

CREDIT OPINION

1 August 2024

Update

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RATINGS

Koc Holding A.S.

Domicile	Turkiye
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Koc Holding A.S.

Update following upgrade to Ba3 positive

Summary

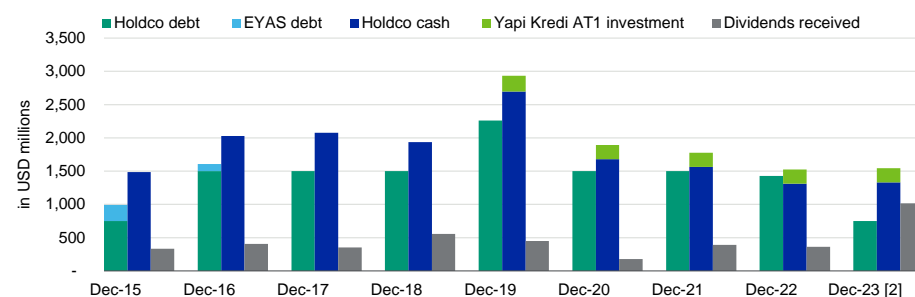
On 26 July 2024, we upgraded the ratings of [Koc Holding A.S.](#) (Koc Holding) to Ba3 from B2 and maintained the positive outlook. The rating action is a direct consequence of the upgrade on 19 July of the Government of Turkiye's rating to B1 positive from B3 positive.

Koc Holding's Ba3 Corporate Family Rating (CFR) reflects the company's strong financial profile and balanced portfolio of investments in mature and high-growth companies, which diversify the entity's dividend income. The holding company has a track record of maintaining a net cash position and follows a prudent approach in managing its investment portfolio. As of 31 March 2024, Koc Holding has a net cash position of \$777 million.

The rating takes into account the geographic concentration of investments to [Turkiye](#) (B1 positive) and the volatility in the Turkish equity market. Koc Holding benefits from a degree of natural hedge against the depreciation of the Turkish lira because of the exposure of various operating companies to US dollar- and euro-linked cash flow. Nevertheless, the exposure to the country's political, legal, fiscal and regulatory environment constrains Koc Holding's ratings at Turkiye's foreign currency bond ceiling of Ba3.

Exhibit 1

Strong financial profile is supported by significant cash balances at holding level and steady dividends from a diversified investment portfolio



[1] Debt at intermediate EYAS SPV is non-recourse to Koc Holding and was fully paid in April 2017.

[2] Yapi Kredi AT1 investment was called in January 2024.

Sources: Moody's Ratings, Company data

Credit strengths

- » Diversified investments across sectors and companies, each having varying sensitivity to the Turkish economy through differences in cyclical nature of business and capex needs
- » Highly transparent investment portfolio, with over 90% of the investment value listed
- » Conservative approach to investments, with a track record of financial discipline and adherence to internal leverage targets

Credit challenges

- » High geographic concentration of investments, as all core companies are domiciled in Türkiye with significant asset exposure to domestic market
- » Heightened regional geopolitical risks may make operating environment more difficult

Rating outlook

The positive outlook mirrors that of the Government of Türkiye and reflects Koc Holding's exposure to the country's political, legal, fiscal and regulatory environment.

Factors that could lead to an upgrade

The ratings of Koc Holding could be upgraded if Türkiye's sovereign rating is upgraded. This would also require no material deterioration in the company's operating and financial performance, market positions and liquidity.

Factors that could lead to a downgrade

Koc Holding's ratings could be downgraded in case of a downgrade of Türkiye's sovereign rating and a lowering of the foreign-currency bond ceiling. In addition, downward rating pressure could arise if there are signs of a significant deterioration in liquidity or if government imposed measures were to have an adverse impact on corporate credit quality.

