

KARDEMİR D <KRDMD TI>

Construction investments are accelerating...

Considering the need for restructuring both domestically and in neighbouring regions, we estimate that long steel demand will remain relatively resilient in the next 2 years. The rising trend in iron ore and steel prices in the Chinese market, especially in the last month, also points to a supportive outlook for the iron&steel industry. Kardemir will be among the companies that will benefit from the growth in the sector with its current capacity, and that its profitability may show a moderate improvement with the rise in the share of high value-added products. Our target price of TRY35.40 (Previous: TRY23.30), which is based on DCF analysis and peer comparison, points at a 53% return potential.

- The growth in construction is accelerating...** According to official data, it can be said that the construction segment, which slowed down in 2022, has accelerated especially since 4Q22. When we look at the growth of construction activities in GDP, it is seen that it contributed 3.9% in 4Q22, 4.5% in 1Q23 and 6.2% in 2Q23. Significant annual growth in the floor area of buildings for which building permits are issued by municipalities is also noteworthy, especially in 2Q23 and 3Q23 (+27.4% and +21.7%, respectively). We predict that this growth momentum to be maintained, considering both the reconstruction in the eastern region and the need for renewal throughout the country following the earthquake disaster in February 2023. When the construction needs in neighbouring regions and the expectations for a possible recovery in demand in Europe are added to this, capacity utilization may be at high levels, especially on the long steel side. We think it is possible that there will be an increase in European demand for the profile product, which is especially important in terms of profitability, in the coming year. We estimate that Kardemir will be among the companies that will benefit most from this growth, with its annual capacity of 2.3 million tons.
- Positive signals from the Chinese market...** While the positive effects of the measures taken against the difficulties experienced in the real estate market in China are beginning to be partially seen, expectations for additional measures in the coming period also provide support for the iron&steel industry. Steps such as reducing the amount of production in China against air pollution during the winter period may also support steel prices. The prices of iron ore and rebar in China rose by c.12% in the last 1 month. There is also a moderate increase in Kardemir's order prices in the same period.
- Dividend policy along with the lower indebtedness...** Kardemir, which had high indebtedness in former years, moved to a net cash position in 2021 and especially managed to increase its cash position in 2022. Consequently, the Company has distributed cash dividend in the last 2 years. We anticipate that the dividend payment policy will be maintained if there is no need for a hefty investment in the coming period.
- Risks...** The main risks can be listed as China's failure to meet expectations with incentives and a possible increase in energy costs.

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Recommendation: **BUY**
 Target Price: **₺35.40**
 Upside/Downside: **53%**

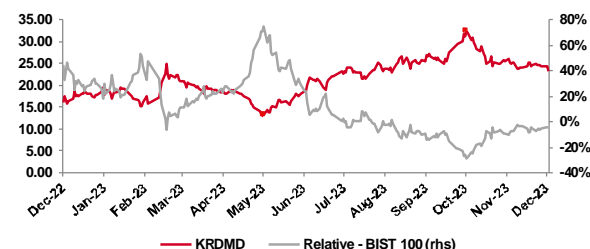
Price (TL):	23.20
MCAP (TLmn):	18,101
# of Shares (mn):	780
Free Float Rate	89.0
FF MCAP (TLmn):	16,110
Market:	Star Market
Sector:	Basic Metal Industry

Financials & Ratios

	2021	2022	2023E	2024E
Revenues	14,765	27,397	38,808	56,627
EBITDA	4,891	4,324	6,667	10,250
Net Income	3,853	2,174	3,202	5,309
EBITDA Margin	33%	16%	17%	18%
Net Margin	26%	8%	8%	9%
EV/EBITDA	0.6x	2.6x	2.6x	1.5x
P/E	1.5x	4.8x	5.7x	3.4x
EV/SALES	0.2x	0.4x	0.5x	0.3x
Net Debt/EBITDA	-0.6x	0.1x	-0.1x	-0.2x
ROE	38.7%	19.0%	22.8%	29.5%
ROA	17.7%	8.2%	9.1%	11.3%

