

Corporate Credit Rating

☐New ☑Update

Sector: Petrochemical

Publishing Date: 27/10/2023

Senior Analyst

Alperen Adanir

+90 212 352 56 73

alperen.adanir@jcrer.com.tr

RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	AA+ (tr)	J1+ (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
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

Petkim Petrokimya Holding A.Ş.

JCR Eurasia Rating, has evaluated the "Petkim Petrokimya Holding A.Ş." in the investment-level category and revised the Long-Term National Issuer Credit Rating from 'AAA (tr)' to 'AA+ (tr)' and affirmed 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 affirmed as 'BB/Negative' as parallel to international ratings and outlooks of Republic of Türkiye.

Petkim Petrokimya Holding A.Ş. (referred to as 'the Company' or 'Petkim'), with a foundation dating back to 1965, started its production activities in 1970 with 5 facilities in the Yarımca Complex in İzmit/Türkiye. Following additional investments carried out in the Yarımca Complex, the Aliağa Complex was brought into operation in 1985. With the privatization in 2008, Petkim has joined SOCAR Group, and as of the report date, 51% of the Company's shares are owned by SOCAR Turkey Petrokimya A.Ş., which is ultimately controlled by SOCAR Turkey Enerji A.Ş. As of the report date, the ultimate controlling party of Petkim is State Oil Company of Azerbaijan Republic ("SOCAR"). The rest of Petkim's shares (49%) have been traded on Borsa İstanbul Index (BIST) since 1990 under the ticker-name of "PETKM". Currently, with an annual average gross production capacity of 3.6 mn tons and nearly 60 petrochemical products in its 15 main production facilities and 6 auxiliary facilities, Petkim provides inputs to a wide range of industries such as plastic, chemical, packaging, piping, paint, construction, agriculture, automotive, electricity, electronics, and textiles as well as the pharmaceuticals, detergents and cosmetics sectors. In addition to its core operating field of petrochemicals, the Company also engages in port operations and electricity generation from wind source. Petkim Limançılık Ticaret A.Ş. ("Petlim"), which is located in Aliağa, İzmir, has an annual container handling capacity of the port is 1.5 mn TEUs. Petkim WPP operates in the field of electricity generation with 17 turbines and 51 MW capacity. Petkim ranked 26th in Fortune 500 Türkiye and 23rd in the list of Türkiye's Top 1000 Exporters list published by the Turkish Exporters Assembly (TIM) in 2022. As of 1H2023, Petkim reached TRY 43.08bn in total asset size and TRY 19.27bn in equity in consolidated terms. The total number of employees in the Company was 2,357 as of 1H2023 (FYE2022: 2,328).

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

Strengths

- Strong shareholder structure with the support of SOCAR Group,
- Spreading financial liabilities over the long-term in 1H2023 with the loan for the purpose of financing the repayment of Eurobonds and strengthening the short-term financial stability,
- Despite the FX-denominated costs, export volume and FX-indexed domestic sales provide a barrier against exchange rate risk to a certain extent,
- Asset structure supported by the high collection capability provided by guarantees received from diversified customer portfolio,
- Cost saving advantage achieved through the strong synergy between group companies and benefiting from the integrated structure of the Aliağa Petrochemical Complex,
- Revenue structure supported by commercial product sales as well as production,
- Over 50 years of experience in sector and successful track record,
- High compliance with corporate governance practices.

Constraints

- Contraction in sales volumes and declining profit margins due to global oversupply and weakening demand conditions in the sector in 1H2023,
- Deterioration in leverage metrics with increased borrowing structure as of FYE2022 and 1H2023,
- The volatility caused by the fact that the prices of petroleum products are determined in global markets reducing predictability,
- Global economic growth slows down evidenced by commodity prices and trade figures on the back of rapid monetary tightening, whereas domestic restrictive financial conditions limit access to finance.

Considering the aforementioned points, the Company's Long-Term National Issuer Credit Rating has been revised to 'AA+ (tr)'. The Company's profitability indicators, asset size, solid equity structure, and cash position, as well as many years of experience in the sector, along with ongoing uncertainties arisen from geopolitical tensions as well as global interest rate hiking cycle, 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'. The Company's profitability performance, asset quality, equity structure, and debt level together with the industry specific developments 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.