Key indicators

Exhibit 2

Koc Holding A.S. [1]							
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Market Capitalisation (USD bn)	12.4	6.8	8.7	7.2	5.4	8.3	12.2
Portfolio Value (USD bn) [2]	12.1	6.8	8.3	9.4	8.3	17.4	17.4
Cash (USD bn)	2.1	1.9	2.7	1.7	1.5	1.3	1.3
Market Leverage [3]	-4.7%	-6.2%	-5.2%	-1.7%	-0.7%	0.8%	-3.3%
Asset Concentration [4]	49.5%	49.3%	44.8%	47.6%	47.6%	55.4%	55.9%
(FFO + Interest Expense)/Interest Expense [5]	7.0x	10.4x	6.7x	2.3x	5.5x	4.5x	15.7x

[1] Calculations are based on parent level (standalone) financials and include Moody's adjustments. All values are as of year end.

[2] Portfolio value is based on market cap of listed investments and NAV of unlisted investments and excludes cash.

[3] (Net Debt) / (value of investment portfolio); Net debt historically included non-recourse financial debt at EYAS level which was repaid in April 2017.

[4] (Top 3 investments) / (value of investment portfolio + cash at holding company level).

[5] FFO at parent level for Koc Holding is calculated as sum of management fees, dividend, interest, and rental income less opex, interest and tax paid.

Source: Moody's Ratings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

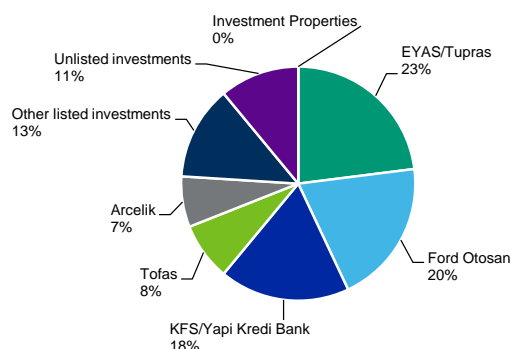
Profile

Founded in 1926, Koc Group is one of Türkiye's most prominent business groups, with investments in various sectors including energy, automotive, consumer durables and finance. Koc Holding A.S. was established in 1963 to house and centrally manage the group's diverse investment portfolio. The Koc family members directly and indirectly own 63.4% of the holding company while another 26.9% is listed on Borsa Istanbul.

In 2023, Koc Holding reported consolidated revenue of TL1,605 billion and an operating profit of TL223 billion.

Exhibit 3

Majority of investments are listed on Borsa Istanbul providing a high degree of analytical visibility Portfolio split by listed/unlisted investments, as of 31 December 2023



The above chart is based on total portfolio value split by listed and unlisted investments, excluding cash balances. Listed investments are based on market cap while unlisted investments and investment properties are based on Net Asset Value (NAV). For unlisted investments and investment properties, the NAV is determined by the company's internal valuations. NAV is defined as assets minus liabilities for each investment.

Sources: Moody's Ratings, FactSet, Company presentation

Detailed credit considerations

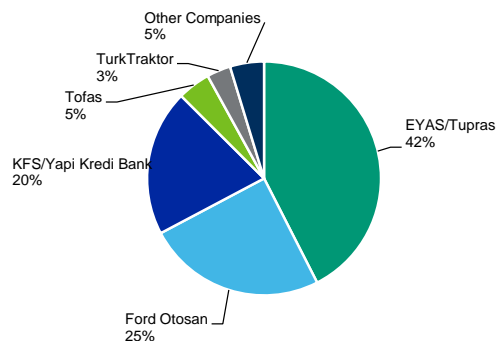
Strong performance and financial flexibility at Holding company level, a credit positive

Functioning solely as an investment holding company, Koc Holding's cash requirements remain low and the company has no material requirements in terms of working capital or committed capex. In March 2023, Koc Holding repaid the \$750 million Eurobond from cash on balance sheet. Historically, the company's ability to cover operational expenses and service debt has been strong and this remains the case, with recurring income generated from investment returns, management fees and interest income. Cash outflows over an investment cycle are primarily linked to principal and interest payments on financial debt, staff and operating costs and capital injections to existing investments. During July 2023, Koc Holding sold a stake of 6.8% [Yapi ve Kredi Bankasi A.S.](#) (Yapi Kredi, B1 positive) for TL6.8 billion which further improved its already strong cash position.

