Fitch Assigns Akis Gayrimenkul Yatirim Ortakligi First-Time National Long-Term 'BBB(tur)' Rating

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Fitch Ratings has assigned Istanbul-based, real estate company Akis Gayrimenkul Yatirim Ortakligi a.s. (Akis) a National Long-Term Rating of 'BBB(tur)' with a Stable Outlook.

The rating reflects material asset concentration, a high level of short-term and foreign currency-denominated debt, as well as a volatile economic environment. Its two shopping malls are in good locations with large catchment areas and ample transportation links. The portfolio generated around TRY371 million (USD77 million) of rental income in 2018 and EBITDA of TRY268 million (USD56 million). Akis has consistently recorded occupancy rates above 95% and like-for-like rental growth.

Financial metrics are fairly conservative, with loan-to-value (LTV) of around 38% and net debt/EBITDA of 6.8x at end-2018, a level Fitch expects to decline on less development spend. Akis normally indexes leases to the US dollar, but a government decree in October 2018 temporarily prohibits Turkish companies from linking leases to foreign currencies. Exchange risk, therefore, has materially increased. The company, nevertheless, hedges about a quarter of its debt.

Key Rating Drivers

Asset Concentration Constrains Rating: Akis operates a portfolio mainly comprising two large shopping centres and one standalone store with a total portfolio value of TRY4.8 billion (USD868 million). This level of asset concentration, which is higher than other EMEA-rated real estate companies', means a material problem with a single property may substantially affect overall operations. In addition, the company has limited flexibility to divest assets to alleviate financial stress. While the company's assets and tenants are of good quality, this degree of asset concentration is unlikely to change over the medium-term and therefore constrains the rating.

Prime Shopping Destinations: Akis's largest asset is Akasya Shopping Centre, which has more than 260 stores and, with a value of around TRY3.5 billion (USD602 million) at end-1H19, accounts for about two-thirds of total asset value. The mall offers high-end shopping in a well-known area of Istanbul's Asian side with ample transportation links and road access, making Akasya a destination mall. The immediate catchment area holds about 1.1 million people, but increases to 3.6 million within 12 kilometres. Direct competition is limited. Tenants are largely high-end foreign and domestic retailers with a substantial offering of food and entertainment.

The second key asset, Akbati shopping centre, is smaller, valued at TRY1.4 billion (USD241 million) at end-1H19 and includes 173 stores in a growing area in outer Istanbul. Akbati is the only substantial shopping centre within its discrete, five-kilometre catchment area, which includes around 750,000 people. Since 2015, Akasya and Akbati have consistently recorded occupancy rates above 95% and rental growth at more than 3% above inflation. Other assets include a small portfolio of high-street assets on Bagdat Street, an upscale residential and shopping area on Istanbul's Asian side.

Volatile Market Conditions: Akis's assets are entirely located in Istanbul, which has a population of more than 15 million. Turkey continues to experience economic and currency instability, which has weakened retail markets and reduced consumer spending. Fitch forecasts GDP to contract 1.1% in 2019, but to grow 3.1% in 2020. Akis's performance has remained broadly stable, largely owing to its competitive position. While footfall for shopping centres in Turkey contracted on average 1.1% in 2015-2018, and in Istanbul has remained flat, visits to Akasya and Akbati increased 3.6% and 2%, respectively. Turnover of Akis has similarly outpaced market averages and occupancy levels.

Low Leverage: Akis maintains fairly conservative financial metrics with an LTV of around 38% and net debt/EBITDA of 6.8x at end-2018. Fitch expects this relatively low cash flow leverage, which partly reflects the high-yielding nature of Akis's assets compared with other Europe cities, to steadily fall as development spending declines.

High Short-Term Debt: About one quarter of debt matures within one year, which increases refinancing risk. The remaining debt is long-term and secured against assets. The average debt maturity should increase as Akis expects to issue domestic bonds in 2019, but tenors are likely to be relatively short in the current market. Akis appears to have good relationships with local and some international banks and to date has been able to roll over short-term and spot debt, but is exposed to an increasing risk of tightening credit availability and renewing at more onerous conditions if the lira further weakens and the impact on Turkish banks intensifies.

