Transport Trade Services SA

Buy

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Share price (RON) close as of 25/11/2022	11.3	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)	680 / 138	Div. Ex-date	24/05/22			
Enterprise value (RON mn / EUR mn)	777 / 158	**Target price**	**14.3**	Homepage:		https://www.tts-group.ro

Key figures Overview

RON mn	2021	2022e	2023e	2024e
Net sales	598.8	847.5	739.2	754.1
EBITDA	141.5	267.0	192.2	196.1
EBIT	79.9	200.7	116.0	109.3
EBT	78.9	199.9	113.1	105.3
Net profit	66.4	168.0	95.0	88.5
EPS (RON)	1.11	2.80	1.58	1.47
CEPS (RON)	1.08	0.26	0.30	0.41
BVPS (RON)	11.04	13.04	14.18	15.23
Dividend/Share (RON)	0.30	1.12	0.63	0.59
EV/EBITDA (x)	10.27	2.91	3.95	3.84
P/E (x)	20.15	4.05	7.16	7.69
P/CE (x)	20.71	43.97	37.68	27.94
Dividend yield (%)	1.33	9.87	5.58	5.20
EBITDA margin (%)	23.63	31.50	26.00	26.00
Operating margin (%)	13.34	23.68	15.69	14.50
Net profit margin (%)	11.09	19.82	12.85	11.73

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	33,600	23,611	30,779
Trading value (RON mn)	0.4	0.3	0.3

Performance	12M	6M	3M	1M
in Ron	-4%	19%	15%	13%

Financial Strength

	2021	2022e	2023e	2024e
ROE (%)	12.58	27.69	13.86	11.95
ROCE (%)	10.25	23.34	12.44	11.11
Equity ratio (%)	83.13	79.26	82.55	83.29
Net debt (RON mn)	9.21	-29.41	-56.91	-73.32
Gearing (%)	1.39	-3.76	-6.69	-8.02

Target price upgrade on the back of better profitability – led to by higher tariffs and innovative approach to satisfying increasing demand

TTS 9M22 results show the impact of the company's remarkable flexible approach to an environment marked by logistic chain disruptions caused by the war in the Ukraine and severe drought in the region.
Management has achieved a high degree of flexibility and innovation succeeding in taking advantage of higher demand and tariffs and overcoming logistic hurdles.
Investments – partially funded by the EU – are continuing to increase and improve the fleet and port facilities. Cost increases, especially fuel, are abating, partially hedged by tariff adjustment mechanism, while flexible approach to shipping overcame the challenges created by low water levels. Demand for river transport and port operations should increase, both in terms of agricultural products, minerals and chemicals, leading to a solid tariff landscape.
In view of the current tariff environment, we adjust our forecast – albeit in a continuing conservative manner – and increase our target price for the company's shares to **RON14.35**/share and maintain our **BUY** recommendation on the stock.
According to our conservative forecast model, the downside remains limited, as we only account for a return to multi-annual profitability over the long-term. Nevertheless, even under this type of scenario, the stock offers ample upside and potential for appreciation.

9M22 – better financials across the board

TTS posted 9M22 financial results showing significant increases in top and bottom lines together with a dramatic improvement in profitability. The results were helped by the influence of the third quarter that shown solid growth compared to the second quarter of 2022. The trend was anticipated, since the war in the Ukraine has increased significantly demand for alternate routes of transportation and port facilities, however the results were largely above expectations

Qrt. end: Sept 22		**Quarterly Reported**					**9 Mo Sum**	
RON mn.	**3Q21**	**2Q22**	**3Q22**	***y/y***	***q/q***	**9M21**	**9M22**	***y/y***
Revenue	177.0	240.7	261.6	48%	9%	451.0	664.0	47%
EBITDA	50.3	75.3	108.2	115%	44%	112.1	215.0	92%
EBIT	35.9	58.2	89.1	148%	53%	69.7	162.9	134%
Net profit	30.0	49.1	75.0	150%	53%	57.4	136.3	138%

Source: Company Data, Erste Group Research.

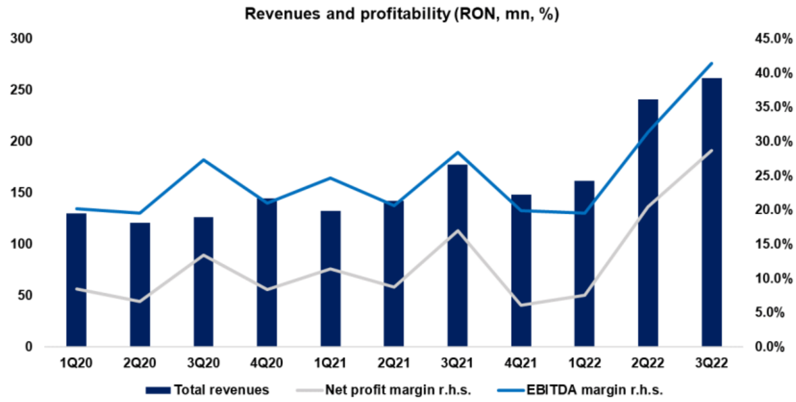
9M22 revenues increased by 47% compared to the first nine months of the previous year and 77% compared to the first nine months of 2020. At the same time, operating costs increased only 31% vs. 9M21 and 52% vs. 9M20. Operating profits grew more than double compared to the previous year and more than triple compared to two years ago. At the same time, net profit increased by 138% compared to 9M21 and by 282% vs. 9M20. EBITDA evolution was similar, it doubled vs the previous year, and jumped 156% vs. 2020.

Interims results

(mn. RON)	**3Q22**	**3Q21**	***chng.***	**2Q22**	***chng.***	**3Q20**	***chng.***	**9M22**	**9M21**	***chng.***	**9M20**	***chng.***
Total revenues	**261.6**	**177.1**	***47.7%***	**240.7**	***8.7%***	**125.8**	***107.9%***	**664**	**451**	***47.2%***	**375.9**	***76.6%***
Materials	-30.2	-22	*37.3%*	-33.6	*-10.1%*	-15.7	***92.4%***	-91	-56.7	*60.5%*	-52.7	*72.7%*
COGS	-7.1	-14.2	*-50.0%*	-10.2	*-30.4%*	-1.4	***407.1%***	-26.4	-38.7	*-31.8%*	-10.3	*156.3%*
Depreciation	-19.1	-14.4	*32.6%*	-17.1	*11.7%*	-13.1	***45.8%***	-52.1	-42.3	*23.2%*	-37.9	*37.5%*
Subcontr.	-80.8	-62.8	*28.7%*	-88	*-8.2%*	-47.9	***68.7%***	-231	-152.6	*51.4%*	-139.7	*65.4%*
Wages	-31.3	-25.1	*24.7%*	-25.5	*22.7%*	-23.5	***33.2%***	-83	-72.8	*14.0%*	-70.3	*18.1%*
Other exp.	-10.5	-10.8	*-2.8%*	-9.8	*7.1%*	-9.9	***6.1%***	-32.4	-31	*4.5%*	-31.2	*3.8%*
Gains/losses	6.5	7.9	*-17.7%*	1.7	*282.4%*	6.9	***-5.8%***	14.8	12.8	*15.6%*	12.3	*20.3%*
Operating expenses	**-172.5**	**-141.4**	***22.0%***	**-182.5**	***-5.5%***	**-104.6**	***64.9%***	**-501.1**	**-381.3**	***31.4%***	**-329.8**	***51.9%***
Operating profit	**89.1**	**35.7**	***149.6%***	**58.2**	***53.1%***	**21.2**	***320.3%***	**162.9**	**69.7**	***133.7%***	**46.1**	***253.4%***
Fin. Rev.	0.4	0.3	*33.3%*	0.7	*-42.9%*	1.3	***-69.2%***	0.8	-0.1	*-900.0%*	-0.1	*-900.0%*
Fin. Costs	-0.9	-0.5	*80.0%*	-1	*-10.0%*	-1.8	***-50.0%***	-2.6	-1.4	*85.7%*	-2	*30.0%*
Net fin.	**-0.5**	**-0.2**	***150.0%***	**-0.3**	***66.7%***	**-0.5**	***0.0%***	**-1.8**	**-1.5**	***20.0%***	**-2.1**	***-14.3%***
PBT	**88.6**	**35.5**	***149.6%***	**57.9**	***53.0%***	**20.7**	***328.0%***	**161.1**	**68.2**	***136.2%***	**44**	***266.1%***
Tax	-13.6	-5.6	*142.9%*	-8.8	*54.5%*	-3.9	***248.7%***	-24.8	-10.8	*129.6%*	-8.3	*198.8%*
Net Income	**75**	**29.9**	***150.8%***	**49.1**	***52.7%***	**16.8**	***346.4%***	**136.3**	**57.4**	***137.5%***	**35.7**	***281.8%***
Net margin	*28.7%*	*16.9%*		*20.4%*		*13.4%*		*20.5%*	*12.7%*		*9.5%*	
EBITDA	**108.2**	**50.1**	***116.0%***	**75.3**	***43.7%***	**34.3**	***215.5%***	**215**	**112**	***92.0%***	**84**	***156.0%***
EBITDA margin	*41.4%*	*28.3%*		*31.3%*		*27.3%*		*32.4%*	*24.8%*		*22.3%*	

Source: TTS, Erste Group Research

On a quarterly basis, the growth trend appears just as significant. Total revenues grew 48% y-o-y, with operating and net profits increasing by 150% Vs. the very strong previous quarter revenues spiked by 9% while operating and net profit increased by 53%.

