AKInvestment

Turkish Equities / Energy / Coverage Initiation Report

December 11, 2024

Galata Wind

A pure renewable energy player with expansion plans in both local and international markets

Outperform

Current Price: TRY28.2

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We initiate coverage on Galata Wind with Outperform rating and a 12-month target price of TRY51.62/share. Our target price points to a 12-month total return of 83%. We expect the stock to outperform the BIST100 index due to: i) attractive valuation, ii) low leverage before the upcoming CAPEX cycle, iii) positive impact of the upcoming capacity, showing effective EBITDA contribution at the end of 2025 and beyond. We used a USD-based valuation for our DCF analysis. We assumed a USD-based risk-free rate of 6.5% derived from the latest Eurobond Issue rate of TCMB. With our expected 2025 year-end USD-based EV/EBITDA multiple of 10.3x and current T12M EV/EBITDA multiple of 9.0x, Galata Wind is trading at a discount.

A pure renewable energy player

Galata Wind, a 70% subsidiary of Doğan Holding, invests in solely sustainable energy sources (wind and solar) and generates %100 renewable energy. The Company has a total renewable installed capacity of 297MW with 3 wind power plants (WPP) accounting 88% (247MW) of the capacity and 2 solar power plants (SPP) and 1 hybrid power plant, accounting 12% (50MW) of the capacity.

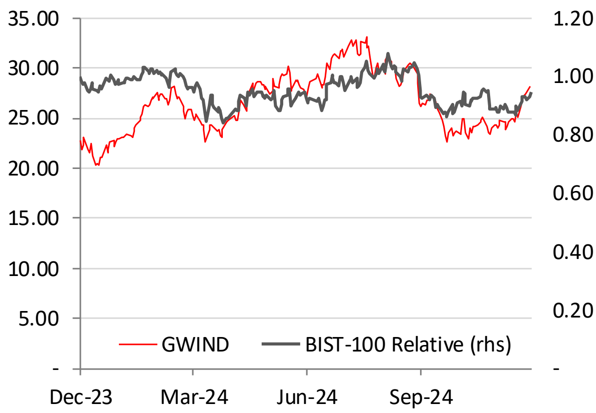
Plans to nearly double its capacity until 2025 with significant expansion plans in local and international markets

Galata Wind aims to nearly double its capacity to over 550MW by 2025 (1000MW by 2030). Near-term targets (2025-2028) include: i) hybrid solar capacity expansion at existing Taşpınar WPP (25MW), ii) capacity extension in Mersin WPP (39MW), iii) recently acquired Alapınar WPP (14MW) and iv) first phases of new investments (mostly solar) in Europe (300MW in total, expected to be realized in small steps). In a longer term (2026-2030), the Company plans to further increase its capacity with storage enabled generation plants in Türkiye (300MW wind, 110MW solar).

Well positioned to capitalize on Türkiye's renewable energy targets

Studies will be carried out for the establishment of renewable energy power plants and efforts to strengthen the network infrastructure to increase the connectable capacity will continue. The solar energy capacity in total is expected to grow 14.7% annually in Türkiye (2024: 19,100 MW, 2028E: 33,100 MW), while total wind capacity is expected to grow 9.8% annually (2024: 13,300 MW, 2028E: 19,300 MW). Overall, the ministry targets to increase renewable share in total capacity to 63% in 2028, from the current 57%. As a pure renewable energy generator, owned by a strong shareholder, having strong and stable cash generation capacity with solid balance sheet, Galata Wind is well positioned to play a leading role in Türkiye's ambitious growth journey.

Bloomberg Ticker				GWIND TI
Recommendation				Outperform
Target Price, TRY				51.62
Current Price, TRY				28.20
Upside				83%
Free Float				30%
Mcap, TRYmn				15,228
EV, TRYmn				17,791
Financial Data		**2024E**	**2025E**	**2026E**
Summary IFRS Financials - Non IAS29				
Revenue, TRYmn		2,306	3,640	4,291
EBITDA, TRYmn		1,884	3,033	3,536
Net Income, TRYmr		1,784	2,617	2,181
Indebtedness				
Net Debt, TRYmn		680	125	2,183
Net Debt/EBITDA		0.36	0.04	0.62
Profitability				
EBITDA Margin		81.7%	83.3%	82.4%
Net Margin		77.4%	71.9%	50.8%
Dividend Yield		-	-	-
Growth				
Revenue, y/y		54.2%	57.8%	17.9%
EBITDA, y/y		68.0%	61.0%	16.6%
Net Income, y/y		52.8%	46.7%	-16.7%
Valuation Data		**2024E**	**2025E**	**2026E**
P/E		8.5	5.8	7.0
EV/EBITDA		13.3	10.3	10.0
EV/Sales		10.9	8.6	8.3
Stock Data	**1M**	**3M**	**12M**	**YTD**
Nominal Return	17.5%	-1.1%	18.6%	33.4%
BIST-100 Relative	6.9%	-5.7%	-7.0%	-1.3%
ADT, TRYmn	92	69	121	123



Market data of December 10, 2024

Diversified and stable revenue stream, partially immune to electricity price volatility and local currency weakness

3 out of 5 current power plants with a total capacity of 129MW (43% of total) are eligible to feed-in-tariff and benefit a purchasing guarantee at US$-linked constant prices with a weighted average remaining maturity of c.5-year. Indeed, the Company has generated roughly 42% of its revenues from feed-in-tariff mechanism in average in last three years. Feed-in-tariff mechanism will continue to protect the Company against the volatility of electricity prices and currency weakness in upcoming years thanks to the remaining FIT life of the plants.

High ESG score, well positioned in ranking

Sustainability has emerged as a significant investment theme with a growing impact on investment decisions. ESG scoring has become a crucial metric in order to assess sustainability. Galata Wind has been awarded an ESG Entity Rating of "2" with an overall score of "76" by Sustainable Fitch, which indicates that the company evidences a good ESG profile and impact. This rating makes Galata Wind the second company in Sustainable Fitch's comprehensive EMEA universe to receive the pure-play label, highlighting its significant contributions to climate change mitigation through dedicated renewable energy initiatives and a robust sustainability strategy that is aligned with the UN Sustainable Development Goals and ambitiously targets net zero emissions by 2030. Galata Wind ranks 1st among 13 Turkish companies in Sustainable Fitch's ESG rating system. The company is also ranked in the top 10 percent globally in the energy sector out of 150 companies, reflecting its commitment to sustainable practices internationally. In the broader Sustainable Fitch Universe of approximately 800 companies, Galata Wind is ranked in the top 5% solidifying its status as a top-performing renewable energy company with exemplary ESG standards.

A strong capital structure and low leverage are boosting investment appetite

Galata Wind's debt position gradually decreased as a result of strong operational profitability and significant cash conversion. The Company has a roughly EUR19.2mn outstanding bank loans (at LIBOR + 0.65%-0.80%) as of end-3Q24 with weighted average remaining life of 6-year. The Company has a net debt position of TRY2,563mn as of end-3Q24 despite 9M24 capex of TRY1,138mn (~USD33mn) and advance payments for the equipment purchases for ongoing investments.

The Management intends to maintain its Net Debt/EBITDA below 3.5-4x during the investment period. We anticipate that the ongoing projects in Türkiye for the near term (2024-2027) will require USD50mn additional investments. In addition, the projects with storage facilities will require USD130mn capex at current prices.

Strong dividend prospects

The Company offers a sustainable balance between medium-to-long term growth and income prospects. Accordingly, despite the ambitious growth targets, the Company distributed TRY437mn of dividend back in Aug'24 with 2.79% yield and 89% pay-out from 2023 earnings.

Higher carbon sales revenue potential

The Company currently generates a reduction of app. 430k tons of carbon emissions annually. Current price per ton of CO_2 is around 3-4US$. However, the carbon certificate market in Turkey is expected to experience significant growth due to the Country's steps towards its 2053 net zero target and the European Commission's carbon border tax regulation (The Carbon Border Adjustment Mechanism). This could lead to higher carbon prices in the future. On top of that, the planned capacity extensions will further increase the carbon sales potential. Galata Wind is currently holding approximately 1.3mn tons of carbon credit with the current monetary value of ~USD5.2mn.

