

Capital Goods  
Turkey  
Update

# Vestel Elektronik Sanayi Ve Ticaret A.S.

## Ratings

Foreign Currency Long-Term IDR	B
Local Currency Long-Term IDR	B

## Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

## Financial Data

### Vestel Elektronik Sanayi Ve Ticaret A.S.

	31 Dec 09	31 Dec 08
Revenue (TRYm)	4,645	4,694
Operating EBITDAR (TRYm)	596	428
Op. EBITDAR/revenues (%)	12.83	9.11
Cash flow from operations (TRYm)	-54	42
Free cash flow (TRYm)	-192	-173
FFO/interest expense net of interest income (x)	9.45	n.a.
Total debt (TRYm)	717	714
Closing net debt (TRYm)	406	371
Total adjusted net debt/op. EBITDAR (x)	1.20	1.66
Total adjusted net (recourse) debt/op. EBITDAR (x)	1.20	1.66
Adjusted leverage/FFO (x)	1.52	-8.73

## Analysts

Sa'ed Katkhuda  
+971 4 408 1813  
[saed.katkhuda@fitchratings.com](mailto:saed.katkhuda@fitchratings.com)

Bulent Akgul  
+90 212 279 1065  
[bulent.akgul@fitchratings.com](mailto:bulent.akgul@fitchratings.com)

## Related Research

Applicable Criteria  
• *Corporate Rating Methodology (November 2009)*

Other Research  
• *EMEA Industrial: 2010 Outlook: Encouraging Signs but Risks Remain (February 2010)*

## Rating Rationale

- Vestel Elektronik Sanayi ve Ticaret A.S.'s (Vestel) ratings reflect the improvements in the company's financial profile in 2009 – such as in operating margins, a reduced short foreign currency position, and lower total leverage. Fitch Ratings remains concerned, however, about the company's ability to maintain its operating margins at around the same levels as in 2009, despite measures taken to contain costs.
- Overall demand for consumer electronics and consumer durables is generally expected to remain weak in 2010. Vestel's revenue contracted by approximately 1% to TRY4.64bn in 2009, while the EBITDA margin increased to 12.8% from 9.1%. Efficient inventory management and an increase in market share, particularly in the TV segment, in both the domestic and export markets supported operating margins in 2009.
- The group benefits from diversification in both product and geography. Vestel operates on an original equipment manufacturer (OEM) and original design manufacturer (ODM) basis; it services A and B brands, as well as private label customers in Europe. The company sells its own *Vestel*-branded product range in Turkey, Russia, and within its immediate geographical vicinity.
- Total net leverage declined to 0.68x at financial year-end 2009 (FYE09, December 2009) from 0.87x at FYE08, largely due to higher profitability. The group reported 1.2x of consolidated gross debt/EBITDA and a 5.1x funds from operations (FFO) fixed-charge cover (versus 1.66x and -1.07x at FYE08, respectively), which provided higher headroom under its bond covenants (4.0x consolidated gross debt/EBITDA, including letter of credit (LC) liabilities; fixed-charge coverage of over 2.25x).
- Vestel has significant foreign currency (FX) exposure, but is taking steps to contain it. Its short net foreign currency position more than halved to USD448m at FYE09 from USD1.0bn at FYE08. Another positive development is Vestel's use of more hedging instruments to manage its foreign currency exposure.
- Vestel borrows at favourable rates to pre-finance its export programme. The short-term nature of export trade finance bank credit affects the company's overall maturity profile, but Vestel is expected to retain a comfortable liquidity position.

## What Could Trigger a Rating Action?

- Improvement or deterioration in Vestel's liquidity position could affect the ratings.
- Operating margins and foreign currency exposure will remain important parameters in Vestel's ratings.

