding our financial forecast and reduces financial leverage to less than 3.0x on a sustained basis while maintaining its current business risk profile.

A negative rating action might be warranted by financial leverage of SaD/EBITDA over 4.0x on a sustained basis or a material deterioration in Waberer's business risk profile, e.g. by material negative changes in diversification. Financial leverage exceeding 4.0x could be triggered by a significant deterioration in operating profitability in Waberer's core segments or substantial debt-financed investment beyond our financial base case.

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Rating drivers

Positive rating drivers	Negative rating drivers
• Robust market position in the very fragmented European road freight market • Diversified business model including higher margin and less price volatile value-add services like warehousing and insurance services • Robust creditworthiness of the customer portfolio with mostly large-scale international corporations • Sufficient short-term scalability of the transportation business via subcontractors to withstand demand volatility	• Highly competitive main business segment of road freight with ongoing price pressure from smaller players • Execution risks with regard to the change in operating strategy in the ITS segment as well as potential M&A transactions • Elevated volatility in operating profitability in recent years

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Decrease in financial leverage to less than 3.0x SaD/EBITDA on a sustained basis • Successful execution of business restructuring in ITS and expansion plans in other segments	• Increase in financial leverage to more than 4.0x SaD/EBITDA on a sustained basis • Material deterioration in diversification in terms of Scope-adjusted EBITDA contribution

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA/interest cover (x)	7.7x	6.9x	6.2x	6.6x
Scope-adjusted debt/Scope-adjusted EBITDA (x)	4.8x	3.6x	3.2x	3.3x
Scope-adjusted FFO/SCOPE-adjusted debt (SaD)	-18%	5%	1%	6%
FOCF/Scope-adjusted debt (SaD)	-4%	41%	-39%	-15%
Scope-adjusted EBITDA in EUR m	**2019**	**2020**	**2021E**	**2022E**
EBITDA	39.9	33.8	63.4	71.3
adjustments	0.0	0.0	0.0	0.0
Scope-adjusted EBITDA	**39.9**	**33.8**	**63.4**	**71.3**
Scope funds from operations in EUR m	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA	39.9	33.8	63.4	71.3
less: cash interest as per cash flow statement[1]	-4.5	-4.9	-10.2	-10.9
less: cash tax paid as per cash flow statement	-4.8	-4.5	-4.2	-5.7
less: repayment portion of leases	-64.6	-18.3	-47.8	-41.1
Scope funds from operations	**-33.9**	**6.1**	**1.3**	**13.6**
Scope-adjusted debt in EUR m	**2019**	**2020**	**2021E**	**2022E**
Reported gross financial debt	242.0	197.6	316.6	313.5
less: cash, cash equivalents	-50.9	-76.1	-112.8	-77.1
Cash not accessible	0.0	0.0	0.0	0.0
add: others	0.0	0.0	0.0	0.0
Scope-adjusted debt	**191.1**	**121.5**	**203.8**	**236.4**

[1] Scope-adjusted figure (containing also part of cash interest payments postponed due to Covid-19 related Hungarian interest moratorium in 2020)

Business risk profile: B+

Blended industry risk of B+

Industry risk for Waberer's is high as it is mainly exposed to the road transportation sector.

We assess cyclicality in the road transportation industry as medium. Since a vast majority of goods are transported by road logistics, at least on the last stretch of their route, the size of the overall market is very large. It has been growing steadily in line with the volume of GDP and production volumes globally. There is a certain degree of correlation to GDP growth, which is due to swings in industrial production throughout the economic cycle. However, since a large portion of road logistics cargo consists of essential goods like fresh and packaged food, beverages and healthcare products, there is a substantial level of very stable transportation volume. Moreover, European road freight volumes have been on a positive trend, outpacing GDP growth for more than a decade. GDP growth sensitivity has been below 1x, e.g. in the 2009 recession.

