Mobilbox Kontener Kereskedelmi Kft.
Hungary, Business Services

BB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	24.8x	32.3x	66.3x	52.7x
Scope-adjusted debt/EBITDA	0.5x	0.7x	1.0x	0.9x
Scope-adjusted funds from operations/debt	173%	134%	88%	99%
Scope-adjusted free operating cash flow/debt	70%	-5%	5%	33%

Rating rationale

The rating of Mobilbox continues to reflect its leadership positions in the CEE container rental market and consistently high operating profitability driven by its high asset intensity, strong pricing power and lucrative spare parts and services business. EBITDA margins have averaged 43% since 2015 and were resilient in 2022 despite a challenging environment. We expect margins to remain around 40% in the forecast period. The business risk profile is restrained by the group's small size and moderate diversification of customers, suppliers, products and geography.

Mobilbox's rating is supported by its solid financial risk profile, driven by low leverage and strong interest cover, further improved by high interest income on HUF-denominated deposits. The financial risk profile is, however, somewhat constrained by cash flow volatility due to the company's investment cycle.

Liquidity is adequate. Mobilbox has significantly increased its cash position in 2021-2022 and we expect unrestricted cash balances to safely cover short-term maturities and more than compensate for cash flow volatility in the years ahead.

We continue to put much greater emphasis on the business risk profile than on the financial risk profile in view of the company's small size.

Outlook and rating-change drivers

The Outlook is Stable. It reflects our view that Mobilbox will continue to execute its long-term strategy geared toward expanding its container fleet both domestically and internationally while maintaining a high EBITDA margin of around 40%. The Outlook also incorporates our 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.

We view 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 of customers, products and geographies, while keeping credit metrics in line with our rating case.

A negative rating action could take place 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, leading to profitability well below our base case.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
02 Feb 2023	Affirmation	BB/Stable
10 Feb 2022	New	BB/Stable

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BB+

Analyst

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Related Methodology

Corporate Rating Methodology; July 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Strong track record in terms of operating profitability, with limited volatility. Scope-adjusted EBITDA margin averaged 43% in 2015-2021 • Solid leadership positions in key CEE markets • Core business supported by lucrative spare parts and services activities • Strong cash position, providing high financial flexibility	• Small absolute size • Limited diversification (product, suppliers, geography) • Free operating cash flow vulnerable to high working capital requirements and capex

Positive rating-change drivers	Negative rating-change drivers
• Significant growth in size, leading to improved diversification with regard to business lines, products, customers or geographies, while keeping credit metrics in line with Scope’s rating case.	• Scope-adjusted debt/EBITDA increasing to around 4x on a sustained basis.

Corporate profile

Founded in 1997, the Mobilbox group is headed by Mobilbox Kontener Kereskedelmi Kft., headquartered in Budapest (Hungary). The group provides services in the renting and selling of office, storage, sanitary and special containers (including spare parts and accessories), primarily in Central and Eastern Europe (CEE). The Mobilbox group generated HUF 21.2bn in revenues in 2021 (EUR 60m). Its Scope-adjusted EBITDA margin has averaged 43% since 2015.

Mobilbox is 100% owned by Hungarian private individuals via three shareholding structures: Wintco Kft (72%), Tüzo Kft (24%) and Ador Kft (4%). Since 1997, the group has been led by Zoltan Nyemecz, managing director and co-owner (via Tüzo Kft.)

Financial overview

			Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	24.8x	32.3x	66.3x	52.7x	35.2x
Scope-adjusted debt/EBITDA	0.5x	0.7x	1.0x	0.9x	1.0x
Scope-adjusted funds from operations/debt	173%	134%	88%	99%	90%
Scope-adjusted free operating cash flow/debt	70%	-5%	5%	33%	-12%
Scope-adjusted EBITDA in HUF m					
EBITDA	6,375	8,521	9,071	9,114	9,466
Operating lease payments	220	289	306	320	339
Scope-adjusted EBITDA	**6,595**	**8,810**	**9,378**	**9,434**	**9,805**
Funds from operations in HUF m					
Scope-adjusted EBITDA	6,595	8,810	9,378	9,434	9,805
less: (net) cash interest paid	-156	-149	-12	-35	-129
less: cash tax paid per cash flow statement	-303	-423	-601	-587	-612
less: interest component operating leases	-110	-124	-130	-144	-150
Funds from operations (FFO)	**6,027**	**8,114**	**8,635**	**8,668**	**8,915**
Free operating cash flow in HUF m					
Funds from operations	6,027	8,114	8,635	8,668	8,915
Change in working capital	-845	-2,858	-152	-375	-479
Other changes in accruals	-47	693	-357	-601	-503
Non-operating cash flow	-771	-833	-950	-1,321	-1,265
less: capital expenditure (net)	-1,918	-5,408	-6,717	-3,501	-7,857
Free operating cash flow (FOCF)	**2,446**	**-291**	**460**	**2,870**	**-1,189**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	156	149	12	35	129
add: interest component, operating leases	110	124	130	144	150
Net cash interest paid	**265**	**273**	**142**	**179**	**279**
Scope-adjusted debt in HUF m					
Reported gross financial debt	3,949	7,174	10,658	10,197	9,957
less: cash and cash equivalents	-2,718	-3,833	-7,292	-8,777	-6,213
add: non-accessible cash[1]	0	0	3,646	4,389	3,107
add: operating lease obligations	2,255	2,722	2,834	2,942	3,050
Scope-adjusted debt	**3,486**	**6,066**	**9,846**	**8,751**	**9,901**

