EthiFinance Ratings

BB-

ISSUER RATING

Long-term Rating

Outlook: Positive

First rating date: 12/09/2023

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Rating action and rationale

- EthiFinance Ratings assigns a first rating for Ontime Corporate Unión S.A. of "BB-" with a Positive outlook.
- The rating is based on: i) the now material size of the group in a fragmented industry, which will allow it to benefit from economies of scale; ii) solid competitive advantages based on the extensive reach of its own network, offering different lines of services and positioning the group on e-commerce; iii) the significant experience of the CEO and the board of directors; iv) a track record of profitability; and v) the implementation of an ESG policy at the group level, which improves our financial profile score by one notch.
- On the other hand, as limiting factors of the rating we highlight: i) the ESG impact of the transport sector; ii) the highly leveraged financial profile with a NFD/EBITDA ratio ~4x and EBITDA/interest <5x; and iii) an especially weak financial autonomy ratio (equity/TFD<30%).
- Ontime has experienced strong organic and inorganic growth in recent years, which will continue in 2023 and 2024. The financing of this growth has been mainly via debt, which explains the adjusted financial ratios. In 2023, Ontime foresees additional funding of €100m dedicated to inorganic growth, which we have factored into our assessment. Consequently, we do not foresee a significant improvement in financial ratios before 2024, when the pace of acquisitions and organic capex is expected to slow, allowing the group to generate positive free cash flow and reduce gross debt. However, if Ontime maintains a positive ESG assessment and does not have more aggressive financial ratios than we currently project, the rating is likely to rise next year, which we reflect in the Positive outlook.
- In line with our methodology, the transport sector presents a high ESG risk (heatmap sector between 4 and 5) given its impact on the environment. This assessment results in a sector industry score that is downgraded by one category (three notches). On the other hand, the company's ESG policy is considered to be positive (company ESG score between 0 and 1), resulting in a financial risk profile score that is upgraded by one notch.

Issuer description

Ontime Corporate Unión SA ("Ontime") is engaged in the transport and logistics management of goods and parcels. It was incorporated in 2015 in Madrid, and currently operates in Spain and to a much lesser extent in Portugal and Morocco. It has a fleet of 2,500 vehicles and 42 logistics centres on the Iberian Peninsula. The company has expanded rapidly in recent years, as a result of both organic and inorganic growth, including the acquisition of Acotral in 2021 (the main transport provider of the Mercadona supermarket chain) and the integration of Envialia in 2023 (a company with a significant network of distribution points). Ontime in 2022 generated turnover of €634m (+325.5% YoY) and EBITDA of €64M (EBITDA margin of 10.1%). The adjusted NFD/EBITDA ratio stood at 4x.

Fundamentals

Business profile

Sector analysis

- **Fragmented sector, high barriers to entry to be competitive and future growth linked to the economic cycle.**

In Spain, the freight and parcel transport and logistics sector is highly fragmented, with a large number of small companies (85% of the total have less than 10 employees). In addition, it is worth highlighting the difference in characteristics between the road freight transport industry and integrated logistics.

Road freight transport is characterised by: i) medium volatility; ii) low profitability due to high competition and sensitivity to petrol prices; and iii) growth prospects broadly in line with GDP growth (expected to be 2.4% in 2023 and 2.6% per year between 2024 and 2027).

Logistics differs from transport in that it offers additional services such as warehousing, logistics management and improvement; services outsourced by customers. This industry is characterised by: i) medium volatility in response to economic cycles; ii) higher profitability than transport for the different services proposed, the pooling of infrastructure, and service costs for economies of scale, with size being a relevant factor; and iii) prospective growth of between 6% and 7% per year between 2023 and 2027, globally and in Spain. This positive outlook is based on the advance of technology, the performance of e-commerce, digitalisation, and the greater degree of outsourcing and services offered by logistics players.

- **Industry with high ESG exposure.**

At the ESG level, this sector is impacted by stringent regulations: at the European level with the drive for a reduction of greenhouse gases, which will progressively impose the change of vehicle fleets from fossil fuel engines to electric or hydrogen powered vehicles; and at the local level by the presence of low emission zones in city centres, which prohibit polluting vehicles and already require an adapted low-emission vehicle fleet.

In line with our new methodology, the transport sector presents a high ESG risk (sector heatmap between 4 and 5) given its impact on the environment. ESG-related risks for the sector companies are already material and may affect the stability or fundamentals of the sector (*write-offs*, etc.). This assessment results in an industry risk assessment score that is downgraded by one category.