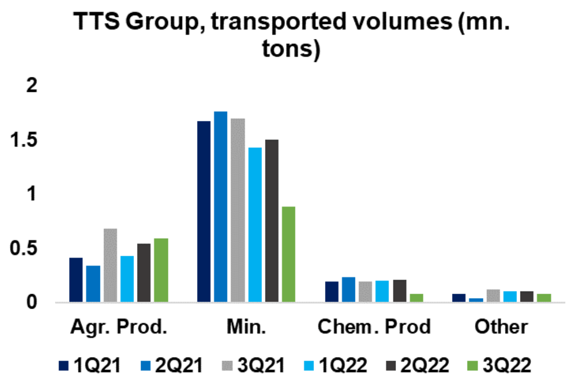


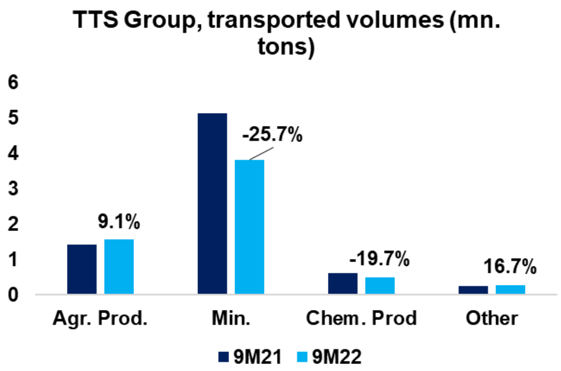
Source: TTS, Erste Group Research

Segment analysis - TTS Group
Overall, the volumes transported by the TTS Group declined by 17.1% during the first nine months of the year compared to the same period of last year. On a quarterly basis, the volumes during 3Q22 were almost 40% lower compared to the same period of one year ago, and they decreased by almost 31% compared to the previous quarter.

The most significant changes in transported volumes were caused by the impact of the war in the Ukraine, with severe disruptions in the transportation of minerals chemicals and agricultural products. Minerals' volumes from Russia and the Ukraine were curtailed leading to a decline of almost 26% in volumes over the first nine months of 2022 vs. the first nine months of 2021. At the same time, chemical products' volumes declined by about 20%. The increase in volumes over the first nine months was represented by agricultural exports coming from the Ukraine and transported over the Danube. These products increased in volume about 9% over the first nine months of the year.

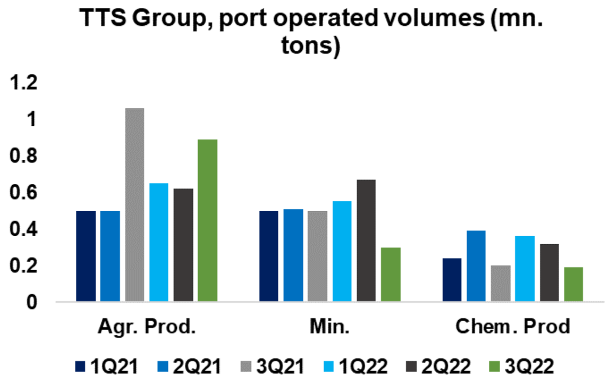
On a quarterly basis, the most revealing trend is that of q-o-q evolution. Vs. 3Q21, volumes have shown a similar trend to that of the nine months results with the exception of agricultural products which have declined y-o-y by 13%. Also vs. the previous quarter, all business segments show considerable decline with the exception of agricultural products which grew 9% q-o-q.

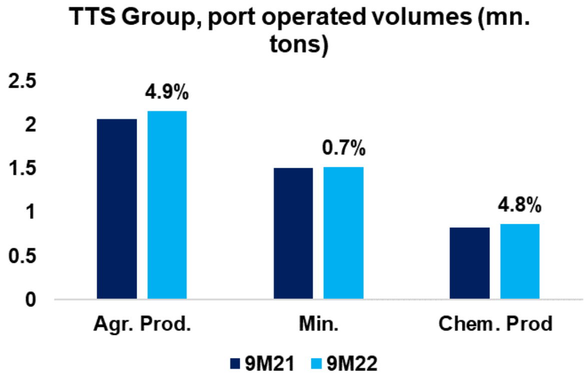




Source: TTS, Erste Group Research

In terms of port operations, the TTS Group recorded increasing volumes overall during the first nine months of 2022. Agricultural products volumes increased by 5%, minerals' volumes remained flat and chemical products volumes grew by 5%. On a quarterly basis, port operations in agricultural volumes declined by 16% compared to 3Q21, however jumped significantly q-o-q vs 2Q22, by 44%. The rest of segments have exhibited slight declines compared to 3Q21, but a more significant drop q-o-q. While minerals volumes dropped by 40%, lower availability of chemical products caused by the war led to a decline of these volumes by 41% compared to the second quarter of the year.

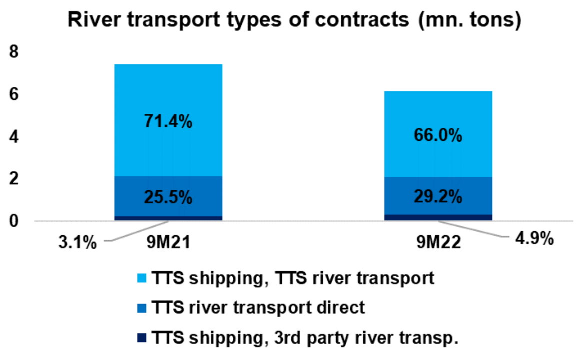


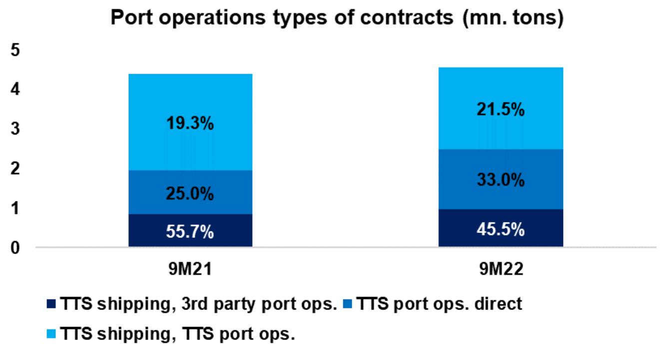


Source: TTS, Erste Group Research

In terms of river transport, the share of volumes shipped by TTS Group and transported by members of the group have declined with the increased usage of other transporters. The share of contracts between the Group's transportation segment and third parties have remained largely unchanged.

In the port operations segment, both the share of TTS contracted volumes with members of the group and by port operations subsidiaries contracted directly has increased, while the share of contracts between TTS Group and third parties has declined in terms of share of total operated volumes.

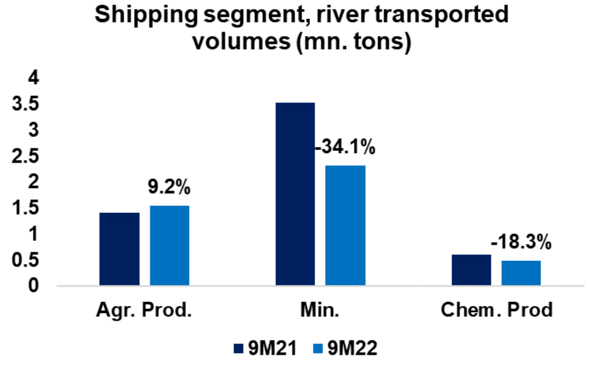


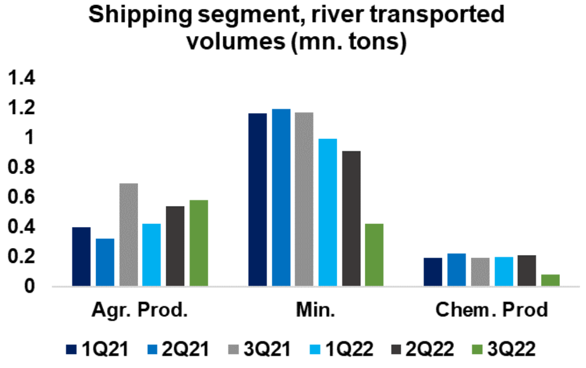


Source: TTS, Erste Group Research

Forwarding segment – river transport
In the forwarding segment, the volumes shipped via river transport have recording similar trends as those of the consolidated TTS Group figures. The main drivers for the evolution of this segment were

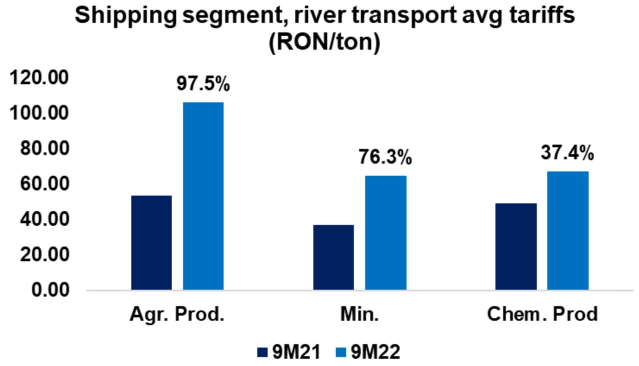
- the reduction in demand for river transport of minerals on the back of the decreasing flows of raw materials for the steel industry in the Ismail – Galati segment and the flow of bauxite for the alumina plant in Tulcea.
- decline in demand for transport of chemicals
- the increase in 3Q22 of demand for transport services for agricultural products, on the back of continuation of grain flows from Ukraine.

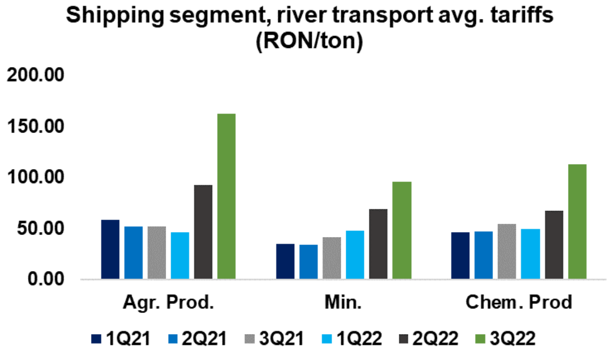




Source: TTS, Erste Group Research

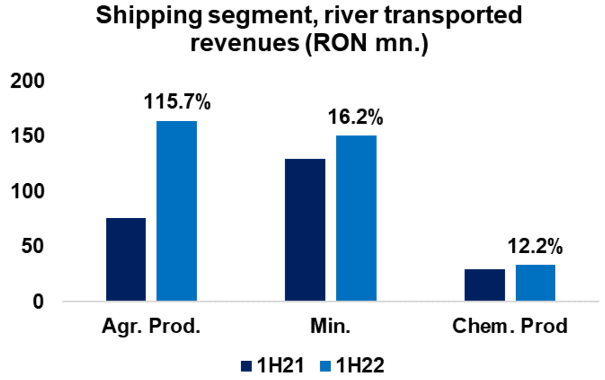
At the same time, the most important evolution was registered by the tariffs charged by the forwarding segment for river transport. On a nine months basis, the average transportation tariffs for agricultural products have grown by 98%, while tariffs for mineral products increased by 76% and those for chemical products by 37%. On a quarterly basis, the largest increase q-o-q has been registered by agricultural products, these tariffs seeing a q-o-q growth of 76%, minerals by 38% and chemicals by 66%.

