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AKSA ENERJİ ÜRETİM A.Ş.

Long-term Rating: **TR A+**
Short-term Rating: **TR A2**
Outlook: **Stable**

Istanbul, Ekim 14, 2015 – Turkrating has assigned a Long-term Credit Rating of TR A+ and a Short-term Credit Rating of TR A2 to Aksa Enerji Üretim A.Ş. (Aksa Energy). The experienced team in management, the geographic distribution of its power plants and the diversification of the plants in terms of energy sources reinforcing Aksa Energy's solid position in the Turkish energy market, are key factors supporting the ratings. We expect that the recently completed and on-going investments, both in Turkey and overseas, will positively impact its future cash-flows. Balancing these positives, the ratings are constrained by the volatile operational environment and the currency risk due to the company's high foreign currency financial liabilities. We view the outlook stable due to the intensification of challenges and uncertainties caused by the repetition of the general elections.

A Major Player in the Turkish Energy Sector: With its 9.8 kWh electricity production, Aksa Energy provided 3.1% of Turkey's total energy production in 2014. Having 8.5% market share among the independent power producer (IPP) Aksa Energy is one of the leading companies. Established in 1997 by Kazancı Holding A.Ş., 21.4% of Aksa Energy's shares are currently free float. Its first investment, the Bursa Biogas Power Plant, became operational in 1998, then the company progressively diversified its investments into becoming the second largest IPP in Turkey with an installed power production capacity of 2,271 MW. The synergy obtained by the vertical and horizontal organizational integrity with the Kazancı Group companies is also supportive of its steady growth process. Management targets to improve capacity utilization ratios and enhance profitability through the amplification of direct sales to independent customers and electricity distribution companies as on-going projects are completed and the production capacity reaches 2,823 MW by 2017.

Diversity of Energy Sources and Geographic Distribution of Power Plants: Aksa Energy currently operates 19 electricity power plants (four fuel-oil, seven wind farms, two hydroelectric, five natural gas powered and one lignite plant) spread across almost the entire country and covering almost all energy sources. The organization and composition of Aksa Energy's installed production capacity enables management to minimize the negative effects of the volatility in natural gas and fuel prices and thereby increase productivity.

Highly Sensitive to Foreign Exchange Rates: As long-term TL financing of long-term investment projects is still comparatively more costly in our country, the majority of the company's financial liabilities are in foreign currency. Although short-term net FX liabilities are hedged using derivative instruments, the company is highly exposed to the volatilities in the exchange rate. In TL terms, the open position of the company is TL1.3 billion at the end of June 2015.

Stable EBITDA: EBITDA has been on a rising trend in the last five years. In 2014, despite the availability of a strong electricity supply, spot electricity prices were higher because of the draught. Partly profiting from that environment and partly due to the increase in the installed capacity, Aksa Energy's EBITDA rose by 9.6% in 2014. Although rates were significantly lower in the first half of 2015, Aksa Energy’s strategy was effective in lowering production costs and raising EBITDA by 1.8 times benefiting from the advantage of having diversified energy sources. We expect to see further improvements in EBITDA in the future with the completion of the on-going projects.

Highly Leveraged Similar to Most Energy Companies: Due to capital intensive investments most companies in the energy sector are highly leveraged. We noted that the company's liabilities have increased by 56.2% in the last five years and that its total liabilities reached 2.4 times its equity by 2014 (2.9 times by mid-2015). We acknowledge that publicly traded energy companies of similar size to Aksa Energy have far higher leverage ratios. Nonetheless, financial liabilities on the average represented 85% of its total liabilities in the last five years and the leverage ratio has been on a rising trend.

Strong Corporate Governance Standards and Shareholder Structure: The market position of the parent company Kazancı Holding in the energy sector, its know-how, experience and ability to support the company in the event of a need, were additional factors supporting the ratings. The current 16.6% stake of Goldman Sachs International who initially invested in 2012 has also been taken into consideration as a positive factor.

Strengths and Opportunities

- Sector positioning
- Know-how and experience in energy
- The rising trend in EBITDA
- Highly diversified energy sources
- Good geographic distribution of power plants
- Experienced management team
- Majority shareholder’s core business is also in the energy sector
- Increase in energy demand in the long-term.

Weaknesses and Threats

- High level of short FX open position
- Negative working capital
- Intense competition for eligible customers amongst independent power producers
- Excessive positive/negative changes in hydrologic conditions, significant deviations from seasonal weather norms, natural gas procurement crisis etc. increasing the volatility in prices
- The monopoly status of BOTAŞ in the supply of natural gas and dependence on imported gas.

Aksa Energy Selected Financial Indicators (1000 TL)

	2010	**2011**	**2012**	**2013**	**2014**	**2015/6**
Current Assets	953,474	958,315	1,136,725	520,101	532,937	614,275
Fixed Assets	1,431,126	1,710,556	1,799,298	2,356,241	2,926,804	3,150,486
Total Assets	**2,384,600**	**2,668,871**	**2,936,023**	**2,876,342**	**3,459,741**	**3,764,761**
Asset Growth (%)	-	*11.9*	*10.0*	*-2.0*	*20.3*	*8.8*
Short-term Liabilities	642,882	941,487	923,150	630,266	915,924	1,092,780
Long-term Liabilities	917,819	1,028,794	896,847	1,261,982	1,521,595	1,709,850
Equity	**823,900**	**698,590**	**1,116,027**	**984,093**	**1,022,222**	**962,131**
Net Sales	911,279	1,307,427	1,840,638	1,785,968	1,957,438	856,374
*Sales Growth (%)**	-	*43.5*	*40.8*	*-3.0*	*9.6*	*-5.9*
EBITDA	**191,635**	**244,615**	**310,949**	**308,121**	**337,816**	**228,382**
Net Profit / Loss	60,333	-125,951	230,995	-133,293	39,437	-55,628
EBITDA Margin (%)	21.0	18.7	16.9	17.3	17.3	26.7
Interest Coverage Ratio (x)	2.8	3.2	3.3	3.7	3.2	3.3
Total Debt/Equity (x)	1.9	2.8	1.6	1.9	2.4	2.9
Total Financial Liabilities / EBITDA (x)	7.3	6.8	5.1	5.1	6.1	4.7**
Equity / Total Assets (%)	34.6	26.2	38.0	34.2	29.5	25.6

* Sales in H1 2015 is compared with sales in H1 2014.

** Forecast

*** EBITDA: Revenues – Exc. depreciation and amortisation (Cost of goods sold - Selling, gen'l & admin. exp.) +/- Other operational income/expense (+/-) (exc. one off income and exp.)