S&P Global Ratings

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# Koc Holding A.S.

October 14, 2024


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## Credit Highlights

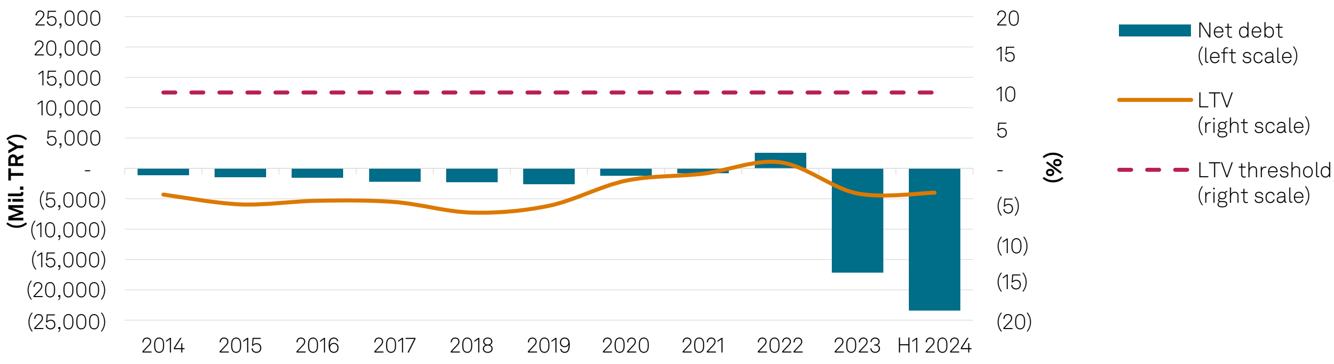
**One or more of the credit ratings referenced within this article was assigned by deviating from S&P Global Ratings' published criteria.**

### Overview

| Key strengths | Key risks |
|---|---|
| Large portfolio of $22 billion as of June 30, 2024 with good sector diversity and with a high portion of listed assets (about 90%). | Some portfolio concentration, with the three largest assets--Yapi Kredi, Ford Otosan, and Tupras--representing about 60% of portfolio value as of June 30, 2024. |
| About 47% of the revenues of Koc's assets are in hard currency, partially protecting them from potential Turkish lira (TRY) devaluation. | Average asset credit quality in the 'b' category is weaker compared with European peers due to a high exposure to Turkiye's economy (B+/Positive sovereign rating). |
| Long track record of prudent financial policy and strong credit metrics, even during stressed conditions for Turkiye's economy. | Exposure to Turkiye's country risk constraining the rating. |
| Defensive treasury management with a net cash position of about TRY23.4 billion ($712 million) primarily held at international banks as of June 30, 2024 that more than cover the $750 million maturity of the senior notes due in March 2025. | |
| Sound cash flow adequacy ratio of about 3.0x historically. | |

**We anticipate Koc Holding A.S. will maintain no leverage over the next 12 months.** Koc's net cash position was about TRY23.4 billion (or about $712 million) as of June 30, 2024, based on the portfolio value at the same date. This is in line with the company's track record of maintaining a net cash position or very low debt levels, with its adjusted loan-to-value (LTV) ratio staying well below our 10% maximum level for the 'bbb-' stand-alone credit profile since 2014. Under our base-case scenario, we anticipate that Koc will retain a net cash position, supported by its conservative financial policy, moderate shareholder distributions, and a sizable recuring dividend stream from its investee assets. For 2024, we estimate that the company will receive dividends, fees, and interest income of TRY45 billion-TRY50 billion, up from TRY28.2 billion a year ago. This is supported by its key assets being mostly blue-chip companies in Turkiye with a history of recurring dividend income. The exporting nature of companies such as Ford Otosan or Arcelik also typically provides resiliency in case of weaker domestic market conditions.

