S&P Global
Ratings

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Koc Holding A.S.

Primary Credit Analyst:
Marta Bevilacqua, Milan + (39)0272111298; marta.bevilacqua@spglobal.com

Secondary Contact:
Florent Blot, CFA, Paris + 33 1 40 75 25 42; florent.blot@spglobal.com

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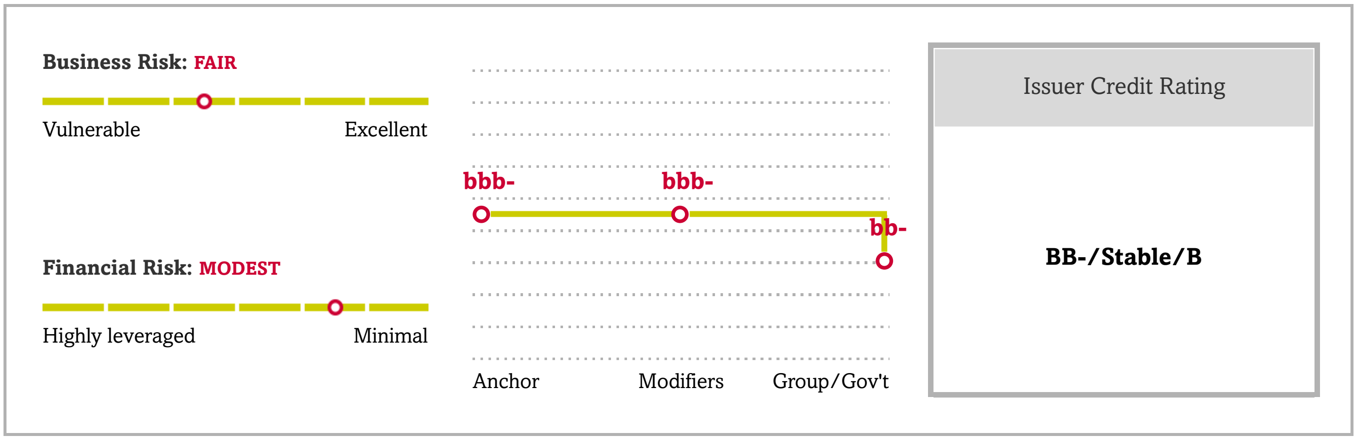