Decree 32 Eliminates Currency Hedge: Over 90% of Akis debt is denominated in foreign currency, mainly in US dollars. To hedge this exposure, the company indexes its leases to the US dollar. Nevertheless, the government, in response to the lira's sharp depreciation in 2018, introduced Decree 32, which temporarily prohibits domestic companies from linking leases to foreign currencies. The statute, which is scheduled to end in October 2020, has forced Akis to convert existing leases at a rate of 4.51 USD/TRY, with Turkish CPI applied annually. This has substantially increased foreign currency risk in the short term, assuming the government does not extend the decree. Akis hedges about one quarter of total debt, mitigating some of this risk.

Diversified Tenant Mix: Akis has a diversified tenant mix, comprising many recognised, upscale national and international retailers. The majority of tenants have been in Akasya or Akbati Mall since they opened in 2011 and 2014, respectively, and range from supermarkets, department stores, fashion retailers, as well as cinemas, restaurants and other leisure attractions. The top 10 tenants generate around 24% of annual base rent revenue, reflecting some tenant concentration. With 58% of leases maturing by 2024 at Akasya and 42% in 2021 at Akbati, the leases profile is uneven. The company intends to smooth out the lease maturity profile as they are renewed.

Derivation Summary

Emirates REIT (International Foreign Currency Issuer Default Rating (IDR): BB/Stable) has similar geographic concentration as Akis as it owns and operates a portfolio of offices and schools entirely within Dubai. The portfolio, however, comprises 11 properties worth about USD941 million (end-March 2019), which is only slightly larger than Akis's portfolio, but with less asset concentration and some diversity in asset type. Emirates REIT, however, has the lowest occupancy (75%) and EBITDA margins (47%) among rated EMEA peers.

Similar to Akis, Ronesans Gayrimenkul Yatirim A.S. (RGY, FC IDR: BB-/Negative) operates wholly within the volatile economic environment of Turkey and is prohibited from indexing its leases to foreign currencies. Nevertheless, RGY's portfolio of retail assets, which is valued at around EUR2 billion, is considerably larger than Akis's and is spread across the largest cities of the country, reducing geographic concentration.

Debt levels for Akis are fairly low. LTV was 38% and 6.8x net debt/EBITDA at end-2018, compared with RGY's LTV of around 50% and net debt/EBITDA of around 11x, which is high owing to substantial development over the past couple of years. Fitch expects this to steadily reduce. Emirates REIT has an LTV of around 45%, but high debt/EBITDA of more than 12x. Nevertheless, following a refinancing at end-2017, the average debt maturity is now slightly under five years. We forecast Akis's net debt/EBITDA to fall below 6.0x by 2020, a level similar to a number of investment-grade real estate companies'. Nevertheless, the challenging operating conditions, exposure to foreign currency risk and high level of short-term debt facing Akis contrast with most other rated EMEA real estate companies.

Key Assumptions

Fitch's Key Assumptions within our Rating Case for the Issuer

-Inflation forecast at 16% for end-2019, 13% end-2020 and , 11% end-2021, with rental agreements revised annually;

-No new acquisitions and relevant disposals;

-Monetisation of the land already disposed of according to scheduled payment collection;

-Recurring dividend stream averaging TRY140 million over the next four years;

-TRY200 million equivalent bond to be issued in 2H19 with a two-year maturity; and

-No cash tax payments (previously payments related to disposal activity).

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

-Material asset and geographic diversification

-Stabilisation of Turkish lira and economic conditions

-Effective and sustainable means of hedging the Turkish lira relative to foreign currency-denominated debt

-Lengthening of average debt maturity to more than three years

Developments That May, Individually or Collectively, Lead to Negative Rating Action

-Further weakening of economic conditions and/or a significant short-term depreciation in the Turkish lira

-Net debt/EBITDA exceeding 7.0x over a sustained period

-Material decrease in average debt maturity

Liquidity and Debt Structure

Akis's liquidity ratio is weak at significantly under 1.0x, which largely reflects a high level of short-term debt with more than TRY500 million of debt maturing in the next 12 months. This compares with readily available cash of TRY96 million and forecast free cash flow of around TRY30 million. In line with Turkish market practice, revolving facilities are uncommitted and renewed annually. Although to date the company has been able to regularly renew its bank lines, availability may become more restricted if the operating environment deteriorates further.

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RATING ACTIONS

ENTITY/DEBT	RATING		
Akis Gayrimenkul Yatirim Ortakligi A.S.	Natl LT BBB(tur) ● New Rating		

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Applicable Criteria

National Scale Ratings Criteria (pub. 18 Jul 2018)
Corporate Rating Criteria (pub. 19 Feb 2019)

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