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28 November 2014

REIT SECTOR UPDATE

BENIGN MACRO EXPECTATIONS OFFER VALUE!

REIT	Emlak REIT	Sinpas REIT	Torunlar REIT
Ticker	*EKGYO*	*SNGYO*	*TRGYO*
Recommendation	*BUY*	*NEUTRAL*	*BUY*
Share Price TL	*2.78*	*0.84*	*3.51*
New Target Price	3.45	0.95	4.54
Old Target Price	3.21	1.15	4.29
Change	7%	-17%	6%
Upside Potential	**24%**	**13%**	**29%**

- We adjust our expectations for REITs slightly and roll over TPs to year end 2015
- In tandem with delayed launches of projects vs. our previous report and rising net debt, ***our TP for SNGYO came down to TL0.95 from TL1.15 and hence we reduce our rating to NEUTRAL from BUY***.
- ***We preserve our BUY rating for EKGYO and TRGYO*** for which we increased our TPs by 7% and 6% to TL3.45 and TL4.54 respectively.
- We note the acceleration in EKGYO's pre-sales performance (EKGYO sold 1333 units in Oct'14 vs. 759 units in September) and expect continuation of benign trend thanks to new launches.
- Although TRGYO trades at slightly lower discount vs. historical figures (44% vs. 48%), we think that the prospective hike in NAV at year-end (by about 9-10% mostly due to mostly due to revaluation of Mall of Istanbul, Torun Center and Torun Tower) could lead to re-rating in the stock.
- Due to its diverse portfolio, TRGYO is positioned as relatively more balanced play vs. peers in our view.

Sizable drop in inflation in 2015, coupled with softening in macro-prudential measures (especially on consumer loans thanks to flexibility gained on external balances) will support housing demand in 2015. We may also see further declines in overall housing loan rates (average rates on new lending is already 40bps lower vs. 3q14 and 220bps lower vs. 2q14 in 4q14). In short, macro backdrop bode well for REITs and in particular for the ones focusing on residential projects. ***In this perspective, EKGYO continues to be our top pick in REIT segment.*** On the other hand, major investment themes for the sector remain solid (population growth, migration from smaller cities to larger ones, smaller family sizes, urban redevelopment and large infrastructure projects undertaken).

Major downside risk could be the removal of corporate tax exemption. The most important sector specific risk would be the removal of corporate tax exemption or other attempts by government to curb the investors' appetite for the sector (such as dictating a tax on revaluation gain of residential units). The removal of corporate tax benefit of real estate investment trusts would shave of 20% of their bottom lines of those companies ceteris paribus. Note that media claimed that economy officials will be reviewing the tax benefits of REITs and they may eliminate the corporate tax benefits of these companies in an amendment attached to the Income Tax Draft which is expected to be finalized by the year-end. This is stated as an attempt to prevent industrialists from entering into real estate business and to protect relative attractiveness of industry over real estate sector. Management of the companies do not expect such change to status quo and we agree on that given that government will try to de-incentivize the entry of industrialists into this segment by other means and the elimination of this exemption would create large stock with the rise in prices.

The reversal of relatively benign outlook on macro front would dent the sentiment for REITs.

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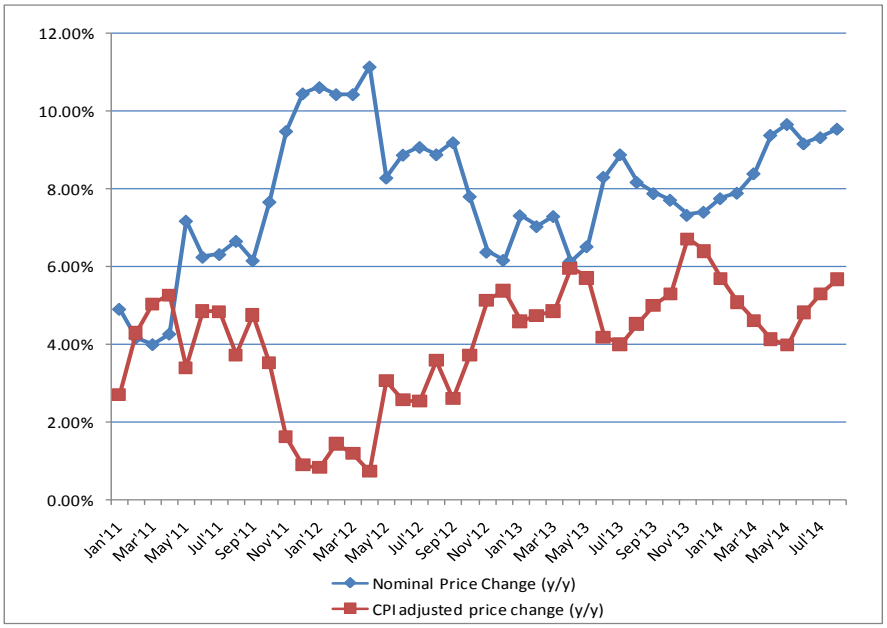
Worries regarding inflated house prices seems to be overrated...

