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RATING ACTION COMMENTARY

Fitch Affirms Akis at 'BBB(tur)'; Withdraws Ratings

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Fitch Ratings - London - 10 Aug 2021: 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 is Negative. At the same time, Fitch has withdrawn the rating for commercial reasons.

The affirmation reflects the gradual improvement in the company's rents. EBITDA fell by nearly 40% in 2020, mainly owing to a government-imposed two-month lockdown and other subsequent restrictions. 1H21 has also suffered from restrictions, including a 17-day lockdown in May, during which most tenants did not pay any rent. Nonetheless, 1H21 revenue is expected to increase by around 40% compared with 1H20, driven by improved footfall and higher spending per visit. Occupancy and the tenant base have remained stable. FX exposure remains high as 87% of debt is US dollar-denominated with only 20% hedged. The lira remains highly volatile, depreciating in 2021 by more than 10% to date.

The Negative Outlook reflects the ongoing uncertainty of the Covid-19 pandemic, as well as lira volatility, which are particularly affecting the retail sector, as well as Akis, given its high level of foreign-denominated debt.

The rating is being withdrawn for commercial reasons.

KEY RATING DRIVERS

Two Malls Drive Rents: The investment portfolio is highly concentrated, mainly comprising two large malls with a total portfolio value at end-2020 of TRY5.3 billion (EUR582 million). The largest, Akasya Shopping Centre (TRY3.5 billion) is a primary destination mall on Istanbul's Asian side with a catchment exceeding 1 million people with limited competition and good transportation links. The second, Akbati Mall (TRY1.45 million) is in a growing area of outer Istanbul and is the only large mall within its discrete, five-kilometre catchment area. Other assets include a small portfolio of high-street assets on Bagdat Street, an upscale area on Istanbul's Asian side.

Restrictions Continue to Affect Rents: Since a two-month lockdown in March 2020, restrictions have been sporadically implemented to limit the spread of the pandemic, including a 17-day lockdown in May 2021. Since June, restrictions have lifted and footfall recovery has been strong. Akis collected no rent during lockdown periods (except from essential businesses that remained open) and has provided various discounts, depending on the restrictions. The effects of this have been clear. EBITDA fell by more than 35% in 2020, although the discounts ensured occupancy rates remained steady at around 95%. All restrictions have been lifted since July, but a return of them will continue to inhibit rental income.

Material Foreign-Exchange Risk: The Turkish lira remains highly volatile, losing more than half its value in the past three years and more than 10% in 2021 to date. A government decree in October 2018 prohibits Turkish companies from linking its leases to foreign currencies, transferring foreign-exchange risk to companies. With almost 90% of debt US dollar-denominated and only about 20% of this hedged, volatility will continue to materially affect company financials.

Development Pipeline Minimal: Akis has largely completed its high-street development in the Bagdat Street, an upscale area on the Asian side of Istanbul. The company has a number of land plots around Istanbul, but there are no material developments in the pipeline. Management's strategy is focused on reducing leverage before embarking on any significant developments.

Improving Debt Profile: The average debt maturity increased to 3.0 years at end-2020 from 1.5 years at end-2019. The improvement mainly stemmed from renewing bank borrowings with maturities of five and 6.5 years, as well as repaying a facility due in 2022 with five-year bank debt that included a one-year grace period. Akis's ability to extend the maturity schedule during a challenging 2020 demonstrates the company's good relations with Turkish and international banks, but the company remains exposed to the risk of tightening credit availability.

Leverage Doubled: The loss of EBITDA as well as lira depreciation caused cash flow leverage to nearly double. Net debt/EBITDA at end-2020 was more than 13x, up from 6.4x at end-2019. Fitch forecasts the company will gradually reduce leverage to around 7x and 6x at end-2021 and end-2022, eventually returning to previous low levels.

Interest coverage has also been tight at around 1.0x at FYE20 but is also forecast to gradually improve. However, these improvements depend on comparative reductions of lira volatility and Covid-19-related restrictions. Should these materially exceed expectations, leverage will remain high and interest coverage tight.

DERIVATION SUMMARY

Akis's closest peer is Ronesans Gayrimenkul Yatirim A.S.'s (RGY: Foreign Currency Issuer Default Rating: B/Negative), also a Turkish retail mall operator. Akis has a much smaller profile with two primary assets and a value of TRY5.3 billion, while RGY owns and operates a portfolio of nine mainly destination malls, one office building and three mixed use development with a total value of around TRY13.6 billion (EUR1.34 billion). Akis has assets only in Istanbul, while RGY has assets across several of Turkey's largest cities.

Akis and RGY operate in the challenging operating environment of Turkey, which has been marked by a volatile political and economic environment, as well as the ongoing effects of the pandemic. Both companies' debt is largely denominated in either euros or US dollars, but a 2018 government decree prohibits linking tenant leases to foreign currencies, which is commonly done by real estate companies in Eastern Europe. This has had a material effect on the companies' financial positions as the lira's value has more than halved over the past three years and continues to be highly volatile.

KEY ASSUMPTIONS

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

Inflation forecast at +16% for end-2021, +14% end-2022 and +11% end-2023, with rental agreements revised annually

No acquisitions or disposals

No cash dividend paid in 2021, resuming in 2022 and gradually increasing to previous levels

Capex largely limited to maintenance in 2021 with a limited amount of development and refurbishment capex in outer years.

Lira depreciation in line with Fitch projections

RATING SENSITIVITIES

Not applicable

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

Minimal Liquidity: Akis refinanced much of its debt into five and 6.5-year debt, which has extended the debt maturity to three years from 1.5 years in the previous year. Nevertheless, amortisations, short-term debt and bond redemptions mean that more than TRY750 million of debt is due by the end of 2021. At end-2020, the company had around TRY113 million of available, unrestricted cash and while the company maintains long-term relations with domestic and international banks, revolving facilities are uncommitted and renewed annually, which is in line with Turkish market practices. Akis has continually been able to renew its bank lines, but the risk of credit tightening will heighten if the operating environment deteriorates further.

ISSUER PROFILE

Akiş is a Turkish REIT listed on the Istanbul Stock Exchange that owns and operates a portfolio mainly comprising two large shopping centres.

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 Negative

ENTITY/DEBT	RATING			PRIOR
	Natl LT	WD(tur)	Withdrawn	BBB(tur) Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Bram Cartmell
Senior Director
Primary Rating Analyst
+44 20 3530 1874
bram.cartmell@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Diego Della Maggiore
Director
Secondary Rating Analyst
+44 20 3530 1797
diego.dellamaggiore@fitchratings.com

John Hatton
Managing Director
Committee Chairperson
+44 20 3530 1061
john.hatton@fitchratings.com

MEDIA CONTACTS

Adrian Simpson
London
+44 20 3530 1010
adrian.simpson@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 22 Dec 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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