TURKISH EQUITIES / COMPANY UPDATE

Brisa

11 July 2024

Bouncing back

Outperform
(Maintained)

Close Price: TRY 111.60
12M Target Price: TRY168.00
Upside Potential: 51%

We are maintaining our Outperform rating for Brisa with a new TP of TRY168.00/share, suggesting 51% upside potential. Despite a 7% contraction in the domestic market in 1Q24, Brisa maintained its cumulative sales volume growth of 2.6% with a 9.5% rise in domestic sales vs. 9.6% decline in the export volume. For the full year, we assume a similar volume growth in sales volume as it did in 1Q24 with the current recovery in European markets posing an upside challenge to our forecasts with the regional market set to expand by 2.6% in 5M24, supported by a 5% improvement in the replacement market. In terms of profitability, following a 25% YtD rise in natural rubber prices until early June, prices are now down 13% with the tire making cash cost still 7% lower than in 2023YE. As such, we forecast a 15.6% EBITDA margin for the full year on the inflation accounting impact of both indexation and inventory revaluation. This implies a 2% YoY contraction in EBITDA generation in real terms, before bouncing back by 15% in 2025, paving the way for a 56% surge in net income in real terms. The stock trades at an EV/EBITDA of 4.0x and P/E of 6.5x based on 2025 prospective earnings, implying an average 52% discount to its historical average and 32% to its global peers. We find Brisa one of the best defensive industrial stocks in our coverage with an operational performance which is relatively robust in the face of industrial cycles on its dynamic sales and procurement strategies with its successful hedging mechanisms. Considering its projected solid earnings momentum for the next year with potential upside on a recovery in the European economic outlook and a healthy balance sheet, we maintain our Outperform rating for the stock.

Outlook for demand in the Industry still under question: Demand in the global tire industry posted 3% YoY growth in 5M24 with the replacement channel recording a solid 4% growth in the same period. In Europe, despite a negative effect from the number of working days in May, the replacement market posted 3% YoY growth with the YtD figure calculated to be 5.0% higher, indicating a normalization in demand dynamics following the 4.0% contraction in 2023. We deem the outlook for 2H24 to be much more promising on the back of a recovery in consumer confidence amid falling inflation figures in an environment of monetary easing which has already got underway. Accordingly, Brisa's global peers are generally expected to record plumper EBITDA margins, suggesting potential upside in our 2024 and 2025 export forecasts for Brisa.

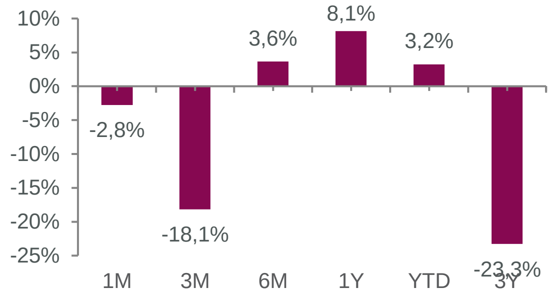
Balance sheet still strong in such a high interest rate environment: Brisa can be considered to have one of the best disciplined balance sheets in the BIST Universe, turning around a net debt position of TRY1.7bn in 2017 to a positive cash position of TRY613mn as of 2021YE in non-IAS basis. Despite since tipping back into net debt after 1Q23, its 1Q24 net debt/ 12M trailing EBITDA remains a comfortable 12% with a net interest coverage ratio of 12.2x based on 2024 forecasts, as the company's bottom-line is less sensitive to rises in interest rates given its TRY9.0bn cash position and TRY2.4bn financial investments as of 3M24, most of which are generating financial income for the company. Despite the ongoing USD34mn investment in the 7% expansion in the capacity of the Aksaray facility, we do not expect any deterioration in its balance sheet, where we still calculate a net debt position of TRY658mn at the end of 2024, turning into a net cash position of TRY249mn by the end of 2025.

Still discounted: Brisa trades at an EV/EBITDA of 4.0x and P/E of 6.5x based on our 2025 prospective earnings with our conservative IAS included assumptions based on stable sales volume and pricing environment in USD-terms. These levels imply an average 52% discount to its historical average and a 32% discount to global peers. Considering an impending improvement in the demand environment globally and a relatively defensive operational performance, we maintain our Outperform rating for Brisa.

