

RATING ACTION COMMENTARY

Fitch Downgrades Arcelik to 'BB-'; Outlook Negative

Tue 12 Nov, 2024 - 10:25 ET

Fitch Ratings - London - 12 Nov 2024: Fitch Ratings has downgraded Arcelik A.S.'s (Arcelik) Long-Term Local-Currency Issuer Default Rating (LC IDR) to 'BB-' from 'BB+' and its Long-Term Foreign-Currency IDR to 'BB-' from 'BB'. The Outlooks on the ratings are Negative. A full list of rating actions is below.

The downgrade reflects significantly weaker trading on lower demand and weaker pricing of Arcelik's products. This left the company with lower margins, increased debt funding requirements and, consequently, sharply weaker credit metrics. Fitch now expects EBITDA Gross leverage to exceed 6x at end- 2024 before it declines to around 5x at end-2025 and approaches 4x at end-2026.

The Negative Outlooks reflect uncertainty over Arcelik's margin recovery, synergies from its Whirlpool partnership as well as leverage remaining above its 4.5x negative rating sensitivity until end-2026.

KEY RATING DRIVERS

Leverage Still Increasing in 2024: Fitch forecasts EBITDA leverage to reach 6.7x at end-2024 due to lower EBITDA and higher debt. We expect debt to increase in 2024, due to a large funding gap caused by lower margins, working-capital outflows and high capex. Fitch expects leverage to improve over 2025-2027 as margins rise and capex decreases, as no new plants are planned in the medium term. Failure to reduce leverage during the next two years would likely lead to a further rating downgrade.

Weaker EBITDA Margin: We forecast EBITDA margins to drop to 5.1% for 2024, due to lower gross margins, including higher operating expenses (opex) and its margin-dilutive Whirlpool partnership. We also note the adoption of inflation adjusted accounting also has a negative impact on the margins. Gross margins have been affected by a challenging price environment, especially in Europe, slowing demand in Turkiye and higher raw material costs for plastic. Opex has increased due mostly to growing personnel,

marketing, and selling expenses. Finally, the lower-margin Whirlpool business will weigh on the combined group's EBITDA margins.

Whirlpool Partnership Completed: The Whirlpool transaction created a new major domestic appliance business in Europe by combining Whirlpool Corporation's European operations with that of Arcelik's. Seventy-five per cent of the newly formed company is owned by Beko B.V. (Arcelik's wholly owned subsidiary) and 25% by Whirlpool Corporation. No cash was exchanged as part of the transaction. Revenue generated by Whirlpool entities at end-2023 were around EUR3 billion versus Arcelik's total sales of about EUR8 billion-equivalent.

Combination Beneficial, but with Risks: Fitch believes the Whirlpool partnership enhances Arcelik's manufacturing capabilities by adding factories in the U.K. and Continental Europe, which should drive cost synergies and increase its presence in Europe. However, Whirlpool's European assets have historically been less profitable, due partly to higher labour costs and lower factory utilisation. Fitch sees some execution risk in the targeted synergies of EUR300 million, which may take longer and require more costs and capex than expected and thus put pressure on the rating.

Deteriorating Interest Cover: We expect Arcelik's EBITDA interest cover to reach a low of 1.8x in 2024 as increased borrowings and higher local rates have increased interest expense and as EBITDA has decreased. The company had significant short-term (ST) debt as of end-3Q24 of TRY45 billion, with about a third in local currency at an effective annual interest rate of 33%. It also recently accessed the international debt capital market, having issued bonds in September and November 2023.

Strong International Market Position: In Türkiye, Arcelik is the clear market leader, dominating more than half of the market since the 2000s, which has been their source of cash generation. This has enabled growth into the European and Asian markets. With the Whirlpool partnership, Arcelik is now the market leader in Europe, with Beko being the fastest-growing white goods brand. Arcelik also holds market-leading positions in Romania, South Africa, Pakistan, and Bangladesh.

Financial Services Adjustments: Arcelik's reported leverage is affected by higher-than-average working-capital needs, as a significant portion of durable goods are sold on credit in Türkiye. While this is partly financed by Arcelik, the dealer credit risk is covered by banks' letters of credit, mortgages, Direct debit system and Arcelik stocks. Fitch assumes about 120 days of domestic receivables come from this business practice in Türkiye and adjusts debt up accordingly to reflect a more accurate peer comparison. Based on its Financial Services Criteria, Fitch applies a 1x debt-to-equity ratio to these receivables and financial adjustment.