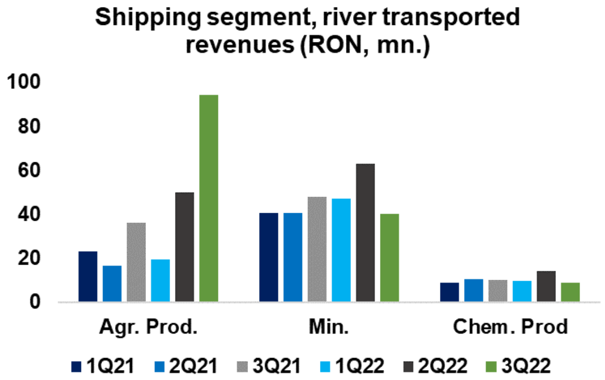




Source: TTS, Erste Group Research

Overall, the combination of lower overall volumes but higher tariffs led to higher revenues for this segment, over the first nine months, revenues jumped overall by 48%, led by the growth in agricultural revenues by 136%, minerals by 16% and chemical products by 12%.

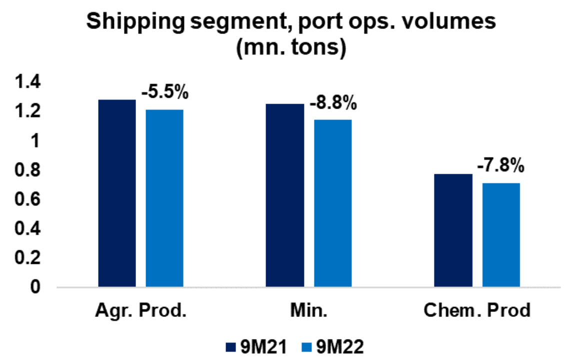


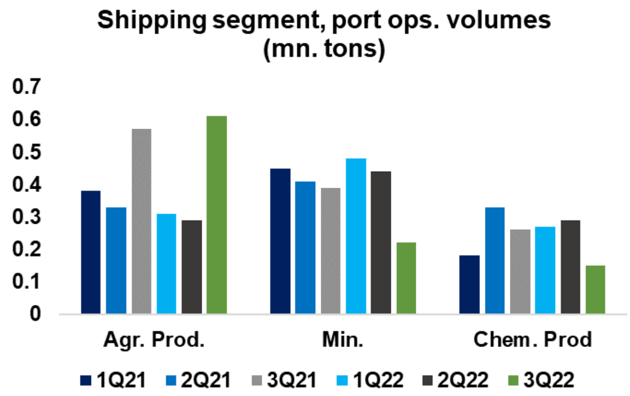


Source: TTS, Erste Group Research

Forwarding segment – port operations

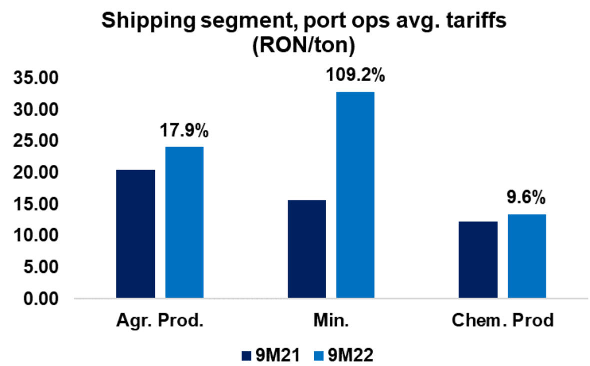
The port operations volumes booked by the shipping segment have experienced modest decline across the board on a nine month basis. During the 3Q22, agricultural product port operations has jumped q-o-q, while the rest of the items declined quite significantly, almost by half. The explanation for the overall decline lays in the increase in volumes contracted directly by the port operations segment, without the intermediation of the shipping segment, in the context of the conflict in the Ukraine, together with the overall decline in demand for minerals and chemical products.

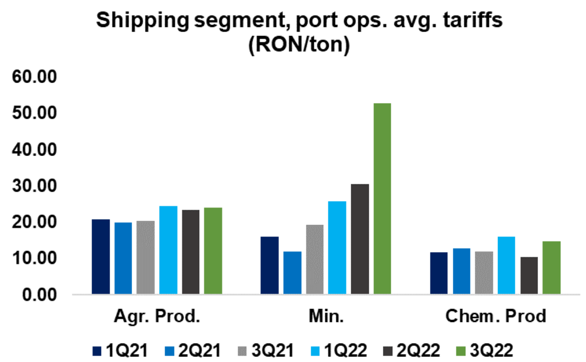




Source: TTS, Erste Group Research

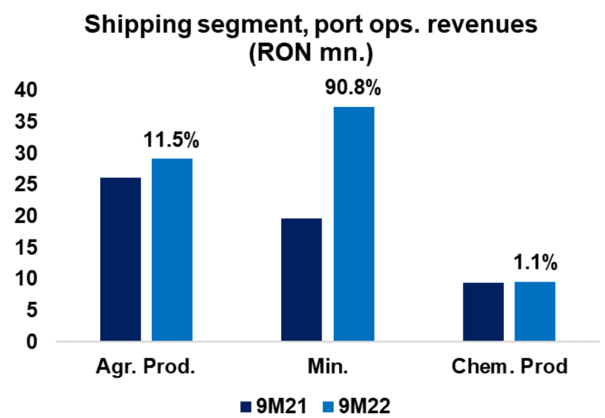
At the same time, the tariffs for these operations grew significantly over the last nine months, as demonstrated by the chart below, with the largest increases being recorded in the mineral segment, especially during 3Q22.

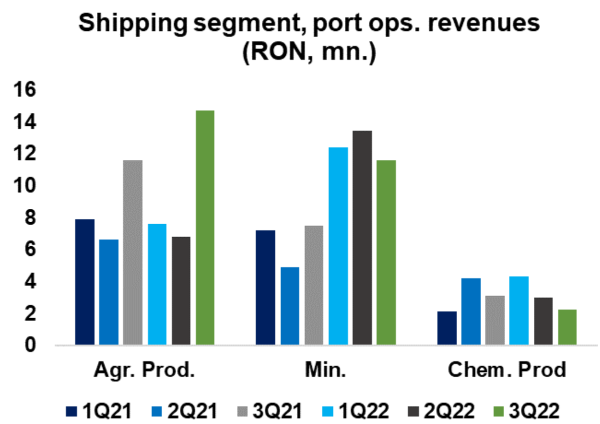




Source: TTS, Erste Group Research

As a consequence, the revenues of the shipping segment port operations grew most – almost double – in minerals, with chemicals growing by about 1% the agricultural products by 12%. The largest increase in revenues on a quarterly basis was posted by the agricultural segment which showed more than double revenues vs. 2Q22.

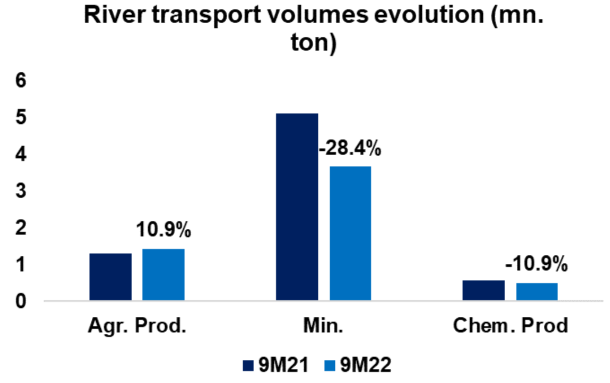


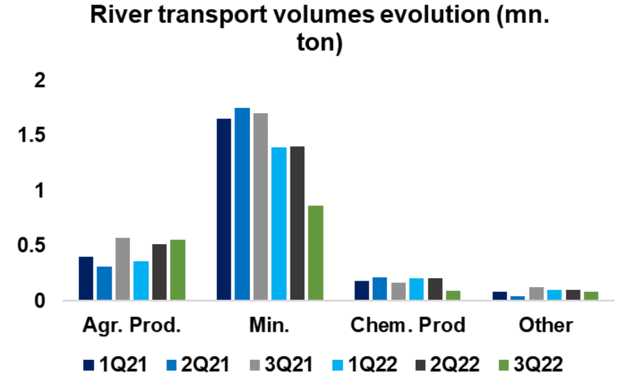


Source: TTS, Erste Group Research

Segment analysis – river transport segment

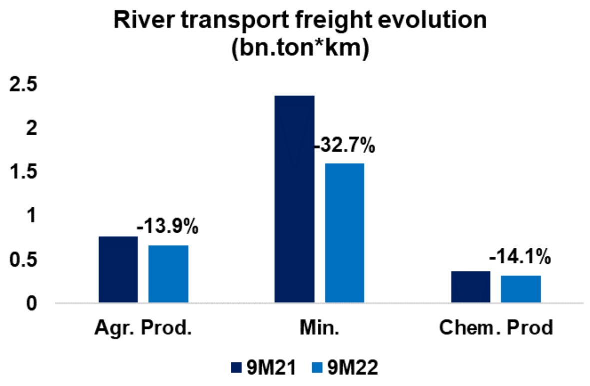
During 9M22, the river transport segment has recorded similar trends with the group, seeing increased volumes of agricultural product from the Ukraine and declining volumes of minerals on Ismail-Galati and Tulcea, while chemicals have also declined, influenced by economic sanctions imposed on Russian fertilizers.