Competitive positioning

- **Ontime has been committed to achieving strong growth since 2019.**

Given a fragmented Spanish sector, the desire to offer a wider range of logistics services, and the need to have a greater size to benefit from economies of scale, Ontime has been following a strategy of strong organic and especially inorganic growth. The major recent acquisitions have been: Acotral in December 2021, Envialia and 2 related companies in March 2023, and Capitrans in June 2023.

In 3 years, Ontime has increased its turnover by a factor of 10 (€66m in 2019 to €634m in 2022). In the remainder of 2023 and in 2024, Ontime plans to acquire 3 more companies as well as deliver significant organic growth.

- **Ontime shows a significant level of sales concentration.**

With the acquisition of Acotral, Mercadona became Ontime's main customer, representing 52% of its turnover in 2022, which implies a significant client concentration risk. However, this is mitigated by a 3-year notice clause, a monthly price review to protect the margin, and a 30-day payment arrangement to manage working capital. It should also be noted that the weight of Mercadona in the revenues base is reduced to 41% by the further acquisitions made in 2023. There is no other customer concentration and the supplier base is diversified.

Geographically, 98% of sales are generated in Spain, Ontime's home country. The growth strategy is also based on the search for greater internationalisation.

- **Significant player in the Spanish transport and logistics market.**

Ontime is now the third-largest road haulage operator and is one of the top ten logistics operators in Spain. The company has the following competitive advantages: i) offering different integrated logistics services (transport, warehousing, management) to capture business that customers outsource and which have better margins compared to single transport service operators; ii) maintaining a favourable position in e-commerce, a growing segment; iii) having its own transport and distribution network to control the supply chain and offer home delivery; iv) a fleet of electric vehicles for urban centres subject to low carbon emissions.

Factors which we consider to limit competitive positioning include: (i) Ontime does not offer consultancy and technology services while larger competitors do; (ii) in terms of size it is still far from large European groups such as DHL or Geopost; and (iii) it does not offer intermodal transport (air, sea), which is a key factor when it comes to improving international logistics activities.

Corporate governance

- **Ontime is a subsidiary of Movicar.**

Ontime is a 61%-owned subsidiary of Movicar Global Business, a company that has other business branches and is wholly owned by its founding partner Carlos Moreno. Ontime accounts for 94% of Movicar's total turnover and 63% of its total gross debt. The two companies maintain a close economic relationship: Ontime rents the vehicles and warehouses that Movicar finances through debt and Movicar indirectly finances some acquisitions through intra-group loans (before Ontime includes them in its consolidation perimeter). For our figures and forecasts, we have reinstated operating leases within the accounts to reflect these indirect commitments.

The potential financial pressure Movicar could exert on Ontime is mitigated by (i) clauses limiting direct partner remuneration in Ontime's financial contracts; (ii) the presence of minority shareholders in Ontime's capital base (investment fund Alantra with 10% and executives with 29%) limits the power of action of the founding partner; and (iii) corporate governance with independent board members who have to approve transactions with Movicar.

- **Highly experienced management team committed to the significant growth of the group, which has been supported by a debt-intensive financial policy.**

Carlos Moreno, who has been CEO of the company since 1991, has extensive expertise in the industry. In addition, he is supported by an independent board of directors with highly experienced members to drive the company's national and international growth strategy. The group's objective is to achieve €1bn turnover in 2024, double storage capacity in 2025 (300,000m^2 to 600,000m^2), and become a major player at the European level.

This growth policy is expensive and is being funded through an aggressive financial policy. In the past, the active M&A policy was financed through: i) capital increases (in 2020 and 2021 for €19m and €27m respectively) in which an investment fund and Ontime executives were involved; ii) increase of bank debt with the signature of a first syndicated contract in 2021 (amortising refinancing tranche, tranche drawn down for acquisitions and credit facility tranche); iii) private debt financing; and iv) financing in the MARF with promissory notes. Ontime shows a NFD/EBITDA ratio of 4x and an equity/TFD ratio of less than 30%. No significant improvement is expected before 2024 at least due to acquisitions and additional debt financing in 2023.

- **A positive ESG policy.**

EthiFinance Ratings considers Ontime's ESG policy as positive (company ESG score between 0 and 1), resulting in a financial risk profile score that is upgraded by one notch.

