Moody's Investors Service

Global Credit Research
Rating Action
1 JUN 2007

Rating Action: Vestel Elektronik Sanayi Ve Ticaret A.S.

Moody's downgrades Vestel's USD225 million guaranteed notes and corporate family rating to B1 from Ba3; outlook changed to stable.

Approximately USD225 million of rated debt securities affected

London, 01 June 2007 -- Moody's today downgraded Vestel Elektronik Sanayi Ve Ticaret A.S.'s ("Vestel" or "the company") corporate family rating ("CFR") and the company's USD225 million guaranteed notes to B1 from Ba3. Moody's concurrently changed the outlook on the company's ratings to stable from negative.

The following ratings have been affected:

- Ba3 corporate family rating changed to B1, PDR changed to B1 from Ba3 at Vestel Elektronik Sanayi Ve Ticaret A.S.;

- Ba3 rating on the USD225.0 million 8.75% Guaranteed Notes due 2012 changed to B1, LGD4 (50%) assessment affirmed at Vestel Electronics Finance Ltd.

The outlook for all ratings was changed to stable from negative.

The downgrade reflects: i) increasing competition from Asian producers and market saturation particularly for CRT TVs, coupled with the LCD TV price declines between 30% and 40% in 2006 negatively impacting margins; ii) deterioration of Vestel's market share in the EU market for LCD TVs, which contracted from 14% in 2005 to ca.11% in 2006%; iii) the expectation that the company's cash flows will continue to be constrained by capital investments, necessary to sustain growth in new markets and the uncertainty as to the future return from this strategy; iv) the high level of product commoditization, ongoing price deterioration and relatively low barriers to entry at the low end of the market.

Current ratings also reflect: i) Vestel's strong market position as leading TV exporter from Turkey, number 2 TV manufacturer in the local market with a strong position in the local and export markets for refrigerators and washing machines; ii) the company's sustainable cost base advantage and tariff-free access to the EU markets; iii) the high level of product differentiation and flexibility coupled with its adaptability to changing market demand; iv) the positive performance development at Vestel White Goods.

Moody's notes that despite the positive impact of a weaker Turkish lira against the dollar and the euro in 2006, the company's Moody's adjusted EBITDA margins continued to decline from 11.2% in 2004 to 8.1% in 2005 and to 7.8% in 2006. Moody's estimates that without this positive FX impact, the company's margin would have been close to 100 basis points lower. Vestel's cash flow generation has also been negative in 2005 and more markedly in 2006, mainly on account of lower cash flow from operations and high investments.

The stable outlook reflects Moody's expectation that, despite continued pressure on margins and increased competition in key market segments, the company's financial metrics will remain consistent with a B1 rating in the short-to-medium term.

A worsening of the company's operating environment leading to EBITDA margins in the low single digit, the company's failure to regain lost market share in its key markets and a Debt/EBITDA ratio in the region of 4.0x, could put negative pressure on the ratings. Were the company to maintain and improve its market share, maintain a Debt/EBITDA ratio at least at current levels and return to positive free cash flow generation after capital expenditures, with EBITDA margins in the high single digits, that could be positive for the ratings.

Headquartered in Istanbul, Turkey, Vestel is a leading manufacturer of consumer electronic products, including televisions, digital products and white goods. In fiscal year 2006 the company reported USD3.6 billion and USD243 million in revenues and EBITDA, respectively.

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