

22 June 2018

Credit Rating

**Rating**  
**(National): Long Term**

**(TR) AAA**

**Outlook:**

**Stable**

**Rating**  
**(National): Short Term**

**(TR) A1+**

**Outlook:**

**Stable**

**AYGAZ A.Ş.**

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## AYGAZ A.Ş.

### Rating Summary

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Established in 1961, Aygaz A.Ş. ("Aygaz") operates in all LPG processes, including production, procurement, storage and filling, as well as production and sale of LPG-operated devices. Aygaz being the first and only public LPG Company in Turkey, continues to provide its services in 81 provinces through more than 2,400 cylinder gas dealers and more than 1,700 auto gas stations. The Company also owns LPG gas vessels, and provides import, leasing and spot shipment services.

Aygaz is the first Koç Group company operating in the energy sector and Turkey's 11<sup>th</sup> largest industrial company according to the 2017 ranking of the Istanbul Chamber of Industry. Through an effective dealer network, the Company serves under Aygaz, Mogaz and Lipetgaz brands throughout Turkey.

Aygaz is the first and only publicly-traded LPG Company the shares of which are traded in Borsa Istanbul (BIST) stock exchange. As of December 31, 2017, the Company's free float rate is 24.27%.

Following our industry scale comparative analysis, evaluation of financial/operational risks carried by the Company, as well as its domestic market position, AYGAZ's previous long term rating (National) of **AAA** and its short term rating (National) of **A1+** have been reconfirmed.

### Strengths and Risks

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#### Strengths

- Strong parent company structure
- Experience in the sector
- Leading position in the LPG market
- Low leverage level
- High contribution from investments accounted under equity method

#### Risks

- Increase in procurement costs
- Pressure on demand due to rising LPG prices

### Outlook

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The Company's consolidated income performed at an exceptionally high growth rate of 25.5% in 2017. Despite the increasing trend in commodity prices, Aygaz is managing to pursue its operations with low leverage and a healthy profit margin. Considering the company's financial structure and funding adequacy, enabling its resilience against economic fluctuations, the Company's outlook has been evaluated as "Stable".

## Methodology

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SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of SAHA Score, Company's distance from the point of default, its performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Default point analysis measures the distance from the point of default and it is based on relevant sector firms' past financial performances, ratios derived from a distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering companies in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis 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 tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. 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](http://www.saharating.com).

## Rating Definitions

Our long-term credit ratings reflect our current view of medium to long maturities over one year, while our short-term credit rating reflects our view for a period of up to 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. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the 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 and economic and financial conditions may increase investment risk, but not at a significant level.
(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 due to adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered "speculative" by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(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 of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

## **Disclaimer**

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