FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Vestel to 'B-'; Outlook Negative

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Fitch Ratings - Dubai - 04 Jun 2025: Fitch Ratings has downgraded Vestel Elektronik Sanayi Ve Ticaret A.S.'s (Vestel) Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDR) to 'B-' from 'B+'. The Outlook is Negative. Fitch has also downgraded Vestel's senior unsecured notes to 'B-' from 'B+'. The Recovery Rating remains at 'RR4'.

The downgrade reflects Fitch's expectation of a weaker financial structure and liquidity position for Vestel, due to softer demand and lower-than-expected sales volumes, including for export. Consequently, Vestel's revenue and margins are under pressure, with an increasing reliance on expensive short-term debt, placing pressure on cash flows and interest coverage. We project key metrics to remain outside the previous negative sensitivities for an extended period.

The Negative Outlooks reflect risks to Vestel's revenue and EBITDA margin recovery, deleveraging trajectory and refinancing.

KEY RATING DRIVERS

Operating Performance Deterioration: Vestel's EBITDA margin sharply underperformed our expectations in 2024, at 5.5%, versus our forecast of 9%. The margin further deteriorated to 4% in 1Q25, driven by persistent high inflation in Turkiye, which increased labour and raw material costs relative to revenue. Revenue fell 14% in 1Q25, on lower volumes in household appliances and TV units sold and a general softening of the average selling price (ASP) in Turkiye for both white goods and TV sets.

Sales to Rise; Increasing Diversification: We anticipate a gradual improvement in its total sales volumes, driven by the company's revenue initiatives, despite the challenging operating environment. Vestel is seeking to diversify its revenue towards the US market and other non-European countries, as exports currently account for 60% of revenue. This strategy is in response to intensifying competition in Europe, particularly from Chinese exporters. Vestel's revenues are heavily reliant on low-margin private-label manufacturing, which limits its pricing power and ability to transfer cost increases, especially in Europe.

Constrained EBITDA Generation: We forecast the company's Fitch-adjusted EBITDA margin will improve to 7.2% at end-2025 from a Fitch-adjusted EBITDA margin of 5.5% in 2024, driven by a recovering market. However, the improvement is slower than previously anticipated, due to a slower-than-expected ramp-up in sold volumes. This, combined with our expectation of a low, single-digit rise in ASPs, results in sharply lower EBITDA generation for 2025-2028 compared with our earlier forecasts. We forecast that EBITDA margins will improve and remain at 7%-11% between 2025 and 2028 due to cost optimisation and business reorganisation initiatives.

High Leverage: We expect EBITDA leverage to remain above our previous negative rating sensitivity, at 7.6x at end-2025 and 5.9x at end-2026, leading to the downgrade. Vestel's management-calculated net leverage reached 6.8x at end-2024, exceeding the permitted debt incurrence covenant of 3.5x associated with its USD500 million Eurobond. However, we expect the company still has room for additional permitted debt under the terms of its bond documentation.

Weak Cash Flows and Liquidity: Vestel's capital structure continues to rely heavily on recurring short-term debt refinancing with increasing risks due to the company's under-performance. However, we believe that uncommitted facilities from Turkish banks will continue to be available to Vestel. We forecast continued negative free cash flow (FCF) until 2028 (with negative FCF margin around 10% for 2025), due to a limited recovery in EBITDA and increased borrowings at higher local interest rates. We forecast EBITDA interest coverage to average 1.0x during 2025-2028, compared with our previous estimated average of 1.5x.

PEER ANALYSIS

Vestel's through-the-cycle average EBITDA margin of 8% a year on average is similar to those of higher-rated peers like Whirlpool Corp. (BB+/Negative) and LG Electronics Inc. (BBB/Stable). However, this strength is offset by Vestel's weaker FCF margin, due to the Turkish lira volatility and local hyperinflation, higher leverage structure and lower interest coverage.

