

13 June 2017

Credit Rating

Rating
(National): Long Term

(TR) A+

Outlook:

Stable

Rating
(National): Short Term

(TR) A1

Outlook:

Stable

**REYSAŞ GAYRİMENKUL
YATIRIM ORTAKLIĞI A.Ş.**
Küçük Çamlıca Mahallesi
Erkan Ocaklı Sokak No:11
Üsküdar / İstanbul

REYSAŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. (RYGYO)

Rating Summary

Reysaş Gayrimenkul Yatırım Ortaklığı A.Ş. ("Reysaş GYO") ("Company", "Reysaş") was founded on 2008 and went public on 2010 under the equity ownership of Reysaş Lojistik ve Taşımacılık Tic. A.Ş. Reysaş GYO is a real estate investment trust (REIT) established to invest in real estate and real estate projects in warehousing, developing and long-term rental of these premises. Reysaş GYO is the first real estate investment trust in Turkey who focused on developing warehousing market.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, Reysaş GYO received a long term rating of **(TR) A+** and a short term rating of **(TR) A1**.

Previous rating: Long term National (TR) A+
Short term National (TR) A1

Strengths and Risks

Unlike other REITs the Company invests in real estate and real estate projects in the field of warehousing. Reysaş GYO is a real estate investment trust focusing primarily on development of warehousing and it has grown particularly through land acquired during the collaboration with the parent company Reysaş Lojistik. Reysaş Lojistik is engaged in land, sea and rail freight through all means of transportation.

The Company focuses on logistics centers rather than traditional construction activities and also has a student dormitory project. Land prices are the highest cost item in the sector. The limited supply of warehouse in the Marmara region is an advantage for the Company. Another advantage is that together with the growth of city of Istanbul in size, warehouses in the portfolio of RYGYO will be included in the city boundaries.

Brands such as CarrefourSA, Arçelik, Ekol Lojistik, Netlog Lojistik, Adel, DHL, Toyota, Mudo, e-bebek, Sumitomo, Philip Morris, Borusan Lojistik, Mobiljet, Trendyol, Maxlines, Dirk Rossmann, Doğrrier Lojistik and Gefco are the Company's tenants. Inexistence of another storage rental company offering services in such a scale in the Marmara region where Reysaş GYO has intensive investments is an advantage for the Company. Possibility of abolition or lowering of the 20% tax exemption granted to REITs and an exposure to foreign currency risk due to the net foreign currency liability position as of end 2016 constitute the principal risks for the Company. In addition, the warehouse leasing sector, in which the Company operates, is sensitive to macroeconomic instability.

Considering these factors, the Company's outlook is considered to be Stable.

Economic Outlook

The global growth forecast for 2017 is set as 3.3% in the March 2017 interim global economic outlook report released by the Organization for Economic Co-operation and Development (OECD). The International Monetary Fund (IMF) revised its global growth forecast for 2017 by 0.1 percentage point to 3.5% from 3.4% in its April 2017 Global Economic Outlook Report. Despite their cautious optimism, however, both organizations also refer to fundamental uncertainties and downside global risks. A main uncertainty is the Trump administration's increasing protectionism that will affect the trade relations not only with China but also the global trade regime, including the European Union. Moreover, in addition to the uncertainty in the Brexit process, the upcoming elections in France, Germany and the Netherlands, continuation of the Greek debt crisis and the fact that the banking sector maintains its fragility as seen in the case of Italy are indicating that downside risks are still retained.

The changes made by the Turkish Statistical Institute (TSI) in the GDP calculation methodology to comply with the ESA 2010 standards, and published on December 12 have had significant effects on Turkey's national income accounts. With the new calculation method, the nominal GDP figures for the last 4 years have been revised upwards by 16% on average. With this amendment, the current account deficit decreased from 4.5% to 3.7% compared to the year 2015 and the central government budget deficit rate of 1.2% also decreased to 1%. The average GDP growth rate of 3.3% between 2012 and 2015 as per the previous calculation rose to 6.1% with the new method. When sectors are evaluated, upward adjustments are observed in the growth rates of the main sectors other than agriculture. Investment expenditures which have been quite limited in recent years according to the previous data have been evaluated as positive with the new data.

According to the statement released by TSI, the Turkish economy grew by 5% in the first quarter of 2017 compared to the same quarter of the previous year. Growth has been more balanced in the first quarter of 2017. Domestic demand has contributed 2.8 percentage points to growth. Nevertheless, the increase in commodity prices coupled with the strengthening demand of our commodity exporting trading partners and continued favorable outlook in the EU economy supported our export performance, and the net foreign demand contributed by 2.2 percentage points to growth.

As far as expenditures are concerned, it is seen that final household consumptions and investments are realized at a lower level compared to the past year. Imports increased while exports shrank and growth of 2016 is supported by the increase in public expenditures. The constitutional amendment, which took place after the referendum in April 2017, radical and massive legal amendments on the agenda, despite the partial elimination of domestic political uncertainties and the presidential election set for 2019, are showing that the uncertainty factor will be effective for a while. In addition to the above, the possible effects of Syria and Iraq-based regional developments on Turkey on the one hand and the cooling relations with the EU on the other hand point to increasing risks for Turkey.

