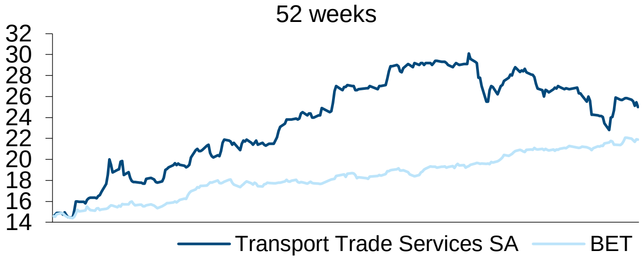
COMPANY REPORT

Transport Trade Services SA

Accumulate

RON mn	2023	2024e	2025e	2026e
Net sales	1,161.1	999.4	1,045.9	1,113.7
EBITDA	437.5	256.6	279.0	291.5
EBIT	351.5	144.1	154.1	153.6
Net result after min.	305.4	121.6	129.7	129.1
EPS (RON)	5.09	2.03	2.16	2.15
CEPS (RON)	1.18	1.66	1.77	2.13
BVPS (RON)	18.12	19.91	21.82	23.72
Div./share (RON)	1.14	0.45	0.48	0.48
EV/EBITDA (x)	3.7	5.6	4.9	4.4
P/E (x)	5.3	12.3	11.6	11.6
P/CE (x)	22.8	15.1	14.1	11.7
Dividend Yield	4.2%	1.8%	1.9%	1.9%

Share price (RON) close as of 14/06/2024	25.0
Number of shares (mn)	60.0
Market capitalization (RON mn / EUR mn)	1,500 / 301
Enterprise value (RON mn / EUR mn)	1,441 / 289



Performance	12M	6M	3M	1M
in RON	71.2%	-7.1%	-7.4%	-3.8%

Reuters	TTS.BX	Free float	67.7%
Bloomberg	TTS RO	Shareholders	
Div. Ex-date	24/05/24		
Target price	**28.1**	Homepage:	https://www.tts-group.ro

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Back to "normality", after an exceptional year

We are revising downwards our target price for TTS shares to RON28.06/share, but maintain our accumulate recommendation. The target price downgrade comes on the back of a faster-than-expected decline in the Ukrainian grain business, on river transport, but mostly in the Constanta port. The continued success of the new logistic chains originating in Odessa and shipping through territorial waters of Romania, Bulgaria, etc, has led to a very rapid deterioration of volumes as well as tariffs in this segment. Conversely, minerals and chemicals volumes have recovered and are expected to continue at pre-war levels. Improvements in fleet quality and port operations assets are also going to allow expansion in these segments, however the overall business pattern has reverted to a seasonality that hasn't been present since the period pre-war and pre-COVID.

Thus, taking into consideration the new reality of volumes and tariffs, and a revised cost of risk, we have attempted to offer a conservative, reasonable analysis of the potential development of the company, with subdued volume growth and tariffs inching up at or below inflation. The company continues to be a strong cash generator under these circumstances and could accommodate a higher level of CAPEX, both organic or for acquisitions, together with a more generous dividend policy. If anything, our valuation is a floor under reasonably predictable scenarios, however not immune to the risk deriving from the macro developments, or regional events.

We expect management to continue the successful policy of opportunistic investments in both organic development and expansion and the quest to better integrate the last acquisition generating attractive returns on investment.

Back to "normality", after an exceptional year

Expected decline vs record 2023 figures on yearly...

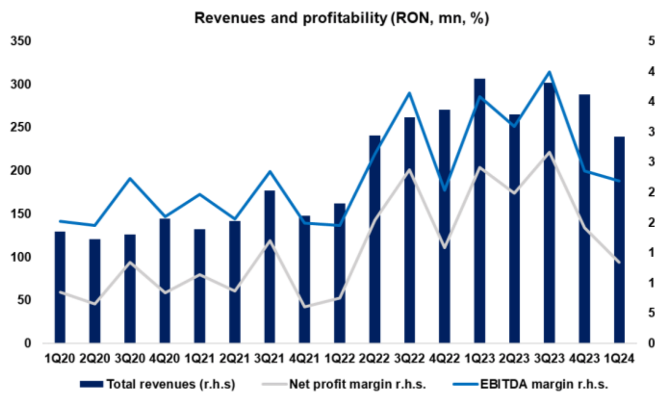
The first quarter figures published by TTS show a significant decline in top and bottom line and shrinking margins both y-o-y and q-o-q on the back of the major changes in operating environment brought by developments related to the war in the Ukraine. The top line declined about 22% compared to that of 1Q23, reaching over RON239mn, vs. the RON306mn of the first quarter of last year. At the same time, operating profit dropped more 60%, registering RON39mn, compared to RON104mn during 1Q23. Net profit recorded an 64% drop, reaching RON32mn, vs. the RON89mn of the same period of last year.

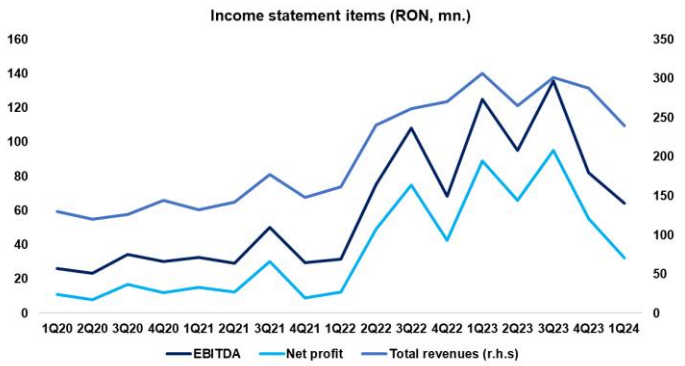
(mn. RON)	1Q24	1Q23	*chng.*	4Q23	*chng.*	1Q22	*chng.*	1Q21	*chng.*
Total revenues	**239.4**	**306.5**	***-21.9%***	**288.1**	***-16.9%***	**161.7**	***48.1%***	**132**	***81.4%***
Materials	-26.7	-31.2	*-14.4%*	-28	*-4.6%*	-27.2	*-1.8%*	-16.1	*65.8%*
COGS	-7	-8.6	*-18.6%*	-5.4	*29.6%*	-9.1	*-23.1%*	-8.9	*-21.3%*
Depreciation	-25.8	-21	*22.9%*	-25.1	*2.8%*	-15.9	*62.3%*	-13.7	*88.3%*
Subcontr.	-76.2	-96.4	*-21.0%*	-83.7	*-9.0%*	-62.2	*22.5%*	-44.7	*70.5%*
Wages	-57.9	-40.3	*43.7%*	-67	*-13.6%*	-26.2	*121.0%*	-24	*141.3%*
Other exp.	-14.1	-10.4	*35.6%*	-11.6	*21.6%*	-12.1	*16.5%*	-9.3	*51.6%*
Gains/losses	6.8	5.4	*25.9%*	-10.3	*-166.0%*	6.6	*3.0%*	3.5	*94.3%*
Operating expenses	**-200.9**	**-202.5**	***-0.8%***	**-231.1**	***-13.1%***	**-146.1**	***37.5%***	**-113.2**	***77.5%***
Operating profit	**38.5**	**104**	***-63.0%***	**57**	***-32.5%***	**15.6**	***146.8%***	**18.8**	***104.8%***
Fin. Rev.	0.732	0.9	*-18.7%*	-0.1	*-832.0%*	-0.3	*-344.0%*	-0.2	*-466%*
Fin. Costs	-1.5	0.2	*-850.0%*	-0.6	*150.0%*	-0.7	*114.3%*	-0.5	*200.0%*
Net fin.	**(0.8)**	**1.10**	***-169.8%***	**-0.7**	***9.7%***	**-1**	***-23.2%***	**-0.7**	***9.7%***
PBT	**37.732**	**105.1**	***-64.1%***	**56.3**	***-33.0%***	**14.6**	***158.4%***	**18.1**	***108.5%***
Tax	-5.6	-16	*-65.0%*	-1.1	*409.1%*	-2.4	*133.3%*	-3.1	*80.6%*
Net Income	**32.132**	**89.1**	***-63.9%***	**55.2**	***-41.8%***	**12.2**	***163.4%***	**15**	***114.2%***
Net margin	*13.4%*	*29.1%*		*19.2%*		*7.5%*		*11.4%*	
EBITDA	**64.3**	**125**	***-48.6%***	**82.1**	***-21.7%***	**31.5**	***104.1%***	**32.5**	***97.8%***
EBITDA margin	*26.9%*	*40.8%*		*28.5%*		*19.5%*		*24.6%*	

Source: Company data, Erste Group Research

… and quarterly basis.

