SAHA
Corporate Governance and
Credit Rating Services Inc.

İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

27 August 2019

Credit Rating

Long-term (National):
(TR) AA

Outlook:
Stable

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

Outlook:
Stable

İş Gayrimenkul Yatırım Ortaklığı A.Ş.

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Rating Summary

İş Gayrimenkul Yatırım Ortaklığı A.Ş. (“the Company") is an establishment that 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 1999, the Company was offered to public in the same year and is listed in the Borsa Istanbul. The main shareholder of the Company is Türkiye İş 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 (August 27, 2018):

Long Term	(TR) AA
Short Term	(TR) A1+

Strengths and Risks

Strengths

- Strong partnership structure
- Access to finance
- Strong equity position
- Financial resistance to exchange rate volatility

Risks

- Ongoing declining demand in the construction sector
- Escalation in short-term financing
- Risk of increasing NPL ratio in the industry due to recession

Outlook

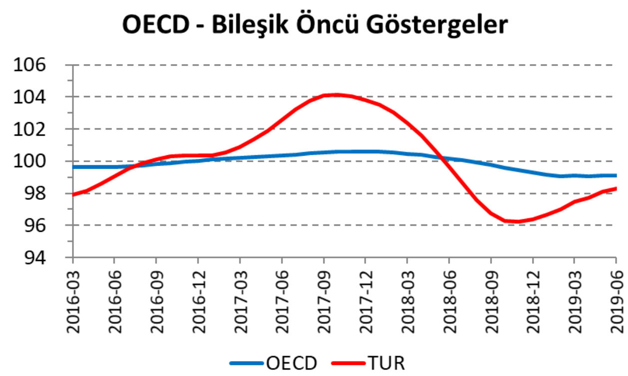
The leverage/indebtedness ratios improved compared to the previous rating period in an environment where the sector's growth trend is downward. The net foreign currency position as reflected in the balance sheet as of June 2019 has been reduced to levels posing trivial financial risks according to our evaluation. 82 percent of the Company's real estate portfolio generates regular rental income. In addition, in face of the Company’s easy access to financing and the corporate support of the main shareholder (Türkiye İş Bankası A.Ş.) along with the risk-reducing effect in its stress scenario, the Company's outlook is evaluated as “**Stable**".

Macro-Economic Outlook and Analysis of the Industry

Since the beginning of 2018, downward revisions have been made at various dates on the relatively optimistic 2019 and 2020 global growth forecasts of international organizations such as the International Monetary Fund (IMF), World Bank and Organization for Economic Co-operation and Development (OECD). The table below presents the previous and most recent global growth forecasts of these organizations.

Organization	Source	2019 (Current)	2019 (Previous)	2020 (Current)	2020 (Previous)
IMF	July 2019 World Economic Outlook Report (previous: April 2019)	**3.2% ↓**	**3.3%**	**3.5% ↓**	**3.6%**
World Bank	June 2019 Global Economic Prospects Report (previous: April 2019)	**2.6% ↓**	**2.9%**	**2.7% ↓**	**2.8%**
OECD	May 2019 Economic Outlook Report (previous: March 2019)	**3.2% ↓**	**3.3%**	**3.4% ↔**	**3.4%**

Worries of escalating trade wars between the US and China, the possibility of an Argentina and Turkey originated foreign exchange/debt crisis which might spread to emerging markets, a no-deal Brexit, a higher than anticipated slowdown in China and increasing geopolitical risks are the main reasons for the downward revisions.



The declining trend of OECD Composite Leading Indicators in both OECD countries and Turkey by mid-2018 seems to have started to recover since the end of the year, but the contraction is still ongoing.

On the other hand, the main elements which will most likely effect the emerging market countries including Turkey in 2019 are financial tightening, risks arising from financial conditions, risks due to increased protectionism and political risks.

