

Turkey- REITs

ALARKO GYO

A Ton of Dry Powder to Grow

High fx cash position and high profitability support the growth strategy in the tourism sector.

ALARKO REIT (ALGYO) aims to increase the regular cash yield capacity of its asset portfolio with new tourism investments in the upcoming period. In order to achieve this goal, the first step was taken in November 2021, and Green Beach Resort in Bodrum Gündoğan joined the company's asset portfolio. In the coming period, we expect the company to make new investments in the tourism sector supported by 1) high fx –based rental income, 2) non-core asset disposals and 3) strong fx cash position.

Hillside Resort Fethiye continues to be the most important asset of the company portfolio. The most well-known brand of ALARKO REIT's portfolio is Hillside Beach Hotel. The hotel, which has 330 rooms and 780 beds, was leased to the company by the TR Ministry of Forestry until 2068. According to our estimates, the total gross profit of the enterprise targeting the domestic and foreign upper income group will reach 14.5 million USD, increasing approximately 3x compared to the previous year. The most important reason for this increase is that the average daily bed sales price increased by 56% in 2021 compared to the previous year and reached the level of 250 USD. We anticipate that the total rental (fixed + variable) income that ALGYO will generate in 2021 according to the lease agreement will be approximately 8.5 mn USD. However, since we expect daily mattress sales prices to normalize around 200 USD in the coming period, we estimate the sustainable annual rental income of the business to be around 7-8 million USD. Accordingly, we calculate the fair market value of this asset as 105 mn USD.

We foresee the Hillside Gündoğan investment to double the asset value of the company portfolio.

Hillside Gündoğan Holiday Village, which we expect to have an estimated capacity of 920 beds, has a very special location by the sea, built on a 42-decare plot. The facility and its land, purchased for a cost of USD 43 mn, will be extensively renovated over the next two years and will meet the standards stipulated by the Hillside brand. The company management indicates that the facility will be one of the most important living centers of the Bodrum region as well as being a mere holiday resort. There will be sports, entertainment, food and beverage and other stores within the facility that can be used by outside customers throughout the year. We foresee that the facility, which will be put into service at the end of 2023, will produce an average profit of 13-15 mn USD per year in the first five-year period. Considering that the land and facilities are owned by ALGYO, we determine the fair market value of Hillside Gündoğan Holiday Village and Life Center as 160 mn USD (2.2 billion TL at the current exchange rate).

Asset disposals will further strengthen the cash position and finance new investments. We expect some of the non-core commercial assets in the company's portfolio to be sold in the coming period. We think that Şişhane Trade Center and Eyüp Topçular Factory land will be sold first. In our view, the old ALARKO factory land in Eyüp Topçular is very valuable. Our market research indicates that the market value of this land, which has a housing and commercial project development permit (9,500 m2 zoned construction permit), is worth at least around 200 million TL (~20,000 TL/m2). Considering that the rBV of this asset in the portfolio is 81 million TL, we expect the company to create a significant resource by selling the Topçular land in the coming period.

The reported book value of the company's asset portfolio will increase significantly after the 2021 year-end revaluation. We see that the reported portfolio value of the company (including Mosalarko) at the end of the 2021/9 period was TL 1.1 billion. Company assets that have not been revalued since the end of 2020 will be reassessed at the end of the year due to legal obligations. According to our calculations, the book value of the company portfolio will reach approximately TL 2.5 billion by the end of 2021. A significant part of this increase is due to the revaluation of Hillside Fethiye and the asset acquisition of Green Beach Resort and Mosalarko. As we expect Hillside Fethiye, which has a reported BV of 755 million TL (100 mn USD) on the balance sheet at the end of 2020, to maintain its value in USD, we expect the revaluation difference to be at about 750 million TL. On the other hand, although Green Beach Resort was purchased for 43 mn USD (422 mn TL), this asset will enter the balance sheet at the end of the year at purchase cost in TL. Despite the 50% depreciation of other assets in USD terms compared to the end of 2020, we anticipate an increase of 40% on TL basis due to the rapid depreciation of TL. In addition, ALGYO acquired the majority shares of Mosalarko Russia for 16 mn USD. We expect this asset to generate an annual rental income of 500-700 thousand USD in the next 5 years.

