

Corporate Credit Rating

☐ New ☒ Update

Sector: Construction Industry

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RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	AAA (tr)	J1+ (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB+	-
	International FC ICR Outlooks	Stable	-
	International LC ICR	BB+	-
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Stable	-
	National ISR	-	-
	International FC ISR	-	-
Sovereign *	International LC ISR	-	-
	Foreign Currency	BB (Negative)	-
Sovereign *	Local Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

* Assigned by JCR on Aug 18, 2022.

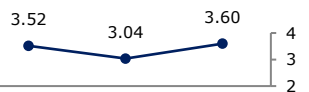
EBITDA Margin (%)



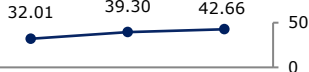
ROAE (%)



Current Ratio (x)



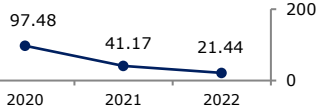
NWC / Assets (%)



Adj. Debt/Capital (%)



Cash Conversion Cycle (days)



ENKA İNŞAAT VE SANAYİ ANONİM ŞİRKETİ

JCR Eurasia Rating has evaluated the consolidated structure of "ENKA İNŞAAT VE SANAYİ A.Ş." in the investment level category and affirmed the Long-Term National Issuer Credit Rating at 'AAA (tr)' and the Short-Term National Issuer Credit Rating at 'J1+ (tr)' with 'Stable' outlooks. On the other hand, the Long-Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were determined as 'BB+/Stable', above the international ratings and outlooks of Republic of Türkiye.

"Enka İnşaat ve Sanayi A.Ş." (hereinafter referred to as "Enka İnşaat" or "the Group") was established in 1957. On June 28, 2002, Enka İnşaat officially merged with its publicly traded shareholder company, Enka Holding Yatırım A.Ş., both of which were controlled by Tara Holding A.Ş. and the Tara and Gülçelik families. The Group's primary sectors include engineering & construction, real estate, trade, and energy. Engineering & construction is the Group's primary sector, with Enka İnşaat offering a comprehensive range of services including design, engineering, procurement, fabrication, construction, commissioning, operation, maintenance, and project management both domestically and internationally. As of the reporting date, the primary controlling shareholders of the Group are Tara Holding A.Ş. and the Tara & Gülçelik families. Enka İnşaat's shares, accounting for 8.89%, are publicly traded on the Borsa İstanbul under the ticker symbol ENKAI as of 3Q2023. The Group is headquartered in Istanbul. As of 3Q2023, the Group employs an average of 5,010 white-collar and 17,414 blue-collar personnel.

Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Consistent increase in sales revenue and EBITDA generation capacity throughout the analyzed period despite the decline expectation in FY2023,
- Sectoral and regional diversification reduces income generation concentration,
- Substantial cash position over the reviewed years easing liquidity management,
- FX oriented sales acting as a natural hedging mechanism to a certain extent,
- Significant backlog value and high occupancy levels in investment portfolio promising future cash flows,
- Substantial equity level supported by the high level of paid-in capital and retained earnings,
- High levels of transparency regarding adherence to corporate governance as an entity subject to Capital Market Law,
- Over half a century experience in the sector and successful track record.

Constraints

- Fluctuating profitability metrics due to increasing cost in construction and power generation sectors,
- Susceptibility of construction sector to macroeconomic conditions together with possible operational and management risks stemming from the nature of the business,
- Leading economic indicators signal global economic slowdown as quantitative tightening actions aim to restrict consumption growth and achieve a soft-landing in the domestic side.

Considering the aforementioned points such as increasing sales revenue, sectoral diversification, substantial cash position, FX oriented sales, backlog value and high occupancy levels, high level of equity, higher levels of corporate governance compliance and successful track record, the Company's the Long-Term National Issuer Credit Rating has affirmed at 'AAA (tr)'. The Company's, growth performance, market position, sectoral developments and risk factors in the markets have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as 'Stable'. The Company's financial structure, tight economic conditions and Türkiye's economy and its effects on the Company's activities will be closely monitored by JCR Eurasia Rating in the upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.

1. Rating Rationale

Consistent Increase in Sales Revenue and EBITDA Generation Capacity Throughout the Analyzed Period Despite the Decline Expectation in FY2023

Founded in 1957, the Group boasts a rich history, possessing substantial knowledge and extensive experience in the construction sector. Enka İnşaat has successfully delivered numerous prestigious construction projects both in Türkiye and internationally over the years. Its enduring presence in the industry, coupled with a well-established organizational structure, has enabled the Group to excel in managing and executing multiple projects simultaneously across various regions worldwide.

Enka İnşaat's principle income statement indicators for the last three-year period including JCR-ER's adjustments are shown as in the table below:

(USD 000)	2020	2021	2022
Net Revenue	1,658,761	2,859,411	3,769,514
Gross Profit	413,895	770,309	845,097
EBIT*	309,307	658,918	734,850
Depreciation & Amortization	89,558	82,628	107,491
EBITDA**	398,865	741,546	842,341

* EBIT= Gross Profit-OpEx (SG&A, Marketing and R&D expenses)

** EBITDA= EBIT+ Depreciation & Amortization

In FY2022, Enka İnşaat experienced a notable increase in sales revenues, recording a growth of 31.83% compared to the previous year. The total sales revenue reached USD 3,769.51mn, attributed to the successful completion of projects and a rise in tender values. However, as of 3Q2023, the Group's sales revenue amounted to USD 2,509.23mn, showing a decrease from USD 2,785.91mn in the same period of the previous year. This decline is primarily attributed to the decrease in energy sales during this period.

As of 3Q2023, Enka İnşaat witnessed an 18.02% decrease in gross profit compared to the same period in the previous year, amounting to USD 546.83mn (3Q2022: USD 667.01mn). Furthermore, the Group's EBITDA for 3Q2022 decreased by 27.80%, realized at USD 462.24mn. This decline is attributed to the rising costs associated with construction and energy generation during the specified period. If the Company sustains its 3Q2023 results throughout the final quarter, the total EBITDA is projected reduce 26.83% in comparison to FY2022.

Sectoral and Regional Diversification Reduces Income Generation Concentration

The Group has structured its operations into four core business segments, as outlined below:

- Engineering & Construction
- Real estate
- Trade
- Energy

The primary focus of the Group lies in engineering and construction, encompassing a comprehensive spectrum of services. This includes design and engineering, procurement, in-house welded fabrication, modularization, construction, commissioning, start-up, as well as operation and maintenance. Additionally, the Group extends its expertise in project management services across diverse sectors, as indicated below:

- Oil, Gas & Petrochemicals
- Power Plants
- Infrastructure
- Building works

In addition, the Group operates in various geographical areas as shown below:

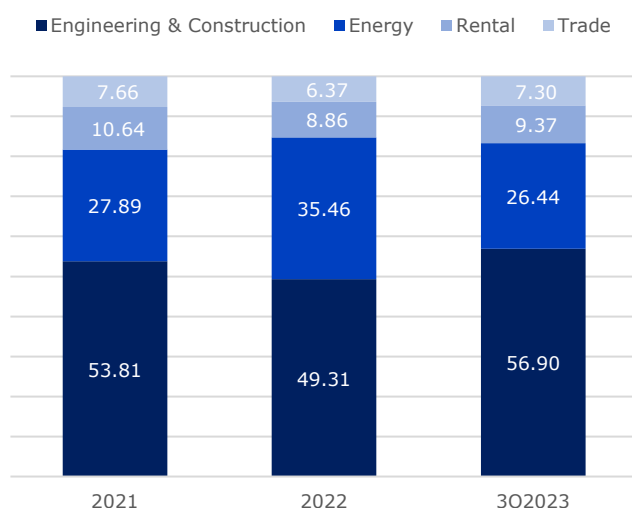
- Türkiye: engaged in diversified construction activities including industrial and social buildings, motorways and construction and operation of natural gas fired electrical energy generation facilities. In addition, the Group is operating in trading activities.
- Russian Federation, Georgia, Turkmenistan and Kazakhstan: engaged in construction activities and also in investment and development of real estate properties and shopping malls in Moscow, Russia.
- Engaged in construction activities in Kenya, Gabon, Djibouti, Mauritania in Africa, Saudi Arabia, Sri Lanka, India, Oman, Iraq, Afghanistan in Asia, Mexico in North America, Paraguay in South America and Bahamas in Caribbean.
- Europe: engaged in construction and trading activities in Romania, the Netherlands, Switzerland, Germany, England, Greece, Serbia and Kosovo.

The Group leverages sectoral and geographical diversification as a strategic approach to mitigate potential risks arising from macroeconomic fluctuations in the countries of operation. Furthermore, conducting operations in foreign countries provides a protective barrier against the volatility of the Turkish Lira, as it enables the Group to generate foreign exchange (FX) revenues. This proactive measure helps safeguard against adverse impacts caused by fluctuations in the value of the Turkish Lira.

Engineering and construction services constitute over half of the Group's activities, with the 3Q2023 financials indicating that this sector's share in total turnover reached 56.90%. While the share of the energy sector in total turnover decreased during the same period, it remains the second most significant sector, accounting for 26.44% of the turnover. Notably, compared to FY2022, both rental and trade turnover experienced an increase in the share of total revenue.

Below graph indicates the revenue breakdown of the sectors.

Revenue Breakdown by Sectors (%)



Consequently, the Group's diverse sources of income stemming from various sectors and countries play a crucial role in preventing income concentration. This strategic approach enhances the resilience of the Group's overall financial portfolio by mitigating the risks associated with relying heavily on a single sector or a specific geographic location.

Substantial Cash Position Over the Reviewed Years Easing Liquidity Management

Adjusted net debt serves as a metric evaluating a company's liquidity status, calculated by deducting cash and cash equivalents from its financial debt obligations. This ratio is deployed to assess the company's liquidity standing and its aptitude to readily satisfy its financial commitments utilizing available cash on hand.

In contrast to singularly scrutinizing a company's financial debt, the adjusted net debt presents a more precise portrayal of its financial commitments. This metric indicates the Company's capability to fulfill its financial debt responsibilities by excluding cash and cash equivalents. A negative net debt for a company indicates an excess of available cash relative to its financial obligations, indicative of a resilient liquidity position.

The Group's adjusted net debt realized deeply on the negative territory meaning during the reviewed period, meaning Enka İnşaat had substantial cash position exceeding its financial liabilities.

In recent times, there has been a global uptick in interest rates, accompanied by central banks implementing measures to constrict the market. Holding surplus cash reserves and maintaining accessible borrowing potential not only facilitates prospective growth endeavors but also establishes a safeguard against unforeseen circumstances.

