Tear Sheet:

Coca-Cola Icecek AS

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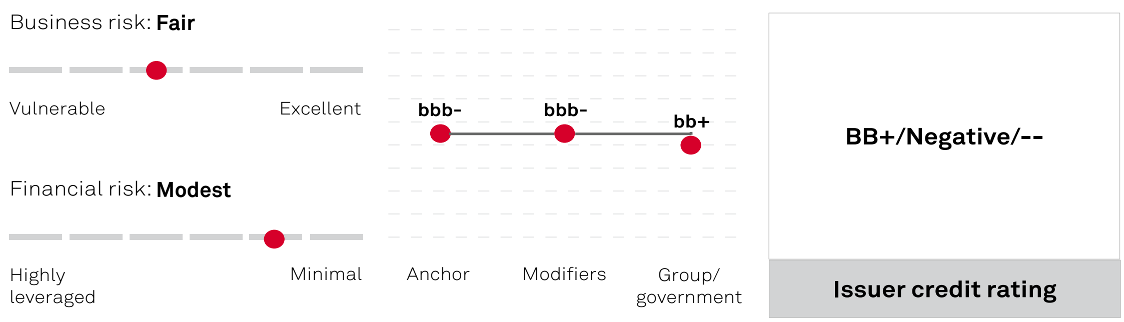
The first-half 2024 results of Coca-Cola Icecek AS (CCI) point to ongoing resilience in a very challenging macroeconomic environment where it chiefly operates. In the second quarter, the company posted consolidated volume growth of 0.7% arresting the negative trend of the past 12-18 months. Stronger performance in Turkiye helped offset weaker consumption trends in main international operations--notably Pakistan, Kazakhstan, and Uzbekistan (including higher comparison 2023 period). The company sees modest negative impact so far from consumption boycotts of western brands in the Middle East. Excluding the effects of Turkish Accounting Standard (TAS) 29 for hyperinflationary economies, the company reported growth in net sales revenue per unit case of 60% and improvement in reported EBIT of 37 basis points to 15.7%, reflecting sustained price increases, positive product category mix, and lower input costs. Despite a challenging consumer environment and the more discretionary nature of the company's soft drinks portfolio, we note positively the reported increase in immediate consumption shares, reflecting the strong brand equity of the product portfolio. For 2024 we forecast overall revenue growth of 10%-15% with slight decline to flat S&P Global Ratings-adjusted EBITDA margins (18% in 2023) reflecting cautious management guidance and higher ongoing promotional and advertising expenses. Factoring in higher capital expenditure-to-sales ratio of 7% (6.1% in 2023) from recent capacity expansion (notably in Uzbekistan, Kazakhstan, and Azerbaijan), and cash outflows linked to Bangladesh territory acquisition from the Coca-Cola Co. (TCCC), we forecast broadly stable adjusted debt to EBITDA of 0.8x-0.9x.

Overall CCI remains positioned in the 'bbb-' stand-alone credit profile, although its headroom under overall credit metrics has diminished. Absent any further material mergers and acquisitions transactions in the next 12-18 months, we forecast CCI will maintain adjusted debt to EBITDA of well below 1.5x and funds from operations (FFO) to debt close to or above 60%. However, due to ongoing very high funding costs in Turkiye and a weaker Turkish lira versus hard currency, we forecast EBITDA interest coverage and free operating cash flow (FOCF)-to-debt ratios to remain weak for the current financial risk profile category at around 3.0x-3.5x and below 25%, respectively, over the next 12-18 months. The FOCF-to-debt ratio is also affected by the recent step-up in production capacity expansions outside Turkiye as CCI aims to invest ahead of demand given dynamic population growth and still low per-capita consumption in key markets.

The negative outlook on the rating continues to mirror that on its majority shareholder Anadolu Efes Biracilik ve Malt Sanayii AS(AEFES; BB+/Negative/--). The negative outlook on AEFES reflects the uncertainty around the proposed acquisition of Anheuser-Busch InBev's (ABI's) share in their joint venture in Russia, the structure of which was recently rejected by the

Russian regulators. Moreover, it reflects the fact that AEFES has not been able to extract cash dividends from its Russian operations due to strong capital controls in place. This translates into medium-term refinancing risk linked to its $500 million notes due in June 2028. We equalize the rating on CCI with the rating on AEFES because we view CCI as a core entity of AEFES, meaning that AEFES would normally likely provide extraordinary financial support if needed, even if the two companies are legally separated. That said, we currently see risks of AEFES becoming weaker financially, considering uncertainty around ability to extract cash from Russia, and thus more dependent on the dividends it receives from CCI.

