Transcription for ŞİŞECAM

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Presentation

Operator
Welcome to Türkiye Şişe Ve Cam Fabrikalari A.Ş.'s 2015 First Half Financial Results Overview webcast. I will now hand you over to Görkem Elverici, CFO. Please go ahead.

Görkem Elverici
Thank you. Good afternoon, ladies and gentlemen. I'd like to welcome you to our webcast today, where we will be talking about our First Half Results and developments that took place. Today I'm together with Mrs. Aytaç Mutlugüller, our Finance VP, and Mrs. Başak Öge, Head of our Investor Relations.

At the end of the presentation we will be happy to take your questions. I would like to remind you that our presentation and the Q&A session may contain some forward-looking statements and our assumptions are based on the current environment and may be subject to change.

Moving to slide 2, I'd like to start the presentation by giving a brief overview of the economic landscape and industrial developments that have impacted our operations. As you might all know, the currencies of emerging market economies weakened significantly against the Dollar and the Euro, and Turkey had its share with the TL devalued by 17% against the Dollar-Euro basket on a year-on-year basis, as of June-end. Also, the Central Bank of Turkey has cut the policy rate twice, a total of 75 bps, to stimulate the economy. However, the GDP grew by a mere 2.3% in the first quarter of this year.

On the inflation front, the Central Bank had to revise its year-end inflation rate by 1% to 7.6% in total. As of July-end, the inflation rate was standing at 6.81%. Also, the unemployment has been standing at 9.3% as of May. As a result of Turkey's persistent current account deficit dilemma, CAD has reached $44.7 billion as of May on a rolling basis. In the last 12 months, it is down by 16.7% on a year-on-year basis. To sum up, it has not been a stable six months, especially with the blurred picture on the political scene, with the aftermath of the elections. Also, the geopolitical events have harmed the consumer sentiment, tourism and construction industries, which are among our core markets. We carefully continue to monitor the market conditions as there are still some doubts that IMF's GDP growth rate expectation of 3.6% will be reached by the end of 2015.

Moving to slide 3, let's have a brief look at other geographies that are important for us. The most important topics to be mentioned in the global economy for the first half are probably the slowdown in China and the falling commodity prices, coupled with FED rate hike expectations. Overall, the emerging market economies' contribution to world GDP growth has been limited compared to that of developed markets in the first half of this year; however, still a 3.3% growth rate is expected for 2015.

As for the Eurozone, which is a very important market for us, consumer sentiment has continued to be fragile; unemployment at 11% and GDP growth at 1.2% as of the second quarter. However, European Central Bank's loose monetary policy with the bond repurchase program has helped to stimulate the economies of Germany, Italy and France to some extent, which is a good sign. Additionally, Greece's reaching an agreement is expected to ease the tension on the system, with Greece keeping the Euro as its currency.

As for Central and Eastern Europe, where we have both production and sales, economic developments were brighter and more promising than the western part of the continent. While the GDP grew by 3.4% in the first quarter, domestic demand is much stronger across a number of countries including Czech Republic, Romania and Poland.

Moving to slide 4 and moving to another important country, Russia, the economic situation has worsened compared to the first quarter of this year. As of the second quarter year-on-year GDP has shrunk by 4.6%, which was 2.2% in the first quarter. Consumer confidence and domestic demand continue to be weak. Since the beginning of the year the Ruble has depreciated by 15% against the Dollar and 6% against the Euro, as of this month.

Mosprime rates were above 20% at the beginning of the year and is now around 17% but the tension on the money markets has eased to some extent, at least. Of course, low oil prices continue to depress the economy significantly. Although the picture for 2016 does not seem very promising, a rebound is expected starting from 2016, with probable GDP growth for sure being dependent on oil price. Lastly, in the Ukraine, we are closely monitoring the market conditions and continue to prepare ourselves to reopen the plant and resume production upon seeing some positive developments in the market.

Moving to slide 5, I would also touch upon developments in the industries relevant to our Turkish operations. Turkish Glass Industry has a production capacity of 3.5 million tons, 70% of which belong to Şişecam. While exports from Turkey have been roughly around $430 million in the first 5 months, imports have also reached $336 million. Compared to the same period of last year, this translates into an 8% decrease in exports and a 3% increase in imports. We have seen an increase in imports of glass from Italy and especially from Russia during this period, but still China accounts for the largest portion in the imports.

