Kocaer Çelik

%62 Upside Potential

Value-Added Growth Vision in the Steel Industry…

We like Kocaer Çelik due to its distinct business model and high growth potential in the steel sector. **We are including it in our research coverage with an outperform rating and a target price of 68.36 TRY per share. 1) With the completion of renovation investments in the two factories located in Aliağa, we expect the share of value-added products to increase starting from the second half of the year, and anticipate a roughly 7% increase in total sales volume in 2024. 2) The company, aiming to accelerate its globalization efforts, is continuing to work on its feasibility to open a production facility in Saudi Arabia and/or the USA. 3) In line with the ongoing investment in the geothermal energy plant, electricity costs will be covered, and additional revenue will be generated through the sale of surplus electricity.**

The strategy to increase the share of value-added products is ongoing. Due to the planned shutdown at the Aliağa - A2 plant, the share of value-added products at Kocaer Çelik decreased to 39% in 2023; however, in the first quarter of 2024, the share of value-added products increased by 2 percentage points compared to the same period last year, reaching 36%. Considering the rise in profit margins and the company's first-quarter performance as a baseline, our EBITDA per ton expectation for 2024 is 5815 TRY. We attribute this expectation to the anticipated increase in exports of high value-added products from the two upgraded factories, driven by growing demand.

The company aims to accelerate its globalization efforts. The company, which is working on its feasibility to open a production facility in Saudi Arabia and/or the USA, is focusing on developing its distribution channels in Europe. This investment by the company signals the potential for significant future investments in Europe and provides opportunities for the company's growth objectives in the global market.

Kocaer Enerji is continuing its investment in a 24 MW geothermal energy plant in Aydın. While planning to use the energy produced at the plant to meet its own needs, the company also aims to sell the excess energy. The feasibility efforts for the investment suggest that it is expected to become operational in the first half of 2026. With an estimated investment expenditure of approximately 48 million dollars, it is projected to contribute an additional 19-20 million dollars annually to EBITDA.

Key risk factors, i) Potential delays in distribution channels **ii)** Increase in labor costs **iii)** Decrease in sales revenues and profitability pressure due to falling steel prices. **iv)** Increase in raw material input costs.

Listing Details and View	
Bloomberg Ticker	**KCAER TI**
View	**Outperform**
Price per Share, TRY	42,28
Target Price per Share, TRY	**68,36**
Upside	62%
Free Float	25,79%
Market cap, TRY mln	27.802
Market cap, USD mln	821
BIST-100 Index Weight	0,26%
BIST All Shares Index Weight	0,20%
Foreign Share	16,34%
Pension Funds Share	0,29%
Mutual Funds Share	9,49%

Source: Matriks, PhillipCapital Research
Price & Market Cap. as of 23-Aug

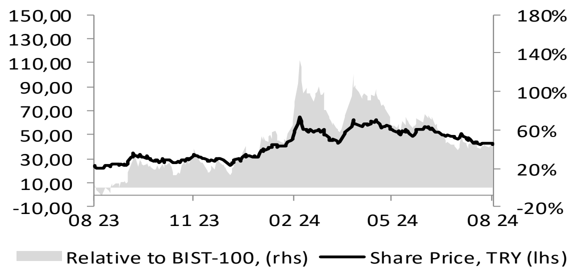
Key Financials, TRY mln	2023	2024E	2025E	2026E
Revenues	15.091	19.675	24.964	31.628
Revenue Growth	60%	30%	27%	27%
Export Share	70%	74%	74%	75%
Gross Profit	2.965	4.329	5.492	7.116
Gross Profit Margin	19,6%	22,0%	22,0%	22,5%
EBITDA	2.229	3.489	4.539	6.035
EBITDA Growth	94%	57%	30%	33%
EBITDA Margin	14,8%	17,7%	18,2%	19,1%
Net Profit	1.186	1.766	2.769	4.140
Net Profit Growth	22%	49%	57%	49%
Net Profit Margin	7,9%	9,0%	11,1%	13,1%
Net Debt	1.954	372	-5.475	-12.806
Net Debt/EBITDA	0,9	0,1	-1,2	-2,1
P/E	11,9	15,7	10,0	6,7
EV/EBITDA	7,2	8,1	4,9	2,5

Source: Company Data, PhillipCapital Research

Shareholder Structure	Shares (million)	Rate
Hakan Kocaer	488	74,2%
Free Float	170	25,8%
Total	**658**	**100%**

Source: Company Data

Share Price Performance



Source: BIST, Rasyonet

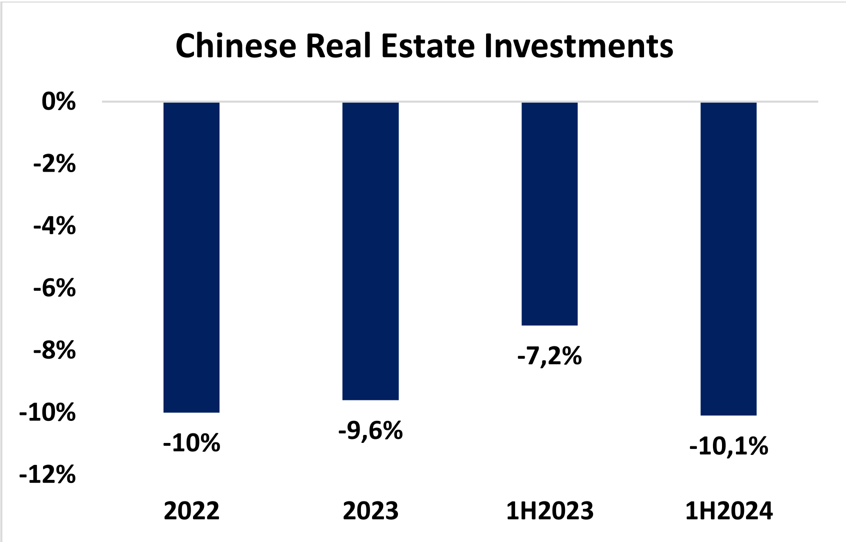
	1a	3a	6a	1y
Nominal	-17,2%	-22,7%	3,3%	91,5%
Relative	-6,9%	-12,9%	-3,1%	48,4%
Trd. Vol. USD mln	7,5	7,2	16,1	15,6

Source: BIST, Rasyonet

Banu DİRİM/ *Research Director*
banu.dirim@phillipcapital.com.tr
Nazlı Tuna AKAR/ *Research Assistant*
tuna.akar@phillipcapital.com.tr

