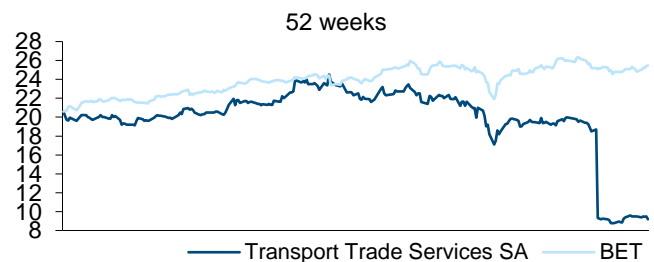


Transport Trade Services SA

Initiated with Buy

RON mn	2021	2022e	2023e	2024e
Net sales	598.8	664.5	756.5	826.8
EBITDA	141.5	115.2	143.3	156.8
EBIT	79.9	54.7	75.2	80.8
Net result after min.	66.4	47.0	64.3	69.0
EPS (RON)	1.11	0.78	1.07	1.15
CEPS (RON)	-0.09	0.16	0.24	0.28
BVPS (RON)	11.04	11.56	12.26	13.01
Div./share (RON)	0.30	0.35	0.48	0.52
EV/EBITDA (x)	10.3	6.0	4.8	4.4
P/E (x)	20.1	11.7	8.6	8.0
P/CE (x)	-237.7	57.9	38.6	32.6
Dividend Yield	1.3%	3.8%	5.2%	5.6%



Performance	12M	6M	3M	1M
in RON	-4.2%	-59.1%	-50.3%	-0.5%

Share price (RON) close as of 13/06/2022	9.20	Reuters	TTS.BX	Free float	67.7%
Number of shares (mn)	60.0	Bloomberg	TTS RO	Shareholders	Government (0.0%)
Market capitalization (RON mn / EUR mn)	552 / 112	Div. Ex-date	24/05/22		
Enterprise value (RON mn / EUR mn)	686 / 139	Target price	12.2	Homepage:	https://www.tts-group.ro

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S-E Europe low emission river transportation champion gearing for the future

We initiate coverage on TTS with a **BUY recommendation and a price target of RON12.2/share.**

TTS is little exposed and should be able to weather the current impact of the war in the Ukraine and maintain its premier position among river transport and port handlers in the Danube Basin and the Constanta Port. The global and regional focus on low-emission transport modes should favor the company and afford it growth opportunities and accessible financing in order to expand organically and via acquisitions.

Management efforts have been successful to date in streamlining operations and implementing a proactive administration of the ongoing development phase and are eminently capable of implementing the strategic growth of the company via M&A.

In view of the imponderables ahead we have performed all our valuation exercises erring on the side of caution. Indeed, our target price is designed to be a floor valuation, and is based on conservative forecasts, accounting for no major increase in organic business and taking into consideration only inflation in terms of tariffs. Cost assumptions are also conservative, forecasting significant increases in inputs, third party and energy expenses. Even under these assumptions the stock offers ample upside and a profitable investment in a sector that is to become a desirable exposure to the green economy and to the dynamics of the region.

Table of contents

Investment story	3
A few good charts	4
A regional champion: TTS in a nutshell	5
Riding the blue highways of Europe – industry review	7
IWW & River transportation	9
Port operations review	17
TTS – a Romanian success story	22
TTS – river transportation segment review	24
TTS – port operations segment review	30
TTS – forwarding and other business review	34
SWOT analysis	36
Development and investment strategy	36
The war in Ukraine	38
Drivers and forecasts	39
1Q2022 results: validating our forecast	45
Valuation	49
Contacts & Disclaimer	54

Investment story

We believe that TTS Group's premier position and potential for growth in the transportation and port operations services segments on the Danube river basin and in Constanta Port are yet to be fully valued by the market. The company's fleet, port footprint, management excellence overseeing growth, both organic and by acquisition, make it a desirable vehicle for investment in the growth of the region and the shift to greener transportation modes.

The Internal Waterways (IWW) sector is being targeted by EU and domestic development programs for investment in fostering better transportation connections between the south-east and the north-west of the continent, together with the drive to lower overall emissions in the region. Infrastructure expansion programs in other modes of transportation would also benefit IWW companies, as better connections and expanded port capacities would be instrumental to better access and capacity utilization.

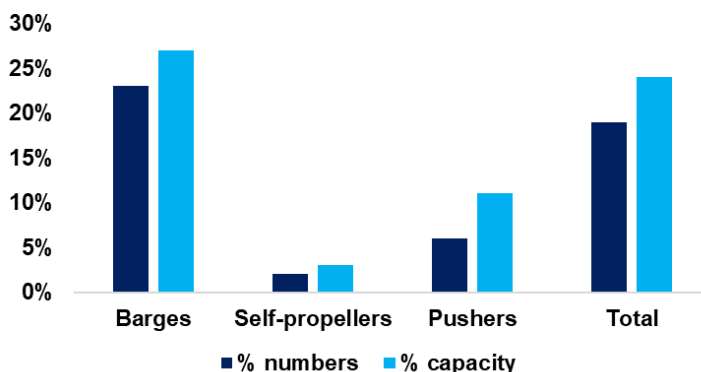
The disruptions in the sector induced by the war in the Ukraine have so far had little impact on a company with almost no direct exposure to the countries involved in the conflict. Despite temporary bottlenecks in transportation and port operations, we expect the pull demand from the region to act as a driver and lacks in supply to be replaced by alternative sources. Despite temporary setbacks dictated by policy, the operations of the company's main customers – the steel industry and the agricultural sector – are largely set to operate to the largest possible capacity in an environment where demand for both is steady and growing.

In establishing our valuation estimate and our target price we had to account for the imponderables forced upon the sector by the meteorological, economic cycles and political developments. Rather than forecasting a rate of growth in volumes congruent with historical developments, we have preferred to err on the conservative side and value the existing business of the company in absence of any major organic and acquisition growth with tariffs growing at or below the rate of inflation. This would establish a difficult to challenge floor for the valuation of the company. This floor – under admittedly very conservative assumptions – already offers significant upside to the current valuation, pointing to a substantial upside for the stock.

A few good charts

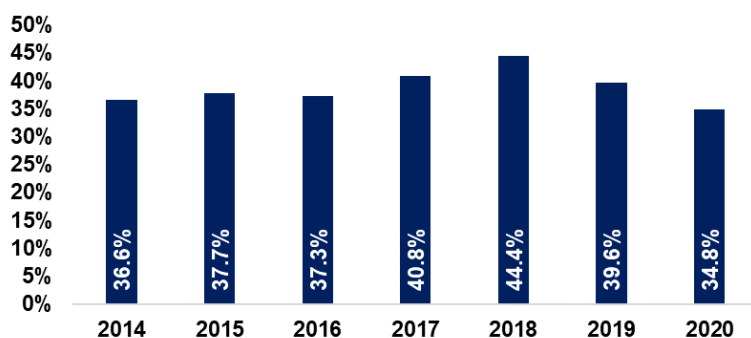
Largest fleet on the Danube Basin

TTS fleet vs. total fleet in Danube Basin



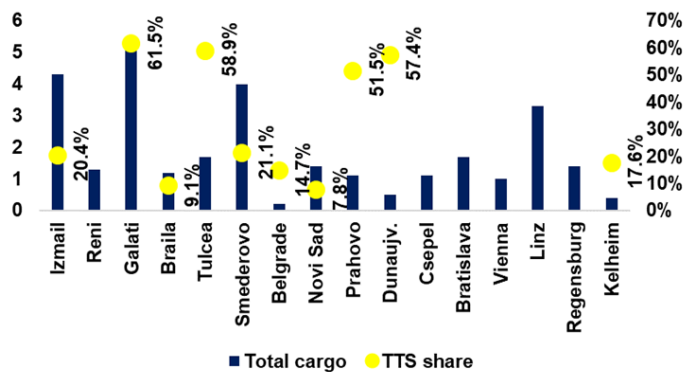
Significant presence on the Danube – Black Sea canal...

TTS Group mkt share in Danube - Black Sea Canal



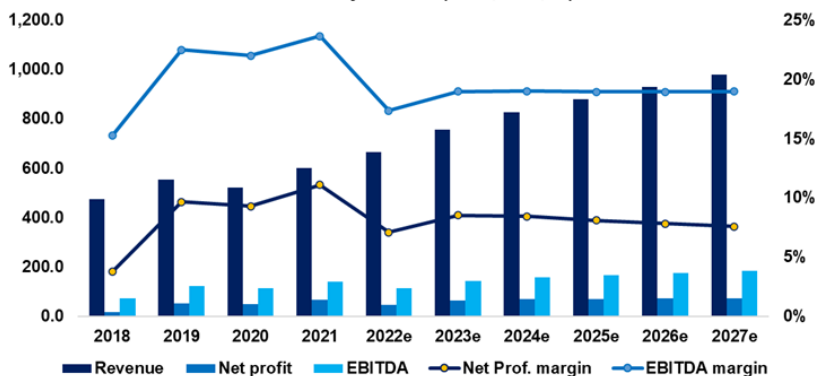
... and on the Middle and Lower-Danube ports

TTS share in main Danube ports (mn. tons, % r.h.s.)



Even overly conservative profitability forecasts offer significant upside to current valuation and a floor for the target price

Profitability metrics (RON, mn., %)



Sources: Eurostat, Danube Commission, TTS, Erste Group Research

TTS - freight forwarder, an equity investor in freight and passenger river transport, port operations such as cargo handling and storage, vessel repair and maintenance, support services, freight rail transport and hotels

A regional champion – TTS in a nutshell

TTS – an integrated freight forwarding company

TTS (Transport Trade Services) is a freight forwarder, an equity investor in freight and passenger river transport, port operations such as cargo handling and storage, vessel repair and maintenance, support services, freight rail transport and hotels.

The company is diversified covering all the main activities related to its objects of activity and has a very significant presence among Internal Water Ways (IWW) and port operations concerns in South Eastern Europe, being a principal operator on the Danube River with its main ports, as well as in the Constanta Port.

The Group services customers through own facilities and through third-party facilities. The companies of the group satisfy demands from companies in the group, but also of third-party customers.

Operational chart



Source: TTS, Erste Group Research

Danube – the main transportation artery in the EU.

TTS is one of the main river transportation and handling operators on the Danube river. Flowing for 2.850km, out of which 2.415km are navigable, the Danube is the largest river in Europe, outside of Russia, and is the river running through the largest number of countries in the world – 10 countries. These are Germany, Austria, Slovakia, Hungary, Croatia, Serbia, Romania, Moldova and Ukraine. It passes through four capital cities. The river is also the main IWW transportation highway that ties the Black Sea and South-Eastern Europe to the centre of the continent.

Danube, a main European water way



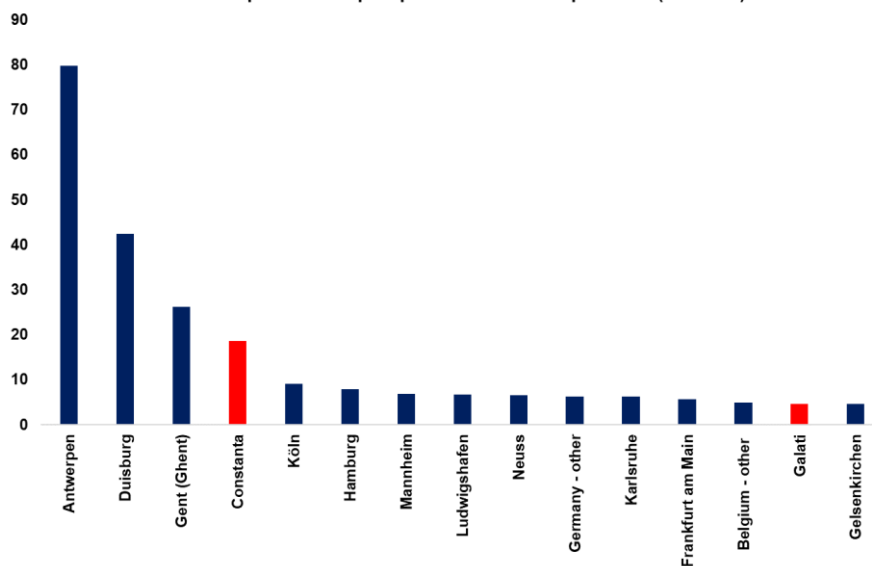
Source: *via donau*

TTS is a principal operator in the port of Constanta. Constanta Port is among the top 25 largest in Europe by volume

Constanta – main IWW port in SE-Europe

TTS is a principal operator in the port of Constanta. Constanta Port is among the top 25 largest in Europe by volume and one of the largest in freight forwarder, an equity investor in freight and passenger river transport, port operations such as cargo handling and storage, vessel repair and maintenance, support services, freight rail transport and hotels. Among ports servicing the IWW of Europe Constanta ranks as number four. The port services maritime and river transport vessels.

Volumes operated in top 15 ports for IWW transport 2020 (mn. tons)



Source: TTS, The Danube Commission, Erste Group Research

Riding the blue highways of Europe – industry review

ECONOMIC ENVIRONMENT - CONDUCIVE TO INCREASING WATER TRANSPORT

Grain and steel

In the area covered by TTS operations, the main cargos transported via IWW consist of minerals, agricultural products and fertilizers. Other type of freight is also present but quantities are dwarfed by the volumes of the former products. The minerals are mainly ores utilized in the steel industry, fertilizers in agriculture, mainly grain cultivation.

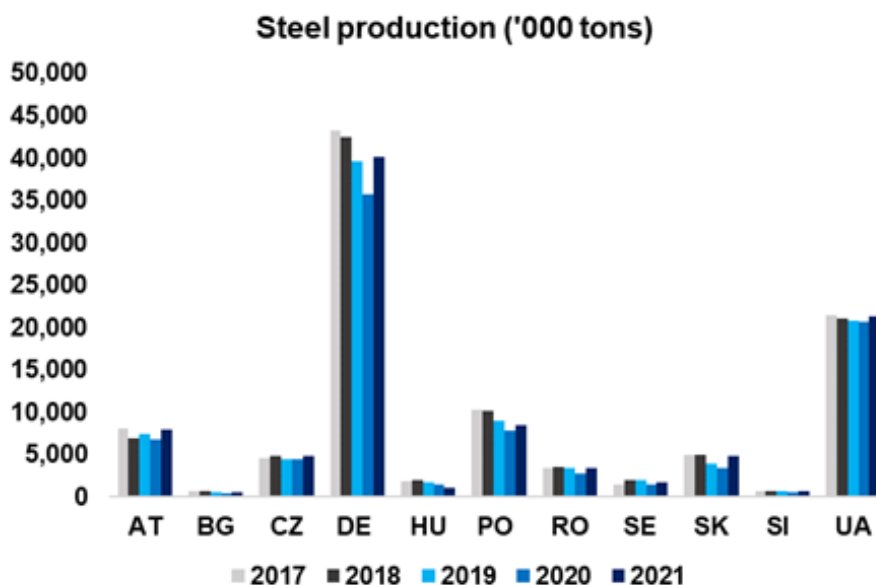
In both areas, demand for transportation services depends at the same time on the medium and long-term economic environments in the area – especially in the case of minerals, but also is relatively inelastic in the case of the grain and fertilizer demand over the economic cycle.

In the area covered by TTS operations, the main cargos transported via IWW consist of minerals, agricultural products and fertilizers

Large steel producers along the Danube

The Danube basin countries produce over 3.5mn. tons of crude steel per annum with largest producers being Germany, Ukraine and Austria. Romania, Slovakia, Czech Republic and are also major steel producers. Recent production of crude steel has picked up in the majority of Danube basin countries, after the slump caused by the Covid 19 pandemic.

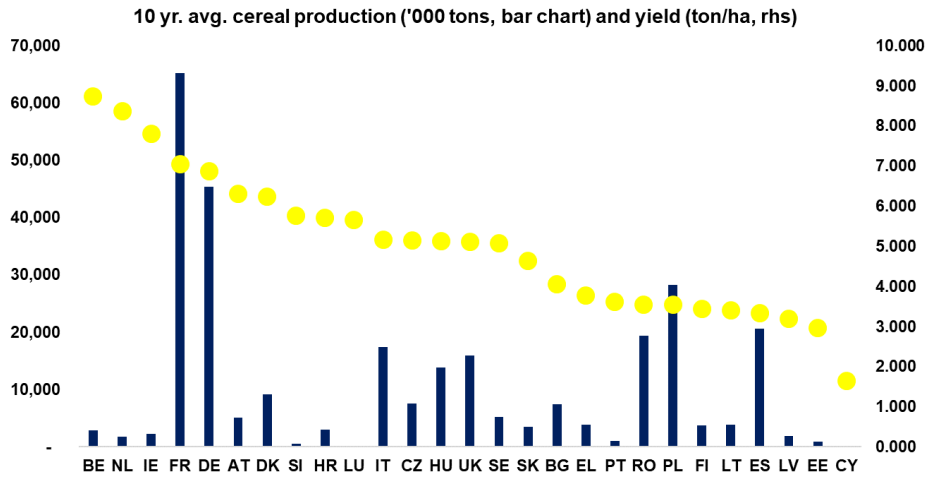
Chart: Steel production in the area



Source: Eurostat, Erste Group Research

The breadbasket of Europe...

The countries of the Danube basin are major grain producers, with Romania producing around 20 mn. tons, Hungary about 13 mn. tons, and Ukraine being the largest by far in Europe with around 80 mn. tons produced in 2021.

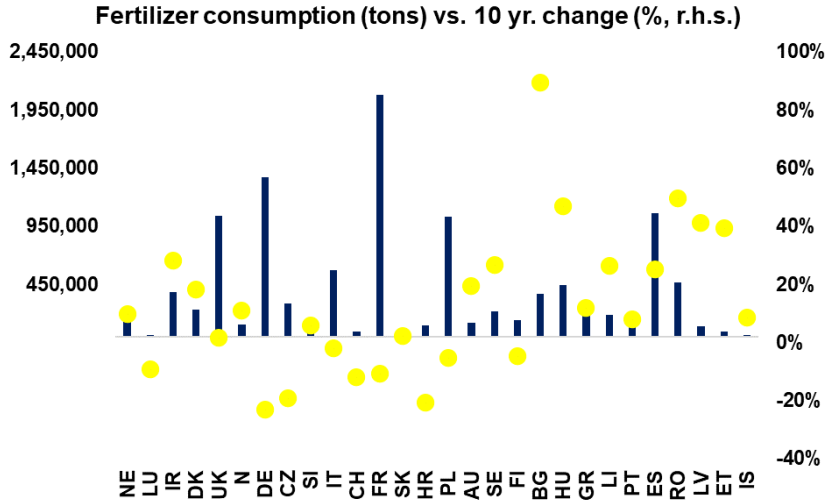


Source: Eurostat, Erste Group Research

... albeit at relatively lower yields...

The main grain producers of the Danube basin have on average lower yields compared to western countries. Romanian yield of 3,500 to/ha is less than half of that of Belgium, Holland, France or Germany. Among larger Danube basin producers, Croatia, Hungary and Serbia have marginally better yields than Romania, however they don't compare to the yields of Western Europe nations.

