

**CREDIT OPINION**

21 September 2021

Update

 Rate this Research

**RATINGS**
**Turkiye Sise ve Cam Fabrikalari A.S.**

Domicile	Turkey
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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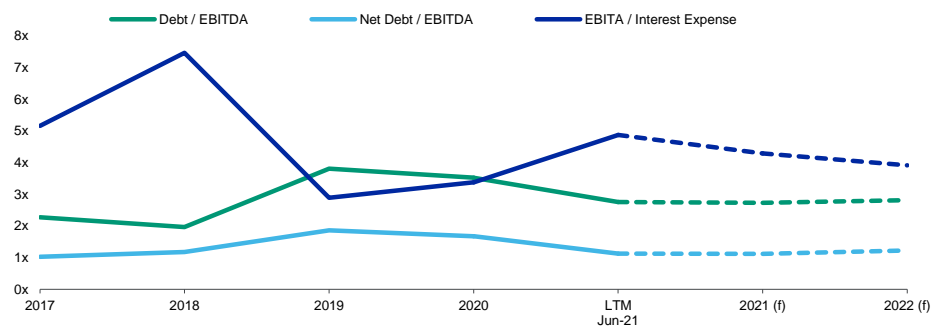
# Turkiye Sise ve Cam Fabrikalari A.S.

## Update to credit analysis

**Summary**

The ratings of [Turkiye Sise ve Cam Fabrikalari A.S.](#) (Sisecam) are constrained by the [Government of Turkey's](#) (B2 negative) foreign currency bond ceiling of B2. This is because of Sisecam's material exposure to Turkey's political, legal, fiscal and regulatory environment.

Sisecam exhibits otherwise strong credit fundamentals and benefits from its access to foreign currency revenues from international operations and exports. The company continues to benefit from (1) a leading market position in Turkey, (2) a balanced revenue and product mix derived from its architectural glass, automotive glass, glassware, glass packaging and chemicals businesses which mitigates single product line exposure, (3) moderate leverage and (4) adequate liquidity.

**Exhibit 1**
**Sisecam's credit metrics will remain strong despite weakened economic conditions and foreign currency volatility**


All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated; LTM = last twelve months. Source: Moody's Investors Service

## Credit strengths

- » Leading market position in Turkey
- » Significant geographic diversification outside Turkey
- » Balanced revenue and product mix
- » Moderate leverage metrics

## Credit challenges

- » Exposure to Turkey and Turkey-based financial institutions
- » High maintenance capital requirements
- » Low historical free cash flow generation

## Rating outlook

The negative rating outlook mirrors that of the Government of Turkey, reflecting Sisecam's exposure to the country's political, legal, fiscal and regulatory environment.

## Factors that could lead to an upgrade

While the credit fundamentals of Sisecam suggest a higher rating level, its ratings are constrained by Turkey's foreign-currency bond ceiling.

Sisecam's ratings could be upgraded if Turkey's foreign-currency bond ceiling is raised. This would also require no material deterioration in the company's operating and financial performance, market positions and liquidity.

## Factors that could lead to a downgrade

Sisecam's ratings could be downgraded in case of a further downgrade of Turkey's sovereign rating or a lowering of the foreign-currency bond ceiling. In addition, downward rating pressure could arise if there are signs of a deterioration in liquidity or if government-imposed measures were to have an adverse impact on corporate credit quality.

## Key indicators

Exhibit 2

### Key Indicators for Türkiye Sise ve Cam Fabrikalari A.S.

	2017	2018	2019	2020	LTM Jun-21	2021 (f)	2022 (f)
Revenue (USD Billion)	\$3.1	\$3.3	\$3.2	\$3.1	\$3.3	\$3.6	\$3.8
EBITA Margin	16.2%	19.3%	16.3%	16.4%	20.5%	18.5%	17.6%
EBITA / Interest Expense	5.2x	7.5x	2.9x	3.4x	4.9x	4.3x	3.9x
Debt / EBITDA	2.3x	2.0x	3.8x	3.5x	2.8x	2.7x	2.8x
Retained Cash Flow / Net Debt	71%	58%	30%	33%	54%	70%	64%
Free Cash Flow / Debt	17%	-7%	-5%	4%	11%	5%	-3%