Overview of the Steel Industry in China

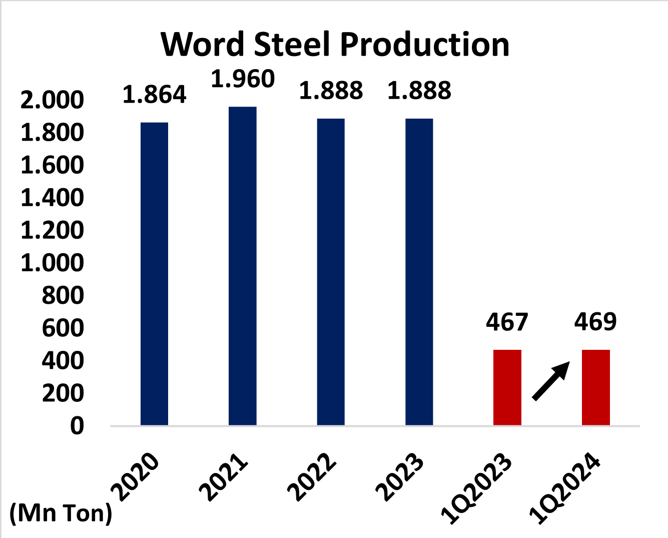
China, as a leader in the steel industry, can be considered a game-changing player in the global market with many key competitors. As the world's largest producer and consumer of steel, China alone accounts for over 50% of the total production volume. Due to this high capacity, we can say that China has the power to influence global steel markets and affect the prices of steel and raw materials. Through state-supported policies, high capacity, technological advancements, and low-cost production, China shapes sectoral dynamics worldwide.



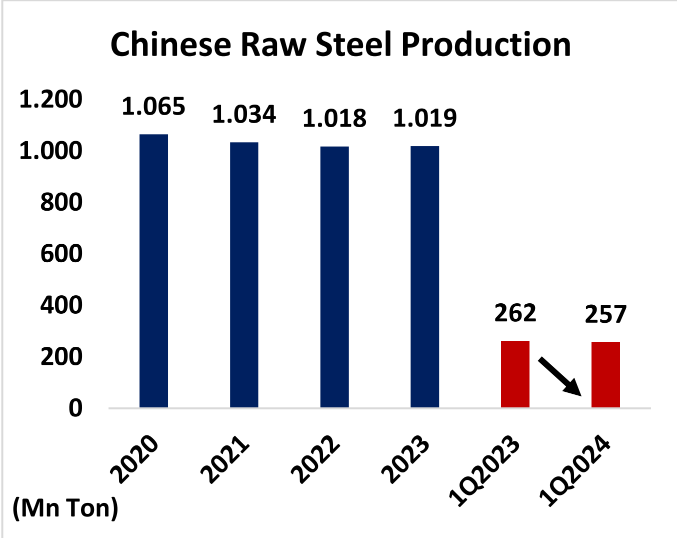
Source: SteelOrbis

In line with the slowdown observed in the Chinese economy in 2023, it is anticipated that the decline in steel demand will continue to impact the market in 2024. The shrinking steel demand has affected the real estate sector, with real estate investments contracting by 10% year-on-year in the first quarter of 2024, continuing the downward trend. This development has intensified pressure on the real estate sector and the housing market, negatively impacting economic growth. Simultaneously, sales of the top 100 real estate companies in the country decreased by 47% in the first four months of 2024 compared to the same period last year. A 25% drop in housing starts and a 20% reduction in sales measured by floor area highlight the effects of the contraction in the sector.

While the Chinese economy grew by 5.3% in the first quarter of 2024 compared to the same period last year, the 4.7% growth recorded in the second quarter was considered lower than expected for such a large and dynamic economy. However, the Chinese government hopes to resolve the issues in the sector by lifting some restrictions on housing sales and committing to completing pending housing projects to offer purchase guarantees. <u>We anticipate that these measures will stimulate demand in the real estate sector for the remainder of 2024 and align the sector's performance with overall economic growth.</u>

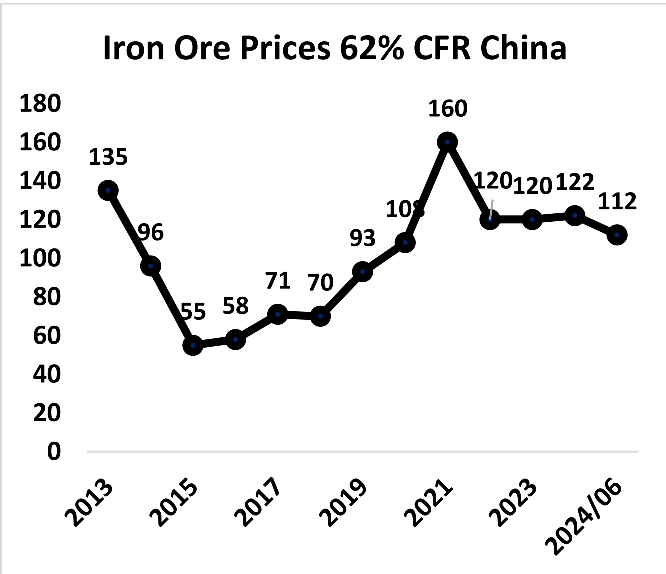


Source: Türkiye Çelik Üreticileri Derneği

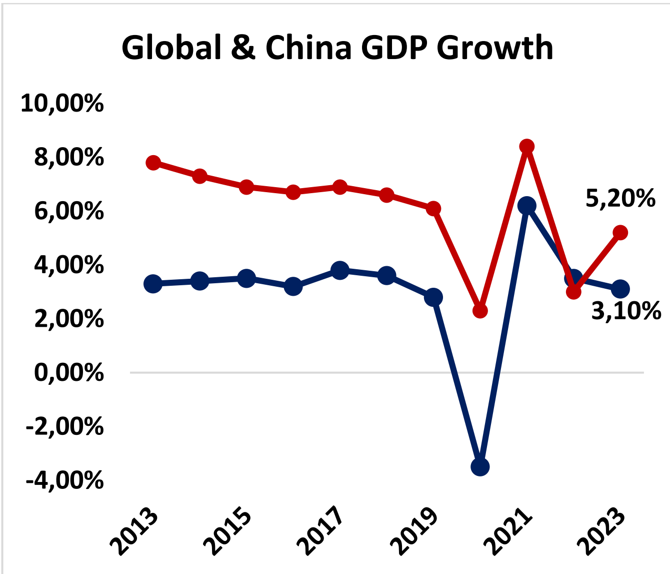


Source: Türkiye Çelik Üreticileri Derneği

Despite this negative outlook in the Chinese steel industry, China's steel exports have limited the contraction on the production side due to the ongoing global demand environment. While China's steel exports in 2023 will be 90.26 million tons, it is expected to exceed this level in 2024, and steel exports are expected to reach record levels in 2015 (~804 million tons). One of the main reasons for this is that it has a say in the global market, making competition in the world difficult with its high steel quality and low pricing. As a matter of fact, China's contractions in the domestic market increase its influence in the global steel market and emphasize the need for other countries to increase their competitiveness.