In addition to the interest rate policy of the US Federal Reserve (FED), its balance sheet reduction policy led to the strengthening of the dollar index as a result of which the increased borrowing costs deteriorated the risk perception. This led to a significant increase in volatility and capital outflows in emerging markets within the past year. Along with the aforementioned global effects, a significant increase in exchange and interest rate volatility was observed in Turkey's economy, stemming from both international and domestic political dynamics. In light of these developments, the Central Bank of the Republic of Turkey (CBT) intervened by raising the weekly repo rate - which is the policy rate - from 17.75 percent to 24.00 percent at its September 2018 meeting. This interest level remained unchanged for nine months and following the July 2019 monetary policy meeting, the policy rate was reduced by 425 bps to 19.75 percent. The following table shows the IMF, OECD and the World Bank's 2019-2020 growth forecasts for Turkey.

Organization	Source	2019 (Current)	2019 (Previous)	2020 (Current)	2020 (Previous)
IMF	April 2019 World Economic Outlook Report (previous: January 2019)	**-2.5% ↓**	**0.4%**	**2.5% ↓**	**2.6%**
World Bank	June 2019 Global Economic Prospects Report (previous: January 2019)	**-1.0% ↓**	**1.6%**	**3.0% ↔**	**3.0%**
OECD	May 2019 Economic Outlook Report (previous: March 2019)	**-2.6% ↓**	**-1.8%**	**1.6% ↓**	**3.2%**

The FED increased its policy rate by 100 bps in total in March, June, September and finally in December of 2018, bringing it to the 2.25-2.50 percent range. This trend is based on the strengthening of the labor market and compliance criteria for the "symmetric" inflation target of 2 percent. The FED, which started 2019 with the “patient stance” and “data-based policy” messages, ended the expectations for the interest rate hike in 2019 following its March meeting. Another prominent issue was that the FED's balance sheet downsizing operation will end in 2019. The fact that the FED abandoned the emphasis on "patient stance" at the June meeting strengthened the expectation that interest rates would be cut in 2019. In the July meeting the policy rate was reduced by 25 bps for the first time in 11 years to 2.00 - 2.25 percent range. FED officials stated that this decision did not indicate the beginning of a long-term interest rate cut cycle, but signaled that interest rate cuts could be still on the agenda if necessary.

The main macroeconomic developments in Turkey as of our reporting date can be summarized as follows:

Indicator	Previous Value	Current Value	Summary
Growth (TUIK)	2018-Q4 **-3.0%**	2019-Q1 **-2.6%**	Gross Domestic Product 2019-Q1 initial estimate decreased by 2.6% in chained volume index (2009=100) measure, compared to the same quarter of the previous year (2018-Q4: 3% decline). On the other hand, seasonally and calendar adjusted GDP chained volume index increased by 1.3% quarter-on-quarter.
Unemployment (TUIK)	2019/04 **13.0%**	2019/05 **12.8%**	The number of unemployed in Turkey aged 15 and over was 4.157 million in May 2019, an increase of 1.021 million compared to the same period of 2018. Within the same period, the non-farm unemployment rate was estimated at 15.0%, up 3.4 percentage points. While the unemployment rate among the young population (15-24 years) was 23.3% with an increase of 5.5 points, it was 13.1% in the 15-64 age groups corresponding to an increase of 3.2 percentage points.
Inflation **- CPI** **- PPI** (TUIK)	2019/06 **15.72%** **25.04%**	2019/07 **16.65%** **21.66%**	The rise in CPI (2003=100) in July 2019 was 1.36% compared to the previous month, 6.44% compared to December of the previous year and 16.65% compared to the same month of the previous year. The twelve-month average was an increase of 19.91%. The Domestic Producer Price Index (D-PPI) fell by 0.99% in July compared to the previous month, increased by 7.02% compared to December of the previous year and 21.66% compared to the same month of the previous year. The twelve-month average was an increase of 32.34%.
Budget Balance (TL Billion) (Ministry of Treasury and Finance)	2019/06 **-12.1**	2019/07 **9.9**	According to July 2019 budget execution results Central Administration Budget posted a surplus of TL 9.9 billion in July. As a result, the budget deficit in the January-July period totaled TL 68.7 billion (forecast for 2019: TL 80.6 billion deficit).
Current Account Balance (USD Million) (CBT)	2019/05 **151**	2019/06 **-548**	The current account deficit decreased by USD 2,471 million compared to June of the previous year and realized as USD 548 million. As a result, the twelve-month current account yielded a surplus of USD 538 million.
Industrial Production Index (TUIK)	2019/05 **-1.3%**	2019/06 **-3.9%**	Calendar adjusted Industrial Production Index decreased by 3.9% in June 2019 compared to the same month of the previous year (May 2019: 1.3% decrease). In June 2019, there was a 3.7 percent decrease compared to the previous month.
Turkish PMI (Istanbul Chamber of Industry-IHS Markit)	2019/06 **47.9**	2019/07 **46.7**	Istanbul Chamber of Industry Turkish Manufacturing PMI index which was 47.9 in June backed to 46.7 in July. The index value remained below the threshold value for the 16th consecutive month (all figures measured above the threshold value of 50 indicates improvement in the sector).
Consumer Confidence Index (TUIK,CBT)	2019/06 **57.6**	2019/07 **56.5**	Seasonally adjusted consumer confidence index based on the consumer trend survey decreased by 2.0% in July compared to the previous month and the index value which was 57.6 in June was announced as 56.5 in July.

