

Transport Trade Services SA

Buy

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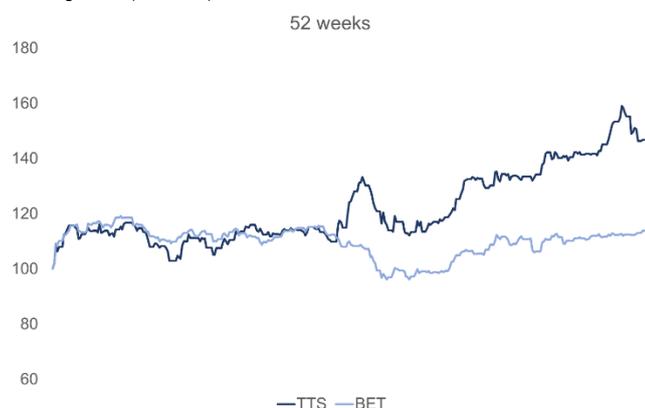
Share price (RON) close as of 06/03/2023	12.5	Reuters	TTS.BX	Free float	67.7%
Number of shares (mn)	60.0	Bloomberg	TTS RO	Shareholders	Government (0.0%)
Market capitalization (RON mn / EUR mn)	752 / 153	Div. Ex-date	24/05/22		
Enterprise value (RON mn / EUR mn)	788 / 160	Target price	14.4	Homepage:	https://www.tts-group.ro

Key figures Overview

RON mn	2021	2022	2023e	2024e
Net sales	598.8	934.4	739.2	754.1
EBITDA	141.5	283.4	182.0	185.7
EBIT	79.9	210.5	105.8	98.9
EBT	78.9	208.7	109.8	103.5
Net profit	66.4	179.0	92.2	86.9
EPS (RON)	1.11	2.98	1.54	1.45
CEPS (RON)	1.45	-0.04	0.25	0.34
BVPS (RON)	11.04	13.64	14.71	15.73
Dividend/Share (RON)	0.30	0.55	0.61	0.58
EV/EBITDA (x)	10.27	2.56	4.33	4.22
P/E (x)	20.15	3.84	8.16	8.66
P/CE (x)	15.36	-291.07	49.93	36.55
Dividend yield (%)	1.33	4.80	4.90	4.62
EBITDA margin (%)	23.63	30.33	24.62	24.62
Operating margin (%)	13.34	22.53	14.31	13.12
Net profit margin (%)	11.09	19.16	12.47	11.52

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	27,991	28,176	27,965
Trading value (RON mn)	0.4	0.4	0.3



Performance	12M	6M	3M	1M
in Ron	47%	16%	11%	4%

Financial Strength

	2021	2022	2023e	2024e
ROE (%)	12.58	28.46	12.64	11.10
ROCE (%)	10.25	24.96	11.25	9.92
Equity ratio (%)	83.13	81.43	85.51	86.09
Net debt (RON mn)	9.21	-78.24	-90.03	-104.02
Gearing (%)	1.39	-9.56	-10.20	-11.02

2022 financials: solid growth in top and bottom lines

The 2022 abridged preliminary consolidated financials released by TTS paint a very solid picture of the company's evolution for the year. Although operational and segment data are absent, we believe the trends of the first nine months should have continued during the last quarter, albeit at a slower pace than in 3Q22. According to management, during 2023 these trends will continue, with little deviation compared to previous year.

The company's management has responded in a timely and flexible manner to the challenges presented by the regional crisis and the redrawing of logistical chains. Moreover, the company is in the process of acquiring a port facility (yet undisclosed) that would enhance capacity and contribute to operational adaptability. This high degree of adjustment to changing business environment allowed TTS to take advantage of the favorable tariff climate and to generate cash that is to be used in paying dividends and investing in increasing capacity. While dividend yields are still modest, we think the dividend policy of the company adds to the attractiveness of this eminently growth stock and can be further enhanced in the future, depending on the investment opportunities laying ahead.

