Credit Rating Announcement

06 February 2024

Scope affirms BB/Stable issuer rating on Mobilbox Kft.

The rating affirmation is driven by the group's leading positions in CEE and consistently high margins while being constrained by its small size, limited diversification and volatile cash flow cover.

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

Rating action

Scope Ratings GmbH (Scope) has today affirmed Mobilbox Kontener Kereskedelmi Kft.'s issuer rating of BB/Stable. The senior unsecured debt rating has been affirmed at BB+.

Rating rationale

The rating affirmation is driven by the company's sustained leading positions in the CEE container rental market combined with consistently high operating profitability, and further improved credit metrics.

Mobilbox's business risk profile (assessed at BB) mainly benefits from its solid positions in the CEE markets, which strongly support its competitive position. The company is the leader in the container rental market in Hungary and Romania and more recently Poland. It remains one of the top three players in the CEE markets, with an estimated market share of close to 16% in terms of fleet size.

Furthermore, Mobilbox has consistently delivered very high operating profitability thanks to its high asset intensity, strong pricing power, active sales of used containers and the expansion of its lucrative spare parts and services activities. Scope-adjusted EBITDA margins have constantly exceeded 40% since 2015 and remained resilient in crisis periods, as evidenced by the FY 2022 performance (EBITDA margin up 4.8pp YoY) and projected profitability for the full year 2023. Scope expects EBITDA margins to remain around 40% in the next few years, driven by further optimisation of the fleet utilisation across the group, improved performance at the most recently established subsidiaries and continued expansion in the most profitable markets (Poland in particular). The business risk profile is restrained by the company's small size (2023 revenues estimated at HUF 25.9bn or EUR 68m) as well as a moderate level of diversification with regard to customers, suppliers, products and geography.

The financial risk profile (revised to A- from BBB+) is primarily supported by the issuer's very low leverage and strong interest cover. Leverage as measured by Scope-adjusted debt/EBITDA has been in the 0.5x to 1.5x range since 2015. Scope expects this ratio to stay around 1x in the next two years thanks to steady EBITDA improvement, driven, inter alia, by the ramp-up of the most recently established subsidiaries in Slovenia, Croatia or Serbia in terms of capacity utilisation and profitability. The other leverage metric, Scope-adjusted funds from operations/debt, is also supportive and expected to stay above 100% over the forecast period, also reflecting the gradual debt reduction. Scope-adjusted EBITDA interest cover has been exceptionally strong in 2022 and 2023, courtesy of the sharp rise in Hungarian interest rates, reflected in high interest income from HUF-denominated deposits in Hungary. Despite the anticipated normalisation of interbank rates in Hungary, Scope expects this debt protection metric to remain substantially above 10x over the forecast period.

Cash flow cover (Scope-adjusted free operating cash flow [FOCF]/debt) has been volatile in recent years. This reflects primarily the company's investment cycle and its impact on FOCF. The sizeable increase in net capex combined with unusual swings in working capital led to a negative FOCF in 2021, followed by a normalisation in 2022-2023. Scope expects cash flow cover to stay in the 15-25% range in the coming years, reflecting a stabilisation of the net capex ratio (capex to sales) in the 25-30% range combined with the anticipated debt reduction.

Scope considers Mobilbox's liquidity to be adequate. The group has considerably increased its cash balances, from HUF 3.8bn at year-end 2021 to around HUF 9bn at year-end 2023. Short-term debt maturities remain safely covered by unrestricted cash alone. Liquidity coverage is above 200% in all forecasted years.

Scope continues to place much greater emphasis on Mobilbox's business risk profile than on its financial risk profile due to its comparatively small size. Furthermore, the company's limited size and outreach compared to other entities rated BB and above hinder it from exceeding the assigned BB issuer rating (reflected by a negative one notch adjustment on the standalone credit assessment).

Scope highlights that the senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 3.3bn) if the debt rating of the bond stays below B+ for more than two years (grace period). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is three notches. Scope therefore sees no significant risk of the rating-related covenant being triggered.

Outlook and rating-change drivers

The Outlook is Stable. It reflects Scope's view that Mobilbox will continue to execute its long-term strategy geared toward expanding its container fleet both domestically and internationally while maintaining high EBITDA margin of around 40%. The Outlook also incorporates Scope's expectation that the group will maintain a prudent financial policy, notably in terms of dividend payments and discretionary capex (bolt-on acquisitions), keeping Scope-adjusted debt/EBITDA around 1x.

Scope views a rating upgrade as remote at this stage, but a positive rating action could be warranted by significant growth in Mobilbox's size, leading to improved diversification in terms of customers, products and geographies, while keeping credit metrics in line with Scope's rating case.

A negative rating action could occur if Scope-adjusted debt/EBITDA increased to around 4x on a sustained basis. This could be caused by much weaker-than-expected revenues due to changes in market conditions or the competitive landscape, leading to profitability well below Scope's base case.

Long-term debt rating

Scope has affirmed Mobilbox's BB+ senior unsecured debt rating based on the issuer rating and an ‘excellent’ recovery expectation for this debt category in a hypothetical default scenario in 2025. Although this recovery rate allows for up to two notches uplift compared to the issuer rating, the up-notching was limited to one notch to account for potential volatility in the capital structure on the path to default. This results in a BB+ rating, one notch above the assigned issuer rating.

The HUF 3.3bn senior unsecured bond (ISIN: HU0000361340) was issued in February 2022 under the Hungarian National Bank’s Bond Funding for Growth Scheme. The bond features a tenor of 10 years, 10% annual amortisation of the principal amount between 2027 and 2031 and a 50% bullet repayment at maturity (2032). The bond coupon is fixed (4.9%) and payable on an annual basis.

Stress testing & cash flow analysis

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

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 16 October 2023; European Business and Consumer Services Rating Methodology, 15 January 2024), are available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in ‘Rating Definitions – Credit Ratings, Ancillary and Other Services’, published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings’ definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. 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 Ratings' internal sources.
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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 and/or Outlook were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.
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The Credit Ratings/Outlook were first released by Scope Ratings on 10 February 2022. The Credit Ratings/Outlook were last updated on 2 February 2023.

Potential conflicts

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With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). 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 European countries. More on www.scopegroup.com

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