Stock Data

Bloomberg / Reuters	BRISA TI / BRISA.IS
Mcap (US$mn)	1,035
EV (US$mn)	1103.5
Avg. Trd. Vol. (US$mn)	2.2
Free float	10%

BIST100 Relative Performance



Key Data (TRYmn)	2023	R. 2023	2024 E	R. 2024	2025 E
Revenues	26,498	37,466	37,958	46,926	47,170
Growth	*-1%*		*1%*		*1%*
EBITDA	4,273	6,041	5,926	7,326	8,403
Growth	*4%*		*-2%*		*15%*
Net Profit	3,973	5,617	2,725	3,368	5,261
Growth	*58%*		*-51%*		*56%*
P/E (x)	8.5		12.5		6.5
EV/EBITDA (x)	8.1		5.9		4.0
P/BV (x)	2.2		1.9		1.3
FCF yield (%)	10%		3%		10%
Div. yield (%)	6.5%		2.7%		4.5%

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Figure 1 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	**2022**	**2023**	**Restated 2023**	**2024E**	**Restated 2024E**	**2025E**
Revenues	**26,863**	**26,498**	**37,466**	**37,958**	**46,926**	**47,170**
Gross Profit	**5,954**	**6,499**	**9,189**	**10,528**	**13,016**	**13,199**
EBITDA	**4,103**	**4,273**	**6,041**	**5,926**	**7,326**	**8,403**
Depreciation	1,390	1,474	**2,084**	1,832	**2,265**	2,371
EBIT	**2,713**	**2,799**	**3,957**	**4,094**	**5,061**	**6,033**
Net other income	-1,240	-760	**-1,075**	-163	**-201**	-172
Income from investing activities	172	544	**769**	277	**342**	260
Net financial income	1,172	706	**999**	-310	**-383**	651
Profit from associates	0	0	**0**	0	**0**	0
PBT	**2,818**	**3,289**	**4,650**	**3,898**	**4,819**	**6,772**
Taxes Paid	-308	684	**967**	-1,173	**-1,451**	-1,511
Minority Interest	0	0	**0**		**0**	0
Net Profit/(Loss)	**2,509**	**3,973**	**5,617**	**2,725**	**3,368**	**5,261**
Balance Sheet (TLmn)	**2022**	**2023**	**Restated 2023**	**2024E**	**Restated 2024E**	**2025E**
Current assets	**16,552**	**25,348**	**32,040**	**22,130**	**27,358**	**32,359**
Cash equivalents	6,002	15,100	19,086	9,502	11,747	14,154
Trade receivables	3,954	4,394	5,554	5,844	7,225	8,804
Inventories	4,045	3,783	4,782	3,493	4,318	5,227
Other current assets	2,551	2,071	2,617	3,291	4,069	4,174
Non-current assets	**16,205**	**17,295**	**21,861**	**19,758**	**24,426**	**27,263**
Tangibles	11,632	14,049	17,758	16,577	20,494	23,142
Intangibles	806	1,041	1,316	1,128	1,394	1,533
Other non-current assets	3,767	2,205	2,787	2,053	2,538	2,587
Total assets	**32,757**	**42,643**	**53,901**	**41,887**	**51,784**	**59,622**
Current liabilities	**16,490**	**19,895**	**25,148**	**19,786**	**24,461**	**27,272**
Short-term loans	8,458	11,242	14,209	10,724	13,257	13,903
Trade payables	7,210	7,397	9,350	7,258	8,972	10,863
Other current liabilities	822	1,257	1,588	1,805	2,232	2,506
Non-current liabilities	**4,650**	**7,276**	**9,197**	**4,093**	**5,060**	**5,760**
Long-term financial loans	2,796	6,722	8,497	3,602	4,453	5,093
Other non-current liabilities	1,854	554	700	491	607	667
Minority Interest	89	88	111	88	108	108
Shareholders' Equity	**11,527**	**15,384**	**19,445**	**18,008**	**22,263**	**26,590**
Total liabilities and equity	**32,757**	**42,643**	**53,901**	**41,887**	**51,784**	**59,622**
Key metrics	**2022**	**2023**	**2024E TRY Real**	**2024E**	**2025E TRY Real**	**2025E**
Growth						
Revenue growth	0%	-1%	1%	43%	1%	24%
EBITDA growth	0%	4%	-2%	39%	15%	42%
Net income growth	150%	58%	-51%	-31%	56%	93%
Profitability						
Gross Margin	22.2%	24.5%	24.5%	27.7%	27.7%	28.0%
EBITDA margin	15.3%	16.1%	16.1%	15.6%	15.6%	17.8%
Net margin	9.3%	15.0%	15.0%	7.2%	7.2%	11.2%
Return on assets (ROA)	11.7%	10.5%	13.0%	5.9%	6.8%	10.3%
Return on equity (ROE)	36.3%	29.5%	36.3%	15.5%	16.9%	23.6%
Return on cap. emp. (ROCE)	16.5%	29.0%	35.4%	14.9%	16.3%	23.2%
Leverage						
Adj Net Debt	-47	518	732	658	814	-249
Net debt / Equity	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / EBITDA	0.0	0.1	0.1	0.1	0.1	0.0
EBIT Interest coverage	5.4	-10.1	-10.1	12.2	12.2	-5.9
Efficiency						
Total asset turnover	0.8	0.6	0.7	0.9	0.9	0.8
Equity turnover	2.3	1.7	1.9	2.1	2.1	1.8
WC/Sales	3%	3%	3%	6%	6%	6%
Opex/Sales	12.1%	14.0%	14.0%	17.0%	17.0%	17.0%
Cash Flow (TLmn)	**2022**	**2023**	**Restated 2023**	**2024E**	**Restated 2024**	**2025E**
EBITDA	4,103	4,273	6,041	5,926	7,326	8,403
Change in working capital	-2,400	-526	-744	-1,299	-1,836	-484
Taxes	-678	-700	-989	-1,173	-1,659	-1,511
Capital Expenditures	-1,550	-1,338	-1,892	-2,942	-4,160	-3,032
Adjustment	-371	1,693	2,394	253	357	-129
FCFF	-897	3,402	4,810	764	1,081	3,248

