

Corporate Credit Rating

New Update

Sector: Tourism/Chance Games

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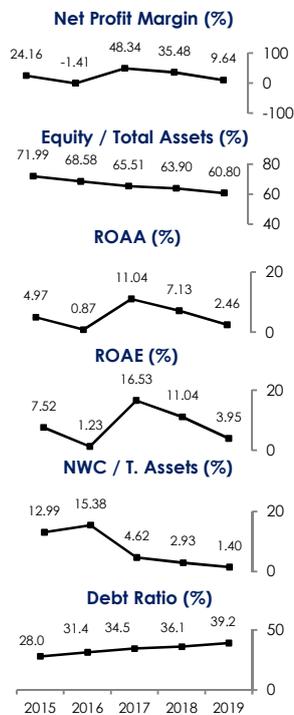
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RATINGS

		Long Term	Short Term	
International	Foreign Currency	BB	B	
	Local Currency	BB	B	
	Outlook	FC	Negative	Negative
		LC	Negative	Negative
Issue Rating	-	-		
National	Local Rating	A-(Trk)	A-1 (Trk)	
	Outlook	Negative	Negative	
	Issue Rating	-	-	
	Sponsor Support Stand-Alone	2	-	
Sovereign*	Foreign Currency	BB+	-	
	Local Currency	BB+	-	
	Outlook	FC	Negative	-
		LC	Negative	-

*Assigned by JCR on April 10, 2020



Net Holding A.Ş. and Consolidated Structure

JCR Eurasia Rating, in its periodic review, has evaluated **Net Holding A.Ş. and Cons. Structure** in an investment-level category on the national scales and has been revised the rating on the Long Term National Scale by one notch from **'A (Trk)'** to **'A- (Trk)'** and assigned outlooks of this rating as **'Negative'**. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned at **"BB"**.

Net Holding A.Ş. (referred to as the **Net Holding** or the **Group**) was founded in 1981 with an aim of operating in tourism sector and casino management. The Group entered the TRNC market in 1998 and following a period of sustained growth, currently holds a portfolio of 6 hotels and 5 casinos across the island under the Merit brand. And also Merit Royal Garden Hotel which is under construction in TRNC, is expected to be finished before 2021 summer season. Having operationalized 4 casinos and 1 hotel across Montenegro, Croatia and Bulgaria in line with the regional expansion strategy initiated in FY2016, the Group took a step to enlarge its presence via entry into the Ukrainian and Albanian markets. In addition to the core operating fields of luxury hotel and casino management, the Group owns a highly-valued real estate portfolio in the TRNC, Turkey along with luxury car rental services and touristic publications to a smaller extent. The Group maintains its interest in the field of regional lottery management and evaluates potential business opportunities in the nearby markets.

The Group operates its business via 20 subsidiaries, 1 affiliate and employs 4,198 personnel as of September, 2020. Net Holding's shares have been traded on Borsa Istanbul (BIST) index with a ticker-name of NTHOL since 1989 and **Mr. Besim TIBUK** is the qualified shareholder and Chairman of the Group.

Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Strong position in the TRNC gaming and luxury hotel industry
- Hard currency dominated revenue structure offsetting FX risks under persistent high market volatility
- The maintenance of growth strategy in the Balkans and Europe through entry into new markets
- Large real estate portfolio with the additional revenue potential
- High compliance with corporate governance practices owing to listed status

Constraints

- Deterioration in tourism sector in global scale via Covid-19 pandemic
- Impairment in operating profitability along with reduction in sales revenues as of 2020
- Increasing financing expenses pressuring profitability
- Sizeable portion of the equity consisted of revaluation surplus
- Net profitability supported by investment activities income which is not generate cash

Considering the aforementioned points, the Company's Long Term National Rating has been revised by one notch from **'A(Trk)'** to **'A-(Trk)'** and assigned outlooks of this rating as **'Negative'**. Due to Covid-19 pandemic, late opening of the summer season, travel restrictions and bans globally caused serious decrease in occupancy rate and contractions in tourism revenues. Accordingly, the Group's operations have been adversely affected by pandemic. In addition to the continuing global negative effects of the coronavirus, the current situation contains uncertainty. With the possible negative effects of the pandemic, the macroeconomic indicators at national and international markets, profitability indicators as well as market conditions and legal frame about the sector will be continued to be observed.

It is considered that the main shareholder, **Mr. Besim TIBUK** has the willingness and experience to the ensure long term liquidity and equity within their financial capability when required and to provide efficient operational support to **Net Holding A.Ş. and Cons. Structure**. In this regard, the Group's Sponsor Support Grade has been affirmed at (2) in JCR Eurasia Rating's notation system.

Taking into account, the Group's overseas operations, liquidity reachability and asset quality, we, as JCR Eurasia Rating, state the opinion that the Group has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholders, if it preserves its current customer level, efficiency and existing macroeconomic level in the market. Within this context, the Stand-Alone grade of the Group has been affirmed at (AB) in the JCR Eurasia Rating notation system.