JCR-ER JCR Eurasia Rating
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JCR Eurasia Rating,

evaluated

the consolidated structure of Akçansa Çimento Sanayi ve Ticaret A.Ş. and **the Planned Bond Issuances** and

assigned the ratings on the Long and Short-Term National Scales as **'AA-(Trk)'** and **'A-1+(Trk)',** respectively with **"Stable"** outlooks on both ratings.

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RATINGS

				Long	Short
International	Foreign			BBB-	A-3
	Local Currency			BBB-	A-3
	Outlook		FC	Negt.	Negt.
			LC	Negt.	Negt.
	Issue Rating			-	-
National	Local Rating (Trk)			AA-	A-1+
	Outlook			Stable	Stable
	Issue Rating (Trk)			AA-	A-1+
Sponsor Support				2	-
Stand-Alone				AB	-

Sector: Cement/Building Materials
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Press Release

Istanbul – November 15, 2018

JCR Eurasia Rating evaluated the consolidated structure of **Akçansa Çimento Sanayi ve Ticaret A.Ş. (**referred to as **"Akçansa Çimento"** or the **"Company")** and the **Cash Flows Arising from the Planned Bond Issuances** in a high level investment grade category and assigned ratings of **'AA-(Trk)/Stable'** on the Long Term National Scale. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned at the country ceiling level of **'BBB-/Negative'** in line with the assessment of Japan Credit Rating Agency Ltd dated 14 August 2018, whilst all other rating notations have been given in the column.

With a track record dating back to the foundations of Akçimento in 1967, Akçansa Çimento was officially established in 1996 following the merger of Akçimento and Çanakkale Çimento. The Company operates in the production and trade of cement, clinker, ready mixed concrete (RMC) and aggregate with its only consolidated subsidiary of Karçimsa Çimento Sanayi ve Ticaret A.Ş. based in Karabük whilst carrying out its activities through 3 integrated manufacturing plants in Istanbul- Büyükçekmece, Çanakkale and Samsun-Ladik along with 7 cement terminals, 5 aggregate and 29 RMC facilities and 4 sales offices dispersed across the country. Following the acquisition of 39.72% of its shares by Heidelberg Cement AG, which is the world's second largest building materials company headquartered in Germany, the Company has conducted its operations in the form of a joint venture partnership with Hacı Ömer Sabancı Holding A.Ş., one of Turkey's leading conglomerates whilst its shares have been listed on the Borsa Istanbul index since 1996. The activities of the Company are primarily concentrated in the Marmara, Aegean and Black-sea regions, whilst it is currently ranked as the market leader in the Turkish Cement Industry with respect to processing capacity, sales on a tonnage basis and revenues.

The long-term outlook of the Turkish cement industry which exhibits a high degree of correlation with GDP growth and has an oligopolistic market structure remains positive due to the ongoing large-scale infrastructure and transportation projects, rising population, need for new residential housing and urban transformation initiatives. However, the rising cost of borrowing driven by the economic volatility, depreciation of the Turkish Lira and rising inflation realized in the second half of the current fiscal year along with increases in energy (petcoke, coal and electricity) prices and transportation costs which comprise a significant part of the sector's cost base are expected to exert downward pressure on cement demand and margins in the near-term.

The EBITDA margin of the Company, the revenues of which stayed largely flat in the 2014-16 period due to full capacity utilisation, underwent a fall in the completed fiscal year in comparison to the previous years, due to TRY devaluation and rising energy costs. Despite the ongoing contraction in the domestic market, the Company notably increased its revenue and EBITDA figures in the current fiscal year through a strategy of export-led growth and maintains its strong internal equity generation capacity. The pressure exerted on liquidity management through the rise in inventory brought about by the sudden drop in demand in the current fiscal year, the lengthening cash conversion cycle and the pre-dominantly short-term nature of financial liabilities is planned to be compensated by the high level of cash reserves, bond issuance expected to diversify resource composition, export receivables with shorter collection period and diversified available credit lines. The balance sheet structure with no FX risk supported by rising export revenues, low impaired receivables ratio and the presence of manufacturing facilities compliant with the international quality and productivity standards are factors strengthening the asset quality. The high share of equity in the funding of Company operations despite the regular distribution of dividends, low level of net financial leverage, high internal equity generation capacity, the high market share and pricing power enjoyed in the Marmara region in which a significant part of national consumption takes place, personnel productivity in comparison to competitors of similar scale and the high level of compliance attained with national and international Corporate Governance Practices stemming from listed status and the presence of a foreign partner have played an effective role in the assignment of the Company's Long Term National Rating and Outlook as **'AA-(Trk)/Stable'.** The impact of the economic slow-down and falling cement demand on the Company's business volume, the pressure that could be exerted by possible depreciation of the Lira on energy costs and operating profitability, net working capital levels and maturity structure of financial debt, the impact of rising cost of funding on financing expenses and the trend in export revenues are the factors that will be kept under review by JCR Eurasia Rating in the upcoming period.

No separate rating report has been compiled as the resources obtained from the bond issue will be carried in the Company's balance sheet and has been subject to analysis in the corporate credit rating report. The planned bond issue carries no difference in comparison to the Company's other liabilities with respect to its legal standing and collateralisation. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments.

Taking into consideration the high market shares in the national and international cement markets, strong financial standing and capitalization level of the controlling shareholders, namely **Hacı Ömer Sabancı Holding A.Ş.** and **Heidelberg Cement AG** with equal rates, along with the Company's investments and generated employment opportunities across the country, they are thought to possess the financial strength and willingness to provide long-term liquidity and equity to **Akçansa Çimento** as well as providing effective operational support should such a need arise. Within this regard, the Company's **Sponsor Support** grade has been assigned as **(2)** in JCR Eurasia Rating's notation system, denoting a strong level.

On the other hand, as JCR Eurasia Rating, regardless of the support at the shareholder level, taking into account **Akçansa Çimento**'s low requirement for external financial leverage, the strong operating cash flows, leading market share in the sector, know-how in its field of activity, capability to grow in the domestic and overseas markets and presence of a skilled management team, the Company is assumed to have reached a level of experience to manage the incurred risks on its balance sheet provided that there is no significant deterioration in the macro-economic outlook. Within this regard, the Company's **Stand-Alone Grade** has been assigned as **(AB)** in JCR Eurasia Rating's notation system, denoting a high level.

For more information regarding the rating results, you may visit our internet site **http://www.jcrer.com.tr** or contact our analysts Mr. **Şevket GÜLEÇ** and Mr. **Dinçer SEMERCİLER**.

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