Figure 1: Summary Financials (USD, million)

Income Statement (USD, mn)	2020	2021	2022	2023	2024E	2025E	2026E
Net Sales	**48**	**61**	**72**	**63**	**70**	**93**	**95**
Cost of Sales	-13	-16	-13	-16	-12	-16	-19
Gross Profit	**35**	**45**	**59**	**47**	**58**	**77**	**76**
Operating Expense	-2	-3	-2	-3	-5	-7	-8
EBIT	**33**	**41**	**57**	**44**	**53**	**71**	**68**
Depreciation & Amortization	5	7	4	3	4	7	10
EBITDA	**38**	**48**	**61**	**47**	**57**	**77**	**78**
Non-operating Income/ (Expense)	6	5	10	14	3	5	2
Profit / (Loss) from Subsidiaries	0	0	0	0	0	0	0
Net Investment Income/ (Expense)	0	0	0	0	0	0	0
Net Financial Income/ (Expense)	-11	-24	-10	-12	17	14	-6
Profit before Tax from Continuing Op.	**28**	**22**	**57**	**47**	**73**	**89**	**64**
Tax Income/ (Expense)	-6	-3	7	2	-18	-22	-16
Net Profit	**22**	**19**	**63**	**49**	**54**	**67**	**48**
EPS	0.04	0.04	0.12	0.09	0.10	0.12	0.09
DPS	0.00	0.00	0.02	0.03	0.03	0.05	0.05
Dividend Pay-out	0%	0%	88%	38%	42%	56%	45%

Balance Sheet (USD, mn)	2020	2021	2022	2023	2024E	2025E	2026E
Current Assets	**23**	**29**	**51**	**13**	**215**	**199**	**123**
Cash and Cash Equivalents	9	12	37	3	207	190	115
Marketable Securities	0	0	76	0	0	0	0
Short-Term Trade Receivables	5	6	5	6	5	7	7
Inventories	0	0	0	0	0	0	0
Other Current Assets	9	11	5	1	3	2	2
Long Term Assets	**195**	**103**	**246**	**352**	**114**	**130**	**181**
Tangible Fixed Assets	115	66	141	205	94	113	166
Intangible Fixed Assets	39	23	88	100	10	8	7
Right of Use Assets	2	1	2	3	1	1	1
Other Long-Term Assets	36	13	11	38	10	8	7
Total Assets	**218**	**133**	**298**	**365**	**329**	**330**	**304**
Short Term Liabilities	**41**	**22**	**6**	**16**	**28**	**30**	**38**
Short-Term Financial Loans	35	19	4	5	26	29	36
Short-Term Trade Payables	1.0	0.7	1.0	2.8	1	1	1
Other Short-Term Liabilities	4.6	0.1	0.2	0.4	1	1	0
Long Term Liabilities	**53**	**36**	**56**	**69**	**182**	**160**	**126**
Long-Term Financial Loans	40	30	26	26	182	160	126
Total Liabilities	**93**	**58**	**62**	**85**	**210**	**191**	**164**
Shareholders' Equity	**125**	**75**	**236**	**280**	**119**	**139**	**140**
Total Paid-in Capital	535	535	535	540	540	540	540
Reserves and Other Items	2	2	5	9	5	6	8
Retained Earnings/ (Acc. Losses)	29	20	83	136	43	52	72
Current Year Income/ (Loss)	21	13	50	25	54	67	48
Total Liabilities & Shareholder Equ.	**218**	**133**	**298**	**365**	**329**	**330**	**304**

Growth	2021	2022	2023	2024E	2025E	2026E
Net Sales	28%	18%	-12%	11.4%	32%	2%
Gross Profit	27%	32%	-19%	22.6%	33%	-1%
Opex	38%	-36%	47%	64.9%	28%	21%
EBIT	26%	38%	-22%	19.6%	33%	-3%
EBITDA	29%	25%	-22%	21.4%	35%	1%
Net Profit	-13%	227%	-22%	10.4%	23%	-28%

Profitability	2021	2022	2023	2024E	2025E	2026E
Gross Margin	73%	82%	75%	83%	83%	80%
Opex Margin	6%	3%	5%	7%	7%	8%
EBIT Margin	68%	79%	70%	75%	76%	72%
EBITDA Margin	79%	84%	75%	82%	83%	82%
Net Profit Margin	32%	88%	78%	77%	72%	51%

DCF Assumptions	2021	2022	2023	2024E	2025E	2026E
USDTRY ending	13.0	18.6	29.4	35.0	43.0	47.4
USDTRY average	8.8	16.5	23.7	32.8	39.2	45.2
TR CPI (%)	36.1	64.3	64.8	44.5	25.0	14.0

Source: Company, Ak Investment Research

Valuation

We initiate coverage on Galata Wind with Outperform rating and a 12-month target price of TRY51.62/share. Our target price points to a 12-month total return of 83%. We expect the stock to outperform the BIST100 index due to; i) attractive valuation, ii) low leverage before the upcoming CAPEX cycle, iii) positive impact of the upcoming capacity, showing effective EBITDA contribution at the end of 2025 and beyond. We used a USD-based valuation for our DCF analysis. We assumed a USD-based risk-free rate of 6.5% derived from the latest Eurobond Issue rate of TCMB. With our expected 2025 year-end USD-based EV/EBITDA multiple of 10.3x and current T12M EV/EBITDA multiple of 9.0x, Galata Wind is trading at a discount.

Figure 2: Galata Wind Valuation Summary (US$, mn)

Target Price	**(US$, mn)**
Sum of DCF	**192**
Terminal Growth	1%
Terminal Value	**606**
EV	**798**
Net Cash/(Debt) (3Q24)	-77
Current Equity Value	722
Target Equity Value	**801**
Target Price ($)	*1.48*
Target Equity Value (TRY, mn)	**27,872**
2025E EV/EBITDA	*10.32*
12M TP	**51.62**
Current Price	28.2
Upside Potential	**83.0%**

Source: Company, Ak Investment Research

Figure 3: Galata Wind Discounted Cash Flow Analysis (US$, mn)

DCF Valuation (US$, mn)	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Installed Capacity (MW)	***269***	***269***	***290***	***297***	***375***	***400***	***465***	***530***	***595***	***660***	***740***	***800***	***800***	***800***
Generation Volume (GWh)	*746*	*793*	*729*	*805*	*999*	*1,086*	*1,296*	*1,504*	*1,714*	*1,925*	*2,245*	*2,484*	*2,484*	*2,485*
Revenues	**61.1**	**71.8**	**63.1**	**70.2**	**91.8**	**94.6**	**114.2**	**133.6**	**152.5**	**171.9**	**195.4**	**216.2**	**219.6**	**220.9**
Average Price (US$/MWh)	81.9	90.5	86.6	87.2	91.9	87.1	88.1	88.8	89.0	89.3	87.1	87.0	88.4	88.9
COGS & OPEX	**12.7**	**11.2**	**15.8**	**12.9**	**15.5**	**16.7**	**19.8**	**22.9**	**25.9**	**28.9**	**33.4**	**36.8**	**36.5**	**36.5**
Average Cost (US$/MWh)	17.0	14.1	21.7	16.0	15.5	15.4	15.3	15.2	15.1	15.0	14.9	14.8	14.7	14.7
EBITDA	**48.4**	**60.6**	**47.3**	**57.5**	**77.3**	**78.3**	**94.9**	**111.2**	**127.3**	**143.1**	**162.0**	**179.4**	**183.1**	**184.4**
Average EBITDA (US$/MWh)	64.9	76.5	64.9	71.2	76.4	71.7	72.8	73.6	73.9	74.3	72.2	72.2	73.7	74.2
EBITDA Margin (%)	*79%*	*84%*	*75%*	*82%*	*84%*	*83%*	*83%*	*83%*	*83%*	*83%*	*83%*	*83%*	*83%*	*83%*
Depreciation	**7.1**	**3.9**	**3.0**	**3.7**	**4.7**	**4.7**	**5.7**	**6.4**	**7.2**	**8.0**	**9.0**	**9.7**	**9.7**	**9.7**
EBIT	**41.3**	**56.7**	**44.3**	**53.7**	**72.7**	**73.6**	**89.2**	**104.8**	**120.1**	**135.0**	**153.0**	**169.8**	**173.4**	**174.7**
(-)Tax on EBIT	8.3	13.0	11.1	13.4	18.2	18.4	22.3	26.2	30.0	33.8	38.3	42.4	43.3	43.7
(-) Capex	**9.7**	**6.6**	**39.7**	**44.6**	**41.7**	**77.5**	**77.8**	**78.2**	**78.6**	**111.7**	**85.1**	**4.5**	**4.5**	**4.5**
as of sales (%)	*16%*	*9%*	*63%*	*63%*	*45%*	*82%*	*68%*	*59%*	*52%*	*65%*	*44%*	*2%*	*2%*	*2%*
Net Working Capital	1.8	2.2	1.9	2.1	2.8	2.8	3.4	4.0	4.6	5.2	5.9	6.5	6.6	6.6
as of sales (%)	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
(-) Change in WCR	**-1.2**	**0.4**	**-0.3**	**0.2**	**0.6**	**0.1**	**0.6**	**0.6**	**0.6**	**0.6**	**0.7**	**0.6**	**0.1**	**0.0**
FCF	31.6	40.6	-3.1	-0.7	16.8	-17.7	-5.9	6.2	18.1	-3.0	37.9	131.9	135.2	136.2
Discount Factor				*1.1*	*1.2*	*1.3*	*1.4*	*1.6*	*1.7*	*1.9*	*2.1*	*2.2*	*2.5*	*2.7*
Discounted FCF	**31.6**	**40.6**	**-3.1**	**-0.7**	**14.1**	**-13.5**	**-4.1**	**4.0**	**10.6**	**-1.6**	**18.4**	**58.7**	**54.9**	**50.6**

WACC (US$)	**Terminal**
Risk free rate*	**6.5%**
Equity risk premium	5.5%
Beta (L)	*0.83*
Equity	**75%**
Cost of Equity (keL)	0.11
Debt	**25%**
Cost of Debt	6.0%
Corporate Tax Rate	25%
After tax cost of debt	4.5%
WACC	**0.09**

**TCMB Latest Eurobond Issue Rate*

Source: Bloomberg, Ak Investment Research

Risks

Natural gas price is a key risk parameter

The price of natural gas is a key risk parameter for spot electricity market price as gas fired power plants have high marginal costs and ranked last in the merit order. The price of natural gas in Türkiye is determined by BOTAŞ based on long-term bilateral contracts, linked to oil prices with nine-month delay. Subsidies provided by state-owned BOTAŞ (Crude Oil and Natural Gas Pipelines and Trading Company), may also cause temporary delays in the pass-through mechanism.