The automotive industry in Turkey has performed very well until now in 2015, and of course this has also impacted our sales. However, the 8% sales growth in the auto industry in Europe has even more impact on our operations in Europe where auto glass is produced. The increased demand we have seen in Germany, Italy, and UK mainly.

The construction industry is experiencing a slowdown since the last quarter of 2014. In the first quarter of 2015 it shrank by another 3.5% and of course the political uncertainty before and after the elections is not helping very much the industry. However, on the back of the last year's construction activity, we have still not experienced a considerable drop in our Flat Glass sales, thanks to our strong distribution system and market positioning in the Turkish market. We have also seen white goods sales increasing, which is an end market for us, albeit a small portion of our sales. The drop in tourism revenues is also impacting our sales in the Glassware segment, which caters to this industry as well.

On the back of these developments, let's now look at how we performed in the first half. Moving to slide 6, we would like to give some brief information about the key developments for the first half. As we have been committed to simplifying the shareholding structure, eliminating costs, and divesting the non-core assets, we have had a couple of actions in the first half. We sold 3.3% of Soda shares owned by Anadolu Cam for TL 80 million. We agreed with our local partner in Russia in Glass Packaging to acquire his shares in our Russian and Ukranian operations.

Our production CAPEX in Turkey and Bulgaria increased with the start of production in the new furnace float line. With the completion of these new investments, CAPEX was close to $200 million in the first half. We sold a building in Beyoğlu for TL 63 million, and the lands are still available for sale in Beykoz and Çayırova. We had our Annual Review with both S&P and Moody's to affirm our ratings. We expanded our product range and started producing olive green wine bottles, which used to be imported, and also 8 new value-added Flat Glass types have been developed and launched as a result of robust R&D activity.

Our auto glass sales in Europe increased, with new mandates won through synergies with the acquisition made two years ago in Germany. Also, with lower oil prices, decreasing transportation costs and the devalued TL and Ruble, we increased our focus on exports from Turkey and Russia, especially in glass packaging.

Moving to slide 7, on the back of the weak Ruble, in glass packaging, glassware and flat glass segments, top-line contribution has been limited, leading to a 3% increase in sales in TL terms. However, it should also be noted that the capacity increases had very limited contribution due to low capacity utilization rates in the newly fired furnaces. In the second half, with higher capacity utilization rates, it is expected that their contributions should be more evident.

The 23% increase in EBITDA is partially due to the real estate and the rest is due to operational figures where 15% of the 23% is coming from the operational figures. On an adjusted basis, EBITDA margin has increased from 21% to 24%, compared to the same period of last year. On EBIT basis, even when the one-off building sale is excluded, there is a 23% increase, compared to the same period of last year. The adjusted EBIT margin is 14%, which is 3 points higher than that of the first half of 2014.

Net income has also increased by 43% and, even on an adjusted basis, we have realized a net income of roughly TL 350 million, which is still 22% higher than the same period of last year. This translates to a 10% of net income margin, which is two points higher than 2014's first half.

It can be concluded that there has been some volatility in the first 6 months whereby price hikes in the glass segments have been limited but on the other hand, the chemicals business has performed very strongly due to the strong global demand and increasing prices in Soda Ash. Despite this environment of political and economic uncertainty, we have managed to improve our profitability ratios on the back of the projects undertaken and are still continuing for the optimization of the production across various geographies, and focus on sustainable operational excellence and efficiency.

Moving to slide 8, you can see the same financial highlights in Dollar terms and, due to weak local currencies like TL and Rubles, the revenues have dropped by 13% in Dollar terms.

Moving to slide 9, as you may recall in our previous call roughly around 5 months ago, we had communicated the EBITDA margin guidance as 21% for the year 2015. At the current run rate of adjusted EBITDA of 24% it seems that we may actually go beyond our guidance with the reservation for unforeseen deterioration in the economics of the geographies that we operate in. It should also be noted that the energy price hikes that took place in October of last year have impacted our costs. That was offset by the sales price increases across different segments. If there is a price hike in energy costs in the course of the year it is expected that this will be passed to our sales price.

