

Net Holding

NOT RATED

Current price: TRY2.03

Visit Notes

Analyst Bora Tezguler
+90 (212) 334 94 67
bora.tezguler@akyatirim.com.tr

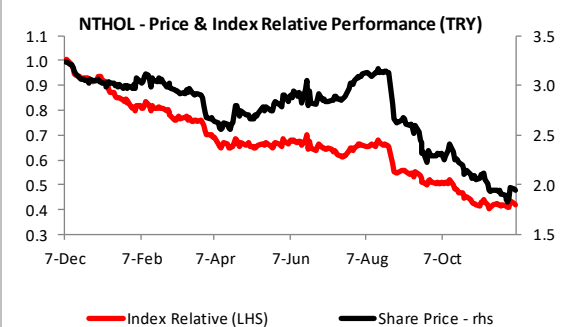
Net Holding held an analyst meeting on-site at its hotel & casino, Merit Royal in Northern Cyprus. Below are key take-aways from our discussions with the management.

- Net Holding is targeting transformation & increased transparency:** The aim is to transform the company from a tourism player into a regional leading gaming operator. This process was started with new professional management brought in 2007. This transformation includes potential expansion in any form of licensed gaming and lottery in the regions of interest, i.e. Turkey, Northern Cyprus, the Balkans, Southeast Europe and the Middle East & North Africa. Most of the work related to increased transparency has been completed with the merger of Net Turizm into Net Holding this year. There are some unlisted minor companies expected to be merged that will mostly complete the transparency process.
- Main gaming operator in Northern Cyprus:** Through the Merit brand, Net Holding owns 6 hotels and 5 casinos in Northern Cyprus with c.45% market share in casino revenues in N. Cyprus. About 80%-85% of revenues and EBITDA of Net Holding are generated from the Northern Cyprus operations. Gaming hotels have come to dominate the economy of Northern Cyprus accounting for c.65% of GDP. Net Holding owns a 6th unused gaming license that points to potential for future growth. There is an important barrier to entry into the gaming and hotel industry in N. Cyprus; a 5-star hotel with top-of-the-line amenities are required before a new gaming license is granted.
- Presence in the surrounding geography.** Net Holding has expanded with the Merit brand name opening casinos with local partners' hotels in Croatia (2) and Montenegro (3) with two to be opened in 2018 in Bulgaria (in February or March) and in Macedonia (some time in 1H18).
- Real estate revaluation:** Real estate assets on Net Holding's balance sheet are booked at expertise values published in 2015 at TRY2,035mn (US\$615.2mn). A new expertise valuation has been conducted the results of which are expected to be publicly announced soon. It is expected the real estate assets will be subject to a revaluation boosting the value of these assets.
- Share buy-back program:** Management recently re-introduced its share buy-back program with own shares (Treasury shares) reaching 30% stake. The company announced it intends to hold on to these shares until January 1, 2019. After then, they may sell the shares to institutional investors and/or retire them.

Stock Data

Ticker (Reuters, Bloomberg)	NTHOL.IS, NTHOL.TI
Market Cap. (TRYmn)	1,145
Number of Shares (mn)	563.9
Free Float	42%
Daily Avg. Vol. (3M, TRYmn)	6.4
Net Debt (2017/09, TRYmn)	114
BIST-100 Index (TRY)	105,268

(* Stock data as of December 6, 2017)



Stock Performance

	1 W.	1M.	3M.	1Y.
TRY	11.5%	-1.9%	-24.1%	-37.2%
Index Rel.	8.4%	6.3%	-21.0%	-55.0%

Summary Figures

	2015	9M16*	2016	9M17*
Net Sales	403	421	472	595
EBITDA	97	86	119	153
EBITDA marg.	24.1%	20.4%	30.8%	25.7%
Net Profit	66	77	-24	-9
EV/Sales	3.1	2.7	2.4	1.6
EV/EBITDA	12.8	13.2	9.5	6.4
P/E	18.8	14.7	n.m.	n.m.

* Trailing 12-month figures

Shareholding Structure

Tibuk Family	29.7%
Net Holding (Treasury Shares)	28.8%
Free Float	41.5%

Net Holding medium term guidance:

Net Holding Forecasts (US\$m)							
	2015	9M16	2016	9M17	2017F	2018F	2019F
Revenues	148	104	156	119	195	227	245
YoY Chg			5%	14%	25%	16%	8%
EBITDA	23	18	39	24	60	81	94
EBITDA Margin	15.4%	17.1%	25.2%	20.1%	30.8%	35.7%	38.4%
Cyprus					62	67	70
Balkans					10	28	38
Holding & Others					-12	-13	-14
<i>Source: Company data</i>							

Net Holding Management provided medium term guidance (up to 2019) with a breakdown of EBITDA according to region. The Management expects a strong 4Q17 with seasonality as top-line is expected to rise from US\$119mn in 9M17 to US\$195mn for full year 2017 pointing to 25% YoY growth. The 2017 EBITDA margin is guided by the Management to be 30.8% up from 25.2% in 2016.