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




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



**Koc passes our sovereign stress test thanks to its strong liquidity position.** We expect liquidity sources to exceed uses by 1.6x for the 12-month period from July 1, 2024 and 2.0x for the subsequent 12 months. In addition, about 99% of the company's gross cash held as of June 30, 2024, was in U.S. dollar and was predominantly held at international banks. In a hypothetical scenario in which the Turkish sovereign (B+/Positive/B) were to default, we think that Koc would still be able to service its obligations. Under our stress test, which assesses the company's liquidity for a one-year period under a hypothetical sovereign default scenario, we estimate that Koc's liquidity sources would remain sound at about 1.5x of its uses, even when including the repayment of its $750 million Eurobond due in March 2025 and excluding any dividend income from its investee assets. We estimate that the company's high share of cash denominated in hard currency would benefit from a devaluation of the lira and offset the potential lack of dividend income and higher operating and interest expense. As a result, we expect Koc would maintain a net cash position and negative LTV even under this stressed scenario. In addition, our transfer and convertibility (T&C) stress test points to a positive liquidity ratio of foreign sources of cash to foreign uses of cash, because Koc's U.S. dollar cash balances held at international banks are sufficient to cover its $750 million bond maturing in March 2025 and the associated interest payment.

**The criteria exception that enables us to rate Koc one notch above our T&C assessment on Turkiye reflects our expectation that the company can maintain sufficient cash in U.S. dollars at international banks to fully repay its U.S.-dollar-denominated debt and related interest.** We would 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 Turkiye, implying a rating of 'BB-'. In Koc's case, more than 90% of its income represents dividends from investments in the country. As of June 30, 2024, the company's only financial debt liability pertains to its $750 million bond due in March 2025. We think Koc has enough U.S. dollars sitting offshore to repay its debt, and we 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 resources 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 cash to pay U.S.-dollar-denominated debt to be restricted by exchange or repatriation controls. Because of these factors, we are deviating from our criteria for rating above the sovereign by adding one notch, and therefore rate Koc one notch above our ‘BB-’ T&C assessment on Turkiye. We will continue to apply this criteria exception so long as:

- The company is able to meet 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 Koc’s offshore U.S. dollar holdings.

These three factors, which are the conditions to be rated one notch above the T&C assessment, remain monitored on a quarterly basis. The company passed all our requirements as of the end of June 2024.

# Outlook

The positive outlook on Koc mirrors that on Turkiye.

## Downside scenario

We could take a negative rating action on Koc following a similar rating action on Turkiye, or if, during the coming quarters:

- Koc is unable to pass our T&C stress test;
- The company depletes its U.S. dollar cash balance abroad and can no longer cover its U.S.-dollar-denominated debt maturing in 2025; or
- Its U.S. dollar cash held abroad becomes subject to repatriation requirements or exchange controls.

## Upside scenario

We could take a positive rating action on Koc following a similar rating action on Turkiye, implying a revision of the sovereign long-term rating by one notch to ‘BB-’ and of the T&C assessment to ‘BB’. An upgrade will also require that the company meets our requirements to be rated up to one notch above our T&C assessment.

# Our Base-Case Scenario

| Assumptions |
| --- |
| • A conservative and proactive financial policy, through which Koc remains in a net cash position.<br>• Dividends, management fees, and interest income of TRY45 billion-TRY50 billion in 2024, compared with TRY28.2 billion in 2023.<br>• Operating expenses and taxes of about TRY8.0 billion-TRY10.0 billion in 2024, increasing from about TRY5.7 billion in 2023 due to domestic inflation.<br>• Annual interest expense of about TRY2.0 billion-TRY2.5 billion in 2024, up from TRY1.5 billion in 2023 due to the lira devaluation.<br>• Dividend payments to Koc’s shareholders of TRY22.5 billion in 2024, compared with TRY6.5 billion in 2023.<br>• No new investments or share buybacks. |

## Key metrics

**Koc Holding A.S.--Key Metrics**

| Period ending | 2019a | 2020a | 2021a | 2022a | 2023a | 2024f |
|---|---|---|---|---|---|---|
| Loan to value (%) | (4.9) | (1.6) | (0.7) | 0.8 | (3.3) | Net Cash |
| Cash flow adequacy (x) | 3.5 | 1.7 | 2.8 | 2.4 | 3.9 | 4.0-5.0 |