Moving to slide 10 where we give a general overview starting from 2010 you can see, since 2012, despite a heavy Capex Programme undertaken, we have managed to improve our margins, and now that the cycle of investments has been completed it is expected that further improvements will be realized in 2016, where all new CAPEX will be reaching higher utilization rates.

Moving to slide 11, you can see that the balanced portfolio of Şişecam has not changed significantly compared to last year, except for the Flat Glass which now has a higher contribution to Şişecam's top line as a result of investments undertaken by the Group beyond the others. The significant increase in the Glass Packaging segment's contribution to Şişecam's consolidated EBITDA is mainly due to the Soda share sale where there is also an improvement in performance.

Moving to slide 12, the Group continues to generate strong EBITDA, supporting operations to grow organically and inorganically. With the completion of major investments in the first half, we do not expect the CAPEX to go beyond that of 2014. As mentioned on earlier calls, 2015 and 2016 will be the digesting period of the new capacities added, while we will be planning for new ones. We will also continue to monitor M&A opportunities selectively.

Moving to slide 13, looking at year-on-year and half-year comparisons, you can see that the CAPEX is decreasing as a percentage of sales after the heavy investment cycle of the last 3 years, which is now standing at around 14% by the end of the first half of 2015.

Moving to slide 14, both in Glass and Soda Ash production, our capacity has increased around 14% in the first half and we can expect to see the same levels of production in the second half, due to the cold repairs offsetting the production to be generated by higher capacity utilization.

Moving to slide 15, with our strong capital base and declining net debt, Şişecam's leverage level continues to remain very low for a company operating in the glass industry and with a cash balance of approximately $1.1 billion, we have significant room to leverage our balance sheet in the coming periods, in case of other investment cycles and M&A opportunities in the short to mid-term.

Moving to slide 16 where we share the information about our leverage position, you can see that with the CAPEX undertaken in the first half, net debt level has slightly increased compared to 2014, and the aim is to keep this leverage level around or below 1.25 multiple which will be continued to support by our conservative financial strategies and policies.

Moving to slide 17 and giving further information about our cash position, we expect to close the year at around the same levels of cash and net debt, as there is not much CAPEX spending to be undertaken for the rest of the year. The strong cash position gives us the flexibility of proceeding fast in case of a viable M&A opportunity, but we also continue to seek better ways to optimize our already strong balance sheet management.

Moving to slide 18 about our debt profile, we have continued to maintain the currency breakdown with slightly increasing Euro debt and decreasing Ruble to take advantage of the FX and interest rates and also the balanced interest rate structure of the debt portfolio provides a natural hedging in the existing environment.

Moving to slide 19, as you can see we carry a long position of roughly around 230 million Dollars equivalent at a consolidated level, where 56% of this long position is in Dollars. I would like to remind you that we do not use any derivatives other than some very limited interest rate swaps and cross-currency swaps for hedging purposes. The positive impact of the hedging transactions on the balance sheet is roughly around TL 84 million. We will continue to use the hedging transactions as required but our enlarged operations and geographies are also providing opportunities to utilize hedging opportunities within our own balance sheet.

Moving to the segments to give some brief information about how they performed in the first half, I would like to start with the Flat Glass segment. Although the capacity increases were offset by the cold repair undertaken in one float line, the top line still increased by 3% and the EBITDA margin has stayed almost stable. One of the main reasons for limited top-line increase was due to the heavy exports to the Turkish market, especially from Russia due to devalued Ruble, which is expected to decrease with the increasing flat glass prices in Russia, especially in the second half of the year. Also, while capacity utilization rates both in Bulgaria and Russia are expected to be higher in the second half, due to the contraction in the construction industry and political uncertainty, there is a risk that consolidated sales might not grow considerably.

On the other hand, as a result of the investments made in Auto Glass outside of Turkey, our penetration and sales are increasing in Europe. With new mandates we expect to see a much higher top-line contribution from the auto segment in the second half. In the meantime, if there is a price hike in the energy costs in the remaining of 2015 it is expected that it will be passed to our sales prices. However, with increased focus on operational excellence and optimization of production taking advantage of different locations, Trakya Cam continues to perform above its global competitors and the industry, delivering higher profitability margins.