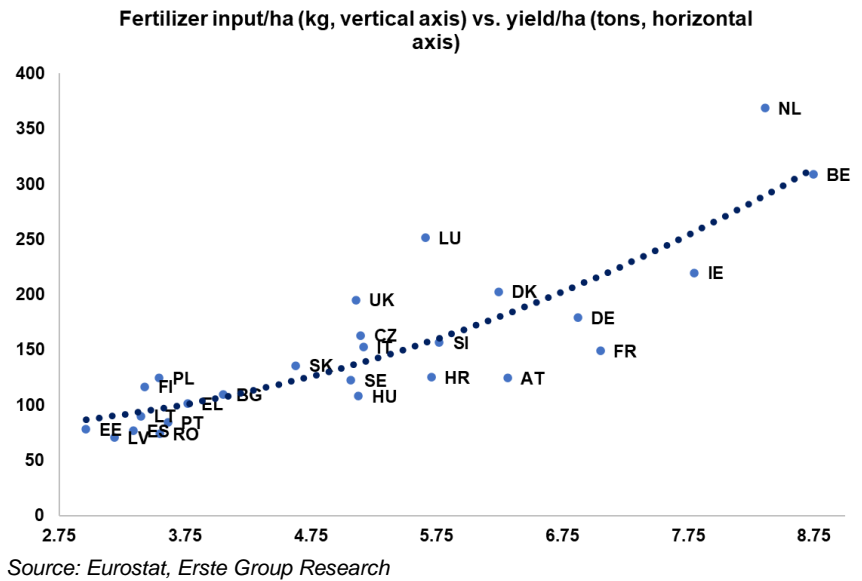
An increase in yields in Danube basin countries is tied to a more intensive utilization of fertiliser



Source: Eurostat, Erste Group Research

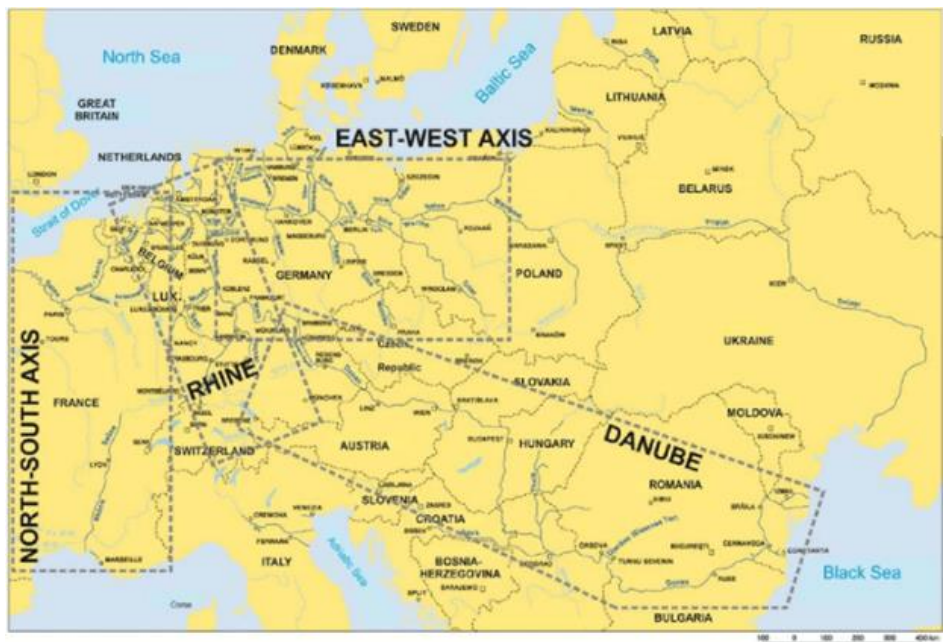
... on the back of lower fertilizer utilisation

The chart below shows a positive correlation between agriculture yields and consumption of fertilizer. Thus, an increase in yields in Danube basin countries is tied to a more intensive utilization of fertiliser. Romania has already increased significantly fertiliser utilisation over the last 10 years, however, remains one of the countries with lowest degree of fertiliser utilisation in the EU. Demand for transportation of agricultural products from the area should increase significantly, as the demand for fertilizer, in order to spur higher yield growth than in the past.



IWW & RIVER TRANSPORTATION REVIEW

The Danube basin is one of the main IWW features of the continent...
 It brings access to riparian countries to all the other major IWW transportation axes of Europe: North-South, East-West, and Rhine.



Source: Danube portal

The lower Danube basin, mainly Serbia, Romania, Bulgaria, Moldova and Ukraine have significantly lower density of alternative means of transport

... in area with lower density of alternative means of transport
 The lower Danube basin, mainly Serbia, Romania, Bulgaria, Moldova and Ukraine have significantly lower density of alternative means of transport. Albeit in terms of rail transport coverage the network in Romania appears adequate, it is plagued by obsolete equipment and infrastructure and very low utilisation rates. Similar situations prevail in the majority of the low Danube basin area. At the same time, the road transport network is inadequate, both in terms of geographical coverage and quality of

infrastructure. Thus, the IWW transport offers a relatively low investment alternative and is set to increase in importance in the area.

Rail and road density is significantly sparser in the Lower Danube Basin compared to the Rhine area.



Source: railfreight.com

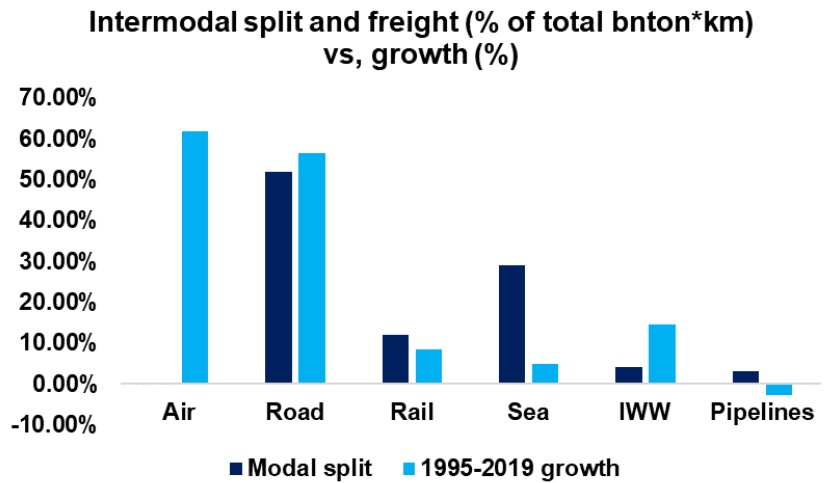


Source: op.europa.eu

IWW transport: growth from a low base

The IWW freight transportation currently insures only about 5% of the total freight shipped in the EU. At the same time, the growth over the last 25 years, averages 15%, significantly below the growth in air and road transport, but higher than sea and railroad transport.

The share of IWW in total greenhouse gas emissions is negligible compared to other means of transport.

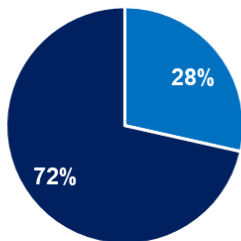


Source: Eurostat, Erste Group Research

A clean(er) way of transportation

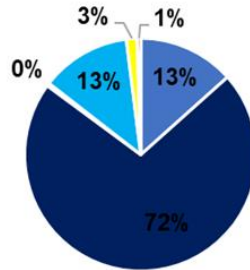
The share of IWW in total greenhouse gas emissions is negligible compared to other means of transport. This is due partially to the lower share of IWW in total transport volumes, however this mode of transport has proportionally one third of the greenhouse gas emissions compared to its share of transported volumes.

Share of transport GHG emissions from total emissions



■ Transport ■ Other

Share of IWW GHG emissions from total transport emissions



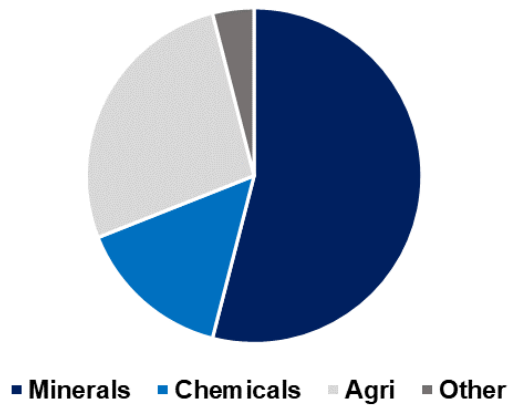
■ Air ■ Road ■ Rail ■ Sea ■ IWW ■ Other

Source: EU Transport in Figures, Erste Group Research

Minerals are the largest cargo in terms of volume

In terms of volume, minerals are the largest cargo type, with about 54% of total, followed by agricultural products with 27% of the total and chemicals at about 15% of the total.

Mkt share of cargo type in Danube basin

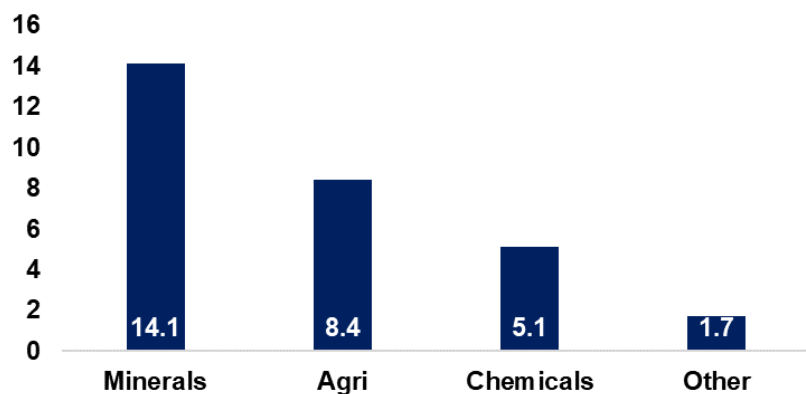


Source: Eurostat, Erste Group Research

... and total distance

In terms of total distance, the main cargo types have a similar spread, with the minerals representing about 48% of distance*volume totals, followed by agricultural products with close to 29% and chemicals with about 17% of total.

Distance of cargo transported on Danube (2019, bnTKM)



Source: Eurostat, Erste Group Research

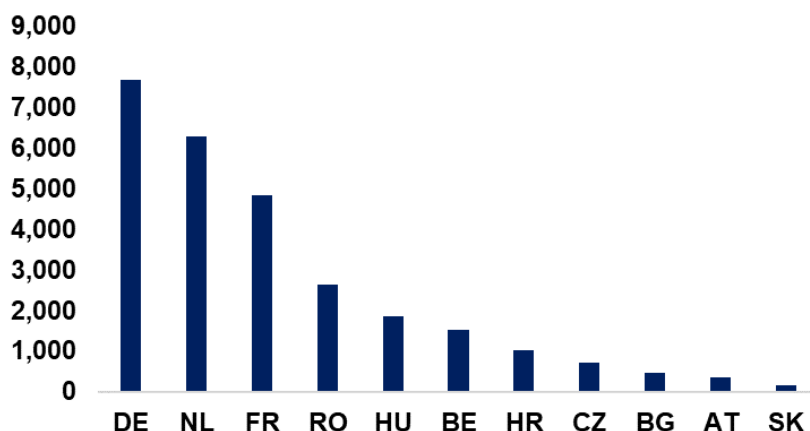
Romania: essential share of EU IWW

Romania: significant share of IWW total length in the EU

In the EU, Romania ranks fourth in terms of the total length of the navigable courses of water, after Germany, Holland, and France. The figures below include all navigable rivers and lakes, however the Danube is for Romania the main IWW route.

In the EU, Romania ranks fourth in terms of the total length of the navigable courses of water

Total navigable canals, rivers and lakes (km)

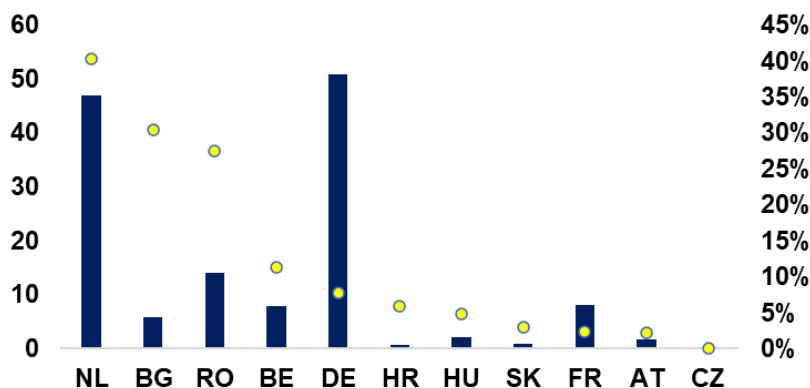


Source: Eurostat, Erste Group Research

Romania: an important IWW transporter...

Access to the Danube has allowed Romania to become one of the main EU providers of IWW transportation, while the share of IWW in total transportation of the country is among the highest in the EU.

IWW transport (total bn. tkm, % of total r.h.s.)

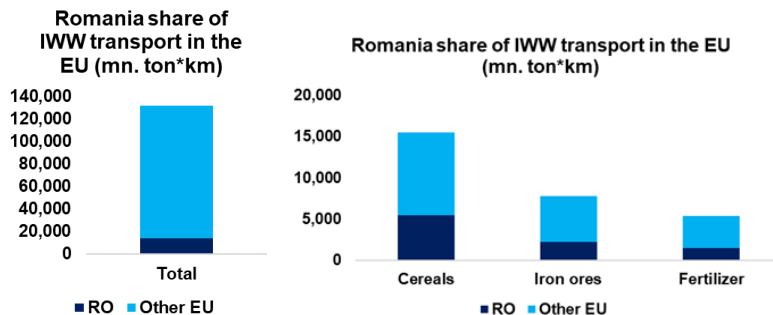


Source: Eurostat, Erste Group Research

... top player in the EU

With about 13,600mn. ton*km transported via IWW in 2020, Romania accounts for 10% of the total freight transported in the EU, while in total tonnage transported in 2020, the total 30.5mn. tons transported by Romania via IWW accounts for 6% of the EU total. The share of Romania is higher in the transport of cereals at almost 36%, of iron ores at about 28.5% and fertilizers at 27.4% of total EU IWW freight.

Romania accounts for 10% of the total freight transported in the EU

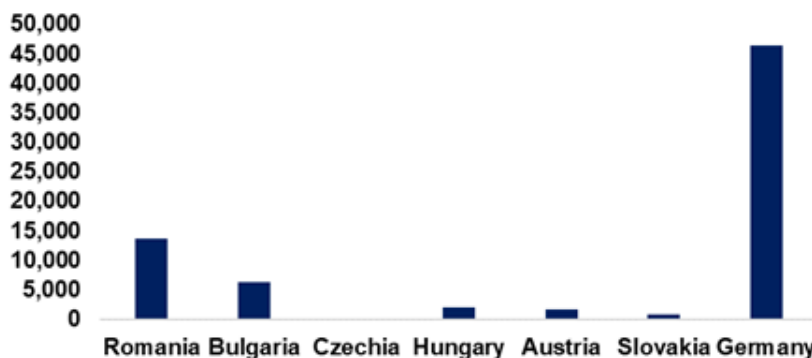


Source: Eurostat, Erste Group Research

... and the region...

With the exception of Germany, Romania is by far the largest IWW transporter in the region, with the freight transported in 2020 being 30% higher than the total of all the other Danube riparian countries combined (except Ukraine and Moldova).

Romania vs. region total IWW transported goods (2020, mnTKM)

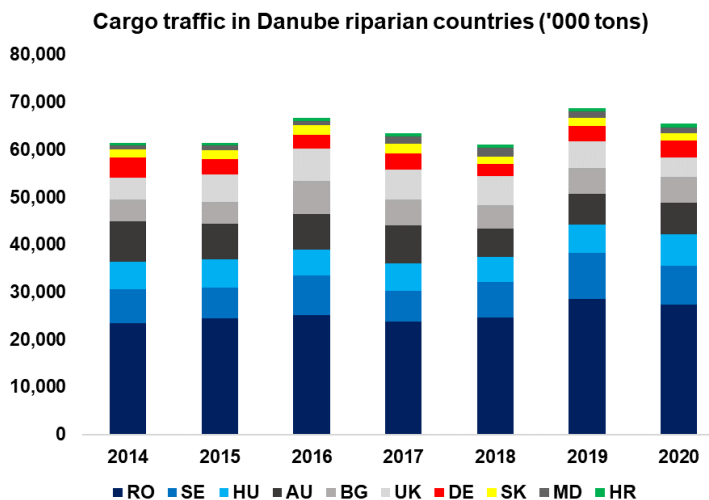


Source: Eurostat, Erste Group Research

... with a growing share among peers

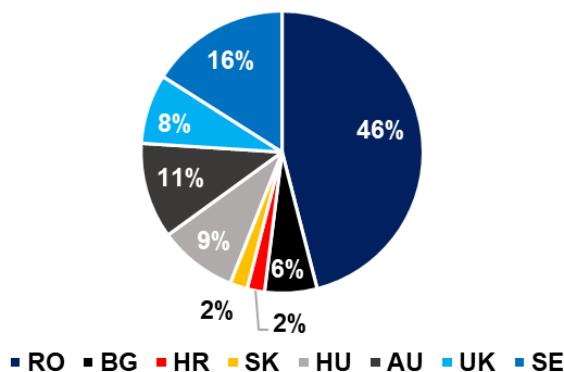
On average, over the last six years, Romanian transporters have grown in importance among peer countries, with Romanian operated cargo reaching in 2020 42% of total Danube basin countries, growing from 38% in 2014.

Romanian transporters have grown in importance among peer countries, with Romanian operated cargo reaching in 2020 42% of total Danube basin countries



Source: Danube commission, Erste Group Research

Danube basin mkt share (%)

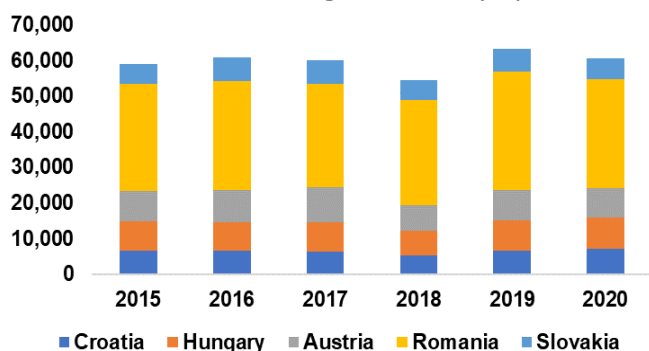


Source: Danube commission, Erste Group Research

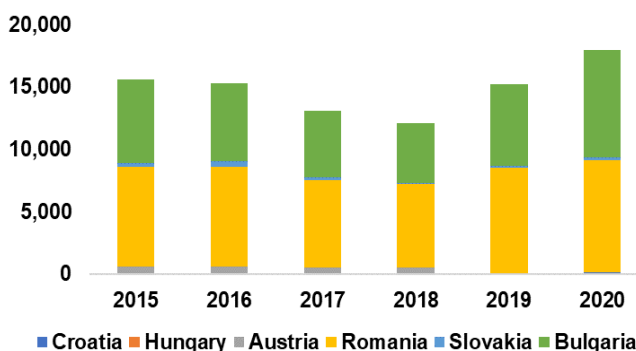
Growing volumes of fertilizers transported by Romania

The Romanian share of cereal and iron ore has remained steady among Danube riparian countries, at number one in terms of transported volumes, while the Romanian share of the regional transportation market of fertilizers has increased reaching about 52% in 2020.

