Forging a strong foundation for future gains

Ereğli Demir ve Çelik

46% Upside Potential

We favour Ereğli Demir Çelik for its significant transformation towards achieving higher capacity, integrated production and sustainability. **We are initiate our coverage with an Outperform rating** and **a target price of TRY 34.50 per share**.

In line with sustainable transformation and green growth, the company aims to spend USD 3.2 billion to reduce carbon emissions by at least 25% by the end of 2030. Within the scope of the project, which includes an annual investment expenditure of USD400 million crude steel production capacity is expected to increase from the current 9.5 mn tons to over 13 mn tons by the end of 2030. Accordingly, we estimate that investment expenditures will be 843 million USD by the end of 2025 and 827 million USD in 2026. We expect the Net Debt/EBITDA ratio to be 2.8x for 2024 and 2.4x for 2026.

Erdemir aims to gain an advantage in raw material supply and generate additional income with its mining investment in Bingöl. Its subsidiary Ermaden plans to build a pelletizing plant at the Bingöl-Avnik iron field at a cost of 550 million USD. The investment is planned to be commissioned at the beginning of 2027 with approximately 250-300 million tons of iron ore reserves and it is aimed to produce more than 100 million tons of pellets with this reserve. With the launch of the investment, the company's total ferrous raw material self-sufficiency rate will increase from the current 15-20% level to 40-45%. We anticipate that the investment will contribute 200-250 mn USD to gross profit starting from 2027.

The gold mine discovery is eagerly awaiting its conclusion. A subsidiary of the Company Ermaden stated that it gained significant potential following the discovering of gold reserves at the mine site in Sivas province in July 2024. It should be noted that while the reserve assessment studies are ongoing in accordance with the standards of the National Mineral Resource and Reserve Reporting Commission (UMREK), these reserves are not included in our valuation due to the uncertainty regarding the size and duration of the investment.

Risk Factors: i) Possible adverse affects, mainly lower product prices, on the steel industry as a result of the lack of recovery in the real estate crisis in China **ii)** Possible increase in energy costs, **iii)** Decrease in sales and negative impact on profitability due to the decrease in domestic demand, **iv)** Failure to complete ongoing investments within the planned time, **V)** Rising labor costs can be listed as the main risk factors.

Listing Details and View	
Bloomberg Ticker	**EREGL TI**
Rating	**Outperform**
Price per Share, TRY	23,66
Target Price per Share, TRY	**34,50**
Upside	45,8%
Free Float	47,5%
Market cap, TRY mln	165,620
Market cap, USD mln	4,581
BIST-100 Index Weight	2,8%
BIST All Shares Index Weight	2,1%
Foreign Share	13,7%
Pension Funds Share	5,4%
Mutual Funds Share	12,9%

Source: Matriks, PhillipCapital Research
Price & Market Cap. as of 19-Feb

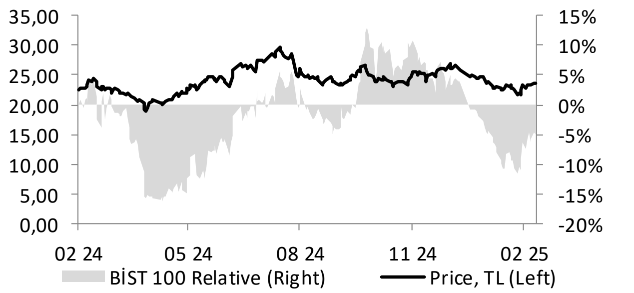
Key Financials, USD mln	**2024E**	**2025E**	**2026E**	**2027E**
Revenues	**6,225**	**6,246**	**6,458**	**6,651**
Revenue Growth	**-0,2%**	**0,3%**	**3,4%**	**3,0%**
Operating Profit	**642**	**518**	**665**	**785**
Gross Profit	**610**	**750**	**904**	**1031**
Gross Margin	**9,8%**	**12,0%**	**14,0%**	**15,5%**
EBITDA	**646**	**756**	**1027**	**1237**
EBITDA Margin	**10,4%**	**12,1%**	**15,9%**	**18,6%**
Net Profit	**411**	**455**	**581**	**684**
Net Profit Growth	**141,7%**	**10,5%**	**27,8%**	**17,7%**
Net Profit Margin	**6,6%**	**7,3%**	**9,0%**	**10,3%**
Net Debt	**1,840**	**2,138**	**2,486**	**2,644**
Net Debt / EBITDA	**2,8**	**2,8**	**2,4**	**2,1**
P/E	12,5	10,1	7,9	6,7
EV/EBITDA	10,8	8,9	6,9	5,8

Source: Company Data, PhillipCapital Research

Shareholder Structure	**Shares (million)**	**Rate (%)**
Ataer Holding A.S.	3,449,965	49,3%
Other	3,550,035	50,7%
Total	**7,000,000**	

Source: Finnet

Share Price Performance



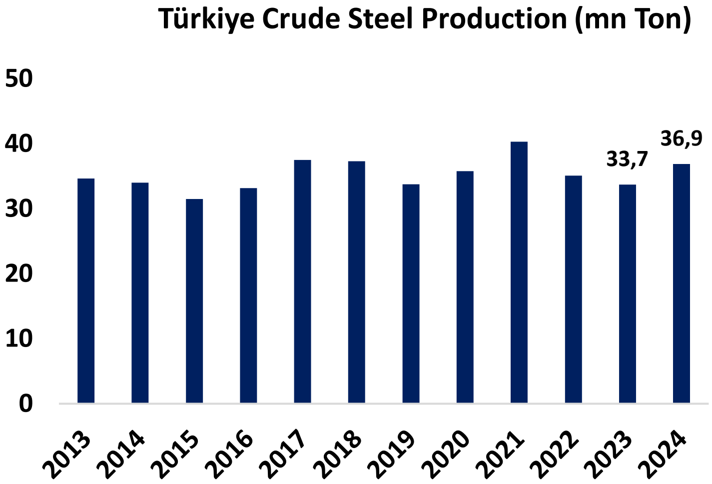
Source: BIST, Finnet

	1m	3m	6m	1y
Nominal	2,6%	-6,3%	-2,7%	-2,5%
Relative	3,2%	-11,2%	-3,6%	-9,0%
Trd. Vol. USD mln	127,0	116,3	118,4	159,4

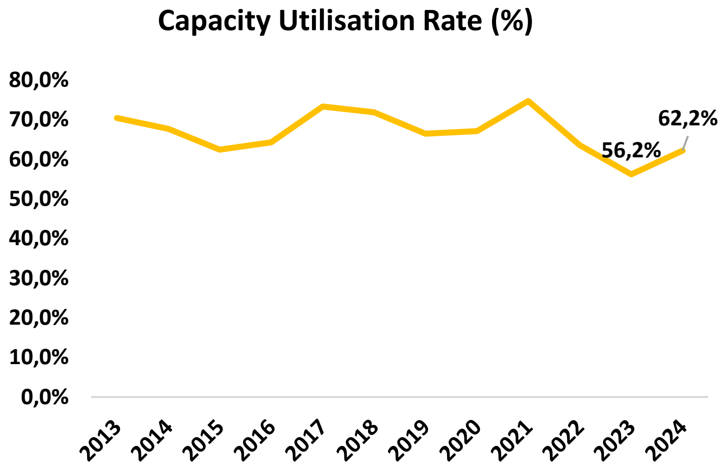
Source: BIST, Finnet

Nazli Tuna AKAR
tuna.akar@phillipcapital.com.tr
Banu Dirim
banu.dirim@phillipcapital.com.tr

Steel Production in Turkey



Source: World Steel Association



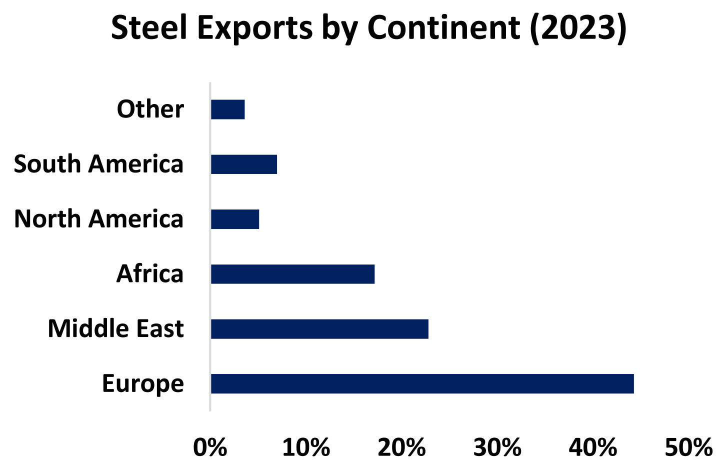
Source: World Steel Association

While the steel industry in Turkey operated with a capacity utilization rate of 63.6% in 2022, 33.7 million tons of crude steel was produced in 2023 with a capacity utilization rate of 56.2% due to the impact of the earthquake disaster in our country. In 2024, the capacity utilization rate increased to 62.2% and crude steel production rose by 9.4% year-on-year to 36.9 million tons, continuing its growth trend. So that Türkiye ended 2024 in the 8th place in global crude steel production. According to the World Steel Association Short-Term Outlook Report, steel demand in Turkey is projected to decline by 1.4% to 35.5 million tons in 2025.