All figures are adjusted by S&P Global Ratings. a--Actual. f--Forecast

# Company Description

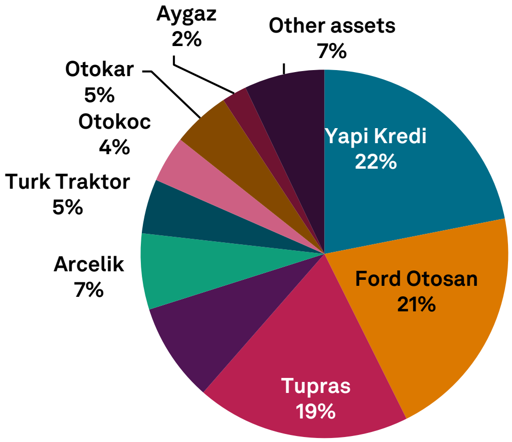
Koc is an investment holding company that has been listed on Borsa Istanbul since 1986 and whose operations began in 1926. As of Sept. 30, 2024, its market capitalization reached TRY476.8 billion ($13.2 billion). The company is closely controlled by the Koc family (63.4%).

Koc controls many listed (directly or indirectly) and unlisted companies operating in diverse sectors. According to our estimates, the holding company's portfolio value on June 30, 2024, was TRY722 billion (about $22 billion). On the same date, Koc's portfolio included assets in the following sectors:

- Automotive and auto suppliers (44.1% of the portfolio's value as defined above): Tofas which is a joint venture (JV) with Stellantis N.V., Ford Otosan which is a JV with Ford Motor Co., and Turk Traktor which is a JV with CNH Industrial N.V.; and Otokar and Otokoc. Combined reported revenue adjusted for inflation was TRY739.1 billion in 2023, with an operating margin of 9.5%.
- Finance (22.1%): Yapi and KocFinans, with combined revenue of TRY388.6 billion in 2023 and a reported operating margin of 24.7%.
- Energy (21.4%): Tupras, Aygaz, Opet, and Entek. The segment's combined revenue was TRY1,051.7 billion in 2023, with a reported operating margin of 9.0%.
- Consumer durables (6.8%): Arcelik A.S.'s reported segment revenue of TRY297.2 billion in 2023 and operating margin of 4.5%.
- Other assets (5.6%).

**Koc Holding portfolio breakdown**

As of June 30, 2024

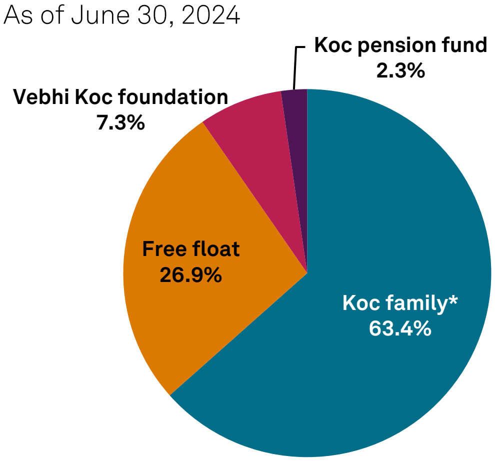



Based on portfolio value as adjusted by S&P Global Ratings, excluding cash.
Source: Koc's interim report, S&P Global Ratings.



**Koc Holding shareholding structure**

As of June 30, 2024




*Includes 43.7% from family-owned investment vehicle Family Danışmanlık.
Source: Koc's interim report, S&P Global Ratings.



# Peer Comparison

With a total portfolio size of about $22 billion as of June 30, 2024, Koc is among the largest investment holding companies we rate in Europe. Its gross asset value is higher than peers such as Georgia Capital ($1.3 billion) or Wendel ($9.0 billion), but below that of JAB Holding ($30 billion) and Exor ($43 billion).

Due to its focus on Turkish companies, Koc is more exposed to a single jurisdiction than other holding companies we rate, resulting in a lower average portfolio credit standing in the 'b' category. That said, with a net cash position of $712 million as of June 30, 2024, Koc currently has the most financial flexibility among its peers.