Vs the previous quarter, the company posted a 17% top line retreat, with more than 32% lower operating income and net profit decline of 42% and an EBITDA drop of 22%.

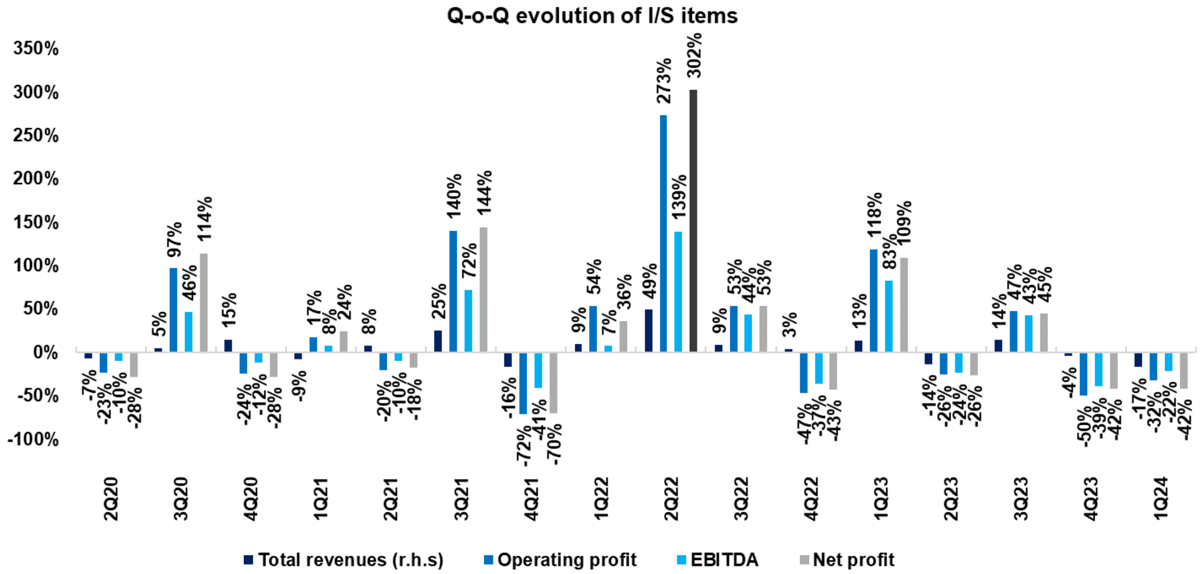




Source: Company data, Erste Group Research

… but much better compared to "before the war" results.

Nevertheless, more importantly, considering the "normalization" of the demand factor, it is useful to compare 1Q24 results to the periods before the onset of the war in the Ukraine and the subsequent distortions to the logistic chains impacting both river transport and port operations in Constanta. Thus, when comparing to 1Q22, the top line and profitability of the company show important growth. Top line is almost 50% higher, with an operating profit about 150% higher, a similar growth in net income and a doubling of EBITDA. When going even further, comparing with the first quarter of 2021, the top line is more than 80% higher, EBITDA and net income about or more than double, respectively.

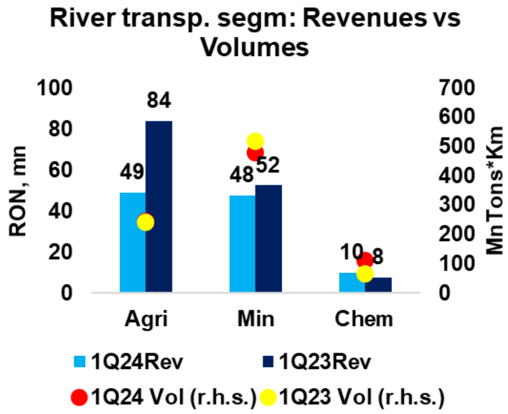


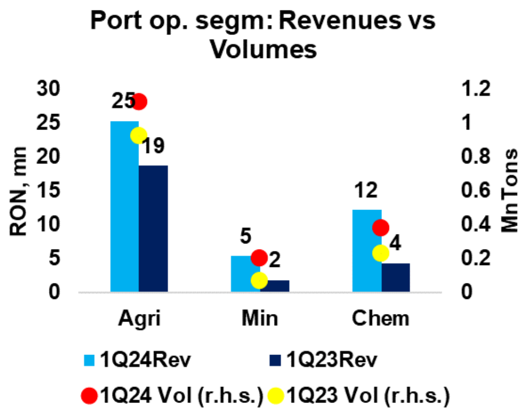
Source: Company data, Erste Group Research

Operations: volume evolution

Y-o-y performance: redrawing of logistic chains for agricultural products…

During the first three months of the year, the main driver for the changes in top line and profitability was the variation of flow of agricultural products, on the back of the reconfiguration of flows related to the war in the Ukraine. Thus, on a yearly basis, the volumes transported by the river fleet of TTS have increased by about 2% in terms of bnTons*km, reaching 0.243bnTons*km vs the 0.238bnTons*km recorded during the first quarter of last year. In terms of port operations, the flow of agricultural products was also increased by 22%, reaching 1.12mn tons, compared to the 0.92mn tons of 1Q23. These are the figures representing only the volumes operated inhouse, without taking into consideration what the forwarding segment contracted with third parties.





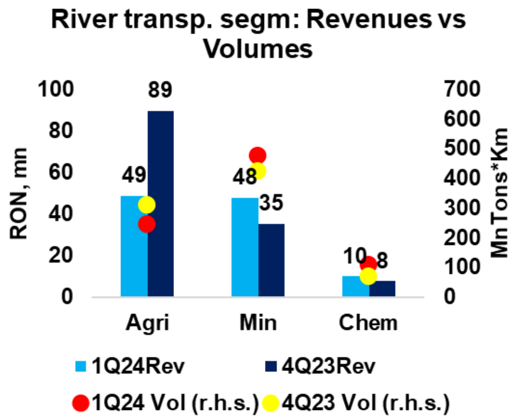
Source: Company data, Erste Group Research

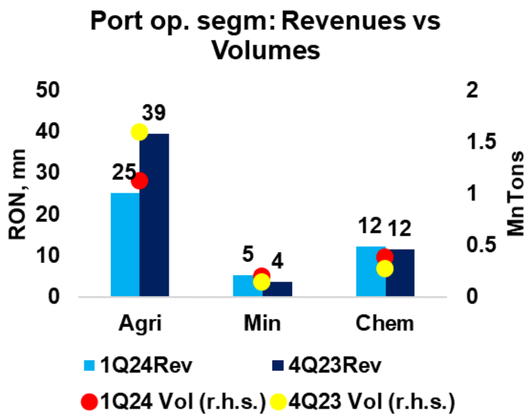
… and renewed volumes for metals and chemicals

At the same time, the company recorded significant advances in the volumes transported and operated chemical goods and a mixed performance in mineral goods. The transport of mineral goods has declined by almost 8% reaching 0.476bnTons*km vs. 0.516bnTons*km in 1Q23 but port operations in the same segment escalated by 186% to 0.2mn tons. An even better picture was present in the chemicals segment, with an expansion of 67% y-o-y in freight, reaching 0.109bnTons*km during 1Q24 vs. 0.065bnTons*km in 1Q23. Port operated volumes in the chemicals segment also increased considerably by 65% reaching 0.38mn tons.

Q-o-q performance: steepening of the trend

The successful introduction of the agricultural product shipping from Ukrainian ports on routes hugging the Romanian and Bulgarian shores, in national waters of these countries has all but dried out the glut of product being shipped on Romanian river routes and operated in Constanta Port. Thus, vs the previous quarter, the volume (freight) of agricultural products shipped by river has declined by 21%, while port operations' volumes related to the same products diminished by about 30%. The picture is however different in regard to minerals and chemical products. Vs. the previous quarter, volumes (freight) transported by river increased by 13% in the minerals segment and 63% in the chemicals segment. Port operations' volumes for the same period increased by 43% and 41% respectively.



