



By: Stephen Bramley-Jackson

Türkiye Real Estate

Initiating on Core Sector Leaders

We initiate coverage of three Turkish REICs with dominant positions in the residential, office and retail sectors

They look attractive due to an economic turning point, track records, state backing, low leverage and unique funding models

We rate Emlak, Is REIC and Torunlar REIC Buy, with target prices of TRY14.60, TRY20.20 and TRY69.90, respectively

Conditional love

The 17th edition of the EM Sentiment Survey

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Incumbents should now be in pole position

HSBC's Equity Strategy Team is overweight Turkish equities (see [GEMs Equity Strategy Quarterly – Domestic bliss](#), 25 September 2024), believing the equity market to be inexpensive by historical standards, priced at an average 12M forward PE of 5.4x compared with EM, which is a c11% discount to the 10-year history.

For the real estate sector, last year's 30ppt rate hike (September 2023) has curtailed construction and investment activity overall, with hurdle rates for new development and the funding of investments and home purchases made all but prohibitive in most cases. For example, in the case of residential, there was a near 60% drop in mortgaged sales in H124. However, for incumbents with dominant market shares, access to, or possession of significant land banks, established recurring income portfolios and materially pre-sold development projects supported by negligibly indebted balance sheets results in even higher barriers to entry for competitors.

All three companies that we are initiating on should benefit as interest rates begin to fall, which is widely expected to begin by late 2024/early 2025 (HSBC is forecasting a drop in policy rates to 30% – from 50% currently – by the end of 2025, along with a near 40% drop in inflation). A lowering of rates, combined with the incumbent characteristics outlined above, should put Emlak Konut REIC (EKGYO TR), rated Buy, with a TP of TRY14.60, as the country's largest home builder, Is REIC (ISGYO TR) rated Buy, with a TP of TRY20.20, having a strong position in commercial offices, and Torunlar REIC (TRGYO TR) rated Buy, with a TP of TRY69.90, with a dominant position in retail real estate, in pole position in their respective markets.

Key changes to ratings and estimates

Company	Ticker	Currency	Current price	TP		Rating		Upside/downside	Market cap (USDm)	P/E		Dividend yield	
				Old	New	Old	New			2025e	2026e	2025e	2026e
Emlak Konut REIT	EKGYO TI	TRY	9.79	na	14.60	na	Buy	49.1%	1,086	3.6	3.2	13.7%	15.5%
Is GYO REIC	ISGYO TI	TRY	15.66	na	20.20	na	Buy	29.0%	438	4.4	4.5	0.0%	0.0%
Torunlar REIC	TRGYO TI	TRY	45.56	na	69.90	na	Buy	53.4%	1,330	3.3	3.0	15.1%	16.6%

Source: Bloomberg, HSBC estimates. Priced as of close of 22 October 2024

Investment summary: Overweight Turkish equities

Overweight Turkish Equities – valuations appear undemanding and outlook positive

HSBC's Equity Strategy Team is overweight Turkish equities (see [GEMs Equity Strategy Quarterly – Domestic bliss](#), 25 September 2024), at 2.3x benchmark, believing the equity market to be inexpensive by historical standards. Priced at an average 12M forward PE of 5.4x compared with EM, which is a c11% discount to its 10-year history ([Caught in a Fed Romance](#), [GEMs Equity Strategy](#), 8 October 2024).

However, the Turkish equity market has seen a sharp decline through the summer period of global macro volatility. The HSBC Strategy team believes this could be a local dimension; much of the macro rebalancing has been achieved through tighter monetary policy rather than tighter fiscal policy, which has led to significant real exchange rate appreciation. There is no immediate likelihood of this reversing, but a more elevated real exchange rate presents new equity market risks – equity investors often become more cautious when FX risk premia rise. That said, our FX team believes that the TRY outlook remains positive ([Emerging Markets FX Roadmap](#), Global FX Research, 30 August 2024).

However, for equities the Strategy team thinks the recent draught is a buying opportunity. The stabilisation program remains on track, growth is slowing, the current account deficit has fallen, and inflation is coming down. The weak point on growth is likely to be in H2 this year, with a reacceleration in 2025. Interest rates should also decline steeply next year (HSBC is forecasting a drop in policy rates to 30% – from 50% currently – by the end of 2025). The inflation-output trade-off has scope to be very positive ([Türkiye: Looking ahead](#), 9 September 2024).

Turkish equities 12M forward PE is 5.4x, an 11% discount to its 10-year history

Interest rates should also decline steeply next year – HSBC is forecasting a drop in policy rates to 30% (from the current 50%), by the end of 2025

Turkish REITs in a global context

Comprising c1% of the FTSE EPRA NAREIT Emerging Market Index

The FTSE EPRA NAREIT (European Public Real Estate Association National Association of Real Estate Investment Trusts) Global Emerging Markets Index provides a breakdown of real estate investment trusts and companies (emerging and developed markets) based on geography, on a global scale.

Of the constituent geographies, the Türkiye Index represents 0.90% (USD market cap) of the global emerging market sub-index (EPRA Monthly Bulletin, September 2024). The largest components by geography are, unsurprisingly, China at 22.3%, India at 19.4%, followed by the Philippines Index at 8.8%. The MENAT real estate regional constituent weightings are as follows:

MENAT real estate indices – weightings

	Weighting	Free float mkt cap (USDbn)
Emerging Market Index	100.0%	135.2
Emerging Middle East Africa	16.9%	22.8
Emerging UAE Index	6.8%	9.2
Emerging Saudi Arabia Index	1.9%	2.6
Emerging Kuwait Index	1.5%	2.0
Emerging Qatar Index	1.2%	1.6
Emerging Türkiye Index	0.9%	1.2

Source: EPRA Monthly Bulletin, September 2024, HSBC. Note – there is not an EPRA Emerging Market Index for Egypt.

EPRA's FTSE EPRA NAREIT Emerging Türkiye Index comprises of five Real Estate Investment Companies (REICs) with an aggregate free float value of USD3.6bn

In total, there are 25 real estate investment trusts listed on the Istanbul stock exchange, although EPRA's 'FTSE EPRA NAREIT Emerging Türkiye Index' comprises of five of these with an aggregate free float value of c.USD3.6bn. Of these, we initiate coverage of two, and a third REIT (Torunlar GYO – not included in the index), in this report.

FTSE EPRA NAREIT Emerging Türkiye Index

	Investment focus	Sector	REIT status	Free float mkt cap (TRYm)
Emlak Konut	Non rental	Residential	REIT	1,925
AKIS Gayrimenkul Yatirimi AS	Rental	Retail	REIT	1,150
Is Gayrimenkul Yatirim Ortak	Rental	Diversified	REIT	392
Alarko G.Yat.Ort	Rental	Diversified	REIT	127
Akmerkez Gayrimenkul Yatirim	Rental	Retail	REIT	9.7
Torunlar GYO	Rental/Non rental	Mainly retail	REIT	251.5

Source: EPRA Monthly Bulletin, September 2024, HSBC. Note – Torunlar GYO is not included in the FTSE EPRA NAREIT Emerging Türkiye Index

Performance

In terms of performance, the FTSE EPRA NAREIT Türkiye Index has posted the following USD-based returns over 1YR and 3YR periods.

FTSE EPRA NAREIT – Gross total return (USD)

	1YR	3YR	5YR
Emerging Middle East Africa	28.70%	9.24%	1.75%
Emerging UAE Index	42.52%	28.55%	18.26%
Emerging Saudi Arabia Index	-4.45%	-5.52%	2.36%
Emerging Kuwait Index	11.17%	11.10%	na.
Emerging Qatar Index	13.25%	2.64%	na.
Emerging Türkiye Index	-1.24%	18.83%	15.09%

Source: EPRA NAREIT Monthly Bulletin September 2024, HSBC

Initiating on three core sector leaders

Dominant positions in the residential, office and retail sectors

All three companies that we are initiating on agree that the real estate market should benefit as interest rates begin to fall (a common view globally), which they expect to see the early stages of by the end of 2024 (HSBC is forecasting a drop in policy rates to 30% – from 50% currently – by the end of 2025). A lowering of rates, combined with the incumbent characteristics outlined above should put Emlak Konut REIC (EKGYO TR), rated Buy, with a TP of TRY14.60, as the country's largest home builder, Is REIC (ISGYO TR) rated Buy, with a TP of TRY20.20, with a strong position in commercial offices, and Torunlar REIC (TRGYO TR) rated Buy with a TP of TRY69.90, with a dominant position in retail real estate, in pole position.

Emlak Konut: Türkiye's dominant residential developer and largest Real Estate Investment Company

Emlak Konut REIC: Established in 1953, Emlak Konut REIC (Emlak) is Türkiye's largest Real Estate Investment Company (REIC). Introduced in 1997, Emlak is now one of 25 REICs currently listed on the Istanbul Stock Exchange (ISE), five of which are included within the FTSE EPRA NAREIT Emerging Türkiye Index. As at the end of Q224 (i.e. June 2024), Emlak had gross assets of TRY155.8bn, c319 development projects completed or in progress, comprising 214,000 units, with in excess of TRY55bn of pre-sales achieved since 2003. As at 22 October 2024, Emlak's market capitalisation was TRY37.2bn, equivalent to USD1.09bn.

Emlak is primarily a residential developer, accounting for 99.3% of group revenues in FY23 (group revenue totalled TRY28.5bn, or USD0.83bn, in FY23). The remaining 0.5% comprises rented and leased properties, the majority of which are retail malls (i.e. 68% retail malls, 26% commercial units).

Below we highlight some of the company's key valuation metrics.

Emlak REIC: Valuation metrics

	2023	2024e	2025e	2026e
P/E	-9.1x	8.5x	3.6x	3.2x
P/BV	0.7x	0.4x	0.3x	0.3x
FCF yield	9.6%	-2.6%	10.2%	7.4%
Dividend yield	0.0%	5.9%	13.7%	15.5%
EV/EBITDA		2.7x	1.6x	1.5x
Net debt/equity	19.9x	15.2x	13.0x	9.8x
Net debt/EBITDA	2.9x	1.5x	1.1x	0.8x

Source: Company data, HSBC estimates

Is REIC: Is Bank (and its associate companies) have a combined 67% shareholding

Is REIC: İş Gayrimenkul Yatırım Ortaklığı A.Ş. (Is REIC) was founded in August 1999, and operates in both real estate investment and development within Türkiye. The company is headquartered in Istanbul. Its major shareholder is Is Bank (and its associate companies) with a combined 67% shareholding. Is Bank (ISCTR IS, TRY11.70, Buy, TP TRY15.85) is Türkiye's largest (and oldest) private bank, which is majority owned by the Is Bank pension fund and The Republican People's Party (CHP), the second-largest party represented within the government administration. As at H124 (June 2024), Is REIC had gross assets of cTRY42bn, of which the property portfolio comprised cTRY40bn.

As at the end of H124 (i.e. June 2024), Is REIC had gross assets of TRY42bn, with the property portfolio comprising TRY40bn (spanning offices, retail, residential and land), of which TRY33bn is income generated from the group's office and retail holdings. As at 22 October 2024, Is REIC's market capitalisation was TRY15.0bn, equivalent to USD0.44bn.

Below we highlight some of the company's key valuation metrics.

Is REIC: Valuation metrics

	2023	2024e	2025e	2026e
P/E	4.8x	3.8x	4.4x	4.5x
P/BV	0.6x	0.4x	0.3x	0.2x
FCF yield	-5.2%	18.9%	17.1%	17.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA		10.8x	6.0x	5.3x
Net debt/equity	-15.8x	-13.6x	-13.8x	-14.2x
Net debt/EBITDA	-4.6x	-3.2x	-2.1x	-2.1x

Source: Company data, HSBC estimates

Torunlar REIC: A dominant player in Türkiye's retail real estate sector with over 600,000sqm of retail mall GLA

Torunlar REIC: Torunlar Group is a conglomerate, investing in energy (it is Türkiye's second-largest natural gas distributor with over 4.3bn cubic metres of gas sales and distribution volume) the agribusiness sector (a leading company in oilseed, soybean, sunflower, rice and sugar-beet processing) and real estate.

In terms of the group's real estate interests, Torunlar REIC went public in 2010 and is now Türkiye's largest private-sector REIC, with a portfolio value of TRY86.8bn, as at March 2024. Although a diversified property portfolio, Torunlar has a dominant position in Türkiye's retail real estate sector, with over 600,000 sqm of retail mall gross lettable area (GLA).

Below we highlight some of the key company's valuation metrics.

Torunlar REIC: Valuation metrics

Torunlar	2023	2024e	2025e	2026e
P/E	3.6x	3.1x	3.3x	3.0x
P/BV	0.6x	0.4x	0.3x	0.3x
FCF yield	7.2%	26.4%	23.4%	28.2%
Dividend yield	5.2%	16.3%	15.1%	16.6%
EV/EBITDA		6.9x	4.9x	3.8x
Net debt/equity	-2.1x	-1.1x	-1.8x	-2.0x
Net debt/EBITDA	-0.4x	-0.2x	-0.3x	-0.3x

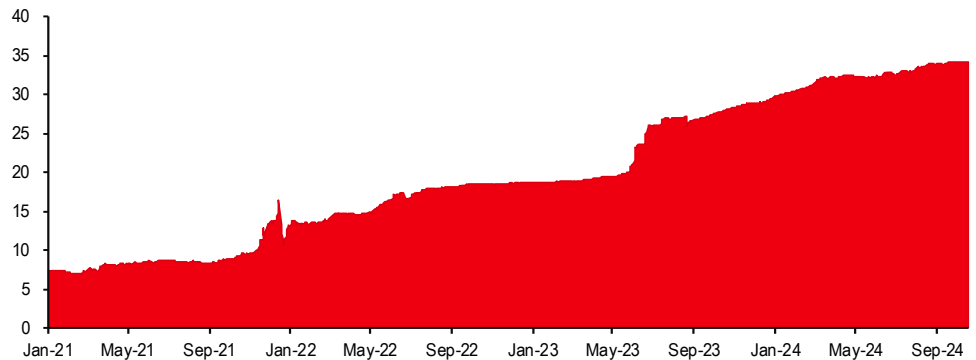
Source: Company data, HSBC estimates

The macro picture

Currency – The heavily depreciated Turkish lira and hyperinflation

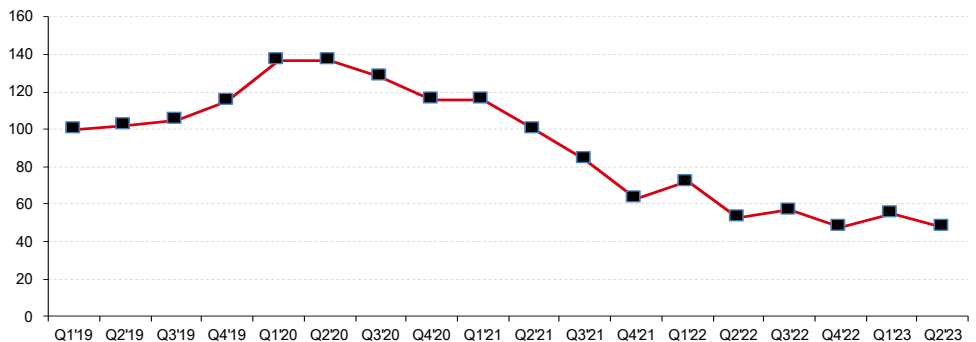
The Turkish lira has depreciated significantly, as we show below, relative to the US dollar. The currency depreciation has significantly affected the home purchasing power of Turkish nationals, while at the same time inflation has pushed purchase prices up sharply.

TRY vs USD exchange rate



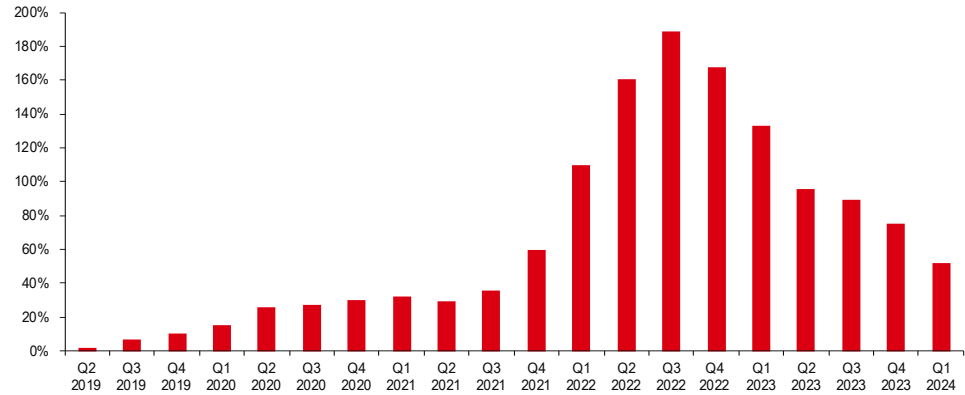
Source: Bloomberg, September 2024

Home purchasing power – purchase price inflation



Source: Endeksa, September 2023, HSBC

Residential property price growth – a particularly inflationary 2022 year



Source: Bank for International Settlement, June 2024, HSBC

International ownership of property

Home sales to foreign buyers are lowest in a decade

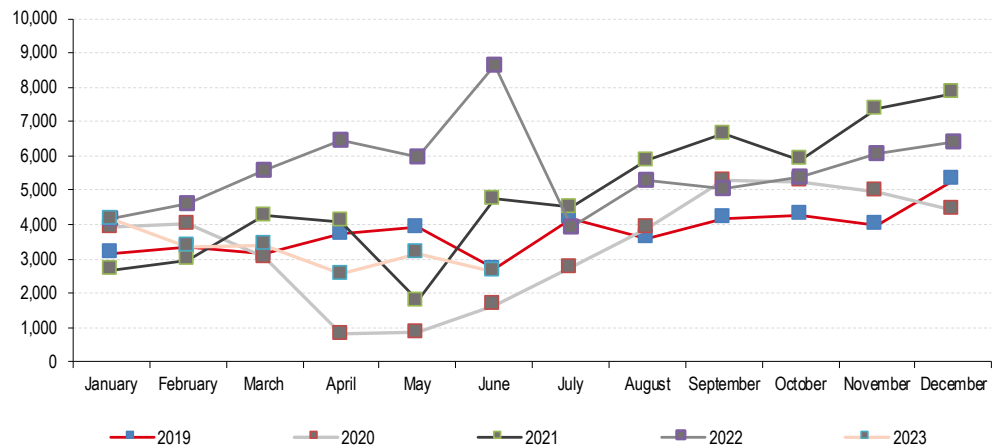
At the lowest level in almost a decade

Home sales to foreign buyers have reached their lowest point in the past decade, according to data from the country’s Central Bank. The Central Bank’s ‘Balance of Payments Statistics’ released on 13 February 2024, showed that the Turkish real estate sector, which set a record with USD6.273bn in net foreign inflow in 2022, saw a significant downturn in 2023, falling by 43.3% to USD3.56bn, marking the lowest point in a decade. Real estate purchases constituted 76.1% of total net foreign direct investment, which amounted to USD4.678bn in 2023.