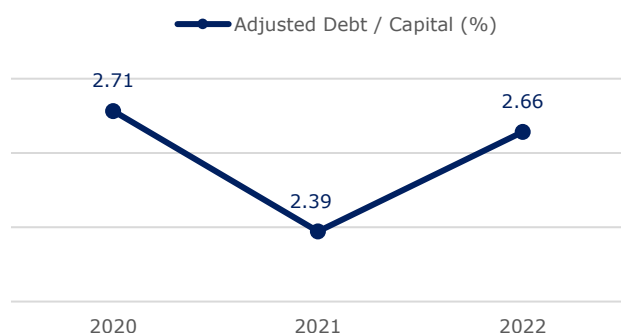
The Adjusted Net Debt of the Company is shown in the table below.

USD (000)	2020	2021	2022
Adjusted Debt	188,801	164,980	188,444
Cash & Cash Equivalents	1,603,905	2,389,551	2,966,092
Adjusted Net Debt	-1,415,104	-2,224,571	-2,777,648

-Including JCR Eurasia Rating's adjustments where applicable

Adjusted debt to capital is a financial metric that expresses a company's refined debt, encompassing both short-term and long-term obligations, against its complete capital composition. The totality of capital includes both debt and equity, representing the entirety of the Company's financial reservoirs. A small ratio signifies a more substantial equity foundation, suggesting a more solid financial framework.

The below graph indicates adjusted debt in relation to total capital the Company in the last three-years period.



FX Oriented Sales Acting as a Natural Hedging Mechanism to a Certain Extent

The Group's management actively mitigates credit risk associated with receivables from customers in the real sector by individually determining credit limits for each customer. Additionally, measures such as obtaining collateral when necessary and implementing stringent cash collection procedures for high-risk customers are employed. The Group boasts a robust and dependable global customer portfolio.

In pursuit of cash flow stability, the Company typically aligns its sales with the currency in which it anticipates receiving payments, effectively performing currency matching. This practice serves to minimize the impact of exchange rate fluctuations on the value of sales and receivables.

A significant portion of the Group's construction operations in Türkiye is conducted in USD or indexed to USD, providing a natural hedging mechanism. Furthermore, the Group's diversified operations span various sectors and countries, offering sectoral and geographical diversification that helps mitigate risks stemming from macroeconomic fluctuations in the countries of operation.

The rental income from the Group's real estate in Russia is tracked in USD and EUR terms, contributing to a stable financial outlook. However, it's noteworthy that energy revenues are now denominated in TRY, signaling a shift in currency dynamics for this particular revenue stream.

The Group engages in construction activities across various countries, with engineering and construction being its primary operational focus. In FY2022, construction activities accounted for 49.31% of the Group's total sales, down from 53.80% in the previous year. As of 3Q2023, 56.90% of the sales revenue is attributed to engineering and construction, followed by 26.44% from power generation, 9.37% from rental

operations, and 7.30% from trade activities. This diversification in revenue sources reflects the Group's involvement in multiple sectors and highlights the significance of engineering and construction as the predominant contributor to its overall sales revenue.

Significant Backlog Value and High Occupancy Levels in Investment Portfolio Promising Future Cash Flows

Since its establishment in the 1957, the Group has experienced rapid growth in its construction and engineering project business, successfully completing projects across various sectors. In the contracting business, the backlog level serves as a significant indicator of future revenue inflow. As the Group continually initiates new projects, the backlog accumulates, offering a certain level of visibility into revenue expectations for the upcoming periods.

The Group's overall growth trajectory is expected to be sustained, primarily propelled by the substantial advancement of its construction and contracting activities, both in Türkiye and internationally. This progress is evident through ongoing projects with a significant backlog value. The robust backlog stands out as a key factor influencing the ratings of Enka İnşaat, underscoring the Company's stability and promising outlook.

As of 3Q2023, the breakdown of the Group's backlog based on country as shown below:

USD (mn)	Backlog	Share (%)
Special Projects	1,092	25.45
North Macedonia	711	16.57
Serbia	700	16.32
UK	573	13.36
Russia	361	8.41
Germany	209	4.87
USA	144	3.36
Kazakhstan	123	2.87
Mongolia	101	2.35
Libya	57	1.33
Finland	48	1.12
Türkiye	36	0.84
Others	135	3.15
TOTAL	4,290	100.00

It is worth to mention that total backlog value increased by 18.96% in 3Q2023 compared to 3Q2022. Furthermore, within the contracting business, the backlog level remains a crucial indicator of anticipated future revenue. As the Group consistently initiates new projects, the backlog accumulates, offering a certain degree of revenue visibility for the upcoming periods. This backlog serves as a valuable metric for assessing and planning the Group's revenue stream in the future.

The investment properties portfolio undergoes valuation by independent real estate valuation companies, utilizing internationally recognized reporting standards. The valuation process employs various models, including income capitalization, discounted cash flow, and market value models. This comprehensive approach ensures a thorough and objective assessment of the portfolio's value, aligning with industry standards and practices.

Enka İnşaat's properties consist of business centers and residential buildings. The Group has mainly real estate properties in Russia and Türkiye which are leased to customers. According to the 2022 audit report, the Group had USD 2,015.39mn real estate investment portfolio in Russia and USD 12.84mn real estate investment portfolio in Türkiye. According to the 3Q2023 financials, total investment property value decreased to USD 1.74bn due to the currency translation differences. Nevertheless, occupancy rates for offices realized at 92% whereas it realized at 94% for retail areas.

Revenue from rental operations increased by 9.96% compared to the previous year and reached to USD 334.40mn in FY2022. As of 3Q2023, revenue from rental operations of Enka İnşaat realized as USD 235.76mn down from 254.06mn in 3Q2023.

Consequently, both high level of occupancy ratios and robust backlog value promises future cash flows for the Group.

Substantial Equity Level Supported by The High Level of Paid-In Capital and Retained Earnings

The amount of a company's profits that is held rather than dispersed to shareholders as dividends is referred to as retained earnings. Retained earnings are a valuable source of internal equity for a corporation because it can be reinvested back into the operation to finance development and expansion. Retained earnings can be utilized in a variety of ways. For example, it can be used to fund research and development, which can

result in the expansion of services and increased revenue.

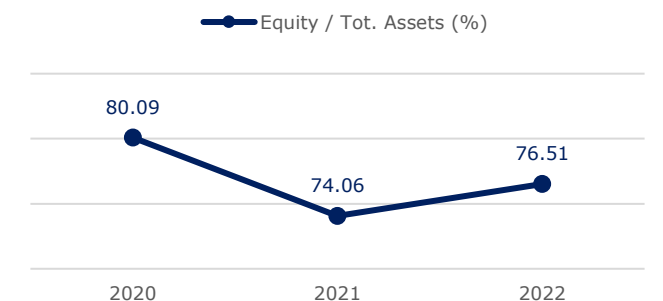
Retained earnings together with paid-in capital totals to USD 7.42bn, 7.51bn and 8.11bn in the last three years.

Below tables indicates the equity structure of the Company for the last 3 years.

USD (mn)	2020	2021	2022
Share Capital	2,727.68	2,727.68	2,751.96
Repurchased Shares (-)	-129.47	-129.47	-127.19
Other Accumulated Comprehensive Expenses That Will Not Be Reclassified to Profit or Loss	-1,239.21	-1,319.38	-1,160.15
Other Accumulated Comprehensive Expenses to be Reclassified to Profit or Loss	-1.01	-0.70	-5.93
Previous Years Profits or Losses	4,692.29	4,786.99	5,362.95
Net Profit or Loss	643.27	609.57	6.89
Non-Controlling Shares	76.59	66.89	75.39
Total Equity	6,770.13	6,741.58	6,903.90

Throughout the analyzed period, the Group maintained low levels of leverage, with total equity consistently accounting for at least 74% of the total assets over the last three years.

Below graph shows the equity of the Company in relation to total assets.



High Levels of Transparency Regarding Adherence to Corporate Governance as an Entity Subject to Capital Market Law

Adherence to corporate governance best practices not only offers guidance but also sustains companies by improving efficiency through transparent, widely accepted, and consistently monitored processes and policies.

Enka İnşaat, registered with the Capital Markets Board (CMB), has been trading its shares on the Borsa Istanbul (BIST) under the ticker symbol ENKAI since June 30, 2002 after merging with its publicly traded shareholder Company, Enka Holding Yatırım A.Ş., which had been trading almost from the establishment of the Istanbul Stock Exchange. The Group is under the control of Tara Holding A.Ş. and the Tara & Gülçelik families. As of 3Q2023, Enka İnşaat's 8.89% shares are actively traded on the BIST. As of the reporting date, Enka İnşaat holds the 11th position in terms of value among BIST-listed companies, with an estimated value of approximately USD 6.64bn.

Enka İnşaat is included in various BIST indices, affirming its standing in the market. These indices include BIST 50, BIST 100, BIST Stars, BIST All Shares, BIST Dividend, BIST Dividend25, BIST Corporate Governance, BIST Sustainability25, BIST Services, BIST Construction, and BIST İstanbul.

Being a publicly traded entity, Enka İnşaat is obligated to comply with corporate governance principles and frameworks set by the CMB. The Company has achieved a high standard of compliance, evident in its comprehensive risk management framework, transparent practices, high-quality financial reporting, and a focus on sustainability and efficiency. These attributes contribute to the Company's favorable ratings in the corporate governance landscape.

The Board is comprised of 5 members, 2 of are independent. The Board of Directors of Enka İnşaat are given in the following table:

Board of Directors	Duty
Agah Mehmet Tara	Chairman
Cem Çeliker	Vice Chairman
Erdoğan Turgut	Board Member
Mehmet Mete Başol	Board Member
Fatih Osman Tar	Board Member

The qualifications of the members of Enka İnşaat's executive committee, early risk detection committee, corporate governance committee, and audit committee align with the principles outlined. Resumes available on the Group's website demonstrate that these members possess the required qualifications in terms of education, professional experience, and managerial expertise.

Enka İnşaat's executive committee comprises 5 members, the early risk detection committee has 2 members, the corporate governance committee has 3

members, and the audit committee consists of 2 members within the Board.

The Company's website is effectively organized, providing comprehensive information on its history, vision, mission, and corporate governance practices. The site demonstrates high standards of public disclosure, emphasizing the exercise of shareholders' rights, detailing the composition, skills, and experiences of Board members, and outlining the establishment of various committees, along with the practice of stakeholder rights.

