Corporate Credit Rating

☐New ☒Update

Sector: Electricity Generation
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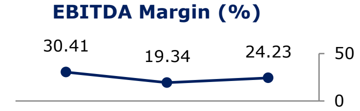
Team Leader
Muhammet Başar
+90 212 352 56 73
muhammet.basar@jcrer.com.tr
Analyst
Muhammed Recep Durupınar
+90 212 352 56 73
recep.durupinar@jcrer.com.tr

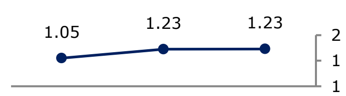
RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	B (tr)	J4 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	CCC	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	CCC	-
	International LC ICR Outlooks	Negative	-
ISRs (Issue Specific Rating Profile)	National ISR	-	-
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

* *Assigned by JCR on Aug 18, 2022*

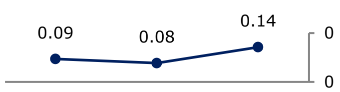
EBITDA Margin (%)



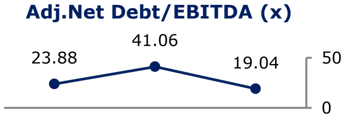
FOCF/Adj. Net Debt (%)



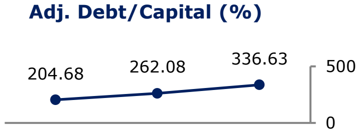
Current Ratio (x)



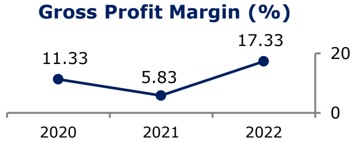
Adj.Net Debt/EBITDA (x)



Adj. Debt/Capital (%)



Gross Profit Margin (%)



KANGAL TERMİK SANTRAL ELEKTRİK ÜRETİM ANONİM ŞİRKETİ

JCR Eurasia Rating has evaluated **"Kangal Termik Santral Elektrik Üretim Anonim Şirketi"** in the speculative grade category and upgraded the Long-Term National Issuer Credit Rating from **'CCC (tr)'** to **'B (tr)'** and assigned the Short-Term National Issuer Credit Rating at **'J4 (tr)'** with **'Stable'** outlooks. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned at **'CCC/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 Türkiye 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. (Konya Şeker) 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 499 as of FYE2022.

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

Strengths

- The expectation of improvement in debt payment capacity thanks to financial restructuring and converting financial borrowing into TRY,
- Maintaining revenue and EBITDA generation capacity in reviewed years,
- One of the players on the Turkish energy sector with installed capacity,
- Asset quality strengthened by the low collection risks due to significant part of the sales to public institutions in Türkiye,

Constraints

- High level of debt burden limiting maneuvering capability and critical deterioration in leverage ratios,
- High financing expenses, derived from continuing debt burden, mainly stemming from unrealized FX losses pressuring bottom line results in FY2022,
- Continued sizeable negative equity due to previous year's loss,
- Having power plants portfolio that depends solely on fossil fuel as an energy source,
- Foreign currency risk exposure through financial liabilities,
- 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 upgraded from **'CCC (tr)'** to **'B (tr)'**. Taking into account, the Company's 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 also be monitored.