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Source: Moody's Investors Service

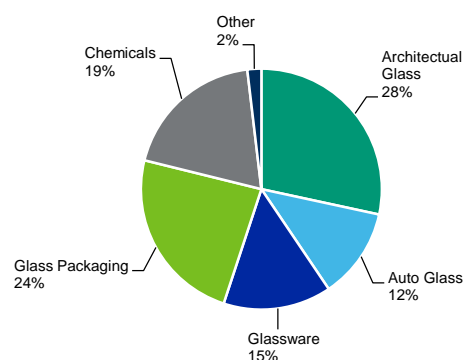
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## Profile

Founded in 1935, *Turkiye Sise ve Cam Fabrikalari A.S.* is a Turkish industrial manufacturer of glass products including flat glass, glassware and packaging, as well as soda ash and chromium-based chemicals. The company operates mainly in Eastern Europe, Western Europe and CIS. Sisecam is owned at 51% by *Turkiye Is Bankasi A.S.* (Isbank, B3 negative) and 6% by Efes Holding A.S, with 42.5% listed on Borsa Istanbul. Sisecam reported consolidated revenues of TRY25.3 billion (\$3.3 billion) and an operating profit of TRY4.9 billion (\$0.6 billion) in the 12 months to 30 June 2021.

Exhibit 3

### Revenue breakdown by product

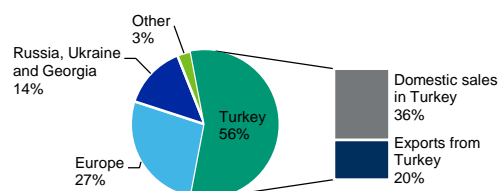


Six months to 30 June 2021

Source: Company data

Exhibit 4

### Revenue breakdown by geography



Six months to 30 June 2021

Source: Company data

## Detailed credit considerations

### Exposure to Turkey is a key credit constraint

Sisecam is domiciled in Turkey and generated 36% of its revenues in Turkey in the first half of 2021, with another 20% exported from the country. As such, it is materially exposed to Turkey's political, legal, fiscal and regulatory environment. In particular, the risk of government-imposed measures to preserve the country's foreign-exchange reserves could prevent the company from accessing its foreign-currency cash deposits or servicing its foreign-currency debt obligations. These risks constrain Sisecam's ratings at Turkey's foreign-currency ceiling of B2.

The weakened credit quality of Turkey-based financial institutions is another growing risk for Turkish corporates including Sisecam. The corporates that rely on short-term funding from or have foreign-currency cash deposits with local banks are exposed to material counterparty and refinancing risk. The Turkish banks we rate have Baseline Credit Assessments ranging between b3 and caa3 and a long-term foreign-currency deposits ceiling of Caa1.

However, some of these risks are mitigated by Sisecam's international operations and exports providing access to foreign currency revenues.

### Leading market position in Turkey, with significant geographic diversification

Sisecam's rating reflects the competitive advantages of being the market leader in Turkey across its core product lines. The group benefits from a diversified revenue base through sales of products such as architectural glass, automotive glass, glass for home appliances, solar panels, food, beverage and pharmaceutical glass packaging, glassware, fiber glass, and soda ash and chromium-based chemicals. The individual products have different demand drivers and varying sensitivities to the economic cycle, with the glass packaging and chemicals segments being relatively more resilient to economic downturns than the flat glass and glassware segments.

Sisecam's rating takes into consideration the scale and geographic footprint of its operations. The company's operations span Turkey, Western and Eastern Europe and the CIS, and around 50% of the company's exports from Turkey are sold to the European Union. This geographic diversity reduces Sisecam's exposure to Turkey, but it also exposes the company to additional geopolitical risks and potential changes in regulations and policies.