Evolution of regional traffic (kT)

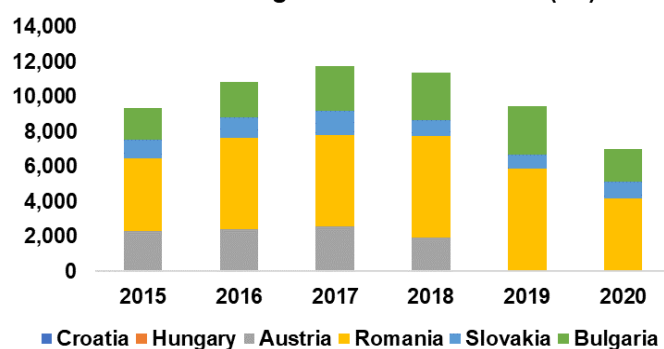


Evolution of regional traffic - Cereals (kT)

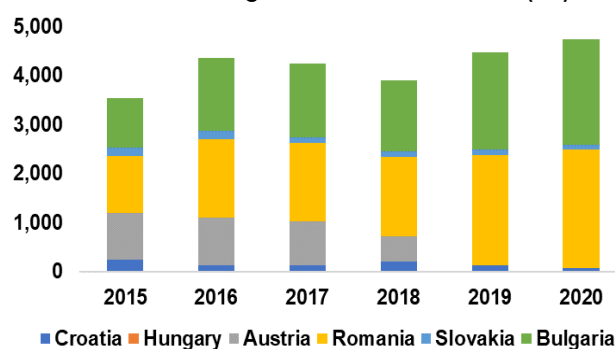


Source: Eurostat, Erste Group Research

Evolution of regional traffic - Iron ore (kT)



Evolution of regional traffic - Fertilizers (kT)

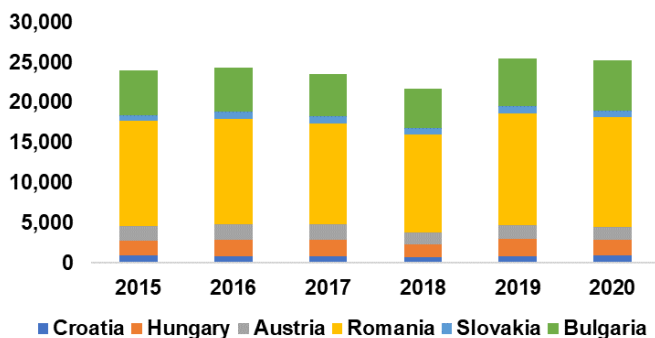


Source: Eurostat, Erste Group Research

... while growing most for iron ores in terms of total freight

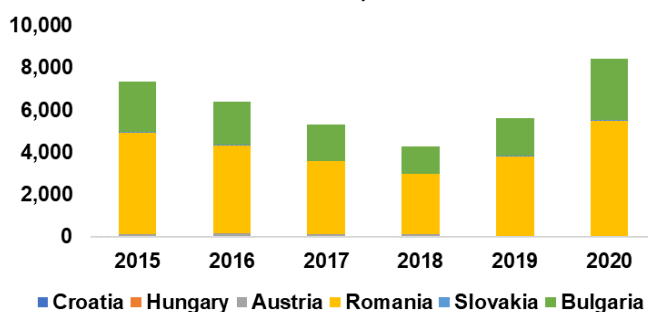
In terms of distance*volume, Romanian share of the main cargo types has remained steady over the last six years, however an important growth has been achieved in the iron ore category, where Romanian transports have reached more than 70% of the total.

Evolution of regional traffic (mn. TKM)

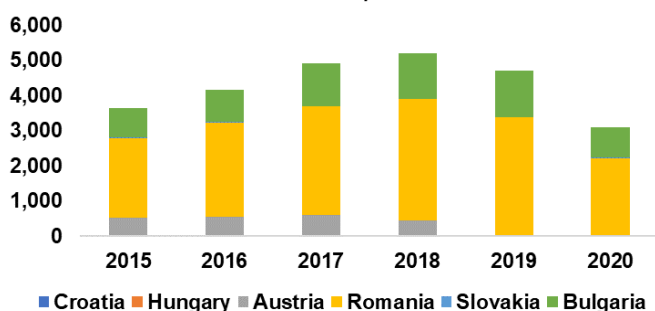


Source: Eurostat, Erste Group Research

Evolution of regional traffic - Cereals (mn TKM)

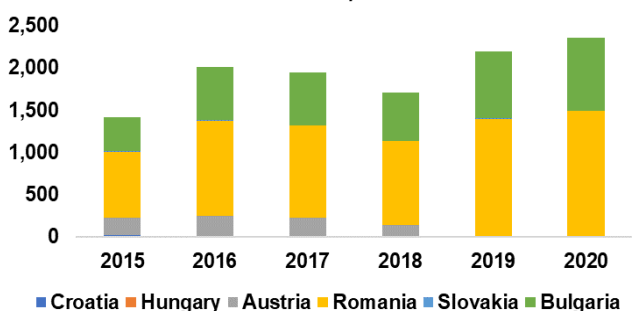


Evolution of regional traffic - Iron ore (mn TKM)



Source: Eurostat, Erste Group Research

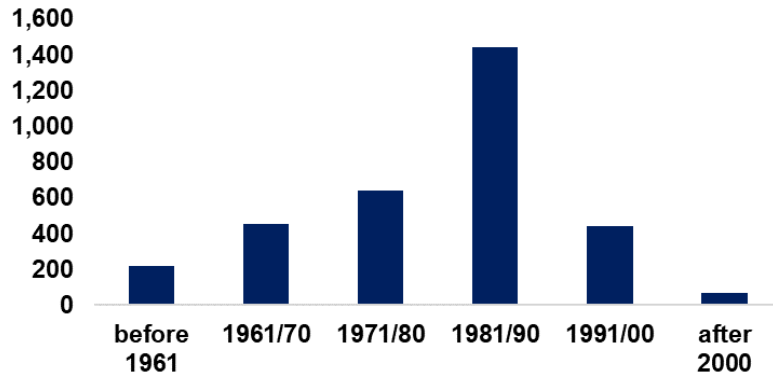
Evolution of regional traffic - Fertilizers (mn TKM)



An aging fleet

The largest share of vessels navigating the Danube are between 30 and 40 years old being commissioned between 1980 and 1990. The proportion of vessels less than 20 years old is negligible.

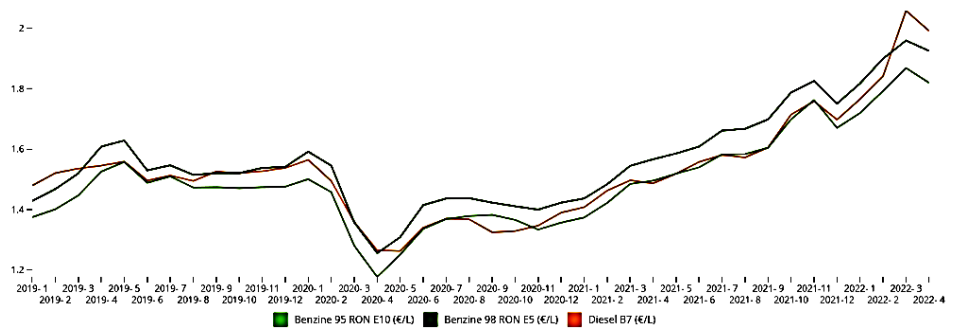
Yr of commisioning of vessels in the Danube basin



Source: Danube commission, Erste Group Research

Explosive growth in fuel prices

As expected, one of the main cost components of IWW transport is represented by fuel costs. The recent explosive increase in fuel prices has exerted a significant toll on the cost structure of all IWW transport operators.



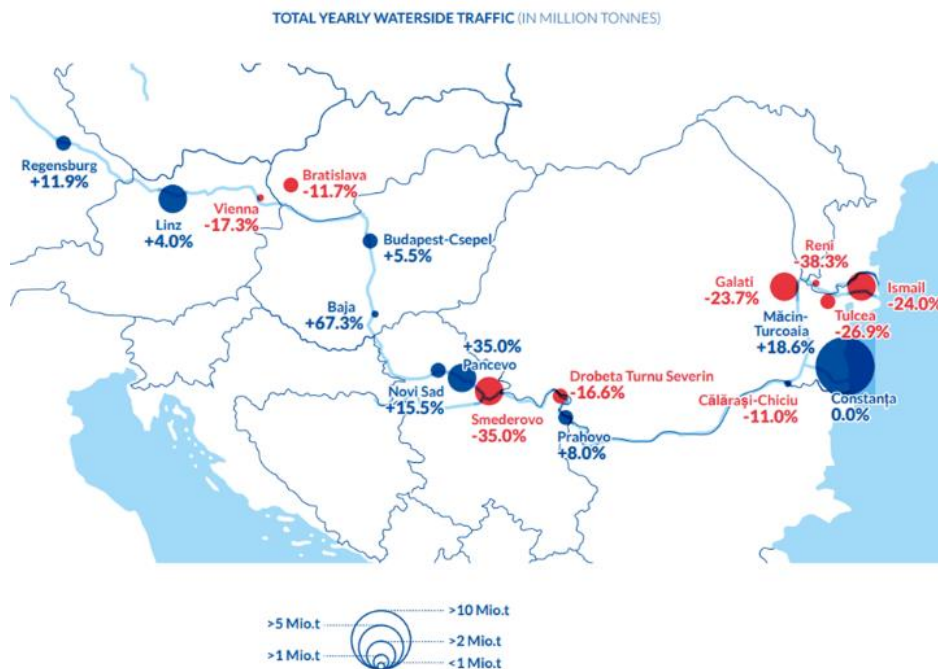
Source: statbel.fgov.be

PORT OPERATIONS REVIEW

Target for investment and increasing efficiency

The south-east of the European continent is underrepresented in terms of port capacities, compared to the behemoths of the north-west, both when comparing Black Sea ports to North or Baltic Sea ports and ports on the Danube vs. ports on the Rhine. At the same time, the intermodal network servicing these ports is significantly inferior to the networks of the north-western Europe. However, the drive to improve infrastructure in the region is a European impetus and large amounts of funds are dedicated to it. River ports together with intermodal infrastructure, particularly rail, are prime candidates for investment. Elimination of bottlenecks and increasing capacity projects offer attractive returns on investment, especially when considering the lateral implications for river traffic and optimal cargo operation and the “green economy” requirements.

The drive to improve infrastructure in the region is a European impetus and large amounts of funds are dedicated to it



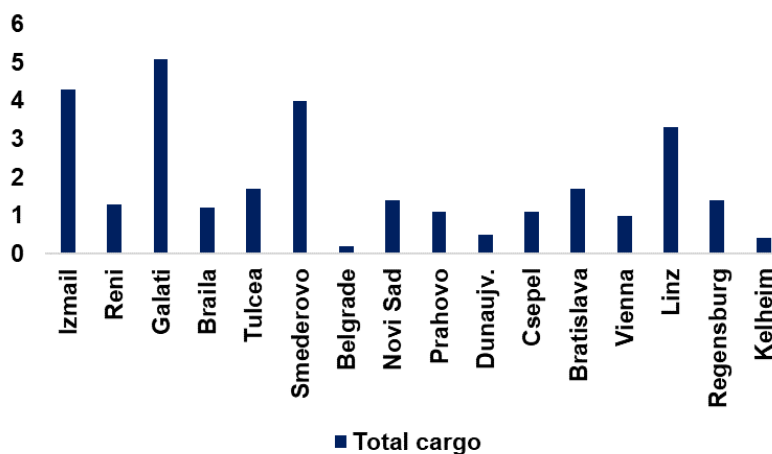
Source: inland-navigation-market.org

Romania: operating main Danube ports

Romania operates the largest Danube ports, in terms of volume of cargo. It owns the port of Galati, that is the largest from the river only ports along the Danube, with Constanța being the largest from all ports.

Romania operates the largest Danube ports

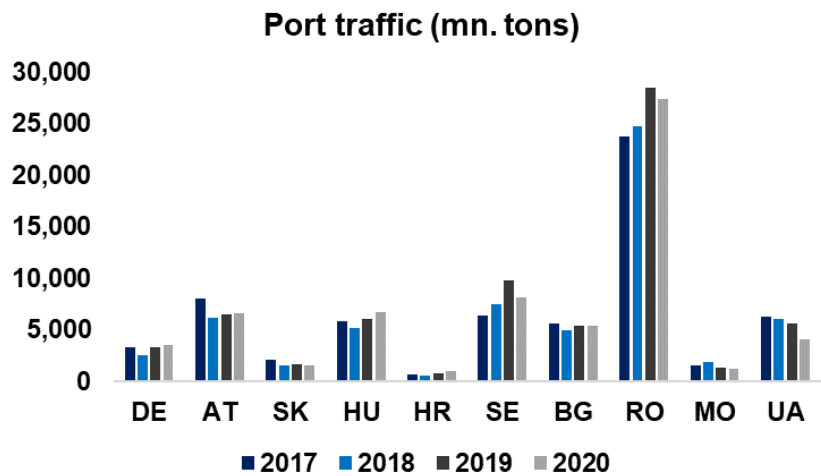
Cargo volumes operated in main Danube ports (mn. tons)



Source: Danube commission

Slight drop in volumes during the pandemic...

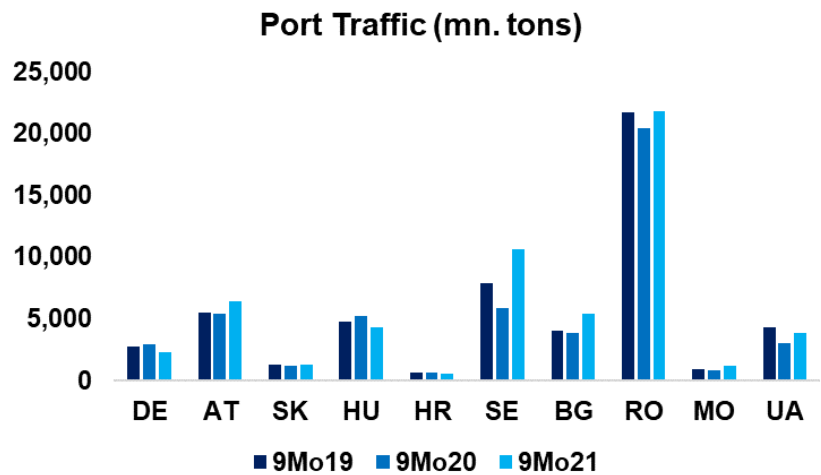
During 2020, overall port operations volumes in riparian countries declined by about 5%, on the back of the economic slowdown and lockdowns. The largest declines were experienced by Ukraine -27%, Serbia -16%, Moldova -8%, and Slovakia -7%. Romania, the largest operator saw port handling volumes decline by just over 4%.



Source: Eurostat, Erste Group Research

... recovered fully during 2021

According to statistics published by operators, during the first three quarters of 2021, overall volumes increase by about 17% compared to the same period of 2020. Romanian volumes grew by about 7%, exceeding slightly the volumes of the pre-pandemic year. The largest growth (with the exception of Moldova) was experienced by Ukraine, at 28%, however reaching a level that was inferior to the similar period of 2019. Serbian volumes also reached above the pre-pandemic period while Austrian volumes were higher than in 2019.

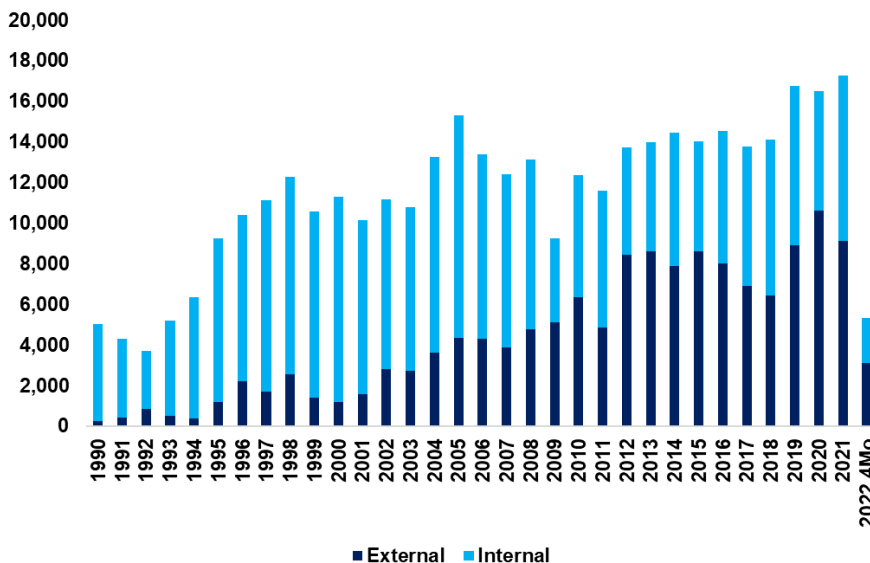


Source: Danube commission

Danube – Black Sea Canal: an important route for cargo

The overall traffic on the Danube – Black sea canal, recovered fully during 2021, compared to the decline of 2020 and reached a record historical high, above the pre-pandemic period.

Danube - Black Sea channel traffic evolution (kT)

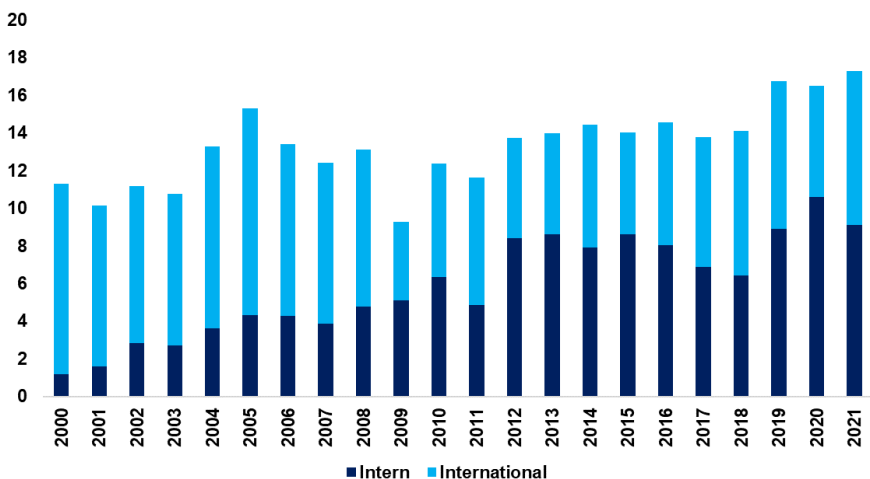


Source: Danube commission

Similar dynamic in the Constanta Port

Volumes in the Constanta Port have declined slightly overall during the pandemic, however the share of internal (Romanian) operations has increased, while international traffic has declined. During 2021, operations shown a full recovery,

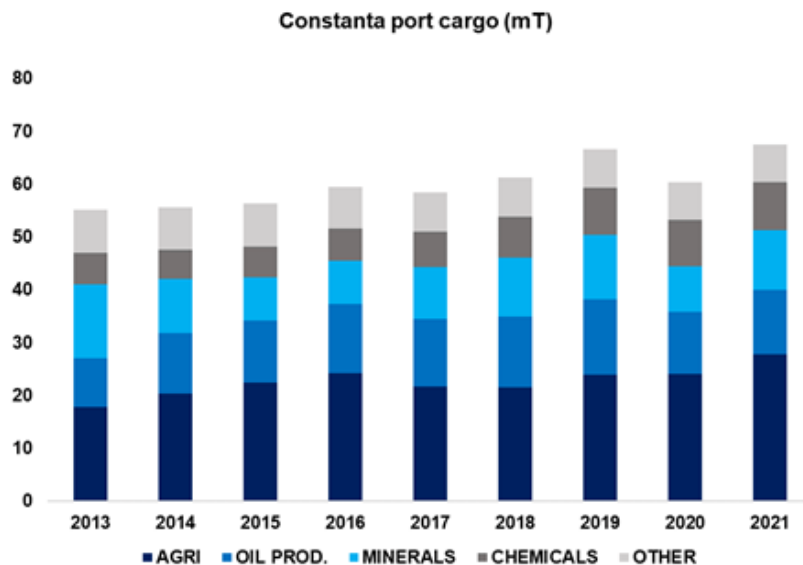
Constanta port cargo traffic (mT)



Source: Constanta Port, Erste Group Research

Main types of cargo in Constanta Port

Minerals, chemicals and agricultural products are the main cargos that are operated in the Constanta Port, together with oil and derived products. Nevertheless, compared to Danube river transport, the agricultural products are the highest volume and minerals' share is lower. This is natural, considering that much of the mineral cargo is being transported between riparian countries, while agricultural products are meant many for export outside of the region.

