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Article

## Turk Telecoms: A year to remember

Turk Telekom reported a very good set of FY17 numbers. Revenue rose 12.6% year-on-year to 18.1bn Turkish lira, helping EBITDA rise to a post-IPO record

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### Turk Telecom's robust EBITDA performance was driven by strong customer attraction and upselling

Total subscribers reached 41.7 million (+2.6mn YoY). LTE penetration rose to 67% from 53% last year, while fibre now accounts for 39% of all broadband customers. Average revenue per user rose from TRY 26.1 to TRY 27.9 YoY in Mobile and from TRY 44.7 to TRY 44.8 YoY in Broadband.

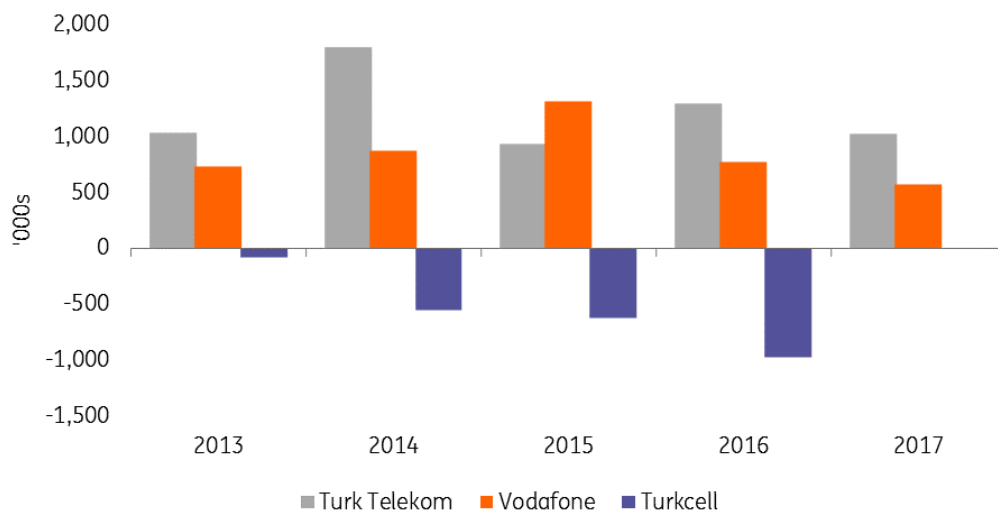
Operationally, this company is in very good shape.

Balance sheet metrics also strengthened. Net debt/EBITDA fell from 2.23x to 1.87x during 2017, while the current ratio improved from 1.11x to 1.22x. Capex rose 6.4% YoY to TRY 3.2bn, significantly below revenues, meaning that the Capex/Sales ratio improved from 18.8% to 17.7% over the period.

Regarding the outlook, Turk Telecoms is guiding for 2018 revenues to grow by about 11%, EBITDA to come in at TRY 7.0-7.2bn and capex to rise slightly to around TRY 3.5bn.

### Earnings in detail

Turk Telecoms FY17 revenues increased by a very impressive 12.6% YoY to TRY 18.1bn as past (and ongoing) investments in infrastructure and content bore fruit. New subscribers were added across all three growth areas of the company: Broadband (+1.1m), Mobile (+1.0m) and Home TV (+490,000).

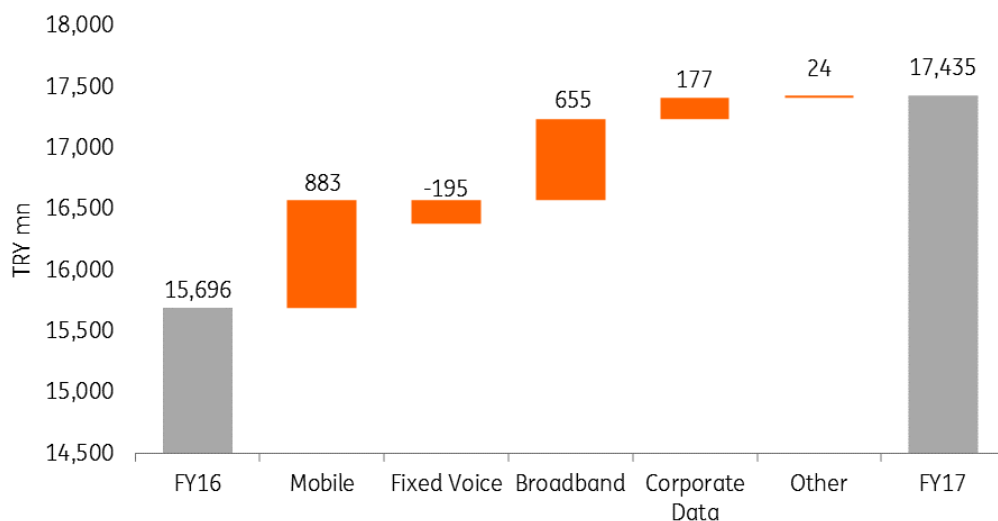


Source: Company data, ING

### Good news across the segments

As well as growing volumes, ARPU increased across all segments, as Turk Telecoms saw further success in upselling products to customers. To illustrate the point, Broadband ARPU increased to TRY 44.8 as the proportion of customers using over 75GB of data per month increased from 17% to 31% YoY, while Mobile ARPU rose 6.8% to TRY 27.9 as smartphone penetration rose to 79% (well ahead of the market) and average monthly data usage increased 43% YoY to 4.0GB per subscriber.

