

Research Update:

# Turkish TV And Household Appliance Manufacturer Vestel Downgraded To 'SD' From 'CCC+' On Debt Postponement

April 10, 2020

## Rating Action Overview

- Vestel Elektronik Sanayi ve Ticaret A.S. postponed a portion of its financial obligation due in June 2020 for three-to-six months.
- We consider the postponement a distressed exchange because we think the company has limited refinancing options given its tight liquidity, weak credit metrics, relatively high foreign currency-denominated debt, and strong headwind against its operations caused by COVID-19.
- We are therefore lowering our long-term issuer credit rating on Vestel to 'SD' (selected default) from 'CCC+'.

## Rating Action Rationale

**The downgrade follows the three-to-six month postponement of payments on obligations due in June 2020.** Despite the lending counterparties agreeing to the postponement, we consider this a distressed exchange. In our view Vestel's tight liquidity and weak credit metrics--with our forecast liquidity sources over uses of less than 0.4x (over the next 12 months as of Jan. 1, 2020) and adjusted leverage above 10x in 2020--leaves the company limited options in terms of refinancing. In addition, we think Vestel's refinancing ability is further constrained by its relatively high share of foreign currency-denominated debt of about 40%, and expected demand and supply disruptions caused by COVID-19. We think there would have been a realistic possibility of a conventional default in the near-to-medium term absent the postponement. However, the rating is 'SD' rather than 'D' because we see Vestel continuing to serve all its other financial obligations. We will reassess our ratings on the company once the transaction is completed in the next few weeks.

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## Company Description

Vestel is the largest TV manufacturer in Turkey, and the third-largest in household appliances. It is part of the conglomerate Zorlu Holding, which is also active in textile, energy, real estate, and mining. Vestel accounted for about 57% of the group revenue in 2018. The majority of the company's production is exported to Europe, which accounts for about 69% of its total revenue of about 17.2 billion Turkish lira in 2019.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

## Ratings List

### Downgraded

|   | To    | From           |
|---|-------|----------------|
| <b>Vestel Elektronik Sanayi Ve Ticaret A.S.</b> |       |                |
| Issuer Credit Rating                            | SD/-- | CCC+/Stable/-- |

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