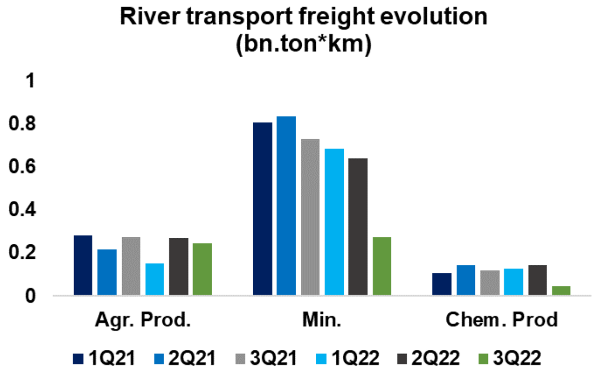




Source: TTS, Erste Group Research

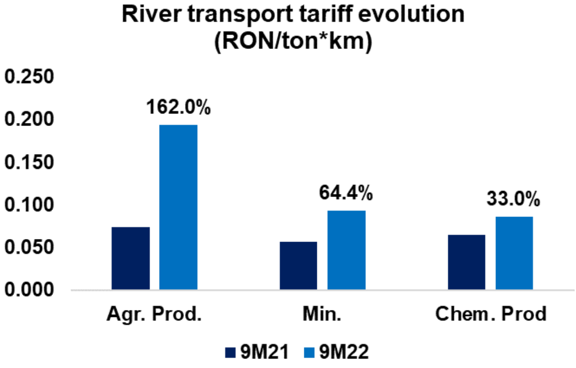
In terms of freight (distance and volumes) the amounts have decreased in all areas, both in agricultural and minerals and in chemical products. The impact of the short-distance transport of the goods from Ukrainian river ports to the Constanta port has been mostly responsible for this decline together with suboptimal navigations conditions.

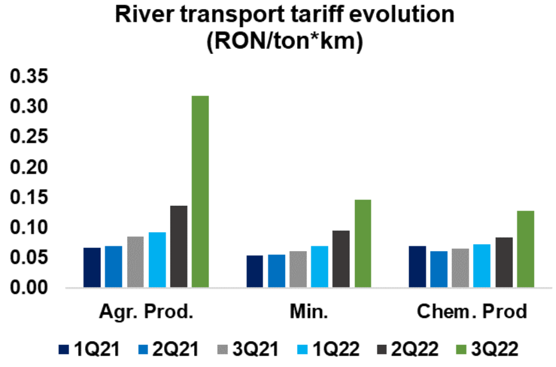




Source: TTS, Erste Group Research

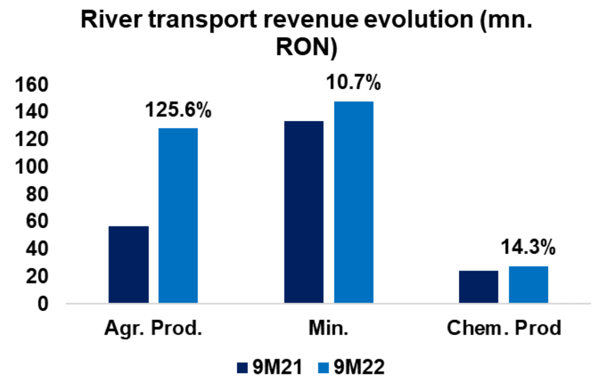
Higher tariffs in the river transportation segment led to increasing revenues in all the areas. Thus, over the first nine months of 2022 agricultural tariffs registered the highest increase among all types of products, with almost 162% growth vs. 9M21. Minerals tariffs grew by 64% and chemical products tariffs by 33%. The trend was manifest especially during the third quarter of 2022, when agricultural tariffs grew by almost 133% compared to the previous quarter, and minerals and chemical tariffs increased by more than 52% q-o-q. Average tariffs were propped by the activation of Bunkering Adjustment Fees (sharing risks of fuel price increases) and Low Water Surcharge (tariff adjustments on the back of suboptimal barge loading degrees due to low water level on the Danube.

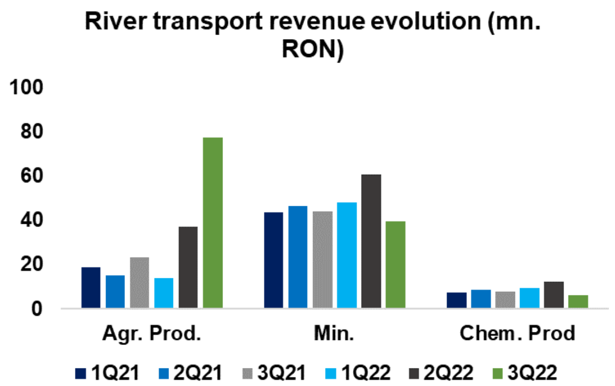




Source: TTS, Erste Group Research

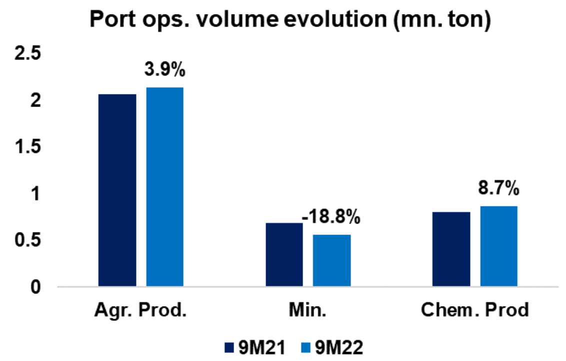
Consequently, revenues spiked considerably during the period, with the most explosive growth being recorded by agricultural products revenues which advanced by about 126% during 9M22 y-o-y and during 3Q22 by 110% q-o-q. At the same time, the impact of the low volumes of 3Q22 led to a q-o-q decline in revenues vs. 2Q22 of 35% in the minerals segment and of 51% in the chemicals segment.

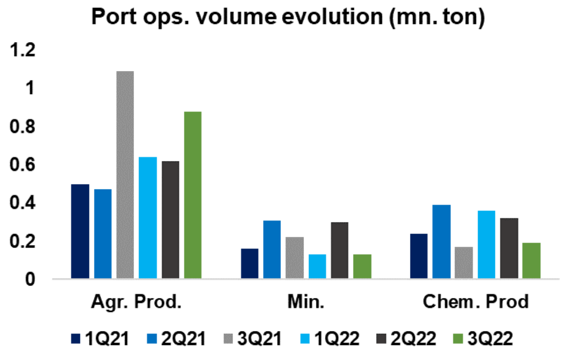




Source: TTS, Erste Group Research

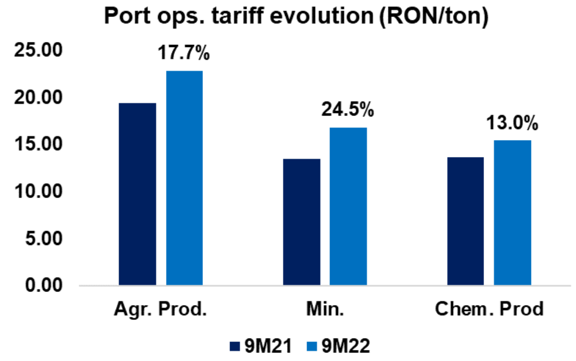
Segment analysis – port operations segment

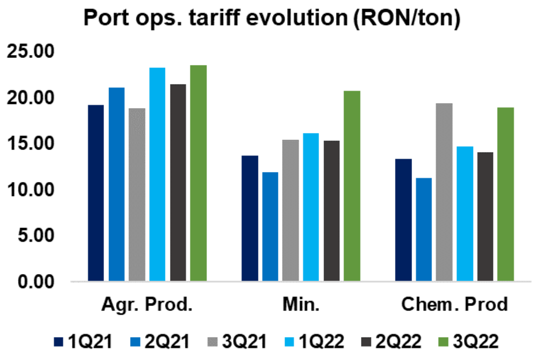




Source: TTS, Erste Group Research

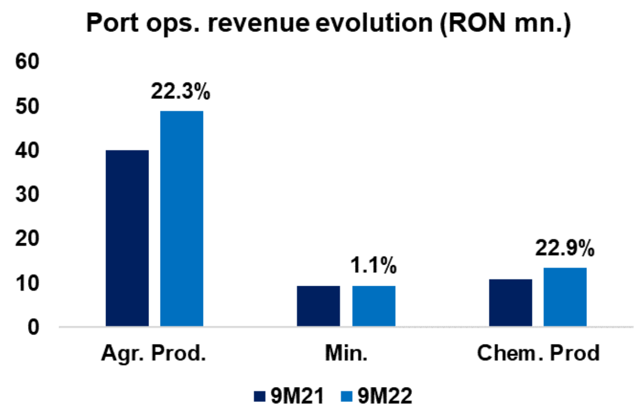
In the port operations segment overall volumes remained flat during 9M22 vs. 9M21. This was the impact of opposing overall trends in agricultural products and minerals and chemicals respectively. Thus, over the first nine months of the year, overall agricultural products port operations volumes increased by 4%, while minerals declined by 19% and chemicals grew by 9%. This trend was mostly due to the high basis of agricultural operations in 3Q21 vs. the low basis for minerals and chemicals during the same quarter. During 3Q22, however the trend reversed and agricultural products' volumes grew by 42% q-o-q, while the other segments declined drastically.