The graph below shows the evolution of housing prices as per CBT data. On nominal terms, price increases appear relatively high at first sight, but adjusting for inflation, average real price increase hovers around 4% which seem moderate given the dynamics of Turkish market. Thus, we do not think that there is a price bubble in housing market in general.



Recap of 3q14 results...

EKGYO's 3q14 net income of TL177mn (down 49% y/y and up 2% q/q) was below the local consensus estimate of TL216mn and our estimate of TL249mn. Main reasons for the worse than expected bottom line were the other expense of TL41mn (mostly due to un-accrued financing expenses) booked in the quarter and lower than expected financial income.

TRGYO posted TL67mn net loss in 3q14, above the local consensus of TL51mn and our estimate of TL35mn. Revenues (around 32% of which comes from deliveries) were 42% below estimates as deliveries were much lower than guided by the company. Rent income surged 62% y/y thanks to inclusion of Mall of Istanbul shopping mall. When we exclude this, we calculate like for like growth as 12.6% for rent generating assets. On the other hand, rising net financial expenses on y/y basis due to large FX short position weighed negatively on the bottom-line.

SNGYO booked TL16mn net income in 3q14 which is much better than local consensus of TL1mn and our call of –TL4mn.On the delivery front, SNGYO delivered 357 units in 3q14 (vs. 144 units in 3q13 and 288 units in 2q14). Therefore revenues were quite strong on y/y and q/q basis. Overall, revenues were slightly above estimates (at about 5%) but stronger than expected EBITDA margin (14% actual vs. market estimate of 10% and our call of 6%) contributed positively to the bottom-line. However, 9m14 EBITDA margin is still weaker vs. 9m13 by around 230bps.

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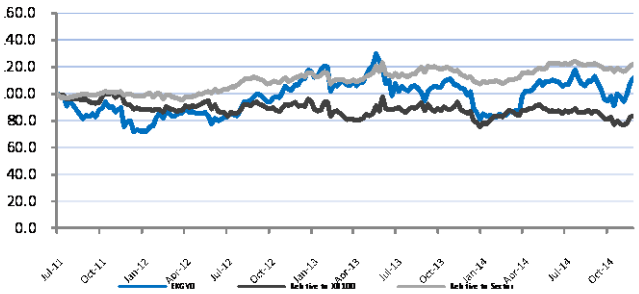
Emlak REIT

BUY

EKGYO	REIT
Share Price	TL 2.78
Target Price	TL 3.45
Upside Potential	24%
Market Cap (mn)	$4,770
Market Cap (mn)	10,564 TL
EV (mn)	8,243 TL
Free Float	51%
Beta	0.89
EPS 14'e	0.28 TL
EPS 15'e	0.29 TL

Price Performance	TL	Rel to ISE-100
1 Month	13%	6%
Y to D	38%	11%
1 Year	10%	-3%
52-week range		TL 2.93 - 1.96
Ave. Daily Volume (12M) - mn		$55.0
Ave. Daily Foreign Trading Volume (12M) - mn		$27.7

EKGYO vs ISE-100 (rebased)



