Various Rating Actions On Three Turkish Investment Holding Companies After Sovereign Downgrade; Outlooks Negative

Primary Credit Analyst:
Per Karlsson, Stockholm (46) 8-440-5927; per.karlsson@spglobal.com

Secondary Contact:
Carole Missoudan, Paris (33) 1-4420-6723; carole.missoudan@spglobal.com

OVERVIEW

- On July 20, 2016, we lowered to 'BB' and 'BB+' our long-term foreign and local currency ratings on Turkey and assigned a negative outlook, while revising our transfer and convertibility assessment to 'BBB-' from 'BBB'.
- Turkey-based investment holding companies Koc, OYAK, and Dogus have inherently high sensitivity to the domestic economy.
- We are therefore taking various rating actions on all three companies.
- The negative outlooks reflect company-specific factors as well as the outlook on the sovereign and our view of heightened uncertainties in the operating environment.

STOCKHOLM (S&P Global Ratings) July 22, 2016--S&P Global Ratings said today that it has taken various rating actions on Turkey-based Koc Holding A.S., OYAK (Ordu Yardimlasma Kurumu), and Dogus Holding A.S., specifically we:

- Lowered our long- and short-term corporate credit ratings on Koc Holding to 'BBB-/A-3' from 'BBB/A-2'; and
- Lowered our long- and short-term corporate credit ratings on OYAK to 'BB+/B' from 'BBB-/A-3', and our Turkey long-term national scale rating on OYAK to 'trAA+' from 'trAAA', while affirming our 'trA-1' short-term national scale rating.

The outlooks on both entities are negative.
At the same time, we revised our outlook on Dogus to negative from stable and affirmed our 'BB-/B' long- and short-term corporate credit ratings.

The rating actions follow our review of the three investment holding companies after the downgrade of Turkey (see "Republic of Turkey Foreign Currency Ratings Lowered To 'BB/B'; Outlook Negative," published June 20, 2016, on RatingsDirect). Because these entities' portfolios are predominantly invested in domestic assets, we consider that they are highly exposed to country risk in Turkey and the resulting heightened unpredictability of the operating environment.

KOC HOLDING
Koc Holding still passes our hypothetical sovereign-default stress test. Therefore, we can rate it up to two notches higher than the sovereign foreign currency rating on Turkey. The two-notch difference compared with the sovereign rating is predominantly thanks to Koc's strong net cash position. We view as positive that the company's cash holding (mostly held in lower-rated Turkish banks) is dominated by use of hard currency. As of March 31, 2016, 68% of Koc's cash was in U.S. dollars, while 32% was in Turkish lira. As per our estimates, there is no material change in the cash composition per currency as of June 30, 2016. On March 31, 2016, Koc had a net cash position of Turkish lira (TRY) 2.2 billion (about $778 million), which we estimate is somewhat lower as of June 30, 2016, due to payment of TRY655 million related to the purchase of KFS shares at the end of June. The negative outlook mirrors that on the sovereign.

OYAK
We think that, given OYAK's sizable cash position of TRY8.6 billion (broadly equivalent to $3 billion) mostly held in lower-rated Turkish banks as of June 30, 2016, of which about 36% is in U.S. dollars, the company should be in a position to withstand a sovereign default. Therefore we continue to rate OYAK one notch higher than the sovereign. The negative outlook reflects that on the sovereign.

DOGUS
We have revised our outlook on Dogus to negative from stable to factor in the rising uncertainties in the operating environment of the group's investments, given their exposure to GDP-related sectors such as construction and tourism.

RELATED CRITERIA AND RESEARCH
Related Criteria
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping
Various Rating Actions On Three Turkish Investment Holding Companies After Sovereign Downgrade; Outlooks Negative

Tables - June 01, 2016
- Criteria - Corporates - Industrials: Methodology: Investment Holding Companies - December 01, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research
- Republic of Turkey Foreign Currency Ratings Lowered To 'BB/B'; Outlook Negative, June 20, 2016

RATINGS LIST

***************************** Koc Holding A.S. *****************************

Downgraded

Koc Holding A.S.                                   To     From
Corporate Credit Rating: BBB-/Negative/A-3               BBB/ Stable/A-2
Senior Unsecured: BBB-                               BBB

***************************** OYAK (Ordu Yardimlasma Kurumu) *****************************

Downgraded; Ratings Affirmed

OYAK (Ordu Yardimlasma Kurumu)                                To     From
Corporate Credit Rating: BB+/Negative/B                BBB-/ Stable/A-3
Turkey National Scale Rating: trAA+/-/trA-1              trAAA/-/trA-1

***************************** Dogus Holding A.S. *****************************

Ratings Affirmed; Outlook Action

Dogus Holding A.S.                                   To     From
Corporate Credit Rating: BB-/Negative/B               BB-/ Stable/B

New Rating
Dogus Holding A.S.
Turkey National Scale Rating  trA/--/trA-1

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.