With the introduction of new casinos in Macedonia and Bulgaria, EBITDA from the Balkans is expected to rise from US\$10mn in 2017 to US\$28mn in 2018. Management sees organic growth raising total EBITDA from US\$81mn in 2018 to US\$94mn in 2019.

According to Management's guided figures, 2017F EV/EBITDA is 4.3x at current trading and falls to 3.7x on 2018 EBITDA.

Competitive advantages: 1) Gaming is relatively insulated from economic fluctuations. Despite the tumult of the post July 15 period in 2016, Net Holding grew casino & hotel EBITDA from US\$50mn in 2015 to US\$52mn in 2016. 2) Revenues are protected from potential local currency weakness. Live gaming, where the majority of revenues are generated, are in FX while slot machines generate local currency revenues. At the consolidated level, 77% of revenues are from hard currency, 23% from local currency. 3) With its network of 10 casinos across the region, the company has the largest number of slot machines currently at 4,390. These are connected online and generate a mega-jackpot of around TRY1mn – TRY2mn that is paid out, on average, once every three months. This is an added attraction that is not available at competing casinos. 4) Marketing activities are emphasized. The Company has marketing offices (consisting of low opex units) in several locations including Moscow, St. Petersburg, Kiev, Lviv, etc. All the Merit locations feature screens and posters advertising all of their locations. 5) Player registration card: Merit casinos require all people to register issuing them cards before allowing gaming activities. These cards collect points as people play that can be used for discounts on goods and services across all Merit hotels and casinos. The card provides a loyalty program for the company providing it with a customer database that has reached 700k.

Foreign owned shares. Pine River Asset Management accumulated a 28.8% stake in Net Holding before it liquidated its flagship fund. Consequently, it was announced on October 12th that the fund had sold off Net Holding shares that reduced its stake to 16.7%. This sell-off led to underperformance in the shares.

Disclaimer

This research report is for distribution only under such circumstances as may be permitted by applicable laws. The information and opinions in this report were prepared by AK INVESTMENT (Ak Yatırım Menkul Değerler A.Ş.) with information and data obtained from public sources, which are believed to be trustworthy. However, this research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to herein and, AK INVESTMENT does not guarantee that the information contained herein is true, accurate, complete or unchangeable. The views of AK INVESTMENT reflected in this document may change without notice. Investment information, recommendations and opinions contained in this report are not under the scope of investment advisory services. Investment advisory services are provided by authorized investment institutions to persons and entities privately by considering their risk and return preferences in accordance with the investment advisory services framework agreement to be executed by and between authorized investment institutions and clients, whereas the comments and advices included herein are of general nature. The statements indicated in this report should not be construed as an offer, invitation or solicitation to sell or purchase any securities or other instruments under any circumstances. This research report and any investment information, opinion and recommendation contained herein have not been prepared based on and may not fit to specific investment objectives, financial situation, investment goals, risk return preferences or particular needs of any specific recipient, and investments discussed or recommended in this report may involve significant risks, may be illiquid and may not be suitable for all investors. Therefore making an investment decision only by relying on the information given herein may not give results that fit your expectations. Investors must make their own investment decisions considering the said circumstances and based on their specific investment objectives and financial situation and obtaining independent specialized advice as may be necessary. In addition, AK INVESTMENT research department produces various types of research including, but not limited to, fundamental analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research, whether as a result of differing time horizons, methodologies, or otherwise. AK INVESTMENT is under no obligation to disclose or take account of this document when advising or dealing with or on behalf of customers. Readers are thus advised to have the accuracy of the information contained confirmed before acting by relying on such information and the readers shall bear the responsibility of the decisions taken by relying thereon. Neither AK INVESTMENT nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or any losses or damages which may arise from the use of this research report. Furthermore, the personnel and consultants of AK INVESTMENT shall not have any responsibility in any case for direct or indirect damage caused by such information. Moreover, AK INVESTMENT shall not be held liable for any damage to the hardware or software of the receiver caused by any viruses, detected transfer or any other technical reason in case of the receipt of the reports via the internet or through e-mail.

