

Research Update:

Turkish Appliances Maker Arcelik Cut To 'BB-'; Outlook Stable; Debt Downgraded To 'B+'

March 25, 2025

Rating Action Overview

- Arcelik's profitability has worsened due to the greater-than-anticipated dilutive impact from the recent acquisition of Whirlpool Europe, high staff cost, and pricing pressure from intense competition in Europe, such that it achieved an S&P Global Ratings-adjusted EBITDA margin of 3.9% in 2024, down from 6.7% in 2023.
- The company's reliance on expensive local currency short-term funding is putting pressure on its ability to cover interest payments and we forecast its EBITDA interest coverage ratio will remain at 1.0x-1.5x in 2025 and 2026.
- Arcelik has raised large debt instruments at operating subsidiaries, including a €500 million syndicated term loan, which in our view increases subordination risk for the lenders to its senior unsecured notes.
- We therefore lowered our long-term issuer credit rating on Arcelik to 'BB-' from 'BB' and on its senior unsecured debt to 'B+' from 'BB'.
- The stable outlook indicates our view that Arcelik will gradually improve its profitability in the next 12-18 months thanks to a successful integration of the acquisition of Whirlpool Europe and to dedicated cost-saving initiatives, also resulting in a gradual improvement in its ability to cover interest payments.

Rating Action Rationale

We forecast Arcelik's profitability will improve gradually in the next 12-18 months, thanks to dedicated cost-saving initiatives, yet it will likely remain below historical levels. The main driver to the lower profitability achieved last year comes from the dilutive impact from the acquisition in April 2024 of Whirlpool Europe, which generated an EBIT margin of 0.8% in 2023, according to Whirlpool's disclosures. The lower margin also reflects pricing pressure from intense competition in Europe, increased salaries, and negative impact from foreign exchange effects. Arcelik is taking steps to achieve about €100 million-€150 million of cost synergies with the recent acquisition of Whirlpool Europe, mostly coming from the elimination of office positions across Italy, Poland, and the U.K., and subsequent optimization of its manufacturing

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footprint. Arcelik is looking to achieve further cost savings through digitalization initiatives, supporting better productivity and a faster execution of cost synergies. We forecast Arcelik to improve its S&P Global Ratings-adjusted EBITDA margin to about 4.5%-5.0% in 2025 and further to 5.0%-5.5% in 2026, from the 3.9% achieved in 2024. Yet those metrics remain lower than the 6.7% achieved in 2023, before the acquisition of Whirlpool Europe.

We forecast Arcelik's EBITDA interest coverage ratio to remain at 1.0x-1.5x over the next 12-18 months due to Arcelik's reliance on expensive local-currency short-term debt. Arcelik's business model is to support its retail partners in Turkey with specific payment terms to support further revenue growth, meaning that it relies on local-currency short-term debt to fund working capital requirements. As a result, at year-end 2024, 44% of the debt in its capital structure had a remaining maturity of up to 12 months. The company issued three short-term local-currency bonds in 2024 with coupon rates of 44%, 46.5%, and 47%, which illustrates the currently high cost of short-term funding in Türkiye. We forecast Arcelik will be able to refinance its working capital-related short-term debt, thanks to its strong relationship with local banks and its positive track record of accessing bank and capital market financing.

We forecast Arcelik will achieve neutral to negative Turkish lira (TRY) 1 billion free operating cash flow (FOCF) in 2025 and 2026 because of high restructuring expenses. This is a material improvement from the negative TRY24.8 billion achieved in 2024. We forecast annual capital expenditure (capex) of TRY13 billion-TRY15 billion in the next two years, lower than the TRY23.8 billion spent in 2024, because the capacity expansion projects in Egypt and Bangladesh completed last year. Our forecast capex includes about TRY5 billion of development costs. We also forecast Arcelik will maintain good control over its working capital requirements, which we estimate at TRY1 billion-TRY2 billion per year in 2025 and 2026. Notably, we forecast the company will continue to optimize trade receivables, thanks to early payment discounts with its distributors and to its factoring program. We note that Arcelik recorded provisions of TRY11.8 billion for restructuring costs at year-end 2024 to achieve cost synergies with assets contributed by Whirlpool Europe, of which TRY655 million were expensed last year. Our forecast includes our estimate of TRY2 billion-TRY3 billion annual utilization of provisions in 2025 and 2026. We do not include the restructuring expenses in our computation of Arcelik's EBITDA for 2024, given the transformational nature of the business partnership with Whirlpool Europe, which caused material changes to its scale of revenue, profitability, and business diversification away from Türkiye.