Credit Highlights

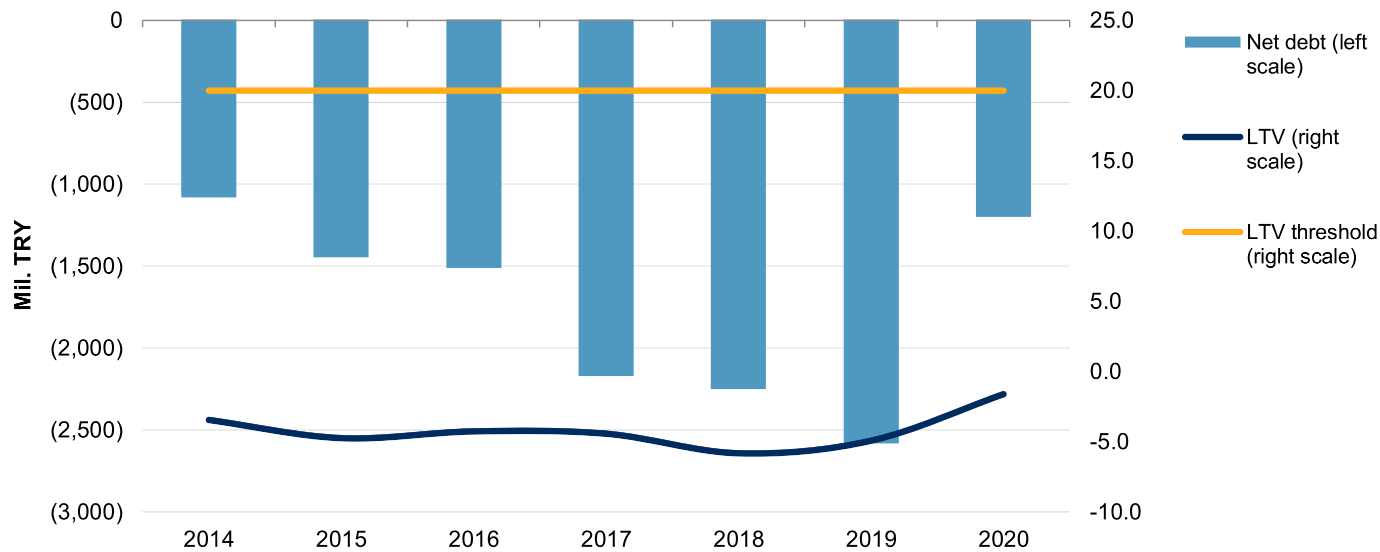
Overview

Key strengths	Key risks
A portfolio of $10.1 billion (Dec. 31, 2020), characterized by good sector diversity and a high portion of liquid assets.	High country risk in Turkey.
About 50% of Koç's combined revenues are in hard currency, partially protecting the holding company's subsidiaries from potential lira devaluation.	Constraint on our rating on Koç from our transfer & convertibility (T&C) assessment, currently 'bb-', given that more than 90% of the holding company's dividends derive from Turkey.
Long track record of prudent financial policy and ability to safeguard the holding company's credit standing even under a potential stress scenario for Turkey.	Some concentration in the portfolio, with the three largest assets representing about 50%-55% of portfolio value as of Dec. 31, 2020, excluding cash.
A net cash position since we assigned the rating in 2013.	Relatively weak investee credit quality compared with European peers, with a weighted credit profile of assets at 'b'.
Cash flow adequacy ratio historically at about 3.0x-3.5x.	Cash primarily held at domestic banks with lower credit quality than Koç.

Defensive treasury management and a sound cash position in hard currency are pivotal to sustaining the rating one notch above the Turkish sovereign rating. Despite Koç's strengths, we consider that in a hypothetical default scenario for Turkey, it could face obstacles to paying foreign-currency debt. We therefore cap our rating on Koç at 'BB-', in line with our T&C assessment on Turkey. Koç's stand-alone credit profile is 'bbb-'. As of Dec. 31, 2020, Koç had a net cash position of about Turkish lira (TRY) 1.2 billion (excluding a TRY1.8 billion additional YKB tier 1 investment), translating into our negative loan-to-value (LTV) ratio of 1.6%. Koç's gross cash as of end-December 2020 reached TRY12.3 billion, 83% in hard currency, sustaining the company's credit standing in case of a sovereign default with currency devaluations. We believe that Koç's management will remain committed to tightly controlling its treasury management, which is pivotal to ensure the company's ongoing higher credit standing than its sovereign.

Chart 1

Koc Holding A.S. Net Debt And LTV Evolution 2014-2020



TRY--Turkish lira. LTV--Loan to value. Source: S&P Global Ratings.

No debt maturities until 2023 and higher dividends for 2021 will support Koç's financial flexibility. Koç has a sound liquidity position sustained by its long-dated maturity profile. The holding company has no upcoming maturities until 2023, when its $750 million bond matures, followed by another $750 million bond maturing in 2025. For 2021, we expect Koç to maintain its strong balance sheet and eventually to improve its cash adequacy ratios that suffered from the COVID-19 pandemic fallout in 2020. For 2021, we expect cash dividends of about TRY3.0 billion-TRY3.5 billion, supported by the booming performance of the auto sector. This is materially higher than in 2020, when the cash dividend reached TRY1.2 billion. We also note that Koç has increased its dividend for 2020 to TRY1.8 billion, equivalent to 19% payout ratio compared with the group's 2020 consolidated profits. While this is higher than the 2020 levels of TRY671 million, we also note that in 2020, Koç cut its dividends, preserving cash due to pandemic-related uncertainty.

The value of Koç's portfolio was driven up by the strong automotive sector, boosted by domestic demand in 2020. According to our estimates, Koç's LTV ratio has benefited from improvement in the portfolio valuation, which stood at TRY73.9 billion as of Dec. 31, 2020, compared with TRY52.2 billion at year-end 2019. A large part of the improvement in the portfolio valuation is explained by the strong share performances of all companies (except for Tüpras), which recovered robustly from the pandemic, especially in the domestic market. Overall, we continue to assess the average credit quality of Koç's portfolio as well within the 'b' category. This, in our view, is weaker than other holding companies we rate in Europe and largely reflects Koç's large portfolio exposure to the Turkish economy.

Outlook: Stable

The stable outlook is in line with that on Turkey, given Koç's dependence on the T&C assessment.