We initiate ALGYO with a BUY recommendation and a target price of 65 TL. We estimate that the company's net cash position at end-4Q2021 will be around USD 50 mn. Accordingly, we anticipate that the company will write approximately 325 mn TL of additional foreign exchange income in the last quarter alone (a total of 510 mn TL in 2021). If we add the expected fx gains and revaluation difference to the net income of 123 mn TL, we expect the year-end profit to be approximately 1.5 billion TL. Our fair value model shows that the market value of the company's asset portfolio is TL 4.4 billion. We calculate the Net Asset Value of TL 5.2 billion by adding 50 million USD to the asset portfolio value. After applying a 20% BIST REIT discount to the NAD implied by our model, we calculate the target market value of the company as TL 4.19 billion. Considering that this figure indicates a discount rate of approximately 50% according to the current market value of the company, we believe ALGYO shares are very attractive at current levels. In addition, we expect the company to pay around TL 100mn in dividends (5% dividend yield) in 2022. Our financial model shows that the company can easily generate 5-6% dividend yield in the 2022-2025 period.

BUY

Target Price: TL 65

Company Data

Ticker	ALGYO
Recommendation	BUY
Target Price (TL)	65
Target Return (%)	%106
Current Price (TL)	31.7
52w range (TL)	19.5-33.4
No. of shares (mn)	64
Float (%)	48.7%
MCAP (TL mn)	2,043
MCAP (USD mn)	117
Equity (TL mn)	2,010
Equity (USD mn)	212
NAV (TL mn) (2021/9)	1,932
NAV (USD mn) (2021/9)	111
Net Cash (TL mn) (2021/9)	834
Net Cash (USD mn) (2021/9)	50
3m ADTV (USD mn)	4.1
3m ADTV/MCAP (%)	%7
2021E Dividend Yield (%)	%5.0

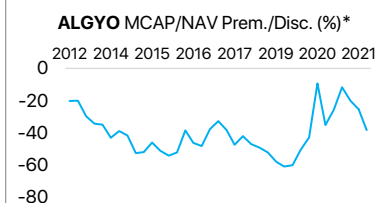
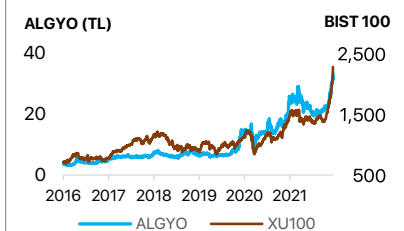
As of end Dec 20, 2021 close

Valuation Multiples

	Current	21E	22E
P/BV (x)	1.02	0.61	0.49
P/NAV (x)	1.06	0.62	0.49

Source: INFO Research estimates

Price Performance



*based on end-2021 NAV estimate

INFO Research Team

Research: +90 (212) 700-3769
research@infoyatirim.com.tr

Institutional Sales: +90 (212) 700-3770
sales@infoyatirim.com.tr

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Table 1. ALGYO Financial Statements

Income Statement

(TL mn)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2021/9M
Net Sales	41	29	36	27	83	151	168	486	556	635	77
Cost of Sales	-13	-3	-2	-2	-2	3	3	10	11	13	-1
Gross profit (loss)	28	26	35	25	81	154	171	496	567	647	76
Operating Expenses	-4	-4	-4	-4	-5	-7	-8	-9	-9	-10	-3
Core EBIT	24	22	31	21	76	148	164	487	557	637	73
Inc. & Exp. from Other Operations	128	247	359	310	1,494	932	951	2,842	1,988	1,001	171
Income from Other Operations	141	277	377	322	1,552	968	988	2,951	2,065	1,039	184
Expense from Other Operations	-13	-30	-18	-12	-58	-36	-37	-109	-77	-39	-12
Reported EBIT	152	269	389	331	1,494	932	951	2,842	1,988	1,001	244
Other income	0	0	1	0	0	0	0	0	0	0	0
Financial Income/Expenses	152	270	390	332	1,494	932	951	2,842	1,988	1,001	244
Income from Investing Activities	0	0	0	0	0	0	0	0	0	0	0
Expense of Investing Activities	0	0	-1	-1	1	9	13	15	17	19	-1
PBT from continuing operations	152	270	390	330	1,495	941	964	2,857	2,005	1,020	243
Tax on Continuing Operations	0	0	0	0	0	0	0	0	0	0	0
Profit from continuing operations	152	270	390	330	1,495	941	964	2,857	2,005	1,020	243
Net Profit	152	270	390	330	1,495	941	964	2,857	2,005	1,020	243

for info:

