Credit Opinion: Global Liman Isletmeleri A.S.

Global Credit Research - 15 Oct 2015

Turkey

Ratings

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<th>Moody's Rating</th>
<th>Outlook</th>
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<td>Stable</td>
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<tr>
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<tr>
<td>Bkd Senior Unsecured</td>
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Key Indicators

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<tr>
<td>Cash Interest Coverage</td>
<td>4.6x</td>
<td>6.2x</td>
<td>9.2x</td>
<td>9.0x</td>
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<td>FFO / Debt</td>
<td>17.5%</td>
<td>19.5%</td>
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<td>48.5%</td>
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<tr>
<td>Moody's Debt Service Coverage Ratio</td>
<td>2.1x</td>
<td>2.1x</td>
<td>5.8x</td>
<td>5.3x</td>
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<tr>
<td>RCF / Capex</td>
<td>3.7x</td>
<td>4.6x</td>
<td>4.1x</td>
<td>3.0x</td>
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Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Relatively small scale of port operations
- Dominance of container activity at Akdeniz exposes the company to changing economic and political conditions
- Increasing presence in the cruise segment mitigates adverse trends characterising cargo activities
- Acquisitive corporate strategy
- Weak credit quality of the parent company

Corporate Profile

Global Liman Isletmeleri A.S. (GPH, B1 stable) is a cruise and container port operator based in Turkey. The company operates two cruise and ferry ports (Bodrum, Ege) located on Turkey's Aegean coast and one mixed
cruise and commercial port (Akdeniz) located on Turkey’s Mediterranean coast. The latter is the main asset of the
group. In addition, GPH holds controlling stakes in the commercial port of Bar (Montenegro, 64% stake), in the
cruise port of Creuers (Spain, 62% stake) and, indirectly, in the cruise port of Malaga (80% stake held by
Creuers). The group also holds minority stakes in the cruise ports of Lisbon (Portugal) and Singapore. All of
GPH’s port interests are operated under various concession agreements with an average remaining life of
approximately 16 years.

GPH is currently 100% owned by Global Yatirim Holding (GIH, not rated), a Turkish investment holding company
with investments in energy, ports, real estate and finance.

Rating Rationale

GPH’s B1 Corporate Family Rating (CFR) is supported by (1) the positive cash flow generation and realised
operating margins associated with the company’s cruise and cargo ports operated under concession agreements
with very limited operating covenants; (2) the increasing diversification deriving from its strengthening position in
the cruise market through its ownership interests in the ports of Creuers, Ege and Bodrum; and (3) some flexibility
associated with the company’s capital expenditure requirements.

However, the B1 CFR assigned to GPH is constrained by (1) the company’s relatively small-scale operations,
dominated by container activity concentrated at the port of Akdeniz; (2) the relatively short remaining concession
life of the port of Akdeniz (13 years); (3) the limited diversification of cargo activities with a strong bias towards
exports of marble and cement and the absence of long-term take or pay agreements related to these activities; (4)
some cyclicality and relatively limited cash flow visibility associated with cruise operations, when compared with
other infrastructure companies exhibiting a lower exposure to the leisure segment and/or a more extended period
of contracted cash flows; (5) the risks stemming from the company’s highly acquisitive strategy; and (6) the weak
credit quality of GPH’s parent company, GIH.

GPH’s USD250 million senior unsecured bond, due in 2021, is rated B1, in line with the company’s CFR. The bond
benefits from irrevocable unconditional and timely joint and several guarantees from GPH’s major operating
subsidiaries, namely Ortadogu Antalya Liman Isletmeleri A.S. (Akdeniz) and Ege Liman Isletmeleri A.S. (Ege).
These subsidiaries accounted for more than 75% of GPH’s consolidated EBITDA as of H1 2015. Currently, the
majority of GPH’s group debt is represented by the bond at the GPH level. However, approximately 22% of total
group debt is located at the level of subsidiaries, mainly related to some small finance leases (USD6 million as of
H1 2015) and non-recourse debt related to the acquisition of the Creuers port (approximately USD56 million as of
H1 2015).

