

RATING ACTION COMMENTARY

Fitch Assigns Vestel Final 'B+'/'BB-' IDRs

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Fitch Ratings - Dubai - 31 May 2024: Fitch Ratings has assigned Vestel Elektronik Sanayi Ve Ticaret A.S. (Vestel) a final Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) of 'B+' with a Positive Outlook and a final Long-Term Local-Currency (LTLC) IDR of 'BB-' with a Stable Outlook.

We have also assigned a final senior unsecured rating of 'B+' to Vestel's USD450 million notes, in line with its LTFC IDR. The Recovery Rating on the senior unsecured debt is 'RR4'. The final ratings conform with the previously assigned expected ratings as the final documentation was in line with expectations.

The LTLC IDR reflects Vestel's credit profile as a low-cost white goods and electronics manufacturer in Turkiye benefiting from proximity to export markets in Europe that are its major revenue source. It also reflects a strong market position domestically and a longstanding customer base. Rating constraints are domestic production concentration, limited pricing power, foreign-exchange (FX) risks and negative free cash flow (FCF).

The refinancing supports the LTLC IDR due to its covenants that weaken Vestel's links to its 54.56% shareholder, Zorlu Holding A.S. (Zorlu), while improving its liquidity and debt maturity profile. Unlike the LTLC IDR, the LTFC IDR and the notes rating are constrained by Turkiye's Country Ceiling at 'B+' because Vestel's Fitch-defined hard-currency export revenues and offshore cash do not sufficiently cover expected hard-currency debt service. The Positive Outlook on the LTFC IDR mirrors that of Turkiye's sovereign rating.

KEY RATING DRIVERS

Concentrated Low Cost Manufacturer: Vestel's business profile supports its unconstrained credit profile and LTLC IDR in the 'BB' category. Despite its manufacturing base concentration in Turkiye and the highly competitive market in electronics and white goods

manufacturing, Vestel's robust dealership network and comprehensive service operations provide a competitive edge and barriers to new entrants. However, Vestel's revenues largely stem from manufacturing for private labels, which is a low-margin business, as it depends primarily on cost-competitiveness for contracts, thus limiting pricing power, especially in the recent high inflation period.

In addition, Vestel's long payment terms to suppliers in comparison with shorter receivable days add to FX risks and affect its profit margins although this is partly mitigated by Vestel's inventory management and FX hedging.

Export-driven Revenues: Vestel generates 60%-70% of revenues from exports, mainly to Europe, with good customer diversification and longstanding brand license agreements aiding profitability and order-book visibility. Household appliances dominate gross profits due to their higher margins (especially domestically) and lower seasonality than electronics, which nevertheless offer overall product diversification.

Limited R&D; Potential in Mobility: Vestel's low R&D spending, at around 1.8% of its revenue, marks it as a mid-tier innovator in comparison with its peer group. This broadly matches its domestic peer Arcelik's A.S. (slightly above 2%), but lags behind that of European peers with around 3% of its revenues in R&D spend. However, mobility electronics, including Vestel's 23% stake in a domestic market-leading electric vehicle producer, offer significant growth potential.

Refinancing Supports Financial Profile: Vestel's refinancing strengthened its financial profile, which was previously dominated by short-term domestic borrowing, through the long-term US dollar notes issue. In addition to a longer average debt maturity and diversification of funding, the notes also reduce the average cost of debt. Although hard-currency revenues offer natural hedge for US dollar debt service, a further significant devaluation of lira would make notes repayment more expensive for Vestel.

The refinancing has been neutral to Vestel's leverage ratios (EBITDA net leverage up to 3x and funds from operations (FFO) net leverage around 3.8x from 2025) as the notes proceeds are mostly used to refinance existing short-term debt and fund capex.

FCF to Remain Weak: We expect capex to remain around 5% of revenues and possible modest dividend distributions within the covenants. This, combined with FX and working-capital outflows, will keep FCF negative in our rating-case forecasts.

Bond Covenants Underpin Rating: The final terms of the notes include leverage covenants that support our view of an insulated legal ringfencing around Vestel. We also view access and control, including partial public listing of Vestel and its independent external funding, as 'porous'. Overall, we rate Vestel on a standalone basis under our Parent and Subsidiary Linkage Rating Criteria. Vestel has historically provided inter-company loans to Zorlu, but we do not expect a reduction in its outstanding debt balance from, or new loans to be provided to, Zorlu. Providing new loans to the parent would likely lead to a downgrade.

FC IDR Capped by Country Ceiling: Vestel's LTFC IDR and notes' ratings are capped by Turkiye's Country Ceiling of 'B+' due to the lack of manufacturing diversification outside of the country and the need to repatriate and convert much of its hard-currency export revenues into liras. Fitch-defined hard-currency debt service coverage for Vestel is thus insufficient for the rating to pierce the ceiling. Consequently, rating actions on Vestel's LTFC IDR and the notes will follow sovereign rating actions.

