

TORUNLAR REIT

BUY

(Prev. BUY)

FX losses lead to heavy loss in line with estimates

▪ **Loss as expected.** Torunlar REIT posted TRY218mn net loss in 3Q15 (TRY4mn loss in 2Q15), in line with our estimate of TRY212mn loss and consensus' TRY217mn loss. FX losses were the culprit with TRY263mn while EBITDA registered 14% qoq and 83% yoy growth to TRY72mn, in line with our call of TRY75mn and consensus' TRY73mn. Hence, we deem the results as neutral.

▪ **Topline flattish qoq.** Net rental income grew 10% qoq on FX adjustments and resilient turnover in the shopping centres. Base effect is fading yoy as Mall of Istanbul's contribution started late 2Q14. Residential/office unit sales almost halved qoq and yoy. As a result, topline was flat at TRY113mn (YKYe & consensus: TRY115mn). Note that Torun Center's offices will be delivered in 4Q15, boosting topline and also EBITDA thanks to more than 40% gross margin.

▪ **EBITDA up on higher topline and OPEX control.** Gross margin of residential sales remained at 38% in 3Q15 down from 47% a quarter ago. But higher weight of rental income lifted gross margin by 4pp qoq to 71% (3Q14: 49%) and with milder OPEX in the low season, EBITDA reached TRY72mn with a margin of 63%.

▪ **Marred by financial expenses.** Interest expenses remained at TRY18mn, but on weak TRY, FX losses skyrocketed to TRY214mn and the bottomline went into deep red. Due to ongoing CAPEX (TRY110mn in 3Q15 only) and weak TRY, Torunlar's net debt rose to TRY2,081mn from TRY1,815mn as of end-June. Since there was no revaluation gain to compensate for the CAPEX and weak TRY increased liabilities, NAV contracted by 6% qoq to TRY3.5bn, up by 13% yoy. The stock trades at 47% discount to 9M15 NAV, which we expect to expand in 4Q15 as year-end appraisals are likely to more than compensate for CAPEX, in our view.

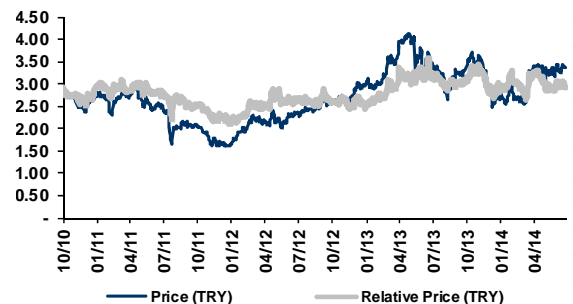
▪ **BUY maintained.** Though we add 5th Levent into our valuation, TP declines to TRY4.75 from TRY5.25 on rising risk free rate and negative impact of weak TRY on debt level. On 30% upside potential, we maintain BUY rating. We believe the growth story is intact and delivery of Torun Center offices as well as revaluation gains are likely to turn the bottomline into black in 2015, enabling even dividend distribution. Sharp TL depreciation remains as the main risk to the company's performance.

Stock Data 09 November 2015

Current price	TRY3.74
Target price	TRY4.75
DPS	TRY0.10
Total return	30%
Current Mcap	TRY1,870mn/ US\$641mn

Bloomberg Ticker	TRGYO TI
Number of outstanding shares (mn)	500
High / Low Price Range (12M)	4.29/2.84
3-m Average Daily Turnover (\$ mn)	0.5

Price Performance (%)	1M	3M	6M	YtD
Return	11.1	17.7	-9.5	11.3
Relative to BIST100	7.5	11.3	-5.7	16.3



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Table 1: Torunlar REIT- 3Q15 Summary financials

Income statement	3Q15	3Q14	Chg yoy (%)	9M15	9M14	Chg yoy (%)	2Q15	Chg qoq (%)
Revenues	113	97	16	329	555	-41	114	-1
COGS	33	50	-34	107	388	-72	38	-13
Gross profit	80	47	70	221	167	32	77	5
OPEX	9	8	9	27	27	0	13	-37
Operating profit	72	39	83	195	141	38	63	14
EBITDA	72	39	83	196	141	39	63	14
Other income, net	2	5	-56	27	180	-85	36	-94
Financial income, net	-291	-111	162	-596	-115	n.m.	-102	185
Minority interest	0	0	n.m.	0	0	n.m.	0	n.m.
Taxes	-1	-1	3	-2	-2	12	-1	3
Net profit	-218	-67	223	-376	204	n.m.	-4	n.m.

Margins (%)	3Q15	3Q14		9M15	9M14		2Q15	
Gross	70.9	48.5	22.4 pp	67.4	30.2	37.2 pp	66.8	4.1 pp
EBITDA	63.4	40.4	23.0 pp	59.5	25.4	34.1 pp	55.1	8.3 pp
Net	-192.1	-69.3		-114.5	36.7		-3.6	

Balance Sheet	3Q15	3Q14	Chg yoy (%)	9M15	9M14	Chg yoy (%)	2Q15	Chg qoq (%)
Cash and cash equivalents	869	1,036	-16	869	1,036	-16	737	18
Trade receivables	263	126	108	263	126	108	249	6
Inventories	1,030	199	n.m.	1,030	199	n.m.	944	9
LT assets	5,534	5,152	7	5,534	5,152	7	5,456	1
Total assets	7,715	6,636	16	7,715	6,636	16	7,381	5
Financial debt	2,951	2,802	5	2,951	2,802	5	2,552	16
Trade payables	154	250	-38	154	250	-38	151	2
LT liabilities	2,638	2,663	-1	2,638	2,663	-1	2,550	3
Equity	3,531	3,113	13	3,531	3,113	13	3,749	-6
Total liabilities	7,715	6,636	16	7,715	6,636	16	7,381	5

