

Corporate Credit Rating

Annual Review

REGULATED UTILITIES

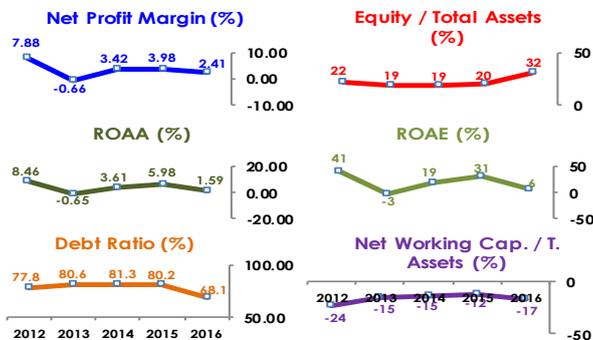
Natural Gas Distribution

		Long Term	Short Term
International	Foreign Currency	BBB-	A-3
	Local Currency	BBB-	A-3
	Outlook	Stable	Stable
National	Local Rating	BBB+(Trk)	A-1(Trk)
	Outlook	Positive	Positive
	Issue Rating	BBB+(Trk)	A-1(Trk)
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

Group Head: Zeki Metin ÇOKTAN / +90 212 352 56 73

zekic@jcrer.com.tr
Assistant Analyst: Dincer SEMERCİLER / +90 212 352 56 74

dincer.semenciler@jcrer.com.tr


Strengths

- Licensed monopoly status in the operating region contributing to cash flow sustainability and stable EBITDA margin
- Supportive regulatory regime through EMRA tariff methodology across the sector along with significant expansion potential of the serviced Gebze region in the medium and long-term
- Declining trend in net financial leverage and absence of foreign currency risk reducing susceptibility to market volatility
- Fall in global & local natural gas prices and procurement costs throughout 2016 contributing to gross operating profitability
- Under-penetrated national market with respect to membership of distribution schemes and potential consolidation opportunities in the new tariff period
- Compliance with safety and quality standards along with synergies and management of risks at the Group level

Constraints

- Notable decrease in sales in the completed financial year largely associated with the reduced level of industrial segment revenues
- Significant increase in operating expenses throughout FY2016 exerting pressure on core operating profitability
- Maintenance of negative net working capital levels planned to be improved through projected roll-over bond issuance in the 2H2017
- Import dependency across the sector for natural gas needs along with the monopoly of BOTAS in the market restricting liberalization
- Ongoing downward trend in Turkish aggregate gas consumption expected to persist throughout FY2017 despite the maintenance of growth rises across Europe and other emerging economies
- Despite attained progress level to-date, further need for improvement in compliance with Corporate Governance Principles particularly in the field of transparency

PALGAZ DOĞALGAZ DAĞITIM SAN. ve TİC. A.Ş.					
Financial Data	2016*	2015*	2014*	2013*	2012*
Total Assets (000 USD)	185,253	139,962	144,827	129,266	139,429
Total Assets (000 TRY)	651,942	406,952	335,839	275,892	247,849
Equity (000 TRY)	208,015	80,551	62,684	53,477	55,015
Net Profit (000 TRY)	6,812	17,777	9,159	-1,605	17,369
Sales (000 TRY)	282,296	446,907	267,814	243,393	220,529
Net Profit Margin (%)	2.41	3.98	3.42	-0.66	7.88
ROAA (%)	1.59	5.98	3.61	-0.65	8.46
ROAE (%)	5.82	31.03	19.01	-3.16	40.69
Equity / Total Assets (%)	31.91	19.79	18.66	19.38	22.20
Net Working Capital / T. Assets (%)	-16.92	-12.07	-14.56	-14.80	-23.50
Debt Ratio (%)	68.09	80.21	81.34	80.62	77.80
Asset Growth Rate (%)	60.20	21.17	21.73	11.31	36.16

*End of year

Company Overview

As one of the early entrants into the inner-city gas distribution sector following the wave of liberalization subsequent to the establishment of EMRA in 2001, **Palgaz Doğalgaz Dağıtım Sanayi ve Ticaret A.Ş.** (referred to as Palgaz or the Company) currently serves the Gebze and the surrounding region in the Izmit province, which has a high concentration of industry and is an important contributor to national GDP. The Company's distribution license is valid for a duration of 30 years starting from February, 2004. Palgaz sustained an upward growth trend in line with the still unsaturated market in its operating region and reached in excess of 200k members, anticipated to continue in the new EMRA tariff period for 2017-2021.

Through the shares held in **Palmet Gaz Grup A.Ş.**, **Palmet Enerji A.Ş.** is the qualified shareholder of the Company, whilst 10% of shares belong to local authorities in its service region as required by regulations. Palmet Enerji stepped into the energy sector through the construction of natural gas pipelines in the 1990s and is a vertically integrated conglomerate in the fields of distribution, gas trade, electricity generation & trade, engineering and infrastructure services and the provision of administrative and managerial support to group companies. Mr. Bulent Doganay **SAMURAY** is the ultimate qualified shareholder of Palmet Enerji and subsequently Palgaz as well as being its Chairman.

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