

EEMEA Telecoms

2024 outlook: Estimates and PO changes

Price Objective Change

Four key sector themes for 2024

We remain cautious on the sector in 2024 and see four key themes: i) Macro remains key sector headwind in 2024 ii) MENAT the bright spot for top line growth iii) FCF conversion remains a sector-wide issue iv) M&A – a potential repeat of 2023. This note provides explanations for changes to our PO on Turkcell.

Turkcell: Real growth ahead

We increase our PO to TRY81.0/US\$6.8 from TRY76.0/US\$6.3, driven by i) estimate changes including 9/6% increases to 2024/25E EPS, yet 12/8% cuts to 2024/25E EBITDA-Capex; ii) a higher WACC of 30.6% from 29.4%, reflecting a higher equity risk premium of 10.0% vs 8.0% earlier; and iii) roll-over of our PO to December 2024.

We see 4 reasons to buy the stock. 1) Turkcell is set to deliver real growth amid accelerating inflation in Turkiye (average CPI at 58.9% in 2024E vs 53.7% in 2023). We increase 2024-25E revenue by 5-10%, which implies 8/17% upside to consensus. Key drivers: (i) continued frequent price revisions amidst inexpensive data pricing in an EEMEA context, (ii) shorter contract maturities, accelerating pass-through, and (iii) net adds support from robust population growth (+1.2-1.3m pa in 2024-25E) and elevated visitor flows. 2) Management changes could accelerate technological transformation. New CEO Mr Ali Taha Koc (appointed in Oct-23) has a strong background in technology: master's and doctorate degrees from the University of Texas at Dallas plus 61 patents developed at Intel. This might suggest higher focus on non-telco business (e.g. 5G, data centers and cloud). Example: reaching 300MW solar energy capacity, equivalent to c.65% of Turkcell's needs. 3) Turkcell's lower leverage and limited net FX exposure should allow it to pay out 50% in dividends (we are 57% above consensus on 2023E DPS), while we expect 0% for Turk Telekom for 2023. 4) Turkcell is now trading at 4.2x P/E in 2024E, a 24% discount to Turk Telekom, compared to a 50% historical average discount. We believe this is unwarranted given the relative risk profile.

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Investment Rationale

Turkcell

We see 4 reasons to buy the stock: 1. We expect stronger top-line momentum and our revenue estimates are 9/12% above consensus. 2. Turkcell should see a major revival of cash generation that puts the stock on >10% FCF yield for '24E 3. Turkcell's lower leverage and limited net FX exposure should allow it to pay out 50% in divis 4. Turkcell is trading at a c.20% discount to Turk Telekom, compared to a 10% historical average premium. We believe this is unwarranted given the relative risk profile.

Price objective basis & risk

Turkcell (XOFTF / TKC)

Our SOTP based PO is TRY81.0 / US\$6.8. We value Turkcell Turkiye based on a DCF model. We factor in a 24% risk free rate and 10.0% equity risk premium while our overall WACC is 30.6%. We are using 10.0% perpetual growth rate. We value Ukraine and Belarus on 2.0x 2023 EV/EBITDA. We use USDTRY of 30 to derive our PO for ADRs

The downside risks to our price objective come from an economic slowdown pressuring consumer confidence, and the risk that Turkiye might see more drastic currency depreciation than we currently predict meaning higher than expected cost pressure.

Upside risks are faster and larger repricing of tariffs, better outlook for lira, energy costs and wage growth.

Analyst Certification

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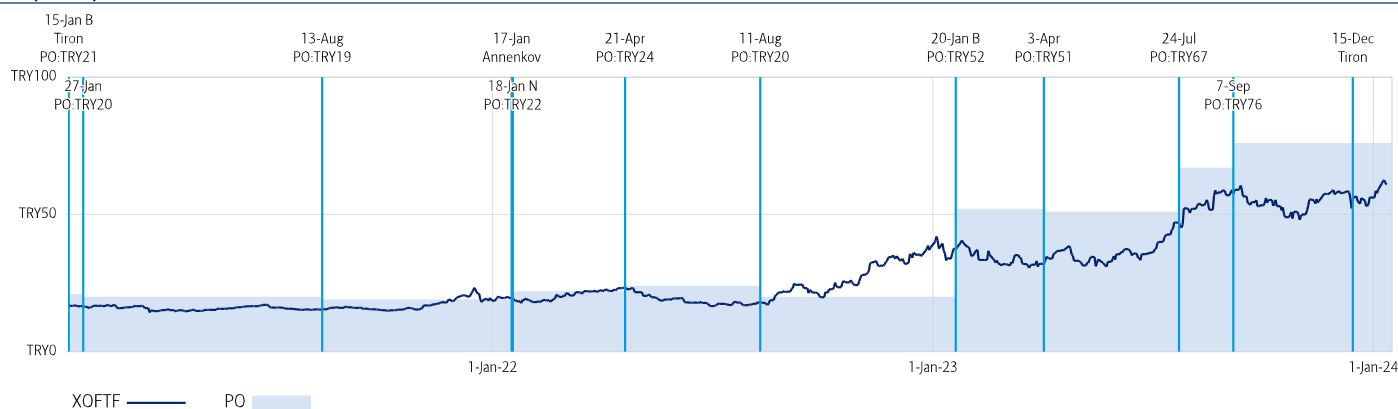
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Turkcell (TKC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Turkcell (XOFTF) Price Chart

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

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