Research Update:

Vestel Elektronik Sanayi Ve Ticaret A.S. Outlook Revised To Stable On Operating Pressures

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Rationale

On June 22, 2007, Standard & Poor's Ratings Services revised to stable from positive its outlook on Turkey-based consumer electronics and white goods manufacturer Vestel Elektronik Sanayi Ve Ticaret A.S., reflecting pressures on revenues and margins. The 'B+' long-term corporate credit rating on Vestel was affirmed.

At March 31, 2007, Vestel had gross debt and letters of credit of about $825 million.

The ratings on Vestel remain primarily constrained by the volatile Turkish macroeconomic environment and resulting currency swings; the company's significant debt burden; and the highly competitive nature of its end-markets. The group's cost-efficient manufacturing continues to support the rating. Vestel derived 76% of revenues from exports in the 12 months ended March 31, 2007.

Growth in white goods remains strong (revenues were up 31%, year on year, in first-quarter 2007), thanks to exports, but domestic demand is held back by political uncertainty. In addition, pricing pressure on liquid crystal display (LCD) TVs and the strengthening of the Turkish lira are affecting group export revenues and profits. Consolidated revenues in first-quarter 2007 declined by 4% in dollar terms, including an 8% fall for exports. EBITDA fell to $9 million, from $46 million in first-quarter 2006.

Gross unadjusted debt represented about 4.1x EBITDA for the 12 months ended March 31, 2007, including 1.0x for letters of credit.

Liquidity

Vestel's liquidity is adequate for the rating, but not ample. At March 31, 2007, the company had cash and equivalents of $344 million. We believe that the company's liquidity investment policies, which have historically included more than one-half of Turkish lira-denominated assets, expose Vestel to currency mismatches compared with its significant short-term borrowings of $321 million at March 31, 2007. The figure includes a $54 million loan due 2009, which under Turkish accounts is reported as short term. Apart from its $225 million bond and its €75 million notes and financial leases, the company's funding is largely sourced on a short-term basis.

Capacity investments to service white goods outsourcing contracts could constrain free cash flow generation in 2007, although we expect an improvement from the negative 2006 figure, as capital expenditures slow down to about $100 million.

At Dec. 31, 2006, the company complied with financial covenants included in the indenture of Vestel Electronics Finance Ltd.'s $225 million 'B+' rated bond. The margins under the 4x debt-to-EBITDA ratio and above the 2.25x fixed charge coverage ratio were small, however, at 6% and 5%, respectively.

Outlook

The outlook revision reflects ongoing pressures on Vestel's revenues and margins, particularly in TV exports to the EU, a key market. The rapid demand shift to flat TVs (LCD and plasma), away from cathode ray tube based models has challenged Vestel's volume growth.

The stable outlook reflects our expectations that Vestel's strengthening position in white goods will help offset near-term pressure on TV sales in the EU.

The outlook could be revised to negative if the company does not address refinancing needs in time, or if pressures on cash flow generation increase.

In the medium term, an improvement in operating performance and, particularly, cash flow generation, could lead to a revision of the outlook back to positive.

Ratings List

	To	From
Corporate credit rating	B+/Stable/--	B+/Positive/--

NB: This list does not include all ratings affected.

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