Central Bank of Turkey (CBT) applied a total reduction of 250 basis points in the upper end of the interest rate corridor in 2016. The Bank planned to support growth by consecutive cuts in interest rates. However, in the face of the rapid depreciation of the Turkish Lira, it has increased both the policy interest rate and the upper band interest rate during the November meeting due to inflationary pressures on exchange rate movements in the domestic market caused by the uncertainty and high volatility experienced in the global economy. Thus, the CBT, which had interest rate cuts at intervals after the sharp increase in interest rates in January 2014, increased its policy rate for the first time in November 2016. Inflation started to shadow forth more and more in 2017, while the annual increase in the CPI was recorded as 11.72% in May, and the annual increase in the PPI was 15.26%.

Company Overview

Reysaş GYO was founded on 2008 and became a publicly-traded company on 2010 as a subsidiary of Reysaş Lojistik ve Taşımacılık A.Ş.

The Company shares are traded under "RYGYO" code at BIST Collective Investment Products & Structured Products Market. Reysaş GYO is a constituent of BIST All Shares (XUTUM), BIST All Shares-100 (XTUMY), BIST Real Estate Investment Trusts (XGMYO) and BIST Financials (XUMAL) indices.

The capital structure of REYSAŞ GYO is as follows:

Shareholders	Group	Type	SHARES HELD (TL)	SHARE (%)
Reysaş Taşımacılık ve Lojistik Tic. A.Ş.	A	Registered	578,824	0.24%
	B	Bearer	150,638,785	61.24%
Other	B	Bearer	11	0.00%
Publicly Traded	B	Bearer	94,782,381	38.52%
Total			246,000,001	100%

The division of tasks in the Reysaş GYO Board is as follows:

Reysaş Gayrimenkul Yatırım Ortaklığı A.Ş. Board of Directors	
Name	Title
Durmuş DÖVEN	Chairman
Egemen DÖVEN	Vice-chairman / CEO
Behzat Kaplan	Board Member
Ekrem BURCU	Board Member Early Detection of the Risk Committee Member
Cem AKGÜN	Board Member (Independent) Audit Committee Chairman Early Detection of the Risk Committee Chairman
Erem ERSOY	Board Member (Independent) Corporate Governance Committee Chairman Audit Committee Member

The Company has two subsidiaries. One of them is Arı Lojistik İnşaat San. ve Tic. A.Ş., engaged in acquisition of all types of vehicles and transportation. The other is Reysaş Turizm Yatırımları ve Tic. Ltd. Şti., providing tourism-oriented services in Turkey and abroad, establishing various accommodation facilities and operating, purchasing and leasing the facilities established for this purpose, personally or in collaboration.

REYSAŞ GYO Consolidated Balance Sheet and Income Statements (TL)

Main Balance Sheet and Income Statement Items (TL '000')	2016	2015
Current Assets	137,136	185,908
Cash and Cash Equivalents	52,510	115,018
Trade Receivables	58,653	46,504
Fixed Assets	1,381,430	1,119,182
Investment Property	1,267,974	1,066,820
Total Assets	1,518,566	1,305,090
Short Term Liabilities	129,150	154,685
Long Term Liabilities	562,502	453,520
Equity	826,914	696,885
Total Liabilities	1,518,566	1,305,090
Total Financial Liabilities	673,510	585,759
Income	81,892	69,091
Gross Profit	69,602	63,612
General Administrative Expenses (-)	-7,655	-5,762
Net Income-Expense from Other Operations	173,412	168,054
Operating Profit	235,360	225,905
Net Profit for the Year	131,381	141,544

Ratio Analysis

Main Financial Ratios	2016	2015
Return on Equity (Pre-tax Profit / Shareholders' Equity)	0.16	0.20
Net Profit / Total Assets	0.09	0.11
Operating Profit (EBIT / Total Assets)	0.15	0.17
Economic Profitability (EBIT / Total Liabilities)	0.34	0.37
Net Profit / Net Revenue	1.60	2.05
Liquid Assets / Total Liabilities	0.08	0.19
Cash Ratio (Liquid Assets / STL)	0.41	0.74
Short Term Receivables / Total Assets	0.04	0.04
Interest Coverage (EBIT / Net Financial Gain - Loss)	0.63	0.61
Receivables Turnover Rate (Net Revenue / Trade Receivables)	1.40	1.49
Net Foreign Currency Position / Total Assets	(0.20)	(0.20)
Net Foreign Currency Position/ Shareholders' Equity	(0.37)	(0.37)
Financial Leverage (Shareholders' Equity / Total Debt)	1.20	1.15
Short Term Liabilities / Total Liabilities	0.09	0.12
Fixed Assets / Total Debt	2.00	1.84
Total Financial Debt / Total Assets	0.44	0.45
Tangible Fixed Assets + Investment Properties / Total Assets	0.84	0.82

Reysaş GYO attained a rental income of TL 76,260,948 based on the year-end figures of 2016. Company was able to self-finance through long term borrowing during the same period and the extension of debt maturities is considered positive by us. The revaluation gains on tangible assets are accounted under equity. The Company achieved a 15% return on equity in 2016. Finally, an 84% share of investment property in total assets is another positive aspect.

Corporate Governance

Since the Company is publicly-traded it has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented most of the necessary policies and measures. Even though a small number of improvements are needed, management and internal control mechanisms have been created effectively and are in operation. The rights of shareholders and stakeholders are respected in a fair manner, public disclosure and transparency is at high levels and structure and operation of the board of directors is built on sound basis. Though it does not pose a great risk, certain improvements in one or more of these areas might be required.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of the Company's performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. The financial risk analysis 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 tackles the Company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. Our methodology consist 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 rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and 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.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company and economic and financial conditions may increase investment risk, but not at a significant level.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	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 due to adverse economic conditions and changes.

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

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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