Our exports of steel products remained high in the first half of the year, especially due to the increase in value-added product exports. They increased by 16% to 1.3 million tons in December compared to the same period of the previous year, and to 13.4 million tons in the whole of 2024 with an increase of 27.6% compared to 2023. Due to the ongoing tensions in the Red Sea, by Turkish producers' meeting the demand and sales to European Union countries have been one of the most important sources of the increase in our exports. Despite the contraction in demand in export markets in 2024, we consider this performance by Turkey, which has achieved a strong upward trend by increasing its exports in all months except October, as a positive development.

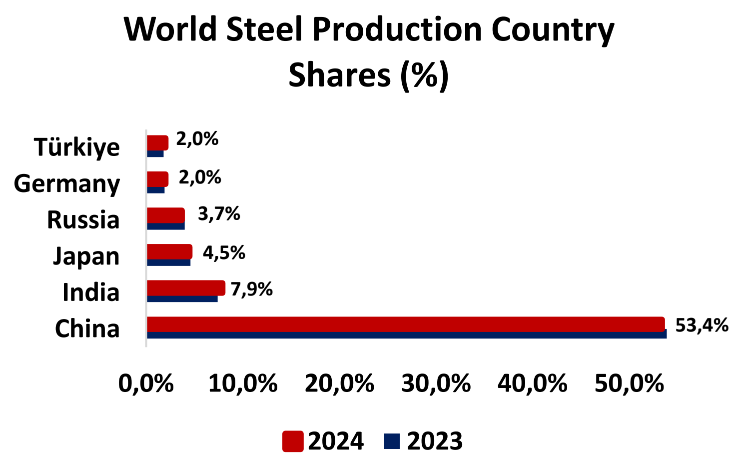
Our imports, on the other hand, increased by 73.8% to 1.8 million tons in December compared to the same period of the previous year due to the high increase in semi-finished and long products, while it increased by 1.7% year-on-year to 17.4 million tons in the whole of 2024. Although there was a high increase in our imports on a monthly basis, we can say that the growth in imports remained limited in the whole year. On the other hand, the ratio of exports to imports, which was 56.6% in the January-December period of 2023, increased to 74.0% in the same period of 2024, indicating that the uptrend is ongoing.

Turkey's Role in World Steel Production



Source: Steel Exporters' Association

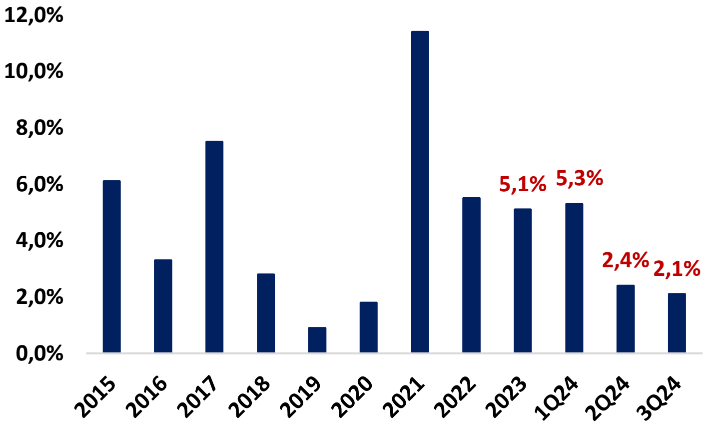
As of 2023, the largest share of Türkiye's steel exports was to the European Union with 44.3%, while the Middle East region ranked second. Although diversification of exports and sustainable production methods play an important role in the development of the domestic steel industry, our share in the global steel industry has decreased slightly due to the decline in our exports. As a matter of fact, Türkiye was net exporter in the steel industry in the 2017-2022 period and exports decreased by 26% year-on-year in 2023 to 10.5 million tons, thus losing its net exporter position (2023 Imports: 17.4 million tons).



Source: World Steel Association

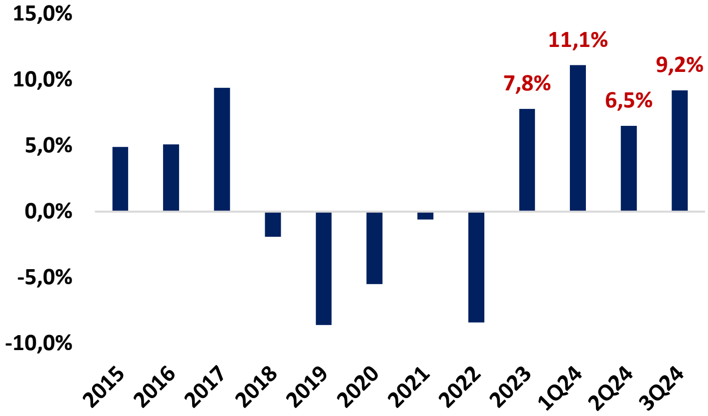
China, which carries out more than half of the global steel production alone, is by far the leader with a share of 53.4% as of 2024, while India is in the second place with a share of 7.9%. Türkiye, on the other hand, has a share of 2.0% in global steel production in 2024.

GDP Growth (%)



Source: TÜİK

Construction Sector Growth (%)



Source: TÜİK

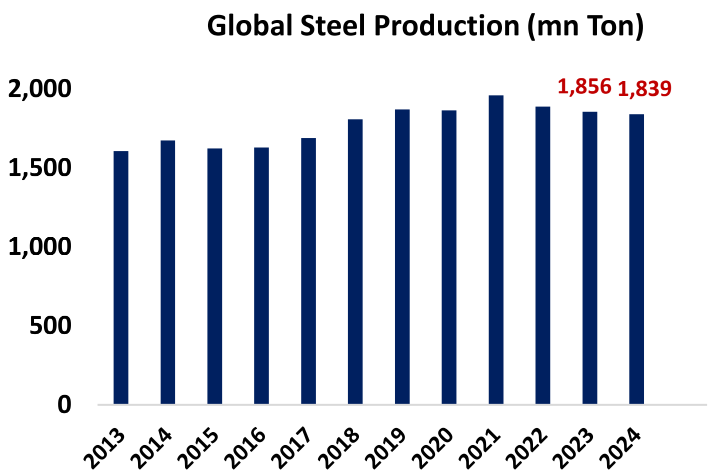
The Construction Sector outperformed GDP growth.

In 2023, it was seen that the construction sector contributed significantly to GDP growth with the effect of the earthquake that occurred in our country. In the first three quarters of 2024, despite negative factors such as tightening policies, rising borrowing costs and demand-side weaknesses, the construction sector outperformed real growth and exhibited a higher growth performance. With the ongoing buoyant demand in the earthquake zone and the CBRT's interest rate cut process, we expect the need for urban transformation to support demand by increasing housing supply in the second half of 2025 as interest rates decline to more suitable levels.

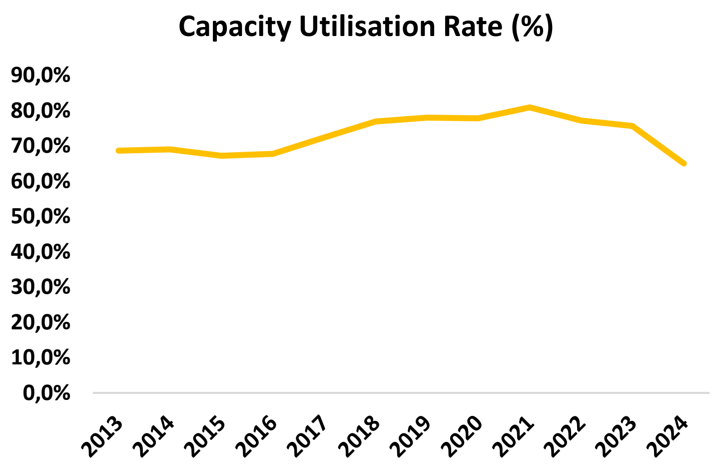
The positive impact of anti-dumping practices is expected to be seen starting at first quarter of 2025.

