

**22 June 2020**

**Credit Rating**

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

**Outlook:  
Stable**

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

**Outlook:  
Stable**

**AYGAZ A.Ş.**

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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, and distribution and delivery to consumers as cylinder gas, bulk gas and auto gas. In order to make LPG available to the consumer, which is its 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 close to 2,400 cylinder gas dealers and over 1,700 auto gas stations in 81 provinces. The Company also owns a fleet of LPG vessels, engaging in import, leasing and spot transportation.

The main shareholder of the Company is Koç Holding A.Ş., one of the leading conglomerates of Turkey. Company shares are traded on Borsa İstanbul and as of December 31, 2019, Aygaz's free float rate is 24.27%. The Company operates under Aygaz and Mogaz brands throughout Turkey utilizing an effective dealer network.

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+** has been reconfirmed.

**Outlook**

Aygaz maintained its leadership in the LPG industry in 2019. The Company operates with an extensive dealer network enjoying an entrenched brand awareness. Koç Holding, with which it is affiliated, has invested in the energy sector and achieved efficiency.

Company sales increased by 7% as of the end of 2019 and reached TL 10.2 billion (2018: TL 9.55 billion). The gross profit was TL 957 million (2018: TL 634 million), the real operating profit was TL 365 million (2018: TL 71 million) with an EBITDA of TL 492 million (2018: TL 160 million). The Company's Net Profit increased by 20% by the end of 2019 reaching TL 273 million (2018: TL 228 million).

The company maintains its Free Cash generation capacity and dividend payments.

In light of these factors, the short and long term outlook of the Company has been evaluated as "Stable" after taking into consideration factors such as its shareholding structure and industry experience. However, as the World Health Organization declared a pandemic on March 12, 2020 in relation to the coronavirus (Covid-19) epidemic which initiated in China, the recent extraordinary developments in the global trade environment and money markets make the potential economic consequences of the pandemic extremely uncertain. The developments are closely monitored by us and if the tangible risks arise, their effects on the Company will be further evaluated.

## Corporate Governance

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The Company has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented all of the necessary policies and measures. Management and internal control mechanisms have been created effectively and are in operation. All of the corporate governance risks are identified and managed actively. The rights of shareholders and stakeholders are respected in a fair manner and public disclosure and transparency is at superior levels. Structure and operation of the board of directors is in the category of best practice. The Company virtually has no frailty in these areas.

## 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. 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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