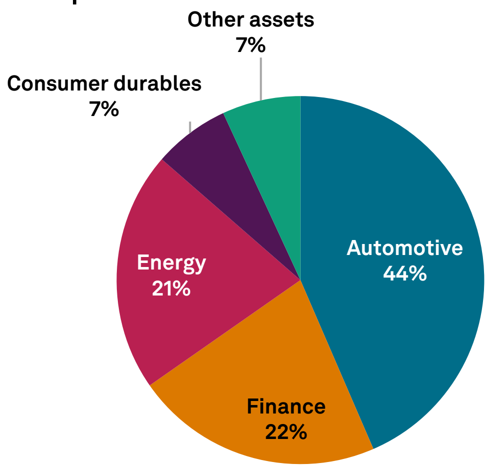
**Koc Holding A.S.--Peer Comparison**

| | Koc Holding A.S. | Jab Holding Company S.à.R.L.** | Georgia Capital | Wendel | Exor N.V. |
|---|---|---|---|---|---|
| Rating as of Aug. 16, 2024 | BB/Positive/-- | BBB+/Stable/-- | BB-/Stable/-- | BBB/Stable/A-2 | A-/Stable/A-2 |
| Business risk profile | Weak | Satisfactory | Vulnerable | Fair | Satisfactory |
| Portfolio data as of | 30-Jun-2024 | 31-Dec-2023 | 30-Jun-2024 | 31-Mar-2024 | 31-Dec-2023 |
| Portfolio size (mil. $) | 22,006 | 31,828 | 1,222 | 8,914 | 43,097 |
| Three largest assets (% portfolio) | 62.1 | 57.9 | 62.6 | 66.7 | 67.8 |
| Three largest assets | Yapi Kredi, Ford Otosan and Tupras | KDP, Pret Panera and COTY | BOG, Retail pharmacy and P&C insurance | Bureau Veritas, Stahl and Crisis Prevention Institute. | Ferrari, Stellantis and CNH Industrial |
| Financial risk profile | Modest | Intermediate | Intermediate | Modest | Modest |
| Loan to value threshold (%) | 10 | 25 | 25 | 20 | 20 |
| Loan to value ratio (%)* | Net cash | 20.1 | 10.4 | 6.0 | 11.7 |

# Business Risk

**Koc's investment position is supported by its sector diversity and a high proportion of listed assets.** The holding company is invested in a wide range of sectors, including financial institutions, auto manufacturing, oil refining, and consumer durables, with many different investee assets. We think that this diversification somewhat reduces the volatility in the portfolio value given the typical decorrelation of those sectors' economic cycles. In addition, approximately 90% of Koc's assets were listed on Borsa Istanbul as of the end of June 2024, supporting portfolio liquidity.

**Koc's portfolio benefits from sector diversification**



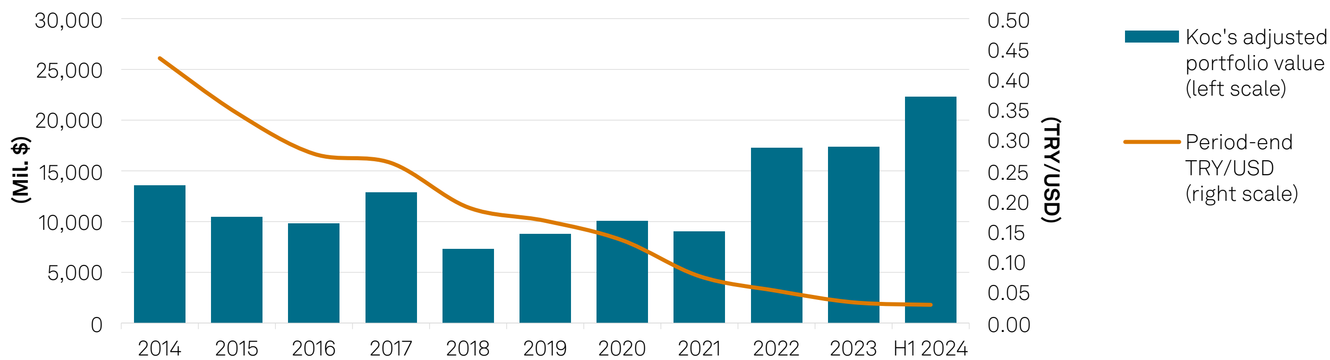

Based on portfolio value as adjusted by S&P Global Ratings as of June 30, 2024, excluding cash.
Source: Koc's interim report, S&P Global Ratings.