[1] In view of likely opportunistic spending in the coming years, we have increased the cash not deemed permanent from HUF800m to half of the projected cash amount.

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Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

ESG considerations

No material ESG risk has been identified.

The group has initiated various actions to reduce its carbon footprint but has not set any specific numerical target in terms of CO_2 emissions. In order to reduce its energy and electricity needs, Mobilbox uses solar cells for electricity and geothermic energy for heating and cooling of buildings at its central depot in Budapest. The group is also increasing the use of smart equipment for heating and cooling in containers, with the objective of reducing energy consumption by 10-15% per year.

In terms of governance, the ‘key person risk’ is addressed by a separation of business functions and the strengthening of functional leaders. In addition, Mobilbox plans to set up an advisory board and an independent supervisory board by 2025.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity’s cash flow and, by extension, its credit quality.

Business risk profile: BB

Industry risk profile: BBB

Mobilbox is a Hungarian-based company providing services in the rental and sale of containers and spare parts to a wide range of sectors. The group deploys a significant amount of capex for the acquisition of containers which are booked as fixed assets (for rental) or inventories (for sale). As the company's activities are increasingly geared towards services, we view it as an 'asset-heavy' business services company (B2B) and therefore classify Mobilbox's core industry as business services, with an industry risk profile rated BBB. The business services industry is characterised by medium cyclicality as well as medium entry barriers and substitution risk.

Top three in CEE with several leading positions

Mobilbox's business risk profile mainly benefits from its solid market positions in Central and Eastern Europe, which strongly support its competitive position. The group is the leader in the container rental market in Hungary (49% share), ahead of Containex (39%) and Algeco (6%). Mobilbox also dominates the Romanian market and is ranked number two in Poland and Bulgaria. Overall, the group is one of the top three players in the CEE market, with an estimated market share of around 15% based on fleet size. In 2022, the group increased its rental fleet by 16% YoY both organically (including new containers financed by the MNB bond issued in February 2022) and thanks to the acquisition of Qubical, a Hungarian competitor. Located in eastern Hungary, with a central depot close to Debrecen, Qubical could be an ideal gateway to BMW and the Chinese battery maker CATL.

Consistently high operating profitability

Mobilbox's structurally high operating profitability is the main supportive factor for the business risk profile. It is driven by the company's high asset-intensity, strong pricing power (courtesy of oligopolistic markets), relatively high margins generated by the sales of used containers and spare parts, and the expansion in services. Scope-adjusted EBITDA margins have averaged 43% since 2015 and remained resilient in difficult times as evidenced by the 9M 2022 performance (EBITDA margin up 3 pp YoY) and projected profitability for the full year 2022. Despite rather pedestrian revenue growth (low single-digit after a 62% surge in 2021), profitability should once again exceed 40% over the full year 2022, as the group managed to pass on most of the input cost inflation to its end customers and was hedged against energy price increases by an intensive use of renewable energy sources. We forecast that EBITDA margins will remain around 40% in the new few years.

Its small size is a major constraint

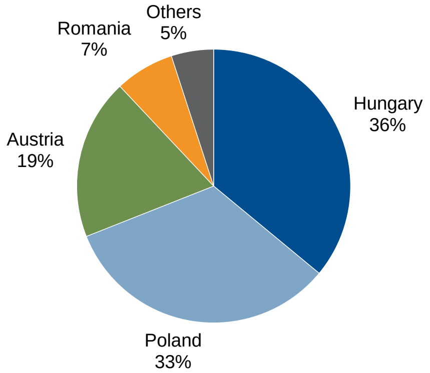
The business risk profile is restrained by the company's comparatively small size (HUF 21.6bn in estimated revenues in 2022 or circa EUR 55m) in the wide-ranging business services industry and by its moderate level of diversification of customers, suppliers, products and geography. Mobilbox is small in absolute terms despite the strong growth achieved in the past few years (revenue CAGR of 28% in 2015-21).