High reserve margins may suppress electricity prices

Another risk is the high reserve margins in Türkiye. Rapid expansion in installed capacity coupled with the below trend economic growth may suppress electricity prices. Total installed capacity grew at a rate of 6.1% since 2008, way above the 3.7% electricity demand growth in the same period. As a result, reserve margin increased to a record high 35%. It is expected that additional capacity will continue to meet electricity demand and reserve margins will remain high in foreseeable future. Hence, once the war is over, it may put pressure on electricity prices. Yet, the Company is partially protected against the downside risks in electricity prices as 34% of production is sold under FIT regime. But going forward, as the FIT contracts expire (which has 5-year weighted average remaining life), the Company's exposure to electricity prices will gradually increase. To mitigate the downside risk of sustained low electricity prices, we used MCP (Market Clearing Price) assumption of 65$ until 2034.

Potential delays and changes in investment plans pose another risk

The Company aims to nearly triple its current capacity to over 1100MW, but factors such as financing conditions, lack of financing, increasing exchange rate volatility, low electricity prices and lack of regulatory approvals could lead to changes or delays in investment plans. In order to mitigate these downside risks, we did not include the Europe SPP investment (200+100MW) and capped our valuation model's capacity at 800MW.

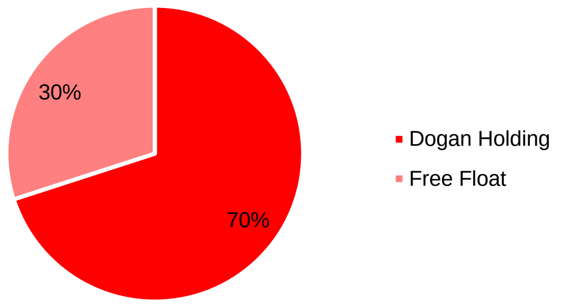
Regulation risks

Regulatory risks should also be considered. The Government has introduced a cap on electricity prices in April'22 after a significant jump in energy prices following the Russian invasion. While the cap has been removed, possible future regulatory changes may pose risks to the sector participants. However, it is worth noting that the Government has been very supportive for renewable investments in Türkiye for a long time to fully utilize the natural resources of the Country, to achieve the sustainability targets and to reduce the current account deficit.

Shareholder structure

Galata Wind (GWIND TI) is 70% owned by listed Doğan Holding (DOHOL TI), one of the leading holding companies in Türkiye. The remaining 30% share is free float. The share has been listed in BIST since April'21.

Figure 4: Shareholder Structure



Source: Company, Ak Investment Research

Expansion targets in detail

Wind & Hybrid solar capacity expansion in Taşpınar Hybrid (42MW Solar & 13MW Wind)

The recent regulation allows ancillary solar capacity built-up complementary to main sources on the existing sites, without new license requirements. The capacity additions will increase the capacity factor and efficiency of the existing plants, and also will further diversify the portfolio. In addition, with the added flexibility, these power plants could achieve higher selling prices in the post feed-in tariff era. Accordingly, the Company aims to build 42MW hybrid solar capacity in two phases on its existing Taşpınar WPP.

The construction of initial two capacity upgrades, 10MW and 7MW, is complete. The construction of second phase, with a capacity of 25 MW, is expected to finalize at the end of 4Q24. The total capex is estimated at around USD30mn. Additional solar capacity benefits from the feed-in tariff mechanism of the main source. Therefore, the electricity generation will be under FIT agreement with a price of USD94/MWh until the end of 2025 and USD73/MWh between 2026 and 2030. The Company also added 13MW wind capacity to its existing Taşpınar WPP, which has been in operation since the beginning of this year. The capacity factor is expected to be same as existing power plant at around 33%.

Mersin WPP capacity extensions (39MW)

The Company plans to add 39MW wind capacity to its existing Mersin WPP. It is expected to become active at the end of 2024 (revenue contribution is expected to be visible in 1Q25). The total investment amount is expected to be ~USD30mn. The new capacity will not be eligible for FIT, therefore it will be subject to spot market prices. The capacity factor is expected to be same as existing plant at around 45%.

Alapınar WPP investment (14MW): The Company has acquired the license back in September'22 through an acquisition. The commissioning of the 14MW installed capacity is planned for 2025 with an investment of ~USD18mn (including acquisition price of USD3.7mn). The plant will be eligible to the new feed-in-tariff mechanism. The capacity factor is expected to be around 35-40%.

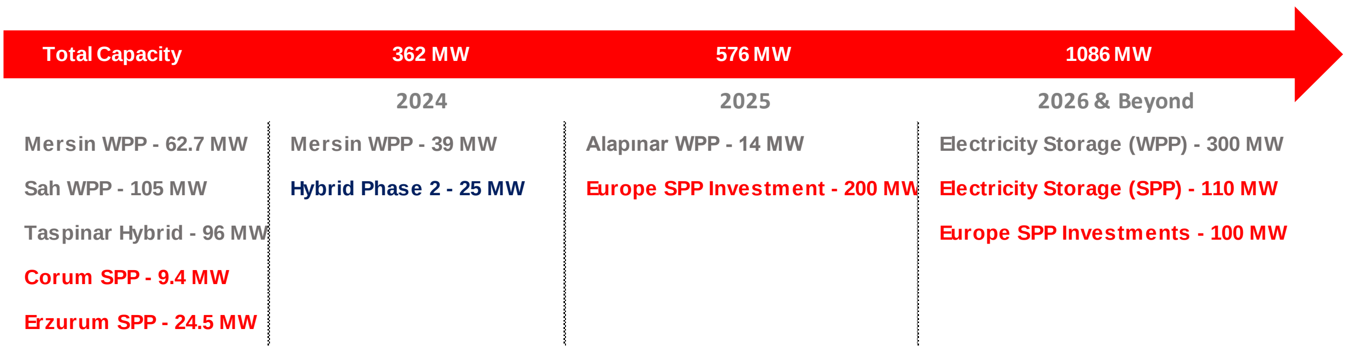
International solar projects (200+100MW)

Two separate contracts were signed with two different project development companies located in Europe in order to develop solar power plant projects with a total capacity of 300MW. Galata Wind Energy Global BV has been established, located in the Netherlands, to coordinate the potential investments abroad. The projects are expected to start development in 2025 with a roughly EUR200mn investment. The capacity factor of these plants is expected to be around 14%.

Storage electricity generation projects (300+110MW)

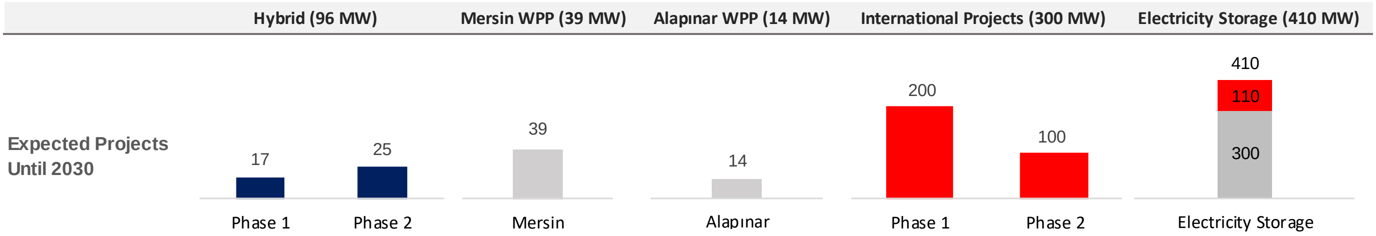
Energy watchdog (EMRA)'s recent regulation, pre-licensing for storage capacity, which have been awaited by the market for a long time, came into effect. Sector participants who undertake to establish a storage facility will be able to apply for a pre-license to EMRA without any competition by the regulator (TEIAS) to establish wind and solar power plants as much as the storage capacity they will install. Accordingly, the Company applied for a total 550MW installed capacity with battery storage. Currently, 410MW of preliminary licenses (300 MW for WPP and 110MW for SPP) have been obtained. The Company plans to initiate these investments in a longer term (2026-2029) as the battery storage technology has been in rapid development phase with potential cost reduction in upcoming years.

