JCR-ER JCR Eurasia Rating
"JCR-ER, Group of Japan Credit Rating Agency, Ltd." JCR

Press Release

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In the periodic annual review, **JCR Eurasia Rating** evaluated the **Consolidated Structure** of **MLP Sağlık Hizmetleri A.Ş.** and the **Bond Issuances** in an investment level category on a national and international level and affirmed the ratings on the Long and Short Term National Scales as **'BBB+(Trk)'** and **'A-2(Trk)'** respectively and assigned a **'Positive'** outlook on the Long Term National Rating. On the other hand, the Long Term International Foreign and Local Currency Ratings have been affirmed as **'B'** whilst the outlooks have been maintained as **"Negative"** in line with the latest assessment of Japan Credit Rating Agency Ltd dated 10 April 2020.

MLP Sağlık Hizmetleri A.Ş., the foundations of which were laid 27 years ago with the opening of Sultangazi Hospital, consistently maintained its expansion through greenfield hospitals and acquisitions in line with the reforms initiated by the implementation of Health Transformation Program since 2003. The Company underwent an initial public offering on the Borsa Istanbul (BIST) index in February, 2018 and is currently the market leader in the Turkish private healthcare sector with 30 hospitals in 16 cities across different geographic regions and a bed capacity nearing 6,000. The Company which appeals to a broad socio-economic spectrum of patients across the country through its Medical Park and Liv brands which enjoy high market recognition along with the VM Medical Park concept whilst the Medical Park and Liv Hospital brands of the Company were included within Turquality Support Program in December, 2019. It maintained the diversification in its revenue composition in non-Social Security Institution (SSI) segments principally in the categories of medical tourism along with private and top-up health insurance and contractual institutions in the completed financial year. In line with the growth strategy focused on large-scale hospitals in metropolis, the Company sold its shares in Arkaz Sağlık Hizmetleri with the exception of Çanakkale Hospital and acquired Ozel Mehmet Toprak Hospital in Maltepe, Istanbul and signed a share transfer agreement to take over Medisis Hospital in Kecioren, Ankara. Within the scope of criteria published by the Ministry of Health to combat the effects of the coronavirus (Covid-19) pandemic which emerged in the Wuhan district of China and penetrated the global and Turkey, a significant share of the Group's aggregate bed capacity and facilities, principally in Istanbul, was declared as pandemic hospitals.

Despite the weakened domestic demand and fall in GDP growth in the first half of the completed financial year, the Company maintained the strong expansion in its revenue and EBITDA and decreased its FX losses in line with the currency hedging to manage FX risk principally stemming from long-term FC denominated project finance loans and financial leasing liabilities. However, the internal equity generation capacity of the Company came under pressure due to the rising borrowing costs on the TRY. It is anticipated that the interest rates which underwent a steep fall since the 2H2019, will provide a suitable base for the reduction in financing expenses and acquisition opportunities that could emerge in the market. Despite the high level of medical inflation, the implementation of effective cost-control practices, the contribution of Pendik and Mersin Hospitals operationalized in 2018 to the operating profit and reduction in capex, the Group maintained its stable EBITDA margin and financial leverage levels. The impact of the rise in short-term financial loans on net working capital levels in the completed financial year is compensated by the improvement in cash conversion cycle and increase in operating and free cash flows along wih the resource composition diversified by bond issuances. The comprehensive revision undertaken in the Health Enforcement Declaration tariffs undertaken in the recent past and the digitalization and automation processes conducted across the Group, which maintained its real growth in the first quarter of the current financial year, is expected to reflect positively on the turn-over and operating profitability figures.

The Group's unique business model through brands and concepts appealing to different income segments and leading market share, stable revenue and EBITDA growth trend, the maintenance of a low level of financial leverage, the know-how in the field of expanding and managing greenfield and acquired hospitals, the consolidation opportunities in the private hospital sector created by the current economic conjecture, the notable presence in the complimentary insurance market which maintains its rapid expansion, the development potential of the Turkish healthcare sector in the process of convergence with OECD averages in the medium and long-term along with the expectations relating to rising level of investments in the healthcare sector on a global scale in the aftermath of the Covid-19 pandemic constitute the principle reasons underlying the affirmation of the Long Term National Rating and outlook as **"BBB+(Trk)"** and **"Positive"**. The impact of the effective cost-containment and liquidity management measures taken to compensate for the contractionary effects of the ongoing Covid-19 pandemic and associated social isolation measures and international travel restrictions on domestic patient volumes and medical tourism revenues with a particular focus in the 2nd quarter, the contribution of additional capacity to be operationalized in city hospitals in the near future, price regulations and financial incentives offered by state to demand management, the trend in financing expenses, the impact of the hospitals added to the portfolio on turn-over and EBITDA and internal equity generation capacity are the principle issues that will be monitored by JCR Eurasia Rating. The resources obtained from the debt issue are carried within the Company's balance sheet and as such no separate issue rating report will be documented and the resources have been analyzed within the current credit rating report. As the bonds issued have no differentiation in comparison to the Company's other liabilities from a legal and collateralization perspective, the corporate credit ratings also reflect the Group's issue ratings

Within the context of the strengthened equity structure primarily through the contribution of foreign corporate investors, the shareholders are assumed to possess financial strength and willingness to provide liquidity for MLP Sağlık should such a need arise taking into consideration its brand value in the private healthcare sector, widespread network across the country and strong position in the Istanbul market, the successfully implemented growth strategy with a wide perspective, the contribution of cash flows derived from completed investments to returns, highly qualified medical staff in their respective fields and generated employment opportunities. As such, the Sponsor Support grade has been affirmed as **(2)** on JCR Eurasia Rating's notation scale, denoting a strong level.

On the other hand, as JCR Eurasia Rating, regardless of shareholder support, considering the reduced vulnerability of the cash flows to economic and external shocks in comparison to other industries, the stable EBITDA margin supported by efficiency measures, rising patient volumes, the quality of service provision compliant with global quality standards and success in complex treatments with a positive impact on medical tourism turn-over in the aftermath of Covid-19, the diversified resource structure through bond/bill issuances and high level of compliance with Corporate Governance Practices attained through its listed structure in comparison to peers in the sector and presence of a skilled management team, the Company is assumed to have reached a level of experience to manage the incurred risks on its balance sheet provided that it maintains its market effectiveness and that no considerable deterioration occurs in the macro-economic conjecture. Within this context, the Stand-Alone grade has been affirmed as **(AB)** on JCR Eurasia Rating's notation system, denoting a strong level.

For more information regarding the rating results, you may visit our internet site **http://www.jcrer.com.tr** or contact our analyst Mr. **Dincer SEMERCILER**.

JCR EURASIA RATING
General Manager

" **JCR Eurasia Rating,** evaluated **the Consolidated Structure of MLP Sağlık Hizmetleri A.Ş.** and **the Bond Issuances** and affirmed the ratings on the Long and Short-Term National Ratings as **'BBB+(Trk)'** and **'A-2(Trk)',** respectively and assigned a **"Positive"** outlook on the Long Term National Rating. "

RATINGS

		Long	Short
International	Foreign Currency	B	B
	Local Currency	B	B
	Outlook	Negt.	Negt.
		Negt.	Negt.
	Issue Rating	-	-
National	National Rating (Trk)	BBB+	A-2
	Outlook	Post.	Stable
	Issue Rating (Trk)	BBB+	A-2
Sponsor Support		2	-
Stand Alone		AB	-

Sector: Hospital/Healthcare
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