Inc. & Exp. from Other Operations	141	277	377	322	1,552	968	988	2,951	2,065	1,039	184
Revaluation Gains	93	77	271	150	1,000	780	862	2,769	1,954	871	0
FX gains(losses)	39	180	82	150	510	149	88	119	65	133	154
Interest Income	7	16	20	19	35	29	28	34	25	25	23
Other Income	2	4	4	3	7	10	10	29	20	10	7
Dividends (TL mn)	10.6	15.4	25.9	38.8	48.0	100	90	100	120	110	
Pay-out Ratio (%)		21.9	11.8	29.2	25.3	16.1	27.6	35.8	18.7	17.0	

Balance Sheet

(TL mn)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2021/9M
Current Assets	405	545	633	670	697	526	523	629	408	525	828
Cash and cash equivalents	74	79	122	10	100	81	57	78	46	38	89
Cash and Marketable Securities	305	434	472	630	540	380	395	450	247	356	655
ST Trade and Related Receivables	22	28	36	25	53	61	67	97	111	127	79
Other Short-Term Assets	4	4	4	4	4	4	4	4	4	4	0
Long Term Assets	522	607	898	1,158	2,672	3,629	4,499	7,365	9,379	10,176	1,200
Financial Investments	4	10	16	122	160	192	169	232	256	141	98
Investments Valued with Equity Method	0	0	0	0	256	307	338	372	409	450	63
Real Estate Investments	517	597	882	1,035	2,256	3,130	3,992	6,761	8,714	9,586	1,039
Fixed Assets	0	0	0	0	0	0	0	0	0	0	0
Intangible Assets	0	0	0	0	0	,	0	0	0	0	0
Other Long-Term Assets	0	0	0	0	0	0	0	0	0	0	0
Total Assets	927	1,152	1,531	1,827	3,369	4,154	5,022	7,994	9,787	10,701	2,027
Short Term Liabilities	6	7	11	11	14	15	17	18	20	22	14
ST Financial Payables	0	0	2	2	3	3	4	4	4	5	2
ST Trade and Other Payables	2	3	4	6	6	7	7	8	9	10	5
Other Short-Term Liabilities	3	4	5	2	5	5	6	6	7	8	6
Long Term Liabilities	2	2	7	6	6	7	7	8	8	9	4
LT Financial Payables	0	0	6	4	4	5	5	6	6	7	2
Other Long-Term Debt	1	1	1	2	2	2	2	2	2	2	2
Equity	920	1,143	1,513	1,810	3,349	4,132	4,998	7,968	9,759	10,669	2,010
Total Paid-in Capital	11	11	11	64	64	64	64	64	64	64	64
Total Liabilities and Sh. Equity	927	1,152	1,531	1,827	3,369	4,154	5,022	7,994	9,787	10,701	2,027
Cash and Financial Investments (TL mn)	384	523	609	762	800	747	877	1,189	655	1,329	843
Cash and Financial Investments (USD mn)	102	99	103	103	50	39	42	51	26	47	95
USDTRY (avg)	3.65	4.82	5.67	7.01	8.78	18.24	20.06	22.07	24.28	26.71	8.09
USDTRY (eop)	3.77	5.28	5.94	7.42	16.00	19.20	21.12	23.23	25.56	28.11	8.88

Source: Company Data, INFO Research estimates

Company Summary

ALARKO REIT, the first Real Estate Investment Trust (REIT) offered to the public in Turkey, has been traded on the BIST since 1997. Commercial asset investments with rental income constitute the main business model of the company. The most well-known asset of the company portfolio is the five-star Hillside Beach Club in Fethiye.

