Creditreform Corporate Issuer Rating

Trasteel Trading Holding S.A.

Creditreform Rating

Rating object	Rating information	
Trasteel Trading Holding S.A.	Corporate Issuer Rating: BB- / stable	Type: Initial rating, Solicited, Public rating
Creditreform ID: FNR0000157136 Incorporation: 2009 Based in: Lugano, Switzerland Main (Industry): Trading and steel processing CEO: Gianfranco Imperato	LT LC Senior Unsecured Issues: -	Short-term Rating: -
Rating objects: Long-term Corporate Issuer Rating: Trasteel Trading Holding S.A.	Rating date: 19 December 2023 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Trasteel Trading Holding S.A. is a holding company, which forms part of the Trasteel Group – hereinafter also referred to as "the Group" or "Trasteel", and is an industrial and trading Group active within the steel, energy and metallurgical sectors. Within the Industrial division, the main focus is on investments in industrial assets along the steel supply chain, which currently consists of 11 steel processing companies with a focus on the production of pipes and heavy plates, and to a lesser extent engineering. Its trading activities mainly consist in the sourcing, financing, transport and delivery of steel, raw materials and base metals around the world. Trasteel aims to create synergies between its industrial and trading activities.

Founded in 2009 and headquartered in Lugano, Switzerland, the Group currently has approximately 950 people in its employment. With significant investments made over recent years, including the acquisition of Officine Tecnosider and the Profilmec Group, the Trasteel Group has undergone significant changes. Both revenues and (operating) results have seen significant increases over recent years with revenues during the 2022 business year amounting to EUR 1,156 million (2021: EUR 923 million), EBITDA and EBIT of EUR 51 million (2021: USD 37 million), and USD 43 million (2021: USD 33 million) respectively, and a net result of USD 28 million (2021: USD 15 million).

Rating result

The corporate Issuer rating of BB- attests Trasteel Trading Holding S.A. a satisfactory level of creditworthiness with a medium default risk. This rating is supported by factors such as the successful acquisition and integration of multiple subsidiaries in recent years, coupled with robust operational development amidst highly volatile market conditions. Despite challenging market dynamics, the business development in the 2022 business year also demonstrated significant strength. Furthermore, we see positively, Trasteel's historical absence of dividend distribution and its current restriction from doing so. This not only enhances its debt servicing capacity but also aligns with its plan to deleverage its balance sheet in the upcoming years. These favourable aspects, however, are partially mitigated by the anticipated decline in operating margins in 2023 and subsequent years, which is foreseen due to the normalization of market prices. We would like to note, however, that the foreseen deterioration in operating margin reflects a normalization in market conditions rather than a slump in the business environment. Further factors with a dampening effect are the relatively high exposure to the steel (using) industry's developments, persistent demand for working capital, and an increased debt load following several acquisitions.

While we find the corporate strategy with regard to be M&A plausible, it is important to highlight that it carries a certain level of risk, given the fact that the Group does not have an extensive historical track record and that most acquisitions are entirely financed through debt. Additionally, it's noteworthy that the executory contract related to the put- and earn-out option concerning the Profilmec Group acquisition could potentially lead to significant cash outflows after 2026, although Trasteel's management considers this scenario highly unlikely. The Group has several options to settle this and is setting aside EUR 40 million for this in remunerated bank deposits.

Outlook

The corporate issuer rating's one-year outlook is stable. This assessment considers the anticipated challenging market conditions in the upcoming years, which are expected to result in a normalization in the Group's operating margin. This impact is, however, somewhat mitigated by the Group's plan to reduce debt on its balance sheet. It is important to note that the outlook is based on existing circumstances and does not incorporate any significant potential future M&A activities.