Source: Investing



Source: Foreks

Starting from the second half of 2023, the moderate upward trend in iron ore prices continued into the early months of 2024, supported by China's economic growth-promoting policies. Indeed, the Chinese economy performed better than expected in the first quarter of 2023, achieving a growth rate of 5.3%. However, in the second quarter, the growth rate declined to 4.7%, falling short of expectations.

China, which meets a significant part of the iron ore demand, imported 610 million tons of iron ore in the January-June period of 2024, with an annual increase of 6.2%, due to the impact of the crisis on the real estate sector. sector. The continued weak demand for steel during this period put downward pressure on iron ore prices, causing a decline. In March, iron ore prices fell to the lowest level in the last seven months. Despite the contraction in domestic consumption and the ongoing real estate crisis, we predict that there may be an increase in commodity demand in the last quarter of the year due to interest rate cuts by major central banks and incentive measures of the Chinese government against the crisis.

In the first quarter of this year, steel production weakened due to a decline in demand. With the improvement in weather conditions in the second quarter, a recovery in the construction sector is anticipated. This development could strengthen expectations for an increase in steel production, potentially alleviating the contraction in global steel demand and fostering a recovery in the sector.

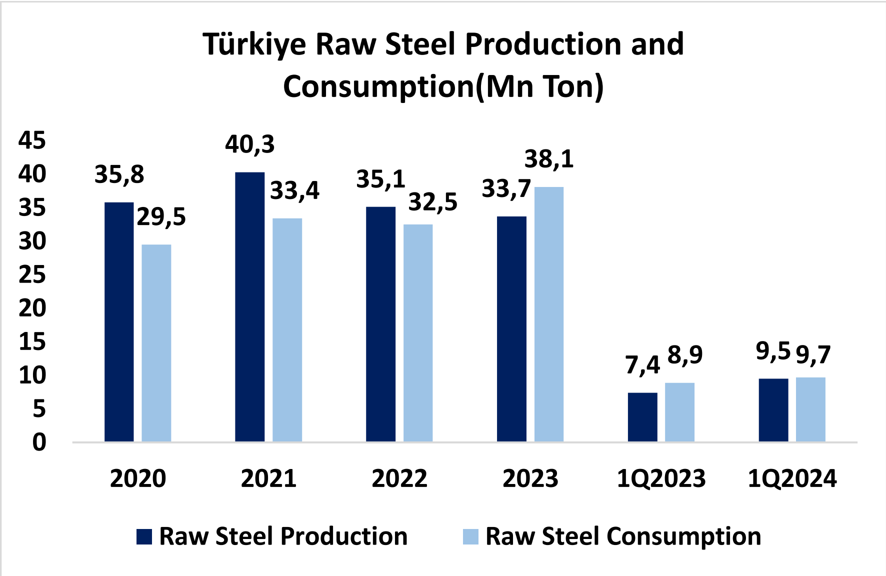
Overview of the Turkish Steel Industry

Although the annual increase in world steel production remained at 0.5% in the first quarter of 2024, Turkey made a rapid start to the year by producing 9.5 million tons of steel, an increase of 28.4% due to the low base effect. Thus, it became the country that increased its production the most among the world's 15 largest crude steel producers in the first three months of the year.

PRODUCTION (Mn Ton)			
COUNTRIES	**1Q2023**	**1Q2024**	**Change (%)**
Brazil	8,0	8,3	3,8%
Türkiye	7,4	9,5	28,4%
Germany	9,2	9,7	5,4%
South Korea	16,7	16,2	-3,0%
Russia	18,7	18,7	0,0%
Usa	19,4	19,9	2,6%
Japan	21,6	21,5	-0,5%
India	33,2	37,3	12,3%
China	264,4	257	-2,8%

Source: Türkiye Çelik Üreticileri Derneği

Turkey's steel production increased by 4% year-on-year to 3.1 million tons in July. Final product consumption, which has been on a downward trend in recent months, fell by 13.3% year-on-year to 2.9 million tons in June and by 4% year-on-year to 19 million tons in the January-June period. While exports were encouraged by the contraction in consumption, the increase in steel exports was supported by a 13.3% decline in steel imports, bringing total imports down to 8.2 million tons. Maintaining its 8th position among the world's largest steel producers, Turkey's steel exports increased by 45.1% year-on-year between January and June, raising the ratio of exports to imports to 73.6% in the same period (6M23: 47.9%). In order to keep the increase in imports under control, it is important that the increase in production is supported and sustained by the production of high value-added products.



Source: Çelik İhracatçıları Birliği (ÇİB)

Based on these factors, let's look at a SWOT ANALYSIS of Turkey's steel sector, including its strengths, weaknesses, opportunities and threats.

STRENGTHS
•High level of competitiveness.
•Production of high value-added products.
•Use in various sectors due to its wide range of applications.
•Providing logistic advantage due to its strategic location.
•To become one of the world's leading steel producers and exporters.
WEAKNESSES
•High input costs.
•Dependence on foreign raw materials.
•Demand and price fluctuations.
•High labor costs.
•The need to improve the technological infrastructure.
OPPORTUNITIES
•Reducing energy costs through the use of renewable energy sources.
•Strong domestic and international demand.
•Increased export potential with the transition to production of high value-added products.
•Development of R&D investments.
•Business model according to different market segments and customer groups.
THREATS
•China's pressure on the steel sector.
•Strong players in the global steel sector.
•The emergence of monopolization.
•Additional costs resulting from efforts to prevent environmental pollution.
•Uncertainties in raw material prices.

