

RATING ACTION COMMENTARY

Fitch Upgrades Sisecam to 'BB-'/Positive; Rates Proposed Eurobond 'BB-(EXP)'

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Fitch Ratings - Dubai - 23 Apr 2024: Fitch Ratings has upgraded glass manufacturer Turkiye Sise ve Cam Fabrikalari AS's (Sisecam) Long-Term Foreign-Currency (FC) Issuer Default Rating (IDR) to 'BB-', from 'B+'. The Outlook is Positive. Fitch has also upgraded the senior unsecured ratings to 'BB-', from 'B+', with a Recovery Rating of 'RR4'.

Fitch has assigned an expected rating of 'BB-(EXP)' with Recovery Rating of 'RR4' to the company's proposed benchmark notes to be issued by Sisecam UK Plc and guaranteed by Sisecam. The final rating is subject to the completion of refinancing and final documentation confirming information already received. Fitch has also assigned a Long-Term Local-Currency (LC) IDR of 'BB-' with a Positive Outlook.

The Long-Term LC IDR benefits from Sisecam's diversified business profile with strong profit margins and moderate through-the-cycle leverage, which are offset by capex-driven negative free cash flow (FCF), continued dependence on short-term funding and FX risks.

The Long-Term FC IDR upgrade reflects the company's credit enhancements, such as the recently established offshore hard-currency (HC) liquidity and growing offshore EBITDA generation, that allow a notch uplift above Turkiye's 'B+' Country Ceiling (CC) under our Country Ceiling Criteria.

The Positive Outlook reflects Turkiye's sovereign rating outlook as well as Sisecam's credit metrics that could support a rating upgrade in the next 12 to 18 months.

KEY RATING DRIVERS

Credit Enhancements Support FC Rating: We estimate that the company has credit enhancements in place, including offshore operating EBITDA, Turkish export EBITDA (adjusted down by 50%) and readily available liquidity offshore, sufficient to meet HC

debt service cover of above 1x over the forecast period. This allows Sisecam's FC IDR to be one notch above Turkiye's CC.

We estimate the US and EU-originated EBITDA to largely cover the (post-refinancing) interest expense born from euro- and US-dollar denominated borrowings.

Strong Revenue Growth: We expect Sisecam to maintain double-digit revenue growth (in LC) of 22% in 2024 and 24% in 2025, supported by strong international sales of architectural glass, glassware, glass packaging and chemicals. The company generated 40% of revenue from its international businesses in 2023, while 60% of revenue came from exports from Turkiye and domestic businesses.

Diversified Business Profile: Sisecam's diversified business profile includes both cyclical and defensive sectors. Chemicals and architectural glass were the top contributors to revenue and EBITDA in 2023, at 40% and 20%, respectively, although the company saw robust volume and sales growth across all segments, producing 5.2 million tons of glass despite inflationary pressure. Its 45 production facilities across 14 countries help diversify its distribution network and maintain a competitive edge among regional peers.

The company expanded its footprint via investments in soda chemicals in the US and industrial glass in Hungary. The chemicals segment, which produces soda ash and other raw materials used in glass production, help Sisecam control costs along the glass production value chain.

Resilient EBITDA Margin: We expect the EBITDA margin to remain resilient at above 20% through to 2027, despite pressure on energy and raw material costs, as Sisecam should be able to pass on higher costs to end-customers. Architectural glass, glassware, glass packaging and chemicals are the highest contributors to energy costs. The company produced its own electricity in 2023 through licensed plants; these produced 30% of its total energy needs globally and 62% in Turkiye.

Negative FCF: We forecast the capex intensity ratio to spike towards 20% of sales in 2024-2025, from 14% in 2023, as the company drives its investment cycle in architectural glass, glass packaging and chemicals. This is likely to keep FCF negative till 2027, although Sisecam's liquidity position should be supported by a conservative dividend payout policy and conservative leverage thresholds.

We estimate that 25% of upcoming capex will be geared towards maintenance of furnaces and cold repairs, while 75% will be for expansion. Sisecam's multi-tier

international investment plan, which aims to maintain desired product quality and retain its cross-sector market share, amounts to USD250 million.

Refinancing Supports Financial Profile: The proposed US-dollar bond issue will be used to partially refinance Sisecam's existing bond and short-term debt as well as to boost HC cash balance. The issuance should improve the diversification of funding, reduce the average cost of debt and reduce reliance on short-term borrowings which nevertheless remains a constraint. The company expects to boost its offshore HC denominated cash for future HC debt service.