Enka İnşaat's website serves as a valuable resource, offering detailed insights into its business areas, including construction & engineering, energy, real estate, and trade. Additional sections cover subsidiaries, corporate responsibility, corporate governance, investor relations, and a press room, ensuring a thorough understanding of the Company's operations and values.

Over Half a Century Experience in The Sector and Successful Track Record

With roots tracing back to 1957, the Group has amassed substantial expertise and extensive experience in construction, successfully completing projects both in Türkiye and internationally. The Group remains actively engaged in the construction of various prestigious projects in Türkiye and abroad. Leveraging its diverse portfolio, profound industry knowledge, access to financial resources, and robust intra-group relationships, Enka İnşaat benefits from significant synergies within its operations.

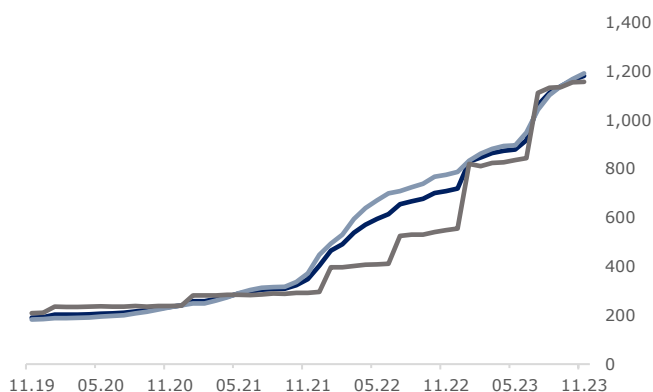
The Group, fortified by its longstanding presence in the sector and a sophisticated organizational structure, adheres to local and international quality standards. Its agility is evident in its ability to swiftly mobilize resources for projects across different locations, concurrently managing multiple endeavors worldwide. The operational strength of the Group contributes to its esteemed position in the sector, consistently securing a place among the "The World's Top 250 International Contractors List" compiled by Engineering News Record (ENR). Since 1981, ENKA İnşaat has been recognized as one of the largest construction groups in Türkiye, maintaining a consistent presence among the ENR's Top International Contractors. In 2022, it secured the 53rd position in the ENR Top 250 Contractors list based on revenue (FYE2021: 59th).

Fluctuating Profitability Metrics Due to Increasing Cost in Construction and Power Generation Sectors

The trajectory of construction costs, which have been consistently increasing in the aftermath of the Covid-19 pandemic, continues its upward trend. This upward movement is influenced by the dual impact of the ascending pegged relationship between the USD and TRY, which exerts pressure on material costs, and the persistent rise in wages, serving as another significant factor for the industry. According to data released by TurkStat as of November 2023, the construction cost index has surged by 66.5% compared to the same month in the previous year and by 1.5% compared to the preceding month.

The Materials Cost Index, a pivotal factor contributing to the escalation of construction costs, experienced a substantial annual leap of 53.5%, while labor costs surged by 110.8% in November 2023. The notable rise in construction costs, primarily attributed to escalating labor expenses, has had a significant adverse impact on profitability. The sector is facing additional challenges as the minimum wage increases for the second half of 2023 exert negative pressure. The heightened costs have also amplified working capital requirements within the sector, occurring at a time when credit lending is selective, and there is negative real loan growth.

Construction Cost Index (2015=100)
Material Cost Index (2015=100)
Labour Cost Index (2015=100)



Source: TurkStat, JCR-ER

In recent years, the oil industry has faced significant challenges. The imposition of global mobility restrictions due to the COVID-19 pandemic led to a substantial reduction in demand from the largest oil-consuming sector, resulting in oil prices plummeting to unprecedented lows in April 2020. However, a gradual recovery occurred throughout 2021, driven by the

resurgence of economic growth and a limited increase in oil supply due to reduced investments in drilling and exploration. This recovery gained momentum in early 2022, marked by the Russian invasion of Ukraine, which had a profound impact on the market and triggered widespread geopolitical concerns. Given Russia's significant role as a major exporter of commodities and energy, the ensuing conflict and subsequent sanctions reverberated globally, affecting global growth, trade, and risk appetite. The situation's severity was particularly pronounced in Europe, which heavily relies on Russian energy exports.

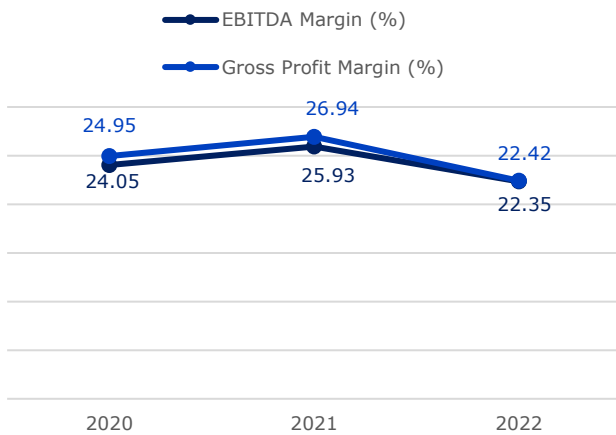
During this period, the per-barrel price of Brent crude experienced a notable surge, surpassing the USD100 mark for the first time since 2014. This increase is attributed to Russia's status as one of the world's leading oil and natural gas producers, highlighting the far-reaching consequences of geopolitical events on the oil industry. The challenges in energy supply from Russia to Europe during the specified period have led to an upward trajectory in natural gas prices.

The Company, owning natural gas cycle power plants, experienced a rise in the cost of electricity generation due to the increase in natural gas prices. However, the landscape is changing with increased investments in renewable energy sources in Türkiye, leading to a growth in capacity in this sector. The share of renewable energy sources in total electricity generation is on a gradual ascent. Notably, natural gas cycle power plants are primarily required during extreme weather conditions, such as cold winters or hot summers.

Despite the reduced necessity for natural gas cycle power plants, the Company is planning to enhance its turnover through upcoming solar energy investments. The strategic focus on solar energy projects in the near future is anticipated to have a positive impact on the Company's overall financial performance.

In summary, the Group has experienced a declining trend in both gross profit and EBITDA margins, primarily attributed to the escalating costs in construction and energy production. This trend persisted into 2023, with the 3Q2023 financials revealing a gross profit margin of 21.80% and an EBITDA margin of 18.45%, without annualization. The ongoing challenges with rising costs have impacted the Group's overall profitability indicators.

Below graph indicates the Group's profitability margins for the last three-years period.



Susceptibility of Construction Sector to Macroeconomic Conditions Together with Possible Operational and Management Risks Stemming from The Nature of the Business

Although the low-interest housing loan campaign of state banks in 2020/June and 2022/May triggered the demand for housing, the construction sector has been tight in Türkiye recently. Fortunately, the Company has geographical advantages that make it easier to be flexible against economic and sectoral changes; however, the construction industry is directly related to macro-economic politics of the governments. Therefore, volatility in the interest rates has the potential to increase or decrease demand uncertainties. Political risk is a concern for companies engaged in global operations, whether within their home country or in a third nation. It refers to obstacles or damage incurred due to factors beyond the Group's control. Political risks have the potential to be financially crippling and can disrupt foreign operations if an organization is not adequately equipped to handle them. Typically, these risks arise from factors influencing or having the potential to influence the local business environment. Consequently, companies and investors may experience financial setbacks due to significant political changes or instability in a given country. Some common political risks include:

- Changes in laws and regulations,
- Restrictions on imports and exports,
- Transfer risk,
- Breach of contract by a foreign government.

It is important to highlight that a significant portion of the Group's revenues originates from its international endeavors, exposing it to political and operational risks inherent in diverse countries. Despite these challenges, the Group maintains robust market positions in pivotal

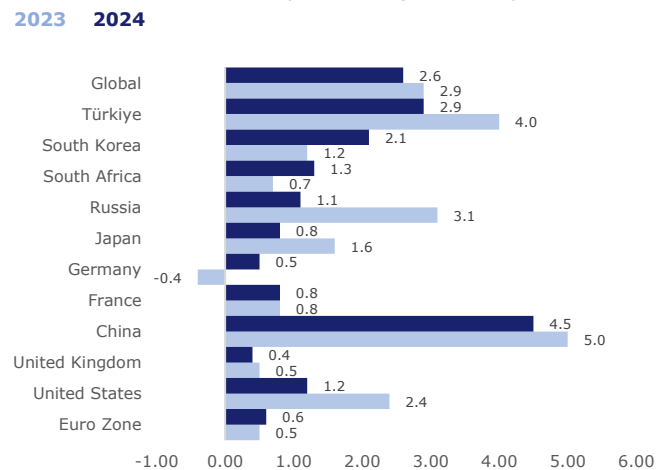
sectors, particularly in construction & engineering and energy. Enka İnşaat has strategically cultivated an international group identity by expanding its operations beyond Türkiye, a move aimed at diminishing reliance on the domestic market and ensuring sustained growth.

Leading Economic Indicators Signal Global Economic Slowdown as Quantitative Tightening Actions Aim to Restrict Consumption Growth and Achieve a Soft-Landing in the Domestic Side

Companies based in Türkiye face several headwinds, stemming from both global and domestic conditions. Major central banks have been hiking rates at the most rapid pace in near history and net lending standards have been tightening as well. In Türkiye, Central Bank of Republic of Türkiye (CBRT) also joined the hiking central banks in June 2023, at a rapid pace as well. CBRT hiked the rates from 8.5% in a quick succession targeting ex-ante real interest and gradually lifted previously implemented macroprudential measures affecting bank lending. The aim of administration is to achieve a soft landing via curbing consumption, though selective lending to support exports & investments persist. As such, export-focused growth policies of China loom as a threat to domestic exports, who also face a slow growth in key markets and significant production costs.

The tightening actions of major central banks (increasing interest rates and quantitative tightening), especially the Fed, in order to fight inflation, increased global recession concerns. In addition to ongoing geopolitical risks, concerns that the slowdown of the global economy is still on the agenda.

GDP Outlook for 2023-24 (Annual Average Growth, %)



Source: Refinitiv Datastream, Reuters Poll (Median Forecast)
 *As of 02-01-2024

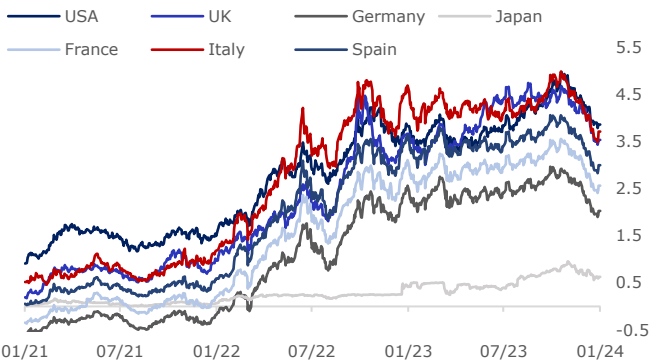
Unprecedented pace of tightening and geopolitical risks severely limited the risk appetite towards emerging markets while the flow of funds to emerging markets weakened. Funds instead flowed to safe instruments such as the dollar and gold, fueled partly by the fear of credit/counterparty risk.

