S&P Global Ratings

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Tear Sheet:

Coca-Cola Icecek AS

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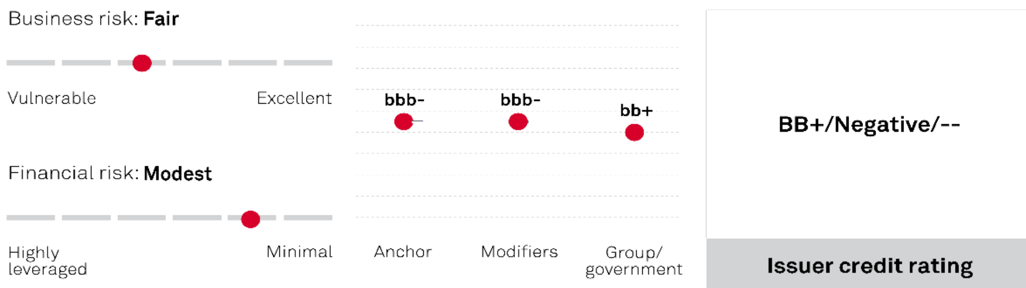
Despite a decrease in volumes so far in 2023, Coca-Cola Icecek AS (CCI) continues to show resilience, which supports strong free cash flows. The reported volume decline of 2.8% year-on-year in the first half of 2023 follows a year-on-year increase in organic volumes of 8% in 2022 and soft demand in the two largest markets Turkiye (down 9% in the second quarter) and Pakistan (down 27.5%). Consumers in these countries are grappling with very high inflation and, in the case of Pakistan, the aftermath of the flooding in 2022. Despite that, we see signs of resilience as CCI also reported an increase in the share of immediate consumption (IC) packages to 26% in the second quarter, the third consecutive year of growth (from 18% in 2020). We attribute this increase to CCI's leading product portfolio. After price increases, profitability also seems to be rebounding. The twelve-month rolling S&P Global Ratings-adjusted EBITDA margin was 19.3% as of June 30, 2023, versus 18.2% as of March 31, 2023. The twelve-month rolling free operating cash flow (FOCF) was already close to Turkish lira (TRY) 2 billion as of June 30, 2023. CCI's balance sheet position remained strong, with S&P Global Ratings-adjusted debt to EBITDA at 1.2x (twelve months rolling to June 2023), including $715 million of cash balances as of June 30, 2023.

The negative outlook on CCI solely mirrors that on its parent Anadolu Efes Biracilik ve Malt Sanayii Anonim Sirketi (AEFES; BB+/Negative/--). We equalize the rating on CCI with the rating on AEFES because we view CCI as a core entity of AEFES, meaning that the parent company would likely provide extraordinary financial support if needed, even if the two companies are legally separated. AEFES and its Russian joint venture (JV) partner and significant shareholder, Anheuser-Busch InBev S.A./N.V. (ABI; A-/Stable/A-2), remain in active discussions over the buyout of ABI's share in the JV. The uncertainty about the acquisition amount, the related funding mix, and the potential effect of the buyout on our financial projections for AEFES, which currently do not factor in the buyout, are the main reasons for our negative outlook.

Despite its strong balance sheet and conservative financial policy, CCI is acquisitive, meaning expansion in frontier markets could increase earnings and credit metrics volatility. In June, CCI announced that it had held preliminary talks with The Coca-Cola Co. (TCCC; A+/Stable/A-1) over the acquisition of Coca-Cola Bangladesh Beverages (CCBB). The acquisition could potentially add another very large and underpenetrated territory to CCI's portfolio and support long-term volume growth prospects. If it materializes, this would represent CCI's fourth acquisition in the past two years, as CCI also acquired TCCC's assets in Uzbekistan in late 2021. On a stand-alone basis, CCI's core credit metrics, including funds from operations (FFO) to debt of currently above 60% and S&P Global Ratings-adjusted debt to EBITDA of close to 1x, should remain solid. This should be the case even after factoring in high financing costs and the effect of the two acquisitions CCI announced--the JV stake buyout of TCCC in Pakistan and the acquisition of the fruit juice and concentrate business of Anadolu Etap from AEFES. Given our negative outlook on CCI's parent, AEFES, and limited headroom for sizeable debt-funded transactions (notably due to high financing costs and currency exchange volatility), we will pay close attention to the acquisition costs, the funding mix, and the integration efforts required, should CCI proceed with the transaction.