In the absence of any operational details, segment data and notes to financial statements, we will address any changes in our model at a later date, when details become available. In the meantime, we maintain our previous target price and recommendation on the stock.

2022 partial results: record high top line and profitability

PROFIT AND LOSS

2022 Consolidated balance sheet and income statement reported. TTS released preliminary figures for 2022, in an abridged format showing consolidated income statement and balance sheet. No other information, operational or financial is available. A possible reason for this unusually scarce information may be the ongoing negotiation for an asset acquisition that may prompt the company to disclose minimal operational data.

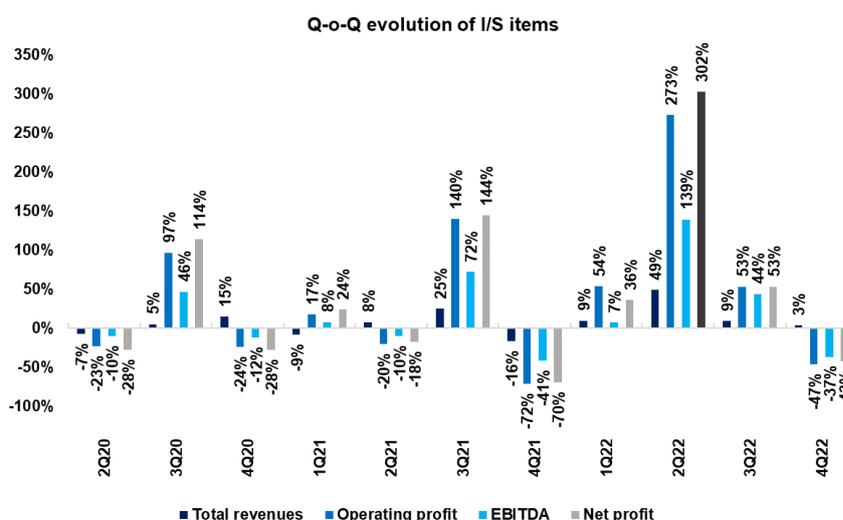
Release summary

(mn. RON)	4Q22	4Q21	chnng.	3Q22	chnng.	4Q20	chnng.	2022	2021	chnng.	2020	chnng.
Total revenues	270.4	147.8	82.9%	261.6	3.4%	144.4	87.3%	934.4	598.8	56.0%	520.3	79.6%
Materials	-32.8	-23	42.6%	-30.2	8.6%	-15.4	113.0%	-123.8	-79.7	55.3%	-68.1	81.8%
COGS	-6.1	-5.3	15.1%	-7.1	-14.1%	-7.3	-16.4%	-32.5	-44	-26.1%	-17.6	84.7%
Depreciation	-20.8	-19.3	7.8%	-19.1	8.9%	-14.1	47.5%	-72.9	-61.6	18.3%	-52	40.2%
Subcontr.	-100.2	-56.1	78.6%	-80.8	24.0%	-51.5	94.6%	-331.2	-208.7	58.7%	-191.2	73.2%
Wages	-41.2	-25.7	60.3%	-31.3	31.6%	-26.4	56.1%	-124.2	-98.5	26.1%	-96.7	28.4%
Other exp.	-12.7	-10.9	16.5%	-10.5	21.0%	-9.2	38.0%	-45.1	-41.9	7.6%	-40.4	11.6%
Gains/losses	-9	2.7	-433.3%	6.5	-238.5%	-4.3	109.3%	5.8	15.5	-62.6%	8	-27.5%
Operating expenses	-222.8	-137.6	61.9%	-172.5	29.2%	-128.2	73.8%	-723.9	-518.9	39.5%	-458	58.1%
Operating profit	47.6	10.2	366.7%	89.1	-46.6%	16.2	193.8%	210.5	79.9	163.5%	62.3	237.9%
Fin. Rev.	0.2	1	-80.0%	0.4	-50.0%	-0.5	-140.0%	1	0.9	11.1%	-0.6	-266.7%
Fin. Costs	-0.2	-0.5	-60.0%	-0.9	-77.8%	-0.5	-60.0%	-2.8	-1.9	47.4%	-2.5	12.0%
Net fin.	0.0	0.5	-100.0%	-0.5	-100.0%	-1	-100.0%	-1.8	-1	80.0%	-3.1	-41.9%
PBT	47.6	10.7	344.9%	88.6	-46.3%	15.2	213.2%	208.7	78.9	164.5%	59.2	252.5%
Tax	-4.9	-1.7	188.2%	-13.6	-64.0%	-2.5	96.0%	-29.7	-12.5	137.6%	-10.8	175.0%
Net Income	42.7	9	374.4%	75	-43.1%	12.7	236.2%	179	66.4	169.6%	48.4	269.8%
Net margin	15.8%	6.1%		28.7%		8.8%		19.2%	11.1%		9.3%	
EBITDA	68.4	29.5	131.9%	108.2	-36.8%	30.3	125.7%	283.4	141.5	100.3%	114.3	147.9%
EBITDA margin	25.3%	20.0%		41.4%		21.0%		30.3%	23.6%		22.0%	

