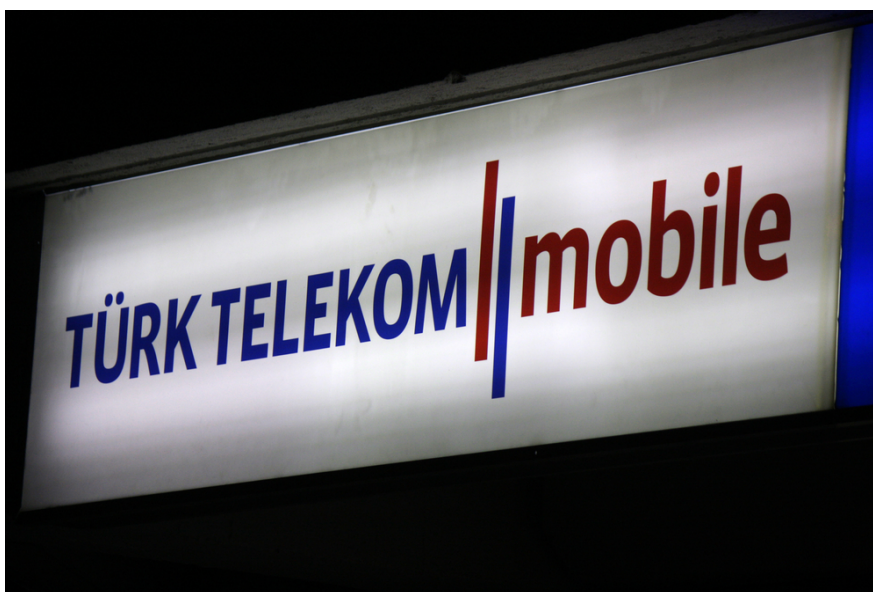


Turk Telekom: Somewhere to run to

Turk Telekom has reported a solid set of results that continue to defy the general gloom surrounding Turkey. Excellent operational results, stable leverage and ample cash reserves provide a good buffer against current volatility



Source: Shutterstock

Results highlights

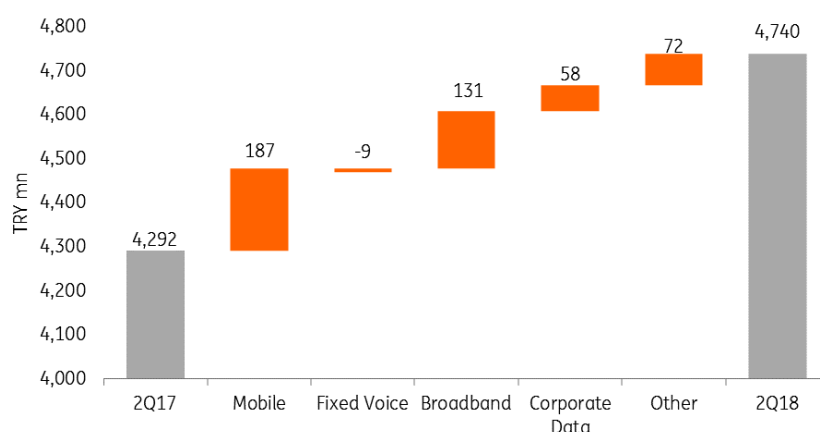
- Turk Telekom reported a decent set of 2Q18 numbers. Second quarter revenue rose 10% year on year to TRY5bn, helping EBITDA rise 10% YoY to TRY2.0bn with a 40% margin (1Q18 margin: 42.1%).
- However, the company posted a net loss of TRY889m in 2Q due to unfavourable currency moves and hedging costs, without which it would have achieved net income of TRY676m.
- Strong customer attraction and upselling drove Turk Telekom's robust EBITDA performance. Total subscribers reached 43.5m (+937,000 QoQ). LTE now covers 88% of the country, up from 77% last year. ARPU rose from TRY28.2 to TRY30.2 YoY in Mobile but fell slightly from TRY44.6 to TRY43.6 YoY in Broadband. Operationally, this company is in very good shape.

- Balance sheet metrics also remained solid. Net debt/EBITDA of 1.96x was flat YoY, though the current ratio fell back from 1.27x to 0.99x over the same period. Capex fell 50% YoY to TRY 724mn, putting the Capex/Sales ratio at a decent 14.6%.
- Regarding the outlook, Turk Telekom is maintaining guidance for 2018 revenues to grow by about 11%, EBITDA to come in at TRY7.6-7.8bn and capex to rise slightly to around TRY4.1bn.