Relevant rating factors

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2022:

+ Sales and (operating) profit
+ Equity ratio
+ Net Total Debt / EBITDA adj.
+ Return on Investment

Table 1: Financials I Source: Trasteel Trading Holding S.A., standardized by CRA

Trasteel Trading Holding S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (SWISS GAAP FER, etc.)	CRA standardized figures[1]	
	2021	2022
Sales (million EUR)	923	1,156
EBITDA (million EUR)	37	51
EBIT (million EUR)	33	43
EAT (million EUR)	15	28
EAT after transfer (million EUR)	10	17
Total assets (million EUR)	522	878
Equity ratio (%)	16.25	29.15
Capital lock-up period (days)	62.17	71.32
Short-term capital lock-up (%)	20.51	22.05
Net total debt / EBITDA adj. (Factor)	9.56	8.79
Ratio of interest expenses to total debt (%)	2.40	2.95
Return on investment (%)	4.92	5.18

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

Table 2: Financials I Source: Trasteel Trading Holding S.A., standardized by CRA

Trasteel Trading Holding S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (ISA 800 special purpose framework, etc.)	CRA standardized figures[2]	
	2021	2022
Sales (million EUR)	923	1,448
EBITDA (million EUR)	37	90
EBIT (million EUR)	33	75
EAT (million EUR)	15	65
EAT after transfer (million EUR)	11	41
Total assets (million EUR)	526	872
Equity ratio (%)	16.76	28.69
Capital lock-up period (days)	62.17	56.94
Short-term capital lock-up (%)	20.51	25.90
Net total debt / EBITDA adj. (Factor)	8.84	4.99
Ratio of interest expenses to total debt (%)	2.40	2.96
Return on investment (%)	5.32	9.56

General rating factors

General rating factors summarize the key issues which – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

+ Independently managed subsidiaries with own financing capabilities
+ Benefits from created synergies between the trading and industrial division
+ High outstanding trade account receivables largely covered by letter of credit
+ Trading activities all done on a back-to-back basis, negating market price risk
+ Diversified customer and supplier base

– High ongoing working capital needs
– Partially exposed to steel price volatilities, particularly in the industrial division
– High exposure to the development of the steel and steel using sectors
– Growth through M&A brings business integration risks, increasing operational complexity

Current rating factors

Current rating factors are the key factors which, in addition to the underlying rating factors, have an impact on the current rating.

+ Strong business development during 2021 and 2022
+ Completion of acquisition of Profilmec Group in 2022 and recognition of negative goodwill
+ Completion of acquisition of Yugotub doo and Lifi Srl in 2023
+ Strong liquidity and consolidated positive working capital

– Ongoing high geo-political volatility and generally increasing interest rate environment
– Expected deterioration in operating profit and FFO in comparison to 2022 following a normalization of market prices
– Profilmec Group acquisition incorporated an executory contract including a put and earn-out option
– Acquisitions made fully financed with debt

[2] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

ronment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

Prospective rating factors

+ Operating development above forecasted expectations
+ Reduced geo-political volatility
+ Further deleveraging of the balance sheet

– Execution of put and earn-out option in relation to the Profilmec acquisition
– Higher than expected deterioration in operating margin and lower FFO generation
– Further M&As fully financed by debt and resulting in a higher leverage

ESG-factors

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Trasteel Trading Holding S.A. we have not identified any ESG factors with significant influence.

In general, the steel industry significantly impacts the environment, contributing to carbon emissions and resource depletion. Traditional production methods, like blast furnaces, are energy-intensive, leading to high greenhouse gas emissions. Globally, the steel industry accounts for approximately 7-9% of total carbon emissions. Additionally, raw material extraction and processing further strain ecosystems. However, advancements in sustainable technologies, such as electric arc furnaces, offer promise for reducing the industry's environmental footprint. While challenges persist, ongoing efforts towards cleaner processes and circular economy principles signal a potential path for the industry to mitigate its environmental impact. Within this context it is noteworthy to reflect that the largest supplier of Trasteel is a large European steel mill, using solely electric arc furnaces. In turn, they are also the mill's largest client.

