Türk Telekom 2024 Q2 Financial & Operational Results Conference Call

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Conductors:

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos, your Chorus Call operator.

Welcome and thank you for joining the Türk Telekom conference call and live webcast to present and discuss the 2024 Q2 Financial and Operational Results. We are here with the management team and today's speakers are CEO, Ümit Önal and CFO, Kaan Aktan. Before starting, I kindly remind you to review the disclaimer on the earnings presentation.

Now, I would like to turn the conference over to Mr. Ümit Önal CEO. Sir, you may now proceed.

ÖNAL Ü: Hello everyone, welcome to our 2024 second quarter results conference call. Thank you for joining us today. Statements from large central banks and economic data, as well as either complete or upcoming elections, have been in close watch of financial markets.

Varying macroeconomic data triggered risk-on and risk-off moods several times as markets struggled to calculate the probability of hard landing in developed and emerging economies. At home, the CBRT kept its policy rate at 50% since the last hike in March and maintained year-end inflation forecast at 38%. Year-end inflation expectation inched down to 43% in the latest survey though.

Nevertheless, the long-awaited disinflation process has started and the CPI has gradually dropped to 52% in August after peaking at 75% in May. The pace of decline in the next couple of months will likely be critical in reshaping 2024 and 2025 inflation expectations. Although recent signs have been encouraging, inflation environment remained challenging in the second quarter. Still, we have secured a performance that broadly mimicked our revenue target but ran ahead of our EBITDA margin target for the first half.

Subscriber acquisition remained in center focus for mobile operators as the sector entered its high season, which was further stimulated by a rich variety of tariffs and summer activities in lack of any price revisions until late June/early July. In fixed broadband, we revised our retail prices around mid-June and wholesale prices at the beginning of July as planned. We continued to feel the impact of widening price parities in our retail acquisition and churn dynamics over the second quarter.

Data consumption moved with routine seasonal factors but stayed generally strong across the board. Usage per LTE subscriber grew by 22% in mobile and contracted slightly in fixed internet YoY, the latter being affected by two long national holidays in the quarter. While mobile data usage picked up by 8% QoQ, it dropped by 7% in fixed internet, both depicting the typical trends of summer months.

Starting with second quarter financial and operational overview on slide number three. Consolidated revenue increased to TL 33 billion with 4% annual growth. Excluding the IFRIC-12 accounting impact, revenue growth was 7%. Consolidated EBITDA grew close to TL 13 billion at a solid 22% rate annually.

EBITDA margin expanded by an impressive 550 basis points YoY to nearly 39%.

We generated TL 1.4 billion net income in the quarter. With TL 7 billion capex spending, investment activity normalised from prior quarter's low level which was driven by seasonality and Ramadan. Unlevered free cash flow rose to TL 3.2 billion on a great momentum QoQ, driven largely by the progressive operational performance. Finally, net leverage has continued its drop towards the 1x mark.

Slide number four, net subscriber additions. We closed Q2 with 52.6 million subscribers in total, down 110K from prior quarter-end. Excluding the 213K loss in the fixed voice segment, the subscriber portfolios were broadly stable. Fixed broadband base remained flat around 15.2 million with mere 20K net additions in Q2. Subscriber activity was quiet in Q2 due to low seasonality, the impact of which was amplified by two long national holidays. Activations remained short of our expectations both in the retail and wholesale segments. Churn rate declined both annually and quarterly.

The YoY decline in the number of churning customers can largely be attributable to last year's earthquakes and the QoQ decline to seasonality and lack of new price revisions in existing customer tariffs since January. Our retail tariff price revisions in December 2023 and June 2024 versus competitors' late and unmatching actions affected H1’24 activation and churn performances. We aim to mitigate the slower than expected net add performance so far with a strong back-to-school season.

Mobile segment added 125K subscribers on net basis, closing the quarter with 26.3 million customers in total. The postpaid base secured 438K net additions, beating prior quarter's strong performance of 398K. This was thanks to a visibly stronger than expected activation performance. Accordingly, in excess of 1.9 million postpaid net adds in the last 12 months touched a new historic record. Though staying on a declining trend, prepaid base lost 313K subscribers on net basis, lower than prior quarter's 414K but still a tad higher than we expected. We successfully managed churn with a flat performance YoY and only a seasonal pick-up QoQ. As a result, the ratio of postpaid subscribers in total portfolio touched its highest level of 74%.

Slide number five, fixed broadband performance. We revised our retail prices in mid-June and wholesale prices at the beginning of July as planned. We also modified the retail contracts to 3+12 structure for new acquisitions from 9+9, which was introduced in December 2023. We observed other ISPs updating their prices in July and August, but typically large price gaps that emerged since mid-2023 have persisted.

Nevertheless, the sector has more or less completed its price revisions ahead of the back-to-school period. We aim to take advantage of the high season and make up for the lower than expected net add performance in the first half. Re-contracting and upsell performances were in line with our expectations with re-contracting higher both YoY and QoQ, thanks to powerful churn management.

