FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Enerjisa at 'A(tur)'; Outlook Stable

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Fitch Ratings - Dubai - 10 Nov 2025: Fitch Ratings has affirmed Enerjisa Enerji A.S.'s National Long-Term Rating at 'A(tur)' with a Stable Outlook.

The affirmation reflects Fitch's expectation of inflation moderation and continued policy rate cuts in Turkiye, which should reduce Enerjisa's borrowing costs and improve its funds from operations (FFO) interest coverage to levels consistent with the rating from 2027. Weak FFO interest coverage is the main constraint on the rating. It is also constrained by the liquidity risk from the short-term debt maturity profile and reliance on continued access to external funding.

Enerjisa's rating factors in moderate leverage, low FX risk, solid operating performance and some geographical diversification across Turkiye with presence in three regions. It also incorporates mostly regulated revenues under a regulatory framework of investment renumeration and insulation from price and volume risk. The framework is prone to social or political pressure that could lead to revenue underperformance and cash flow volatility.

KEY RATING DRIVERS

Low Financial Flexibility: High interest expense limits Enerjisa's financial flexibility, as around 84% of its debt is linked to the Turkish Central Bank's policy interest rate (now at 39.5%). We expect further policy rate cuts, although more slowly than last year, to 24% by end-2026 and 21% by end-2027 due to moderation of inflation. In Fitch's view, this should reduce Enerjisa's borrowing costs and improve its FFO interest coverage above the negative threshold of 1.7x from 2027 (1.4x in 2024). Lower interest expenses should also reduce the liquidity gap.

Resilient Access to External Finance: Enerjisa has placed around TRY16 billion of new bonds in 2025 under a floating rate linked to the key policy rate plus 1%-1.5% spread with a two-year tenor. The average borrowing rate in 2025 has been around 46%, largely unchanged from 2024. Enerjisa has also attracted around TRY11 billion of rediscount loans with interest rates well below the market, which together with policy rate cut expectations should benefit interest coverage ratios. Proven uninterrupted access to funding supports the rating.

Moderate Leverage, Negative FCF: We forecast FFO net leverage will gradually increase towards 3x by 2029 (1.6x in 2024), still strong for the rating. We forecast healthy cash flow from operations at around TRY15 billion a year on average for 2025-2027. However, we forecast free cash flow (FCF) will be deeply negative, mostly driven by capex and to a lesser extent working-capital outflow and dividends.

New Regulatory Period Ahead: EMRA, the Turkish regulator, is set to announce by end-2025 the regulatory parameters for the next tariff period of 2026-2030, including the weighted average cost of capital (WACC), opex and capex allowances, efficiency mechanisms and regulated margin of electricity retail. EMRA should also approve Enerjisa's capex programme.

Healthy Tariff Growth: The regulator increased the distribution fee by 34.5% from April 2025, broadly in line with our expectation for 2025 average inflation. Previous distribution fee indexations were 59% in July 2024 and 10% in July 2023. We forecast Enerjisa's tariff to continue growing at slightly below inflation from 2026.

Regulatory Framework with Long Record: Distribution tariffs in Turkiye have been based on the companies' regulated asset base since 2006. The key parameters for the fourth regulatory period of 2021-2025 such as regulated asset base, real WACC of 12.3%, a 10-year reimbursement period and efficiency incentives, have supported the company's profitability. Tariffs are protected from volume and inflation risks. Any deviation of actual results from projected figures is corrected via tariffs with a moderate lag along with adjustments to compensate for the lag itself.

Operating Environment, Regulatory Weaknesses: FX volatility and operating environment risks in Turkiye undermine the stability of the regulatory framework for Turkish distribution companies. Regulatory weaknesses include delayed and insufficient tariff increases, or mismatch between operating spending allowances and actual spending affected by high inflation. Regulatory decisions can be influenced by social and political reasons to cap utility bill growth.

Low FX Risks: Enerjisa's debt is Turkish lira denominated, which protects it from risks of lira depreciation. We view the low FX exposure as positive for the rating compared with many Turkish corporate peers.

Growing Customer Solutions Business: Customer solutions accounted for around 8% of operational earnings in 9M25, up from around 4% in 2023. This segment mainly includes installation of renewable capacities and efficiency projects, and development of a network of charging stations for electric vehicles. Operating cash flow for the segment is negligible due to working-capital requirements.