As iron and steel products are used in many sectors, the increase in production depends on the demand from these sectors. Demand in the sector is likely to increase due to new infrastructure needs, economic growth, urban expansion, increased activities of the construction sector and population growth. As a matter of fact, Turkey has recovered from the earthquake in the second half of 2023, and as a result of both the capacity increase and the moderate decline in energy prices, Turkey's crude steel production in 2023 is realized at 33.7 million tons, a decrease of only 4%.

In line with the Turkish iron and steel industry's goal of increasing environmentally friendly production under the scope of sustainable green growth, investments to reduce carbon emissions continue rapidly, providing a positive outlook for the sector. Crude steel production is expected to exceed 40 million tons by the end of 2024 as new investments and high production technologies provide opportunities to increase competitiveness.

China's potential to increase its steel exports with the expectation that the contraction in domestic demand will continue in 2024 poses a threat to Turkey as well as the global steel industry. Although the year started with optimism for the resolution of the crisis in China's real estate sector, the announced supports did not meet expectations and had a negative impact on the market outlook.

On the other hand, the mandatory implementation of the “Border Carbon” law and the associated additional costs present a risk to the progress of growth in the sector. Therefore, Turkey's strategy to increase the production of high value-added products, along with easy access to financing, subsidies, and government-supported incentives, plays a critical role in stimulating capacity growth and enhancing global competitiveness.

Impact of the Steel Market Outlook on Kocaer Steel

Since the beginning of 2024, increases in steel production and exports have gained significant momentum with the impact of new investments that have been commissioned in Turkey. In line with this momentum, Kocaer's competitive advantage with its unique business model and high service quality also supports its financial results. Despite the various impacts of global steel production on the Turkish steel industry, Kocaer Çelik had the opportunity to increase its profitability by announcing strong Q1 2024 results compared to its industry peers thanks to its strategic responses to factors such as innovation and product development, workforce training, local and global market dynamics, supply chain management and logistics. In this process, the Company was minimally impacted by falling dollar-based prices and gained significant opportunities to increase its profitability. While 2024 world steel production is not looking positive at the moment, we expect the Chinese government's policies to revitalize the market by taking the necessary measures in the real estate market to be successful, which will revitalize our steel industry. The increasing demand for the products produced by the company in similar production areas increases the potential for expansion and job creation, contributing to economic growth and enabling the company to strengthen its presence in national and international markets and increase its competitiveness. We anticipate that Kocaer Çelik will take maximum advantage of the growth opportunity with its flexible structure and quick adaptation to changes and expect a positive impact in the long term.

When we look at the cost structure of the company, billet costs have a 70% weight in USD terms, while in the first quarter of 2024, despite the increase in labor costs, margins increased moderately thanks to the increase in the selling prices of products in USD terms. The company aims to improve profitability and margins by increasing the share of value-added products with the new products planned to be added to the product range starting from the second half of the year and the revisions made.

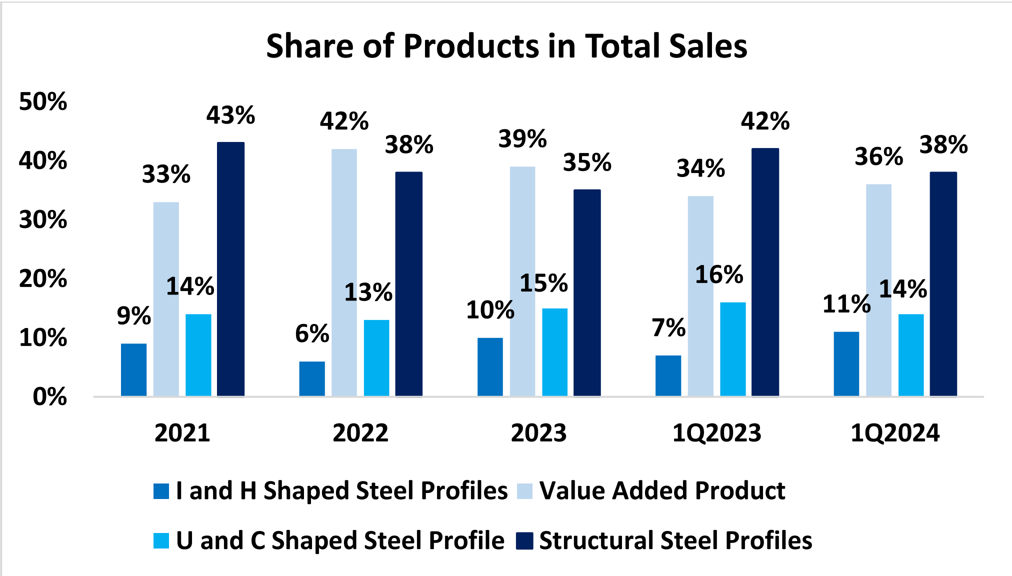
Overview of Kocaer Steel

Kocaer Çelik has stood out as the export champion of the iron and steel sector in the Aegean Region for the last 6 years, with an annual production capacity of 800,000 tons. The company generally produces for sectors such as energy, structural steel, defense industry, transportation, tunnels and mining, and manufactures high value-added products and sells them through distribution channels.

The company has 3 steel profile factories with a total production area of 280,000 m², 85,000 m² of which is closed area, as well as a galvanizing plant with a capacity of 100,000 tons/year, a steel service center with a capacity of 180,000 tons/year and a renewable energy production facility with a capacity of 15 million kWh/year. The company produces customer-specific steel profiles in various types, sizes and dimensions at these facilities.

Focusing on specific steel profile products with limited production on a global basis, Kocaer Çelik completed the revision works at Aliağa-A1 and Aliağa-A2 plants as of the end of the first quarter of 2024 in line with its goal of increasing the share of high value-added products, increased the capacity of the Kocaer Service Center, which produces project-specific and value-added products, from 120 thousand tons to 180 thousand tons, and accelerated its efforts to support its production processes with automation and robotics. <u>Following these investments, the company is expected to strengthen its position in the sector and differentiate positively from the sector with its different business model.</u>