In addition to the commercial assets (Table 3) in the company's portfolio, there is a 19-decare plot in Maslak, İstanbul. In addition, a 622,000 m2 land in Büyük Çekmece, which is qualified for daily recreation, is in the ownership of the company.

ALGYO, which added the Green Beach Resort, located in Bodrum Gundogan and with an area of 42 decare, to its portfolio in November 2021 in parallel with its growth strategy in the field of tourism, is expected to make new investments in the coming period with its high cash position and strong capital.

Table 2. ALGYO Shareholder Structure

Shareholder	Share in Capital (TL)	Share in Capital (%)	Share in Voting Rights (%)
ALSİM	22,400,000	34.8%	34.8%
ALARKO Holding	10,570,842	16.4%	16.4%
Other	58,751	0.1%	0.1%
Float	31,370,407	48.7%	48.7%
Total	64,400,000	100.0%	100.0%

Source: Company Data

Table 3. ALGYO Asset Portfolio

Asset	Location	Primary Use	Area (m2)
Hillside Beach Club Fethiye	Muğla Fethiye	Luxury Resort	94,700
Hillside Gündoğan Bodrum	Aydın Bodrum	Luxury Resort	42,000
Eyüp Topçular – Fabrika	İstanbul Eyüp	Factory land	13,000
Etiler Alkent Sitesi	İstanbul Etiler	Stores	155
Büyükçekmece Alkent 2000	İstanbul B. Çekmece	Stores	Eyüp
İstanbul Karaköy İş Merkezi	İstanbul Karaköy	Business Center	0
İstanbul Şişhane İş Merkezi	İstanbul Şişhane	Business Center	0
Ankara Çankaya İş Merkezi	Ankara Çankaya	Business Center	Levent
Moskova Ofis	Moskova Rusya	Offices	7,750
Maslak Arsası	İstanbul Maslak	Land	18,960
B. Çekmece Arsa	İstanbul B. Çekmece	Land	622,000*

Source: Company Data

*611,000 m2 recreational land + 10,000 m2 land with zoning rights

ALGYO Valuation

We evaluate the asset portfolio of ALGYO according to the characteristics of the asset, according to 1) DCF, 2) market equivalent or 3) income management methodologies. For market price valuation, data obtained through direct interviews with popular real estate e-commerce sites such as sahibinden.com and Zingat, and real estate brokers operating around the location of the asset, were used. In addition to these, meetings were held with real estate development company officials who have made or are planning to do projects in the region for the Eyüp Topçular Factory land.

Based on our estimates based on the valuation methods above, we calculate the fair market value of the company's asset portfolio as TL 4.5 billion. Adding 792 mn TL (USD 50 mn) that we expect to be on the company's balance sheet at the end of the year, we reach a Net Asset Value (NAD) of 5.2 billion TL. After applying a 20% REIT discount to NAD, we estimate the fair market value of the company at TL 4.3 billion. According to our valuation model, we see that the current market value of the company is 50% below our targeted fair market value.

Table 4. ALGYO NAV Model

(as of end-2021/9)	BV of Portfolio (TL mn)	BV of Portfolio (USD mn)(1)	Fair Value of Portfolio (TL mn)	Fair Value of Portfolio (USD mn)	Valuation Methodology	Cap Rate (%)
Hillside Beach Club Fethiye (Hotel)	755	85.0	1,475	105.4	DCF	6.3
Hillside Gündoğan Bodrum (Hotel) ⁽²⁾	-	-	2,240	160.0	DCF	8.8
Eyüp Topçular – Factory	81	9.1	200	11.4	Market prices	-
Etiler Alkent Sitesi – Stores	43	4.9	67	3.8	Market prices	6.5
Büyükçekmece Alkent 2000–Stores	15	1.7	20	1.1	Income Method	7.0
İstanbul Karaköy Business Center	15	1.7	35	2.0	Market prices	-
İstanbul Şişhane Business Center ⁽³⁾	13	1.5	32	1.8	Market prices	-
Ankara Çankaya Business Center	9	1.0	20	1.1	Income Method	12.0
Moscow Office Space ⁽⁴⁾	63	7.1	280	16.0	Equity pick-up	-
Maslak Land ⁽⁵⁾	104	11.7	104	5.9	BV	-
B. Çekmece Land ⁽⁶⁾	-	-	-	-	-	-
Total	1,098	123.7	4,472	308.6		
Portfolio Value (TL mn)		1,098	as of end 2021/9			
Net Cash(TL mn)		834	as of end 2021/9			
NAV (TL mn)		1,932	as of end 2021/9			
Current MCAP (TL mn)		2,043				
NAV Premium/Discount (%)		6	as of end 2021/9			
Fair Portfolio Value (TL mn)		4,472	INFO estimates			
Net Cash (TL mn) (end-2021)		792	INFO estimates			
Fair NAV (TL mn)		5,264	INFO estimates			
Fair MCAP TL mn)		4,211	INFO estimates			
REIT Discount (%)		20	INFO estimates			
MCAP/NAV (%)		-38%	2021E NAV			
PD/NAD (%)		-51%	Fair NAV			
No of Shares (mn)		64				
Stock Price (TL)		32				
Target Price (TL)		65				
Target Upside (%)		106				