Share Performance

	1M	3M	12M	y-t-d
Absolute	-11%	-13%	32%	30%
Relative to BIST100	-11%	-10%	-16%	-9%
Avg. Trading Volume (mn)	48.85	77.06	141.88	126.08
Avg. Value (TLmn)	1,204	2,107	2,966	2,719



Shareholder Structure

	Share in Capital
Other	99.6%
Buyback	0.4%

Company Description

Kardemir operates in the field of production and sales of all kinds of raw iron and steel products. Kardemir, which was established in Karabük in 1937 as Turkey's first integrated iron and steel factory, fired its first blast furnace in September 1939. After the privatization in 1995, it was renovated with an investment of over USD2 billion. The Company, which has a crude steel production capacity of 2,600,000 tons/year, is also the only producer in the region in rail production.

Income Statement (TLmn)	2020	2021	2022	2023E	2024E
Revenues	7,520	14,765	27,397	38,808	56,627
COGS	6,375	9,982	23,128	32,211	46,434
Gross Profit	1,144	4,782	4,269	6,597	10,193
Operating Expenses	123	137	290	388	566
Operating Income	1,021	4,645	3,979	6,209	9,627
EBITDA	1,246	4,891	4,324	6,667	10,250
Other Non-Operating Income, Net	-478	152	-1,129	-1,164	-1,133
Financial Income/(Expense), Net	-480	-466	-528	-970	-1,699
Income/(Expense) From Investments, Net	-11	-135	-187	194	283
Profit /(Loss) From Subsidiaries	3	1	25	0	0
Profit Before Tax	77	4,467	2,533	4,269	7,078
Taxes Paid	16	614	359	1,067	1,770
Parent Net Profit/(Loss)	61	3,853	2,174	3,202	5,309

Balance Sheet (TLmn)	2020	2021	2022	2023E	2024E
Cash & Marketable Securities	1,440	5,357	1,891	3,878	7,486
Financial Investments	0	0	2	4	5
Receivables	1,281	1,692	4,192	5,211	7,139
Inventory	1,820	3,197	7,945	10,571	14,603
Tangible Fixed Assets	5,819	9,398	9,996	10,896	12,255
Other Assets	459	2,172	2,614	4,621	5,652
Total Assets	10,820	21,815	26,640	35,181	47,140
Financial Debt	2,249	2,611	2,485	2,805	4,244
ST Payables	2,519	6,082	7,657	11,694	16,858
Other Liabilities	2,149	3,160	5,036	6,656	8,028
Total Liabilities	6,916	11,853	15,179	21,154	29,131
Minority Interest	0	0	0	0	0
Shareholders' Equity	3,903	9,962	11,461	14,023	18,004
Paid-in-Capital	1,140	1,140	1,140	1,140	1,140
Net Debt	809	-2,745	592	-636	-2,229

Growth	2020	2021	2022	2023E	2024E
Revenues	24%	96%	86%	42%	46%
EBITDA	92%	293%	-12%	54%	54%
Net Income	-25%	6252%	-44%	47%	66%

Ratios	2020	2021	2022	2023E	2024E
EPS (TL)	0.05	3.38	1.91	2.81	4.66
ROE	1.6%	38.7%	19.0%	22.8%	29.5%
Gross Margin	15.2%	32.4%	15.6%	17.0%	18.0%
EBITDA Margin	16.6%	33.1%	15.8%	17.2%	18.1%
Net Profit Margin	0.8%	26.1%	7.9%	8.2%	9.4%

Source: Finnet, Global Securities Research



VALUATION

For reaching KRDM's 12-month target market value, we used the discounted cash flow (DCF) and peer comparison methods. In our valuation covering the years of 2023-2032; we determined the risk-free return rate as 25% for the first 3 years, 20% for the next 3 years and 15% for the last 4 years. We used the market risk premium as 5.5%, corporate beta as 1.1, terminal growth rate as 5.0%. Accordingly, we calculated the weighted average cost of capital (WACC) used as a discount factor at an average of 25.7% over a 10-year period. As a result of the DCF, we reached the market value target of TRY23,629 million for KRDM.