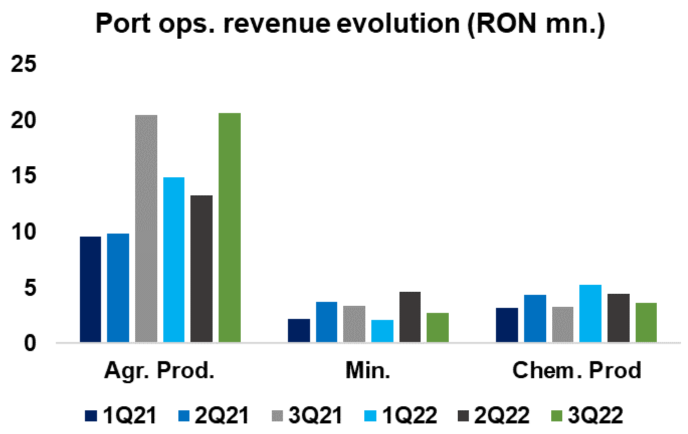




Source: TTS, Erste Group Research

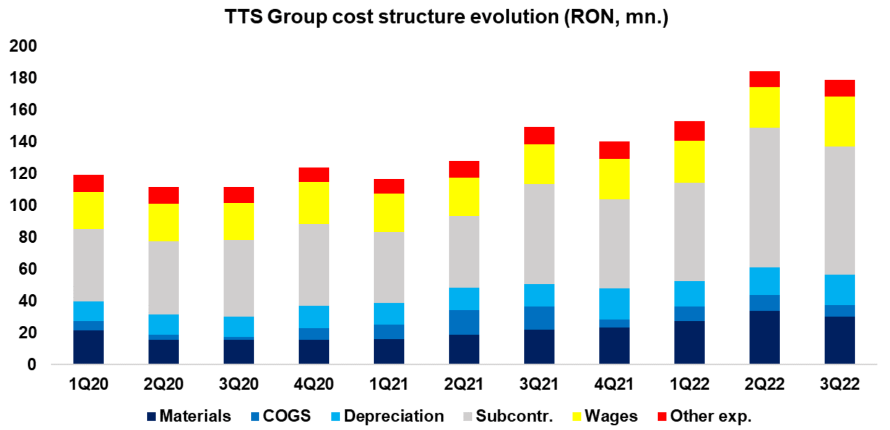
The port operations tariff evolution registered double digit tariff increases in 9M22 vs. 9M21, for agricultural products with tariffs growing by 9%, and chemicals by 13% and minerals tariffs by 25%. Vs. the previous quarter though, tariffs were higher overall, with agricultural tariffs higher by 10% and the rest by about 35% each. Consequently, overall 9M revenues have grown by 19% with the sharpest increases in agricultural and chemical products. On a quarterly basis, revenues were 20% higher in 3Q22 compared to 3Q22, due to the rebalancing of revenues deriving from agricultural products vs the other products, both as volumes and as tariffs.





Source: TTS, Erste Group Research

Cost analysis



Source: TTS, Erste Group Research

Cost breakdown

Percentage of revenues	3Q22	3Q21	2Q22	3Q20	9M22	9M21	9M20
Materials	11.5%	12.4%	14.0%	12.5%	13.7%	12.6%	14.0%
COGS	2.7%	8.0%	4.2%	1.1%	4.0%	8.6%	2.7%
Depreciation	7.3%	8.1%	7.1%	10.4%	7.8%	9.4%	10.1%
Subcontr.	30.9%	35.5%	36.6%	38.1%	34.8%	33.8%	37.2%
Wages	12.0%	14.2%	10.6%	18.7%	12.5%	16.1%	18.7%
Other exp.	4.0%	6.1%	4.1%	7.9%	4.9%	6.9%	8.3%
Gains/losses	-2.5%	-4.5%	-0.7%	-5.5%	-2.2%	-2.8%	-3.3%

Source: TTS, Erste Group Research

On a group level, 9M total costs have grown much less than revenues, both on a quarterly and on a half year basis. The main cost items on group level remain unchanged, with subcontractor expenses, wages, and materials (including fuel) the main cost items.

On a more detailed segment analysis, as in the table below, appear the trends that influenced the most the profitability of the company. Thus, it is apparent, in the river transport segment the important impact of fuel costs, that contributed to making the materials cost item 19%, of segment revenues, compared to 33% of segment revenues, and 21% the same quarter of last year. This occurred with the help the bunkering fee adjustment described above, and due to the shorter average freight route during the period. We assume this is due to the declining number of empty barge trips that had to be performed, trips that are not covered by the bunkering fee arrangement.

In terms of subcontractors, another important cost item, it is apparent that during the third quarter of the year, the share of subcontractors' fees declined as a percentage of revenues in all business segments as generally the jump in revenues was mostly on the back of higher tariffs on declining volumes, reducing the need for subcontractor services. The same dynamic was present in the evolution of wages as a percentage of revenues.

	Proportion of cost items in segment revenues											
	Forwarding						River Transp.					
	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
COGS	0.0%	-0.1%	-0.3%	0.0%	0.0%	0.0%	-0.1%	-0.3%	-0.5%	-0.3%	-0.2%	-0.1%
Consumables	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	-19.2%	-20.6%	-21.1%	-14.7%	-33.3%	-18.6%
Depreciation	-0.7%	-0.8%	-0.6%	-0.6%	-0.4%	-0.3%	-12.1%	-12.1%	-11.4%	-14.1%	-10.0%	-10.0%
Packaging	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subcontractors	-87.4%	-89.5%	-88.1%	-88.1%	-85.7%	-81.4%	-32.4%	-31.4%	-30.1%	-31.4%	-22.8%	-22.2%
Wages	-2.2%	-2.7%	-2.0%	-2.3%	-1.6%	-1.5%	-18.1%	-18.3%	-17.4%	-19.8%	-13.9%	-13.6%
Electricity	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.4%	-0.2%	-0.2%	-0.7%	-0.2%	-0.2%
Repairs	-0.6%	-1.0%	-0.3%	-0.3%	-0.4%	-0.4%	-3.0%	-5.7%	-4.0%	-4.9%	-2.5%	-2.5%
Other exp	-1.7%	-2.2%	-1.4%	-1.4%	-0.5%	-0.4%	-3.6%	-3.2%	-3.2%	-3.1%	-2.6%	-2.1%
Other gains	2.6%	2.4%	2.9%	2.4%	2.4%	3.6%	3.9%	8.6%	10.1%	5.8%	2.8%	2.7%
Other losses	-1.5%	-2.0%	-2.4%	-2.1%	-1.2%	-1.8%	-1.5%	-8.5%	-3.3%	-1.5%	-1.0%	-1.4%
Total expenses	-92%	-96%	-92%	-92%	-87%	-82%	-87%	-92%	-81%	-85%	-84%	-68%
Op profit	8%	4%	8%	8%	13%	18%	13%	8%	19%	15%	16%	32%

	Port Ops.						Other					
	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22	1Q21	2Q21	3Q21	1Q22	2Q22	3Q22
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
COGS	0.0%	0.0%	0.0%	0.3%	0.0%	-0.2%	-59.7%	-59.6%	-58.3%	-52.2%	-51.4%	-49.1%
Consumables	-8.9%	-9.8%	-10.3%	-10.3%	-12.9%	-10.1%	-1.0%	-1.0%	-4.8%	-12.8%	-4.7%	-8.2%
Depreciation	-20.8%	-17.1%	-11.7%	-15.4%	-15.6%	-12.3%	-3.3%	-2.1%	-2.6%	-3.2%	-2.9%	-4.0%
Packaging	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subcontractors	-19.3%	-18.8%	-14.6%	-16.4%	-15.6%	-14.6%	-4.4%	-16.2%	-12.1%	-13.1%	-14.7%	-17.5%
Wages	-26.7%	-24.2%	-17.6%	-22.3%	-25.3%	-21.0%	-25.7%	-7.7%	-12.2%	-15.8%	1.5%	-19.3%
Electricity	-4.0%	-2.4%	-2.7%	-6.5%	-2.9%	-2.2%	-2.6%	-0.7%	-0.9%	-3.7%	-1.3%	-1.2%
Repairs	-5.4%	-8.1%	-5.6%	-3.8%	-6.0%	-6.9%	-0.9%	-0.5%	-0.7%	-0.5%	-0.5%	-0.8%
Other exp	-12.6%	-10.4%	-7.6%	-8.7%	-8.4%	-6.9%	-3.3%	-3.2%	-3.5%	-4.7%	-4.3%	-4.9%
Other gains	1.1%	1.1%	0.4%	4.3%	0.7%	1.2%	6.1%	3.9%	6.9%	16.9%	-3.6%	16.7%
Other losses	-1.0%	-0.7%	-0.4%	-1.0%	-1.0%	-0.7%	-3.5%	-1.9%	-4.0%	-2.6%	-10.4%	-12.1%
Total expenses	-98%	-90%	-70%	-80%	-87%	-74%	-98%	-89%	-92%	-92%	-92%	-101%
Op profit	2%	10%	30%	20%	13%	26%	2%	11%	8%	8%	8%	-1%

Source: TTS, Erste Group Research

Balance sheet

The company continues to have a very low gearing, with net debt below historical levels despite a marginal increase in long term debt, compensated by the large increase in cash and equivalents.

(RON, mn.)	2018	2019	2020	2021	9M22
Cash & equivalents	38.9	62.4	55.2	58.9	125.2
ST Debt	54.1	62.9	50.8	41.3	32.7
LT Debt	64.2	46.1	23.1	26.8	44.9
Net Debt	79.4	46.6	18.7	9.2	-47.6
Net Debt to EBITDA	**1.10**	**0.38**	**0.16**	**0.07**	**-0.18**

Source: TTS, Erste Group Research

War in the Ukraine, operational achievements and investments

During 3Q22, market conditions stabilized and were supported by the inflow of grain exported by Ukraine, causing a sharp increase in demand of transportation and port services operations, exceeding available capacities. At the same time, the minerals and chemicals volumes transiting the port of Constanta increased, as a result of changes in logistic chains arising from the impact of the war in Ukraine.

The main factors impacting volumes of operations were:

- Increased demand for agricultural goods transport from the Ukraine
- Disappearance of flows of steel raw materials to Ismail-Galati route
- Disappearance of flows of bauxite for alumina plant in Tulcea route
- Severe drought, worst in almost 20 years, leading to interruption of navigation on a main area of the Danube for 40 days
- Unexpectedly low level of cereal crops from Romania

The company managed to address these issues with a high degree of flexibility by introducing an array of innovative measures:

- Operationalizing two buoy terminals in the port of Constanta, in July and September, eliminating for the company the constraints of lack of availability of port operation facilities. Thus, loading and unloading of maritime vessels was carried out at sea, through direct transhipment. This innovative approach eliminated potential bottlenecks caused by limited storage capacity in the port of Constanta, by eliminating entirely the storage component of the logistic chain. Also, this innovation allowed a better load of barges downstream of the river blockage area on the Danube and dramatically improved waiting times for barges' unloading operations

- Replacing of the river flows interrupted by drought with newly established railway/river transportation logistic chains

- Investment in continuous ship modernization and re-certification, leading to capacity increase and covering barges, allowing for multi-purpose transportation capabilities

Dividend distribution

During 9M22, the company has distributed an amount of RON17.85mn as dividends, for close to 27% pay-out ratio of 2021 consolidated profit. It has also distributed an extraordinary dividend consisting in 1 new share for each share held by shareholders.