With these expectations and central banks' guidance, government bond's yields were at record high level almost all over the world until last quarter of the current year.

Recently, pullback in inflation, especially with the support of energy prices, has changed market expectations towards monetary expansion at an earlier date than expected before. Thus, global government bond yield has been starting to decrease from record high level.

Considering major central banks' guidance, we, as JCR-ER, do not expect to initiate monetary expansion until in the second half of 2024.

10Y Government Bond Yield (%)



Source: Refinitiv Datastream

Following post-pandemic reopening, China took full advantage of its massive and integrated manufacturing sector, government subsidies to boost exports. On the other hand, domestic consumption is still weak after decades of investment/manufacturing focused policies. Therefore, for Chinese economy, the way forward is through shifting manufactured goods abroad, its long-term and global implications notwithstanding.

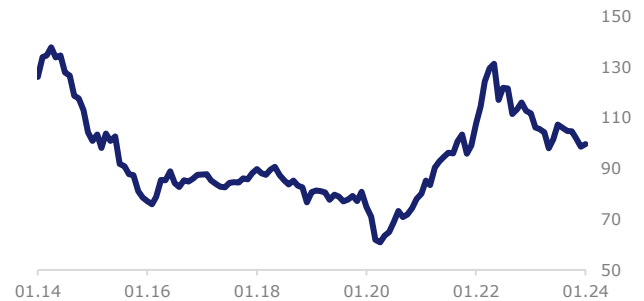
In this sense, we would expect China to double-down on any obstacle to its exports, as boosting domestic consumption requires a long and painful adjustment whereas boosting investment and consumption is more straightforward in the short run. In fact, as leading export indicators for China deteriorate, we would expect more aggressive policies to compensate for this. Therefore, Turkish companies face significant export competition from a global powerhouse.

China NBS PMI: new export orders Export Growth (12M % Change, 3 MMA) PMI Threshold



This strong commitment to supporting exports is coupled with normalizing freight rates, which effectively helps Chinese manufacturers to compete more easily with exporters close to their trade partners geographically.

Bloomberg Commodity Index



Recently, a new geopolitical risk is added to existing tensions created by Israel-Hamas conflict. Following the Houthi attacks to shipping vessels passing through the Red Sea, certain shipping companies suspended trade through the Suez Canal, increasing shipping costs and distressing the global supply chain.

Spillovers of geopolitical risks to Türkiye

In addition to these developments, geopolitical risks and conflicts in the region are notable, among which Russia-Ukraine war comes at the top. Although the trade channel (especially energy and food supply) was not adversely affected by Türkiye's moderator role between Russia and Ukraine, the construction/contracting sector was adversely affected by the developments.

According to the Turkish Contractors Association (TMB), the Turkish contracting companies undertook 413 projects in 69 countries amounting to USD 30.7bn and the leading market was again Russia with a share of 36% in 2021. Ukraine was also ranked 4th with a share of 5%. At FY2022, the Turkish contracting companies undertook projects amounting to USD of 18.71bn and Russia accounted for only USD 2.34bn of this amount.

Türkiye's International Contracting Services (in billion USD)

	FY2021		FY2022		9M2023
Russia	11.02	Russia	2.34	Romania	2.19
Iraq	3.62	Azerbaijan	1.71	Spain	1.04
Tanzania	1.91	Iraq	1.58	Libya	0.94
Ukraine	1.64	Romania	1.49	Turkmenistan	0.89
Zambia	1.35	Uzbekistan	1.48	Vietnam	0.78
Others	11.23	Others	10.51	Others	3.77
Total	30.77	Total	19.11	Total	12.90

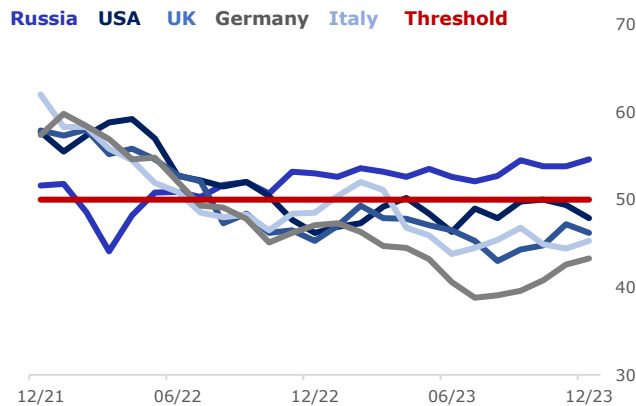
Source: Ministry of Trade of Türkiye, TMB

Although the ongoing war between Russia and Ukraine continue to affect the international contracting business' breakdown, Turkish contractors undertook projects worth of USD 12.90 billion in the first nine months of 2023 on account of entering into new markets.

Global slowdown's impact on Türkiye

As of November 2023, last twelve months of Turkish export to EU realized as USD 104.34bn which was USD 103.05bn in FY2022. Besides all these effects mentioned before, it is quite possible that the slowdown in economic activity in Europe (especially in Germany), our largest trade partner, will adversely affect the Turkish economy through the trade channel.

Top 5 Export Market's Manufacturing PMI

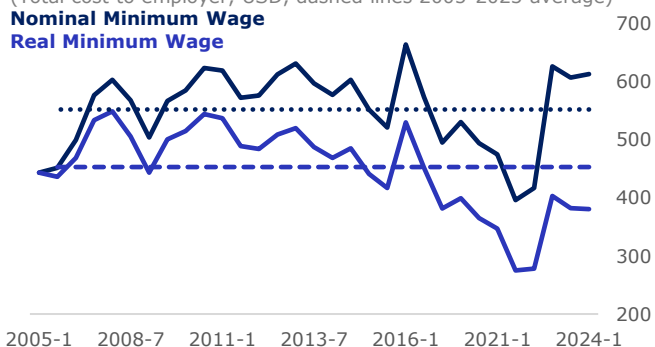


Source: Refinitiv Datastream

Further pressurizing the Turkish exporters are cost factors, mainly in terms of wages and energy prices. Minimum wage increased to TRY 23,502.94, including total costs to the employer (gross: TRY 20,002.50, net: TRY 17,002.12) for 2024. The latest increase in minimum wage pushed the total cost to employers to USD 610, using expected average USDTRY for the aforementioned year. Therefore, the expected level of minimum wage would realize above the average and would pressurize small scale businesses with labor intensive manufacturing and domestic focus. On the other hand, adjusting for US CPI, real minimum wage in USD terms is actually below the average, implying export focused companies should be able to manage these levels of increasing minimum wage.

Türkiye Minimum Wage

(Total cost to employer, USD, dashed lines 2005-2023 average)



Source: Ministry of Labor and Social Security, Refinitiv, JCR-ER Research

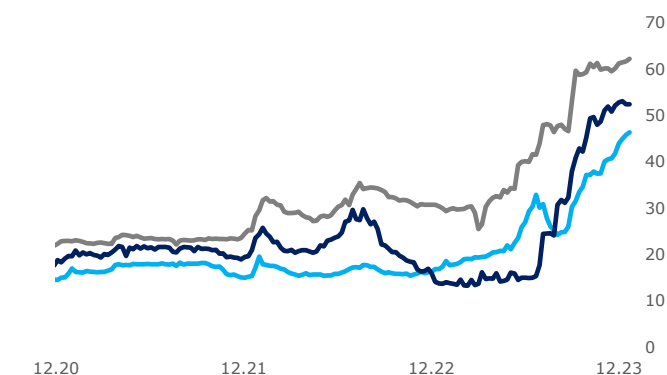
Nominal minimum wage for 2024 is calculated using expected average USDTRY for the given year.

Domestic financial conditions are tightening, particularly in credit costs

Current economic program entails high interest rates at a level that would curb leveraged consumption and inventory hoarding as carrying costs rise. On the fiscal side, tax regulations aim to support the efforts to limit consumption. Moreover, long list of previously announced macroprudential regulations in the banking system are lifted, liberating banks to pursue more independent asset-liability management. This resulted in much higher credit interest rates.

TRY Lending and Deposit Rates (%)

Commercial Consumer Deposit

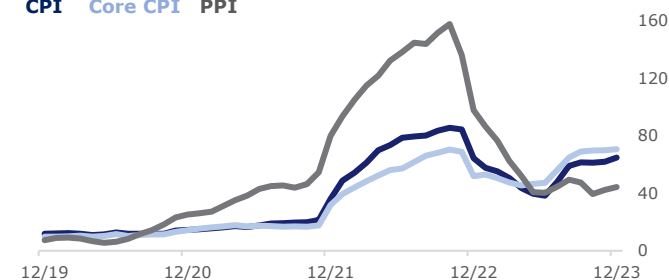


Source: CBRT, JCR-ER

Despite the commitment to fight inflation, CBRT's realistic projection comprises an inflation path peaking in May with circa. 70%, and ending the year with 36%. We note that most firms had been able to pass through the production costs to the consumers, though efforts to limit consumption and suppress real income could break this mechanism.

Türkiye Inflation (y.o.y)

CPI Core CPI PPI



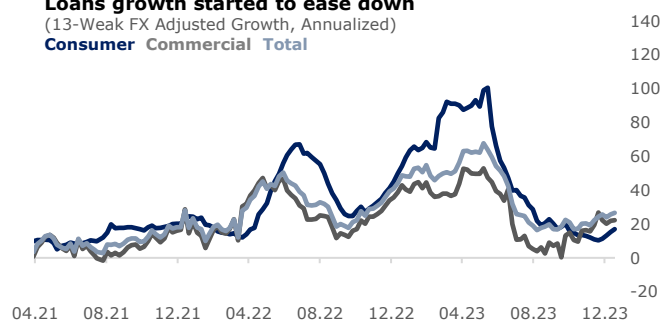
Source: Turkstat

Current economic program has affected loan growth and the growth rate is not as high as the excessive pace observed in the first half of 2023, as intended by the administration. Thus, firms which had relied on easy access to finance at low rates face significant financing costs and might need to rapidly deleverage.