Financial profile

Cash flow and indebtedness

- **A group that burns cash to help fund its growth.**

Despite the growth in EBITDA and positive FFO, the strong growth has impacted Ontime's cash generation at the level of working capital and organic and inorganic capex. Over the last 4 years, free cash flow has been structurally negative, which has been offset by a steady increase in debt and capital increases in 2020 and 2021.

For 2023-25, Ontime forecasts: inorganic capex (i.e. M&A) of €75m (€45m in 2023 and €30m in 2024), which is expected to be financed through additional €100m 5-year *bullet* debt; and organic *capex* (excluding operating lease commitments) of €36m in 2023 and €15m p.a. from 2024 onwards. No positive free cash flow or debt reduction is expected before 2024.

- **Indebtedness which remains at high levels.**

The NFD/EBITDA ratio was 4x in 2022. The EBITDA/interest ratio is low at 4.3x, which gives a higher sensitivity to interest rate hikes materialising from 2022 given the significant level of debt and tight interest coverage. A slight improvement is expected from 2024 onwards.

Solvency

- **A balance sheet structure with weak solvency levels.**

The financial structure appears fragile as a result of strong growth. Equity has been strengthened by i) the accumulation of net income; ii) the absence of any dividend distribution; and iii) the capital increases in 2020 and 2021 (for €19m and €27m respectively). Nevertheless, financial autonomy remains at a limited level on the basis of an equity/TFD ratio of 23% and an equity/total assets ratio of 15%, the latter below the 20% threshold for a company that needs fixed assets to develop its activity.

Liquidity

- **Ontime has adequate liquidity.**

The company has in our view sufficient funds - including cash, pledged investment funds, long-term committed credit facilities such as the syndicated credit facility maturing in 2027 (€10m drawn down out of the total €30m), and a factoring facility of €15m (€9m drawn down) - to meet its payment commitments in the short term. In addition, Ontime had €30m of promissory notes that were refinanced during the first half of 2023, which improved its financial flexibility.

Modifiers

Controversy

- **The group is currently not subject to any controversies to the best of our knowledge.**

Country Risk

- **Ontime generates 98% of its turnover in Spain, which has no country risk according to the CESCE rating. It is therefore rating-neutral.**

Summary of financial information

Key financial figures including operating leases. Millions of €	2020	2021	2022	2023E	2024E	2025E	22vs21
Turnover	110	149	634	831	1,029	1,147	325.5%
EBITDA	17	23	64	88	120	134	178.3%
EBITDA margin	15.5%	15.4%	10.1%	10.6%	11.7%	11.7%	-5.3pp
EBIT	13	9	27	59	87	102	200.0%
EBIT margin	11.8%	6.0%	4.3%	7.1%	8.5%	8.9%	-1.8pp
EBT	7	2	13	39	64	77	550.0%
Total Assets	137	421	483	676	710	750	14.7%
Equity	31	61	72	100	148	206	18.0%
Total Financial Debt	83	288	312	466	441	416	8.3%
Net Financial Debt	48	239	254	329	310	248	6.3%
Equity/TFD	37.3%	21.2%	23.1%	21.5%	33.6%	49.5%	1.9pp
NFD/EBITDA	2.8x	10.4x	4.0x	3.7x	2.6x	1.9x	-6.4x
Funds From Operations	12	18	48	56	82	91	166.7%
FFO/NFD	25.0%	7.5%	18.9%	17.0%	26.5%	36.7%	11.4pp
EBITDA/Interest	2.8x	3.3x	4.3x	4.4x	5.2x	5.4x	1.0x

Sensitivity analysis

Factors that could (individually or collectively) impact the rating:

Positive factors (↑).
Turnover above €1bn; better diversification of sales geographically and lower proportion of turnover with Mercadona; company ESG score maintained between 0 and 1; equity/TFD>50%; EBITDA/interest ratio>5x; NFD/EBITDA ratio<3x; FFO/NFD>30%.

Negative factors (↓).
Cancellation of the syndicated credit facility (RCF) giving long-term liquidity reserve, EBITDA/interest ratio<3x; NFD/EBITDA ratio>5x; FFO/NFD<20%.

Credit Rating

Credit Rating	
Business Risk Profile	**BB**
Industry Risk Assessment	*BB-*
Sector ESG Adjustment	*Yes*
Competitive Positioning	*BB*
Governance	*BB*
Financial Risk Profile	**BB-**
Cash flow and leverage	*BB-*
Solvency	*CCC+*
Company's ESG Adjustment	*Yes*
Anchor Rating	**BB-**
Modifiers	*No*
Rating	**BB-**

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and it has been modified as the result of the review made during the appeal process.

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