Forecasts: adjusting for ST trends, maintaining conservative outlook

The impact of the war in Ukraine, has thus far materialized in shifts in volumes on the main cargo segments of the company. While metals and chemicals were impacted negatively overall, agricultural products have seen a significant volume growth. At the same time, tariffs were overall higher than before the war.

The last quarter of the year should register the following impact on main company drivers:

- Increase in existing stocks of raw materials' transportation from Constanta Port to Smederovo
- Increasing flows of energy coal on the back of renewed demand from coal-firing power plants
- Stagnant flows of agricultural products on the back of weak harvests in Romania, Hungary and Bulgaria and lack of exports from Serbia
- Continuation of higher flows of grain from the Ukraine
- Better sailing conditions of the Danube, short of multi-annual levels, however better than during 3Q22

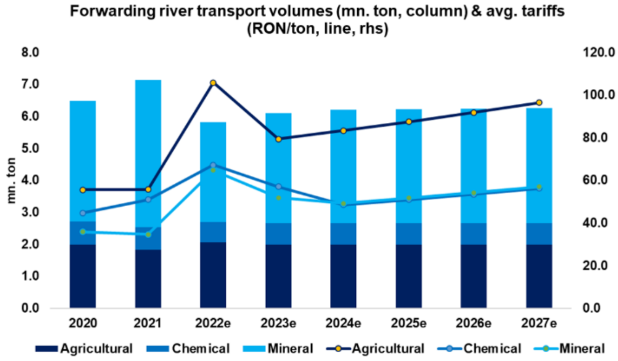
The last quarter of the year should continue to see high demand for transportation and port operations services due to pent up demand and a resuming of certain flows under on reconfigured routes. Agricultural exports from Serbia and Hungary should continue the weak trend of 3Q22 while the company is preparing for a continuous demand for transportation of energy coal on the back of resumption of coal generated power in Europe.

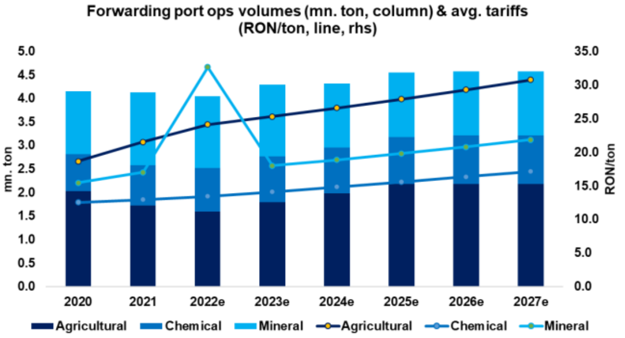
With demand for agricultural products continuing to outstrip capacity, 4Q22 volumes should be at capacity and tariffs should continue in line with the third quarter of the year. At the same time, the water levels in the Danube are forecast to start rising again in 4Q22, with beneficial impact on barge traffic and load factors.

We have thus adjusted our forecasts regarding the remainder of the year, in terms of volumes and tariffs. Conservatively, we do not project any organic growth in tariffs, with 2023 seeing declines in tariffs for certain business segments and only a growth below inflation in others as depicted below. 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 costs, we forecast 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 forwarding segment





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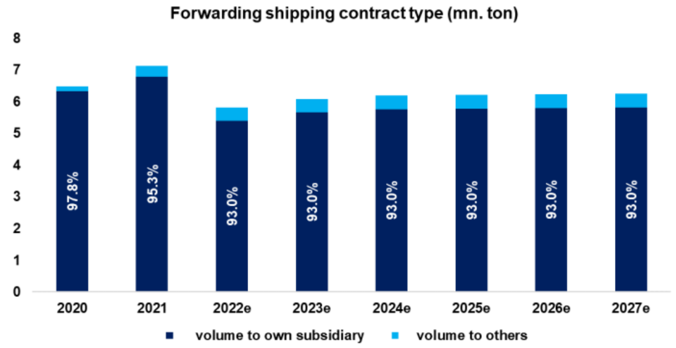

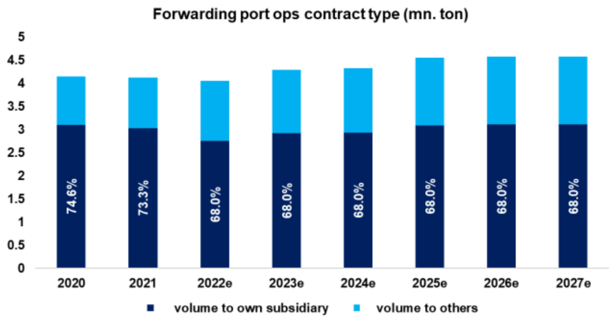

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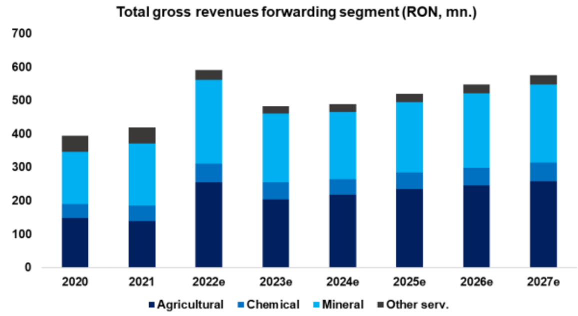
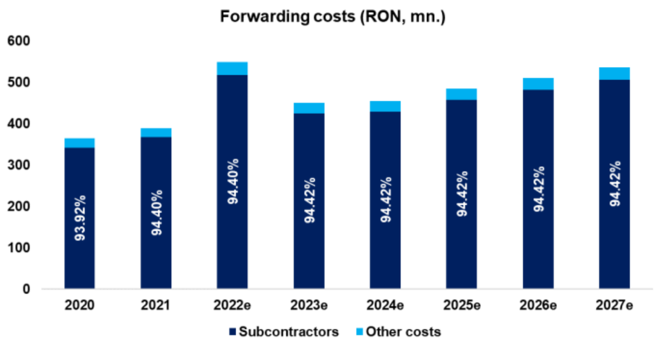
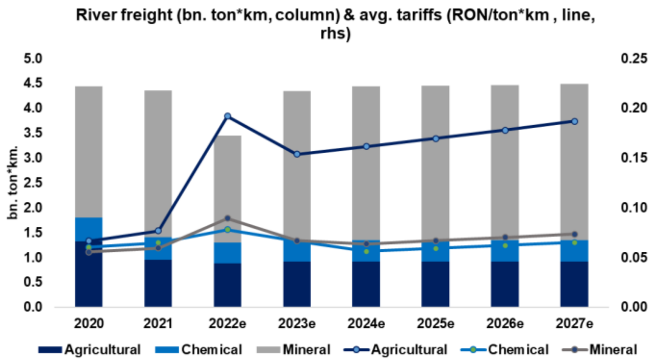
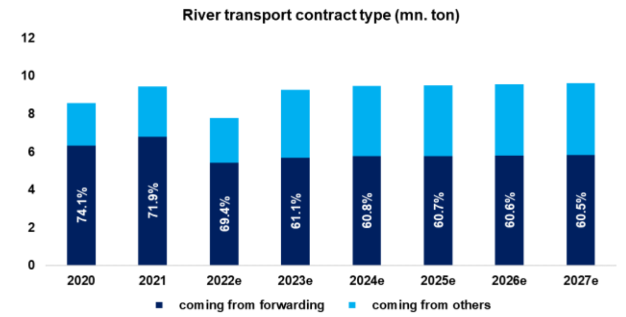




Source: TTS, Erste Group Research

Summary drivers, forecasts and financials for river transport segment





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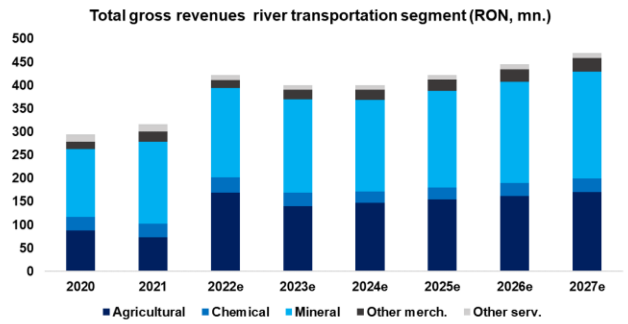
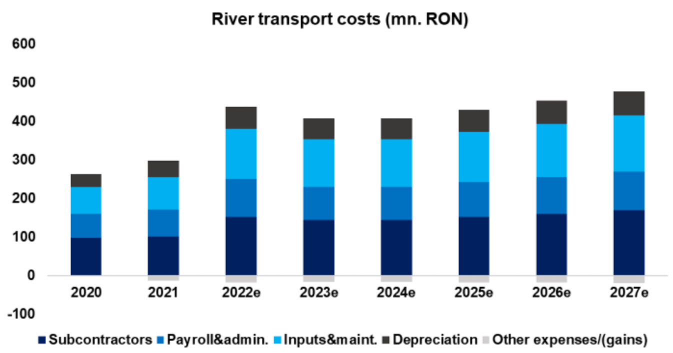
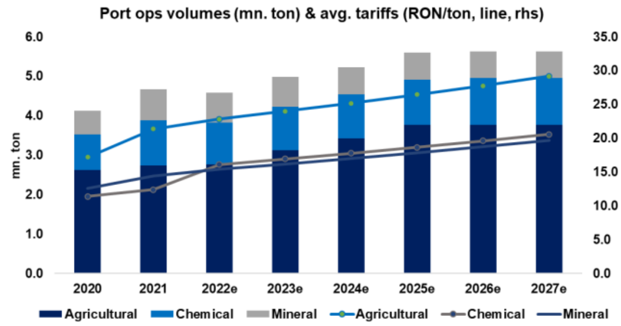
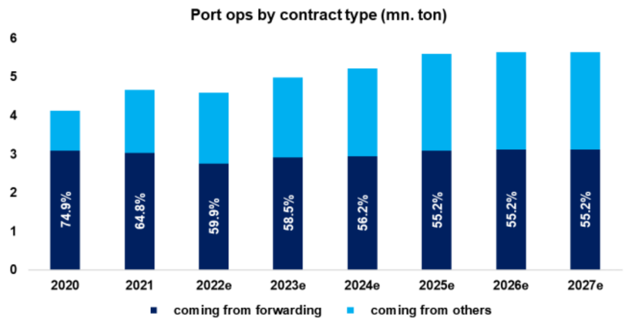




