Cabonline Group Holding AB (publ)

Rating Update

LONG-TERM RATING

CCC

Watch Developing

SHORT-TERM RATING

N-4

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

SECONDARY ANALYST
Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

NCR LOWERS LONG-TERM RATING ON CABONLINE TO 'CCC'; RATINGS ON WATCH DEVELOPING

Today Nordic Credit Rating (NCR) lowered its long-term and short-term issuer credit ratings on taxi operator Cabonline Group Holding AB (publ) (Cabonline) to 'CCC/N-4' from 'B/N-3' given the continued disruption in the company's operating environment and deterioration in customer demand as a result of the response to the COVID-19 pandemic in the Nordic region. The rating on Cabonline's senior secured instrument was also lowered to 'CCC' from 'B'. Given Cabonline's ongoing dialogue with bondholders regarding covenants, we have placed the ratings on Watch Developing while the company negotiates with its creditors.

The Watch Developing placement signals a likelihood that the rating could change within the next 90 days. The placement also indicates that Cabonline faces an uncertain near-term dialogue with its bondholders. In our view, this discussion could result in a sustainable solution to redefine the company's bond covenants, allowing it headroom and flexibility to reorganise its Finnish business. Such a solution could result in an affirmation of the rating or an upgrade to 'B-' should sustainable revisions be accompanied by improvements in Cabonline's cash position and further positive developments in the operating environment. However, if the company is unable to obtain concessions for its maintenance test covenant, we believe the likelihood of a restructuring or distressed exchange would increase and put its going concern status and government contracts at risk, which could lead to a further downgrade.

RATIONALE

We have lowered our long-term rating to 'CCC' to reflect the currently challenging operating environment and Cabonline's already weak financial situation. Under our criteria, a 'CCC' rating reflects corporates that are distressed to the extent that their capital structure is unsustainable and there is a strong likelihood of triggering an event of default or a distressed exchange without material concessions from creditors, even though such outcomes might not materialise within the next 12 months. Cabonline has indicated that it has short-term liquidity in its base case scenario but we believe that if business volumes do not increase as Cabonline projects the company would need to improve its cash position, most likely in the form of equity from its owners or the reorganisation of its Finnish business. We also believe that the extension of existing government programmes to support the taxi industry is important if the operating environment does not improve. We note that protracted stress on the company could affect its ability to refinance its outstanding bond when it matures in December 2022, highlighting the concentration risk in its capital structure.

Since we placed the ratings on Watch Negative on 24 Mar. 2020, Cabonline has submitted and subsequently withdrawn a written procedure requesting amendments to the terms and conditions of its senior secured instrument (SE0013409398). We understand that the withdrawal of the proposal reflects a desire from key bondholders for a negotiation rather than a binary vote on a single proposal from the issuer. On 4 May 2020 the company presented a revised proposal to bondholders and continues to hold private discussions with investors. We note that bondholders negotiated stricter terms with Cabonline when the bond was presented to investors in December 2019, including the inclusion of a leverage maintenance covenant at the focus of the current renegotiation.

The company has indicated that the leverage maintenance covenant (net debt/EBITDA) as defined in the current terms is likely to be breached at the end of June 2020 due to material declines in private taxi use (B2C) and business travel (B2B). Accordingly, the company's original proposal would have delayed covenant tests for six quarters to ensure that its 12-month earnings are less affected by the impact of COVID-19. The ongoing discussions are expected to result in a proposal for a new covenant focused on the company's liquidity for the six quarters to 30 Sep. 2021. We note that a breach of the leverage maintenance covenant without a subsequent equity injection in cash committed and paid out within a maximum 55 business days (an "equity cure") would result in an event of default, according to the current terms. We expect the new covenant to include a similar equity cure opportunity for the owners and note that the injection from owners to cure a breach of a liquidity covenant should be much smaller than with the existing leverage covenant.

We expect the company to repeat its proposed amendments to various terms in the bond documentation, including events of default and release of security, to allow for the reorganisation of its Finnish business and subsidiaries (Cabonline Finland Oy, Kovanen Yhtiöt Oy, Mankkaan Taksi Oy, Kuljetusliike Kajander Oy, Tilaus 24 h Oy and Kovanen Taxi Oy).

