

## Turkish telecom update

### Alert: Structural separation is on the table, time to pay attention?

**Turkcell CEO, Kaan Terzioğlu, last week called on the policy-makers to consider regulatory steps towards digital transformation, comparing such opportunities to highly successful urban transformation, which has modernized Turkey.** He proposes a shared open infrastructure company (NetCo), arguing that due to advantages such as better access to capital (including long-term borrowing), such company would be ideally placed to meet the country's infrastructure investment needs. Mr. Terzioğlu for the first time publicly entertained this idea in early September and he reiterated it on the company's capital markets day in London on 9/11/15, highlighting mainly fibre. The major fibre infrastructure owner in Turkey, Turk Telekom, so far has not publicly supported this initiative.

**Turk Telekom in our view has grounds for caution about Turkcell's proposals and public statements**, including: Turkcell's specific focus on fiber when talking about infrastructure spin off; potential dilution of fibre advantages while spectrum advantages would be maintained; potentially more beneficial impact of the proposed solutions on Turkcell's (vs. Turk Telekom's) service business and future FCFs; so far largely unilateral initiative to lead the regulatory transformation by Turkcell, which board is effectively government controlled; impact of any country-wide pro-FTTH policy on value of Turk Telekom's copper network; as well as Turkcell's declared target of future market share gains at the expense of Turk Telekom.

**We see industry structure based on shared basic infrastructure with competitive digital services as progressive and beneficial for telecoms...** We recently saw value-creative structural separation (fixed-line and mobile) in the Czech Republic. Nearly 40% of towers have already been separated from telcos globally and this trend continues spreading. Asset light models are also being discussed in fixed-line in some countries. We are relatively bullish about prospects of ServCos (telcos ex-basic infrastructure) in emerging markets. We also think that the NetCo solution in Turkey may rectify some historical uncertainties about permanence of both leading telcos' ownership rights towards their network assets.

**... however we also see risks to both shareholder value and investments if attempts to implement such model results in major disputes** and prolonged regulatory uncertainties. We therefore see the upcoming moves by the Turkish regulator, Turkcell and Turk Telekom as crucial for assessing future scenarios.

**We think the possibility of telecom structural separation is now on the table in Turkey, although it is still too early for investors to play it as in investment story due to uncertainties around timing and possible scenarios.** However, we think that the story may become far more relevant next year when things could become clearer. As the O2 CZ example shows, this could potentially lead to significant value moves, possibly appreciation, if done voluntarily (with respect to shareholder interests) and executed right.

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For our additional research about this subject please see our report:

[Value creation opportunities for EM telcos such as Turkcell - Could infrastructure separation be the next 'big thing'?](#) from 1/9/2015.

## Appendix A-1

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