EARNINGS REVIEW 4Q17

Turkey | Telecom Services | 09 February 2018

Turk Telekom

Met the guidance despite hiccup

We cut our rating to Hold from Buy due to limited upside in the stock while increasing in our TP to TRY7.01. The results were broadly in line with the consensus and the management guided for the growth trend to continue into 2018. We also believe the proposal of not distributing dividends may help the management keep the balance sheet healthy in a volatile currency environment. However, we think that the ownership issue will continue to weigh on the share price until a resolution can be hammered out.

Turk Telekom announced its 4Q17 financial results with TRY4.8bn revenues (+13% YoY), TRY1.53bn EBITDA (+6% YoY) and TRY113mn net loss (vs. TRY1.4bn net loss a year ago). Top line and EBITDA were broadly in line with the consensus and our estimates, while net loss was significantly better than the street estimates due to lower net financial losses.

Looking into details:

- **Fixed lines:** The company continued to expand its fixed voice subscribers thanks to entry level offerings in fixed tariffs. Fixed voice subscribers reached 9.6mn, which was above both our estimate and the consensus, while the ARPU of this category at TRY22.2 fell short of the estimates at TRY22.7.
- **Broadband** subscriber growth was also above the estimates with 9.7mn as of end of FY17 and the company managed to keep its ARPU at TRY44.8, which was slightly ahead of the consensus of TRY44.6. The company added another 246K subscribers to its fibre base in this quarter, mainly owing to continued growth in the number of Fibre-to-the-cabinet (FTTC) subscribers.
- **Mobile:** The company added some 400K mobile subscribers in 4Q17, yet the ARPU dropped to TRY27.9 from TRY28.8 a quarter ago, falling behind of the consensus of TRY28.5.
- **EBITDA** margin of 32% was the lowest in many quarters but this came as a result of the higher provision booked and that had been previously announced by the company. Meanwhile, personnel costs were also relatively elevated during the quarter. Despite the hiccup in the last quarter, the management was able to reach the high end of its top line guidance and the EBITDA of TRY6.45bn was a tad better the consensus. Despite the TRY1.14bn net income, the BOD proposed not to distribute any dividends to keep its balance sheet healthy ahead of 2018.
- **Guidance:** The management targets 11% revenue growth (excluding Construction adjustment) vs. our expectation of 11% YoY growth, with an EBITDA of TRY7-7.2bn vs. our calculation of TRY7bn. Separately, consolidated CAPEX will be around TRY3.5bn for FY18 compared to our forecast of TRY3.6bn.

The stock is trading at 20% and 22% discount in terms of 2018E and 2017E average EV/EBITDA multiples compared to int'l peers, respectively.

Management will host a conference call at 3:30PM local time today to present the results.

GLOBAL SECURITIES

HOLD 8% upside

Fair Value	TRY7.01
Prev. (BUY)	Prev. (TRY6.54)
Bloomberg ticker	**TTKOM TI**
Share Price	TRY6.48
Market Cap	USD6.0bn/TRY22.7bn
Free Float	15%

TRY mn 4Q17	Actual	Consensus	Deviation	Global Est
Revenue	4,800	4,706	2%	4,721
EBITDA	1,525	1,543	-1%	1,469
margin	*31.8%*	*32.8%*	*-1 pps*	*31.1%*
Net profit	-113	-164	-31%	-104
margin	*-2.4%*	*-3.5%*	*1.1 pps*	*-2.2%*

TRY mn	4Q17	4Q16	YoY	3Q17	QoQ
Revenue	4,800	4,250	13%	4,532	6%
EBITDA	1,525	1,434	6%	1,687	-10%
margin	*31.8%*	*33.7%*	*-2 pps*	*37.2%*	*-5.5 pps*
Net profit	-113	-1,388	-92%	293	-139%
margin	*-2.4%*	*-32.7%*	*30.3 pps*	*6.5%*	*-8.8 pps*

Performance	1M	3M	6M	12M
Absolute	-12.1	-9.3	-25.8	-11.7
Relative	-10.5	-11.2	-28.8	-31.8
Relative $	-13.5	-7.6	-31.3	-13.2

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Turk Telekom

Recommendation:	**HOLD**
Fair Value:	**TRY 7.01**
Share Price:	TRY 6.48
Upside / Downside:	8%
Previous Fair Value:	TRY 6.54
Bloomberg ticker:	TTKOM TI
Reuters code:	TTKOM.IS

Shares In Issue Less Treasury (m)	3,500
Market Cap (TRY m)	**22,680**
Net Debt (as of 3Q17)	6,961
Adjustments For Associates & Minorities	-
Enterprise Value (TRY m)	**29,641**
Net Pension Deficit (Surplus)	-

