

Corporate Credit Rating

☑ New □ Update

Sector: Iron and Steel
Publishing Date: Oct 27, 2021

Senior Chief Analyst

Orkun Inan
 +90 212 352 56 73
orkun.inan@jcrer.com.tr

Assistant Analyst

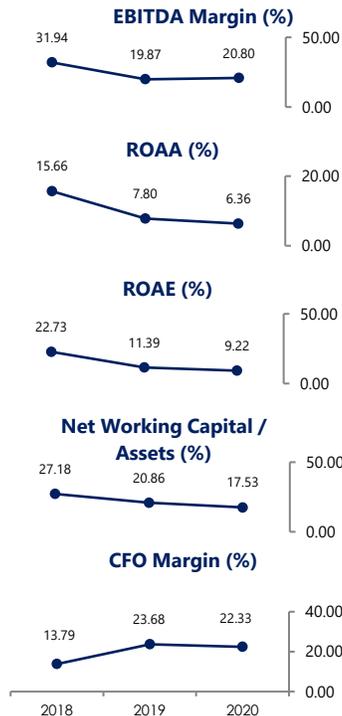
Buke Bora
 +90 212 352 56 73
buke.bora@jcrer.com.tr

RATINGS

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

*Assigned by JCR on May 31, 2021

RATIOS



Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries

JCR Eurasia Rating evaluated the consolidated structure of **“Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries”** and assigned the ratings at highest investment grade **“AAA (Trk)”** on the Long-Term National Scale with **“Stable”** 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’** with **‘Stable’** outlooks.

“Ereğli Demir ve Çelik Fabrikaları T.A.Ş.”, (hereinafter referred to as ‘Erdemir, ‘the Group’), established in 1960, was privatized in 2006. Erdemir currently has two facilities in Ereğli and İskenderun with 3.75mn and 5.80mn tons/year of crude steel production capacity, respectively. Erdemir produces hot and cold rolled, tin, chromium and zinc coated flat steel in international quality standards and provides the basic inputs in automotive, white goods, energy, construction, pipes and tubes, shipbuilding, home appliances, mechanical engineering, heat and pressurized containers, heavy industry, food and packaging sectors. The ISO (Istanbul Chamber of Industry) published the list of Top 500 Industrial Enterprises, Capital500, Fortune Turkey and Erdemir ranked respectively 10th, 11th and 10th. According to the BIST-100 the most valuable and top trading companies ranking, Erdemir ranked 1st.

The Group’s main shareholder is ATAER Holding A.Ş., operating as a holding company in Oyak Group, was founded as SPV (Special Purpose Vehicle) for privatization of Erdemir, with the share of 49.29%. The Group had a staff force of 12,341 together with its affiliates as of June 30, 2021. 47.63% shares of Erdemir are traded on BIST under the name of EREGL.

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

Strengths

- Maintaining large cash position easing liquidity management,
- Establishment of credible and well-established business supporting predictable cash flow generation,
- Foreign exchange linked cash flows generation providing natural hedge,
- Balanced revenue and income stream providing solid EBITDA generation,
- Maintenance of the robust profitability indicators leading internal equity generation,
- Its own subsidiaries well positioned in region to take the advantage of high growth rates,
- Strong presence in the local market and experience in the sector,
- Strong partnership structure and improved transparency with regard to corporate governance compliance strengthening market position.

Constraints

- High level of dividend payments particularly in 1H2021 forcing RCF metric,
- 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 Group’s the Long-Term National Rating has been assigned as **“AAA (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 with its well-positioned subsidiaries, as well as ongoing uncertainties globally; the Group’s outlook for Long-Term National ratings has been determined as **“Stable”**. 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.

Sponsor Support notes and risk assessments reflect mainly the financial strength and expected assistance of the major controlling shareholders, namely, Ataer Holding having the share of B Type. Type-A shares with rights to appoint a board member by Directorate of Privatization Administration. It is assumed that the stated shareholders remain committed to the Group’s mission and maintenance of operational activity and should be able to provide long-term liquidity and equity if such a need arise. In this regard, the Group’s Sponsor Support Grade has been assigned as **“1”**, which denotes the highest level of 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 Erdemir 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 Group to manage its undertaken incurred risks based on its own and current capitalization.