We calculate that Koc Holding's market value leverage (MVL) as of December 2023 is between -3% and -4% (negative given net cash position) which we consider very strong translating into a Aaa rating MVL factor under our investment holding methodology. As of 31 March 2024, the company continued to hold high cash balances and maintained a net cash position of \$777 million. Koc Holding's high cash balance equivalent to \$1.5 billion provides good buffer to cover for any potential negative free cash flow, however this is not our base case.

The sector and investment diversification of the investment portfolio will generate, on average, a reliable dividend income stream, which is expected to continue growing as most of the investment programs at the level of key subsidiaries have been completed. Tupras, Türkiye's largest refining company, historically has been a key dividend contributor. During 2020, the company stopped distributing dividends due to the Covid-19 pandemic related to weaker performance and accumulated losses. However, Tupras' dividends were reinstated from 2023 and Koc Holding received TL10.3 billion dividends from Tupras and Eyas during 2023, representing 42% of Koc Holding's dividend income in 2023. Koc Holding's other investments, such as Ford Otosan, Arcelik, Turk Traktor, Tofas and Yapi Kredi, have performed well in 2022 and 2023. As a result, Koc Holding received a total of TL24.2 billion of dividend income in 2023.

Exhibit 4
Breakdown of 2023 dividend income



Source: Company presentation

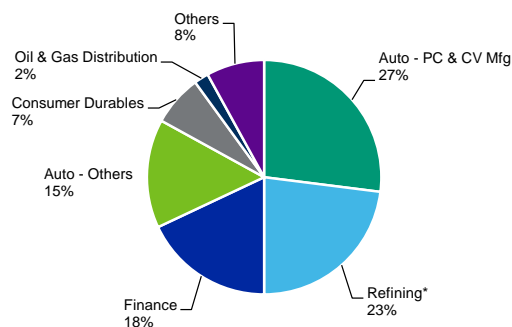
Moody's adjusted interest cover, measured as (FFO + interest expense) / interest expense, remains strong for 2023 at 15.7x and we expect it to further strengthen in 2024 due to the higher level of dividend inflows.

Through the supportive stance taken by the company's shareholders, both acquisition and investment outflows and dividend payments remain discretionary in nature. Koc Holding has a flexible dividend policy, which can be adjusted downward if necessary. This was demonstrated when Koc Holding lowered its dividend to TL671 million from TL1.2 billion in April 2020 as a result of lower dividends received from its subsidiary companies due to the Covid-19 pandemic, in particular no dividends from Tupras.

Diversified investments across sectors but a degree of investment concentration risk remains

Koc Holding's investment portfolio is fairly balanced across the energy, automotive, consumer durables and finance business segments with various additional investments in other sectors (Baa for the Business Diversity sub-factor). However, auto manufacturers and related industries which can be seen as cyclical represent around 42% of Koc Holding's investment portfolio value. We recognise that specific businesses within a given sector have uncorrelated characteristics, such as in the energy sector where the business profile is noticeably different between oil and gas distribution (Aygaz and Opet) and refining (Tupras). We also differentiate between the passenger and commercial vehicle manufacturers (Ford Otosan and Tofas) and the other automotive businesses (Otokar, Turk Traktor and Otokoc). At the same time, in assessing the various businesses, we also consider the materiality of the investment with respect to the total portfolio.

Exhibit 5
Diversified portfolio across multiple sectors
Portfolio split by industry, as of 31 December 2023



*Refining sector corresponds to Tupras, which includes the value of Opet, where Tupras has a 41.7% stake.

Sources: Moody's Ratings, FactSet, Company presentation

The portfolio exhibits a moderate degree of investment concentration, with the company's top three investments constituting almost 60% of its invested portfolio (excluding cash balances) plus holding company cash balances (Ba for the Asset Concentration sub-factor). Under our practice for calculating the portfolio value, we use the net asset value or book value of investment at the holding company level for unlisted companies and market-derived value for listed companies. This conservative approach undervalues Koc Holding's portfolio slightly as some of the unlisted investments have a very low cost basis and therefore does not reflect the fair value of the business.

The rating incorporates our expectation that Koc Holding will continue to invest in a meaningful manner when opportunities arise. Strategic growth would reduce the company's asset concentration risk and/or increase its geographic diversification, but we expect that Türkiye will remain the group's largest market.

