

## Corporate Credit Rating

New  Update

**Sector:** Energy

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RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	CCC (tr)	J5 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	CC	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	CC	-
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Negative	-
	National ISR	-	-
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB Negative	-
	Local Currency	BB Negative	-

\* Assigned by JCR on August 18, 2022

## KANGAL TERMİK SANTRAL ELEKTRİK ÜRETİM ANONİM ŞİRKETİ

JCR Eurasia Rating, has evaluated the "Kangal Termik Santral Elektrik Üretim Anonim Şirketi" in the significant credit risk level category and downgraded the Long-Term National Issuer Credit Rating from 'B (tr)' to 'CCC (tr)' and assigned the Short-Term National Issuer Credit Rating as 'J5 (tr)'. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks have been assigned as 'CC/Negative'.

**Kangal Termik Santral Elektrik Üretim Anonim Şirketi** (referred to as 'the Company' or 'Kangal Termik'), operates the Kangal Thermal Power Plant, located in Kangal, Sivas, with an installed power of 457 MW and working with lignite coal within the scope of the "Sales and Operating Rights Transfer" agreement. This contract was signed on August 14, 2013 between the Republic of Turkey Prime Ministry Privatization Administration (Privatization Administration) and Elektrik Üretim Anonim Şirketi ("EÜAŞ") and Kangal Termik in accordance with the decision of the Privatization High Council dated April 25, 2013 and numbered 2013/62. The construction of the facility, which was under the control of EÜAŞ before this transfer, was completed in 1989 and started to produce electricity with its two units. In 2000, the third unit was completed and included in the facility. Kangal Termik Power Plant has a total of 91,717,598 tons of usable coal in a single license with a total area of 8,045 hectares.

The Company's sole shareholder is Konya Şeker Sanayi ve Ticaret A.Ş. with the share of 100%. Konya Şeker with its subsidiaries have operations in different sectors such as the manufacturing of energy, sugar, milk & meat products, chocolate, cake, biscuits, fresh & frozen foods, fresh beverages, sunflower oil, seeds, sapling, fodder, bioethanol and livestock breeding. The Company employed a staff force of 506 as of FYE2021.

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

### Strengths

- One of the players in the Turkish energy sector with its installed capacity,
- Maintaining revenue and EBITDA generation capacity in analyzed years,
- Low collection risk due to significant part of the sales to public institutions in Turkey.

### Constraints

- High level of debt burden limiting maneuvering capability and critical deterioration in leverage ratios,
- Active delinquency records at banks,
- Sizeable negative equity structure leading substantial cash injection,
- High deterioration in cash flow metrics,
- Having power plants portfolio that depends solely on fossil fuel as an energy source,
- Foreign currency risk exposure through financial liabilities despite providing natural hedge to a certain extent,
- High dependency of operations on regulations,
- Pressures of ESG factors on coal power plants.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been downgraded from 'B (tr)' to 'CCC (tr)'. Asset quality, business volume and experience in the sector, as well as, high level of debts and equity structure, cash metrics, high dependency on banks and energy market conditions have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as 'Stable'. An achievement of budget targets of the Company, debt ratio, profit margins and regulations, as well as market conditions regarding the sector 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.