DERIVATION SUMMARY

Arcelik's business profile is broadly in line with that of diversified industrial peers rated in the low 'BBB' category, given its leading position in Europe's and Türkiye's white goods sector, as well as its solid production base across low-cost countries. Its diverse production base compares favourably with that of Vestel Elektronik Sanayi Ve Ticaret A.S. (B+/Positive) and Artel Electronics LLC (B/Stable), which only manufacture with one low-cost base. Arcelik's technological content and R&D capabilities are broadly in line with those of Whirlpool Corporation (BBB-/Negative) and the broader white goods industry.

However, Arcelik has had a higher share of revenue from emerging markets than higher-rated white goods manufacturers, although this will decrease now with the Whirlpool partnership. We expect Arcelik's margins to drop to around 5% in 2024, before it steadily improves to almost 8% in 2027. This is much lower than historical levels due to the margin-dilutive Whirlpool partnership, a competitive pricing environment, and lower demand. This also affects its leverage metrics, with gross leverage forecast to peak at 6.4x at end-2024 before decreasing to below 4x at end-2027. These financial metrics are worse than that of higher and lower-rated peers, including Vestel, Whirlpool, LG Electronics Inc. (BBB/Stable), and Artel.

KEY ASSUMPTIONS

- Double-digit revenue growth for the next four years across Türkiye and international markets, supported by continued expansion into new products, Whirlpool partnership and a favourable foreign currency impact on sales
- Lower EBITDA margin from Whirlpool partnership, flat demand and higher opex, but we expect an improvement as demand in Europe and Asia recovers and synergies are achieved from the Whirlpool partnership
- Continued successful refinancing of upcoming ST maturities albeit at a higher interest rate
- Financial-services adjustment assumes 120 days of domestic receivables
- Minimal dividends distribution while Arcelik focuses on achieving synergies from the Whirlpool partnership

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- EBITDA gross leverage below 3.5x on a sustained basis
- Successful execution of the Whirlpool partnership leading to EBITDA margins above 9%

Factors That Could, Individually or Collectively, Lead to Downgrade:

- EBITDA gross leverage above 4.5x
- EBITDA margin remaining below 6%
- Sustained negative free cash flow
- EBITDA interest coverage below 2.5x on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

Low Liquidity Score: Historically, Arcelik's liquidity score has been below 1x, driven by the use of short-term debt to finance its high working-capital needs. The company reported cash and cash equivalents of TRY32.8 billion at end-3Q24. Fitch believes that liquidity risk is mitigated by Arcelik's access to uncommitted lines in the local market from both Turkish and international lenders.

The liquidity score at below 1x is not adequate for the current rating, but the risk is partly mitigated by customer receivables financing, which is self-liquidating. The company has a record of accessing the international debt capital market and most recently issued a USD400 million bond in September 2023 and a USD100 million bond in November 2023.

ISSUER PROFILE

Arcelik A.S., owned by Koc Group, is the largest white goods and consumer electronics manufacturer in Türkiye and Europe. The company has 46 different production facilities in 14 countries and offers its goods and services to more than 150 countries through its 22 brands (which include Arcelik, Beko, Grundig, Hotpoint and Whirlpool).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	RECOVERY ⚡	PRIOR ⚡
Arcelik A.S.	LT IDR		BB Rating Outlook Positive
	BB- Rating Outlook Negative		
	Downgrade		
	LC LT IDR		BB+ Rating Outlook Stable
	BB- Rating Outlook Negative		
	Downgrade		

Natl LT

AAA(tur) Rat
Outlook
Stable

AAA(tur) Rating Outlook Negative

Affirmed

senior
unsecured

LT

BB-

Downgrade

RR4

BB

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 04 Mar 2023\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 17 Jun 2023\)](#)

[Corporate Rating Criteria \(pub. 04 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 21 Jun 2024\)](#)

[Corporate Recovery Ratings and Instrument Ratings Criteria \(pub. 03 Aug 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Arcelik A.S.

UK Issued, EU Endorsed

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