

Research Update:

# Koc Holding A.S. Upgraded To 'BB+' Following Positive Action On Turkiye; Outlook Stable

November 19, 2024

One or more of the Credit Ratings referenced within this article was assigned by deviating from S&P Global Ratings' published Criteria.

## Rating Action Overview

- On Nov. 1, 2024, we raised our unsolicited long-term foreign currency sovereign rating on Turkiye to 'BB-' from 'B+' and revised our transfer and convertibility (T&C) assessment to 'BB' from 'BB-'. The outlook on our sovereign rating is stable.
- Koc Holding A.S. (Koc) meets our requirements to be rated a notch above the T&C assessment on Turkiye. We also think the company can be rated two notches above the sovereign rating thanks to its positive track record in keeping a significant net cash position held in U.S. dollar, largely with international banks and strong liquidity.
- We therefore raised our long-term issuer credit rating on Koc and our issue rating on its unsecured notes to 'BB+' from 'BB' and affirmed our 'B' short-term rating on the company.
- The stable outlook on Koc mirrors that on Turkiye.

## Rating Action Rationale

**The upgrade follows a similar action on Turkiye.** We continue to apply a criteria exception on our rating on Koc, based on our expectation that the holding company can maintain sufficient cash in U.S. dollar to repay its \$750 million bond due in March 2025. As a result, Koc can be rated one notch above our 'BB' T&C assessment on Turkiye, and at a maximum of two notches above our 'BB-' sovereign credit rating on Turkiye (see "Turkiye Upgraded To 'BB-' On Reserve Accumulation And Disinflation; Outlook Stable," published on Nov. 1, 2024, on RatingsDirect). The two-notch cap is because we view domestic investment holding companies, in general, as having high sensitivity to their home countries' risk. This holds especially true for Koc with all its investee assets being Turkiye-based.

### PRIMARY CREDIT ANALYST

**Florent Blot, CFA**  
Paris  
+ 33 1 40 75 25 42  
florent.blot  
@spglobal.com

### SECONDARY CONTACTS

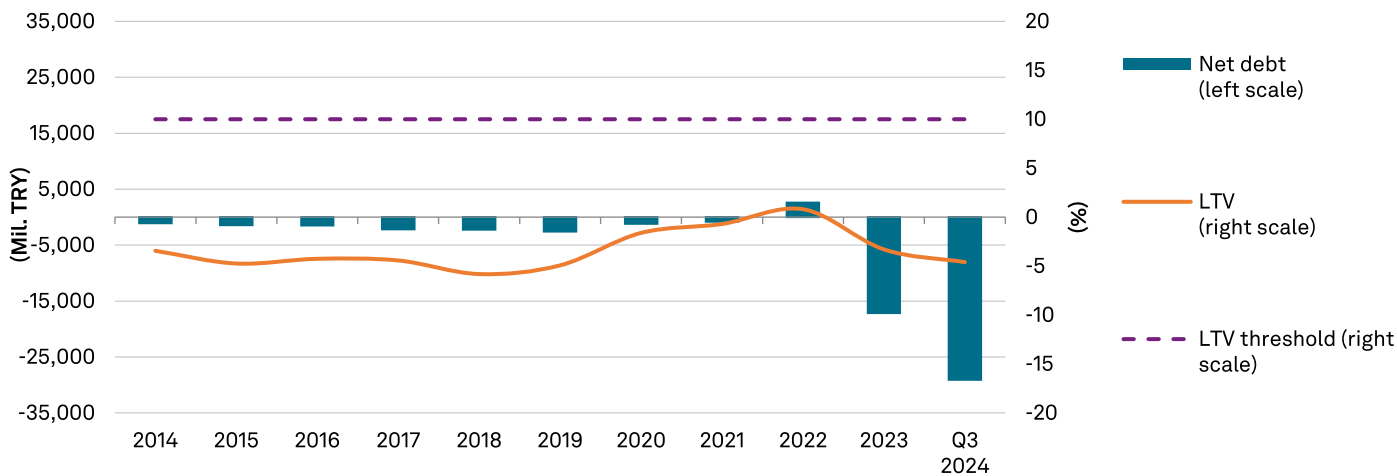
**Marta Bevilacqua**  
Milan  
+ (39)0272111298  
marta.bevilacqua  
@spglobal.com