We expect the terms of the notes to include leverage covenants that may support our view of insulated legal ring-fencing around Sisecam. We also view access and control factors, including partial public listing of Sisecam and its independent external funding as porous. Sisecam is 51% owned by Turkiye Is Bankasi A.S. (B/Positive) and our current assessment of the Parent and Subsidiary Links (PSL) allows Sisecam's ratings two notches above the parent.

Conservative Capital Structure: We expect Sisecam's credit metrics to remain strong for its rating, namely average EBITDA net leverage of 2.1x over the medium term, which could support an upgrade, especially once we assess that FCF is turning positive. EBITDA interest coverage and FX risk exposure are likely to remain rating constraints.

DERIVATION SUMMARY

Sisecam has a strong financial profile, which is comparable with that of higher-rated peers, such as Owens Corning (BBB/Stable), and is significantly better than that of lower-rated peers, such as Hestiafloor 2 (B/Stable). We expect Sisecam FFO net leverage to reach 2.4x in 2024 and 2.2x in 2025 and forecast net EBITDA leverage of 2.7x and 2.3x, respectively. This compares well with our forecast for Owen Corning's FFO net leverage of 2.5x and 2.0x and net EBITDA leverage of 2.1x and 1.7x.

Sisecam has an above-peer FFO margin due to its low cost base and leading position in its core markets. It recorded an FFO margin of 15% in 2023, which was slightly lower than Owen Corning's 18%, but significantly higher than our estimate of Arcelik A.S.'s (BB/Positive) FFO margin of 11% at end-2023. We believe Sisecam has healthy geographical diversification and exposure to several industries, including construction, auto and healthcare, but it remains smaller than Owen Corning, Arcelik and Ardagh Group S.A. (B-/Negative).

KEY ASSUMPTIONS

- Double-digit revenue growth for the next four years across Turkiye and overseas, supported by added capacity, repricing, improving market conditions and a favourable

FC impact on sales

- Successful eurobond issue of USD1 billion and partial repayment of existing bonds and short-term loans
- A stronger EBITDA margin from 2024 amid dynamic repricing, improved product mix and lower energy prices
- Higher capex for greenfield and brownfield projects
- Dividend distribution to increase with profitability

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating

Action/Upgrade:

- Sustained net EBITDA leverage below 3.0x, FFO net leverage below 3.5x, EBITDA interest coverage above 5.0x and positive FCF margin would support LC IDR upgrade assuming no PSL constraint from the parent
- FC IDR would follow the LC IDR upgrade if Turkiye's CC is also upgraded or Sisecam's credit enhancements strengthen

Factors that Could, Individually or Collectively, Lead to Downgrade:

- Net EBITDA leverage above 4.0x, FFO net leverage above 4.5x and EBITDA interest coverage below 4.0x
- Substantial deterioration in liquidity and a consistently negative FCF margin
- Weakening in the business profile along with loss of market share and pricing power
- Tighter links with the parent or (for FC IDR) weaker credit enhancements

LIQUIDITY AND DEBT STRUCTURE

Tight Liquidity: We expect Sisecam's liquidity score to remain below 1x after the proposed bond transaction. The proposed issuance should improve the company's debt maturity profile and reduce reliance on short-term borrowings, which comprise around 46% of total debt. We expect the continued roll-out of short-term bank funding. Around 82% of debt is denominated in HC. We believe uncommitted bank lines of approximately USD500 million with Turkish banks would remain available in a stress scenario,

particularly as Sisecam is a multinational conglomerate with strong banking relationships.

ISSUER PROFILE

Sisecam is a Turkish-based multinational industrial corporation with manufacturing operations in 14 countries. It is one of the world's top-two glassware producers and among the top-five producers in glass packaging and flat glass. It is also the second-largest soda ash producer and a world leader in chromium chemicals.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings on Sisecam are linked to the Country Ceiling on Turkiye.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	RECOVERY ↕	PRIOR ↕
Turkiye Sise ve Cam Fabrikalari AS	LT IDR BB- Rating Outlook Positive Upgrade		B+ Rating Outlook Positive

LC LT IDR

BB- Rating Outlook Positive

New Rating

senior
unsecured

LT

BB-

Upgrade

RR4

B+

Sisecam UK plc

senior
unsecured

LT

BB-(EXP)

RR4

Expected Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 04 Mar 2023\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 17 Jun 2023\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 14 Oct 2023\)
\(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub. 04 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 04 Nov 2023\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v8.1.0 \(1\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Turkiye Sise ve Cam Fabrikalari AS

UK Issued, EU Endorsed

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