A dumping investigation was launched as a result of the application made to the Ministry of Commerce by the Turkish Steel Producers Association on October 31, 2023, in order to protect domestic producers, claiming that imports of hot-rolled flat steel originating from China, India, Japan, and Russia were carried out at dumped prices. As a result of the completed investigation, it was determined that these countries gained a significant share in the Turkish market with dumped prices, leading to unfair competition. In this context, anti-dumping duties between 15.42% and 43.31% on a company basis for products of Chinese origin, between 6.1% and 9% on a company basis for products originating in India and Russia, and 9% on a company basis for products originating in Japan were introduced. The injunction will remain in force for 5 years, starting from October 2024. In particular, these measures will limit China's strategy of competing with low prices, supporting domestic producers to maintain their prices at a more stable level. However, the anti-dumping measure that started in October has not fully contributed due to the inward processing regime (IPR), which exempts importers from taxes if they export the goods within one year. It is observed that IPR has been used for arbitrage purposes, leading to tax losses. Accordingly, if a time limitation regulation is introduced for IPR in the upcoming period, the impact of the anti-dumping measure on the market could increase, which would be beneficial for domestic steel producers. Therefore, while ensuring price stability creates a significant advantage for local steel manufacturers, we anticipate that this will gradually contribute positively to Erdemir’s profitability and competitiveness starting from 1Q25.

Steel Production in the World

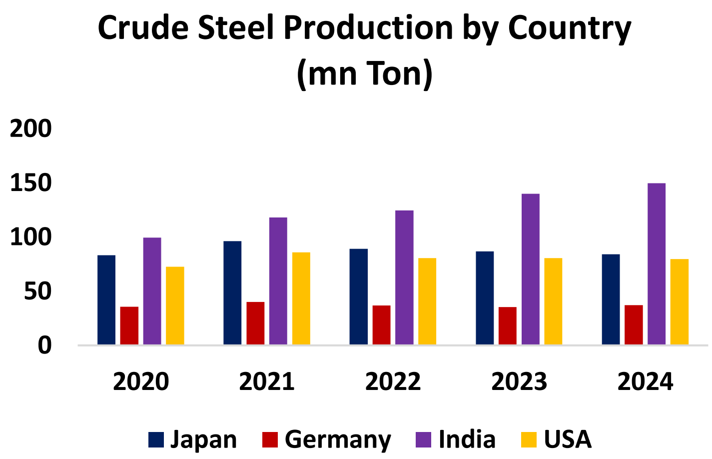


Source: Turkish Steel Producers Association



Source: OECD

According to the World Steel Association Short-Term Outlook Report, steel demand is expected to increase by 1.2% to reach 1.77 billion tons in 2025, with the expectation of global recovery excluding China.



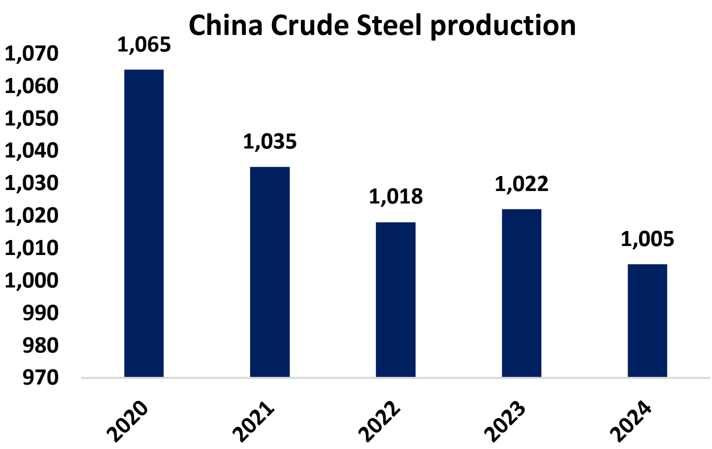
Source: Turkish Steel Producers Association

It is seen that global steel capacity has been increasing in recent years. China accounts for about 53.4% of global crude steel production as of 2024 and is one of the most important producers driving this increase. However, due to the real estate crisis that has been going on for the last two years, weak domestic consumption and the decrease in global steel demand, world steel production decreased by 0.9% year-on-year to 1.84 billion tons in 2024. India's crude steel production, which ranks second in world steel production, increased by 6.3% year-on-year to 149.6 mn tons, Japan's production decreased by 3.4% to 84.0 mn tons, Germany's production increased by 5.2% to 37.2 mn tons and the USA's production decreased by 2.4% to 79.5 mn tons.

China

Since China is the world's largest steel producer with a market share of 53.4% as of 2024, it is in a decisive position on the course of steel prices. Due to the contraction in China's domestic consumption and the crisis in the real estate sector, China's crude steel production in 2024 decreased by 1.7% year-on-year to 1.005 billion tons, reaching the lowest level in the last 5 years. Over the years, it is seen that China's domestic consumption has decreased every year, and currently as the crisis in the sector has still not been overcome, it has been predicted that there will be a 1% decrease in China's steel demand in 2025, according to the data of the World Steel Association.

On the other hand, the Chinese economy grew by 5.4%, accelerating in the 4th quarter due to the incentives implemented and the high increase in exports, especially after slowing growth in the 2nd and 3rd quarters. The country was able to reach its 5% economic growth target in 2024, despite concerns that it would fall short.



Source: Turkish Steel Producers Association

Source: Turkish Steel Producers Association

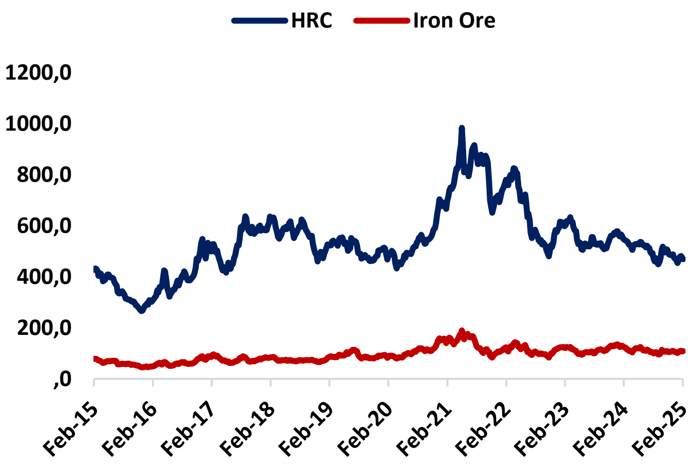
Pressure on steel prices continues

The fact that China's domestic demand is showing signs of improvement plays an important role in the sustainable growth of a dynamic sector. The contraction that started with the pandemic in China continues to have negative effects on housing prices by putting pressure on the real estate sector and real estate market, and still continues to exist as an unresolved crisis. In this context, while the stagnation in real estate projects due to the significant contraction in domestic demand creates a significant decrease in steel consumption, China, which turns to cheap steel exports with non-consumed steels as a result of the decrease in steel consumption more than steel production, increases the pressure on demand and steel prices due to the uncertainty of the economic outlook.

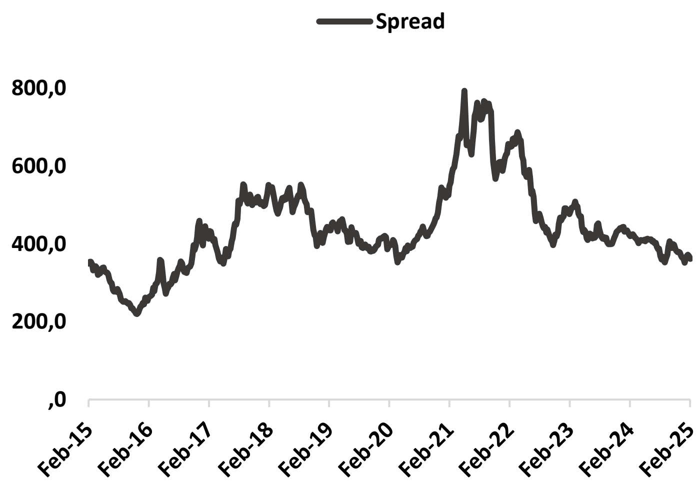
Although the Chinese government, which has been implementing a comprehensive stimulus package since September, has seen a promising upward movement in commodity prices in the short term with the incentives it has announced, there are no clear signals for a permanent improvement yet. On the other hand, China seems to continue to take steps to support economic growth by promoting the recovery of domestic consumption. Beijing could accelerate pro-growth measures by adopting a proactive fiscal policy at the National People's Congress to be held in March. With the new incentives and policies expected to come, we expect demand to increase and support growth and strengthen steel prices, making a significant contribution to Erdemir's turnover. We anticipate that the recovery will take place gradually from the second half of 2025, and we think that the steel industry will show steady growth as the economy revives and increases the demand for commodities. However, it must be kept in mind that the speed and permanence of the recovery in prices largely depends on the success of the stimulus policies.