DETAILED RATING CONSIDERATIONS

RELATIVELY SMALL SCALE OF PORT OPERATIONS

GPH’s ratings reflect the company’s small scale and narrow product diversification of its cargo operations, which
weigh on its overall risk profile. Whilst GPH operates six different ports, the dominant contributor to the group’s
revenues and operating profitability remains the port of Akdeniz, which accounts for approximately 60% of
consolidated EBITDA. The current configuration of the port allows it to handle five million tons per year of bulk
cargo, three million tons of general cargo and 500,000 TEUs per year. However, the size of the Akdeniz port and
the product diversification of export and import items are relatively limited when compared against its global peers.
For example, the Turkish port of Mersin (Baa3 stable) is currently able to accommodate 1.6 million TEUs per year,
whilst Felixstowe, one of the two key assets held by Hutchison Ports (Baa1 stable), based in the UK, can
accommodate some 3.7 million TEUs per year.

More generally, Akdeniz’s growth prospects remain constrained by the port’s lack of rail connections, with transit
of goods to the port reliant on expensive road transport. In addition, the port has a relatively short remaining
concession life of approximately 13 years, which further weighs on GPH’s risk profile and rating.

DOMINANCE OF CONTAINER ACTIVITY AT AKDENIZ EXPOSES THE COMPANY TO CHANGING
ECONOMIC AND POLITICAL CONDITIONS

GPH’s commercial activities currently account for almost 63% of segmental EBITDA, mostly concentrated at the
port of Akdeniz. These operations are characterised by relatively limited diversification, given the strong bias
towards exports of marble (mainly to China) and cement (to Northern Africa and the Middle East). This exposes
the company to changing economic and political conditions, given the profile of the served countries and the
absence of long-term take or pay agreements, resulting in vulnerability to volume variations.
For example, in 2010, GPH's bulk and general cargo volumes declined due to the "Arab spring", although much of the export volumes switched to alternative markets. More recently, in light of the slowdown in the Chinese economic activity, marble exports from the Akdeniz port to China have deteriorated considerably, contracting by 20% in H1 2015 vs. the corresponding period in 2014.

As a result of the recent trends, GPH's cargo volumes at the Akdeniz port declined by 15% in H1 2015 vs. the corresponding period in 2014. GPH has responded to these challenges through proactive tariff management and enhanced diversification, increasing exports of fruits and vegetables and Akdeniz's share of imports, the later exhibiting higher yields (mainly PVC and furniture). These measures led to a more contained EBITDA contraction (-6% vs. H1 2014). This strategy, in addition to the positive performance of its cruise operations and the depreciation of the Turkish Lira (which drives approximately 75% of the cost base of GPH's commercial operations, while revenues are USD-denominated) somewhat offset the negative impact of current trends. However, a prolonged weakness of the Chinese economic activity could put pressure on GPH's credit profile, if not compensated by other measures. Overall, we estimate that the portion of GPH's consolidated EBITDA deriving from commercial operations with China are in the mid-teens area in percentage terms.

In addition to the above, we also note that the development of two new container and general cargo ports close to the area of Izmir in Turkey could potentially divert some traffic away from GPH's port of Akdeniz.

**INCREASING PRESENCE IN THE CRUISE SEGMENT MITIGATES ADVERSE TRENDS CHARACTERISING CARGO ACTIVITIES**

GPH maintains a relatively strong position in the Turkish cruise market (through the Bodrum and Ege ports) and in the Iberian Peninsula, following the acquisition of Creuers and a stake in the Lisbon cruise port. The presence in this segment provides the company with some revenue diversification, also in the context of the more challenging environment related to cargo operations. Overall, cruise activities account for approximately 37% of GPH's segmental EBITDA.

