

Cabonline Group Holding AB (publ)

Rating Update

LONG-TERM RATING

CCC

OUTLOOK

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**Cabonline Group Holding AB (publ) 'CCC/N-4' ratings off Watch Developing and affirmed; Outlook developing**

Today Nordic Credit Rating (NCR) affirmed its long-term and short-term issuer credit ratings on taxi operator Cabonline Group Holding AB (publ) (Cabonline) at 'CCC/N-4' following bondholder approval on 22 Jul. 2020 of amendments to the terms of a senior secured instrument and waivers proposed by the company. The ratings were removed from Watch Developing, where they were placed on 7 May 2020. The rating on the senior secured instrument was also affirmed at 'CCC'. The outlook is developing, reflecting the uncertain operating environment and the likelihood that the rating could be either raised or lowered within the next 18 months.

RATIONALE

The amendments of the terms and conditions of the senior secured floating rate notes (ISIN SE0013409398) and related waivers agreed on 22 Jul. 2020 reflect our base case expectations, published 7 May 2020. The changes do not constitute a distressed exchange under our Rating Principles, published 16 Sep. 2019.

In our view, the amendments provide Cabonline with flexibility to adapt to the currently difficult operating environment as they allow restructuring of the company's Finnish operations, which previously formed part of the security provided to bondholders. Prior to the bondholder agreement, an original leverage maintenance test was likely to be breached when the results for the second quarter of 2020 were included in the company's rolling 12-month EBITDA. Under the bondholder agreement, the leverage covenant has been waived for the period 30 Jun. 2020 through 30 Sep. 2021 (the waiver period), and step-down will begin from 31 Mar. 2022. In its place, the company will be subject to a liquidity maintenance test through 30 Sep. 2021. The covenant stipulates that Cabonline must hold an average liquidity position (including cash and available commitments under a super senior revolving credit facility agreement) which shall not be less than SEK 125m. This commitment is to be tested at the end of each month until 30 Sep. 2021.

Under the amendments, H.I.G. Capital, Cabonline's main shareholder, will, if necessary, commit to providing the company with a secured loan of up to SEK 140m, ranking pari passu with the bond, and with a capped margin (including fees and interest) of 5%.

In compensation, bondholders will receive a 1.00 pp annual increase in the interest rate, provided that any increased interest accrued during the waiver period is in the form of payment-in-kind interest. In addition, bondholders will receive a "consent fee" equal to 0.5% of the nominal amount of the bond on a pro rata basis.

Even after the bondholder agreement, we view the operating environment as uncertain which we reflect in the affirmation of the rating at 'CCC' and the developing outlook. We view Cabonline's future cash flow as dependent on a steady normalisation of travel in the next few quarters. While economies are reopening across Cabonline's markets, there remains a risk of restrictions due to future outbreaks of coronavirus and slower than expected recovery in business and private travel over the next 12 months. We note that if cash flow generation remains a problem and the company utilises the pari passu owner commitment it would result in increased indebtedness and reduce recovery prospects for secured bondholders, which could negatively affect the rating.

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's situation reflects the 'CCC' definition in our corporate rating methodology and overrides our standalone credit assessment based on underlying factors.

LIQUIDITY

We view Cabonline's liquidity as potentially strained given negative operating cash flow, the full utilisation of an existing super senior revolving credit facility, and the company's drivers' reliance on government subsidies. We note that the company's cash flow estimates include expectations that business-to-consumer and business-to-business demand will recover during the second half of 2020. This is currently uncertain and would require more normalisation of international and domestic business travel than we expect in the remainder of the year.

As of 26 Jun. 2020, Cabonline had SEK 321m in cash, an increase since 31 Mar. 2020 of SEK 5m, including a wholly withdrawn SEK 125m revolving credit facility. Cash stood at SEK 357m at end-2019. The SEK 9m consent fee payable to bondholders, corresponding to 0.5% of the nominal amount, will be payable up front and thus have a minor effect on liquidity.

Cabonline has indicated that it has short-term liquidity in its base case scenario, which is supported by the SEK 140m loan readily available from the owners. We believe the company's flexibility to reorganise its Finnish business will further support its cash position. We also believe that the extension of existing government programmes to support the taxi industry will be important if the operating environment does not improve. We note that protracted stress on Cabonline could affect its ability to refinance its outstanding bond when it matures in December 2022, highlighting concentration risk in the capital structure.

Cabonline has one outstanding bond, issued in December 2019. Coupon payments are due the ninth of September, December, March and June and amount to around SEK 35m per quarter. The payment-in-kind interest stipulated in the amendments will not affect liquidity but will increase the company's commitment at maturity.

OUTLOOK DEVELOPING

The developing outlook reflects our view that the operating environment is uncertain. Any extension of the negative effects of COVID-19 on business and private revenues could affect Cabonline's cash position, resulting in use of the owner commitment and higher indebtedness. Conversely, there is potential for steady improvement in the operating environment, which could reduce downside risk and improve the company's long-term prospects.

POTENTIAL POSITIVE RATING DRIVERS

- Improved operating environment or sustainable improvements in cash flow.
- Successful restructuring of Finnish operations.

POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating operating environment or deterioration in cash flow.
- Use of owner commitment, increasing indebtedness and recovery prospects.

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
Outlook		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.
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nordiccreditrating.com

OSLO

Biskop Gunnerus' gate 14A
0185 Oslo
Norway

STOCKHOLM

Engelbrektsgatan 9-11
114 32, Stockholm
Sweden