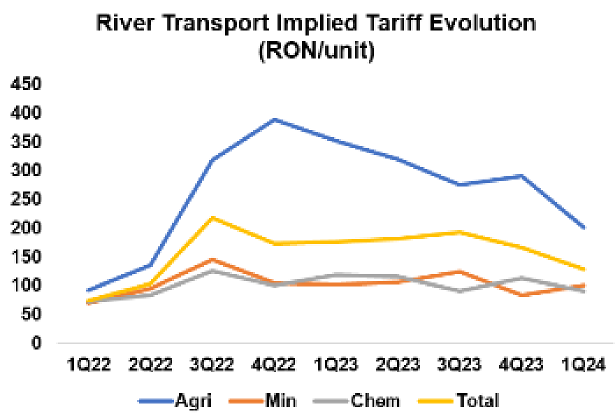


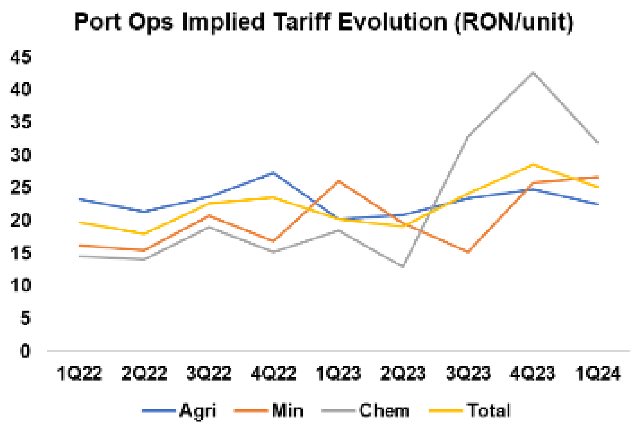
Source: Company data, Erste Group Research

Operations: tariff evolution

Following the trend

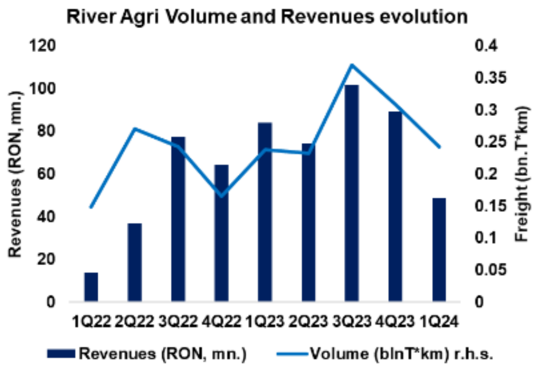
During the first three months of 2024 on river transports, the agricultural product revenues declined y-o-y by almost 42%, on a freight increase of about 2.1% leading to our calculated average tariff decline by about 43%. This is an average value and does not reflect specific tariffs for the actual services offered by the company, however an easy and relevant metric to use in analyzing pricing trends for various segments. In the minerals segment, over the same period, revenues dropped by more than 9%, implying a tariff decline of about 1.3%. In the chemicals sector, the tariff decline was about 23%, leading to revenues about 29% higher, due to the large increase in volumes, of about 68%.

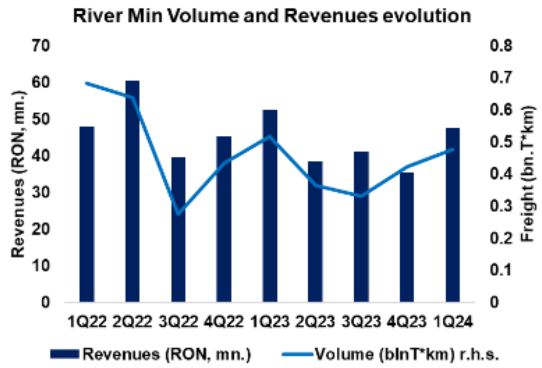


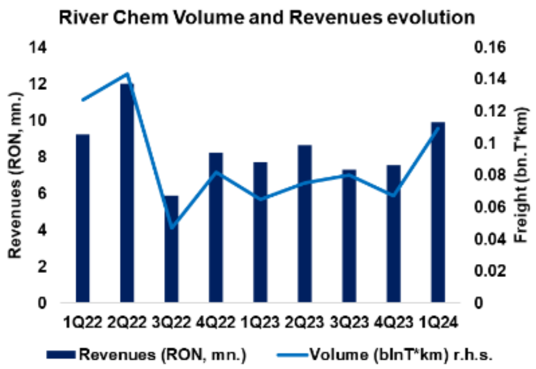


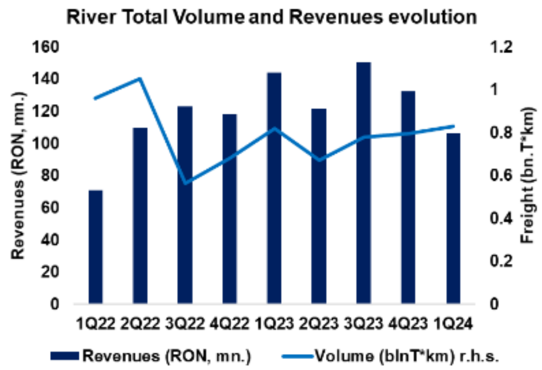
Source: Company data, Erste Group Research

In the port operations business, the y-o-y increase in agricultural revenues, of about 35% came on the back of an 11% growth in tariffs and 22% higher volumes. In the minerals segment, the revenues almost tripled, on a similar growth in volumes and marginal increase in tariffs. In the chemical segment, the picture was rather different, with also triple revenues, but a more consistent growth in tariffs, of about 73% y-o-y.



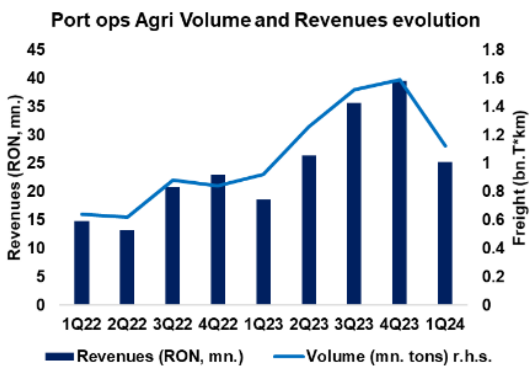


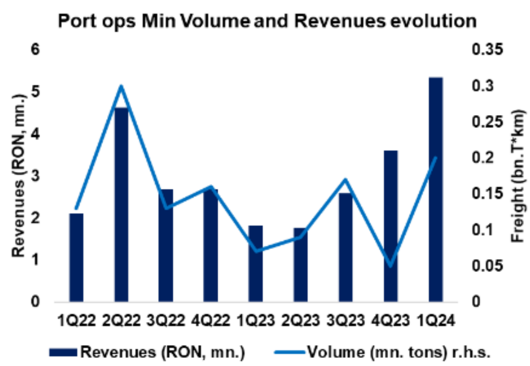




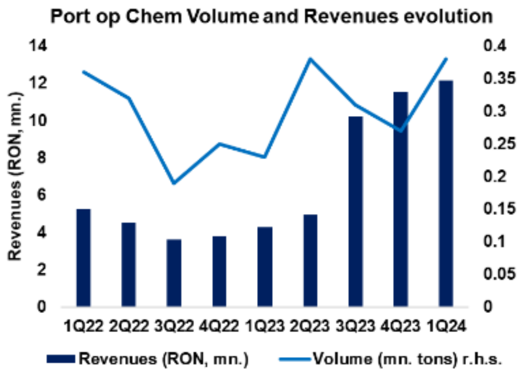
Source: Company data, Erste Group Research

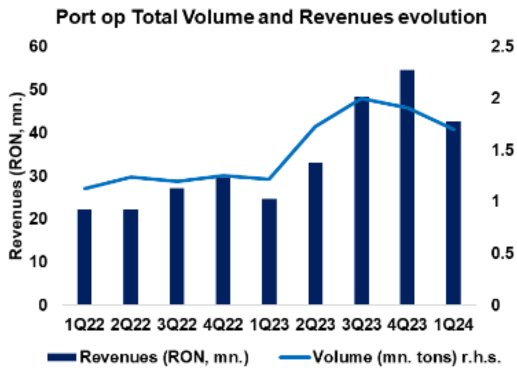
On a quarterly basis, the trend shows a dramatic decline in agricultural products' river transport volumes, by about 21%, and a 31% implied tariff decline leading to a 46% drop in revenues. The trend is buckled by significant growth in minerals and chemicals volumes, of 13% and 63% respectively, resulting in a jump in revenues of more than 30% for each of these segments.