As a result of the peer comparison analysis, in which we took into account the 2024 and 2025 P/E and EV/EBITDA multiples of international peers, we calculated the target market value for KRDM as TRY31,657 million.

Our 12-month target price, which we reached by giving equal weight to both methods, is TRY35.40, indicating a 53% return potential for KRDM.

Valuation Method	Value	Weight	Weighted Value
DCF (TRY mn)	23,629	50%	11,814
Peer Comparison (TRY mn)	31,657	50%	15,829
12-Month Target Mcap (TRY mn)			27,643
12-Month Target Price (TRY)			35.40
Current Price (TRY)			23.20
12-Month Upside Potential			52.6%

Source: Global Securities Research

DCF Summary

DCF Analysis (TRY mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues	38,820	56,627	67,235	73,360	79,958	81,615	82,686	83,729	94,878	107,511
Growth, %	41.7%	45.9%	18.7%	9.1%	9.0%	2.1%	1.3%	1.3%	13.3%	13.3%
EBIT	6,211	9,627	10,623	11,591	11,834	12,079	12,238	12,392	14,042	14,837
EBIT margin, %	16.0%	17.0%	15.8%	15.8%	14.8%	14.8%	14.8%	14.8%	14.8%	13.8%
EBITDA	6,669	10,250	11,443	12,624	13,100	13,584	13,983	14,382	16,309	17,417
EBITDA margin, %	17.2%	18.1%	17.0%	17.2%	16.4%	16.6%	16.9%	17.2%	17.2%	16.2%
Change in NWC	51	1370	1088	637	664	284	226	226	547	736
Capex	1359	1982	2353	2568	2799	2857	2894	2931	3321	3763
Tax	1553	2407	2656	2318	2367	2416	2448	2478	2808	2967
Free Cash Flow	3,707	4,491	5,346	7,102	7,271	8,028	8,416	8,747	9,633	9,950
WACC	30.0%	29.9%	30.1%	26.4%	26.4%	26.4%	22.0%	22.0%	22.0%	22.0%
Discount Factor	1.07	1.39	1.80	2.28	2.88	3.64	4.45	5.42	6.62	8.07
Discounted Cash Flow	3,469	3,236	2,962	3,112	2,521	2,203	1,892	1,613	1,456	1,233
Sum of DCF's	23,696									
Terminal Growth Rate	5%									
PV of Terminal Value	4,910									
Enterprise Value	28,606									
(-) Net Debt (3Q23-end)	2,261									
Present Value	26,345									
Kardemir 12M Target Mcap	34,525									
KRDM 12M Target Mcap	23,629									

Source: Global Securities Research



Peer Comparison

Company	Country	Mcap (USD mn)	P/E		EV/EBITDA	
			2024E	2025E	2024E	2025E
Voestalpine Ag	Austria	5,140	9.1	8.2	4.3	4.1
Ternium Sa-Sponsored Adr	Luxembourg	7,573	5.0	5.1	3.5	3.3
United States Steel Corp	United States	8,059	13.7	10.7	5.1	4.5
Gerdau Sa-Pref	Brazil	7,811	6.0	6.6	3.7	3.7
Ezz Steel	Egypt	1,334	2.8	3.1	2.8	3.4
Steel Dynamics Inc	United States	18,594	12.1	13.9	7.5	8.2
Arcelormittal	Luxembourg	21,686	5.9	4.9	4.0	3.5
Baoshan Iron & Steel Co-A	China	18,908	10.0	9.0	4.6	4.4
Tata Steel Ltd	India	19,457	10.9	9.1	6.7	6.1
Average			8.4	7.8	4.7	4.6
KRDMD	Türkiye	627	5.2	4.8	3.0	2.7
Premium/ (Discount)			-38%	-38%	-35%	-41%
Target Mcap / EV based on average multiple (TRY mn)			30,501	30,578	32,777	35,869
(-) Net Debt (TRY mn)					1,548	1,548
Target Mcap based on average multiple (TRY mn)			30,501	30,578	31,229	34,322
Weight			25%	25%	25%	25%
Target Mcap (TRY mn)			31,657			

Kaynak: Global Menkul Değerler Araştırma



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