

Corporate Credit & Issue Rating

New Update

Sector: Telecommunication
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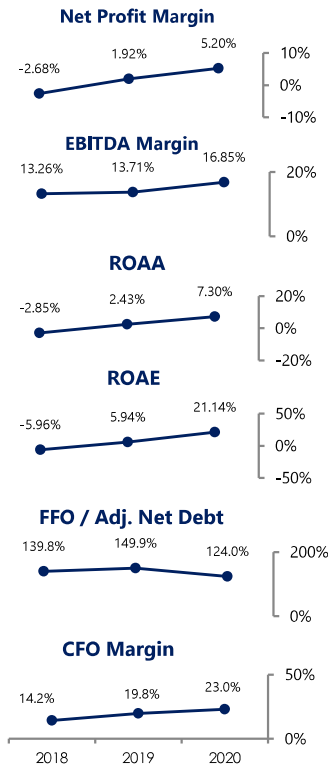
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RATINGS

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

* Assigned by JCR on April 10, 2020



Turknet İletişim Hizmetleri A.Ş.

JCR Eurasia Rating, has evaluated **Turknet İletişim Hizmetleri A.Ş.** in investment-level category on the national scale and upgraded the ratings on the Long Term National Scale from 'BBB (Trk)' to 'A- (Trk)' with 'Stable' outlook, and Long Term International Scale from 'BB-' to 'BB+'.

'**Turknet İletişim Hizmetleri A.Ş.**', (hereinafter referred to as "Turknet" or "the Company") was established in 1996 and provides services in the fields of fixed broadband internet, voice, private virtual network, data center and hosting. The Company both uses its own high capacity network and infrastructure of other providers. Turknet defines itself as dynamic and agile brand in telecommunication sector and customer satisfaction is in the core of the Company's values. Turknet offers internet with no bandwidth limit and no fair usage quota and the brand is differentiated within the fixed broadband market. The Company's fiber backbone infrastructure is 1,023 kilometers and it is placed in 25 different cities. In addition, Turknet has a network operation center located in Gayrettepe/Istanbul.

As of April 2021, Turknet has around 552k customers, mostly in retail segment. Thanks to the Company's efficiency focused strategy, operational costs (such as branches or POPs) are minimized to offer best pricing to its customers. The Company has a 3.1% market share as ISP as of 2020 year-end (2019: 2.5%). As of March 31, 2021, the Company employed a workforce of 539 (April 30, 2020: 342).

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

Strengths

- Ongoing solid growth performances owing to onboarding new customers especially in retail segment
- Steady growth in EBITDA and operational profit proxies
- High quality of services and customer relations management
- Net profit recorded in the last consecutive two years, after a long period of time in negative bottom line
- Well compliance level in terms of corporate governance principles
- Low defaults in receivables portfolio thanks to the Company's business model
- Expansion in fiber backbone and further expectation for next periods

Constraints

- Higher Operational Expenses Compare to its Competitors Due to Bitstream Access Model
- Growth in ARPU (average revenue per user) underperformed by CPI in fiber segment
- Downward trend in free operating cash flow generation

Considering the aforementioned points, Turknet's Long Term National Rating has been upgraded to 'A- (Trk)'. The Company's operational sustainability and profitability level have been evaluated as important indicators for the stability of the ratings and the outlooks for long and short term national ratings are determined as 'Stable'. Sustainability of the Company's profitability performance, indebtedness level and cash generation capacity together with the trends in the industry are to be monitored by JCR Eurasia Rating. The macroeconomic indicators at national and international markets, as well as market conditions and legal frame about the sector will be continued to be monitored.

The Company's main shareholder, Çelebiler Family is active on management since its foundation. Previous main shareholder, Gulf Capital increased the Company's paid in capital for an amount of TRY 16.7 mn. Gulf Capital's shares were acquired in the beginning of 2021 by Çelebiler Family and Iot Tech Girişim Sermayesi Yatırım Fonu which was launched and managed by Re-Pie Portföy Yönetimi A.Ş. (Re-Pie). Çelebiler Family and Re-Pie are considered to have the willingness and experience to ensure long-term liquidity and equity within their financial capability when required and to provide efficient operational support to Turknet. In this regard, the Company's Sponsor Support Grade has been affirmed as (2) in JCR Eurasia Rating's notation.

Considering the Company's equity level, ongoing operations, liquidity reachability and internal resource generation capacity, we, as JCR Eurasia Rating, state the opinion that the Company 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 Company has been affirmed as (B) in the JCR Eurasia Rating notation system.