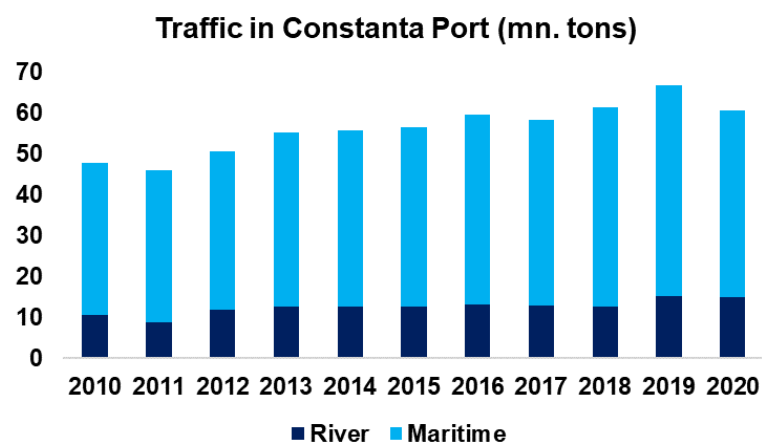


Source: Constanta Port, Erste Group Research

Large maritime port, with a growing river traffic component

The largest majority of the traffic in Constanta Port is represented by maritime traffic, however the river traffic has remained constant had during the pandemic period has increased as a share of total traffic.

Chart: Total traffic in Constanta port river vs. maritime (model)



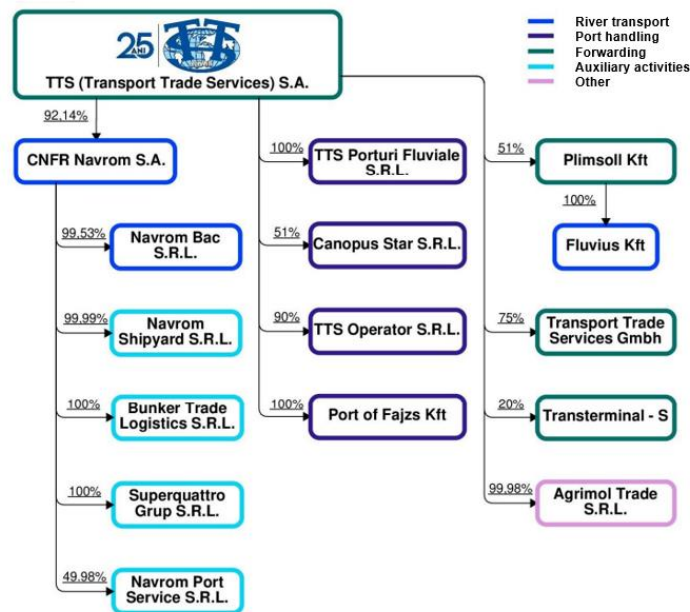
Source: Constanta Port, Erste Group Research

TTS – A Romanian success story (company review)

TTS CORPORATE STRUCTURE

A diversified player, vertically integrated

The TTS Group has a commanding presence in the IWW transportation activities in the Danube basin and the port of Constanta. It is a vertically integrated company, that provides forwarding, transportation, handling, maintenance and repair, and other services to external customers and companies members of the Group.



Source: TTS

TTS (Transport Trade Services S.A.) – Having as main activity freight forwarding, TTS as equity shareholder invests in various fields as: inland freight water transport, inland passenger water transport, repair and maintenance of ships and boats, cargo handling and storage, support activities for transportation, freight rail transport and hotels and similar accommodation.

C.N.F.R. NAVROM S.A. GALATI, ROMANIA - conducts river transport operations offering its clients river transport services. NAVROM transports over 8 million tons of cargo per annum: minerals, charcoal, cement, limestone, cereals, fertilizers, rolled goods, etc. through both internal (to/from Galati, Constanta, Cernavoda, Medgidia, Mahmudia, etc) and external routes towards/from Ukraine, Bulgaria, Serbia, Croatia, Hungary, Slovakia, Austria and Germany.

CNFR Navrom has several subsidiaries:

- **Navrom Bac S.R.L.** ("Navrom Bac") - Navrom Bac, provides ferry crossing of Danube for motor vehicles, heavy trucks and passengers, between Galați and I.C. Brătianu commune of Tulcea County.
- **Navrom Shipyard S.R.L.** ("Navrom Shipyard") - Navrom Shipyard, conducts various activities in the naval area such as repairs, constructions and fit-outs of propelled and non-propelled

vessels, docking works at own docks, diagnosis and specific technical solutions, naval design, repairs and reconditioning for naval parts and equipment technical repairs for the vessels located in various locations in the Romanian sector of the Danube.

- **Cernavodă Shipyard S.R.L.** ("Cernavodă Shipyard") - Cernavodă Shipyard, performs repair works for barges, tugs and pushers and builds various equipment such as barge caps, bodies of new vessels, pontoons.
- **Bunker Trade Logistics S.R.L.** ("Bunker Trade Logistics") - Bunker Trade Logistic, a port operator with registered office in Constanta, offers in partnership with OMV Petrom S.A. and TTS Operator bunkering services for river and maritime vessels.
- **Superquatro Grup S.R.L.** ("Superquatro Grup") - Superquatro Grup, performs hydro-technical construction activities (constructions for the maintenance of waterways and maritime and river ports, defenses, support and consolidation of river banks, constructions for the unloading and extraction of water), executes dredging works and provides wreck removal and refloating of vessels.
- **Navrom Portservice S.A. ("Navrom Portservice")** - Navrom Portservice, provides specific port services such as handling of non-propelled vessels, disbanding and forming of convoys, surveillance of non-propelled units in the harbor road and at berth during the entire operation period, shipping agency for vessels, etc... Liberty Steel Galați is indirectly the other shareholder.

TTS Operator S.R.L. ("TTS Operator") - TTS Operator specializes in port operations, especially direct transshipment in Constanta Port, and customs assistance services. The other shareholder is an individual.

Canopus Star S.R.L. ("Canopus Star") - Canopus Star, performs specific operations of handling and storage of grains in a specialized terminal. The other shareholder is Cargill.

TTS Porturi Fluviale S.R.L. ("TTS Porturi Fluviale") - TTS Porturi Fluviale is a port operator providing cargo loading, unloading, storage, handling, storage services and port technical assistance.

TTS (Transport Trade Services) GmbH Viena ("TTS GmbH Viena") - TTS GmbH Vienna is a freight forwarder and purchases and organizes the logistics flows on the Upper Danube, while also promoting the services offered by the Group on the Austrian market.

Plimsoll KFT ("Plimsoll KFT") - Plimsoll KFT, is a freight forwarder, mainly by railway traffic, covering Hungary and the neighbouring countries, extending towards the Adriatic Sea and the North Sea. The other shareholders are individuals. Plimsoll KFT controls 100% of the river operator Fluvius KFT:

- **Fluvius KFT ("Fluvius")**, - Fluvius owns a fleet of self-propelled vessels and provides river transport services, mainly on the Danube between Hungary and Germany, but also on the Rhine.

Agrimol Trade S.R.L. ("Agrimol") - Agrimol, is a supplier and exporter of timber and other wood products.

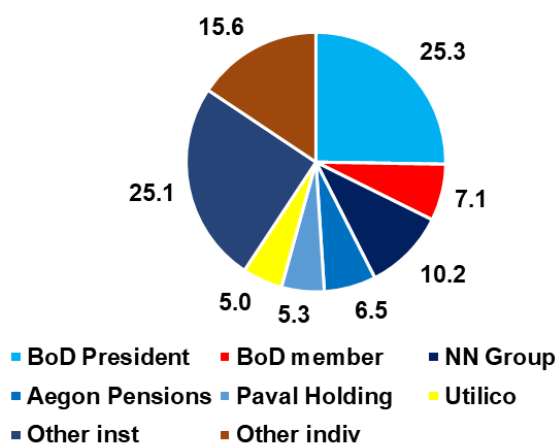
Port of Fajsz KFT ("Port Fajsz") - Port Fajsz, is a small sized port of Hungary, used for the acquisition of grains and vessel assistance.

Transterminal – S SRL (Transterminal) - Transterminal – S SRL is a Romanian-Moldavian company providing rail transport services in the Republic of Moldova and the countries part of the Community of Independent States and related operations; it owns its own fleet of wide gauge railcars.

Shareholders' structure

After the 2021 listing, the main shareholders have retained only about 32% of the company's stock, while institutional investors own now about 52% of the stock, with the balance in the hands of individual investors.

Shareholders' structure (%)



Source: TTS, Erste Group Research

TTS - RIVER TRANSPORTATION SEGMENT REVIEW

Operating the largest fleet in the Danube basin, the river shipping segment of TTS is operating throughout the entire Danube basin, reaching from Germany (Kelheim) to Ukraine (Izmail), through the Danube – Black Sea canal, accessing Constanta maritime ports and with connections with the rivers Rhine, Tisa and Sava.

The main products transported are:

- Minerals,metals, quarry products:
 - o imports of raw materials in Constanta Port and Ukraine are transported upstream to Liberty Steel Galați, Vimetco / Alum in Tulcea, Hesteel Smederevo (Serbia), Dunaújváros (Hungary)
 - o steel products exported
- Agricultural products:
 - o cereals produced in Hungary, Bulgaria, Serbia, Romania, interregional transport
 - o exports through Constanta port

- Chemical products:
 - o imports of raw materials necessary for fertilizer industry through Constanta Port
 - o finished products interregional transport and Constanta Port

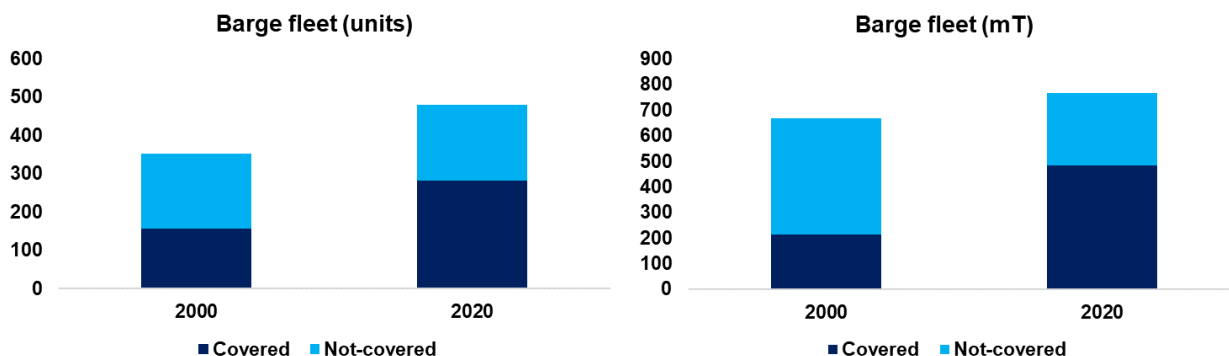
The majority of operations are performed via the forwarding segment of TTS, however the company also services third-party clients.



Source: TTS

Extensive fleet of barges and pushers

The company fleet consists of pushers of 800-3600 HP, tugboats of 560 HP, covered and open barges with capacities range between 1000 - 3000 to, schleps of 1000 to and barge-tanks of 1300to capacity. The maximum convoy cargo on internal routes is 14 500 tons and on external routes is 10.000 tons due to waterway characteristics.



Source: TTS, Erste Group Research

Assets' evolution

The fleet of the company has evolved over the last 20 years, growing by 36% in terms of barge units, the main growth being registered in the covered barge category, that can be used to transport a larger variety of goods than the uncovered barges. The number of covered barges has increased by close to 80% in the period. On a capacity basis, the total capacity of the barge fleet has advanced by 15%, with the capacity of covered barges increasing by 130%, while uncovered barges capacity has slightly declined.

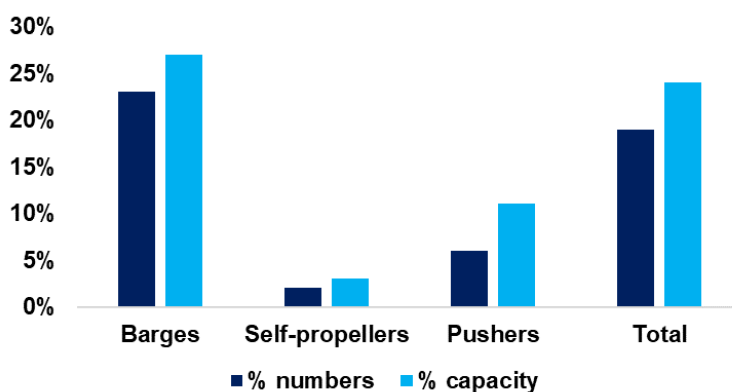
Fleet (units)	2000	2020	Fleet (capacity)	2000	2020
Barges/schleps	352	480	Barges/schleps	667	768
Covered	157	282	Covered	213	484
Pushers/tugs	45	38	Pushers/tugs	63	56
Modernised	2	34	Modernised	4	54
Self-propelled	0	8	Self-propelled	0	14

Source: TTS

An important player compared to peers

The total fleet of TTS, accounts for about 20% of the total fleet operating on Danube, from all riparian countries, in terms of numbers of vessels, and is close to a quarter in terms of capacity. Compared to average, the capacity of TTS vessels is larger, allowing for a more efficient transportation mode.

TTS fleet vs. total fleet in Danube Basin



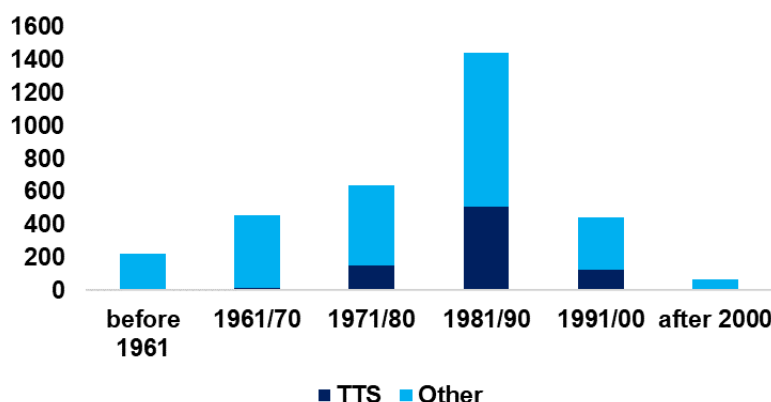
Source: TTS

Younger fleet than competitors

On average, the fleet of TTS is about 15% newer than that of the entire fleet operating on Danube, according to our approximation, based on number of units, rather than on capacity. The company has no vessels commissioned before 1970.

On average, the fleet of TTS is about 15% newer than that of the entire fleet operating on Danube

Age of TTS fleet vs. other

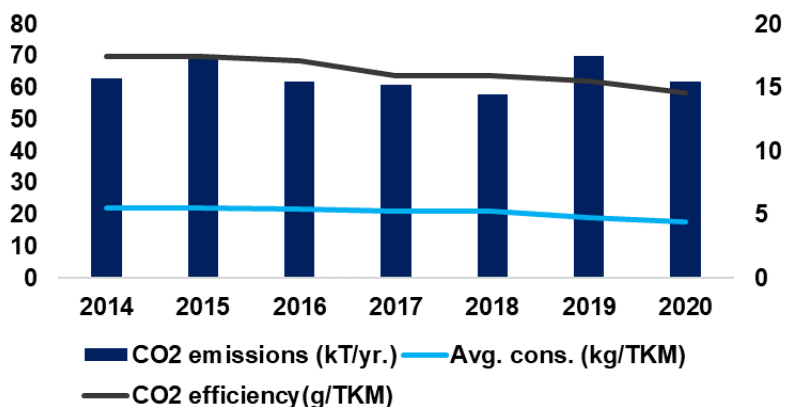


Source: TTS

Fleet fuel consumption and efficiency

Over the last eight years, the average consumption of fuel per unit of weight*distance has steadily decreased. The CO2 emissions have evolved within the average range of the industry.

Fuel and emissions efficiency evolution



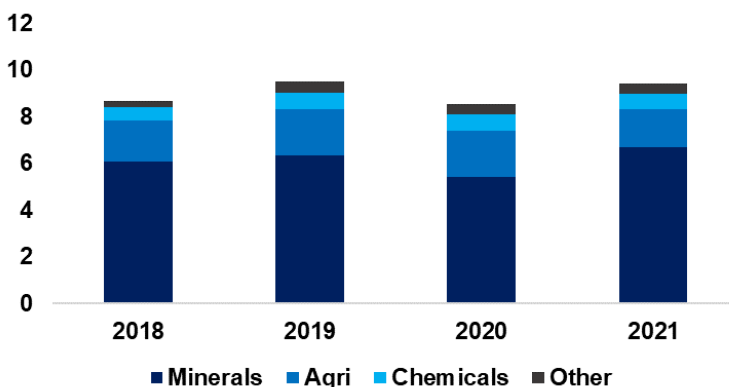
Source: TTS

Types of cargo by weight and distance

Both in terms of volume and distance, minerals account for the largest share of TTS transport operations. Agricultural products are second, followed by chemical products.

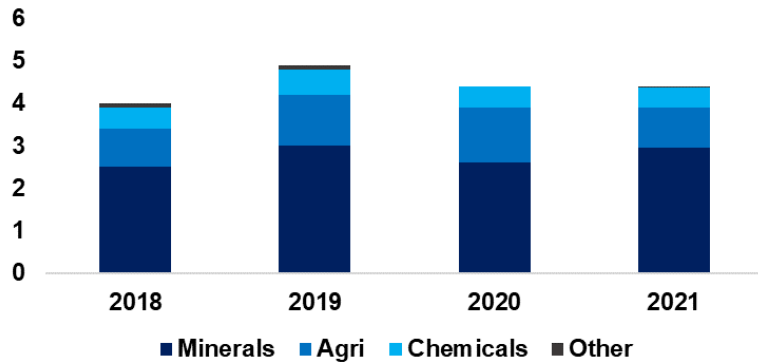
Over the last year, the proportion of minerals has increased both in terms of total freight and of volumes, while the share of agricultural products has diminished. This was due to the characteristics of the markets for the specific types of cargo. In 2021 economic recovery has fuelled an increased demand in steel products compared to the pandemic period. At the same time, the share of agricultural goods has diminished, on the back of the lower crops in Hungary and Serbia during the previous year.