50 Mbps and above packages made more than 60% of new sales in the second quarter, compared to 54% in Q1, and 35 Mbps and above packages made 66% of re-contracting, compared to 64% in Q1, both confirming the strong trend in demand for high speed packages. Average package speed of our subscriber base increased by 43% YoY to 55 Mbps as of Q2. With that, 59% of our subscribers are now on 35 Mbps and above packages, compared to 44% a year ago. A similar comparison shows that 41% of our subscribers now use 50 Mbps and above packages, compared to 28% a year ago.

ARPU growth moved up to 6% from 5% in the prior quarter, in an anticipated trend. We expect to see a visible leap up in Q3 fixed internet ARPU growth following June/July price revisions. It is important to note that the new prices become effective for new and re-contracted customers in retail segment, but they become effective immediately for the wholesale base. Revenue growth moved up to 8%, with a 2.3% expansion in average subscriber base annually.

Moving onto mobile performance, slide number six. Mobile continued its relentless ride with another set of very strong numbers, but before diving into the details of Q2 drivers, it is important to note that the first half performance is not simply about strong numbers, but full of qualitatively assuring features in competency, resilience and customer engagement, which grant us a flexible structure and large room for manoeuvre in managing our business and shaping the sector, we believe. Surely, this is a result of long years of investments and know-how accumulation in this area, which we will continue to leverage in further growing our mobile business.

Q2 has been the third quarter in a row we observed a fierce race for subscriber acquisition, this time fuelled by the high season. Similar to Q1, we pursued a balancing act between ARPU and subscriber growth in an environment of all-quarter-round promotional activity. After we initiated 2024 price revisions in January, it took mobile sector to complete the first round of pricing till mid-February. And it was not before end-June/early-July the second round of pricing has kicked-in. This time, all operators completed their tariff revisions in a short period of time though. Additionally, the widely distorted price parities have more or less converged back to levels that prevailed by the end of 2023.

Postpaidisation continued to be the trend with both customers' preference and operators' focus heavier for postpaid tariffs. Although most of the campaigns were short-lived and tactical, one followed the other with regional, thematic and seasonal alternatives throughout the quarter. Though attracting less interest, varying prepaid tariffs also hit the market to further enrich offerings in mobile's high season.

The MNP market slightly contracted YoY from a relatively high base but stayed near-flat QoQ. Following a one-quarter pause, we reclaimed our leadership in the MNP market as the price parities have resettled on more meaningful levels.

Mobile blended ARPU secured a hefty 15% growth with respective 9% and 14% increases in the prepaid and postpaid segments. That, combined with a 2.4% average subscriber growth, paved the way to 20% mobile revenue growth YoY.

Although we see regular pricing actions in mobile sector, we have been highlighting the shift in competitive landscape towards much heavier promotional activity over the last few quarters. Continued into the July-September period even more aggressively, this trend, which is driven by competition rather than demand conditions, cannibalises the implied impact of pricing actions and sector's overall potential to grow ARPU in our view. We have a clear preference for rationality in the sector, which is only attainable through a shared responsibility by all players, of course.

We are extremely pleased to see significant improvements in our operating profitability and cash flow in the second quarter, affirming the precision of the measures we have put into effect over the past few quarters. Even more pleasing is to have the confidence that our performance will excel in the second half of the year to help us comfortably achieve our full-year targets. We managed to secure the momentum we have been looking for in our businesses this year and we will make every effort to maintain this trend over the coming years, both in the core and adjacent areas we operate in.

Finally, we continue to make important progress in the concession renewal process. The Privatisation Administration, which has been mandated by the Turkish Government for the task, has conducted a comprehensive due diligence process with us and submitted its special report to the Ministry of Treasury and Finance. We believe the whole exercise was utterly beneficial and fruitful, hence maintain our view that the renewal of the fixed-line concession agreement can be completed within 2024 in growing confidence. This concludes my part. Thank you. Kaan, over to you now.

AKTAN K: Thank you very much. Good afternoon from Istanbul. We are now on slide 8 with financial performance. Consolidated revenues increased by 4% YoY to TL 33 billion in Q2, taking the first half figure to TL 63 billion, up 5% YoY. Mobile, fixed internet and call centre were the main contributors to second, quarter growth. Excluding the IFRIC-12 accounting impact, second quarter revenue was TL 31 billion, up 7% YoY, with increases of 8% in fixed broadband and 20% in mobile versus contractions of 16% in fixed voice, 3% in corporate data and 13% in international revenues. The gap between consolidated and operational revenue growth within the quarter was once again owing to low IFRIC-12 revenues.

Excluding the IFRIC-12 accounting impact, first half revenue was TL 61 billion, up 8% YoY in a trend we consider compatible with our 11-13% guidance for the full year along with expected second half financial performance, which will be highly affected by inflation dynamics and the price adjustments we have recently implemented. Preliminary July results also confirmed that our view on revenue outlook is well-grounded.

