FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Coca-Cola Icecek AS at 'BBB'; Outlook Stable

Thu 05 Jun, 2025 - 10:15 AM ET

Fitch Ratings - Milan - 05 Jun 2025: Fitch Ratings has affirmed Coca-Cola Icecek AS's (CCI) Long-Term Issuer Default Rating (IDR) at 'BBB'. The Outlook is Stable. A full list of rating actions is provided below.

The ratings reflect CCI's continued strong operating profitability, following the robust implementation of its expansion plan, leading to revenue and EBITDA growth. This is supported by the company's leading positions in its core markets, the resilient soft drinks business and its strong capital structure. The ratings continue to benefit from a single-notch uplift for strategic support from The Coca-Cola Company (TCCC), its parent, in line with Fitch's Parent and Subsidiary Linkage (PSL) Rating Criteria.

The ratings remain constrained by a weak operating environment in a number of CCI's markets of operation, and inherent FX risks related to hard currency-denominated debt and certain operating costs.

KEY RATING DRIVERS

Normalised Revenue Growth: We use inflation-adjusted numbers in our forecasts. We anticipate that CCI's positive revenue trend will continue in 2025, supported by organic expansion. This will be driven by strategic pricing to offset cost inflation while keeping its products affordable, alongside other revenue management initiatives that are expected to support volumes. We assume that volume increases will be in the low-single digits in Turkiye (BB-/Stable) and mid-single digits in international markets, underpinned by new investments, greenfield openings and expansion into new product categories.

Flat Profitability: We project that Fitch-adjusted profitability will remain stable, at 17.7%, in 2025, compared with 17.9% in 2024. This is due to persistently high input costs like sugar, which are partly offset by limited pricing adjustments and reduced operating expenses, such as packaging optimisation. We expect profitability to gradually rise to 18% and above from 2026, driven by proactive procurement, a premiumisation strategy that results in a better product mix, as well as maintaining cost-reduction initiatives and internal efficiencies.

Temporary Weak Cash Flow: We expect free cash flow (FCF) in 2025 to remain under pressure from high capex, at a projected 9% of sales, due primarily to the expansion of manufacturing lines and greenfield projects in Uzbekistan and Kazakhstan. We anticipate the FCF margin will rebound to about 4% by 2027 supported by absolute EBITDA growth. We assume CCI will continue to adhere to its maximum dividend payout of 50%, which favours cash accumulation and deleveraging, with the aim of building up the financial flexibility that will allow it to maintain a low-risk balance sheet. This flexibility may also be used for potential M&A to expand the business in new geographies.

Inflation Accounting Modest Impact: CCI implemented inflation accounting in accordance with IAS29 for its Turkish operations (45% of revenue in 2024), while its international operations remain unaffected. Inflation accounting adjusted 2024 profit and loss for year-end inflation, with a minor impact on depreciation and amortisation and inventory values and reported monetary gains of around TRY10 billion after EBITDA. Profitability remains within Fitch's sensitivity range, even after adjusting for IAS29 (17.9% IAS29-adjusted versus 19.8% non-IAS29 adjusted in 2024).

Temporarily Weaker Interest Coverage: The interest coverage ratio weakened to 3.0x in 2024, below its negative sensitivity of 6.5x, due to the application of IAS29 and rising interest rates. However, we project that the metric will rebound to come within sensitivities by end-2028, on higher profitability and lower interest rates.

High but Manageable FX Risks: About 58% of CCI's debt and 25% of production costs were denominated in hard currencies at end-2024, in contrast to revenue, which was mainly in emerging markets' local currencies. This results in high FX risks, which the company manages by improving geographic diversification towards less volatile countries.

Conservative Capital Structure Intact: CCI's conservative financial policy targets EBITDA net leverage at below 2.0x, but with tolerance for a temporary breach for value-enhancing M&A. Even with this conservative target, the company pursued its expansion plan in 2023 and 2024, completing the acquisitions of Anadolu Etap Icecek, Coca-Cola Pakistan's minority stake and Coca-Cola Bangladesh, while leaving ample leverage headroom.

One-Notch Uplift for TCCC Support: Fitch applies a 'bottom-up plus one notch' approach to CCI's 'bbb-' Standalone Credit Profile (SCP), reflecting our assessment of TCCC's 'Medium' operational and strategic incentives for supporting the company. This is based on shared brands and the strategic, operational and innovation support provided by TCCC. We assess legal incentives as 'Low'. TCCC's moderate 20% ownership of CCI constrains the uplift to one notch, as it creates uncertainty about the extent of potential support to the latter, in view of the presence of a majority shareholder, Anadolu Efes Biracilik ve Malt Sanayii A.S. (AEFES, BB/Stable) and CCI's public listing.

