SAHA
Corporate Governance and Credit Rating Services Inc.

25 May 2017

Credit Rating

Rating (National): Long Term

(TR) AA+

Outlook:

Stable

Rating (National): Short Term

(TR) A1+

Outlook:

Stable

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 on 1967 under the name of Tat Konserve Sanayi A.Ş. and has changed its title as Tat Gıda Sanayi A.Ş. on November 15, 2013. Tat, SEK and Pastavilla brands operate under the umbrella of Tat Gıda Sanayi A.Ş. Company's domestic marketing and sales activities are carried out by Düzey Tüketim Malları Sanayi Pazarlama ve Ticaret A.Ş. ("Düzey"), a Koç Group company. Tat Gıda shares are traded on Borsa Istanbul 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 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 of companies as well as the level of its risk management, TAT GIDA received a long term rating (National) of **AA+** and a short term rating (National) of **A1+**.

Previous rating:	Long term	(TR) AA+
	Short term	(TR) A1+
	Outlook Stable	

Strengths and Risks

Strengths

- Strong parent company structure.
- Experience in the sector.
- Established market standing of the brands.
- Low leverage level.

Risks

- Possible recession in demand due to general economic risks.

Outlook

As of end 2016, Tat Gıda lowered its financial debt level to around TL 73 million from TL 280 million following the sale of shares owned at Maret and Harranova Besi ve Tarım Ürünleri on 2014 and at Tedi Içecek on 2015. The Company has consolidated its operations into three strong and profitable brands and strengthened its performance by stabilizing the EBITDA margin at 8%. Taking into account the entrenched position of its brands, Tat Gıda is expected to perform in line with the sector's overall growth rate. The Company is able to meet working capital funding needs stemmed by the process of natural growth through resources engendered and its borrowing capacity.

Economic Outlook and Analysis of the Sector

The global growth forecast for 2017 is set as 3.3% in the March 2017 interim global economic outlook report released by the Organization for Economic Co-operation and Development (OECD). The International Monetary Fund (IMF) revised its global growth forecast for 2017 by 0.1 percentage point to 3.5% from 3.4% in its April 2017 Global Economic Outlook Report. Despite their cautious optimism, however, both organizations also refer to fundamental uncertainties and downside global risks. A main uncertainty is the Trump administration's increasing protectionism that will affect the trade relations not only with China but also the global trade regime, including the European Union. Moreover, in addition to the uncertainty in the Brexit process, the upcoming elections in France, Germany and the Netherlands, continuation of the Greek debt crisis and the fact that the banking sector maintains its fragility as seen in the case of Italy are indicating that downside risks are still retained.

The changes made by the Turkish Statistical Institute (TSI) in the GDP calculation methodology to comply with the ESA 2010 standards, and published on December 12 have had significant effects on Turkey's national income accounts. With the new calculation method, the nominal GDP figures for the last 4 years have been revised upwards by 16% on average. With this amendment, the current account deficit decreased from 4.5% to 3.7% compared to the year 2015 and the central government budget deficit rate of 1.2% also decreased to 1%. The average GDP growth rate of 3.3% between 2012 and 2015 as per the previous calculation rose to 6.1% with the new method. When sectors are evaluated, upward adjustments are observed in the growth rates of the main sectors other than agriculture. Investment expenditures which have been quite limited in recent years according to the previous data have been evaluated as positive with the new data.

According to the statement released by TSI, the Turkish economy, which grew by 4.5% both in the first and second quarters of 2016, contracted by 1.8% in the third quarter due to the negative impact of the July 15 coup attempt and recovered by 3.5% in the last quarter. On a year to year basis, growth was 2.9%. As far as expenditures are concerned, it is seen that final household consumptions and investments are realized at a lower level compared to the past year. Imports increased while exports shrank and growth of 2016 is supported by the increase in public expenditures. The constitutional amendment, which took place after the referendum in April 2017, radical and massive legal amendments on the agenda, despite the partial elimination of domestic political uncertainties and the presidential election set for 2019, are showing that the uncertainty factor will be effective for a while.

In addition to the above, the possible effects of Syria and Iraq-based regional developments on Turkey on the one hand and the cooling relations with the EU on the other hand point to increasing risks for Turkey.