Ak Investment Research Stock Rating Methodology

Our rating system aims to indicate a relative value and is therefore based on a graduated scale (Outperform, Neutral and Underperform). While the BIST-100 (XU100) Index is treated as the point of reference when assigning our ratings, each analyst also takes into account views towards stocks in relation to the sectors under coverage and the sector call relative to the market. We also categorize the stocks in our coverage under two groups, principally in accordance with their liquidity (based on free-float market capitalization and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics than more-liquid large-caps. In conjunction, the individual stock ratings reflect the expected return of the stock relative to the broader market over the next 6 to 12 months. The expected performance equals to the sum of forecasted share price appreciation and expected cash dividend income. It is a function of the near-term company fundamentals, the outlook for the sector, the confidence in earnings projections and the company valuation, along with other factors. In light of this expected return, the target price for a stock represents the value the analyst expects the stock to reach or sustain over a 12-month horizon. However, this

should be interpreted as a notional reference price and must be discounted by the stock's cost of equity to calculate the current fair price estimate.

A key element of our rating system is the benchmarking of the 12-month expected return against the cost of equity. We apply a required rate of return for each stock, calculated on the basis of our assumed risk-free rate and equity risk premium. A stock is normally assigned an Outperform rating if the implied return over the next 12 months exceeds the required rate of return (cost of equity) by at least 10 percentage points for our larger-cap stock coverage, or by 15 percentage points for the small-cap group. As the average potential upside of the stocks in our coverage may be considerably higher or lower than the average cost of equity, we also filter stocks according to their potential upside with respect to other stocks under coverage, with the practical aim of attaching an Outperform rating to the top group (generally 30-50% of the companies under our coverage), a Neutral rating for the next 40-50% and an Underperform rating to the lowest group (no less than 10%, and typically between 10-20% of the coverage group). The expected returns on some stocks may fall outside the range of the applicable rating category, due to movements in market prices and other short-term volatility or trading patterns, or analyst discretion. While temporary deviations from the specified ranges are permitted, they would subsequently become subject to review. Note too that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

Outperform. An outperform rating conveys an expectation that the stock will outperform the BIST-100 Index (XU100) within the next 6 to 12 months.

Neutral. A neutral rating would convey an expectation that the stock will perform broadly in line with the BIST-100 (XU100) Total Return Index.

Underperform. An underperform rating conveys an expectation that the stock will yield a return below that of the BIST-100 (XU100) Total Return Index within the next 6- to 12-month period.

Not Rated (N/R). A not rated rating is assigned when the analyst does not have adequate conviction about the stock's total return relative to the BIST-100 (XU100) Total Return Index or to the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 6 to 12 months.

Under Review (U/R). An under review rating is temporarily assigned when the analyst starts an appraisal process of the rating for a potential revision, or the issuer has a significant material event with further information pending or to be announced. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for sufficient information to re-evaluate the analyst's expectation of total return on equity.

Disclosure

AK INVESTMENT does and seeks to do business with companies covered in its research reports. AK INVESTMENT may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of AK INVESTMENT. While the analyst will have endeavoured to be objective in the preparation of this report, investors should be aware of any implications of such a relationship on the objectivity of the report, or unintended conflicts of interest which may have arisen in its preparation. Investors should consider this report as only a single factor in making their investment decision. AK INVESTMENT, any of its parents, subsidiaries or affiliates, agents, and/or their respective officers, directors or employees may hold positions and at any time make purchases or sales as a principal or agent of the securities referred to herein.

Analyst Certification

The analyst(s) listed on the cover page of this report certify that the views contained within this report accurately reflect their own personal views regarding the securities and the issuers referred to therein. The analyst(s), employed by AK INVESTMENT and named in this report, are not aware of any actual or material conflict of interest that may exist concerning any of the companies mentioned here at the time of this certification, and have not and will not receive any compensation for providing a specific recommendation or view in this report. AK INVESTMENT research reports are distributed internally only after they are distributed to clients. Research analysts will not conduct any disclosure of research reports they are planning to publish with any personnel outside the research department, except to legal and compliance personnel.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Ak Yatirim Menkul Degerler A.S. ("AK INVESTMENT"), a company authorized to engage in securities activities in Turkey. AK INVESTMENT is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through AK INVESTMENT. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc., its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither AK INVESTMENT nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

AK INVESTMENT may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of AK INVESTMENT.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by AK INVESTMENT with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of AK INVESTMENT and AK INVESTMENT accepts no liability whatsoever for the actions of third parties in this respect.