Financials (mn)	2013	2014e	2015e
Revenues	2,331 TL	1,950 TL	2,315 TL
EBITDA	908 TL	810 TL	980 TL
Net Income	1,061 TL	1,048 TL	1,115 TL
Revenues Δ y/y	*132.1%*	*-16.3%*	*18.7%*
EBITDA Δ y/y	*129.0%*	*-10.8%*	*21.0%*
Net Income Δ y/y	*102.6%*	*-1.2%*	*6.4%*
EBITDA Margin	39.0%	41.5%	42.3%
Net Margin	45.5%	53.7%	48.2%
EV/EBITDA	9.1x	10.2x	8.4x
EV/Assets	0.6x	0.5x	0.5x
P/Assets	0.8x	0.7x	0.7x
Dividend Yield	4.4%	4.0%	4.2%

Continuous launches support sales and cash flow…

Rolling our target price to year-end 2015, increasing the unit sales estimates for 2014 by around 7% and 2015 estimates by around 12% led us revising up our target price to TL3.45 from TL3.21. Therefore we reiterate our BUY rating for EKGYO as the upside potential is at 24%. EKGYO trades at around 16% to its NAV as per our calculations vs. the average discount of 14% in the last 3-years. Going forward, we expect the discount to narrow down and NAV growth to speed-up in tandem with the tenders at relatively more valuable land bought in 1h14. Major supportive themes for BUY rating are

- Recent and soon to be launched RSM projects (Koy @Zekeriyakoy, Evvel Istanbul and Park Mavera@Kayabasi) along with relatively smaller projects to be launched will render more than 3.5k units available for sale which will help the unit sales to remain strong as well as bolstering cash flows
- Restoration of calm on political front and prospects of benign macro dynamics for house sales (housing loan rates have been coming down sequentially since 2q14 and 2015 expectations are also positive given the expectations of lower CPI in 2015) will help the house sales as well
- The fact that we have included the land bank at a 10% discount to its appraisal value in our valuation poses healthy upside risk to our estimates as the EKGYO's value creation multiple for completed projects stand at 2.1x whereas it is around 1.93x for the tendered lands. Thus, our TP is highly conservative one.

Tenders for valuable lands is key to watch in 2015…

Three pieces of land (in Sariyer & Maltepe of Istanbul and Yenimahalle of Ankara) bought in 2014 constitute around 44% of EKGYO's land bank value. We think that EKGYO will hold tender at least for two of those (Maltepe and Yenimahalle) in 2015 and tender multiples will be carefully watched.

P&L should be strong for the foreseeable future…

As of 3q14, EKGYO's (minimum guaranteed) total share in tendered RSM projects stands at TL7.45bn vs. TL3.85bn base value of those lands at the tender time. This implies that the company secured to book at least TL3.6bn gross profit in next 3-4 years time (the value is to bid up with additional tenders of course). Thus minimum dividend yield for the foreseenable future should be around 4% in tandem with around TL1bn profit.

Please refer to end of report for important disclosure

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We increased our 2014e sales figure to around 9.6k from 9k thanks to speeding up of tenders...

EKGYO sold 1333 units in Oct'14 (vs. 759 units in September). Cash flow generated from these sales amounted to TL735mn, 75% higher m/m. Thus 10m14 sales reached 7533 whereas cash flow for the first 10 months is realized at TL3.76bn. Sales from recent launch Park Mavera (Kayabasi 4th stage) was at 507 units and provided solid support to sales figures. Along with the new projects to be launched on RSM side and start of sales from turn-key project in Esenler, ***we now expect EKGYO to close the year with 9.6k sales vs. previous 9k***. The company expects to sell around 10k units in 2014 (vs.15.2k in 2013). For 2015, the company will have at least around 15k units available for sale from RSM projects (the number is to go up with launches in 2015), and on that front it is fair to estimate that company may again set its target at around 15k units. Currently, we look for 8k units (previously 7.3k)but these figures exclude additions from new launches to take place in 2015.

Our valuation points to 24% upside potential hence our BUY rating....

We value EKGYO via Sum-of-the Parts where we value the vacant land at the appraisal value with a 10% discount. Considering the average tender profit multiple of 1.93x, this discount is pretty much conservative and provides a buffer against the uncertainty regarding the initiation of tenders. RSM projects make up another large bulk of the valuation whereas turn-key (PPM) projects share is quite small. Net cash is found by adjusting 3q14 figure payables/receivables due to Housing Support Accounts. Around 7% increase in our TP to TL3.45 reflects the rolling over of our targets as well as higher than initially expected sales expectations.