Limited geographic diversity of investments partially offset by high degree of international sales exposure to Europe

Koc Holding's rating is constrained as a result of its geographic concentration of investments in Türkiye (B for the Geographic Diversity sub-factor). In addition, all of Koc Holding's core operating companies have high exposure to both the domestic market and to Europe (either directly or indirectly). However, 50% of the total revenues in 2023 (48% of Q1 2024) were international or had a foreign currency link, which protect the holding against potential downturns in the Turkish economy.

Moody's anticipates the Turkish economy's real GDP to grow 3.2% and 2.5% during 2024 and 2025 respectively. However, we expect inflation to remain high, over 50% in 2024 and potentially dent the country's internal demand. A sustained macroeconomic environment deterioration would lead to a more difficult business and operating environment for the Group's investments. Koc Group's exposure to the Turkish market is partially mitigated by export-oriented companies particularly in the consumer durables and automotive segments. In addition, refined oil-product sales through Tupras are priced off international benchmarks and can be exported, making up a material portion of total group revenue that are less sensitive to domestic demand and currency movements.

Volatility in foreign exchange rates and the Turkish lira depreciation suffered during the last 24 months, in particular after the general elections held in May 2023, and continues to be a risk for companies in Türkiye that have liabilities denominated in hard currencies. For the 2023 financial year, the lira depreciated about 57% (2022:40%) against the dollar with periods of high volatility. Active risk management measures employed by the Koc Group companies provide comfort that in periods of volatile currency markets, the group will prudently manage foreign exchange risk.

Exposure to Türkiye is a key credit constraint

Koc Holding is domiciled in Türkiye and its investments are mostly concentrated in the country. As such, the company is materially exposed to Türkiye's economic environment. We consider the unpredictable policy shifts, fueled by unorthodox measures of the government in an attempt to stabilize the currency and restore foreign-currency buffers as a risk for Türkiye's corporates. These risks constrain Koc Holding's rating at Türkiye's foreign currency ceiling of Ba3. While not anticipated, any change in Türkiye's regulatory framework that causes a financial burden on Koc Holding's investments is likely to weigh on the current rating.

While Koc Holding's revenue comprises mostly local currency denominated dividends, some of the companies in its investment portfolio generate international revenue and hard currency revenue that provide access to foreign currency. The company reported about 30% of combined Q1 2024 revenue being exposed to foreign currency and 48% if [Türkiye Petrol Rafinerileri A.S.'s](#) (Tupras, Ba3 positive) foreign currency linked revenue is included. Moreover, the majority of Koc Holding's dividend income is derived from portfolio companies that have foreign exchange (FX) or FX-linked revenue.

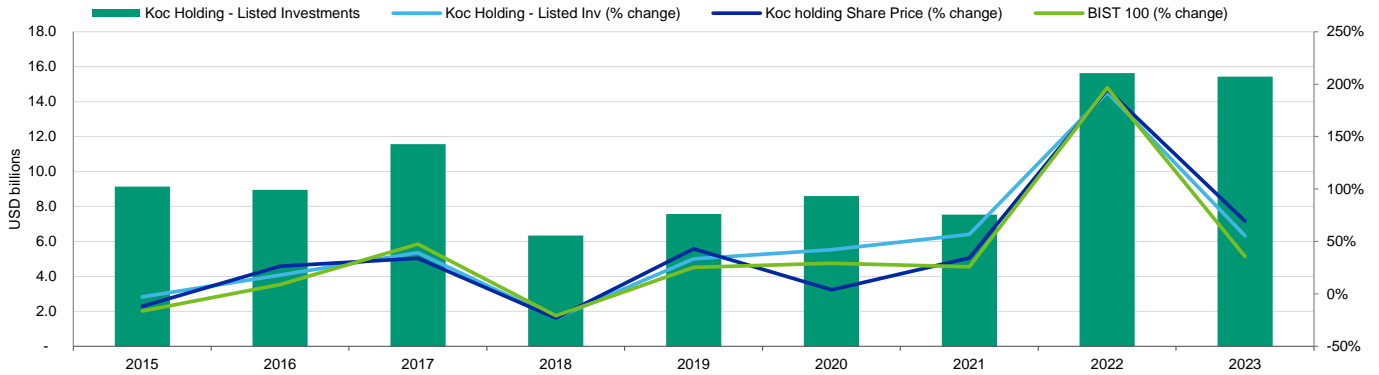
High portion of listed investments provides high degree of transparency on portfolio values

