

Research Update:

Koc Holding A.S. Affirmed At 'BB+'; Outlook Stable

May 29, 2025

Rating Action Overview

- One or more of the credit ratings referenced within this article was assigned by deviating from S&P Global Ratings' published criteria.
- Türkiye-based investment holding company Koc Holding A.S. fully repaid its \$750 million unsecured notes in March 2025, so the holding company's gross financial debt is now zero.
- We anticipate the investment holding will maintain a net cash position in 2025-2026, mainly due to its prudent financial policy and resilient dividend income. This is despite more challenging market conditions domestically and for exporting companies caused by prolonged high inflation, slowing GDP growth, and a limited depreciation of the Turkish lira.
- In addition, Koc continue to meet our requirements to be rated a notch above the 'BB' transfer and convertibility (T&C) assessment on Türkiye and two notches above the 'BB-' sovereign rating thanks to the company's positive track record in keeping a significant net cash position held in U.S. dollars (largely with international banks) and its strong liquidity.
- We therefore affirmed our 'BB+' and 'B' long-term and short-term issuer credit ratings on Koc.
- The stable outlook on Koc mirrors that on Türkiye.

Rating Action Rationale

We anticipate Koc will maintain a large net cash position in the next 12 months thanks to its prudent financial policy and resilient dividend income. The company's net cash position was about Turkish lira (TRY) 39.7 billion (\$1.05 billion) as of March 31, 2025, based on its portfolio value at that date. This is in line with the company's track record of maintaining a net cash position or very low debt since 2014, with its adjusted loan-to-value ratio staying well below the 10% maximum we view as commensurate with the 'bbb-' stand-alone credit profile (SACP). We project Koc's net cash position will remain supported by its conservative financial policy, moderate shareholder distributions, and a resilient dividend stream from its investee assets. This is despite more challenging market conditions from prolonged domestic inflation, slower GDP growth, and a limited depreciation of the lira affecting both domestic and export-oriented companies. Overall, we forecast total dividends received, management fees, and interest