Price Developments

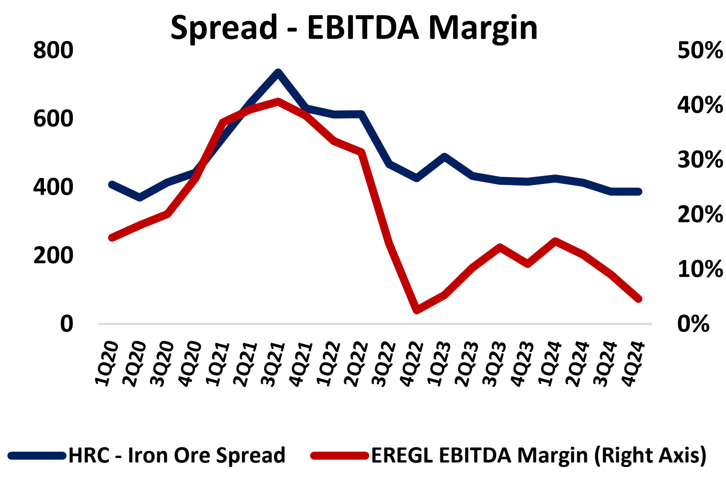
China, which is the main actor of global steel players, has the power to direct steel prices, causes commodity prices to be suppressed due to the real estate crisis in the domestic market. If the prices of raw materials such as iron ore and coking coal also decline of prices, margins may stay at stable levels even though steel prices decline. Accordingly, below you can see the effect of the Spread between Hot Rolled Flat Steel (HRC) and Iron Ore on Erdemir's EBITDA margin.



Source: Bloomberg



Source: Bloomberg, PhillipCapital Research

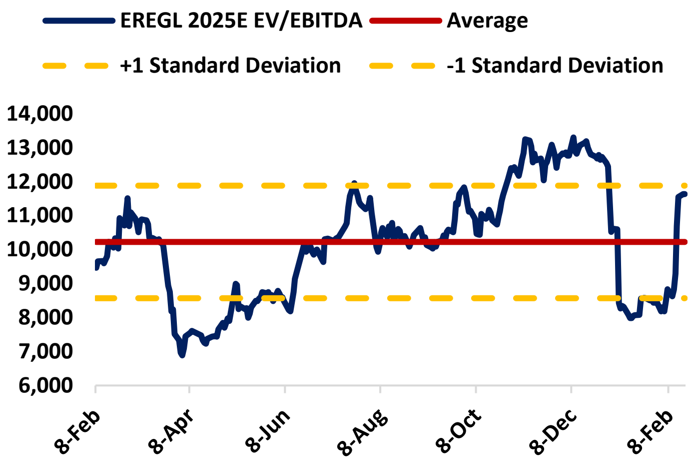


Source: Bloomberg,PhillipCapital Research

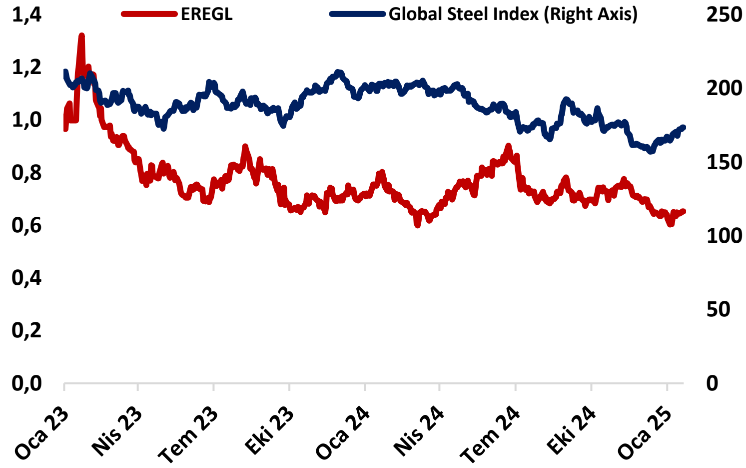
Although the spread between iron ore, which is the most important input of steel production, and HRC, the final product, remained parallel in the first months of 2024, the EBITDA margin increased as a result of the improvements in Erdemir's operational efficiency and the increase in sales volume compared to the same period of the previous year. In the second quarter, EBITDA margin declined quarter-on-quarter due to slightly narrower spread (higher iron ore prices, lower HRC prices), cost increases and lower product prices. However, the increase in sales volume had a positive impact on financial performance by increasing sales revenues. In the second half of the year, despite the decline in iron ore prices, the decline in hot rolled flat steel prices caused the company's EBITDA margin to contract on a quarterly basis. Accordingly, the company's EBITDA margin was realized as 10.4% in 2024 (3Q24: 9.0%, 4Q24: 4.6%).

As can be seen, the spread between HRC and iron ore has a positive correlation with Erdemir's EBITDA margin. As of the second half of 2025, we anticipate that the expected gradual increase in demand with the support of incentives and policies will create an upward momentum in hot-rolled flat steel prices, which will reflect positively on Erdemir's EBITDA margin for 2025 and be realized at the level of 12.1%.

In the chart below, it can be observed that EREGL exhibits a positive correlation with the global steel index. This situation reveals that the company is affected by fluctuations in international markets. Concerns about the trade war between the U.S. and China, low domestic demand in China and a weakening yuan are preventing a sustained recovery in steel prices in the current economic backdrop.

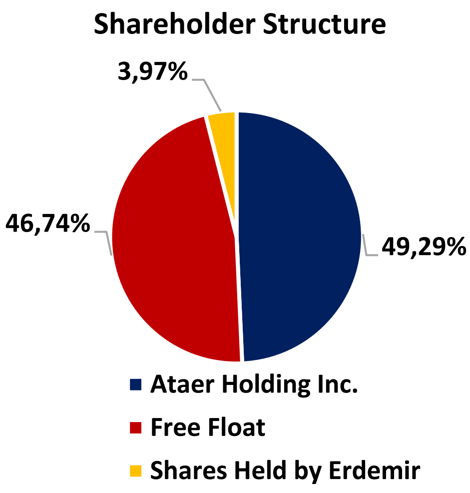


Source:Bloomberg,PhillipCapital Research



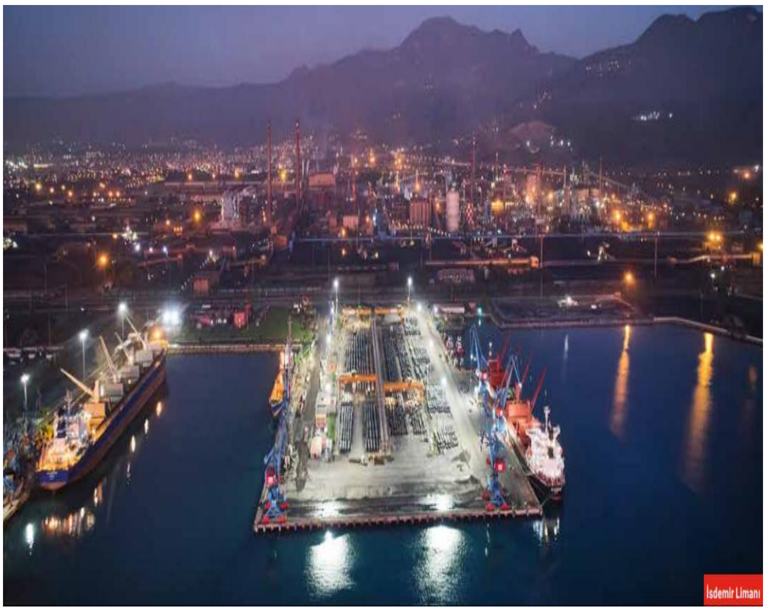
Source:Bloomberg,PhillipCapital Research

Ereğli Demir ve Çelik Overview



Source: Erdemir

Erdemir, which has been Turkey's first and leading flat steel producer since 1965; is a well-established company that produces for many fields such as mining, industrial gas production, automotive, white goods, rolling milling, defense industry, electrical electronics, heat appliances and renewable energy and has an annual production capacity of 9.5 million tons/year. Its subsidiaries are İsdemir, Erdemir Maden, Erdemir Çelik Servis Merkezi, Erdemir Mühendislik, Erdemir Romanya, Kümaş Manyezit, Erdemir Enerji, Erdemir Asia Pacific and İsdemir Linde Gaz Ortaklığı, Yenilikçi Yapı Malzemeleri, and the main partner of Erdemir group is ATAER HOLDING A.Ş., which is the pioneer of the Turkish steel industry operating in a wide range. It produces flat and long steel in accordance with high quality and world standards for both global steel users and domestic customers.



