

## Özak GYO 2016 first half year Financial Results Teleconference Transcript Text

### Alper Gür:

Good afternoon ladies and gentlemen.

This is Alper Gür, Senior Investor Relations Executive of Özak Real Estate Investment Trust.

Welcome to ÖZAK GYO's 2016 First half year Financial Results Teleconference. We thank you all for your participation.

Today we are together with our company managers who are;

Mr Okay Ayran, Member of the Board of Directors of ÖZAK Global Holding;

Mr Vedat Ateş, Member of the Executive Committee of ÖZAK Global Holding;

Mr Hüseyin Okur, CFO of ÖZAK Global Holding;

Mr Fatih Keresteci, General Manager of Özak Real Estate Investment Trust;

Mr Fırat Çoban, Financial Affairs Director of Özak Real Estate Investment Trust;

And Mr Görkem Altinköprü, Financial Control Manager of ÖZAK Global Holding.

Now I will give the floor to Mr Görkem Altinköprü, our Financial Control Manager, for the presentation.

The stage is yours Mr Altinköprü, thank you.

### Görkem Altinköprü:

First of all, I'd like to say hello to everyone.

We thank you for your attendance.

I will start our presentation from **slide 2**. Those who attended previous presentations know that we usually begin with the distribution of projects. First of all, we examine this in two main parts, as Istanbul, and as Turkey, then we examine this under three headings; as completed projects, ongoing projects, and future projects. Our completed projects are 34 Portall, İş İstanbul 34, Metro Gross Market, and Ela Quality Resort Hotel, which is in Antalya Belek, in Turkey. Our ongoing projects are Hayat Tepe Bayrampaşa, and our current project is Büyükyalı İstanbul and future project is İzmir Alsancak.

As of the end of the first half year 2016 our total asset value is 1.69 billion, our net asset value is 1.24 billion TL, our leasing portfolio occupancy rate is 98%, and 90% of our rental contracts are foreign currency-based. As of the end of the second quarter our total sales revenue is TL 53.5 million, which can

be broken into TL 21.1 million TL worth of Sales revenue and 19.9 million TL worth of rental revenues from our portfolio.

In the first 6 months of 2016, our EBIT was realized as 6.13 million TL and EBIDTA was realized as 12.43 million TL. This corresponds to a 23.2% EBITDA margin in proportion. Last year this figure was 18.9 million TL.

Our net profit is 6.1 million TL, our net debt is 419.2 million TL, and the weighted average term to maturity of loans is 1.75 years. In terms of foreign currency we are in 146.3 million TL short position.

Now, I am continuing with the fourth slide and here you can see the comparison of total revenues. In the second quarter of 2015, it was TL 43 million. Today, in the second quarter of 2016, it is TL 21 million. As I mentioned previously, this decrease, the main reason was total sale of apartments, decrease in the total number or total sales of apartments, and also in the Tourism side, decrease in the total sales, total revenue of Tourism side. Here, on the right side you can see the comparison of 2015 with 2014. It was TL 383 million in 2014 and TL 184 million in 2015. Below you can see EBITDA comparative quarterly results. Here you can see in the second quarter of 2016 it is TL 5.6 million. In the same period last year, it was TL 12.6 million. In the right below corner you can see EBITDA comparison of 2015 and 2014. Here we tried to show you both the valuation effect on our EBITDA and REBITDA valuation, EBITDA results. In 2014, it is TL 114 million and in 2015 it is TL 54 million. When we compare it together with the valuations, in 2014 it is TL 249 million and in 2015 it is TL 259 million.

In the fifth slide, you can see the rental revenue comparisons of the quarters. It is static; it is going statically. There is no high change between quarters, but when we take a look at third quarter 2015, it is slightly higher than the other quarters. The main reason of this is the effect of tourism in the third quarter of the year. In the third quarter of 2015 you can also see this effect in our financials. In the right side you can see the comparison of 2015 with 2014 and the meaning of rental revenues. It was TL 48 million in 2014 and we end up with TL 61 million in 2015. Here below you can see total debt developments. At the end of first half 2016 it is TL 449 million. Like every quarter, we also want to mention that TL 130 million is coming from giving advances Kazlıçeşme and TL 82.2 million coming from İzmir Alsancak Project advances. Why we are showing this? Because we will deduct these amounts from our total sales; not we

will deduct, we will compensate these amounts in our future projects, so we can say that our total loan amount is TL 237 million.

