



20 June 2023

Credit Rating

Long-term (National):

(TR) A

Outlook:

Stable

Short-term (National):

(TR) A1

Outlook:

Stable

Expiry Date:

20 June 2024

Söktaş Tekstil Sanayi ve Ticaret A.Ş.

Cumhuriyet Mahallesi

Akeller Caddesi No: 54,

09201 Söke, Aydın

TURKEY

Tel : +90 (256) 518 22 55

Fax : +90 (256) 518 45 39

soktas@soktasgroup.com

SÖKTAŞ TEKSTİL SANAYİ ve TİCARET A.Ş.

Rating Summary

Söktaş Tekstil Sanayi ve Ticaret A.Ş., ("Söktaş", "the Company") was established in Söke, Aydın in 1971, started production with a yarn facility in 1973, and has become a textile company following yarn dyeing, weaving and dye-finishing investments over the years. In addition, Söktaş pursues its dairy farming activities with the "Efeler Çiftliği" facility, an 84% subsidiary, which was established in 2007 in the Germencik district of Aydın. At the Extraordinary General Shareholders' Meeting held on January 19, 2011, the Company separated its fabric production and dairy farming activities in Turkey through partial division. The establishment and registration procedures of the companies following the partial division were completed on January 31, 2011, and as of February 1st, 2011 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") have begun to pursue the agriculture and dairy farming activities. In order to provide cost advantages by simplifying both the legal and management structure and operations of the Company, its commercial activities were merged under a single legal entity, making use of the "Facilitated Merger" method. Accordingly, Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş., registered in the Izmir Trade Registry Office with the registration number 152629, was merged within the body of Söktaş Tekstil Sanayi ve Ticaret A.Ş. with all assets and liabilities as a whole. The merger was registered both at the Söke and at the Izmir Trade Registry Directorates.

In this context, Söktaş's main field of activity is dairy farming and production of cotton shirting fabrics. The Company's manufacturing activities are carried out at its facilities in Söke-Aydın, and has a total of four branches in Biella-Italy, Atatürk Airport Free Zone, Istanbul and Izmir. In addition, dairy farming operations activities are carried out in the Efeler Çiftliği in Germencik in Aydın district. Company shares have been traded in BIST with the code SKTAS since 1995 and as of the date of our report, the free float rate is 58.0%.

The Company's increase of its capital from TL 153.8 million to TL 222 million, an increase of 44.3% (TL 68.2 million), by means of paid-in issues was approved by the Capital Markets Board (CMB) in its meeting dated June 8th 2023, with the provision that the registered capital ceiling of TL 350 million was not surpassed. The cash inflow provided by the capital increase is planned to be used in reducing the Company's financial liabilities.

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 reconfirmed as **(TR) A** and its short-term rating as **(TR) A1**.

Previous Rating (June 20, 2022): Long Term: **(TR) A**

Short Term: **(TR) A1**

Outlook

The Company's gross operational profit margin was recorded as 32.8% as of the end of 2022 (2021: 59.1%). The increase in the cost of goods sold experienced at a higher rate compared to sales prices, and the increase in financing expenses caused the Company to close the year with a net loss rate of 14.2%. At the end of the 1st quarter of 2023¹, the gross profit margin was recorded as 28.3% while 25.2% net loss was realized.

In the last three accounting periods, the Company's EBITDA² to sales recorded an average of 22.8%. This ratio was 20.7% at the end of Q1 of 2023. The financing expenses, which were TL 116.4 million net at the end of 2021, increased to TL 241.2 million by end-2022. As of the end of 2022, 79.0% of the Company's consolidated sales were obtained from textiles and 21.0% from dairy

¹ As per the financial statements that have not been independently audited.

² EBITDA: Real Operating Profit + Depreciation

farming. On the other hand, 39.9% of the EBITDA was contributed by the textile operation while 60.1% by dairy farming activities. The Company's EBITDA, which increased by 133.3% in 2021 to TL 191.9 million, decreased by 4.4% by the end of 2022 to TL 183.4 million. In addition, the Net Debt/EBITDA ratio, which was 4.6 at the end of 2020, followed a fluctuating course, with 2.5 at the end of 2021 and 3.2 by the end of 2022 (2023Q1: 10.6). The Company's EBITDA decreased by 49.2% to TL 53.7 million at the end of the 1st quarter of 2023 compared to the same period of the previous year.

The principal loan balance, which was TL 122.4 million and EUR 22.6 million at the end of 2021, reached TL 206.4 million and EUR 14.5 million by the end of 2022 (2020: TL 123.3 million TL and EUR 27.9 million). As of the end of the 1st quarter of 2023, the total financial liabilities were TL 206.2 million and EUR 12.8 million, displaying a decreasing trend. Since 35.9% of the financial liabilities consisted of borrowings with floating interest rate and 56.5% in foreign currency, the factors affecting non-operating profitability have been the increase of the Euro exchange rate against the TL, and the respective interest expenses.

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

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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Contacts:

Report Prepared by / Rating Specialist:

Tuba Altuntaş
taltuntas@saharating.com

Rating Committee Members

S.Suhan Seçkin
suhan@saharating.com

S.Mehmet İnhan
minhan@saharating.com

Ali Perşembe
apersembe@saharating.com

Saha Corporate Governance and Credit Rating Services, Inc.

Valikonağı Cad., Hacı Mansur Sok., Konak Apt. 3/1, Nişantaşı, İstanbul
Tel: (0212) 291 97 91, Fax: (0212) 291 97 92 • info@saharating.com • www.saharating.com