We expect strong economic growth for manufacturing companies in 2022 and moved our [outlook to positive](#) as a result. A sustained deterioration in the macroeconomic environment in Turkey would lead to a more challenging business and operating environment for Sisecam, particularly in the flat glass and glassware segments.

### Large scale investments support growth but can lead to overcapacity in some markets

We believe that Sisecam's growth ambitions of being among the top three glass producers globally has positive long-term implications but also has associated investment and execution risks. While the company seeks to manage its investments to avoid creating any excess capacity, there are inherent risks associated with their large scale and time required to complete them. In 2021, Sisecam announced the construction of a €255 million glass packaging facility in Hungary as well as a \$473 million expansion plan in Turkey which will see its flat glass production capacity in Turkey increase by 30%. Sisecam is also involved in the development of a large scale soda ash mining facility in Wyoming, USA. These projects will take around three years to complete. The company could undertake additional investments or acquisitions in line with its growth ambitions.

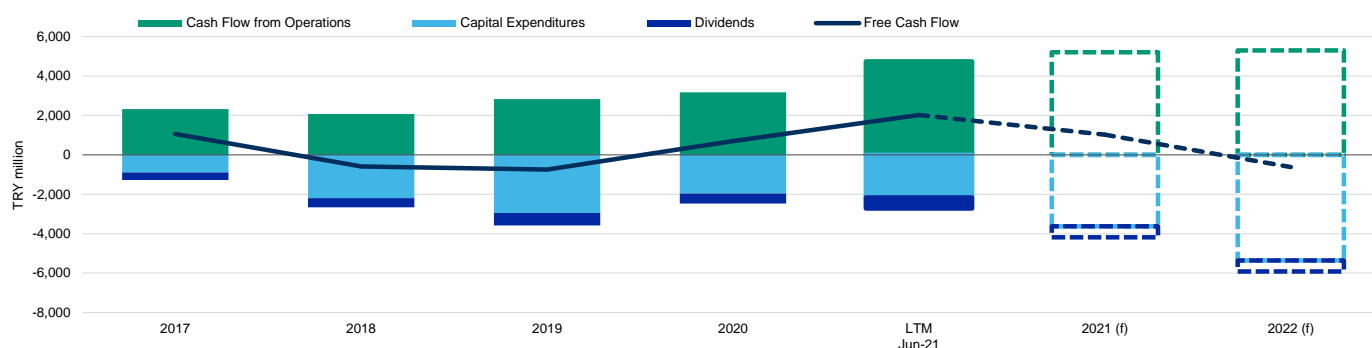
The glass manufacturing industry also requires substantial and recurring maintenance capital spending. Sisecam's capital spending, which includes maintenance and projects, averaged 12% of revenue between 2016 and 2020. The company manages the cold repair schedules of its furnaces to mitigate the risk of overcapacity, which can lead to lower investment returns.

### Healthy financial profile despite currency volatility

Sisecam continues to display a healthy financial profile. The company has maintained an average Moody's-adjusted debt/EBITDA below 3.0x over the past five year, despite the large currency depreciation over the period which substantially increased the value of its foreign currency-denominated debt in Turkish lira terms. We expect the company's Moody's-adjusted debt/EBITDA to decline to around 2.7x in 2021. We expect free cash flow to return into negative territory in 2022 because of the announced investment plans.

Exhibit 5

#### Free cash flow will turn negative in 2022 because of increased capital spending



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated; LTM = last twelve months.

Source: Moody's Financial Metrics™

Sisecam is managing its foreign-currency exposure prudently. The company had around 72% of its debt (c. \$1.5 billion) denominated in US dollar and Euro as of 30 June 2021. This is offset by large US dollar and euro-denominated cash reserves (c. \$1.1 billion as of 30 June 2021) and financial investments (c. \$0.4 billion) that provide a currency hedge against depreciation in the Turkish lira. Similarly, 52% of its revenues were invoiced in US dollars and euros in the first half of 2021.