Forthcoming Catalysts

1Q18 financial results	April 2018

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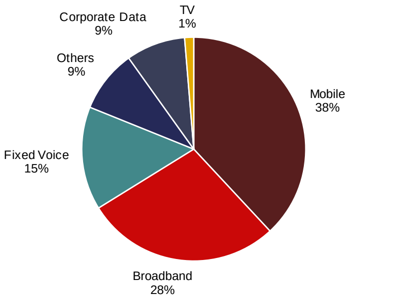
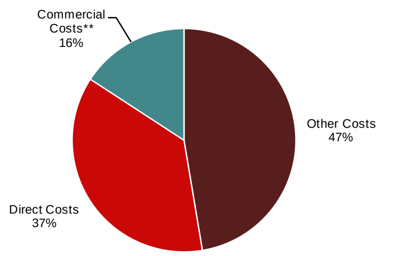
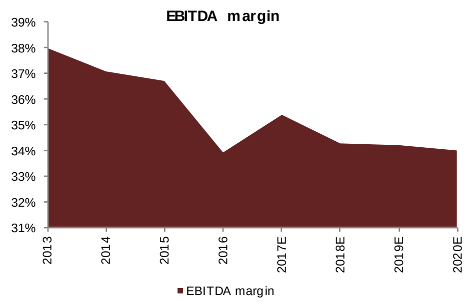
Revenue breakdown



COGS breakdown



Margin Trends



Valuation Metrics (Year end Dec)	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
P/E	26.3	n.a	20.0	18.0	12.5	10.4
EV / Sales	2.0	1.8	1.7	1.5	1.4	1.3
EV / EBIT	9.6	11.1	8.4	8.9	7.9	7.2
EV / EBITDA	5.6	5.4	4.6	4.3	3.8	3.4
P/BV	4.5	6.7	5.0	3.6	3.3	3.1
FCF Yield	4.3%	-4.3%	5.8%	5.2%	10.2%	11.3%
OCF Yield	15.5%	16.6%	20.1%	18.8%	21.1%	23.5%

Key Ratios	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
EBITDA margin	36.7%	34.0%	36.3%	35.9%	37.2%	38.6%
Operating Profit margin	21.3%	16.6%	19.9%	17.3%	17.9%	18.4%
Capex / Revenue	(22.9%)	(38.6%)	(23.9%)	(20.9%)	(15.5%)	(16.1%)
Capex / Depreciation	(1.49)	(2.22)	(1.45)	(1.13)	(0.80)	(0.80)
Net Debt / EBITDA	1.7	2.2	1.9	1.4	1.0	0.9
ROA	3%	-3%	4%	4%	6%	6%
ROE	17%	-21%	25%	20%	26%	30%

P&L Summary (TRY m)	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Revenue	**14,522**	**16,109**	**17,696**	**19,283**	**20,870**	**22,457**
% change	20.6%	10.9%	9.9%	9.0%	8.2%	7.6%
EBITDA	**5,334**	**5,470**	**6,424**	**6,924**	**7,758**	**8,658**
% change	41.8%	2.5%	17.4%	7.8%	12.1%	11.6%
% margin	36.7%	34.0%	36.3%	35.9%	37.2%	38.6%
Depreciation & Amortisation	2,235	2,796	2,906	3,585	4,025	4,519
Operating Profit	**3,099**	**2,674**	**3,517**	**3,339**	**3,733**	**4,139**
% change	46.0%	-13.7%	31.6%	-5.1%	11.8%	10.9%
% margin	21.3%	16.6%	19.9%	17.3%	17.9%	18.4%
Associates						
EBIT	**3,099**	**2,674**	**3,517**	**3,339**	**3,733**	**4,139**
Net Financials	-1,904	-2,593	-1,803	-1,394	-1,065	-976
Other Pre-tax Income						
Pre Tax Profit	**1,261**	**-397**	**1,478**	**1,575**	**2,272**	**2,737**
Income Tax Expense	398	328	343	315	454	547
Discontinued Operations						
Minority Interests						
Net Income	**863**	**(724)**	**1,136**	**1,260**	**1,818**	**2,190**
Reported EPS (TRY)	**0.25**	**(0.21)**	**0.32**	**0.36**	**0.52**	**0.63**
Underlying EPS (TRY)	0.25	(0.21)	0.32	0.36	0.52	0.63
DPS (TRY)	**0.24**	**-**	**-**	**0.18**	**0.26**	**0.31**
Payout Ratio	97.5%			50.0%	50.0%	50.0%
Shares In Issue Less Treasury (m)	3,500	3,500	3,500	3,500	3,500	3,500