Koc Holding's listing on Borsa Istanbul, along with around 90% of its investment portfolio provides a high degree of transparency and is an important tool for assessing the quality of the company's underlying investments. Listed equity stakes help to assess the value of investments and are an additional source of liquidity for the holding company.

The sharp movements in share prices of Koc Holding and its operating companies over the past five years highlight the inherent volatility of the equity markets, as shown in exhibit 6. The current rating provides headroom for material volatility in asset values while incorporating our expectation that internal net leverage targets will be adhered to.

Exhibit 6

Listed market values have heightened volatility



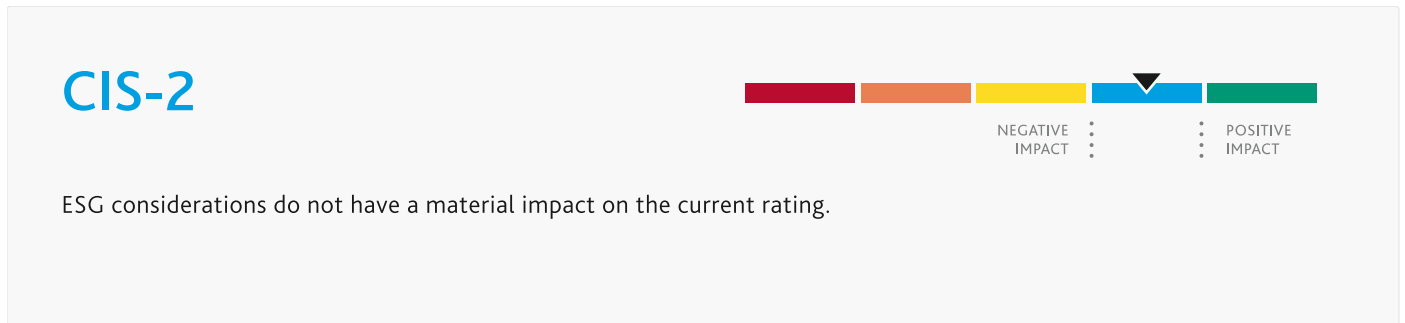
Source: Moody's Ratings, FactSet, Company presentation