**A sizable share of Koc's investee companies are exporters, which somewhat protects asset valuation and dividend income from domestic conditions and currency depreciation.** Ford

Otosan derived about 78% of its revenue, Arcelik 64%, and Tofas about 22% from international sales in 2023, while refinery group Tupras' sales are U.S.-dollar linked. We think that these assets representing about 55% of total portfolio value as of June 30, 2024 can somewhat benefit from Turkish lira depreciation and maintain resilient valuation and dividend payments even during more volatile domestic market conditions, as experienced in the recent past. Between 2018 and 2023, Koc's portfolio value increased to about $17.4 billion from $7.3 billion and total dividend income to about $1.2 billion from $800 million.

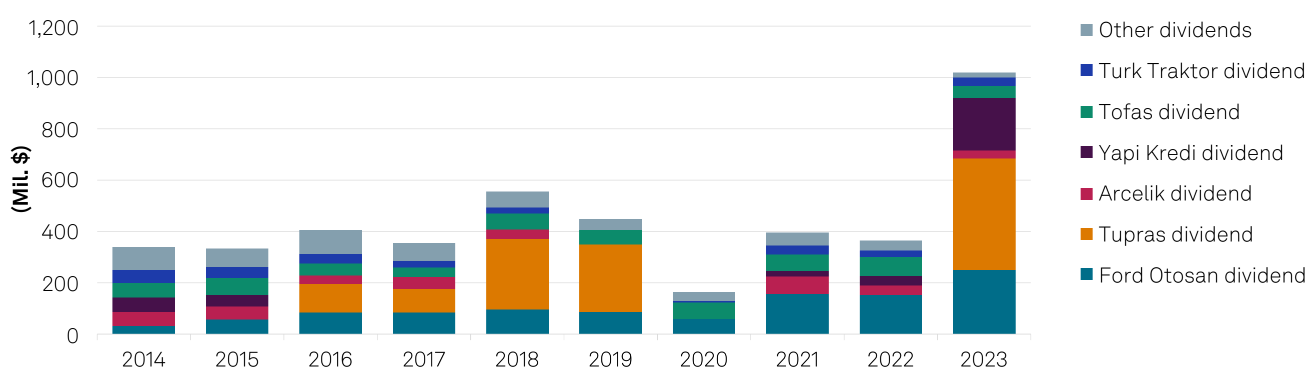
**Koc's asset value in hard currency has been growing despite volatile domestic market conditions**




Reported asset value converted in U.S. dollars using period-end exchange rates.
TRY--Turkish lira. USD--U.S. dollar. Source: S&P Global Ratings.



**Koc's portfolio diversity supports resilient dividend income**




Reported dividend income converted in U.S. dollars using yearly average exchange rates.
Source: Koc's annual reports, S&P Global Ratings.



**Koc's portfolio displays some concentration and has a relatively lower average asset credit quality compared with its European peers.** Nearly all of the holding's investments are in Turkiye-headquartered companies and its three largest assets Yapi Kredi, Ford Otosan and Tupras represented about 60% of total portfolio value as of June 30, 2024. In our view, this results in some single-asset risks, with Yapi Kredi and Tupras being fairly exposed to Turkiye's overall domestic macroeconomic conditions. We estimate Koc's average asset creditworthiness to be in the 'b' category, close to Turkiye's sovereign rating (B+/Positive/B), and lower than most Europe, Middle East, and Africa (EMEA) investment holding companies. In addition, we estimate that Koc's average direct and indirect ownership in listed assets was above 40% as of June 30, 2024, which we view as fairly high and as a potential constraint to swift asset rotation and monetization. Unlike other active holdings we rate in EMEA such as JAB or Wendel, Koc's portfolio's composition has remained relatively sticky over the past few years.