Finansinvest vs Consensus		**2024F**			**2025F**	
	Deviation	Estimate	Cons.	Deviation	Estimate	Cons.
Revenues	24%	37,958	30,681	8%	47,170	43,561
EBITDA	-	5,926	-	-	8,403	-
Net Income	-16%	2,725	3,237	2%	5,261	5,178

Source: QNBFI Calculations

INVESTMENT THEME

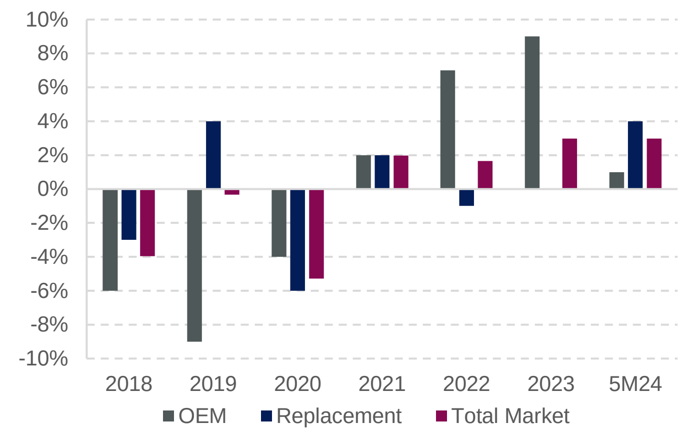
We are maintaining our Outperform rating for Brisa with a new TP of TRY168.00/share, suggesting 51% upside potential. Brisa maintained its sales growth of 2.6% in 1Q24 vs. a 7.0% contraction in the domestic market following the record high sales in 2023. The company realized a strong EBITDA margin of 19.8% despite rising raw material prices and the negative implications of inflation accounting on inventory revaluation in 1Q24. For the full year, we assume a 2.6% sales volumes in YoY terms as it did in 1Q24 while noting that the current recovery in the European market poses upside for our forecasts, with the regional market posting 2.6% growth in 5M24, supported by a 5% improvement in the replacement market. In terms of profitability, we calculate that tire making cash costs are 7% lower than their 2023YE level despite highly volatile rubber prices, which are 13% down from their early June peak. Accordingly, we maintain our forecast for the EBITDA margin at a plump around 19.0% for the full year in nominal terms, corresponding to 15.6% for the full year on the inflation accounting effect, both on indexation and inventory revaluation. For next year, the outlook is much brighter as the recovery in the European replacement market is likely to be supported, helped by a return to strong growth not seen since the pandemic on the back of an easing monetary cycle and falling inflation. The stock trades at an EV/EBITDA of 4.0x and P/E of 6.5x based on 2025 prospective earnings, implying an average 52% discount to its historical average multiples and a 32% discount to its global peers. We are aware that general consumer demand and industrial production are likely to deteriorate in the domestic market, along with ongoing monetary tightening which will be more apparent in the second half of the year. On the other hand, we deem Brisa to be a defensive industrial pick in our coverage universe with an operational performance relatively robust to the sectoral and domestic economic cycles thanks to its dynamic sales and procurement strategies and successful hedging mechanisms. Additionally, the pick-up in demand in the auto industry and switch from petrol-driven cars to EVs suggests a good plateau for domestic tire producers such as Brisa. This could also pave the way for an expansion in its capacity at the Aksaray facility beyond what has already been announced in limited expansion plan, with a minor capex budget. With such bright prospects, we maintain our Outperform rating for the stock.