## Liquidity and Debt Structure

Net debt increased to TRY406.1m at FYE09 from TRY370.6m at FYE08. Of total debt of TRY717m, TRY344m was due within 12 months, most of which comprised short-term trade finance bank credits. A major portion of the TRY373m long-term debt stock at FYE09 was represented by a USD225m 2012 bond, while liquidity was further bolstered by a TRY160m (approximately USD100m) cash injection by the majority shareholder through a rights issue in April 2009.

**Peer Group**

Issuer	Country
<b>BBB-</b>	
Electrolux	Sweden
Whirlpool	USA
<b>BB</b>	
Arcelik	Turkey

**Immediate Peer Group – Comparative Analysis**

**Sector Characteristics**

*Operating Risks*

Vestel is a consumer products manufacturer, operating primarily in the TV and household appliances (“white goods”) segments. Operating risks within these segments are moderate to high. Demand is both cyclical and seasonal, driven by consumer spending and household construction levels. The European market is mature, with relatively low barriers to entry and high levels of competition – especially within lower-end product segments. As a result, pricing power is limited and profit margins relatively low. Manufacturers also tend to be exposed to fluctuations in raw material prices (especially metals and plastics) and currencies.

*Financial Risks*

Financial risks in the sector tend to be moderate. Earnings are not only cyclical, but have suffered a secular decline within many developed markets over the past five to 10 years due to fierce competition and over-capacity. As a result, cost-cutting and restructuring measures are an almost permanent feature of the industry. However, these earnings pressures are partially offset by the relatively conservative financial structures that many consumer products companies adopt, with low leverage and strong levels of back-up liquidity.

**Issuer Rating History**

Date	LT IDR (FC)	Outlook/ Watch
16 Sep 09	B	Stable
11 Sep 08	B	Stable
13 Aug 07	BB-	Negative
18 Dec 06	BB-	Stable
26 Jul 06	BB-	Stable
12 Apr 06	BB-	RWN
24 Feb 06	BB-	Stable
9 Feb 05	BB-	Stable
17 Jan 05	BB-	Stable
8 Sep 04	B+	Positive
16 Feb 04	B+	Stable
2 Jan 04	B	Positive
26 Sep 03	B	Positive
19 Sep 03	B-	Positive
12 Aug 03	B-	Positive
28 Mar 03	B-	Negative
23 Oct 02	B	Stable
8 Apr 02	B	Stable
16 Aug 01	B	Negative
2 Aug 01	B	RWN
2 Apr 01	B+	RWN
22 Feb 01	BB-	RWN
21 Jul 00	BB-	Stable

\*RWN" denotes Rating Watch Negative

**Peer Group Analysis**

	Whirlpool BBB-/Stable	AB Electrolux BBB-/Stable	Arcelik BB/Stable	Vestel B/Stable
<b>2009</b>				
Op. EBITDAR margin (%)	7.9	8.9	13.5	12.8
Adj. net debt/op. EBITDAR (x)	2.8	0.9	1.36	0.7
Op. EBITDAR/fixed charges (x)	3.7	6.7	3.1	6.46
(Op. EBITDAR-capex)/ gross interest expense (x)	5.7	4.9	2.4	5.1

Source: Fitch, companies

**Key Credit Characteristics**

Given the high level of operating risk, ratings in the sector tend to be concentrated in the ‘BBB’ or ‘BB’ rating ranges. Entities towards the upper end of this range are able to partially offset these risks through size and scale; leading market positions; diversification in product and geography; an ability to offer higher-margin, value-added products; and an exposure to growing, low-cost emerging markets (both as a manufacturing base and a source of sales). Financial conservatism, such as low leverage and strong liquidity, is also a key factor.

