Research Update:

Turkey-Based Dogus Holding A.S. National Scale Rating Raised To 'trB-' On Extended Debt Maturity Profile

February 24, 2021

Rating Action Overview

- In December 2020, Dogus Holding reached an agreement with its major banks to extend about 75% of its debt maturities, resulting a more manageable liquidity profile in the next 12-18 months.
- Despite remarkable improvements in the operating performance of automotive investments in the second half of 2020 and 2021, we expect tough operating conditions due to COVID-19 may lead to weak results for a material portion of Dogus' portfolio (such as hospitality, retail, and real estate) and still regard Dogus' capital structure as excessively leveraged.
- We expect Dogus' cash dividend income for 2021 to cover 50% of its costs and interest, up from 20% in 2020, and believe the company will continue to sell assets and use the proceeds to repay debt.
- We are therefore raising our national scale rating on Dogus to 'trB-' from 'trCCC+' and affirming our 'trC' short-term national scale rating.

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Rating Action Rationale

A smoother debt maturity profile sustains Dogus' liquidity and creditworthiness. We believe that Dogus' final agreement with its lenders will sustain its liquidity at least over the next 12 months. In December 2020, Dogus was able to formally extend the maturity dates for about 75% of its debt, which equals about 45% of consolidated debt. Currently we estimate that Dogus' gross financial debt, excluding leases, is about €1.2 billion and its consolidated debt totals around €4.1 billion.

At the same time, we see Dogus' debt burden as excessively high for the recurring sources of its cash flows, which do not cover its costs and interest. We forecast that Dogus cash adequacy ratio will be at about 0.5x over 2021, up from 0.2x over 2020 (our cash adequacy ratio does not include potential asset disposals). Additionally, although we see a marked uptick in recovery

prospects for the Turkish auto sector, which is expected to record a solid performance for 2020 and 2021, we continue to see Dogus' investee assets as vulnerable to ongoing disruptions caused by COVID-19. Assets in food and beverage, tourism, and real estate represented about 50% of Dogus' reported portfolio value, based on year-end 2019 market values.

We see a risk that Dogus would need to support some of its assets in financial difficulties. For the first half of 2020, Dogus' segments reported a weaker operating performance than for the same period in 2019, namely:

- The construction segment reported an operating loss of Turkish lira (TRY) 730 million compared with a TRY85 million loss for the same period the previous year;
- The food, beverage, hospitality, and retail segment reported negative operating profit of TRY492 million compared with a TRY28 million operating profit; and
- Energy reported operating profit of TRY166 million compared with TRY320 million.

However, if the consolidated group's operating performance were to improve, diminishing therefore the risk of capital calls from the parent, we would consider further rating upside in the following six to 12 months.

Dogus' debt maturity profile in 2021is manageable, but uncertainty remains high. We understand that Dogus' principal repayments over 2021 will reach about €55 million-€60 million, while for 2022 they should be about €35 million-€40 million. For 2021, we understand that the major maturity is represented by the TRY350 million bond due in July 2021. At the consolidated level, we understand that debt maturities in 2021 and 2022 will reach about €300 million per year, of which in 2021 the major contributor is the automotive segment, which typically relies on short-term overdraft facilities that are constantly renewed.

The recent debt rescheduling was supported by Dogus' debt prepayments over the past two years. Over 2020 and 2019, Dogus sold assets for about €900 million on a cumulative basis, which it earmarked mostly for the syndicated loan prepayments. Our analysis of liquidity does not factor in potential asset disposals because the proceeds will likely be primarily used to prepay future maturities. At the same time, we continue to expect that Dogus will adhere to its disposal plan, albeit at a slower pace than in 2020.

Dogus remains highly leveraged and exposed to the credit risk of its investee assets.

Currently we estimate that Dogus has a loan-to-value (LTV) ratio of about 40% after a 50% haircut on the 2019 market value of its unlisted assets. This is to reflect the €617 million of disposals that occurred in 2020, the devaluation of the lira against the euro of about 38% as of Dec. 31, 2019, and the extremely challenging conditions for some of Dogus' investments during the pandemic. At the end of 2019, we assessed that Dogus' adjusted debt to EBITDA on a consolidated basis reached about 14x, while the adjusted LTV ratio was about 44%. We have not yet received the year-end 2020 market values of the group's asset portfolio. The improvement in the LTV last year reflects the markedly improved performance of Dogus' listed asses, debt reduction, and somewhat higher cash balances.

At the same time, the rating continues to reflect the presence of cross-guarantees in Dogus' consolidated debt. The recently renegotiated syndicated facility, representing about 45% of total consolidated debt, with Dogus as guarantor for about €1 billion for the debt undertaken by its investee assets, exposes Dogus to the default risk of its investments. This limits our assessment of Dogus' liquidity after the recent debt maturity extension.

Company Description

Founded in 1951 as a construction and contracting firm, Turkey-based and family-owned Dogus has progressively diversified its activities. It has seven business lines:

- Automotive;
- Construction;
- Tourism and services;
- Real estate;
- Media;
- Energy; and
- Entertainment.

The holding company's main role is to define the groupwide strategy and assess the strategic progress of each business unit. It also centralizes risk monitoring, coordinates information technology standards, and ensures that resources are leveraged, with a view to maximizing efficiency.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded; Ratings Affirmed

	To	From
Dogus Holding A.S.		
Issuer Credit Rating		
Turkey National Scale	trB-/--/trC	trCCC+/--/trC

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.standardandpoors.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://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.