The 'CCC' rating reflects the 'CCC' definition in our corporate rating methodology and overrides the standalone credit assessment based on underlying factors. However, we have adjusted the underlying factors to reflect the altered operating environment. Given the severe impact on all aspects of Cabonline's business, we have revised our assessment of the company's business position to 'b' from 'bb' and the standalone credit assessment to 'b-' from 'b+'. NCR further believes that Cabonline's operating environment and operating efficiency have deteriorated materially and we have revised our subscores for these factors to 'b-' to reflect the absence of sustainable business volumes and earnings for the sector as well as the expectation that business travel will be affected throughout 2020 and likely well into 2021. In addition, we have revised our assessment of the company's size and diversification to 'b' to reflect its increased reliance on public (B2P) contracts given the lack of B2C and B2B demand.

LIQUIDITY

We note Cabonline's claims that it has adequate liquidity to meet its coupon payments in its base case scenario, but we view the liquidity situation as potentially strained given negative operating cash flow, the full utilisation of its existing super senior revolving credit facility, and its drivers' reliance on government subsidies. We further note that the company's cash flow estimates include expectations that B2C/B2B demand will recover during the second half of 2020, which is rather uncertain at this time and would require more normalisation of international and domestic business travel in 2020 than we expect.

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's preliminary cash holdings were SEK 316m at 31 Mar. 2020 (SEK 357m as of 31 Dec. 2019) including the wholly withdrawn SEK 125m revolving credit facility.

WATCH DEVELOPING

The Watch Developing placement reflects three scenarios.

In our base case scenario, we expect Cabonline to renegotiate its covenants successfully, ensuring its going concern status and providing sustainable headroom to its revised maintenance covenant. We further expect the owners to be more prepared to support Cabonline with an equity cure based on maintaining liquidity and that the company's drivers will successfully utilise available government support if needed. This would leave the rating at 'CCC' with the outlook dependent on future clarity about the operating environment.

In our upside scenario, we expect the above concessions accompanied by an improving business environment, improved cash generation and/or other improvements to the cash position. In this scenario, we would expect to raise the rating to 'B-'.

Our downside scenario reflects the possible effects of a breach of the leverage covenant and the potential for failed negotiations with bondholders which could trigger or accelerate an event of default according to the bond documentation, and result in a restructuring of the company or a distressed exchange that affects repayment terms for bondholders. This scenario would likely affect the company's going concern status, putting B2P revenues at risk. This could result in a lower credit rating or potential default by our definitions.

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

Further analysis of Cabonline is available at:

https://nordiccreditrating.com/issuer/cabonline-group-holding-ab-publ

POTENTIAL POSITIVE RATING DRIVERS

- Concessions from bondholders providing sustainable covenant headroom.
- Improved operating environment or sustainable improvements in cash flow.

POTENTIAL NEGATIVE RATING DRIVERS

- Inability to negotiate covenant headroom with bondholders.
- Increased likelihood of near-term default or distressed exchange.

Figure 1. Scoring summary sheet

Subfactors	Impact	Score
Operating environment	20.0%	b-
Market position	10.0%	bb
Size and diversification	10.0%	b
Operating efficiency	10.0%	b-
Business risk assessment	50.0%	b
Ratio analysis		b-
Risk appetite		b-
Financial risk assessment	50.0%	b-
Indicative credit assessment		**b-**
Liquidity		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		**b-**
Support analysis		Neutral
Issuer rating		**CCC**
		Watch Developing
Short-term rating		**N-4**

Figure 2: Capital structure ratings

Seniority	Rating
Senior secured	CCC

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
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
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, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential 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. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
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.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
Legal exemption from liability:	Disclaimer © 2020 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

NORDIC CREDIT RATING AS

nordiccreditrating.com

OSLO

Biskop Gunnerus' gate 14A
0185 Oslo
Norway

STOCKHOLM

Engelbrektsgatan 9-11
114 32, Stockholm
Sweden