Home sales to foreigners saw a significant decline of 48.1% in 2023

According to the Turkish Statistical Institute (TurkStat), home sales to foreigners saw a significant decline of 48.1% in 2023, compared to a year earlier, reaching a total of 35,005 units. This figure marked the lowest point in the six years following 2017. The share of home sales to foreigners within total housing sales, which was 4.5% in 2022, declined to 2.9% in 2023.

Number of house sales to foreigners



Source: Endeksa, TurkStat., March 2024, HSBC

Real estate and the barrier to entry for citizenship

Various commentators attribute the decrease in foreign real estate purchases in Türkiye to factors such as the substantial rise in prices in US dollars, earthquake risks and more stringent requirements for obtaining citizenship.

Changes to regulation in April 2022 require foreigners to now pay at least USD400,000 to acquire real estate

Changes to regulations in April 2022 require foreigners to now pay at least USD400,000 to acquire real estate, instead of USD250,000, to be eligible for citizenship on the condition of holding the property for a minimum of three years.

Turkish citizens swapping out for hard currency investments

Meanwhile, the Central Bank data also shows that Turkish citizens' foreign real estate investments set a record, amounting to USD2.086bn in 2023, representing a substantial increase of 163.7% compared to the previous year. The figure was USD282m in 2020, USD526m in 2021 and USD791m in 2022.

Market segmentation

- ◆ Residential markets – pricing soft and international buyers are significantly down y-o-y
- ◆ Office markets – positive performance is polarised to prime, as in many global office markets
- ◆ Retail markets – rents (and yields) are stable, with very limited new supply and strong demand from tenants (local and international)

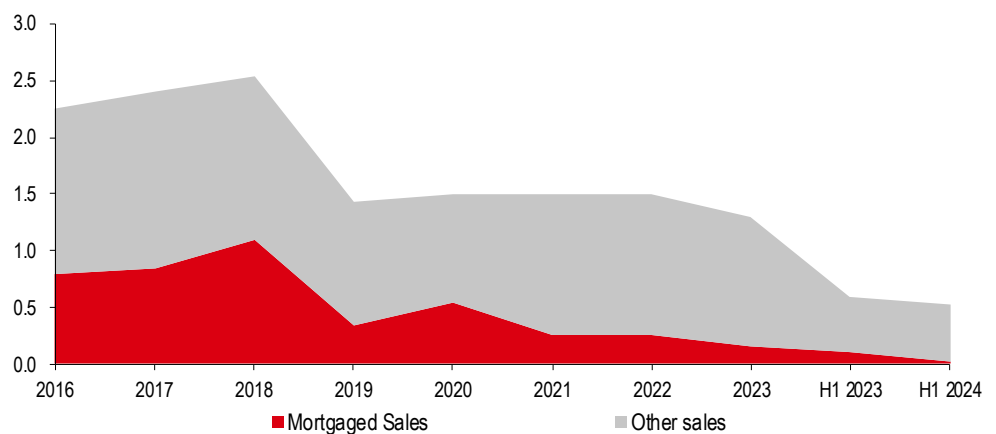
Residential

Sales decline, but mortgaged purchases collapse

The extreme increase in funding costs since the 30ppt hike in base rates (September 2023) has curtailed both residential construction activity and sales, with a near 4% overall drop y-o-y in home sales in H124 (c545,000 unit sales recorded), and a near 60% drop in mortgaged sales in the same measured period (c51,500 units mortgaged).

A near 60% drop in mortgaged sales in H124

Residential unit sales (millions)

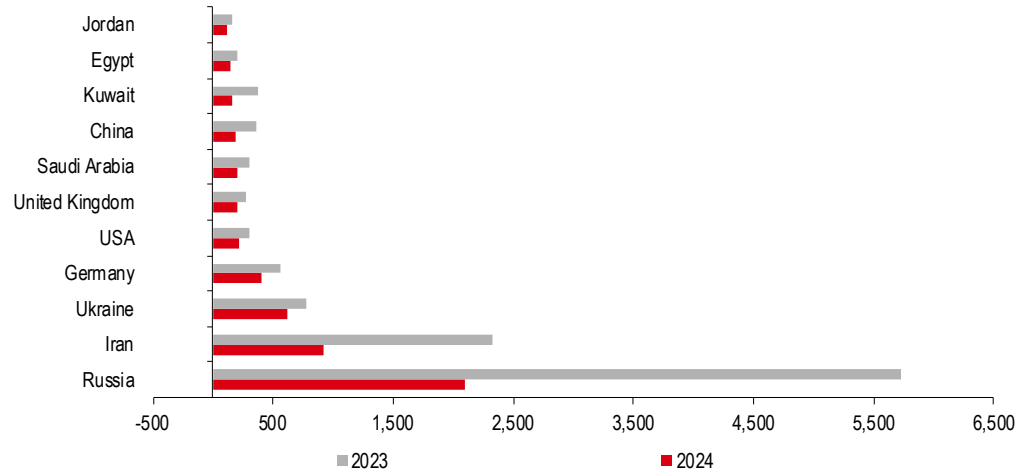


Source: TurkStat, September 2024, HSBC

Housing sales to foreigners decrease by 45.7%

Housing sales to foreigners across Türkiye this year decreased by 45.7% compared to the same period of the previous year, according to the Turkish Statistical Institute. In 2023 as a whole, sales were approximately 50% of the 2022 full-year number, the lowest level since 2018.

Residential sales to foreign nationals, January-May (number of houses)



Source: Turkish Statistical Institute, June 2024, HSBC

Offices – occupancy rates at a 12yr high

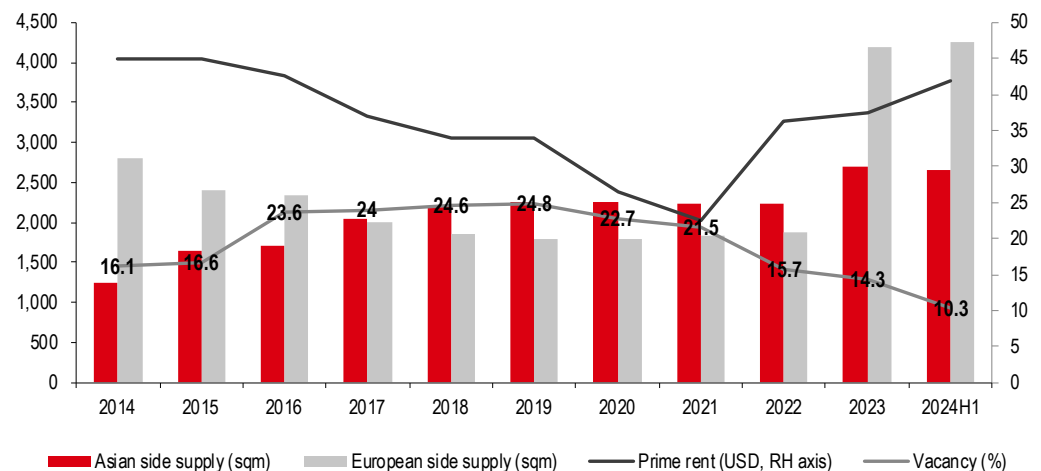
Istanbul’s bifurcated office market appears in step with many global metropolitan cities

As with many global metropolitan cities, prime office stock in Istanbul is experiencing stronger demand (than less prime), resulting in progressive rents and stable yields (despite the significantly higher interest rate environment).

Prime rents have risen to their highest level in 8yrs – and occupancy rates are at a 12yr high

According to a recent report by Cushman & Wakefield, in Q224 prime rents remained at USD42 per sqm per month (Central Business District [CBD], vs USD35 outside of the CBD), representing a 13.5% increase in USD terms vs Q223. In local currency (Turkish lira), the monthly rental rate is TRY1,357 per sqm, which represented a 77.3% increase over the same period last year, and ahead of the June 2024 inflation rate of 71.6%. These rental values are the highest reached in 8 years (i.e. since 2016). It is also the case that occupancy rates are at a 12-year high, with vacancies standing at 10.3% at the end of H124.

Istanbul office market overview – supply, rent and vacancy rates



Source: Cushman & Wakefield Türkiye Real Estate Market Overview Half Year 2024, HSBC

Decline in office space due to repurposing – but take-up has increased by c33% y-o-y

Post COVID-19, office repurposing has gained momentum

Overall office space supply has shrunk so far in 2024, with Istanbul supply falling to 7.12m sqm as office space has been repurposed. However, despite a near 20% y-o-y decrease in leasing transactions, those that have occurred have been for larger requirements with actual space leased up c33% over the same period, according to Cushman & Wakefield.

Prime office rents – June 2024

	TRY	USD	GROWTH	
	sqm per month	sqm per month	1YR	5 YR (CAGR)
Istanbul (Levent)	1,357	42	13.5%	5.6%
Istanbul (Esentepe-Gayrettepe)	1,034	32	28.0%	11.0%
Istanbul (Maslak)	969	30	36.4%	9.6%
Istanbul (Asian side)	1,131	35	59.1%	9.7%
Izmir	581	18	38.5%	8.4%
Ankara	581	18	38.5%	6.7%

Source: Cushman & Wakefield, HSBC

Prime office yields – June 2024

	CURRENT	LAST YEAR	10 YEAR	
			HIGH	LOW
Istanbul (Levent)	7.25%	7.75%	7.75%	6.80%
Istanbul (Esentepe-Gayrettepe)	7.75%	8.25%	8.25%	7.25%
Istanbul (Maslak)	7.50%	8.00%	8.00%	7.25%
Istanbul (Asian side)	7.75%	7.75%	8.75%	7.25%
Izmir	9.50%	9.50%	9.50%	9.25%
Ankara	9.25%	9.25%	9.25%	9.00%

Source: Cushman & Wakefield, HSBC

Of leasing deals done, almost 50% were undertaken in Istanbul's CBD

Of leasing deals done in H1, almost 50% undertaken in the CBD

Of leasing deals done, almost 50% (based on square metres) were undertaken in the CBD, and for those undertaken outside of the CBD, c25% were struck on the Asian side, and almost 30% on the European side.

Some of the major leasing transactions include:

- ◆ Koton (18,000sqm, Ferko Line)
- ◆ Zeren Holding (5,767sqm, Levent 199)
- ◆ CAN Turk (4,000sqm, Quasar)
- ◆ Astra Zeneca (2,753sqm, Levent 199)
- ◆ Jotun (2,750sqm, Maslak Square A Blok); and
- ◆ Nestle (1,708sqm, Ronisans Hilltown)

Source: Cushman & Wakefield

ESG & Earthquakes

Earthquake risk has increased demand for A grade sustainably built, earthquake-resilient office space

Another significant development in the office market has been the increased demand for Grade A offices due to earthquake risk, which has also led to growing interest in sustainability and green building certifications. In particular, European companies have started to prefer leasing offices in environmentally friendly buildings with certifications, such as LEED and BREEAM, according to Cushman & Wakefield.

The vacancy rate in certified buildings, which was 14.30% in the first half of 2023, has decreased to 9.17% this year. In addition, the number of office buildings with LEED or BREEAM certification has increased by 4% this half-year, reaching 2.7 million sqm.

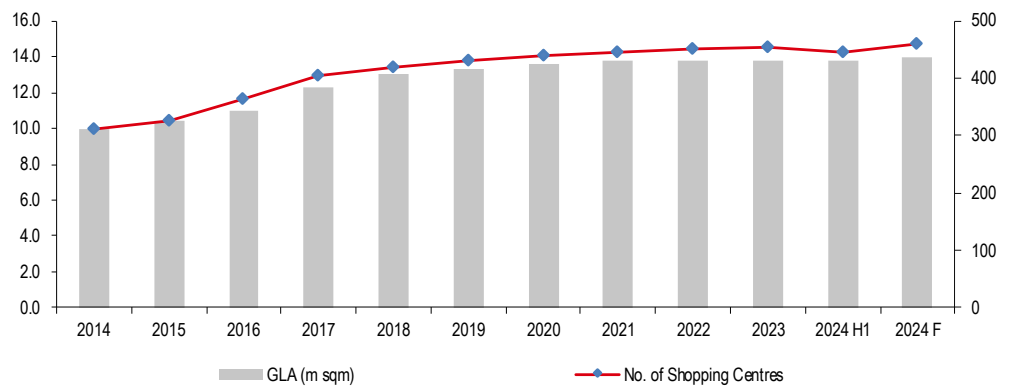
Retail – stable pricing, growing demand from international brands

The growing presence of major international retail brands into Türkiye continued in the first half of 2024

Elevated interest rates mean that development/supply has all but ceased

Retail rental values (high street, and shopping centres) have largely remained stable over the past 12 months, according to Cushman & Wakefield. With elevated interest rates, retail owners that we have spoken to have said that hurdle rates to achieve suitable returns are so high currently, that development/supply has all but ceased across markets. Hence, supply pressures are all but absent.

Total shopping centre numbers and GLA



Source: Cushman & Wakefield, September 2024, HSBC. Note – the number of shopping malls is expected to reach 452 by the end of 2024.

International brands continue to open in Türkiye

According to TÜİK data, calendar-adjusted retail sales volume and turnover increased by 8.6% and 78.3%, respectively, in June compared to the same month of the previous year.

The growing presence of major international retail brands into Türkiye continued in the first half of 2024.

- ◆ Champion, one of the world's leading sportswear brands, opened its first store in Türkiye at Akasya shopping center;
- ◆ Converse entered the Turkish market with stores opened in Ankara Kentpark and Maltepe Piazza shopping centers;
- ◆ Forever 21, announced that it will open its first store in Türkiye in the last quarter of 2024 in partnership with Fiba Retail; and
- ◆ Flying Tiger Copenhagen announced that it will open its first store in Türkiye in October in partnership with Karaca Group.

Source: Cushman & Wakefield

Emlak REIC

- ◆ Türkiye's largest residential developer with a dominant Istanbul presence and unique development model
- ◆ TRY3bn of profits in FY23 – company is targeting an aggregate TRY47.8bn over the next five years
- ◆ Initiate with a Buy rating and a target price of TRY14.60

Company profile

Primarily a residential developer with two main models of delivery

Established in 1953, Emlak Konut REIC ('Emlak') is Türkiye's largest Real Estate Investment Company (REIC). Introduced in 1997, Emlak is now one of 25 REICs currently listed on the Istanbul Stock Exchange (ISE), five of which are included within the FTSE EPRA NAREIT Emerging Türkiye Index.

Residential development accounted for 99.3% of group revenues in FY23

As at the end of Q224 (i.e. June 2024), Emlak had gross assets of TRY155.8bn, c319 development projects completed or in-progress comprising 214,000 units, with in excess of TRY55bn of pre-sales achieved since 2003. As at 22 October 2024, Emlak's market capitalisation was TRY37.2bn, equivalent to USD1.09bn.

Emlak is primarily a residential developer, accounting for 99.3% of group revenues in FY23 (group revenue totalled TRY28.5bn, or USD0.8bn in FY23). The remaining 0.5% comprises rented and leased properties, the majority of which are retail malls (i.e. 68% retail malls, 26% commercial units).

Emlak employs two distinct delivery models for its development business, a revenue-sharing model and a turnkey model.

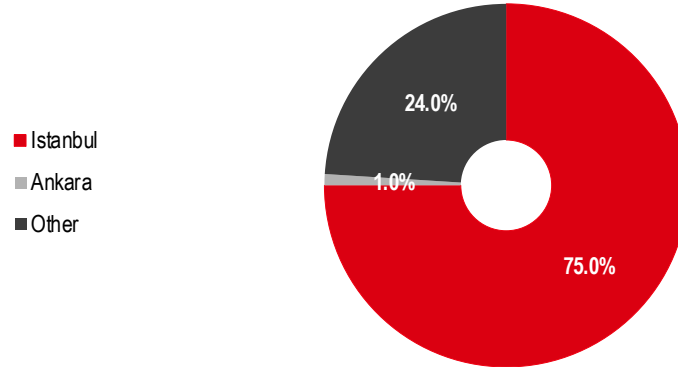
- ◆ **Revenue-sharing model** – The primary delivery model employed by the company for middle- and upper-income groups. All risks and responsibilities remain with the contractor until completion and sell-down.
- ◆ **Turnkey model** – A contractor is selected via a tender process to undertake delivery of a scheme. However, all risks and responsibilities remain with Emlak until completion and sell-down. All income earned from the sales of the units belongs to Emlak, with the contractor earning a profit share.

At the end of Q224, Emlak had 111 revenue-sharing projects and 208 turnkey projects

As at the end of Q224, Emlak had 111 revenue-sharing projects and 208 turnkey projects, totalling 319. Of these, 33 are ongoing projects with a pre-sales ratio of 58%.

Emlak has an on-balance sheet land bank measuring 4.3m sqm

In addition to residential development and the far smaller rented and leased property portfolio, Emlak carries a land bank of 4.3m sqm with a book value of TRY24.2bn/USD0.71bn, and appraisal value of TRY23.9bn/USD0.70bn) situated mainly in Istanbul.

Emlak – Breakdown of land appraisal value by City (June 2024)


Source: Company data, HSBC

Management

The Board of Directors

Emlak's board comprises seven members, three executive members, two non-executive independent directors, and two non-executive directors.

Chairman (Executive) – Ertan Keles. Has served as Chairman of the Board since 2018. Graduated in Civil Engineering and has a career background in construction and engineering and served as Emlak's Vice Chairman of the Board between 2014 and 2018.