Turning to our rating object, the Trasteel Group is striving to minimize its impact on the environment and currently has three subsidiaries, which have reached the status of carbon neutrality. Furthermore, efforts are being made to implement and enforce a Group wide sustainability policy, which will aid in creating a centralized approach for all Group companies to reduce their environmental footprint. With respect to social factors, the Group has devised a Group wide code of conduct, which establishes a framework of ethical principles and standards of business conduct that the Group considers fundamental in its operations and apply to all Employees, Agents and Partners. The Company is also socially committed by participating in several charitable initiatives, with the focus on supporting youth.

With respect to governance, we believe that the Group has a corporate governance system that is well-developed and commensurate with its size. Currently, Trasteel is working on its first sustainability report, which will be completed by the end of 2024. Overall, we see strong development with regard to the ESG culture being incorporated into its corporate identity.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Best-case scenario: BB

In our best-case scenario for one year, we assume a rating of BB. In this scenario Trasteel experiences a better than expected operating performance, despite a less favourable price environment for its industrial activities. Furthermore, the Group effectively implements its strategy to reduce its financial leverage by repaying outstanding debt as scheduled. This scenario is based on the current situation and does not include any potential future M&A activity.

Worst-case scenario: B+

In our worst-case scenario for one year, we assume a rating of B+. In this scenario, we assume a significant deterioration of current market conditions leading to weaker than expected operating results. The decreased operating cash-flow will necessitate an increase in outstanding debt, deteriorating the Group's financial profile. This scenario is based on the current situation and does not include any potential future M&A activity.

Business development and outlook

The Trasteel Group has undergone substantial structural changes in recent years, marked by several large acquisitions. The consolidation of Officine Tecnosider in 2020, where the Group increased its stake to 51%, and the acquisition of a 67.2% share in the Profilmec Group in October 2022 have significantly altered the Group's composition. These strategic events have resulted in notable shifts in the earnings structure, characterized by significant increases in revenues and profit. During the 2022 business year, the Group consolidated the Makina Group (from February 17 onwards), contributing approximately USD 5.9 million to revenues, and the Profilmec Group (from October 14 onwards), adding approximately USD 76 million to revenues. It is important to highlight that the significant increase in both realized revenues and (operating) profit is also largely attributable to the higher realized sales prices. The Group subsidiaries within the industrial division were able to capitalize on the high and volatile market prices and were able to significantly increase their operating margins against the prior years. This resulted in revenues of USD 1,156 million (2021: USD 923 million), and EBITDA of USD 51 million (2021: USD 37 million). The Group's net profit at the end of 2022 stood at USD 28 million (2021: USD 15 million), which was also predominantly driven by the strong operating results. However, extraordinary income of USD 11.3 million (of which USD 7.6 million mainly governmental contributions and USD 3.7 million reversal of goodwill) had a positive impact but was, for a part, offset by increased interest expenses.

During this period, Trasteel faced a challenging business environment, particularly intensified by the outbreak of the war in Ukraine. This led to significant market disruptions in the steel market, surging energy prices, and overall production costs. The 2022 business year experienced a volatile price environment, further exacerbated by the scarcity of steel in the markets due to supply-chain disruptions resulting from the war in Ukraine.

Table 3: The development of Trasteel Trading Holding S.A. in 2022, structured by CRA

Trasteel Trading Holding S.A.				
In million USD	2021	2022	Δ	Δ %
Sales (million EUR)	923	1,156	233	25
EBITDA (million EUR)	37	51	14	39
EAT (million EUR)	15	28	13	87

Upon initial review, credit metrics of 2022 appear relatively stable in comparison to the prior years despite stronger operating performance. However, when considering a full year consolidation of both the Makina and Profilmec Group, it shows a notable improvement in credit metrics in comparison to the prior year, with the Profilmec Group significantly contributing to overall Group earnings. Profitability-related credit metrics have experienced a substantial improvement with a Return on Investment (ROI) of 9.56% (2021: 5.32%) and a net total debt to EBITDA adjusted ratio of 4.99 (2021: 8.84). Under the assumption of a full-year consolidation of both the Makina and Profilmec Groups, total revenues would have reached USD 1,448 million, EBITDA would stand at USD 90 million, and net profit would amount to USD 65 million. Also here it remains noteworthy that the Group benefited from a non-operating result of USD 26 million, of which USD 17 million relating to the reversal of negative goodwill. With the acquisition of the Profilmec Group, Trasteel registered approximately USD 76 million of negative goodwill on their financial statements, which will be depreciated over a period of five years. As a result, the Group will continue to record a non-cash annual income until 2026.

