

Cabonline Group Holding AB (publ)

Rating Update

LONG-TERM RATING

B

OUTLOOK

Watch Negative

SHORT-TERM RATING

N-3

PRIMARY ANALYST

Mille O. Fjeldstad
+4799038916
mille.fjeldstad@nordiccreditrating.com

SECONDARY ANALYST

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

NCR PLACES ITS 'B' LONG-TERM RATING ON CABONLINE ON WATCH NEGATIVE

Today Nordic Credit Rating (NCR) placed its 'B' long-term issuer rating on taxi operator Cabonline Group Holding AB (publ) (Cabonline) on Watch Negative given the unprecedented disruption in the company's operating environment and deterioration in customer demand as a result of ongoing efforts to slow the spread of the corona virus in the Nordic region. By placing the ratings on Watch Negative we are signalling that there is a high likelihood that we will lower them in the next three months due to the sharp decline in customer demand and unpredictable nature of the crisis. There are scenarios in which we could affirm the ratings during this period, which we outline below. However, in our opinion the ratings are likely to be lowered by at least one notch upon resolution of the watch period without material outside support from Cabonline's owners or government-related clients.

Social distancing, business travel restrictions, and the closure of borders, workplaces and schools have reduced demand for taxi transport for all types of customers. In particular, private taxi use (B2C) and business travel (B2B) have declined sharply given restrictions on social gathering and recommendations for social distancing. While we note that 42% of Cabonline's 2019 revenues were linked to public-sector (B2P) contracts, even these revenues are likely to be negatively affected as demand decreases.

Given the current operating environment, we expect reduced EBITDA to result in a breach of the company's scheduled leverage maintenance test covenant during the second quarter of 2020. We note that 75% of revenues from drivers connected to the Cabonline platform are fixed. However, we expect the company to reduce or partially defer these fixed fees to support its drivers' financial positions and believe a longer-term disruption could result in driver bankruptcies, reducing revenues further.

We understand that Cabonline is stopping all capital expenditure and is in negotiations to reduce leasing and operational costs as soon as possible. Due to its franchise-based business model, Cabonline has no financial obligations for cars or salaries, aside from administrative overheads and the costs of its Latvian call centre. An exception is in Finland, where the company is reducing its car ownership, but still leases some of its own cars. Despite these efforts, we expect negative operating cash flow throughout 2020.

Cabonline has one outstanding bond, issued in December 2019. The 2020 coupon payments on the bond are due 9 Jun., 9 Sep. and 9 Dec. at around SEK 35m each. We note that Cabonline had SEK 357m in cash holdings and SEK 125m in super senior revolving credit facilities available as of 31 Dec. 2019.

We see three potential rating scenarios for Cabonline barring a medical breakthrough that stabilises customer demand in the taxi industry.

In our base-case scenario, we expect Cabonline to receive some, but not significant, support, resulting in a one notch lowering of the long-term rating and the senior secured issue rating to 'B-'. The short-term rating would be notched downwards to 'N-4'. This would reflect some government support for the company's B2P contracts and/or capital injections from its owners in the face of no improvement or a further deterioration in the operating environment. Alternatively, it could reflect increased clarity on the timeline for normalisation of the company's operating environment.

In our upside scenario, we could affirm the ratings if Cabonline receives government support equal to any loss of revenues from its B2P business and its drivers receive support such that their fees are paid. Alternatively, if the company receives a significant capital injection from its owners enabling it to meet the coupon payments on its outstanding bond during the worst of the crisis period. This scenario would also assume increased clarity on the timeline for normalisation of the operating environment.

In our downside scenario, we could lower the long-term rating and the senior secured issue rating to 'CCC' or 'CC' and lowering the short-term rating to 'N-4' if Cabonline is unsuccessful in materially reducing its cost base and receives only limited external support from its government-related clients or its owners. This scenario would heighten the risk of the company not covering its interest costs over the medium term.

We are continually evaluating Cabonline's financial and operating position and following negotiations with its direct and indirect employees, creditors and owners as the situation evolves. We expect to resolve the Watch Negative placement within three months.

Figure 1. Scoring summary sheet

Subfactors	Impact	Score
Operating environment	20.0%	bb+
Market position	10.0%	bb
Size and diversification	10.0%	b+
Operating efficiency	10.0%	bb-
Business risk assessment	50.0%	bb
Ratio analysis		b-
Risk appetite		b-
Financial risk assessment	50.0%	b-
Indicative credit assessment		b+
Liquidity		Adequate
ESG		Adequate
Peer comparisons		-1 notch
Stand-alone credit assessment		b
Support analysis		Neutral
Issuer rating		B
Outlook		Watch Negative
Short-term rating		N-3

Figure 2: Capital structure ratings

Seniority	Rating
Senior secured	B

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 06 Nov. 2019.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
Primary analyst:	Mille O. Fjeldstad, +4799038916, mille.fjeldstad@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
Methodology used when determining the credit rating:	NCR's Corporate Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Data provided by external data providers, Meetings with management of the rated entity, Non-public information, Press reports/public information
Conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity.
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
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nordiccreditrating.com

OSLO

Biskop Gunnerus' gate 14A
0185 Oslo
Norway

STOCKHOLM

Engelbrektsgatan 9-11
114 32, Stockholm
Sweden