



26 August 2024

Credit Rating

Long-term (National):

(TR) AA

Outlook:

Stable

Short-term (National):

(TR) A1+

Outlook:

Stable

Expiry Date:

26 August 2025

İş Gayrimenkul Yatırım Ortaklığı A.Ş.

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İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

Rating Summary

İş Gayrimenkul Yatırım Ortaklığı A.Ş., ("İŞ REIC" or "the Company") was established following the acquisition of Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. by İş Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. on August 6, 1999 and converting it into a real estate investment trust. İŞ REIC is an establishment that invests in real estate, real estate projects, real estate backed securities and capital market instruments within the framework of the Capital Markets Board regulations. Founded in 1999, the Company was offered to public in the same year and is listed on Borsa İstanbul.

Türkiye İş Bankası A.Ş. ("İş Bank") is the controlling shareholder of the Company with 52,06% of the share capital. İş Bank is the first national bank of the Republic of Turkey and was established in 1924 to carry out all kinds of banking transactions and to establish or participate in all kinds of enterprises in the industrial and financial sectors when necessary. There has been no change in the Bank's status since its establishment.

Following our comparative analysis of the sector¹ and examination of financial/operational risks carried by the Company, as well as its domestic market history and position, the Company's previous long-term rating of **(TR) AA** and its short-term rating of **(TR) A1+** is hereby reconfirmed.

Previous Rating (August 25, 2023):

Long-term: (TR) AA

Short-term: (TR) A1+

Outlook

With its roots dating back to 1999, İŞ REIC is engaged within the scope of the Capital Markets Board's regulations on Real Estate Investment Trusts, such as investing in real estate, real estate-based capital market instruments, real estate projects, real estate-based rights and capital market instruments. Looking at the shareholding structure of İŞ REIC, "Türkiye İş Bankası A.Ş." is the controlling shareholder with a 52.06% share, 7.04% of the remaining shares belong to "Anadolu Hayat Emeklilik A.Ş." and 40.90% of the shares are traded on the Borsa İstanbul (BIST) under the ticker "ISGYO".

In accordance with the decision taken by the Public Oversight, Accounting and Auditing Standards Authority (POA), the financial statements of entities applying Turkish Financial Reporting Standards (TFRS) for the annual reporting period ending on or after December 31, 2023 should be presented in accordance with the relevant accounting principles as adjusted for the effects of inflation. In this framework, inflation adjustments have been applied in the preparation of İŞ REIC's 2023 and 2022 year-end financial statements.

As of FY2023, İŞ REIC's revenue decreased by 13.7% compared to the end of the previous year and amounted to TRY 1.3bn (2022:TRY 1.5bn). 55.7% of the revenue consists of rental income, 21.1% of housing sales income, 13.9% of right of construction income, 7.0% of bank deposit interest income, and 2.3% of other income. The Company's gross profit increased by 15.1% to TRY933.2mn at the end of 2023 compared to the previous year-end (2022: TRY 810.5mn) and the net operating profit excluding real estate valuation income increased by 11.2% to TRY 752.5mn (2022: TRY 676.8mn). In accordance with inflation accounting, real estate value assessment income amounted to TRY 1.8bn in 2023 compared to TRY 7.2bn in 2022. Thus, the Company's operating profit decreased by 67.4% to TRY 2.7bn at the end of 2023 compared to the end of the previous year (2022: TRY 8.2bn). İŞ REIC's net profit amounted to TRY 3.1bn by the end of 2023 (2022: TRY 8.6bn).

The Company's current assets at the end of 2023 increased by 25.0% compared to the end of 2022, reaching TRY 4.2bn (2022:TRY3.3bn). Fixed assets amounted to TRY 29.0bn at the end of 2023, up 10.1% compared to the previous year-end. Investment properties and investment properties under development in non-current assets were revalued to TRY 24.4bn at the end of 2023 (2022: TRY 22.8bn). At the end of 2023, the Company's total investment properties and investment properties under development constitute 84.3% of its non-current assets (2022: 86.4%).

The Company's current liabilities at the end of 2023 decreased by 36.1% compared to the end of the previous year and amounted to TRY 3.7bn (2022: TRY 5.8bn). 67.3% of current liabilities consist of financial liabilities (2022: 97.1%). İŞ REIC's net financial liabilities increased by 15.8% y-o-y to TRY 3.9bn at the end of 2023. It is seen that the Company has spread its financial liabilities over the long term. Total liabilities consisted of 11.1% short-term debt, 7.4% long-term debt, and 81.5% shareholders' equity. The Company diversified its financial borrowing with bank loans and capital market instruments. According to the Company's Independent Audit Report, the net foreign currency asset/liability position at the end of 2023 was (-) TRY 11.3mn (2022:(+)TRY481.2mn). The Company enters into derivative transactions to hedge against currency fluctuations. At the general shareholders' meeting where the year 2023 was discussed, it was decided not to distribute dividends in order to optimize cash flows, and retain them within the Company. The construction of Litus Istanbul Housing Project has been completed and sales are ongoing, and the construction of IFM Project has been finalized as of the reporting date. Project development works are ongoing in Kasaba Modern Project, Profilo Shopping Center Housing Project, and Tuzla Housing Project. In addition, the Company owns 2 land plots with a total appraisal value of TRY 162.6mn.

As of June 2024, the Company's portfolio value is approximately TRY 41.7bn, of which approximately 96% consists of investments in the real estate sector. Real estate investments consist of immovable properties from which rental income is generated, stocks on sale, projects, and land investments. The breakdown of investments in the real estate sector is as follows: 64.3% office, 18,3% retail, 10.5% project, 6.5% inventory, and 0.4% land.

In addition to the aforementioned factors, İŞ REIC's strong ownership structure, effective risk and cost management and ability to access financing have been included in the assessment, and the Company's outlook has been determined as **"Stable"**. We are monitoring the developments in local and global money and capital markets and will evaluate their potential impact on the Company during the surveillance period.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis determines the relative position of the Company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology covers the evaluation of the Company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risk as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed in the current global financial crisis we witness. Our methodology consists of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long-term credit ratings reflect our present opinion regarding the mid to long term period of one year and above; Our short-term credit ratings reflect our opinion regarding a period of one year. Our long-term credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market. According to the structured finance regulation, for asset backed securities, the top three rating degrees represent “investment worthy” securities.

Short Term	Long Term	Rating Segment	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	First Degree	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Second Degree	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company level and/or economic and financial conditions may increase investment risk, but not significantly.
(TR) A2	(TR) A- (TR) BBB+	Third Degree	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Fourth Degree	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer’s capacity to fulfill its obligations may weaken in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B1, B2, C categories should be considered “speculative” by the market.

(TR) B1	(TR) BB+ (TR) BB (TR) BB-	Fifth Degree	Carries minimum level of speculative features. Not in danger in the short term, but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(TR) B2	(TR) B+ (TR) B (TR) B-	Sixth Degree	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Seventh Degree	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Default	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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This report, edited by SAHA A.Ş. analysts based on their best intentions, knowledge base and experience, is the product of an in-depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment decisions or other purposes.

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