Vice Chairman (Non-Executive) – Mustafa Levent Sungur. Graduated in Civil Engineering and has a career background based in Türkiye and overseas with a focus on housing development, having been Emlak's Vice President of Housing Development Administration since December 2018.

General Manager (Executive) – Cengiz Erdem. An engineering graduate, holding a masters degree in Occupational Health and Safety. Appointed as General Manager of Emlak in 2023, with experience in transportation and infrastructure, electronic communication and housing development.

Director (Non-Executive) – Hakan Akbulut. Obtained a masters degree in Urban Transformation before joining Emlak in 2003 as a Finance and Portfolio Manager, prior to which he worked within the accounting and finance industry for many years. Appointed Vice President of TOKI in 2019.

Director (Non-Executive Independent) – Refik Tuzcuoğlu. Graduated from Istanbul's university Faculty of Political Sciences and Public Administration. Has served as a member of the Presidential Local Government Policies Committee, and appointed Deputy Minister of the Ministry of Environment, Urbanisation and Climate Change.

Director (Non-Executive Independent) – Vedat Gürgen. An engineering graduate, with a masters in Structural Analysis and Dimensioning, later serving as Head of Strategy Development at the Ministry of Public Works and Settlement, and later at the Ministry of Environment an Urbanisation, later appointed General Manager.

Director (Non-Executive Independent) – Hakki ALP. An engineering graduate; worked as a Map and Expropriation Supervisor. More recently appointed General Manager of Infrastructure and Urban Transformation Services at the Ministry of Environment, Urbanization and Climate Change.

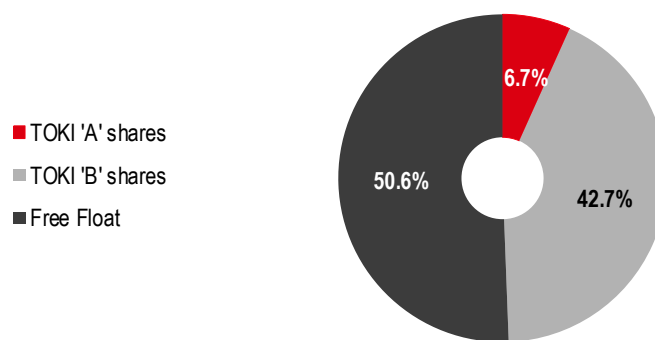
TOKI, the Housing Development Administration of Türkiye has class 'A' and 'B' shares which comprise 6.7%, and 42.7%, respectively, of the issued share capital

Ownership

Almost 50% government owned

The ultimate parent and controlling party of Emlak is T.C. Toplu Konut İdaresi Başkanlığı (the Housing Development Administration of Türkiye, TOKİ). TOKİ is a state institution under the control of the Republic of Türkiye Ministry of Environment Urbanisation and Climate Change. TOKİ has class 'A' and 'B' shares, which comprise 6.7%, and 42.7% (totaling 49.4%). The balance of 50.6% is free float.

Emlak – Shareholder ownership (June 2024)



Source: Company data, HSBC

Note – Only Group A shareholders can nominate members of The Board of Directors.

Investment case – 3 key points

1. Government-backed national housing developer

Emlak is a government-backed national housing developer (TOKİ, Türkiye's government-backed housing agency owns 49.4%), which affords it access to landbanks without the need for a public procurement process, and with a more streamlined planning process. As in the majority of cities/countries, Turkey also has an under-provision of housing, with strong demand continuing despite the highly elevated interest rate environment.

2. A unique and highly profitable development model

Emlak operates a highly beneficial and unique business model within its housing development business. Of the two models employed: 1. A 'turnkey' model is primarily used as a strategic tool at early stage site enhancement (note – risk all sits with Emlak) and carries a lower profit margin than RSM; and 2. a revenue-sharing model (RSM), which is particularly attractive, generating a higher profit margin and requiring minimal working capital and incurring minimal risk.

Emlak provides the land to the contractor, after which it receives between 15% and 20% as minimum guaranteed revenue (MGR) of the scheme plus a 20-30% letter of guarantee from the bank, which is based on the total estimated sales value of the scheme. This way, Emlak has c35-50% of the appraised site's sales value 'underwritten' up front. The advanced funds, a percentage of MGR, are placed in a sub-account with interest shared between Emlak and the contractor.

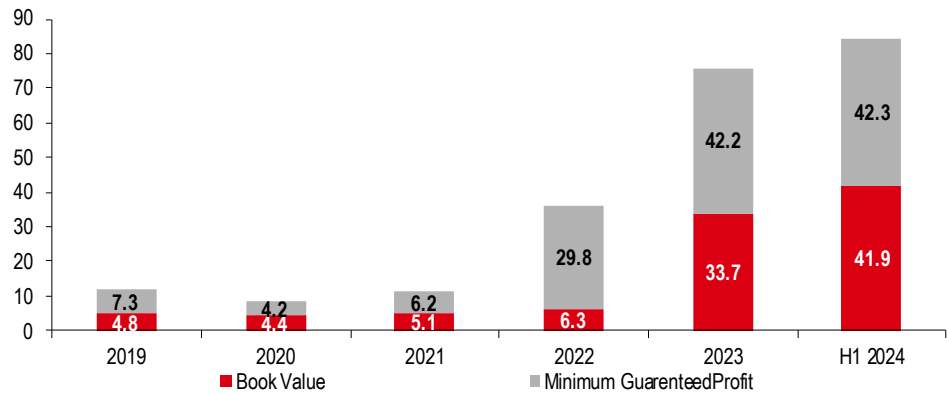
'Turnkey' model is primarily used as a strategic tool at early stage site enhancement

The contractor bears the full construction cost, and historically has delivered to Emlak net profit margins of between 30% and 55%

The contractor bears the full construction cost, and historically has delivered to Emlak net profit margins of between 30% and 55% (dependent upon the scheme) for the RSM business.

Note that Emlak retains the title deeds until the scheme is fully completed and delivered.

Emlak minimum guaranteed profit from RSM projects (TRYbn)



Source: H1 2024 Company Presentation, HSBC

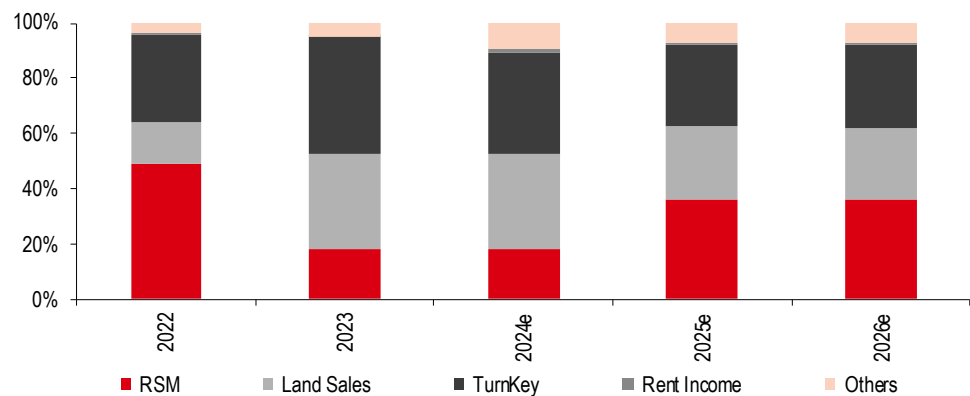
Contractor defaults have been less than 1% of sales, historically

Historically, contractor insolvencies have been minimal, according to Emlak, with only two cited in the last c70 years. Contractor defaults have been less than 1% of sales and, if necessary, the contractor can forfeit a number of unit sales to make good money owed.

3. RSM guidance – to deliver TRY42.3bn of net profits over the next 5yrs

As a percentage of group revenue, we estimate that the RSM business will be the largest contributor to group revenues in FY25 and FY26.

Emlak Konut REIT – Revenue breakdown by contribution



Source: Company data, HSBC estimates

In-house financiers play a larger funding role by offering more competitive terms than the banks

As a result, Emlak is guiding for TRY42.3bn of net profits to flow from the RSM revenues over the next five years (to 2029e). Also of note is that mortgages play a relatively minor part in customer funding, with only c35% of the purchase price met by bank finance. Instead, in-house financiers play a larger funding role by offering more competitive terms than the banks, particularly if there is state backing in the form of TOKI. As at H124, Emlak had TRY31bn of receivables from its RSM business to offer funding against.

Summary valuation metrics

Below we highlight some of the key valuation metrics for Emlak.

Emlak REIC – Valuation metrics

	2023	2024e	2025e	2026e
P/E	-9.1x	8.5x	3.6x	3.2x
P/BV	0.7x	0.4x	0.3x	0.3x
FCF yield	9.6%	-2.6%	10.2%	7.4%
Dividend yield	0.0%	5.9%	13.7%	15.5%
EV/EBITDA		2.7	1.6	1.5
Net debt/equity	19.9x	15.2x	13.0x	9.8x
Net debt/EBITDA	2.9x	1.5x	1.1x	0.8x

Source: Company data, HSBC estimates

Forecasts/estimates

We apply an underlying growth rate to our adjusted inflated forecasts each year

As an example, we take the 2023 reported number then apply the 2024e year-end inflation figure to each of the line items, which acts as the base value for the 2024 forecasts. On this base figure we apply our underlying growth rate. We follow this step for each of our forecast years.

- ◆ As the company has suggested that bulk of the RSM projects will be delivered in 2025 and 2026, we assume the revenues for 2025e will more than double (versus 2024e) in terms of underlying growth and then assume underlying growth of 5% on this higher number
- ◆ For the turnkey projects, we assume an underlying growth rate of 10% for our forecast years
- ◆ For the rental income portfolio, we assume an underlying growth rate of 5%
- ◆ Further, we assume a gross margin of 40% for the RSM projects and 20% for the turnkey projects, in line with the assumptions stated earlier

The portfolio

Ongoing revenue-sharing model projects – June 2024

Projects	Book value (TRYbn)	Guaranteed min. profit (TRYbn)
Cer Istanbul	0.18	0.47
Nişantaşı Koru	3.96	-0.65
Allsancak	0.02	0.17
Nidapark Küçükyali	2.79	0.72
Meydan Başakşehir	1.65	-0.32
Merkez Ankara	2.83	1.59
Nidapark İstinye	5.67	1.74
Evora İzmir	0.01	0.58
Yeni Levent	2.01	3.16
Bati Yakasi 1. Etap	0.97	0.46
Düşler Vadisi	0.01	0.25
Ebruli Kayaşehir	0.83	0.88
Barbaros 48	0.31	0.74
Next Level	1.38	3.40
Nezihpark Bahçekent	0.35	0.75
Tual Gölyaka	0.71	1.43
Majör Gölyaka	0.77	1.21
Park Yaşam Antalya	0.31	1.50
Gölyaka Istanbul	0.78	2.21
Fua Deniz Park Tuzla	1.10	1.66
Göktürk Kemer Evleri	0.80	4.85
Bati Yakasi 2. Etap	1.49	-0.06
Ankara Çayyolu 2. Etap	0.15	0.16
Ataşehir Küçükbakkalköy	0.29	0.98
Bizim Mahalle 2-1	1.84	0.88
Bizim Mahalle 2-2	3.16	0.16
Ümraniye İnkilap	1.26	1.00
Muğla Bodrum Türkbükü	0.58	3.47
Kayabaşı 9. Etap	1.23	1.61
Çekmeköy Çınarköy	1.74	3.63
Başakşehir Ayazma 4. Etap	1.11	0.64
Beşiktaş Akat	1.36	1.62
Kayabaşı 10. Etap	0.27	1.36

Source: H1 24 Company Presentation, HSBC

Ongoing turnkey projects – June 2024

Turnkey Projects (Ongoing)	Book value + progress payment (TRYbn)
Bizim Mahalle	2.25
Emlak Konut Vadi Evleri	3.93
Çekmeköy Çınarköy	18.90
Avcılar Firuzköy	0.98
Balıkesir Altıeyül	1.55
Arnavutköy Yenişehir	2.75

Source: H1 24 Company Presentation, HSBC

ESG – First steps taken in 2022 to determine KPIs

The first steps taken to determine key performance indicators were undertaken in 2022

Emlak has recently embarked on targeting and assessing sustainability and performance criteria across the group, with the first steps taken in 2022 to determine key performance indicators, which were then assessed in 2023 to implement systems that will efficiently measure the impact and performance based on the key indicators. The formation of a Sustainability Committee that reports directly to the board is primarily responsible for implementing and enforcing these measures.

Environmental

Emlak manages its operations in an environmentally friendly way to try to keep its environmental footprint at a minimum. Targets include:

- ◆ Implementing environmental management plans that foresee the pollution of the construction site not to be carried beyond its borders.
- ◆ Separating waste, bringing it back into the circular economy.
- ◆ Designing qualified residences in accordance with the EKB-A Class to include renewable energy systems and building them as almost zero energy buildings (NSEB) in compliance with the greenhouse gas emission targets specified in the Green Agreement and the Paris Climate Agreement.
- ◆ Obtaining at least EKB-B certification for all projects and establishing renewable energy systems where technical and financial feasibility is appropriate.
- ◆ Contributing to the sustainable management of water resources by reducing the need for network water by 50% in total, by producing buildings where water is used more efficiently and waste is prevented.
- ◆ Ensuring projects that have been completed to date have been constructed with buildings that are 20% more efficient than specified by the legislation and regulations, with Energy Efficient Electrical and Mechanical systems (such as condensing boilers, frequency-controlled pumps, LED lighting fixtures, automation systems, etc) and Roof GES systems installed.

Social

The group's priority sustainability measures are:

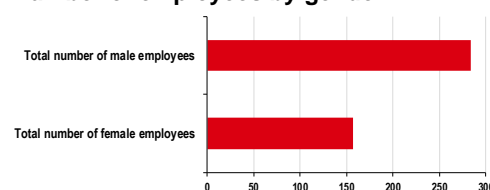
- ◆ Reduced environmental footprint
- ◆ Sustainable buildings
- ◆ Corporate governance
- ◆ Employee development and satisfaction
- ◆ Occupational, health and safety (OHS)
- ◆ Digitalisation
- ◆ Customer satisfaction and welfare
- ◆ Contribution to social development

Governance

As we highlighted above, Emlak has a seven-member board with three independent directors.

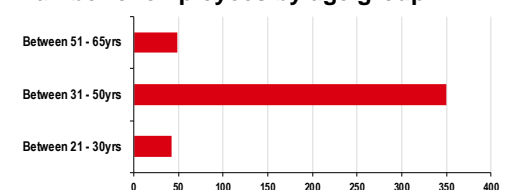
In terms of the company's workforce, benefits provided to Emlak employees are comprehensive and include private health insurance, performance bonuses, maternity grants, death support, marriage grants, postgraduate/doctoral education/foreign language assistance, gym, male/female hairdresser, dietitian, occupational physician, shuttle service, travel subsistence, cafeteria, and prepaid meal cards.

Number of employees by gender



Source: Company data, HSBC

Number of employees by age group



Source: Company data, HSBC

Earthquakes

In February 2023, an earthquake with a magnitude of 7.8 Mw occurred in southeast Türkiye with c11 Turkish provinces badly damaged and extensive loss of life

Delivering earthquake-resistant buildings

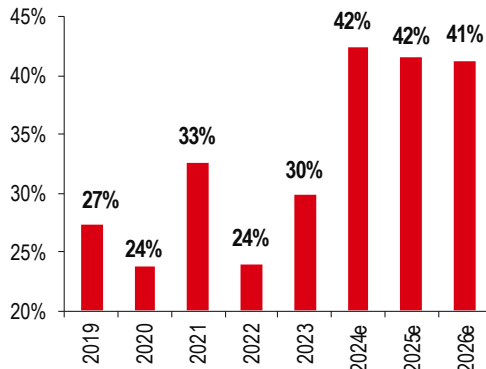
Significant areas of inner-city built environments are constructed out of non-earthquake-resistant buildings. For Türkiye, which is an earthquake-prone country, this presents considerable concern and risk.

In February 2023, an earthquake with a magnitude of 7.8 Mw occurred in southeast Türkiye near the Syrian border. In all, c11 Turkish provinces were badly damaged with extensive loss of life. One of the repercussions of this was closer scrutiny of building standards and the need for any re-build to be earthquake resistant.

Emlak and other housing developers have been tasked with rebuilding these affected provinces with earthquake-resistant buildings (e.g. using high tensile concrete), aided by government funding. Emlak has delivered 60,000 new homes, according to the company. The mapping of existing fault lines indicates that Istanbul itself is prone to experiencing earthquakes with some 35-40% of existing buildings inadequately built to withstand them.