PEER ANALYSIS

Enerjisa's 'A(tur)' National Long-Term Rating balances limited financial flexibility and tight liquidity with mostly regulated revenue, low FX risks and proven access to domestic funding. Arcelik A.S. (A+(tur)/Negative), a white goods producer, benefits from exposure to international markets and FX-linked revenue. We recently downgraded Arcelik from 'AAA(tur)' due to persistently weak trading conditions, with softer demand - particularly in international markets - driving a downward revision of our assumptions for the company.

Migros Tiracet A.S. (AA(tur)/Stable), a leading food retailer, has relatively weak coverage metrics, like Enerjisa, but has positive FCF through the cycle and minimal financial debt. Turk Telekomunikasyon A.S. (AAA(tur)/Stable), benefits from a strong market position as the country's incumbent integrated telecoms operator and sound profitability.

Enerjisa is larger and more geographically diversified within the country than its electricity distribution sector peer in Turkiye, GDZ Elektrik Dagitim Anonim Sirketi (GDZ, Long-Term IDR of BB-/Stable). However, this is balanced by Enerjisa's exposure to the volatile supply business and more negative forecasted FCF. Enerjisa also has considerably weaker interest coverage than GDZ but lower FX risk.

Enerjisa benefits from an attractive regulated rate of allowed return, a shorter principal payback period of 10 years and lower leverage than European networks. However, we consider electricity distribution companies in Turkiye higher risk, due to regulatory weaknesses such as delayed and insufficient tariff increases influenced by social and political considerations, and weaker operating environment.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer Include:

- Average interest rate for new debt at 43% in 2025, 31% in 2026, 24% in 2027 and 21% in 2028

- Distribution fee increase slightly below inflation from 2026

- Average inflation of 34% in 2025, 24% in 2026 and 20% in 2027-2028

- Capex reimbursement period of 10 years, as assumed by the regulatory framework

- Capex on average at TRY43 billion a year over 2025-2028

- Dividends on average of TRY8 billion a year over 2025-2028

- Lack of large working-capital outflows in the supply segment

RATING SENSITIVITIES

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

- Weaker access to bank and bond market funding

- FFO interest coverage below 1.7x and FFO net leverage above 5.5x, both on a sustained basis

- Working-capital outflow leading to an accelerated increase in short-term debt

- Adverse regulation effects including delays in recoveries of investments

- Large unhedged foreign-currency debt exposure

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

- Improvement in FFO interest coverage above 2.3x, together with maintaining FFO net leverage below 4.5x, both on a sustained basis

- Improvement in liquidity position and debt maturity profile, with lower reliance on short-term debt

- Greater stability of the regulatory framework, as manifested in consistent tariff adjustments as foreseen by regulation, and reduced working-capital outflows

LIQUIDITY AND DEBT STRUCTURE

We view liquidity and debt management as rating constraints. At end-3Q25, Enerjisa had cash and deposits of TRY9.5 billion against short-term debt of TRY27.3 billion. Our expectation of negative FCF over 2025-2027 adds to funding requirements. To fund the liquidity gap, Enerjisa has signed a credit line with European Bank for Reconstruction and Developmemnt for TRY6.3 billion (USD150 million equivalent) with maturity in five years and a credit line from four international financial institutions for TRY14.3 billion (USD340 million equivalent) with maturity in six years.

Enerjisa plans to continue placing bonds on the Turkish bond market. There is evidence of eased access to local bank loans driven by regulatory developments covering credit growth limits for the banking sector. In 2025, Enerjisa has also attracted around TRY11 billion of short-term rediscount credits.

At end-3Q25, Enerjisa's debt comprised mostly local bonds (TRY35.4 billion) and bank loans (TRY24.7 billion).

ISSUER PROFILE

Enerjisa is a large electricity distribution and supply company in Turkiye with around a 25% market share in distribution connections and 22% in the number of retail customers.

SUMMARY OF FINANCIAL ADJUSTMENTS

In our EBITDA calculation we add capex reimbursement and WACC reimbursement, and deduct financial income accrued but not yet paid, for better EBITDA comparability with international peers. In the company's reporting, these items are part of FFO but they are not included in the profit and loss statement.

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 Sector Forecasts Monitor 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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Enerjisa Enerji A.S.	Natl LT	A(tur) Rating Outlook Stable	Affirmed	A(tur) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

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

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Enerjisa Enerji A.S.	-

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