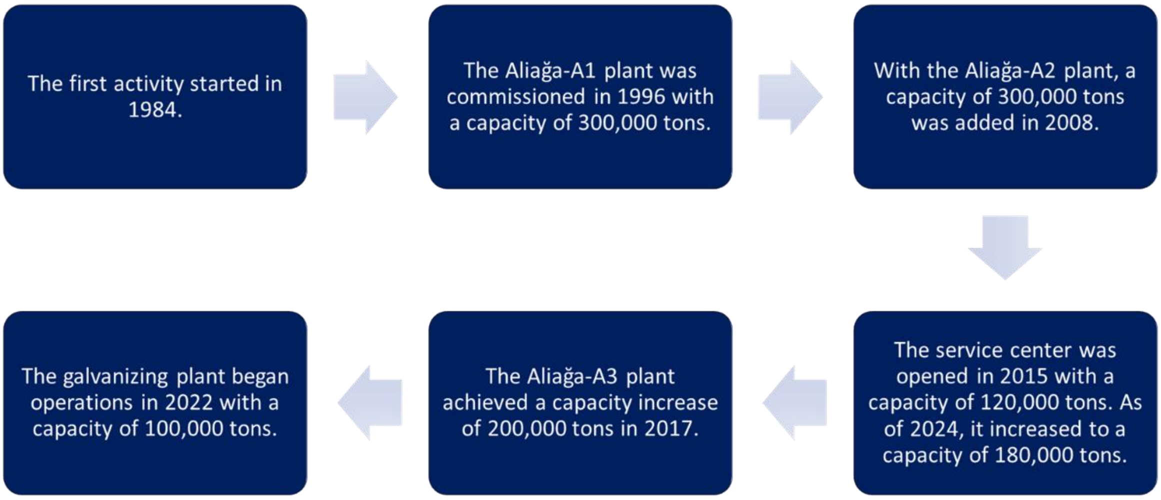
Kocaer Çelik's products are grouped under 4 headings: Structural Steel Profiles, I and H Shaped Profiles, U and C Shaped Profiles and Value Added Profiles. In the first quarter of 2024, Structural Steel Profiles accounted for 38% of total sales, I and H shaped profiles accounted for 11% of total sales, U and C shaped profiles accounted for 14% of total sales and value added products accounted for 36% of total sales.



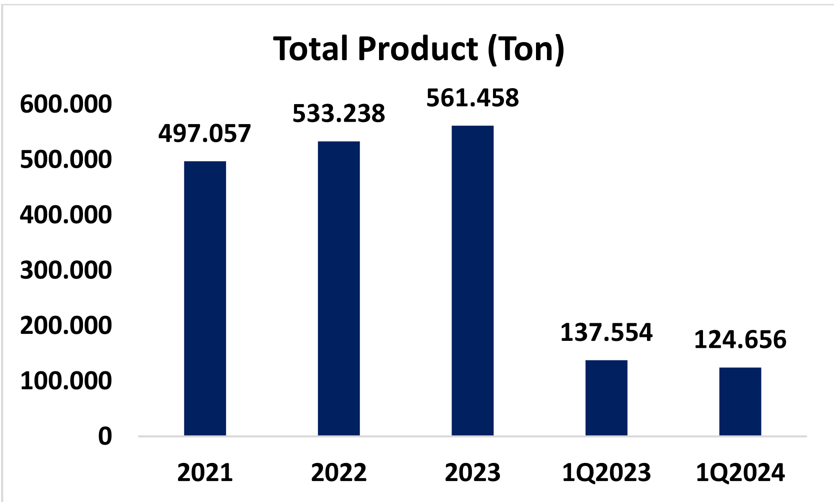
Source: Company data, PhillipCapital Research

<u>Operating with a minimum inventory level due to its predominantly order-based operations and focusing on value-added products tailored to the end customer, the company differentiates itself positively in the sector with a different business model thanks to the high product diversity provided by its flexible production capability and its distribution network in different geographies.</u>

HISTORICAL CYCLE



In the Aliağa-A2 factory, where a portion of high value-added products are produced, despite a 32-day planned maintenance shutdown during the investment process in May 2023 and a contraction in the domestic steel market, net sales volume increased by 5.3% year-on-year to 561,000 tons in 2023. In the first quarter of 2024, as part of the second phase of the investment, the company conducted a 66-day planned production shutdown at the Aliağa-A1 factory, and despite this shutdown, approximately 125,000 tons of steel profiles were sold. Following these investments, the company plans to increase the share of value-added products in total sales. <u>With the contribution of these investments, we expect the company's turnover and EBITDA to increase by 26% and 35% CAGR in the 2023-2027 period.</u>



Source: Company data, PhillipCapital Research

The company, which has 4 subsidiaries, namely "Kocaer Steel UK", "Kocaer Energy", "Kocaer Foreign Trade" and "Yağız Nakliyat Sanayii ve Tic. A.Ş.", the company exports to 140 countries in 6 continents. Being the first company in the sector to have an R&D center and to be included in the Turquality program provides a positive differentiation, while the Company has been the export champion of the Aegean Region for 6 consecutive years. Kocaer Çelik, which realizes 74% of its total sales abroad, maintained its export performance in the first quarter. The successful performance and efficiency provided by the short delivery times offered by the logistics network distinguishes the company from its peers and contributes to its positive differentiation. Established in 2015 in the United Kingdom as a 90% subsidiary of Kocaer Çelik, Kocaer Steel UK and Kocaer Steel Ireland have a total closed storage capacity of 20,000 m². Kocaer Steel UK's warehouse is located in Cardiff, the capital of Wales in England, while Kocaer Steel Ireland's warehouse is located in Warrenpoint, Ireland. <u>Thanks to this storage facility, the Company is able to deliver its products to its customers in the UK and Ireland with very short deadlines. This eliminates the risk of incurring delay penalties, increases the company's profitability and provides a competitive advantage.</u>

Overview of Energy Investments

The Company increased its capital expenditures from TL 418 million in 2022 to TRY 438 million in 2023. The ratio of capital expenditures to sales revenues is 2.8%. With the establishment of Kocaer Enerji, a new subsidiary of Kocaer Çelik, the Company now meets 33% of its electricity needs from self-generated clean energy with its rooftop Solar Power Plant (SPP) with an installed capacity of 9.2 MW in the Aegean Region. In addition, as part of its sustainability efforts, the company has expanded its renewable energy investments in line with its strategic growth target and continues drilling for a Geothermal Power Plant (GPP) with a capacity of 24 MW on the acquired Geothermal Resources and Natural Mineral Water site in Kuyucak, Aydın.

The share of energy in the company's total costs is around 7-8% and upon completion of the GPP investment, the company plans to meet its entire electricity demand with 20% of its own renewable energy. The remaining electricity is planned to be sold and YEKDEM is expected to make a significant contribution to margins and profitability as it offers the best pricing and 15-year purchase guarantee for geothermal power plant projects.