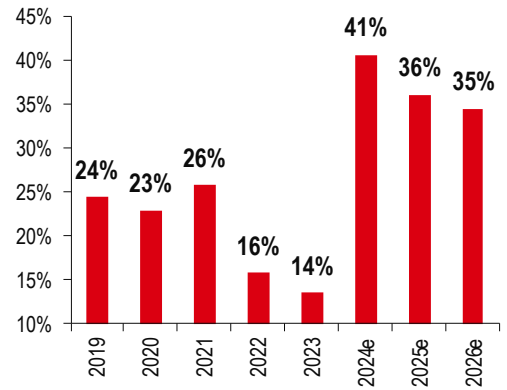
Emlak Konut REIT – Financial metrics

Gross margin



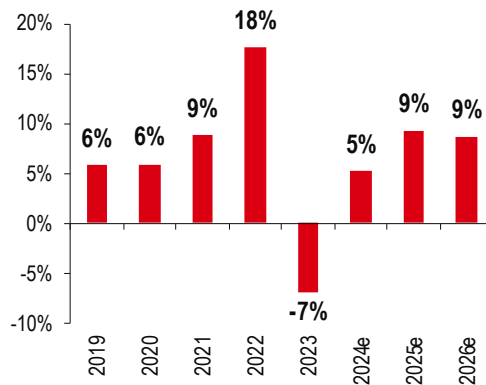
Source: Company data, HSBC estimates

EBITDA margin



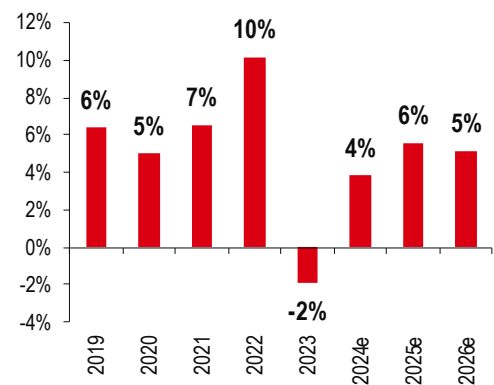
Source: Company data, HSBC estimates

Return on average equity



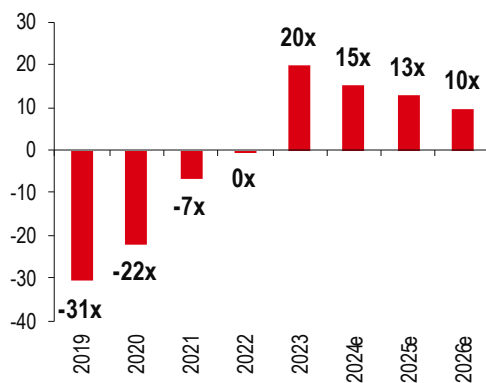
Source: Company data, HSBC estimates

Return on average assets



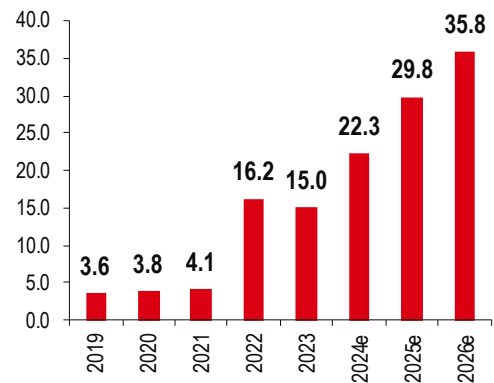
Source: Company data, HSBC estimates

Net debt/equity



Source: Company data, HSBC estimates

Book value per share



Source: Company data, HSBC estimates

Financials

Emlak Konut REIT – Summary of financial statements – comprehensive version (TRYm)

Income Statement	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	5668	4730	6737	21220	28496	21803	38377	46922	57397
Cost of revenue	(4122)	(3603)	(4536)	(16122)	(20002)	(12550)	(22407)	(27525)	(33830)
Gross profit	1545	1127	2201	5098	8494	9253	15970	19397	23567
SG&A expenses	(392)	(435)	(552)	(2125)	(4003)	(2257)	(3972)	(4856)	(5940)
Other operating income/expense	200	366	58	2227	(755)	1705	1632	1405	1210
Operating profit	1354	1058	1707	5201	3736	8702	13630	15946	18836
Income from investing activities	0	6	31	48	7	10	12	14	16
Financial income/expense	(583)	(231)	(422)	(645)	2397	1638	3446	3474	2882
Monetary gains/loss	0	0	0	(3711)	(10362)	(5989)	(5732)	(6580)	(7554)
PBT	771	834	1316	893	(4222)	4361	11357	12854	14180
Taxes	7	2	16	12	148	0	(1136)	(1285)	(1418)
PAT	778	837	1332	905	(4074)	4361	10222	11569	12762
Minorities	(0)	0	0	0	0	0	0	0	0
Profit for the parent	778	837	1332	905	(4074)	4361	10222	11569	12762
Balance Sheet	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash and cash equivalents	547	2005	3728	10064	15867	19418	23013	22890	21936
Receivables	4057	3450	3349	6337	8892	12864	17846	21819	26689
Inventories	13783	16262	17853	88827	83259	130045	177863	219076	268534
Other current assets	2007	2247	1183	5461	5842	4473	7871	9622	11770
Current assets	20393	23965	26113	110689	113859	166800	226592	273407	328930
Receivables	3110	3791	3642	6182	4543	7649	10010	12239	14971
Investment Properties	480	735	844	2933	1866	2643	3304	3714	4173
Property, plant & equipment	106	116	153	1078	1133	1715	2289	2742	3280
Other non-current assets	97	38	9	57	81	167	276	389	529
Non-current assets	3792	4679	4647	10251	7624	12175	15879	19084	22953
Total assets	24185	28644	30760	120940	121483	178974	242471	292491	351883
Borrowings	3179	2202	2760	5132	3233	4672	5961	6843	7856
Payables	1077	3084	2202	5723	5247	13178	23528	34957	49392
Deferred income	4345	5604	7696	42546	53379	73041	95119	109413	125848
Other current liabilities	121	142	181	466	368	532	679	779	894
Current liabilities	8722	11032	12838	53866	62227	91422	125286	151993	183991
Borrowings	1591	2983	2031	5114	1269	1834	2340	2686	3084
Payables	49	60	92	193	580	509	908	1115	1371
Other non-current liabilities	81	75	53	222	339	490	625	718	825
Non-current liabilities	1720	3118	2175	5529	2188	2832	3873	4519	5278
Share capital	3800	3800	3800	38133	38133	53411	67103	76472	87228
Share premium	2082	2071	2071	17777	19993	28890	36864	42320	48583
Reserves	721	748	789	5867	4826	6973	8897	10214	11726
Retained earnings	7141	7877	9087	(232)	(5883)	(1960)	12831	32084	55975
Other equity items	(1)	(1)	0	0	0	(2593)	(12384)	(25111)	(40898)
Total Equity	13743	14494	15747	61544	57068	84720	113312	135979	162614
Total Equity and Liabilities	24185	28644	30760	120940	121483	178974	242471	292491	351883
Cashflow Statement	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Profit (loss) for the period	778	837	1332	905	(4074)	4361	10222	11569	12762
D&A	38	31	31	80	121	175	223	256	294
Other operating cashflow items	386	(139)	354	(681)	(9010)	0	0	0	0
Working capital changes	(1981)	257	844	(3817)	16346	(5693)	(6878)	(9318)	(10727)
Cash flow from operations	(779)	985	2561	(3513)	3383	(1157)	3567	2507	2330
Capex	(41)	(14)	(52)	(308)	(176)	(172)	(220)	(252)	(289)
Other investing cashflow items	(37)	(276)	315	95	11	0	0	0	0
Cash flow from investments	(78)	(290)	263	(213)	(165)	(172)	(220)	(252)	(289)
Loans drawn/repaid	1408	349	(419)	5162	(2310)	0	0	0	0
Change in share capital	0	(12)	0	0	1012	0	0	0	0
Other financing cashflow items	(613)	(343)	(439)	(1085)	819	(2180)	(5111)	(5784)	(6381)
Cash flow from finances	795	(6)	(858)	4076	(479)	(2180)	(5111)	(5784)	(6381)
Inflation effect	0	0	0	3285	3423	0	0	0	0
Increase (decrease) in cash	(62)	690	1966	3636	6162	(3510)	(1764)	(3529)	(4341)
Beginning cash balance	494	432	1122	5072	8708	21487	22938	24309	23855
Ending cash balance	432	1122	3088	8708	14870	17977	21175	20779	19513

Source: Company data, HSBC estimates

Valuation and risks

		Valuation	Risks
Emlak Konut REIT EKGYO TR	Current price:	We value the company using a discounted cash flow methodology to arrive at a target price of TRY14.60, implying upside of 49.1% and therefore a Buy rating. In our DCF calculation we apply a WACC of 26.9%. The calculation of the WACC is based on a risk-free rate of 3.75% and equity risk premium of 9.75%, in line with the estimates from our strategy team. We add an inflation differential of 13% to our equity risk premium, which is a value we have derived from Bloomberg's cost of equity for the Türkiye market. We use a 2-yr Bloomberg adjusted beta of 1.0 and apply an average cost of debt of 30.0%, which is in line with the average cost of debt in the Turkish market. We use a debt weighting of 10%, in line with the latest reported debt structure, and we assume a terminal growth rate of 15.0%. This results in an enterprise value of TRY42.5bn. To this we add net cash of TRY12.9bn to get to our equity value of TRY55.4bn to reach a per share value of TRY14.60.	Downside risks (1) Inflation levels remain materially higher than assumed in our forecasts (based on HSBC Economics Team estimates); (2) as a result of the first point, interest rates similarly remain materially higher than assumed; (3) geopolitical risk; and (4) the possibility of further sizeable natural disasters
	Target price:		
Up/downside:			
Buy	TRY9.79 TRY14.60 49.1%		

Priced at 22 Oct 2024
Source: HSBC estimates

Sensitivity analysis to reflect changes in Inflation

HSBC is forecasting a near 40% drop in inflation by 2025 year-end

The inflation rate is forecast to drop from 44.5% at 2024e year-end to 27.6% at 2025 year-end and then further to 14.8%, according to the HSBC Economics Team. Hence, we provide below a table reflecting approximated changes to our inflation differential estimates applied in our DCF valuation under this scenario.

Also, we have shown our range of TRY derived target prices based on changes to the inflation differential applied in our DCF in USD terms. The USD:TRY exchange rate is forecast to fall (i.e. weakening TRY) by a further 17%, according to HSBC.

Inflation and FX Forecast Source: [CEEMEA Economics Quarterly – Risks, old and new](#), 9 October 2024.

Sensitivity analysis on inflation differentials

Decline in inflation differential by	0%	10%	25%
Inflation differential	13.00%	11.70%	9.75%
WACC	26.9%	25.7%	23.9%
Potential TP (TRY)	14.6	15.6	17.7
Potential upside	49%	59%	81%
Potential TP (USD)	0.43	0.39	0.44
Potential upside	49%	36%	55%

Source: HSBC estimates. For 10% and 25% reduction in the inflation differential, we have applied a USDTRY exchange rate of 1:40 and the current USDTRY exchange rate of 1:34.2 for the unchanged inflation differential

Financials & valuation: Emlak Konut REIT

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (TRYm)				
Revenue	28,496	21,803	38,377	46,922
EBITDA	3,857	8,877	13,854	16,202
Depreciation & amortisation	-121	-175	-223	-256
Operating profit/EBIT	3,736	8,702	13,630	15,946
Net interest	2,397	1,638	3,446	3,474
PBT	-4,222	4,361	11,357	12,854
HSBC PBT	-4,222	4,361	11,357	12,854
Taxation	148	0	-1,136	-1,285
Net profit	-4,074	4,361	10,222	11,569
HSBC net profit	-4,074	4,361	10,222	11,569
Cash flow summary (TRYm)				
Cash flow from operations	3,504	-982	3,790	2,764
Capex	-176	-172	-220	-252
FCF enterprise	20,175	3,012	5,620	5,347
Cash flow from investment	-165	-172	-220	-252
Dividends	0	-2,180	-5,111	-5,784
Change in net debt	-11,547	-1,548	-1,800	1,352
FCF equity	3,339	-1,154	3,571	2,511
Balance sheet summary (TRYm)				
Tangible fixed assets	7,561	12,036	15,639	18,736
Current assets	113,859	166,800	226,592	273,407
Cash & others	15,867	19,418	23,013	22,890
Total assets	121,483	178,974	242,471	292,491
Gross debt	4,502	6,505	8,301	9,529
Net debt	-11,365	-12,912	-14,712	-13,360
Shareholders' funds	57,068	84,720	113,312	135,979
Invested capital	45,985	72,216	99,119	123,215

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	34.3	-23.5	76.0	22.3
EBITDA	-27.0	130.1	56.1	17.0
EBIT	-28.2	132.9	56.6	17.0
PBT	-572.8	160.4	13.2	
HSBC EPS	-550.2	134.4	13.2	
Ratios (%)				
Revenue/IC (x)	0.5	0.4	0.4	0.4
ROIC	6.7	14.7	14.3	12.9
ROE	-6.9	6.2	10.3	9.3
ROA	-2.0	4.5	6.1	5.4
EBITDA margin	13.5	40.7	36.1	34.5
Operating profit margin	13.1	39.9	35.5	34.0
EBITDA/net interest (x)				
Net debt/equity	-19.9	-15.2	-13.0	-9.8
Net debt/EBITDA (x)	-2.9	-1.5	-1.1	-0.8
CF from operations/net debt				
Per share data (TRY)				
EPS Rep (diluted)	-1.1	1.1	2.7	3.0
HSBC EPS	-1.1	1.1	2.7	3.0
DPS	0.0	0.6	1.3	1.5
NAV (Book Value)	15.0	22.3	29.8	35.8

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Price to NAV (BV)	0.7	0.4	0.3	0.3
PE*	nm	8.5	3.6	3.2
FCF yield (%)	9.0	-3.1	9.6	6.8
Dividend yield (%)	0.0	5.9	13.7	15.5

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a	Governance Indicators	12/2023a
GHG emission intensity*	n/a	No. of board members	7
Energy intensity*	n/a	Average board tenure (years)	n/a
CO ₂ reduction policy	Yes	Female board members (%)	0
Social Indicators		Board members independence (%)	42.9
Employee costs as % of revenues	4.2		
Employee turnover (%)	n/a		
Diversity policy	n/a		

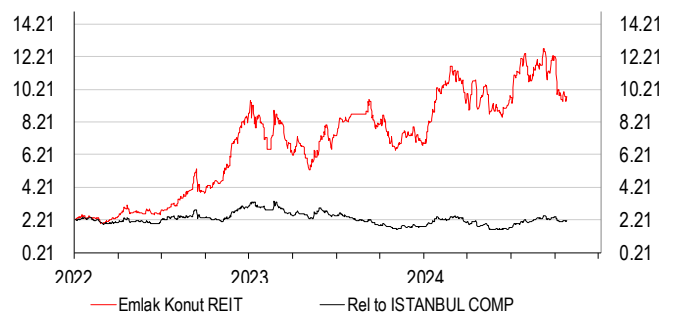
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	9.79	Free float	51%
Target price (TRY)	14.60	Sector	Reits
RIC (Equity)	EKGYO.IS	Country/Region	Türkiye
Bloomberg (Equity)	EKGYO TI	Analyst	Stephen Bramley-Jackson
Market cap (USDm)	1,086	Contact	+91 4 423 6903

Price relative



Source: HSBC

Note: Priced at close of 22 Oct 2024

Is REIC

- ◆ Is Bank, Türkiye’s largest (and oldest) private bank controls 67% of the issued share capital of Is REIC
- ◆ Over 80% of Is REIC’s portfolio was income producing in 2023, with over 40% generated by long-term leases to Is Bank
- ◆ Office investment comprises c64% of the portfolio, followed by retail at c18%, hallmarked by several prime assets

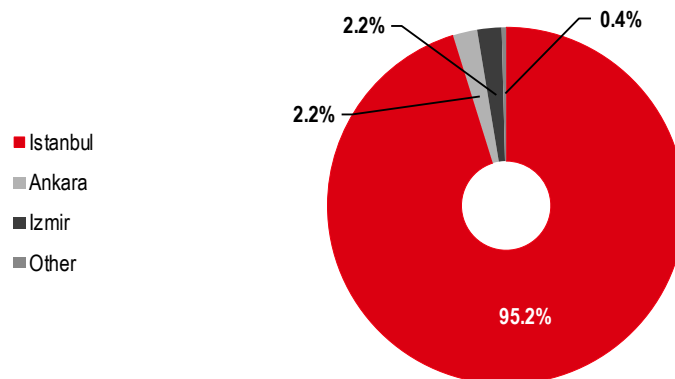
Company profile

Overview

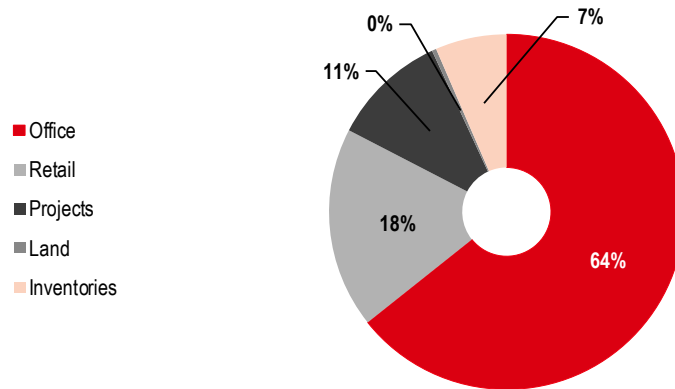
İş Gayrimenkul Yatırım Ortaklığı A.Ş. (Is REIC) was founded in August 1999, and operates in both real estate investment and development within Türkiye. The company is headquartered in Istanbul. Its major shareholder is Is Bank (and its associate companies) with a 67% combined shareholding. Is Bank (ISCTR IS, TRY11.70, Buy, TP TRY15.85) is Türkiye’s largest (and oldest) private bank, which is majority owned by the Is Bank pension fund and The Republican People’s Party (CHP), the second-largest party represented within the government administration. As at H124 (June 2024), Is REIC had gross assets of cTRY42bn of which the property portfolio comprised cTRY40bn. Is REIC’s portfolio footprint is as follows:

As with all of the companies we are initiating on, Istanbul is its key market

Is REIC Real Estate Portfolio by location (based on value; June 2024)



Source: Company H124 Investor Presentation, HSBC

Is REIC Real Estate Portfolio by segment (based on value; June 2024)


Source: Company H124 Investor Presentation, HSBC

Over 80% of the portfolio is income producing – generated from office and retail investments

Is REIC is one of 25 REICs currently listed on the Istanbul Stock Exchange

Is REIC is one of twenty-five REICs currently listed on the Istanbul Stock Exchange ('ISE'), five of which being included within the FTSE EPRA NAREIT Emerging Türkiye Index.

As at the end of H124 (i.e. Jun-24), Is REIC had gross assets of TRY42bn, with the property portfolio comprising TRY40bn, of which TRY33bn is income producing generated from the group's office and retail holdings. As at 22 October 2024, Is REIC's market capitalisation was TRY15.0bn, equivalent to USD0.44bn.

Management

The Board of Directors

İŞ REIC's board comprises of nine members, three of whom are independent.

Nine board members, three of whom are independent

Chairman – Can Yücel. Has served as a Chairman of the Board since March 2023.

Graduating in Economics, Mr Yücel has a career background in finance, beginning his career with Isbank. He joined Is REIC in 2021 after completing the Harvard Business School Advanced Management Program. Mr Yücel holds in-group positions as the member of the Board of Directors of Türkiye Şişe ve Cam Fabrikaları A.Ş. and as Chairman of the Board of Directors at Joint Stock Company İşbank in tandem with his position as Chairman of the Board of Directors of İŞ REIC.