Downside scenario

If we were to downgrade Turkey to below 'B+', or if the country imposed capital controls causing us to lower our T&C assessment, we would likely lower our ratings on Koç. Although we consider it unlikely, we could also lower our ratings on Koç if it failed to pass our sovereign stress test. This could happen if its debt maturity profile were to shorten and, at the same time, Koç held materially less cash in hard currencies. Because it passes the sovereign stress test at present, our rating may be up to two notches above that on the sovereign, capped at the T&C level.

Upside scenario

In our view, the ratings on Koç cannot be higher than our T&C assessment on Turkey (currently 'BB-') because the majority of the investee companies, and therefore dividends, are derived from Turkey. Therefore, we could upgrade Koç if we raised our rating and T&C assessment on Turkey.

Our Base-Case Scenario

Assumptions

- Conservative and proactive financial policy through which Koç remains in a net cash position.
- Our expectation of dividend income of TRY3.0 billion-TRY3.5 billion in 2021, compared with TRY1.2 billion in 2020.
- Operating costs of about TRY700 million in 2021, in line with 2020 levels.
- Interest expense of TRY700 million-TRY750 million, compared with TRY727 million in 2020.
- Dividend payment of about TRY1.8 billion in 2021, compared with TRY671 million in 2020.
- We do not anticipate any major new investments or share buybacks in 2021.

Key metrics

Koc Holding A.S.--Key Metrics*

	--Fiscal year ended Dec. 31, 2020--			
	2019a	**2020a**	**2021e**	**2022f**
LTV%*	(4.9)	(1.6)	Negative	Negative
Cash-flow adequacy (x)	3.5	1.7	2.5-3.0	2.5-3.0

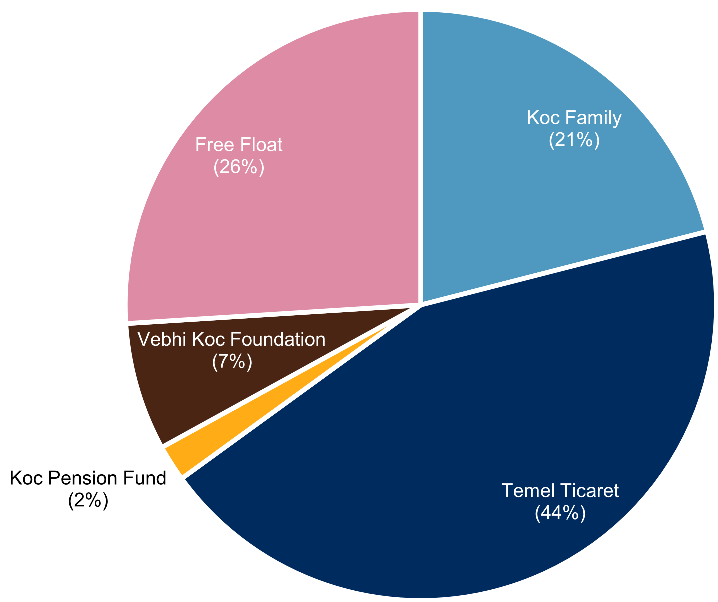
*S&P Global Ratings-adjusted. LTV--Loan to value. a--Actual. e--Estimate. f--Forecast.

Company Description

Koç began operating in 1926 and has been listed on the Borsa Istanbul (Istanbul Stock Exchange) since 1986. As of Feb. 26, 2021, its market capitalization had reached TRY54.7 billion ($7.4 billion). The company is closely controlled by the Koç family (64.3%), through its collective vehicle Temel Ticaret A.S., which benefits from double voting rights.

Chart 2

Koc Holding A.S. Shareholding Structure As Of Dec. 31, 2020



Source: S&P Global Ratings.

