

Corporate Credit Rating

New Update

Sector: Agrochemicals
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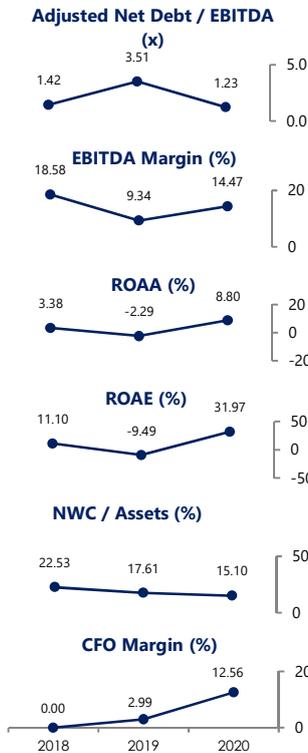
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RATINGS

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

*Assigned by JCR on May 31, 2021



Gübre Fabrikaları Türk A.Ş.

JCR Eurasia Rating, has evaluated consolidated structure of **Gübre Fabrikaları Türk A.Ş.** in investment-level category on the national scales and assigned the ratings on the Long Term National Scale at **'A+ (Trk)'** with **'Stable'** outlook, and Long Term International Scale as **'BB'** with **'Stable'** outlook.

Gübre Fabrikaları Türk A.Ş. (referred to as 'the Company' or 'Gübre Fabrikaları') operates in the field of production, trading and marketing of chemical fertilizers. The Company has five production plants located in Yarımca, Kocaeli and Aliğa, İzmir with 985k tons of solid fertilizer and 100k tons of liquid and powder fertilizer production capacity. In addition, the Company consider to establish new compound fertilizer facility in İskenderun with 200k tons of production capacity per annum which is expected to be fully operational in 2023. Moreover, the Company has operations in Iran, through Razi Petrochemical Co., an affiliate of the Company, conducts the production and sale of fertilizer and fertilizer raw materials. Ammonia, Urea, DAP, Sulfur, Sulfuric Acid and Phosphoric Acid are the outputs of the Razi and Arya, an affiliate of Razi. In addition, the Company is in the field of port management field. The Company's ports, located in İskenderun and Yarımca in which logistic activities of the Company are carried out largely through these ports. In 2020, Company achieved to post 3.4 million tons of sales volume including liquid and powdered fertilizers, up by 19.5% YoY while production increased by 4.0% YoY and reached 2.3 million tons. Last but not least, the Company has mining field in the northwestern province of Bilecik whose gold deposit is estimated to be around 3.5 million troy ounces. The Company consider to invest around USD 450 million as a capital expenditure until 2023 and start to gold production in late 2022. The Company was founded in 1952 and is headquartered in Kadıköy, İstanbul.

Turkey lacks raw material sources like natural gas, phosphate rock and potassium salts required to produce fertilizers, therefore imports most of its need. While total production capacity of industry is over 6.0 Mt/year, AN, CAN, DAP, Urea and compound fertilizers are the main outputs in the production facilities. Consumption fluctuated around 6.0 million tons/year between 2016 and 2019 and reached all-time high level of 7.2 million tons in 2020, indicating a 18% YoY growth.

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

Strengths

- Significant portion of sales made to main shareholder with low collection period stimulate cash generation capacity
- Upward trend in cash conversion cycle over the reviewed period
- Robust sales revenue growth owing to unit price increases during Jan-Sep,2021
- Improvement in financial leverage ratios
- Significant potential revenue from gold mining business in the upcoming periods
- Long lasting presence in the sector and successful track-record
- Strong domestic network and well-known brand

Constraints

- Qualified opinion in audit report stemming from Iran operations
- Unsecured sales and overdue receivables from Iran state authorities decrease asset quality
- Raw material prices and currency fluctuations may put pressure on profitability margins
- Ongoing sanctions on Iran pressuring profitability margins
- Currency risk exposure due to having short FX position in balance sheet
- Having exposure to exogenous facts including global product prices and weather conditions
- Albeit the industry is Covid-19 resilient, pandemic on global and local economies overhang as a systematic risk
- High volatility on currency rates increasing uncertainty and affecting financials of corporates as well as debt service capacity

Considering the aforementioned points, the Company's the Long Term National Rating has been assigned as **'A+ (Trk)'**. The Company's profitability level, cash generation ability, capability to access funding resources along with ongoing uncertainties due to export ban in the industry have been evaluated as important indicators for the stability of the ratings and the outlooks for long and short term national ratings are determined as **'Stable'**. Sustainability of the Company's profitability performance, debt level and cash generation capacity together with the trends in the industry are to be monitored by JCR Eurasia Rating. The macroeconomic indicators at national and international markets, as well as market conditions and legal frame about the sector will be continued to be monitored.

Main shareholder of the Company, Türkiye Tarım Kredi Kooperatifleri Merkez Birliği, is considered to have the willingness and experience to ensure long-term liquidity and equity when required and to provide efficient operational support to the Company. In this regard, the Company's Sponsor Support Grade has been affirmed as **(2)** in JCR Eurasia Rating's notation system.

Considering the Company's equity level, ongoing operations, liquidity reachability and internal resource generation capacity, we, as JCR Eurasia Rating, state the opinion that the Company has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholders, if it preserves its current customer level, efficiency and existing macroeconomic level in the market. Within this context, the Stand-Alone grade of the Company has been assigned as **(A)** in the JCR Eurasia Rating notation system.