Figure 5: Evolution of Future Investment Plans



Source: Company, Ak Investment Research

Figure 6: Expansion Plans in More Details



	Hybrid (96 MW)	Mersin WPP (39 MW)	Alapınar WPP (14 MW)	International Projects (300 MW)	Electricity Storage (410 MW)
COD	2023 - 2024	2024	2025	2025 - 2026	2026 - 2029
Construction Start	2023 (ongoing)	2023 (ongoing)	2025	2025	2026 - 2029
Sales Price	* FIT: $94/MWh - $73/MWh	Spot	New $FIT or Spot	Spot or PPA	New $FIT
Capacity Factor	13%	45%	40%	14%	-

** USD94/MWh until 2025, USD73/MWh between 2025 - 2030*

Source: Company, Ak Investment Research

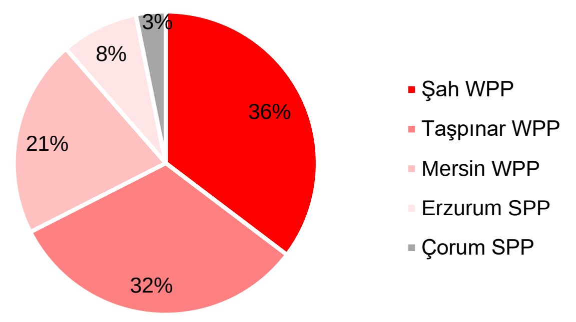
Current power plant portfolio

Galata Wind invests in solely sustainable energy sources and generates %100 renewable energy. The Company has a total renewable installed capacity of 297MW with 3 wind power plants (WPP) accounting 88% (247MW) of the capacity and 2 solar power plants (SPP) and 1 hybrid power plant, accounting 12% (50MW) of the capacity.

Figure 7: Galata Wind Current Portfolio

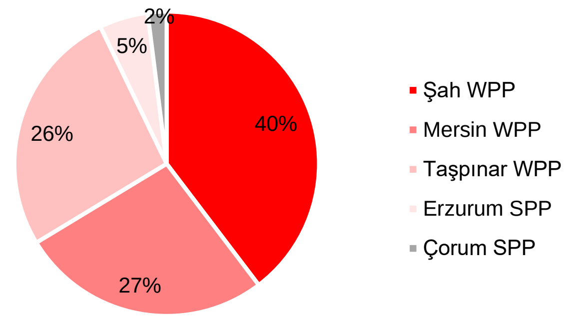
Source: Company

Figure 8: Current Installed Capacity Breakdown By Plant



Source: Company, Ak Investment Research

Figure 9: Generation Breakdown by Plant (9M24)

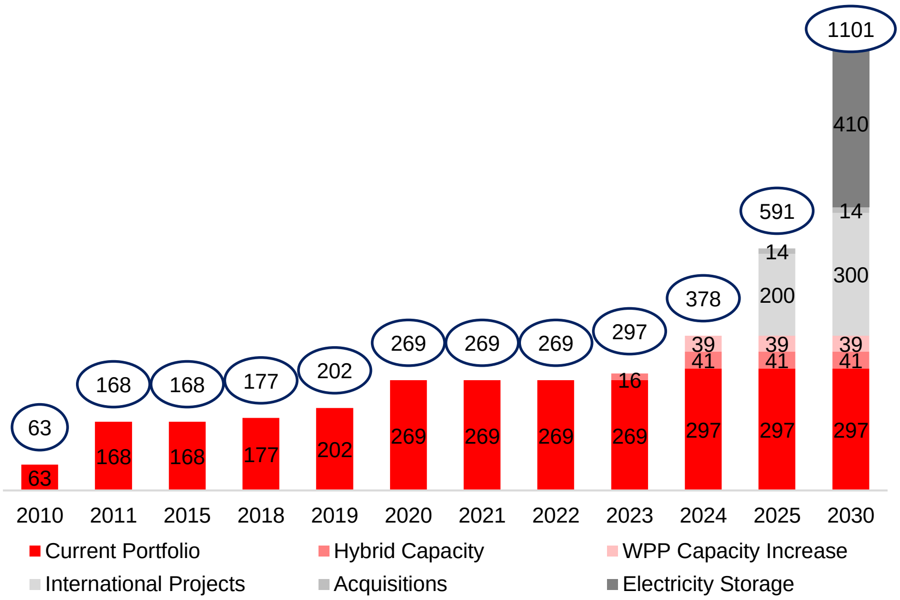


Source: Company, Ak Investment Research

Installed capacity evolution

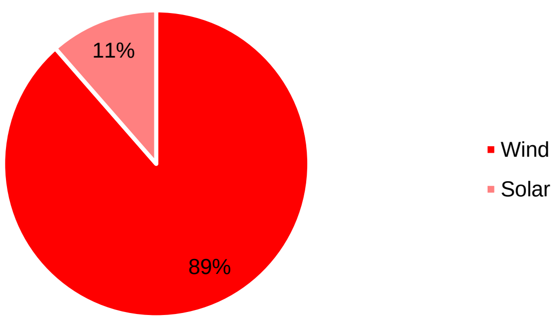
Galata Wind aims to nearly double its capacity to over 550MW by 2025. Near-term targets (2023-2025) include: i) hybrid solar capacity expansion at existing Taşpınar WPP (25MW), ii) capacity extension in Mersin WPP (39MW), iii) recently acquired Alapınar WPP (14MW) and iv) first phases of greenfield investments (mostly solar) in Europe (300MW in total, expected to be realized in two steps). In a longer term (2026-2030), the Company plans to further increase its capacity with storage enabled generation plants in Türkiye (300MW wind, 110MW solar).

Figure 10: Installed Capacity Evolution (MW)



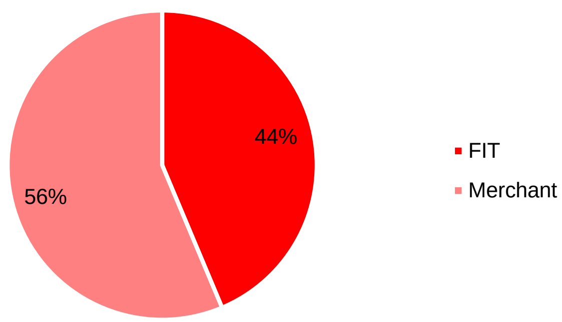
Source: Company, Ak Investment Research

Figure 11: Current Installed Capacity Breakdown By Source



Source: Company, Ak Investment Research

Figure 12: Current Share of FIT in Installed Capacity

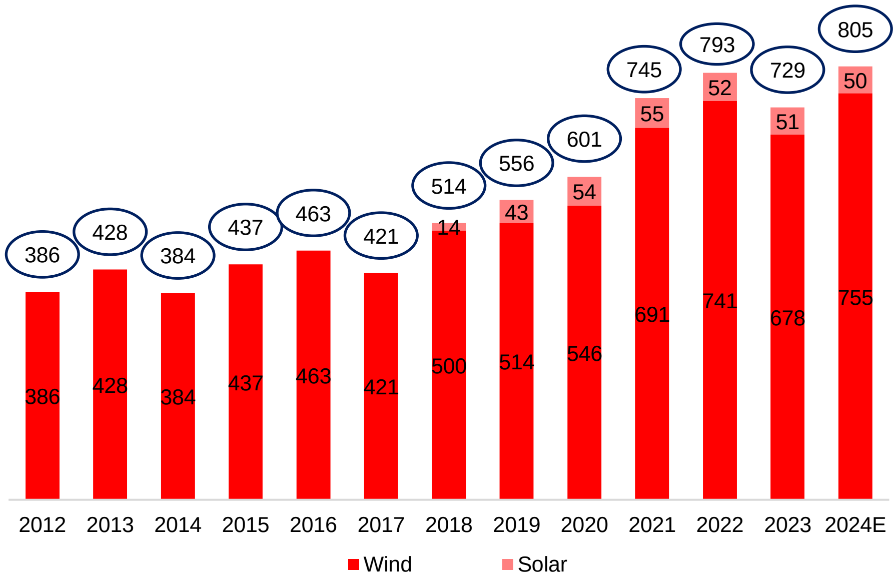


Source: Company, Ak Investment Research

Generation evolution

The Company recorded 600GWh production in first three quarters of 2024. Solar resources recorded 7% of the total production (43GWh) while wind resources produced 557GWh of electricity.

Figure 13: Annual Generation Evolution (GWh)

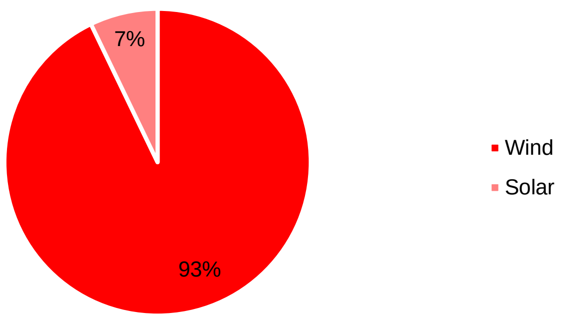


Source: Company, Ak Investment Research

Wind is the main source of the generation

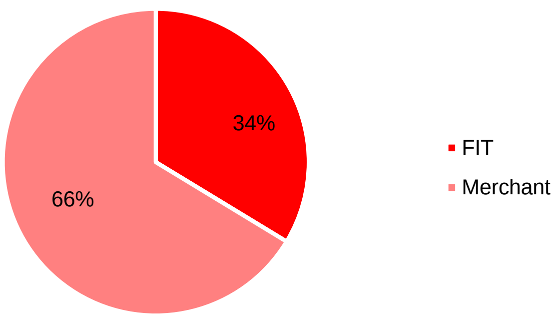
Wind power plants makes up %93 of generation while solar comprises remaining 7%. Three power plants (1 Hybrid, 2 Solar) with a total capacity of 130MW (44% of total) are eligible to feed-in-tariff and benefit a purchasing guarantee at US$-linked constant prices with a weighted average remaining maturity of c.5-year. Indeed, the Company has generated roughly 34% of its revenues from feed-in-tariff mechanism in the first three months of 2024.

