

23 July 2020

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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HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

Rating Summary

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

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

Previous Rating (23 July 2019):

Long Term: (TR) AA-

Short Term: (TR) A1+

Outlook

According to the 2019 year-end data, among the 33 Real Estate Investment Trusts ("REIT") companies, Halk GYO ranked 7th in terms of asset size (12/2018: 7th) and 5th in terms of equity size (12/2018: 5th). As of March 31st 2020, its market cap was calculated as TL 1,132 million, with a market share of 4.91% (12/2018: 3.28%).

As of March 31, 2020, the Company's real estate portfolio size reached TL 2,818 million (03/2019: TL 2,442 million). The total appraisal value of the said portfolio is TL 492,500,000.

The Company followed a volatile course depending on its annual revenue and housing/project delivery dates and managed to increase its rental income by 17.4% in 2019. Halk GYO which closed the period with a net profit of TL 321,4 million with the positive contribution of the re-evaluation of investment properties, has total equity of TL 2,578 million and an asset size of TL 3,039 million as of December 31, 2019.

According to the end-2019 financial data, there is an increase in the leverage of the Company and it is noteworthy that almost all of its financial debt is short-term. On the other hand, the course of bad debt as indicated in the independent audit report and concentration of

receivables on Türkiye Halk Bankası A.Ş. alone is considered a positive factor in terms of the quality of receivables.

In addition to all of the above, the short and long term outlook of Halk GYO has been evaluated as "**Stable**" considering its strong ownership structure and ability to access finance. However, the recent extraordinary developments in the global trade environment and money markets in relation to the Covid-19 epidemic make the potential economic consequences of the pandemic extremely uncertain. The developments will be closely monitored and in case of increasing tangible risks, their effects on the Company will be further evaluated.

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 fulfil 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. 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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