

RatingsDirect®

Research Update:

Turkish Appliance Manufacturer Vestel Outlook Revised To Stable On Lower Expected Cash Flow; 'B-' Rating Affirmed

Primary Credit Analyst:

Alexander Griaznov, Moscow (7) 495-783-4109; alexander_griaznov@standardandpoors.com

Secondary Contact:

Matthias J Raab, CFA, Frankfurt (49) 69-33-999-122; matthias_raab@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Turkish Appliance Manufacturer Vestel Outlook Revised To Stable On Lower Expected Cash Flow; 'B-' Rating Affirmed

Overview

- We do not expect that Turkish brown and white goods manufacturer Vestel will generate meaningfully positive free operating cash flow in 2012 and 2013.
- This is inconsistent with our previous expectation that its positive free cash flow generation could somewhat mitigate Vestel's very high exposure to short-term financing.
- We are revising our outlook on Vestel to stable from positive and affirming the 'B-' long-term rating.
- The stable outlook reflects our expectation that Vestel will adequately manage its high exposure to refinancing risk and will improve its cash flow generation in 2013.

Rating Action

On Nov. 30, 2012, Standard & Poor's Ratings Services revised its outlook on Turkish brown and white goods manufacturer Vestel Elektronik Sanayi Ve Ticaret A.S. (Vestel) to stable from positive and affirmed the corporate credit rating at 'B-'.

Rationale

We revised the outlook to stable from positive because we no longer expect that Vestel will generate meaningfully positive free operating cash flow in 2012 and 2013, which we previously considered an important mitigant to the company's weak liquidity.

We now project that Vestel will report an at least twofold decline in Standard & Poor's adjusted EBITDA for 2012, because of negative foreign exchange dynamics and weakening trading conditions. We currently assume that, because of the EBITDA decline, the Standard & Poor's adjusted debt-to-BITDA ratio will exceed 7x at the end of 2012, up from about 3x in 2011. Given the EBITDA decline, significant working-capital swings, and persistently high capital spending, Vestel will not generate any meaningful positive free cash flow, which is inconsistent with our previous expectations.

The company's liquidity position remains "less than adequate", as its debt profile features a very high percentage of short-term maturities. These

primarily include various forms of working-capital financing, such as revolving, letters of credit, and receivables factoring. We previously expected that Vestel's positive free cash flow generation (FOCF) in 2012 could somewhat mitigate its refinancing risk, which did not happen because of the weakened operating performance.

Nevertheless, in our base-case scenario for 2013, we assume that Vestel's operating performance will be on a positive trajectory, alongside with improving profitability and cash flow generation. Notably, we assume that the gross margin will improve from the current level of about 12% to about 13.5%, and that Vestel's working capital swings and capital expenditures will decline, supporting growth in cash flows.

The 'B-' rating reflects our assessment of Vestel's business risk profile as "weak" and its financial risk profile as "highly leveraged".

Vestel's business risk profile is constrained by its volatile operating performance, reflecting its exposure to uneven macroeconomic conditions in Turkey and Europe, working-capital swings, and volatility in foreign exchange rates. It also reflects the high competitiveness of the LCD (liquid-crystal display) TV market, where Vestel has to compete against larger and financially stronger global players, such as Samsung Electronics (A/Positive/A-1), LG Electronics Inc. (BBB-/Stable/--), or Sony Corp. (BBB/Negative/A-2). These weaknesses are only partially mitigated by Vestel's positioning as Europe's largest B-brands producer of LCD TVs, with a rising market share and increasing scale. We also assess Vestel's management and governance as "fair".

The company's financial profile is constrained by its high reliance on short-term funding, volatile debt leverage, and weak FOCF. These risks are only partly offset by support demonstrated by the shareholder, which, in our view, is a financially stronger entity than Vestel.

Liquidity

We assess Vestel's liquidity as "less than adequate", as defined by our criteria. This primarily reflects Vestel's continued reliance on various forms of short-term funding, including bilateral loans, receivables factoring, and letters of credit.

We calculate that the company's ratio of liquidity sources to uses was below 1x on Sept. 30, 2012, and we expect it to remain at this level, absent major refinancing.

In May Vestel repaid \$250 million bond, using primarily new debt. We understand that most of the financing the company currently requires is for working capital financing, that is why the company primarily borrows on a short-term basis. We view this as indication of aggressive liquidity management, as the company fully exposes itself to the risk of volatility in the local capital markets.

We note, however, that reliance on short-term financing is a distinctive feature of many corporates operating in Turkey, where medium- and long-term financing is rare and expensive. Our "less-than-adequate" assessment of Vestel's liquidity factors takes into account Vestel's solid relationship with its key lending banks, which we assume will continue rolling-over the facilities on an ongoing basis.

Vestel's cash flow generation remains volatile, being dependent on trading conditions and currency swings. Therefore we do not expect FOCF to be an important source of financing in 2012 and 2013.

Outlook

The stable outlook reflects our expectation that Vestel's adjusted debt leverage will exceed 7x at the end of 2012 because of the drop in EBITDA and will reduce to about 4x at the end of 2013 thanks to improvements in profitability. It also reflects our assumption that Vestel's key lending banks will continue rolling over the short-term credit facilities they provide to the company.

We could raise the rating if Vestel were to demonstrate a meaningful turnaround in its operating performance, including a positive profitability trend and positive FOCF. Upside could also be driven by an improvement in Vestel's liquidity position, because of an extension of the maturity profile.

We could lower the rating on Vestel if its profitability were to remain at weak levels for a prolonged period of time, resulting in strongly negative FOCF. A negative rating action could also follow further weakening of Vestel's liquidity position, for example, if we saw more risk that key lenders would not roll over Vestel's short-term debt maturities.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Key Credit Factors: Methodology And Assumptions On Risks In The Global High Technology Industry, Oct. 15, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 14, 2008

Ratings List

CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Vestel Elektronik Sanayi Ve Ticaret A.S. Corporate Credit Rating	B-/Stable/--	B-/Positive/--

Additional Contact:

Research Update: Turkish Appliance Manufacturer Vestel Outlook Revised To Stable On Lower Expected Cash Flow; 'B-' Rating Affirmed

Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.