EREGL (Erdemir) production is carried out in two separate facilities, Ereğli Demir Çelik and Iskenderun Demir Çelik facilities.

Ereğli Demir ve Çelik is the largest integrated flat steel producer in our country and has an annual capacity of 4 million tons of crude steel and 5 million tons of final products.

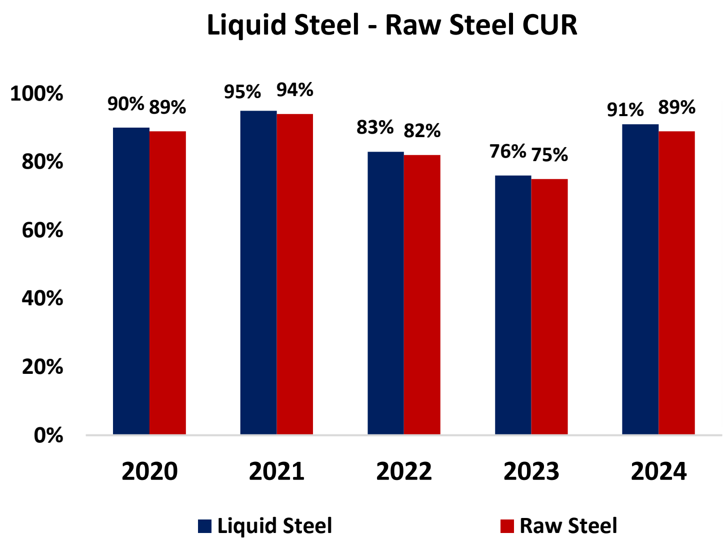
İskenderun Demir Çelik has a production capacity of 5.8 million tons/year of liquid steel, 3.5 million tons/year of flat products, 0.6 million tons/year of coils and 2.5 million tons/year of billets of final products and the largest liquid steel capacity and is the only integrated steel plant that can produce both long and flat products.

In the integrated plant, iron ore is directly processed to produce raw iron and steel. On-site processing of raw materials without outsourcing increases efficiency in the production process and optimizes their share in total costs by reducing energy and production costs. These advantages allow Ereğli to increase its profitability due to its integrated facility structure.

Erdemir has Karadeniz Ereğli and İsdemir ports, which are among the largest ports in our country and the region, and having its own ports provides an advantage in terms of storage and logistics network. Thanks to the high capacity of the ports, unused areas are leased to other companies and port revenues are obtained, which makes an additional contribution to the profitability of the company.

Operational Outlook

When we look at the capacity utilization rates of the company in the past period, there was a decrease in capacity due to the temporary suspension of the activities of the İskenderun facility, which was damaged due to the earthquake that occurred in 2023. Along with this situation, it has been observed that they are working with high capacity as of the general period.

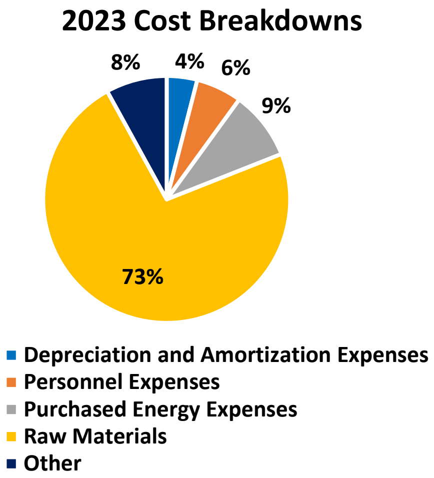


Source: Company Data

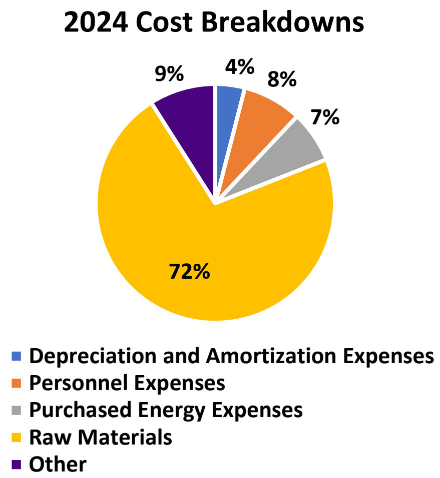
In 2023, due to the earthquake that occurred in our country in February, the company experienced a necessary pause of approximately 3 months at its Iskenderun facilities for assessment activities. As a result of this pause, the crude steel capacity utilization rate was 75% in 2023, and as a result of the capacity utilization rate, a total of 7.33 million tons of sales were made, including 6,68 mn tons of flat steel and 649 thousand tons of long steel. In 2024, capacity utilization was increased by getting rid of the effects of the earthquake to a significant extent; raw steel capacity utilization rate increased to 89%. With this improvement, the company sold a total of 8.05 million tons, including 7,09 mn tons of flat steel and 957 thousand tons of long steel. In 2025, we anticipate that anti-dumping duties will gradually support domestic steel prices from the first quarter of the year, and sales volume will reach 8.08 million tons with an annual increase of approximately 1% as competitiveness with Chinese products increases.

Cost Breakdowns

Erdemir's basic raw materials consist of mainly coal and iron ore and scrap. In 2024, 72% of costs were from raw materials, 4% from depreciation and amortization expenses, 8% from personnel expenses, 7% from purchased energy expenses and 9% from other items. Of the 72% cost of raw materials, 35% is iron ore, 38% is coking coal and 9% is scrap (Other 18%).

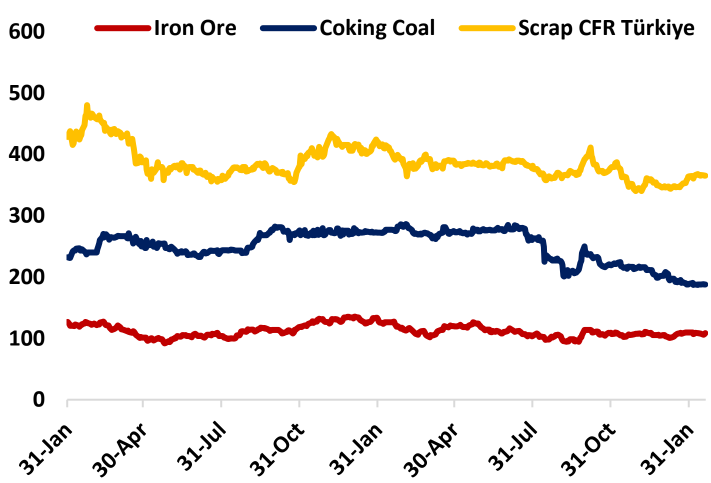


Source: Company Data



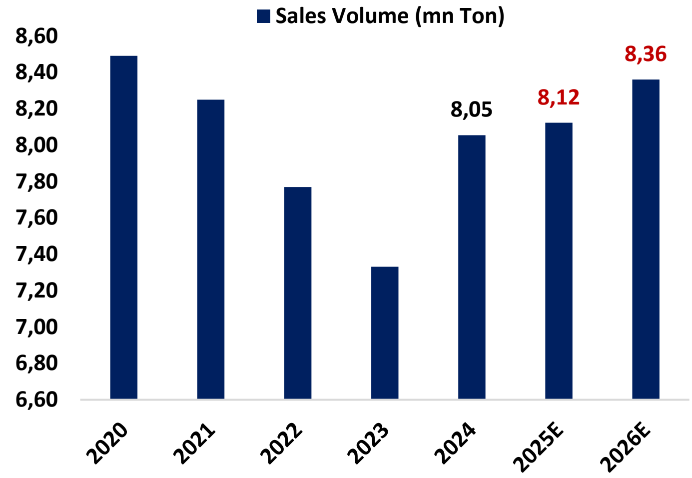
Source: Company Data

The graph below shows that in the 2024 period, especially in the 3rd quarter, raw material prices, coking coal and scrap, experienced significant declines. The impact of the declines in raw material prices can be expected to be reflected in costs in the upcoming period with a delay, but there may not be a significant improvement in profitability in the short term due to the low levels of steel prices. In the upcoming period, depending on the developments in the global steel industry, product prices may increase periodically. Accordingly, we expect the recovery in operational margins to be seen gradually in line with the incentives of the Chinese administration and the interest rate cuts of major central banks.