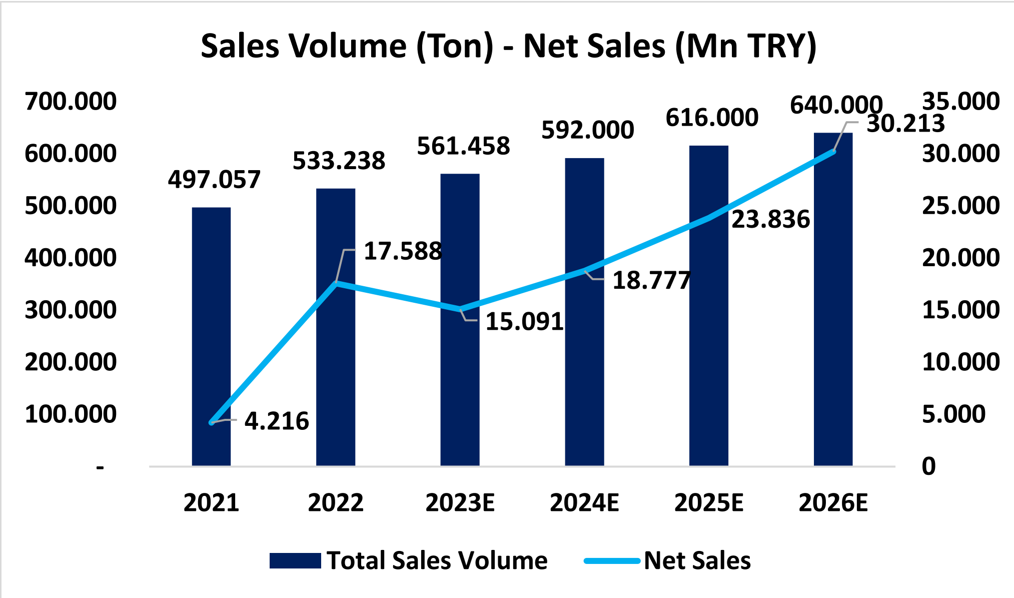
In the first phase of the investment, we anticipate an annual EBITDA of USD 19-20 million with a capacity of 24 MW. Considering the size of the field to be invested, we estimate that the contribution can be increased by expanding the power plant investment in the future.

FINANCIALS OVERVIEW

Net Financial Debt/EBITDA ratio declined from 0.76x at the end of 2023 to 0.49x in the first quarter of 2024. This change shows that the company has substantially reduced its financial risks and achieved success in cost management. we expect indebtedness to remain at a similar level in the second quarter.

In the first three months of 2024, weak prices in the global steel market in USD terms led to a decline in the selling prices of Kocaer Çelik products and thus a 12% decrease in sales revenues compared to the same period last year. However, as raw material prices in USD terms also declined in the same period, gross profit improved. Nevertheless, due to the increase in financing expenses and the negative impact of inflation accounting, net profit came in at TL 96 million, close to the same period of last year.

Due to the pessimistic outlook in the world steel market and fluctuations in prices, sales volume in the first quarter decreased by 9% compared to the previous period and amounted to 125 thousand tons. <u>We attribute this decline to the 66-day planned production shutdown between January 5 and March 11 during the investment process at Aliağa - A1 Plant and consider it as a temporary shutdown on a quarterly basis.</u>



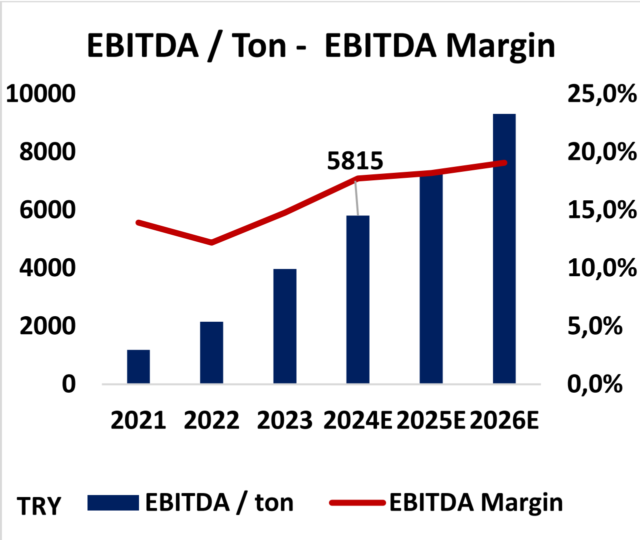
Source: Company data, PhillipCapital Research

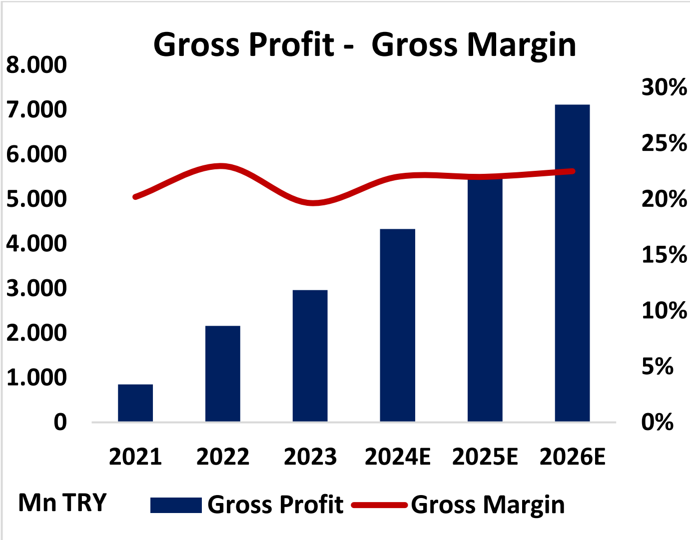
****EBITDA margin improved by 4.4 percentage points year-on-year to 12.6% in 1q2024. This increase shows that the company is improving its operational efficiency and better controlling costs.***