Fixed internet and mobile together made almost 75% of second quarter operating revenues. The two lines of businesses together made significant contribution to growth with more than TL 3 billion higher revenue compared to same period last year. Corporate data revenue improved 11% QoQ. The decline in international revenue YoY was mainly driven by the change in exchange rate remaining well below inflation in the period.

Contraction in voice revenue also continued into the second quarter, slightly offsetting the growth in data revenue.

The 8% annual increase in fixed internet revenue was driven by respective 2.3% average subscriber growth and 6% ARPU growth in second quarter. The 20% impressive increase in mobile segment revenue can also be decomposed into similar 2.4% average subscriber growth but higher 15% ARPU growth.

Moving onto EBITDA. Starting on the opex side, direct costs declined 7% YoY with contractions of 29% in interconnection and 22% in equipment & technology sales costs, whereas commercial costs and other costs rose 6% and nearly 1%, respectively. While commercial costs continued its upward trend annually in the second quarter, the pace of growth slowed significantly from 28% in first quarter. Flattish look in other costs YoY was driven by personnel and network costs. The 13% YoY increase in personnel costs was largely mitigated by a 17% decline in network cost. As such, opex to sales ratio dropped to 61% compared to 67% in the same period of last year.

As a result, consolidated EBITDA rose 22% annually to TL 13 billion, with the EBITDA margin expanding by 550 basis points YoY to almost 39%. Excluding the IFRIC-12 accounting impact, the EBITDA margin slightly exceeded the important 40% mark.

Looking into half yearly numbers, opex to sales ratio dropped to 62% compared to 68% in the same period of last year, paving the way for a 530basis point improvement in EBITDA margin YoY to 38%. First half EBITDA picked-up by 22% YoY to TL 24 billion. Although EBITDA and EBITDA margin evolution have been stronger than our expectations so far, we maintain our guidance unchanged, mainly because of the personnel salary adjustment that we implemented effective from August. The move was driven by recent market practices and our motivation to remain competitive in talent management. Although the decision comes as a deviation from our earlier plans, it is well manageable within our existing budget, thanks to the EBITDA outperformance so far. In addition, although network expenses remain subdued so far thanks to lower energy costs in lack of electricity tariff increases as well as to lower maintenance costs, it would be fair to assume some pick-up in this cost item starting from third quarter, following an electricity tariff hike introduced in July. Nevertheless, we feel rather comfortable with our full year EBITDA margin guidance range of 36-38% as the first half performance hovered around the high-end of our target. In addition, we aim to maintain this performance and stay closer to the high-end for the full year.

Down at the operating profit level, the figure was TL 2.6 billion in second quarter comparing favorably to TL 0.4 billion operating loss in the same period last year. That brings us to TL 3.8 billion on a half yearly basis, again comparing much higher to TL 2.3 billion operating loss in first half of last year, which was largely suppressed by the earthquake impact.

Coming to the bottom line, TL 6 billion of net financial expense dropped 33% YoY in second quarter, swinging from an increase of 87% in first quarter but remained more or less stable QoQ as expected. In other words, while first quarter felt the negative impact of last year's low base in the same period, second quarter conversely enjoyed the positive impact of a high base. The widely known shift in monetary policy was the obvious reason behind the large swing in first and second quarters rates of change annually. As such, net financial expense dropped slightly to TL 12 billion in first half, thanks to a stabilising financial market in annual comparison and successful management of financial risks in this environment.

Finally, with about 18% effective tax rate, we recorded TL 1.4 billion net profit, which took the first half figure to TL 2.5 billion comparing favorably to TL 2.3 billion net loss in the same period of last year.

We are now moving onto slide 9. Capex spending normalised from prior quarter's low level, which was driven by seasonality and Ramadan and materialised around TL 7 billion, up 7% YoY. At TL 12 billion, first half investment spending pointed to 19% capex intensity ratio for the period, well behind our full year guidance range of 27-28%. Typically, our capex spending picks-up in the second half, with particular acceleration in the final quarter of the year. Therefore, our capex intensity guidance also remains unchanged at this point.

Moving now onto slide 10 with debt profile. Net debt to EBITDA has continued its downward trend towards 1x multiple, thanks to stable currency and improving operational performance. Cash and cash equivalents, of which 44% is FX based, totaled TL 7 billion. This excludes the USD 260 million equivalents of FX protected time deposit that we book under financial investments.

The share of local currency borrowings within the total debt portfolio was 19%. The FX exposure included USD equivalents of 1.7 billion of FX denominated debt, 1.6 billion of total hedge position, and close to 100 million of hard currency cash. The hedged amount also included a USD equivalent of 260 million FX protected time deposit, which stayed flattish QoQ.

In this quarter, we issued a 5-year, USD 500 million Sustainability Bond through an extremely successful transaction in May. At the same time, we tendered back USD 300 million of the February 2025 Notes. That means the outstanding 2025 Notes is now only USD 200 million.