Moving to slide 21, in the Glassware segment, while the sales in Turkey have increased by 7%, international sales have dropped slightly, mainly due to the still soft demand in Europe and Russia, and also due to the devalued Ruble. The increase from 14 to 17% in EBITDA margin is a result of strong improvement in the pricing mainly in Turkey. Also, increased focus on the optimization of the production across various geographies as well as sustainable operational excellence also helped to improve the profitability margins. The above-the-industry average EBITDA margin realized by this segment, we are further encouraged to plan and prepare for the possible IPO of Paşabahçe. As mentioned earlier, the IPO is still on our agenda, but only starting from next year, while we continuously monitor the developments in the equity capital markets and global glassware industry.

In the Glass Packaging segment, while two furnaces in Russia and the Ukrainian plant remain closed, we recently started production in our Eskişehir plant with a 90,000 tons of additional production capacity. On the back of price hikes and the Soda share sale, EBITDA margin has improved significantly. Excluding the one-off share sale, the EBITDA margin would still be 24% - substantially higher than the same period of last year.

Sales in Turkey have been lower than last year due to the late arrival of summer, while sales in Russia have remained at the same level in terms of volume for the same period. This also led to an increase in our market share in Russia and strengthening our position and market share further. However, to offset the weak demand in Turkey and Russia, we have changed our strategy to focus more on exports with lower transportation cost, as a result of the drop in oil prices and slowing economy.

Additionally, the acquisition of the shares of our local partner in Russia helps us in taking measures to improve the operational performance and the ongoing restructuring of the operations, including the financials. Taking advantage of the large geography of Russia, we are continuously optimizing our production, turning the widespread operations into a logistics advantage.

Moving to slide 23, our Chemicals segment, with continuing strong demand both in Turkey as well as in the export markets, Soda Sanayii continue to operate with 100% capacity utilization rate and remains sold out for the rest of the year, as further contracts are concluded with these customers. This strong demand supported by lack of supply globally allowed Soda Sanayii to increase its sales price by 5-8% in the first half of this year, which also offset the impact of the natural gas price hike of 9% last October and, just to remind you, the sales price increase of 5-8% was made in hard currency. As a result, EBITDA margin continued to improve this year, from 27% to 28%, way above the global peers and industry averages.

Our strong market position and reputation, not only in Turkey but also in the region, backed by our high-quality products, seamless and timely delivery and long-lasting relationships with our customers allow us to be an important player in the industry with exports beyond 75 countries. While improving our top line we are also committed to managing the cost side, to continue to deliver sustainable high-profit margins to our shareholders in this commodity business. We continue to focus on sustainable operational excellence and efficiency to improve the performance of Soda Sanayii.

The strong demand is expected to continue in 2016 also, as there are no new capacities to increase the global supply, while demand continues to increase roughly around 4%. It is also expected that Soda Ash commodity prices will continue to increase, especially in the Eurozone, by 3-5% in hard currency, in 2016. With this strong outlook, our aim to increase the free float of Soda Sanayii continues. As you may recall, Trakya Cam owns 10% and Anadolu Cam owns 12%

of Soda Sanayii, and we are watching the developments in the equity capital markets and global markets closely to determine the optimal timing of such an offer.

Before I conclude my presentation, I would like to reiterate that almost in all the geographies that we operate, there has been both political and economic volatility impacting the consumer spending and investor sentiment in the first half of this year. Despite these developments, we have increased our profitability margin across EBIT, EBITDA and net income, by 2-3% on an adjusted basis. Digestion period of investments continues with decreasing CAPEX; conservative leverage and strong cash position are continuing, and the weak TL helps us with our long foreign currency position.

Our profitability margins are above the industry median and higher than that of global players in all respective segments of our businesses. Our penetration and market share are on an increasing trend in the international arena, justifying M&A and organic growth undertaken in the last couple of years. We will continue to focus on improving the operational excellence and lastly, in line with our strategy, we will continue to look for M&A opportunities on a selective basis.

Thank you for your patience and now I will be pleased to take your questions.

Question and Answer Session

Operator
[Operator instructions]

We have a question from Alper Akalin, Deniz Invest. Please go ahead.