Loans growth started to ease down

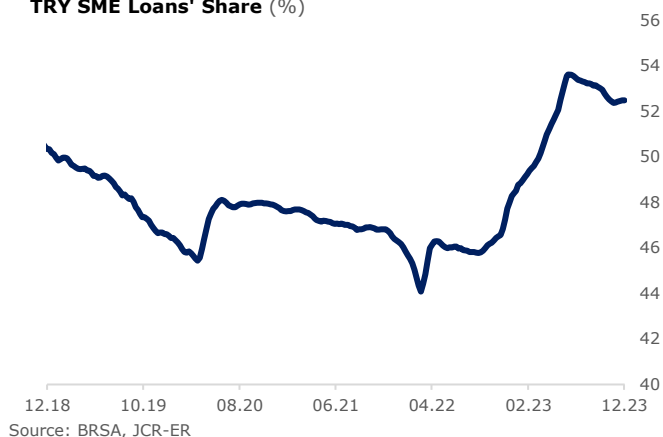
(13-Week FX Adjusted Growth, Annualized)

Consumer Commercial Total



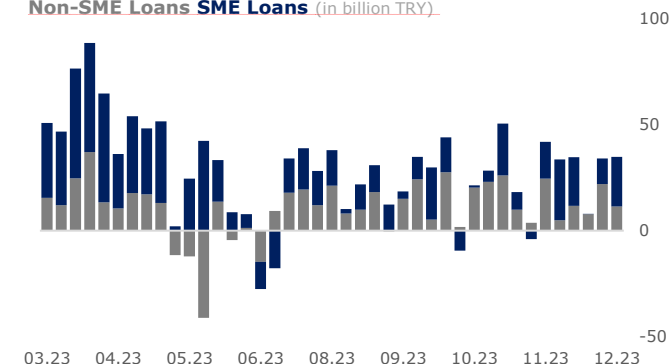
Source: BRSA, JCR-ER

TRY SME Loans' Share (%)



Source: BRSA, JCR-ER

Non-SME Loans SME Loans (in billion TRY)



Source: BRSA, JCR-ER

Access to finance and the cost of financing is still a substantial topic affecting Turkish corporates, as the selective lending policies aimed to supporting exports, agricultural production, investments and high-tech and SMEs have resulted in a divergence in financial conditions. In fact, CBRT recently announced "Advance Loans Against Investment Commitment" framework to support investments with adequate Technology/Strategy scores, providing them with affordable loans up to 10 years of maturity. In this sense, current outlook is more accommodative for export, technology and investment-oriented firms. On the other hand, for other companies, high loan rates (especially considering expected inflation trend) and moderating credit growth would translate into tighter credit standards.

Tightening financial conditions, expected slowdown in consumer spending and weak outlook in major export markets will likely result in a lower growth rate in 2024 compared to last year. In fact, economic administration expects a negative output gap in 2024, implying an annual growth rate of 2-2.5%. On the other hand, government expenditures and still relatively resilient consumption might push the growth a bit higher.

With respect to the factors mentioned above, JCR Eurasia Rating has affirmed the Long-Term National Issuer Credit Rating of the Company at **'AAA (tr)'** and the Short-Term National Issuer Credit Rating at **'J1+ (tr)'** in JCR Eurasia Rating's notation system which denote highest investment level category.

On the other hand, the Long-Term International Foreign and Local Currency Issuer Credit Ratings were determined at **'BB+'** and outlooks as **'Stable'** above the international ratings and outlooks of Republic of Türkiye.

2. Rating Outlook

The Company's outlook is determined with respect to asset quality, growth performance, market position, sectoral developments and risk management implications, and business environment as well as geopolitical risks-driven uncertainties. JCR Eurasia Rating has assigned a **'Stable'** outlook on the National Long and Short-Term Issuer Credit Rating perspectives of the Company.

Additionally, the outlook on the International Long-Term Issuer Credit Rating perspectives of the Company has been affirmed as **'Stable'** above the sovereign rating outlooks of the Republic of Türkiye.

The Company's financial structure, tight economic conditions and Türkiye's economy and its effects on the Company's activities will be closely monitored by JCR Eurasia Rating in the upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.

Factors that Could Lead to a Downgrade

- Considerable decline in sales volumes and revenues, profitability and/or profit margins,
- Contraction in the EBITDA generation capacity,
- Contraction in the EBITDA margin and other profitability indicators,
- Weakening of asset quality,
- Deterioration in current financial debt structure,
- Disruption or suspension/termination in ongoing and new projects
- A sharp slump in growth in the domestic and international markets,
- Changes in the sovereign rating level of Türkiye represent the factors that might affect the outlooks.

3. Projections

Balance sheet and income statement projections have not been submitted by the Group management due to being publicly traded company.

4. Company Profile & Industry

a) History and Activities

Enka İnşaat was established in 1957 and, by June 28, 2002, underwent a legal merger with its publicly traded shareholder Company, Enka Holding Yatırım A.Ş., both of which were under the common control of Tara Holding A.Ş. and the Tara & Gülçelik families.

The Group boasts a diversified portfolio, encompassing engineering & construction, real estate, trade, and power generation. Engineering & construction is the primary focus, where Enka İnşaat offers a comprehensive range of services, including design and engineering, procurement, in-house welded fabrication, modularization, construction, commissioning and start-up, operation and maintenance, as well as project management services in Türkiye and internationally. Recognized as one of the largest construction companies in Türkiye, the Group has consistently secured a place among the ENR's Top International Contractors since 1981. In 2022, Enka İnşaat ranked 53rd in the Engineering News-Record (ENR) Top 250 Contractors list based on revenue.

As of the reporting date, the primary ultimate controlling shareholders of the Group are Tara Holding A.Ş. and the Tara & Gülçelik Families. Enka İnşaat's 8.89% shares are publicly traded on the Borsa Istanbul under the ticker symbol ENKAI, as of September 30, 2023.

The Group's headquarters are located in Istanbul. As of September 30, 2023, the average number of white-collar and blue-collar personnel stands at 5,010 and 17,414 respectively.

b) Shareholders, Subsidiaries & Affiliates

The Group is controlled by Tara Holding A.Ş. and Tara & Gülçelik families. As of September 30, 2023, Enka İnşaat's 8.89% shares are traded on the Borsa Istanbul under the ticker symbol ENKAI. The table below shows the shareholder structure of Enka İnşaat, as of September 30, 2023.

Shareholders of Enka İnşaat ve Sanayi A.Ş.				
(000' USD)	30.09.2023		31.12.2022	
	Amount-USD	Share %	Amount -USD	Share %
Tara Holding A.Ş.	1,370,476	49.80	1,370,476	49.80
Vildan Gülçelik	219,931	7.99	219,931	7.99
Sevda Gülçelik	176,951	6.43	176,951	6.43
Enka Spor Eğitim ve Sosyal Yardım Vakfı	161,540	5.87	161,540	5.87
Other	823,061	29.91	823,061	29.91
TOTAL	2,751,959	100	2,751,959	100

The Board of Enka İnşaat currently consists of five members, two of whom are independent members. The Board of Directors of Enka İnşaat are given in the following table:

Board of Directors	Duty
Agah Mehmet Tara	Chairman
Cem Çeliker	Vice Chairman
Erdoğan Turgut	Board Member
Mehmet Mete Başol	Board Member
Fatih Osman Tar	Board Member

As of December 31, 2022, Enka İnşaat's group companies has shown below:

Company Name	Business Activity	Proportion of Effective Ownership (%)	Relation with the Group
Enka Holding B.V.	Construction	100	Subsidiary
Enka Holding Investment S.A.	Construction	100	Subsidiary
Enka Power Systems B.V.	Construction	100	Subsidiary
Enka Construction & Development B.V.	Construction	100	Subsidiary
Far East Development B.V.	Construction	100	Subsidiary
Enka Geothermal B.V.	Construction	100	Subsidiary
Enmar	Construction	100	Subsidiary
Entrade	Construction	100	Subsidiary
Capital City Investment B.V.	Construction	100	Subsidiary
Enka LLC	Construction	100	Subsidiary
Retmos Investment Ltd.	Construction	100	Subsidiary
OOO Victoria	Construction	100	Subsidiary
Enka & Co LLC	Construction	100	Subsidiary
Enka Müteahhitlik	Construction	100	Subsidiary
Enkamos Region B.V.	Construction	100	Subsidiary
Poyraz Shipping B.V.	Construction	100	Subsidiary
Bogazici Shipping B.V.	Construction	100	Subsidiary
Doga Shipping B.V.	Construction	100	Subsidiary
Imbat Shipping B.V.	Construction	100	Subsidiary

Company Name	Business Activity	Proportion of Effective Ownership (%)	Relation with the Group
TNY Shipping B.V.	Construction	100	Subsidiary
Alacante Shipping B.V.	Construction	100	Subsidiary
BRK Overseas Shipping B.V.	Construction	100	Subsidiary
MML Merchant Shipping B.V.	Construction	100	Subsidiary
Esta Construction B.V.	Construction	100	Subsidiary
Enka UK Construction Ltd.	Construction	100	Subsidiary
Enet	Construction	100	Subsidiary
Üstyurt Kurylys	Construction	100	Subsidiary
Mosenka	Real Estate	100	Subsidiary
MKH	Real Estate	100	Subsidiary
OMKH	Real Estate	100	Subsidiary
City Center Investment B.V.	Real Estate	100	Subsidiary
Edco Investment B.V.	Real Estate	100	Subsidiary
Enru Development B.V.	Real Estate	100	Subsidiary
LLC Enka Flex Office	Real Estate	100	Subsidiary
Enka Moskova Gayrimenkul Gel. A.Ş.	Real Estate	100	Subsidiary
İzmir Elektrik	Energy	100	Subsidiary
Adapazarı Elektrik	Energy	100	Subsidiary
Gebze Elektrik	Energy	100	Subsidiary
Enka Santral Hizmetleri A.Ş.	Energy	100	Subsidiary
Enka Enerji Ticaret A.Ş.	Energy	100	Subsidiary
Enka TC LLC	Trade	100	Subsidiary
Emos LLC	Trade	100	Subsidiary
Enmar Construction B.V.	Trade	100	Subsidiary
Cmos B.V.	Trade	100	Subsidiary
Airenka	Trade	100	Subsidiary
Enka System Yazılım A.Ş.	Trade	100	Subsidiary
Emkamos Center Invest LLC	Construction	100	Subsidiary
Enka Sakarya Elektrik Üretim A.Ş.	Construction	100	Subsidiary
Enka Kırklareli Elektrik Üretim A.Ş.	Construction	100	Subsidiary
Enka Construction S.A.	Construction	100	Subsidiary
Enka Global Construction LLC	Construction	100	Subsidiary
Enka Construction & Development LLC	Construction	100	Subsidiary
Enka Mocambique LDA	Construction	100	Subsidiary
Enka Pazarlama	Trade	99.99	Subsidiary
Enka Trading B.V.	Trade	99.99	Subsidiary
Metra Akdeniz Dış Ticaret A.Ş.	Trade	99.99	Subsidiary
Encommerce B.V.	Trade	99.99	Subsidiary
Entaş	Trade	99.98	Subsidiary
Kasktaş	Construction	99.9	Subsidiary
Kasktaş Arabia Ltd.	Construction	99.9	Subsidiary
Titaş	Construction	99.5	Subsidiary
Çimtaş Gemi İnşa San. Ve Tic. A.Ş.	Construction	97.88	Subsidiary
Çimtaş Hassas İşletme San. Ve Tic. Ltd. Şti.	Construction	97.35	Subsidiary