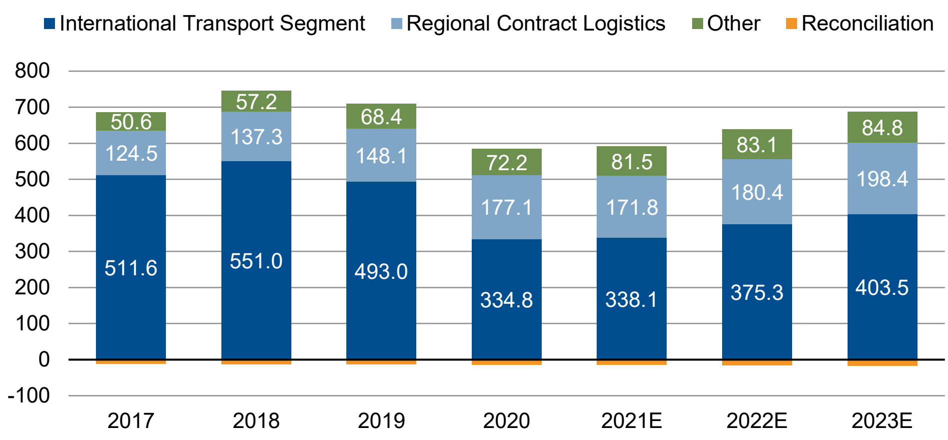
Entry barriers to road freight logistics are very low, as evidenced by a six-digit number of competing companies in Europe. According to estimates, more than 80% of European road freight companies operate 0 to 10 trucks in total, leading to an extremely fragmented market with only 1% of companies operating more than 50 trucks.

Company benefits from insurance exposure and integrated service portfolio

Substitution risks are medium to low in our view. Despite a clear commitment of many market participants and governments alike to curb carbon emissions and move cargo volume to more environmentally friendly modes of transport like rail, the overall transport industry still depends heavily on trucks. In particular the last 0 to 100km until the cargo's final destination can only be covered by road transport in the vast majority of cases. Increased levels of national and international trade have always lifted road transport volumes in absolute terms, the relative share having been very stable over the last few decades.

Blended industry risk is B+, based on weights as per the EBITDA contribution to consolidated group numbers. We assigned a 20% weighting to the business services industry risk profile (assessed BBB), applicable to the EBITDA contribution from the insurance segment, and an 80% weighting to the road logistics industry risk profile (assessed B).

Figure 1: Segment revenues (EURm)



Sources: Waberer's, Scope

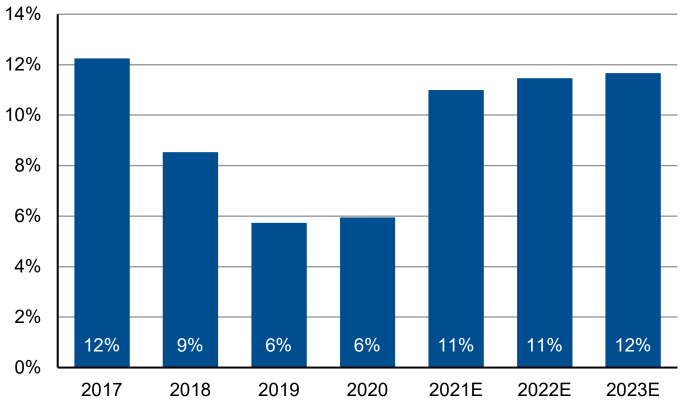
Very competitive road logistics market weighs on profitability

Waberer's is one of the largest European players in road logistics, based on its self-owned fleet, and the largest road logistics company in its home market of Hungary based on revenue and fleet. The company is currently reorganising its main ITS segment to create a more focused 'trade lane model'. The number of owned trucks has decreased towards 1,600 anwhile the share of sub-contracted freight volume will increase. The company has a critical fleet size to win over large-scale international clients for its classic road transport segments (ITS HU and LINK) and its regional contract logistics business, which also includes value-add and warehousing services.

Contract logistics and insurance mitigate EBITDA volatility

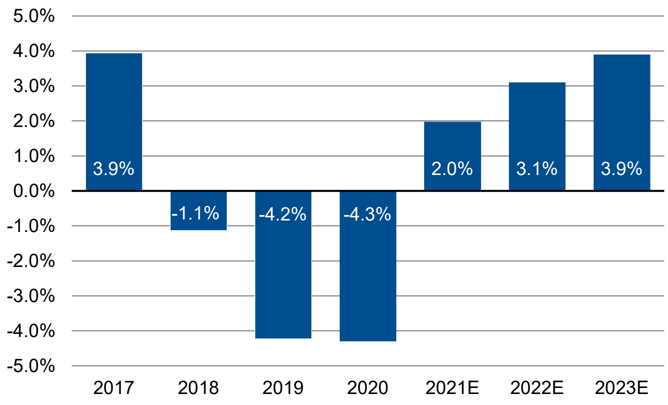
Despite the company's robust market position in the European sector, it has no pricing power or market dominance. This is because the European road freight market is very fragmented, with the top 10 players only covering about 10% of freight volume. As a result, even large players are price-takers. We nevertheless acknowledge that a certain size and visibility is a clear advantage when competing for large contracts and/or customers. A substantial share of Waberer's freight (around 30% of total freight volume) is handled via sub-contractors, which enables the company to adjust to demand fluctuations without having to modify its own capacities or underutilise its assets. Waberer's insurance segment is the number three player in the MTPL insurance segment in Hungary after Allianz and K&H.