Valuation Summary (TL mn)	Fair Value	Valuation Method
Land Portfolio	**4,858**	*Appraisal value at 10% discount*
Revenue Sharing Model Projects (RSM)	**4,262**	*DCF*
Turn-key Projects	**247**	*DCF*
Un-sold Inventory	**107**	
Terminal Value	**2,562**	*DCF*
NPV of Operating Expenses	**-1,248**	
Adj. Net Cash**	**2,306**	*As of 3q14*
Target Mcap	**13,094**	
# of Shares	3,800	
Target Price per Share	**3.45**	
Current Price	2.78	
UPSIDE POTENTIAL	**24%**	

***Net Cash - Payable to HAS Beneficiaries + Receivables from Treasury for HAS Account*

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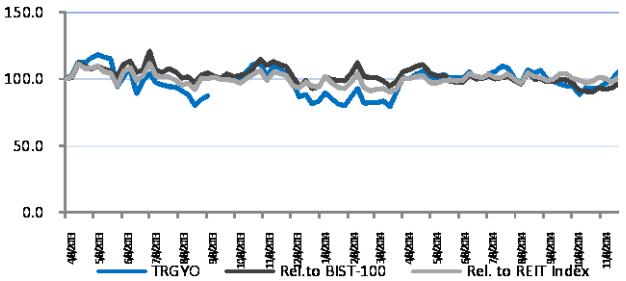
Torunlar REIT

BUY

TRGYO	REIT
Share Price	TL 3.51
Target Price	TL 4.54
Upside Potential	29%
Market Cap (mn)	$792
Market Cap (mn)	1,755 TL
EV (mn)	3,521 TL
Free Float	14%
Beta	0.86
EPS 14'e	TL 0.33
EPS 15'e	TL 0.30

Price Performance	TL	Rel to ISE-100
1 Month	13%	6%
Y to D	29%	4%
1 Year	-1%	-13%
52-week range		TL 3.65 - 2.55
Ave. Daily Volume (12M) - mn		$1.2
Ave. Daily Foreign Trading Volume (12M) - mn		$0.3

TRGYO vs BIST-100 (rebased)



Financials (mn)	2013	2014e	2015e
Revenues	344 TL	763 TL	563 TL
EBITDA	298 TL	222 TL	199 TL
Adj. Net Income	-31 TL	166 TL	149 TL
Revenues Δ y/y	*52.8%*	*122.0%*	*-26.2%*
EBITDA Δ y/y	*6.9%*	*-25.6%*	*-10.3%*
Adj. Net Income Δ y/y	*n.m.*	*n.m.*	*-10.4%*
EBITDA Margin	86.7%	29.1%	35.3%
Net Margin	-9.1%	21.8%	26.4%
EV/EBITDA	11.0x	15.9x	17.7x
EV/Assets	0.52x	0.53x	0.24x
P/Assets	0.28x	0.26x	0.25x
P/BV	0.59x	0.56x	0.53x
Dividend Yield	1.7%	3.8%	3.4%

Potential Increase in NAV by year-end could be source of re-rating!

Rolling our target price to year-end 2015 and slightly adjusting the revenue/margin estimates following 3q14 results, we revised our TP for TRGYO to TL4.54 from TL4.29. Our TP implies around 29% upside potential and hence we reiterate our BUY rating.

Current discount to NAV is lower than historical averages...

TRGYO's latest NAV per share is at TL6.23 and the currently the stock trades at 44% discount to NAV which is slightly lower than historical averages (47% in the last one year and 48% since the IPO). To that end, investment theme may not seem too attractive; however, we think that higher NAV by YE2014 (which could go up by around 9-10% on asset revaluations) could be the source of prospective re-rating for the stock which has underperformed BIST-100 by around 13% in the last 1 year period. *Relatively better performance of TL vs. USD 4-q-t-d (as FX short position is rather large), commence of the Torun Tower offices rental starting with 4q14 and diverse portfolio along with NAV expansion should benefit TRGYO for outperformance going forward in our view.*

Macro prospects should come in handy as well...