**Overview of Companies**

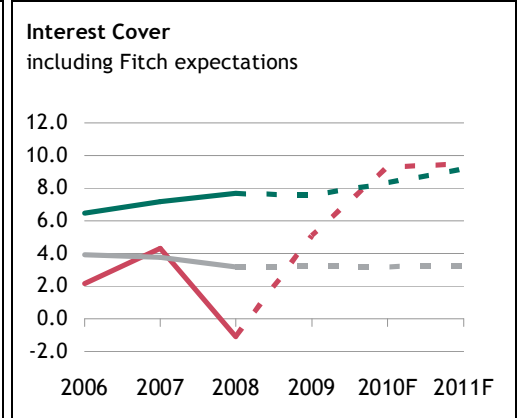
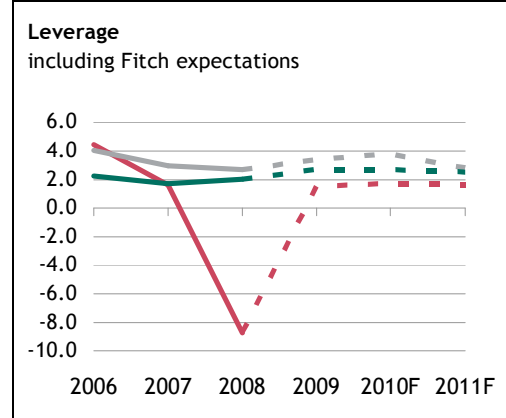
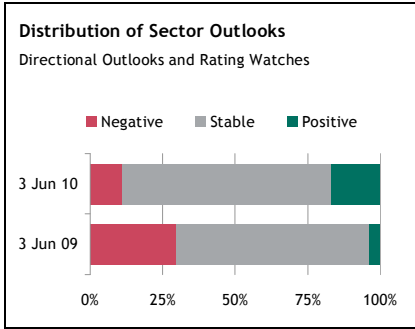
- **Whirlpool Corp.** (WHR, ‘BBB-’/Stable) – the world’s largest home appliance manufacturer. WHR has historically operated with somewhat higher leverage than its close competitors (i.e. Electrolux). Like other appliance manufacturers, WHR faces weak end-demand in many key markets.
- **AB Electrolux** (Electrolux, ‘BBB-’/Stable) – one of the world’s largest manufacturers of household and professional appliances. Electrolux’s size, leading market positions and geographical diversification support its ratings. The ratings also benefit from a conservative financial profile: credit metrics at end-2009 were strong for the ‘BBB-’ rating category, including net leverage (lease-adjusted net debt/EBITDAR) of 0.9x and FFO fixed charge cover of 5.4x.
- **Arcelik** (‘BB’/Stable) – the largest white-goods manufacturer in Turkey, with a domestic market share of more than 55%. The ratings also reflect the improvement in its operating and financial profile in 2009. Arcelik has deleveraged considerably from an adjusted net debt/EBITDAR of 4.95x at FYE08 to a moderate 1.36x at year-end 2009 in a challenging market environment.

**Snapshot Profile: Major Issuer-Specific Rating Factors and Trends**

Rating factor	Status <sup>a</sup>	Trend
Operations	Average	Improving
Market position	Strong	Neutral
Finances	Average	Improving
Governance	Average	Neutral
Geography	Average	Neutral

<sup>a</sup> Relative to peer group  
Source: Fitch

Vestel Elektronik Sanayi Ve Ticaret A.S. — Capital Goods Median — Emerging B Cat Median —  
Source: Company data; Fitch.



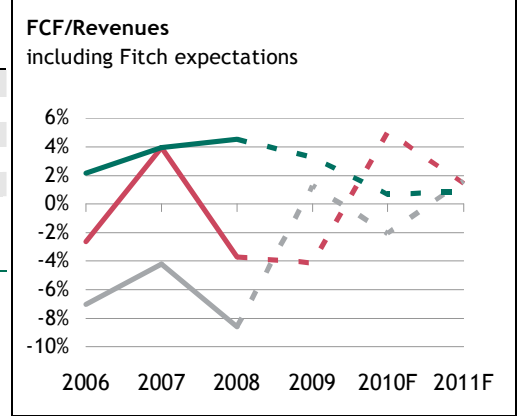
Fitch's expectations are based on the agency's internally-produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- 3% revenue growth in 2010 after a 4% contraction in revenue in 2009;
- 10% sustainable EBITDA margin in 2010 and 2011;
- FCF generation returns to positive territory in 2010 due to reduced working capital outflows;
- leverage metrics on a net basis remain well below 1.0x at FYE10-11.