Source: Company data, Erste Group Research

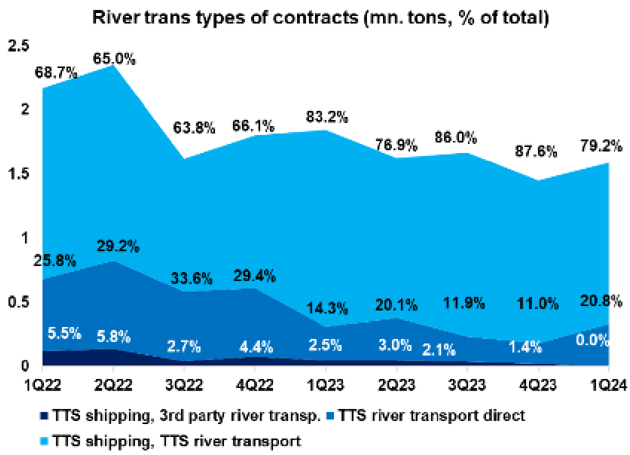


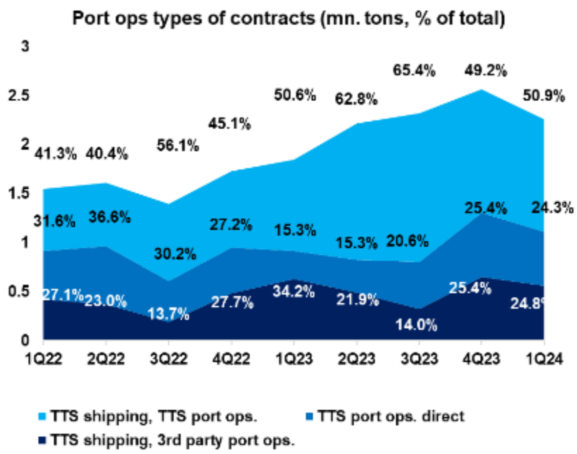


Source: Company data, Erste Group Research

In terms of port operations, q-o-q, the agricultural volumes decline, of 30%, is compounded by a more than 9% implied tariff retreat, leading to about 36% revenue shortfall. In the minerals segment however, the jump in volumes, of about 43% has been complemented by a 3.5% increase in implied tariffs leading to an almost 49% in revenues q-o-q. In the chemicals segment, the revenues grew q-o-q only by about 6%, since the 41% jump in volumes was balance by a 25% drop in tariffs.

On average, on a quarterly basis, the group as a whole saw during 1Q24 an overall decline in revenues from river transport on the back of marginally higher (4%) revenues, but lower (-23%) lower tariffs. In the port operations, overall, the picture shows a 22% q-o-q decline in revenues, backed by a 11% drop in volumes and a 12% retreat in average tariffs.





Source: Company data, Erste Group Research

Contract type evolution.

The 1Q24 structure of contracts also shifted with a much higher lower proportion of direct contracts being performed by river transport segment compared to the previous quarter. It jumped from 11% during the fourth quarter of 2023 to about 21% in 1Q24, a level which is congruent with historical, pre-war data. At the same time, river transport contracted by TTS shipping with third parties declined to nothing, all of the river transport business being deployed in-house, but direct contracts of the river transport business, or forwarded to it. In terms of the port operations business, the share of contracts with third parties remained relatively similar to the last quarter of 2024, and congruent with the level of before the war.

Cost evolution – declining less than revenues

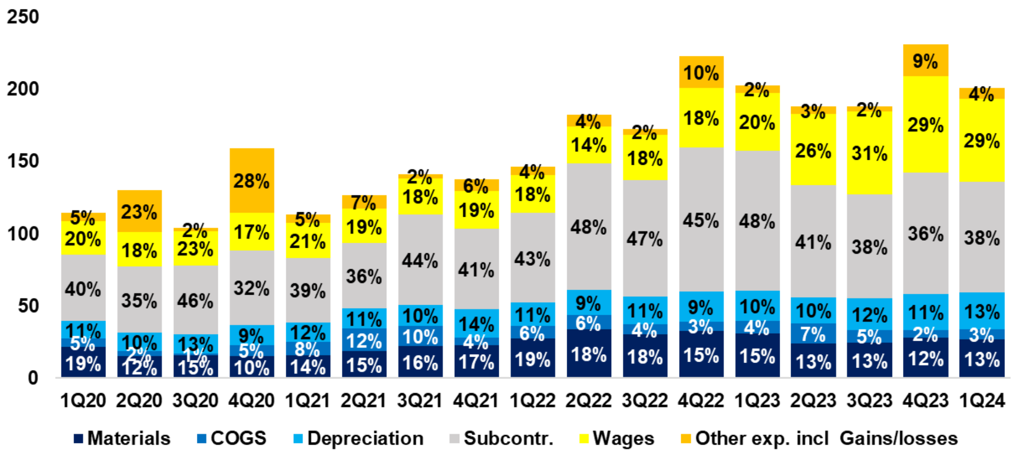
Overall, during 1Q24, total operating costs decreased by 0.8% on a 21.9% decline in revenues. On a yearly basis, the largest increase in costs was naturally that with wages, which grew y-o-y by 44%, followed in absolute terms, by the RON4mn increase in other expenses. Depreciation expenses grew by 23% and others gains or losses net, increased by 26%, from a much smaller basis. The rest of expense items declined, however none as much as the decline in revenues. Materials, including fuel dropped by about 14%, COGS by 19%, and subcontractor expenses by 21%, on a lower usage of third-party contracts, as discussed above. Vs the previous quarter, the trend was similar, with a total operating expenses decline of 13%, compared to the 17% decline in revenues. The major items of interest were represented by the decline of 9% in subcontractor expenses and the 14% decline in personnel related costs.

Percentage of revenues	**1Q24**	**1Q23**	**4Q23**	**1Q22**	**2023**	**2022**	**2021**
Materials	11.2%	10.2%	9.7%	10.7%	9.3%	13.2%	13.3%
COGS	2.9%	2.8%	1.9%	5.1%	3.1%	3.5%	7.3%
Depreciation	10.8%	6.9%	8.7%	9.8%	7.4%	7.8%	10.3%
Subcontr.	31.8%	31.5%	29.1%	35.7%	28.4%	35.4%	34.9%
Wages	24.2%	13.1%	23.3%	18.3%	18.4%	13.3%	16.4%
Other exp.	5.9%	3.4%	4.0%	6.4%	3.9%	4.8%	7.0%
Gains/losses	-2.8%	-1.8%	3.6%	3.0%	-0.8%	-0.6%	-2.6%

Source: Company data, Erste Group Research

As a result of the drop in revenues, the share of revenues represented by each cost item increased y-o-y across the board, for most of them by a substantial amount, on all cost items with the notable mention of wages costs. A similar trend, but more subdued was also represented on a quarterly basis, with most 1Q24 cost items representing a higher share of revenues. This was expected considering the dynamic of the revenues, on the back of agricultural receipts decline, however, even in absolute terms costs remained virtually equal compared to the previous year's first quarter and lower than 4Q23.

TTS Group cost structure evolution (RON, mn.)



Source: Company data, Erste Group Research

Balance sheet: considerable negative net debt

The performance of 1Q24 in terms of revenues and profitability continued to fuel an exceptionally strong balance sheet. The net debt stayed negative, as at the end of 2023, with a increase in cash and equivalents. The company's cash coffer remains solid, most probably in view of possible additional corporate actions – see below – and is poised to have ample means for further expansion CAPEX and even a more generous dividend policy – if that would come to pass.