Limited diversification in terms of products and geography

Diversification remains a mixed bag. Concentration is high in terms of business lines and products. Its core business consists of selling and renting containers and providing spare parts, accessories and equipment as well as associated services (e.g. design, installation, dismantling and fitting). In 2021, sales of new/used containers accounted for 43% of total income, rental for 39% and spare parts/services for 18%. The share of rental is expected to bounce back to above 45% in the years ahead, partly due to customers' preference for renting over buying in uncertain times. Mobilbox intends to keep a healthy balance between sales and rental, while expanding services, including value-added services provided during the rental period. The group's business is primarily driven by one product (containers) but is admittedly well-diversified by usage (e.g. offices, storage, sanitary, reefer and specialty) and customer sectors (e.g. construction, public sector, industry and services). There is some customer concentration in Hungary (with the top three clients representing more than 10% of sales) and in individual subsidiaries, but customer granularity is much higher when assessed at the group level, which limits the potential impact the loss of key customers or customer defaults could have on cash generation.

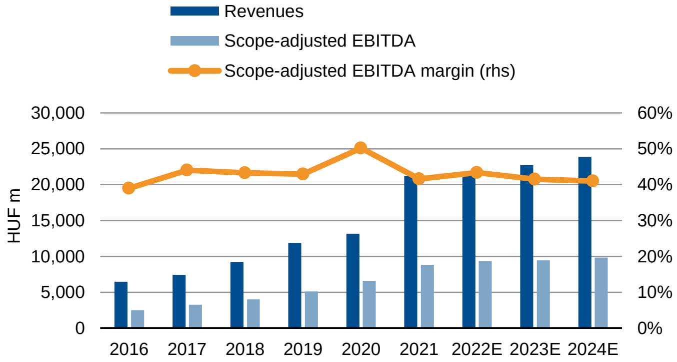
Finally, in terms of geography, despite numerous subsidiaries in the CEE region, Hungary remains the key growth driver (36% of group revenues and 38% of group profits). However, the group intends to bolster its international presence, possibly via bolt-on acquisitions in selected markets outside of the CEE region. This concentration could bear increased risks in case of economic downturn spilling out over the whole region.

Figure 1: Revenues by geography - 2022E



Sources: Mobilbox, Scope

Figure 2: Revenue and Scope-adjusted EBITDA over time



Sources: Mobilbox, Scope estimates

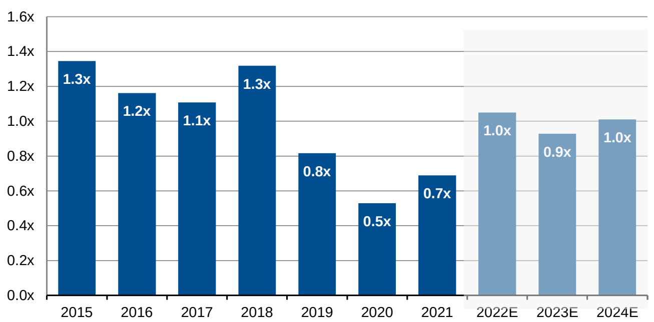
Financial risk profile: BBB+

The financial risk profile is primarily supported by the group's low leverage and strong interest cover.

Leverage expected to remain low on a sustained basis

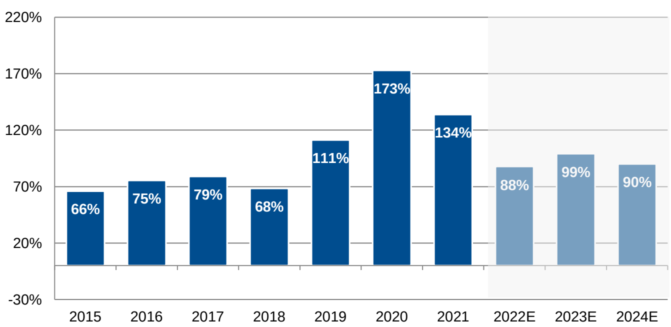
Leverage as measured by Scope-adjusted debt/EBITDA has been in the 0.5x to 1.5x range since 2015 and is expected to reach 1.0x at year-end 2022 despite a HUF 3.3bn bond issuance under the MNB programme in February 2022. We expect this ratio to stay around 1x in the next two years thanks to steady EBITDA improvement, driven, *inter alia*, by the ramp-up of the newest subsidiaries in terms of capacity utilisation and profitability and a higher share of lucrative spare parts and services The other leverage metric, Scope-adjusted FFO/debt, is also supportive and expected to stand above 60% over the forecast period.