Lower CPI expectations and quite positive prospects on CAD front will be beneficiary for the stock performance both on shopping malls front and on residential front. Along with expectations of both rate cuts and gradual ease on macro-prudential measures on consumer lending, 2015 is likely to be more positive in regards to footfall in shopping malls which in turn will support rental income generation. On the other hand, easing housing loan rates and improved consumer confidence will render more conducive year in 2015 in terms of residential sales.

Risks...

We have not included the prospective KIPTAS (urban transformation project) and Pasabahce (hotel& villas) into our models for which the construction permits are expected to be granted in 1q15, therefore value accretion from projects would present upside risk to our estimates. On the downside, company specific risk regarding the stock could be the sale of 11% repurchased from IPO by the parent Torun Gıda and Torun Family members. In addition, TL depreciation may dent the bottom line due to the short FX position on B/S.

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Our 2015 end TP is TL4.54 implying 29% upside potential ...

We value TRGYO through sum-of-the-parts (SOTP) valuation. Subtracting the net debt of 3q14, we reach to a TL2.3bn target market capitalization for the company. Our 1-year forward Target Price per share is TL4.54 and we see a %29 upside potential for the stock.

Valuation Summary	Fair Value (TLmn)	Methodology
Land Bank	**400**	
Istanbul, Ikitelli	25	Portfolio Value (10% discount is applied)
Istanbul, Kayasehir	19	Portfolio Value (10% discount is applied)
Paşabahce	356	Portfolio Value (10% discount is applied)
Buildings	**1346**	
Zafer Plaza	162	DCF
Korupark Shopping Mall	746	DCF
Torium	276	DCF
Nish Istanbul	23	Portfolio Value (10% discount is applied)
Korupark I,2 and 3 Unsold Units	123	Portfolio Value (10% discount is applied)
Kemankes Building	16	Portfolio Value (10% discount is applied)
Torium Residential Units	5	Portfolio Value (10% discount is applied)
Projects	**1883**	
Mall of Istanbul	724	DCF
Torun Tower	354	DCF
Torun Center	723	DCF
Deepo Extension	83	DCF
Participations	**406**	
TOTAL	**4036**	
Net Debt		**1,766.3**
Target Mcap		2,269.8
Number Of Shares		500
Target Price		4.54 TL
Closing Price		3.51 TL
UPSIDE POTENTIAL		29%

Source: Tera Estimates, the Company

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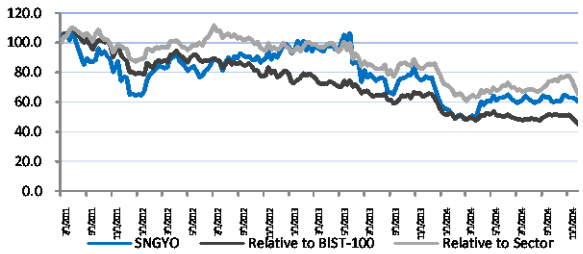
Sinpas REIT

NEUTRAL

SNGYO	REIT
Share Price	TL 0.84
Target Price	TL 0.95
Upside Potential	13%
Market Cap (mn)	$228
Market Cap (mn)	504 TL
EV (mn)	1,078 TL
Free Float	32%
Beta	1.01
EPS 14'e	0.10 TL
EPS 15'e	0.08 TL

Price Performance	TL	Rel to ISE-100
1 Month	-5%	-11%
Y to D	2%	-18%
1 Year	-22%	-31%
52-week range		TL 1.09 - 0.66
Ave. Daily Volume (12M) - mn		$2.7
Ave. Daily Foreign Trading Volume (12M) - mn		$0.4

SNGYO vs BIST-100 (rebased)



Financials (mn)	2013	2014e	2015e
Revenues	522 TL	556 TL	437 TL
EBITDA	57 TL	77 TL	58 TL
Net Income	19 TL	57 TL	48 TL
Revenues Δ y/y	*-13.5%*	*6.3%*	*-21.3%*
EBITDA Δ y/y	*23.6%*	*35.1%*	*-24.6%*
Net Income Δ y/y	*-75.5%*	*209.4%*	*-16.5%*
EBITDA Margin	10.9%	13.8%	13.3%
Net Margin	3.5%	10.3%	11.0%
EV/EBITDA	18.9x	14.0x	14.0x
EV/Assets	0.5x	0.5x	0.4x
P/Assets	0.2x	0.2x	0.2x
Dividend Yield	0.0%	1.1%	1.0%

DOWNGRADE to NEUTRAL from BUY...