Here in the coming slides you can see our net income bridge. We are starting with a revenue of TL 53.5 million and with a cost of sales of TL 41 million. Our OPEX, which is selling and administrative expenses, TL 6.6 million and other income is TL 12.5 million. When we take the breakdown of these amounts, we can see that TL 5.3 million coming from interest income, TL 3.9 million coming from FX income from operating activities, and TL 3.3 million coming from other income. In other expenses you can see the breakdown of other expenses on top; TL 2.8 million coming from FX income from operating activities, FX losses let's say, rediscount expenses are TL 1 million, and TL 100,000 of other expenses. In the coming net financial expenses you can see a TL 2.2 million FX loss and TL 9.8 million financial expenses. Last, you can see tax income is mainly income from Ela Hotel deferred tax income and in total we reached the amount of TL 6.1 million at the end of first half 2016.

In the coming slide, we can see our net debt as of first half of the year. You can see that long-term financial debts are TL 260 million, whereas short-term financial debts are TL 190 million. Our cash and cash equivalents are TL 30 million and net debt is TL 420 million. Here below you can see that we have a reduction in our total cash of TL 16 million, increasing short-term financial debts of TL 44 million, and TL 2.1 million in long-term debts which makes us reach the amount of TL 420 million at the end.

Here in the following slide you can see our net asset value in comparison with last year and this first half of the year and our projection at the end of the year. You can see it was TL 1.218 billion at the end of last year, which is TL 1.241 billion in the first half of 2016, and at the end we project that it will reach the amount of TL 1.3 billion at the end of the year. On the right side, you can see our market cap as of the half of the year, TL 635 million with a discount rate of 49%, and as of today, when we take a look at our discount rate, you can see TL 48 million, which was not so much changed when compared with that time of the year.

In the following slide, you can see a comparative balance sheet. Here one of the important points that I can mention to you is net debt-to-equity ratio, which was 36.5% at the end of first half, but when we deduct this previously mentioned TL 212 million given advance from this amount, we can reach 18.3%, which is a very good debt-to-equity ratio for us at the end of the first half.

In the tenth slide you can see a comparative summary of income statements. At the top you can see sales revenue and below you can see rental revenues. Rental revenues in the hotel side is increasing slightly with the percentage of 2%. In Office part, it is slightly decreasing from 5.8% to 5.7%, and in Retail side we have a loss of TL 500,000. We can say that it's almost static when compared with previous periods. In the gross profit you can see that when compared with last year for the same period, you can see our results reduced from TL 65.6 million; in the EBIT side, you can see that it is decreasing from 11.7 to 2.5 just for the second quarter of the year, and in EBITDA you can see the decrease, almost half a percent decrease, when compared with last year, which is a result of less apartment sales. In net financial income/expense net, you can see that last year at the same time it was TL 13 million, whereas it is TL 7.1 million today. In net income, you can see that there is a decrease, it's coming from TL 72 million to TL 2 million as of today. Again, the same reasons make this income to this as we expected previously.

In the following slide, I will give the speech to our General Manager, Fatih Keresteci, he will explain our coming projects and prospects for the coming period.

#### **Fatih Keresteci**

First of all, I want to mention our Büyükyalı Project, which is the on-going project for now. The Büyükyalı Project, we have started construction at the start of this year and it is now at exploration stage and we will have start of the complete works for the next month, and we will launch the project at 22nd September and in the meantime we will contribute to Dubai CityScape Fair to present our projects to the Middle East market.

Now, we are having some collected the demand for the project and we will start signing the contracts with the launch of the project. For now, Izmir Project, as you may know, we have a cancellation of the master plan and we are still in negotiations with the municipality to clarify and change the zoning. And now the – at the agenda of the zoning committee municipality for this month, and we hope for next month, they will have talked over the rezoning plans.

For our Balmumcu plot, we will also have new zoning at 5,000 scale. It will be hospitality parcel, and the completion of this 5,000-unit plan. We will start for 1,000 scale plans. We hope that the zoning will be completed at the April 2017 and after that, we will start our project at Balmumcu.

Actually, these are the three main on-going projects and I will give the speech to Görkem to complete the presentation and then we have your questions.