Indicator	Previous Value	Current Value	Summary
Banking Sector NPL Ratio (BRSA)	2019/05 **4.18%**	2019/06 **4.36%**	Total assets of the Turkish Banking Sector amounted to TL 4,233,955 million in June 2019 (May: TL 4,269,772 million). The largest asset item in this period was TL 2,539,782 million of issued loans (May: TL 2,548,020 million). Deposits increased to TL 2,272,575 million (May: TL 2,268,835 million).
Banking Capital Adequacy Ratio (BRSA)	2019/05 **17.07%**	2019/06 **17.73%**	Total shareholders' equity of the Turkish Banking Sector was TL 449,428 million in June 2019 (May: TL 439,111 million)
Housing Sales (TUIK)	2019/06 **61,355**	2019/07 **102,236**	102,236 residential sales were realized across Turkey in July 2019. Thus, the number of houses sold in July decreased by 17.5% compared to the same month of the previous year. Mortgage sales decreased by 57% compared to the same month of the previous year to 13,064 units.
Car and Light Commercial Vehicle Sales (ODD)	2019/06 **42,688**	2019/07 **17,927**	Car and light commercial vehicle sales in Turkey decreased by 66% in July compared to the previous year, receding to 17,927 units. Total sales of cars and light commercial vehicles decreased by 47.53% in January-July period to 213,071 units.
Euro Zone PMI (IHS Markit)	2019/06 **47.6**	2019/07 **46.4**	The manufacturing sector indicator stood at 46.4 in July 2019. As a result, PMI data indicated a decline in the sixth consecutive month. In the PMI indicator, below 50 level signals a contraction in the sector and 50 and above indicates a growth.

The construction industry is one of the sectors most affected by the national income growth trend. The industry recorded a growth of 8.9 percent in 2017, in line with Turkey's 7.4 percent GDP growth. In 2018, while the national income growth diminished to 2.6 percent, the construction sector was affected the most by this trend shift and closed the year with a decline of 1.9 percent. According to the data released by TUIK, national income decreased by 2.6 percent in the first quarter of 2019, while the construction industry shrank by 10.9 percent. Also, the increase in the construction cost index announced by TUIK, which has been particularly evident since the beginning of 2018, is continuing in 2019 as well. In addition, the decline in the construction revenue index indicates a decline in the sector's production and employment volume. When urban transformation projects and population increase are taken into consideration; Even though the industry retains its potential for the coming years, 2019 is expected to close with a decline. The growth performance of the industry in the coming period will depend on factors such as purchasing power, expansion of housing credit volume, decrease in housing loan interest rates, and for constructors; input costs, long-term financing access, financing costs and incentive regulations.