Company Name	Business Activity	Proportion of Effective Ownership (%)	Relation with the Group
Çimtaş Çelik	Construction	97.35	Subsidiary
Cimtas Mechanical Contracting B.V.	Construction	97.35	Subsidiary
Cimtas(Ningbo) Steel Processing Company Ltd.	Construction	97.35	Subsidiary
Cimtas Investment B.V.	Construction	97.35	Subsidiary
Cimtas Steel Metal Konstruksiya MMC	Construction	97.35	Subsidiary
Gemlik Deniz Taşımacılık Ltd. Şti.	Construction	97.35	Subsidiary
Enka Renewables LLC	Energy	90	Subsidiary
Enka Teknik	Construction	80	Subsidiary
Çimtaş Boru İmalatları ve Tic. Ltd. Şti.	Construction	50	Subsidiary
Enka-Üstay (Türkiye)	Construction	60	Joint Ventures
Enka-Batys LLP (Kazakhstan)	Construction	50	Joint Ventures
Bechtel-Enka (Kazakhstan)	Construction	50	Joint Ventures
Bechtel-Enka (Romania)	Construction	50	Joint Ventures
Bechtel-Enka (Albania)	Construction	50	Joint Ventures
Bechtel-Enka (Kosovo)	Construction	50	Joint Ventures
Bechtel-Enka (Oman)	Construction	50	Joint Ventures
Bechtel-Enka (Georgia)	Construction	50	Joint Ventures
Bechtel-Enka (Serbia)	Construction	50	Joint Ventures
Bechtel-Enka UK 2 Ltd (England)	Construction	50	Joint Ventures
Arge (Germany)	Construction	50	Joint Ventures
Other (Europe, Africa, America, Asia)	Construction	50	Joint Ventures

Enka İnşaat Group Companies which are rated by JCR Eurasia Rating in 2023 are provided below:

Group Companies Rated by JCR Eurasia	Long-Term National ISR Local Scale	Date of Rating
Çimtaş Gemi İnşa San. ve Tic. A.Ş.	A (tr)	04.10.2023
Çimtaş Çelik İmalat Montaj ve Tes. A.Ş.	AA+ (tr)	06.10.2023
Çimtaş Boru İmalatları ve Tic. Ltd. Şti.	AA (tr)	29.09.2023
Enka Pazarlama İhr. İth. A.Ş.	AA+ (tr)	27.12.2023

Industry Assessment

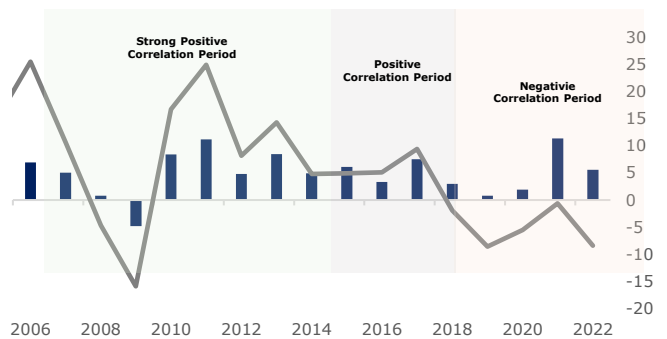
Construction Sector

Construction industry plays a critical role in Türkiye's economic development with a multiplier effect. According to the Turkish Contracting in The International Market Reports published by Turkish Contractors Association, construction industry accounts for nearly 6% of GDP and employs almost 1.5 million people and with the direct and indirect impacts on other sectors the share of the construction sector in the Turkish economy reaches 30%.

The relation between GDP and construction growth had three different periods in the last two decades: 2005-2013, 2014-2017 and 2018-2021. The first phase is characterized by its strong correlation, meaning notable outperformance of construction sector compared to GDP when economy was booming and more severe contraction during the recessions. In the second period, correlation persist yet its amplitude is muted. In the last phase, positive correlation has disappeared and construction sector recorded negative growth where economic growth rate were positive.

The economic activity was clearly affected by Covid-19 pandemic though growth was restored in 2021. However, construction industry did not benefit from recovery. While GDP growth reached 11% YoY in 2021, construction industry economic output declined by 0.9% in Türkiye. Serious and persisting problems in the sector had continued to put pressure on overall sectoral performance, despite the strong recovery of the Turkish economy with the positive contributions of other sectors.

GDP Growth (%)
Construction Sector Growth (%)



Source: TurkStat, JCR-ER

Negative correlation between GDP and construction sector growth continued in 2022. Overall economic activity stood strong and recorded solid growth with 5.57%, construction industry shrunk by %8.40 in 2022. However, the industries' four consecutive quarters contraction ended in Q42022 where industry expanded by 2%. On the other hand, construction industry outperformed the GDP growth in 3Q2023 while GDP recorded 5.9% growth, construction industry grew by 8.1%.

The devastating earthquake struck 11 provinces in the South Anatolia effected more than 800 thousand independent building and 279 thousand of it are currently overthrown, hard-hit, or moderate damaged. That is to say, industry have to take immediate action in re-construction activities in the region.

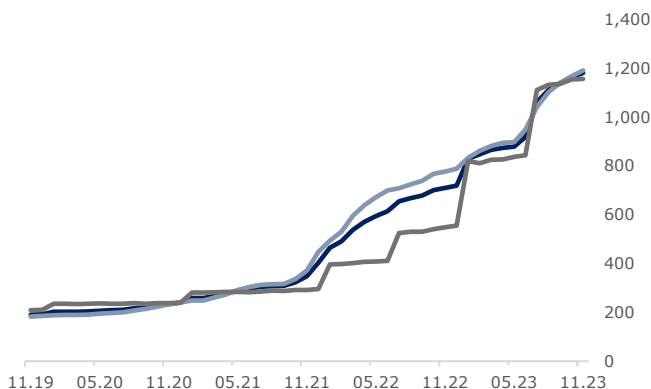
On the other hand, re-construction in other regions in seismic zone especially in İstanbul could supplement to industries' outlook and will turn it from negative to positive.

Costs Continue to be Headwinds for the Industry

Construction costs which are continuously rising aftermath of Covid-19 pandemic have continued the its upward trend. On one hand, upward crawling peg view of USDTRY parity put pressure on material costs, on the other hand wage increases stay another compelling factor for the industry. As of November 2023, data revealed by TurkStat indicates that construction cost index increased by 66.5% and 1.5% compared to the same month of the previous year and previous month, respectively.

Materials cost index, the important factor that pull construction costs up, leaped by 53.5% yearly, and labour costs rose by 110.8% annually in November 2023. Increases in construction costs, mainly due to the increases in labour costs, which have a serious negative impact on profitability. Minimum wage increases for the second half of the 2023 put negative pressure for the sector. Increasing costs have also boosted working capital needs in the sector at a time of selective credit lending and negative real loan growth.

Construction Cost Index (2015=100)
Material Cost Index (2015=100)
Labour Cost Index (2015=100)

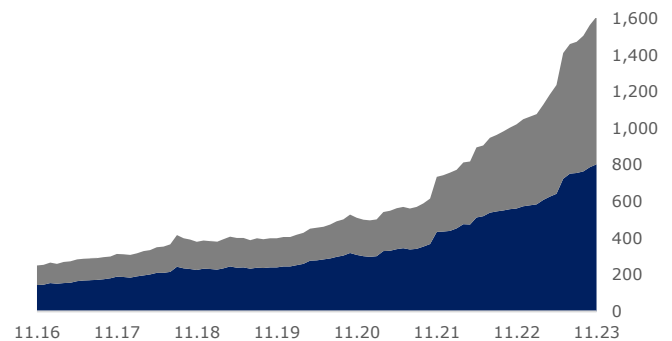


Source: TurkStat, JCR-ER

In this regard, to overcome new financing needs and put extra working capital, industry's demand to bank loans increased substantially during last two years. Especially, monthly loan flows draw clearer picture. In the months where construction cost index the spike, bank loans flows into sector accelerate. Loans stock, both cash and non-cash, provided by banks into industry exceeded the TRY 1,600bn level and recorded as TRY 1,611bn as of the November 2023.

Loans Directed to Construction Sector

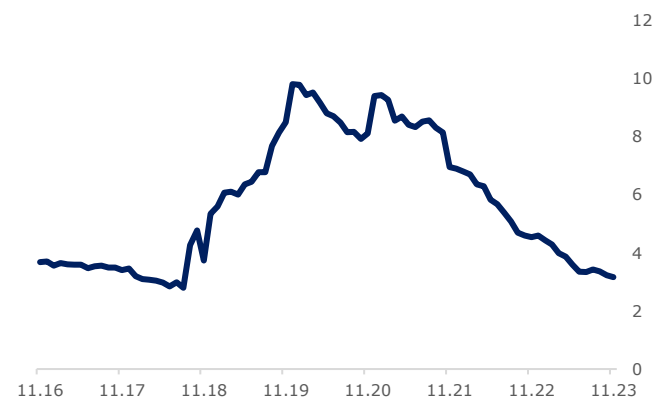
Cash Non-cash (in billions TRY)



Source: BRSA, JCR-ER

As a result of the deterioration in the financial outlook of the construction sector, which started during the pandemic period and accelerated with the increase in costs afterward, the NPL ratio of the sector had initially jumped above 9% level. However, increasing sales prices and new loan channel reduced the sector's NPL rate.