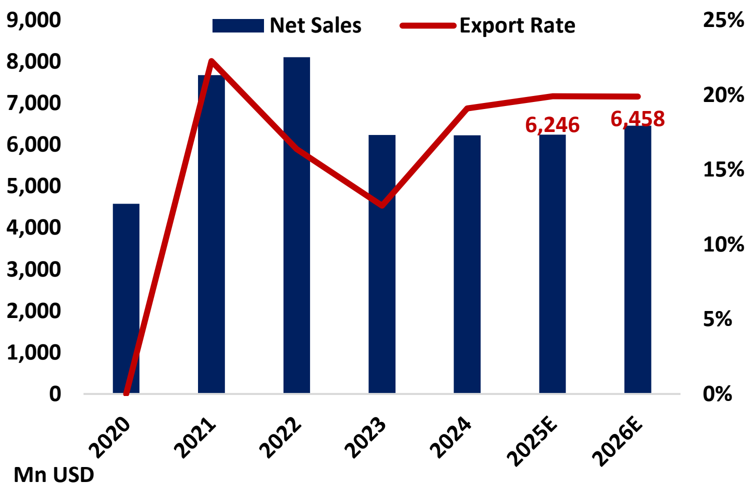
Source: Bloomberg, PhillipCapital Research

Sales Performances



Source: Erdemir, PhillipCapital Research

Within the scope of Erdemir's "Net Zero Roadmap", it is aimed to increase its crude steel production capacity from the current 9.5 mn tons to over 13 mn tons by the end of 2030. In this context, it is anticipated that the first electric arc furnace to be commissioned will be commissioned by the end of 2028 and the second by the end of 2030. Accordingly, we anticipate that the total crude steel capacity will increase to 10 mn tons in 2028 and 13 mn tons in 2030. In addition, while the Company will continue to benefit from the advantages provided by the integrated facility, it will reach a stronger structure in terms of sustainability with the inclusion of electric arc furnaces.



Source: Erdemir, PhillipCapital Research

In 2023, the company generated sales revenue of USD 6.25 billion, with domestic revenue of USD 5.45 billion and export revenue of USD 785 million. In 2024, domestic revenues decreased by 8.5% to USD 4,989 billion, while export revenues increased by 57.4% to USD 1,24 million. So that the company generated a revenue of 6.22 billion USD in 2024, marking a 0.2% year-on-year decline (4Q24: revenues of USD 1.60 billion; USD 1.32 billion domestic, USD 279 mn exports). In 2025, we anticipate that the company will reach a topline of USD 6.25 billion with a moderate increase of 0.3%, as we anticipate that pricing will remain weak and overseas sales revenues will remain stable For the most of the year. Assuming that the long-term average of the export rate is in the band of 15%-20%, we expect the share of exports in total sales to be 20% for both 2025 and 2026.

Financial Outlook

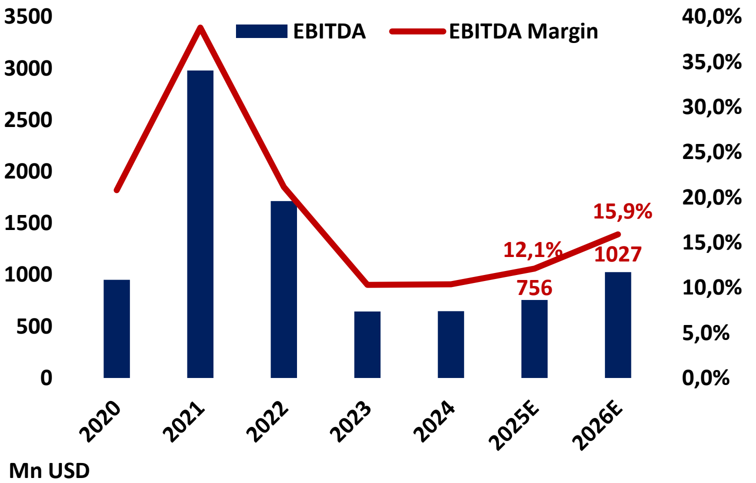
Looking at the overall outlook for 2024, the global steel market experienced weak performance in iron ore prices in USD terms, along with a parallel decline in hot-rolled coil (HRC) prices, which led to a decrease in sales revenue per ton. However, Erdemir achieved a topline of 6.2 billion USD with a limited decrease of 0.2% in USD terms, driven by a 10% improvement in sales volume. On the profitability side, there was a weakening compared to the previous year due to pricing conditions in the steel market, with particularly notable declines in EBITDA per ton in Q4, reaching a historical low. On the other hand, deferred tax income (37.4 million USD) from investments and the insurance compensation advance (360 million USD) supported net profit, which amounted to 411 million USD in 2024 (2023: 170 million USD profit).

Despite the weak demand outlook in the global steel market, Erdemir produced 23% of Turkey's total crude steel production of 36.9 million tons in 2024. Particularly in Q4, with increased capacity utilization compared to previous quarters, sales volume rose to 2.2 million tons, and the total sales volume for 2024 reached 8.05 million tons, marking an approximately 10% increase compared to 2023. As a result, the company concluded 2024 with sales exceeding its target of 8 million tons.

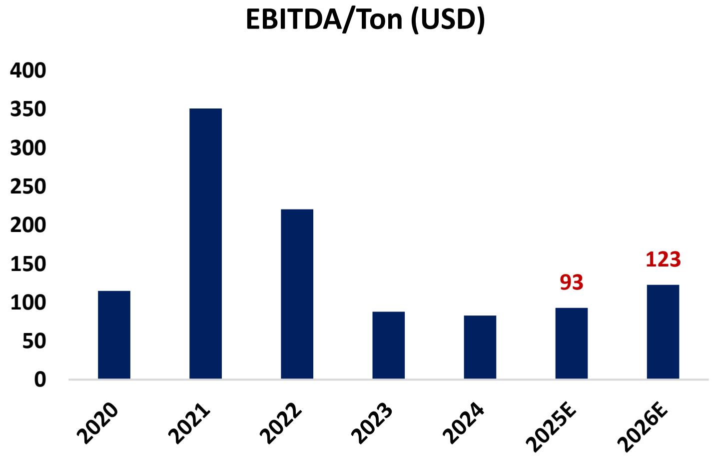
In 2024, a decline in the prices of hot-rolled flat steel, the final product, and a noticeable increase in operating expenses, particularly in the second half of the year, led to a weakening in the operational outlook. As a result, EBITDA was reported at 646 million USD, reflecting an 8% decrease compared to the same period last year. The EBITDA margin decreased by 90 basis points year-on-year, dropping to 10.4%. As of 9M24, EBITDA per ton stood at 99 USD, but due to a significant decline in steel prices, EBITDA per ton fell to 39 USD in Q4, finishing the year at 83 USD (2023: 92 USD). **Consequently, the company's revenue for 2024 was 6.2 billion USD, EBITDA was 646 million USD, and net profit was 411 million USD.**

In 2025, we assume a gradual improvement in demand globally, driven by interest rate cuts and stimulus measures from the Chinese government, along with a recovery in steel prices. The company management believes that the level seen in Q4 2024 for EBITDA per ton represents the bottom point, and they anticipate that cost reductions through energy efficiency investments (even if steel prices remain unchanged) will contribute 8 USD per ton to EBITDA in 2025. They also expect this contribution to increase with ongoing investments. The blast furnace investment in Iskenderun and the coke battery investment in Ereğli are planned to be completed in the first half of 2025. In this context, despite fluctuations in coal and energy prices due to global developments, we expect the energy investments to result in an EBITDA per ton of 93 USD and an EBITDA margin of 12.3% in 2025.

Under these assumptions, in 2025, we expect the company to achieve sales revenue of 6.25 billion USD with a moderate 0.3% year-on-year increase, EBITDA of 756 million USD (17% increase), and net profit of 454 million USD (11% increase). In 2026, as we foresee the sector's recovery and price stabilization, we expect sales revenue to increase by 3.4% to 6.5 billion USD, EBITDA to rise by 36% to 1.03 billion USD, and net profit to increase by 28% to 581 million USD.