Looking at the industry in general, the number of houses sold was recorded to be 1,409,314 in 2017 and 1,375,398 in 2018. In the first half of 2019, the volume of housing sales continued to shrink and decreased by 21.7 percent compared to the same period of the previous year to 505,796 units. The decline in demand was mainly driven by a decline in mortgaged sales. The number of mortgaged sales decreased by 41.5 percent in 2018, compared to 2017 and resulted in 276,820 units. As of the first half of 2019, the number of mortgaged housing sales decreased to 82,885 units. On the other hand sales to foreigners increased and the sales volume of 22,234 units in 2017 increased by 78.4 percent as of year-end 2018, reaching 39,663 units.

Looking at other indicators; the volume of housing construction permits, which was 1,377,061 at the end of 2017, decreased by 53.3 percent to 643,125 by the end of 2018. In contrast; The number of occupancy permits, which was 823,952 at the end of 2017, increased by 5.7 percent at the end of 2018 to 870,501 units.

According to the monthly statistics bulletin published by the CMB, the number of Real Estate Investment Trusts (REITs) in Borsa Istanbul (BIST) is 33 as of the end of 2018 (2017: 31). At the end of 2017, while the total market value of these companies was TL 29,924.06 million, it slipped to TL 19,362.62 million as of the end of 2018 (Q1 2019: TL 18,680.39 million). the total market value of the REITs, which was calculated as USD 7,125 million at the end of 2017, stood at USD 3,660 million as of the end of 2018 (Q1 2019: USD 3,313 million). When the BIST REIT Index performance is analyzed, the closing index value decreased by 35 percent in 2018, while the BIST 100 index depreciated by 21 percent in the same period.

Company Overview

The main shareholder of the Company which started its operations in 1999 is Türkiye İş Bankası A.Ş. As of June 30, 2019, the Company has 75 employees (12/2018: 78) and the current capital structure is as follows:

Shareholder	Ownership Interest (TL)	Ownership Interest (%)
Türkiye İş Bankası A.Ş.	456,800,671	47.65%
Anadolu Hayat Emeklilik A.Ş.	68,151,714	7.11%
Other	433,797,615	45.25%
Total	**958,750,000**	**100.00%**

The issued capital of the Company is TL 958,750,000 which is fully paid. The issued capital consists of 95,875,000,000 shares, each with a nominal value of 1 Kuruş, and all shares are registered shares. The total value of the Group A shares is TL 1,369,642.817 while Group B shares are worth TL 957,380,357.183. Holders of Group A shares have the privilege of nominating candidates for the election of members of the Board of Directors. One member of the Board of Directors shall be elected from among the candidates nominated by the Group B shareholders and all other members shall be elected from among the candidates nominated by the A Group shareholders (Türkiye İş Bankası A.Ş.). There are no other voting privileges.

As of June 30, 2019 the total share of Türkiye İş Bankası A.Ş. and Group companies in the capital is approximately 64 percent. Free float rate of the Company shares is 43.77%.

The Company was offered to public in 1999 and its shares are traded in the Collective and Structured Products Market of Borsa Istanbul under the “ISGYO” code. The Company is a constituent of BIST Dividend 25 (XTM25), BIST 100 (XU100), BIST All Shares (XUTUM), BIST Dividend (XTMTU), BIST Real Estate Investment Trusts (XGMYO), BIST Financial (XUMAL) and BIST 100-30 (XYUZO) indices.

According to the data published by GYODER (The Association of Real Estate and Real Estate Investment Companies); At the end of 2018, the Company ranked 4th in terms of asset size with a total asset of TL 5,222 million (2017: 3rd place, TL 5,312 million) in the REIT sector. The Company ranked 4th in terms of shareholders' equity with a total equity of TL 3,557 million (2017: 3rd place, TL 3,281 million). As of the end of 2018, its market value was calculated as TL 1,035 million (06/2019: TL 968 million), making up 5.6 percent of the REIT sector.

