

23 July 2018

Credit Rating

Rating

(National): Long Term

(TR) AA-

Outlook:

Stable

Rating

(National): Short Term

(TR) A1+

Outlook:

Stable

**Halk Gayrimenkul Yatırım
Ortaklığı A.Ş.**

Şerifali Çiftliği Tatlısu Mah.
Ertuğrulgazi Sokak No:1
34774 Yukarı Dudullu
Ümraniye/Istanbul

Halk Gayrimenkul Yatırım Ortaklığı A.Ş. (HALK GYO)

Rating Summary

The principle activity of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. ("the Company") is to operate a portfolio consisting of real estates, real-estate projects, real estate based rights, capital market instruments and other assets and rights to be determined by the Capital Markets Board ("CMB"). The main line of activity of the Company is to invest in real estate, capital market instruments, real estate projects, real estate based rights as stated in written purpose and subject of CMB regulations on Real Estate Investment Trusts.

The Company's operating principles regarding portfolio investment policies and governance restraints ground on compliance with CMB regulations and the related legislation. The Company's investment property portfolio consists of office and residential projects and hotel and office buildings to let. Halk GYO has obtained a certificate of incorporation from the CMB dated September 24, 2010 and numbered 9546.

Previous rating (July 21, 2017)	Long Term	(TR) AA-
	Short Term	(TR) A1+

Outlook

The Company has a portfolio size of TL 2.2 billion as of the end of 2017. The Company's portfolio includes the Halk GYO Office Towers project, which is under construction in the Istanbul International Finance Center, as well as residential projects that have been completed but still on sale, hotel buildings that have been leased, and office buildings that are mostly leased as bank branches and headquarters. Among the planned projects of the Company is a combined project based in Alsancak, Izmir. Deliveries on housing projects such as Sancaktepe, Istanbul based Bizimtepe Aydos and Yakutiye, Erzurum based Şehristan Residence which started in May, will contribute to the sales income of the Company. In addition, since the majority of the immovables owned by the Company are leased out, a regular cash flow is provided. A portfolio size increase is expected upon completion of the Halk GYO Office Towers project. Rental income of the Company has increased by 6.5% compared to the end of 2016 and has reached to TL 51 million. Thanks to the contribution of value increase of investment properties, the Company has recorded a net profit of TL 252 million at the end of 2017, reaching to TL 1.879 million in equity and TL 2.377 million in asset size. Despite the fact that real estate appreciation funds are significant portion of revenues, they have no contribution on cash flow and solvency. The Company preferred to diversify the financing of projects and in addition to bank loans, used borrowing methods such as commercial paper and sukuk issuance.

Fluctuations in the exchange and interest rates determine the performance of the real estate sector, in which the Company operates. Evaluating the shine out of the real estate investments in savings and investment preferences with the demographic structure of the young population in Turkey, and the demand for additional housing created by the immigration from neighboring countries continue the demand-oriented potential in the construction sector. It is expected that construction will continue to be the leading sector driving the economic growth in the coming period also. However, a rise in construction costs due to the depreciation of the Turkish Lira may affect the performance of the sector.

Considering the above mentioned factors, the Company's outlook is considered to be Stable.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis determines the relative position of the Company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology 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 evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

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

Rating Definitions

Our long-term credit ratings reflect our current view of medium to long maturities over one year, while our short-term credit rating reflects our view for a period of up to 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 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 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) 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 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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