



**01 December 2023**

### Credit Rating

**Long-term (National):**

**(TR) A+**

**Outlook:**

**Stable**

**Short-term (National):**

**(TR) A1**

**Outlook:**

**Stable**

**Expiry Date:**

**01 December 2024**

### **Setaş İnşaat Ticaret ve Sanayi A.Ş.**

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## **SETAŞ İNŞAAT TİCARET ve SANAYİ A.Ş.**

### **Rating Summary**

Setaş İnşaat Ticaret ve Sanayi A.Ş. ("the Company" or "Setaş"), established in 1975, is engaged in construction and contracting works. Since its establishment, the Company has been mainly involved in the infrastructure construction works of the General Directorate of State Hydraulic Works ("SHW") along with various projects of the Ministry of National Defense, Petroleum Pipeline Corporation ("BOTAS") and the General Directorate of Eti Mine Operations. In addition, Setaş undertook the natural gas distribution network investments of Çinigaz Doğalgaz Dağıtım Sanayi ve Ticaret A.Ş. ("Çinigaz"), a group company, in Kütahya region. Çinigaz has been authorized by the Energy Market Regulatory Authority (EMRA) to conduct natural gas distribution and sales in Kütahya province for 30 years as of 2004.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, Setaş's long-term rating of **(TR) A+** and its short-term rating of **(TR) A1** is hereby reconfirmed.

Previous Rating (November 25, 2022):

Long Term: (TR) A+

Short Term: (TR) A1

### **Outlook**

The Company's revenue decreased by 12.1% year-on-year to TL 73.8 million in 2022, of which TL 70 million was recognized based on the percentage of completion in accordance with Revenue from Contracts with Customers (TFRS 15). Estimates and assumptions in the budgets of ongoing projects are used in the recognition of revenues and costs of ongoing projects. In 2022, the Company realized a gain on sale of property, plant and equipment amounting to TL 24.5 million (2021: TL 4.9 million) and generated a net profit of TL 98.1 million (2021: TL 84.3 million).

As of the end of 2022, the Company's financing costs are expected to be lower than the sector average. Setaş has no foreign currency denominated liabilities as of year-end 2022 and its financial ratios were generally favorable compared to the previous rating period.

Founded in 1975, the Company has completed TL 4.4 billion worth of contract work since its establishment. In its portfolio, there are ongoing infrastructure construction projects totaling TL 105 million, of which Çinigaz is the employer. Although there is a concentration of receivables/portfolio, the ability to collect progress payments is considered strong given the employer profile.

The Company did not invest in the current 2022 and continued to work on its existing projects. Setaş continues its operations by using bank loans as little as possible and maintains its strong equity structure. 75% of the assets (2022: TL 287.5 million) are held in cash (2022: TL 215.3 million) in time deposit accounts opened with banks. This demonstrates the Company's ability to identify and capitalize on opportunities in the industry.

Considering all of these factors, the outlook is determined to be **"Stable"**. However, recent developments in the global trade environment and money markets create uncertainty regarding possible economic outcomes. Additionally, there is a risk that rising construction costs and short-term uncertainties may negatively impact infrastructure investment decisions in the near future. We closely monitor developments and evaluate their potential impact on the Company during the surveillance period.

## Methodology

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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 firm's past financial performance, ratios derived from distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering 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 risk 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. Our methodology consists 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](http://www.saharating.com).

## Rating Definitions

Our long-term credit ratings reflect our present opinion regarding the mid to long term period of one year and above; Our short-term credit ratings reflects our opinion regarding a period of one year. Our long -erm 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 B1, B2, C categories should be considered “speculative” by the market.

(TR) B1	(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) B2	(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.

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