

EARNINGS REVIEW 4Q17

Turkey | Telecom Services | 16 February 2018

Turkcell

Digital transformation on track

We maintain our BUY recommendation for Turkcell with a 12M target price of TRY17.54, which offers a 15% upside. We believe that the company will enjoy a strong financial performance in the coming period and the latest financial results support our view.

Turkcell posted its 4Q17 financial results with TRY4.67bn revenues (+15% YoY), TRY1.74bn EBITDA (+27% YoY) and TRY216mn net income (-38% YoY). The top-line was broadly in line with the consensus of TRY4.6bn, while operating profitability was visibly above expectations with an EBITDA margin of 37.3%, the highest level in the last 9 years, vs. the consensus of 33.9% and our somewhat optimistic estimate of 35.5%, thanks to strict cost control measures during the quarter. All in all, TCELL completed the year slightly ahead of its guidance with 23.4% revenue growth (guidance: 21%-23%) and 35.3% EBITDA margin (guidance: 33% - 35%). Although the announced bottom line was significantly below consensus of TRY505mn, it was reflecting the negative impact of the TRY500mn one-off provision related to the settlement of various disputes with the Treasury and other government bodies and which was announced by company just after the consensus figures had been compiled. Following the results, the BoD proposed to distribute TRY0.563409/shr. cash dividend in 3 instalments, which produces a 3.7% dividend yield. The proposed dividend is 50% of net income excluding the one-off and seems to be in line with the expectations.

- **Turkcell Turkey revenues;** accounting for 87% of group total, increased by 13% to TRY4bn (vs. our call TRY4.19bn) driven by continued solid growth in mobile and digital services (+23% YoY) lower churn rates.
- After adding 2.4mn net subscribers in 9M17, the company lost c. 900K subscribers during the last quarter, especially in mobile pre-paid tariffs due to increasing competition. With the base effects kicking in, mobile ARPU growth declined to 4% YoY in 4Q17, while FY2017 mobile ARPU was still up by 11% thanks to more additions in post-paid and increasing number of mobile triple-play subscribers, which yield more almost 3x more ARPU and have relatively lower churn rates. Fierce competition also hurt fixed additions during 4Q17, as the company lost c. 100K subscribers, especially from their ADSL base. Contrary to mobile, fixed APRU growth was stronger in 4Q17, compared to the rest of the year, again owing to more multi play customers.
- **Turkcell international revenues** grew by 14.6% YoY in 4Q17, slightly lower compared to the first 9M. Ukraine business posted a 16.5% YoY revenue growth in TL terms and a strong EBITDA margin of 27.2%, while Belarus revenues increased by 40% YoY in TL terms, yet the margin was still under pressure at only 3.8%. Overall EBITDA margin of the Turkcell international stood at 22.2%, with a 500bps contraction YoY. A game changer here could be the launch of LTE services in Ukraine where Turkcell was awarded the best spectrum.
- The company's net debt increased by another TRY863mn during 4Q17, reaching TRY7.8bn, as a result of dividend distribution and some CAPEX brought forward to 4Q. That said, company's debt metrics remain still healthy at 1.26x of EBITDA, which drops to 0.6x excluding the impact of finance arm, Turkcell Finansman. Meanwhile, thanks to swap contracts and high share of hard currency cash at hand, the short FX position is only at USD144mn as of end-2017, which remains in the management's comfort zone of below USD500mn.
- The management also shared its guidance for 2018 during last night's conference call. In line with their previously announced 3-year plan, the management expects 13%-15% revenue growth with 33%-35% EBITDA margin. The operational capex to sales guidance, which does not include possible licence fee payments in Ukraine, is 18%-19%.

The stock is trading at 6% and 11% discount in terms of 2018E and 2019E average EV/EBITDA compared to int'l peers.



BUY 15% upside
Fair Value TRY17.54

Bloomberg ticker **TCELL TI**
Share Price TRY15.30
Market Cap USD8.9bn/TRY33.7bn
Free Float 35%

| TRY mn 4Q17 | Actual | Consensus | Deviation | Global Est |
|-------------|--------|-----------|-----------|------------|
| Revenue | 4,666 | 4,604 | 1% | 4,835 |
| EBITDA | 1,739 | 1,559 | 12% | 1,716 |
| margin | 37.3% | 33.9% | 3.4 pps | 35.5% |
| Net profit | 216 | 505 | -57% | 593 |
| margin | 4.6% | 11.0% | -6.3 pps | 12.3% |

