

Rating Action: Moody's downgrades 11 Turkish corporates to B1 following sovereign downgrade

19 Jun 2019

London, 19 June 2019 -- Moody's Investors Service has today downgraded the ratings on 11 non-financial corporates domiciled in Turkey.

These rating actions follow Moody's downgrade, on 14 June, of the Government of Turkey's long-term issuer rating to B1 from Ba3 while maintaining a negative outlook. Moody's also lowered Turkey's foreign currency bond ceiling to B1 from Ba2. For further information on the sovereign rating action, please refer to Moody's press release published on 14 June 2019: https://www.moody's.com/research/--PR_402552

Moody's has downgraded the ratings of the following seven Turkish corporates to B1 with negative outlooks:

- Anadolu Efes Biracilik ve Malt Sanayii A.S. (Efes)
- Coca-Cola Icecek A.S. (CCI)
- Dogan Sirketler Grubu Holding A.S. (Dogan)
- Koc Holding A.S. (Koc Holding)
- Ordu Yardimlasma Kurumu (OYAK)
- Turk Hava Yollari Anonim Ortakligi (Turkish Airlines)
- Turkiye Petrol Rafinerileri A.S. (Tupras)

At the same time, Moody's has downgraded the ratings of the following four Turkish corporates to B1 and placed their ratings on review for downgrade:

- Eregli Demir ve Celik Fabrikalari T.A.S. (Erdemir)
- Ronesans Gayrimenkul Yatirim A.S. (Ronesans)
- Turkcell Iletisim Hizmetleri A.S. (Turkcell)
- Turkiye Sise ve Cam Fabrikalari A.S. (Sisecam)

In addition, the B1 ratings of Petkim Petrokimya Holding A.S. (Petkim) were placed on review for downgrade.

Full details of the rating actions for the affected entities can be found at the end of this press release.

RATINGS RATIONALE

The rating actions on these corporates is a direct consequence of the downgrade of the Government of Turkey and the lowering of Turkey's foreign currency bond ceiling, both to B1. As a result of this ceiling having been lowered by two notches to B1, corporates which were previously constrained at the Ba2 ceiling have now been downgraded by two notches to B1.

Most rated corporates continue to have prudent financial policies, healthy balance sheets and strong business profiles that include foreign currency revenues. The credit fundamentals of these corporates suggest a higher rating level. However, their corporate ratings are constrained by the foreign currency bond ceiling because these companies are materially exposed to Turkey's political, legal, fiscal and regulatory environment. One such example is the elevated risk of government-imposed measures to preserve the country's foreign exchange reserves that could prevent corporates from accessing their foreign currency cash deposits or servicing their foreign currency debt obligations.

Moody's views the weakening of the credit quality of Turkey-based financial institutions as a growing risk for

the rated corporates. The baseline credit assessments (BCA) of Moody's-rated Turkish banks is now between b3 and caa2, from b2-cao1 previously and the long-term foreign currency deposit ceiling has been lowered to B3 from B2. This is credit negative for the corporates that rely on short-term funding from or have foreign currency cash deposits with the local banks because they are exposed to growing counterparty and refinancing risk. However, based on Moody's assessment, companies rated B1 with a negative outlook demonstrate some resilience and independence from the local banking system.

Moody's classifies Turkish Airlines as a government-related issuer (GRI). GRI assumptions include 'strong' likelihood of extraordinary government support and 'high' default dependence between the government and Turkish Airlines. The company's b1 BCA remains unchanged.

The corporates that have been assigned a negative outlook is to reflect the negative outlook on the sovereign rating.

The corporates whose ratings have been placed on review for downgrade face in Moody's view more elevated credit and liquidity risks as a result of one or more of the following characteristics: (1) concentration and reliance of foreign currency deposits with domestic banks; (2) reliance on short-term credit lines; (3) large upcoming debt maturities; (4) weak free cash flow generation; and (5) significant currency mismatch between cash flows and debt servicing obligations.

The review period will focus on the robustness of these corporates' liquidity and business profiles, including their dependence on the Turkish banking system and their requirement for continued market access in order to meet operational and financial needs. Moody's expects to conclude the review within a maximum timeframe of three months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

The ratings of corporates that have been assigned a negative outlook could be upgraded if Turkey's foreign currency bond ceiling is raised. This would also require no material deterioration in the companies' operating and financial performance, market positions and liquidity.

Their ratings are likely to be downgraded in case of a further downgrade of Turkey's sovereign rating or a lowering of the foreign currency bond ceiling. In addition, downward rating pressure could arise if there are signs of a deterioration in liquidity or if government-imposed measures were to have an adverse impact on corporate credit quality.

The ratings of CCI and Turkish Airlines incorporate a degree of support from their respective shareholders. Their ratings could therefore also be negatively affected by evidence of reduced shareholder support.

LIST OF AFFECTED RATINGS

Downgrades:

..Issuer: Eregli Demir ve Celik Fabrikalari T.A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba3-PD; Placed on Review for further Downgrade

.... Corporate Family Rating, Downgraded to B1 from Ba3; Placed on Review for further Downgrade

..Issuer: Ronesans Gayrimenkul Yatirim A.S.