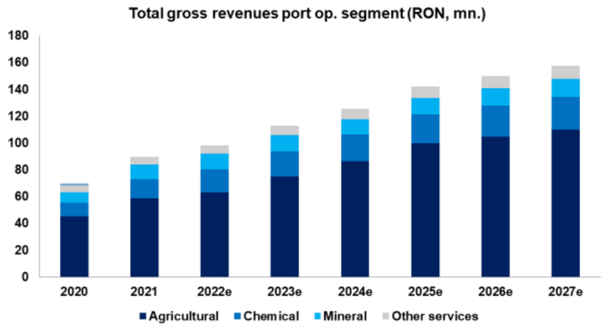
Source: TTS, Erste Group Research

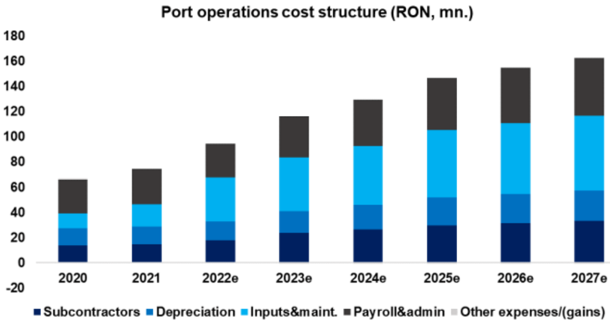
Summary drivers, forecasts and financials for port operations segment





Source: TTS, Erste Group Research





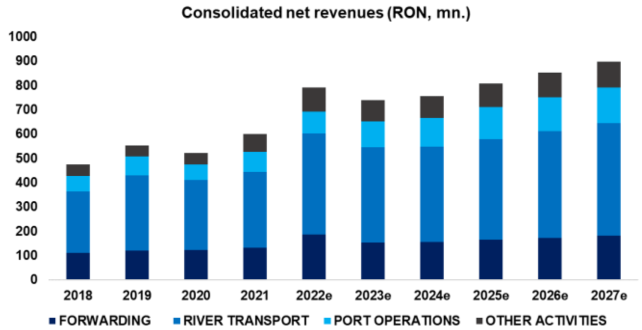
Source: TTS, Erste Group Research

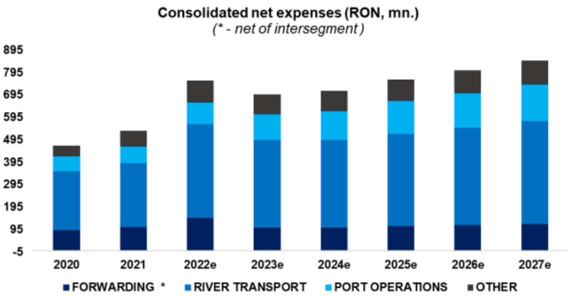
Summary consolidated financials

Income statement

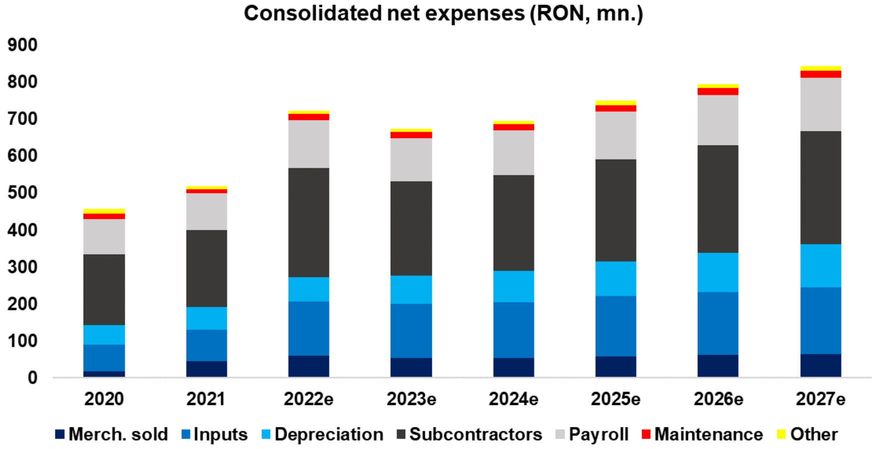
Revenues and costs

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





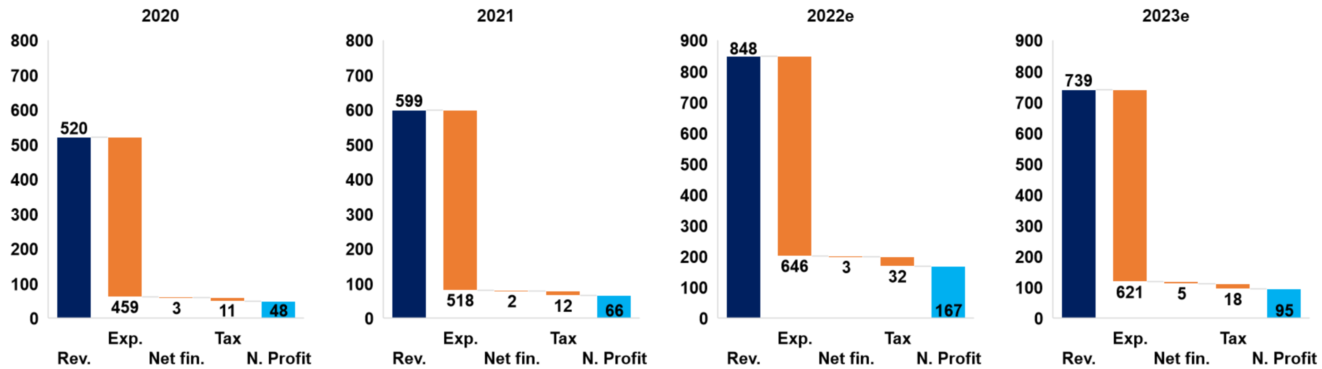
Source: TTS, Erste Group Research



Source: TTS, Erste Group Research

Profitability

Profitability during last quarter of 2022 should continue in line with 9M22 and even improve during the rest of the year. Under our conservative assumptions, the profitability of 2023 will largely decline vs 2022, on the back of higher revenues, but higher costs as well. We acknowledge that in absence of a speedy resolution of the war in the Ukraine tariffs may continue to grow and some of the new routes may persist even after the cessation of hostilities, thus pointing to a more optimistic company profitability than our current forecasts.

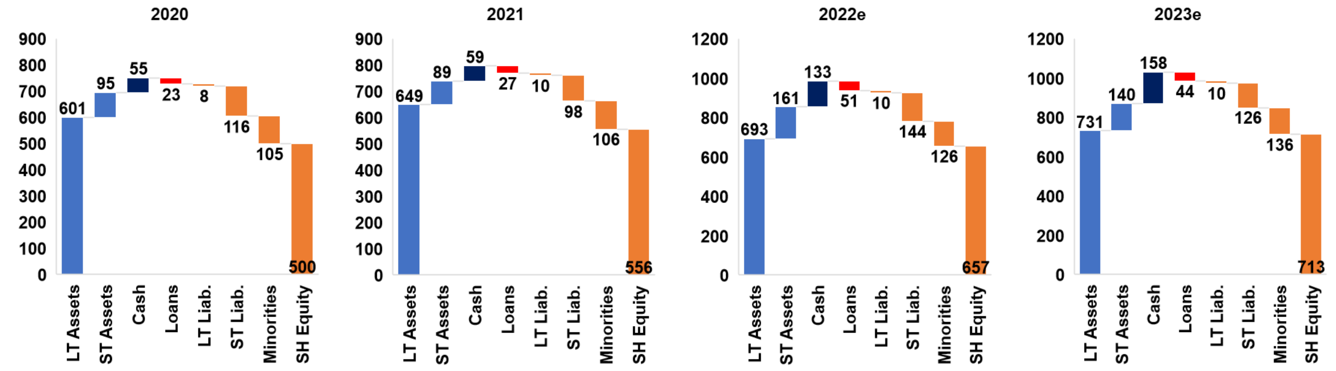


Source: TTS, Erste Group Research

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.

Balance sheet breakdown



Source: TTS, Erste Group Research

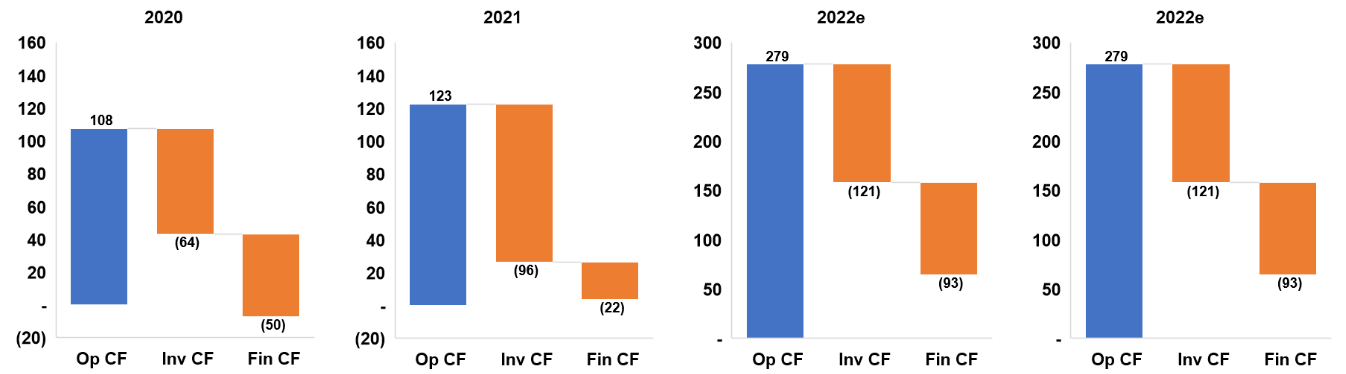
(RON, mn.)	2018	2019	2020	2021	9M22	2022e	2023e	2024e	2025e	2026e
Cash & equivalents	38.9	62.4	55.2	58.9	125.2	133.1	157.9	185.2	218.5	255.0
ST Debt	54.1	62.9	50.8	41.3	32.7	43.2	37.7	38.5	41.2	43.4
LT Debt	64.2	46.1	23.1	26.8	44.9	50.9	44.4	45.2	48.4	51.1
Net Debt	79.4	46.6	18.7	9.2	-47.6	-39.0	-75.9	-101.4	-128.9	-160.5
Net Debt to EBITDA	**1.10**	**0.38**	**0.16**	**0.07**	**-0.18**	**-0.15**	**-0.39**	**-0.52**	**-0.61**	**-0.73**

Source: TTS, Erste Group Research

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.

