

Corporate Credit & Issue Rating

New  Update

Sector: Regulated Utilities  
 Publishing Date: 06/12/2019

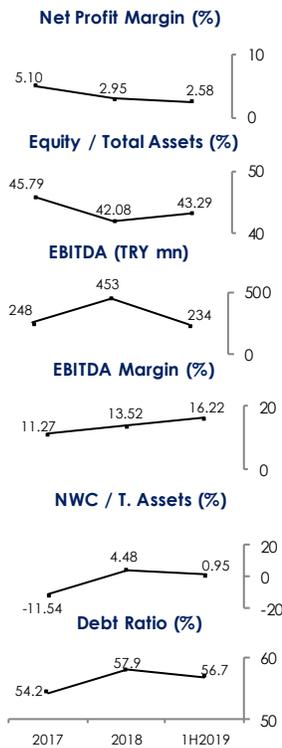
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**RATINGS**

		Long	Short
International	Foreign Currency	BB	B
	Local Currency	BB	B
	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		AB	-
Sovereign*	Foreign Currency	BBB-	-
	Local Currency	BBB-	-
	Outlook	FC Negt.	-
		LC Negt.	-

\*Affirmed by JCR on December 6, 2019



**Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş.**

Financial Data	1H2019**	2018*	2017*
<b>Total Assets (000 USD)</b>	560,514	613,456	729,843
<b>Total Assets (000 TRY)</b>	3,225,815	3,227,329	2,752,896
<b>Equity (000 TRY)</b>	1,396,457	1,358,145	1,260,423
<b>Net Profit (000 TRY)</b>	37,194	98,897	111,939
<b>Sales (000 TRY)</b>	1,441,046	3,348,489	2,196,758
<b>EBITDA (000 TRY)</b>	233,668	452,756	247,596
<b>Net Profit Margin (%)</b>	2.58	2.95	5.10
<b>ROE (Pre-tax) (%)</b>	n.a.	9.09	12.40
<b>Equity / Total Assets (%)</b>	43.29	42.08	45.79
<b>Net Working Capital / T. Assets (%)</b>	0.95	4.48	-11.54
<b>Debt Ratio (%)</b>	56.71	57.92	54.21
<b>Asset Growth Rate (%)</b>	-0.05	17.23	17.11

\*End of year; \*\*end June, 2019 results

**Company Overview**

**Zorlu Osmangazi Enerji Sanayi ve Ticaret A.Ş.** (referred to as “Zorlu Osmangazi” or “the Company”), was established in November, 2016 under Zorlu Elektrik Üretim A.Ş. The Company is principally engaged in project development and realization of investments in the energy sector particularly in the fields of electricity distribution and retail sales through the consolidated subsidiaries of **Osmangazi Elektrik Dağıtım A.Ş.** (referred to as “OEDAS”) and **Osmangazi Elektrik Perakende Satış A.Ş.** (referred to as “OEPSAS”)

In line with its EMRA license valid until September, 2036, OEDAS is responsible for carrying out electricity distribution services in the provinces of Afyon, Bilecik, Eskisehir, Kutahya and Usak serving in excess of 1.80mn customers and is currently in its third regulatory period covering the years FY2016-2020. OEPSAS, on the other hand, the legal entity of which was separated from OEDAS in 2013, provides retail electricity sales to non-eligible customers in its defined service zone along with eligible consumers across the country.

The qualified shareholder of the Company with a paid-in capital of TRY 1.15bn is **Zorlu Enerji Elektrik Üretim A.Ş.**, one of the leading players in the national energy sector with an installed capacity of 1,086 MW along with operations in Israel and Pakistan that is listed on the Borsa Istanbul (BIST) index with a free-float rate of 32%. Ultimately, Zorlu Holding, a leading national conglomerate with operations in textiles, consumer electronics, white goods, energy and real estate and Zorlu Family are the qualified shareholders of Zorlu Osmangazi which employed nearly 1,500 personnel across its operations.

**Strengths**

- Notable share of the highly regulated distribution segment in consolidated EBITDA increasing resilience to market volatility through cash flow visibility
- Utilization of local currency project financing facilities backed by the participation of international creditors reducing FX risk
- Low level of financial leverage in relation to equity and EBITDA setting a suitable base for necessary capex in the network
- Notable increase in the contribution of the retail sales segment to the rise in EBITDA margin in FY2018 and the 1H2019
- Improvement in the theft/loss ratio throughout FY2018 along with stable growth dynamics of the service region contributing to electricity demand
- Established market share and listed structure of the shareholder in the national energy sector along with compliance with quality metrics

**Constraints**

- Significant rise in financing expenses over the examined period increasing pressure on internal equity generation capacity
- Moderate short position stemming from USD denominated long-term related party loan within the current context of market volatility
- Pressure on operating cash flows in the completed fiscal year due to working capital changes stemming from capex in the network
- High level of impaired receivables on a cumulative basis exerting pressure on asset quality despite ongoing collections
- Deterioration in service quality metrics throughout FY2018 such as outage hours and frequency in line with the national trends
- Further improvement needs in compliance with Corporate Governance Practices given the notable scale of operations