Koç controls many listed (directly or indirectly) and unlisted companies operating in diverse sectors. According to our estimate, the holding's portfolio valuation as of Dec. 31, 2020, was TRY73.9 billion, or about $10.1 billion (our portfolio value excludes net cash and includes the YKB Additional Tier 1 [AT1] investment). On the same date, the company's portfolio comprised of assets in the following sectors:

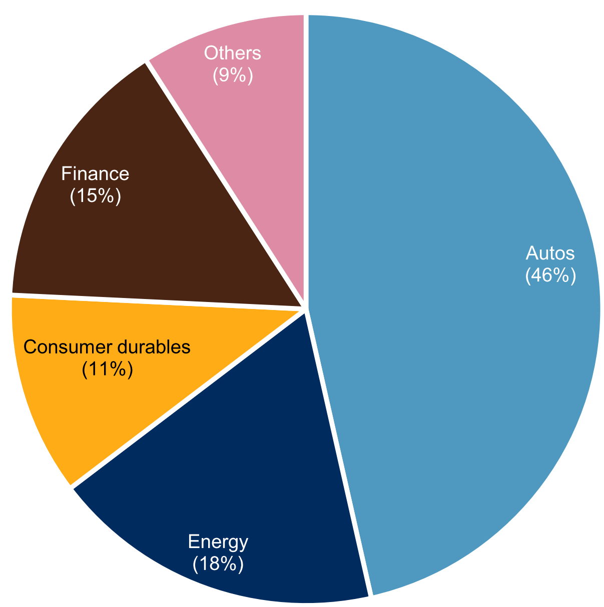
- Autos (46.3% of portfolio value as defined above)--Tofas and Ford Otosan joint ventures with Fiat Chrysler Automobiles N.V. and Ford Motor Co., Turk Traktor, and Otokar. Combined revenues rose by 32% to TRY98.3 billion in 2020, from TRY74.4 billion in 2019, on the back of strong domestic demand. The operating margin improved to 10.4% from about 7.9% in 2019.
- Energy (18.1% of portfolio value)--Tüpras, Aygaz, Opet, and Entek. These brands, except Entek, were hit hard by the outbreak of COVID-19; energy segment combined revenues fell by about 25% in 2020 to TRY115.8 billion, from

TRY153.4 billion in 2019, especially due to lower revenues, mainly at Tüpras, stemming from the decrease in oil prices and lower production. The operating margin was 0.3% in 2020, compared with 2.5% for 2019.

- Consumer durables (11.3% of portfolio value)--Arcelik A.S. combined revenues increased by 30% to TRY47.2 billion, from TRY36.3 billion in 2019, supported by strong domestic demand. The operating margin improved to 10.7% in 2020 from 7.6% in 2019, owing to strong domestic demand and focus on cost management.
- Finance (15.4% of portfolio value)--Yapi ve Kredi Bankasi A.S. (Yapi Kredi). Revenues decreased by 5.6% to TRY45.2 billion in 2020, from TRY47.8 billion in 2019. The operating margin increased to 13.9% from 9.6% in the prior year.
- Others (8.8% of portfolio value).

Chart 3

Koc Holding A.S. Portfolio Value Breakdown By Sector As Of Dec. 31, 2020



Source: S&P Global Ratings.

Peer Comparison

Table 1

Koc Holding A.S.--Peer Comparison

	Koc Holding A.S.	JAB Holding Company S.a r.l.	Wendel	EXOR N.V.	Groupe Bruxelles Lambert SA	Industrivarden
Rating as of March 16, 2021	BB-/Stable/B	BBB+/Stable	BBB/Stable/A-2	BBB+/Stable/A-2	A+/Stable/--	A+/Stable/A-1
Business profile	Fair	Satisfactory	Fair	Satisfactory	Strong	Strong
Portfolio data as of	Dec. 31, 2020	June 30, 2020	Sept. 30, 2020	Sept. 30, 2020	Sept. 30, 2020	June 30, 2020
Portfolio size (adjusted; mil. $)	10,100	26,273	8,616	26,651	27,397	12,302
Weight of listed assets (%)	86.5	82	50.3	64.8	77.4	99.6
Largest asset (% of portfolio)	23.1	52.1	50.3	32.1	17	25
Three largest assets (% of potfolio)	52.9	82	79.6	80.5	45.7	63
Cash flow leverage	Modest	Intermediate	Modest	Modest	Modest	Minimal
Loan to value ceiling (%)	20	25	20	20	20	10
Loan to value (%)	(1.6)	27.6	6.9	10.8	13.8	4.5

Koç is among the largest investment holding companies in Turkey. Its total S&P Global Ratings-adjusted portfolio value of about $10 billion is comparable to peers such as Wendel ($8.6 billion) and Industrivarden AB ($12.3 billion), while JAB Holding Co. S.a r.l., Groupe Bruxelles Lambert SA (GBL), and EXOR N.V. manage equities of $25 billion-$27 billion.