Construction Sector NPL Rate (%)



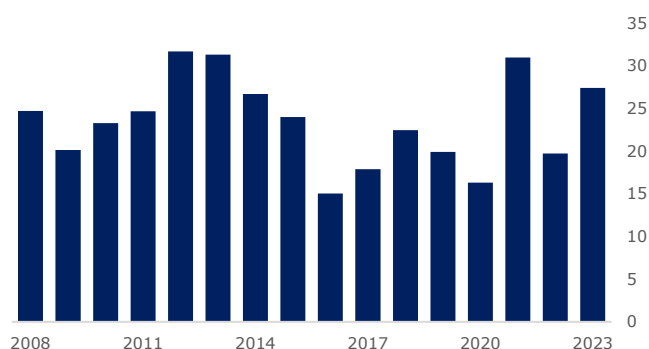
Source: BRSA, JCR-ER

International Contracting

Turkish contracting firms has a reputable presence on the overseas market. According to the Turkish Contractors Association's data, Turkish contractors have undertaken 12,071 projects in 135 countries, with a total value of USD 501.9bn during in the period of 1972- 2023. According to the "The World's Top 250 International Contractors in 2022" list published by the leading international industry magazine "ENR - Engineering News Record", 42 Turkish contracting companies ranked among the world's top 250 international contractors list.

International business volume of Turkish contracting firms reached its peak with an amount of USD 31.4bn in 2012 and maintained downward trend between 2013-2016. Despite improvements in ongoing period, international business volume stood below at level of 2012.

Yearly Project Revenue (in Billion USD)



Source: Ministry of Trade of Türkiye, JCR-ER

In 2023, Turkish contractors undertook 389 projects around the globe with a business volume of USD 27.4bn with an increase of 39.0% compared to 2022. Russia was the leading market for the Turkish contractors with project amount of USD 4.6bn, followed by Romania (USD 3.6bn) and Turkmenistan (USD 3.3bn). With this figures, international business volume met the expectation. Especially, last quarter of 2023 was enormous quarter where project worth nearly the USD 15bn were undertaken by the Turkish contractors.

Türkiye's International Contracting Services (in billion USD)

FY2021		FY2022		FY2023	
Russia	11.02	Russia	2.38	Russia	4.61
Iraq	3.57	Azerbaijan	2.03	Romania	3.62
Tanzania	1.91	Iraq	1.64	Turkmenistan	3.34
Ukraine	1.66	Romania	1.60	S. Arabia	2.75
South Sudan	1.24	Uzbekistan	1.55	Iraq	1.35
Others	11.57	Others	10.51	Others	11.71
Total	30.97	Total	19.71	Total	27.39

Source: Ministry of Trade of Türkiye, TMB

Since Russia and Ukraine are among the largest geographies where Turkish contractors operate, one of the main concerns of the sector is that the tension between the two countries has not yet come to an end. This uncertainty pushes Turkish contractors to seek new markets. While the sector closely monitors the projects to be undertaken in Middle East and Gulf countries, Israel-Hamas conflict raised the tension in Middle East and put extra pressure on the projects in

that region. So, it could be said that the year 2024 will be followed in the shades of geopolitical risk for the international contractors. All developments related to geopolitics risk will be observed by JCR-ER for the upcoming period.

5. Financial Policy & Risk

The principal financial risks that the Company is exposed to include credit, market and liquidity risks along with operational risks which will be examined in greater detail in the following sections.

Credit, market, operational and liquidity risks represent the major categories of risks for the Company are resulting from its operations. The Company is exposed to a variety of financial risks, including the effects of changes in debt and capital market prices, foreign exchange rates and interest rates.

Credit Risk

Credit risk is defined as the risk of default on a debt obligation that may arise from a borrower failing to make required payments in full and timely manner.

The Company management mitigates the credit risk related to receivables from customers by setting credit limits for each customer.

The Company seeks to minimize credit risk by only engaging in business with creditworthy parties, mainly large corporates, and when possible, securing sufficient collaterals.

The details of doubtful receivables are shown below.

(000 USD)	2020	2021	2022
Provision (Flow)	625	440	51
Sales	1,658,761	2,859,411	3,769,514
Impairment Rate	0.04%	0.02%	0.00%
Impaired Rec. (Stock)	20,061	14,320	13,408
Trade Rec. (Stock)	350,287	284,554	312,974
Legacy Impairment	5.73%	5.03%	4.28%

As it can be seen from above table the Company has decent receivables quality that support its asset quality.

Market Risk

Market risks stem from fluctuations in the value of a financial instrument which could potentially impact the Company's future cash flows. These include foreign currency risk, interest rate risks and risks relating to changes in the prices of financial instruments and commodities.

Foreign exchange risk

The Group faces foreign exchange risk stemming from diverse currency exposures, particularly related to the Euro, Russian Rouble, and US Dollar. This risk is attributed to liabilities in currencies other than the functional currency of certain consolidated companies. Operating in the construction, trading, energy, and real estate sectors across various countries exposes the Group to fluctuations in exchange rates. Beyond transactional exposures, the Group encounters foreign exchange movements in its investments in foreign subsidiaries. Risk management involves utilizing natural hedges created by balancing foreign currency-denominated assets and liabilities. Notably, the Group's foreign currency risk is linked to credits denominated in USD, Euro, and JPY. To mitigate this risk, the Group actively monitors cash flows and employs financial instruments for hedging when deemed necessary.

The carrying amount of the Company's foreign currency denominated financials for the last three-year period are as follows.

(USD 000)	2020	2021	2022
Assets	840,349	1,224,233	1,031,849
Liabilities	444,547	581,703	517,706
Net FX position	395,802	642,530	514,143

As it can be seen from the table above, the Company has FX long position in the last three years.

Interest rate risk

The primary source of the Group's exposure to fluctuations in market interest rates is associated with its debt obligations featuring variable interest rates. To mitigate the impact of interest rate fluctuations on assets and liabilities sensitive to such changes, the Group employs a strategy of aligning balancing assets and liabilities.

Liquidity Risk

Liquidity risk refers to the possible inability to fund payment obligations. It arises in the general funding of

the Company's activities and in the management of positions.

Prudent liquidity risk management consists of providing sufficient amount of cash and securities, enabling funding through sufficient credit facilities and the ability to close open positions. The risk of funding current and future debt requirements is managed by maintaining the availability of sufficient and high-quality loan providers.

The Company management manages liquidity risk by allocating funding sources and maintaining sufficient cash and cash equivalents to meet its current and potential liabilities.

Key cash metrics of the Company including JCR Eurasia Rating's adjustments are shown below.

USD (000)	2020	2021	2022
FFO	363,363	643,633	639,964
CFO	380,214	1,318,036	86,373
FOCF	547,576	1,319,031	119,812

-Including JCR Eurasia Rating's adjustments where applicable,

Operational Risk

Operational risk is defined as the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure. The operational risks arising from the nature of the business are well identified and closely monitored by the Company management.

In order to minimize or avoid operational risks, The Company implements policies relating to workplace safety, ethical and business standards, segregation of duties, risk mitigation, documentation of processes, and development of policies regarding the definition, measurement, and control of operational risks in order to reduce or eliminate operational risks.

The Company management evaluates the possible results and financial impact of these lawsuits at the end of each period, and as a result of this evaluation, necessary provisions are made against possible gains and liabilities. The Company does not have any significant lawsuits that may give rise to important amount of liability.

In order to minimize operational risks stemming from the nature of business, the Company's obtained several national and international certificates.

ENKA İNŞAAT VE SANAYİ ANONİM ŞİRKETİ (Consolidated Figures)

Balance Sheet (000' USD)

	2022	2021	2020
TOTAL ASSETS	9,023,621	9,102,334	8,453,623
CURRENT ASSETS	5,331,534	5,333,005	3,781,113
Cash and Cash Equivalents	2,966,092	2,389,551	1,603,905
Financial Investments	1,281,982	2,106,464	1,374,369
Trade Receivables	312,974	275,795	333,112
Other Receivables	7,146	13,514	2,837
Contract Assets	28,255	22,371	15,621
Inventories	423,752	255,739	267,728
Prepaid Expenses	232,424	185,854	111,843
Other Current Assets	62,376	63,417	48,389
Assets Classified as Held for Sale	16,533	20,300	23,309
FIXED ASSETS	3,692,087	3,769,329	4,672,510
Financial Investments	349,030	769,416	1,427,617
Trade Receivables	-	8,759	17,175
Investment Properties	2,028,224	2,030,204	1,912,105
Tangible Fixed Assets	1,210,959	887,418	1,233,030
Right-of-Use Assets	59,524	39,744	-
Intangible Fixed Assets	16,674	18,938	62,400
Prepaid Expenses	6,045	1,533	11,431
Deferred Tax Asset	21,563	13,239	8,503
Other Non-Current Assets	68	78	249
TOTAL LIABILITIES & EQUITY	9,023,621	9,102,334	8,453,623
SHORT-TERM LIABILITIES	1,481,853	1,755,791	1,075,033
Short-Term Borrowings	56,347	48,311	55,011
Short-Term Portion of Long-Term Borrowings	4,908	12,041	19,488
Trade Payables	451,180	348,309	167,739
Employee Benefits	17,427	21,143	24,051
Other Payables	18,553	14,942	19,987
Contract Liabilities	423,591	547,396	671,884
Deferred Income	358,784	602,671	-
Current Tax Liabilities	59,001	27,368	19,478
Short-Term Provisions	52,297	63,006	58,705
Other Short-Term Liabilities	39,765	70,604	38,690
LONG-TERM LIABILITIES	637,872	604,959	608,461
Long-Term Borrowings	127,189	104,628	114,302
Other Payables	24,674	24,520	19,151
Deferred Income	4,528	3,128	1,381
Long-Term Provisions	19,218	9,172	13,356
Deferred Tax Liabilities	462,263	463,511	460,271
EQUITY	6,903,896	6,741,584	6,770,129
Share Capital	2,751,959	2,727,682	2,727,682
Repurchased Shares (-)	-127,194	-129,468	-129,468
Other Accumulated Comprehensive Income (Expenses) That Will Not Be Reclassified to Profit or Loss	-1,160,153	-1,319,379	-1,239,214
Other Accumulated Comprehensive Income (Expenses) to be Reclassified to Profit or Loss	-5,933	-700	-1,009
Previous Years Profits or Losses	5,362,945	4,786,992	4,692,285
Net Profit or Loss	6,887	609,567	643,265
Non-Controlling Shares	75,385	66,890	76,588

-Including JCR Eurasia Rating's adjustments where applicable,

ENKA İNŞAAT VE SANAYİ ANONİM ŞİRKETİ (Consolidated Figures)

Income Statement (000' USD)