Vice Chairman – Kubilay Aykol. A graduate of the Faculty of Economics and Administrative Sciences, Department of Business Administration at the Middle East Technical University. He started his career in 1997 as an Assistant Inspector at İşbank. Mr Aykol has served as Vice-Chairman since March 2023.

Chief Executive Officer – Ömer Barlas Ülkü. Graduated in civil engineering from Engineering Faculty, Middle East Technical University in 1995 and his MBA from the Faculty of Economic and Administrative Sciences at the same university. Appointed CEO in August 2023.

Board Member – Özcal Korkmaz. Mr Korkmaz graduated from Istanbul University, Department of Economics and does not hold any in-group positions other than his seat as a member of the Board of Directors at İŞ REIC as of April 2020.

Board Member – Murat Karluk Çetinkaya. Graduated with a BSc and MSc in Civil Engineering from the Middle East Technical University A member of the Board of Directors at İŞ REIC since 10 July 2020, Mr Çetinkaya also holds another in-group position as a member of the Board of Directors at İş Portföy A.Ş. since 2017.

Board Member (Independent) – Prof. Arzu Erdem. Dr Erdem has been serving as a member of the Board of Directors at İŞ REIC since 21 March 2018, in parallel with which she has been the Head of the Committee for Early Detection of Risk and member of the Committee for Audit. Dr Erdem does not hold any other in-group positions apart from her roles at İŞ REIC.

Board Member (Independent) – Prof. Oğuz Cem Çelik. Dr Çelik has been an independent member of the Board of Directors at İŞ REIC since 21 March 2023 and is also the Head of the Corporate Governance Committee. Dr Çelik does not hold any other in-group positions apart from his Board member’s seat at İŞ REIC.

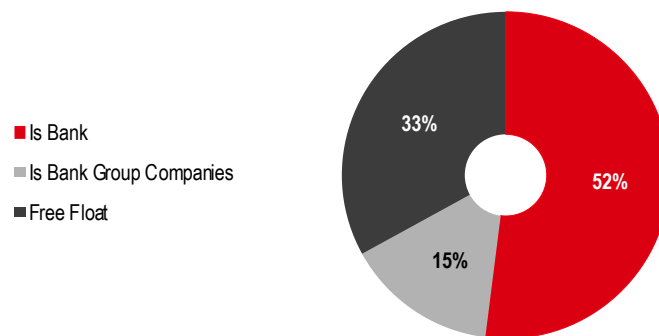
Board Member (Independent) – İlkay Arıkan. Mr Arıkan has held a member’s seat on the Board of Directors of İŞ REIC since 21 March 2023, and is also the head of the Committee for Audit and member of the Corporate Governance Committee. Elected as an Independent Board Member of Global Menkul Değerler A.Ş. on 27 April 2022, Mr Arıkan does not hold any other in-group positions apart from his roles at İŞ REIC.

Ownership

Free float of 33%

As at March 2024, Is REIC’s free float stood at c33%, with the remaining 67% ownership divided between Is Bank (15%) and other Is Bank group companies (52%).

Shareholder ownership



Source: Company Presentation H1 2024, HSBC

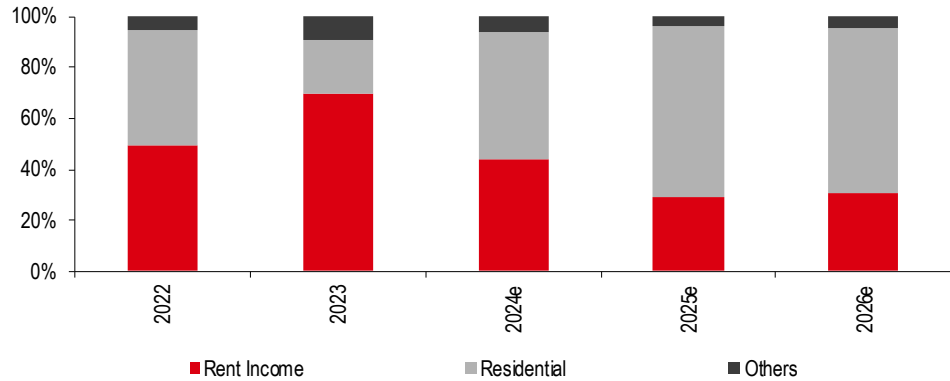
Investment case – 3 key points

1. Over 40% of the rent roll is government administration backed

Over 80% (82.6%) of Is REIC’s portfolio (by gross asset value) is income producing, and of this over 40% (43%) is generated by long-term leases to Is Bank. Is Bank is 38.4% owned by İşbank Pension Fund, acting on behalf of both active and retired Bank employees, with a further 28.1% owned by The Republican People’s Party (CHP), the party with the second-largest representation in Türkiye’s government administration. The remaining 33.5% is free float. This calibre of covenant provides Is REIC with a particularly high level of income security.

Is Bank is 38.4% owned by İşbank Pension Fund, with a further 28.1% owned by The Republican People’s Party

Is REIC – Revenue breakdown by contribution



Source: Company data, HSBC estimates. Note the proportional growth in the residential contribution to group revenue is due to development completions and accounting for sale recognition at the point of completion. Our estimates assume that that the developments are 100% sold.

Office investments comprise the largest proportion at c64% (by value), followed by retail at c18%

2. Diversified portfolio hallmarked with prime assets

Within Is REIC's portfolio, office investments comprise the largest proportion at c64% (by value), followed by retail at c18% and the balance a rich pipeline of residential developments and strategic land holdings. However, within the core real estate holdings are several prime assets – for instance within:

- ◆ **The office portfolio:** Tutom, Istanbul the Technology Operation Centre of Türkiye (comprising 43% of the office portfolio with a value of cTRY8.7bn), Is Towers 2&3, Istanbul (comprising 42% of the office portfolio with a value of cTRY8.6bn), and the soon to be opened tower development in the Istanbul Finance Centre (IFC), Istanbul providing Is Bank's new HQ.
- ◆ **The Retail portfolio:** Kanyon Shopping Centre, Istanbul (comprising 43% of the retail portfolio with a value of cTRY3.2bn) and Marmara Park (comprising 32% of the retail portfolio with a value of cTRY2.3bn), but with a unique 'Build Operate and Transfer' (BOT) lease model with ECE from Germany structured on a 72-year term (from 2009) with pre-determined annual escalators. Despite the structural pressures facing metropolitan office markets, prime offices continue to perform well, and similarly so prime located retail.

Potential asset disposals could result in the payment of a dividend, or paying down debt, but as yet there is no definitive company guidance

3. Dividends – absent in our forecasts

We do not include a dividend estimate within our forecasts, as Is REIC has yet to distribute a dividend. However, according to the company potential asset disposals could result in the payment of a dividend, or paying down debt, but as yet there is no definitive guidance on this. However, recently introduced legislation now states for financial institutions that if the dividend distribution rate is less than 50% of net income, then the full 30% corporation tax is chargeable, whereas if 50% (or more) is distributed, the effective tax charge reduces to 10%.

Summary valuation metrics

Below we highlight some of the key valuation metrics for Is REIC.

Is REIC – Valuation metrics

	2023	2024e	2025e	2026e
P/E	4.8x	3.8x	4.4x	4.5x
P/BV	0.6x	0.4x	0.3x	0.2x
FCF yield	-5.2%	18.9%	17.1%	17.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA		10.8	6.0	5.3
Net debt/equity	-15.8x	-13.6x	-13.8x	-14.2x
Net debt/EBITDA	-4.6x	-3.2x	-2.1x	-2.1x

Source: Company data, HSBC estimates

Forecasts/estimates

We apply an underlying growth rate to the adjusted inflated forecasts each year

As an example, we take the 2023 reported number then apply the 2024e year-end inflation figure to each of the line items, which acts as the base value for the 2024 forecasts. On this base figure we apply our underlying growth rate. We follow this step for each of our forecast years.

- ◆ For the rental income portfolio, we assume an underlying growth rate of 10%
- ◆ We add the contribution from the Istanbul Finance Centre to the rental income from the end of this year in our estimates
- ◆ A significant number of residential projects are expected to be delivered in the coming years and we include these in our forecasts, in line with the indicated delivery pipeline
- ◆ Further, we assume a gross margin of 35-40% for the residential projects and a margin of c65% from the rental-income-generating assets, implying a group margin in the range of 55-60%.

Portfolio and major development projects

The office portfolio

Is REICs office assets comprise c64% of the portfolio with a value of cTRY25.7bn (H124), with c85% located in Istanbul.

- ◆ **Tutum, Istanbul** – The Technology Operation Centre of Türkiye generates rental income of TRY195m and has an appraisal value of TRY8.7bn, as at H124. This implies a current rental yield of 4.5%, but this is adjusted annually for inflation. This was a ‘turnkey’ development completed in 2016, delivering 184,653 sqm of gross lettable area with 100% of the space let to Is Bank on a 25-year lease.
- ◆ **Is Towers, Istanbul** – Comprises two A grade towers (Tower 2 and 3) located in the Levent Central Business District of Istanbul. Acquired in 1999, the towers offer a gross lettable area of 59,827 sqm. The leases are rented to various tenants on an independent section basis, floor by floor, with leases for each independent section and their respective contract periods differing. The overall decline in demand for offices during the pandemic negatively affected rental values, and vacancy rates.
- ◆ **Istanbul Financial Centre (IFC), Istanbul** – Development completion end-2024/early 2025, the IFC aims to bring together public- and private-sector banks, asset-management companies, brokerage firms, insurance companies, professional service companies along with Turkish and international financial institutions on a campus offering 1.3m sqm of office

space, a 100,000 sqm shopping centre, a congress centre and five-star hotel. Within this, Is REIC has developed a tower measuring 35,000 sqm that had an appraisal value of cTRY3.6bn, as at December 2023. Our understanding is that the tower will form the head office for Is Bank, which will relocate from Ankara.

- ◆ **Taksim Lamartine, Istanbul** – Development completion 2013 with a gross floor area of 4,624 sqm and an appraisal value of cTRY598m, as at December 2023.
- ◆ **Maslak, Istanbul** – Acquired in 2001 with a gross area of 13,600 sqm and an appraisal value of TRY1.1bn, as at December 2023. The building is currently vacant and Is REIC is considering a full refurbishment to either re-lease, sell or convert, possibly into a hotel.
- ◆ **Is Towers, Ankara** – Acquired in 1999, offering a gross area of c29,000 sqm and had an appraisal value of TRY676.5m, as at December 2023. The building is leased to the government's Ministry of the Interior.

The retail portfolio

Is REICs retail assets comprise c18% of the portfolio with a value of cTRY7.3bn (H124), with c75% located in Istanbul.

- ◆ **Kanyon, Istanbul** – A prime inner-city open shopping centre with occupancy of 99% (H124). Kanyon comprises 43% of the retail portfolio, generated TRY123m of rental income in H124 and has an appraisal value of TRY3.18bn.
- ◆ **Marmara Park, Istanbul** – A prime inner-city enclosed shopping centre that was constructed under a Build-Operate-Transfer (BOT) model on behalf of ECE Real Estate Partners, Europe's leading private equity real estate and investment manager with a focus on shopping centres and hotels. The tenure is for a total of 72 years (starting from 2009) with pre-determined rental escalators (see below), payable to Is REIC. Rental income in H124 amounted to TRY140m, with an appraisal value of TRY2.3bn, representing 32% of the retail portfolio by value.

Overview of BOT payment schedule:

1-10-year period:	USD2.55m + turnover rent (min USD400k/year)
11-20-year period:	USD3.00m + turnover rent (min USD400k/year)
21-30-year period:	USD3.5m + turnover rent (min USD400k/year)
31-40-year period:	USD4.00m + turnover rent (min USD400k/year)
41-50-year period:	USD5.00m + turnover rent (min USD400k/year)
51-60-year period:	USD6.00m + turnover rent (min USD400k/year)
61-end of period:	USD7.00m + turnover rent (min USD400k/year)

- ◆ **Ege Perla, Izmir** – Opened in 2017 with a gross retail area of c23,000 sqm, and office space of 88 sqm. Comprising 12% of the retail portfolio by value (TRY890m, as at H124) and generated TRY15m of rental income in H1.
- ◆ **Others retail assets include** – **Kule Carsi, Istanbul, Tuzla Meydan, Istanbul** and **Mallmarine, Marmaris**. Collectively, they comprise 12.5% of the retail portfolio with an aggregate value of TRY918m (H124) generating TRY5m of rental income during H1.

A significant residential develop-and-sell pipeline, with an aggregate development cost in the region of USD375m (cTRY13bn)

Residential development projects

Is REIC has a significant residential develop-and-sell pipeline, with one completed project and three under development. With an aggregate development cost (100%) in the region of USD375m (cTRY13bn).

- ◆ **Litus, Istanbul (completed)** – Located on the Asia side of the Bosphorus, and situated in Altunizade, Is REIC and TECIM (50:50) have constructed 98 residential units (36 so far sold as June 2024) with a total saleable area of 36,000 sqm at a development cost (100%) of USD96m (including the land value). The contract is a cost and revenue-sharing arrangement between Is REIC and TECIM. Is REIC has guided that profits will total USD60m, of which 50% is Is REIC's share.
- ◆ **Kasaba (under construction)** – Located in Omerli, Istanbul, the project covers a land area of 138,000 sqm with the aim of building out 165 villas at a total cost estimate of between USD190-200m. As with Litus, the contract is a cost and revenue-sharing arrangement between Is REIC (44%) and TECIM (56%). Phase 1 will absorb 19,000 sqm to construct 61 villas at a total cost of USD78m (including land).
- ◆ **Profilo (under construction)** – Located in Sisli, Istanbul the development aims to deliver c200 residential units. This is a revenue-sharing deal with ARTAS, with Is REIC entitled to 40% of the revenue under the terms of the agreement. ARTAS will undertake the development (and all expenses) in return for land provided by Is REIC.
- ◆ **Tuzla (under construction)** – Located in Tuzla, Istanbul the site area measures 59,900 sqm with the aim of delivering 1,115 residential units.

Planned development projects

- ◆ **Balmumcu (planned)** – located in Gayrettepe, Istanbul near the central business district with an estimated development cost of USD25.5m, the scheme aims to deliver c70 luxury residential units. It offers optionality insofar as an alternative use may be sought, such as a hotel development (in place of residential).

ESG – Targeting inclusion in the Borsa Sustainability Index

The first steps taken to determine key performance indicators were undertaken in 2023

Committed to improving its performance in Environmental, Social and Governance (ESG) matters and the sustainability area, Is REIC commenced the necessary work during 2023 in line with its target to be included in the Borsa İstanbul's Sustainability Index. The Corporate Governance Committee has been designated as the highest body responsible for ESG matters at the company, and it oversees the implementation of sustainability policies. The Investor Relations and Sustainability Department is responsible for the internal co-ordination of sustainability efforts and activities.

Environmental

Is REIC has declared its policies and practices, action plans and environmental management systems (known as ISO 14001 standard) and programs.

- ◆ Adhering to the principles set out in its 'Environmental and Social Impacts Policy' and acting in an environmentally sensitive manner in the conduct of its activities, the company aims to achieve improvements in energy and water efficiency, GHG emissions, waste generation and recycling under the said policy, and disclosed its existing and planned implementations in this respect.

The Corporate Governance Committee has been designated the highest body responsible for ESG matters

Social

The company has devised its 'Human Rights and Human Resources Policy', which incorporates the Universal Declaration of Human Rights and International Labor Organization (ILO) covenants that Türkiye ratified, and other applicable legislation, which was approved by the board of directors, and the Assistant General Manager to whom the HR function reports is responsible for the implementation of the policy. The company also complies with the principles of United Nations Global Compact in the performance of all its activities.

In terms of the company's priority ESG issues, risks and opportunities are determined particularly in its 'Sustainability Policy' and 'Environmental and Social Impacts Policy' that have been approved by the board of directors and publicly disclosed.

ESG factors are the focal point of the company's activities: combating climate change, employee and customer satisfaction, supplier relationship management, occupational health and safety, stakeholder communication, gender equality, compliance with the code of conduct and transparent corporate governance practices, etc. ESG policies and related guidelines that represent the company's approach to sustainability include the following:

- ◆ Sustainability policy
- ◆ Environmental and social impact policy
- ◆ Human rights and human resources policy
- ◆ Anti-bribery and anti-corruption policy
- ◆ Gifts and entertainment policy
- ◆ Supplier management principles
- ◆ Gender equality policy
- ◆ Occupational health and safety policy
- ◆ Customer satisfaction policy

Donating to earthquake victims

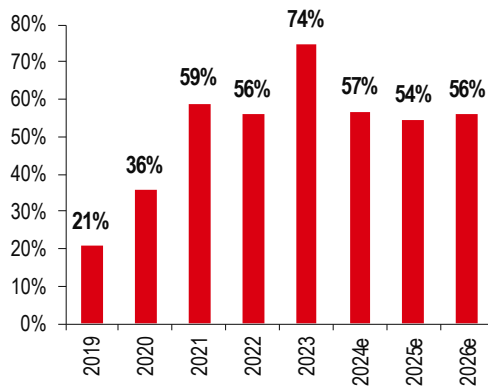
Following the February 2023 earthquake that damaged c11 provinces in Türkiye, İşbank Group made a cash donation of TRY8m to the Republic of Türkiye Ministry of Interior Disaster and Emergency Management Presidency (AFAD) that co-ordinates disaster relief efforts for victims across the region.

Governance

Set up in a manner to encompass all key functions in the company, the 'Sustainability Working Group' represents mainly employees, customers and suppliers that make up other important stakeholders in the company. It informs the company of stakeholder opinions about sustainability issues, enabling the company to take into account of stakeholders' opinions when determining sustainability measures and strategies.

