Corporate Credit & Issue Rating

☒New ☐Update

Sector: Energy

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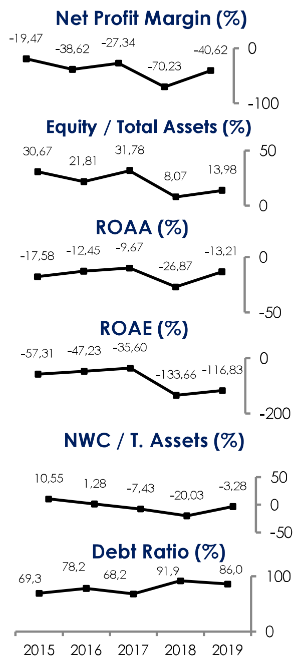
RATINGS

			Long Term	Short Term
International	Foreign		CCC	C
	Local Currency		CCC	C
	Outlook	FC	Negative	Negative
		LC	Negative	Negative
	Issue Rating		n.a	n.a
National	Local Rating		BB(Trk)	B(Trk)
	Outlook		Stable	Stable
	Issue Rating		n.a	n.a
Sponsor Support			3	-
Stand-Alone			C	-
Sovereign*	Foreign		BB+	-
	Local Currency		BB+	-
	Outlook	FC	Negative	-
		LC	Negative	-

*Assigned by JCR on April 10, 2020



AKENERJİ ELEKTRİK ÜRETİM A.Ş.

JCR Eurasia Rating evaluated the consolidated structure of **"Akenerji Elektrik Üretim A.Ş."** in an investment-grade category and assigned the ratings as **"BB(Trk)"** on the Long Term National Scale and as **"B(Trk)"** on the Short-Term National Scale with '**Stable**' outlooks. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as '**CCC/Negative**'.

Akenerji Elektrik Üretim A.Ş. ('Akenerji', 'Company' or 'Group') was established in 1989 by Akkök Holding A.Ş. and is the first power generation company founded as an autoproducer group in Turkey. Following the share transfer transactions between Akkök Group and Cez that Cez took over 37.36% stake in Akenerji on May 14, 2009, the Company was turned into a joint venture company formed by Akkök Holding -one of the leading industrial groups in Turkey- and CEZ Group -one of Europe's leading energy companies-. The main field of activity of Akenerji consists of installation, commissioning and leasing of an electric power generation facility, electricity generation, and sales of the generated electrical energy and / or capacity to customers.

Erzin-Egemer Natural Gas Power Plant, with an installed capacity of 904 MW, commenced operations in 3Q2014 as the largest investment of Akenerji. Over 30 years of experience in the energy sector, with 7 hydroelectric and 1 wind power plants engaged one after another, 320 MW, which constitutes 26% of Akenerji's installed power as of FY2019, is covered by renewable energy resources. The Company has been quoted on the Borsa Istanbul Stock Exchange (BIST) since June, 2000. The control of Akenerji belonged to Cez A.Ş., Akkök Holding A.Ş. and Akarsu Enerji Yatırımları San. ve Ticaret A.Ş. with shares of 37.36%, 20.43% and 16.93%, respectively, in FY2019 while the remaining 25.28% share is publicly traded on the BIST with the ticker symbol "AKENR".

Strengths	Constraints
• Reputable brand name with a proven track record in various countries and operational strength of Akkök Holding A.Ş. and Cez Group • Environmentally friendly generation portfolio including higher margin renewable energy and support level of sectoral authority encouraging the use of renewable energy sources together with the investment incentive market dynamics • Hydro & wind power plants with subsidized tariffs supporting profitability, despite of their limited share in total installed capacity • Efforts to prevent of environmental pollution in all business processes and high contribution on the nature and a sustainable future through holding carbon emission reduction certificates • Enhanced practice of corporate governance principles and more transparent and professional in terms of its operations, business structure, financial standing, and investor relations as a BIST listed company	• Negative net working capital increasing external funding needs, despite relieved liquidity management turning its short-term borrowings into long-term in the scope of refinancing process • High sensitivity to FX fluctuations despite converting a significant portion of loans into Turkish Lira and volatility in profitability ratios • Despite sizeable non-cash re-valuation, negative equity realized in 3Q2020 • Despite slowdown in sales revenue, augmenting gross profit but inability to contribute on internal equity generation capacity due to FX losses related high financing costs' pressure and determining role in profitability

Considering the aforementioned points, the Long-Term National Rating of Company has been assigned as **'BB(Trk)'**. Relief in liabilities term position due to the conversion of the Company's restructured loans to long term maturities in line with cash-generating capacity; improvement in EBITDA generation and EBITDA margin; balanced generation portfolio through renewable energy plants and further focus on higher margin renewable energy; international and domestic brand identity acquired through sector experience; sustainability of sales capability despite recording a volatile figure over the reporting period; despite efforts to decrease the FX risk through the conversion of majority banks loans to TRY with the refinancing process, being across to short FX position due to long term foreign currency loans; high debt levels; despite indicating an improvement trend, the probability of recording an inadequate level of operating profit to cover financial expenses derived from FX differences related to long-term foreign currency liabilities in the following periods; despite the strengthened equity stemming from revaluation, negative equity realized in 3Q2020 according to IFRS report; high financing expenses due to FX losses downwardly pressuring profitability and internal resource generation capacity; constitute the main factors in determining Long and Short Term Notes of Company with 'Stable' outlook. Besides, macroeconomic indicators in national and international markets; the prevalence and activity level of the epidemic Covid-19 virus and its slowing effects on the global and Turkey's economy and its effects on the Group's activities; probable changes on demand that might stem from developments in the global economy, and geopolitical risks; cash flow generation capacity; to fulfill the repayment plan of refinanced loans on time and difficulties in paying current debts and in the level of compliance of credit usage conditions and covenants; the ability to fulfill specific requirements regarding the restructured loans; the attainability of the Company's budgeted projections and the generation of internal resources, and cash flows to meet debt payments are factors that will be monitored by JCR Eurasia Rating.

Akkök Holding A.Ş., Cez Group and **Akarsu Enerji Yatırımları San. ve Ticaret A.Ş.** are the controlling shareholders. Regarding the Company's current capital structure, equity ratio and indebtedness level, the **Sponsor Support** grade has been determined as **(3)** on JCR Eurasia Rating's notation scale.

The Stand-Alone note is formed depending on the Company's knowhow and long experience in the sector, level of reached market reputation, growth rates in sales revenue, asset size and quality, the returns on assets and equity, liquidity position, net working capital need, equity-debt level, diversification of revenues through projects in the field renewable energy, competitive advantages conferred through ensuring sustainable developments, high level of corporate governance practices and experienced senior management team. Within this context, the Stand-Alone grade of the Company has been assigned at **(C)** in the JCR Eurasia Rating notation system.