As of June 30, 2019, the Company's real estate portfolio size is TL 4,837 million (12/2018: TL 4,877 million). When the asset allocation is analyzed, 82 percent of the portfolio consists of rent generating assets, 8 percent of ongoing projects, 6 percent of ready-to-sell real estate in the inventory and 4 percent of land. The current occupancy rate of the leasable portfolio is approximately 83 percent. Of the total rental income as of June 30, 2019 Türkiye İş Bankası Group's share is 57 percent (12/2018: 53 percent). The average term of the lease agreements is 5 years or more.

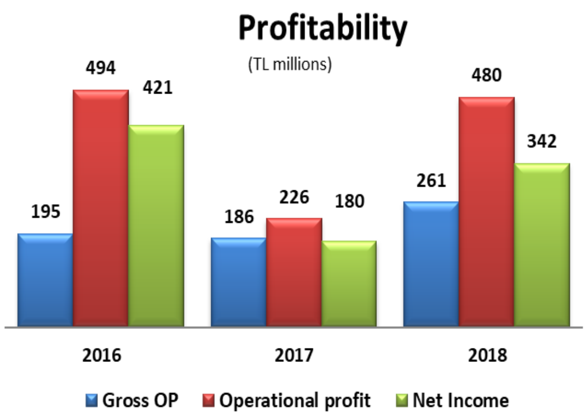
Key Financial Indicators

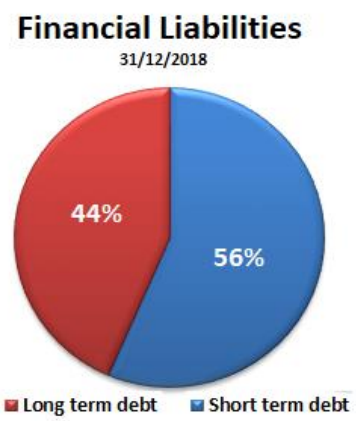
Balance Sheet (TL)	2016	2017	2018	Δ 2017		Δ 2018		06/2018	06/2019
Current Assets	**322.950.245**	**967.988.419**	**752.744.479**	199,7%	▲	(22,2%)	▼	**992.512.162**	**724.664.763**
Cash and cash equivalents	127.262.064	83.117.592	54.236.749	(34,7%)	▼	(34,7%)	▼	165.531.664	17.271.051
Trade receivables	28.770.301	47.442.849	107.442.054	64,9%	▲	126,5%	▲	125.205.602	117.556.176
Other receivables	1.211.817	1.078.243	718.345	(11,0%)	▼	(33,4%)	▼	2.754.610	9.670.754
Inventories	91.612.134	757.111.894	516.387.334	726,4%	▲	(31,8%)	▼	574.903.663	473.110.476
Derivative Instruments	566	3.865.901	59.536.713	682.921,4%	▲	1.440,0%	▲	43.808.110	57.922.954
Other current assets	74.093.363	75.371.940	14.423.284	1,7%	▲	(80,9%)	▼	80.308.513	49.133.352
Assets to be sold	-	-	-		—		—	-	-
Fixed assets	**4.564.069.949**	**4.343.958.837**	**4.469.588.445**	(4,8%)	▼	2,9%	▲	**4.211.410.483**	**4.425.358.399**
Tangible assets	28.559.331	31.005.753	33.814.159	8,6%	▲	9,1%	▲	30.427.882	33.156.638
Intangible assets	473.250	847.706	1.015.609	79,1%	▲	19,8%	▲	988.070	1.043.085
Valuation of equity investments	1.563.593	2.527.108	3.088.133	61,6%	▲	22,2%	▲	2.554.795	2.971.960
Inventories	715.506.230	344.153.094	174.550.000	(51,9%)	▼	(49,3%)	▼	213.382.315	175.230.908
Investment Properties	3.714.668.994	3.834.870.889	4.153.488.099	3,2%	▲	8,3%	▲	3.841.916.265	4.168.664.575
Other fixed assets	103.298.551	130.554.287	103.632.445	26,4%	▲	(20,6%)	▼	122.141.156	44.291.233
Total Assets	**4.887.020.194**	**5.311.947.256**	**5.222.332.924**	8,7%	▲	(1,7%)	▼	**5.203.922.645**	**5.150.023.162**
Short term liabilities	**188.453.135**	**873.322.937**	**1.091.581.932**	363,4%	▲	25,0%	▲	**1.146.178.313**	**1.019.907.538**
Short term financial loans	-	-	-		—		—	-	314.929.432
Current portion of long-term loans	132.335.012	169.875.710	742.664.172	28,4%	▲	337,2%	▲	598.866.138	438.970.345
Trade payables	34.198.753	89.527.218	34.901.072	161,8%	▲	(61,0%)	▼	31.050.466	21.031.954
Other short-term liabilities	21.919.370	613.920.009	314.016.688	2.700,8%	▲	(48,9%)	▼	516.261.709	244.975.807
Long term liabilities	**1.537.221.403**	**1.158.047.332**	**573.811.637**	(24,7%)	▼	(50,5%)	▼	**750.593.339**	**591.716.655**
Long term financial loans	922.325.576	1.015.606.839	572.183.948	10,1%	▲	(43,7%)	▼	748.949.472	589.922.975
Other	614.895.827	142.440.493	1.627.689	(76,8%)	▼	(98,9%)	▼	1.643.867	1.793.680
Equity	**3.161.345.656**	**3.280.576.987**	**3.556.939.355**	3,8%	▲	8,4%	▲	**3.307.150.993**	**3.538.398.969**
Paid-in capital	850.000.000	913.750.000	958.750.000	7,5%	▲	4,9%	▲	958.750.000	958.750.000
Other equity	264.932.044	267.956.538	271.239.283	1,1%	▲	1,2%	▲	267.956.538	271.239.283
Legal capital reserves	36.305.282	46.188.875	59.561.684	27,2%	▲	29,0%	▲	59.561.684	65.949.792
Retained earnings	1.589.596.928	1.872.724.737	1.925.777.515	17,8%	▲	2,8%	▲	1.925.777.515	2.261.000.280
Net Income	420.511.402	179.956.837	341.610.873	(57,2%)	▼	89,8%	▲	95.105.256	(18.540.386)
Total Liabilities & Equity	**4.887.020.194**	**5.311.947.256**	**5.222.332.924**	8,7%	▲	(1,7%)	▼	**5.203.922.645**	**5.150.023.162**