(RON, mn.)	2018	2019	2020	2021	2022	2023	1Q24E
Cash & equivalents	38.9	62.4	55.2	58.9	146.0	229.6	245.3
ST Debt	54.1	62.9	50.8	41.3	26.8	36.1	38.1
LT Debt	64.2	46.1	23.1	26.8	40.9	74.7	69.5
Net Debt	79.4	46.6	18.7	9.2	-78.3	-118.9	-137.7
Net Debt to EBITDA	**1.10**	**0.38**	**0.16**	**0.07**	**-0.28**	**-0.27**	**-0.54**

Source: Company data, Erste Group Research

Corporate action: paying dividends, buy-back, investments and consolidations

TTS has announced during the quarter a dividend payment of RON 68.4mn, which amounts to about 45% of the stand-alone TTS net income for 2023. On a consolidated level, the amount represents about 22% of group net profit. The management also announced a buy-back program that entails the acquisition of up to 420k TTS shares, representing less than 1% of total social capital. The program is destined to ensuring a pool of shares that are to be distributed to employees of the group.

In terms of investments, the company should receive during the year the barges contracted during 2023 with SEVERNAV S.A. It would also continue the program of upgrading barges, which would allow a wider range of transported items, including metal laminates. In the port of Constanta, the integration of Decirom continues, with overhauling assets and the new warehouse.

Looking forward: conservative assumptions yield upside and leave room for growth

Back to seasonality.

After the heady days of 2023, the business of the company has reverted to a level that is significantly different compared to the "black swan" of last year. Most importantly, the flow of Ukrainian grain in the Constanta port has all but dried out, on the back of the successful alternative logistic chains originating from Odessa port. The company continues to service long-term customers with grain transport from the Ukraine, but has reverted to a business environment more congruent to that of the pre-war years. Going forward, it appears that historical seasonality will kick in, with quarterly trends showing the third quarter as the best quarter of the year, followed by the last quarter, the first and the second in terms of volumes.

The continuation of the war introduces a series of imponderables that are out of the company's realm of action and our prediction capabilities, consequently important changes are still possible. A cessation of hostilities, and a reconstruction effort in the Ukraine would certainly entail higher economic activity, and – even with unhindered Ukrainian ports – some of the business should spill into Constanta and on the Danube.

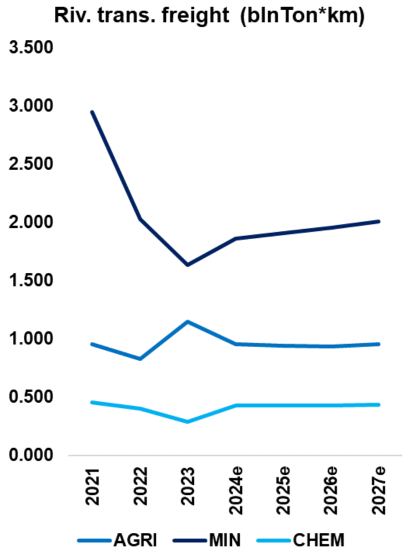
Forecasting conservatively, for a valuation floor.

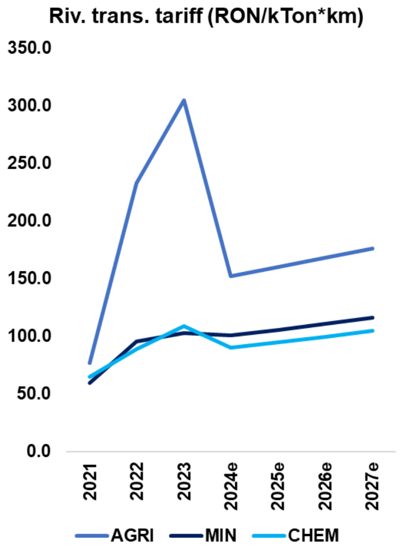
As we describe below, the evolution of business is relatively difficult to predict, as it is influenced by a number of extraneous circumstances. Thus we have preferred to employ assumptions that are reasonably conservative when looking at historical data and more than sustainable looking forward, as a consequence showing that even a restrained scenario still values the company above current levels. Thus, generally we did forecast a dramatic drop in the main drivers compared to 2023 and long-term levels that are congruent with historical levels in terms of volumes and tariffs growing with or below inflation.

In river transportation:

- we assume agricultural products freight numbers would drop by about 17% compared to last year to a level of 0.953bnTkm, a level congruent with that of before the war, and 2025 volumes declining even more, only to ick up to 2021 levels in 2027. This segment should benefit from a good harvest year, when farmers would sell stored harvests in order to make space for the new ones. Moreover, with various bans on Ukrainian grain, regional farmers may see increased prices for products and be compelled to sell stored grain, increasing demand for river transport. In terms of tariffs for grain river transport we forecast a drastic drop of 50% compared to last year, and subsequent growth with inflation.

- In the chemical and minerals segment we assume a growth congruent with what was shown in the first quarter of the year, even if historically Q1 is the second worst quarter of the year. The growth in metals volumes should benefit from the contracts with Liberty Galati, but also from the refurbishing of the barges so that they can transport processed product (covered barges). The seasonality of demand for transport of chemical products (fertilizers) is also closely tied to agricultural cycles. The peak of fertilizer usage is usually several months ahead of harvest time, thus ahead of the peak of demand for transport of agricultural products. We have not included any potential demand from a increased steel production that may come from arms production in the region or any potential impact of demand from reconstructing the Ukraine. Tariffs are shown to grow in line with inflation, after 2024. We have not included any impact of change in fuel costs, due to the bunkering clauses which make fuel cost variation a neutral factor for the company.



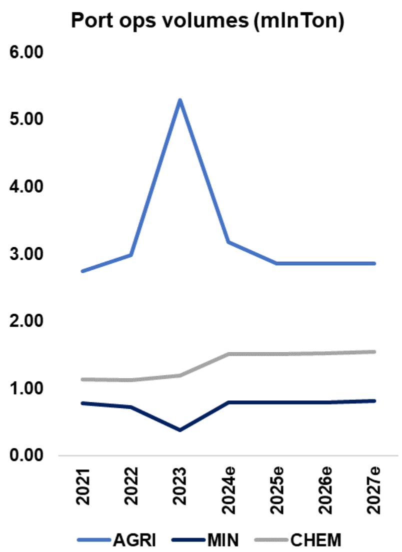


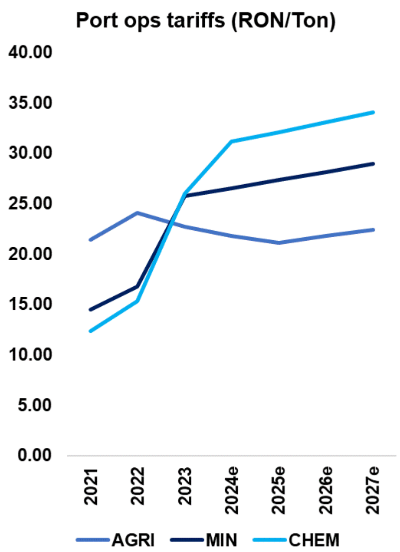
Source: Company data, Erste Group Research

In port operations:

- we assume volumes of agricultural products would drop by about 40% compared to last year, despite the results of the first quarter, and taking into consideration our understanding of subsequent developments in the second quarter of 2024. We continue to forecast a decline in 2025, to reach a volume only marginally higher than that of the pre-war period. The tariffs for these segment would decline in 2024 to levels present in the first quarter and further decline in 2025, after which would increase slightly below inflation.