Alper Akalın
Hi, and thank you for the presentation. I have two questions. One is on Anadolu Cam - we observe a significant improvement in operational margins of the business, especially in the second quarter of the year. We know there is a price increase but, other than that, we also observe that especially on the Turkey front there is a decrease in unit costs, despite the same capacity utilization rate of the last year. Is there any structural change in production or are there any other factors that the price increases behind this operational performance and do you expect this will be sustained in the following period? This is the first question.

The second question on Trakya Cam is: I wonder whether the slight decline in Flat Glass sales – is perhaps due to the imported products, or are there any other factors that can explain such a decline? I also wonder – you said we can enforce price hikes if there is a hike in natural gas prices but there is pressure from the import products, so are there any action plans that can bring some import restrictions? How is your prices compared to the import product prices – how much premium do you sell at and do you think it is dangerous for the upcoming periods? Thank you.

Görkem Elverici
Thank you, Alper Bey. To start with Anadolu Cam, as you mentioned, there are effects from both sides; the first one is coming from the price increases mainly in the Turkish market, but the second one is definitely coming from the operational excellence and also to some extent increased capacity utilization rates, especially in Russia, due to reshaping and optimizing our production points. As the latter is coming from the operational efficiency achieved and improvement in production, we expect that this should be continued and the performance of Anadolu Cam will be sustained on a higher margin basis than it was before.

Coming to your question on Trakya Cam, there are real pressures to the Turkish market for sure. That is not new to us. That is something we have always experienced. The Turkish market has now become (after the drop of the Russian glass market) the largest glass market in the surrounding region, with considerably higher prices than the rest of the markets. This is the main reason that almost all the exporters have their main focus to sell their products to Turkey. For sure there are a couple of differentiated strategies that are used by Trakya Cam, and the first one is our market positioning and our control on the distribution channels.

The second one – for sure there are some differentiated activities we are doing at least to some extent to defend our market, especially due to the dumping activities which have been happening, especially due to the volatilities and the political and economic turbulence happening in the surrounding countries. That is not new either. This has happened before. It started right after the economic crisis in 2008 and especially during the Arab Spring, and the Eurozone crisis, etc.; it has continued. Şişecam has always been successful to defend its ground with differentiated strategies to support our positioning.

Considering the margins it differs from single-digit margins to some double-digit margins, depending on the product type, product portfolio, but the main point is that the markets mainly follow Trakya Cam in prices. This is one of the reasons that the sales price increases, especially coming from the natural gas price hike, is seen as something that is a must for the market to be translated into the sales prices, not only for us but also for our distribution channel. We believe that, as has always been the case; we will be able to translate this price increase to our sales prices but, for sure, we will be monitoring the market and being selective in the product range that we are selling, especially the pricing based on differentiated product segments.

I hope this is helpful but, if you have some further questions, I may try to elaborate further.

Alper Akalin
I just wonder – do you explain the sales contraction by the import competition or the weakness of the construction industry and what do you expect for the upcoming quarters, in terms of sales volume? This can also be applied for the capacity utilization ratio – I just wonder, how do you cope with that? Thank you very much. That was the last question.

Görkem Elverici
You are perfectly right – this was effected from both sides, as I mentioned before, but one thing we need to consider is that one of the main drivers to foresee what might be happening in the industries, is to look at the new construction permits, and looking at the new construction permits it does not seem that there will be a real decrease in the construction industry. It is more that, although there are new construction permits, the construction companies are now more reluctant due to the volatility in the market and due to the political conditions to continue their investments as planned.

Now everybody is trying to keep their cash-rich positions, as mentioned, so we expect that there will be delayed demand coming in the later quarters, and especially if the tension in the political scene, the volatile situation in the political scene is relieved, we believe this delayed demand and late investments will be rapidly closed and we will reach higher sales figures as expected, for sure.

Alper Akalin
Thank you very much.

Görkem Elverici
As for the imports from Russia, it was unexpected, due to the considerable devaluation of Ruble, and this is why I mentioned especially with the glass prices starting to increase in the Russian market, which happened around 7-8% within this month and is expected to continue; it will decrease their appetite for exporting to other places because, as you might know, exporting from Russia is not that easy, as it is from Turkey, so there are some operational issues that almost all the companies are facing. They might be selectively selling to their local markets rather than exporting to Turkey, so that might be the other area that we have to carefully monitor in the local market and in the Russian market.