(Source: Rasyonet)

Income Statement (TL)	2016	2017	2018	Δ 2017		Δ 2018		06/2018	06/2019
Revenue	404.532.858	439.658.518	1.098.332.491	8,7%	▲	149,8%	▲	749.665.222	248.537.440
COGS	209.728.793	253.628.515	837.501.802	20,9%	▲	230,2%	▲	600.616.987	131.037.968
Gross operational profit	**194.804.065**	**186.030.003**	**260.830.689**	(4,5%)	▼	40,2%	▲	**149.048.235**	**117.499.472**
Operational costs (R&D+Sales+Admin Costs)	37.118.819	44.016.875	46.746.430	18,6%	▲	6,2%	▲	26.598.989	24.654.289
Net operational profit	**157.685.246**	**142.013.128**	**214.084.259**	(9,9%)	▼	50,7%	▲	**122.449.246**	**92.845.183**
Other operational costs /revenue	336.772.201	83.777.397	265.733.796	(75,1%)	▼	217,2%	▲	1.586.160	7.273.731
Operational profit	**494.457.447**	**225.790.525**	**479.818.055**	(54,3%)	▼	112,5%	▲	**124.035.406**	**100.118.914**
Profit/Loss from investments	-	-	-		—		—	-	-
Net capital gains by equity method	674.188	1.363.515	1.311.025	102,2%	▲	(3,8%)	▼	777.687	883.827
Profit Before Interest	**495.131.635**	**227.154.040**	**481.129.080**	(54,1%)	▼	111,8%	▲	**124.813.093**	**101.002.741**
İnterest income	-	3.829.974	60.395.502		—	1.476,9%	▲	39.929.614	6.582.227
Interest expenses	74.620.233	51.027.177	199.913.709	(31,6%)	▼	291,8%	▲	69.637.451	126.125.354
Net Income before tax	**420.511.402**	**179.956.837**	**341.610.873**	(57,2%)	▼	89,8%	▲	**95.105.256**	**(18.540.386)**
Taxes	-	-	-		—		—	-	-
Ongoing operations net income	**420.511.402**	**179.956.837**	**341.610.873**	(57,2%)	▼	89,8%	▲	**95.105.256**	**(18.540.386)**
Net income from terminated operations	-	-	-		—		—	-	-
Net Income	**420.511.402**	**179.956.837**	**341.610.873**	(57,2%)	▼	89,8%	▲	**95.105.256**	**(18.540.386)**
Depreciation and amortizations	1.431.138	1.731.040	1.754.156	21,0%	▲	1,3%	▲	896.852	986.538