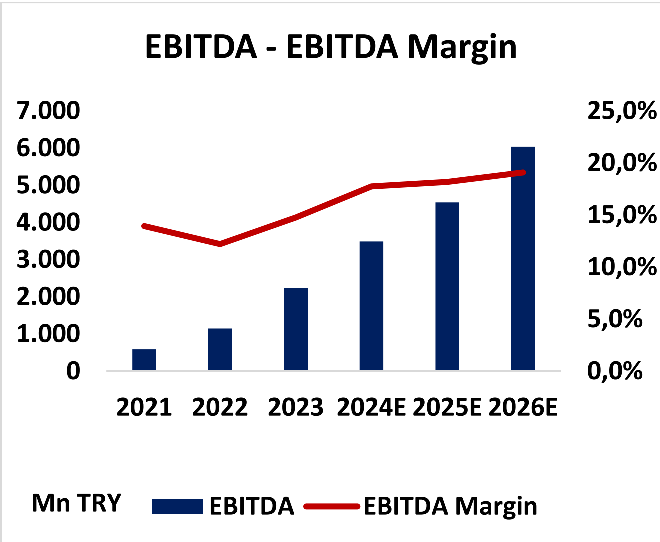
Throughout 2023, iron and steel price fluctuations continued in the first quarter of 2024. However, Kocaer Çelik increased its gross profit by 27% to TL 702 million in the first quarter of the year thanks to effective financial and cost management. EBITDA increased by 36% y-o-y to TRY489 million in the first quarter, while EBITDA margin improved by 4.4 percentage points y-o-y to 12.6%. On the other hand, higher interest rates on loans and FX rate changes weighed on net income, pushing finance costs up by 8.6% YoY.

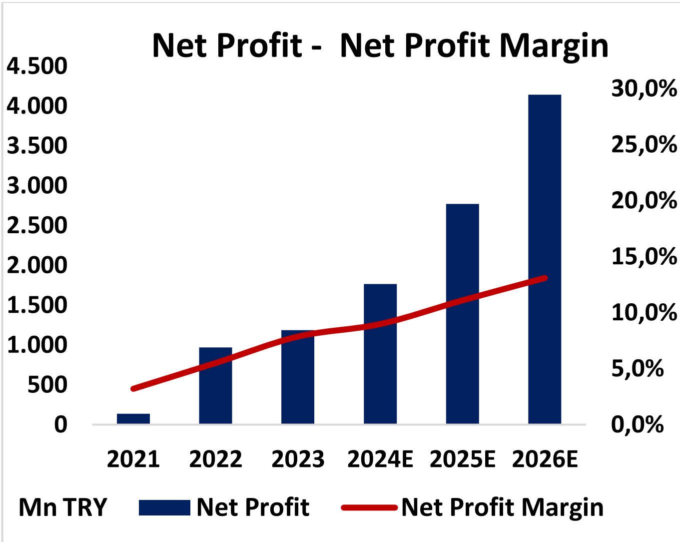
Despite increasing capital expenditures, Kocaer Çelik kept its indebtedness under balance with its strong financial structure and reduced its net debt by 40% to TL 1.17 billion compared to 2023 year-end. Accordingly, net financial debt to EBITDA ratio declined to 0.49x in the first quarter (2023-end: 0.76x) despite the increase in capital expenditures. This shows that the company has strong solvency and is prepared for possible financial crises. <u>Looking at the past financial performance, we can say that the company has made significant progress towards sustainable growth and offers more positive potential for the coming periods.</u>

Having an advantageous credit structure as a net exporter, Kocaer Çelik has the opportunity to borrow at lower interest rates in both TL and USD compared to other companies. This makes it easier for Kocaer Çelik to expand its investments and capitalize on market opportunities, which may support its profitability by reducing its financial costs and provide a more flexible approach to achieving its long-term strategic goals.



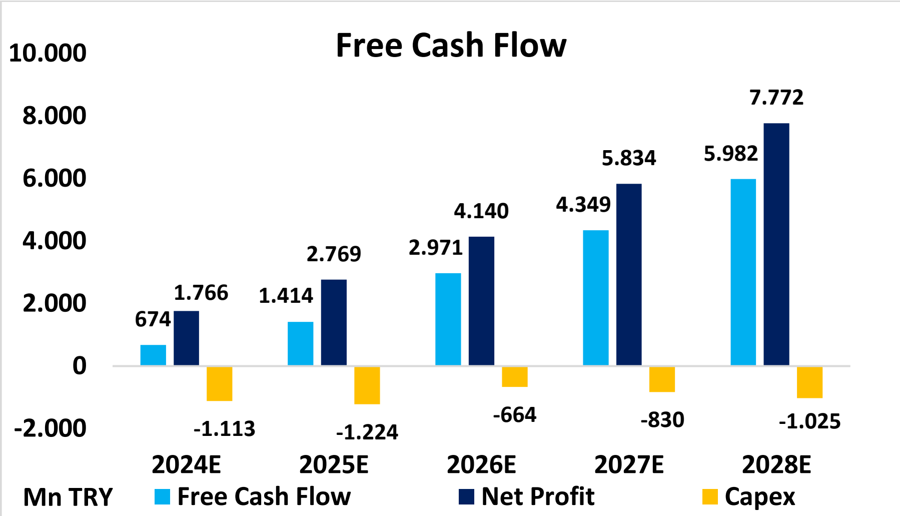






Source: Company data, PhillipCapital Research

Below you can find the Free Cash Flow table in TRY terms. We expect increased capital expenditures to increase net profit and cash flow in the coming periods. We anticipate that this situation will strengthen the profitability and liquidity of the company with the investments made.



Source: Company data, PhillipCapital Research

VALUATION

We like Kocaer Çelik due to its distinct business model and high growth potential in the steel sector. We are including it in our research coverage with an outperform rating and a target price of 68.36 TL per share. In parallel with the increase in the share of value added products in the total product range, we expect EBITDA margin to gradually increase to 22% by 2027. We expect EBITDA per ton, which stood at TL 3970 as of 2023, to increase to around TL 5800 in 2024 with the increase in productivity following the completion of the revision investments. It should be noted that we do not include any impact of Saudi Arabia and US investment plans in our valuation and these investments may increase upside potential.

We assume that Kocaer Celik will incur an additional capital expenditure of USD 48 million until 2026 due to its geothermal energy investment (24MW for the first phase). The share of energy costs in the company's total costs is around 7-8%. As the company aims to meet its electricity needs with 20% of its own renewable energy after the completion of the GPP investment, we have projected a gross profit margin of 26.2% for 2027. Considering the size of the area to be invested and its high energy potential, we estimate that the contribution can be increased by expanding the power plant investment in the coming period.