Cruise activities have performed well in H1 2015, recording a 14% increase in passenger levels vs. the corresponding period in 2014 and a 35% increase in EBITDA over the same period, thus mitigating the negative financial impact deriving from the pressures in the cargo segment. However, we also note that cruise activities are characterised by an element of cyclicity and relatively limited cash flow visibility, when compared with other infrastructure companies exhibiting a lower exposure to the leisure segment and/or a more extended period of contracted cash flows. More specifically, bookings by cruise operators are only finalised one year in advance and GPH retains a high exposure to the number of cruise passengers. In addition, tariffs applied by GPH at its largest cruise port (i.e. Creuers) are regulated, which limits GPH's discretion to implement price increases to support the company's financial performance.

**ACQUISITIVE CORPORATE STRATEGY**

GPH's ratings reflect an element of risk stemming from management's highly acquisitive strategy. Potential acquisitions should be generally accretive to earnings, which may mitigate the effect of higher leverage, albeit the risk profile of any future acquisition that GPH may undertake cannot be fully dimensioned at this stage.

In December 2013, for example, GPH announced the acquisition of a 64% interest in the port of Bar, Montenegro (28 years remaining concession life), as well as the acquisition of a 21.5% stake in the Barcelona Creuers port (12 to 16 years remaining concession life, depending on the terminal). At the end of September 2014, GPH increased its shareholding in the Creuers port to 62%, thus reaching full operational and management control of the port. In August 2014, GPH also acquired a 46% (direct and indirect) stake in the port of Lisbon. The total outflow for these transactions was relatively sizeable and in the area of approximately EUR80 million (approximately USD100 million), thus highlighting the company's acquisitive strategy. The acquisitions of the shareholdings in the ports of Bar and Lisbon were financed from GPH's balance sheet, while the acquisition of the Creuers port was largely funded through non-recourse debt at the subsidiary level.

GPH is actively considering new acquisition opportunities, particularly in the cruise segment. In September 2015, for example, the company announced that it had signed two separate binding share purchase agreements to acquire a cumulative 64.14% stake in the in Valletta Cruise Port in Malta. In addition, we understand that the joint venture between GPH and the French Bouygues Batiment International (with GPH's stake at 75%) is the only bidder for the cruise port of Dubrovnik, in Croatia, which involves the construction and operation for 40 years of a cruise terminal and associated buildings.

We expect that GPH will finance its more sizeable acquisitions largely through non-recourse debt at the
subsidiaries' level. Moody’s highlights that non-recourse debt is taken into account for the purposes of calculating consolidated credit metrics for GPH. However, in the context of the company’s acquisition strategy, we also note that the presence of minority shareholders at some of its key cruise port assets, such as Creuers, means that there is some cash flow leakage from the group. As the debt at the level of such assets reduces as a consequence of repayments, we expect the parent company to increase its reliance on dividends from assets which it does not fully own. We consider such reliance to entail greater business risk than a full access to cash flows of the operating companies given lower predictability of such dividends. Non-recourse debt represented around 19% of GPH’s overall debt as of H1 2015, but we expect this portion to increase as a consequence of the company’s acquisitive strategy.

WEAK CREDIT QUALITY OF THE PARENT COMPANY

GPH’s ratings are further constrained by the risk profile and weak credit quality of GPH’s parent company GIH, a Turkish investment holding company with investments in energy, ports, real estate and finance (publicly listed). We view the business profile of each of these businesses as being substantially weaker, less transparent and considerably more speculative than that of GPH. More generally, GPH remains the main contributor to GIH profitability (80% of EBITDA as of H1 2015).

While covenants included in GPH’s bond documentation provide some limitation to the payment of dividends to the parent company and restrictions on other up-streamed payments, we note that these are not sufficient to fully de-link GPH’s credit profile from that of its parent.

At the end of September 2015, GPH announced it had reached an agreement with the European Bank for Reconstruction and Development (EBRD) in respect of the subscription of new share capital corresponding to a 10.84% stake. The proceeds from the transaction, which have not been disclosed at this stage, are expected to support GPH’s future investments and acquisitions. As a shareholder, if the transaction is finalised, the EBRD would nominate one member of GPH’s board, which we see as credit positive, as it will allow the company to further improve its corporate governance standards.

Following the cancellation, in May 2015, of the announced listing on the Istanbul Stock Exchange, GPH has recently indicated that it is considering an international listing in 2016-18.