Operator
We have a question from Ilyas Urganci, Is Yatırım. Please go ahead.

Ilyas Urganci
Görkem Bey, thank you for the presentation. I have a question regarding Trakya Cam. Considering all these negative things in terms of competitive landscape, etc., when you think that all these investments to complete ramp-ups etc., what is the sustainable EBITDA margin for Trakya Cam?

Görkem Elverici
The sustainable EBITDA margin, as we have declared in the previous call also, the target for us is to stay above 20% EBITDA margin.

There will always be volatilities in the markets for sure in different periods and there are even some periods that we may go well above 25% of EBITDA, but our ultimate goal is to always stay above 20% EBITDA margin in almost all our business segments and also keep Şişecam above 20% EBITDA margin.

Operator
We have a question from Henrietta Seligman, Somerset Capital. Please go ahead.

Henrietta Seligman
The first question is on M&A opportunities both by sector and region. Then the second question is where you see the opportunities to add new capacity and grow the business organically in the future.

Görkem Elverici
Thank you, Ms. Seligman. There are differentiated strategies for different business segments, so for the Flat Glass and Glass Packaging, this is more of a regional dominance game so the M&A opportunities we are looking for is more to support our regional positioning in the areas that we are already existing. That will be mainly in the countries that we are already operating or in the surrounding countries that will help us to improve our regional dominance in the areas that we already operate.

Considering the other business segments, to start with the Glassware segment, due to the nature of the product which makes it easier to export unlike flat glass and glass packaging, global market can be targeted based on production costs. With an M&A, we focus on one of the two targets: first to gain market share and the second one is to optimize our production costs. In Glassware, as we already have large global market share (we are amongst the top 3), we believe the main focus will be on optimizing our production costs so that can be anywhere around the globe, to support both our sales and our production costs. The second can be for the larger markets where we have a smaller market share in, compared to our global market share.

Considering the Chemicals business, as we have already proven, we are one of the global leaders in terms of operational excellence. Looking at the regional balances of demand and supply, this can be done anywhere around the globe but we have to be very selective in considering the market's demand and supply; the location of the production place; the availability of the resources and the cost of logistics, together with the products and costs. That will be the main framework that we are already using and we will continue to use and, for sure, we are doing our own cherry-picking, together with looking at the existing opportunities in the market.

Our strong cash position is creating some advantages which puts us in an advantageous position in the market, especially when we consider the M&A's that we realize or might realize. Together with our own cherry-picking and discussions on possible opportunities for M&A, we are also looking at what is out in the market.

Henrietta Seligman
Thank you. If I might just follow up on that quickly, how much financial capacity do you think you have for acquisitions and what is the maximum gearing level that you'd be prepared to take the company to?

Görkem Elverici
This is something that might differ considering the size of the opportunity. If you look at our balance sheet, we have still enough room to leverage our portfolio considerably and our already existing strong cash position is also helping us to close the deals as soon as possible and do the refinancing later. It really depends on the available opportunities. As you know, we have done an acquisition two years ago which was only €3mn in cash that we paid, apart from the liabilities we took over. Also, we were in discussion with Arc in glassware, which for sure had a higher acquisition value. It also depends on how to structure the financials depending on the type of acquisition that we are doing.

Henrietta Seligman
Thank you. Then, my question about the organic growth opportunities and new capacity?

Görkem Elverici
New capacity, for sure will be depending on the demand increase in the existing markets that we are operating and also the competitive environment as to whether this demand can be met

with existing supply. As you have already seen, in those markets that we are looking at, we have to consider longer-term horizons for ourselves. The construction of greenfield glass furnaces takes at least 18 months and especially in flat Glass it goes beyond 30 months. We are forecasting the market demand based on this, and in most of the markets we operate, apart from Russia and India, in Flat Glass we are the ones who is expected to fulfil the capacity required for the demand increase in the market. While doing that, we also consider our competitors' positioning and their investment plans, not to create extra capacities to put pressure on the prices in the markets that we operate in.

Henrietta Seligman
Thank you very much.

Operator
We have a question from Waleed Bellaha, Barclays. Please go ahead.