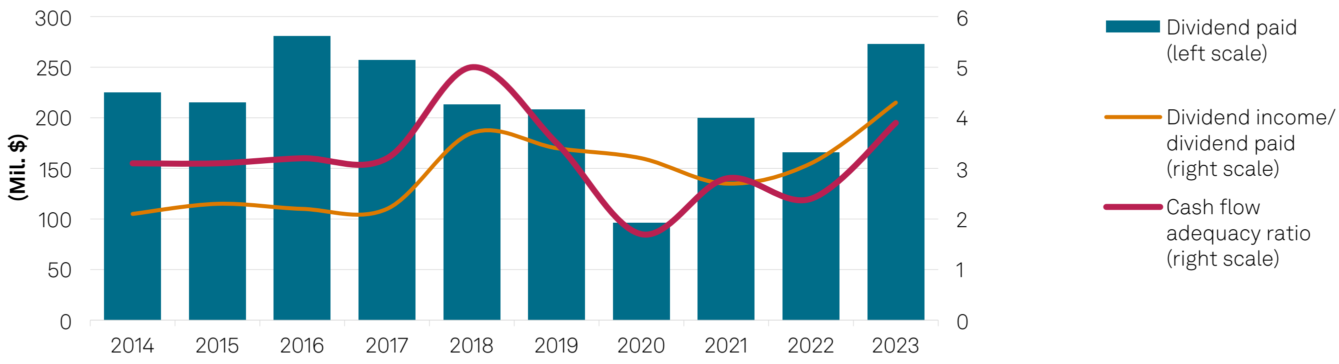
**Koc's share price discount against its net asset value (NAV) is improving but remains exposed to investor confidence toward Turkiye's economy.** Koc's share price traded at a widening discount to its NAV over 2021-2023 due to large foreign investment outflows following the deterioration in Turkiye's macroeconomic and credit conditions. The discount hovered between 20% and 40%, materially higher than its historical average of 12%. Koc remains seen as proxy to invest in Turkiye and as a result its share price typically suffers during "risk-off" periods from international investors. Recent regains in foreign investor confidence following more conventional monetary policies introduced in late 2023 and through 2024 have resulted in foreign inflows, with Koc's NAV discount narrowing closer to 15%-25% during the second quarter of 2024.

## Financial Risk

**Koc has a long track record of low leverage and defensive treasury management, signaling strong governance**. The company has maintained a net cash position in most years since we assigned the rating in 2013 and is tightly managing its foreign exchange exposure thanks to sizable cash balances in U.S. dollars and at international banks. By preserving a strong balance sheet and anticipating market risks, the holding company has been able to withstand macroeconomic headwinds in Turkiye without impairing its credit standing. This supports our positive management and governance assessment on Koc.

**Koc's dividend distributions to shareholders are moderate and well covered by resilient cash flow adequacy ratios.** Over 2018-2023, the holding's total payout to shareholders represented on average about 30% of the dividend, interest, and management fees received from its investments. Those also more than covered operating, tax, and interest expenses, with Koc maintaining sound cash flow adequacy ratios of about 3.0x on average over the same period. After a temporary decline in the 1.5x-2.5x range over 2020-2022 following weaker macroeconomic conditions, we anticipate that Koc's cash flow adequacy will further increase to 4.0x-5.0x in 2024 from 3.9x in 2023, supported by strong dividend contributions from core assets such as Yapi Kredi, Ford Otosan, Tupras, Tofas, and TurkTraktor. Overall, we believe that Koc can rely on a fairly good yield portfolio that provides resilient sources of cash over the different economic cycles.

**Koc has maintained prudent distributions and resilient cash flow adequacy over time**




Reported dividend paid converted in U.S. dollars using yearly average exchange rates.
Source: Koc's annual reports, S&P Global Ratings.



## Debt maturities

Koc's only debt maturity consists of its $750 million senior unsecured notes due March 2025. We think that the company has ample flexibility to repay the notes at maturity given its net cash position of $712 million as of June 30, 2024, including sizable cash balances held in hard currency and at international banks.