Also, we secured two separate long-term ECA facilities for respective USD 120 million from Citibank and EUR 80 million from Exim Bank of China in April and May. As such, we attained a more balanced debt maturity profile as of the second quarter, as you see on the top right chart. For the near term, we remain comfortable with the existing debt profile, especially given the reinstated strength in our cash flow, which is set to further enjoy progressive EBITDA generation and the high season ahead. Admittedly, we may be in need of fresh financing next year-or-so if there is concrete progress in the ongoing process for the renewal of fixed line concession or the official 5G rollout plans.

We are now moving to slide 11. Our short FX position was close to USD 70 million by the end of the quarter. Excluding the ineffective portion of the hedge portfolio, namely the PCCS contracts, foreign currency exposure was USD 260 million short FX position. As expected, PCCS portfolio significantly contracted following the maturity of June'24 Notes, as several transactions expired together with the hedged bond.

According to the sensitivity of the P&L statement to exchange rate movements, a 10% depreciation of TL would have TL 700 million negative impact on Q2 profit before tax, assuming all else constant. Finally, Q2 unlevered free cash flow was TL 3.2 billion compared to TL 2 billion a quarter ago in a progressive trend. That took the first half unlevered free cash flow to TL 5.2 billion compared to mere TL 0.5 billion in the first half last year, underlying the robust operational performance in addition to low base owing to last year's earthquakes and macro volatility. This will conclude my presentation.

We can now open up the Q&A session.

OPERATOR: The first question comes from the line of Singh Maddy with HSBC. Please go ahead.

SINGH M: Thanks a lot for taking my questions. The first question is on your margins. Given that in second quarter, you had actually a very good performance, very close to 40%. Was that a trigger for you to think about dividends again? So, could you update us on that, if you do indeed cross the 40%, would you be assuming dividends and what would be the timing on that after reaching the 40% level? And related to that would you prioritise further deleveraging or are you happy with the current leverage levels?

And then second question is on your options for infrastructure assets. You have a very good fibre asset as well as towers. So, do you have any plans to monetise any of these assets? What are the options you are considering for them?

And then final question is on state of competition currently. Which operators are aggressive? Are you comfortable being able to pass on the price hikes to consumers without affecting either market share or the usage levels at the customer level? Thank you

AKTAN K: Well, let me start with the first part of your question, which was about the margin and impact on potential dividend payout. So, as you mentioned, we made a very good progress in the margin improvements. That was actually an important factor in our beginning of the year storyline.

We said it's going to be a year with real revenue growth, assuming the inflation scenario takes place as we predicted. And also, we should be seeing margin improvements compared to last year. I think it's happening.

It's moving in the right direction. It's reflected in the second quarter results. When we look at the outlook for the second half of the year in terms of margin, so one factor to take into account, as I mentioned in my part during the presentation, we made salary adjustments in August.

So, that wasn't part of the beginning of the year plan for us. But we should be seeing, again, excluding that adjustment, normally, we would be seeing further improvement in margin.

But even with that, we should be staying within our guided range of 36-38%, converging towards the high end of the range. But when we try to translate this performance into the potential dividend payout scenarios, obviously, operating margin is not the only component to decide on the dividend payout. So, we should be closer to the year end to understand especially what we should expect in the financial expenses and FX losses line to see the bottom line.

And also, we should probably be looking at next year's investment requirements. So, it looks like it's going to be a bit busy since we started discussing and our CEO mentioned the potential extension of the fixed line concession and possible 5G tender at some point maybe next year. So, I think the year end, when we announce the numbers, there will be more clarity about the timeline and the calendar of such large-scale investments.

And also, we will definitely have the year-end numbers with financial results. So, it would be really too early to make an assessment on the dividend payout, especially for next year. Our CEO will take the second part.

ÖNAL Ü: You know, we have been seeing that the main focus of the mobile market for the last three quarters has shifted to the subscriber acquisition, not solely the subject of this quarter.

We have been observing that the price parity gaps are occurring because we have been increasing the prices of our tariffs, but the other operators are following with lower rates and also with later dates.

We have been observing that the market is increasing its competitive environment with a campaign-intensive focus for subscriber acquisition.

Of course, this situation is definitely reducing the ARPU growth potential of the sector generally.

I would like to repeat that our preference in the mobile sector is for competition to continue under rational conditions.

You know, acting with our responsibility of price leadership on the fixed side, we did not compromise on inflationary pricing, and we have revised our retail prices. So, we would like to see the same to occur in the mobile market as well.

Let me crown my explanation with an example. We had 109K net adds in this quarter, one of the other operators had 413K net adds and another had 474K net adds. So, this actually puts forward the fact that we are not playing the game over subscriber numbers. We try to stay on the rational and the realistic side of the market.

The numbers I have just shared were recorded within the first half of the year. Also, I'd like to give another example. In the last quarter, we have increased our service revenue market share by 1.5 percentage points YoY. Another operator’s share has come down by 2 percentage points and the third operator only added 0.4 percentage points to its service revenue market share.