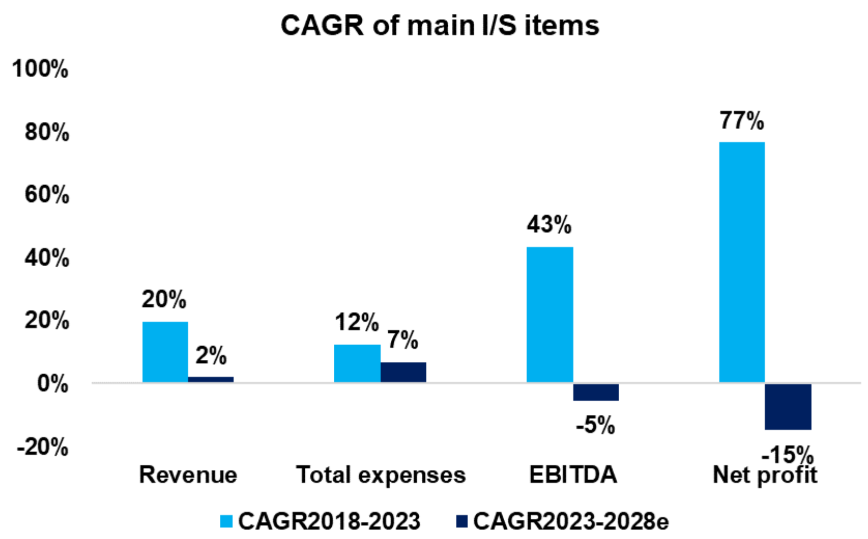
- Volumes of metals are much higher, congruent with what was shown in the first quarter, reaching levels congruent with those of before the war and showing in subsequent years no growth or growth below the projected growth in economic activities. We applied a similar forecast to chemical products. In terms of tariffs we used the guidance of the first quarter and applied a growth in line with inflation.





Source: Company data, Erste Group Research

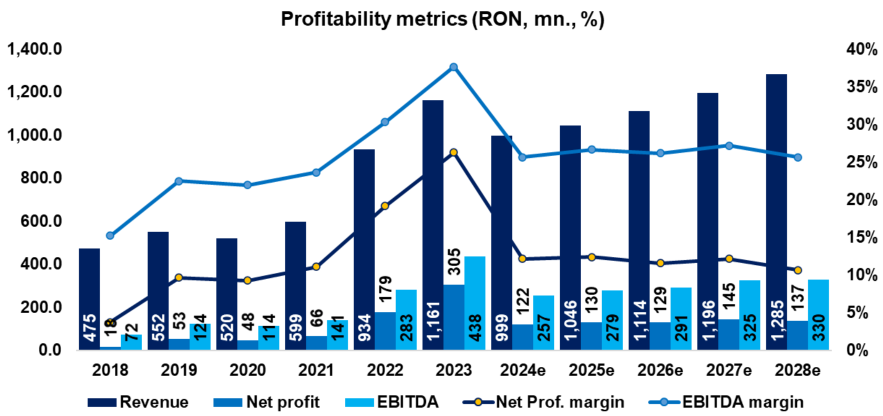
We believe these assumptions to be reasonable, with a medium-term perspective, however, may be significantly adjusted if events take a different turn going forward. On the back of declining or marginal volumes' overall growth only and a very conservative expenses assumptions, while costs increase more (decrease less) than revenues, we tested the strength of our financial forecasts and the resilience potential of the company.



Source: Company data, Erste Group Research

As a result, our cost forecast provides for a 2023-2028e CAGR more than 250% that of revenues, resulting in a negative 2023-2028e CAGR for EBITDA to the level of -5% and an even more drastic 2023-2028e CAGR for net profit of -15%. This takes into consideration the exceptional year 2023, our estimates for YE2024, and an overly conservative view of the industry going forward, however, as we show below, even this modest scenario provides upside for company value.

As a consequence of us considering this admittedly conservative scenario, the profitability of the company is assumed to decline drastically in 2024 compared to 2022 and 2023 and reach a medium-term average consistent with 2020-2021 levels at a slightly higher level, considering the improvements in the fleet and port asset quality and the investments in expansion. The profitability forecasted in 2024 is overall under what was shown during the first quarter, when the impact of the Ukrainan grain was still present. Again, we acknowledge this to be a conservative scenario, establishing – if anything – a floor valuation for the stock compared to more middle-of-the-road scenarios.



Source: Company data, Erste Group Research

Not counting for the obvious – management demonstrated capacity to transform the business.

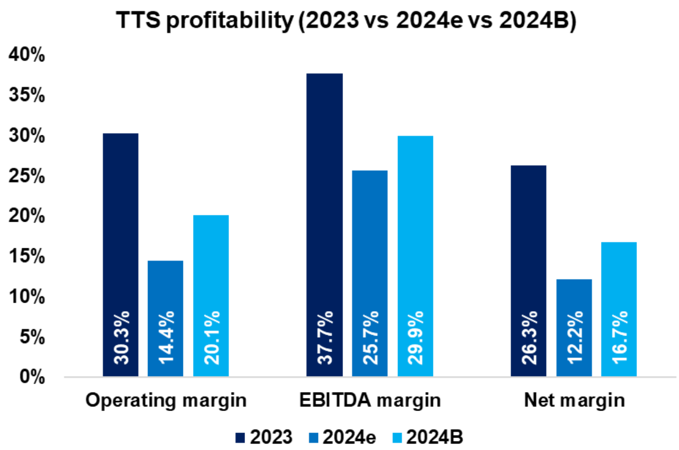
Our forecasts inherently lack accounting for an important driver that has been proven all along to be an essential ingredient for the success of the company and the evolution of the stock. This driver is imponderable, however no less important. In our opinion, the management of the company has proven to be prudent and proactive at the same time, capable of steering the group through uncertain times and finding, so far, the best solutions to coping and negotiating challenges and turning them to profit. While is difficult to quantify, this is an important driver that shouldn't fail to deliver future performance. We are expecting opportunistic investments in expansion and in organic growth opportunities that would offer adequate IRRs and are not computed in our current forecast and valuation exercises.

Lower than the budget, for two reasons.

Our forecast for 2024 falls short compared to the numbers budgeted by the company at the beginning of the year. We believe the main difference in our river transport expectations lies with the evolution of tariffs for agricultural products compared to what was present at the beginning of the year and of course of volumes, a forecast that is valid in the port operations segment as well. Another reason for our train of thought is the conservative stance that we have adopted vs the company, in the quest to demonstrate, that – even in a restrained scenario – the valuation still has upside.

(mn. RON)	2024B	2023	*chng.*	2024e	*chng.*
Total revenues	**1100.2**	**1161.1**	***-5.2%***	**999.4**	***10.1%***
Materials	-99.7	-108	*-7.7%*	-99.9	*-0.2%*
COGS	-38.3	-36.4	*5.2%*	-40.0	*-4.2%*
Depreciation	-108.5	-86.1	*26.0%*	-112.5	*-3.5%*
Subcontr.	-345.2	-329.7	*4.7%*	-329.8	*4.7%*
Wages	-262.9	-214	*22.9%*	-249.9	*5.2%*
Other exp.	-33.1	-45.1	*-26.6%*	-35.0	*-5.4%*
Gains/losses	8.1	9.7	*-16.5%*	11.7	*-30.9%*
Operating expenses	**-879.6**	**-809.6**	***8.6%***	**-855.3**	***2.8%***
Operating profit	**220.6**	**351.5**	***-37.2%***	**144.1**	***53.1%***
Fin. Rev.		1.6	*-100.0%*	1.4	*-100.0%*
Fin. Costs	-2.0	0.4	*-600.0%*	-0.7	*166.9%*
Net fin.	**-2.0**	**2.0**	***-200.0%***	**0.6**	***-430.4%***
PBT	**218.6**	**353.5**	***-38.2%***	**144.7**	***51.0%***
Tax	-35.0	-48.1	*-27.2%*	-23.2	*51.1%*
Net Income	**183.6**	**305.4**	***-39.9%***	**121.6**	***51.0%***
Net margin	*16.7%*	*26.3%*		*12.2%*	
EBITDA	**329.1**	**437.6**	***-24.8%***	**256.6**	***28.3%***
EBITDA margin	*29.9%*	*37.7%*		*25.7%*	