DERIVATION SUMMARY

Vestel's position as a low-cost manufacturer in the European and Turkish market drive through-the-cycle EBITDA and EBIT margins of approximately 13% and 11%, respectively. These are similar to that of its Turkiye-based peer Arcelik A.S. (LTLC IDR BB+/Stable), but exceed that of higher-rated peers like Whirlpool Corp. (BBB/Negative) and LG Electronics Inc. (BBB/Stable). However, this strength is offset by Vestel's weaker FCF margin, due to the sharp devaluation of the Turkish lira and unfavourable working-capital management from a longer payables cycle relative to receivables days.

Unlike Vestel, Arcelik is focused solely on more profitable white goods and benefits from geographical diversification of its production base. In addition, its brand portfolio and thus pricing power are stronger, explaining the two-notch rating differential. Similar to Vestel, Uzbekistan-based Artel Electronics LLC (B/Positive) manufactures within its local market; however, it lacks sales geographic diversification versus Vestel and Arcelik.

Although Vestel's leverage metrics are not excessive, financial flexibility is constrained by low interest coverage, FX risk with only partly effective hedging, and by short-term debt exposure and weak liquidity.

KEY ASSUMPTIONS

- Revenue to increase on average 40% for 2023-2027, reflecting further Turkish lira devaluation and organic growth

- Average EBITDA margin at around 12% to 2027, driven by ability to pass on costs
- Capex in line with management forecasts to 2027 with modest Fitch-assumed dividends from 2025
- Refinancing of existing debt with USD450 million notes in 2024
- No sizeable M&As to 2027

RECOVERY ANALYSIS

The recovery analysis assumes that Vestel would be reorganised as a going-concern (GC) in bankruptcy rather than liquidated.

- An administrative claim of 10% is used in line with the industry median and peer group's
- The recovery analysis is translated into US dollars from Turkish liras since the majority of the capital structure is in US dollars. The translation used a Fitch-calculated exchange rate for 2024, when the notes are issued
- The GC EBITDA estimate of USD255 million is Vestel's 2022 EBITDA. This reflects the lowest EBITDA margin in the company's recent history, adversely affected by Turkiye's hyper-inflationary environment, and resulting in a total cash deficit for 2022
- An enterprise value (EV) multiple of 4.5x EBITDA is applied to the GC EBITDA to calculate a post-reorganisation EV given Vestel's strong market position in Turkiye and flexible cost structure. However, this multiple is constrained by industry dynamics (including Turkish regulations), lack of geographical diversification (particularly in Asia and North America), lack of pricing power and the strength of competitors within the market
- The waterfall analysis is based on the new capital structure and consists of factoring, senior unsecured Eurobond and bank credit facilities. Debt issued by Vestel's subsidiary Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. (Vestel White Goods) ranks structurally senior to remaining debt instruments
- Factoring is expected to remain available during bankruptcy
- These assumptions result in a recovery rate for the senior unsecured instrument within the 'RR3' range, but is restricted by Turkiye's Country Ceiling at 'RR4' that corresponds to

the LTFC IDR at 'B+'. The principal and interest waterfall analysis output percentage on current metrics and assumptions is also capped at 50%.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

LTFC IDR and Notes' Rating

- An upgrade in Turkiye's Country Ceiling

LTLC IDR

- Sustained net EBITDA leverage below 2.0x, FFO net leverage below 2.5x and EBITDA interest coverage above 3.0x, supported by stricter covenants and financial policy
- Positive FCF margin sustained above 2.5%
- Stronger business profile with geographical diversification of production base and higher pricing power

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

LTFC IDR and Notes' Rating

- A downgrade of Turkiye's Country Ceiling

LTLC IDR

- Sustained net EBITDA leverage above 3.0x, FFO net leverage above 3.5x and EBITDA interest coverage below 2.0x
- Substantial deterioration in liquidity and consistently negative FCF margins
- Lack of ring-fencing and tighter links with Zorlu
- Business profile deterioration with loss of market share and pricing power

LIQUIDITY AND DEBT STRUCTURE

Refinancing Improves Weak Liquidity: Historically, Vestel has been dependent on short-term bank debt facilities to meet its financial requirements. The practice of continuously rolling over these uncommitted bank lines is typical in the Turkish corporate market, and still limits Vestel's liquidity assessment post-refinancing.

Long-term notes represent around 31% of expected 2024 debt with short-term bank loans and domestic bonds making up the balance. We expect debt currency to move further away from Turkish liras and average debt maturity to increase to above three years from less than one year.

ISSUER PROFILE

Vestel specialises in manufacturing in Turkiye and sales of electronics, major household appliances, digital and e-mobility solutions. Vestel is an export-driven company, with strong market shares in Turkiye and Europe.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

RECOVERY

PRIOR ⇅



Vestel Elektronik Sanayi Ve Ticaret A.S.	LT IDR				B+ (EXP) Rating Outlook Positive
		B+ Rating Outlook Positive			
		New Rating			
<hr/>					
	LC LT IDR				BB- (EXP) Rating Outlook Stable
		BB- Rating Outlook Stable			
		New Rating			
<hr/>					
senior unsecured	LT	B+	New Rating	RR4	B+(EXP)

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APPLICABLE CRITERIA

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[Country Ceiling Criteria \(pub. 24 Jul 2023\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 13 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 03 Nov 2023\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

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