Ratings Score Snapshot



Recent Research

- Turkish Corporate Ratings Credit Outlook, June 13, 2024
- Tear Sheet: Coca-Cola Icecek AS, Oct. 10, 2023
- Bulletin: Agreement To Acquire ABI's Stake In Russia and Ukraine Has No Immediate Impact On AEFES' Credit Metrics, Dec. 21, 2023
- Tear Sheet: Anadolu Efes Biracilik ve Malt Sanayii AS, Oct. 9, 2023
- Turkey-Based Soft Drinks Producer Coca-Cola Icecek Ratings Lowered To 'BB+' Following Same Action On Parent Company, Sept. 23, 2022

Company Description

CCI is a soft drinks, juices, and water bottling company based in Turkiye. It was founded in 2005 when AEFES' soft drinks business merged with the Coca-Cola bottler in Turkiye. In 2023, the company reported total revenue of about Turkish lira (TRY) 101 billion (about $3 billion at current exchange rates) and S&P Global Ratings-adjusted EBITDA of about TRY18.2 billion (about $530 million) after implementation of TAS 29 "Financial Reporting in Hyperinflationary Economies Standard”. These compare with total revenue of TRY53.5 billion and S&P Global Ratings-adjusted EBITDA of TRY9.9 billion in 2022 before implementation of TAS 29.

Since February 2024 following the completion of the acquisition of Bangladesh territory from TCCC, CCI operates in 12 countries (11 in 2023), operating 33 bottling plants and three fruit processing plants, allowing it to reach over 600 million people through 1.2 million sales points. Prior to the Bangladesh acquisition, in 2023 CCI's top four markets were Turkiye (37% of total volumes), Pakistan (23%), Kazakhstan (13%), and Uzbekistan (11%). Its products are mostly produced under license from TCCC, with sparkling beverages accounting for about 80% of volumes.

CCI is 50.26% owned by AEFES, a Turkiye-based beer group with large operations in Russia and central Asia. It is 20.09% owned by TCCC, the largest soft drink maker globally, based in the U.S. About 29.65% of share capital is listed on the Istanbul stock exchange.

Outlook

The negative outlook mirrors that of the majority shareholder, AEFES. The negative outlook on AEFES reflects risks that could negatively affect our projections and notably stem from the dependence of AEFES' beer segment, in our view, on Turkiye and Kazakhstan to fund operational and financing needs outside of Russia. In addition, there is ongoing material uncertainty about the final terms and the timeline of the likely ABI transaction in Russia, which we currently do not embed in our base case, and which the Russian regulators recently rejected. AEFES has so far not been able to extract cash from the Russian operations, which is creating medium-term refinancing risks linked to its $500 million Eurobond due in 2028.

Downside scenario

We would lower the rating most likely if we were to downgrade AEFES. We could lower our rating on AEFES over the next 12-18 months if our main credit indicators, excluding the Russian beer operations, weakened such that adjusted debt to EBITDA exceeded 2.5x and FFO to debt decreased below 30%, with no prospects for rapid improvement. Prolonged inability of AEFES to extract cash from Russia, thus increasing refinancing risks linked to its Eurobond outstanding due 2028, could also lead to a negative rating action.

Finaly, we could also lower our rating on AEFES if we lowered the unsolicited sovereign foreign currency rating on Turkiye to 'B-' from 'B+'. This is because, under our criteria, we cannot rate a company more than four notches above the related sovereign foreign currency rating.

Upside scenario

We could revise our outlook to stable if we revised our outlook on AEFES back to stable. We could revise our outlook on the rating on AEFES to stable if we had greater visibility that the group, excluding the Russian beer operations, would be able to maintain adjusted debt to EBITDA comfortably below 2.5x and FFO to debt above 30% on an ongoing basis. In addition, we would need to see diminishing medium-term refinancing risks, which would most likely stem from an ability to extract cash dividends from Russia.