### ESG considerations

Sisecam faces moderate environmental risks, mostly related to its use of water and emissions of carbon. These could weigh on the company's profitability over time. Sisecam is a large producer and consumer of synthetic soda ash, a raw material that could face increased regulations on water use which is scarce in Turkey. The production of glass is energy intensive, and Sisecam is a large consumer of natural gas. Sisecam has developed integrated waste management solutions to reduce its environmental footprint.

Sisecam is committed to maintaining a conservative financial policy, including keeping reported net debt to EBITDA below 2.5x (0.4x in the 12 months to 30 June 2021). The company has a dividend distribution policy that requires a minimum of 50% of distributable net profit to be paid out through a combination of cash and bonus shares.

Isbank is a private Turkish bank and founding shareholder of Sisecam, owning a 51% stake in the company. We consider the bank as a passive shareholder, with no evidence of interference with the company's business. Sisecam has been listed on the Turkish stock exchange since 1986.

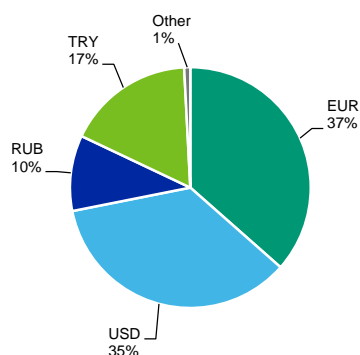
## Liquidity analysis

Sisecam's liquidity is supported by cash of TRY11.2 billion (\$1.3 billion) and to a lesser extent by a portfolio of held-to-maturity fixed income securities issued by Turkish borrowers with a book value of TRY3.7 billion (\$0.4 billion) as of 30 June 2021. Sisecam's cash deposits are concentrated and held within the Turkish banking system, which exposes the company to counterparty risk given our weak assessment of the credit quality of Turkish banks. However, this large cash balance helps offset liquidity risk stemming from the company's significant short-term debt – 30% of reported borrowings as of 30 June 2021.

We expect Sisecam to generate operating cash flow of around TRY 5.3 billion over the next 12 months. This expected cash flow, along with its cash holdings, will be sufficient to cover (1) short-term debt repayments of TRY2.2 billion and TRY3.2 billion, (2) estimated capital spending of TRY 5.4 billion and (3) estimated dividend payout of TRY 550 million.

Exhibit 6

### Debt breakdown by currency

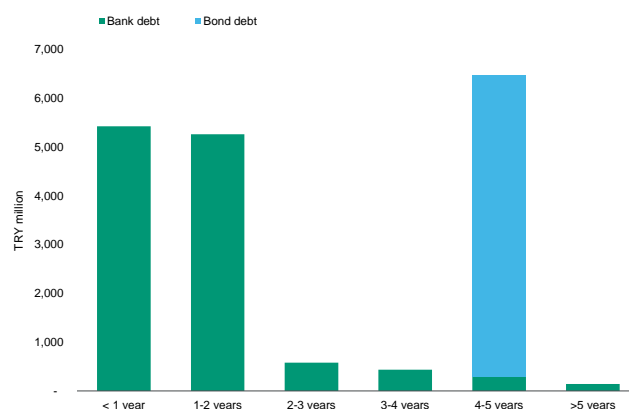


As of 30 June 2021

Source: Company financials

Exhibit 7

### Debt breakdown by maturity



As of 30 June 2021

Source: Company financials

## Structural considerations

Sisecam does not have any secured debt in its capital structure with the group utilising long-term project loans in combination with short-term working capital loans. The rating of the outstanding notes is the same as the corporate family rating because we rank the company's senior unsecured notes pari-passu with its other senior unsecured obligations.

## Rating methodology and scorecard factors

We used our [Manufacturing Methodology](#) industry rating methodology, published in September 2021, to assist in our assessment of Sisecam's credit quality. The B2 long-term issuer rating assigned to Sisecam is five notches below the scorecard-indicated outcome for the next 12-18 months, reflecting the company's credit links with the Turkish economy, which are not fully captured by the methodology grid.

Exhibit 8

### Rating factors

Türkiye Sise ve Cam Fabrikaları A.S.