Source: Company data, Erste Group Research

Top line boost... 2022 YE consolidated revenues registered at RON934mn, a jump by 56% compared to the previous year, and almost 80% higher compared to 2020. On a quarterly basis, during 4Q22 total revenues were RON270mn and were 83% higher compared to the same period of last year, while they grew 3.4% compared to 3Q22.

... on the back of higher tariffs and operations. As the company hasn't reported any operational data, we can only assume that the trends of the first nine months of the year remained valid during the last quarter as well. Thus, the regional crisis set by the war in the Ukraine has interrupted some important logistic chains in the area that had to be replaced. TTS management has reacted in a timely and flexible manner, both in terms of fleet and port installations, together with a fluid approach to forwarding and creating new logistic chains. This allowed the company to take full advantage of the higher demand and tariffs, reflected in the boosting top line of the year.



Source: Company data, Erste Group Research

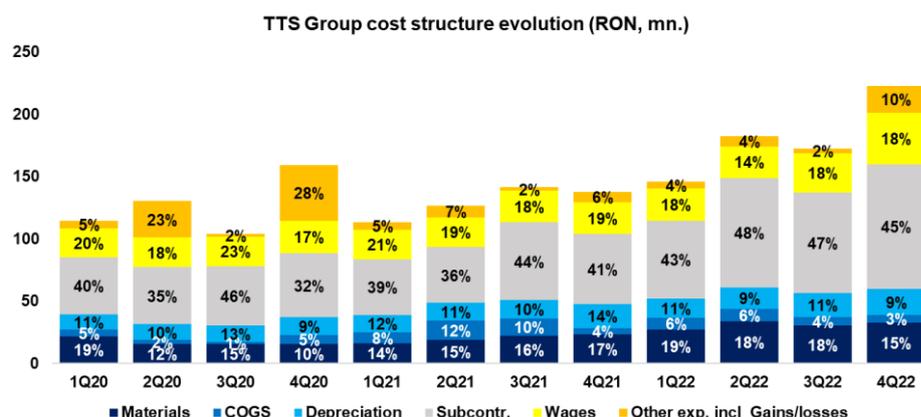
Seasonality at work, probably. We have noticed a tapering of the q-o-q revenue growth from the 9.4% during the first quarter of the year, to almost 50% during the second quarter, coming down to 8.7% during the third quarter and finally landing at less than 4% during the last quarter. We assume some seasonality or external factors; however, lack of operational details prevents us to make a more informed analysis. In all probability, the tariffs for agricultural product dropped from the previous peak on the back of the opening of Odessa port and the relatively reliable grain exports logistical chains operating after the conclusion of the agreements that facilitate grain export directly from the Ukraine.

