JCR-ER JCR Eurasia Rating

"JCR-ER, Group of Japan Credit Rating Agency, Ltd." JCR

" JCR Eurasia Rating,

evaluated

the consolidated structure of **Vestel Elektronik Sanayi ve Ticaret A.Ş.** and assigned the

the Long Term National Ratings as **'A (Trk)'** and the Long Term International Foreign Currency Ratings as **'BBB-(Trk)',**

along with **"Stable"** and **"Negative"** outlooks respectively. "

RATINGS

		Long	Short
International	Foreign Currency	BBB-	A-3
	Local Currency	BBB-	A-3
	Outlook	Negt. Negt.	Negt. Negt.
	Issue Rating	-	-
National	National Rating	A (Trk)	A-1 (Trk)
	Outlook	Stable	Stable
	Issue Rating	A (Trk)	A-1 (Trk)
Sponsor Support		2	-
Stand Alone		AB	-

Sector: Electronics

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Press Release

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JCR Eurasia Rating evaluated **Vestel Elektronik Sanayi ve Ticaret A.Ş.** in a high-level investment grade category and assigned its Long and Short-Term National Ratings as **"A (Trk)"** and **"A-1 (Trk)"** respectively along with **"Stable"** outlooks. In addition, the Long Term International Foreign and Local Currency Ratings have been assigned at the sovereign ceiling of **'BBB-'** along with **'Negative'** outlooks.

Established in 1983 and acquired by the Zorlu Group in 1994, Vestel is a group of companies with 24 subsidiaries and 4 affiliates, the majority of which are based overseas. Vestel provides a large product range comprising of consumer electronics, white goods, small home appliances, digital and mobile products along with LED lighting products to consumers in the domestic and international markets. With a production capacity of 10mn TVs on an annual basis, Vestel Elektronik is one of the largest three manufacturers in Europe whilst ranking among the five largest manufacturers in the field of white goods industry in Europe with a production capacity of 12mn on an annual basis. The Company which provides a notable contribution to Turkey's export capacity and meets approximately 90% and 30% of Turkey's LCD TV and white goods exports. It is the export champion of the electronics for the last 21 successive years and is the 7th largest exporter of Turkey. The Company which is one of the world's leading ODM manufacturers in the fields of consumer electronics and white goods is a global player conducting its operations on modern and innovative technologies based on R&D and in accordance with high standards through its nearly 17,000 personnel and its Vestel City plant located in Manisa dispersed over an area of 1.1mn m2 , representing one of the largest industrial complexes in a single location in Europe.

Despite the contraction in domestic economic activities, the Company has increased its sales in the first nine months of 2019 through the contribution of export sales in comparison to the same period in the previous year whilst its revenues exhibited a consistent rising trend y-o-y along with the derivation of a modest level of operating profit from its core activities. The operating profit of the Company, which completed new washing machine and tumble-drier investments in 2018 in line with market needs, is expected to be effected positively in the upcoming period. The acquisition of affiliate shares in addition to the machinery, equipment and mold investments carried out periodically on an annual basis, has increased net working capital requirements whilst the evolution of a very large part of financial liabilities into short-term ones has exerted pressure on the liquidity management. The Company which carries a short position stemming from its financial liabilities, is exposed to currency fluctuations to a certain extent despite its efforts to manage FX risk through derivative financial instruments. The composition of approximately a third of the Company's equity from re-valuation gains which do not decrease the working capital and funding needs necessitates a cash capital injection in order to strengthen its equity in line with its operating volume.

The net working capital deficit, high debt load, short FX position and risks stemming from financing expenses are compensated to a certain extent by the internal equity generation capacity supported by diversified revenue streams, manufacturing and export power, competitive power in the international market and market effectiveness, rising sales volume and capability to access external funding resources. Taking into consideration high manufacturing and competitive strength, market effectiveness, internal equity generation capacity supported by diversified revenue streams and future target sales, the Company's Long-Term National Rating was assigned as "A(Trk)". On the other hand, taking into account the nearly 75% share of hard currency income among total sales and their stable pattern, the international foreign and local currency ratings have been assigned at the country-ceiling level of "BBB-". No separate rating report has been compiled as the resources planned to be obtained from the bond issue will be carried in the Company's balance sheet and has been subject to analysis in the corporate credit rating report. The planned bond issues carry no difference in comparison to the Company's other liabilities with respect to their legal standing and collateralization. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments. Issue rating is assigned for prospective debt instruments and incorporate assessments until their maturities. The developments in the working capital position, cash capital injection, changes in profitability indicators, the financial debt: equity composition, foreign currency position and developments in the impaired receivables portfolio are the principle factors that will be kept under review in the upcoming period.

The grade of Vestel Elektronik Sanayi ve Ticaret A.Ş. in the "Sponsor Support" category has been determined as (2) taking into consideration the financial strength and willingness of Zorlu Holding A.Ş. holding 73.66% of the shares and ultimately the Zorlu Family to support the Company and lend efficient operational support. A Sponsor Support grade of (2) denotes a "Sufficient" level of external support possibility. On the other hand, taking into consideration the Company's capability to manage the incurred risks irrespective of shareholder support, production and export power, cash flow generation potential, rising business volume, strong market position, high market recognition, international activities and business partnerships along with the experience and know-how in the fields of white goods and consumer electronics the grade in the 'Stand Alone' category has been determined as (AB). The (AB) grade in the Stand-Alone category denotes a "Strong" level on JCR Eurasia Rating's notation scale, indicating an ability for the Company to manage its obligations regardless of external support.

For more information regarding the rating results, you may visit our internet site **http://www.jcrer.com.tr** or contact our analyst Mr. **Sevket GULEC.**

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