Figure 14: Generation Breakdown by Source (9M24)



Source: Company, Ak Investment Research

Figure 15: FIT Share in Generation (9M24)



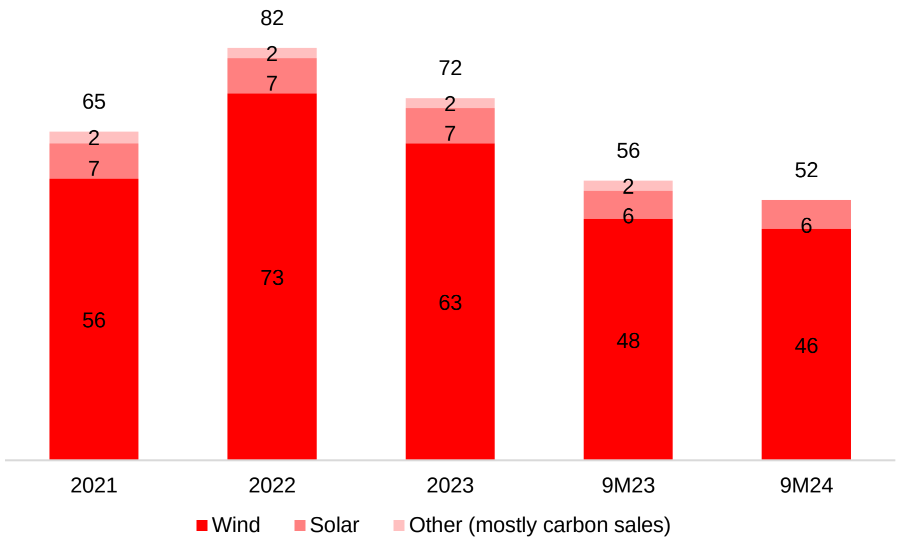
Source: Company, Ak Investment Research

Revenues and costs

Between 2022 and 2024, wind power plants generated %88 of revenues while solar plants' revenue contribution was 10%. The remaining 2% is mostly consist of carbon sales. The Company has generated roughly 34% of its revenues from feed-in-tariff mechanism in 9M24. Feed-in-tariff mechanism will continue to protect the Company against the volatility of electricity prices and currency weakness in upcoming years thanks to the long remaining FIT life of the plants.

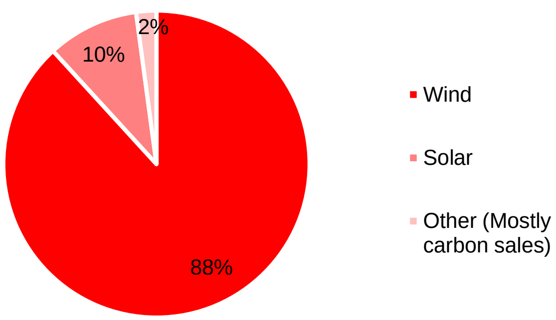
Maintenance expenses and system usage fees were the two major cash cost items with 36% and 39% respective shares while insurance, personnel, security and consultancy expenses constituted 25% of total costs 3Q24.

Figure 16: Revenues (USD, million)



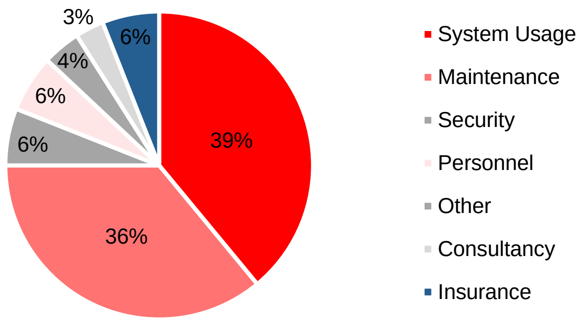
Source: Company, Ak Investment Research

Figure 17: Breakdown of Revenues (2022-2024)



Source: Company, Ak Investment Research

Figure 18: Breakdown of Costs (3Q24)



Source: Company, Ak Investment Research

High EBITDA margin with significant cash conversion

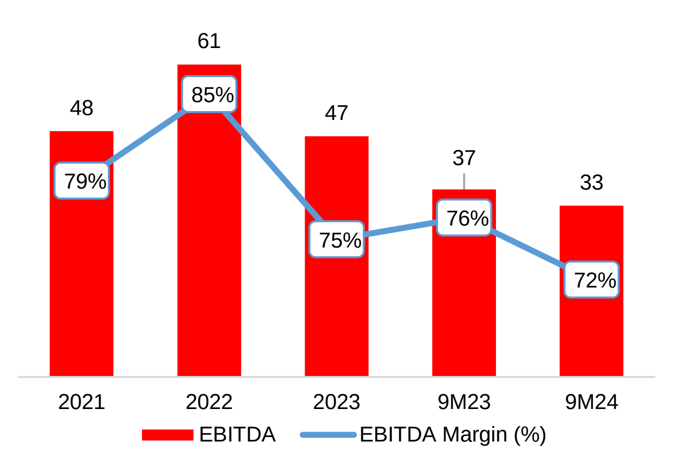
The Company has generated a remarkable 79% EBITDA margin along with a significant 95% cash conversion rate in average in last three years.

Low leverage

Net debt position gradually decreased as a result of strong operational profitability and significant cash conversion. The Company has EUR19mn outstanding bank loans (at LIBOR + 0.65%-0.80%) as of end-3Q24 with weighted average remaining life of 6-year.

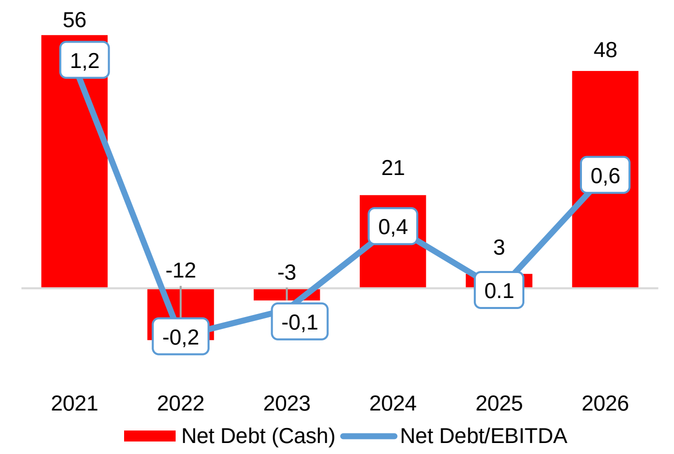
The Company intends to maintain its Net Debt/EBITDA ratio below 3.5-4x during the investment period. We anticipate that the local ongoing projects (108MW) for the near term-pipeline (2023-2025) will require ~USD70mn additional investments (on top of already spend USD25mn) while the projects abroad (300MW) will likely necessitate roughly EUR200mn capex. In addition, the longer term projects (410MW) will require ~USD450-500mn capex at current prices.

Figure 19: EBITDA (USD, million) and EBITDA Margin



Source: Company, Ak Investment Research

Figure 20: Net Debt (USD, million) and Net Debt/EBITDA



Source: Company, Ak Investment Research

3Q24 – IAS29 earnings review

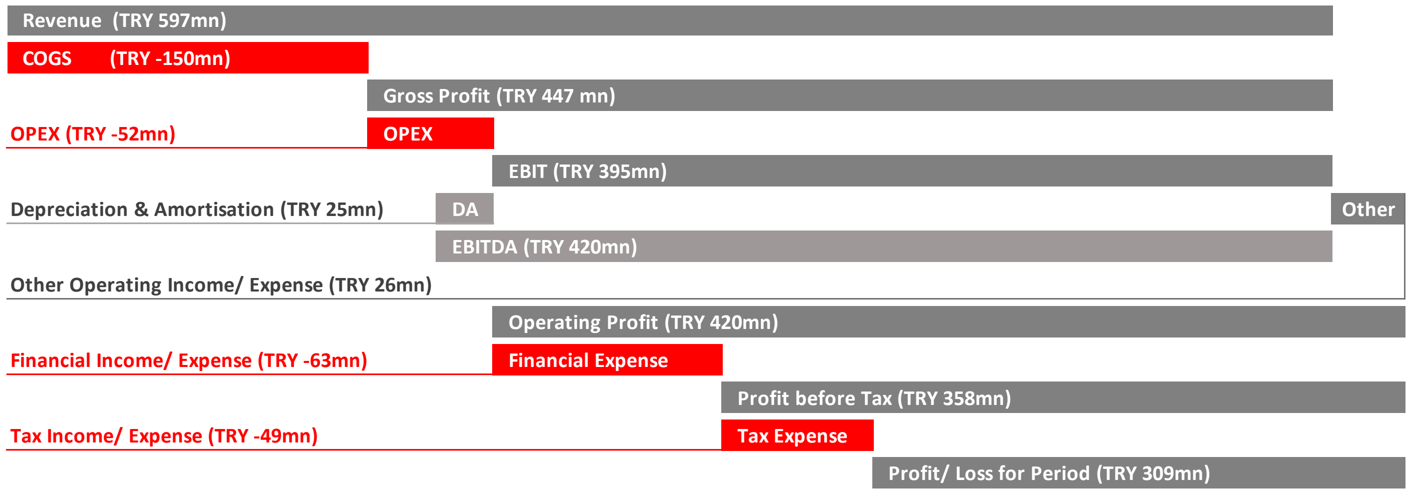
Galata Wind reported an IAS29 adjusted net profit of TRY152mn in 3Q24, up by 3.9% YoY (3Q23: TRY146mn) with 24.6% margin (3Q23:19%). The company recorded a monetary gain of TRY25mn (3Q23: -TRY118mn). Galata Wind posted a net sale of TRY618mn, down by 19.6% YoY (3Q23: TRY768mn) while the gross profit margin decreased 800bps YoY to 55.5% from 3Q23's 63.5%. The Company recorded an EBITDA of TRY438mn, down by 26.6% YoY (3Q23: TRY597mn). EBITDA margin also decreased 670bps to 70.9% from 3Q23's 77.6%. Galata Wind's consolidated revenues decreased by 13% YoY to TRY1,682mn in 9M24 (9M23: TRY1,941mn). Although the total production increased by 10% (mainly due to Taşpınar Hybrid's added 28.4 MW capacity), revenues were 13% below last year due to the decrease in average MCP by 2% and indexation rate of 49%. In addition, in 9M23, revenues from carbon credit sales amounted to TRY62mn, while no carbon credit sales were realized in 9M24 due to lack of favorable prices.