Cost breakdown

Expenses (RON, mn.)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Materials	21.6	15.4	15.7	15.4	16.1	18.6	22	23	27.2	33.6	30.2	32.8
COGS	5.7	3.2	1.4	7.3	8.9	15.6	14.2	5.3	9.1	10.2	7.1	6.1
Depreciation	12.1	12.7	13.1	14.1	13.7	14.2	14.4	19.3	15.9	17.1	19.1	20.8
Subcontr.	45.8	46	47.9	51.5	44.7	45.1	62.8	56.1	62.2	88	80.8	100.2
Wages	23.2	23.6	23.5	26.4	24	23.7	25.1	25.7	26.2	25.5	31.3	41.2
Other exp. incl. Gains/losses	6.3	29.4	2.3	44.7	5.8	9.5	2.9	8.2	5.5	8.1	4	21.7
Total	114.7	130.3	103.9	159.4	113.2	126.7	141.4	137.6	146.1	182.5	172.5	222.8

Source: Company data, Erste Group Research

Expenses grow less than revenues y-o-y. During 2022, total operating expenses amounted to RON724mn, and grew less than 40% compared to 2021, and about 58% compared to 2020. On a quarterly basis, during 4Q22 total operating expenses increased by almost 62% compared to the last quarter of the previous year and by 29% compared to the expenses of 3Q22.



Source: Company data, Erste Group Research

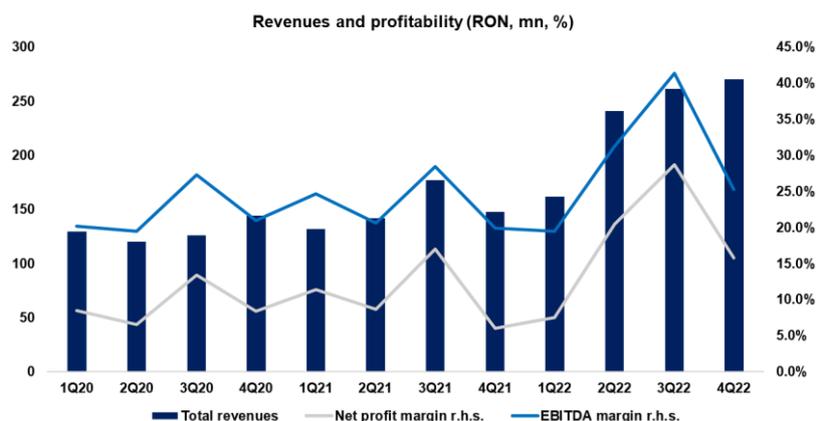
Cost evolution

Percentage of revenues	4Q22	4Q21	3Q22	4Q20	2022	2021	2020
Materials	12.1%	15.6%	11.5%	10.7%	13.2%	13.3%	13.1%
COGS	2.3%	3.6%	2.7%	5.1%	3.5%	7.3%	3.4%
Depreciation	7.7%	13.1%	7.3%	9.8%	7.8%	10.3%	10.0%
Subcontr.	37.1%	38.0%	30.9%	35.7%	35.4%	34.9%	36.7%
Wages	15.2%	17.4%	12.0%	18.3%	13.3%	16.4%	18.6%
Other exp.	4.7%	7.4%	4.0%	6.4%	4.8%	7.0%	7.8%
Gains/losses	3.3%	-1.8%	-2.5%	3.0%	-0.6%	-2.6%	-1.5%

Source: Company data, Erste Group Research

Fuel, wages, subcontractors... On a yearly basis, the bulk of the operating expenses' growth was due to three items. These were: fuel costs, subcontractors' fees and personnel related costs. All these costs' increases were both expected and unavoidable. Input costs have increased across the board during 2022, while the subcontractors' fees grew on the back of increased use and tariffs in a period of high demand. Moreover, the diversification of logistical chains employed by the company has led to an increase in rail forwarding which has also contributed to increasing the costs with subcontractors. While fuel costs are at least partially hedged by bunkering clauses, and appear in tariffs, the hedging is only related to barges operating under cargo, and do not apply to empty trips. When more detailed data will appear, we will be able to further analyse the matter.