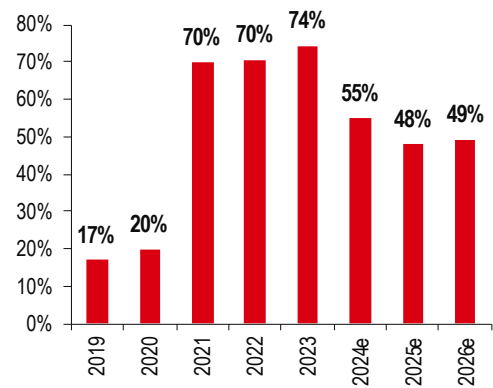
Is REIC – Performance

Gross margin



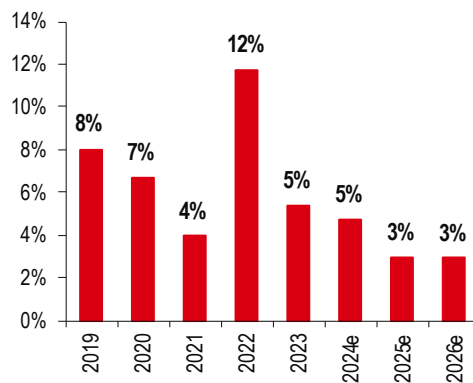
Source: Company data, HSBC estimates

EBITDA margin



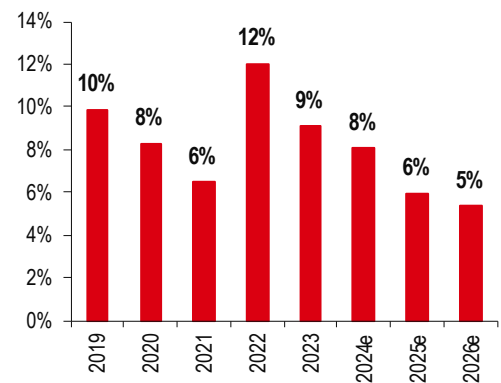
Source: Company data, HSBC estimates

Return on average equity



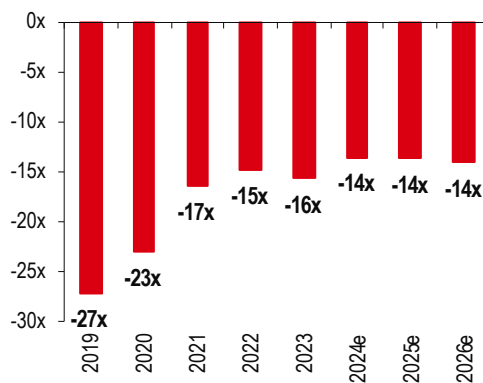
Source: Company data, HSBC estimates

Return on average assets



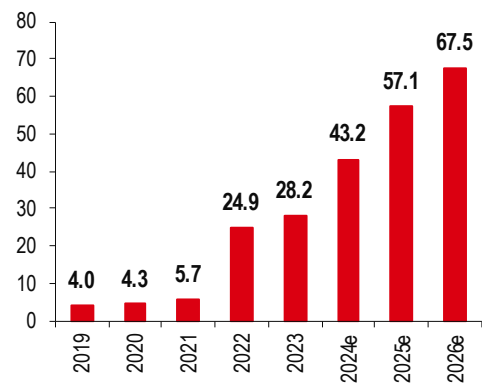
Source: Company data, HSBC estimates

Net debt/equity



Source: Company data, HSBC estimates

Book value per share



Source: Company data, HSBC estimates

Financials

Is REIC – Summary of financial statements – comprehensive version (TRYm)

Income Statement	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	1207	553	489	1453	1254	3278	7440	8885	10377
Cost of revenue	(956)	(356)	(201)	(642)	(320)	(1418)	(3388)	(3919)	(4415)
Gross profit	251	196	288	810	933	1859	4052	4966	5961
SG&A expenses	(42)	(38)	(45)	(134)	(181)	(279)	(632)	(644)	(752)
Other operating income/expense	330	283	1235	7566	1933	2204	1910	1467	907
Operating profit	539	442	1478	8243	2686	3785	5330	5789	6116
Income from investing activities	1	2	2	35	35	10	13	15	17
Financial income/expense	(140)	(243)	(177)	(690)	(1491)	(1818)	(2221)	(2261)	(2423)
Monetary gains/loss	0	0	0	1013	1901	1923	1717	1183	815
PBT	401	200	1302	8601	3131	3900	4839	4725	4525
Taxes	0	0	0	0	0	0	(1452)	(1418)	(1358)
PAT	401	200	1302	8601	3131	3900	3387	3308	3168
Minorities	0	0	0	0	0	0	0	0	0
Profit for the parent	401	200	1302	8601	3131	3900	3387	3308	3168
Balance Sheet	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash and cash equivalents	388	59	139	2053	639	1431	1503	1215	622
Receivables	122	132	115	253	253	386	517	615	744
Inventories	503	235	140	325	2495	3901	4911	5553	6226
Other current assets	236	39	99	689	765	1129	1338	1723	2164
Current assets	1250	465	492	3320	4151	6846	8269	9107	9756
Receivables	33	13	4	0	2	2	3	3	4
Investment Properties	3986	4261	5454	22761	24441	37063	49349	58851	69881
Inventories	175	200	381	2354	3194	6064	10044	14216	19197
Other non-current assets	273	286	345	1227	1368	2034	2789	3056	3359
Non-current assets	4467	4760	6184	26342	29004	45164	62185	76127	92441
Total assets	5716	5225	6676	29662	33155	52010	70454	85233	102196
Borrowings	817	883	846	5600	2476	3578	4566	5241	6017
Payables	229	19	27	70	283	769	1431	2164	3103
Liabilities-contract with customer	149	38	98	44	858	2624	5082	7838	11038
Other current liabilities	37	22	29	52	65	94	121	138	159
Current liabilities	1232	963	1000	5766	3682	7065	11200	15382	20317
Borrowings	622	130	197	0	2426	3506	4473	5135	5895
Other non-current liabilities	2	2	3	14	14	20	26	30	34
Non-current liabilities	624	132	200	14	2440	3526	4499	5165	5929
Share capital	1199	1199	1199	14785	14785	20938	26452	30225	34556
Share premium	37	41	56	82	102	147	188	216	248
Reserves	66	71	71	536	567	820	1046	1201	1379
Retained earnings	2558	2820	4150	8479	11579	20632	29713	37419	46124
Other equity items	0	0	0	0	0	(1118)	(2644)	(4374)	(6357)
Total Equity	3860	4131	5476	23882	27033	41419	54755	64686	75950
Total Equity and Liabilities	5716	5225	6676	29662	33155	52010	70454	85233	102196
Cashflow Statement	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Profit (loss) for the period	297	267	1330	8601	3131	3900	3387	3308	3168
D&A	2	2	2	8	9	13	17	20	23
Other operating cashflow items	(104)	(112)	(1125)	(8995)	(2495)	(1317)	(1150)	(1170)	(1038)
Working capital changes	(51)	116	121	(1467)	(1634)	(102)	(170)	(140)	(143)
Cash flow from operations	145	273	329	(1852)	(988)	2494	2084	2018	2009
Capex	340	(14)	(183)	(769)	(215)	(342)	(480)	(606)	(748)
Other investing cashflow items	(43)	(4)	(4)	(234)	(254)	0	0	0	0
Cash flow from investments	297	(18)	(187)	(1004)	(469)	(342)	(480)	(606)	(748)
Loans drawn/repaid	98	(466)	19	4089	1556	0	0	0	0
Change in share capital	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	(1818)	(2221)	(2261)	(2423)
Other financing cashflow items	(207)	(126)	(101)	(501)	(1283)	(1818)	(2221)	(2261)	(2423)
Cash flow from finances	(109)	(592)	(82)	3589	272	231	295	338	388
Inflation effect	1	8	19	933	(257)	566	(322)	(511)	(773)
Increase (decrease) in cash	334	(328)	79	1666	(1443)	865	1826	1726	1395
Beginning cash balance	54	387	59	375	2041	1431	1503	1215	622
Ending cash balance	387	59	138	2041	599	3900	3387	3308	3168

Source: Company data, HSBC estimates

Valuation and risks

	Valuation	Risks
Is REIC ISGYO TR	Current price: TRY15.66	Downside risks (1) Inflation levels remain materially higher than assumed in our forecasts (based on HSBC Economics Team estimates); (2) as a result of the first point, interest rates similarly remain materially higher than assumed; (3) a further structural change in office utilisation and demand; (4) geopolitical risk; and (5) the possibility of further sizeable natural disasters.
	Target price: TRY20.20	
Buy	Up/downside: 29.0%	
	<p>We value the company using a discounted cash flow methodology to arrive at a target price of TRY20.20, implying upside of 29.0% and therefore our Buy rating on the stock. In our DCF calculation we apply a WACC of 29.9%, which is based on a risk-free rate of 3.75% and equity risk premium of 9.75%, in line with the estimates from our strategy team. In addition, we add an inflation differential of 13% to our equity risk premium, which is a value we have derived from Bloomberg's cost of equity for the Türkiye market. We use a 2-yr Bloomberg adjusted beta of 1.15 and apply an average cost of debt of 30.0%, which is in line with the average cost of debt in the Turkish market. We use a debt weighting of 15%, in line with the latest reported debt structure, and we assume a terminal growth rate of 15.0%. This results in an enterprise value of TRY23.3bn. From this we remove net debt of TRY3.9bn to get to our equity value of TRY19.3bn to reach a per share value of TRY20.20.</p>	

Priced at 22 Oct 2024
 Source: HSBC estimates

Sensitivity analysis to reflect changes in Inflation

HSBC is forecasting a near 40% drop in inflation by 2025 year-end

The inflation rate is forecast to drop from 44.5% at 2024e year-end to 27.6% at 2025 year-end and then further to 14.8%, according to the HSBC Economics Team. Hence, we provide below a table reflecting approximated changes to our inflation differential estimates applied in our DCF valuation under this scenario.

Also, we have shown our range of TRY derived target prices based on changes to the inflation differential applied in our DCF in USD terms. The USD:TRY exchange rate is forecast to fall (i.e. weakening TRY) by a further 17%, according to HSBC.

Inflation and FX Forecast Source: [CEEMEA Economics Quarterly – Risks, old and new](#), 9 October 2024.

Sensitivity analysis on inflation differential

Decline in inflation differential by	0%	10%	25%
Inflation differential	13.00%	11.70%	9.75%
WACC	29.9%	28.7%	26.7%
Potential TP (TRY)	20.2	22.4	26.7
Potential upside	29%	43%	70%
Potential TP (USD)	0.59	0.56	0.67
Potential upside	29%	22%	46%

Source: HSBC estimates. For 10% and 25% reduction in the inflation differential, we have applied a USDTRY exchange rate of 1:40 and the current USDTRY exchange rate of 1:34.2 for the unchanged inflation differential

Financials & valuation: Is REIC

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (TRYm)				
Revenue	1,254	3,278	7,440	8,885
EBITDA	2,695	3,799	5,347	5,808
Depreciation & amortisation	-9	-13	-17	-20
Operating profit/EBIT	2,686	3,785	5,330	5,789
Net interest	-1,491	-1,818	-2,221	-2,261
PBT	3,131	3,900	4,839	4,725
HSBC PBT	3,131	3,900	4,839	4,725
Taxation	0	0	-1,452	-1,418
Net profit	3,131	3,900	3,387	3,308
HSBC net profit	3,131	3,900	3,387	3,308
Cash flow summary (TRYm)				
Cash flow from operations	-979	2,508	2,101	2,038
Capex	-215	-342	-480	-606
FCF enterprise	846	3,354	3,245	3,645
Cash flow from investment	-469	-342	-480	-606
Dividends	0	0	0	0
Change in net debt	717	1,389	1,882	1,626
FCF equity	-1,194	2,166	1,621	1,432
Balance sheet summary (TRYm)				
Tangible fixed assets	27,944	43,873	61,011	74,995
Current assets	4,151	6,846	8,269	9,107
Cash & others	639	1,431	1,503	1,215
Total assets	33,155	52,010	70,454	85,233
Gross debt	4,902	7,084	9,039	10,376
Net debt	4,263	5,653	7,535	9,161
Shareholders' funds	27,033	41,419	54,755	64,686
Invested capital	30,257	45,812	61,156	72,761

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	-13.7	161.5	127.0	19.4
EBITDA	-67.3	40.9	40.8	8.6
EBIT	-67.4	40.9	40.8	8.6
PBT	-63.6	24.6	24.1	-2.3
HSBC EPS	-63.6	24.6	-13.1	-2.3
Ratios (%)				
Revenue/IC (x)	0.0	0.1	0.1	0.1
ROIC	9.5	10.0	7.0	6.1
ROE	12.3	11.4	7.0	5.5
ROA	14.7	14.2	8.4	6.6
EBITDA margin	215.0	115.9	71.9	65.4
Operating profit margin	214.3	115.5	71.6	65.2
EBITDA/net interest (x)	1.8	2.1	2.4	2.6
Net debt/equity	15.8	13.6	13.8	14.2
Net debt/EBITDA (x)	1.6	1.5	1.4	1.6
CF from operations/net debt		44.4	27.9	22.2
Per share data (TRY)				
EPS Rep (diluted)	3.3	4.1	3.5	3.5
HSBC EPS	3.3	4.1	3.5	3.5
DPS	0.0	0.0	0.0	0.0
NAV (Book Value)	28.2	43.2	57.1	67.5

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Price to NAV (BV)	0.6	0.4	0.3	0.2
PE*	4.8	3.8	4.4	4.5
FCF yield (%)	-8.0	14.4	10.8	9.5
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a	Governance Indicators	12/2023a
GHG emission intensity*	n/a	No. of board members	9
Energy intensity*	n/a	Average board tenure (years)	3.2
CO ₂ reduction policy	Yes	Female board members (%)	11.1
Social Indicators		Board members independence (%)	33.3
Employee costs as % of revenues	6.8		
Employee turnover (%)	11		
Diversity policy	Yes		

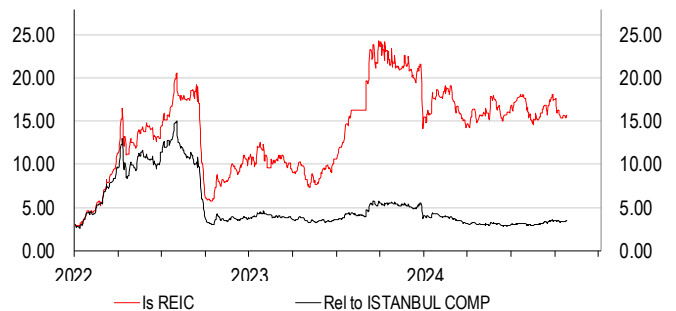
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	15.66	Free float	33%
Target price (TRY)	20.20	Sector	Reits
RIC (Equity)	ISGYO.IS	Country/Region	Türkiye
Bloomberg (Equity)	ISGYO TI	Analyst	Stephen Bramley-Jackson
Market cap (USDm)	438	Contact	+91 4 423 6903

Price relative



Source: HSBC

Note: Priced at close of 22 Oct 2024

Torunlar REIC

- ◆ Torunlar REIC went public in 2010 and is now Türkiye’s largest private-sector REIC with a dominant position in retail malls
- ◆ The family retains 75% of the issued share capital, with Torunlar companies controlling a further 6%
- ◆ The company has completed its deleveraging program and is now actively seeking out acquisitions and organic growth opportunities

Company profile

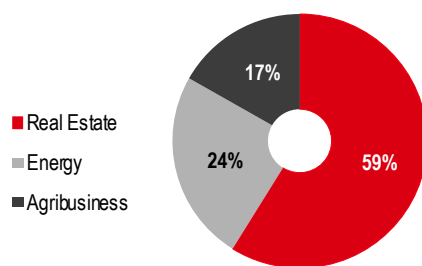
Torunlar is a conglomerate, investing in energy, the agribusiness sector and real estate

Torunlar Group is a conglomerate, investing in energy, where it is Türkiye’s second-largest natural gas distributor with over 4.3bn cubic metres of gas sales and distribution volume, the agribusiness sector (a leading company in oilseed, soybean, sunflower, rice and sugar beet processing) and real estate.

In terms of the group’s real estate interests, Torunlar REIC went public in 2010 and is now Türkiye’s largest private-sector REIC with a portfolio value of TRY86.8bn, as at March 2024. Despite a diversified property portfolio, Torunlar has a dominant position in Türkiye’s retail real estate sector with over 600,000 sqm of retail mall GLA.

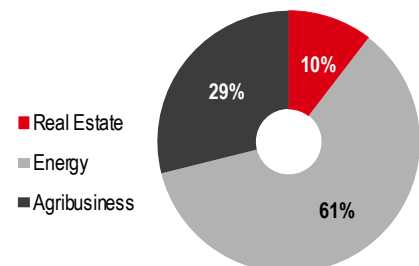
A dominant position in Türkiye’s retail real estate sector with over 600,000 sqm of retail mall GLA

Torunlar Group – Total assets (FY23)



Source: Company data, HSBC

Torunlar Group – Total sales (FY23)



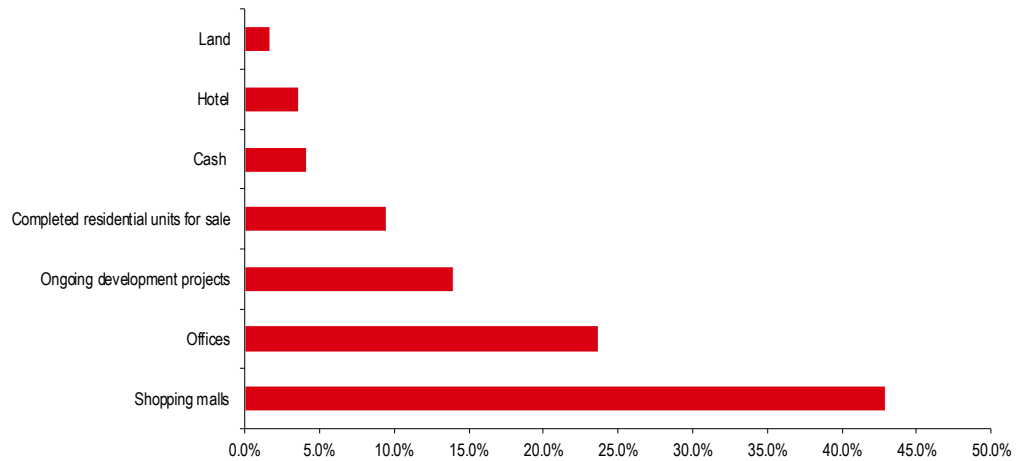
Source: Company data, HSBC

Torunlar REIC – A dominant investor in retail

Despite having a diversified property portfolio, Torunlar REIC has a dominant position in Türkiye’s retail real estate sector, with over 600,000 sqm of retail mall GLA.