Figure 2: Scope-adjusted EBITDA margin (%)



Sources: Waberer's, Scope estimates

Figure 3: EBIT margin (%)



Sources: Waberer's, Scope estimates

Diversification benefits from client portfolio granularity

Waberer's is fairly well diversified in terms of segments, clients and geographies. Although the core business is centred around road logistics, several value-add businesses such as warehousing, e-commerce services, regional contract logistics and a substantial operating profit share from car and truck insurance help to diversify revenue streams. As per the nature of the business, the number of clients is large.

Operating profits recovered to pre-2018 levels in Q1 2021

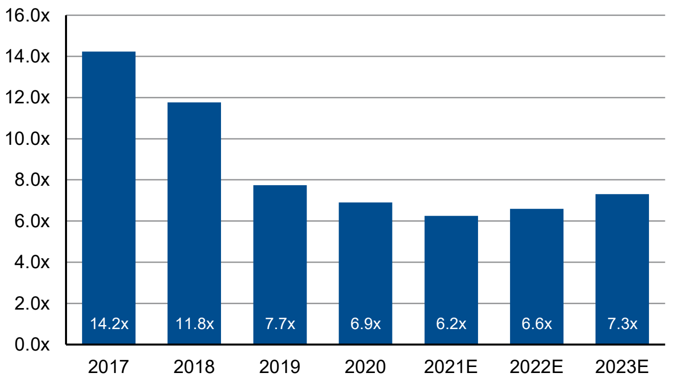
Waberer's operating margin (EBIT) fell sharply from 2018 to 2020. This was – among other factors – the result of weakening fleet utilisation, routes, and an aging, less fuel-efficient fleet. Historically, Waberer's EBIT margins were 3% to 4% up to 2018. As a result of comprehensive restructuring (introduction of the trade lane model) and a recovery of freight volumes, the ITS segment returned EBIT-neutral figures and all the other segments made stable or growing EBIT contributions in the first quarter of 2021.

Financial risk profile: B+

Scope-adjusted EBITDA interest cover expected to stay above 6.0x

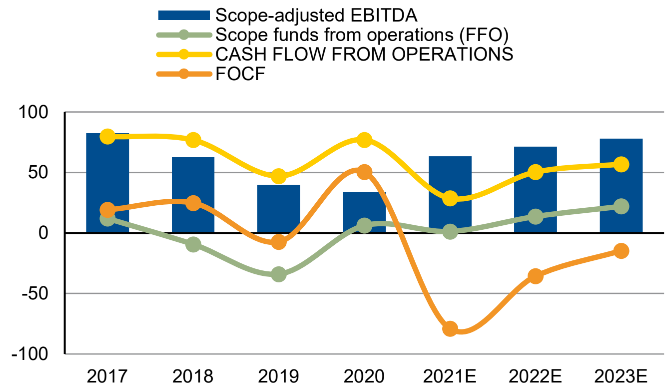
EBITDA interest coverage had been at double-digit levels prior to the 2019/2020 crisis years. Due to the substantial additional senior unsecured debt issuance, which we have incorporated into our 2021 base case, we expect Scope-adjusted interest cover to recover to a very comfortable 6.0x to 8.0x in the next two years, but no recovery to double-digit levels. We expect the recovery on the back of the new streamlined operating setup in the ITS/LINK segment, increasing regional contract logistics (RCL) business and relatively stable EBITDA contributions from the insurance segment, paired with stable cash interest costs of around 3.5% incorporated in our financial base case.