### **Görkem Altinköprü**

Thank you. Here in the 12th slide, you can see our total revenue expectation, EBITDA, and EBITDA margin expectation as of the year end, where we expect 172 million in total revenues and 53 million in EBITDA, which is 31% EBITDA margin. Here in blue, you can see our two projects, one of them on-going project and the right side Izmir Alsancak is our prospective project in the future. Here in the Kazlıçeşme Project you can see total revenue of 4.2 billion, which has total project cost of 1.2 billion, and here we reach profit of TL 800 million, in which project we have 55% share, which is a joint venture project together with Yenigün ve Ziylan. I would also like to mention that these 2016 expectations hasn't been changed when compared with last quarter, but we would like to check our apartment sales in the coming period and also our tourism income in the next quarter. Based on this check, we may change these projections at the end of third quarter. We also want you to know this detail.

In the right side, you can see Izmir Alsancak project, which has total project revenue of 2.2 billion, and below you can see total project cost of it, 941 million. In the final, you can see total profit of TL 450 million for Özak REIT at the end of the project.

Thank you all for your attendance again. I would like to give the speech again to Mr Alper Gür.

### **Alper Gür**

This is the end of our presentation. Now we would like to start to the Q&A session for today's meeting. If you have any questions, feel free to ask please. Thank you.

## Question and Answer Session

### **Operator**

[Operator instructions]

Our first question comes from Marek Buczak from QUERCUS TFI. Please go ahead.

### **Marek Buczak**

Hello. Thank you very much for the presentation, so it was in English, so I could understand it. I have a question, actually, about the demand. How do you see demand for real estate right now in Turkey in your projects after recent developments? Also, if you could tell me what, actually, is your expectation for 2017 here in terms of revenues from these two largest projects, and also how do you see leverage for the Company. Thank you.

### **Fatih Keresteci**

I am Fatih Keresteci, the General Manager. As you know, [inaudible] had a negative effect, of course, on the [inaudible] market, but with new developments at the developer side, with much lower interest rates and with new campaigns, the developers are trying to get the demand higher, and I think with the lower interest rates, the demand of the real estate market will have stability supply. I think we have the similar sales for 2016 like 2015, and for the next year, maybe, we can pass the sales of 2016 in 2017 with this lower interest rate, and the new campaigns of the suppliers.

### **Marek Buczak**

What about net debt, how do you see net debt evolution next year versus this year?

### **Fatih Keresteci**

Sorry, we couldn't hear very well.

**Marek Buczak**

My question was about net debt position of the Company. How do you see actually net debt position next year if you compare with the current levels? Should it be higher (the debt) or lower? How do you see it? Thank you.

**Hüseyin Okur**

This is Hüseyin Okur, the CFO of the holding company. We expect our net debt level to slightly increase just because of these on-going projects next year, and starting 2018, this net debt level will start decreasing again thanks to the collections from the sales of the independent units in this project actually.

**Marek Buczak**

Thank you very much.

**Operator**

[Operator instructions]

Our next question comes from Elvin Akbulut Daglier from Yapi Kredi Yatirim. Please go ahead.

**Elvin Akbulut Daglier**

Hi, thank you for the presentation. I know that [inaudible] new campaign is just confined to August, but there is a possibility that it can be extended. If so, would you be interested in using this campaign for your Büyükyalı Project as well, or are you planning other types of campaigns for the project. Thank you.

**Fatih Keresteci**

Actually, it is Fatih again. actually, we would like to participate in the campaign, but a higher month of... the instalment, actually does not clearly match with our customers, because we have, as you know, it is a luxury project and it is for high income customers, so the main idea of the campaign is for long-term instalments and making the instalments for smaller [deals] and make it more reachable. It doesn't exactly match our project, but we think it will be helped anyhow, and also we are planning some other [accounting] sales/conditions for our project at the launch.

**Hüseyin Okur**

To add something more on top of Fatih Bey's comments. Yes, as of today we are involved in this campaign, campaign of Emlak Konut, even though we haven't officially launched our project yet, which will happen in next month on the 22nd September. As you correctly mentioned, there is a possibility that Emlak Konut will be extending its campaign, and most probably we will also continue to be part of this campaign when it is extended, but as Fatih Bey clearly mentioned, we don't have big expectations from this campaign, because of the nature of our project and the target customer level of our project actually.

**Elvin Akbulut Daglier**

Thank you.

**Operator**

[Operator instructions]

We have no other questions at the moment. Mr Alper Gür back to you for the conclusion.

**Alper Gür**

Hello. This is Alper again. We thank you all again for your attendance. I would like to remind you that you can find our presentation and the transcript text of teleconference at our website. Our next teleconference will be held in the middle of November.

See you again.

I wish you all a very good day.

**Operator**

Ladies and gentlemen, thank you for your participation. You may now disconnect.