The 'B+' issue rating on the senior unsecured notes issued by Arcelik reflects the increased subordination risk following large debt issued by subsidiaries. Following the issuance of a €500 million syndicated term loan by Arcelik's subsidiary Beko B.V., we estimate that priority debt (which includes secured debt and unsecured debt issued by operating subsidiaries) exceeds 50% of total consolidated debt issued by Arcelik. This is because we consider that priority debt instruments are closer to the group's income-generating assets, such that we consider them as ranking structurally ahead of the senior notes. That said, we estimate that Arcelik's ability to issue debt from outside of Türkiye enables the group to better match the currency of its debt with that of its cash flows, to access a diversified pool of investors and of debt instruments, and to optimize its cost of debt given the currently high cost of borrowing in Türkiye. Consequently, we forecast priority debt will remain greater than 50% of Arcelik's consolidated debt for the next 12-18 months.

The partnership with Whirlpool in Europe presents cost synergies and business diversification opportunities but entails execution risks, in our view. The partnership combines both companies' European manufacturing assets and brands under a newly

established business, of which Arcelik owns a 75% stake. The transaction increases Arcelik's manufacturing capabilities because it adds factories across Continental Europe, which could drive cost synergies across procurement and footprint optimization and increase Arcelik's presence in Europe. However, Whirlpool's assets are less profitable than Arcelik's, as the 2023 0.8% EBIT margin shows. We believe this is partly due to its manufacturing assets being in countries where labor costs are higher and due to their lower capacity utilization rates. The transaction carries execution risks, in our view, given the large provision for restructuring costs, and because the targeted cost synergies could take longer and require greater costs and capex than anticipated. That said, we understand that Arcelik is progressing well toward its cost-synergy targets. It already achieved half of the planned elimination of 2,000 office positions as of Dec. 31, 2024. We also note management's experience and good track record of integrating and extracting cost synergies from acquisitions, as seen in the successful integration of Hitachi, acquired in 2021.

Outlook

The stable outlook reflects our view that Arcelik will gradually improve its S&P Global Ratings-adjusted EBITDA margin toward 4.5%-5.0% in 2025 and further to 5.0%-5.5% in 2026, thanks to the successful realization of cost synergies, such that it can maintain its EBITDA interest coverage ratio within the 1.0x-1.5x range. We also forecast Arcelik will sustain debt to EBITDA within the 4.0x-5.0x range while the company generates neutral to negative TRY1 billion FOCF in the next 12-18 months.

Downside scenario

We could lower the rating on Arcelik if the company fails to improve its profitability in the next 12-18 months, such that its EBITDA interest coverage ratio remains at 1.0x or below. This could happen in case of meaningful setbacks in achieving the targeted cost synergies with recent acquisitions, resulting in greater cost and capex than anticipated, while the cost of local-currency short-term debt remains elevated for Arcelik. Under this scenario, we would anticipate that Arcelik's debt-leverage ratio would deteriorate toward 5.0x or higher, combined with a negative FOCF generation.

Upside scenario

We could raise our rating on Arcelik if it improves its profitability faster than anticipated, resulting in a debt-leverage ratio improving to below 4x and its EBITDA interest coverage ratio improving comfortably within the 2x-3x range, with positive FOCF. This could happen if Arcelik achieves the targeted cost-synergies faster than we currently forecast, while consumer demand improves in its main markets, enabling better manufacturing efficiencies. Tangible signs of lower costs of local-currency short-term debt for Arcelik would also support a higher rating.

Company Description

Arcelik is a Türkiye-based producer of home appliances, including white goods (refrigerators, washing machines, ovens, and dishwashers, among others) and electronic products like televisions and tablets. It is the largest consumer goods companies in Türkiye and is listed on the Istanbul Stock Exchange. The group is majority owned (57.2%) by Koc Group and 17.6% by

Burla group. The remaining shares belong to Arcelik (10.2%) and 15% are free float. In 2024, the group had revenue of TRY429 billion and S&P Global Ratings-adjusted EBITDA of TRY16.6 billion.

The company owns a portfolio of well-regarded brands in their relevant markets, including Arcelik (the leading home appliance brand in Turkey), Beko (a leading European free-standing major appliance brand in Europe), and Whirlpool (a leading brand in Europe). It also owns the Grundig brand, which helps the company address the premium home appliances market.

Arcelik generated the majority of its 2024 sales in Turkey (32%). The rest were in Western Europe (33%) and the Commonwealth of Independent States and Eastern Europe (16%). It also has an established footprint in South Africa, Pakistan, and Bangladesh.

