

## Corporate Credit & Issue Rating

New  Update

Sector: Construction  
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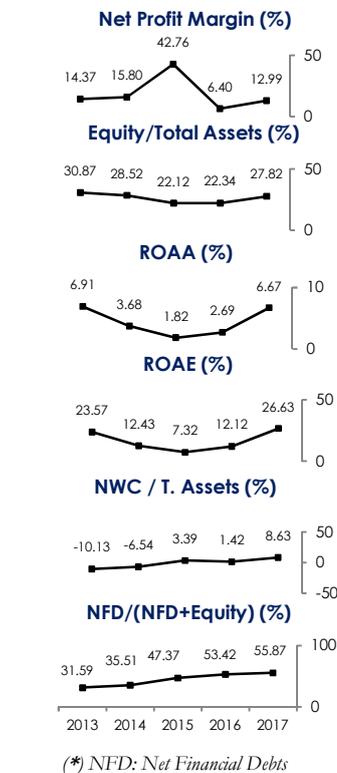
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### RATINGS

		Long Term	Short Term	
International	Foreign Currency	BBB-	A-3	
	Local Currency	BBB-	A-3	
	Outlook	FC	Negative	Negative
		LC	Negative	Negative
Issue Rating	-	-	-	
National	Local Rating	A-(Trk)	A-1(Trk)	
	Outlook	Stable	Stable	
	Issue Rating	A-(Trk)	A-1(Trk)	
Sovereign*	Foreign Currency	BBB-	-	
	Local Currency	BBB-	-	
	Outlook	FC	Negative	-
LC		Negative	-	

\*Affirmed by JCR on August 14, 2018



## Akdeniz İnşaat ve Eğitim Hizmetleri A.Ş. Company Overview

Financial Data	July 2018**	2017*	2016*	2015*	2014*	2013*
Total Assets (000 USD)	2,134,639	1,487,808	1,619,576	1,719,774	1,562,454	1,457,234
Total Assets (000 TRY)	10,459,517	5,611,863	5,699,613	5,000,415	3,623,176	3,110,175
Equity (000 TRY)	1,678,856	1,561,303	1,273,399	1,106,075	1,033,441	960,216
Net Sales (000 TRY)	1,709,444	2,152,598	1,489,514	200,533	634,434	1,155,534
Net Profit (000 TRY)	216,983	279,529	95,394	85,757	100,264	166,002
Net Profit Margin (%)	12.69	12.99	6.40	42.76	15.80	14.37
ROAA (%)	N/A	6.67	2.69	1.82	3.68	6.91
ROAE (%)	N/A	26.63	12.12	7.32	12.43	23.57
Equity / Total Assets (%)	16.05	27.82	22.34	22.12	28.52	30.87
NWC / T.Assets (%)	52.00	8.63	1.42	3.39	-6.54	-10.13
Assets Growth Rate (%)	N.M.	-1.54	13.98	38.01	16.49	2.30
Net Sales / NFD (%)	N.M.	108.89	102.01	20.15	111.48	260.64

(\* End of year, (\*\*) Statutory combined financial statements as of July-end 2018, inconvenient for comparison with the previous periods, NWC: Net Working Capital, NFD: Net Financial Debts, N.M.: Not Meaningful, N/A: Not Applicable

**Akdeniz İnşaat ve Eğitim Hizmetleri A.Ş.** (hereinafter referred to as "Ağaoğlu", "the Group" or "the Company"), was established in 1981 and is a leading real estate development company based in Istanbul/Turkey specializing in complex and mixed-use projects including residence, office, commercial, entertainment and leisure spaces and upper segment housing solutions. The Company has constructed more than thirty thousand residential, office and commercial units since its inception with seven million m<sup>2</sup> of total construction area. With an operational track record spanning over 35 years, Ağaoğlu's increasingly complex and challenging projects have earned the Group a prominent position in the market and attracted interest from national and international investors.

In addition to its real estate development activities, the Group also manages tourism facilities and has investments in the renewable energy production sector. The Group's energy sector activities included three wind, one hydroelectric and one cogeneration power plants as of the report date. Following the completion of the remaining two wind power plants, the total portfolio will increase to an installed capacity of 270.8 MW with an expected annual generation of 875.9 GWh/year. The Group's two operational hotels are located in Uludağ/Bursa and Istanbul and have 59,000 m<sup>2</sup> of total space and room capacity of 311. The Group's also operated two sports clubs and actively carried out sixteen project's facility management services. As of FYE2017, the Group employed 1,451 employees (FYE2016: 1,884), including subsidiaries and affiliates.

### Strengths

- Robust real estate sales originating from renowned projects generating significant sales revenues for the Company
- Reputable brand name granting robustness to market sensitivities
- Ability to fund activities with advances received from customers
- Valuable and sizable investment portfolio generating room for future growth and indicating a robust cash generation source
- Experienced and competent management team
- Efforts to diversify the dependence on construction sector revenues through investments into other sectors
- Continuous improvement in equity base and profitable operations during the review period
- Robust net cash inflow expectations from new projects in future periods, supporting the Company's future growth and deleveraging

### Constraints

- Constrained investor appetite due to increasing interest rates and accompanied increase in mortgage rates, depreciation of the TL, and expected slowdown in GDP growth rate
- Increased financial borrowings and leverage, pressurizing the growth and profit generation capacity
- Notable net FX short position carried in the balance sheet, increasing the sensitivity to fluctuations in foreign exchange rates
- Large fair value gains not contributing to cash inflows and hence liquidity position
- Intensive competition among contractors in key markets such as Istanbul, pressurizing the sector's profit margins
- Room for improvement regarding risk management framework and corporate governance compliance policies
- Ongoing political and economic stresses along with regional tensions in the Middle East pressurizing the demand for construction projects and profit margins