| TRY mn | 4Q17 | 4Q16 | YoY | 3Q17 | QoQ |
|------------|-------|-------|---------|-------|----------|
| Revenue | 4,666 | 4,044 | 15% | 4,597 | 1% |
| EBITDA | 1,739 | 1,371 | 27% | 1,632 | 7% |
| margin | 37.3% | 33.9% | 3.4 pps | 35.5% | 1.8 pps |
| Net profit | 216 | 351 | -38% | 601 | -64% |
| margin | 4.6% | 8.7% | -4 pps | 13.1% | -8.4 pps |

| Performance | 1M | 3M | 6M | 12M |
|-------------|-----|------|------|------|
| Absolute | 8.1 | 10.6 | 28.3 | 54.5 |
| Relative | 4.3 | 2.5 | 18.1 | 16.8 |
| Relative \$ | 7.7 | 13.9 | 20.0 | 49.3 |

Analyst

Evren Gezer
+90 850 201 94 82
evreng@global.com.tr
Global Securities

Research contact for general inquiry

+90 212 244 55 66
research@global.com.tr
www.global.com.tr

Yesilce Mah. Eski Buyukdere Cad.
No: 65 Kat: 1 34418 Istanbul Turkey
Global Menkul Degerler



Exhibit 1 Publication schedule

| Date | Publication |
|----------|-----------------------|
| Apr 2018 | 1Q18 Earnings release |

Source: Public disclosure platform

Exhibit 2 Recommendation history

| 12.09.2008 (Initiation date) | Rating | Target Price | Prev. Day's close | Upside |
|------------------------------|--------|--------------|-------------------|--------|
| 04.01.2018 | Buy | 17.54 | 15.10 | 16.1% |
| 01.11.2017 | Buy | 16.07 | 13.75 | 16.8% |
| 26.10.2017 | Buy | 16.10 | 13.62 | 18.2% |

Source: Global Securities

Exhibit 3 Coverage universe recommendation overview

| | Buy | Hold | Reduce | Sell | U/R |
|------------|-----|------|--------|------|-----|
| Universe | 20 | 19 | 1 | 1 | 0 |
| Universe % | 49% | 46% | 2% | 2% | 0% |

Source: Global Securities



Date of completion of this report: 16.02.2017 08:25 UTC+3

Date of email-distribution of this report: 16.02.2017 08:40 UTC+3

Explanation of Rating System

12-MONTH RATING DEFINITION

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.

ANALYST CERTIFICATION

I, Evren Gezer, hereby certify that the views expressed in this research report accurately reflect my personal views about the market and, in conjunction with the named analysts, the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

IMPORTANT DISCLOSURE INFORMATION

This material was produced by Global Menkul Değerler A.Ş. ("GMD") or its Affiliates, solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the world by GMD or an authorised affiliate of GMD (such entities and any other entity, directly or indirectly, controlled by GMD, the "Affiliates"). This document does not constitute an offer of, or an invitation by or on behalf of GMD or its Affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources which GMD or its Affiliates consider to be reliable. None of GMD or its Affiliates accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document.

Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

GMD or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report; GMD or its affiliates have not managed or co-managed a public offering of these securities, or received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months. However, one or more of GMD or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients. GMD or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

© 2018 Global Menkul Değerler A.Ş.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior consent of Global Menkul Değerler A.Ş.



Special additional Regulations for the United States of America:

This report and any recommendation (including any opinion, projection, forecast or estimate; hereinafter referred to as "Report" or "Document") contained herein have been prepared by Global Menkul Değerler A.Ş. or any of its affiliated companies (Global Menkul Değerler A.Ş shall hereinafter be referred to as "GMD") and are distributed in the United States by RB International Markets (USA) LLC ("RBIM"), a broker-dealer registered with FINRA® and Raiffeisen Centrobank AG (a non-US affiliate of RBIM). This Report constitutes the current judgment of the author as of the date of this Report and is subject to change without notice. GMD and/or its employees have no obligation to update, modify or amend or otherwise notify a recipient of this Report if the information or recommendation stated herein changes or subsequently becomes inaccurate. The frequency of subsequent reports, if any, remains in the discretion of the author and GMD. This Report was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research Report (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority ("FINRA") in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts.