Central Bank of Turkey (CBT) applied a total reduction of 250 basis points in the upper end of the interest rate corridor in 2016. The Bank planned to support growth by consecutive cuts in interest rates. However, in the face of the rapid depreciation of the Turkish Lira, it has increased both the policy interest rate and the upper band interest rate during the November meeting due to inflationary pressures on exchange rate movements in the domestic market caused by the uncertainty and high volatility experienced in the global economy. Thus, the CBT, which had interest rate cuts at intervals after the sharp increase in interest rates in January 2014, increased its policy rate for the first time in November 2016. Inflation started to shadow forth more and more in 2017, while the annual increase in the CPI was recorded as 11.87% in April, and the annual increase in the PPI was 16.37%.

Production in the food sector has increased by 2.1% in 2016. The year 2016 has been a year full of challenges for the food sector in terms of domestic and foreign demand conditions. The sector failed to exhibit its potential performance due to the deteriorating relations with Russia, the slowdown in the tourism sector and the increase in the exchange rates. With about 15% of its production, the sector is a net exporter. The continuing internal turmoil in Iraq and Syria, which are important export markets, continues to negatively affect the export performance of the sector.

Following the year 2015, the sector's total exports declined in 2016 as well. Despite the decline, the sector continued to be the net exporter and became the fifth most exporting sector reaching to a total export volume of USD 10.9 billion in 2016.

Company Overview

Tat Gıda Sanayi A.Ş. ("Tat Gıda" or "the Company") was established on 1967 under the name of Tat Konserve Sanayi A.Ş. and has changed its title as Tat Gıda Sanayi A.Ş. on November 15, 2013. Tat, SEK and Pastavilla brands operate under the umbrella of Tat Gıda Sanayi A.Ş. Company's domestic marketing and sales activities are carried out by Düzey Tüketim Malları Sanayi Pazarlama ve Ticaret A.Ş. ("Düzey"), a Koç Group company. Tat Gıda issued a bond with nominal value of TL 50,000,000 on November 29, 2016, with a maturity date of November 27, 2018 and carrying a simple interest rate of 12.43%.

Company shares are traded on Borsa Istanbul since 1993. Tat Gıda shares are traded under "TATGD" code at Borsa Istanbul Star Market and the Company is a constituent of BIST BURSA (XSBUR), BIST FOOD, BEVERAGE (XGIDA), BIST INDUSTRIALS (XUSIN), BIST ALL SHARES (XUTUM), BIST STAR (XYLDZ), BIST Sustainability (XUSRD), BIST 100 (XU100), BIST 100-30 (XYUZO) and BIST 50 (XU050) indices.

Capital structure of Tat Gıda is as follows:

TAT GIDA SANAYİ A.Ş. Capital Structure		
Shareholder	**Shares (TL)**	**Share (%)**
Koç Holding A.Ş.	59,364,947.17	43.7
Temel Ticaret Yat. A.Ş.	4,427,888.60	3.3
Kagome Co Ltd.	5,071,168.20	3.7
Sumitomo Corp.	2,077,983.34	1.5
Other	8,745,168.72	6.4
Publicly Traded	56,312,843.97	41.4
Total	136,000,000.00	100.0

* The paid-in capital of the Company is TL 136,000,000 and the registered authorized capital is TL 250,000,000.

Board of Directors of Tat Gıda:

TAT GIDA SANAYİ A.Ş. Board Members	
Semahat S. ARSEL	Chairman
Rahmi M. KOÇ	Vice-chairman
Ömer M. Koç	Member
Ali Y. Koç	Member
Caroline N. KOÇ	Member
Levent ÇAKIROĞLU	Member
İbrahim Tamer HAŞİMOĞLU	Member
Arzu ASLAN KESİMER	Member
Katsuyuki MIWA	Member
Arif Nuri BULUT	Independent Member
Mansur ÖZGÜN	Independent Member

Tat Gıda’s number of employees:

Number of Employees		
2014	2015	2016
1,026	1,068	1,115

Key Financial Indicators (TL)

Key Financial Indicators (TL'000’)	2015	2016
Current Assets	491,481	500,087
Fixed Assets	163,104	191,380
Total Assets	654,584	691,467
Short-Term Liabilities	205,536	153,333
Long-Term Liabilities	30,774	77,173
Total Financial Liabilities	88,689	73,692
Equity	418,274	460,960
Total Resources	654,584	691,467
Sales Revenue	910,555	981,120
Gross Profit	205,484	230,330
Operating Expense	140,116	160,127
Operating Profit	65,368	70,203
Pre-tax Profit	64,091	69,339
Net Profit	67,318	64,701
EBITDA	68,375	74,211