Earnings in detail

- Turk Telekom's 2Q18 revenues increased by an impressive 10.0% YoY to TRY5.0bn as past (and ongoing) investments in infrastructure and content bore fruit. New subscribers were added across all three growth areas of the company: Broadband (+1.2m), Mobile (+1.4m) and Home TV (+557,000).
- As well as growing volumes, ARPU increased in Mobile but fell back slightly flat in Broadband, as Turk Telekom competed to maintain its edge in subscriber additions. Broadband ARPU fell back TRY1.0 to TRY43.6 as the proportion of customers using over 75GB of data per month increased from 26% to 35% YoY, while Mobile ARPU rose 7.8% to TRY30.2 as smartphone penetration rose to 82% (well ahead of the market) and average monthly data usage increased 29.5% YoY to 5.7GB per user.

Revenue contributions by segment

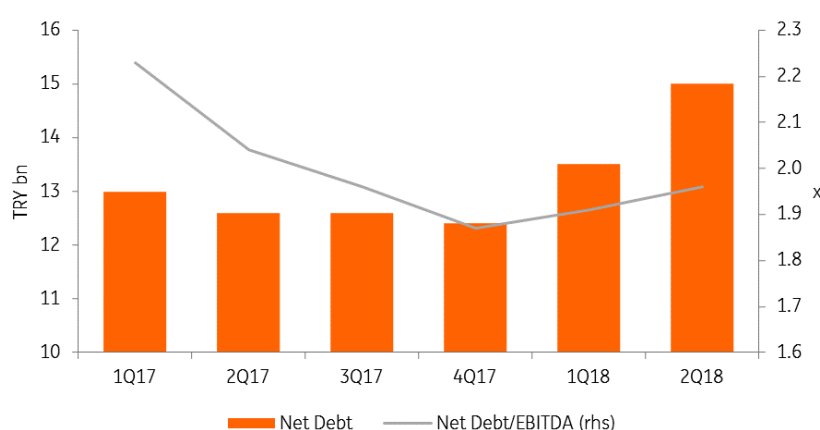


Source: Company data, ING

- Looking at the company's operations, 40% of revenues were generated by Mobile (revenues +11.3% YoY), 29% by Broadband (+10.9%), 10% by Corporate Data (+16.9%) and just 14% by Fixed Voice (-1.4%). Turk Telekom began rolling out its LTE capabilities on 1 April 2016. At the time of writing, 73% of TURKTI's mobile customers use an LTE-capable smartphone, up from 60% last year. These customers also use more data than their non-LTE peers, increasing ARPU for the company.

- Bringing all this together, EBITDA increased by 15.0% YoY to TRY2.0bn. The EBITDA margin came in at 40%, up 2ppt YoY but down slightly QoQ. The YoY number was somewhat inflated by the introduction in January of IFRS 15 (see more [here](#)). Operating profit was up 12.7% to TRY1.1bn (margin: 21%). However, the bottom line was impacted by a TRY1.9bn charge due to currency moves, causing the company to post a net loss of TRY889m in 2Q18, down from a TRY890m profit in 2Q17.
- Turning to the balance sheet, the increase in EBITDA was not enough to offset a rise in net debt from TRY13.5bn to TRY15.0bn QoQ (2Q17: TRY12.6bn), causing leverage to tick up very slightly from 1.83x to 1.96x (2Q17: 1.96x). 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 underlying leverage in the coming quarters, although the capex numbers are affected by the new accounting rules and IFRS 16 will increase borrowings when the company adopts it in January 2019.
- Turk Telekom has total gross debt outstanding of TRY19.3bn. 30% matures in the next twelve months, with a further 19% to follow in 1-2 years, 30% in the 2-5 year bucket and another 21% falling due in over five years. The average maturity of the book is 2.8 years.
- Turk Telekom 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-2Q18, Turk Telekom had US\$4.2bn equivalent of gross FX debt, with a hedge ratio of 43%, up from just 13% in 1Q17. Note that the hedge ratio includes participating cross-currency swaps, FX swaps and cash denominated in FX.

Net debt and leverage development



Source: Company data, ING

- Liquidity is decent, though it has weakened recently. The company's current ratio stands at 0.99x, down from 1.27x in 2Q17. Operating cash flow remains strong at TRY1.8bn, higher than the TRY1.5bn reported in 2Q17. Cash and equivalents increased from TRY2.1bn to TRY4.3bn over the period on higher revenues

Regarding the outlook, Turk Telekom has maintained guidance for 2018 revenues to grow by about 11%, EBITDA to come in at TRY7.6-7.8bn and capex to rise to around TRY4.1bn. The latter two have been adjusted upwards since year-end to reflect the new accounting rules.

Following the strong performance in 1H18, ongoing evidence of strong increases in data consumption and economic digitalisation and the stabilisation in underlying capex as the investment cycle turns, we find these targets entirely credible.