Figure 3: Scope-adjusted debt/EBITDA



Sources: Mobilbox, Scope estimates

Figure 4: Scope-adjusted FFO/debt



Sources: Mobilbox, Scope estimates

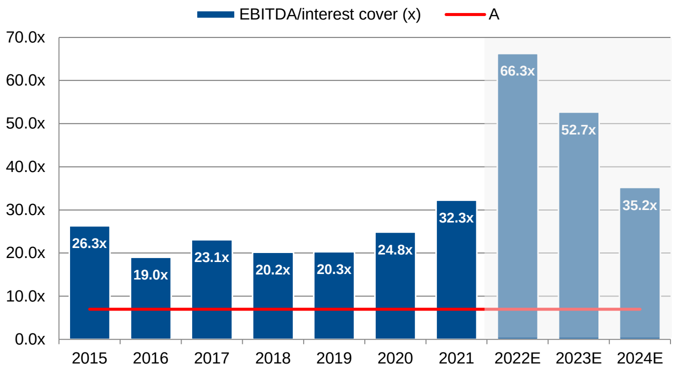
Strong interest cover, boosted by high interest rates on deposits in Hungary

EBITDA interest cover has been exceptionally strong over the past few years (above 20x since 2015), despite the additional financial debt raised. Since 2022, this debt protection ratio has benefitted from the sharp rise in Hungarian interest rates, reflected in high interest income from HUF-denominated deposits in Hungary. Even assuming a gradual normalisation of interbank rates in Hungary, we do not anticipate any noticeable deterioration in this metric as Mobilbox is expected to maintain substantial liquid assets over the forecast period.

Volatile cash flow cover remains a constraint

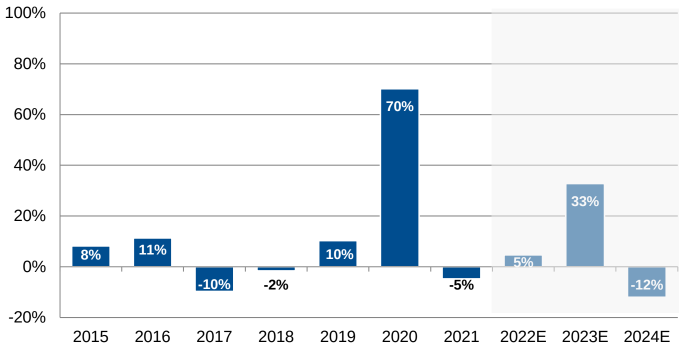
Cash flow cover (Scope-adjusted FOCF/debt) has been volatile in recent years. This reflects the evolution of the investment cycle and its impact on free operating cash flow. The sizeable increase in net capex in 2021 led to negative FOCF and we anticipate a similar pattern in 2024 as Mobilbox plans to resume purchasing containers more actively after a noticeable moderation in capex in 2023 amid economic uncertainties.

Figure 5: Scope-adjusted EBITDA/interest cover



Sources: Mobilbox, Scope estimates

Figure 6: Scope-adjusted FOCF/debt



Sources: Mobilbox, Scope estimates

Adequate liquidity

We consider Mobilbox's liquidity to be adequate. The group has considerably increased its cash balances, from HUF 1bn on average between 2016 and 2020 to HUF 3.8bn at year-end 2021 and an estimated HUF 7.3bn at year-end 2022. Short-term debt maturities remain safely covered by unrestricted cash alone, which more than offsets FOCF volatility in the years ahead. Liquidity coverage is above in all forecasted years.

Balance in HUF m	2022 E	2023 E	2024 E
Unrestricted cash (t-1)	3,833	3,646	4,389
Open committed credit lines (t-1)	0	0	0
Free operating cash flow	460	2,870	-1,189
Short-term debt (t-1)	1,133	1,302	1,726
Coverage	**> 200%**	**>200%**	**>100%**

More emphasis on business risk profile due to the company's small size

In our assessment of the company's stand-alone rating, we emphasise the business risk profile more than the financial risk profile due to the company's smaller size than peers and the inherent vulnerabilities compared to bigger, more financially solid and diversified competitors.

Supplementary rating drivers: negative one notch

The company's limited size and outreach compared to other entities rated BB and above hinder it from exceeding the assigned BB issuer rating, which is reflected by a negative one notch adjustment on the standalone rating.

Long-term debt rating

In February 2022, Mobilbox issued a HUF 3.3bn senior unsecured bond 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.

Senior unsecured debt rating: BB+

We have affirmed the BB+ rating for Mobilbox's senior unsecured debt. We calculated a 'superior' recovery based on an expected liquidation value in a hypothetical default scenario in 2024. However, we limit up-notching 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.

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