AKTAN K: Thank you.

SINGH M: Sorry and the question on the infrastructure asset monetisation options, if at all?

AKTAN K: Yes, I was about to open my line to answer this. Yes, I mean, you're right. There are such cases across the world through which operators try to create cash by selling and leasing back their assets, but it's not going to be part of our short to mid-term projects.

We will focus on working on the license extension agreement, defining the conditions on it and from a regulatory perspective, there is also the fact that our regulatory environment is significantly different than the rest of the world when it comes to ownership of the network infrastructures. So, the government has a strong say in defining the temporary or permanent ownership of the assets.

So that also complicates the picture. So, considering everything together, it's not going to be within our immediate plans.

SINGH M: But would you be open to infrastructure sharing, especially on the mobile side, if not monetisation?

AKTAN K: Definitely. I mean, as a late entrant to the market in the older days we had difficult time to create coverage in our mobile network. Fortunately, we brought our network to a very good coverage level, but we also always pushed for sharing at least the passive infrastructure elements with other operators.

It didn't work always as smooth as we expected, but we are always open to have a better sharing of mobile network assets, especially towers and Türk Telekom will be the leader in that if the other operators stand to be more open to share their network as well.

SINGH M: Thank you. This is very helpful. Thank you.

OPERATOR: The next question comes from the line of Mandacı Ece with UNLU Securities. Please go ahead.

MANDACI E: Hi. Thank you for the opportunity to ask questions. I have a couple of questions. The first one is a follow-up question regarding your revenue growth performance. Since you have maintained your guidance for 2024, I calculate that for the second half there should be some double-digit revenue growth on a YoY basis. So, what will be the main driver for that?

You have already mentioned about the price adjustments, but you also highlighted the increasing competition in the market. Could there be any possibility of additional price hikes in the second half, or do you expect some normalisation or rationalisation going forward with the back-to-school period?

Additionally, I'm seeing that your corporate revenues were lower on a YoY basis in the second quarter. So, will this continue? And what's the main reason for that? And another question is about the working capital. In the last two quarters, we are seeing an increase in your working capital needs. Is this the new normal now?

Should we take into account this new working capital-over-sales ratio or could there be any possibility for improvement going forward with the increase in your revenue base? Thank you very much.

AKTAN K: Thank you very much. Let me start with the revenue outlook for the rest of the year. Obviously, we now have in our lives the reality of the inflation adjustment. So, when we look at the operating performance and what happens in the historic revenue and the drivers behind it, we still see a strong second half of the year, which is also being confirmed by the first two months of the second half, since we see the number. But the other factor which impacts the growth rate, obviously, is the level of the inflation.

Because we are adjusting both last year's numbers and also this year's numbers in line with the inflation indexes of the relevant period. And the inflation index for a quarter when we report a quarter is mainly the average inflation of that quarter versus the average inflation of the same quarter of last year.

So, when we look at the second quarter’s average inflation, it’s around 72%. So, this is the highest of the last six quarters. And when we completed the quarter, now we started seeing the decrease in the headline inflation, which is the point-to-point 12-month inflation. And we are still keeping our inflation estimate for the full year at around 42%.

So under this scenario we should expect these quarterly averages to come down from +70% levels of the second quarter, first to 50%-plus numbers and then 40%-plus numbers in the last quarter of the year. So mathematically, that will push our adjusted revenue growth up very visibly. So, this is why we stay strong on our revenue outlook for the second half of the year.

And we should also see the gap between the growth rate of the fixed broadband business and mobile business to narrow. We expect to see a strong revenue growth or keep the revenue growth strong in the fixed broadband operationally and the gap will get narrower compared to mobile. That will also help us operationally to generate strong revenue growth in the second half.

Again, operationally we have better clarity, but the other component, which is the inflation, as I said, we expect to see it at 42% when it comes to the year-end. If there is deviation from that number, obviously, that will also impact the real revenue growth versus last year when adjusted with the inflation.

The competition is high, as you mentioned. So, there will be probably changes in the way we manage the business by looking at the competition. We will mainly try to keep the discipline in place without getting too much involved in this game of getting more customers at a lower price. But whatever we do operationally there is limited time left until the year-end.

In our world, as a telekom operator, it's not easy to positively or negatively impact the remaining few months even if you start doing radical price movement. In that sense, we have more confidence on the full year outlook.

For the corporate revenues, as you may remember from prior discussions especially on the fixed broadband and partially on mobile, we are operating on fixed-price contracts.

Fixed-price contracts are a bit longer in the fixed-line business. We started with 24 months in fixed broadband as an industrial standard. We are now at 15 months in fixed broadband and 12 months in mobile. The reason why we see a bit late acceleration in fixed broadband is that the contract terms are longer in fixed broadband business. And now the fixed broadband growth will start catching up with the mobile growth.

