

Corporate Credit Rating

New Update

Sector: Information Technology

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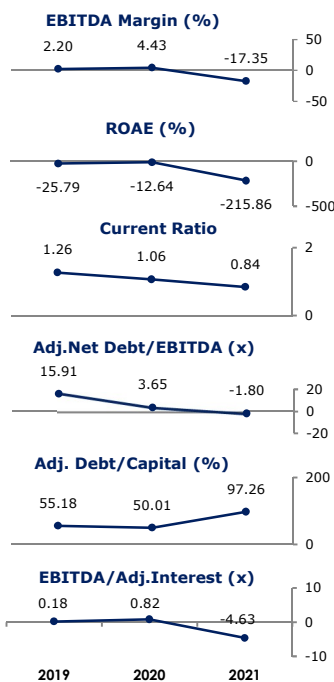
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RATINGS

RATINGS		Long Term	Short Term
ICRs (Issuer Credit Profile)	National ICR	BBB-(tr)	J3 (tr)
	National ICR Outlooks	Negative	Stable
	International FC ICR	BB-	-
	International FC ICR Outlooks	Negative	-
ISRs (Issue Specific Profile)	International LC ICR	BB-	-
	International LC ICR Outlooks	Negative	-
	National ISR	-	-
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

* Assigned by JCR on Aug 18, 2022



Netaş Telekomünikasyon A.Ş.

JCR Eurasia Rating has evaluated the "Netaş Telekomünikasyon A.Ş." in the investment level category and affirmed the Long-Term National Issuer Credit Rating at "BBB-(tr)" and the Short-Term National Issuer Credit Rating at "J3 (tr)", with "Stable" outlook and revised the Long-Term National Issuer Credit Ratings outlook from "Stable" to "Negative". On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks have been assigned as "BB-/Negative".

Netaş Telekomünikasyon A.Ş. (referred to as "Netaş" or "the Company") was established 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, 2022, Netaş' shareholders are 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 İstanbul (BIST) with the 'NETAS' ticker since 1993. The Company currently takes places in the constituents of Sustainability Index, BIST Stars, 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 Corporation is a Chinese partially state-owned technology company that specializes in telecommunication. ZTE's core business is wireless, exchange, optical transmission, data telecommunications gear, telecommunications software, and mobile phones. The number of people employed across Group as of FYE2021 is 2,171 (FYE2020: 2,544)

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

Strengths

- Ongoing upward trend in orders booked amount especially in system integration and telecommunication segments,
- The established client portfolio ensuring income predictability,
- The recovery in EBITDA generation in line with the change in the pricing mechanism and concentration on more profitable businesses in Q3-2022,
- Reputable shareholder structure with high brand recognition and expanding product range with ZTE Cooperatief's extensive industry know-how,
- High level of compliance with corporate governance practices,

Constraints

- The incurred gross loss and negative EBITDA in FY2021 due to the mismatch of the maturity, contract currency and FX based cost structure
- The ongoing downward trend in equity owing to the large amount of retained losses in 2021,
- The attrition in cash flow metrics to negative levels in FY2021 owing to operational loss,
- High level of overdue but not impaired receivables in FY2021 and Q3-2022,
- High level of impaired and provisioned contract liabilities in balance sheet composition in FY2021 and Q3-2022,
- Ongoing high indebtedness with short-term weighted funding profile,
- Global recession and geopolitical risks stemming from the Russia-Ukraine tension increasing uncertainty and monetary tightening across the globe deteriorating growth projections.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been affirmed as "BBB-(tr)". Additionally, steady growth in orders booked amount, extensive know-how transfer from the main shareholder ZTE Cooperatief, recovery in EBITDA generation in Q3-2022, well-established customer portfolio, as well as the negative EBITDA realization in 2021, notable decrease in equity level due to ongoing net losses, working capital deficit, high level of overdue receivables, indebtedness level and deterioration on local and global economic outlook due to ongoing geopolitical risks stemming from the Russia-Ukraine tension, and uncertainties have been evaluated as important indicators for the stability of the ratings and the outlook for Long-Term National Issuer Credit Ratings is revised from 'Stable' to 'Negative' and the outlook for Short-Term National Issuer Credit Rating is affirmed as 'Stable'. The Company's orders book amount, indebtedness level, liquidity profile, profitability metrics, cash flow indicators and asset quality will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the business will be monitored as well.