Source: Company Data, INFO Research estimates

(1) at end-2021/9 USDTRY

(2) Operational in 2024

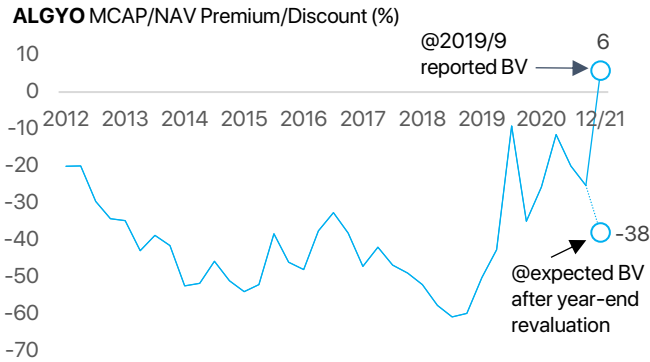
(3) 50% owned by ALGYO

(4) ALGYO owns 100% of Mosalarko

(5) Valued at book value

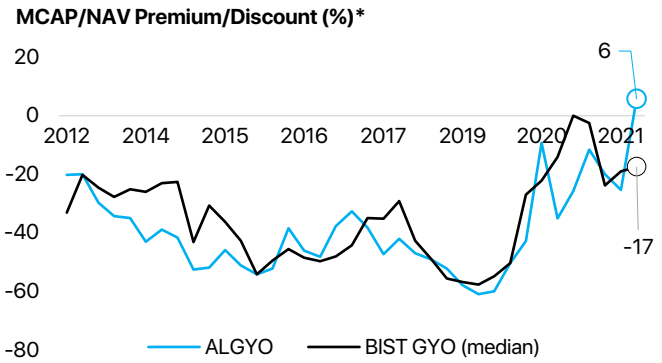
(6) No market value

Grafik 1. ALGYO MCAP/NAV (%)



Source: Company Data, INFO Research estimates

Grafik 2. ALGYO vs. BIST REITs MCAP/NAV (%)



Source: Company Data, INFO Research estimates

*@2021/9 period-end reported NAVs

On the other hand, the portfolio value of the company (including Mosalarko) reported in the balance sheet at the end of the 2021/9 period is 1.1 billion TL. Company assets that have not been revalued since the end of 2020 will be reassessed at the end of the year due to legal obligations. According to our calculations, the book value of the company portfolio will reach approximately TL 2.5 billion by the end of 2021. A significant part of this increase is due to the revaluation of Hillside Fethiye and the asset acquisition of Green Beach Resort and Mosalarko. As we expect Hillside Fethiye, which has a registered value of 755 million TL (100 mn USD) on the balance sheet at the end of 2020, to maintain its value in USD, we expect the revaluation difference to be at the level of 750 million TL. On the other hand, although Green Beach Resort was purchased for 43 mn USD (422 mn TL), this asset will enter the balance sheet at the end of the year with its purchase cost in TL. Despite the 50% depreciation of other assets in USD terms compared to the end of 2020, we anticipate an increase of 40% on TL basis due to the rapid depreciation of TL.