By value, Torunlar REIC's portfolio was valued at TRY 86.3bn as at March 2024, the breakdown of which is as follows:

Torunlar REIC – Portfolio Breakdown (by value)



Source: Company data, HSBC

Management

The Board of Directors

Torunlar's board comprises of seven members, two executive members, three non-executive independent directors, and two non-executive directors.

Chairman and CEO (Executive) – Aziz Torun. As co-founder, Mr Torun currently serves as the Chairman and member of the Board of Directors of several subsidiaries of the Torunlar group of companies. Graduated from the Faculty of Economics at the Istanbul University in 1975. Has also served as Chairman of the Board of Directors at GYODER (The Association of Real Estate and Real Estate Investment Companies) between 2013 and 2017.

Vice Chairman (Non-Executive) – Mehmet Torun. Co-founder, Mr Torun is currently the Chairman of the Board of Directors of Torunlar Food Industry and Trade Inc., Torunlar Energy Industry and Trade Inc. and Baskent Natural Gas Distribution REIC and the Vice Chairman of the Board of Directors of Kuthaya Sugar Factory Inc., Torun Construction Industry and Trade Inc., Nokta Construction Inc and a member of the Board of Directors of Netsel Tourism Inc.

Director (Non-Executive) – Mahmut Karabiyik. A law graduate from Istanbul University Faculty of Law in 1982, he has worked in areas of Commercial Law, Corporate Law, Banking and Capital Markets Law and Enforcement-Bankruptcy Law.

Director and CFO (Executive) – Ismail Kazanc. Graduated from the Faculty of Business Administration at Bilkent University in 1994 and then obtained a masters degree in International Financial Markets at the University of Southampton in 2001. He worked within the accounting and finance industry for many years before joining Torunlar REIC as CFO in 2009.

Director (Non-Executive Independent) – Ferda Besli. Graduated from Istanbul University Department of Economics in 1985. He worked at various positions at Akbank before retiring as Executive Vice President responsible for Commercial Banking, SME, Project Finance and Cash Management Departments in 2011.

Director (Non-Executive Independent) – Kenan Yavuz. Graduated from the Business administration department at Ankara Academy of Commercial and Economic Sciences in 1981. Mr Yavuz started his professional career at Koç Holdings and held various managerial positions until he left in 2004. He was appointed Board Member and the General Manager at Petkim Petrokimya Holding in 2004 and then he served as President/CEO of SOCAR Türkiye Enerji Inc. between 2009 and 2016.

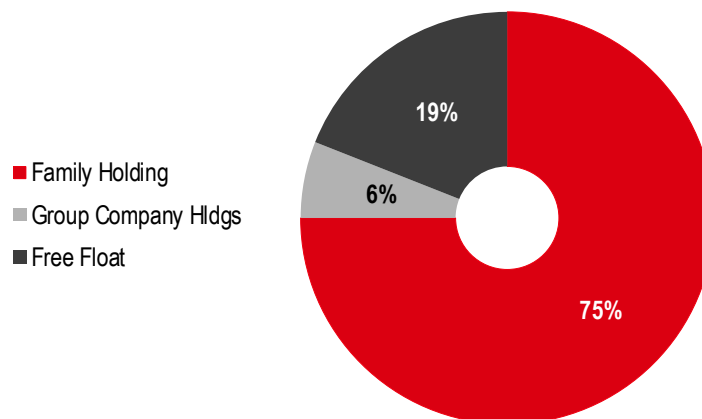
Director (Non-Executive Independent) – Dr Mehmet Emre Camlibel. Has a BS degree from Yildiz Technical University and MS degree from MIT in Civil Engineering and a PhD degree in Civil Engineering on energy efficiency optimisation modelling from Bogazici University. He started his career at STFA in Türkiye in 1992 and held various engineering and managerial positions at various firms before becoming CEO of Soyak Holding between 2008 and 2016. He was a Board Member of the Housing Developers and Investors Association (KONUTDER), Reits and Real Estate Association (GYODER), Turkish Green Building Council (CEDBIK) and Istanbul Contractors Association (INDER), and currently serves as a board member at the Affordable Housing Institute in Boston, among other positions.

Ownership

Family retains a c75% interest

The Torun family (Chairman Aziz Torun and Vice-Chairman, Mehmet Torun) control c75% of the issues share capital in Torunlar REIC, with group companies having an interest in a further c6%. This leaves a free float of c19%.

Shareholder ownership (June 2024)



Source: Company data, HSBC

Investment case – 3 key points

1. Percentage of revenue derived from recurring income offers strongest dividend prospects

Out of the three Turkish REICs on which we are initiating coverage, Torunlar has the highest proportion of its top-line revenue derived from recurring income. Combined with a net cash balance sheet position, this offers the strongest (recurring and progressive) dividend prospects.

Dividend yields (HSBCe)

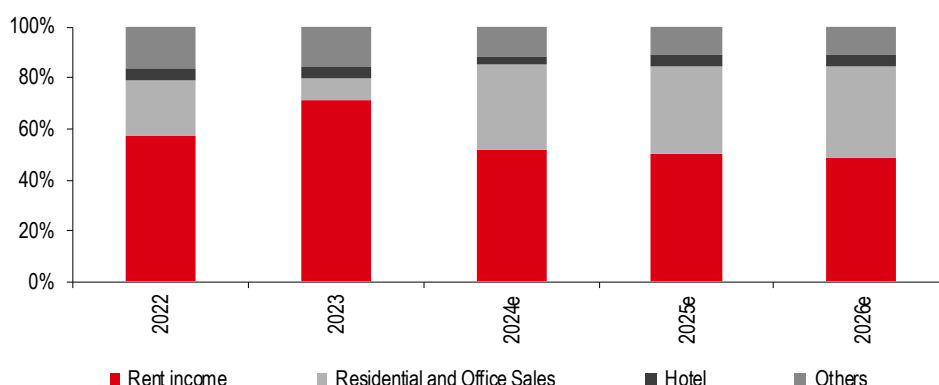
	2023	2024e	2025e	2026e
Torunlar REIC	5.2%	16.3%	15.1%	16.6%
Emlak REIC	0.0%	5.9%	13.7%	15.5%
Is REIC	0.0%	0.0%	0.0%	0.0%

Source: Company data, HSBC estimates. Note dividend yields based on share prices as at 22 October 2024

The retail malls portfolio dominates the contribution to income by a factor of 6.5x that of offices

Within the rental income portfolio, the retail malls portfolio dominates the contribution to income by a factor of 6.5x that of offices, based on the FY23 rental income contributions.

Torunlar REIT – Revenue breakdown by contribution



Source: Company data, HSBC estimates

2. Retail dominance and high barriers to entry

Retail real estate has had a rough ride in most metropolitan centres globally. The growing incursion of online, then the COVID-19 pandemic, severely tested rental and capital values, and in many markets caused significant negative repricing.

Excluding inflation NRI growth last year +17% (+65% including inflation), and was +26% Q124

However, in only a few years since the 2020 pandemic year, most key destination retail malls have recovered in terms of both footfall and retail sales. For instance, excluding inflation NRI growth last year +17% (+65% including inflation), and was +26% Q124, according to the company.

The table below highlights the progressive nature of all relevant metrics since the 2020 pandemic year to the close of 2023, inclusive of inflation (i.e. nominal).

Retail Mall LfL Performance Stats 2023, vs 2022 (and 2020, vs 2019)

	Zafer Plaza	Antalya Deepo	Bursa Korupark	Istanbul Torium	Mall of Istanbul	Mall of Antalya
Rent + Common Area Revenues (TRYm)	151.9 (23)	287.6 (31.5)	808.4 (111.9)	370.8 (43.8)	1,782 (235)	399.9 (17.1)
LfL Rent + Common Area revenue Growth Rate	45.5% (-33.9%)	2.1% (-31.1%)	13.8% (-29.3%)	18.7% (-33.8%)	6.8% (-18.5%)	3.8% (-72%)
Net Operating Income (TRYm)	128.6 (18.2)	225 (24.1)	638.7 (91.1)	197.7 (18.0)	1,416.7 (177.4)	294.8 (1.8)
LfL NOI Growth Rate	44.6% (-29.8%)	5.2% (-30.2%)	21.1% (-29.8%)	46.8% (-47.6%)	9.4% (-22.0%)	10.8% (-96.0%)
Footfall (m)	10.5 (5.9)	4.8 (2.8)	11.6 (6.4)	9.8 (4.8)	16.3 (9.4)	3.9 (2.2)
LfL Footfall Growth Rate	20.3% (-46.9%)	5.6% (-46.0%)	11% (-42.6%)	-1.3% (-47.5%)	2.8% (-41.2%)	10.4% (-45.3%)
Retail Sales (TRYm)	1,405.2 (184.2)	1,869 (194.4)	6,402.7 (751.9)	2,378.9 (277.9)	12,944.1 (1,518.0)	3,135.5 (285.5)
LfL Retail Sales Growth Rate	109.8% (-33.4%)	50.4% (-35.2%)	104.6% (-19.1%)	106.9% (-31.4%)	73% (-23.3%)	82.1% (-29.6%)
Affordability Ratio (Occupational Cost Ratio)	9.2% (9.9%)	12% (12.4%)	10% (12.1%)	8.3% (6.5%)	10.9% (11.7%)	9.4% (0.6%)

Source: Company data, HSBC

Adjusting for inflation

Even after adjusting for inflation to arrive at 'real' value changes, the recovery growth in the key metrics is substantial. For instance, inflating a value of 100 since the end of the 2020 pandemic

year derives a value of 317.08 by the end of 2023, based on Türkiye's confirmed (TURKSTAT) annual inflation (CPI) rates.

Annual inflation rates (CPI)

	2021	2022	2023
Annual Inflation (CPI)	19.60%	72.31%	53.86%
Inflated value of 100 from the pandemic 2020 year			317.08

Source: Turkstat, HSBC calculations

Applying the above rate of inflation over the 3 years since the pandemic to the 'Rent + Common Area Revenues' from the above table highlights the recovery rate in real terms.

Rent + Common Area Revenues adjusted

	Zafer Plaza	Antalya Deepo	Bursa Korupark	Istanbul Torium	Mall of Istanbul	Mall of Antalya	Mall of Totals/aver ages
Rent + Common Area Revenues (TRYm) – pre-adjustment (nominal)	151.9 (23.0)	287.6 (31.5)	808.4 (111.9)	370.8 (43.8)	1,782 (235.0)	399.9 (17.1)	3,800.6 (462.2)
Differential pre-adjusted (x)	6.6	9.1	7.2	8.5	7.6	23.4	8.2
2020 values adjusted for inflation -post adjustment (real)	151.9 (72.9)	287.6 (99.8)	808.4 (354.7)	370.8 (138.8)	1,782 (744.9)	399.9 (54.2)	3,800.6 (1,465.2)
Differential post-adjusted (x)	2.1	2.9	2.3	2.7	2.4	7.4	2.6

Source: Company data, HSBC calculations, Note: Other factors are relevant to Mall of Antalya numbers

Interests in three of the top 10 retail malls in the country

Barriers to entry

With the cost of capital having risen so considerably in Türkiye, the financing costs of new retail developments is prohibitively high. In all, there are some 420 shopping malls in Türkiye, but no malls of significant size have been developed in the past five years. However, Torunlar REIC has interests in three of the top 10 retail malls in the country.

Türkiye's mall league

Mall	Opening date	GLA (sqm)	Location	Developer
1. Forum Istanbul	2009	178,834	Istanbul	Multi Turkmall
2. Mall of Istanbul	2014	154,713	Istanbul	Torunlar REIC
3. Marmara Forum	2011	137,500	Istanbul	Multi Turkmall
4. Cevahir	2005	110,000	Istanbul	Kuwait Investment Authority
5. Vialand	2013	110,000	Istanbul	Gursoy & Via Grup
6. ANKA mall	1999	107,804	Ankara	Migros/Yeni GIMAT REIC
7. Marmara Park	2012	100,000	Istanbul	Ece Türkiye
8. IstinyePark	2007	88,490	Istanbul	Dogus, Orjin
9. Torium	2010	88,455	Istanbul	Torunlar REIC
10. Akasya Acibadem	2014	86,500	Istanbul	Saf REIC/Akis REIC

Source: Company data, as at March 2024.

Note. Torunlar REIC has a 21.8% interest in Mall of Istanbul mall, and a 0.2% interest in Mall of Istanbul residences, offices and commercial units; Torunlar REIC has a 14.83% holding in Yeni GIMAT REIC and hence a 2% interest in ANKA mall; and has a 2.7% interest in Torium shopping mall.

Bank LtVs 10yrs ago could extend to 70%, now less than 50% and unwilling to finance 'mid-tier' malls

Construction costs are currently very high at cUSD1,000 per sqm and land availability for suitable sites is limited. Hence, competition for new builds is extremely low to practically non-existent. With elevated interest rates, finance costs are now also extremely high, and banks have become far more cautious lenders (LtV 10 years ago could extend to 70%, but is now less than 50%, and banks are unwilling to finance 'mid-tier' malls). Hence, incumbents are strongly positioned with barriers to entry very high.

3. De-levered and looking for strategic purchases

Torunlar has been on a deleveraging path, wanting to recapitalize its balance sheet. To that end, Torunlar recently sold a major office tower in Istanbul to ENBD, its tenant, for USD357.5m

+ VAT. This resulted in the group's balance sheet moving into a net cash position and the dividend distribution for FY24 increasing to 100%.

High-yielding/distressed retail malls at significant discounts to fair value may be an acquisition possibility

With the balance sheet recapitalised, Torunlar REIC has indicated that it is now looking for strategic purchases (e.g. high yielding/distressed retail malls at significant discounts to fair value may be a possibility) and organic growth opportunities (e.g. expansion capex at Mall of Istanbul).

Summary valuation metrics

Below we highlight some of the key valuation metrics for Torunlar.

Torunlar REIC – Valuation metrics

Torunlar	2023	2024e	2025e	2026e
P/E	3.6x	3.1x	3.3x	3.0x
P/BV	0.6x	0.4x	0.3x	0.3x
FCF yield	7.2%	26.4%	23.4%	28.2%
Dividend yield	5.2%	16.3%	15.1%	16.6%
EV/EBITDA		6.9	4.9	3.8
Net debt/equity	-2.1x	-1.1x	-1.8x	-2.0x
Net debt/EBITDA	-0.4x	-0.2x	-0.3x	-0.3x

Source: Company data, HSBC estimates

Forecasts/estimates

We apply an underlying growth rate to the adjusted inflated forecasts each year

As an example, we take the 2023 reported number and then apply the 2024e year-end inflation figure to each of the line items, which acts as the base value for the 2024 forecasts. On this base figure we apply our underlying growth rate. We follow this step for each of our forecast years.

- ◆ For the rental income portfolio, we assume an underlying growth rate of 10%
- ◆ A significant amount of development projects are expected to be delivered in the coming years and we include them in our forecasts, in line with the indicated delivery pipeline
- ◆ Further, we assume a gross margin of 40% for the residential projects and a margin of c75% from the rental income generating assets, implying a group margin in the range of 65-70%

The portfolio

Torunlar REIC portfolio – March 2024

BUILDINGS	Appraisal value (TRY '000)	Portfolio share (%)
Retail		
Zafer Plaza Shopping Mall – Bursa (72.26% share)	940,500	1.1%
Korupark Shopping Mall – Bursa	7,665,000	9.3%
Torium Shopping Mall – Istanbul	2,220,000	2.7%
Deepo OuTRYet Centre – Antalya	2,850,000	3.4%
Mall of Antalya – Antalya	3,535,000	4.3%
Mall of Istanbul Shopping Centre – Istanbul	18,000,000	21.8%
	35,210,500	42.6%
Offices		
Torun Tower offices – Istanbul	12,400,000	15.0%
	12,400,000	15.0%
Mixed Use		
Korupark 1,2 and 3 Phases – Bursa (7 residences, 5 retail units + several power centres and parking lots)	180,160	0.2%
Torium Residence – Istanbul (2 units)	5,830	0.0%
Torium Dorm (2 dorms) – Istanbul	270,200	0.3%
Mall of Istanbul (2 residences, 1 office Tower, 1 low-level office unit, 12 commercial units) – Istanbul	201,640	0.2%
Torun Centre Project (residential – 282 residences, gross sellable area 47,365.5 sqm) – Istanbul	6,241,740	7.5%
Torun Centre Project (offices and retail area, gross lettable area 49,844.1 sqm) – Istanbul	7,375,230	8.9%
5. Levent Project (8 residences, 50 commercial units + 17 power centres) – Istanbul	657,710	0.8%
Mall of Istanbul Project Phase 2 – High-end residential (gross sellable area 10,247.6 sqm) – Istanbul	590,000	0.7%
Mall of Istanbul Project Phase 2 -Hilton Hotel Convention Centre + additional 175 hotel rooms – Istanbul	3,040,000	3.7%
Mall of Istanbul Project Phase 2 – Office/commercial unit (net lettable area 12,503.5 sqm) – Istanbul	567,000	0.7%
	19,129,510	23.0%
PROJECTS		
Pasabahce (70,644.9sqm) – Istanbul	4,062,500	4.9%
Karakoy Hotel – Istanbul	1,187,500	1.4%
5. Levent Phase 2 (43,405.6 sqm) – Istanbul	6,775,000	8.2%
	12,025,000	14.5%
LAND BANK		
Basaksehir, Kayabasi land (45,629.8 sqm) – Istanbul	710,370	0.9%
Mall of Istanbul, Phase 3 (12,131.8 sqm) – Istanbul	272,965	0.3%
Antalya Kepez land plots (48,563 sqm) – Antalya	430,335	0.5%
	1,413,670	1.7%
Parent Company Total Real Estate Portfolio	80,178,680	96.9%
Participations Real Estate Portfolio		
ANKA mall and CPAnkara Hotel – Yeni Gimat GYO A.S. (14.83%) – Ankara	1,658,811	2.0%
Netsel Marina – Netsel Turizm Yatirimlari A.S. (44.60% share) – Mugla	744,400	0.9%
Bulvar Samsun Shopping Mall – TTA Gayrimenkul Yat. ve Yonetim A.S. (40% share) – Samsun	162,650	0.2%
	2,565,861	3.1%
Total Real Estate Portfolio	82,744,541	100.0%

Source: Company data, HSBC

ESG

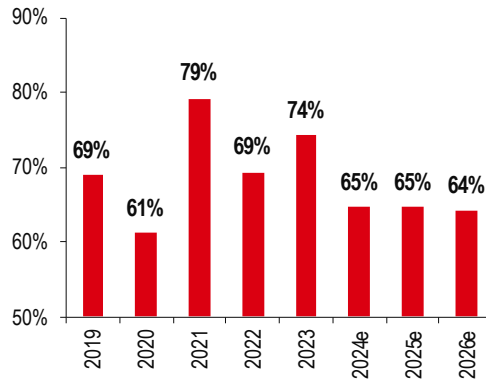
Environment: Torunlar reports its total electricity, natural gas and water consumption across its mall portfolio on an annual basis within its annual sustainability report, which is part of its annual report. The company makes an effort to lower the consumption of energy, such as electricity, and has systems in place to utilise recycled water and rain water in various mall operations in order to minimise water consumption. Further, all malls have LEED certification, which provides enhanced energy efficiency within the buildings.

