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Research Update:

Turkey-Based Vestel Upgraded To 'CCC-' From 'SD' On Completed Debt Postponement; Outlook Negative

April 17, 2020

PRIMARY CREDIT ANALYST

Anton Geyze
Moscow
(7) 495-783-4134
anton.geyze
@spglobal.com

SECONDARY CONTACT

Thierry Guermann
Stockholm
(46) 8-440-5905
thierry.guermann
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

Rating Action Overview

- Vestel has shifted a significant portion of debt maturing in second quarter (Q2) 2020 to Q3, which we think has improved its debt maturity profile slightly.
- The transaction will ease liquidity pressure in Q2, but we still foresee insufficient current liquidity to avoid a default in Q3 because of the significant amount of debt maturing and our expectation of cash burn caused by COVID-19 disruptions.
- We think a default in the next six months could be avoided if Vestel successfully rolls over the existing debt due in Q3.
- We are raising our rating to 'CCC-' from 'SD'.
- The negative outlook reflects our view that Vestel could default in the next six months if it fails to roll over its debt or secure additional liquidity.

Rating Action Rationale

Vestel's liquidity pressure eased in Q2 2020, but a default remains possible in Q3. Vestel has shifted a significant portion of debt maturing in Q2 to Q3. Although this has eased Vestel's liquidity pressure in the short term, we think it could default in Q3, based on current liquidity sources because of the significant amount of debt maturing and our expectation of cash burn in Q2 and Q3 caused by COVID-19 disruptions. However, we think a default in the next six months could be avoided if Vestel successfully rolls over the existing debt due in Q3, supported by Vestel's operations gradually normalizing once COVID-19 disruptions end.

Outlook

The negative outlook reflects our view that Vestel could default in the next six months if it fails to roll over its debt or secure additional liquidity.

Downside scenario

We could lower the rating if we expect default to be a virtual certainty, regardless of time to default, in particular if Vestel announces:

- That it will miss a payment on its obligations;
- That it intends to undertake an exchange offer or similar restructuring that we classify as distressed; or
- That it intends to file for bankruptcy.

Upside scenario

We see limited rating upside at this stage, given Vestel's weak liquidity and the strong headwinds caused by COVID-19. However, we could revise the outlook to stable or raise the rating if Vestel significantly improves its 12-month liquidity coverage ratio toward 1x. This could occur if it is able to:

- Roll over the majority of the loans with a much longer maturity; or
- Demonstrate a much stronger cash flow generation than we currently forecast.

Liquidity

We continue to assess Vestel's liquidity as weak. This reflects Vestel's long track record of relying on various forms of short-term funding, including bilateral loans and receivables factoring. We view this as an indication of aggressive liquidity management, since the company fully exposes itself to local capital market volatility.

We calculate that the company's liquidity sources will cover its liquidity uses by only 0.3x in the 12 months from April 1, 2020. We anticipate headroom of at least 20% in Q2 2020 under the current financial covenants in Vestel's loan agreement with the European Bank for Reconstruction and Development. However, we expect Vestel could exhaust its funding in Q3 if the impact of COVID-19 persists.

Principal liquidity sources over the 12 months from April 1, 2020, include:

- Cash of about Turkish lira (TRY) 2.4 billion; and
- Funds from operations of TRY300 million to TRY400 million.

Principal liquidity uses for the same period include:

- Maturing debt of TRY8.5 billion;
- Seasonal working capital requirements of TRY100 million to TRY200 million

- Annual capital expenditure of TRY500 million to TRY600 million.

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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Related Research

- Turkish TV And Household Appliance Manufacturer Vestel Downgraded To 'SD' From 'CCC+' On Debt Postponement, April 10, 2020

Ratings List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.