### Debt Maturities and Liquidity at 2009

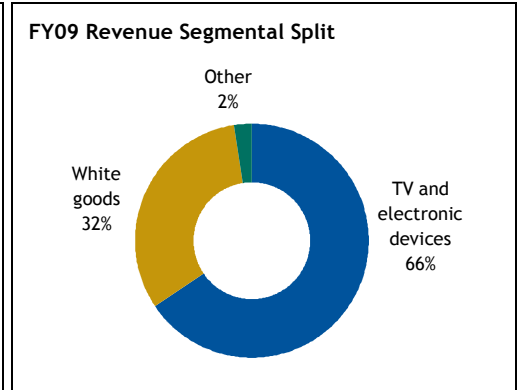
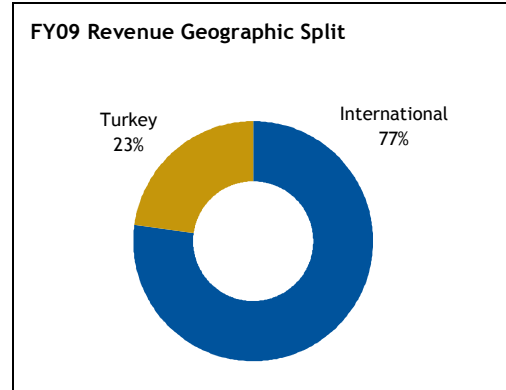
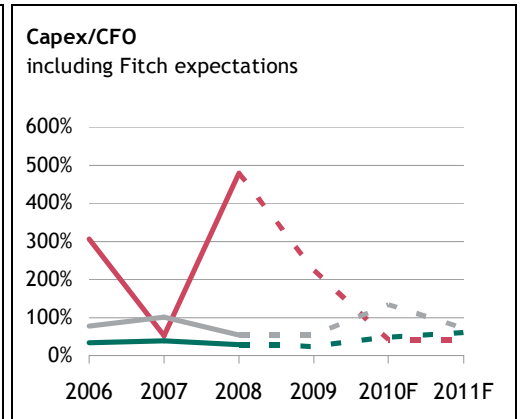
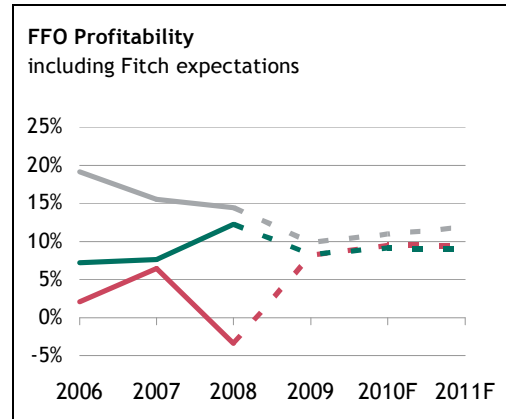
Debt maturities	(TRYm)
2010	344.1
2011	57
2012	302.4
2013	5.4
After 2014	8.1
Cash and equivalents	311

Source: Fitch



### Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest Cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/Revenues: FCF after dividends divided by revenues.
- FFO Profitability: FFO divided by revenues.
- For further discussion of the interpretation of the tables and graphs in this report, see Fitch's "Interpreting the New EMEA and Asia-Pacific Credit Update Format", dated 25 November 2009 and available at [www.fitchratings.com](http://www.fitchratings.com).