GMD's Rating and Risk Classification System (please consider the definition given before)

This Report does not constitute an offer to purchase or sell securities and neither shall this Report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. The information contained herein is not a complete analysis of every material fact regarding the respective company, industry or security. This Report may contain forward-looking statements, which involve risks and uncertainties, does not guarantee future performances whatsoever and is, accordingly, subject to change. Though the information and opinions contained in this Report are based on sources believed to be reliable, neither GMD nor Raiffeisen Centrobank AG nor RBIM has independently verified the facts, assumptions and estimates contained in this report. Accordingly, no representation or warranty, expressed or implied, is made to, and reliance should not be placed on, the fairness, accuracy, completeness or correctness of the information and opinions contained in this Report. Although the opinions and estimates stated reflect the current judgment of Raiffeisen Centrobank AG and RBIM, opinions and estimates are subject to change without notice. This Report is being furnished to you for informational purposes only and investors should consider this Report as only a single factor in making their investment decision. Investors must make their own determination of the appropriateness of an investment in any securities referred to in this Report based on the tax, or other considerations applicable to such investor and its own investment strategy.

Investment Risks

Investments in securities generally involve various and numerous risks and may even result in the complete loss of the invested capital. This Report does not take into account the investment objectives, financial situation or particular needs of any specific client of RBIM. Before making an investment decision on the basis of this Report, the recipients of this Report should consider whether this Report or any information contained herein are appropriate or suitable with regard to their own investment needs, objectives and suitability. Any recommendation contained in this Report may not be suitable for all investors. Past performance of securities and other financial instruments are not indicative of future performance. RBIM can be neither a price guarantor nor an insurer of market conditions.

While the telecom sector can be considered less cyclical in nature, there are still significant industry specific risks. The main risks are the overall health of the global economy as well as the macroeconomic conditions of the countries the companies operate in, regulatory as well as technology related risks in addition to currency and interest rate risks. Legal restrictions of product pricing, regulation of interconnection fees as well as the technology risk with regard to network infrastructure and end-user devices are among the key risks of this industry. Changes in the regulatory environment may limit the scope and profitability of the business and require additional expenditures or capital. Finally, given the high pricing pressure and the high capital intensity of this industry, it is crucial to evaluate counterparty risk to mitigate default risk.

This Report may cover numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states. This Document should not be construed as providing investment advice. Investing in non-U.S. securities, including ADRs, involves significant risks such as fluctuation of exchange rates that may have adverse effects on the value or price of income derived from the security. Securities of some foreign companies may be less liquid and prices more volatile than securities of U.S. companies. Securities of non-U.S. issuers may not be registered with or subject to Securities and Exchange Commission reporting requirements; therefore, information regarding such issuers may be limited. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U.S. persons (within the meaning of Regulation S under the Securities Act of 1933 [the 'Securities Act']), except pursuant to an exemption under the Securities Act. This Report and the contents therein are the copyright product, and property of, RBIM or Raiffeisen Centrobank AG. It is intended solely for those to whom RBIM directly distributes this Report. Any reproduction, republication dissemination, and/or other use of this Report by any recipient of it, or by any third party, without the express written consent of RBIM, is strictly prohibited.



U.S. persons receiving the research and wishing to effect any transactions in any security discussed in the Report should do so through RBIM, and not the issuer of the research. RBIM can be reached at 1133 Avenue of the Americas, 16th Floor, New York, NY 10036, 212-600-2588.

GMD is a stock corporation, incorporated under the laws of the Republic of Turkey and, headquartered at Yesilce Mah. Eski Buyukdere Cad. No: 65 Kat: 1 34418 Istanbul Turkey with a share capital of 40.000.000,00-TL, registered at İstanbul Trade Registry. ***Global Menkul Değerler A.Ş “Global Securities” is a leading financial services firm and an investment bank in Turkey established in 1990, providing a full range of corporate finance advisory, sales & trading, and equity research services with 142 people in its offices throughout Turkey. The shares of Global are or are listed on Borsa Istanbul.***

Responsible supervisory authorities of GMD:

Capital Markets Board (CMB)

Disclosure Aspects

The following disclosures apply to the security when stated under the applicable disclosures section

(Global Menkul Değerler A.Ş hereinafter referred to as “GMD”):

- 1. GMD, or an affiliate, has acted as manager, co-manager, or underwriting participant of a public offering for this company in the past 12 months.*
- 2. GMD or an affiliate, has performed investment banking, capital markets, or other comparable services for this company or its officers in the past 12 months.*
- 3. GMD, or an affiliate, expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months.*
- 4. Securities, or derivatives thereof, of this company are owned either directly by the securities analyst or an affiliate, covering the stock, or a member of his/her team, or indirectly by the household family members.*
- 5. An officer, or a household family member of an officer, of GMD or an affiliate, is a director or an officer of the company.*
- 6. GMD, or an affiliate, beneficially owns 1% or more of any class of this company(ies) common equity.*

Applicable disclosures No Disclosure

© 2018 Global Menkul Değerler A.Ş.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior consent of Global Menkul Değerler A.Ş.