Volumes transported by type (mn. tons)



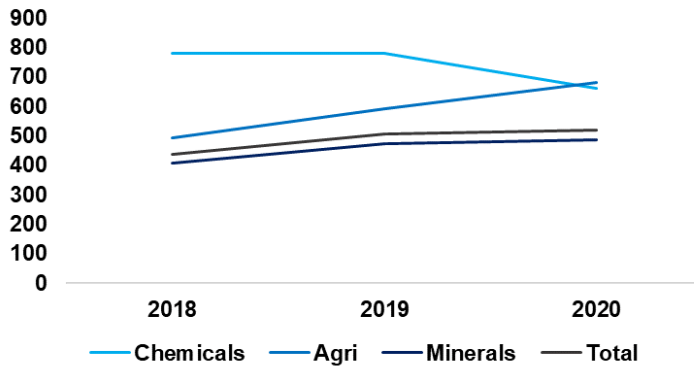
Source: TTS, Erste Group Research

Cargo types transported by distance (mn. TKM)



Source: TTS, Erste Group Research

Avg transp dist by type (km)



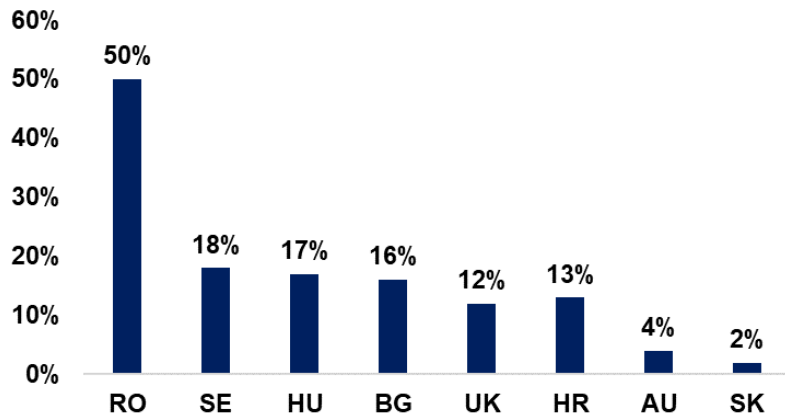
Source: TTS, Erste Group Research

TTS Group has a significant market share in all riparian countries, with 50% of market share in Romania

Half of Romanian IWW transport

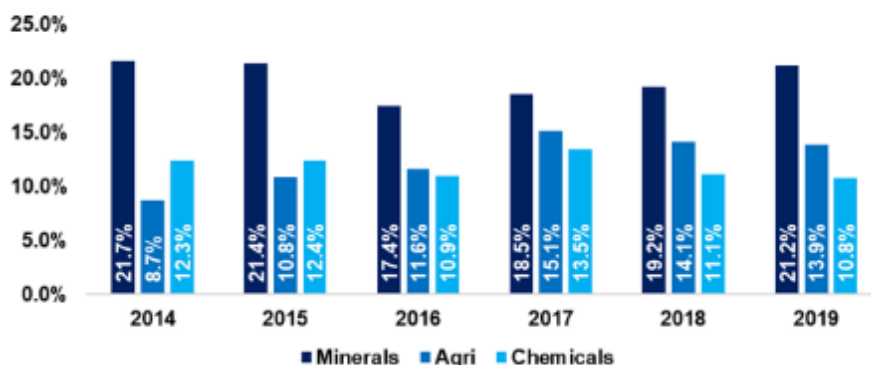
TTS Group has a significant market share in all riparian countries, with 50% of market share in Romania, high double digits in Serbia, Hungary, Bulgaria and low double digits in Ukraine and Croatia. In Slovenia and Austria the Group market share represents low single digits.

TTS Group mkt share in Danube



Source: TTS, Erste Group Research

TTS Group mkt share in terms distance



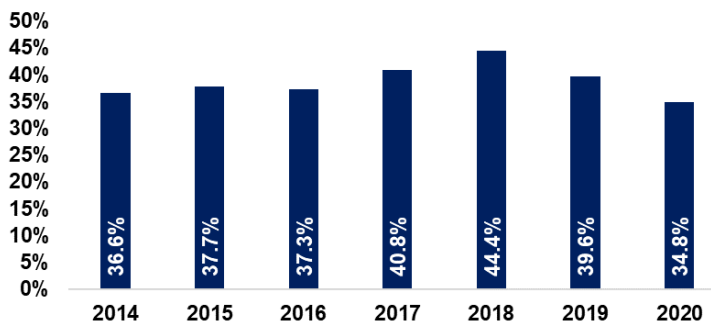
Source: TTS, Erste Group Research

TTS is the major player in the river traffic servicing the port of Constanta. The company controls on average about 40% of this traffic

Market share of Danube – Black Sea canal

The share of the Group in the Danube – Black Sea canal has remained constant over the years, at around a third of total traffic, with slight yearly variations.

TTS Group mkt share in Danube - Black Sea Canal

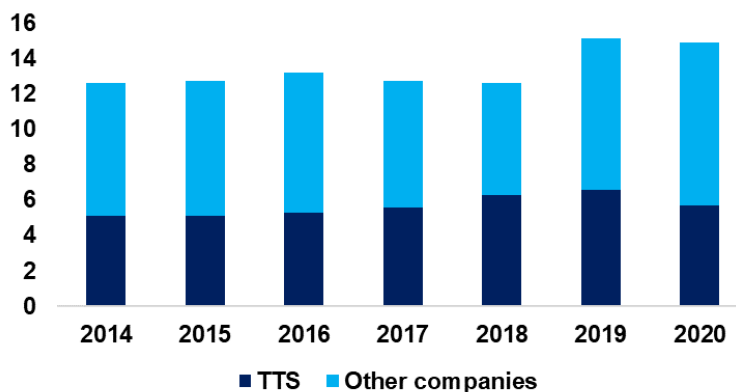


Source: TTS, Erste Group Research

Mkt share in Constanta port river traffic

TTS is the major player in the river traffic servicing the port of Constanta. The company controls on average about 40% of this traffic, having the advantage of being represented in handling operations (see below) and having a forwarding competence.

River traffic in Constanta Port



Source: TTS, Erste Group Research

TTS – PORT OPERATIONS

Port operations are being performed in seven Danube ports, out of which 6 are on the Lower Danube in Romania and one in the Middle Danube in Hungary.

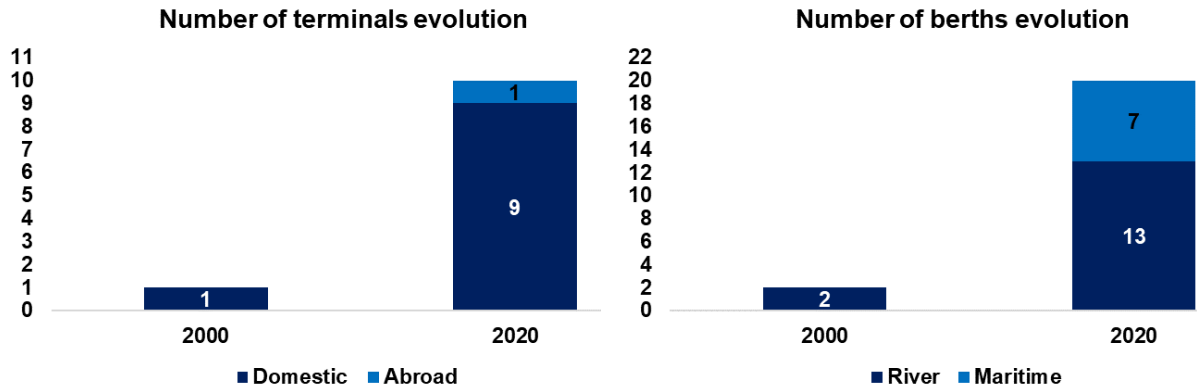
Services using its own facilities in Constanta Port and the seven Danube ports:

- direct and indirect transshipment through terminals from/to maritime vessels, barges, trucks and railway cars
- direct transshipment from barges to/from maritime vessels by floating cranes
- storage
- other specific port operations (bagging fertilisers, drying, dragging and weighting grain)

The development of assets has been performed largely via innovation

Asset evolution

The company has increased its number of berths from 2 in 2000 to 20 currently and terminals from one to 10 currently. The development of assets has been performed largely via innovation, especially in the Constanta port where the company had no terminal or land. TTS has introduced gravitational unloading from terrestrial transport to barges, followed by floating crane transshipment to maritime vessels. At the same time, it built a buoy mooring system compensating for the lack of a port terminal. Acquisitions increased capabilities in Constanta Port and other Danube river ports.



Source: TTS, Erste Group Research

Company increased storage capacity from nil to 145,000 tons and build storage facilities and platforms. It also acquired its first port facility abroad in Hungary.

Storage capacity	2000	2020
Grain (KT)	0	145
General (KSqm)	0	10
Platforms (KSqm)	0	40

Source: TTS

The company operates on approximatively 70,000 sqm in the Constanta Port

Solid presence in Constanta Port

The company operates on approximatively 70,000 sqm in the Constanta Port, with the largest facility being the Canopus Star grain terminal, with a capacity of 60,000 tons. It also operates a warehouse for storage of grain, a segment of railway, a modular container park, offices and other facilities. The main facility is under lease till 2050, while others have different lease

expiration dates. The company will pursue renewal of each of these leases upon expiry.

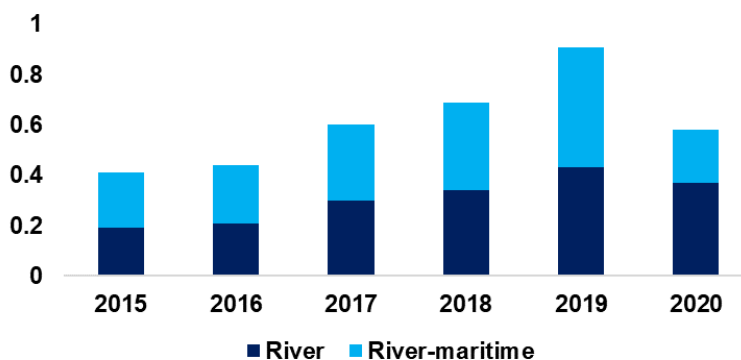


Source: TTS

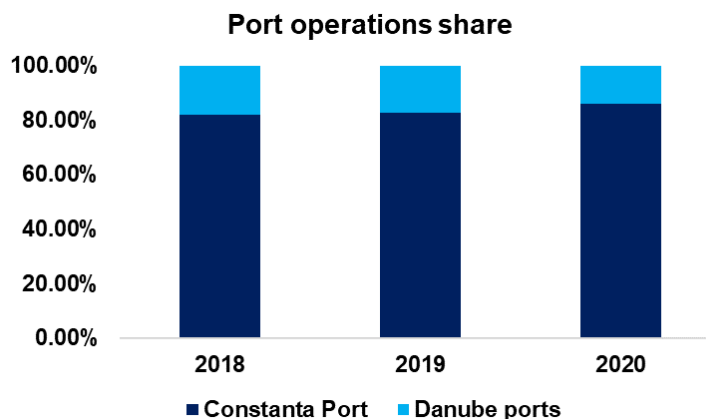
TTS operations in main Danube ports

The company’s port operations have been historically well balanced between the river and river-maritime ports. 2020 was an exception with a decline of the activity in the Constanta Port that has resulted in a higher proportion of volumes operated in river ports.

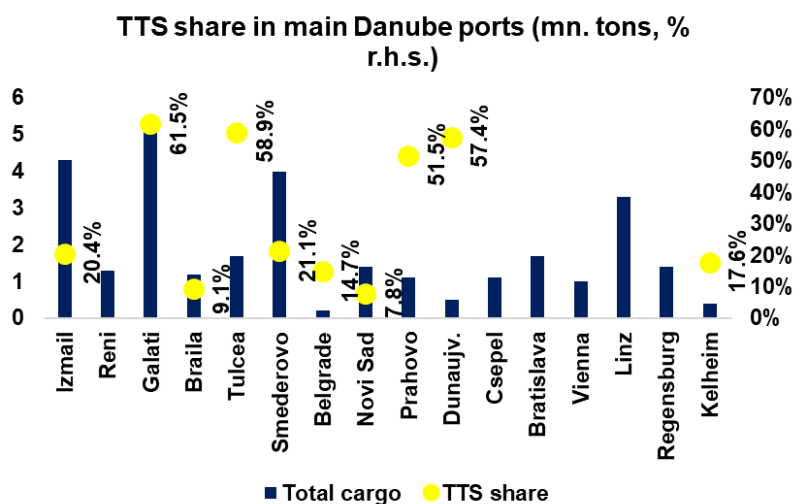
Volumes operated by TTS in Danube ports (mn. tons)



Source: TTS, Erste Group Research



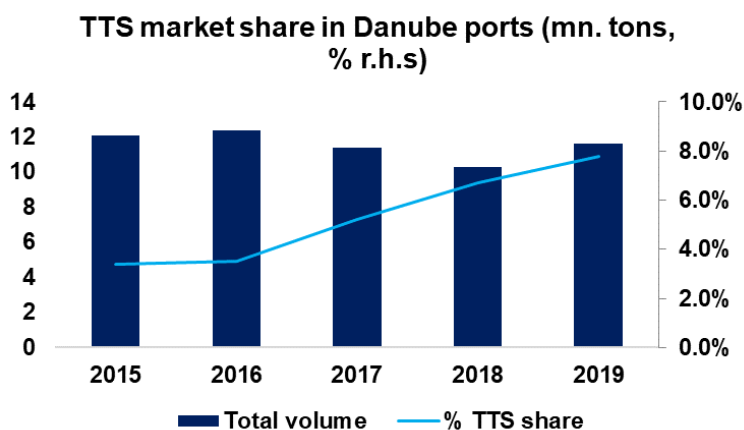
Source: TTS, Erste Group Research



Source: TTS, Erste Group Research

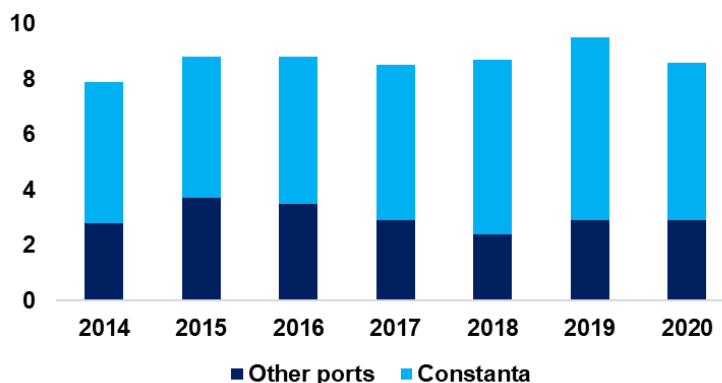
Port presence along the course of the Danube - increasing

The presence of TTS in the Constanta Port is complemented by the solid footprint in the operations of Danube river ports. In Romania’s second largest port, the company accounts for more than 60%, while it has also considerable representation in other important river ports. The overall market share of the Group in the river ports has been increasing steadily over the last five years.



Source: TTS, Erste Group Research

Constanta Port share in TTS transportation



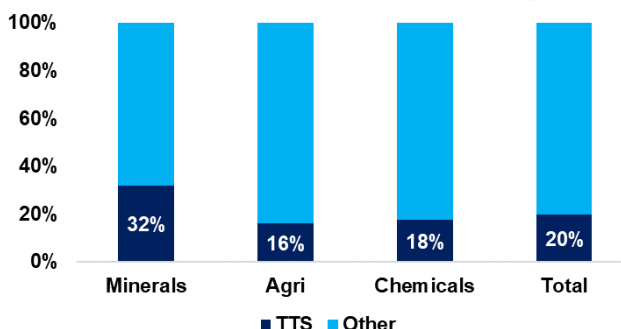
Source: TTS, Erste Group Research

The Constanta Port accounts for more than two thirds of the entire port activity of TTS

Constanta: the jewel of the crown

The Constanta Port accounts for more than two thirds of the entire port activity of TTS. At the same time, the company accounts for 20% of the operations of the port, with a significant footprint in the minerals cargo where it accounts for almost one third of total port activity.

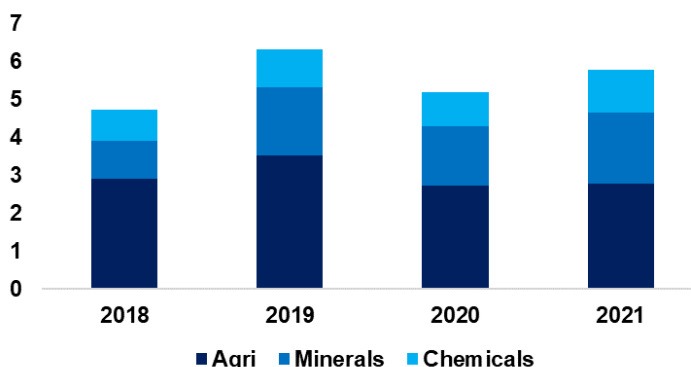
2020 TTS share of Constanta Port cargo



Source: TTS, Erste Group Research

Overall, the agricultural products are the largest item of port operations, on the river and in Constanta port, followed by minerals and chemicals. Over 2021, especially during the second half of the year, the operated volumes have increased considerably y-o-y on the back of a better harvest in 2021 compared to 2020 but also due to the significant increase in demand from the main metallurgical plants serviced by the company.

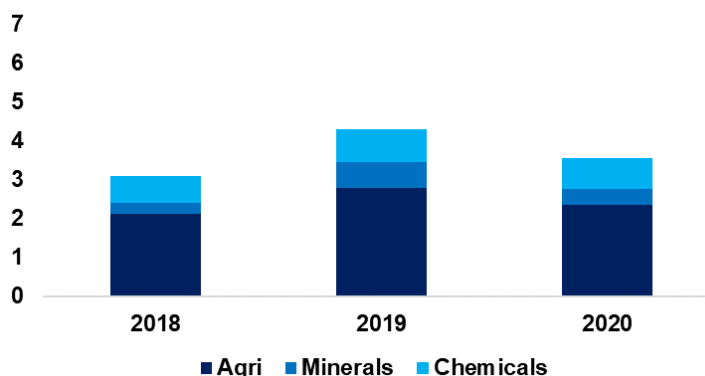
Port ops by type (mn. tons)



Source: TTS, Erste Group Research

Overall, the agricultural products are the largest item of port operations, on the river and in Constanta port, followed by minerals and chemicals

Constanta port ops by type (mn. tons)



Source: TTS, Erste Group Research

TTS – FORWARDING AND OTHER

Main interface with Group customers

The company’s freight forwarding operations provide cargo transport and port operation services that it contracts mainly from within the group and from third parties. This client interface allows the companies of the group to hedge against tariff and input cost volatility. Thus, companies from the group are insured maximum capacity utilization, and are protected from high fuel costs (by Bunkering Adjusting Factor utilization) and low water conditions (by Low Water Surcharge). The forwarding segment is providing the companies in the group for an optimal mix of long- and short-term contracts resulting in added flexibility and efficiency.