... on a quarterly basis as well. On a yearly basis overall materials costs, that are mainly fuel related have remained almost the same percentage of revenues, for the last three periods. On quarterly basis, though, albeit the share of net revenues drops considerably to 12.1% in 4Q22, compared to the 15.6% of 4Q21, it has inched up compared to the third quarter of 2022. Another factor we assume is due to seasonality is the increase in subcontractors' fees as a percentage of revenues, by more than 6p.p. between 3Q22 and 4Q22. As we discuss above, increase rail transports have also contributed to this item's evolution.

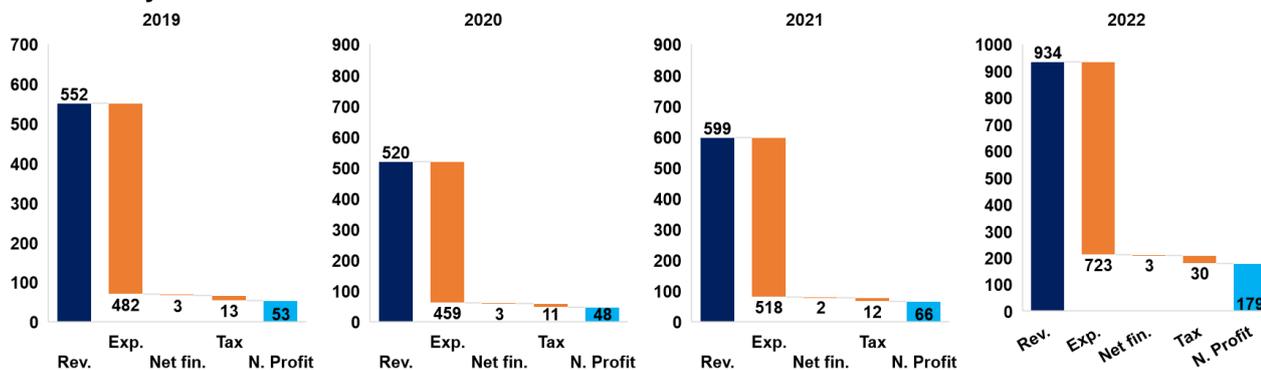


Source: Company data, Erste Group Research

Record profitability for the year, decline in last quarter. On a yearly basis, 2022 results show a significant boost in operating profits by 163% compared to previous year and 238% compared to 2020. EBITDA doubled compared to 2021 and increased by about 150% vs. 2020. Net income followed the same trend of EBIT, almost identically.

In the last quarter of 2022, profits, both operating and net increased multiple times vs the same period of the previous year. However, there was a decline compared to the record high margins of the previous quarter. Operating profit and net income declined by almost half, while EBITDA declined by almost 40%. Again, we have seen this in the later quarters of previous years, however it is not clear if seasonality is the main factor, or a more permanent trend at work. Most probably, it is a combination of both, with the increased exports of Ukrainian grain from Odessa contributing to an easing of tariffs and as a consequence to the decline in profitability.

