



20 June 2022

Credit Rating

Long-term (National):

(TR) A

Outlook:

Stable

Short-term (National):

(TR) A1

Outlook:

Stable

Expiry Date:

20 June 2023

Söktaş Tekstil Sanayi ve Ticaret A.Ş.

Cumhuriyet Mahallesi

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SÖKTAŞ TEKSTİL SANAYİ ve TİCARET A.Ş.

Rating Summary

Söktaş Tekstil Sanayi ve Ticaret A.Ş., ("Söktaş", the "Company") was established in 1971 at Söke, Aydın and separated its operations on fabric manufacturing and agri-dairy activities in Turkey through a partial division in 2011. Its main activities as of this date are cotton yarn production and sales through subsidiary investment and management. Following the partial division, Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş. ("Söktaş Dokuma") overtook the woven fabric production activities in Turkey and Efeler Çiftliği Tarım ve Hayvancılık A.Ş. ("Efeler Çiftliği") pursued the agriculture and dairy farming activities. In December 2018, Söktaş Dokuma, with all its assets and liabilities, was embodied into Söktaş Tekstil. Kayhan family owns 51% of the Company shares, and the remaining 49% are traded on BIST since 1995 under the ticker SKTAS. On June 14, 2022, the Company was notified that its application dated March 8, 2022 regarding the public offering of Efeler Çiftliği, which is an 84% subsidiary, was not approved by the Capital Markets Board. The Company has declared that it will restart the public offering process when conditions are suitable. Within the registered capital ceiling of TL 350 million, the Company's issued capital of TL 78.2 million was increased by TL 75.6 million, all in cash, by using the preemptive rights of its existing partners, and reached TL 153.8 million. The cash inflow provided by the capital increase was used to reduce the Company's financial liabilities.

The Company's manufacturing activities are carried out at its facilities in Söke-Aydın, and has 4 branches in Italy Biella, Atatürk Airport Free Zone, Istanbul Beyoğlu and İzmir Konak. In addition, dairy farming operations take place at Efeler Çiftliği in Aydın Germencik district.

Following our comparative analysis of the sector and examination of financial/operational risks carried by Söktaş, as well as its domestic market history and position, the Company's long-term rating has been revised to **(TR) A** and its short-term rating to **(TR) A1**.

Previous Rating (November 25, 2021):

Long Term: (TR) BBB

Short Term: (TR) A3

Outlook

The Company, which reported a net profit for the first time since 2011, realized a net profit of TL 9.7 million as of the end-2021, and TL 16.3 million at the end of the 1st quarter of 2022¹. At the end of 2021, gross profitability was 59.1% and the net profitability was 2.5%. As of the end of the 1st quarter of 2022, the Company achieved a gross profit of 75.5% and a net profit of 10.7%.

In the last three accounting periods, the Company's EBITDA ratio² was 33.1% on average. This ratio has jumped to 69.1% at the end of Q1 of 2022, enhancing the upward trend of the last 3 years. The financing expenses, which were TL 90.3 million net at the end of 2020, increased to TL 116.4 million by end-2021. As of the end of 2021, 70.9% of the Company's consolidated sales were obtained from textiles and 29.1% from dairy farming. On the other hand, 34.4% of EBITDA is contributed by the textile segment and 65.6% by dairy farming activities. EBITDA, which increased by 49.6% in 2020, increased by 133.3% at the end of 2021, reaching TL 191.9 million (2020: TL 82.3 million). The downward trend of the Net Debt/EBITDA ratio (2019: 6% - 2020: 4.6% - 2021: 2.5%) is considered as a positive factor. The Company's EBITDA increased by a factor of 2.2 to TL 105.6 million at the end of the 1st quarter of 2022 compared to the same period of the previous year.

The principal loan balance, which was TL 123.3 million and EUR 27.9 million at the end of 2020, reached TL 122.4 million and EUR 22.6 million by the end of 2021 (2019: TL 83.6 million TL & EUR 32.9 million). As of the end of the 1st quarter of 2022, the total financial liabilities were TL 128.8 million TL and EUR 21.3 million. Accordingly, the Company's foreign currency liabilities are in a

¹ 2022 Q1 results are obtained from the financial statements that have not been independently audited.

² EBITDA: Real Operating Profit + Depreciation

decreasing trend. Since 49.2% of the financial liabilities consisted of borrowings with floating interest rate and 72.9% with foreign currency, the most important factors affecting non-operating profitability are the increase of Euro against TL and interest rates.

In addition to all these factors, taking into account the economic consequences of the recent developments in the global money and capital markets, as well as the shareholding structure and industry experience of Söktaş the Company's both short and long-term outlook has been determined as "**Stable**".

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 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. 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.

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-term 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. |

Disclaimer

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This report, edited by SAHA A.Ş. analysts 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 decisions or other purposes.

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