

Corporate Credit & Issue Rating

ENERGY
Regulated Utilities

ZORLU OSMANGAZİ ENERJİ				Long Term	Short Term	Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş.						
						Financial Data		1H2017*	2016**	2015**	2016***	2015***
International	Foreign Currency			BBB-	A-3							
	Local Currency			BBB-	A-3							
	Outlook	FC		Stable	Stable							
		LC		Stable	Stable							
Issue Rating				n.a	n.a							
National	Local Rating			A- (Trk)	A-1 (Trk)							
	Outlook			Stable	Stable							
	Issue Rating			A- (Trk)	A-1 (Trk)							
Sponsor Support				2	-							
Stand Alone				B	-							
Sovereign*	Foreign Currency			BBB-	-							
	Local Currency			BBB-	-							
	Outlook	FC		Stable	-							
LC			Stable	-								
Total Assets (USD mn)								668	154	191	121	125
Total Assets (TRY mn)								2,351	542	556	424	363
Equity (TRY mn)								1,273	134	229	53	37
Sales (TRY mn)								795	389	386	1,128	1,415
EBITDA (TRY mn)								158	37	75	9	24
Net Profit (TRY mn)								123	3	54	27	-5
Net Profit Margin (%)								15.45	0.92	14.03	2.43	-0.35
ROE (%)								19.78	5.96	31.30	48.26	-7.15
Equity / Total Assets (%)								54.15	24.72	41.31	12.43	10.10
Net W. Cap./ T. Assets (%)								-1.59	-11.82	3.69	22.06	18.80
Debt Ratio (%)								45.85	75.28	58.69	87.57	89.90
Asset Growth Rate (%)								n.a.	-2.30	9.95	17.05	-19.17

*Assigned by Japan Credit Rating Agency, JCR on October 7, 2016
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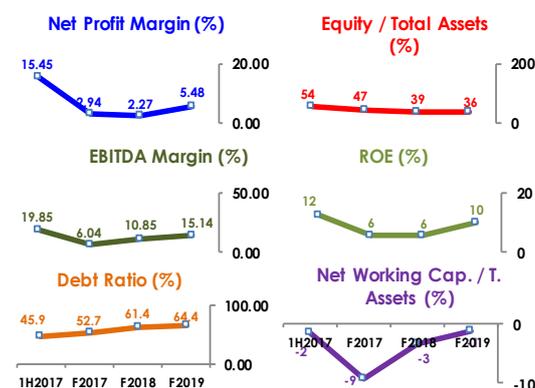
*Cons. half-year, **Solo OEDAS full-year, ***Solo OEPSAS full-year

Overview

Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş. (referred to as "Zorlu Osmangazi" or "the Company") was established in November, 2016 to operate in the energy sector with the principle aim of project development, undertaking investments and carrying out distribution and sales services to customers in the electricity sector. Zorlu Osmangazi acquired 100% of shares belonging to Osmangazi Elektrik Dağıtım A.Ş. (referred to as "OEDAS") and Osmangazi Elektrik Perakende Satış A.Ş. (referred to as "OEPSAS") in February, 2017 and started to publish consolidated financial statements.

In line with EMRA Law no 4628, OEDAS, established in 2005, is responsible for undertaking electricity distribution investments according to pre-determined tariffs set for 5-year periods in its service region which includes 5 cities in the inner-west Anatolia region of Turkey, namely, Afyon, Bilecik, Eskişehir, Kütahya and Usak serving 1.6 million subscribers. The Company's current distribution license is valid until September, 2036. OEPSAS, on the other hand, was established as a separate company in April, 2013 as required by EMRA law no 6446 which came into force in September, 2012, and carries out retail electricity sales services to subscribers in its service region as well as eligible customers across Turkey.

Zorlu Enerji Elektrik Üretim A.Ş. which has been listed on Borsa İstanbul since 2000, fully owns the shares of Zorlu Osmangazi which had a paid-in capital of TRY 1.15bn as of June, 2017. Headquartered in İstanbul, Zorlu Holding, one of the country's leading conglomerates with operations in textiles, consumer electronics, whitegoods, energy and real estate, and ultimately the Zorlu Family is the ultimate qualified shareholder of Zorlu Osmangazi which currently employs a workforce exceeding 1,500 across its operations.



Strengths

- Licensed monopoly status in the operating region contributing to cash flow visibility irrespective of price risks along with a stable EBITDA margin
- Supportive tariff methodology at the regulatory level across the sector ensuring sustainable returns
- High share of equity in the funding of operations and current absence of leverage setting a suitable base for expansion
- Expected growth of the service region in the medium/long-term with a theft/loss ratio below the national average with further upside potential
- Know-how of the new shareholder with respect to vertical integration, technological investments and risk management
- Full liberalization in the distribution segment through completion of privatization tenders and reduction in eligible consumer limits supported by foreign investor interest

Constraints

- Volatility in past sales and profitability indicators of OEDAS and OEPSAS largely stemming from under-investment in the network and tariff changes
- Exposure to FX risk through related party loan exerting pressure with the potential to affect future profitability
- Expected increase in financial leverage in order to carry out the necessary capex set for the current tariff period
- Negative net working capital levels expected to persist in the upcoming period
- Utilization of high levels of FX leverage across the distribution sector and restricted opportunities for funding large-scale energy projects at favorable terms under current market circumstances
- Despite recorded progress, improvement needs in the level of compliance with Corporate Governance Practices in the long-term

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