**Koc Holding A.S.--Financial Summary**

| (Mil. TRY) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Portfolio as adjusted | 38,555 | 52,251 | 73,917 | 117,204 | 323,675 | 512,250 |
| Net debt as adjusted | (2,244) | (2,574) | (1,193) | (801) | 2,585 | (17,140) |
| Loan to value (%) | (5.8) | (4.9) | (1.6) | (0.7) | 0.8 | (3.3) |
| Dividend, fees and interest received | 3,765 | 3,984 | 2,130 | 4,846 | 8,516 | 28,201 |
| Operating charges and tax paid | 436 | 612 | 572 | 1,049 | 2,157 | 5,700 |
| Interest paid | 324 | 512 | 693 | 705 | 1,453 | 1,453 |
| Cash flow adequacy (x) | 5.0 | 3.5 | 1.7 | 2.8 | 2.4 | 3.9 |
| Dividend paid | 1,029 | 1,183 | 671 | 1,770 | 2,751 | 6,500 |

# 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, 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 one Eurobond outstanding of $750 million (or about TRY25.0 billion) due in March 2025, and its gross cash was of about TRY48.4 billion as of June 30, 2024. Moreover, having almost all its cash in U.S. dollars effectively neutralizes the foreign exchange risk attached to its U.S.-dollar-denominated bond.

### Principal liquidity sources

- A cash balance of TRY48.4 billion; and
- Unstressed dividend, interest income, and management fees of TRY45 billion-TRY50 billion per year.

### Principal liquidity uses

- Debt maturities of about TRY25.0 billion over the next 12 months, corresponding to the $750 million Eurobond due in March 2025;
- Operating and tax expenses of TRY8 billion-TRY10 billion per year;
- Interest expense of TRY2.0 billion-TRY2.5 billion per year; and
- Dividend payments of about TRY22.4 billion per year.

# Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Koc. This is because the company's portfolio has material stakes in companies exposed to high greenhouse gas emissions, such as Ford Otosan, Otokoc, Turk Traktor, Tofas, and Otokar. Also, Koc is exposed to refineries through its stake in Tupras. These assets make up close to 65% of the total portfolio value, with the remainder in less exposed sectors such as finance and consumer durables.

Koc's governance is exposed to high country risk in Turkiye, a negative factor compared with that of other investment holdings in Europe, but we view the group's extensive strategic planning process, track record of delivering on its strategy, and very comprehensive risk-management and performance-monitoring procedures as positive.

# Issue Ratings--Subordination Risk Analysis

## Capital structure

As of June 30, 2024, Koc's capital structure comprises about $750 million of senior unsecured debt issued at the holding company level, with no significant priority debt outstanding or committed.

## Analytical conclusions

The issue rating on Koc's senior unsecured notes is 'BB', in line with the long-term issuer credit rating, because there are no significant elements of subordination risk in the capital structure and the leverage is low.

| Rating Component Scores | |
|---|---|
| **Issuer Credit Rating** | **BB/Positive/B** |
| **Business risk** | **Weak** |
| Country risk | High |
| Industry risk | Intermediate |
| Investment position | Weak |
| **Financial risk** | **Modest** |
| 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 | B+ |
| Transfer and convertibility | 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
- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, 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

- Economic Outlook Emerging Markets Q4 2024: Lower Interest Rates Help As Pockets Of Risk Rise, Sept. 24, 2024
- Koc Holding Upgraded To 'BB' Following Positive Action On Turkiye; Outlook Positive, May 22, 2024
- Ford Otomotiv Sanayi A.S. Upgraded To ‘BB’ After Similar Action On The Sovereign; Outlook Stable, May 14, 2024
- Turkiye Upgraded To 'B+' On Economic Rebalancing; Outlook Positive, May 3, 2024

**Ratings Detail (as of October 14, 2024)***

| | |
|---|---|
| **Koc Holding A.S.** | |
| Issuer Credit Rating | BB/Positive/B |
| Senior Unsecured | BB |
| **Issuer Credit Ratings History** | |
| 22-May-2024 | BB/Positive/B |
| 14-Dec-2023 | BB-/Positive/B |
| 19-Oct-2023 | B+/Stable/B |
| 06-Jun-2023 | B+/Negative/B |
| 20-Oct-2022 | B/Stable/B |
| 12-Apr-2022 | B+/Negative/B |
| 16-Dec-2021 | BB-/Negative/B |

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