Table 4: The development of Trasteel Trading Holding S.A. in 2022, considering a full year consolidation of acquired companies I Source: Annual report 2022 Trasteel Trading Holding, based on special purpose framework)

Trasteel Trading Holding S.A				
In million USD	2021	2022	Δ	Δ %
Net sales	923	1,448	525	57
EBITDA	37	90	53	143
EAT	15	68	53	353

Despite a lower raw material price environment, the Group expects to maintain stable revenues for the full year 2023 compared to the prior year. This expectation is also partly driven by the acquisition and consolidation of Yugotub doo and Lifi Srl. However, the (operating) profit of the Group is projected to decline due to reduced operating margins, primarily attributed to the Profilmec Group. This expected decline stems from the normalization of commodity prices, rather than a slump in the business environment. The net income is expected to experience a more significant decrease, primarily due to a substantial increase in interest expenses resulting from the Leverage buy-out financing and the absence of governmental contributions, of which USD 9 million were recognized in 2022. For the business year 2024, the Group also expects stable revenue performance, and assumes that it will be able to slightly improve its margins, leading to an expected increase in operating result against the 2023 business year.

Trasteel developed strongly over the past few years, significantly expanded its operations and was able to capitalize on the increased commodity prices despite volatile and difficult market conditions. For the next years, it expects a normalization in (operating) margins against the business year 2022 (based on the assumption of full year consolidation in 2022) and we believe that this will go accompanied with a deterioration in credit metrics relating to profitability in comparison to 2022. This lower operating profit is partially offset by the Group's forecast to reduce its long-term indebtedness. We believe that this is plausible but do note that potential future M&A projects may possibly be financed with debt, which may counteract the plan to deleverage. The management of the Group has made clear to us that it has no direct plans for further acquisitions. However, M&A remains an important part of its strategy and future acquisitions cannot be ruled out.

Structural risk

The Trasteel Group is a trading and investment Group active within the steel, energy and metallurgical sectors. The ultimate parent and top holding of the Group is Trasteel Holding S.A. The Group was founded in 2009, is headquartered in Lugano, Switzerland and approximately employs 950 people in one of its nine trading offices, or 11 industrial plants.

Our Rating object is Trasteel Trading Holding S.A. the only, and fully-owned subsidiary of the top holding, also functioning as a holding company for the Group. It fully owns and manages all of the Group's participations. The activities are organized into two divisions and four different business lines. The divisions are separated by trading and industrial activities. Within the Group structure, the Trading division has nine different trading offices, which are centrally managed by Trasteel International S.A. from its headquarters in Lugano, Switzerland.

The industrial division has seen significant growth over recent years with an increasing participation in Officine Tecnosider S.r.l.at 51% and a 67.2% participation in the Profilmec Group. Overall, the Group has majority participations in 11 industrial plants along the steel processing supply chain throughout Europe, but with a focus in Italy. These subsidiaries are fully consolidated within the financial statements and are managed as an investment portfolio. This means that they have to adhere to the overall corporate strategy of the Group but have an independent management of their daily business. We view it as positive that these companies can predominantly operate fully independently from the Group and have their own (trade-) financing capabilities. The Group creates synergies in terms of providing trade deals to its industrial plants at an arm's lengths basis, and aids in building a global network.

For the acquisition of 67.2% of the share capital of Profilmec, Trasteel paid approximately USD 95 million and recorded negative goodwill in the amount of USD 76 million. Additionally, the acquisition included an executory contract, with a put, call and associated earn out option, which could be exercised under certain conditions. For the put and call option the price of the shares, if the option is exercised, is equal to 32.8% of the adjusted consolidated book value of Profilmec S.p.A. at the time of the exercise. The earn out is to be paid in addition to the base price and is to be activated under certain conditions. The option can only be exercised after the approval of the consolidated financial statements of Profilmec for the fiscal year 2026. Trasteel's management estimates that it is very unlikely that this contract will be executed and therefore set the value of the contract to zero. In addition, the Group has several options to settle this and is setting aside EUR 40 million for this in remunerated bank deposits.