When we look at especially corporate data business, the contract terms are even longer. So, these are big customers generating sizable revenues in one single contract. Some of them are government-related entities and their contract terms are even longer than 24 months, going up to 3-4 years. So, once we reprice those long contracts, there is immediate, very sizable, visible revenue uplift. But from one year to another, sometimes we have just the same revenue generated from those big accounts. And since it's a game of small number of customers creating most part of the revenue stream, we are a bit stuck with lower revenue growth in that line. So, as I said, we are now, we started, even this quarter repricing some of the big contracts. And growth rates should be improving going forward.

Can you remind me the last part of the question?

MANDACI E: About working capital, being used in your working capital.

AKTAN K: Yes, I mean, obviously we are going through a very sizable revenue growth period. One impact is definitely, higher level of receivables when we have such high growth rate in our revenues. But some of it is also related to temporary issues like, I remember that in the prior quarters, in several quarters, we had long bank holidays, where we had to delay the payment cycle to the next quarter.

And suddenly, that changed the accounts payable level for both quarters. And then when we repeat, in the years to come, then suddenly it gives us a different working capital outlook. I would say most of it will be temporary.

So, when those factors are adjusted especially in the full year, it's going to be a more normalised level. But all in all, not only for the working capital, but overall for the cash flow performance, I would expect to see a healthy growth in full year in the operational cash flow that we generate. I think margin improvement, revenue performance will definitely help that.

And there will be sizable real growth in the cash that we generate at the end of the year.

OPERATOR: Ms. Mandacı, have you finished with your questions?

MANDACI E: Yes, thank you.

OPERATOR: Thank you. The next question comes from line of Bystrova, Evgeniya with Barclays. Please go ahead.

BYSTROVA E: Thank you very much for the presentation and congrats on the results. I have just three questions. So, my first question, you mentioned that with the potential concession extension as well as 5G tender, you could evaluate your financing options and maybe require some more financing. Are you considering coming back to the market or is it going to be a bank loan in your opinion? Then my second question is with regards to the 5G tender. Could you provide any comments with regards to the timeframe that you're expecting there?

And finally, my last question is with regards to the comment that were made in this morning about potential merger with

Turkcell as well as joint infrastructure for the broadband as far as I understand. I was just trying to understand what is the background or the grounds for these types of comments? Thank you very much.

ÖNAL Ü: Let me start by answering your last question about whether we are considering the possibility of any merger with Turkcell or any other institution. There is no such thing and it is not possible to consider such a merger or anything with any company including Turkcell and also joint infrastructure company kind of things are also totally out of the table. So, they are not a possibility for us.

I mean, it is not possible to do for many reasons. First of all, we are both under the Sovereign Wealth Fund of Türkiye and our shareholder structure bears drastic differences. And also, it is not possible to do it technically as well because our strategic plans are not aligned so it is not possible to do it. It is not on the agenda.

You know, recently the Ministry of Transport and Infrastructure stated that they are aiming for 2025 for the 5G tender and 2026 for the year of service delivery. So, we are getting prepared accordingly.

The Ministry of Transport and Infrastructure also made statements related to the concession renewal of Türk Telekom and that is planned to be completed within 2024.

And just recently the Privatisation Administration which was assigned to the matter carried out a comprehensive due diligence process with us and they submitted their report to the Ministry of Treasury and Finance. So, we believe that in the upcoming period there will be heavy traffic related to the terms and conditions and everything and the decision process will come to the fore.

Like the other operators, we submitted the requested information, documents and our comments related to 5G, the price, the financing and the type of the tender and auction, to the relevant authorities. Again, for the fixed concession renewal, we believe that the framework of the payment and everything will be mainly focusing on the sustainability of our company. We will definitely consider the healthy turnover of our company and also ensure the continuity of the investment accordingly.

AKTAN K: Let me answer the first question which was about the potential financing of next year's investment. Let me start from where we are as of today. In total, including currency protected accounts and everything, we have close to USD 500 million equivalent of cash.

As I mentioned during the presentation, we recently signed several ECA deals, agreements, through which we have USD 400 million signed committed but non-utilised balance. Also, we are now approaching to almost 1x multiple in terms of the leverage. We see that it gives us, from a balance sheet perspective, a more relaxed way of considering potential large-scale investments, but I think which is really important as we experienced during our latest issue of Eurobond.

Now we have full availability and also easy way to access of different financing structures because the regulations have been changed and the outlook of the country has improved significantly, through which we also benefited as a large corporate in this market. We have easier access to anything that we want to be part of, either it's a financing transaction or it's a hedging transaction and there is also liquidity availability in those instruments. There is also supply in those instruments.

I think it wouldn't be wrong to say that if there is, in the same year, an extension of fixed-line concession plus a 5G tender, we will look at different options. A new issue may be one of the options. As you know, we have repayment of the 2025 Notes in February, which is now down to USD 200 million.

