



Fitch Downgrades Sisecam's IDR, senior unsecured ratings to 'BB-'; Negative Outlook

Fitch Ratings - Warsaw - 18 July 2019:

Fitch Ratings has downgraded Türkiye Sis eve Cam Fabrikalari A.S.'s (Sisecam) Long-Term Issuer Default Rating (IDR) and the senior unsecured ratings to 'BB-' from 'BB+'. The Outlook on the Long-Term IDR is Negative.

The downgrades follow the downgrade of Turkey's sovereign Long-Term Foreign-Currency IDR to 'BB-' from 'BB' on 12 July 2019 and the lowering of the Country Ceiling to 'BB-' from 'BB+'.

Sisecam's IDR reflects its solid business profile, which benefits from strong market shares in the glass industry in its domestic market and some markets in eastern Europe, diverse end-market exposure and a strong financial profile. The latter is characterised by high profitability and funds from operations (FFO) metrics that are in line with the 'BBB' rating median in our Building Materials Navigator. The Negative Outlook reflects that on Turkey's Long-Term Foreign-Currency IDR.

Key Rating Drivers

Improved Profitability: Sisecam's Fitch-adjusted EBITDA margins reached 23% at end-2018, backed by solid contribution from the chemicals segment and cost-cutting measures. This is despite significant increases in energy prices in the domestic market and a substantial downturn in the Turkish construction market.

Fitch believes that macroeconomic conditions will continue to challenge profitability in 2019 and conservatively forecasts EBITDA margins at around 22%. However, the FFO margin should remain above 16% in the medium term, despite lower profitability and increased financial costs, which is commensurate with the 'BBB' rating median in our Building Materials Navigator.

Negative FCF Expectations: Fitch projects that Sisecam's free cash flow (FCF) margins will remain negative over the medium term, due to higher capex needs and increasing interest rate costs. Fitch believes that deleveraging will slow in the next three years, driven by a new investment phase, although we expect leverage metrics to remain commensurate with the investment-grade median. Fitch believes that the company's substantial expansionary capex plans could be partially postponed in a severe economic downturn and the dividend payout ratio cut back. However, Fitch does not incorporate this scenario into its forecasts.

Solid Financial Profile: Fitch views Sisecam's financial profile as solid, with high EBITDA margins and sound FFO generation, driven by a vertically integrated business profile. Historical FFO-adjusted gross leverage of around 3x and FFO-adjusted net leverage of below 2x are in line with investment-grade expectations under our Building Materials Ratings Navigator. Fitch expects Sisecam to continue operating with similar leverage metrics in the medium term, despite our more conservative profitability assumptions and expectation of negative FCF generation.

Limited Geographic Diversification: Sisecam's investment and expansion plans for eastern Europe, the US and Russia are a step towards reducing the company's exposure to the Turkish economy, which has been a rating constraint. Sisecam has become more geographically diverse, with revenue from the domestic market declining to 40% in 2018 from 47% in 2012, backed by solid market share gains in Russia and expansion into emerging markets. However, Sisecam's emerging market presence is still high compared with such peers as Compagnie de Saint Gobain (BBB/Stable).

Standalone Assessment: In applying its Parent and Subsidiary Rating methodology, Fitch concluded that the legal, operational and strategic ties between Sisecam and owner Turkiye Is Bankasi A.S. (B+/Negative) are weak enough to rate the former on a standalone basis. This is in line with Fitch's general approach towards Turkish banks and their industrial subsidiaries.

Derivation Summary

Rating Derivation versus Peers

- Sisecam's financial profile is solid. Its conservative FFO gross leverage metric of about 3x is commensurate with a 'BBB' rating median, and is in line with such investment-grade peers as Compagnie de Saint Gobain. This is despite the recent expansion pipeline stressing FCF metrics and challenging conditions in some sub-sectors.

Sisecam's conservative leverage profile is driven by strong profitability and FFO generation, which is supported by the company's market-leading positions in Turkey, Russia and eastern Europe, and low cost base compared with peers. Sisecam remains the market leader in all its sub-segments in Turkey, dominating more than 60% of the domestic market, but remains a smaller company globally than investment-grade peers.

Sisecam's manufacturing base remains in low-cost, emerging markets compared with Saint Gobain and Owens Corning (BBB-/Stable). Although this drives superior profitability, limited geographic diversification remains a key rating constraint. Fitch views Sisecam's end-market diversification as healthy, having exposure to several industries, such as autos, construction, white goods, food and beverage, and chemicals. Exposure to less cyclical businesses, such as pharma, healthcare and infrastructure, is more limited than some of its peers, but this is not considered a rating constraint.

Sisecam's geographic diversification is limited compared with Turkish white goods manufacturer and exporter, Arcelik (BB+/Negative). However, the company's wider end-market exposure balances out the differences in business profile and have reduced volatility in Sisecam's financial profile compared with its local peer.

Key Assumptions

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

-Low-single-digit organic growth driven by Fitch's conservative forecasts of Turkish construction market demand.

-Marginally decreasing EBITDA margins driven by increasing energy prices.

-Higher capex driven by investment plans.

- Dividend pay-out ratio at 50% of net income.
- No sizeable M&A, nor divestments in investment portfolio.
- Increasing interest costs over the medium term.

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to Positive Rating Action

- We do not expect the ratings to be upgraded while they are constrained by Turkey's Country Ceiling.

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- A lowering of Turkey's Country Ceiling.
- FFO margin below 10% (2018: 19.6%).
- FFO net leverage above 3.5x on a sustained basis.
- Significant reduction in ownership in consolidated subsidiaries.

Liquidity and Debt Structure

2020 Eurobond Stresses Liquidity: Similar to most Turkish blue chips, Sisecam's liquidity score is usually around 1x, which is adequate for the rating, despite the company's high dependence on short-term financing compared with international peers. However, upcoming debt maturities in 2019 (TRY3.1 billion) along with the upcoming Eurobond repayment in 2020 and our negative FCF expectations for the medium term are likely to keep Sisecam's liquidity score below the historical average of 1x.

The Fitch-adjusted cash on balance sheet (TRY3.8 billion) covers short-term debt repayments of TRY3.1 billion for 2019. However, the cash balances are not sufficient to cover our negative FCF expectations of TRY1.8 billion for 2019.

Although we do not see the liquidity score below 1x as adequate for the current rating, we believe that the liquidity score will return to historical levels post financing.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Turkiye Sise ve Cam Fabrikalari AS	LT IDR BB-  Downgrade	BB+ 
senior unsecured	LT BB- Downgrade	BB+

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst

Tom Chruszcz

Director

+48 22 338 6294

Fitch Polska SA

Krolewska 16, 00-103

Warsaw

Secondary Rating Analyst

Cigdem Cerit

Director

+34 93 467 8840

Secondary Rating Analyst

Jad Salem

Associate Director

+971 4 424 1245

Committee Chairperson

Paul Lund

Senior Director

+44 20 3530 1244

MEDIA CONTACTS

Adrian Simpson

London

+44 20 3530 1010

adrian.simpson@thefitchgroup.com

Applicable Criteria

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

Corporate Rating Criteria (pub. 19 Feb 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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). 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. 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). 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 © 2019 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>), 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.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more.