The shareholder structure is composed of SiderAlloys S.A., owning 50.00% of the share capital, a company that controls and operates the only primary aluminum smelter in Italy and is among the largest in Europe. Furthermore, 36.95% is owned by Fratelli Cosulich S.A. (CRA: BB / stable as of 16.08.2023) is a family-owned shipping conglomerate Group with a long track record of operations in the shipping industry, and with 13.05% owned by Netfund S.A., which is a holding company and the family office of the Trasteel Group's CEO, Gianfranco Imperato. The Group has a board of directors that is composed of four members, of which three independent members.

We believe the corporate governance structures of Trasteel to be well developed and commensurate with its size.

We see the structural risks of the Company as elevated. An important part of its strategic focus centres on mergers and acquisitions and Trasteel does not have a historical track-record as it made only two significant acquisitions and several smaller ones over the past four years This strategy, while plausible, introduces a certain level of uncertainty into the Group. Furthermore, the executory contract, despite management's belief that its execution is unlikely, adds to the structural risk, given its potential impact on the Group

Business risk

Trasteel focusses on trading activities and invests in industrial assets along the steel supply chain. The Trading division provides Trasteel's subsidiary companies in the Industrial division with trading services and supplies them with raw materials on an arm's length basis. These activities can create substantial synergies for its subsidiary companies. They are capable of quickly adapting and finding new procurement channels for their clients, as evidenced by the experience with Tecnosider in 2022. It is important to note that despite the fact that revenues from the trading division and industrial division contribute approximately to the same extent to the consolidated revenues, the Industrial division is the driver of (operating) profit of the Group.

The development of the Trasteel Group is closely tied to the global steel industry. Marked by severe volatility, global steel markets have deteriorated sharply amid a breakdown of traditional raw material and energy supply chains. Particularly the COVID-19 pandemic, the outbreak of the war in Ukraine and intensifying geopolitical tensions as well as a deteriorating overall economic outlook were driving factors behind these developments. EU apparent steel consumption has contracted significantly over the past years (excluding a rebound in 2021), with a 7.2% contraction in 2022 driven by unprecedented rises in energy prices, production costs and inflation. These factors are also expected to increase apparent steel consumption in 2023 with an anticipated 5.2% decrease. Eurofer expects EU apparent steel consumption to recover in 2024. Contrary to EU apparent steel consumption, the EU steel using sectors have shown unexpected robustness and continued to show growth up to the second quarter of 2023 based on the steel weighted industrial (SWIP) index. The SWIP index is forecasted to show growth in both 2023 and 2024, albeit with an expected slowdown. The customer base of the Group is diversified covering most of the steel using sectors. Geographically speaking the Group is highly diversified with revenues spreading over a significant number of global markets, but with an emphasis on Italy (approximately 38%) in 2022, although geographical diversification is more prominent in the sales segment. In the industrial division, it seems that the emphasis on Italy and Europe is somewhat more pronounced.

Both the industrial and trading activities are subject to risks relating to significant working capital needs and the accompanying counter party risks, particularly in the trading division, but also in the industrial division. In order to finance these high working capital demands the Group requires access to credit lines. As of H1 2023 the Group had access to USD 812 million of uncommitted credit lines, of which sufficient headroom was available. Counter party risks that stem from these factors are mitigated by the fact that almost all trade finance deals are either covered by a letter of credit, or insurance.

In its trading division the Group does not face significant risks regarding price fluctuations as it only engages in back-to-back transactions. Both price, transportation, as well as credit risks are hedged at the time of the transaction through corresponding instruments. The industrial division, however, is exposed to fluctuations in global commodity prices. Particularly the Group's inventory management, combined with raw material procurement can play a significant role on the Group's operating margin. In order to counteract price volatility, the Group aims to maintain the tonnage on hand to a minimum.