When we make the repayment, we will only have one tranche left. And we always had two of them in our balance sheet, so there will clearly be room for accommodating another one, plus, any type of other financing structures, including ECAs, club loans or anything similar. So, I hope that answers your question.

BYSTROVA E: Yes, thank you very much.

OPERATOR: The next question comes from line of Özdemir Alper with Azimut Asset Management. Please go ahead.

ÖZDEMIR A: Hello. Thank you. Can you give us any hints that might put some light on the structure of the potential concession deal? And my second question is about if you see any signs of affordability problems on the customer front. Maybe related to that, you can give us some hints about MNP activity. After a series of price increases, I mean, considering the nominal levels of the tariffs, I want to understand how long can you sustain above-inflation revenue growth? Thank you.

ÖNAL Ü: Let me start by answering your second question. You know, we are continuing with our inflationary pricing action. And so far, I can clearly state that we haven't seen any affordability issues or any resistance on the consumer side. And we have followed the consumer's behavior, we have analysed them, so we haven't seen any downsell trend so far.

Of course, we know that there is an economy program that is in place and implemented, and it has some effect on all sectors. And maybe one day it can affect us noticeably, but so far we have not been affected in that way.

About your first question related to the possible terms of the concession renewal. I can tell you that the main model for us and the main number for us will be within the framework of considering. Our company is owned by the government directly or indirectly, 87%. So, we believe that our stakeholders and shareholders will always consider the healthy balance sheet structure and ensure the investment continuity of our company.

So, this is the main understanding that we expect from the model and the number, in terms of the money to be paid. And when we discussed with the Privatisation Administration and when we shared our documents and information with them, we have felt that we are well understood by the government.

AKTAN K: Mathematically let me add just one thing, if you go back to earlier days, like when this high inflation period started back in

2020-2021, on a cumulative basis, we just started to catch up with consumer inflation. So, I mean, it's not a secret, our industry was not prepared to accommodate such high inflation. Especially that impacted our cost items, because everybody knows we used to operate on fixed price contracts with most of the customer base.

So we were lagging behind the inflation when it came to revenue growth. This is just only catching up with the consumer price index. And when you look at the producer price index, which is a better indication of the impact of inflation on our cost base. We have still a way to go there. So, we had to provide fixed price for a very long period. And during that period, we had to absorb very high cost inflation in our cost base. And it also showed in our margin story. So last year, a year before that, those were the years that we lost margin due to this factor. Now it's getting back to where it was.

So, it's not about getting additional or incremental price adjustments on top of inflation but catching up with the cumulative negative impact of inflation over a longer period of time.

ÖZDEMIR A: Thank you.

OPERATOR: The next question comes from the line of Campos Gustavo with Jefferies. Please go ahead.

CAMPOS G: Hello, thank you very much for the presentation, congratulations on the results. Just a few questions on my end. The first, in light of the 5G tender, the potential concession renewal, where do you expect capex as a percentage of sales to be in 2025 relative to 2024? That's the first question. Thank you.

AKTAN K: You mean including the cost of the extensions and new licenses or excluding those factors?

CAMPOS G: Including those, if possible. Thank you.

AKTAN K: Well, that would be extremely speculative, so because the 5G package is not even defined in terms of what type of frequencies will be included into that. Even the term of the contract in terms of how many years will be covered is not even defined. So, with all those unknowns together, it is very difficult to say something about it.

CAMPOS G: No worries, no worries. And if it was excluding those expected investments, then if you have any estimates, that would be helpful. Thank you.

AKTAN K: Well, normally, again, anything that will come from those new big-ticket items, we should be around the peak level in a long-term trend this year. So, we got closer to 30% in terms of capex intensity. For this year, we guided for something lower than that. And the revenue growth is also supporting the reverse trend in terms of capex intensity. Clearly, that was the factor that pushed those numbers towards 30% last year and the year before that, because the cost inflation on the investments that we made was much higher than the revenue growth. And at some point, we tried to rationalise the amount of investments we did up to a certain point. But still, it impacted and it gave us a much higher capex intensity.

And going forward, I would also expect to see a reverse trend in those parameters. Revenue growth being higher, the cost of the investment staying lower than the revenue growth. And even with a similar number of units into which we invest, we should see a lower percentage. And we should be slowly and slowly converging to low 20% levels going forward.

CAMPOS G: Thank you very much. That is very helpful. My second question is on your hedging policy. If you could provide any updates whether you are planning to obtain a new PCCS contract for the new bond? That's the second question. Thank you.

AKTAN K: Well, not for the new bond, but for the existing bond actually, there's only USD 200 million left until February. We tapped that market with participating cross-currency swap contracts, just to have a feeling of how it's working, whether there is availability there.

And we also acquired almost an amount similar to the exposure that's left with 2025 maturity. And for the new one, we will expect to see an even better market and see lower rates. And then we may have a plan around hedging this new USD 500 million bond.