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

**We anticipate Koc will maintain a net cash position in the next 12 months.** Koc's net cash position was about Turkish lira (TRY) 29.1 billion (or about \$853 million) as of Sept. 30, 2024, based on its 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 since 2014, with its adjusted loan-to-value ratio staying well below the 10% maximum level we view as commensurate with its 'bbb-' stand-alone credit profile (SACP). Under our base-case scenario, we anticipate that Koc will retain a net cash position in the next 12 months, supported by its conservative financial policy, moderate shareholder distributions, and a sizable recurring dividend stream from its investee assets. We think this will notably allow the company to keep flexibility in either repaying its \$750 million Eurobond due in March 2025 with cash on hand or refinancing it fully or partly, depending on market conditions. 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 Otomotiv Sanayi A.S. (known as Ford Otosan) or Arcelik A.S. also typically provides resiliency in case of weaker domestic market conditions (for more details see "Koc Holding A.S." published Oct. 14, 2024, on RatingsDirect).

Chart 1

**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. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

**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. dollar 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 Sept. 30, 2024, the company's only financial debt liability pertains to its \$750 million bond due

## Research Update: Koc Holding A.S. Upgraded To 'BB+' Following Positive Action On Turkiye; Outlook Stable

in March 2025. We think Koc has enough U.S. dollars 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. As a result 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 September 2024.

## Outlook

The stable 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 the company to meet our requirements to be rated up to one notch above our T&C assessment and that we continue to assess its SACP at least at 'bbb-'.

## 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 TRY477.1 billion (or about \$14 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 Sept. 30, 2024,

## Research Update: Koc Holding A.S. Upgraded To 'BB+' Following Positive Action On Turkiye; Outlook Stable

was TRY627.3 billion (about \$18.4 billion). On the same date, Koc's portfolio included assets in the following sectors:

- Automotive and auto suppliers (39.2% 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.; 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 (23.1%): Yapi and KocFinans, with combined revenue of TRY388.6 billion in 2023 and a reported operating margin of 24.7%.
- Energy (23.7%): 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 (6.4%): Arcelik A.S.' reported segment revenue of TRY297.2 billion in 2023 and operating margin of 4.5%.
- Other assets (7.6%).

## Our Base-Case Scenario

### Assumptions

- A conservative and proactive financial policy, through which Koc remains in a net cash position.
- Dividends, management fees, and interest income of TRY45 billion-TRY50 billion in 2024, compared with TRY28.2 billion in 2023.
- 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.
- Annual interest expense of about TRY2.0 billion-TRY2.5 billion in 2024, up from TRY1.5 billion in 2023 due to the Turkish lira devaluation.
- Dividend payments to Koc's shareholders of TRY22.5 billion in 2024, compared with TRY6.5 billion in 2023.
- No new investments or share buybacks.

### Key metrics

Table 1

#### Koc Holding A.S.--Key metrics\*

	2019a	2020a	2021a	2022a	2023	2024f
LTV (%)	(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

\*S&P Global Ratings-adjusted. 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, 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 TRY25.6 billion) due in March 2025, and its gross cash was about TRY54.7 billion as of Sept. 30, 2024. Moreover, having the majority of its cash in U.S. dollars effectively neutralizes the foreign exchange risk attached to its U.S.-dollar-denominated bond.

Principal liquidity sources for the 12 month-period started Oct. 1, 2024:

- 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 for the same period:

- Debt maturities of about TRY25.6 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 company'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 Sept. 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.

## Ratings Score Snapshot

Issuer Credit Rating	BB+/Stable/B
Business risk:	Weak
Country risk	High
Industry risk	Intermediate
Investment position	Weak
Financial risk:	Modest
Cash flow/leverage	Minimal
Anchor	bb+
Modifiers:	
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: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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

## Research Update: Koc Holding A.S. Upgraded To 'BB+' Following Positive Action On Turkiye; Outlook Stable

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

## Related Research

- Turkiye Upgraded To 'BB-' On Reserve Accumulation And Disinflation; Outlook Stable, Nov. 1, 2024
- Koc Holding A.S., Oct. 14, 2024

## Ratings List

### Upgraded; Outlook Action

	To	From
<b>Koc Holding A.S.</b>		
Issuer Credit Rating	BB+/Stable/B	BB/Positive/B
Senior Unsecured	BB+	BB

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 [www.spglobal.com/ratings](http://www.spglobal.com/ratings) 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/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.