Erste Group Research – Company Report

Transport Trade Services SA | Ind. Transportation | Romania

15 June 2022



Source: TTS, Erste Group Research

Diversified client base

The company has a diversified client base in the main cargo types with the largest customer being Cargill Agricultura SRL, the partner of TTS in the Constanta Port terminal, with about 10% of consolidated revenues. Another 5 clients account each for 5-10% of consolidated revenues. The top 5 clients account for slightly more than half of consolidated revenues.

Main client categories:

- International and local producers and traders of grain (Cargill, Glencore/Viterra, Cofco, Comcereal, Octopod, etc)
- Steel industry (Liberty Steel Galati, Alum Tulcea, HBIS Smederovo, DBK Vienna)
- Chemical industry (Elixir Group)
- Other freight houses and clients

Other businesses

- two naval shipyards for fleet repair, maintenance and modernization
- hydro-technical activities,
- timber trading and other activities.

The company has a diversified client base in the main cargo types with the largest customer being Cargill Agricultura SRL

SWOT analysis

Strengths

- Top player in Danube basin
- Diversification/vertical integration
- Flexibility/hedging capabilities
- Large, well-diversified fleet
- Significant footprint in main ports
- Innovation/modernisation

Weaknesses

- Highly dependent on economic cycles
- Lower presence in Upper Danube
- Fleet not entirely modernized
- Land footprint in Constanta Port suboptimal

Opportunities

- Reconfiguration of cargo flows after Ukraine war
- Extension of footprint in Upper Danube
- Low carbon emissions transport gains traction

Threats

- War impact on imports/exports through the Black Sea
- Recessionary economic cycle
- Water level decline
- Non-renewal of port leases

Development and investment strategy

Business strategy

The main lines of company development call for a consolidation and increase in market share in the riparian countries and with existing and new customers together with the increase of existing assets. Additionally, TTS plans to expand exposure to the Middle and Upper Danube, leveraging on existing operations in Hungary and Austria and by organic growth and acquisitions, with plans to acquire two ports in Middle Danube. It plans to diversify further in the rail forwarding business, and brokerage activity in the Black Sea basin.

Investment strategy

The investment policy of the company is overall directed to fulfilling the global development strategy of the company, rather than target individual projects. It is natural for such a complex business to engage in investments that have collateral impact on all the segments of the activity. Thus, even if an investment project in the port operations for instance may not bring returns specifically in the port operations business, it can increase the reach of the river transport business and contribute thus to the overall profitability of the company. For this reason, the company doesn't target specific IRRs for each individual project, rather ascertaining the overall impact on the strategic development of the company and profitability.

The company doesn't target specific IRRs for each individual project, rather ascertaining the overall impact on the strategic development of the company and profitability

The main directions for investment development:

- Modernization/covering of the barge fleet
- Increasing barge capacity
- Modernization/lowering draft of pushers
- Revamping port infrastructure
- New port capacities (warehouses, silos, cranes)
- Extension of storage capacity in Canopus terminal
- Acquisitions of assets/companies/partnerships in Upper Danube and Middle Danube (river transport company, one or two ports)
- Green energy
- Digitization

The company recently completed the modernization of the Oltenita port, and the first part of the expansion of operating capacity of Canopus Star, with the second phase set to be completed this year. At the end of 2021, TTS started a project to modernize the port of Giurgiu with partial EU funding.

NRRP – indirect positive influence

Albeit the National Recovery and Resolution Program financed largely by European funds does not allocate specific funds for development of IWW transport, the indirect impact should be positive. The program is dedicated to improvement of the infrastructure and the road and rail networks. Thus, better rail and road access to ports along the Danube should lead to a higher client base for TTS and allow for a stronger and more diversified demand for services.

Long-term EU projects set to increase IWW utilization

The Connecting Europe Facility is including specific objectives targeted at increasing the utilization of IWW under the Trans-European Transport Network initiative. Under this initiative, there is a specific concentration of the Rhine-Danube corridor consisting of 27 actions aimed at establishing and maintaining a good navigation status along the Danube and the Sava. Among the actions, stand out those targeted at increasing the navigation standard on the Danube to a comparable level to the Rhine river. Of direct interest to TTS are the actions “Fast Danube” located along the Bulgarian – Romanian Danube common section (capital dredging works) and the upgrade of the Gabčíkovo locks in Slovakia.



Source: Flandersinvestmentandtrade.com

The war in Ukraine

TTS has minimal direct exposure to the conflict in the Ukraine, as it doesn't own any assets in either Russia or the Ukraine

Minimal direct exposure, but a few challenges along the way ...

TTS has minimal direct exposure to the conflict in the Ukraine, as it doesn't own any assets in either Russia or the Ukraine. However, the company is exposed indirectly, due to the Ukrainian and Russian origin of a part of the cargo it transports. The main current challenges arising from the war have to do with reconfiguration of the flow of cargo and with the economic sanctions that are cutting supply or certain goods and inflict changes in the supply chain and price increases in inputs. Cargo originating in the Ukraine or Russia currently accounts for less than 5% of revenues, excluding goods related to the metallurgical industry.

In the metallurgical industry, the main customers, Galati is supplied from Izmail and Smederovo from Constanta. Current stocks, in storage and in transit are thought to provide enough supply to these plants for months to come, even in the event of a complete cut-off in supply at the source.

In the fertilizer segment, the company expects that deliveries from Russia to Serbia to be redirected from suppliers in the Caspian, North African and Gulf producers. Agricultural cargo volumes are subject to protectionist measures that were in place even before the war in Hungary and Serbia, however export bans were already partially lifted.

... and even more opportunities ahead...

The reconfiguration of flows from the Ukraine may lead to higher traffic in Constanta, both to and from the Ukraine. The company expects that a significant amount of grain that was exported through Ukrainian ports will be redirected via rail through Constanta, leading to increasing business for local operators. At the same time, the jump in grain prices – a consequence of the war – may spur higher exports from the Danube basin countries.

Traditional exports from the Ukraine and Russia: ore, laminates, fertilizers, may be replaced with supplies from Turkey, Egypt, North Africa, the Gulf and the Caspian.

... as some costs are passed on to customers

Post the beginning of the war, the company has managed to re-negotiate the terms of BAF, leading to the reduction of the period of exposure of TTS to fuel price increases.

Drivers and forecasts

DRIVERS

Meteorological factor

The traffic of river shipping is influenced in a significant manner by the navigation conditions. While middle and lower Danube is significantly less congested than other, Western Europe IWWs, such as the Rhine, the water level is an important factor in determining the amount of freight.

Specifically, the load on the barges can vary as a function of the available depth of the water, in order to maintain a safe under-keel clearance.

Channel characteristics

On the Romanian – Bulgarian border there is a bottleneck where the depth of the navigation channel is lower than in other sections of the river. The channel is located on the Bulgarian side of the river, however the dredging activities that have to be performed by Bulgaria can be lagging or lacking. The area is included in an EU action that, when implemented, should increase the capacity of transport through that segment of the river.

Economic cycles

The usual pattern of river transport largely consists of barges with iron ore or fertilizers going upriver and returning downstream loaded with grain. Any disruptions in this usual pattern decrease total freight and increase costs, especially since empty vessels are not covered by the fuel bunkering cost indexation. Unusual high fertilizer input costs, for instance, may trigger in turn a decline in demand, and consequently of demand for transportation services. At the same time, low grain FOB prices may determine farmers to store rather than trade the harvest.

Crop cycles

Weather patterns play an additional role in the quantity of freight, by influencing the crop yield in the Danube basin. Over the last weather cycle it appears that middle and lower Danube areas have had complementary evolutions, with Romanian and Hungarian crop yields evolving in opposite patterns. At the same time, these cycles also influence the demand for fertilizers.

The water level is an important factor in determining the amount of freight

Operation and infrastructure bottlenecks

The most important operational bottlenecks are the result of infrastructure limitations in the river ports in terms of storage and handling capacities and the intermodal connections with road and rail means of transportation. Since demand peaks are cyclical, port operators are disincentivized to invest in order to significantly increase capacities. The current situation in the Ukraine is indicative, with large amounts of cargo blocked in ports or on the access to ports.

Economic policies of riparian states

Protectionist measures, such as those taken in 2021 by Hungary and Serbia, that curtailed exports of grain may have an important impact on the demand for transportation services.

FORECASTS

Transportation and operated volumes

Besides the usual imponderables, the war in the Ukraine has introduced another measure of uncertainty regarding the volumes to be transported on the Danube and operated in Danube ports and the Constanta Port, with multiple implications. However, we believe it is reasonable to expect the traffic of civilian vessels to be unimpeded in the Black Sea and the cargo that originated in the Ukraine or Russia to be replaced by alternative sources.

We expect the level of activity of the Romanian and Serbian steel producers to remain more dependent on global economic cycles than the outcome of the war, thus a normal economic recovery shouldn't curtail the activity of these concerns.

Grain transportation remains as always, a matter of weather and global prices, however with the prospects of good harvests in 2022, on top of the alimentary crisis fuelling high prices, Danube Basin exporters should be incentivized. In absence of protectionist measures by local governments, the transport of grain and fertilizer should be unimpeded.

Over the longer term, it is reasonable to expect fertilizer consumption in the area to grow closer to EU averages and together with existing irrigation projects to lead to larger harvests.

Conservative estimates of volumes and tariffs...

As we mention above, we are trying to err on the side of conservative estimates going forward, in order to establish a floor for the value of the company rather than explore the full value potential under ideal circumstances. Thus, in the forwarding, river shipment and port operations segments, we have forecasted volumes congruent with historical averages. We did not account for the impact of the potential increase in the fleet of TTS, of modernization of existing assets and the impact of the EU programs targeted at increasing traffic on the Danube, or the potential longer routes of goods resourced from the Ukraine and Russia to other suppliers.

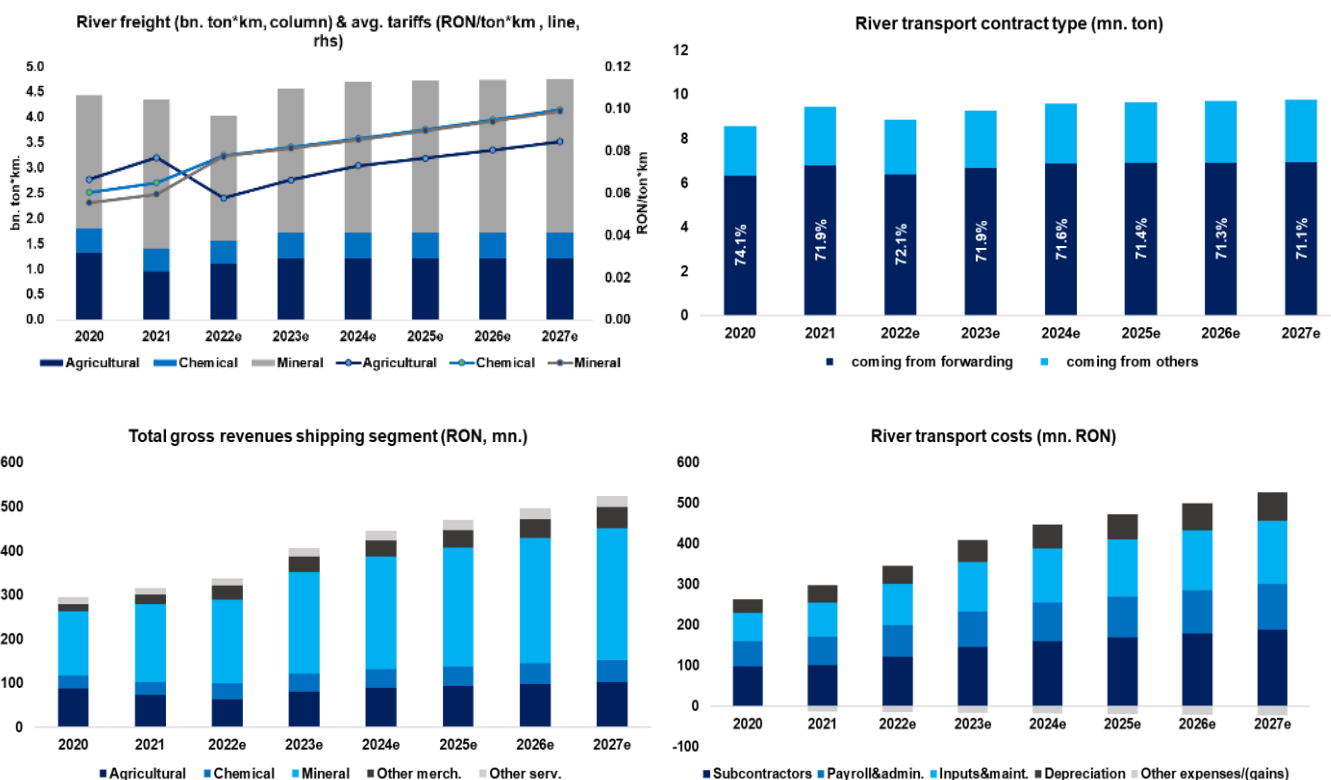
In terms of tariffs, we have started on the basis of the existing tariffs, as of 1Q22 and increased them – conservatively – at or below the rate of inflation.

In the forwarding, river shipment and port operations segments, we have forecasted volumes congruent with historical averages

... and conservative costs assumptions

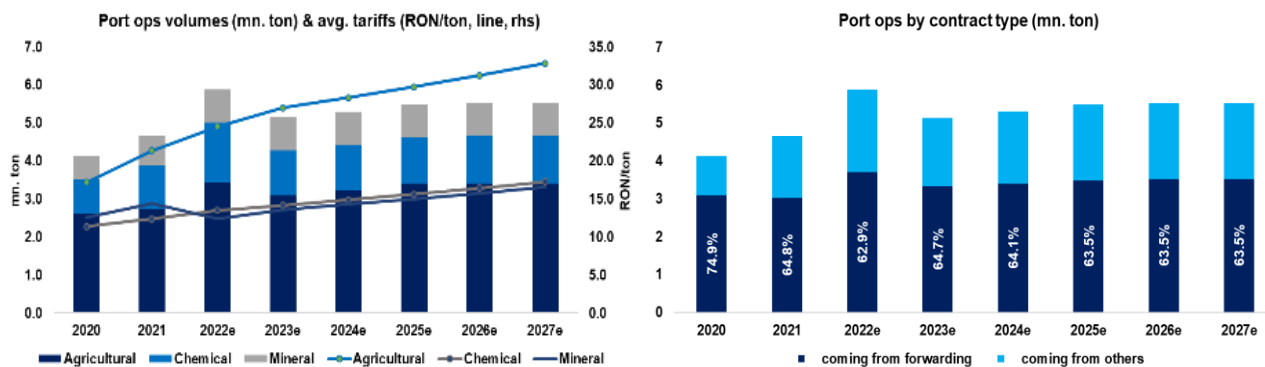
In terms of costs we forecasted a higher increase in costs with personnel, and inputs, accounting for a growing of one third of the share of costs including fuel and energy for the year. This is indeed a conservative assumption considering the costs of fuel are largely hedged and electricity costs are negligible as a share of total costs. We also accounted for a large increase in costs with third parties arising from using other transporters or port operators.

Summary drivers, forecasts and financials for river transport segment

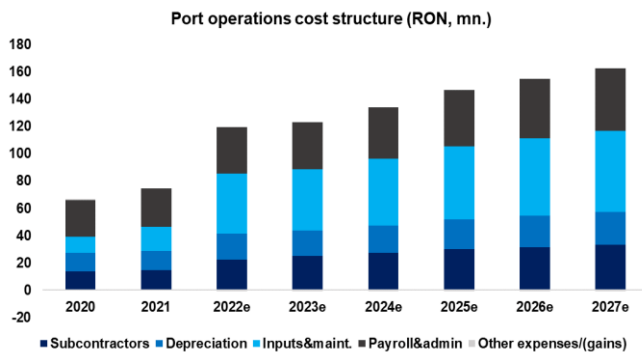
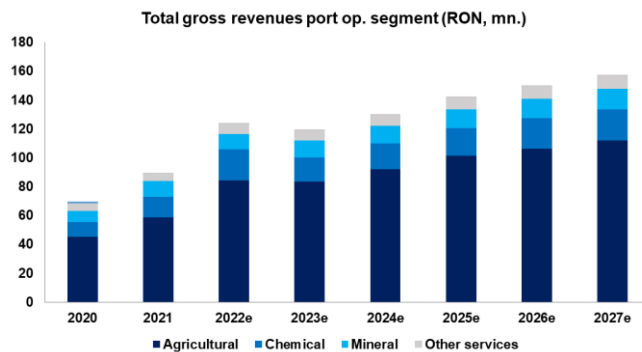


Source: TTS, Erste Group Research

Summary drivers, forecasts and financials for port operations segment

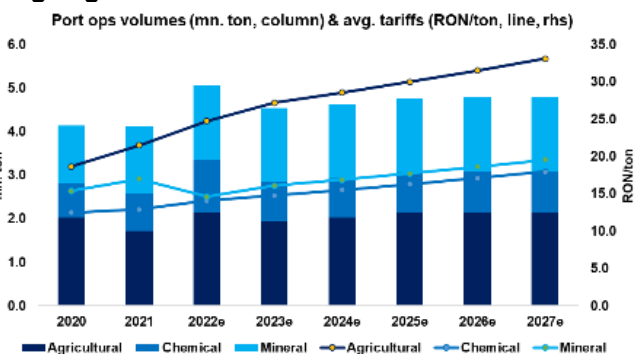
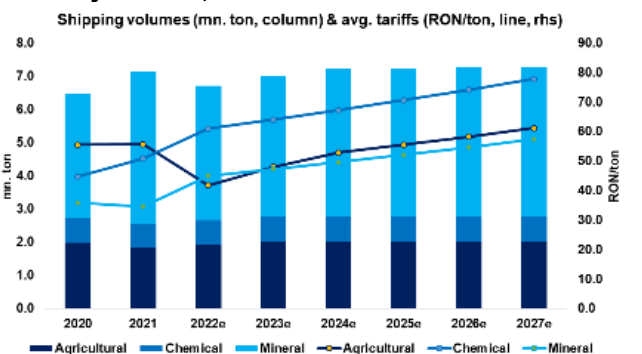