.... Corporate Family Rating, Downgraded to B1 from Ba3; Placed on Review for further Downgrade

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3; Placed on Review for further Downgrade

..Issuer: Turkiye Petrol Rafinerileri A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba2-PD

.... Corporate Family Rating, Downgraded to B1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba2

..Issuer: Turkcell Iletisim Hizmetleri A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba2-PD; Placed on Review for further Downgrade

.... Corporate Family Rating, Downgraded to B1 from Ba2; Placed on Review for further Downgrade

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba2; Placed on Review for further Downgrade

..Issuer: Coca-Cola Icecek A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba2-PD

.... Corporate Family Rating, Downgraded to B1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba2

..Issuer: Dogan Sirketler Grubu Holding A.S.

.... Corporate Family Rating, Downgraded to B1 from Ba3

..Issuer: Anadolu Efes Biracilik ve Malt Sanayii A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba2-PD

.... Corporate Family Rating, Downgraded to B1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba2

..Issuer: Koc Holding A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba2-PD

.... Corporate Family Rating, Downgraded to B1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba2

..Issuer: Ordu Yardimlasma Kurumu (OYAK)

.... Corporate Family Rating, Downgraded to B1 from Ba2

..Issuer: Turk Hava Yollari Anonim Ortakligi

.... Probability of Default Rating, Downgraded to B1-PD from Ba3-PD

.... Corporate Family Rating, Downgraded to B1 from Ba3

..Issuer: Turkiye Sise ve Cam Fabrikalari A.S.

.... Probability of Default Rating, Downgraded to B1-PD from Ba2-PD; Placed on Review for further Downgrade

.... Corporate Family Rating, Downgraded to B1 from Ba2; Placed on Review for further Downgrade

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba2; Placed on Review for further Downgrade

On Review for Downgrade:

..Issuer: Eregli Demir ve Celik Fabrikalari T.A.S.

....NSR Corporate Family Rating, Placed on Review for Downgrade, currently Aa1.tr

..Issuer: Petkim Petrokimya Holding A.S.

.... Probability of Default Rating, Placed on Review for Downgrade, currently B1-PD

... Corporate Family Rating, Placed on Review for Downgrade, currently B1

...Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently B1

Outlook Actions:

..Issuer: Ereğli Demir ve Çelik Fabrikaları T.A.S.

...Outlook, Changed To Rating Under Review From Negative

..Issuer: Ronesans Gayrimenkul Yatırım A.S.

...Outlook, Changed To Rating Under Review From Negative

..Issuer: Türkiye Petrol Rafinerileri A.S.

...Outlook, Remains Negative

..Issuer: Turkcell İletişim Hizmetleri A.S.

...Outlook, Changed To Rating Under Review From Negative

..Issuer: Coca-Cola İçecek A.S.

...Outlook, Remains Negative

..Issuer: Doğan Sirketler Grubu Holding A.S.

...Outlook, Remains Negative

..Issuer: Anadolu Efes Biracılık ve Malt Sanayii A.S.

...Outlook, Remains Negative

..Issuer: Koc Holding A.S.

...Outlook, Remains Negative

..Issuer: Ordu Yardımlaşma Kurumu (OYAK)

...Outlook, Remains Negative

..Issuer: Petkim Petrokimya Holding A.S.

...Outlook, Changed To Rating Under Review From Negative

..Issuer: Türk Hava Yolları Anonim Ortaklığı

...Outlook, Remains Negative

..Issuer: Türkiye Sise ve Cam Fabrikaları A.S.

...Outlook, Changed To Rating Under Review From Negative

PRINCIPAL METHODOLOGIES

The principal methodology used in rating Ereğli Demir ve Çelik Fabrikaları T.A.S. was Steel Industry published in September 2017. The principal methodology used in rating Ronesans Gayrimenkul Yatırım A.S. was REITs and Other Commercial Real Estate Firms published in September 2018. The principal methodology used in rating Türkiye Petrol Rafinerileri A.S. was Refining and Marketing Industry published in November 2016. The principal methodology used in rating Turkcell İletişim Hizmetleri A.S. was Telecommunications Service Providers published in January 2017. The principal methodology used in rating Coca-Cola İçecek A.S. was Global Soft Beverage Industry published in January 2017. The principal methodology used in rating Doğan Sirketler Grubu Holding A.S., Koc Holding A.S. and Ordu Yardımlaşma Kurumu (OYAK) was Investment Holding Companies and Conglomerates published in July 2018. The principal methodology used in rating Anadolu Efes Biracılık ve Malt Sanayii A.S. was Global Alcoholic Beverage Industry published in March 2017.

The principal methodology used in rating Petkim Petrokimya Holding A.S. was Chemical Industry published in March 2019. The principal methodology used in rating Turkiye Sise ve Cam Fabrikalari A.S. was Global Manufacturing Companies published in June 2017. The principal methodologies used in rating Turk Hava Yollari Anonim Ortakligi were Passenger Airline Industry published in April 2018 and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Mario Santangelo
Associate Managing Director
Corporate Finance Group

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



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