

## Corporate Credit & Issue Rating

New  Update

**Sector:** Service / Information and Communication Technologies

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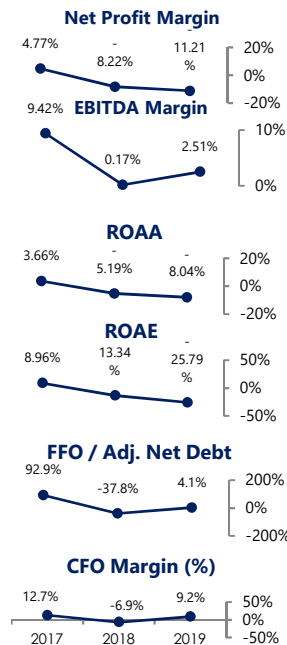
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## RATINGS

	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	BBB-(Trk)	A-3 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	-	-	
Sponsor Support	2	-		
Stand-Alone	BC	-		
Sovereign*	Foreign Currency	BB+	-	
	Local Currency	BB+	-	
	Outlook	FC	Negative	-
		LC	Negative	-

\*Assigned by JCR on April 10, 2020



## Netaş Telekomünikasyon A.Ş.

JCR Eurasia Rating has evaluated the consolidated structure of “Netaş Telekomünikasyon A.Ş.” in an investment-grade category and assigned the ratings as “**BBB-(Trk)**” on the Long-Term National Scale and as “**A-3(Trk)**” on the Short-Term National Scale with ‘Stable’ outlooks. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as “**BB+/Negative**”, the same level as the sovereign ratings of Turkey.

**Netaş Telekomünikasyon A.Ş.** (referred to as ‘the Company’, ‘the Group’ or ‘Netaş’), is founded in 1967 with a partnership agreement signed between PTT and Northern Electronic to deploy Turkey’s telecommunication infrastructure with local solutions. Netaş provides innovative end-to-end value-added system integration and technology services in the fields of information and communication technologies (ICT). Netaş is engaged in the manufacture and trade of telecommunication equipment, project installation services, technical support, repair and maintenance services, IT services, strategic outsourcing services implementation activities, and associated services. Its customers range from telco providers to public, private enterprises, banks in domestic and international markets. Netaş and its subsidiaries provide services and tech solutions to their customers in the Commonwealth of Independent States (CIS), Kazakhstan, Azerbaijan, Algeria and Uzbekistan.

As of September 30, 2020, Netaş’ shareholders were ZTE Cooperatief U.A (“ZTE Cooperatief”, “ZTE”) with 48.05%, The Turkish Armed Forces Foundation with 15% and 36.95% of the total shares were publicly traded on Borsa Istanbul (BIST). Netaş shares have been traded on the Borsa Istanbul (BIST) with the ‘NETAS’ ticker since 1993. The company currently takes places in the constituents of Sustainability Index, BIST Stars, BIST100, BIST Technology and BIST Information Technology.

Netaş’s 48.05% shares in July 2017 was acquired by ZTE’s subsidiary ZTE Cooperatief U.A from OEP (One Equity Partners). ZTE engages in telecommunication and information technology and is committed to providing integrated end-to-end innovations to deliver excellence and value to consumers, carriers, businesses and public sector customers around the world to enable increased connectivity and productivity.

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

Strengths	Constraints
<ul style="list-style-type: none"> <li>Steady increase in orders booked amount,</li> <li>The potential to expand operations and additional income generation with ZTE’s industry experience and range of products/technological solutions,</li> <li>The high concentration of the operations in public and corporate/enterprise segments which minimizes the credit risk,</li> <li>Top-ranking position in the domestic ICT and telecommunication service sectors by its broad service and product offering,</li> <li>Increasing brand awareness thanks to the undertaking projects and expanding country network,</li> <li>Further growth potential of ICT sector in Turkey and also global,</li> <li>High level of coherence to corporate governance principles and also sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>Cash generation from operations could not cover the opex and interest payments in 2018 and 2019.</li> <li>The increase in opex which is derived from the establishment cost of the Telecom carrier business unit, formation of CTO organization and compliance related costs has resulted operational losses in last 2 years,</li> <li>The cost excess features of turn-key projects and unbilled receivables have revealed a working capital need,</li> <li>Certain project costs being denominated in foreign currency whereas revenue and cash collections being in TRY regarding public projects causing foreign currency sensitivity.</li> <li>Ongoing uncertainties arising from the global pandemic and Covid-19 outbreak’s unprecedented damage on the economy and economic activities and also suspension in investments.</li> </ul>

Considering the aforementioned drivers, JCR Eurasia Rating has assigned the Long-Term National credit ratings of Company as “**BBB-(Trk)**”. Although the financial metrics especially in profitability figures couldn’t correspond this grade, the positive contribution of ZTE associations’ in terms of sales and orders booked amount increase in 2019YE and 9M2020, the contractual and longstanding business relationship with major clients, the effective position in the sector and high level of compliance with corporate governance principles are the underlying the determination of the Long-Term National Ratings and outlook as “**BBB-(Trk)**” and “**Stable**”. The sustainability of opex level, profitability indicators, collection of trade and unbilled contract receivables, indebtedness level, the management of cash flow, macroeconomic indicators in national and international markets, the occurrence of any sanction or lawsuit to ZTE and the Covid 19 effects on Company’s activities are the priority issues that will be monitored by JCR Eurasia Rating.

The shareholders of the Company, has the willingness to provide long term liquidity as well as effective operational support considering its sector experience and top-ranking position in telecommunication and technology sectors in China and also in global area. Within this context, the Sponsor Support grade has been determined as **(2)** on JCR Eurasia Rating’s notation scale, denoting an adequate level.

The “Stand-Alone” note of the company is; considering the Company’s strong reputation in the sector, widening operational structure, growth expectation, JCR Eurasia Rating maintains its opinion that the Company has reached a structure to manage the incurred risks without any assistance from the shareholders provided that the current customer base and effectiveness in the market are preserved. Within this context, the Stand-Alone note of the Company has been assigned as **(BC)** in the JCR Eurasia Rating notation system.