Fitch Revises Outlook on 5 Turkish Corporate Issuers to Stable

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Fitch Ratings - Barcelona - 01 Mar 2021: Fitch Ratings has revised the Outlooks on five Turkish corporates' Long-Term Foreign-Currency Issuer Default Ratings (IDR) to Stable from Negative and affirmed all ratings as detailed below.

KEY RATING DRIVERS

The rating actions follow the revision of the Outlook on Turkey's Long-Term Foreign-Currency IDR to Stable from Negative. The issuers' strong exposure to the Turkish economy means their Foreign-Currency IDRs are influenced by the Turkish Country Ceiling. The revision of the Outlooks reflects the likely correlation of future rating actions with changes to the sovereign rating, assuming that the Country Ceiling moves in line with the sovereign IDR.

For full key ratings drivers and ESG considerations for each issuer, see the rating action commentary listed below.

Emlak Konut Gayrimenkul (see Fitch Affirms Turkish Residential Developer Emlak Konut at 'BB' / Outlook Negative dated 20 October 2020)

Ordu Yardımlı hane Kurumu (OVK) Holding (see Fitch Downgrades Ordu Yardımlı hane Kurumu (OVK) to 'BB' / Outlook Negative dated 13 January 2021)

Türkiye Sise ve Cam Fabrikaları A.S. (see 'Fitch Affirms Sisecam at 'BB-'; Outlook Stable' dated 2 July 2020)

Arcelik A.S. (see Fitch Downgrades Arcelik to 'BB'; Outlook Stable dated 14 May 2020)

Ulker Bisküvi Sanayi A.S. (see Fitch Assigns Ulker Bisküvi Sanayi A.S. Final 'BB' / Ratings; Withdraw Local-Currency IDR dated 28 October 2020)

DERIVATION SUMMARY

n.a.

KEY ASSUMPTIONS

n.a.

RATING SENSITIVITIES

Emlak Konut Gayrimenkul: Factors that could, individually or collectively, lead to negative rating action/downgrade - Business and geographical diversification reducing the inherent risk of the Turkish housing market. - Consistently strong GDP growth, along with political stabilisation. - Unless the above developments take place, Fitch does not expect to upgrade the rating. Fitch, as Emk’s ratings are exclusively in Turkey and the Turkish sovereign rating and domestic operating environment will constrain the rating. Factors that could individually or collectively, lead to rating downgrades: - Deterioration of the operating environment and downgrades of the sovereign rating - Sustained erosion of profit due either to weak housing activity, meaningful and continued loss of market share, and/or land, resulting in margin contraction and weakened credit metrics, including net debt to capitalisation above 50% on a sustained basis - FFO adjusted gross leverage above 4.5x on a sustained basis - Gross debt-to-work-in-progress (WIP) ratio above 50% - Any material change in the relationship with TKK causing deterioration in Emk’s financial profile and financial flexibility - Deterioration in liquidity profile over a sustained period - Order backlog to WIP below 150% over a sustained period - EBITDA margin below 30% for a sustained period - FFO net leverage above 3.5x on a sustained basis - Reinvestment margin below 6% - Consistently negative free cash flow (FCF) - Fitch adjusted loan-to-value (LTV) ratio sustained above 40% - Weakening in the credit quality of its portfolio, leading to a blended income stream of B+ or below - Adjusted dividend interest coverage below 3.0x - Decreased diversification of cash flow leading to increasing dependence on a single asset, Yucal Turk Sise ve Cam Fabrikaları A.S. - Factors that could individually or collectively, lead to negative rating action/downgrade - We do not expect the ratings to be upgraded while they are constrained by Turkey's Country Ceiling. Factors that could individually or collectively, lead to negative rating action/downgrade - A downgrade of Turkey's Country Ceiling - Funds from operations (FCF) margin below 10% - FFO net leverage above 3.5x on a sustained basis - Significant reduction in ownership of consolidated subsidiaries - Arcelik A.S. - Factors that could, individually or collectively, lead to negative rating action/upgrade - Upgrade of Turkey's Country Ceiling - Factors that could individually or collectively lead to negative rating action: - Receivable-adjusted FFO net leverage above 3.5x - Substantial deterioration in liquidity - FFO margin below 6% - Consistently negative free cash flow (FCF) - Ulker Bisküvi Sanayi A.S. - Factors that could, individually or collectively, lead to rating action 

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case rating scenarios and credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

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.

ESG CONSIDERATIONS

Ulker has an ESG Relevance Score of '4' for Group Structure due to the complexity of the structure of the wider Yildiz group and material related-party transactions. This ESG score currently has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

### Fitch Revises Outlook on 5 Turkish Corporate Issuers to Stable

Fitch Ratings has revised its outlook on five Turkish corporate issuers to Stable from Negative. The companies include Arcelik, LC, Turk Telekom, and Ordu.

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### Applicable Criteria

- Corporate Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)
- Investment Holding Companies Rating Criteria (pub. 11 Dec 2020) (including rating assumption sensitivity)
- Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 21 Dec 2020)
- Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)
- Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (pub. 09 Jan 2021)
Fitch Revises Outlook on 5 Turkish Corporate Issuers to Stable

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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Ulker Biskwit Sanayi A.S. UK Issued; EU Endorsed
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Ortaklı Yarımadası Kuruçay (Oykü) EU Issued; UK Endorsed
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