Manufacturing Industry Scorecard			Current LTM 6/30/2021		Moody's 12-18 Month Forward View	
Factor 1 : Scale (20%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$3.3	Ba	\$3.8	Ba	\$3.8	Ba
<b>Factor 2 : Business Profile (25%)</b>						
a) Business Profile	Baa	Baa	Baa	Baa	Baa	Baa
<b>Factor 3 : Profitability and Efficiency (5%)</b>						
a) EBITA Margin	20.5%	A	17.6%	A	17.6%	A
<b>Factor 4 : Leverage and Coverage (35%)</b>						
a) Debt / EBITDA	2.8x	Baa	2.8x	Baa	2.8x	Baa
b) Retained Cash Flow / Net Debt	54%	Aa	64%	Aaa	64%	Aaa
c) Free Cash Flow / Debt	11%	Baa	-3%	Caa	-3%	Caa
d) EBITA / Interest Expense	4.9x	Ba	3.9x	B	3.9x	B
<b>Factor 5 : Financial Policy (15%)</b>						
a) Financial Policy	Baa	Baa	Baa	Baa	Baa	Baa
<b>Rating:</b>						
a) Scorecard-Indicated Outcome		Baa2				Baa3
b) Actual Rating Assigned						B2

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Source: Moody's Financial Metrics™

## Appendix

Exhibit 9

### Peer comparison table

(in USD millions)	Türkiye Sise ve Cam Fabrikalari A.S.			Owens Corning			Verallia S.A.		
	B2 Negative			Baa3 Stable			Ba2 Stable		
	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21
Revenue	\$3,183	\$3,069	\$3,290	\$7,160	\$7,055	\$7,983	\$2,895	\$2,894	\$3,088
EBITA Margin	16.3%	16.4%	20.5%	11.8%	12.9%	16.8%	14.6%	16.2%	17.1%
EBITA / Interest Expense	2.9x	3.4x	4.9x	5.7x	6.3x	9.3x	3.8x	6.8x	7.7x
Debt / EBITDA	3.8x	3.5x	2.8x	2.6x	2.4x	1.9x	3.7x	3.5x	3.4x
Retained Cash Flow / Net Debt	30%	33%	54%	32%	42%	57%	19%	27%	27%
Free Cash Flow / Debt	-5%	4%	11%	15%	24%	36%	9%	15%	14%

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Source: Moody's Financial Metrics™

Exhibit 10

### Moody's-Adjusted Debt Reconciliation

(in TRY millions)	2017	2018	2019	2020	LTM Jun-21
<b>As Reported Debt</b>	<b>5,896.7</b>	<b>7,436.4</b>	<b>15,845.6</b>	<b>17,142.2</b>	<b>18,311.0</b>
Pensions	381.4	456.7	527.3	712.8	712.8
<b>Moody's-Adjusted Debt</b>	<b>6,278.1</b>	<b>7,893.1</b>	<b>16,372.9</b>	<b>17,855.0</b>	<b>19,023.8</b>

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.

Source: Moody's Financial Metrics™

Exhibit 11

### Moody's-Adjusted EBITDA Reconciliation

(in TRY millions)	2017	2018	2019	2020	LTM Jun-21
<b>As Reported EBITDA</b>	<b>3,250.8</b>	<b>4,869.4</b>	<b>5,137.5</b>	<b>6,366.2</b>	<b>8,873.4</b>
Unusual	(315.9)	(812.6)	(611.7)	(843.1)	(1,298.5)
Non-Standard Adjustments	(172.1)	(43.3)	(263.5)	(455.7)	(675.6)
<b>Moody's-Adjusted EBITDA</b>	<b>2,762.8</b>	<b>4,013.6</b>	<b>4,262.2</b>	<b>5,067.4</b>	<b>6,899.3</b>

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated; LTM = last twelve months.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 12

Category	Moody's Rating
<b>TURKIYE SISE VE CAM FABRIKALARI A.S.</b>	
Outlook	Negative
Corporate Family Rating	B2
Senior Unsecured	B2/LGD4

Source: Moody's Investors Service

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