Normalizing demand dynamics in Europe: Following a weak performance in 2022, the global tire industry entered a recovery at the end of 2023 with total demand growing by 2%, though underperforming expectations for the full year. Despite a sluggish 2023, demand has got off to a good start in 2024 with a calculated 6% market growth in the first months of the year, with all regions enjoying a solid recovery in both RM and OE markets. The European market underwent a significant downward adjustment in March due to fragile structural demand and unfavourable working day effect compared to the same of the previous year. Following a solid improvement in April with a reversal of negative of this working day effect from the previous month, a recovery in the European RM with 3% YoY growth suggested a normalization in the demand outlook in Europe while OE market was depressed by increased competition from vehicles from China, especially in the electric vehicle segment. As of 5M24, cumulative tire demand is calculated to be 3.0% higher compared to the same period of the previous year while 4.0% growth of RM demand implies a healthy recovery still in the play despite a high volatility in the monthly figures.

Since April, consumer confidence in the Eurozone have been demonstrating a healthy recovery, despite remaining slightly shy of their historical averages while rate cuts on declining inflation offer some encouragement for the economic outlook and consumer spending in the second half of the year. Accordingly, we are very likely to see a solid recovery in the RM channel for the tire industry for Europe in the coming period while the contraction in OEM may also ease, given the EU's provisional duties of up to 38.1% on imported Chinese EVs were set to be in place by July 4.

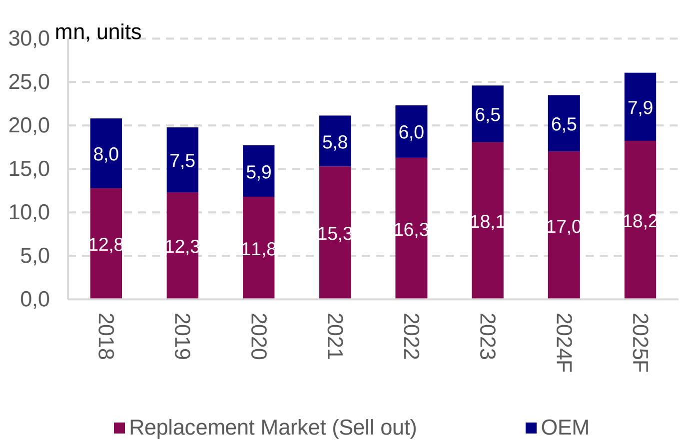
The tire industry lost the growth momentum that it had built since 2017, with almost no average YoY growth in the post-Covid era. However, with healthy momentum in developed countries economies which may be further supported by rate cuts in the coming quarters and an expected reversal in the Chinese economy, we expect a healthy turnaround in the RM following its downcycle in previous years. Additionally, the automobile market, a major player in the tire industry, will expand as consumers switch from petrol-driven cars to electric vehicles. This transition will tremendously help the OEM, and after considering other variables, we believe the tire sector is poised for growth following a belated recovery from its COVID stagnation. Rate cuts and potential regional tariff implementation in the EV industry, as well as countries producing their own EV vehicles are expected to support the growth of developed tire markets beyond China.