ESG considerations

Koc Holding A.S.'s ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

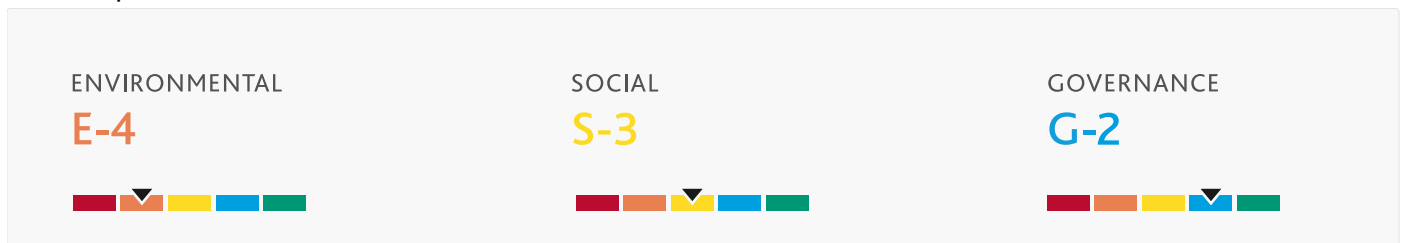


Source: Moody's Ratings

Koc Holding A.S.'s CIS-2 indicates that ESG considerations do not have a material impact on the current credit rating, which is constrained by the sovereign rating of Turkiye (B1 positive). Koc Holding has set proactive financial and risk management policies across its portfolio of companies to manage key business and credit risks. This oversight across its portfolio of companies is an additional layer of risk mitigation for the operating companies it has invested in and which we expect will strengthen the value of investments over the long term. In addition, event and execution risks associated with past acquisitions and investments are mitigated by the prudent approach the company has followed in managing its credit profile and avoiding financial over-leverage. We expect the company to maintain strong MVL and FFO interest coverage.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Koc Holding's **E-4** environmental issuer profile score reflects its indirect exposure to environmental risks through its investee companies, chief among which are Tupras and Aygaz which account to nearly 18% of Koc Holding's portfolio. Tupras' E-5 is driven by its exposure to carbon transition risk. Aygaz's E-5 is driven by the fact that, as a company exposed to the oil & gas industry, the company may face many regulations, which can weigh on costs and its ability to pay dividends in the future.

Social

Koc Holding's **S-3** social issuer profile score reflects the company's indirect exposure to social risks through its investee companies. Koc Holding's high exposure to Demographic and Societal Trends and, Responsible Production risks, reflect the company's exposure to Tupras and the oil and gas and automotive sector, which accounts for over 60% of Koc Holding's portfolio.

Governance

Koc Holding's **G-2** governance issuer profile score is linked primarily to the company's conservative financial policies and track record of maintaining a net cash position with a prudent approach in managing its investment portfolio. The company has a strong MVL ratio and manages its investments conservatively. The **G-2** score also reflects Koc Holding's concentrated ownership structure through a direct or indirect investment by the Koc Family. Additionally, four of the twelve board directors are independent.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Koc Holding's liquidity profile over the next 12 months is expected to be strong. As of 31 March 2024 Koc Holding had a cash balance of around TL49 billion (\$1.5 billion). We understand that 96% of the company's cash is held in foreign currency, both in domestic and international banks, which reduces its counterparty risk, in Moody's view, to the weaker credit quality of Turkiye-based financial institutions.

Koc Holding's liquidity profile over the next 12 months is supported by projected cash inflows from dividend income, rental income, interest income on cash balances and management fees. We expect cash inflows will further improve the company's strong liquidity position. Koc will face the maturity of a \$750 million bond in March 2025, however the company has sufficient cash on balance sheet to decide to repay it or refinance it.

Rating methodology and scorecard factors

We view Koc Holding as having certain characteristics of a conglomerate, with the company as a shareholder remaining committed to its key investments while actively defining and managing the risk profile of individual operating companies by maintaining majority or joint control through joint venture partners. However, the decentralised approach to managing individual operations and the holding company's policy to clearly separate financing between the holding and operating company levels (with non-recourse debt and absence of guarantees) supports the investment holding methodology approach for our credit analysis.

The scorecard-indicated outcome and forward looking view for Koc Holding is A2, with strong financial metrics. The multi-notch difference to the actual assigned rating of Ba3 is due to Türkiye's foreign currency ceiling of Ba3 and B1 sovereign rating, constraining the rating.

Exhibit 9

Investment Holding Companies Industry [1]		Current 12/31/2023	Moody's 12-18 Month Forward View [2]	
Factor 1 : Investment Strategy (10%)	Measure	Score	Measure	Score
a) Investment Strategy	Baa	Baa	Baa	Baa
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	Ba	Ba	Ba	Ba
b) Geographic Diversity	B	B	B	B
c) Business Diversity	Baa	Baa	Baa	Baa
d) Investment Portfolio Transparency	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Aaa	Aaa	Aaa	Aaa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	16x	Aaa	20x - 25x	Aaa
b) Liquidity	Aaa	Aaa	Aaa	Aaa
Rating:				
a) Scorecard-Indicated Outcome		A2		A2
b) Actual Rating Assigned				Ba3

[1] Ratios are based on holding level numbers and involves estimation of investment portfolio value.

[2] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

[3] FFO at parent level for Koc Holding is calculated as sum of management fees, dividend, interest, and rental income less opex, interest and tax paid.

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
KOC HOLDING A.S.	
Outlook	Positive
Corporate Family Rating	Ba3
Senior Unsecured	Ba3/LGD4

Source: Moody's Ratings

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