Looking at the company's operations, 30% of revenues were generated by Mobile (revenues +15% YoY), 29% by Broadband (+15%), 9% by Corporate Data (+13%) and just 16% by Fixed Voice (-7%). Turk Telecoms began rolling out its LTE capabilities on 1 April 2016. At the time of writing, 67% of Turk Telecoms mobile customers use an LTE-capable smartphone, up from 53% last year. These customers also use more data than their non-LTE peers, increasing ARPU for the company.



Source: Company data, ING

### Total gains

Bringing all this together, EBITDA increased 18.0% YoY to TRY 6.5bn. The EBITDA margin came in at 35.6%, up 1.6ppts YoY. Operating profit was up 31.0% to TRY 3.4bn (margin: 18.9%), while the bottom line was impacted by a TRY 1.5bn charge due to currency moves. However, this was much smaller than the TRY 2.5bn posted in FY16. Added to the considerable improvement in revenues, this allowed the company to post a net profit of TRY 1.1bn in FY17, up from a net loss of TRY 724m

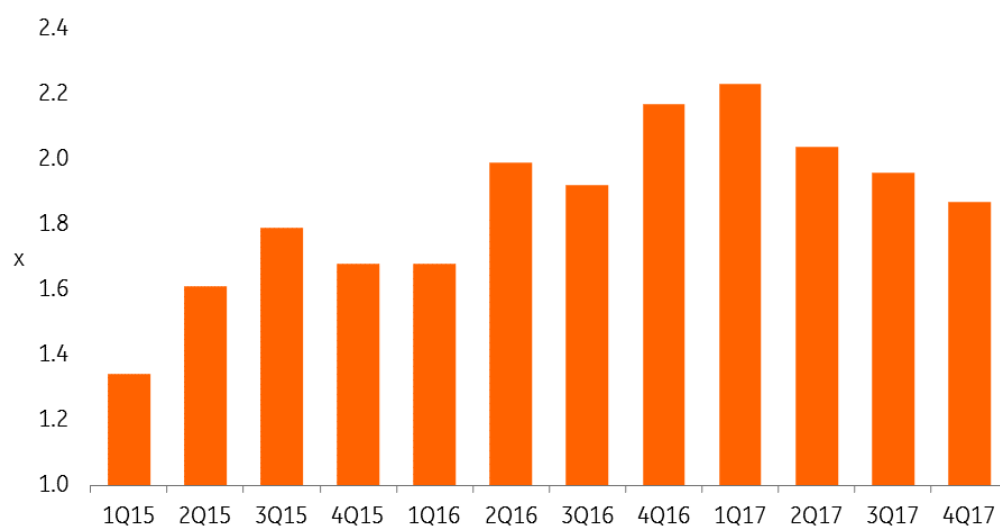
in the prior-year period.

## Weighing up the balance sheet

Turning to the balance sheet, the increase in EBITDA outweighed a small increase in net debt from TRY 12.0bn to TRY 12.4bn (down from a peak of TRY 13.0bn in 1Q17), causing leverage to fall from 2.17x to 1.87x YoY. With the spectrum payments and significant investments behind it (Capex is expected to remain fairly steady in 2018), we are optimistic that we should see a further improvement in leverage in the coming quarters.

The company has total gross debt outstanding of TRY 16.5bn. 15% matures in the next twelve months, with a further 29% to follow in one-two years, 35% in the two-five year bucket and another 21% falling due in more than five years. Turk Telecoms remains vulnerable to currency risk due to currency mismatches between assets and liabilities. While assets (and revenues) are priced in TRY, the overwhelming majority of its debt is denominated in FX. At end-FY17, Turk Telecoms had \$4.4bn equivalent of gross FX debt, with a hedge ratio of 35%.

## Telecoms Net Leverage



Source: Company data, ING

## Liquidity and the outlook

Liquidity is decent; the company's current ratio stands at a healthy 1.22x. Operating cash flow remains strong at TRY 5.9bn. Cash and equivalents increased from TRY 3.0bn to TRY 4.1bn over the period on higher revenues, partially offset by debt repayments.

Regarding the outlook, Turk Telecoms is guiding for 2018 revenues to grow by about 11%, EBITDA to come in at TRY 7.0-7.2bn and capex to rise slightly to around TRY 3.5bn. Following the strong performance in 2017, ongoing evidence of strong increases in data consumption and economic digitalisation and the slowdown in Capex growth as the investment cycle turns, we find these targets entirely credible.

**Nicholas Smallwood**

Senior Emerging Markets Credit Analyst

+44 20 7767 1045

[nicholas.smallwood@ing.com](mailto:nicholas.smallwood@ing.com)

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