Figure 2– Global Tire Market Growth in Units (YoY)



Source: QNBFI Calculations

Figure 3– Türkiye: Tire Market (mn, units)



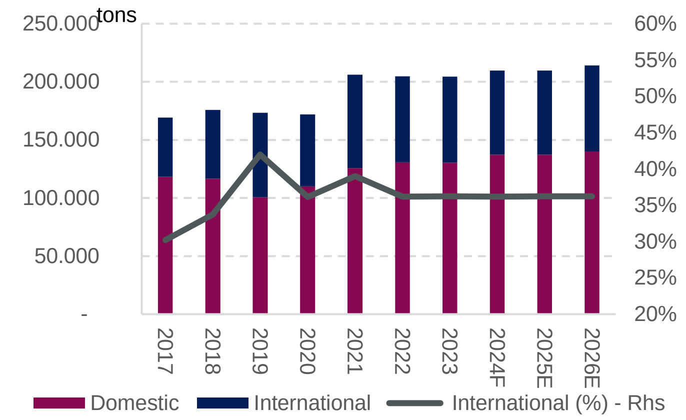
Source: The Company, QNBFI Estimates

Brisa's sales volume growth maintained, despite contraction in the domestic market: In contrast with the global tire market, Türkiye's replacement market is estimated to have expanded by 11% in 2023. However, following this solid performance, the total tire replacement market - which comprises almost 70% of total market - is set to contract by 10% in 1Q24. On the other hand, given the 6% increase in auto production, the OE market contraction was limited, leading to a 7% contraction for the cumulative market. With potential further fiscal tightening steps, we expect some contraction in consumer demand for the remainder of the year. On the other hand, given the ongoing momentum in auto sales in both new and second-hand markets, we are now more bullish on our full year assumptions, forecasting the auto market to end the year with a mere 6% contraction, compared to the 20% contraction we had previously expected, helped by 5% growth in 6M24. Additionally, Türkiye's auto exports – comprising nearly 70% of total production – may grow strongly in the remainder of the year, after 1% growth in 5M24 on improving consumer demand in Europe on the back of rate cuts, with forecasted GDP growth of 0.8% in 2024, rising to 1.6% in 2025 with an expected acceleration by 2H24.

For Brisa, despite relatively subdued demand conditions, Brisa's domestic sales volume posted 10% YoY growth in 1Q24. OE sales reached a record high with 22.5% YoY growth while RM sales also posted a creditable 5.9% YoY growth. The consumer channel was the main driver of the healthy sales volume performance, positively differentiating itself in both domestic markets. In contrast with this, export volumes were down by 9.6% on the back of weak demand conditions, especially in Europe. All in all, despite headwinds in both domestic and export markets, the company sustained its cumulative volume growth at 2.6%, while having maintained capacity utilization at 98.0% in the Aksaray factory and 90.8% in the İzmir factory.

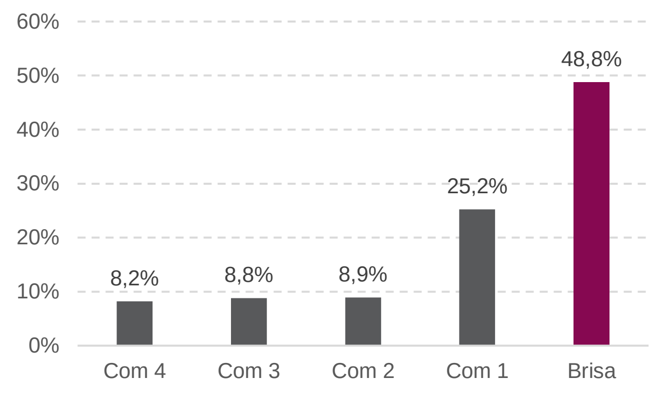
With its sustainable market share gains and successful and dynamic sales strategies, we think Brisa will be able to maintain its sales volume growth in 2024. We conservatively assume 2.6% sales volume growth for the year as it did in 1Q24 although we have started to observe an improving demand dynamic in Europe. With our assumption of stable sales prices in USD-terms, we calculate stable revenue generation for the company in real terms for 2024, with any further recovery in export sales on an expected improvement in the European economies with rate cuts potentially posing an upside challenge to the sales volume and top-line performance for 2024 and beyond.

