FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Akis at 'BBB(tur)'; Outlook Negative

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Fitch Ratings - London - 27 Aug 2020: Fitch Ratings has affirmed Istanbul-based real estate company Akis Gayrimenkul Yatirim Ortakligi a.s.'s (Akis) National Long-Term Rating at 'BBB(tur)'. The Outlook has been revised to Negative from Stable.

The revision of the Outlook reflects the challenging prospects of recovery in the post-lockdown operating environment. A two-month lockdown shopping centres in Turkey, which ended in June, roughly halved company EBITDA in 1H20. This stress is exacerbated by the volatile lira. More than three-quarters of company debt is in US dollars or euros, of which only 26% net is hedged. Akis previously indexed leases to the US dollar, but a government decree currently prohibits Turkish companies from linking contracts to foreign currencies. The lira has depreciated by 16% since March 2020.

Fitch forecasts cash flow leverage to increase to around 8.6x by YE20, but return to more conservative leverage levels of around 7.0x by end-2021. Occupancy remains healthy and almost all tenants remain.

KEY RATING DRIVERS

Coronavirus Mall Closures: All shopping centres in Turkey were closed from 20 March 2020 to 11 May to help counter the spread of the coronavirus. Akis reopened its malls on 1 June. Akis collected no rent during this time, apart from a minimal amount for essential businesses such as grocery and pharmaceutical stores. Since reopening, footfall increases have been slower compared with some other EMEA countries. The company consequently forgave 50% of rent due in June.

In total, revenue and EBITDA roughly halved in the first half of the year. Incentives have begun to ease as the company forwent 29% of rent for Akasya and 19% for Akbatı in July, but how quickly footfall returns to normal levels remains unclear.

Quality, but Concentrated Portfolio: Akis's portfolio was valued at TRY5.4 billion (USD909 million) at end-2019 and mainly comprises two large shopping malls. This high asset concentration constrains the rating. The largest asset, Akasya (TRY3.65 million value at end-2019), is a destination mall offering high-end shopping in a well-known area on Istanbul's Asian side. The immediate catchment is around 1.1 million people with limited regional competition. The second key asset, Akbati (TRY1.465 million), is in a growing area of outer Istanbul. Akbati is the only large mall within its discrete catchment area.

Local and International Tenants: The tenant base is a combination of well-known national and international retailers, such as Beyman and Vakko (upscale Turkish fashion companies), Zara, Gant, Inditex Group and Marks & Spencer. Most tenants have been in Akasya or Akbati Mall since they opened in 2014 and 2011, respectively.

Both Akasya, with more than 250 stores and Akbati, with more than 170, include a range of offerings, including anchor supermarkets, department stores, and significant leisure and entertainment options to attract footfall. Although only around 10% of leases at Akasya will mature through 2021, more than 50% will mature at Akbati, reflecting the prevalence of 5+5 year leases signed when the mall opened. The company intends to even out this lumpy lease maturity profile.

Healthy Occupancy: With the incentives in place to alleviate pressure on tenants, occupancy rates remain high, at around 96% at Akasya Mall and almost 98% at Akbati. Occupancy at Akasya Mall recently increased with the opening of a 3,200 sq m H&M store on 13 August. Three more stores are scheduled to open in 3Q20. No major tenants have entered into bankruptcy or defaulted on leases because of the pandemic, with only three small stores totaling around 425 sq m not renewing in 2020 to date

Material Foreign-Exchange Risk: In October 2018, the Turkish government prohibited domestic companies from indexing or denominating contracts in foreign currencies through a two-year decree. Consequently Akis cannot link its leases to the foreign currencies to hedge its debt, about 80% of which is in US dollars or euros. Only 19% of debt is hedged. The decree is scheduled to end in October 2020, but given the negative economic effects of the coronavirus, it may be extended. The Turkish lira remains highly volatile, depreciating by around 16% against the US dollar since March 2020.

Temporary Spike in Leverage: Akis maintains conservative financial metrics with net debt/EBITDA of 6.4x at end-2019, partly reflecting the high-yielding nature of even prime assets in Istanbul. With the drop in revenue caused by the effects of the pandemic, Fitch expects this to jump up to around 8.6x by YE2020 - outside our negative sensitivities - but fall to historical levels as growth resumes. The company has no committed capex, which should enable Akis to reduce debt over the next few years.

Short-term Debt Profile: The company has increased its average debt maturity -- only 1.45 years at 2H20-- by recently refinancing with a new five-year, USD100 million amortising bank loan, with a one-year grace period. This has improved the average debt maturity to two years, which is still short. Management expects to refinance further debt in the short-term, which should extend the average maturity.

DERIVATION SUMMARY

Akis's closet peer is Ronesans Gayrimenkul Yatirim A.S.'s (RGY, B+/Rating Watch Negative; RWN), a Turkish retail mall operator. The company is larger than Akis, with a portfolio of 12 mostly destination shopping centres and two offices totaling EUR2.2 billion in value at share. While focused on Istanbul, RGY also has malls located across several cities in Turkey. Both companies have healthy occupancy rates of around 95%. RGY has also a high-degree of foreign-denominated debt with significant exposure to the volatile lira. Both companies originally indexed their leases to euros or dollars to match their capital structure - something real estate companies based in eastern European are still able to do - but no longer can due to a government decree prohibiting linking leases to foreign currency.

With Fitch calculated proportionally consolidated net debt/EBITDA of 11.3x at end-2019 and forecast to increase to 12.9x in 2020, RGY has higher debt levels than Akis. RGY has a longer debt maturity schedule of around four years, compared with a short two for Akis, although RGY faces refinancing risk in 2021, when around TRY1.8 billion of debt matures.

Akis's portfolio, valued at USD909 million at YE2019, is similar to that of Dubai-based Emirates REIT (BB/RWN), whose portfolio is valued at around USD920 million (end-2019). Emirates REIT is similarly concentrated in one city, but has 11 office assets across Dubai with a limited retail exposure. However, occupancy is low at around 73% and cash flow leverage is high at nearly 14x at end-2020.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Consumer prices forecast at +11.6% for end-2020, +10.5% end-2022 and +10.8% end-2022, with rental agreements revised annually

- No new acquisitions and relevant disposals

- No cash dividend paid in 2020, cautiously resumed in 2021

- Capex limited to maintenance with no development capex

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- 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

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- 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

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from

'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Improving Liquidity: Akis's liquidity has benefited from the USD100 million five-year loan signed in the second half of August 2020. Pro-forma for this new credit line, the liquidity ratio improved to above 1.0x and the average debt maturity increased to around two years. In line with Turkish market practice, revolving facilities are uncommitted and renewed annually. Although Akis has been able to regularly renew its bank lines, availability may become more restricted if the operating environment deteriorates further.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Akis Gayrimenkul Yatirim Ortakligi A.S.	Natl LT	BBB(tur) Rating Outlook Negative	Affirmed	BBB(tur) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 08 Jun 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 26 Jun 2020)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Akis Gayrimenkul Yatirim Ortakligi A.S.	-

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