JCR-ER JCR Eurasia Rating
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ZORLU OSMANGAZİ ENERJİ

Corporate Credit & Issue Rating

☐New ☒Update

Sector: Regulated Utilities
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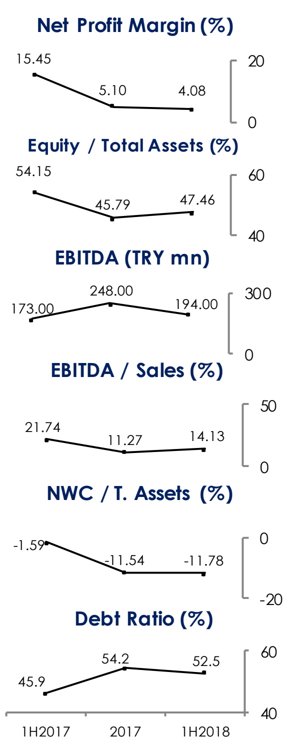
RATINGS

			Long	Short
International	Foreign Currency		BBB-	A-3
	Local Currency		BBB-	A-3
	Outlook	FC	Negt.	Negt.
		LC	Negt.	Negt.
	Issue Rating		-	-
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	Negt	-
		LC	Negt	-

*Affirmed by JCR on August 14, 2018



Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş.

Financial Data	1H2018*	2017*	1H2018**	2017**	1H2018***	2017***
Total Assets (000 USD)	608,650	729,843	199,843	242,588	97,540	68,255
Total Assets (000 TRY)	2,775,872	2,752,896	911,425	915,019	444,852	257,452
Equity (000 TRY)	1,317,417	1,260,423	306,998	214,784	-32,567	-98,308
Net Profit (000 TRY)	55,991	111,939	115,929	260,483	15,580	-19,864
Sales (000 TRY)	1,371,691	2,196,758	325,121	1,055,072	1,336,032	1,742,589
EBITDA (000 TRY)	193,758	247,595	174,767	264,901	19,984	-12,218
Net Profit Margin (%)	4.08	5.10	35.66	24.69	1.17	-1.14
ROE (Pre-tax) (%)	n.a.	12.40	n.a.	153.25	n.a.	n.m
Equity / Total Assets (%)	47.46	45.79	33.68	23.47	-7.32	-38.19
Net Working Capital / T. Assets (%	-11.78	-11.54	-35.33	-37.22	-13.78	-48.78
Debt Ratio (%)	52.54	54.21	66.32	76.53	107.32	138.19
Asset Growth Rate (%)	0.83	17.11	-0.39	68.89	72.79	-39.33

: Consolidated Zorlu Osmangazi, **: Audited Solo OEDAS, *: Audited Solo OEPSAS, n.m due to negative equity*

Company Overview

Established in November, 2016 by Zorlu Elektrik Üretim A.Ş., **Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş.** (referred to as **"Zorlu Osmangazi"** or **"the Company"**) operates in the electricity distribution and retail sales sectors through its consolidated subsidiaries of **Osmangazi Elektrik Dağıtım A.Ş.** (referred to as **"OEDAS"**) and **Osmangazi Elektrik Perakende Satış A.Ş.** (referred to as **"OEPSAS"**) following their acquisition from the previous shareholders of Dedeli Yatırım İnşaat Taahhüt Elektrik Dağıtım Sanayi ve Ticaret A.Ş. in January, 2017.

OEDAS is entitled to carry out electricity distribution services in its licensed service area of inner-west Anatolia region containing the provinces of Afyon, Bilecik, Eskisehir, Kütahya and Usak, serving 1.75mn customers as of June, 2018 in accordance with its license valid until September, 2036. On the other hand, OEPSAS, as required by EMRA regulations was separated from OEDAS in April, 2013 and is entitled to provide retail electricity sales services to its customers in its defined service area along with eligible consumers across the country.

Headquartered in Istanbul, the shares of Zorlu Osmangazi which had a paid-in capital of TRY 1.15bn is fully owned by **Zorlu Enerji Elektrik Üretim A.Ş.**, a vertically integrated energy company that has been listed on the Borsa Istanbul (BIST) index since 2000. **Zorlu Holding**, one of the country's leading conglomerates with operations in textiles, consumer electronics, white goods, energy and real estate and ultimately the **Zorlu Family** are the qualified shareholders of Zorlu Osmangazi which currently employed a total workforce of 1,482 across its operations.

Strengths

- Significant contribution to EBITDA from the regulated distribution segment supported by cash flow sustainability and visibility
- Competitive advantage in relation to sectoral peers conferred through utilization of TRY based financing facility along with high share of equity in operational funding
- Realized recent revisions to the EMRA tariff methodology expected to strengthen income streams of distribution companies
- Significant increase in capex throughout FY2017 through completed bond issuances backed by international investors
- Long-term growth potential of the operating region along with ongoing market liberalization/changes to tariffs to reflect rises in the cost-base across the retail sales segment
- Capability to benefit from shareholder know-how with respect to financial and operational risk management with emphasis on high quality service provision

Constraints

- Notable fall in EBITDA margin in the 1H2018 stemming from rising cost base due to energy procurement expenses
- Persistent market volatility and devaluation of TRY in the current fiscal year exerting upward pressure on financing expenses stemming from FX exposure due to related party loan
- Maintenance of negative net working capital levels in the examined period due to ongoing investment period exerting pressure on liquidity management
- Despite the recorded recovery in the 1H2018, negative contribution of OEPSAS to consolidated earnings in the completed financial year
- Room for further improvement in compliance with Corporate Governance Practices in the long-term, despite notable progress in transparency