Figure 4– Brisa Sales Performance (tons)



Source: The Company, QNBFI Estimates

Figure 5– Brisa: Market Share in Best & Better Seg. – Consumer Segment (3M24)



Source: The Company

Rubber prices declining from their peak level: Natural rubber prices – comprising almost 30% of total tire making cash costs – surged by 25% between the beginning of the year and early June, primarily driven by supply constraints in major producing nations and rain-induced tapping disruptions. Since mid-June, we have been observing some easing in the prices, which are down by 13% compared to their peak levels as major producers have been showing signs of rebounding as weather conditions improve. Additionally, with downstream tire companies in their low season, the demand environment has softened, taking some of the pressure off prices.

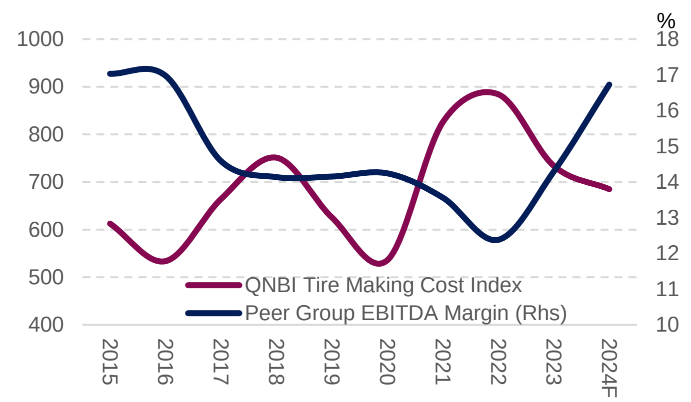
In 2024, natural rubber demand is forecasted to increase by 3.1% YoY, compared to its historical CAGR of 4.9%, with China expected to lead this growth with a forecasted 5.5% growth. The bullish expectations for rubber prices for the remainder of the year are mainly driven by the expected recovery in demand in the region, as inventories in one of the region's largest warehouses is down by 28% since the beginning of the year. Additionally, ongoing weak demand for harvesting from rubber farmers due to unfavourable weather conditions, leaf diseases and persistently low rubber prices still pose upside pressure for sustainable higher rubber prices in the near future.

Despite the ongoing high levels of natural rubber prices, we calculate that the unit tire making cash cost is still hovering around 7% lower than its 2023YE level with an average EBITDA margin expectation for our global tire peer group implying a 243bps YoY improvement, which would also be 373bps higher than its historical average.

Despite high volatility in raw material prices, Brisa improved its sustainable margin performance over the last 5 years, having been kept around 20.0% (non-IAS) over the last 5 years vs a deviation between 12-15% for its peer group. This sustainable performance was driven by its successful procurement discipline and hedging mechanisms, supported by its pricing power in the domestic market thanks to its market share. For 2024, our conservative nominal assumption is still pointing to stable EBITDA margin performance of around 19.0% while the inflation accounting methodology points to lower EBITDA margin levels of around 15-16% on the indexation and inventory revaluation.