Unlike Vestel, Arcelik A.S. (BB-/Negative), a Turkish-based peer, focuses solely on more profitable white goods and benefits from the geographical diversification of its production base. Vestel's leverage metrics are weaker, while its financial flexibility is constrained by lower interest coverage, a wider FCF margin deficit, FX risk due to only partly effective hedging, short-term debt exposure and weak liquidity. This is underlined in the multi-notch difference in their ratings.

KEY ASSUMPTIONS

-Revenue in lira to increase on average 15% annually for 2025-2028

-Improving average EBITDA margin to 11% by end-2028, reflecting anticipated cost synergies and improved pricing ability

-Capex in line with management forecasts to 2028

-FCF margin to remain negative until 2028, driven by a slower recovery in EBITDA margins, working capital outflows, albeit with a declining net working capital/revenue ratio

-Continued successful refinancing of upcoming short-term maturities, but at higher interest rates

RECOVERY ANALYSIS

Recovery Assumptions

-We assumed that Vestel would be reorganised as a going-concern in bankruptcy rather than liquidated.

-An administrative claim of 10% is used, in line with the industry median and peer group.

-We translated our recovery estimates into US dollars from Turkish liras (using the exchange rate at 31 March 2025) as its USD500 million bond was issued in dollars.

-We assume a going-concern EBITDA of USD255 million, in line with Fitch's previous assessment. This reflects a post-reorganisation EBITDA in Turkiye's challenging market environment and high inflation, leading to declining demand and lower-than-expected sold volumes.

-A multiple of 4.5x is applied to the GC EBITDA to calculate a post-reorganisation enterprise value, 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, which consists of factoring, senior unsecured USD500 million Eurobond at a fixed coupon of 9.75% and bank credit facilities. Debt issued by Vestel's subsidiary Vestel Beyaz Eşya Sanayi ve Ticaret A.Ş. ranks structurally senior to remaining debt instruments.

-Factoring is not expected to remain available during bankruptcy following a more conservative approach than the previous assessment and is thus deducted from EV.

-These assumptions result in a recovery rate for the senior unsecured instrument within the 'RR4' category.

RATING SENSITIVITIES

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

- Reduced ability to refinance in the local banking market and deteriorating negative FCF

- Gross EBITDA leverage above 6.5x on a sustained basis

- EBITDA interest coverage consistently below 1.0x

- Failure to deliver EBITDA margin growth with revenue and cost-optimisation initiatives and a structurally weaker business profile

- Lack of ring-fencing and tighter links with parent Zorlu

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

- Gross EBITDA leverage below 5.0x for a sustained period

- EBITDA interest coverage sustainably above 1.5x

- FCF margin consistently neutral to positive

- Stronger business profile with geographical diversification of production base and higher pricing power

LIQUIDITY AND DEBT STRUCTURE

Vestel has been dependent on short-term bank debt facilities and factoring to meet its financing needs. The practice of continuously rolling over these uncommitted bank lines is typical in the Turkish corporate market and limits our liquidity assessment of Vestel.

Long-term notes represented around 31% of Vestel's debt at end-1Q25, with short-term bank loans and domestic bonds making up the balance. We anticipate an increased reliance on short-term and expensive local funding, due to our forecast of a slower recovery in EBITDA margins.

ISSUER PROFILE

Vestel specialises in the manufacturing and sales of electronics, major household appliances, digital and e-mobility solutions in Turkiye.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Vestel Elektronik Sanayi Ve Ticaret A.S.	LT IDR	B- Rating Outlook Negative	Downgrade		B+ Rating Outlook Negative

	LC LT IDR	B- Rating Outlook Negative	Downgrade			B+ Rating Outlook Negative
senior unsecured	LT	B-	Downgrade		RR4	B+

VIEW ADDITIONAL RATING DETAILS

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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. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Vestel Elektronik Sanayi Ve Ticaret A.S.	UK Issued, EU Endorsed

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