Until that time, we are hedging the total exposure, which also includes the new bond, with short-term contracts and keep the exposure at around USD 200 - 300 million short position level. In the foreseeable future, we will continue implementing that strategy, again, mostly by using local market supplied short-term hedge contracts. But the good news is there is availability even in the local market for participating cross-currency swap contracts.

CAMPOS G: Understood. That's crystal clear and very helpful. Thank you. My last question would be on the new Bank of China CD Bank facilities you recently signed. Do you have an expected use of proceeds? Is my understanding correct that they are fully undrawn and available at the moment?

AKTAN K: Partially, but all in all, the total unutilised portion of everything that we agreed and signed under the ECA agreement is close to USD 400 million equivalent.

CAMPOS G: Thank you. Now, what is the expected use of proceeds? Are you planning on drawing those facilities in the near future or are you just planning on leaving them available for a rainy day?

AKTAN K: It will be fully aligned with the amount of procurement that we have from related suppliers. They are backing the purchases through Nokia, ZTE and Huawei. These are our big suppliers in terms of network equipment. It will be a smooth process in line with the way we invest into our core business.

CAMPOS G: Understood. So, these Bank of China CD Bank facilities will be mostly for working capital purposes?

AKTAN K: Fully used to finance the capex that we have in our numbers.

CAMPOS G: Okay. Sounds good. Thank you.

OPERATOR: The next question comes from line of Demirtaş, Cemal with Ata Invest. Please go ahead.

DEMIRTAŞ C: Thank you for the presentation and congratulations for good operating results. My first question is about the pre-inflation accounting figures. Could you share some metrics like margin and net income pre-TFRS 29 if possible? And going forward in the industry you are operating; do you have any ROE guidance? Not a guidance but maybe an indication going forward, what could be the ideal ROE for a company like you? That's my question also.

And the last question is about the following year in terms of inflation accounting impact. If we are assuming that inflation will come down and the trend will come down, what would be the effect on your financials in both parts? Just to see how the real growth side and the margin side will be affected in case of transition from high inflation to low inflation? Thank you.

AKTAN K: Well, disclosing pre-inflation adjustment numbers, I think our current standing is that, it's already complicated to even understand the adjusted numbers, when we do start as we did in the prior quarters, just to make a transition to the new era.

But if we continue doing that, I think it will be very difficult for all of us to analyse the numbers and it will be confusing to compare those two sets of numbers and come up with an idea on the business that we are managing. So this is why we stopped, but we took our notes so if there are more requests around this, so we will evaluate and we will also share this with the Capital Market Board contact to see whether we should continue on anything like this.

If the change in the inflation, I mean overall, we see in the short term, it impacts the real growth in the revenue line. So, if suddenly we see a dramatic change in the short term, again I'm underlining this, since we have a bit limited ability as a telecom operator, this is because how we operate as a large telecom operator, since it's a bit difficult to impact the money that we are charging to our customers. So, the short-term impact obviously gives us a lower or higher real growth in the revenues.

But there is nothing static here. So, if we see that inflation is moving in a different direction, then we took the necessary operational actions to really follow the inflation trend. And in the mid to longer term, obviously we should get closer to the inflation and try to deliver real growth.

But in terms of margin, especially operating margin, not the level or the number that we report, but the margin that we report, the inflation has very limited impact. So, it changes the growth number, either we deliver real growth in the margin, but the percentage margin that we report is not being very much impacted. And ROI, it's a very good question.

I think since we are using very large capital, the ROI should be a good indicator. But again, there are other complexities in doing that, first with inflation and then the other with the ownership of the assets. So as all operators, we are operating with assets that are owned by the government at the end of the day, and we revalued those assets and included the difference into our equity pool, because of the inflation adjustment.

So, it will be very difficult to now measure properly as other operators around the world will do to give a return on the equity number. First, as I said, because of inflation adjustment and the second, ownership of the assets. Let's consider this.

Let's try to come up with something maybe similar that will at least give us how much benefit or real value we generate for the equity owners. But ROI may not be the best case in our situation. May not be the best solution in our case.

DEMIRTAS C: Thank you.

OPERATOR: The next question comes from Lima Filipe with Banco Finantia. Please go ahead.

LIMA F: So, thank you for taking my question and congrats on the results. So just following up on your need for additional funding for the concession renewal and the 5G tender, how much should we expect leverage to increase or what is the level that you are comfortable with?

AKTAN K: Again, let's really have the details of the conditions in both agreements, the concession and 5G. But again, as I mentioned, we came down to almost 1x multiple. And again, both the cost of funding is coming down and also the availability is being stronger and stronger every day.

So, I would rather focus on the conditions of those extensions, rather than the possibility to finance those instruments. So, the first part will be more important and more definitive for the business. I will be more relaxed on how we will finance the capex requirements.

LIMA F: Understood. Thank you.

OPERATOR: Ladies and Gentlemen, there are no further questions at this time. I will now turn the conference over to Türk Telekom Management for any closing comments. Thank you.

AYAZ G: Well, thank you everyone for being with us today. Excellent, thank you.