

Fitch Downgrades Dogus's Long Term National Long Term Rating to 'BB(tur)'; Withdraws Ratings

09 APR 2019 11:37 AM

Fitch Ratings - Frankfurt am Main - 14-Mar-2019 Fitch Ratings has downgraded Turkish car importer Dogus Otomotiv ve Ticaret A.S.'s (Dogus) National Long-Term Rating 'BB(tur)' from 'BB+(tur)'. The Outlook is Negative. Fitch has simultaneously withdrawn all of Dogus's ratings for commercial reasons. Accordingly, Fitch will no longer provide ratings or analytical coverage for Dogus.

The downgrade reflects continuing weakness in the Turkish domestic market, coupled with Fitch's expectations of a prolonged stress on sales driving further deterioration in Dogus's financial profile compared with local peers'. The ratings are constrained by heightened liquidity and medium-term refinancing risks amid ongoing market volatility and currency weakness, coupled with our expectation that the prevailing environment in Turkey will not improve in the medium term. The Negative Outlook reflects potentially limited credit availability and the significantly increased refinancing risk of parent Dogus Holding (DH) AS.

The ratings were withdrawn for commercial reasons.

KEY RATING DRIVERS

Continuously Weak Liquidity: Given negative free cash flow (FCF) and the absence of committed credit facilities for Dogus, which is common in Turkey, liquidity remains a key pressure on its credit profile, which is captured in its 'BB+(tur)' rating. While Dogus had historically enjoyed large limits of uncommitted credit facilities (around TRY5 billion) from a wide range of banks, access to these undrawn cash limits has been revoked through 2018. As a result, Dogus's liquidity profile has weakened and is contingent on the continued successful rollover of drawn credit facilities.

Heightened Risk of Credit Availability: We believe that accessing credit facilities is becoming harder under the current macro-economic environment in Turkey. Although Dogus enjoys strong relationships with both local and international banks and to date has been able to regularly roll over these lines, it is exposed to an increasing risk of reduced availability of credit and renewal at more onerous conditions if the currency crisis worsens further and the impact on Turkish banks intensifies, notwithstanding slightly improving commercial interest rates during 1Q19.

Stretched Financial Metrics: Due to the large adverse FX impact in the year-to-date on Dogus's cash interest costs, the utilisation of factoring to meet working capital requirements, coupled with our assumption of declining operational cash flow, we project funds from operations (FFO) adjusted net leverage to remain around 7.0x over 2019-2020 (2018: 6.1x), which is commensurate with the rating. Nonetheless, the company's 2018 EBITDA margin increased to 5.7% (2017: 4.3%) on the back of operational cost control, illustrating Dogus's mostly flexible cost structure.

Slump in Turkish Automotive Sales: Automotive sales in Turkey have been hit significantly in 2018, showing a 37%

decline compared with 2017, driven by large adverse FX impact and resulting spike in inflation. This led to higher vehicle prices, more onerous terms for auto financing and depressed consumer sentiment. Notably, Dogus's 2018 unit sales (-43%) contracted slightly more than the market, illustrating the company's high exposure to the domestic market. Fitch expects further contraction in automotive sales through 2019 and does not see any stabilisation before 2020.

Manageable FX Risks: Car imports are entirely euro-denominated while Dogus's operations generate mostly Turkish lira-denominated revenue, creating a significant FX mismatch. However, pricing mechanisms with automotive manufacturers provide a balanced burden-sharing model over the long-term, smoothing out average currency volatility.

We view the absence of hard-currency denominated debt, which compares favourably with Turkish corporate peer Yasar Holding A.S. (B-/BB(tur)/Stable) and Georgia-based auto spare parts provider Tegeta Motors LLC as positive for Dogus's credit profile. Both peers have substantial unhedged foreign currency-denominated debt on their balance sheets, leading to an adverse FX-driven impact on leverage metrics.

Standalone Rating Assessment: Fitch has applied its 'Parent and Subsidiary Rating Linkage' Criteria and assessed that the legal, operational and strategic linkage with DH was sufficiently weak to rate Dogus on a standalone basis. In particular, the absence of up- and down-stream guarantees, ring-fencing mechanisms and cross-default clauses underpins the separate financing of both entities, while a small management overlap and a broadly independent Board of Directors promote an autonomous management strategy with only marginal influence from DH.

Fitch views the credit profiles of DH and Dogus as broadly similar. However, further deterioration of DH's credit profile could be negative for Dogus as Fitch believes that Dogus is unlikely to be rated more than one notch above its parent.

Parent's Planned Refinancing Stalls: Fitch believes that Dogus 's financial profile is somewhat stressed by DH's tight liquidity profile and heightened refinancing risk, as we understand that refinancing talks are stalling. This is despite management's continued working assumption that Dogus will be exempted from the debt reorganisation at DH and Fitch's view that inter-linkages are weak. Following DH's disposal of its stake in Garanti Bank, Dogus has become the largest dividend source.

DERIVATION SUMMARY

Not applicable.

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer

- Revenue to decline by around 9% in 2019, as drop in Turkish new car sales (-35% in 2018 and -60% in January 2019 compared with prior year) are not fully offset by price increases.
- Majority of existing drawn credit lines to be rolled over to ensure funding.
- Normalisation of capex with annual investment spend slightly in excess of TRY200 million through 2019-2020.
- Dividend payments suspended pending further notice.
- No major acquisition or disposal over 2019-2021.
- Rating predicated on current corporate structure remaining in place.

RATING SENSITIVITIES

Not applicable.

LIQUIDITY AND DEBT STRUCTURE

Thin Liquidity: Dogus's liquidity profile is weak results in a liquidity score significantly below 1.0x, owing to predominantly short-term funding. Readily available cash and cash equivalents was TRY381 million at end-2018, after adjusting for TRY100 million restricted cash and the inclusion of 20% of Dogus's stake in DH valued at TRY116 million. This does not cover TRY2.5 billion of short-term debt as at the same date and expected negative FCF for the coming 12 months.

With access to previous uncommitted cash limits (roughly TRY3 billion) revoked, Dogus's liquidity is contingent on the continued rollover of drawn credit lines, while being exposed to an increasing risk of reduced availability of credit and renewal at more onerous conditions.

RATING ACTIONS				
ENTITY	RATING			PRIOR
Dogus Otomotiv Servis ve Ticaret A.S.	Natl LT	BB(tur) ●	Downgrade	BB+(tur) ●
	Natl LT	WD(tur)	Withdrawn	BB+(tur) ●

FITCH RATINGS ANALYSTS

Primary Analyst

Cigdem Cerit,

Director

+34 93 467 8840

Fitch Ratings Espana. S.A.U.

Av. Diagonal 601

Barcelona 08028

Secondary Analyst

Severin Testroet,

Associate Director

+49 69 768076 113

Fitch Deutschland GmbH

Neue Mainzer Strasse 46 - 50

Frankfurt am Main D-60311

Committee Chairperson

Emmanuel Bulle,

Senior Director

+34 93 323 8411

Media relations

Adrian Simpson (London)

London

+44 20 3530 1010

adrian.simpson@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Corporate Rating Criteria (pub.19-Feb-2019)

National Scale Ratings Criteria (pub.18-Jul-2018)

Parent and Subsidiary Rating Linkage (pub.16-Jul-2018)

Sector Navigators (pub.23-Mar-2018)

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

([HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (<https://www.fitchratings.com/site/home>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at

the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO’s credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory> (<https://www.fitchratings.com/site/regulatory>)), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.