

21 June 2019

Credit Rating

**Long-term (National):
(TR) AAA**

**Outlook:
Stable**

**Short-term (National):
(TR) A1+**

**Outlook:
Stable**

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Rating Summary

The core business of Aygaz Anonim Şirketi ("the Company" or "Aygaz") is the procurement of liquefied petroleum gas ("LPG") from domestic and international markets, its storage, filling, distribution and delivery to consumers as cylinder gas, bulk gas and autogas. In order to make LPG available to the consumer, which is the main line of activity, the Company manufactures LPG cylinders, LPG tanks, regulators and ancillary materials. Aygaz, the first publicly traded company operating in the LPG sector, serves with more than 2,400 cylinder gas dealers and 1,700 autogas stations in 81 provinces. The Company also owns a fleet of LPG vessels, engaging in import, leasing and spot transport.

The main shareholder of the Company is Koç Holding A.Ş., one of the leading conglomerates of Turkey. According to the 2018 ranking of Istanbul Chamber of Industry, Aygaz is Turkey's 18th largest industrial company (2017: 11th). The Company operates with Aygaz, Mogaz and Lipetgaz brands making use of an effective dealer network, throughout Turkey.

The shares of Aygaz are traded on Borsa Istanbul (BIST). As of December 31, 2018, the Company's free float rate is 24.27%.

Following our comparative analysis of the sector and examination 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+** is reconfirmed.

Strengths and Risks

Strengths

- Strong parent company structure,
- Industry experience,
- Established market position of the brands,
- Resistance to economic fluctuations and crises,

Risks

- Rising input costs,
- Declining domestic and foreign demand,
- Rising financing costs,

Outlook

Aygaz has been a leader in the LPG sector for many years. The Company is a subsidiary of Koç Holding, one of the leading groups in Turkey and conducts its operations as to minimize the possible effects of economic fluctuations. Aygaz realizes regular dividend payments. In addition to the increasing trend in financing costs, Aygaz's 2018 relative decrease in profitability was due to a provision for one of its subsidiaries incorporated in the financial reports of the Company and an investment impairment in the records of Entek, another affiliate. Notwithstanding, the Company maintains its free cash generation capacity. Considering all the above factors, the Company's outlook is evaluated as "Stable".

Methodology

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.

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. 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 B, 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

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