(Source: Rasyonet)





Financial Ratios

Main Financial Ratios	2016	2017	2018	06/2018	06/2019
Liquidity					
Net working capital / Total Assets	0,03	0,02	-0,06	-0,03	-0,06
Current ratio - Current assets / Short-term liabilities)	1,71	1,11	0,69	0,87	0,71
Acid-test ratio - (Current Assets-Inventories) / Short-term liabilities	1,23	0,24	0,22	0,36	0,25
Cash ratio - Cash & equivalents / Short-term liabilities	0,68	0,10	0,05	0,14	0,02
Inventories / Current Assets	0,28	0,78	0,69	0,58	0,65
Inventories / Total Assets	0,02	0,14	0,10	0,11	0,09
Financial structure					
Leverage ratio - Liabilities / Equity	0,55	0,62	0,47	0,57	0,46
Debt ratio - Liabilities / Total Assets	0,35	0,38	0,32	0,36	0,31
Short-term liabilities / Liabilities	0,11	0,43	0,66	0,60	0,63
Short-term liabilities / Total Assets	0,04	0,16	0,21	0,22	0,20
Short-term financial liabilities / Short-term liabilities	0,70	0,19	0,68	0,52	0,74
Financial debt / Total Assets	0,22	0,22	0,25	0,26	0,26
Operational ratios					
Receivables turnover rate - Revenues / Trade Receivables	14,06	9,27	10,22	5,99	2,11
Inventories turnover rate - COGS / Total Inventories	0,26	0,23	1,21	0,76	0,20
Trade payables turnover rate - COGS / Trade payables	6,13	2,83	24,00	19,34	6,23
Current assets turnover rate - Revenues / Current assets	1,25	0,45	1,46	0,76	0,34
Working capital turnover rate - Revenues / Net working capital	3,01	4,64	-3,24	-4,88	-0,84
Equity turnover rate - Revenues / Equity	0,13	0,13	0,31	0,23	0,07
Asset turnover rate - Revenues / Total Assets	0,08	0,08	0,21	0,14	0,05
Profitability					
Gross operating profit margin - GOP / Revenues	48,2%	42,3%	23,7%	19,9%	47,3%
EBITDA Margin (1) - (Operational profit + Depreciation) / Revenues	122,6%	51,7%	43,8%	16,7%	40,7%
EBITDA Margin (2) - (GOP- Operational costs + Depreciation) / Revenues	39,3%	32,7%	19,7%	16,5%	37,8%
Operational profit margin - Operational profit / Revenues	122,2%	51,4%	43,7%	16,5%	40,3%
Net profit margin - Net Income / Revenues	103,9%	40,9%	31,1%	12,7%	-7,5%
COGS / Revenues	51,8%	57,7%	76,3%	80,1%	52,7%
Operational Costs / Revenues	9,2%	10,0%	4,3%	3,5%	9,9%
Asset profitability - Net Income / Total Assets	8,6%	3,4%	6,5%	1,8%	-0,4%
Equity profitability - Net Income / Equity	13,3%	5,5%	9,6%	2,9%	-0,5%