Updating our estimates, with lower than expected pre-sales (and delays in launches vs. previous estimates) and lower margins (as well as higher net debt) while rolling our TP to year-end 2015, our target price comes down to TL0.95 from TL1.15. As the upside potential is at 13%, we are downgrading our recommendation to NEUTRAL from BUY.

We expect the company to sell 1,321 units in 2015 on top of 1,5k in 2014...SNGYO pre-sold 294 units in 3q14 (down 10% y/y & 24% q/q). The cash flow from total sales came in at TL126mn (down 33% y/y and 37% lower q/q). However, in 9m14, total number of pre-sold units is realized as 1,107 units with TL512mn cash flow which denote 50% and 25% increase on y/y basis. This increase stems mainly from new launches of Ege Yakasi (in Halkali), Aydos Country (in Sancaktepe) and Incek Life Green (in Ankara). Going forward, we think that SNGYO will launch long-awaited Bomonti Project as well as Ankara Cankaya in 2015. Along with those, the company will have around 3.5k units available for sale and it could sell 1,321 of those in 2015 with relatively conducive macro picture.

Margins are hovering around relatively low levels...SNGYO has underperformed the BIST-100 and BIST-REIT Indices by 31% and 21% respectively in the last one-year. Among the possible explanations for the underperformance are the delay in the launch of some of the projects and possibly more importantly the weakness of margins. As can be seen from the table below, company's EBITDA margin in 2013-3q14 was around only 6% vs. 2010-2012 average of 15%. In order for SNGYO to elevate its margins and accelerate cash flow, launch of Bomonti Project could be a catalyst as it is a premium project. However, for the stock to re-rate, the markets need to see acceleration of cash flows in tandem with sales which should in turn help reduce the net debt that hovers around 10 times the 2013's EBITDA levels.

Quarterly Income Statement- mn	1q13	2q13	3q13	4q13	1q14	2q14	3q14
Revenues	75	195	68	185	92	114	169
COGS	61	118	61	140	75	90	131
Gross Profit	13	77	7	45	17	24	39
Opex	23	39	19	6	17	22	17
EBIT	-5	48	-10	19	0	6	23
Net Financial Income	-3	-27	1	-6	-4	1	-15
Net Profit	-4	32	-7	-3	5	19	16
Margins							
Gross Profit	18%	39%	10%	24%	18%	21%	23%
EBIT	-7%	25%	-15%	10%	0%	5%	13%
EBITDA	-5%	26%	-13%	11%	2%	6%	14%
Net Profit	-5%	16%	-10%	-1%	5%	17%	10%

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Our 2015 end TP is TL0.95 implying 13% potential; therefore we downgrade our recommendation to NEUTRAL..

We value SNGYO through using DCF for the ongoing and prospective projects and adding the land banks' appraisal value (for the projects we have not used in DCF) at the 25% discount (relatively high discount incorporates the previous delays and execution risk of project launches) along with the net debt. We reach TL570mn target market capitalization implying target price of TL0.95 per share and a 13% upside potential. Therefore our recommendation is NEUTRAL.

Valuation Summary	
PV of Residential Sales Revenues	2,339
PV of Project Development Costs	-1,384
PV of Operating Expenses	-283
EV	**671**
Net Debt	574
Participations	85
Land Bank @ 25% discount to appraisal value	255
Unsold Units From Completed Projects (at 20% discount)	133
Target Mcap	**570**

**Land Bank corresponds the projects' lands that are not included the DCF valuation*

Current Mcap TL mn	504
Current Price per share (TL)	0.84
Target price per share (TL)	**0.95**
Upside potential	**13%**

TERA BROKERS RATING

BUY	**More than 20% return**
NEUTRAL	**Between +20% and -10% return**
SELL	**Downside potential is more than 10%**

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