Financial ratios	3Q15	3Q14	Chg yoy (%)	9M15	9M14	Chg yoy (%)	2Q15	Chg qoq (%)
Net debt	2,081	1,766	18	2,081	1,766	18	1,815	15
Debt/equity	54	53	1.1 pp	54	53	1.1 pp	49	5.0 pp
Receivable days	213	120	94	218	62	156	198	16
Inventory days	2,878	366	2,512	2,624	140	2,483	2,265	613
Payable days	430	459	-29	392	176	216	363	67
Net working capital days	2,661	27	2,635	2,450	27	2,424	2,099	562

Source: Torunlar REIT, YKY Research

Table 2: Torunlar REIT – NAV

TRY mn	9M15	9M14	Chg yoy (%)	1H15	Chg qoq (%)
Landbank	463	444	4%	463	0%
Buildings	4,042	1,756	130%	4,042	0%
Projects	955	2,107	-55%	955	0%
Total real estate value	5,460	4,307	27%	5,460	0%
Participations	647	598	8%	620	4%
Marketable securities	869	1,036	-16%	737	18%
Total portfolio value	6,976	5,942	17%	6,817	2%
Net other assets	739	693	7%	564	31%
Payables (-)	4,183	3,522	19%	3,632	15%
Net asset value	3,531	3,113	13%	3,749	-6%

Source: Torunlar REIT, YKY Research

Table 3: Torunlar REIT Target NAV

SOTP Valuation	TRY mn	Methodology
Landbank	504	
Land - Istanbul - Pasabahce	430	Appraisal
Other	74	DCF
Rent yielding assets	3,373	
Torium	298	@ cap rate of 10%
Korupark	633	@ cap rate of 10.5%
Zafer Plaza	180	@ cap rate of 10.5%
Antalya Deepo	176	@ cap rate of 10.5%
Mall of Istanbul	1,273	@ cap rate of 10%
Torun Tower	541	@ cap rate of 10%
Other	272	
Projects	1,105	
Torun Center (Ali Sami Yen)	799	DCF
5. Levent (Kiptas)	283	DCF
Other	194	
Total real estate value	5,177	
Net debt	2,081	9M15
Outstanding payables for Pasabahce	71	9M15
Target NAV	3,024	
REIT discount	20%	
Target Mcap	2,419	
Number of shares (mn)	500	
12M target price (TRY) -cum div	4.85	
12M target price (TRY) -ex div	4.75	
Current price (TRY)	3.74	
Upside/downside (%)	30%	

Source: YKY Research estimates

Table 4: YKY estimates vs. consensus for Torunlar REIT

TRYmn	2015E			2016E			Old YKYe	
	Consensus	YKY	Difference	Consensus	YKY	Difference	2015E	2016E
Net Sales	792	766	-3%	1,413	968	-32%	777	932
EBITDA	354	336	-5%	575	379	-34%	357	444
Net Income	154	143	-7%	513	654	27%	480	636
Net Income (adj)*		-298			410		263	400
EBITDA margin	45%	44%		41%	39%		46%	48%
Net margin	19%	19%		36%	68%		62%	68%

*Excluding revaluation gains

Source: YKY Research estimates, Bloomberg

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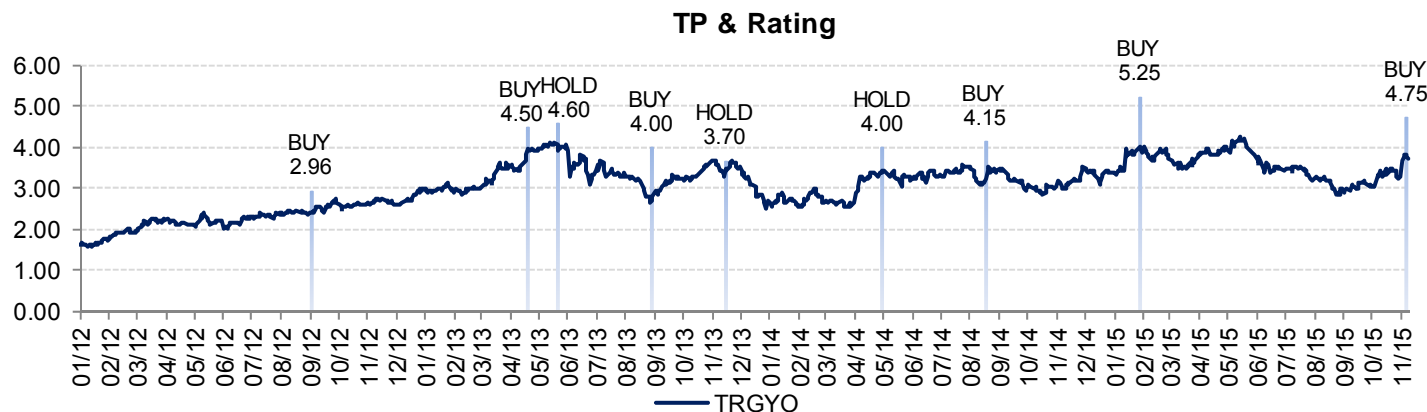
Coverage Universe	Count	Percent	Percent Inv. Banking Relationships	Count	Percent
Buy	23	38%	0%	0	0
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