Assuming that the company will have 50 mn USD net cash after the Green Beach Resort payment at the end of the year, we see that the Net Asset Value of the company (according to the independent valuation report) will be approximately 3.3 billion TL at the end of the year. Accordingly, the current market value of the company is 39% discounted to the expected NAD at the end of 2021.

Table 5. BIST REITs Peer Valuation

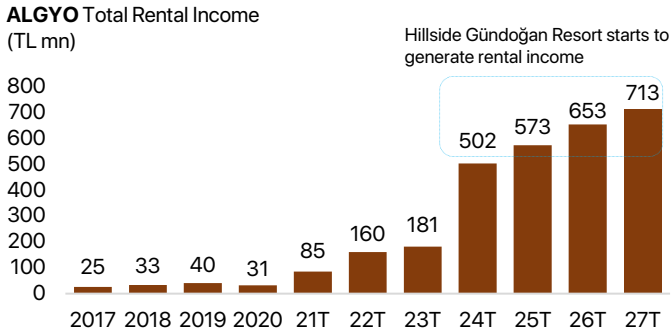
REIT	Ticker	MCAP (TL mn)	Equity (TL mn)	Portfolio MV (TL mn)	NAV (TL mn)	NAV Prem/Disc. (%)	P/BV (x)	P/MV (x)	P/NAV (x)	LTM	LTM	LTM	LTM
										Net Sales (TL mn)	Net Income (TL mn)	Net Debt (TL mn)	EBITDA (TL mn)
Ziraat	ZRGYO	11,593	7,107	5,440	6,599	76	1.63	2.13	1.76	209	460	-1,159	361
Emlak	EKGYO	8,892	15,560	17,798	14,597	-39	0.57	0.50	0.61	5,647	1,388	3,200	1,733
Akfen GYO	AKFGY	7,618	2,109	3,396	1,630	367	3.61	2.24	4.67	144	288	1,766	393
Servet	SRVGY	4,451	1,136	1,384	1,188	275	3.92	3.22	3.75	1,483	880	196	1,151
Torunlar	TRGYO	4,020	8,840	12,852	8,501	-53	0.45	0.31	0.47	1,330	805	4,351	1,614
Sinpaş	SNGYO	3,580	2,336	3,117	408	777	1.53	1.15	8.77	1,770	2,212	2,709	3,024
Doğuş	DGGYO	3,124	517	1,643	240	1,199	6.05	1.90	12.99	163	-191	1,402	-
Yeni Gimat	YGGYO	3,458	2,220	1,706	2,076	67	1.56	2.03	1.67	230	176	-370	171
Halk	HLGYO	2,397	2,949	3,664	2,903	-17	0.81	0.65	0.83	96	349	761	43
Özak	OZKGY	2,377	3,816	3,097	3,617	-34	0.62	0.77	0.66	1,241	687	-520	759
İş	ISGYO	2,752	4,142	4,433	3,464	-21	0.66	0.62	0.79	394	286	969	457
Vakıf	VKGYO	1,710	2,060	1,637	2,107	-19	0.83	1.04	0.81	9	167	-470	40
Reysaş	RYGYO	1,585	2,407	3,199	2,143	-26	0.66	0.50	0.74	291	530	1,056	726
Akiş	AKSGY	1,328	3,622	5,848	3,727	-64	0.37	0.23	0.36	351	-273	2,121	228
Kiler	KLGYO	1,097	1,471	1,225	1,869	-41	0.75	0.90	0.59	570	225	-644	151
Panora	PAGYO	806	941	913	921	-12	0.86	0.88	0.88	64	40	-7	40
Deniz	DZGYO	888	640	990	1,058	-16	1.39	0.90	0.84	642	21	-67	53
Median						-17	0.83	0.90	0.83				
NAV weighted avg.						8	0.95	0.89	1.08				
ALARKO GYO	ALGYO	2,043	2,010	1,098	1,932	6	1.02	1.86	1.06	83	355	-834	356

