

Corporate Credit Rating

New Update

Sector: Iron and Steel
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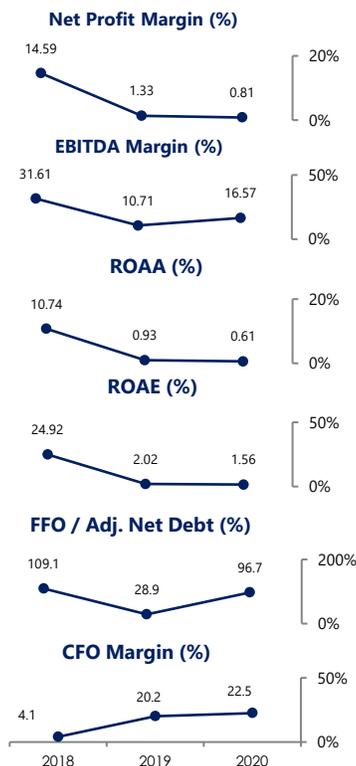
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RATINGS

		Long Term	Short Term
National	Local Rating	AA-(Trk)	A-1+(Trk)
	Outlook	Positive	Stable
	Issue Rating	-	-
International	Foreign Currency	BB+	B
	Local Currency	BB+	B
	Outlook	FC Negative LC Negative	Negative Negative
Sovereign	Sponsor Support	2	-
	Stand-Alone	A	-
	Outlook	FC Negative LC Negative	- -

*Assigned by JCR on April 10, 2020



Kardemir Karabük Demir Celik San ve Tic A.Ş.

JCR Eurasia Rating evaluated the consolidated structure of “Kardemir Karabük Demir Celik Sanayi ve Ticaret A.Ş.” in an investment grade category at national level and upgraded the ratings to “AA-(Trk)” on the Long-Term National Scale with “Positive” outlook and “A-1+ (Trk)” on the Short-Term National Scale. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as ‘BB+/ Negative’.

“Kardemir Karabük Demir Celik Sanayi ve Ticaret A.Ş.”, (hereinafter referred to as ‘Kardemir, ‘the Group’), established in 1937, was privatized in 1995 and is Turkey’s first integrated iron and steel plant. Kardemir currently has 2.57 million mt/year of liquid steel production capacity. Kardemir produces railway wheels, rail tracks, profiles, coils, rebar construction steel, blooms, platins, billets, angles, mine poles, pig irons, coke and coke by-products in international quality standards and provides the basic inputs in rail systems, automotive, defence industry, machinery manufacturing, construction and the mining sectors. Kardemir has four major affiliates: Kardökmak A.Ş., with its high-speed casting and mechanical working capacity, is among Turkey’s leading companies in the industry; Karçel A.Ş., manufacturing every type and form of steel in steel construction; Enbatı A.Ş., which operates the hydroelectric power plant, and Karsigorta, which carries out insurance activities. In addition, Kardemir has partnerships in Karçimsa A.Ş. in the cement industry, Erdemir Maden A.Ş. in the mining industry, Vademsaş A.Ş., which was established to produce railway switches suitable for all kinds of conventional and high speeds, Karabük Üniversitesi Teknoloji Geliştirme Bölgesi Yönetici A.Ş. and Energy Exchange İstanbul Inc (Epiaş.).

The Group had a staff force of 4,640 together with its affiliates as of March 31, 2021. All shares of Kardemir are traded on BIST under three different types, namely KRDMA, KRDMB and KRDMC classes of the share and its shareholder structure includes A Type shares 21.1%, B Type shares 10.5%, D Type shares 68.4%.

Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Strong presence in the local market and experience in the sector,
- Establishment of credible and well-established business at local and international level,
- Maintenance of strong revenue and EBITDA growth throughout FY2020 and 1Q2021,
- Ongoing profit generation supporting equity level,
- Maintaining asset quality and conservative capital base,
- Solid financial structure underpinned by robust cash flows metrics,
- As an institution subject to Capital Market Law, improved transparency with regard to corporate governance compliance.

Constraints

- Net FX short position suppressing the profitability,
- Fluctuations in external factors affect revenue and profitability figures,
- Global economic slowdown exacerbated by the Covid-19 pandemic, affecting steel prices and supply&demand.

Considering the mentioned drivers, the Company’s the Long-Term National Rating has been upgraded to “AA-(Trk)” from “A+ (Trk)”. Strong presence in the local market, well-established business and partnerships, robust operational performance, predictable profit margins, sizeable cash balance maintaining asset quality, robust cash flows metrics, highly experienced team, as well as ongoing uncertainties globally; the Company’s outlook for Long-Term National ratings has been determined as “Positive”. Level of debt ratio, profitability ratios, the attainability of the Company’s budgeted projections are to be monitored in the upcoming period. The macroeconomic indicators at national and international markets, as well as market conditions and possible negative effects of Covid-19 pandemic about the sector will be monitored.

Kardemir’s shareholder structure is divided between 3 share groups; A-Type 21.10% (Kardemir workers), B-Type 10.50% (Karabük & Safranbolu Trade Association members) and D-Type 68.40% (Local public, Kardemir retired staff and general public). Sponsor Support notes and risk assessments reflect mainly the financial strength and expected assistance of the major controlling shareholders, namely, Yolbulan, Yücel and Güleç families having the share of A, B and D Types. Consequently, this situation allows the families to maintain control and the management of the Company. Additionally, BoD members and their families are active buyers and sellers of Kardemir’s stock. Based on these assessments, the Company’s Sponsor Support Note has been affirmed at “2”, which denotes adequate external support.

The Stand-Alone Note is constituted regarding assets quality, equity structure, risk management practices, market shares, growth rates and development of market and operational condition risk. JCR Eurasia Rating has determined that Kardemir has reached sufficient knowledge and experience to manage the risk in their balance sheet without shareholder support. The Stand-Alone grade has been assigned as (A) considering the ability of the Company to manage its undertaken incurred risks based on its own and current capitalization.