



Net Holding

Analyst Trip Notes: Rock Solid and Cheap

8 December 2017

The core business is stronger than ever. This week we travelled to N. Cyprus for an analyst meeting. This also provided us an opportunity to see the facilities, including 6 hotels and 5 casinos, where the core cash flow is generated (<http://www.merithotels.com/tr/index>). We are pleased to report that the portfolio impresses with a fine segmentation balance and is still busy in the off season. In fact, the premium resort is running at full capacity over the weekends. Consequently, the company is on its way to achieve, if not to slightly beat, our USD59m EBITDA target (+40% YoY) for 2017.

The potential in N. Cyprus. An impressive distinction is the quality of the aforementioned growth as it was achieved in an environment of a 70% decline in Turkish tourists. Presently, Turks comprise 47% of visitors, and most of the rest is evenly distributed between Middle Easterners and Russians. A substantial potential is the opening of N. Cyprus to international flights. Presently, direct flights to N. Cyprus are only allowed from Turkey on political grounds. When this changes, it could save approximately 20% on marketing costs, not to mention a huge growth in traffic. Although it is unclear when this opportunity will come to pass, we believe it is reasonable to count it as a substantial future value enhancer.

No change in international expansion policy—a low capex model. As mentioned in our earlier note, the strategy is to fulfill an untapped market between Las Vegas and Macau. After having opened 5 Eastern European casinos in 2016, 2 additional casinos will be opened in Bulgaria and Macedonia in 2018. These are likely to be followed by 5 openings in Kiev, Odessa, Belgrade, Sarajevo, and Zagreb. The most expensive new casino investment is USD3mn, and is comprised of gambling equipment. Casinos are rented on a 5-year deal (+5 year extension option), while premises can be left with a 6-month notice if the business is insufficient. This helps to maximize the IRR target, which is 25-30%.

Over 10% annual USD-based EBITDA growth between 2018 and 2020—dividend payout in the offing. Each new casino should add a minimum of USD 2-3mn a year. Furthermore, 77% of the business is FX pegged. No dividend was distributed since 2012, and management is considering re-starting the process soon.

Land bank—substantial, but no immediate cash-out: The land bank is valued at USD526mn, which is 1.8x of the market capitalization. The company is willing to sell plots whenever possible, but due to market conditions a meaningful cash intake is unlikely anytime soon.

Trading at low multiples. The stock appears to be trading a very compelling 5.5x EV/EBITDA multiple (18E) with a visible 20% annual (TL) growth rate, which is superior to Turkish dynamics (consensus 12M EBITDA, growth 6%, 8.3x EV/EBITDA). Global peers trade on low/mid teen multiples and have half the EBITDA growth outlook.

	2016	2017E	2018E	2019E	2020E
Bed Capacity	2,691	3,060	3,060	3,060	3,060
Occupancy Rate	72%	76%	77%	77%	77%
Number of Casinos	10	11	12	14	15
Slot Machines	4,000	4,200	4,370	4,770	4,990
Table Games	294	334	374	454	490
EBITDA (USDm)	39	59	66	72	77
EV/EBITDA	n.m	6.61	5.47	4.65	4.00

N/R

Stock Data

Sector	Conglomerates
Bloomberg / Reuters code	NTHOL.TI / NTHOL.IS
Price (TL/share)	2.13
Target Price (12M, TL/share)	n.a.
Potential Return	n.a.
52-week range (TL/share)	1.8-3.25
Market Cap (TLmn)	1,201
Enterprise Value (TLmn)	1,393
Floating Market Cap (TLmn)	178
Avg volume (3-mnth, TLmn)	8.30
Shares out (mn)	564
Effective Free Float	15%
Foreign ownership (% of free float)	
Current	46%
3 months ago	47%

Volume - Period	1W	1M	3M	12M
Avg-Number of Shares traded (000)	10,338	6,159	4,595	2,141
Avg-Volume (000TL)	20,836	12,160	8,301	3,823
Price range (TL/share)	1.94-2.13	1.8-2.16	1.8-2.67	1.8-3.19

