

Corporate Credit Rating
Annual Review

Energy

		Long Term	Short Term
International	Foreign currency	BB+	B
	Local currency	BBB-	A-3
	Outlook	Stable	Stable
National	Local Rating	BBB(Trk)	A-3(Trk)
	Issue Rating	BBB(Trk)	A-3(Trk)
	Outlook	Stable	Stable
Sponsor Support		2	-
Stand Alone		B	-
Sovereign*	Foreign currency	BBB-	-
	Local currency	BBB-	-
	Outlook	Stable	-

*Assigned by Japan Credit Rating Agency, JCR on October 7, 2016
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PALMET ENERJİ A.Ş.					
Financial Data	2016*	2015*	2014*	2013*	2012*
Total Assets (000 USD)	425,464	383,016	476,301	468,728	452,936
Total Assets (000 TRY)	1,497,294	1,113,656	1,104,494	1,000,407	805,139
Equity (000 TRY)	367,611	76,145	201,895	199,943	107,259
Net Profit (000 TRY)	-25,250	-16,845	2,658	-16,669	27,950
Sales (000 TRY)	817,121	801,358	936,075	803,469	520,078
Net Profit Margin (%)	-3.09	-2.10	0.28	-2.07	5.37
ROAA (%)	-1.82	-1.47	0.72	-1.69	4.31
ROAE (%)	-10.69	-11.71	3.80	-9.94	31.35
Equity / Total Assets (%)	24.55	6.84	18.28	19.99	13.32
Net Working Capital / T. Assets (%)	-21.40	-16.28	-16.14	-15.18	-20.84
Debt Ratio (%)	75.45	93.16	81.72	80.01	86.68
Asset Growth Rate (%)	34.45	0.83	10.40	24.25	39.39

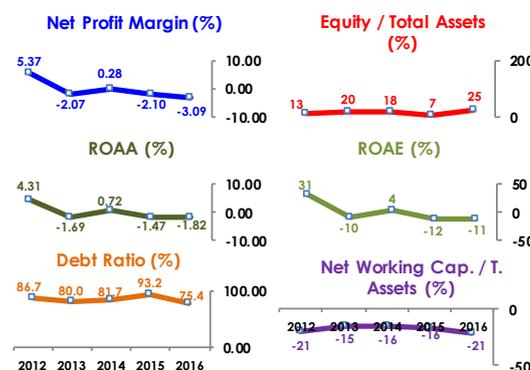
*End of year

Overview

Palmet Enerji A.Ş., (referred to as the Group or Company) with an operating track record dating back to 1984, stepped into the energy sector initially in the 1990s through the construction of natural gas pipelines. Following the establishment of the Energy Markets Regulatory Authority (EMRA) in 2001 and the subsequent period of liberalization in the sector, the Company won the tenders for natural gas distribution in the Gebze and Erzurum regions in 2003 for a duration of 30 years starting from February 2004 and established the subsidiaries of Palgaz and Palen for this purpose. Current membership of the distribution schemes by the 2 companies stands at over 300k.

Having separated Palmet Muhendislik from Palmet Enerji in 2007, the Company gradually expanded its operations into wholesale gas sales through the establishment of Gazport in 2005 and obtained electricity generation licenses from EMRA for the Delta and Ales combined cycle power plants in 2008 and 2011 respectively. Furthermore, it obtained the generation license for the Eriç Dam Hydroelectric Power Station in 2010. The Company also provides infrastructure services through Palmet Manitoba International established as a joint venture with Manitabo Hydro International.

Mr. Bülent Doganay **SAMURAY** is the qualified individual shareholder of the Company with a paid-in capital of TRY 75mn as of FYE2016. The Company's headquarters are located in Istanbul with investments dispersed across Turkey. It is currently positioned as one of the leading vertically integrated energy companies in Turkey with 12 consolidated subsidiaries and sales revenues of TRY 817mn at FYE2016.



Strengths

- Cash flow sustainability supported the by licensed monopoly status of Palgaz and Palen in the distribution segment and their further expansion in the upcoming 5-yearly tariff period
- Notable reduction in cost of sales level throughout FY2016 contributing to the rise in gross operating profitability
- Continuous large levels of private sector investment into distribution networks with further room for growth in the medium and long-term along with consolidation opportunities
- Diversity of asset portfolio including gas distribution, whole sale trade and electricity generation reducing concentration risk
- Creation of synergies due to vertically integrated structure creating a competitive advantage along with management of risks at the Group level
- Attained level of compliance with Corporate Governance Practices and international quality standards

Constraints

- Increase in financing expenses stemming from the high levels of leverage in order to support ongoing investments weakening internal equity generation capacity
- Significant increase in operating expenses in relation to sales revenues throughout FY2016 exerting pressure on the core operating margin
- Maintenance of short-term weighted funding structure leading to negative net working capital levels planned to be relieved by roll-over bond issuances
- High levels of import dependence for gas supply along with the monopoly of state-owned BOTAS in the national market
- Slow-down in electricity consumption along with private sector over-investment in new capacity resulting in lower prices and profitability
- Ongoing domestic political and economic uncertainty with the potential to negatively impact funding for large scale energy investments

Publication Date: April 07, 2017

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