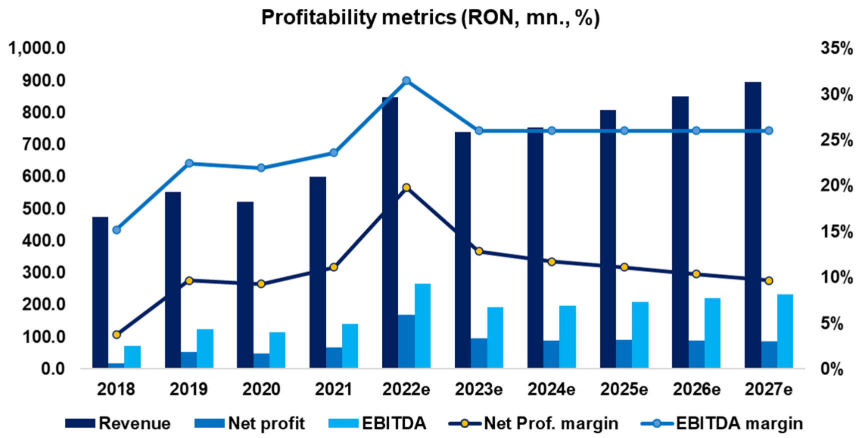
Cash flow



Source: TTS, Erste Group Research

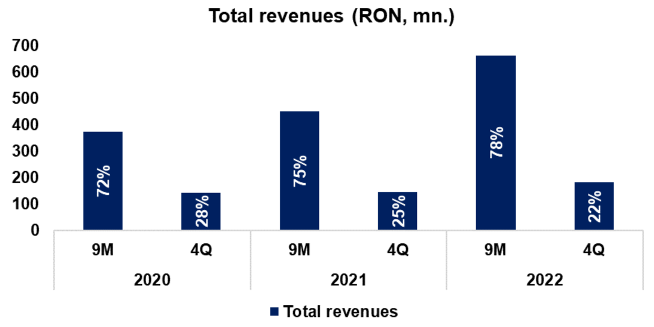
Conservative profitability assumptions

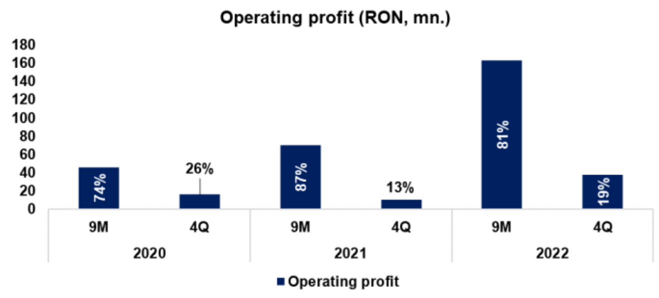
We reiterate our conceptual approach of trying to eliminate the downside risk to our valuation and target price by adopting profitability assumptions that err on the conservative side and establish a floor for the company's valuation. This is evident in our margin forecast, where, after the level of 2022 (itself a conservative assumption considering the potential of the last quarter of the year) we do not account for the clear perspective of margin expansion on the back of tariff and volume expansion and tariff in-built cost growth hedges.



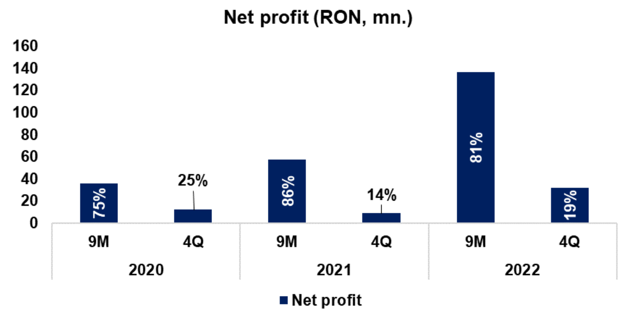
Source: TTS, Erste Group Research

9M22 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 nine months of the year. Even more, we are erring on the side of caution, with current trends pointing to a fourth quarter of the year more in line with 3Q22 rather than the whole first nine months of the year.





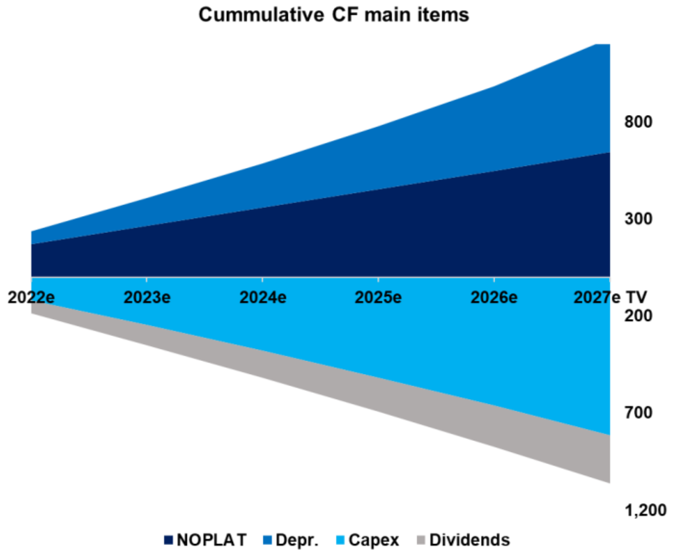
Source: TTS, Erste Group Research



Source: TTS, Erste Group Research

VALUATION

DCF valuation



Source: TTS, Erste Group Research

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 8.5% till 2026 and 5% 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 13%, lower than historical levels (24% in 2022e, 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 RON120mn – in real terms

TTS DCF valuation

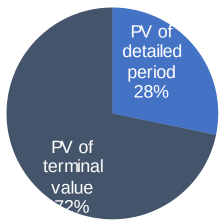
WACC calculation

	2022e	2023e	2024e	2025e	2026e	2027e TV
Risk free rate	8.5%	8.5%	8.5%	8.5%	8.5%	5.0%
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	**16.0%**	**16.0%**	**16.0%**	**16.0%**	**16.0%**	**12.0%**
Cost of debt	9.5%	9.5%	9.5%	9.5%	9.5%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	**8.0%**	**8.0%**	**8.0%**	**8.0%**	**8.0%**	**5.0%**
Equity w eight	70%	70%	70%	70%	70%	68%
WACC	**13.6%**	**13.6%**	**13.6%**	**13.6%**	**13.56%**	**9.77%**

DCF valuation

(RON mn)	2022e	2023e	2024e	2025e	2026e	2027e TV
Sales growth	*41.5%*	*-12.8%*	*2.0%*	*7.0%*	*5.4%*	*3.0%*
EBIT	201	116	109	112	112	116
EBIT margin	*23.7%*	*15.7%*	*14.5%*	*13.9%*	*13.1%*	*13.0%*
Tax rate	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Taxes on EBIT	-32.1	-18.6	-17.5	-17.9	-17.9	-18.6
NOPLAT	**168.6**	**97.4**	**91.8**	**94.2**	**94.0**	**97.9**
+ Depreciation	66	76	87	98	109	153
Capital expenditures / Depreciation	*181.1%*	*165.2%*	*152.5%*	*142.1%*	*133.4%*	*100.0%*
+/- Change in w orking capital	27	-8	1	4	3	-9
Chg. working capital / chg. Sales	*11.0%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*-20.0%*
- Capital expenditures	-120.0	-126.0	-132.3	-138.9	-145.9	-153.2
Free cash flow to the firm	**142.2**	**40.0**	**47.3**	**56.8**	**60.6**	**88.8**
Terminal value growth						*2.5%*
Terminal value						1,251.9
Discounted free cash flow - June 30 2022	125.2	31.0	32.3	34.2	32.1	646.7
Enterprise value - June 30 2022	**901**					
Minorities	106					
Non-operating assets	0					
Net debt (incl. lease liabilities)	27					
Other adjustments	0					
Equity value - (RON bn) June 30 2022	**768.5**					
Cost of equity	12.0%					
Fair value, RON mn	**860.7**					
Number of shares outstanding (mn)	60.0					
Fair value per share, RON	**14.35**					
Share price	11.36					
Upside/downside Official NAV (%)	*26.28%*					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

Terminal value EBIT margin

WACC	12.0%	12.5%	13.0%	13.5%	14.0%
8.8%	15.08	15.68	16.27	16.86	17.46
9.3%	14.14	14.69	15.24	15.79	16.33
9.8%	13.32	13.83	**14.35**	14.86	15.37
10.3%	12.61	13.09	13.57	14.05	14.53
10.8%	11.99	12.44	12.89	13.34	13.79

Terminal value growth

WACC	1.5%	2.0%	2.5%	3.0%	3.5%
8.8%	14.35	15.24	16.27	17.48	18.92
9.3%	13.57	14.35	15.24	16.27	17.48
9.8%	12.89	13.57	**14.35**	15.24	16.27
10.3%	12.28	12.89	13.57	14.35	15.24
10.8%	11.74	12.28	12.89	13.57	14.35

Source: Erste Group Research

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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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