Primary contact

Akshay Kapoor

London
44-20-7176-0638
akshay.kapoor
@spglobal.com

Secondary contacts

Alexander Griaznov

Madrid
34-914-23-32-53
alexander.griaznov
@spglobal.com

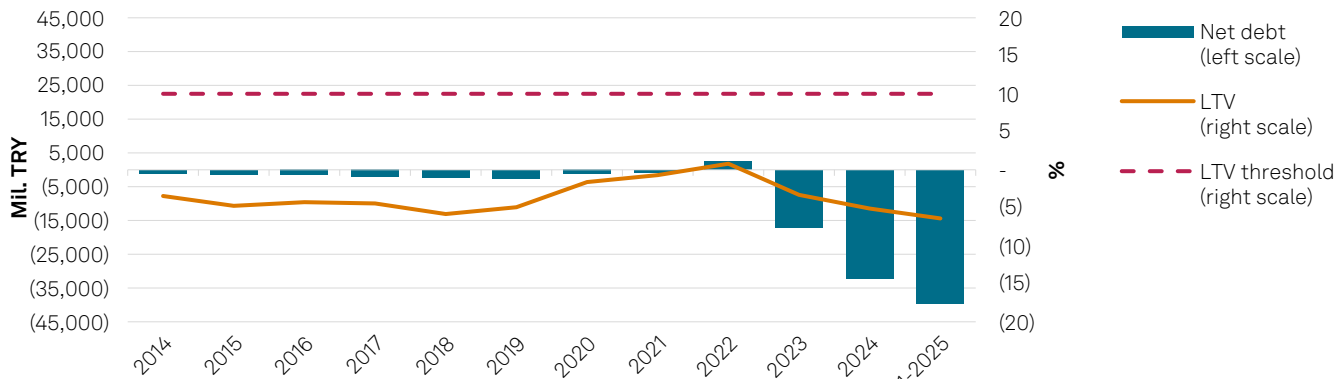
Florent Blot, CFA

Paris
33-1-40-75-25-42
florent.blot
@spglobal.com

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income will decline moderately to about TRY37.0 billion-TRY 41 billion from TRY47.1 billion in 2024, mainly due to lower announced dividends from two of Koc's large investee assets, Yapi Kredi (a domestic bank; not rated) and Ford Otomotiv Sanayi A.S. (a car manufacturer; BB/Stable/--). We understand that this is being offset by paying lower dividends to Koc's shareholders of about TRY17.5 billion in 2025, compared with TRY22.5 billion paid in 2024; this represents a 22% reduction. We also expect the investment holding will remain prudent regarding acquisition spending, such that it will maintain a solid net cash position through year-end.

Koc Holding has maintained a very prudent LTV and cash position since 2014



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

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The criteria exception that enables us to rate Koc one notch above our 'BB' T&C assessment on Türkiye reflects our expectation that the company can maintain sufficient cash in U.S. dollars at international banks to cover any potential dollar-denominated debt.

We typically apply our T&C rating cap to companies, such as Koc, that are not exporters and generate more than 90% of their stand-alone cash flow in Türkiye, implying a rating of 'BB'. In Koc's case, more than 90% of its income comes from dividends from investments in the country. As of March 31, 2025, the company did not have foreign or local financial debt. We think Koc has ample U.S. dollar holdings at international banks, and do not anticipate this cash would be depleted for other reasons. In addition, the company has passed our sovereign stress tests, indicating that it would have enough liquidity to cover its obligations in the next 12 months, in the event of a sovereign default. We do not expect Koc's ability to use its U.S. dollar holdings to pay dollar-denominated obligations would be restricted by exchange or repatriation controls. As a result, we deviate from our criteria for rating above the sovereign by adding one notch, and therefore rate Koc foreign currency long-term rating one notch above our 'BB' T&C assessment on Türkiye. We will continue to apply this criteria exception so long as:

- The company meets our T&C stress test requirements;
- The amount of cash in U.S. dollars held offshore exceeds Koc's U.S. dollar liabilities; and
- We perceive no heightened risks of a repatriation of the company's offshore U.S. dollar holdings.

We monitor quarterly these three factors, which are the conditions to be rated one notch above the T&C assessment. The company passed these requirements as of the end of March 2025.

Outlook

The stable outlook on Koc mirrors that on Türkiye.

Downside scenario

We could take a negative rating action on the company following a similar rating action on Türkiye, or if:

- Koc cannot pass our T&C stress test;
- The company depletes its U.S. dollar cash balance abroad; or
- Its U.S. dollar holdings abroad become subject to repatriation requirements or exchange controls.

Upside scenario

We could take a positive rating action on Koc following a similar rating action on Türkiye, implying an upgrade of the sovereign by one notch to 'BB' and of the T&C assessment to 'BB+'. An upgrade would also require the company to continue to meet our requirements for being rated up to one notch above our T&C assessment, and that we continue to assess its SACP at 'bbb-' or higher.

Company Description

Koc is an investment holding company that has been listed on Borsa Istanbul since 1986 and whose operations began in 1926. As of March 31, 2025, its market capitalization reached TRY396.4 billion (\$10.5 billion). The company is closely controlled by the Koc family (63.4%).

Koc controls many listed (directly or indirectly) and unlisted companies operating in diverse sectors. According to our estimates, the holding company's portfolio value as of March 31, 2025, was TRY621.4 billion (about \$16.5 billion). On that date, Koc's portfolio included assets in the following sectors:

- Auto and auto suppliers (44.6% of the portfolio's value): Includes Tofas, a joint venture (JV) with Stellantis N.V.; Ford Otosan, a JV with Ford Motor Co.; Turk Traktor, a JV with CNH Industrial N.V.; and Otokar and Otokoc. Combined reported revenue adjusted for inflation was TRY971.6 billion in 2024, with an operating margin of 3.1%.
- Finance (18.2%): Yapi and KocFinans, with combined revenue of TRY710.4 billion in 2024 and a reported operating margin of 2.7%.
- Energy (20.8%): Tupras, Aygaz, Opet, and Entek. The segment's combined revenue was TRY1.29 trillion in 2024, with a reported operating margin of 3.5%.
- Consumer durables (6.2%): Arcelik A.S.' reported segment revenue of TRY485.4 billion in 2024 and operating margin of 2.8%.
- Other assets (10.2%).