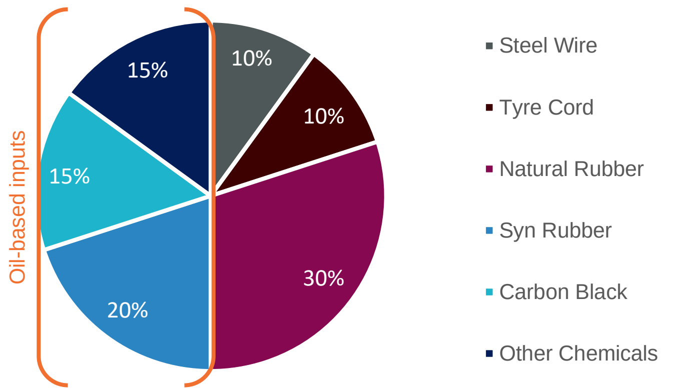
Despite our assumption of a slight increase in sales volumes in YoY terms for 2024, we still see upside challenges to our projections on a recovery in the European economies along with rate cuts in 2H24. Our 2024 EBITDA forecast suggests a 2% contraction in EBITDA in real terms before a 15% growth in 2025. A 200bps improvement in the EBITDA margin – in line with an expected recovery for its global peers – would raise real EBITDA growth by 13% in 2025.

Figure 6– Tire-Making Cash Cost vs. Sector's Avg. EBITDA Margin



Source: Bloomberg, QNBFI Calculations

Figure 7– Tire Production Cost Breakdown



Source: QNBFI Calculations

Solid balance sheet enhances earnings visibility: Brisa had announced an additional investment plan of $34 million for its Aksaray Factory, which was established with a $300 million investment using new generation technologies in 2018, and aims to reach an annual production capacity of 4.6 million tires by 2026. Accordingly, the company signed an agreement from the EBRD for a loan with a 6-year maturity and 2 year grace period, amounting to USD100mn or its EUR or TRY equivalent on 18 September 2023. The proceeds from the loan will be used to finance Brisa's capex program from 2023-2025, consisting of the acquisition of new machine and equipment, a capacity increase in Aksaray and the modernization of the Izmit factory to increase manufacturing of fuel-efficient and low carbon emission products.

Brisa can be deemed to have one of the best disciplined balance sheets in the BIST Universe, turning a net debt position of TRY1.7bn as of 2017 into a positive cash position of TRY613mn by the end of 2021 and TRY47mn as of 2022YE in non-IAS figures thanks to strength in its sustainable operational cash flows which are robust in the face of market volatility given its dynamic sales and procurement disciplines and successful working capital management. Although its net cash position did turn into a net debt position in 1Q23, its 1Q24 net debt/ 12M trailing EBITDA level is an unconcerning 12% while its EBIT coverage ratio stands at a comfortable 12.2x based on our 2024 forecasts, as the company's bottom-line is less sensitive to rises in interest rates given its TRY9.0bn cash position and TRY2.4bn financial investments as of 3M24, with most of these financial investments generating financial income for the company.

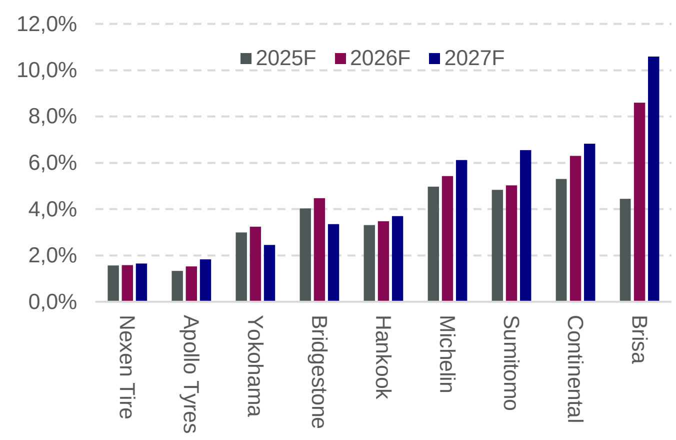
Despite the expected capex plan for a 7% rise in capacity with Aksaray investment, we do not expect any rise in the net debt position with our calculations implying a net debt level of TRY658mn by the end of 2024 and a net cash position of TRY249mn as of 2025.

Inflation accounting has eroded the visibility of net income generation of companies on the basis of IFRS figures on 1) inflation indexation, 2) implications on the deferred tax assets and 3) monetary gains/losses driven from the non-cash balance sheet items. However, compared to other industrial players, we deem Brisa's balance sheet more favorable for IFRS net income as its non-cash assets far exceed its non-cash liabilities and equity, leading to monetary gains at the bottom-line while its cumulative EBITDA figure is also less negatively affected by inventory revaluation, with a days in inventory of around 55 days vs. the BIST Industrial's level of 88 days.