The main reason for the TRY717mn increase in the financial income is the TRY485mn increase in the monetary position gain YoY (9M24: TRY234mn and 9M23: -TRY251mn). The main reason for this increase is that while the monetary assets of the Company were higher than the liabilities as of September 2023, the monetary assets decreased as a result of the investments made especially in the 4Q23, resulting in a monetary gain as of 9M24. At the end of September'23, EUR/TRY exchange rate increased more compared to the same period of this year, and the foreign exchange loss on loans decreased to -TRY128mn (9M23: TRY410mn) due to the lower loan principal balance in this period. Foreign currency loans decreased from EUR22.6mn to EUR19.2mn with the repayment of EUR3.4mn. With the annualized 31 September 2024 EBITDA, Net Debt to EBITDA ratio is at 0.39, up from September 2023's 0.30 level, limited by the EBITDA contribution of 2023 capex (3Q23: TRY523mn, 3Q24: TRY128mn).

Pre-IAS29 Financials Review

GWIND's revenue without inflationary accounting shows TRY597mn sales in 3Q24, up by 24% compared to 3Q23. 9M24 numbers show TRY1,504mn of sales, up by 40% compared to 9M23. An EBITDA of TRY420mn is recorded in 3Q24 with 70.4% margin (3Q23: TRY360mn, 74.8%). Net profit is decreased by 12% YoY to TRY309mn from 3Q23's TRY349mn. Net profit margin stood at 51.7% (3Q23: 72.5%) showing the true effects of lower MCP (Market Clearing Price).

Figure 21: Pre-IAS29 Income Statement Breakdown



Source: Company, Ak Investment Research

Figure 22: Quarterly Production Breakdown

	9M23	9M24	(%)	3Q23	3Q24	(%)
Total Capacity (MW)	**269**	**297**	***11%***	**269**	**297**	***11%***
Production (MWh)	**547000**	**600000**	***10%***	**220070**	**210000**	***-5%***
Şah	236,000	238,000	*1%*	101,000	83,000	*-18%*
Mersin	155,000	160,000	*3%*	59,900	56,000	*-7%*
Taşpınar Hybrid	114,000	159,000	*39%*	41,000	54,000	*32%*
Erzurum	30,600	31,000	*1%*	13,200	12,000	*-9%*
Çorum	11,400	12,000	*5%*	4,970	5,000	*1%*
Spot Price (US$/MWh)	***104***	***65***	***-38%***	***78***	***67***	***-14%***

Source: TEİAŞ, Ak Investment Research

Türkiye electricity market outlook

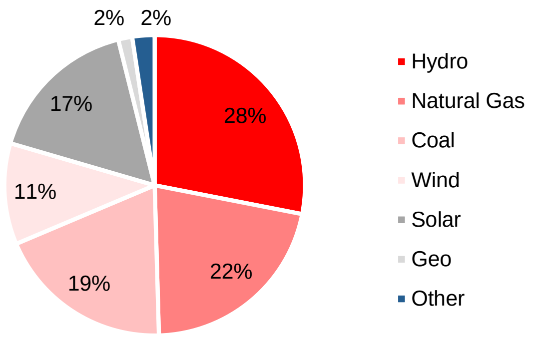
Installed capacity

Total installed electricity capacity in Türkiye has grown with a 5.4% CAGR since 2013, reaching to 114.6GW as of Oct '24 that implies 50.6GW capacity build-up in this period. Renewable capacity has grown with a CAGR of 25.8% in same period, reaching to 69.2GW as of Oct'24 implying 63.6GW capacity additions. Note that, in 2013 there were no significant solar capacity and solar investments has been accelerated since 2016, extending its share in total capacity mix. Currently, renewable energy power plants including the hydro plants make up 57% of total installed capacity as of Oct'24. Hydro power plants constitute 28.8% while non-hydro renewable plants comprise 28.4% of the total installed.

Ministry targets

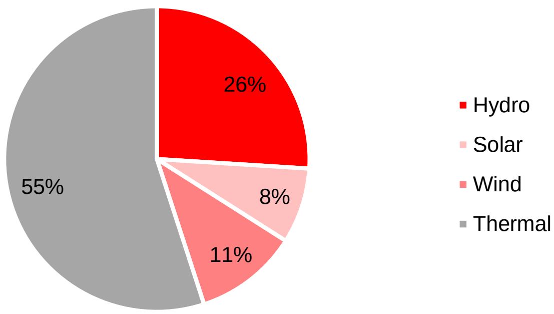
Türkiye's electricity consumption is projected to increase significantly in the coming years. According to Türkiye National Energy Plan, consumption is expected to reach 380.2 TWh in 2025, 455.3 TWh in 2030 and 510.5 TWh by 2035. On the other hand, in Sep '24, Türkiye overtook Germany to become the largest coal-fired power generator in Europe (28% more than Germany). To meet the rising demand with clean sources, Türkiye plans to expand its installed capacity to 145GW by 2028 with the CAGR of 5.8%. To ensure a reliable and sustainable energy supply for the nation's future needs (scalability, cost efficiency, carbon reduction etc.), renewables are crucial. According to Ministry of Energy's 2024-2028 energy strategy plans, as a result of YEKA (Renewable Energy Source Area) and similar investment models, renewable energy sources will be used more intensively in electrical energy production.

Figure 23: Total Installed Capacity of Türkiye (Oct '24)



Source: TEİAŞ, Ak Investment Research

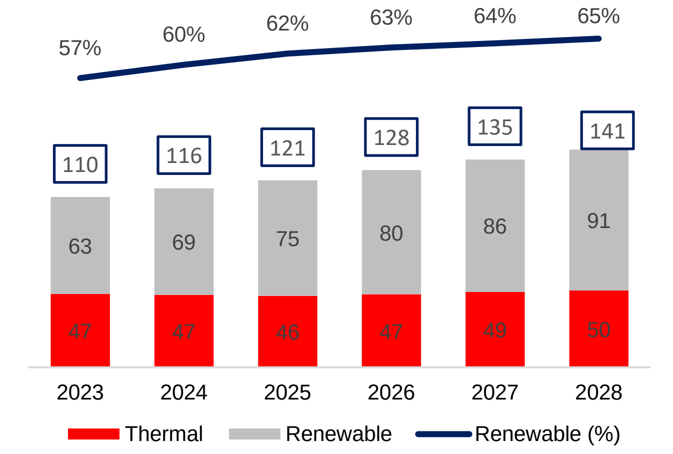
Figure 24: Total Energy Generation of Türkiye (Oct'24)



Source: TEİAŞ, Ak Investment Research

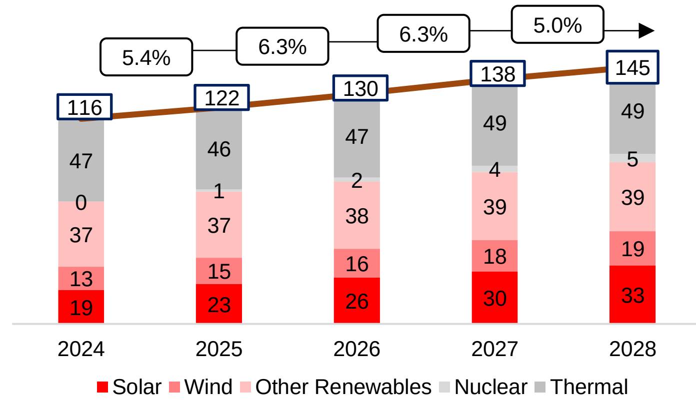
According to Ministry of Energy and Natural Resources' 2024-2028 Strategic Plan, renewable installed capacity is expected to increase with a CAGR of 7.2% to 91.4GW until 2028 while wind & solar energy installed capacity in total is expected to grow by 12.8% annually to 52.4GW in the same period. The expectations suggest 22.2GW renewable capacity addition in this period, 20GW of which is expected to come from wind & solar capacity additions. The solar energy capacity in total is expected to grow 14.7% annually in Türkiye (2024: 19,100 MW, 2028E: 33,100 MW), while total wind capacity is expected to grow 9.8% annually (2024: 13,300 MW, 2028E: 19,300 MW). Overall, the ministry targets to increase renewable share in total capacity to 63% in 2028, from the current 57%.