Our Base-Case Scenario

Assumptions

- Revenue growth of 15%-20% in 2025 primarily coming from the full integration of the recent acquisition of Whirlpool Europe. Our forecast considers stable volumes in Türkiye considering the lower purchasing power following several years of high inflation rates. We also forecast stable volumes in Europe amid a difficult consumer demand environment and fierce competition. We consider that Arcelik will successfully increase prices when needed thanks to its portfolio of well-regarded brands.
- S&P Global Ratings-adjusted EBITDA margin gradually improving to 4.5%-5% in 2025 and further to 5.0%-5.5% in 2026, from 3.9% achieved last year. Profitability gains will come from the realization of cost synergies with recent acquisitions. We also estimate that Arcelik will successfully offset cost inflation with price increases when needed.
- Modest working capital requirements of TRY1 billion-TRY2 billion per year in 2025 and 2026, reflecting the company's good control over inventories and initiatives to optimize its receivables.
- Annual capex of TRY13 billion-TRY15 billion in 2025 and 2026, of which about TRY5 billion is development costs. This is a material decline from the TRY23.8 million spent last year since the expansion initiatives in Egypt and Bangladesh have been completed.
- Cash interest expense at TRY18 billion-TRY20 billion in 2025 and 2026 reflecting the high cost of local-currency short-term debt in Türkiye.
- We assume no acquisitions and no dividends in 2025, following the company's proposal to pay no dividend this year.

Key metrics

Arcelik A.S.--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. TRY)	2023a	2024a	2025f	2026f	2027f	2028f
Revenue	257,104	428,548	510,850	550,057	590,113	614,725
EBITDA	17,130	16,555	24,345	29,193	35,647	39,670
Free operating cash flow (FOCF)	(35,301)	(24,768)	(915)	(718)	4,908	13,392
Debt	68,470	110,615	113,467	118,385	117,828	108,951

Arcelik A.S.--Forecast summary

Adjusted ratios						
Debt/EBITDA (x)	4.0	6.7	4.7	4.1	3.3	2.7
EBITDA interest coverage (x)	2.0	1.0	1.2	1.4	1.7	2.2
Annual revenue growth (%)	92.0	66.7	19.2	7.7	7.3	4.2
EBITDA margin (%)	6.7	3.9	4.8	5.3	6.0	6.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. f--Forecast. TRY--Turkish lira.

Liquidity

We assess Arcelik's liquidity as less than adequate because our calculation of liquidity sources to uses is below 1.2x over the next 12 months. This is because we exclude uncommitted undrawn credit lines from liquidity sources. That said, we understand having uncommitted credit facilities is standard market practice in Turkey and we note Arcelik has consistently been able to draw on these lines to meet its short-term funding needs.

Our liquidity assessment also reflects Arcelik's EBITDA interest coverage ratio of 1x in 2024, which is temporary in our view, given the partial contribution from the acquisition of Whirlpool from April 2024. This is also mitigated by Arcelik's continued good access to bank and capital market funding.

Principal liquidity sources

- Available cash balances of TRY50.8 billion.
- Forecast cash funds from operations of about TRY13 billion-TRY14 billion.

Principal liquidity uses

- TRY59 billion of short-term borrowing maturing in 2025.
- TRY1 billion-TRY 2 billion of ongoing working capital requirements.
- TRY1.5 billion-TRY2 billion of capex that we estimate cannot be curtailed.

Covenants

The rated €350 million senior unsecured notes due 2026 and \$500 million senior unsecured notes due 2028 issued by Arcelik have no financial maintenance covenant.

Some debt instruments issued by Arcelik and its subsidiaries are subject to financial covenants. As of Dec. 31, 2024, Arcelik complies with all financial covenants. We forecast Arcelik will maintain adequate headroom under its financial covenants in the next 12 months.

Issue Ratings--Subordination Risk Analysis

Capital structure

The 'B+' issue rating on the outstanding senior unsecured debt, comprising the €350 million senior unsecured notes due in 2026 and the \$500 million senior unsecured notes due in 2028, is one notch lower than the issuer credit rating on Arcelik.

Analytical conclusions

The issue rating reflects the large amount of secured debt and unsecured debt issued by operating subsidiaries which, together, exceed 50% of total consolidated debt issued by Arcelik.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Stable/--
Local currency issuer credit rating	BB-/Stable/--
Business risk	Satisfactory
Country risk	Moderately High Risk
Industry risk	Intermediate Risk
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Less than adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016

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- 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

- Industry Credit Outlook 2025: Consumer Products, Jan. 14, 2025
- Research Update: Turkiye Upgraded To 'BB-' On Reserve Accumulation And Disinflation; Outlook Stable, Nov. 1, 2024
- Turkish Corporate Ratings Credit Outlook, June 13, 2024

Ratings List

Ratings list		
Downgraded		
	To	From
Arcelik A.S.		
Issuer Credit Rating	BB-/Stable/--	BB/Negative/--
Senior Unsecured	B+	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 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/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at 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. Alternatively, call S&P Global Ratings'Global Client Support line (44) 20-7176-7176.

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