

Corporate Credit & Issue Rating

New Update

Sector: Energy
Publishing Date: 02/08/2019

Analyst

Bora Pakyürek
+90 212 352 56 73
bora.pakyurek@jcrer.com.tr

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	BBB+	A-2 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	BBB+ (Trk)	A-2 (Trk)	
Sponsor Support		2	-	
Stand-Alone		B	-	
Sovereign*	Foreign Currency	BBB-	-	
	Local Currency	BBB-	-	
	Outlook	FC	Negative	-
LC		Negative	-	

*Affirmed by JCR on November 27, 2018

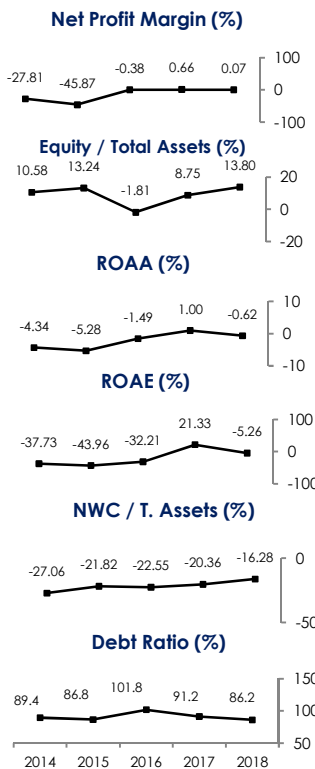
Zorlu Enerji Elektrik Üretim A.Ş. Company Overview

Financial Data	2018*	2017*	2016*	2015*	2014*
Total Assets (mn USD)	3,263	3,215	2,165	1,953	2,140
Total Assets (mn TRY)	17,164	12,126	7,620	5,678	4,963
Equity (mn TRY)	2,369	1,061	-138	752	525
Sales (mn TRY)	6,730	4,988	1,195	709	807
EBITDA (mn TRY)	1,854	1,016	413	260	186
Net Profit (mn TRY)	5	33	-5	-264	-224
Net Profit Margin (%)	0.07	0.66	-0.38	-45.87	-27.81
ROAA (%)	-0.62	1.00	-1.49	-5.28	-4.34
Equity / Total Assets (%)	13.80	8.75	-1.81	13.24	10.58
Net Work.Cap./ T. Assets (%)	-16.28	-20.36	-22.55	-21.82	-27.06
Debt Ratio (%)	86.20	91.25	101.81	86.76	89.42
Asset Growth Rate (%)	41.55	59.13	34.20	14.41	-21.25

*End of year

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 day, Zorlu Enerji operates on various fields of the sector with an integrated corporate combination including electricity and steam generation and their retail, electricity sales, electricity distribution, solar panel sales and installation, natural gas sales and distribution, construction, management and maintenance of power plants and EV charging stations network. In order to achieve operational integration under its umbrella, Zorlu Enerji acquired 90% of the shares of Trakya Bölgesi Doğal Gaz Dağıtım AŞ ("Trakya Doğal Gaz") and Gazdaş Gaziantep Doğal Gaz Dağıtım AŞ ("Gaziantep Doğal Gaz") - which are engaged in regional gas distribution - from Zorlu Group, through its wholly-owned subsidiary Zorlu Enerji Dağıtım AŞ in June 2018.

As of the end of June 2019, Zorlu Enerji's production portfolio comprised 7 hydroelectric power plants, 4 geothermal power plants, 3 wind 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 **1,086 MW**, adjusted for its stakes in the power plants of Israel. Zorlu Enerji holds licenses both in renewable energy sources and natural gas power plants and aims to increase its total capacity. The Company, headquartered in Istanbul, employed a staff force of 2,160 as of FYE2018. The Company is registered to the Capital Markets Board and shares have been publicly traded on the Borsa Istanbul since 2000.



Strengths

- Significant revenue growth mainly derived from the acquisition of Trakya Doğal Gaz and Gaziantep Doğal Gaz in June 2018, 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 and ongoing deleveraging with strong EBITDA
- Increased visibility for future revenues arising from the Company's FX linked YEKDEM sales and stable cash flows arising from the Osmangazi Electricity Distribution region and the regional gas distribution companies of Trakya Doğal Gaz and Gaziantep Doğal Gaz
- Balanced generation portfolio through renewable energy power plants and diversifying geographical risk through investments in attractive markets
- 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

Constraints

- Existing leveraged balance sheet due to long-term financing facilities used for acquisitions and investments with negative effects on profitability by financial expenses
- 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
- Foreign currency risk exposure through financial liabilities with past negative effects on profitability along with future volatility potential, requiring close monitoring despite FX linked revenues providing natural hedge
- Slightly greater business risk due to involvement in relatively new operational areas such as smart systems and solar energy despite promising affluent return potential in near future
- Aggravating economic conditions in Turkey and ongoing regional tensions in the Middle East region exert downward pressure on debt servicing capacities of companies and risk appetite of investors