Figure 25: Installed Capacity Growth by Source (GW)



Source: Ministry of Energy, Ak Investment Research

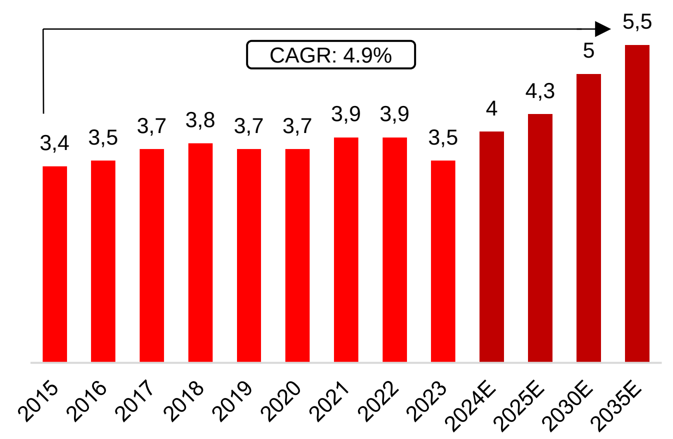
Figure 26: Installed Capacity Growth by Primary Source (GW)



Source: Ministry of Energy, Ak Investment Research

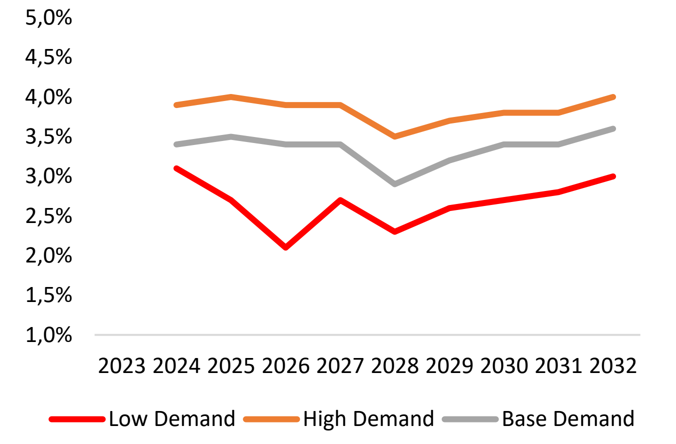
Besides Ministry of Energy, TEİAŞ (Turkish Electricity Transmission Corporation) also runs scenario analysis for consumption for the next 10 years. Accordingly, TEİAŞ forecasted the consumption to grow with CAGR of 2.7%, 3.3% and 3.8% in 2023-2032 period in the low, base, and high demand scenario analysis, respectively.

Figure 27: Per Capita Electricity Demand in Türkiye (MWh)



Source: Ministry of Energy, Ak Investment Research

Figure 28: TEİAŞ Electricity Demand Growth Forecasts (%)



Source: TEİAŞ, Ak Investment Research

Generation & consumption

In 2024, Türkiye's electricity generation landscape exhibited significant developments, marked by a mix of traditional and renewable energy sources.

Türkiye emerged as Europe's leading producer of coal-fired electricity, generating 88 TWh in the first nine months of 2024. This output surpassed Germany's 69 TWh and Poland's 65TWh during the same period. Coal accounted for approximately 35% of Türkiye's generation with a substantial portion of the coal being imported, primarily from Russia.

Renewable energy expansion

In the first nine months of 2024, solar energy generation increased 40% compared to the same period in 2023, raising its share in generation from 6% to 8%. This growth was instrumental in meeting peak electricity demand during the summer months.

Wind power contributed approximately 11% to the national generation mix, with an installed capacity of 12GW as of 2024. The Energy Ministry plans to increase this capacity to nearly 30GW by 2035, including 5GW from offshore wind projects.

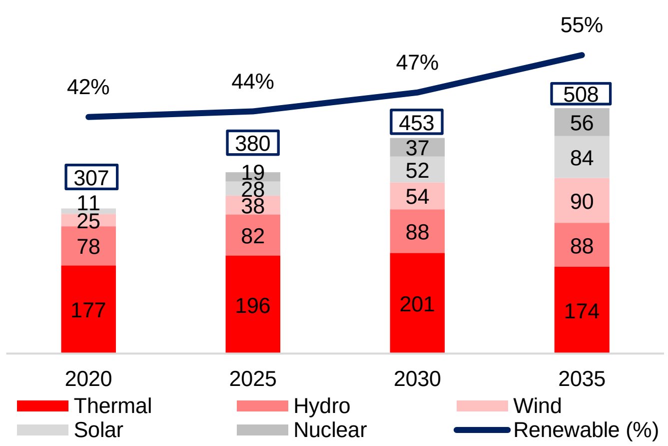
Hydro and natural gas

Hydropower remained a significant component of Türkiye's energy mix, while natural gas usage experienced a decline. In the first nine months of 2024, clean electricity generation, including hydropower, increased by over 25%, leading to a 9% reduction in fossil fuel-based generation.

Nuclear energy developments

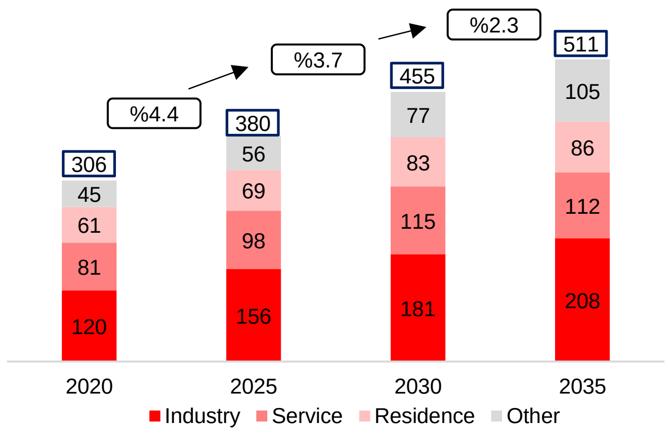
Construction progressed on the Akkuyu Nuclear Power Plant, with plans for four reactors totaling 4800MW. However, the project faced delays due to supply chain issues, including withheld parts from manufacturers. Discussions were held with the US & China regarding the construction of additional nuclear power plants and small modular reactors, aiming to diversify energy sources and reduce dependency on imported fuels.

Figure 29: Electricity Generation by Sources (TWh)



Source: Ministry of Energy, Ak Investment Research

Figure 30: Electricity Consumption by Sectors (TWh)

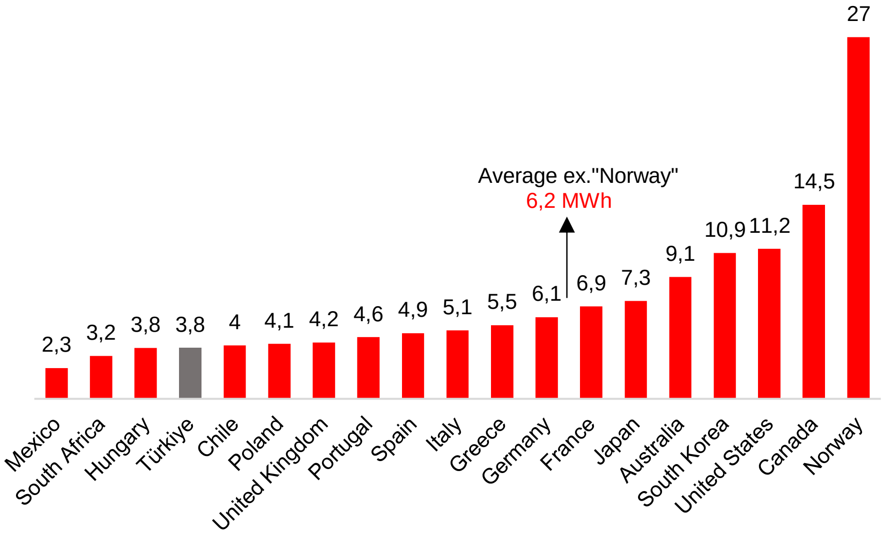


Source: Ministry of Energy, Ak Investment Research

Türkiye has lower electricity consumption per capita

Despite its relatively high electricity consumption growth, Turkey still remains well below the OECD in per capita electricity consumption.