Profitability



Source: Company data, Erste Group Research

BALANCE SHEET

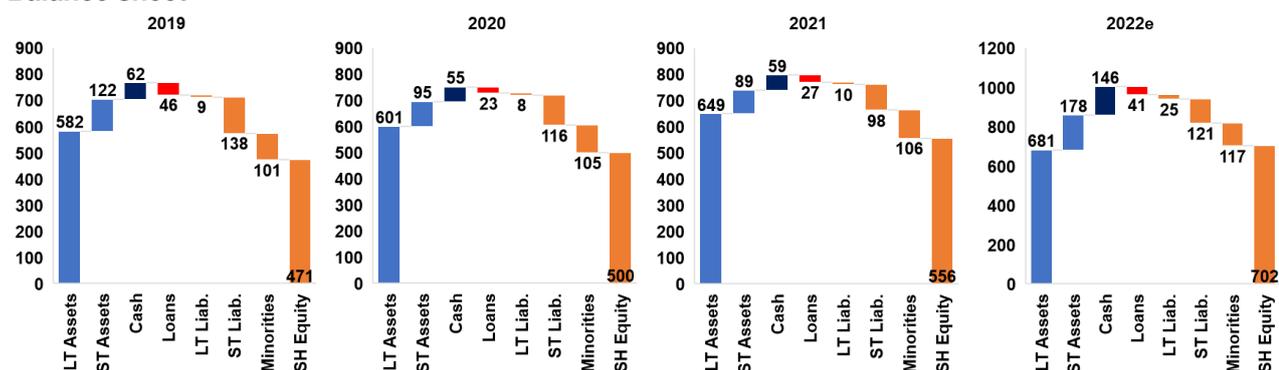
Shareholders' equity boost. At the end of 2022, shareholders' equity stood at more than RON702mn, an increase of 26% compared to the previous year, and 40% more than in 2020. Cash position increased substantially from RON59mn at the end of 2021 to RON146 at the end of 2022, while the liability side of the balance sheet remained almost unchanged.

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Balance sheet



Source: Company data, Erste Group Research

Cash used for investment. According to company announcements, it is in an advanced stage with the acquisition of a port terminal. We expect the cash accumulated on the balance sheet to be used for this acquisition. The previous main investment of the company, the modernization of Giurgiu port, started during 2022 has been co-financed from EU funding. The modernization of the port facilities in Giurgiu, financed by EU funds, has also created a liability that is accounted for under “other liabilities”.

Net debt

(RON, mn.)	2018	2019	2020	2021	2022
Cash & equivalents	38.9	62.4	55.2	58.9	146.0
ST Debt	54.1	62.9	50.8	41.3	26.8
LT Debt	64.2	46.1	23.1	26.8	40.9
Net Debt	79.4	46.6	18.7	9.2	-78.3
Net Debt to EBITDA	1.10	0.38	0.16	0.07	-0.28

Source: Company data, Erste Group Research

Negative net debt... With the solid cash generation on last year, the YE balance sheet showed a negative net debt, of almost the same size as the positive net debt of five years ago. During this period, the balance sheet of the company has strengthened considerably.

... allows for higher dividend payment. The company announced a dividend payout of RON33mn an amount that is about 85% higher than last year, albeit significantly lower as a percentage of net income: 18% vs. 27% in 2021. Nevertheless, as we mention above, we expect TTS has amassed a cash coffer in order to finalize the investment in the port facilities we discussed above.

A peak to the future. According to company management the trends of 2022 appear to be consistent with the expectations for the current year. Minerals volumes should continue to suffer from the lack of demand from Galati and Tulcea metallurgical combines, while the demand for grain transportation and port operations should continue strong. The announced acquisition, to date lacking and any significant details other than press speculation denied by management, should provide the main corporate event for the year, contingent on approval by the Competition Council. If the acquisition wouldn't go through, for any reason, management signalled it may be willing to increase returns to investors via a cash or stock dividend to shareholders. Important to note that the policy of paying about 40% in dividends relates to individual TTS accounts, and not to the TTS Group accounts.

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Management has our confidence – so far. After proving it can manage a turbulent period such as the last three years, we are keen to witness the approach to increasing capacity via acquisitions. While details are pending, we reserve judgment on the accretive value of the transaction and the IRR of the project. Nevertheless, we expect the addition to assets to perform at same standards of the existing asset base, within a reasonable time frame. In the meantime, the existing business, evolving in a universe not substantially different compared to 2022, should continue to generate returns in line with historical levels and above.

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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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