Cash Flow (TRY m)	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
EBITDA	**5,334**	**5,470**	**6,424**	**6,924**	**7,758**	**8,658**
- Taxes paid	300	547	642	692	776	866
- Increase in non-cash assets	1,753	(21)	(52)	106	106	107
+ Increase in non-cash liabilities	4,201	295	(462)	1,185	335	337
- Other WC changes	(2,899)	(306)	573	(1,737)	(965)	(1,053)
Cash flow from operations	**4,583**	**4,933**	**5,944**	**5,574**	**6,245**	**6,969**
- Capex	3,320	6,217	4,224	4,037	3,230	3,626
FCFF	1,263	(1,284)	1,720	1,536	3,016	3,343

Balance Sheet (TRY m)	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Cash & Equivalents	2,838	3,016	4,100	3,857	3,884	5,565
Inventory	252	261	204	304	404	504
Trade Receivables	3,801	8,352	8,662	8,866	6,656	6,834
Fixed Assets	8,538	8,735	9,116	10,607	10,854	11,406
Intangible Assets	8,262	8,386	8,482	8,249	8,167	8,085
Other Assets	2,083	(1,876)	(1,415)	1,862	2,546	2,886
Total Assets	**25,774**	**26,874**	**29,149**	**33,745**	**32,510**	**35,280**
Interest Bearing Debt	11,803	15,041	16,492	13,749	11,416	13,219
Trade Payables	4,236	4,531	4,069	5,254	5,588	5,926
Other Liabilities	4,742	3,915	4,033	8,432	8,604	8,788
Total Liabilities	**20,781**	**23,488**	**24,593**	**27,435**	**25,608**	**27,932**
Shareholders' Equity	4,993	3,387	4,555	6,310	6,902	7,348
Total Equity	**4,993**	**3,387**	**4,555**	**6,310**	**6,902**	**7,348**
Net Debt (Cash)	8,965	12,025	12,392	9,892	7,532	7,653

Exhibit 1 TTKOM DCF

(TLmn)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EBITDA	6,924	7,758	8,658	9,751	10,993	12,384	13,985	15,802	17,855
- Taxes paid	692	776	866	975	1,099	1,238	1,398	1,580	1,785
- Increase in non-cash assets	106	106	107	108	108	109	110	111	112
+ Increase in non-cash liabilities	1,185	335	337	366	367	372	361	339	302
- Other WC changes	-1,737	-965	-1,053	-1,185	-1,248	-1,377	-1,509	-1,571	-1,708
Cash flow from operations	**5,574**	**6,245**	**6,969**	**7,850**	**8,905**	**10,031**	**11,328**	**12,878**	**14,552**
- Capex	4,037	3,230	3,626	4,091	4,666	5,279	5,977	6,772	7,676
FCFF	**1,536**	**3,016**	**3,343**	**3,759**	**4,238**	**4,753**	**5,351**	**6,106**	**6,875**
WACC	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%	13.3%
Discount factor	1.00	1.15	1.32	1.52	1.75	2.02	2.32	2.67	3.07
Discounted FCFE	1,536	2,621	2,525	2,468	2,418	2,357	2,306	2,287	2,238
Terminal growth rate	1.0%	1.25	1.42	1.62	1.85	2.12	2.42	2.77	
PV of terminal value	16,176								
PV of FCFE	20,757								
Net Debt	12,392								
Fair equity value	24,542								
Current Mcap	22,680								
Target FV	7.01								
Upside Potential	8%								

Exhibit 2 Publication schedule

Date	Publication
Apr 18	1Q18 Earnings release

Source: Public disclosure platform

Exhibit 3 Recommendation history

12.09.2008 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
29.12.2016	Buy	6.54	5.16	27.0%
27.07.2016	Hold	6.25	5.99	4.3%

Source: Global Securities

Exhibit 4 Coverage universe recommendation overview

	Buy	Hold	Reduce	Sell	U/R
Universe	21	17	1	1	0
Universe %	53%	43%	3%	3%	0%

Source: Global Securities

Date of completion of this report: 09.02.2018 09:40 UTC+3

Date of email-distribution of this report: 09.02.2018 09:45 UTC+3

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BUY: Buy stocks are expected to have a total return of at least 15% and are the most attractive stocks in our coverage universe on a 12-month horizon.

HOLD: Hold stocks are expected to deliver a positive total return of up to 15% within a 12-month period.

REDUCE: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.

SELL: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.

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