While Koç's concentration in its top three assets appears better than Exor, Wendel, and JAB, it lags other European holdings such as Industrivarden. That said, we perceive Koç on a stand-alone basis to be more exposed to a single jurisdiction than other holding companies that we rate, with a lower average portfolio credit standing. Koç currently has the most financial flexibility among its peers.

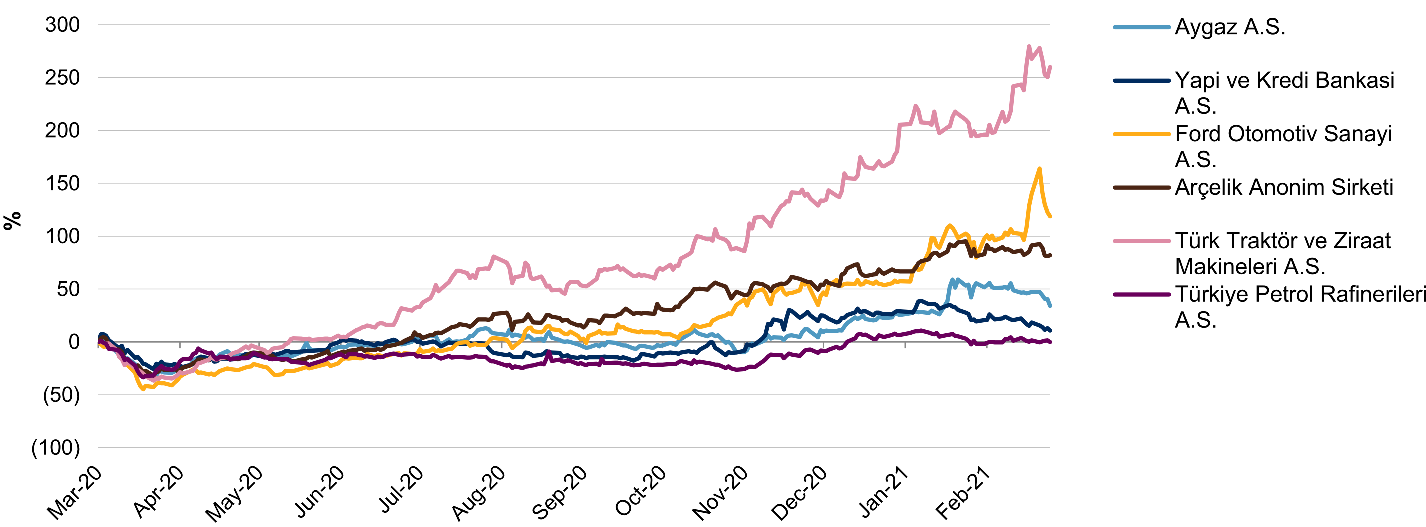
Business Risk: Fair

Our assessment of Koç's investment position reflects its diverse portfolio, high share of liquid assets, and management's investment discipline, offset by the limited geographic diversity of the holding company's investments and weaker credit quality of its investee assets.

Our rating on Koç is supported by its investee companies, which export a significant part of their production, protecting dividends from currency depreciation. Among its investee companies, Ford Otosan, Tofas, and Arcelik derive about 70%, 46%, and 65% of their revenue, respectively, from international sales, while refinery group Tupras' sales are U.S.-dollar linked. We believe this diversity will support Koç in a Turkish lira depreciation scenario, as occurred in 2020. Depreciation of the Turkish lira against the U.S. dollar has materially reduced Koç's investment portfolio in dollar terms. We estimate that the portfolio was worth about $10.1 billion as of Dec. 31, 2020 (TRY73.9 billion), at an exchange rate of TRY7.34/$1, despite significant increases in domestic share prices for some investees in 2020. This compares with a valuation of about $13 billion at year-end 2017 and an exchange rate of TRY3.77/$1. Koç receives all its material dividends within Turkey, although it derives most of its dividend income from companies with foreign-exchange or foreign-exchange-linked revenue. As such, we assess Koç as a domestic holding company.