Figure 4: Scope-adjusted EBITDA interest cover (x)



Sources: Waberer's, Scope estimates

Figure 5: Scope-adjusted cash flows (EUR m)



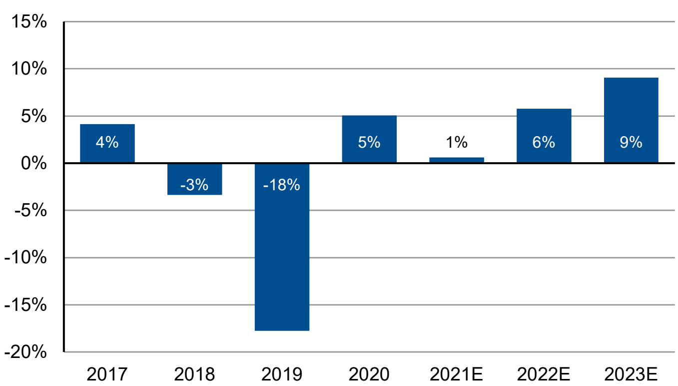
Sources: Waberer's, Scope estimates

Leverage measured by SaD/Scope-adjusted EBITDA expected at 3.0x to 3.5x

We expect financial leverage to stay between 3.0x and 3.5x SaD/Scope-adjusted EBITDA going forward, with a positive trend towards 3.0x. A substantial upward deviation could be triggered by a deterioration in operating profitability, e.g. as a result of another severe economic slump, debt-financed capital expenditure and/or M&A at a larger-than-expected scale.

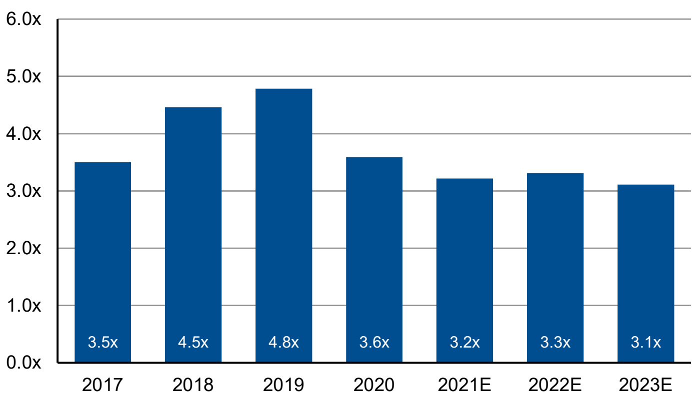
We expect the development of free operating cash flow (FOCF)/SaD to stay volatile. FOCF is likely to be negative for the next two business years as a result of the comprehensive investment programme following the intended EUR 166m debt issuance incorporated in our base case scenario.

Figure 6: Scope-adjusted funds from operations/SaD (%)



Sources: Waberer's, Scope estimates

Figure 7: SaD/Scope-adjusted EBITDA



Sources: Waberer's, Scope

Scope-adjusted FFO calculated after lease repayments

We project that Scope-adjusted funds from operations (FFO)/SaD projection will develop in a similar way to operating cash generation. We adjusted our Scope-adjusted FFO and FOCF calculations for the full amount of annual lease repayments since we deem these cash costs as necessary to maintain the operating business. We expect mid to high single-digit FFO/SaD ratios going forward after a stabilisation of cash profitability at current levels (EBIT margin of around 4%).

Adequate liquidity given a successful bond placement

Waberer's had a cash position of about EUR 76m as of year-end 2020. Following a successful EUR 166m debt placement in 2021, we expect a cash position of EUR 67m to EUR 113m for 2021 to 2023. This will sufficiently cover short-term financial debt maturities, which are expected at single-digit EUR millions after the partial refinancing of debt with the 10-year or 15-year unsecured bond proceeds. Liquidity is adequate as the company will have only negligible financial debt besides leasing obligations (all equipped with buyback guarantees from truck manufacturers) and the 10-year or 15-year bond (no amortisation before 2026).

Long-term debt instrument ratings

B+ senior unsecured debt rating assigned

We assign a B+ debt instrument rating to Waberer's senior unsecured debt. This instrument rating is based on a hypothetical liquidation scenario as of year-end 2022, in which we computed an average recovery for senior unsecured debt holders based on our assumptions of attainable liquidation values.

Waberer's plans to issue a HUF 60bn senior unsecured corporate bond under the MNB Bond Funding for Growth Scheme. The bond's tenor is planned to be 10 or 15 years (based on market sounding) with amortisation starting in the 5th year and a 50% bullet repayment at maturity. The coupon will be fixed and payable on an annual basis. Proceeds are earmarked for the acquisition of trucks, for infrastructure related investments at the core logistics segments, potential M&A and the refinancing of debt.

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