SAHA
Corporate Governance and
Credit Rating Services Inc.

27th January 2020

Credit Rating

Long-term (National):
(TR) AAA
Outlook:
Stable

Short-term (National):
(TR) A1+
Outlook:
Stable

AG Anadolu Grubu Holding A.Ş.

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AG ANADOLU GRUBU HOLDİNG A.Ş.

Rating Summary

AG Anadolu Group Holding A.Ş. ("Anadolu Group" or "the Holding") is a holding company established by the Özilhan and Süleyman Kâmil Yazıcı Families to ensure the management of its subsidiaries in line with the principle of equal representation and equal management. Founded in 1950, Anadolu Group continues its operations in beer, soft drinks, automotive, retail, agriculture, stationery, quick-service restaurants, real estate and energy through its subsidiaries.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Holding, as well as its domestic market position, Anadolu Group received a long term rating of **(TR) AAA** and short term rating of **(TR) A1+**.

Outlook

With its establishment dating back to 1950, Anadolu Group has 66 production facilities in 19 countries and exports to over 80 countries. When the portfolio of subsidiaries is analyzed, it is seen that strong entities such as Anadolu Efes Biracılık ve Malt San. A.Ş. and Coca Cola İçecek A.Ş. are market leaders in Turkey along with some of the countries in which it operates. In addition, Migros, which has the highest share in the Holding's consolidated revenues, has improved its income statement performance as of Q3 of 2019 compared to 2018 even though it still is a loss maker for the parent company.

When evaluated on a consolidated basis, the fact that Anadolu Group's EBITDA margin is in an upward trend in the periods examined is considered as a positive factor. According to the pro-forma consolidated results in the publicly disclosed financial report, the EBITDA margin, which was 11.0 percent in 2017, was realized as 11.3 percent in 2018. With the seasonality effect, it increased to 14.0 percent in Q3 of 2019 (According to the Q3 2018 pro-forma consolidated results, the EBITDA margin was 11.7 percent). In addition, the net loss of the Holding, which closed the year 2018 with TL 1.1 billion parent company loss due to Migros, decreased to TL 227.9 million as of 2019 Q3.

The strong cash position of the Anadolu Group on the consolidated balance sheet is noteworthy. Despite the increase in Anadolu Group's consolidated financial debt, net debt calculated in Q3 of 2019 decreased from TL 13.1 billion to TL 11.6 billion compared to end-2018.

Another point that we want to emphasize is the positive change in the financial debt structure as of the third quarter of 2019 compared to the end of 2018. According to Q3 2019 financial data, when Migros is included in the full consolidation, the share of consolidated short-term financial liabilities in total financial liabilities decreased to 35 percent (according to the 2018 pro-forma consolidated data, the share of consolidated short-term financial debt in total financial debt was 40 percent).

Another strength of the Anadolu Group is its international revenues. As of Q3 of 2019, the share of overseas operations in total sales revenues was 32 percent.

Furthermore, the Holding operates on a global scale through its subsidiaries. Cooperation with international strong brands has been continuing for many years.

In addition to all the above-mentioned factors, taking into account its strong ownership structure, the Holding's outlook has been evaluated as **"Stable"**.

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 SAHA Score which measures the Company's distance from the point of default, its performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures a statistical distance to the point of default making use of industry specific significant financial ratios based on industry peer sample companies' past financial performance and default statistics. 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. 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 reflects our present opinion regarding the mid to long term period of one year and above; Our short term credit ratings reflects our opinion regarding a period of 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 B1, B2, 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

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with AG Anadolu Grubu Holding A.Ş. and is based on information disclosed to the public by AG Anadolu Grubu Holding A.Ş.

This report, edited by SAHA A.Ş. analysts based on their best intentions, knowledge base and experience, is the product of an in-depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment decisions or other purposes.

SAHA A.Ş. has embraced and published the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies on its web site (www.saharating.com) and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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