The ”revenue” account reflected in the income statement is composed of rent/right of construction income from real estates in the portfolio of the Company, housing/project sales income, deposit interest income and securities trading profits. At the end of 2018, the Company's total revenue increased by 150 percent compared to the previous year and reached TL 1,098 million. The main reason of the increase was the accrual of housing sales income on the income statement. The revenue and cost of the Company's long-term projects are monitored on the Company's balance sheet until the delivery of the project is carried out and transferred to the income statement upon delivery. Accordingly, revenue figures show sudden increases during project delivery periods. The fact that Q2 2019 revenue declined by 67 percent compared to the same period of the previous year is due to the lower housing delivery in Q2 2019 reflected in the income statement.

On the other hand, an increase of approximately 10 percent was recorded in rental and right of construction income amounting to TL 217.4 million (2017: TL 197.2 million). As of year-end 2018, 3-year compound annual growth rate (CAGR) in rental income is around 16 percent. In the same period, CAGR of the leasable portfolio was realized as 12 percent. According to the results of the second quarter of 2019, when compared to the same period of the previous year, rental income increased by 14 percent and reached TL 120 million. The estimated total rent and right of construction income for the end of 2019 is TL 240 million. Considering the facts that the Company has not sold any assets from its leasable portfolio as of our report date and the average maturities of the lease agreements, the increase in rental income is expected to continue. The majority share of Türkiye İş Bankası Group in rental income as of June 2019 is a positive aspect. Doubtful receivables, which were TL 3.8 million at the end of 2018, increased to TL 5.5 million as of Q2 2019 and considering the balance sheet size, this amount is believed to be at manageable levels.

In terms of profitability performance, while a significant portion of 2017 revenue is composed of rental income that creates a higher profit margin compared to project sales, transfer of revenue and cost of housing projects delivered in 2018 to the income statement was the main reason for the Company's certain profitability ratios to be lower compared to the previous year. The Company closed 2018 with a net profit of TL 341.6 million (2017: TL 179.9 million). Approximately TL 266 million of this profit (2017: TL 84 million) consists of "other real operating income/loss" items such as real estate/inventory valuation differences and foreign exchange differences and are not related to cash generation. The Company closed the second quarter of 2019 with a TL 18.5 million loss mainly due to the increasing financing costs. On the other hand, looking at the last 15 years, it is observed that the Company regularly pays cash dividends to its shareholders except for 2006 and 2018. The Company is listed in the Borsa Istanbul Dividend Indices.

As of the end of 2018, the leverage and indebtedness ratio improved compared to the previous year due to the decrease in the “deferred income” item which declined in parallel with the house deliveries. The Company stands out with its strong partnership and equity structure in the REIT sector. On the other hand, due to the maturity of long-term financial debts at the end of 2018, short-term debt has increased.

The Company has not opted to borrow in foreign currency since 2013. The majority of the existing foreign currency liabilities are hedged through derivative transactions. The Company has a net foreign currency position of TL -35.6 million as of June 30, 2019 (2018: TL -30.3 million). When the balance sheet size is taken into account, it is considered that the possible adverse effects of foreign exchange hikes on the Company's financials will be limited. On the other hand, approximately 10 percent of the Company's rental income is in foreign currency.

A vital issue that we believe is decisive for the industry is access facility to financing. Both the Company's current limit/usage rate and the support of the main shareholder Türkiye İş Bankası Group are considered positive in terms of financing access.

Corporate Governance

The Company has provided substantial compliance with the CMB’s Corporate Governance Principles and has implemented all of the necessary policies and measures. Management and internal control mechanisms have been created effectively and are in operation. All of the corporate governance risks are identified and managed actively. The rights of shareholders and stakeholders are respected in a fair manner and public disclosure and transparency is at superior levels. Structure and operation of the board of directors is in the category of best practice.

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.

Disclaimer

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