Source: TTS, Erste Group Research

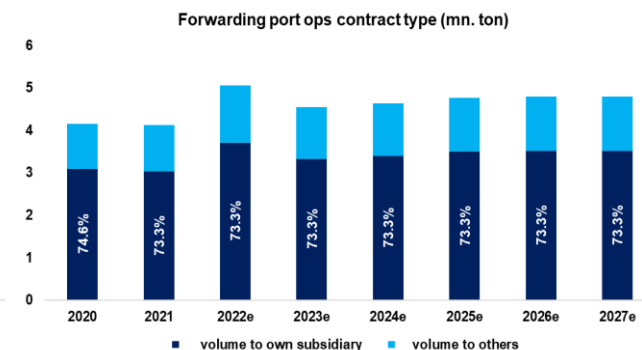


Source: TTS, Erste Group Research

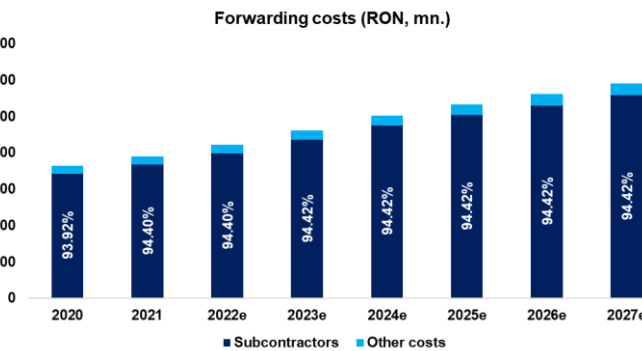
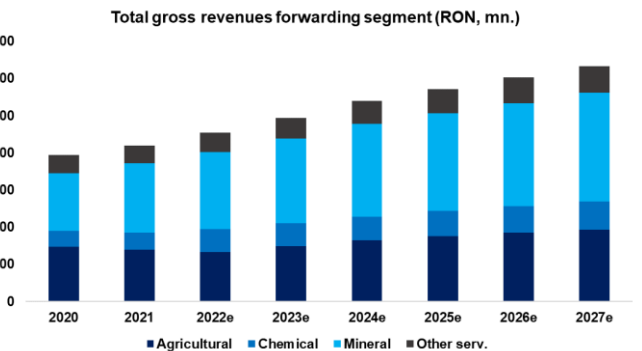
Summary drivers, forecasts and financials for forwarding segment



Source: TTS, Erste Group Research



Source: TTS, Erste Group Research



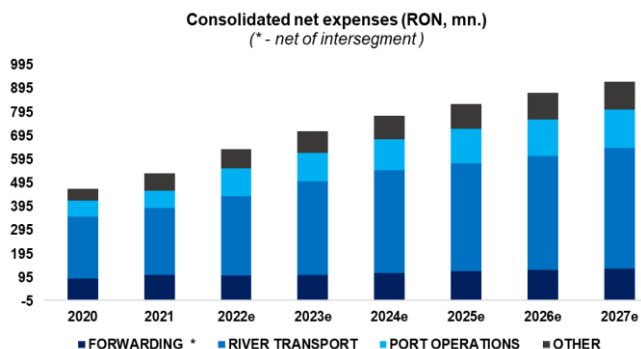
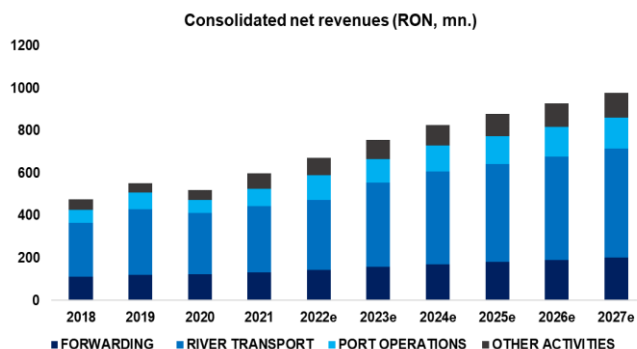
Source: TTS, Erste Group Research

Summary consolidated financials

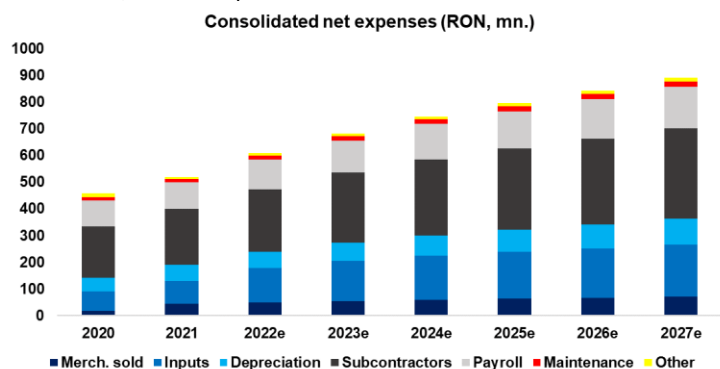
Income statement Revenues and costs

We forecast conservatively in terms of volumes and tariffs

As we describe in detail above, we forecast conservatively in terms of volumes and tariffs, while accounting for growth in costs of input, personnel and third parties.



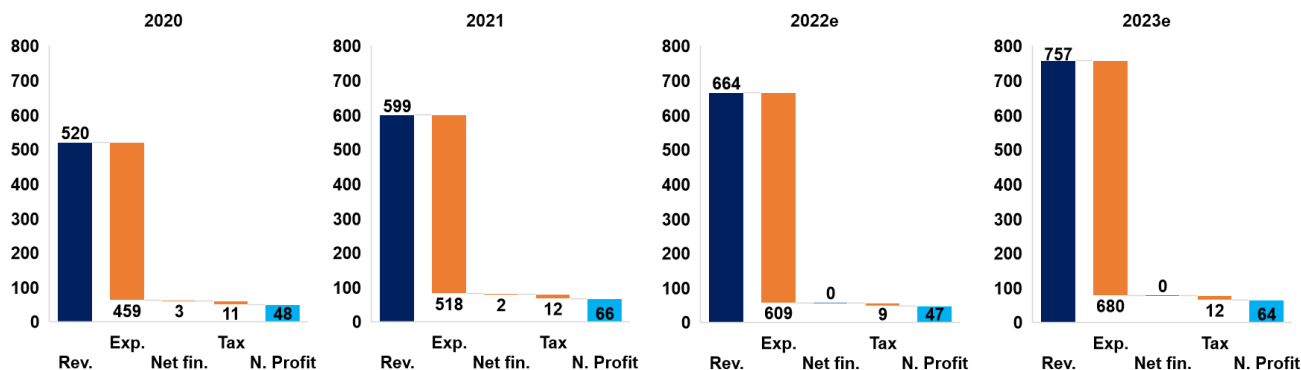
Source: TTS, Erste Group Research



Source: TTS, Erste Group Research

Profitability

Drop in profitability during first half of 2022 should reverse during the rest of the year and in following year.

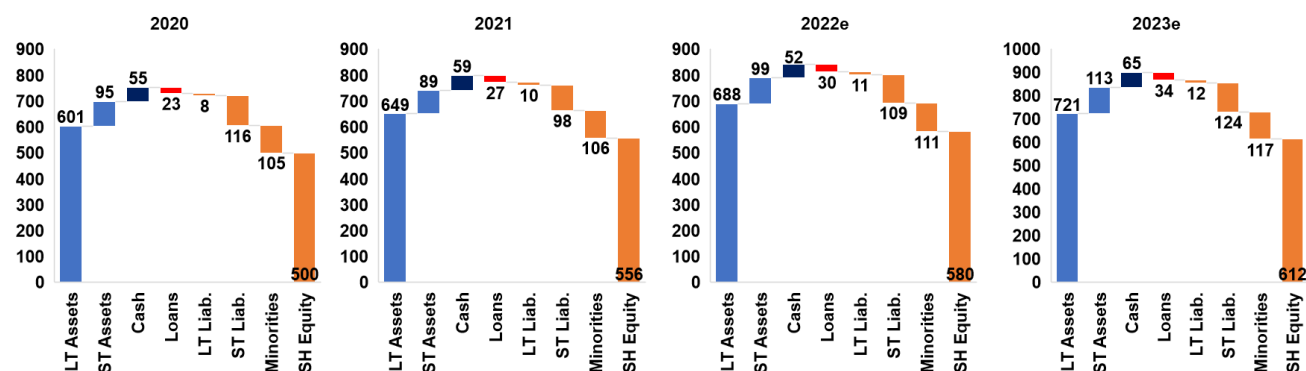


Source: TTS, Erste Group Research

We do not forecast a large increase in gearing over the next period

Balance sheet

The company has a low degree of indebtedness with the majority the debt in short term instruments and we do not forecast a large increase in gearing over the next period, under current investment needs. Subsequent acquisitions may increase gearing, however they would come with additional income and cash generation capabilities.



Source: TTS, Erste Group Research

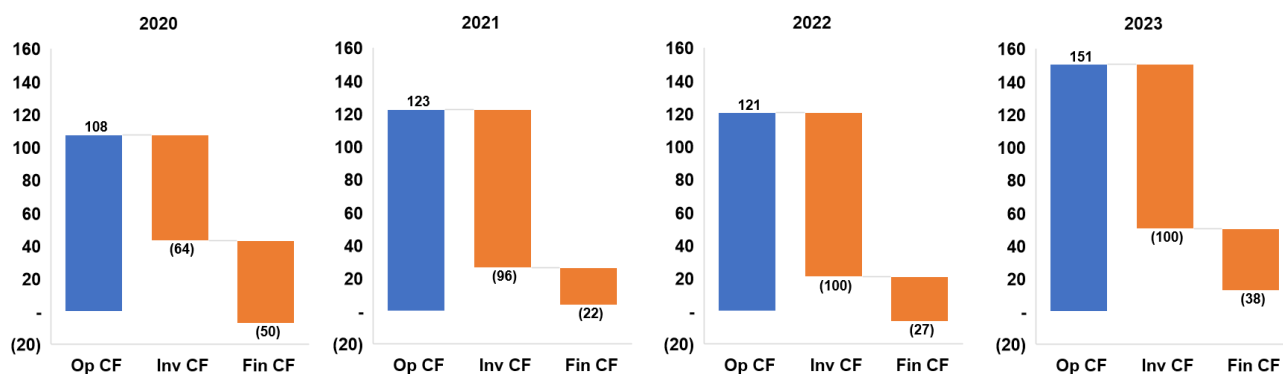
(RON, mn.)	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Cash & equivalents	38.9	62.4	55.2	58.9	52.5	65.1	87.1	116.8	154.4
ST Debt	54.1	62.9	50.8	41.3	45.8	52.2	57.0	60.6	64.0
LT Debt	64.2	46.1	23.1	26.8	29.7	33.9	37.0	39.3	41.5
Net Debt	79.4	46.6	18.7	9.2	23.1	21.0	6.9	-16.8	-48.9

Source: TTS, Erste Group Research

Operating cash flow generation is amply capable of sustaining the current level of CAPEX and dividend payments

Cash flow

Operating cash flow generation is amply capable of sustaining the current level of CAPEX and dividend payments. Going forward, non-organic growth spurs may hike investing cash flow and increase needs for financing, however we expect the company to be able to continue its dividend policy without incurring significant financial burden.

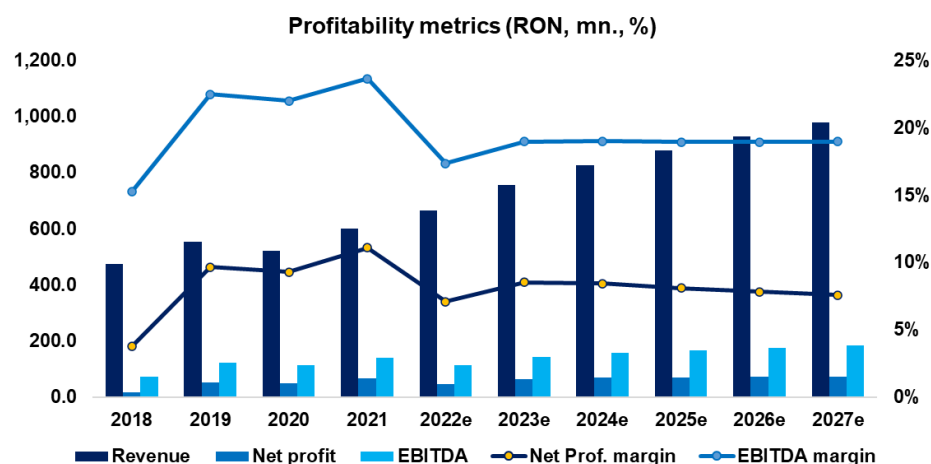


Source: TTS, Erste Group Research

Conservative profitability assumptions

We reiterate our conceptual approach of trying to eliminate the downside risk to our valuation and target price by adopting profitability assumptions that err on the conservative side and establish a floor for the company's valuation. This is evident in our margin forecast, where, after the slump of 2022 (itself a conservative assumption considering the potential rebound in the second half of the year) we do not account for the clear perspective of margin expansion to levels more congruent with historical averages.

We try to eliminate the downside risk to our valuation and target price by adopting profitability assumptions that err on the conservative side and establish a floor for the company's valuation



1Q results – validating our forecast

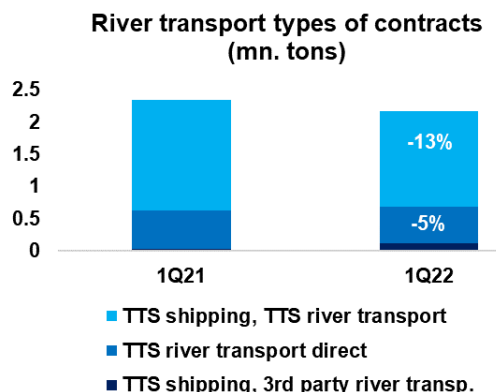
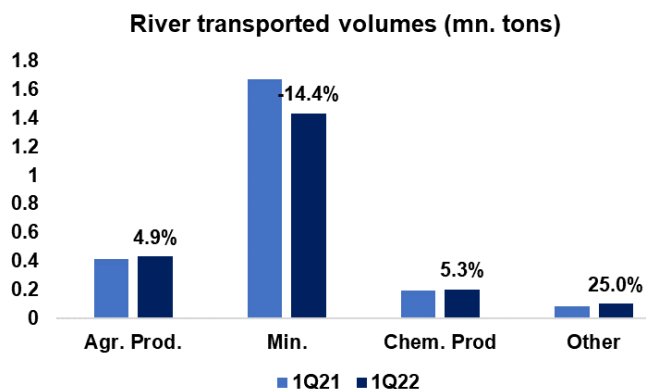
TTS 1Q22 financials: higher revenues, lower profitability, but better prospects ahead

Y-o-y increase in top line, lower profitability. TTS posted 1Q22 financials showing an increase in revenues, but declining y-o-y profitability and margins. On a yearly basis, consolidated revenues grew by 23%, while EBITDA shrunk by 3% while operating and net profits declined by 17% and 19% respectively. On a quarterly basis, revenues increased by 9%, EBITDA grew by 7%, while operating and net profits advanced by 54% and 36% respectively.

<i>Qrt. end: March 22</i>	Quarterly Reported				
<i>RON mn.</i>	1Q21	4Q21	1Q22	y/y	q/q
Revenue	132.0	147.8	161.7	23%	9%
EBITDA	32.5	29.4	31.5	-3%	7%
EBIT	18.8	10.2	15.6	-17%	54%
Net profit	15.0	9.0	12.2	-19%	36%

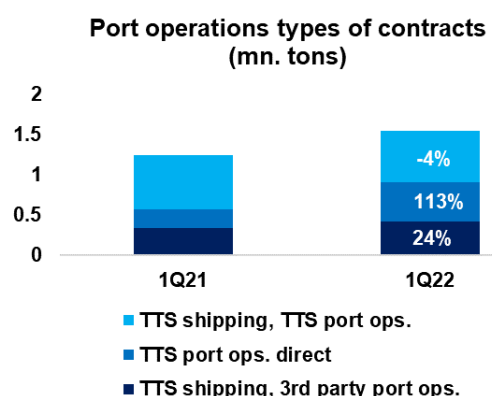
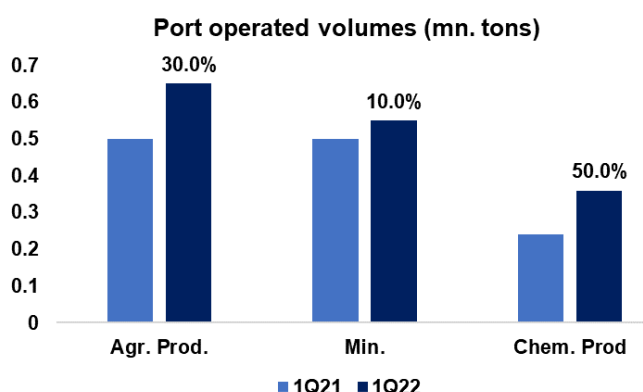
Source: Company Data, Erste Group Research.

River transport profitability declined. Despite the overall increase in revenues, the river transport segment saw its profitability decrease. Volumes were on aggregate almost 8% lower compared to the same period of 1Q21, due to a major decline of volume of transported minerals. The decline in transportation of minerals was caused by reduced production of alumina in Tulcea leading to a decline in transport of bauxite. At the same time, transportation of scrap metal and metallurgical coke from Hungary dropped as well. In the agricultural products transport segment, the low prices of the end of 2021 and beginning of 2022 have discouraged producers from selling. Moreover, shortly after the outbreak of the war in Ukraine, Serbia and Hungary stopped exports leaving only Romania and Bulgaria to export cereals via Constanta, for shorter transportation routes and fees.



Source: TTS, Erste Group Research

Port operations volumes increase. Higher volumes of port operations made partially for the decline in the profitability of the river transports. Overall volumes grew by 243,000 tons, with the largest growth in contracts being the direct contracts by TTS port operators, while contracts by TTS shipping with own operators have declined slightly and TTS shipping contracts with third party operators grew by 24%.



Source: TTS, Erste Group Research

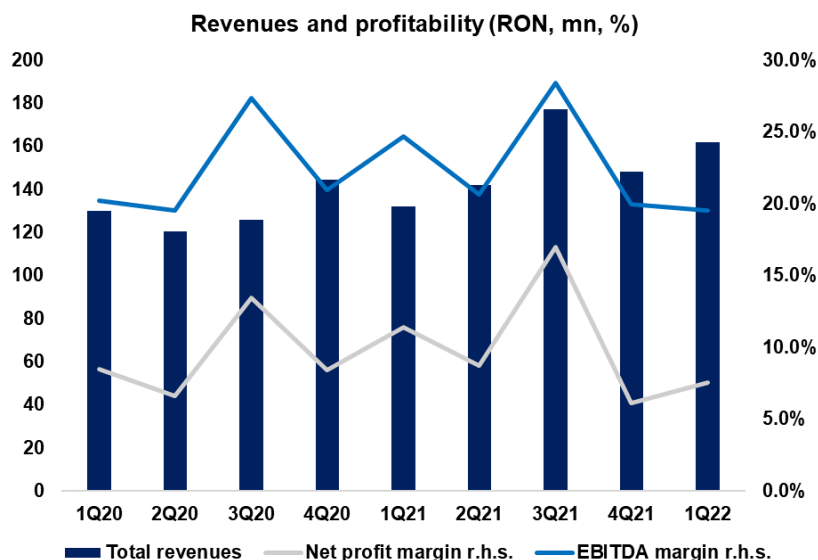
War in Ukraine disrupts flows, impacts profitability

War in Ukraine disrupts flows, impacts profitability... The river transport segment has been the one most impacted by the war in Ukraine. Under normal circumstances, vessels transport minerals upstream and return with agricultural goods downstream, in order to minimize circulation of empty ships. Thus, with the export embargo on agricultural products in Serbia and Hungary, the percentage of empty ships increased from 9% in 1Q21 to 14% in 1Q22. The costs of operating empty ships downstream was also exacerbated by the fact that bunkering clauses do not apply to the operation of empty ships, thus fuel costs are fully born by the transporter.