In our INA valuation covering the years 2024-2032, we set the risk-free rate of return as 30% for the first two years, 25% for the next two years and 20% for the following years. We used the market risk premium as 6%, the company beta as 0.80 and the infinite growth rate as 6%. Accordingly, the weighted average cost of capital used in the discount factor calculation was in the range of 28.8% - 21.6% in the 9-year period. As a result of the INA, we reached a market capitalization target of TRY 45 billion for KCAER.

As a result, our 12-month target price for KCAER is 68.36 TRY, indicating a 62% return potential.

Discounted Cash Flow (DCF)

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	19.675	24.964	31.628	40.884	50.312	61.526	75.268	91.583	111.468
Growth, (%)	*30,4%*	*26,9%*	*26,7%*	*25,0%*	*23,5%*	*22,7%*	*22,7%*	*22,0%*	*22,0%*
EBIT	3.120	4.236	5.815	8.992	11.666	14.939	19.102	23.333	28.488
EBIT Margin, (%)	*15,9%*	*17,0%*	*18,4%*	*22,0%*	*23,2%*	*24,3%*	*25,4%*	*25,5%*	*25,6%*
EBITDA	3.489	4.539	6.035	9.083	11.680	14.870	18.937	23.059	28.090
EBITDA Margin, (%)	*17,7%*	*18,2%*	*19,1%*	*22,2%*	*23,2%*	*24,2%*	*25,2%*	*25,2%*	*25,2%*
(-) Change in NWC	-922	-842	-946	-1.656	-1.756	-2.457	-2.627	-3.194	-3.897
(-) Tax	-780	-1.059	-1.454	-2.248	-2.916	-3.735	-4.776	-5.833	-7.122
(-) Capex	-1.113	-1.224	-664	-830	-1.025	-1.258	-1.544	-1.839	-2.189
Free Cash Flow to Firm	674	1.414	2.971	4.349	5.982	7.420	9.991	12.192	14.882
Discount Factor	0,92	0,71	0,57	0,45	0,37	0,31	0,25	0,21	0,17
DCFF	617	1.005	1.686	1.972	2.231	2.277	2.522	2.532	2.543

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Risk Free Rate	30,0%	30,0%	25,0%	25,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Equity Risk Premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Weight of debt in EV	27,2%	27,2%	27,2%	27,2%	27,2%	27,2%	27,2%	27,2%	27,2%
Weight of equity in EV	72,8%	72,8%	72,8%	72,8%	72,8%	72,8%	72,8%	72,8%	72,8%
Beta	0,80	0,80	0,80	0,80	0,80	0,80	0,80	0,80	0,80
Tax Rate	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%
Cost Of Debt	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Cost Of Equity	34,00%	34,00%	29,00%	29,00%	24,00%	24,00%	24,00%	24,00%	24,00%
WACC	28,8%	28,8%	25,2%	25,2%	21,6%	21,6%	21,6%	21,6%	21,6%

NPV of FCFF	17.386
Terminal Growth Rate	6%
PV of Terminal Value	17.328
Enterprise Value	34.714
(-)Net Debt	1.166
Equity Value	**33.548**
12M Target Market Cap	**44.954**
12M Target Price (TL)	**68,36**
Current Price (TL)	42,28
Upside Potential (%)	**62%**

Financial Data

TRY mln	2022	2023	2024E	2025E	2026E
Revenues	9.418	15.091	19.675	24.964	31.628
Revenue Growth	123,4%	60,2%	30,4%	26,9%	26,7%
Export Share in Revenues	76%	70%	74%	74%	75%
Gross Profit	2.163	2.965	4.329	5.492	7.116
Gross Margin	23%	20%	22%	22%	23%
Operating Expenses	1.219	957	1.209	1.256	1.301
Operating Expenses Growth	286,4%	-21,5%	26,3%	3,9%	3,6%
Operating Expenses / Revenues	11%	5%	4%	4%	3%
Depreciation	205	221	369	304	220
EBITDA	1.149	2.229	3.489	4.539	6.035
EBITDA Growth	95,7%	94,0%	56,5%	30,1%	32,9%
EBITDA Margin	12,2%	14,8%	17,7%	18,2%	19,1%
Other Income/Expense	148	434	583	645	777
Pre-Tax Profit	-28	1.363	2.030	3.183	4.758
Tax Expense	-56	177	264	413	618
Net Income	970	1.186	1.766	2.769	4.140
Net Income Growth	616,6%	22,2%	49,0%	56,8%	49,5%
Net Income Margin	10%	8%	9%	11%	13%
Equity	5.586	8.148	9.497	11.914	15.500
Net Debt	1.697	1.954	372	-5.475	-12.806
Net Debt / EBITDA	1,5	0,9	0,1	-1,2	-2,1
Gross Debt	3.250	3.513	3.513	1.572	-1.387
Net Working Capital	2.906	3.314	4.236	5.078	6.024
Net Working Capital/Revenues	31%	22%	22%	20%	19%
P/E	9,2	11,9	15,7	10,0	6,7
EV/EBITDA	9,3	7,2	8,1	4,9	2,5
P/B	1,6	1,7	2,9	2,3	1,8
RoAE	30%	17%	20%	26%	30%

Source: Finnet, PhillipCapital Research

Methodology

The target value of a stock represents the value that the analyst expects to be reached at the end of our 12-month performance period.

Outperform (OP)

If this decision is made for a company, it indicates that better returns are expected for the stock compared to the index in the medium and long term. However, this decision does not guarantee that the stock will rise or outperform the index. Any changes in market conditions, developments in the macroeconomy, global economic developments, or news about the company after the report is published can change this decision.

In-Line with Index (IL)

If the decision of "In-Line with Index" is made for the relevant stock, there can be various reasons for this. This decision may have been made if the company's recent data and future estimates do not show significant differences compared to the past. The stock price of the company may be at levels close to what it should be in terms of valuations. Making an "In-Line with Index" decision for a stock does not mean that the stock will not move up or down. Generally, this decision indicates that in the medium and long term, a return similar to the index is expected for the stock. However, every new piece of news and change in market conditions can alter this decision.

Underperform (UP)

If the decision of "Underperform" is made for a stock, it indicates that weaker returns are expected in the medium and long term compared to the index. Even if the "Underperform" decision has been made for a stock, short-term price increases for the stock or short-term technical indicators giving a buy signal are possible. In some cases, even if returns are not expected from the stock in the medium and long term, short-term "Outperform" or "In-Line with Index" returns can be achieved when there is significant news, temporary profit increase news, or developments that will lead to a positive short-term price trend.

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