Performance	1M	3M	6M	12M
Absolute	1%	-19%	-28%	-34%
Relative to BIST100	5%	-18%	-33%	-53%

Shareholder Structure

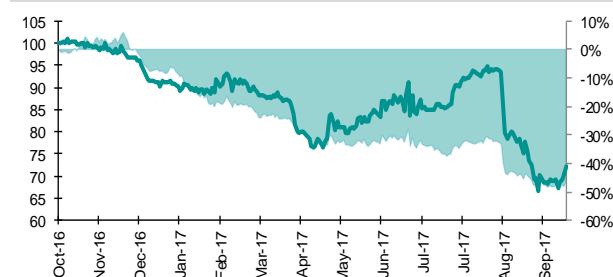
Tibuk Family	30%
Net Group (Treasury Shares)	29%
Foreign Institutional Investors	27%
Free float	15%

Company description

Net Holding is a leading Turkish company operating in the gaming and lottery, hotel management, and real estate development sectors. The group currently operates in 6 countries, namely Turkey, Northern Cyprus, Montenegro, Croatia, Bulgaria, and Macedonia.

EXHIBIT: Price Performance

SOURCE: Gedik Investment



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Income Statement (TLmn)	2015	2016	2016/9M	2017/9M
Revenues	403	472	306	428
COGS	246	292	215	295
Gross profit	157	180	91	133
Operating expenses	106	128	84	99
Operating Income	51	57	10	49
EBITDA	97	119	52	86
Other non-operating income, net	-20	11	4	16
Profit/loss from subsidiaries	-5	-2	0	1
Financial income, net	-37	-42	-25	-58
Profit before tax	125	29	-11	-6
Net income after taxes	97	-4	-6	-2
Minority interest	31	20	7	-4
Reported net income	66	-24	-14	2
Reported EPS	0.18	-0.07	-0.03	0.00

Growth	2015	2016	2016/9M	2017/9M
Sales	31%	17%	n.m.	40%
EBITDA	32%	22%	n.m.	65%
Net earnings	187%	-137%	n.m.	n.m.

Balance Sheet (TLmn)	2015	2016	2016/9M	2017/9M
Cash & Marketable securities	485	483	383	378
Account receivables	131	156	139	206
Inventory	22	29	26	32
Plant, property & equipment, net	1,580	1,648	1,659	1,694
Equity investments	67	77	68	82
Other Assets	547	683	605	641
Total Assets	2,833	3,077	2,881	3,033
Financial loans	455	558	455	567
Account payables	48	58	68	87
Minority Interest	399	923	499	20
Shareholders' Equity	2,039	2,110	2,041	2,071
Net Debt	-30	75	72	189

Key financial ratios	2015	2016	2016/9M	2017/9M
ROE	3%	-1%	-1%	0%
EBITDA margin	24%	25%	17%	20%
Net Margin	16%	-5%	-4%	0%
Net debt/Equity	-0.01	0.04	0.04	0.09
Net debt/EBITDA	-0.31	0.63	1.38	2.20
ST borrowings/T. borrowings	0.01	0.01	0.01	0.02
Equity/Total Assets	0.86	0.99	0.88	0.69
Current Ratio	2.12	2.54	1.36	2.65
Cash dividend pay-out	0.00	0.00	0.00	0.00

VALUATION & RATING METHODOLOGY:

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Comparison, though other metrics such as Dividend Discount, Historical Relative Valuation, and Replacement Value are also used wherever appropriate. Gedik Investment analysts set the target values with a 12-month investment horizon and calculate the potential return of each stock via using only one tool or more than one tool, assigning different weights for each. Our 12-month company rating system includes the following recommendations: **BUY**, **HOLD** and **SELL**. The ratings are determined as follows:

BUY: If 12-month total return of the stock is expected to exceed BIST100 by more than 20%.

HOLD: If 12-month total return of the stock is expected to perform in-line with BIST100 within a range of +20/-5%.

SELL: If 12-month total return of the stock is expected to be below BIST100 by more than 5%.

Rating Methodology	Potential Return (PR)
BUY	PR > +20%
HOLD	-5% <= PR <= +20%
SELL	PR < -5%

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