Chart 4

Koc Holding's Listed Investee's Share Price Development Over The Past Year

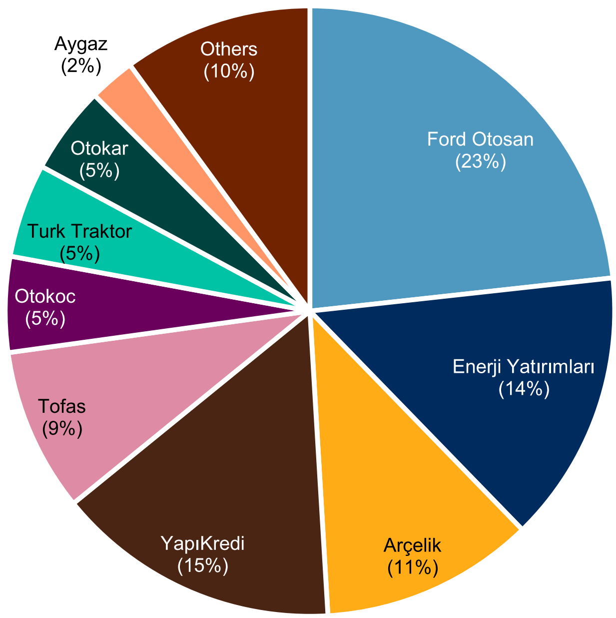


Source: S&P Global Ratings.

Koç's investment position is supported by its sector diversity and high proportion of listed assets, although it has some concentrations. Approximately 86.5% of Koç's assets were listed as of the end of December 2020, and are actively traded on the Borsa Istanbul. Additionally, it has invested in a wide range of sectors, including financial institutions, auto manufacturing, retail, consumer durables, and oil refining. While Koç has more than 25 different investee assets in its portfolio, we see some elements of concentration in its portfolio value. As of Dec. 31, 2020, the largest asset was Ford Otosan, forming about 23.1% of portfolio value, Yapi Kredi (15.4% of portfolio value), followed by Tupras (14.4% of portfolio value). Combined, these three assets represent about 52.9% of the total portfolio value.

Chart 5

Koc Holding A.S. Portfolio Breakdown As Of Dec. 31, 2020



Source: S&P Global Ratings.

The share price discount against NAV widened over 2020. Over the past five years, Koç's share price has traded at a 5% discount on average against its NAV. Koç Holding traded at an average discount of 15% to its NAV in 2020, while seeing a 35% discount level during the year. The main reasons for this are: Koç's "Turkey proxy" positioning, outflows from foreign investors due to the "risk-off" mode, and massive dislocation between Koç Holding and underlying companies' performance.

That said, the recent decisions by the Turkish government to tighten monetary policy could signal a return to a more conventional policy rulebook and investors' confidence could again sustain share prices.

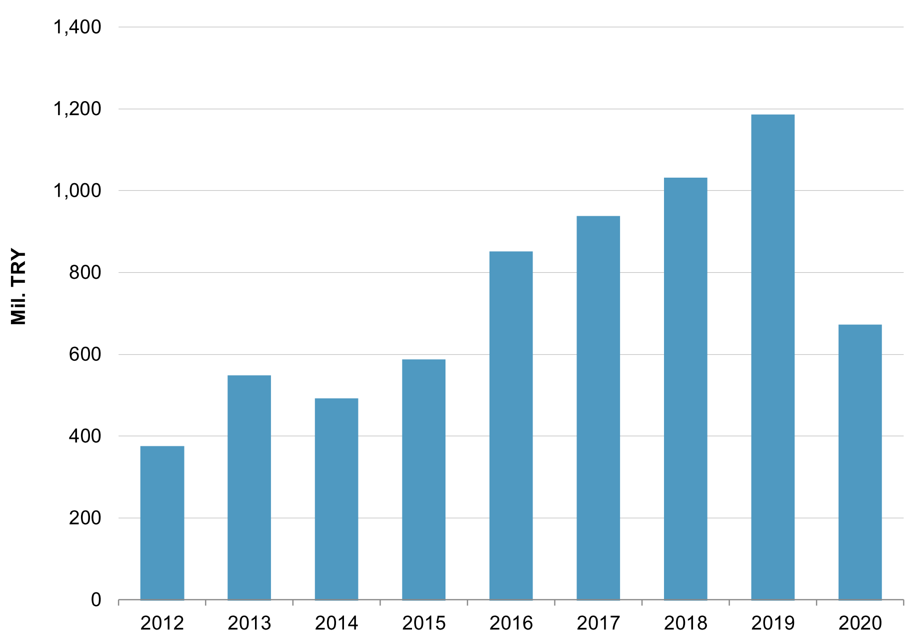
Financial Risk: Modest

Koç has a long track record of managing leverage and cash flow, signaling strong holding company governance. Over 2020, Koç adhered to its strict governance and curbed its dividend distribution to TRY671 million from the previously anticipated TRY1.2 billion. This was to align cash outflow to the revised expected dividend inflow from the investee companies, demonstrating Koç's conservative financial policy. The company was able to withstand macroeconomic headwinds without impairing its credit standing thanks to its ability to anticipate risks and implement measures to preserve a strong balance sheet.