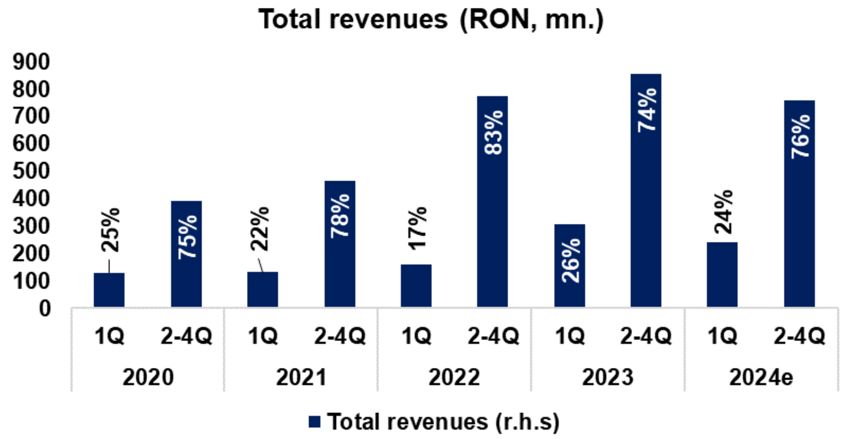
Source: Company data, Erste Group Research



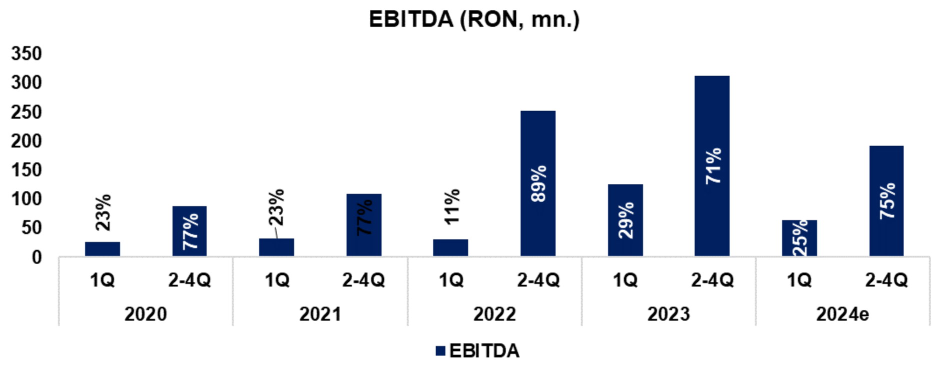
Source: Company data, Erste Group Research

Forecast validated by actual YTD results.

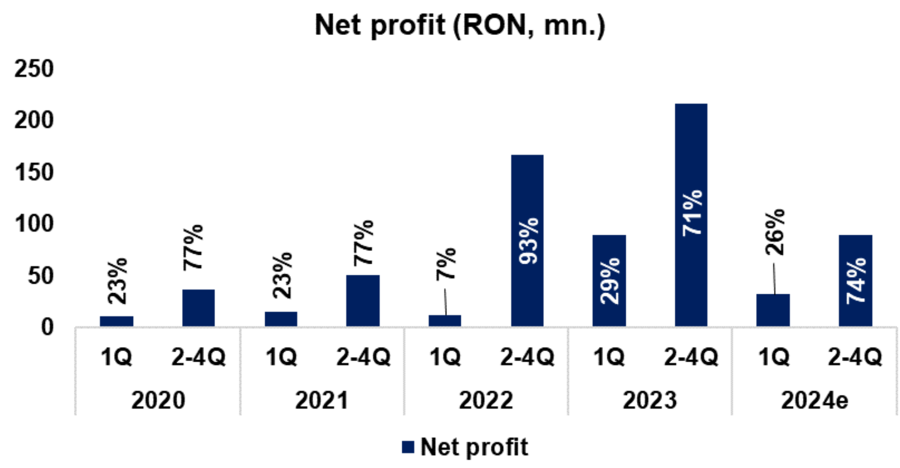
First three months results largely validate our opinion that our outlook is part of a conservative scenario. Indeed, the results show that on a historical basis, the first three-month results of 2024 are in line with the seasonality present before the war, and actually indicate potential upside to our forecast. This is visible on a historical perspective for revenues, and consistent regarding EBITDA and net income. (A higher share of 1Q in YE estimates than historical averages points to potential upside in YE results) We believe the 2024 YE forecast to be marginally lower compared to 1Q24 actual results, and in absence of a significant worsening of navigation on the Danube and weather patterns in the ports, our estimates are entirely achievable.



Source: Company data, Erste Group Research



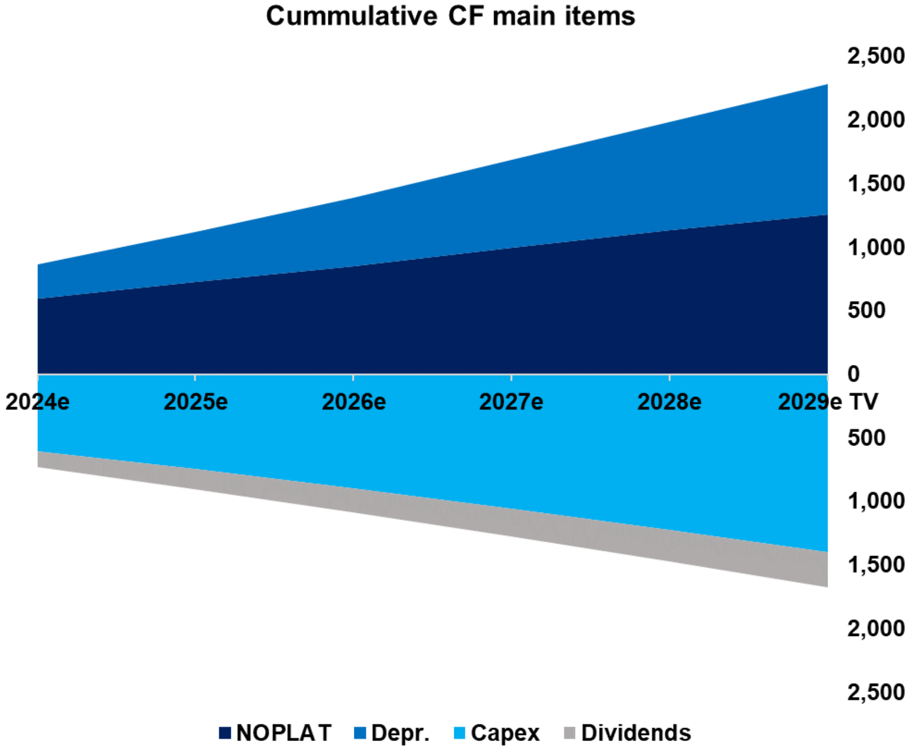
Source: Company data, Erste Group Research



Source: Company data, Erste Group Research

Valuation – still some upside

We performed our valuation exercise under the assumptions presented above: major revenue decline in 2024, and minimal growth afterwards, higher cost expansion and declining EBITDA and profits. Nevertheless, even under these conservative circumstances, the stock seems to have a reasonable degree of upside. Indeed, cash generation is solid, and would accommodate an even more ambitious CAPEX of more than our yearly forecast of around RON135mn on the existing asset base, growing with inflation.



Source: Company data, Erste Group Research

We do not forecast any M&A CAPEX under this exercise, as these activities bring in additional returns on invested capital which we did not account for. Thus, our CAPEX figures are more than ample for current investment programs in fleet and port modernization and expansion, without any additional expenses on acquisitions that would be considered as separate projects bringing value on top and bottom lines and an increase in profitability.

DCF valuation

The assumptions of the DCF valuation are:

- Sales growth and margin levels as per our assumptions discussed above, sales growth in perpetuity is 3%, below inflation levels
- Risk free rate of 6.70% till 2027 and 5.00% in perpetuity
- Equity risk premium of 7.45% during the next five years and 7% in perpetuity
- Debt premium of 1%
- 80% equity in perpetuity – 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 a sub-optimum debt level,
- Terminal value growth at 3%, in line with forecasted inflation
- EBIT margin in perpetuity of 10.5%, below that of last five years, including the period of pre-war, and pre-COVID
- Organic CAPEX at levels congruent with previous levels, excluding the Decirom acquisition, of roughly RON135mn/yr.