We assess the business risk as comparably high. The main reasons for this are the relatively high exposure to the global steel market, coupled with the high working capital demand. Recent years have shown that changes in market conditions can lead to strong deviations in operating margins. We estimate that the counter party risks are manageable, as they are secured by letters of credit or insurance. This is supported by the fact that, as of November 2023, the Group declared that it did not have any overdue trade receivables or payables. Additionally the credit lines it needs for its business are uncommitted and request for trade finance lines can be denied. The Increasing geo-political volatility, a general deteriorating macro-economic outlook, increased interest rates and persistent inflation also currently increase the business risk. We see it as positive that all the major subsidiaries of the Group have their own financing capabilities.

Financial risk

For analytical purposes, CRA makes adjustments to companies' original balance sheet values. The following statements refer to the key figures calculated by CRA according to its methods, unless otherwise states. Due to these adjustments, and generally CRA's own calculation methods of key figures, they may differ from the original values and information provided by Trasteel.

At the center of Trasteel's financial profile stands its adjusted equity, which substantially increased to USD 256 million (2021: USD 85 million) representing an equity ratio of 29.15% (2021: 16.25%). The increase in equity is predominantly driven by factors relating to the Profilmec acquisition. The consolidation of the Profilmec Group led to an increase of minority interest of USD 44 million, the allocation of negative goodwill of USD 72 million, and the retained profit of USD 28 million of the 2022 business year. Additionally, we have, as per our methodology, allocated deferred tax liabilities of USD 32 million that also largely relate to the Profilmec Group. According to Trasteel, these liabilities are theoretical and not realizable.

The Group's indebtedness has also risen significantly during the 2022 business year. The increase in (long-term) debt was driven largely by the leverage buy-out of the Profilmec Group, which was primarily financed through a 12-month EUR 26 million bridge to cash line and a EUR 50 million in long-term debt. The debt contract in relation to the LBO of Profilmec contained several covenants, with respect to the Profilmec Group. The Group is in compliance of these covenants and has provided proof of this as of 31.12.2022 and 30.06.2023. At the end of the 2022 business year, the Group's total outstanding indebtedness increased to USD 310 million (2021: USD 240 million), of which long-term indebtedness rose to USD 123 million (2021: USD 83 million), and which increased to USD 131 million as of H1 2023 following the acquisitions of LIFI srl and Yugotub doo. Over the next few years, the Group plans a deleveraging of its balance sheet. At the end of 2023, Trasteel counts with long-term debt of USD 108 million.

With regard to cash-generation the Group's operating cash flow before changes in net working capital in 2023 is expected to reduce significantly to USD 33.7 million (2022: USD 81.3 million). The reduction in cash-generation is significant, but the operating cash flow should be sufficient to cover the Group's capital expenditure and to have capital at its disposal for debt servicing. According to the provided forecasts, the Group does not plan any large scale capital expenditure projects the coming years and retains its capex approximately on the level of its depreciation. Furthermore, we see it as positively that historically no dividends have been issued. Currently the Group is not allowed to distribute any dividends until the repayment of its received COVID-19 credits. Therefore all available cash after investments will be available for debt servicing.

Due to the forecasted lower EBITDA, credit metrics relating to internal financing power such as Net Total Debt / EBITDA adj. and EBITDA and EBIT interest coverage are set to decline in 2023, but are expected to improve again from 2024 onwards, driven by the Group's deleveraging plan. A high amount of current outstanding indebtedness is related to the Group's trade financing. Important to note here, is that a significant part of this indebtedness is linked to trade finance lines which are required to commit to day-to-day operating activities and which are for a large part covered by readily marketable inventories and/or trade receivables. The cash that flows from these assets will, however, largely have to be reinvested in working capital needs. We see positively that the Group disposes of significant amounts of positive working capital on a consolidated level.

