



Corporate Governance and
Credit Rating Services Inc.

24 May 2018

Credit Rating

Rating

(National): Long Term

(TR) AA+

Outlook:

Negative

Rating

(National): Short Term

(TR) A1+

Outlook:

Negative

TAT GIDA SANAYİ A.Ş.

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TAT GIDA SANAYİ A.Ş.

Rating Summary

Tat Gıda Sanayi A.Ş. ("Tat Gıda" or "the Company") was established in 1967 under the trade name of Tat Konserve Sanayi A.Ş. and has changed its title as Tat Gıda Sanayi A.Ş. on November 15, 2013. Tat Gıda Sanayi A.Ş. operates the Tat, SEK and Pastavilla brands. The Company's domestic marketing and sales activities are carried out by Düzey Tüketim Malları Sanayi Pazarlama ve Ticaret A.Ş. ("Düzey"), also a Koç Group company. Tat Gıda shares are traded on Borsa İstanbul since 1993. As of the first quarter of 2017, Tat Gıda is the market leader in tomato paste and tomato products market with the Tat brand name and in the pasteurized milk market with the SEK brand name.

Following our analysis of the position of the brands represented by the Company in the food and beverage sector, its financial performance, corporate structure as a Koç Group company as well as the level of its risk management, Tat Gıda's previous long term rating of AA+ (National) and the short term rating of A1+ (National) dated May 25, 2017 is reconfirmed as long term rating of **AA+ (National)** and short term rating of **A1+ (National)** and the outlook is revised as "**Negative**".

Strengths and Risks

Strengths

- Strong parent company structure
- Industry experience
- Established market position of the brands
- Low leverage level

Risks

- Possible demand side weakening in the present economic environment
- Increasing pressure on working capital due to a market-wide prolonged receivables turnover
- Relative increase in short-term financial liabilities

Outlook

The Company preserves the market strength of its brands and introduces new products to the market as a result of its innovative efforts. Tat Gıda has increased its sales volume by 9.5% on a nominal basis and maintains its net profit around previous levels.

The operational cash generation power has decreased due to the relative increase in trade receivables in the Company's working capital balance. Considering the average annual investment levels, it can be seen that as of 2017, free cash generation turned to deficit resulting in the short term liabilities ratio to increase.

In this respect, the outlook has been revised to "Negative" and will be reevaluated according to the precautionary measures and market conditions.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of SAHA Score which measures the Company's distance from the point of default, its performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures a statistical distance to the point of default making use of industry specific significant financial ratios based on industry peer sample companies' past financial performance and default statistics. Comparative performance analysis determines the relative position of the company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology 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 evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed 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) B	(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) 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 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

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Tat Gıda Sanayi A.Ş. and is based on information disclosed to the public by Tat Gıda Sanayi A.Ş.

This report, edited by SAHA A.Ş. analysts based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment decisions or other purposes.

SAHA A.Ş. has embraced and published the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies on its web site (www.saharating.com) and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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