The war also stopped temporarily the supply of raw materials for metallurgy in Izmail and the cessation of transportation upstream of Russian goods to Serbia. Another impact of the war was the increasing congestion in the port of Constanta, leading to higher times for loading and unloading and higher storage volumes.

... as does low water level on Danube. During 1Q21, Danube water levels were optimal and that led to a degree of capacity utilization of barges was close to 100%. During 1Q22, the capacity utilization declined

significantly, due to the low water levels. Overall, the average load on the unpowered fleet declined from 71.3% in 1Q21 to 68.8% in 1Q22. This reduction impacted especially long-distance routes, with a corresponding decline in revenues at same costs, further eroding margins in the river transport segment.



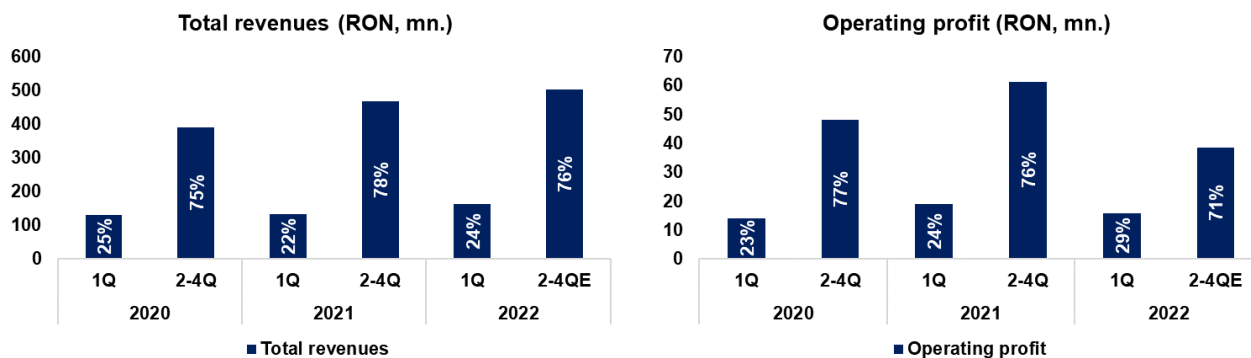
Source: TTS, Erste Group Research

Shipping routes are being reconfigured

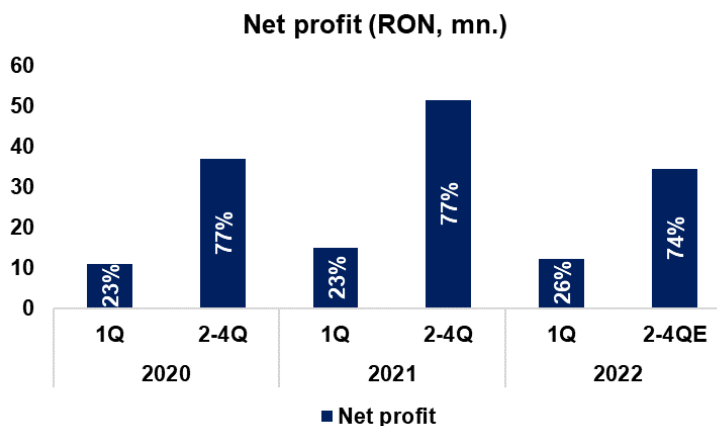
Disruptions to diminish going forward. According to company management, shipping routes are being reconfigured and the stockpiled goods in Constanta port will be transported during 2Q22. At the same time, the cereal export bans from Hungary and Serbia have been partially lifted in April and May, leading to better prospects in the remainder of the year. Shipping through Izmail and Reni resumed in late March, however the long-term operation of these ports will be influenced by the outcome of the war. At the same time, the flow of Russian goods transported upstream has been replaced with products from other origins.

1Q22 results validate our YE forecast

Compared to previous years, our YE forecast is congruent with top and bottom line and to the profitability evolution during the first quarter of the year.



Source: TTS, Erste Group Research



Source: TTS, Erste Group Research

VALUATION

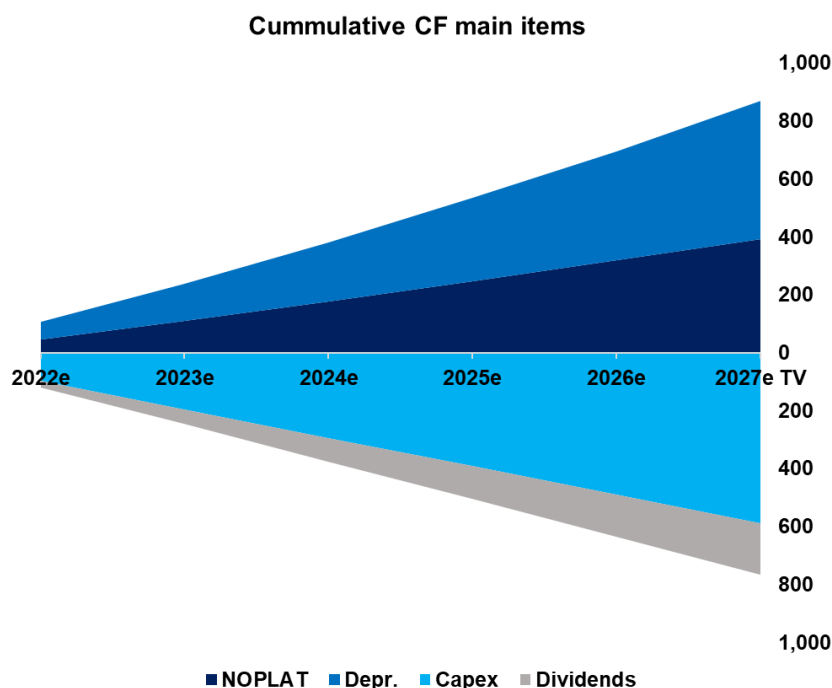
Comparables valuation

We have performed a comparables' valuation of the company, albeit the international peers of TTS are not perfectly congruent with the characteristics of the company in terms of business segmentation, regional coverage and depth of vertical integration. Nevertheless, even if not a method to establish target valuation, we believe the exercise is indicative of the potential value of the company and validates our view on the stock and our recommendation.

Company	Reuters	P/E	P/B	P/S	EV/EBITDA	Div. yield
		curr.	curr.	curr.	curr.	curr. (%)
Alexandria Cont & Cargo Handl Co	ALCN.CA	8.50	2.84	4.99	6.30	9.30
China Int Marine Cont	2039.HK	7.50	1.10	0.30	4.70	6.30
COSCO SHIPPING Ports Ltd	1199.HK	7.55	0.50	2.20	13.00	5.50
Gemadept Corp	GMD.HM	32.00	3.20	5.44	15.11	1.86
Hamburger Hafen & Logist AG	HHFGn.DE	10.75	2.10	0.80	4.50	4.65
Hidrovias do Brasil	H3SA3.SA	n/a	1.65	1.60	19.15	n/a
Intl Cont Term Serv Inc	ICT.PS	22.50	6.28	4.45	9.60	3.05
Kuehne + Nagel Int AG	KNIN.S	11.94	7.70	0.80	9.53	4.03
Pan Ocean Co	028670.KS	7.40	1.12	0.75	4.90	1.33
Median		9.63	2.10	1.60	9.53	4.34
TTS		8.49	0.85	0.94	4.05	3.16
Implied TTS TP on 2022e financials (RON/sh.)		10.65	23.19	15.97	22.47	14.59

Source: Bloomberg, Reuters, Erste Group Research

DCF valuation



Source: TTS, Erste Group Research

We have performed a DCF valuation for the company, an exercise that we feel holds the most validity compared to other valuation methods, as the valuation according to comparable multiples. Actually, under this method, the target price for the company's stock is in the middle of the range of the P/E and P/S and EV/EBITDA range, showing once again that our conservative assumptions establish a floor level for the value of the company and do not exhaust the upside potential of the stock.

The assumptions of the DCF valuation are:

- Sales growth and margin levels as per our assumptions discussed above, sales growth in perpetuity is 3%, significantly below inflation levels.
- Risk free rate of 4.75% till 2026 and 4.1% in perpetuity
- Equity risk premium of 7.45% during the next five years and 7% in perpetuity
- Debt premium of 1%
- 68% equity – at market price – of total liabilities and equity on the Balance Sheet – a level that we consider congruent with the characteristics of the company, at an optimum debt level
- Terminal value growth at 2.5%, roughly half of forecasted inflation
- EBIT margin in perpetuity of 9%, lower than historical levels (13.3% in 2021, 12% in 2020, 12.5% in 2019)
- Organic CAPEX at levels congruent with historical averages
- We have assumed going forward a CAPEX yearly sum of RON100mn – in real terms

DDM valuation

We have also performed a DDM valuation exercise, albeit we do not consider it a preferable way of ascertaining the value of the company. The dividend policy adopted by the Board of Directors calls for a target of 45% dividend payout, significantly below the capacity of the company, at current investment levels and gearing. Nevertheless, a sustained campaign of acquisitions would require a cash chest and may preclude higher dividend payments. Under reasonable IRR criteria for acquisitions, the payout capacity would be increased, thus we consider the DDM valuation exercise indicative, although not an anchor for the current valuation of the company. For indicative purposes we have assumed a 100% dividend payout in perpetuity, with CAPEX equaling depreciation and only organic growth.

International investor exposure, an additional incentive to invest

The shares of the company have been included in the BET index in September 2021, and in Russell FTSE Global Micro Cap index in December 2021.

TTS DCF valuation

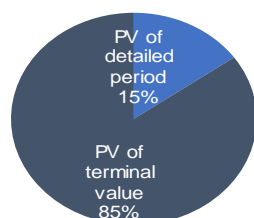
WACC calculation

	2022e	2023e	2024e	2025e	2026e	2027e TV
Risk free rate	4.8%	4.8%	4.8%	4.8%	4.8%	4.1%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	12.3%	12.3%	12.3%	12.3%	12.3%	11.1%
Cost of debt	5.8%	5.8%	5.8%	5.8%	5.8%	5.1%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	4.9%	4.9%	4.9%	4.9%	4.9%	4.3%
Equity weight	70%	70%	70%	70%	70%	68%
WACC	10.0%	10.0%	10.0%	10.0%	10.05%	8.92%

DCF valuation

(RON mn)	2022e	2023e	2024e	2025e	2026e	2027e TV
Sales growth	11.0%	13.9%	9.3%	6.3%	5.5%	3.0%
EBIT	55	75	81	82	82	93
EBIT margin	8.2%	9.9%	9.8%	9.3%	8.9%	9.5%
Tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Taxes on EBIT	-8.8	-12.0	-12.9	-13.1	-13.2	-14.9
NOPLAT	46.0	63.2	67.9	68.8	69.1	78.0
+ Depreciation	60	68	76	84	93	128
Capital expenditures / Depreciation	165.5%	154.3%	145.0%	137.2%	130.4%	100.0%
+/- Change in working capital	4	5	4	3	3	-10
Chg. working capital / chg. Sales	5.5%	5.5%	5.5%	5.5%	5.5%	-20.0%
- Capital expenditures	-100.0	-105.0	-110.3	-115.8	-121.6	-127.6
Free cash flow to the firm	10.0	31.3	37.5	40.3	43.4	68.0
Terminal value growth						2.5%
Terminal value						1,085.3
Discounted free cash flow - December 31 :	9.1	25.8	28.1	27.5	26.9	656.1
Enterprise value - December 31 2021	774					
Minorities	106					
Non-operating assets	0					
Net debt (incl. lease liabilities)	9					
Other adjustments	0					
Equity value - (RON bn) December 31 2021	657.9					
Cost of equity	11.1%					
Fair value, RON mn	730.9					
Number of shares outstanding (mn)	60.0					
Fair value per share, RON	12.2					
Share price	9.4					
Upside/downside Official NAV (%)	29.60%					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

		Terminal value EBIT margin				
		8.5%	9.0%	9.5%	10.0%	10.5%
WACC	7.9%	12.68	13.55	14.42	15.29	16.16
	8.4%	11.62	12.41	13.21	14.00	14.80
	8.9%	10.71	11.45	12.2	12.91	13.65
	9.4%	9.94	10.62	11.30	11.98	12.66
	9.9%	9.27	9.91	10.54	11.18	11.81
		Terminal value growth				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	7.9%	12.18	13.21	14.42	15.88	17.68
	8.4%	11.30	12.18	13.21	14.42	15.88
	8.9%	10.54	11.30	12.2	13.21	14.42
	9.4%	9.88	10.54	11.30	12.18	13.21
	9.9%	9.30	9.88	10.54	11.30	12.18

Source: Erste Group Research

Erste Group Research – Company Report
 Transport Trade Services SA | Ind. Transportation | Romania
 15 June 2022

TTS DDM valuation

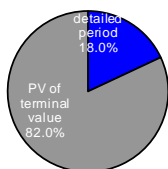
WACC calculation

	2022e	2023e	2024e	2025e	2026e	2027e (TV)
Risk free rate	4.8%	4.8%	4.8%	4.8%	4.8%	4.1%
Equity risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	12.3%	12.3%	12.3%	12.3%	12.3%	11.10%

DDM valuation

(RON mn)	2022e	2023e	2024e	2025e	2026e	2027e (TV)
Net profit	47.0	64.3	69.0	70.0	70.2	71
Gross dividends flow	21.1	29.0	31.1	31.5	31.6	71
Number of shares	60.0	60.0	60.0	60.0	60.0	60
Terminal value growth						2.5%
Terminal value						842
Discounted dividends - Dec 31 2021	18.8	23.0	22.0	19.8	17.7	460
Equity value (RON mn) - Dec 31 2021	561.81					
Cost of equity	12.3%					
12M target value (RON)	10.5					
Current share price (RON)	9.4					
Up/Downside	11.8%					

Enterprise value breakdown



Source: Erste Group Research

Sensitivity

		Payout ratio				
		99.0%	99.5%	100.0%	100.5%	101.0%
COE	9.4%	12.5	12.6	12.6	12.7	12.7
	9.9%	11.8	11.9	11.9	12.0	12.0
	10.4%	11.2	11.2	11.3	11.3	11.4
	10.9%	10.6	10.7	10.7	10.8	10.8
	11.4%	10.1	10.2	10.2	10.3	10.3
		Terminal value growth				
		1.5%	2.0%	2.5%	3.0%	3.5%
COE	9.4%	11.3	11.9	12.6	13.5	14.5
	9.9%	10.7	11.3	11.9	12.6	13.5
	10.4%	10.2	10.7	11.3	11.9	12.6
	10.9%	9.8	10.2	10.7	11.3	11.9
	11.4%	9.4	9.8	10.2	10.7	11.3

Erste Group Research – Company Report
Transport Trade Services SA | Ind. Transportation | Romania
15 June 2022

Income Statement	2019	2020	2021	2022e	2023e	2024e
(IFRS, RON mn, 31/12)	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024
Net sales	551.79	520.29	598.81	664.46	756.52	826.76
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	551.79	520.29	598.81	664.46	756.52	826.76
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Material costs	-111.90	-85.71	-123.76	-163.58	-186.77	-204.18
Personnel costs	-94.90	-96.69	-98.49	-111.58	-120.70	-131.92
Other operating expenses	-186.21	-191.21	-208.67	-233.56	-261.77	-285.87
EBITDA	123.95	114.25	141.49	115.15	143.26	156.79
Depreciation/amortization	-54.72	-51.99	-61.59	-60.43	-68.03	-76.01
EBIT	69.23	62.25	79.90	54.72	75.23	80.78
Financial result	-2.51	-3.17	-1.02	1.22	1.37	1.41
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	66.72	59.09	78.88	55.94	76.60	82.19
Income taxes	-13.44	-10.83	-12.48	-8.95	-12.26	-13.15
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	53.28	48.26	66.40	46.99	64.34	69.04
Balance Sheet	2019	2020	2021	2022e	2023e	2024e
(IFRS, RON mn, 31/12)						
Intangible assets	6.37	5.79	5.52	6.13	6.97	7.62
Tangible assets	567.20	587.80	635.24	675.10	712.59	747.21
Financial assets	8.20	7.60	7.96	8.83	10.06	10.99
Total fixed assets	581.77	601.19	648.72	690.06	729.62	765.82
Inventories	30.46	23.00	31.00	34.40	39.16	42.80
Receivables and other current assets	91.15	71.50	58.41	64.81	73.79	80.64
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	62.40	55.17	58.90	53.27	62.80	77.11
Total current assets	184.01	149.67	148.31	152.48	175.76	200.56
TOTAL ASSETS	765.78	750.86	797.03	842.55	905.37	966.38
Shareholders'equity	471.10	499.68	556.19	582.03	617.42	655.40
Minorities	101.22	105.30	106.40	111.34	118.11	125.38
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	46.06	23.10	26.80	29.74	33.86	37.00
Other LT liabilities	8.55	8.08	9.79	10.86	12.37	13.52
Total long-term liabilities	54.61	31.18	36.59	40.60	46.23	50.52
Interest-bearing ST debts	64.20	50.11	41.31	45.84	52.19	57.04
Other ST liabilities	74.69	64.60	56.53	62.73	71.42	78.05
Total short-term liabilities	138.89	114.71	97.84	108.57	123.61	135.08
TOTAL LIAB. , EQUITY	765.82	750.87	797.02	842.55	905.37	966.38
Cash Flow Statement	2019	2020	2021	2022e	2023e	2024e
(IFRS, RON mn, 31/12)						
Cash flow from operating activities	109.19	107.50	122.55	120.97	151.20	161.53
Cash flow from investing activities	-68.80	-64.40	-96.45	-101.66	-107.33	-112.03
Cash flow from financing activities	-16.93	-50.34	-22.40	-24.93	-34.35	-35.19
CHANGE IN CASH , CASH EQU.	4.68	44.11	10.06	10.92	0.91	144.89
Margins & Ratios	2019	2020	2021	2022e	2023e	2024e
Sales growth	16.1%	-5.7%	15.1%	11.0%	13.9%	9.3%
EBITDA margin	22.5%	22.0%	23.6%	17.3%	18.9%	19.0%
EBIT margin	12.5%	12.0%	13.3%	8.2%	9.9%	9.8%
Net profit margin	9.7%	9.3%	11.1%	7.1%	8.5%	8.4%
ROE	11.2%	9.9%	12.6%	8.3%	10.7%	10.8%
ROCE	8.5%	8.1%	10.2%	6.5%	8.4%	8.6%
Equity ratio	74.7%	80.6%	83.1%	82.3%	81.2%	80.8%
Net debt	47.9	18.0	9.2	22.3	23.2	16.9
Working capital	45.1	35.0	50.5	43.9	52.1	65.5
Capital employed	628.7	631.1	681.6	726.5	771.2	811.2
Inventory turnover	3.8	3.2	4.6	5.0	5.1	5.0

Source: Company data, Erste Group estimates

Erste Group Research – Company Report
 Transport Trade Services SA | Ind. Transportation | Romania
 15 June 2022

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Company description

TTS is the premier river transportation and port operations provider in the Danube Basin and the Constanta Port

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Erste Group Research – Company Report

Transport Trade Services SA | Ind. Transportation | Romania
15 June 2022

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