Waleed Bellaha
Good afternoon, and thank you for the presentation. I have a couple of questions. Actually, I could not hear the answer for one of the questions regarding the M&A and I'd just like to confirm – you said you had the capacity to leverage more the balance sheet – what is the optimal leverage that you have in mind to keep for the company in terms of net debt to EBITDA?

My second question in terms of guidance for the EBITDA margin – the 20% previously stated – I understand that that includes the one-off items recorded during the year like the sale of the real estate assets and possibly shares; is that correct?

Görkem Elverici
Thank you. The first one on leveraging our balance sheet, as I mentioned during our presentation, the net debt to EBITDA target is 1.25, the maximum level we have and we would like stick to as a strategy going forward. For the EBITDA, the guidance we have given was not including any one-off share sales, so that is why we are trying to provide the figures on an adjusted basis, to be in line with the guidance that we have provided. Just to add on the leverage; although the strategy is not to exceed 1,25, we have quite a bit of headroom in the existing financial covenants of the loans and bond outstanding.

Waleed Bellaha
Good, thanks.

We have a question from Alper Akalin, Deniz Invest. Please go ahead.

Alper Akalin
Hi, I had three follow-up questions. One is for Trakya Cam and two for Soda Sanayii. For Trakya Cam, could you tell us about the potential impact of the removal of the Iran sanctions because we know there's a growing import from the Iran, so do you see any dangers related to that?

For Soda Sanayii I have two questions and one is: what will be the potential impact of the slowdown in the Chinese economy on chromium products because we know the historical track record of Soda Sanayii is around 100 capacity utilization rate for chromium products, but do you see any threats related to the capacity utilization rate in that segment due to China?

The second question for Soda Sanayii is: we see a strong cash generation profile from the company and the company is also debt-free, so do you have any material acquisition opportunity and, if not, do you consider to have more dividend payout ratio for this company? Thank you very much.

Görkem Elverici
Thank you for the questions. To start with Trakya Cam, in fact Iran is already one of the largest exporters to Turkish markets, so we do not consider the removal of sanctions as a larger risk but to the contrary as the increasing economic activities, especially in Iran itself, may help us to relieve the tension on the pricing. In Iran the energy costs are fully subsidized, so that puts them in a very advantageous position compared to the surrounding countries.

As the economic activity has really slowed down in Iran for so long, that is not helping the glass industry, so they have been trying to find new export markets for themselves and Turkey, together with Russia, have always been one of the top export markets for them. We believe, at least the expectation is, that if there is an increased economic activity in Iran, they will limit their exports to fulfil the local demand, as it is not very easy to introduce new capacities very soon to the market. This will ease the tension in Turkey and it might become one of the new export markets for us especially in the value-added products like the coated glass, etc., where Iran is not very competitive.

Coming to the Soda questions, the slowdown in China has not affected us very much, until now. For sure, as we are the global leader in that business segment, we are carefully monitoring all the global availability of demand and the prices for them. Although there might be slight volatility from time to time, we don't expect it to still go below 100% capacity utilization, with fully sold-out chromium chemicals, which is at least the case for 2015 with the signed contracts and can be expected also for the next year also.

For Soda Sanayii, the second question on the acquisition opportunities, as I mentioned before all the global geographies are a target for Soda now, so we are carefully monitoring the optimal locations for us to do an acquisition or a greenfield investment and that is why we are trying to keep Soda Sanayii in a more cash-rich position. As you know, there are already ongoing acquisitions in Soda Sanayii's business; there have been two large acquisitions that happened recently, only within the last 7-8 months, and we are also out in the market, looking carefully for existing and probable opportunities.

Alper Akalin
I had a question also for dividend payments, potential increase in Soda Sanayii, due to the cash-rich position?

Görkem Elverici
For dividend payments we will continue to stick to our dividend policy at Şişecam level and also for the group companies.

Alper Akalin
Thank you.

Operator
We have no further questions, dear speaker. Back to you for the conclusion.

Görkem Elverici
Thank you very much for your attendance and we hope it has been a useful time spent for you and we have been able to give you a better understanding of our operations for the first half. As we mentioned earlier, we will continue to hold calls for Half Year and Year End Results, and we hope to hold the next call after the Year End Results of 2015. Thank you.

Operator
This concludes our conference call. Thank you for participating and you may now disconnect.