**Vestel Elektronik Sanayi Ve Ticaret A.S.**  
**Financial Summary**

	31 Dec 2009 TRYm Original	31 Dec 2008 TRYm Original	31 Dec 2007 TRYm Original	31 Dec 2006 TRYm Original	31 Dec 2005 TRYm Original
<b>INCOME STATEMENT</b>					
Revenues	4,645	4,694	4,627	5,231	4,456
Revenue Growth	(1)	1	(12)	17	(3)
EBIT	370	240	(95)	237	170
Interest Expense Net of Interest Income	50	39	53	56	(20)
Net Income	72	(412)	15	14	114
<b>BALANCE SHEET</b>					
Cash and Equivalents	311	343	512	585	581
Total Assets	3,851	3,932	4,337	4,778	4,391
Short-term Debt	344	307	237	524	172
Senior Long-Term Debt	373	407	425	395	526
Subordinated Debt	0	0	0	n.a.	n.a.
Total Debt	717	714	662	918	698
Common Equity	1,007	783	1,202	1,192	1,138
Off-Balance Sheet Debt	0	0	0	0	0
Total Adjusted Capitalisation	1,889	1,633	2,007	918	698
Total Adjusted Debt	717	714	662	918	698
Preferred Stock + Minority Interests	164	136	143	130	160
<b>CASH FLOW</b>					
Operating EBITDAR (Op. EBITDAR)	596	428	86	377	289
Cash Interest Paid, Net of Interest Received	40	30	44	n.a.	n.a.
Cash Tax Paid	31	21	35	22	57
Associate Dividends	0	0	0	n.a.	n.a.
Other Changes before Funds From Operations**	(147)	(535)	290	(244)	(121)
FUNDS FROM OPERATIONS	378	(158)	298	111	112
Working Capital	(432)	200	110	(43)	(11)
CASH FLOW FROM OPERATIONS	(54)	42	408	67	101
Non-Operational Cash Flow*	(15)	0	(4)	n.a.	2
Capital Expenditure	122	201	213	206	285
Dividends Paid	2	14	8	n.a.	n.a.
FREE CASH FLOW	(192)	(173)	183	(139)	(182)
Receipts from Asset Disposals	7	12	3	54	52
Business Acquisitions	0	0	0	128	n.a.
Business Divestments	0	0	0	n.a.	n.a.
Exceptional & Other Cash Flow Items	0	0	0	n.a.	(34)
NET CASH IN/OUTFLOW	(185)	(161)	186	(213)	(165)
Equity Issuance/(Buyback)	160	0	0	n.a.	n.a.
FX movement	(0)	(51)	7	n.a.	n.a.
Other Items Affecting Cash Flow**	(10)	(9)	(10)	(5)	91
NET CASH FLOW AVAILABLE FOR FINANCING	(36)	(220)	184	(217)	(74)
CLOSING NET DEBT	406	371	150	334	116
<b>PROFITABILITY</b>					
Op. EBITDAR/Revenues (%)	12.84	9.12	1.86	7.20	6.49
EBIT/Revenues (%)	7.97	5.11	(2.05)	4.54	3.81
FFO Return on Adjusted Capital (%)	24.91	(5.00)	20.15	9.21	8.40
<b>CREDIT RATIOS</b>					
Funds From Operations/Gross Interest Expense (x)	5.10	(1.07)	4.31	2.15	2.99
FFO Fixed Charge Cover (x)	5.10	(1.07)	3.80	2.15	2.99
Op. EBITDAR/Net Fixed Charges (x)	11.97	11.11	1.24	6.70	(14.83)
Adjusted Leverage/FFO (x)	1.52	(8.73)	1.64	4.45	4.16
Total Adjusted Debt Net of Cash/Op. EBITDAR (x)	0.68	0.87	1.75	0.89	0.40
Total Adjusted (Recourse) Debt/Total Adjusted Capitalisation (%)	37.97	43.70	33.01	40.99	34.95

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limited recourse.

\* Includes Analyst Estimate

\*\* Balancing Item

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.