Our Base-Case Scenario

Assumptions

- Real GDP growth of 2.7% and 2.9% in Türkiye in 2025 and 2026, respectively, from 3.2% in 2024; and 0.8% and 1.2% in the eurozone, from 0.8% in 2024.
- Average exchange rate increasing to TRY39.8 per U.S. dollar in 2025 and TRY46.5 per U.S. dollar in 2026 from TRY32.8 in 2024; and to \$1.10 per euro in 2025 and \$1.12 per euro in 2026 from \$1.08 in 2024.
- Turkish core inflation gradually slowing to 33.0% in 2025 and 18.3% in 2026, from 58.4% in 2024.
- A conservative and proactive financial policy through which Koc remains in a net cash position.
- Dividends, management fees, and interest income of TRY37 billion-TRY41 billion in 2025, compared with TRY47.1 billion in 2024.
- Operating expense and taxes of TRY8.0 billion-TRY8.5 billion in 2025, increasing from about TRY6.9 billion in 2024 due to domestic inflation.
- Annual interest expense declining to about TRY0.9 billion in 2025 from TRY1.6 billion in 2024 following the repayment of the \$750 million Eurobond in March 2025.
- Dividend payments to Koc's shareholders of TRY17.5 billion in 2025, compared with TRY22.5 billion in 2024.
- No sizable new investments or share buybacks.

Koc Holding A.S.--Key metrics

	2019a	2020a	2021a	2022a	2023a	2024a	2025f
LTV (%)	(4.9)	(1.6)	(0.7)	0.8	(3.3)	(5.1)	Net cash
Cash flow adequacy (x)	3.5	1.7	2.8	2.4	3.9	5.5	4.0-5.0

All figures adjusted by S&P Global Ratings. LTV--Loan to value. a--Actual. f--Forecast.

Liquidity

We assess Koc's liquidity as strong and anticipate that sources of funds will exceed uses by 1.6x in the next 12 months after March 31, 2025, and by 2.0x in the subsequent 12 months according to our own estimates. This is further supported by our view of the company's extremely prudent cash management. Koc has no financial debt and its gross cash was about TRY39.7 billion as of March 31, 2025.

Principal liquidity sources

- A cash balance of TRY39.7 billion; and

Principal liquidity uses

- No debt maturities over the next 24 months;
- Operating and tax expense of TRY8 billion-TRY10 billion per year; and

- Unstressed dividend, interest income, and management fees of TRY37 billion-TRY41 billion per year.
- Dividend payments of about TRY17.5 billion per year.

Rating Component Scores

Rating Component Scores

Issuer credit rating	BB+/Stable/B
Business risk	Weak
Country risk	High
Industry risk	Intermediate
Investment position	Weak
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	bb+
Liquidity	Strong (no impact)
Management and governance	Positive (+1 notch)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-
Sovereign foreign currency rating	BB-
Transfer and convertibility assessment	BB
Ratings above the sovereign	+2 notches

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth, May 1, 2025
- Turkiye 'BB-/B' Ratings Affirmed; Outlook Stable, April 25, 2025
- Koc Holding A.S. Upgraded To 'BB+' Following Positive Action On Turkiye; Outlook Stable, Nov. 19, 2024
- Turkiye Upgraded To 'BB-' On Reserve Accumulation And Disinflation; Outlook Stable, Nov. 1, 2024
- Koc Holding A.S., Oct. 14, 2024

Ratings List

Ratings list

Ratings Affirmed

Koc Holding A.S.

Issuer Credit Rating	BB+/Stable/B
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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