Insulated Ringfencing from AEFES: Under its PSL methodology, CCI's credit profile is insulated from that of AEFES, its weaker parent, which holds 50.3% of the former's shares. This insulation results from AEFES's limited control over CCI, which is constrained by TCCC's significant voting rights. Moreover, CCI's and AEFES's treasury functions and debt structures are fully ringfenced from one another.

Weak Operating Environment: The operating environments in CCI's core markets (Turkiye, Pakistan, Uzbekistan, Iraq, Azerbaijan and Kazakhstan), which we assess at 'bb' and below, continue to have a moderate influence on its ratings. These countries face high volatility from their exposure to geopolitical events and macroeconomic conditions, which tend to result in high inflation and FX fluctuations. These dynamics are a threat to consumer sentiment across the region, even though CCI has a strong record of operating under these challenging conditions.

Kazakhstan Country Ceiling: We apply the 'BBB+' Country Ceiling of Kazakhstan to CCI's rating, rather than Turkiye's, where CCI is incorporated. We calculate that cash flows from Kazakhstan (2024: 20% of EBITDA) should continue to cover CCI's hard-currency interest charges with sufficient headroom, given the company's conservative capital structure with projected hard-currency interest expenses of about TRY2 billion in 2025. We expect this headroom to be maintained over the next four years.

Low Transfer and Convertibility Risks: Fitch assesses transfer and convertibility risks for Kazakhstan as low and we do not foresee any difficulties for CCI to move funds, either through dividends or intercompany loans, from Kazakhstan to Turkiye.

PEER ANALYSIS

CCI is among the 10 largest bottlers in the TCCC system by sales volume and has the highest Long-Term IDR among Fitch-rated corporates in Turkiye. CCI is smaller than Coca-Cola Europacific Partners plc (CCEP, BBB+/Stable) and Coca-Cola FEMSA, S.A.B. de C.V. (A/Negative), its main peers, operates in more volatile emerging markets and has greater exposure to FX risk.

This is balanced by improved profitability, which is now in line with or above its main peers', and by CCI's conservative capital structure, with leverage metrics that are consistent with the 'A' rating category, in line with Fitch-rated non-alcoholic beverages companies.

CCI's ratings benefit from a one-notch uplift for potential support from TCCC. This is in line with Fitch's approach to CCEP, which also has ratings that benefit from our assessment of TCCC's 'Medium' operational and strategic incentives for support.

At the same time, CCI's SCP reflects moderate pressure from a weak operating environment in the markets in which it operates, capping its rating at the current level.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within our Rating Case for the Issuer

- Turkish lira/US dollar on average at 44 in 2025, weakening to 45.7 in 2026.

- Turkish sales volumes to increase in the low-single digits in 2025-2028. We assume the average selling price to rise by 35% in 2025, reducing to average 22% in 2026-2028.

- International sales volumes to expand in the low-to-mid single digits between 2025 and 2028.

- Consolidated EBITDA margin flat at 17.7% in 2025, gradually increasing to 18.5% in 2027-2028.

- Capex at 9% of net sales in 2025 and 7% in 2026-2028.

- Dividends of TRY3 billion in 2025, up from TRY2 billion in 2024, and rising towards TRY5 billion in 2028.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Adverse impact of weaker operating and macroconditions in CCI's core markets on credit metrics, not accompanied by adequate cash-preservation measures, such as dividend and capex reduction

- Increased volatility translating into mid-single digit FCF (after capex and dividends) margins

- EBITDA net leverage above 2.5x

- EBITDA interest coverage below 6.5x

- EBITDA margin falling towards 16%

- Weakening linkages with TCCC

- A downgrade of Kazakhstan's Country Ceiling or insufficient EBITDA generation in the country to cover hard-currency interest expenses in the medium term would result in a downgrade of the Long-Term Foreign Currency IDR

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Upside is constrained over the medium term by CCI's weak operating environment. As we do not expect changes in the strength of ties with TCCC, an upgrade would depend on CCI's SCP, based on the following factors:

- EBITDA margin sustained above 20%

- Enhanced scale and geographic diversification, either organically or through M&A, without impairing the operating-environment score

- Conservative financial structure, with EBITDA net leverage below 1.7x on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

At end-2024, liquidity was supported by a cash balance of USD662 million-equivalent, with about 53% in hard currencies, of which about 93% was outside Turkiye.

Liquidity is also supported by USD1.8 billion-equivalent undrawn and uncommitted credit facilities in Turkiye, Pakistan, Kazakhstan, Turkmenistan and Azerbaijan, which can be used in hard or local currencies according to market conditions. However, Fitch does not include availability under uncommitted credit lines in its liquidity calculation.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Coca-Cola Icecek AS	LT IDR	BBB	Affirmed	BBB
	LC LT IDR	BBB	Affirmed	BBB
	Natl LT	AAA(tur)	Affirmed	AAA(tur)
senior unsecured	LT	BBB	Affirmed	BBB

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 17 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 03 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 07 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 07 Dec 2024)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Coca-Cola Icecek AS	EU Issued, UK Endorsed

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