

23 July 2019

Credit Rating

**Long-term (National):
(TR) AA-**

**Outlook:
Stable**

**Short-term (National):
(TR) A1+**

**Outlook:
Stable**

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

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Rating Summary

Halk Gayrimenkul Yatırım Ortaklığı A.Ş. ("the Company") is a company that invests in real estate, real estate projects, real estate backed securities and capital market instruments within the framework of Capital Markets Board ("CMB") regulations. Founded in 2010, the Company was offered to public in 2013 and is listed on the Borsa İstanbul. With a free-float rate of 28%, 71.96 percent of the total capital of the Company belongs to Türkiye Halk Bankası A.Ş.

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

Previous Rating (23 July 2018):

Long Term: (TR) AA-

Short Term: (TR) A1+

Strengths and Risks

Strengths

- Strong shareholding structure
- Access to financing
- Strong equity with decreasing leverage utilization
- Financial structure resistant to exchange rate volatility

Risks

- Negative growth in the construction sector
- Rising financing costs
- Pressure of reduced purchasing power on demand

Outlook

The revenue and cost items of construction projects generally extending to more than one year are followed as asset and liability items on the Company's balance sheet until their delivery date when they are then accrued as income and costs. In this context, the reason for the increase in revenue and cost items in the income statement of 2018 compared to the previous year is the completion of the Erzurum and Sancaktepe projects. While the majority of revenue in 2017 consisted of rental income, which generates a higher profit margin compared to project sales, in 2018 revenue was mainly generated from project sales resulting in a comparatively lower profitability compared to the previous year due to the above mentioned accounting particularity. Despite the declining demand in the construction sector, the Company strengthened its financial structure ratios compared to the previous year. Taking into consideration the regularity of the Company's customer portfolio, its receivables collection strength, financing capability and the corporate support of the main shareholder (Türkiye Halk Bankası) along with the risk-reducing effect in its stress scenario, the Company's outlook is evaluated as "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 SAHA Score which measures the Company's distance from the point of default, its performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures a statistical distance to the point of default making use of industry specific significant financial ratios based on industry peer sample companies' past financial performance and default statistics. 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 reflects 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.

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