Figure 31: Per Capita Electricity Demand in Selected OECD Countries (2023, MWh)

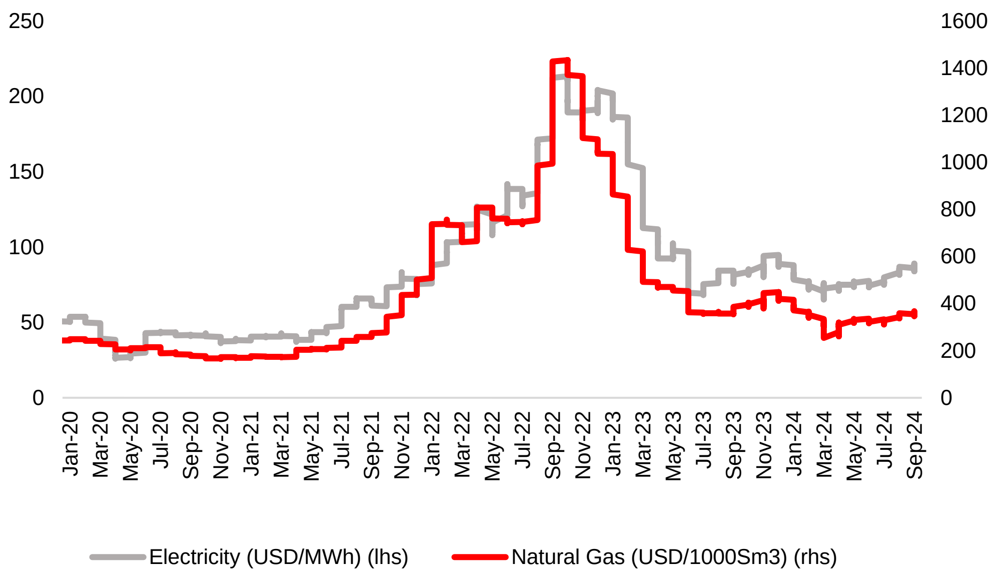


Source: IEA, Ak Investment Research

Natural gas price has a high correlation with electricity prices in Turkey

The price of natural gas is a key risk parameter for spot electricity market price as gas fired power plants have high marginal costs and ranked last in the merit order. The price of natural gas in Türkiye is determined by BOTAŞ based on long-term bilateral contracts, linked to oil prices with nine-month delay. Subsidies provided by state-owned BOTAŞ (Crude Oil and Natural Gas Pipelines and Trading Company), may also cause temporary delays in the pass-through mechanism.

Figure 32: Electricity vs Natural Gas Prices (USD)

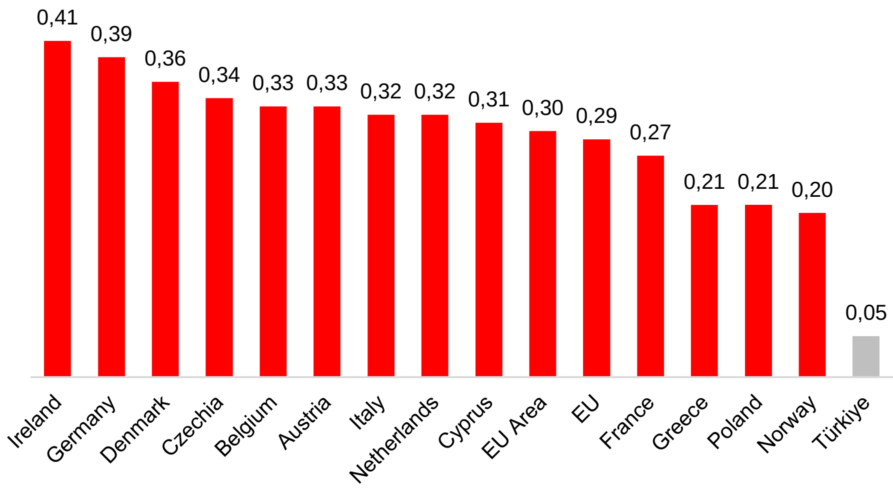


Source: EPİAŞ, Ak Investment Research

Turkey has lower residential electricity price

Residential electricity price in Türkiye is significantly below the European Union average. The main reasons behind the lower price as follows: i) residential tariff, in order to alleviate the burden on households, is always significantly lower than other tariffs such as industrials and commercial tariffs, ii) the impact of high inflation and depreciation of lira do not fully reflect on electricity prices, iii) the significant depreciation of lira in recent years has pressured the electricity tariffs in euro terms. On top of these, the impact of Russian invasion in Ukraine significantly increased energy prices in Europe.

Figure 33: Residential Electricity Prices in Europe and Türkiye (EUR/kWh, 1H24) *



Source: EUROSTAT, Ak Investment Research

* The price data includes all taxes and fees and covers the consumption between 2,500KWh and 5,000KWh per year

YEKDEM scheme (Feed-in-tariff) (still applies to eligible power plants)

First implemented in May 2005, YEKDEM played an important role in the development of installed capacity of renewable sources. Accordingly, the renewable power plants that became operational between 2005 and June 30, 2021 have been benefiting from the guaranteed prices that applied for a period of 10 years. In case of using local equipment, additional price incentives were provided to these plants for the first 5 years. Accordingly, the guaranteed constant price for hydro and wind power plants is USD73/MWh, for geothermal it is USD105/MWh, for biomass and solar it is USD133/MWh. The difference between YEKDEM prices and merchant prices is paid by all electricity consumers countrywide, not government directly. Eligible power plants have options to opt-out / opt-in to the YEKDEM scheme each year. Power plants eligible for existing YEKDEM still continue to benefit from the existing YEKDEM scheme.

Figure 34: Existing Feed-in Tariff Prices

Renewable Energy Source	Feed-in Tariff (USD/MWh)	Feed-in Tariff (Years)	Local Component Incentive (USD/MWh)
Hydroelectric	73	10	10-23
Wind	73	10	6-37
Geothermal	105	10	7-27
Solar	133	10	4-56
Biomass	133	10	5-67

Source: EMRA, Ak Investment Research

New YEKDEM scheme (applies to power plants becoming operational after July'21)

New YEKDEM tariffs have been implemented back in 2021 and revised and expanded in May 2023 to better reflect the expectations of market participants. The power plants commissioned between July 1, 2021 and December 31, 2030, will be eligible to benefit from the new YEKDEM mechanism. The new YEKDEM tariffs are set in TRY and will be escalated monthly according to inflation and exchange rate variables. The inflation variable will be weighted by 40% (25% PPI - 15% CPI), and the dollar and euro basket created with equal weight will be given 60% weight. In addition, new YEKDEM tariffs will not exceed floor and ceiling limits. In the new mechanism, local content uplift prices also subject to escalation.

Figure 35: New Feed-in Tariff Prices (2024 Year-End)

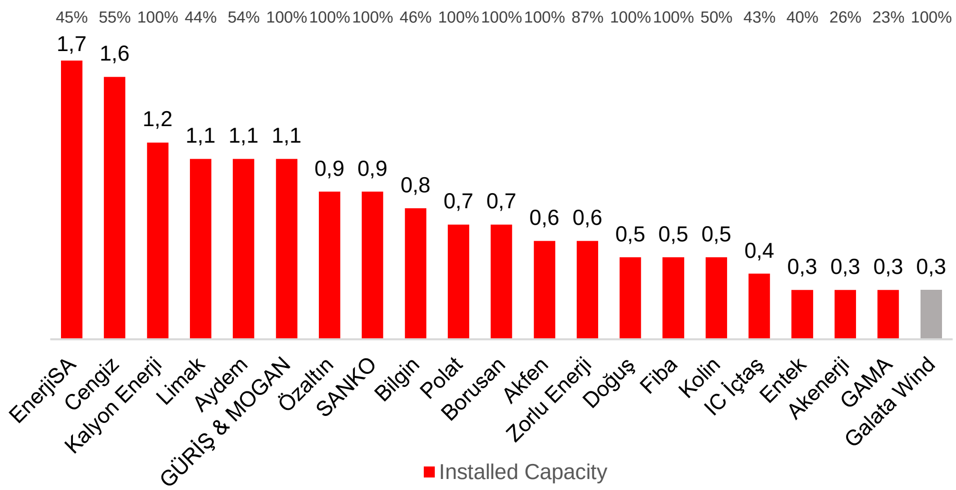
Renewable Energy Source		Feed-in Tariff (TL/MWh)	Feed-in Tariff (Years)	Local Component Incentive (TL/MWh)
Hydroelectric	Reservoir	2,591	10	518
	Run of River	2,429	10	518
Wind	Onshore	1,907	10	518
	Offshore	2,591	10	691
Geothermal		3,635	15	518
Biomass	Landfill Gas	1,907	10	518
	Biomethanization	3,112	10	518
	Thermal Disposal	2,427	10	388
Solar		1,907	10	518
Solar / Wind with Storage		2,249	10	691
Pumped-storage Hydroelectric		3,635	15	691
Wave & Marine Current Power		2,429	10	691

Source: EPIAS, Ak Investment Research

The renewable market is very fragmented

There are 21 private sector players with renewable capacity of over 250MW. The share of the largest player constitutes only 3% of the total renewable capacity of Türkiye while the total share of these players in total renewable capacity is less than 28%. The fragmented structure of the market creates significant consolidation opportunities for the players with solid balance sheet and/or backed by strong shareholders.

Figure 36: Major Companies in Energy Sector by Capacity (% Share of Renewables)



Source: PwC, Ak Investment Research

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

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

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

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

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

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