In our view, the financial risk of the Group is manageable. With the expected reduced cash flow the Group will have less cash at its disposal for deleveraging its financial position. However, with no planned dividends and large expected investments on the horizon we believe that a deleveraging of its balance sheet is plausible and will strengthen the financial profile of the Group. Furthermore as of the time of the rating the Group disposed over a solid cash position and had high amounts of positive working capital.

Financial ratio analysis

Table 5: Financial key ratios |Source: Trasteel Trading Holding S.A., structured by CRA

Asset Structure	2019	2020	2021	2022
Fixed asset intensity (%)	2.25	35.11	22.09	22.57
Asset turnover	--	1.60	2.23	1.84
Asset coverage ratio (%)	672.59	56.58	74.52	131.18
Liquid funds to total assets (%)	18.23	10.31	14.05	19.48
Capital Structure				
Equity ratio (%)	15.12	19.59	16.25	29.15
Short-term-debt ratio (%)	83.71	66.06	67.18	56.09
Long-term-debt ratio (%)	0.00	0.27	0.22	0.47
Capital lock-up period (in days)	49.83	76.06	62.17	71.32
Trade-accounts-payable ratio (%)	23.49	26.43	30.08	25.74
Short-term capital lock-up (%)	34.74	29.24	20.51	22.05
Gearing	4.41	3.58	4.29	1.76
Leverage	--	5.61	5.60	4.08
Financial Stability				
Cash flow margin (%)	--	1.12	2.29	2.24
Cash flow ROI (%)	--	1.48	4.18	3.21
Total debt / EBITDA adj.	35.26	22.44	11.48	12.12
Net total debt / EBITDA adj.	27.69	19.56	9.56	8.79
ROCE (%)	3.96	6.87	14.29	11.20
Total debt repayment period	--	3.07	-6.49	
Profitability				
Gross profit margin (%)	3.87	6.13	6.80	7.72
EBIT interest coverage	0.84	1.26	3.10	2.32
EBITDA interest coverage	0.90	1.44	3.49	2.80
Ratio of personnel costs to total costs (%)	2.15	3.01	2.07	2.25
Ratio of material costs to total costs (%)	96.06	94.12	93.46	92.92
Cost income ratio (%)	96.86	101.86	100.43	105.32
Ratio of interest expenses to total debt (%)	3.17	3.09	2.40	2.95
Return on investment (%)	2.26	2.99	4.92	5.18
Return on equity (%)	--	5.12	22.87	16.46
Net profit margin (%)	0.35	0.57	68.16	2.20
Operating margin (%)	1.33	2.36	3.39	3.37
Liquidity				
Cash ratio (%)	21.78	15.61	20.91	34.73
Quick ratio (%)	77.79	59.84	78.34	91.53
Current ratio (%)	116.78	98.23	115.96	138.04

Appendix

Rating history

The rating history is available under the following link.

Table 6: Corporate Issuer Rating of Trasteel Trading Holding S.A.

Event	Rating created	Publication date	Result
Initial rating	19.12.2023	27.12.2023	BB- / stable

Regulatory requirements

The rating[3] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, a solicited rating, that is public. Creditreform Rating AG was mandated on 04.10.2023 by Trasteel Trading Holding AG to conduct a corporate issuer and monitoring of the company.

The rating is based on the analysis of quantitative and qualitative factors as well as the assessment of industry-relevant factors. The quantitative analysis refers to the consolidated financial statements for the years 2022 to 2019.

The rating object participated in the creation of the rating as follows:

Solicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	Yes
With access to internal documents	Yes
With access to management	Yes

A management meeting did take place at 5.12.2023 on Microsoft Teams with Federico Guidicci and Gabriele Nordio within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Rudger van Mook	Lead-analyst	R.vanMook@creditreform-rating.de
Christina Sauerwein	Analyst	C.Sauerwein@creditreform-rating.de

[3] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Stephan Giebler	PAC	S.Giebler@creditreform-rating.de

On 19 December 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 20 December 2023. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

1.) Rating ancillary service(s) for the rated entity or/and for the related third party

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Further internal documents

3. Website

4. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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