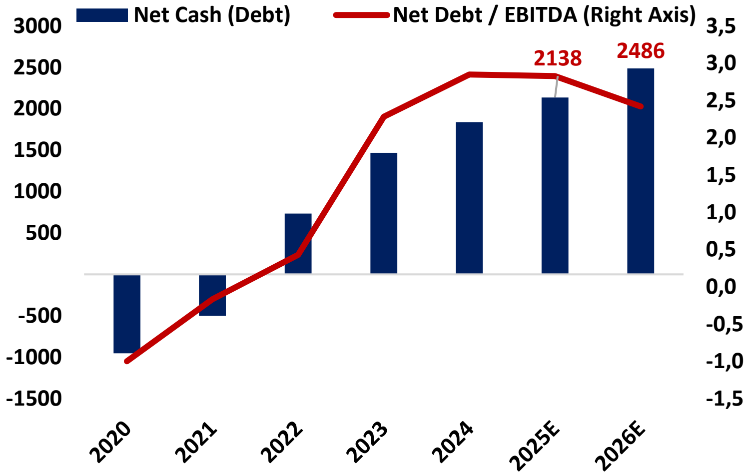


Source: Erdemir, PhillipCapital Research



Source: Erdemir, PhillipCapital Research

At the end of 2023, the company's net debt reached USD 1.47 billion due to the weakness in operational profitability after the earthquake. In 2024, net debt increased to USD 1.84 billion with the effect of investment expenditures of USD 1.1 billion. The Net Debt/EBITDA ratio increased from 2.1x at the end of 2023 to 2.8x by 2024. Apart from the Pellet Plant and Net Zero Carbon investments, which are among the most important investments of the company, there are modernization investments of 200-250 million USD per year. Despite all the investment expenditures made in this direction, we expect the Net Debt / EBITDA ratio to be 2.8x in 2025 and 2.4x in 2026.



Source: Company Data, PhillipCapital Research

Investments

Net Zero Carbon

In line with its goal of reducing carbon emissions, Erdemir aims to reduce its carbon emissions per ton by 25% until the end of 2030 and by 40% by 2040 compared to 2022, which it has set as the base year, and to reach "Net Zero" emissions by 2050. In this direction, within the scope of the "Net Zero Carbon" project, it announced that it will spend 3.2 billion USD to reduce carbon emissions by at least 25% by the end of 2030. It plans to benefit from predominantly overseas financing opportunities based on sustainability for the financing of the projects. In this context, the actions consisting of various stages are as follows:

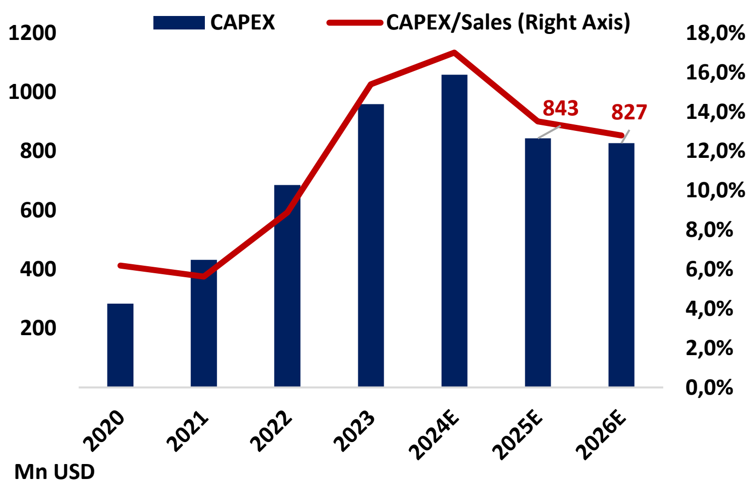
1. ***Electric Arc Furnace Investment:*** It is aimed to commission the first of the electric arc furnaces, which constitute the first phase of the investment, by the end of 2028 and the second by the end of 2030. Thanks to these investments, the current production capacity of around 9.5 million tons is expected to increase to more than 13 million tons with both arc furnaces.
2. ***Energy Efficiency Studies**:* It will optimize energy consumption by using its resources effectively and thus minimize energy intake from outside.
3. ***SPP Investments:*** The power plant investments with a total installed capacity of 424 MW in Erdemir and 530 MW in İsdemir is expected to reach full capacity by the end of 2025.
4. ***Biomass Use:*** Studies are being carried out to use biomass with zero emission factor instead of coal, which is used in various processes of production. In this context, Erdemir commissioned a pilot Pyrolysis Plant with a biochar production capacity of 7,000 tons/year.
5. ***DRI Investment:*** Natural gas-based DRI technology, which is more environmentally friendly, will be used. It will be more environmentally friendly by providing energy by using natural gas in the first stage and energy with Green Hydrogen in the next stage. In this context, Erdemir successfully completed the hydrogen injection into the 1st Blast Furnace in October in line with its green transformation target.
6. ***Carbon Capture and Storage (CCS):*** In the long term, it is aimed to zero unavoidable emissions with the technologies of capturing and storing carbon from the processes.

As part of the green journey of steel, the company plans to reduce its carbon emissions to 25% by 2030 with investments in Solar Power Plants, Electric Arc Furnaces, Biomass and Energy Efficiency investments and in the next step, it aims to increase its current 25% carbon emission reduction target to 40% with DRI (Natural Gas) investment by 2040. By 2050, it is expected to reach net zero with DRI (Green Hydrogen) and Carbon Capture and Storage (CCS) investment. In this direction, it is important to increase the use of renewable energy, to bring low-carbon technologies to the fore and to produce the steel produced in accordance with European Union standards.

Pelletizing Plant

The company has achieved significant results as a result of its drilling work at the Bingöl-Avnik iron mine site and therefore announced its decision to build a pelletizing plant in November 2022. As a result of the researches, this investment, which has a total iron ore reserve capacity of 250-300 million tons, is aimed to produce more than 100 million tons of pellets. The investment, which is expected to be operational in 2027, is expected to meet 40-45% of the company's total ferrous raw material needs. (As of date 15-20%.) The company anticipates that the impact of the 550 mn USD investment on gross profit will be between 200-250 million USD by reducing raw material costs, and accordingly, we have included the impact of the investment on gross profit in our model as of 2026.

The company, whose capital expenditure was 977 million USD in 2023, realized a total capital expenditure of 1.07 billion USD in 2024. We expect the company's capital expenditure to reach 843 million USD in 2025. We estimate that starting from 2026, investments will proceed at a similar pace, and with the annual maintenance and repair activities at production facilities, they will amount to approximately 827 million USD. Our estimates include an investment of 550 million USD for the pelletizing facility between 2024 and 2027, as well as a total annual capital expenditure of 400 million USD for the Net Zero Carbon project until the end of 2030. Additionally, the UMREK report, which is planned to provide an explanation on the matter, is anticipated to be prepared in 2025. In case of new developments, capital expenditures could potentially rise to 1 billion USD annually. We would like to note that, due to the uncertainty surrounding the gold reserve investment, we have not included expenditures related to this in our estimates.



Source: Erdemir, PhillipCapital Research

Valuation

We favour Ereğli Demir Çelik for its high capacity, integrated production and significant transformation towards the theme of sustainability, and we are initiate our coverage with the outperform rating.

Our 12 month target price for EREGL is calculated using 60% discounted cash flow and 40% peer comparison methods. In our DCF valuation covering the years 2025-2034, we assumed a risk-free rate of return of 7.5%, a market risk premium of 5.5%, a cost of borrowing of 8%, and a corporate beta of 0.90. We set the terminal growth rate at 2%. Accordingly, the weighted average cost of capital used in the discount factor calculation was in the range of 10.0% - 10.1% over a 10-year period. As a result of the DCF, we reached a market capitalization target of 4.92 billion USD for EREGL.

In our peer comparison analysis covering the years 2025 and 2026, we took into account P/E and EV/EBITDA multiples. As part of the analysis, we reached a target company value of $6.35 billion, with equal weight to these multiples.

As a result, our 12-month target price for EREGL is set at TRY34.50, offering a 46% return potential.

	Value	Weight	Weighted value
DCF Analysis (mn USD)	4,920	60%	2,952
Peer Comparison (mn USD)	6,347	40%	2,539
12 M Target Market Cap (mn USD)			**5,491**
12 M Target Share Price (USD)			**0,78**
12 M Target Share Price (TL)			**34,50**
Current Price (TL)			23,66
12 M Upside Potential			**45,8%**

Kaynak: PhillipCapital Research

DCF Analysis

	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue	**6,246**	**6,458**	**6,651**	**6,869**	**7,050**	**7,591**	**8,191**	**8,802**	**9,207**	**9,393**
Growth, (%)	*0,3%*	*3,4%*	*3,0%*	*3,3%*	*2,6%*	*7,7%*	*7,9%*	*7,5%*	*4,6%*	*2,0%*
EBIT	**518**	**665**	**785**	**811**	**874**	**964**	**1,073**	**1,171**	**1,224**	**1,240**
EBIT Margin, (%)	*8,3%*	*10,3%*	*11,8%*	*11,8%*	*12,4%*	*12,7%*	*13,1%*	*13,3%*	*13,3%*	*13,2%*
EBITDA	**756**	**1,027**	**1,237**	**1,346**	**1,424**	**1,556**	**1,687**	**1,813**	**1,869**	**1,888**
EBITDA Margin, (%)	*12,1%*	*15,9%*	*18,6%*	*19,6%*	*20,2%*	*20,5%*	*20,6%*	*20,6%*	*20,3%*	*20,1%*
(-) Change in NWC	36	104	106	127	106	151	154	153	112	72
(-) Capex	843	827	775	742	677	645	614	616	598	564
(-) Tax	130	166	196	203	219	241	268	293	306	310
Free Cash Flow to Firm	**-253**	**-70**	**160**	**274**	**422**	**519**	**651**	**751**	**852**	**943**
Discount Factor	0,91	0,83	0,75	0,68	0,62	0,56	0,51	0,46	0,42	0,38
DCFF	**-229**	**-58**	**120**	**187**	**262**	**292**	**333**	**349**	**360**	**361**

