FitchRatings

FITCH AFFIRMS VESTEL AT 'B'; OUTLOOK STABLE

Fitch Ratings-London/Istanbul-01 February 2012: Fitch Ratings has affirmed Turkey-based Vestel Elektronik Sanayi Ve Ticaret A.S's (Vestel) Long-term foreign and local currency Issuer Default Ratings (IDR) at 'B'. The Outlook on both IDRs is Stable. Fitch has also affirmed the senior unsecured rating of Vestel Electronics Finance Ltd.'s guaranteed issue of USD225m 8.75% 2012 maturity notes at 'B'/'RR4'.

The rating affirmations reflect the fact that Vestel's key credit metrics (actual and expected) remain relatively comfortable for the current ratings, despite relatively weak liquidity. Broadly stable financial performance has been supported by management's focus on reducing gross debt levels and decreasing balance sheet related FX risks through increased financial hedging. Assuming that end-market conditions and prevailing FX rates do not materially worsen, Fitch expects Vestel's credit profile to remain consistent with its current ratings.

Following the buy-back of 116 million of its USD225m outstanding bond, Vestel has significantly reduced its re-financing risk and had a better cash position at end-2011, facing a tough business environment. Fitch expects that Vestel will repay the remaining part of its 2012 eurobond from its cash balance and continue de-leveraging through 2012. Fitch expects FFO adjusted net leverage to decline to less than 5x at end-2012 from 5.4x expected at end-2011. However, the agency believes that an improvement in credit metrics in isolation is unlikely to lead to an upgrade given that metrics alone are not the main restriction to Vestel's ratings.

The ratings also incorporate Vestel's recent trading performance which has been robust for the past 12-18 months, thanks to an improved domestic environment and depreciating Turkish lira (TRY). Revenue increased 19% in Q311 on a 12 month rolling basis and 27% on a quarterly basis. The correction in TV panel prices followed by lower raw material prices pushed EBITDA margins up to 11% at the end of Q311 (6% Q310). The major reasons for the higher EBITDA margin on a YoY basis includes: the overall depreciation of the TRY, volume growth and ongoing shift to premium products (including LED TVs) despite pricing pressure coupled with rising raw material prices (mainly in the white goods business) However it is important to note that the economic conditions in Europe are likely to have a negative effect on Vestel's profitability and normalise margins to approximately 6% in 2013.

The ratings continue to be supported by Vestel's low-cost manufacturing position, improving design capabilities, its healthy market share in the European TV and white goods markets, its proximity to the EU (which provides it with an advantage over Asian competition) and its strong economies of scale, including having Europe's largest production facility under one roof.

However, despite these strengths, Vestel's credit profile remains relatively weak. Key weaknesses include the company's exposure to the mature and highly competitive TV and white goods markets, where technological change and over-capacity has led to intense price competition. Combined with Vestel's large FX exposure within its P&L (negative when the TRY appreciates), this can lead to significant swings in profitability.

Other constraining factors include Vestel's historically weak cash flow (it has generated positive free cash flow (FCF) only once in the past five years), and a relatively opaque group structure, which includes a parent company (Zorlu Group) for which financial details are limited.. Liquidity suffers from Vestel's reliance on short-term debt, a lack of committed undrawn credit lines, a degree of FX exposure (with debt mainly in US dollars but cash flows in a mix of US dollars, euros and TRY).

Fitch believes there is little upside to Vestel's ratings at present, given concerns about liquidity and FX exposure. Nevertheless, a significant improvement in credit metrics, such as funds from

operation (FFO) adjusted leverage below 1x, could create positive ratings momentum.

A downgrade could occur if key credit metrics were to sustainably worsen, such as FFO adjusted net leverage of 5x or more, and FFO adjusted gross leverage above 6x. Also negative ratings action could be taken if FFO interest coverage increase to more than 5x.

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Applicable criteria 'Corporate Rating Methodology', dated August 2011, available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology
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