	2022	2021	2020
Revenue	3,769,514	2,859,411	1,658,761
Cost of Sales	-2,924,417	-2,089,102	-1,244,866
GROSS PROFIT (LOSS)	845,097	770,309	413,895
General and Administrative Expenses	-87,955	-83,242	-82,348
Marketing Expenses	-22,292	-28,149	-22,240
Other Operating Income	34,827	50,314	42,299
Other Operating Expenses	-48,389	-105,986	-54,754
OPERATING PROFIT (LOSS)	721,288	603,246	296,852
Income from Investment Activities	303,738	327,514	538,109
Expenses from Investment Activities	-880,071	-187,338	-97,390
OPERATING PROFIT (LOSS) BEFORE FINANCING ACTIVITIES	144,955	743,422	737,571
Financing Income	134,888	94,392	45,713
Financing Expenses	-65,483	-35,347	-26,524
Net Monetary Position Gains (Losses)	-103,254	-	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	111,106	802,467	756,760
Tax Income Expense from Continuing Operations	-94,966	-201,028	-111,625
Current Tax (Expense) Income	-187,710	-121,789	-107,653
Deferred Tax (Expense) Income	92,744	-79,239	-3,972
NET PROFIT FROM CONTINUING OPERATIONS	16,140	601,439	645,135
NET PROFIT (LOSS) FOR THE PERIOD	16,140	601,439	645,135
Distribution of Profit (Loss) for the Period	16,140	601,439	645,135
Non-Controlling Shares	9,253	-8,128	1,870
Parent Shares	6,887	609,567	643,265

-Including JCR Eurasia Rating's adjustments where applicable,

ENKA İNŞAAT VE SANAYİ ANONİM ŞİRKETİ
Key Ratios & Metrics

	2022	2021	2020
PROFITABILITY			
EBITDA Margin (%)	22.35	25.93	24.05
EBIT Margin (%)	19.49	23.04	18.65
CFO Margin (%)	2.29	46.09	22.92
Return on Average Assets (ROaA) (%)	0.18	6.85	7.69
Return on Average Equity (ROaE) (%)	0.24	8.90	9.62
Net Profit Margin (%)	0.43	21.03	38.89
Operating Profit Margin (%)	19.13	21.10	17.90
Gross Profit Margin (%)	22.42	26.94	24.95
LIQUIDITY			
FFO Debt Service Coverage (x)	36.25	12.30	4.80
Current Ratio (x)	3.60	3.04	3.52
Net Working Capital / Assets (%)	42.66	39.30	32.01
LEVERAGE			
FFO / Adjusted Net Debt (%)	CS	CS	CS
Adjusted Net Debt / EBITDA (x)	CS	CS	CS
FOCF / Adjusted Net Debt (%)	CS	CS	CS
Adjusted Debt / Capital (%)	2.66	2.39	2.71
Adjusted Short-Term Net Debt / EBITDA (x)	CS	CS	CS
EFFICIENCY			
RoC (Return on Capital) = EBIT / Avg. Capital (%)	10.50	9.50	4.48
Working Capital Turnover Ratio (x)	1.02	0.91	0.71
Operating Ratio (%) = OPEX / Net Sales	2.92	3.90	6.31
Equity Turnover (x)	0.55	0.42	0.25
Cash Conversion Cycle (days)	21	41	97
Account Receivables Turnover (x)	12.62	9.01	5.31
Inventory Turnover (x)	8.61	7.98	4.61
Payables Turnover (x)	7.32	8.10	7.24
COVERAGE			
EBITDA / Adjusted Interest (x)	NM	NM	340.04
FFO Interest Coverage= (FFO) / Adjusted Interest Paid (x)	NM	NM	309.77
CFO / Capex (x)	NM	NM	NM
FOCF Dividend Coverage=FOCF (t-1) / Dividends Paid (t) (x)	4.82	2.24	-0.01
GROWTH			
Sales Growth (%)	31.83	72.38	-12.35
EBITDA Growth (%)	13.59	85.91	-3.98
Asset Growth (%)	-0.86	7.67	1.63

NM: Not Meaningful

CS: Cash Surplus

-Including JCR Eurasia Rating's adjustments where applicable

Company Name	Business Activity	Proportion of Effective Ownership (%)	Relation with the Group as of FYE2022
Enka Holding B.V.	Construction	100	Subsidiary
Enka Holding Investment S.A.	Construction	100	Subsidiary
Enka Power Systems B.V.	Construction	100	Subsidiary
Enka Construction & Development B.V.	Construction	100	Subsidiary
Far East Development B.V.	Construction	100	Subsidiary
Enka Geothermal B.V.	Construction	100	Subsidiary
Enmar	Construction	100	Subsidiary
Entrade	Construction	100	Subsidiary
Capital City Investment B.V.	Construction	100	Subsidiary
Enka LLC	Construction	100	Subsidiary
Retmos Investment Ltd.	Construction	100	Subsidiary
OOO Victoria	Construction	100	Subsidiary
Enka & Co LLC	Construction	100	Subsidiary
Enka Müteahhitlik	Construction	100	Subsidiary
Enkamos Region B.V.	Construction	100	Subsidiary
Poyraz Shipping B.V.	Construction	100	Subsidiary
Bogazici Shipping B.V.	Construction	100	Subsidiary
Doga Shipping B.V.	Construction	100	Subsidiary
Imbat Shipping B.V.	Construction	100	Subsidiary
TNY Shipping B.V.	Construction	100	Subsidiary
Alacante Shipping B.V.	Construction	100	Subsidiary
BRK Overseas Shipping B.V.	Construction	100	Subsidiary
MML Merchant Shipping B.V.	Construction	100	Subsidiary
Esta Construction B.V.	Construction	100	Subsidiary
Enka UK Construction Ltd.	Construction	100	Subsidiary
Enet	Construction	100	Subsidiary
Üstyurt Kurylys	Construction	100	Subsidiary
Mosenka	Real Estate	100	Subsidiary
MKH	Real Estate	100	Subsidiary
OMKH	Real Estate	100	Subsidiary
City Center Investment B.V.	Real Estate	100	Subsidiary
Edco Investment B.V.	Real Estate	100	Subsidiary
Enru Development B.V.	Real Estate	100	Subsidiary
LLC Enka Flex Office	Real Estate	100	Subsidiary
Enka Moskova Gayrimenkul Gel. A.Ş.	Real Estate	100	Subsidiary
İzmir Elektrik	Energy	100	Subsidiary
Adapazarı Elektrik	Energy	100	Subsidiary
Gebze Elektrik	Energy	100	Subsidiary
Enka Santral Hizmetleri A.Ş.	Energy	100	Subsidiary
Enka Enerji Ticaret A.Ş.	Energy	100	Subsidiary
Enka TC LLC	Trade	100	Subsidiary
Emos LLC	Trade	100	Subsidiary
Enmar Construction B.V.	Trade	100	Subsidiary
Cmos B.V.	Trade	100	Subsidiary

Company Name	Business Activity	Proportion of Effective Ownership (%)	Relation with the Group as of FYE2022
Airenka	Trade	100	Subsidiary
Enka System Yazılım A.Ş.	Trade	100	Subsidiary
Emkamos Center Invest LLC	Construction	100	Subsidiary
Enka Sakarya Elektrik Üretim A.Ş.	Construction	100	Subsidiary
Enka Kırklareli Elektrik Üretim A.Ş.	Construction	100	Subsidiary
Enka Construction S.A.	Construction	100	Subsidiary
Enka Global Construction LLC	Construction	100	Subsidiary
Enka Construction & Development LLC	Construction	100	Subsidiary
Enka Mocambique LDA	Construction	100	Subsidiary
Enka Pazarlama	Trade	99.99	Subsidiary
Enka Trading B.V.	Trade	99.99	Subsidiary
Metra Akdeniz Dış Ticaret A.Ş.	Trade	99.99	Subsidiary
Encommerce B.V.	Trade	99.99	Subsidiary
Entaş	Trade	99.98	Subsidiary
Kasktaş	Construction	99.9	Subsidiary
Kasktaş Arabia Ltd.	Construction	99.9	Subsidiary
Titaş	Construction	99.5	Subsidiary
Çimtaş Gemi İnşa San. Ve Tic. A.Ş.	Construction	97.88	Subsidiary
Çimtaş Hassas İşletme San. Ve Tic. Ltd. Şti.	Construction	97.35	Subsidiary
Çimtaş Çelik	Construction	97.35	Subsidiary
Cimtas Mechanical Contracting B.V.	Construction	97.35	Subsidiary
Cimtas(Ningbo) Steel Processing Company Ltd.	Construction	97.35	Subsidiary
Cimtas Investment B.V.	Construction	97.35	Subsidiary
Cimtas Steel Metal Konstruksiya MMC	Construction	97.35	Subsidiary
Gemlik Deniz Taşımacılık Ltd. Şti.	Construction	97.35	Subsidiary
Enka Renewables LLC	Energy	90	Subsidiary
Enka Teknik	Construction	80	Subsidiary
Enka-Üstay (Türkiye)	Construction	60	Joint Ventures
Çimtaş Boru İmalatları ve Tic. Ltd. Şti.	Construction	50	Subsidiary
Enka-Batys LLP (Kazakhstan)	Construction	50	Joint Ventures
Bechtel-Enka (Kazakhstan)	Construction	50	Joint Ventures
Bechtel-Enka (Romania)	Construction	50	Joint Ventures
Bechtel-Enka (Albania)	Construction	50	Joint Ventures
Bechtel-Enka (Kosovo)	Construction	50	Joint Ventures
Bechtel-Enka (Oman)	Construction	50	Joint Ventures
Bechtel-Enka (Georgia)	Construction	50	Joint Ventures
Bechtel-Enka (Serbia)	Construction	50	Joint Ventures
Bechtel-Enka UK 2 Ltd (England)	Construction	50	Joint Ventures
Arge (Germany)	Construction	50	Joint Ventures
Other (Europe, Africa, America, Asia)	Construction	50	Joint Ventures

Rating Info

Rated Company:	Enka İnşaat ve Sanayi Anonim Şirketi Balmumcu Mahallesi Zincirlikuyu Yolu No: 10, 34349 Beşiktaş – İstanbul Telephone: +90 212 376 10 00
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Rating Publishing Date:	30.01.2024
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Audited Financial Statements:	3Q2023 - FYE2022 - FYE2021-FYE2020-FYE2019 Consolidated Audit Figures
Previous Rating Results:	January 30, 2023 / Long-Term National Scale / 'AAA (tr)' Other rating results for the Group are available at www.jcrer.com.tr
Rating Committee Members:	Z, M, Çoştan (Executive Vice President), M, Hayat (Manager), M. Başar (Team Leader-Senior Analyst)

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The Company's balance sheet composition, asset quality, risk management practices, business profile, liquidity management, history in the sector, profitability figures, revenues, debt structure, growth rates, off-balance sheet commitments, and the financial and non-financial positions of the main shareholders were taken into consideration while determining the risk assessment of the long-term international local currency and foreign currency ratings as well as national ratings.

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