Social: A certain proportion of the group's donation budget is allocated to education facilities and an organisation established and supervised by the Istanbul Governorship for children in need.

Governance: According to the company, by law, REICs in Türkiye are subject to higher governance standards supervised by the Capital Markets Board, and as such Torunlar has three independent board members who are required to have a certain level of expertise in their respective fields and a certain level of higher education. In addition, executive committee members of the REICs should have similar educational backgrounds and level of expertise. Investor Relations (IR) managers are also required to have a certain level of education and certification in order to be appointed to the position of IR Manager.

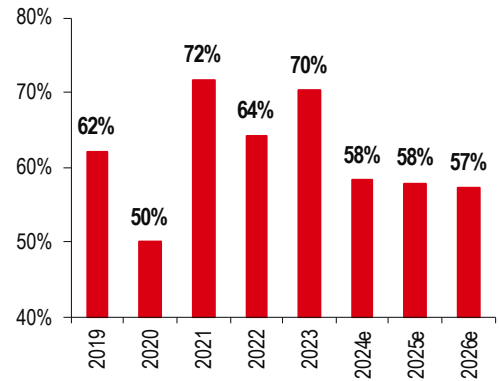
Torunlar REIT – Performance

Gross margin



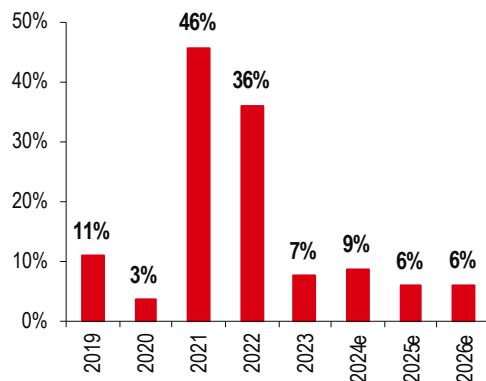
Source: Company data, HSBC estimates

EBITDA margin



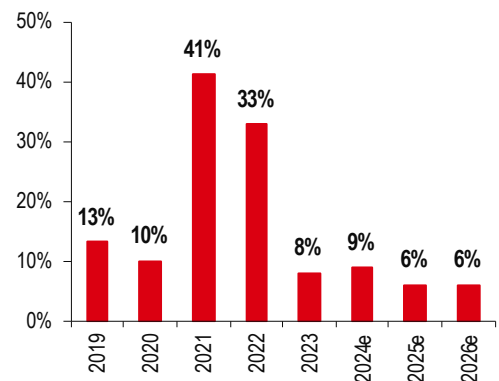
Source: Company data, HSBC estimates

Return on average equity



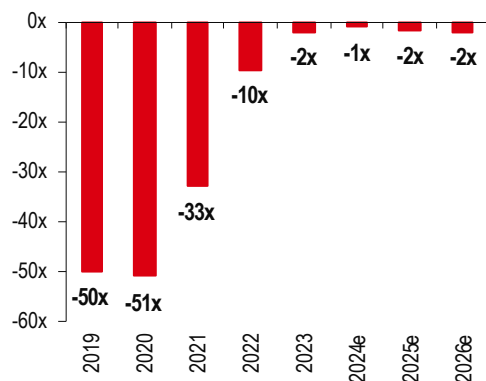
Source: Company data, HSBC estimates

Return on average assets



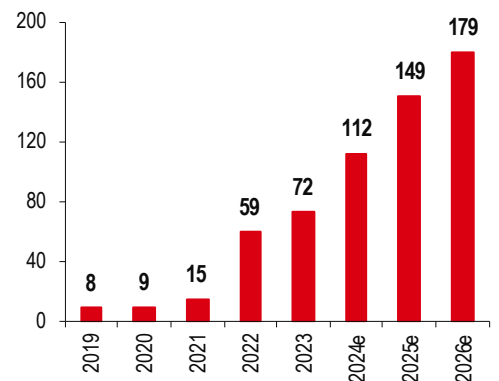
Source: Company data, HSBC estimates

Net debt/equity



Source: Company data, HSBC estimates

Book value per share



Source: Company data, HSBC estimates

Financials

Torunlar REIT – Summary of financial statements – comprehensive version (TRYm)

Income Statement	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	991	1106	1484	5286	4971	10832	15621	20366	25839
Cost of revenue	(308)	(430)	(308)	(1620)	(1281)	(3831)	(5524)	(7293)	(8707)
Gross profit	683	676	1176	3666	3690	7001	10097	13073	17132
SG&A expenses	(78)	(83)	(129)	(421)	(393)	(857)	(1235)	(1610)	(2043)
Other operating income/expense	963	701	5448	9886	7861	5667	5416	4654	3997
Operating profit	1568	1294	6495	13131	11158	11812	14277	16116	19085
Income from investing activities	76	43	144	348	630	910	1161	1333	1530
Financial income/expense	(778)	(1044)	(1332)	(1900)	(401)	1212	(755)	(1167)	(1473)
Monetary gains/loss	0	0	0	4792	1253	906	578	497	428
PBT	866	293	5307	16370	12640	14839	15261	16780	19571
Taxes	0	0	0	(4)	(1)	(1)	(1526)	(1678)	(1957)
PAT	866	293	5307	16366	12639	14838	13735	15102	17614
Minorities	0	0	0	0	0	0	0	0	0
Profit for the parent	866	293	5307	16366	12639	14838	13735	15102	17614
Balance Sheet	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash and cash equivalents	739	143	248	1525	2131	3994	4023	4166	5123
Receivables	116	101	101	846	1409	3718	7092	11089	16278
Inventories	1105	923	547	3471	2807	4875	7342	9674	12661
Other current assets	34	54	218	219	1581	2624	3802	4910	6304
Current assets	1995	1222	1113	6060	7928	15210	22259	29840	40366
Receivables	11	6	47	121	51	111	159	207	262
Investment Properties	11268	11737	17243	56412	64747	99916	133868	159510	188530
Inventories	47	346	754	2541	3190	5548	8277	10876	14063
Other non-current assets	399	404	750	3314	4675	7167	9775	12073	14721
Non-current assets	11725	12493	18794	62388	72663	112742	152079	182666	217577
Total assets	13720	13715	19907	68448	80592	127952	174338	212506	257943
Borrowings	1954	2180	2460	2978	1661	2400	3062	3515	4035
Payables	152	163	143	264	399	1138	2105	3012	4074
Deferred income	84	73	165	297	208	622	897	1184	1414
Other current liabilities	20	81	40	122	114	255	395	539	709
Current liabilities	2211	2496	2807	3661	2382	4414	6458	8251	10232
Borrowings	3030	2447	2578	4280	1984	2867	3658	4199	4821
Deferred income	0	0	0	1266	3955	8812	14639	20785	28297
Other non-current liabilities	1	1	2	10	31	86	123	161	192
Non-current liabilities	3031	2449	2581	5556	5970	11765	18420	25145	33309
Share capital	1000	1000	1000	7920	7920	11000	13760	15649	17817
Share premium	21	20	20	222	222	321	409	470	540
Reserves	74	74	517	1064	1796	2595	3311	3801	4363
Retained earnings	7383	7676	12982	50024	62301	104864	147541	184479	229395
Other equity items	0	0	0	0	0	(7007)	(15562)	(25288)	(37712)
Total Equity	8478	8770	14519	59230	72239	111772	149459	179110	214402
Total Equity and Liabilities	13720	13715	19907	68448	80592	127952	174338	212506	257943
Cashflow Statement	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Profit (loss) for the period	866	293	5307	18436	12639	14838	13735	15102	17614
D&A	1	2	17	24	75	74	107	136	156
Other operating cashflow items	(306)	306	(4391)	(16487)	(9079)	(5692)	(5447)	(4690)	(4038)
Working capital changes	(18)	318	198	100	(554)	822	(338)	(779)	(1453)
Cash flow from operations	543	919	1131	2073	3081	10042	8056	9769	12278
Capex	(125)	(216)	(49)	(58)	(214)	(1981)	(2608)	(3068)	(3588)
Other investing cashflow items	38	42	34	206	384	272	347	398	457
Cash flow from investments	(87)	(174)	(15)	148	170	(1709)	(2262)	(2670)	(3132)
Loans drawn/repaid	333	(716)	(591)	(1156)	(1562)	0	0	0	0
Dividends paid	0	0	0	0	(300)	(7419)	(6867)	(7551)	(8807)
Other financing cashflow items	(258)	(619)	(422)	(390)	(192)	0	0	0	0
Cash flow from finances	75	(1335)	(1013)	(1545)	(2054)	(7419)	(6867)	(7551)	(8807)
Inflation effect	0	0	0	0	(597)	0	0	0	0
Increase (decrease) in cash	530	(591)	103	675	600	914	(1073)	(452)	340
Beginning cash balance	203	734	143	837	1513	3053	5062	4579	4738
Ending cash balance	734	143	246	1513	2113	3967	3989	4127	5078

Source: Company data, HSBC estimates

Valuation and risks

	Valuation	Risks
Torunlar REIT TRGYO TR Buy	Current price: TRY45.56 Target price: TRY72.60 Up/downside: 59.4%	Downside risks (1) Inflation levels remain materially higher than assumed in our forecasts (based on HSBC Economics Team estimates); (2) as a result of the first point, interest rates similarly remain materially higher than assumed; (3) a material reduction in consumer spend; (4) geopolitical risk; and (5) the possibility of further sizeable natural disasters.
	We value the company using a discounted cash flow methodology to arrive at a target price of TRY72.60, implying upside of 59.4%, therefore we have a Buy rating on the stock. In our DCF calculation we apply a WACC of 26.7%, which is based on a risk-free rate of 3.75% and equity risk premium of 9.75%, in line with the estimates from our strategy team. In addition, we add an inflation differential of 13% to our equity risk premium which is a value we have derived from Bloomberg's cost of equity for the Türkiye market. We use a 2-year Bloomberg adjusted beta of 1.0 and apply an average cost of debt of 30.0% which is in line with the average cost of debt in the Turkish market. We use a debt weighting of 5%, in line with the latest reported debt structure, and we assume a terminal growth rate of 15.0%. This results in an enterprise value of TRY72.6bn. From this we remove net debt of TRY72m to get to our equity value of TRY72.6bn to reach at a per share value of TRY72.60.	

Priced at 22 Oct 2024
 Source: HSBC estimates

Sensitivity analysis to reflect changes in Inflation

HSBC is forecasting a near 40% drop in inflation by 2025 year-end

The inflation rate is forecast to drop from 44.5% at 2024e year-end to 27.6% at 2025 year-end and then further to 14.8%, according to the HSBC Economics Team. Hence, we provide below a table reflecting approximated changes to our inflation differential estimates applied in our DCF valuation under this scenario.

Also, we have shown our range of TRY derived target prices based on changes to the inflation differential applied in our DCF in USD terms. The USD:TRY exchange rate is forecast to fall (i.e. weakening TRY) by a further 17%, according to HSBC.

Inflation and FX Forecast Source: [CEEMEA Economics Quarterly – Risks, old and new](#), 9 October 2024.

Sensitivity analysis on inflation differential

Decline in inflation differential by	0%	10%	25%
Inflation differential	13.00%	11.70%	9.75%
WACC	26.7%	25.4%	23.6%
Potential TP (TRY)	69.9	77.3	92.4
Potential upside	53%	70%	103%
Potential TP (USD)	2.0	1.9	2.3
Potential upside	53%	45%	73%

Source: HSBC estimates, For 10% and 25% reduction in the inflation differential, we have applied a USDTRY exchange rate of 1:40 and the current USDTRY exchange rate of 1:34.2 for the unchanged inflation differential

Financials & valuation: Torunlar REIT

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (TRYm)				
Revenue	4,971	10,832	15,621	20,366
EBITDA	11,232	11,886	14,384	16,252
Depreciation & amortisation	-75	-74	-107	-136
Operating profit/EBIT	11,158	11,812	14,277	16,116
Net interest	-401	1,212	-755	-1,167
PBT	12,640	14,839	15,261	16,780
HSBC PBT	12,640	14,839	15,261	16,780
Taxation	-1	-1	-1,526	-1,678
Net profit	12,639	14,838	13,735	15,102
HSBC net profit	12,639	14,838	13,735	15,102
Cash flow summary (TRYm)				
Cash flow from operations	3,156	10,116	8,162	9,905
Capex	-214	-1,981	-2,608	-3,068
FCF enterprise	10,463	10,726	9,911	10,728
Cash flow from investment	170	-1,709	-2,262	-2,670
Dividends	-2,350	-7,419	-6,867	-7,551
Change in net debt	-4,220	-241	1,424	851
FCF equity	3,200	8,407	5,901	7,235
Balance sheet summary (TRYm)				
Tangible fixed assets	70,276	109,255	147,612	177,514
Current assets	7,928	15,210	22,259	29,840
Cash & others	2,131	3,994	4,023	4,166
Total assets	80,592	127,952	174,338	212,506
Gross debt	3,644	5,266	6,720	7,714
Net debt	1,513	1,273	2,697	3,548
Shareholders' funds	72,239	111,772	149,459	179,110
Invested capital	71,372	109,568	147,702	177,520

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	-6.0	117.9	44.2	30.4
EBITDA	-14.6	5.8	21.0	13.0
EBIT	-15.0	5.9	20.9	12.9
PBT	-22.8	17.4	2.8	10.0
HSBC EPS	-22.8	17.4	-7.4	10.0
Ratios (%)				
Revenue/IC (x)	0.1	0.1	0.1	0.1
ROIC	16.6	13.1	10.0	8.9
ROE	19.2	16.1	10.5	9.2
ROA	18.4	15.7	10.1	8.7
EBITDA margin	226.0	109.7	92.1	79.8
Operating profit margin	224.5	109.0	91.4	79.1
EBITDA/net interest (x)	28.0		19.0	13.9
Net debt/equity	2.1	1.1	1.8	2.0
Net debt/EBITDA (x)	0.1	0.1	0.2	0.2
CF from operations/net debt	208.5	794.9	302.6	279.2
Per share data (TRY)				
EPS Rep (diluted)	12.6	14.8	13.7	15.1
HSBC EPS	12.6	14.8	13.7	15.1
DPS	2.4	7.4	6.9	7.6
NAV (Book Value)	72.2	111.8	149.5	179.1

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Price to NAV (BV)	0.6	0.4	0.3	0.3
PE*	3.6	3.1	3.3	3.0
FCF yield (%)	7.0	18.5	13.0	15.9
Dividend yield (%)	5.2	16.3	15.1	16.6

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a	Governance Indicators	12/2023a
GHG emission intensity*	n/a	No. of board members	7
Energy intensity*	n/a	Average board tenure (years)	n/a
CO ₂ reduction policy	n/a	Female board members (%)	0
Social Indicators	12/2023a	Board members independence (%)	42.9
Employee costs as % of revenues	1.1		
Employee turnover (%)	n/a		
Diversity policy	n/a		

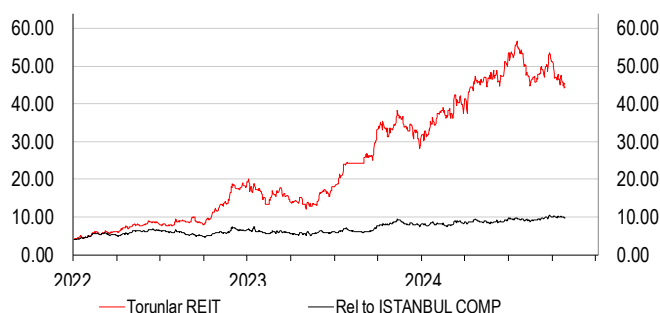
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	45.56	Free float	19%
Target price (TRY)	69.90	Sector	Reits
RIC (Equity)	TRGYO.IS	Country/Region	Türkiye
Bloomberg (Equity)	TRGYO TI	Analyst	Stephen Bramley-Jackson
Market cap (USDm)	1,330	Contact	+971 4 423 6903

Price relative



Source: HSBC

Note: Priced at close of 22 Oct 2024

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Stephen Bramley-Jackson

Important disclosures

Equities: Stock ratings and basis for financial analysis

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 30 September 2024, the distribution of all independent ratings published by HSBC is as follows:

Buy	55%	(15% of these provided with Investment Banking Services in the past 12 months)
Hold	39%	(14% of these provided with Investment Banking Services in the past 12 months)
Sell	6%	(11% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

To view a list of all the independent fundamental ratings/recommendations disseminated by HSBC during the preceding 12-month period, and the location where we publish our quarterly distribution of non-fundamental recommendations (applicable to Fixed Income and Currencies research only), please use the following links to access the disclosure page:

Clients of HSBC Private Banking: www.research.privatebank.hsbc.com/Disclosures

All other clients: www.research.hsbc.com/A/Disclosures

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
EMLAK KONUT GYO REIT	EKGYO.IS	9.84	24 Oct 2024	–
IS REIC	ISGYO.IS	16.66	24 Oct 2024	–
TORUNLAR GYO REIT	TRGYO.IS	44.40	24 Oct 2024	–

Source: HSBC

- HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- As of 30 September 2024, HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- This company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- As of 31 August 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- As of 31 August 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- A covering analyst/s has received compensation from this company in the past 12 months.
- A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company.
- As of 18 October 2024, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- As of 18 October 2024, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- HSBC Qianhai Securities Limited holds 1% or more of a class of common equity securities of this company.

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Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

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