

29 June 2020

Credit Rating

Long-term (National):

(TR) AA+

Outlook:

Stable

Short-term (National):

(TR) A1+

Outlook:

Stable

Borusan Yatırım ve Pazarlama A.Ş.

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Rating Summary

The scope of activity of Borusan Yatırım ve Pazarlama A.Ş. ("the Company", "Borusan Yatırım") is to establish institutions aimed to conduct industrial, commercial and service activities within the Borusan Group, to participate in or take over existing assets of such establishments, to develop collective solutions to investment, financing, organizational and management issues of established or to be established group companies in which it holds equity or management position, provided these are not solely investment services and activities, to introduce new approaches, to distribute risks, to ensure the security of the investments against cyclical fluctuations and thus to ensure the development and continuity of the group companies. The Company's shares have been traded on Borsa İstanbul since 1996.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, Borusan Yatırım ve Pazarlama A.Ş. received a long term rating of **(TR) AA+** and a short term rating of **(TR) A1+**

Outlook

The Company holds shares in a variety of Borusan Group companies with participations ranging from 10% to 26%, as these assets are monitored under two categories on its financial statements: financial investments and investments valued by equity method. As of our report date, the investments of the Borusan Group have concentrated on the Distributorship (Automotive and Heavy Construction Equipment), Steel Heavy Industry, Piping Industry and Logistics sectors. The line of business diversification of these investments is a positive factor in terms of risk distribution. In addition, the Company operates jointly with strong foreign partners such as ArcelorMittal and Salzgitter Mannesmann, in its main investment areas. Borusan Yatırım is the sole representative of automotive brands, BMW for more than 35 years, along with MINI, Jaguar and Land Rover in Turkey, of heavy equipment in Turkey, Kazakhstan, Azerbaijan, Georgia, Kyrgyzstan, and Far East Russia, as well as operating steel and pipe production facilities in Italy and the US.

The Company's revenue consists of dividend income from its subsidiaries. As of the end of 2019, the net income increased compared to the previous year, reaching TL 67.6 million (2018: TL 24.4 million).

As of end-2019, the Company has a high level of cash and foreign currency assets vis a vis TL 23 million of financial liabilities. In brief, as of the end of 2019, the financial assets of the Company was TL 455.3 million (2018: TL 389.3 million) of which cash and cash equivalents of TL 454 million was in USD term deposits. The Company had TL 1.63 billion of financial assets available for sale within the same year (2018: TL 1.40 billion). According to the 2020-Q1 results Cash and Cash Equivalents was TL 526 million, and available-for-sale financial assets reached TL 1.72 billion.

In recent years, trade wars and protectionism have been on the rise, especially in areas covering the steel industry. Furthermore, as the World Health Organization declared a pandemic on March 12, 2020 in relation to the coronavirus (Covid-19) epidemic which initiated in China, the recent extraordinary developments in the global trade environment and money markets make the potential economic consequences of the pandemic extremely uncertain. The developments are closely monitored by us. In addition to all these factors, the Company's both short and long term outlook has been evaluated as **"Stable"** taking into account its shareholding structure, the industry experience of the companies in its portfolio, and the variety of locations of foreign investments.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis determines the relative position of the company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology covers the evaluation of the Company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long-term credit ratings reflect our current view of medium to long maturities over one year, while our short-term credit rating reflects our view for a period of up to one year. Our long-term credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company level and/or economic and financial conditions may increase investment risk, but not significantly.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer's capacity to fulfill its obligations may weaken in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered “speculative” by the market.

(TR) B1	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(TR) B2	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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