Ratings Score Snapshot



Recent Research

- 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 2022, the company reported revenue of TRY53.5 billion (about €1 billion, TRY21.9 billion in 2021) and S&P Global Ratings-adjusted EBITDA of TRY9.9 billion (about €445 million; TRY4.55 billion in 2021). CCI operates in 11 countries, with its top four markets being Turkiye (38% of volumes in 2022), Pakistan (27%), Kazakhstan (12%), and Uzbekistan (9%). Its products are mostly produced under license from TCCC, with sparkling beverages accounting for close to 80% of volumes.

CCI has 30 production plants with 146 productions lines, giving it a capacity to produce 1.9 billion units annually. Its market comprises about 430 million people. The company has about 896,000 sales points, with strong distribution channels and a wide market reach.

CCI is 50.3% owned by AEFES, a Turkiye-based bottler with large operations in Russia and central Asia. It is 20% owned by TCCC, the largest soft drink maker globally, based in the U.S. About 29% of share capital is listed on the Istanbul stock exchange. Turkish group Özgörkey Holding (not rated) owns 1% of share capital.

Outlook

The negative outlook mirrors that of the parent, AEFES. The negative outlook on AEFES reflects risks could negatively affect our projections and notably stem from the high inflation in Turkiye and 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 still material uncertainty about the final terms and the timeline of the likely ABI transaction in Russia, which is currently not embedded in our base case. These factors could lead to a material deviation in our debt protection metrics over our forecast horizon.

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.

Alternatively, we could also lower our rating on AEFES if we lowered the sovereign foreign currency rating on Turkey 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 the ratings on the parent to stable. We could revise our outlook on the ratings 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. This should be combined with sustained adequate liquidity levels outside Russia such that cash flows fully cover the beer segment's operational and financing needs.

Key Metrics

Coca-Cola Icecek AS--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
(Mil. TRY)	2019a	2020a	2021a	2022a	2023f	2024f
Revenue	12,008	14,391	21,930	53,530	93,000-98,000	115,000-125,000
EBITDA	2,220	3,072	4,547	9,852	18,500-19,000	23,500-24,500
Funds from operations (FFO)	1,647	2,391	3,263	6,803	11,500-12,500	15,500-16,500
Capital expenditure (capex)	766	666	1,306	3,309	6,500-7,500	9,000-10,000
Free operating cash flow (FOCF)	1,113	2,046	2,284	2,476	2,500-2,700	3,000-3,500
Debt	3,198	2,434	6,181	7,995	14,500-15,500	18,000-19,000
Adjusted ratios						
Debt/EBITDA (x)	1.4	0.8	1.4	0.8	0.7-0.9	0.7-0.9
FFO/debt (%)	51.5	98.2	52.8	85.1	78-81	80-85
EBITDA interest coverage (x)	6.9	8.0	7.9	5.8	5.0-5.2	5.0-5.5
FOCF/debt (%)	34.8	84.1	36.9	31.0	16-18	25-30
Annual revenue growth (%)	13.0	19.8	52.4	144.1	73-83	20-30
EBITDA margin (%)	18.5	21.3	20.7	18.4	19.5-20.0	20.0-20.5

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
Reporting period	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	TRY	TRY	TRY	TRY	TRY
Revenues	10,623	12,008	14,391	21,930	53,530
EBITDA	1,920	2,220	3,072	4,547	9,852
Funds from operations (FFO)	1,443	1,647	2,391	3,263	6,803
Interest expense	394	322	386	576	1,708
Cash interest paid	389	299	343	524	1,360
Operating cash flow (OCF)	1,636	1,879	2,712	3,590	5,784
Capital expenditure	858	766	666	1,306	3,309
Free operating cash flow (FOCF)	779	1,113	2,046	2,284	2,476
Discretionary cash flow (DCF)	548	813	1,774	1,489	1,847
Cash and short-term investments	2,311	2,933	4,684	4,215	14,637
Gross available cash	2,311	2,933	4,684	4,215	14,637
Debt	3,322	3,198	2,434	6,181	7,995
Common equity	6,424	7,369	8,737	14,970	22,796
Adjusted ratios					
EBITDA margin (%)	18.1	18.5	21.3	20.7	18.4
Return on capital (%)	16.9	16.5	21.2	22.3	32.0
EBITDA interest coverage (x)	4.9	6.9	8.0	7.9	5.8
FFO cash interest coverage (x)	4.7	6.5	8.0	7.2	6.0
Debt/EBITDA (x)	1.7	1.4	0.8	1.4	0.8
FFO/debt (%)	43.4	51.5	98.2	52.8	85.1
OCF/debt (%)	49.3	58.8	111.4	58.1	72.3
FOCF/debt (%)	23.4	34.8	84.1	36.9	31.0
DCF/debt (%)	16.5	25.4	72.9	24.1	23.1

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	Satisfactory (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