

Corporate Credit & Issue Rating
(Update)

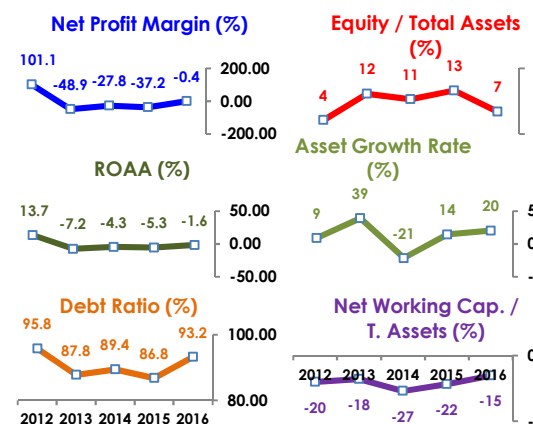
Energy

		Long Term	Short Term	Zorlu Enerji Elektrik Üretim A.Ş.						
				Financial Data	2016*	2015*	2014*	2013*	2012*	
International	Foreign Currency	BBB-	A-3	Total Assets (USD mn)	1,944	1,953	2,140	2,953	2,546	
	Local Currency	BBB-	A-3	Total Assets (TRY mn)	6,841	5,678	4,963	6,302	4,526	
	Outlook	FC	Stable	Stable	Equity (TRY mn)	465	752	525	771	192
		LC	Stable	Stable	Sales (TRY mn)	1,195	709	807	625	576
Issue Rating		n.a	n.a	EBITDA (TRY mn)	433	290	203	123	875	
National	Local Rating	BBB (Trk)	A-3 (Trk)	Net Profit (TRY mn)	-5	-264	-224	-306	582	
	Outlook	Stable	Stable	Net Profit Margin (%)	-0.38	-37.18	-27.81	-48.91	101.11	
	Issue Rating	BBB (Trk)	A-3 (Trk)	ROAA (%)	-1.58	-5.26	-4.34	-7.18	13.65	
Sponsor Support		2	-	Equity / Total Assets (%)	6.79	13.24	10.58	12.23	4.23	
Stand Alone		B	-	Net W. Cap./ T. Assets (%)	-15.34	-21.82	-27.06	-17.91	-20.10	
Sovereign*	Foreign Currency	BBB-	-	Debt Ratio (%)	93.21	86.76	89.42	87.77	95.77	
	Local Currency	BBB-	-	Asset Growth Rate (%)	20.48	14.41	-21.25	39.23	9.39	
	Outlook	FC	Stable	-						
LC		Stable	-							

*End of Year

*Assigned by Japan Credit Rating Agency, JCR on October 7, 2016

Analyst: Bora PAKYÜREK/+90 212 352 56 74
bora.pakyurek@jcrer.com.tr



Overview

Zorlu Enerji Elektrik Üretim Anonim Şirketi ("Zorlu Enerji" or "the Company") was established by Zorlu Holding A.Ş. and Korteks Mensucat Sanayi ve Ticaret A.Ş. in 1993 to address internal energy needs. The growth of the Company mirrors the maturation of Turkey's energy framework. As of the reporting date, the Company continues operations as an independent Power Producer (IPP) and electricity trader and provider. Zorlu Enerji's 100% owned subsidiary, Zorlu Osmangazi Enerji Sanayi ve Ticaret AŞ, acquired 100% shares of Osmangazi Elektrik Dağıtım AŞ ("OEDAŞ") and Osmangazi Elektrik Perakende Satış AŞ ("OEPSAŞ") on February 2, 2017. OEDAŞ undertakes the electricity distribution activities in the region while OEPSAŞ is responsible for retail sales as the assigned supplier for the region, serving 1.6 million subscribers in the provinces of Afyonkarahisar, Bilecik, Eskişehir, Kütahya and Uşak.

As of the first half of 2017, Zorlu Enerji's production portfolio comprised 7 hydroelectric power plants, 3 wind power plants, 3 geothermal power plants and 3 natural gas power plants in Turkey and 1 wind farm in Pakistan and 3 natural gas power plants in Israel. The active power plants reached a total installed capacity of 991 MW, adjusted for its stakes in the power plants of Israel. The Company holds licenses both in renewable energy sources and thermal power plants and aims to increase its total capacity. International operations currently include a wind farm in Pakistan and three power plant investments in Israel.

The Company, headquartered in Istanbul, employed a staff force of 129 as of FYE2016. The Company is registered to the Capital Markets Board and shares have been publicly traded on the Borsa Istanbul since 2000. As of reporting date, 32% of its shares are open for trading.

Strengths

- Significant revenue growth mainly derived from the strong growth in the customer portfolio of Zorlu Elektrik, the increase in YEKDEM sales and the contribution from new power plants for the first time
- Favorable EBITDA growth as renewable energy projects become operational and outputs are sold at guaranteed tariffs
- Acquisition of the operating rights for the Osmangazi Electricity Distribution region as of 1Q2017 and expected increase in vertical integration, cash flow sustainability and stable EBITDA margin
- Balanced generation portfolio through renewable energy power plants and diversifying geographical risk through investments in other countries
- Asset quality strengthened by the large share of tangible assets, low collection risks and negligible credit risk exposure
- Diversified funding opportunities through debt issuances contributing to borrowings term structure and relieving liquidity management
- Shareholder structure inspiring confidence in investors and providing convenience of accession to funds

Constraints

- Volatility in net profit figures and profitability ratios throughout the reviewed period
- Low level in return on assets and equity ratios resulting from the utilization of USD denominated financial liabilities despite the notable improvement in gross profit margins and EBITDA
- High levels of financial leverage in order to fund the growth in operational expansion with negative effects on profitability by financial expenses despite an improvement through capital increase as 1Q2017
- Stretched net negative working capital levels despite the amelioration by increasing long term loans and bond issuances
- Slightly greater business risk due to involvement in relatively new operational areas such as electricity distribution and solar energy
- Geopolitical and economic concerns along with persisting regional tensions harboring uncertainties and wielding pressure on business prospects

Publication Date: July 28, 2017

"Global Knowledge supported by Local Experience"

Copyright © 2007 by JCR Eurasia Rating. 19 Mayıs Mah., 19 Mayıs Cad., Nova Baran Plaza No:4 Kat: 12 Şişli-İSTANBUL Telephone: +90.212.352.56.73 Fax: +90 (212) 352.56.75
Reproduction is prohibited except by permission. All rights reserved. All information has been obtained from sources JCR Eurasia Rating believes to be reliable. However, JCR Eurasia Rating does not guarantee the truth, accuracy and adequacy of this information. JCR Eurasia Rating ratings are objective and independent opinions as to the creditworthiness of a security and issuer and not to be considered a recommendation to buy, hold or sell any security or to issue a loan. This rating report has been composed within the methodologies registered with and certified by the SPK (CMB-Capital Markets Board of Turkey), BDDK (BRSA-Banking Regulation and Supervision Agency) and internationally accepted rating principles and guidelines but is not covered by NRSRO regulations. <http://www.jcrer.com.tr>