Key Metrics

Coca-Cola Icecek AS--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. TRY)	2020a	2021a	2022a	2023a	2024e	2025f

Coca-Cola Icecek AS--Forecast summary

Revenue	14,391	21,930	53,530	101,042	111,200-116,200	122,750-127,500
EBITDA	3,072	4,547	9,852	18,186	19,900-20,500	22,500-23,200
Funds from operations (FFO)	2,391	3,263	6,803	11,491	10,000-10,500	12,200-13,200
Free operating cash flow (FOCF)	2,046	2,284	2,476	3,895	2,500-3,000	3,000-3,500
Debt	2,434	6,181	7,995	15,759	17,200-17,700	18,500-19,500
Adjusted ratios						
Debt/EBITDA (x)	0.8	1.4	0.8	0.9	0.8-0.9	0.8-1.0
FFO/debt (%)	98.2	52.8	85.1	72.9	58.5-60.5	64.0-68.0
EBITDA interest coverage (x)	8.0	7.9	5.8	3.9	2.8-3.0	3.0-3.2
FOCF/debt (%)	84.1	36.9	31.0	24.7	15.0-17.0	16.0-18.0
Annual revenue growth (%)	19.8	52.4	144.1	88.8	10.0-15.0	8.0-12.0
EBITDA margin (%)	21.3	20.7	18.4	18.0	17.5-18.0	18.0-18.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. TRY--Turkish lira.

Financial Summary

Coca-Cola Icecek AS--Financial Summary

Period ending	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	TRY	TRY	TRY	TRY	TRY	TRY
Revenues	10,623	12,008	14,391	21,930	53,530	101,042
EBITDA	1,920	2,220	3,072	4,547	9,852	18,186
Funds from operations (FFO)	1,443	1,647	2,391	3,263	6,803	11,491
Interest expense	394	322	386	576	1,708	4,647
Cash interest paid	389	299	343	524	1,360	3,508
Operating cash flow (OCF)	1,636	1,879	2,712	3,590	5,784	10,024
Capital expenditure	858	766	666	1,306	3,309	6,129
Free operating cash flow (FOCF)	779	1,113	2,046	2,284	2,476	3,895
Discretionary cash flow (DCF)	548	813	1,774	1,489	1,847	2,795
Cash and short-term investments	2,311	2,933	4,684	4,215	14,637	22,062
Gross available cash	2,311	2,933	4,684	4,215	14,637	22,062
Debt	3,322	3,198	2,434	6,181	7,995	15,759
Common equity	6,424	7,369	8,737	14,970	22,796	44,955
Adjusted ratios						
EBITDA margin (%)	18.1	18.5	21.3	20.7	18.4	18.0
Return on capital (%)	16.9	16.5	21.2	22.3	32.0	33.8
EBITDA interest coverage (x)	4.9	6.9	8.0	7.9	5.8	3.9
FFO cash interest coverage (x)	4.7	6.5	8.0	7.2	6.0	4.3
Debt/EBITDA (x)	1.7	1.4	0.8	1.4	0.8	0.9

Coca-Cola Icecek AS--Financial Summary

FFO/debt (%)	43.4	51.5	98.2	52.8	85.1	72.9
OCF/debt (%)	49.3	58.8	111.4	58.1	72.3	63.6
FOCF/debt (%)	23.4	34.8	84.1	36.9	31.0	24.7
DCF/debt (%)	16.5	25.4	72.9	24.1	23.1	17.7

Environmental, Social, And Governance

ESG factors have a neutral influence on our credit analysis of CCI. We believe social risk factors are mitigated by the lower regulatory pressure and more positive consumer perception toward high-sugar content beverages in its end geographies, compared with mature markets. In addition, limited consumer affordability restricts the level of individual consumption. The company's prudent treasury and debt leverage policies, with at least 50% of cash balances held at all times in hard currencies, support our governance assessment.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Negative/--**
Local currency issuer credit rating	**BB+/Negative/--**
Business risk	**Fair**
Country risk	High
Industry risk	Low
Competitive position	Fair
Financial risk	**Modest**
Cash flow/leverage	Modest
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011