Source: Company Data, INFO Research estimates

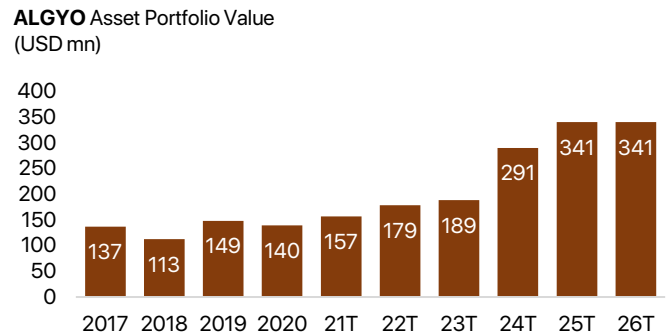
However, the fair value model that we have calculated in detail shows that the market value of the company's asset portfolio should be about 4.5 billion TL. This figure includes Hillside Gündoğan's fair market value, which we estimate at USD 160 mn. We derive at an NAV of 5.2 billion TL by adding 792 mn TL of cash. \

After applying a 20% BIST REIT discount to the NAV implied by our model, we estimate the target market value of the company as TL 4.19 billion. Considering that this figure indicates a discount rate of approximately 50% according to the current market value of the company, we believe that ALGYO share are very attractive at current levels.

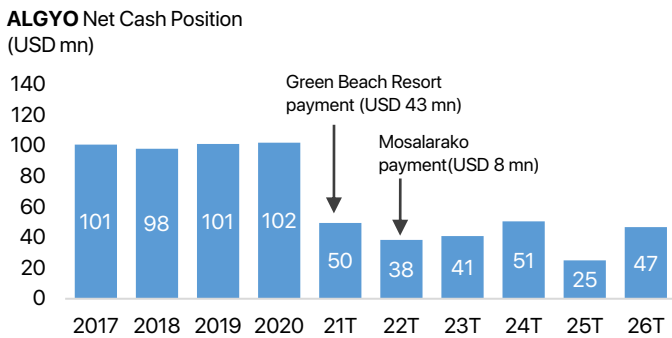
Grafik 3.



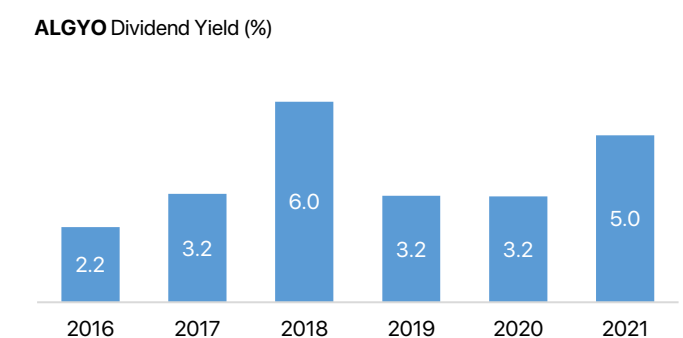
Grafik 4.



Grafik 5.



Grafik 6.



DISCLAIMER & DISCLOSURES

Analyst Certification

I, Serhan Gok, hereby certify that the views expressed in this research report accurately reflect the personal views of the INFO Research team, regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

INFO Research Team

Sehan Gok– Head of INFO Research Team

Cağlar Toros– Analyst

Bartu Çolak– Junior Analyst

Kutay Ağırbaş– Junior Analyst

Emrah Karalok– Junior Analyst

Rating Methodology:

We employ Discounted Cash Flow (DCF) model and peer multiple analysis to derive at our target prices. Our recommendation methodology is as follows:

Buy: If Target Price is 5 percentage points higher than the estimated Cost of Equity

Hold: If Target Price is within -5 and 5 percentage points of the estimated Cost of Equity

Sell: If Target Price is lower than 5 percentage points of the estimated Cost of Equity

Please note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

Disclaimer

Our research reports are not to be construed as providing any investment advisory services. The investment information, comments and views stated here are not within the scope of investment advisory services. The investments discussed or recommended in this report may involve significant risk, may be illiquid and may not be suitable for all investors. Therefore, making decisions with respect to the information in this report may cause inappropriate results. All prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any form of reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of information, opinions and comments provided on this document is strictly prohibited. The information presented in this report has been obtained from sources believed to be reliable. INFO Securities Inc. cannot be held responsible for any errors or omissions or for results obtained from the use of such information.