Liquidity Profile

Barring material acquisitions, we expect GPH to have good liquidity over the next 12 months, backed by cash balances from the 2014 bond issuance and good operating cash flows. GPH had unrestricted cash balances of TL 96.3 million (USD 31.6 million) as of 30 September 2015. The company plans to spend approximately USD 60-70 million on capital expenditure over the next couple of years and pay a dividend in a maximum amount of 50% of consolidated net income, as per debt documentation. GPH will continue to actively seek acquisition targets.

The company’s dividend distributions are limited by covenants in the proposed bond documentation (i.e. maximum amount of 50% of consolidated net income). GPH’s ability to upstream cash to GIH is also limited by a maximum permitted leverage ratio, with restricted payments (e.g. dividends) not allowed if Debt/EBITDA is above 5.0x (excluding the contribution of non-recourse financed subsidiaries from the covenants calculation).

Structural Considerations

The senior unsecured bond of USD250 million issued by GPH in 2014 is rated B1 (LGD3, 49%), the same as the CFR. This reflects (1) the company’s overall probability of default rating (PDR) of B1-PD; and (2) the ranking of the bond within GPH’s capital structure. The bond, due in 2021, benefits from full guarantees from GPH’s main operating subsidiaries.

Rating Outlook

The stable outlook reflects the expectation that, in the context of its growth strategy, the company will exhibit a financial profile in line with Moody’s guidance for the rating.

What Could Change the Rating - Up

Given GPH’s strategy, the risk associated with the management team's highly acquisitive approach and the expected continuing evolution of the group, we do not expect upward rating pressure to develop in the near term. We would require a period of settled and stable operations evidencing solid performance and positive free cash flow generation before considering an upgrade.
What Could Change the Rating - Down

Negative pressure on the rating could occur if we expected GPH's FFO/debt to fall below the high teens in percentage terms and FFO interest cover to fall below 3.0x on a sustained basis. Furthermore, major acquisition activity, resulting in a change in the company's business risk profile, or a deterioration of GPH's liquidity position could result in negative rating pressure. We could also lower the rating in the event that the parent company, GIH, substantially increased its dividend demands from GPH.

Other Considerations

RATING METHODOLOGY

The principal methodology used in these ratings was the Privately Managed Port Companies, published in May 2013. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

The difference between the methodology grid outcome and GPH's actual assigned rating mainly reflects (1) the weaker credit quality of GPH's ultimate parent and (2) the risks stemming from GPH's acquisitive strategy.

Rating Factors

Global Liman Isletmeleri A.S.

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<td>Factor 1 : Market Position (25%)</td>
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<td>a) Port Size / No. of Ports Owned</td>
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<td>b) Quality of Service Area and Connections</td>
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<td>c) Operational Restrictions</td>
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<td>Factor 2 : Diversity of Customer Base (10%)</td>
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<td>a) Exposure to volume variation</td>
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<td>b) Dominance of Customers</td>
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<tr>
<td>a) Scale and Scope of Capital Expenditure Programme</td>
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<td>b) Management attitude to financial risk</td>
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<td>c) Proportion of Revenues from Non-Core Activities</td>
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<td>Factor 4 : Nature of Asset Ownership (10%)</td>
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<td>a) Ownership and Control of Assets</td>
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<td>Factor 5 : Key Credit Metrics (40%)</td>
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<tr>
<td>a) Cash Interest Coverage</td>
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<td>b) FFO / Debt</td>
<td>17.5%</td>
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<td>c) Moody's Debt Service Coverage Ratio</td>
<td>2.1x</td>
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<tr>
<td>d) RCF / Capex</td>
<td>3.7x</td>
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<tr>
<td>a) Debt Structure &amp; Liquidity Protection</td>
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<td>b) Control Afforded To Creditors</td>
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<td>b) Actual Rating Assigned</td>
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All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31/12/2014; Source: Moody's Financial Metrics. Please note that 2014 ratios reflect the full impact of the acquisition of Creuers on debt, whilst cash flows reflect only three months of contribution, given that the acquisition was completed on 30 September 2014. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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