

Research Update:

# Turkey-Based Dogus Holding A.S. National Scale Rating Lowered To 'TrCCC+' Due To COVID-19 Headwinds

April 27, 2020

## Rating Action Overview

- The investment portfolio of Turkish investment holding company Dogus Holding A.S. (Dogus) has significant exposure to sectors that are highly likely to see ongoing disruption from the COVID-19 pandemic--in particular, the tourism, food and beverage, and automotive sectors.
- We therefore see reduced dividend prospects for Dogus, and believe this could further lower its cash flow adequacy ratio, which we estimate at around 0.5x in the next 12 months.
- Furthermore, although Dogus has received about €149 million in proceeds from asset disposals in the year to date, we believe that the company's current cash holdings could be insufficient to fully cover all its debt maturities in the next 12-18 months, absent further disposals.
- We are therefore lowering our national scale rating on Dogus to 'TrCCC+' from 'TrBB'.

## Rating Action Rationale

**The COVID 19 pandemic will likely weaken Dogus' dividend income, resulting in a high reliance on asset sales, which we believe could occur at a meaningful discount in the current macroeconomic environment.** Dogus' dividend base is vulnerable to sectors that are highly likely to face ongoing disruption from the COVID-19 pandemic. In particular, the tourism, food and beverage, and automotive sectors, which together comprise about 55% of Dogus' total portfolio value, are likely to suffer in the months ahead. We therefore see reduced dividend prospects for Dogus, and believe this could further lower its cash flow adequacy ratio.

In the year to date, Dogus has received €149 million in proceeds from asset disposals. However, we expect that Dogus' current cash holdings could be insufficient to fully cover all its debt maturities in the next 12-18 months without further disposals. Therefore, Dogus is highly dependent on further asset sales over that period to cover its upcoming debt maturities at the holding level, and also at the group level. In our view, in the current macroeconomic environment, such asset sales could be difficult to execute, or could only be possible at a meaningful price

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discount. The primary assets earmarked for disposal are foreign hotels.

In our base case, we expect Dogus' cash flow adequacy ratio to be 0.5x, excluding group receivables and group disposal proceeds. Currently, we also calculate a high loan-to-value (LTV) ratio of about 54.5%, which compares with an LTV ratio of about 44% at year-end 2019. When calculating the LTV ratio, we applied a 30% haircut to the latest available valuation of unlisted assets to reflect the currently depressed market valuations. Dogus' net debt of about €2.2 billion includes financial debt at the holding level, as well as financial guarantees for debt at investee companies.

To preserve cash, Dogus has deferred €3.5 million of interest payments due in March 2020 for three months, with the agreement of its lending banks. In our view, the lenders will receive adequate compensation. We understand that Dogus is servicing all its other financial obligations, including €2.2 billion of refinanced debt and other facilities. We would likely consider future material postponements of debt service as a de-facto restructuring, and therefore as tantamount to default absent adequate offsetting compensation.

## **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 group-wide 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update,

May 12, 2009

## Ratings List

### Downgraded

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

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](http://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](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](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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.

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