

## Corporate Credit Rating

New  Update

**Sector:** Metal Industry

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**Chief Analyst**

Ömer Sucu

+90 212 352 56 73

omer.sucu@jcrer.com.tr

**Analyst**

Büke Bora

+90 212 352 56 73

buke.bora@jcrer.com.tr

## İskenderun Demir ve Çelik A.Ş.

JCR Eurasia Rating, has evaluated "İskenderun Demir ve Çelik A.Ş." in the highest investment level category and revised the Long-Term National Issuer Credit Rating from 'AA+ (tr)' to 'AAA (tr)' and the Short-Term National Issuer Credit Rating as 'J1+ (tr)' with 'Stable' outlooks. On the other hand, the Long-Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were determined as 'BB/Negative', same as country ceiling.

As the biggest subsidiary of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (hereinafter referred to as "Erdemir"), a member of OYAK Group, **İskenderun Demir ve Çelik A.Ş.** (hereinafter referred to as 'Isdemir', 'the Company'), is Türkiye's third oldest integrated iron and steel plant by its establishment date and the largest by its long product manufacturing capacity. Isdemir is Türkiye's only integrated plant that produces long and flat products with a hot rolling capacity of 3.5 million tons/year commissioned in 2008.

Isdemir was established on October 3, 1970 by the Mediterranean coast in the south of Türkiye, in Payas (Yakacık), 17 km to İskenderun. Thanks to Modernization and Transformation Investments in 2004, Isdemir started to produce flat products in addition to long products as of August 2008. Isdemir produces billets, wire rod, hot rolled coils, slab and pig iron. In addition to these products, by products including coke, oxygen, nitrogen, argon, ammonium sulphate, granulated slag, tar and benzol. Moreover, the Company increased its initial liquid steel capacity of 2.2 million tons/year to 5.8 million tons/year. It also has an installed production capacity of 3.5 million tons/year for flat products, 0.6 million tons/year for coils and 2.5 million tons/year for billets as finished products.

All shares of Isdemir were transferred to Erdemir by the Turkish Privatization Administration with a Share Transfer Agreement dated January 31, 2002, on the condition that investments would be made for the transition to flat production. Following the acquisition of Erdemir by OYAK, Isdemir started to operate under Erdemir as of February 27, 2006. Currently, 94,87% of Isdemir shares are owned by Erdemir and 5,13% of the shares are traded on BIST under the name of ISDMR. The Company employs 4,744 personnel as of June 30, 2022. The paid in the capital of Isdemir was TRY 2.9bn as of 1H2022.

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

### Strengths

- Balanced revenue and income stream providing solid EBITDA generation,
- Net cash position particularly in FYE2021 easing liquidity management despite net debt over the reporting period,
- Credible and well-established business supporting predictable cash flow generation,
- Foreign exchange linked cash flow generation providing natural hedge opportunity,
- Strong profitability indicators supporting internal resource generation,
- 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 in FY2021 and 1H2022 forcing UCF metric,
- Fluctuations in external factors affect revenue and profitability figures, particularly to weigh on margins during FY2022,
- Growing uncertainties along with geopolitical tensions and recession concern in Europe, affecting commodity prices, supply and demand.

Considering the aforementioned factors, the Company's the Long-Term National Rating has been revised to 'AAA (tr)'. 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 have been evaluated as important indicators for the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as 'Stable'. The Company's debt and equity level, additional cash flows that will be generated by completed and ongoing investments, profitability indicators and expansion in export markets will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.

RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	AAA (tr)	J1+ (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
	International LC ICR Outlooks	Negative	-
ISRs (Issue Specific Rating Profile)	National ISR	-	-
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

\* Assigned by JCR on Aug 18, 2022