Moderate dividend distributions to shareholders. Among the holding companies we rate, Koç pursues one of the more conservative dividend policies. Historically, dividends have represented no more than 20% of consolidated profits for the group. Dividends paid to shareholders showed an increasing trend over the past few years, however, in 2020, dividends were reduced to TRY671 million in 2020. For 2021, the holding proposed a TRY1.8 billion dividend. Still, we believe Koç's approach preserves its cash needs.

Chart 6

Koc Holding A.S. Dividend Payment History 2012-2020



TRY--Turkish lira. Source: S&P Global Ratings.

Low portfolio rotation, and asset monetization. Unlike other active holdings we rate in EMEA--such as JAB, GBL, or Wendel--Koç's portfolio has remained relatively stable over the past few years. Koç compares negatively in terms of portfolio rotation and asset monetization against those other holding companies. However, it can rely on a fairly good yield portfolio that provided a decent source of cash even during the pandemic. In 2020, our cash adequacy ratio was 1.7x, compared with 3.5x in 2019. For 2021 and 2022, we expect a divided normalization and our cash flow adequacy to increase to the historical average.

Financial summary

Table 2

Koc Holding A.S.--Financial Summary

(Mil. TRY)	2020	2019	2018	2017	2016	2015	2014
Portfolio as adjusted	73,917	52,251	38,555	48,897	35,321	30,385	31,170
Net debt as adjusted	(1,193)	(2,574)	(2,244)	(2,165)	(1,501)	(1,441)	(1,075)
Dividend, fees, & interest received	2,130	3,984	3,765	2,019	1,850	1,337	1,051

Table 2

Koc Holding A.S.--Financial Summary (cont.)							
(Mil. TRY)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Operating charges and tax paid	572	612	436	385	439	359	277
Interest paid	693	512	324	238	136	78	57
Cash flow cover (x)	1.7	3.5	5.0	3.2	3.2	3.1	3.1
Dividend paid	671	1,183	1,029	935	849	585	490

TRY--Turkish lira.

Liquidity: Strong

We assess Koç's liquidity as strong and anticipate that sources of funds will exceed uses by 4.8x, since the company has no upcoming maturities until March 2023, when its $750 million bond matures. We believe Koç has solid relationships with local and international banks--it is one of the largest investment holding companies in Turkey and has a large portfolio of listed assets on the stock exchange. In our view, Koç's financial risk management is very prudent, including monitoring foreign-exchange exposure. Koç also aims to reduce the effect of currency depreciation by taking out loans in currencies that correspond with its revenues and assets. The company should be able to service its debt, even without dividend income or asset disposals, due to its strong cash position and long-dated debt maturity profile.

Koç currently has two bonds outstanding, each $750 million, due in 2023 and 2025. We consider that Koç would likely be able to absorb any high-impact, low-probability events in the near term without additional financing. The company's ratio of sources to uses would qualify it for a higher liquidity assessment except that it keeps the majority of its cash at lower-rated domestic banks. In addition, its standing in international credit markets would likely be weakened if there were turmoil in Turkey.