TTS DCF valuation

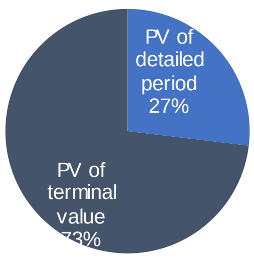
WACC calculation

	2024e	2025e	2026e	2027e	2028e	2029e TV
Risk free rate	6.7%	6.7%	6.7%	6.7%	6.7%	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	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**12.0%**
Cost of debt	7.7%	7.7%	7.7%	7.7%	7.7%	6.0%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After-tax cost of debt	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**6.5%**	**5.0%**
Equity w eight	70%	70%	70%	70%	70%	68%
WACC	**11.8%**	**11.8%**	**11.85%**	**11.85%**	**11.85%**	**9.77%**

DCF valuation

(RON mn)	2024e	2025e	2026e	2027e	2028e	2029e TV
Sales growth	*-13.9%*	*4.6%*	*6.5%*	*7.4%*	*7.5%*	*3.0%*
EBIT	144	154	154	173	164	139
EBIT margin	*14.4%*	*14.7%*	*13.8%*	*14.5%*	*12.8%*	*10.5%*
Tax rate	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Taxes on EBIT	-23.1	-24.7	-24.6	-27.7	-26.2	-22.2
NOPLAT	**121.1**	**129.4**	**129.0**	**145.6**	**137.7**	**116.7**
+ Depreciation	112	125	138	152	166	174
Capital expenditures / Depreciation	*121.4%*	*114.8%*	*109.2%*	*104.3%*	*100.0%*	*100.0%*
+/- Change in w orking capital	-6	2	2	3	3	21
Chg. working capital / chg. Sales	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*10.0%*
- Capital expenditures	-136.5	-143.4	-150.5	-158.0	-165.9	-174.2
Free cash flow to the firm	**91.3**	**112.6**	**118.8**	**142.0**	**140.9**	**137.7**
Terminal value growth						*3.0%*
Terminal value						2,094.6
Discounted free cash flow - December 31	81.6	90.0	84.9	90.7	80.5	1,161.9
Enterprise value - December 31 2023	**1,590**					
Minorities	132					
Non-operating assets	0					
Net debt (incl. lease liabilities)	-119					
Other adjustments	0					
Equity value - (RON bn) December 31 2	**1,576.1**					
Cost of equity	12.0%					
Fair value, RON mn	**1,683.8**					
Number of shares outstanding (mn)	60.0					
Fair value per share, RON	**28.06**					
Share price	25					
Upside/downside Official NAV (%)	*12.25%*					

Enterprise value breakdown



Sensitivity (Equity value - RON mn)

Terminal value EBIT margin

WACC	9.5%	10.0%	10.5%	11.0%	11.5%
8.8%	29.69	30.67	31.65	32.63	33.61
9.3%	27.91	28.81	29.71	30.61	31.52
9.8%	26.39	27.23	**28.06**	28.90	29.73
10.3%	25.09	25.86	26.64	27.42	28.20
10.8%	23.95	24.67	25.40	26.13	26.86

Terminal value growth

WACC	2.0%	2.5%	3.0%	3.5%	4.0%
8.8%	28.06	29.71	31.65	33.95	36.73
9.3%	26.64	28.06	29.71	31.65	33.95
9.8%	25.40	26.64	**28.06**	29.71	31.65
10.3%	24.31	25.40	26.64	28.06	29.71
10.8%	23.35	24.31	25.40	26.64	28.06

Source: Erste Group Research

Income Statement (IFRS, RON mn, 31/12)	**2021** 31/12/2021	**2022** 31/12/2022	**2023** 31/12/2023	**2024e** 31/12/2024	**2025e** 31/12/2025	**2026e** 31/12/2026
Net sales	**598.81**	**934.40**	**1,161.11**	**999.43**	**1,045.88**	**1,113.72**
Invent. changes + capitalized costs	0.00	0.00	0.00	0.00	0.00	0.00
Total revenues	**598.81**	**934.40**	**1,161.11**	**999.43**	**1,045.88**	**1,113.72**
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Material costs	-123.76	-156.30	-144.40	-139.92	-146.42	-155.92
Personnel costs	-98.49	-124.20	-214.45	-249.86	-251.01	-233.88
Other operating expenses	-208.67	-331.20	-329.67	-329.81	-345.14	-367.53
EBITDA	**141.49**	**283.40**	**437.53**	**256.58**	**278.96**	**291.48**
Depreciation/amortization	-61.59	-72.90	-86.08	-112.45	-124.87	-137.90
EBIT	**79.90**	**210.50**	**351.45**	**144.12**	**154.09**	**153.59**
Financial result	-1.02	-1.80	2.01	0.61	0.32	0.05
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**78.88**	**208.70**	**353.46**	**144.73**	**154.41**	**153.64**
Income taxes	-12.48	-29.70	-48.06	-23.16	-24.71	-24.58
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	**66.40**	**179.00**	**305.40**	**121.57**	**129.71**	**129.05**

Balance Sheet (IFRS, RON mn, 31/12)	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Intangible assets	5.52	5.23	33.63	33.45	34.50	35.58
Tangible assets	635.24	666.90	926.97	951.48	970.15	983.04
Financial assets	7.96	8.50	9.16	7.88	8.25	8.79
Total fixed assets	**648.72**	**680.63**	**969.76**	**992.81**	**1,012.90**	**1,027.40**
Inventories	31.00	39.70	34.67	29.84	31.23	33.25
Receivables and other current assets	58.41	138.60	105.34	90.67	94.89	101.04
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	58.90	146.00	229.63	300.61	400.00	506.16
Total current assets	**148.31**	**324.30**	**369.64**	**421.13**	**526.11**	**640.45**
TOTAL ASSETS	**797.03**	**1,004.93**	**1,339.40**	**1,413.94**	**1,539.01**	**1,667.85**
Shareholders'equity	**556.19**	**701.69**	**954.54**	**1,048.88**	**1,149.54**	**1,249.69**
Minorities	**106.40**	**116.60**	**132.42**	**145.51**	**159.47**	**173.37**
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	26.80	40.90	74.70	64.30	67.29	71.65
Other LT liabilities	9.79	24.90	42.46	38.81	39.86	41.39
Total long-term liabilities	**36.59**	**65.80**	**117.16**	**103.10**	**107.14**	**113.04**
Interest-bearing ST debts	41.31	26.86	36.45	31.37	32.83	34.96
Other ST liabilities	56.53	94.00	98.83	85.07	90.02	96.80
Total short-term liabilities	**97.84**	**120.86**	**135.28**	**116.44**	**121.85**	**129.76**
TOTAL LIAB. , EQUITY	**797.02**	**1,004.95**	**1,339.40**	**1,413.94**	**1,539.01**	**1,667.85**

Cash Flow Statement (IFRS,RON mn, 31/12)	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Cash flow from operating activities	122.55	224.76	411.90	219.51	277.47	293.75
Cash flow from investing activities	-96.45	-115.03	-367.96	-134.61	-143.90	-151.32
Cash flow from financing activities	-22.40	-22.60	3.77	-13.92	-34.18	-36.26
CHANGE IN CASH , CASH EQU.	**3.70**	**87.13**	**47.71**	**70.98**	**99.38**	**106.16**

Margins & Ratios	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Sales growth	15.1%	56.0%	24.3%	-13.9%	4.6%	6.5%
EBITDA margin	23.6%	30.3%	37.7%	25.7%	26.7%	26.2%
EBIT margin	13.3%	22.5%	30.3%	14.4%	14.7%	13.8%
Net profit margin	11.1%	19.2%	26.3%	12.2%	12.4%	11.6%
ROE	12.6%	28.5%	36.9%	12.1%	11.8%	10.8%
ROCE	10.2%	25.0%	34.2%	11.9%	12.5%	12.2%
Equity ratio	83.1%	81.4%	81.2%	84.5%	85.1%	85.3%
Net debt	9.2	-78.2	-118.5	-204.9	-299.9	-399.5
Working capital	50.5	203.4	234.4	304.7	404.3	510.7
Capital employed	681.6	765.0	1,010.9	1,028.3	1,049.0	1,064.9
Inventory turnover	4.6	4.4	3.9	4.3	-0.0	-0.1

Source: Company data, Erste Group estimates

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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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