	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	20233E	20234E
Risk Free Rate	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%
Equity Risk premium	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%
Weight of debt in EV	36,0%	37,1%	37,3%	37,5%	37,5%	37,4%	37,3%	37,2%	37,0%	35,9%
Weight of equity in EV	64,0%	62,9%	62,7%	62,5%	62,5%	62,6%	62,7%	62,8%	63,0%	64,1%
Debt / Equity	56,2%	59,1%	59,6%	60,0%	59,9%	59,7%	59,5%	59,2%	58,7%	56,0%
Beta	0,90	0,90	0,90	0,90	0,90	0,90	0,90	0,90	0,90	0,90
Tax Rate	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%
Cost of Debt	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
Cost of Equity	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
WACC	10,1%	10,1%	10,0%	10,0%	10,0%	10,0%	10,0%	10,1%	10,1%	10,1%

NPV of FCFF	**1,855**
Terminal Growth Rate	**2%**
PV of Terminal Value	**4,532**
Enterprise Value	**6,387**
(-)Net Debt	2,012
Market Cap	**4,375**
12M Target Market Cap	**4,920**

Peer Comparison

Company	Country	Mcap (Million USD)	P/E 2025E	P/E 2026E	EV/EBITDA 2025E	EV/EBITDA 2026E
Arcelormıttal	Luxembourg	24,673	7,1	5,8	4,4	3,9
Bluescope Steel Ltd	Australıa	7,048	24,9	13,0	8,0	5,8
Unıted States Steel Corp	USA	8,655	20,7	11,5	7,9	5,9
Citic Pacific Special Steel Gr	China	8,255	10,9	9,8	8,5	8,1
Xınxıng Ductile Iron Pıpes-A	China	1,932	17,9	16,3	10,1	9,9
Steel Dynamıcs Inc	USA	20,679	16,2	11,8	10,4	8,1
Yamato Kogyo Co Ltd	Japan	3,480	12,1	10,0	18,2	16,3
Average			15,7	11,2	9,6	8,3
EREGL	Türkiye	4,563	10,1	7,9	8,7	6,4
Premium/ (Discount)			**-36%**	**-29%**	**-9%**	**-22%**

Source:Bloomberg, PhillipCapital Research

Compared to similar companies globally, Erdemir trades at a 36% discount to its P/E multiple of 10.1x based on our 2025 estimates and at a 29% discount to its P/E multiple of 7.9x based on our 2026 estimates. On a EV/EBITDA basis, it trades at a 9% discount to the 2025E multiple of 8.7x and at a 22% discount to the 2026E multiple of 6.4x.

Summary Financials (mn USD)

EREGL

Financial Data USD mln	2024	2025E	2026E	2027E
Revenues	6,225	6,246	6,458	6,651
Revenue Growth	-0,2%	0,3%	3,4%	3,0%
Gross Profit	610	750	904	1,031
Gross Margin	9,8%	12,0%	14,0%	15,5%
Operating Profit	642	518	665	785
EBITDA	646	756	1027	1,237
EBITDA Growth	-7,9%	17,0%	35,9%	20,5%
EBITDA Margin	10,4%	12,1%	15,9%	18,6%
Pre-Tax Profit	413	529	676	796
Tax Income	20	53	68	80
Net Income	411	455	581	684
Net Income Growth	141,7%	10,5%	27,8%	17,7%
Net Income Margin	6,6%	7,3%	9,0%	10,3%
Net Debt	1,840	2,138	2,486	2,644
Change in NWC	2,133	2,169	2,273	2,379
P/E	12,5	10,1	7,9	6,7
EV/EBITDA	10,8	8,9	6,9	5,8
RoAE	6,1%	6,5%	7,9%	8,9%

Source: Finnet, PhillipCapital Research

EREGL

Balance Sheet (mn TL)	2024	2025E	2026E	2027E
Current Assets	182,856	242,371	309,386	361,240
Cash and Cash Equivalents	55,260	81,995	104,096	123,538
Short-Term Trade Receivables	26,464	33,869	43,934	51,363
Inventories	78,762	96,819	120,889	136,834
Other Current Assets	17,230	22,563	30,460	37,228
Long Term Assets	242,303	331,090	437,162	512,052
Total Assets	425,159	573,461	746,548	873,292
Short Term Liabilities	76,289	111,715	144,025	165,827
Long Term Liabilities	104,446	143,941	192,774	226,395
Shareholders' Equity	236,947	307,353	395,442	463,240
Paid-In Capital	7,000	7,000	7,000	7,000
Net Profit (Loss)	13,481	20,000	31,380	41,055
Total Liabilities	425,159	573,461	746,548	873,292

Source: Finnet, PhillipCapital Research

Methodology

The target value of a stock refers to the value that the analyst expects to reach at the end of our performance period, which is the 12-month period.

Return Above Index (EU)

If this decision has been made for the company, it indicates that a better return is expected in the stock compared to the index in the medium and long term. Of course, this decision does not guarantee that the stock will rise or provide returns on the index. Any conjuncture changes that may occur after the report is published, developments in the macroeconomy, developments in the world economies, and a news about the company can change this decision.

Index Parallel Return (EP)

If a "Return in Line with the Index" decision has been made for the relevant stock, there may be various reasons for this. This decision may have been made if the company's latest data indicates that it will not show significant differences in future forecasts compared to the past. The company's share price may be close to the price it should be in terms of valuations. The fact that a "Return in Parallel with the Index" decision has been made for a stock does not mean that this stock will not move up or down. Generally, this indicates that a return in line with the index is expected to be achieved in the medium and long term on the stocks that are decided. However, every new news and change in the conjuncture can change this decision.

Return Under Index (EA)

If a "Return Under Index" decision has been made for a stock, it indicates that a weaker return is expected compared to the index in the medium and long term. Even if the "Index Yield" decision has been made, it is possible that the stock in question may make short-term reaction rises or that its technical indicators have given a short-term buy signal. In some cases, although no return is expected from the stock in the medium and long term, short-term "Return Above Index" or "Return in Parallel with the Index" can be provided when there is important news, news of a temporary profit increase, or developments that will cause the price to follow a positive course in the short term.

PhillipCapital analysts review their valuations in line with developments related to companies and may change their recommendations on stocks when deemed necessary, however, at times, the target return of a stock may fall outside of our predicted rating ranges, depending on fluctuations in prices. In such cases, the analyst may not change his recommendation.

Legal Notice

The investment information, comments and recommendations contained herein are not within the scope of investment consultancy. Investment advisory service; It is offered within the framework of an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not accept deposits and the customer. The comments and analyses contained herein are of a general nature. These recommendations may not be appropriate for your financial situation and risk and return preferences. Therefore, making an investment decision based solely on the information contained herein may not produce results that are in line with your expectations. All comments and recommendations; It consists of forecasting, forecasting, and price targets. Due to changes in market conditions over time, these comments and recommendations may be subject to change. All opinions and information in this report are subject to change without notice. The information and data contained in the report have been compiled from sources believed to be reliable, and their accuracy has not been investigated separately. Therefore, PhillipCapital Securities Inc. and its employees are not responsible for any damages that may arise due to the incompleteness or accuracy of this information. For this reason, readers are advised to verify the accuracy of the information before acting on the basis of the information obtained from these reports, and they are responsible for the decisions they make based on this information. PhillipCapital cannot be held responsible in any way for the incompleteness or inaccuracy of the information. In addition, PhillipCapital and all of its employees are not liable for any direct or indirect damages that may arise from the information in any way. There are no known relationships or conditions that may affect the objectivity of the comments and recommendations presented, and utmost care and attention has been taken to prepare them in a way that does not cause significant conflicts of interest that may arise between our Company and its customers. The information contained herein is not an investment advice, a recommendation to buy or sell an investment instrument, or a promise of return, and is not within the scope of Investment Advice. All or part of this report may not be reproduced, published or shown to third parties or used for commercial purposes without the written permission of PhillipCapital Securities Inc.