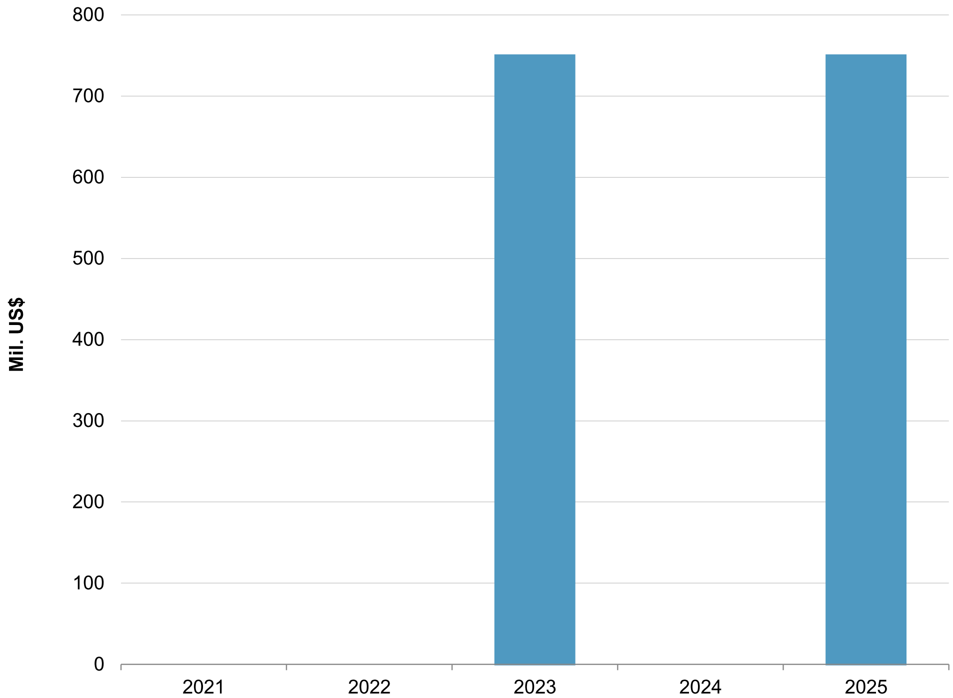
We estimate the principal liquidity sources and uses for the 12 months starting Jan. 1, 2021 are as follows:

Principal liquidity sources	Principal liquidity uses
• Cash balance of TRY12.34 billion as of Dec. 31, 2020 (excluding AT1). • Dividend, interest income, and management fees of about TRY2.8 billion-TRY3.3 billion in 2021 after our analytical haircut of 30% cash income.	• No upcoming maturities. • Operating expenses of about TRY700 million in 2021. • Interest expense of TRY700 million-TRY750 in 2021. • Dividend payments of TRY1.8 billion in 2021.

Debt maturities

Chart 7

Koc Holding A.S. Debt Maturity Profile As Of Dec. 31, 2020



Source: S&P Global Ratings.

Other Credit Considerations

We assess Koç's management and governance as strong. This assessment primarily reflects its solid strategic planning process, its record of delivering on its strategy, and very comprehensive risk-management and performance-monitoring procedures. We consider the group's management to be highly experienced.

Rating Above The Sovereign

We consider that our rating on Koç could exceed the sovereign rating by two notches, but we cap the rating at the level of our T&C assessment because most of Koç's investee companies (and consequently dividend inflows) are based in Turkey. This reflects our view that the government would be likely to restrict access to foreign-exchange liquidity for Turkish companies in a hypothetical default scenario.

We rate Koç above the 'B+' foreign currency rating on Turkey because it passes our sovereign default stress test, under which we assume that the value of investee companies declines by about 70%; Yapi Kredi defaults; and Koç's cash is 10% lower. Under this scenario, we assume that Koç has no access to capital markets and the Turkish lira depreciates by 50% against the U.S. dollar.

Issue Ratings - Subordination Risk Analysis

Capital structure

Koç's capital structure comprises about $1.5 billion of senior unsecured debt issued at the holding company level. We assess Koç's financial risk profile as modest.

Analytical conclusions

The issue rating on Koç's senior unsecured notes is 'BB-', in line with the issuer credit rating, because there are no significant elements of subordination risk present in Koç's capital structure.

Ratings Score Snapshot

Issuer Credit Rating

BB-/Stable/B

Business risk: Fair

- **Country risk:** High
- **Industry risk:** Intermediate
- **Competitive position:** Fair

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb-

Modifiers

- **Liquidity:** Strong (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Related government rating:** B+

Sovereign foreign currency rating: B+

- Transfer and convertibility: BB-
- Rating above the sovereign methodology: Capped at the level of the T&C assessment

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	**bbb-**	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 16, 2021)*

Koc Holding A.S.	
Issuer Credit Rating	BB-/Stable/B
Senior Unsecured	BB-
Issuer Credit Ratings History	
29-Aug-2018	BB-/Stable/B
13-Jul-2018	BB+/Stable/B
02-Feb-2017	BBB-/Negative/A-3
15-Nov-2016	BBB-/Stable/A-3
22-Jul-2016	BBB-/Negative/A-3
24-May-2016	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of March 16, 2021)*(cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.