The Company's sales have increased by 7.7% compared to 2015 and reached TL 981.12 million. Sales of tomato operations increased by 3.3% to TL 379 million, milk production grew by 10.6% to TL 544 million and pasta operations increased by 11.9% to TL 58 million. The gross profitability of the Company showed a better performance compared to sales, reaching to TL 230.33 million. The main reason for the increase in operating expenses is the marketing costs. The Company's net profit as of the end of 2016 was TL 64,700,560. After a long wait, Tat Gıda decided for a dividend distribution last year. Also a total of TL 27,227,000 of dividend distribution was decided at the general shareholders' meeting held this year. Company officials declared that TL 30 million of dividend distribution is realized within the year 2017, inclusive of payments to founder redeemed shares.

Key Financial Ratios

Key Financial Ratios	2015	2016
Net Working Capital / Total Assets Ratio	0.44	0.50
Current Ratio – Current Assets / ST Liabilities	2.39	3.26
Acid Test Ratio – (Current Assets – Inventories) / ST Liabilities	1.45	1.94
Cash Ratio – Liquid Assets / ST Liabilities	0.09	0.28
Receivables / Current Assets Ratio	0.48	0.46
Inventories / Current Assets	0.39	0.41
Debt Ratio – Total Debt / Total Assets	0.36	0.33
Leverage Ratio – Total Debt / Equity	0.56	0.50
Financial Liabilities / Total Liabilities	0.38	0.32
Shor-Term Liabilities / Total Debt	0.87	0.67
Asset Turnover Ratio – Sales / Total Assets	1.39	1.42
Receivables Turnover – Sales / Accounts Receivable	3.83	4.26
Inventory Turnover – COGS / Inventories	3.66	3.70
Accounts Payable Turnover – COGS / Accounts Payable	6.50	6.36
Current Assets Turnover – Sales / Current Assets	1.85	1.96
Equity Turnover – Sales / Equity	2.18	2.13
Economic Profitability – EBITDA Total Assets	0.10	0.11
Return on Assets – Profit for the Period / Total Assets	0.10	0.09
Return on Equity – Profit for the Period / Shareholders' Equity	0.16	0.14
Gross Profitability – Gross Operating Profit / Sales	0.23	0.23
Operating Profitability – Operating Profit / Sales	0.07	0.07
EBITDA Margin – EBITDA / Sales	0.08	0.08
Net Profitability – Profit for the Period / Sales	0.07	0.07
COGS / Sales	0.77	0.77
Operating Expenses / Sales	0.16	0.17

Progress on the current rate and the acid test ratios is positive. It has been declared by the Company officials that no changes are expected in short-term at the rate of receivables turnover and the accounts payable turnover rates. The company carries out its operations with a low leverage level and a strong financial structure. The gross profit margin is 23% and the EBITDA margin was realized as 8%.

Strengths & Risks

Tat Gıda is one of the leading companies of Koç Group who has obtained a strong position in the food and beverage industry with an experience close to 50 years. The Company has consolidated its operations into three product groups following the restructuring completed in 2015. As of the first quarter of 2017, Tat Gıda is the market leader in pasteurized dairy category with the Sek brand, and in tomate paste and tomato sector with the Tat brand. Besides, it is in the second position in premium pasta category. Tat Gıda has significantly reduced its financial debt aftermath the restructuring process and continues to operate with a leverage ratio of 50% and 7% of net profitability.

Corporate Governance

The Company has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented all of the necessary policies and measures. Even though a small number of improvements are needed, management and internal control mechanisms have been created effectively and are in operation. Majority of the corporate governance risks are identified and managed actively. The rights of shareholders and stakeholders are respected in a fair manner, public disclosure and transparency is at sufficient levels and structure and operation of the board of directors is built on sound basis. Though it does not pose a great risk, certain improvements in one or more of these areas might be required.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of SAHA Score, Company's distance from the point of default, its performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Default point analysis measures the distance from the point of default and it is based on relevant sector firms' past financial performances, ratios derived from a distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering Retail companies in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis 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 tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again 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.

Our long term credit rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and 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. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the 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 and economic and financial conditions may increase investment risk, but not at a significant level.
(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 due to 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 face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may appear.
(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 of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. 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 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 public by Tat Gıda Sanayi A.Ş.

This report, conducted by SAHA A.Ş. analysts and 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 or other purposes.

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