Despite an expected rise in the company's financial expenses for 2024 with our inclusion of a 20% tax rate despite on-going tax incentives (the implication on inflation accounting being highly unpredictable) we still conservatively calculate 8.0% earnings yield vs. the 3.0% for BIST Industrials, mostly due to the inflation accounting effect.

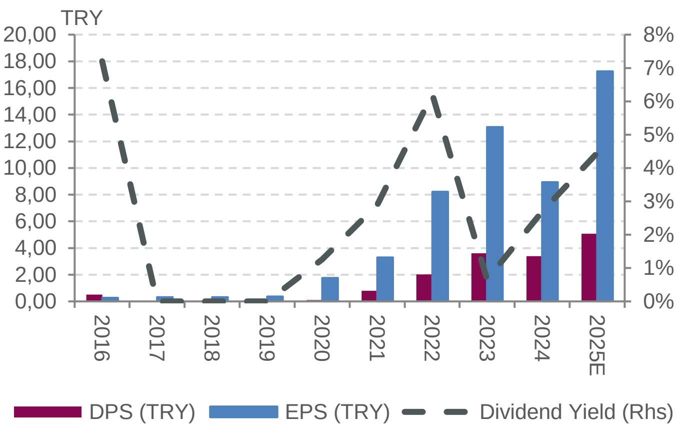
Brisa can be considered a sustainable dividend player with a 3-year average pay-out ratio of 50%. We think the company will continue its dividend payments, calculating a DPS of TRY5.07 in 2025 with a CAGR of 53% in the DPS between 2024-2027.

Figure 8 – Peer Group's DY Estimates



Source: Bloomberg

Figure 9– Brisa: EPS and DPS Projection



Source: QNBFI Estimates

New potential capacity investment in Aksaray poses upside over our forecasts: Following the completion of the Aksaray factory by the end of 2017, Brisa's bulk capex cycle came to an end and the company accumulated cash and strengthened its balance sheet with an average capex spend of USD54mn between 2018-2023 vs. an average of USD136mn between 2015-2017. Currently, both of the company's factories are working at near full capacity while the company will increase its Aksaray factory capacity by 7.0% with minor capex spending. However, a major capex investment in the Aksaray facility may also take place once the global demand outlook becomes clearer, which could raise the company's capacity by up to 15%. Considering Türkiye's rising auto production capacity as a regional auto production hub, supported by the switch from petrol-driven cars to EVs, we think domestic tire production will need to rise to match demand in the future. Accordingly, we deem a capacity expansion to be highly likely in the coming future, something that would enable the company's ROE performance to hold up more robustly than in the initial Aksaray factory investment cycle, thanks to relatively short investment period with a limited capex budget.

Valuation

We base our valuation on an 80-20 weighting of the results derived from the extrapolation of DCF and multiple valuation methodology, and derive a 12-month target value of TRY45,327mn, implying 51% upside potential.

- We use our nominal forecasts in our DCF model as the company's inflation accounting included financials are not indicative of its cash generation ability on the indexation and inventory revaluation. Accordingly, our forecasts for IFRS figures differ from the figures in our DCF model.
- Our TRY denominated DCF model is based on a 40.4% WACC for 2024 which we assume gradually declines to 20.2% on the back of the decline in the risk-free rate from 45.0% currently to 20% in 2026.
- Our multiple analysis is based on a 50-50 blend of P/E and the EV/EBITDA multiples. On our 2024 earnings forecasts, Brisa trades at a P/E of 12.5x and EV/EBITDA of 5.9x suggesting an average 28% premium over its international peers. Based on 2025 prospective earnings, Brisa currently trades at a P/E of 6.5x and an EV/EBITDA of 4.0x, implying 47% and 17% discounts to international peers, respectively.
- Compared to global peers, Brisa has already improved its ability to keep its margins stable in industry down-cycles. Along with its strategic position on rising auto production capacity in Türkiye and its advantage of selling to both domestic and export markets, we think the company deserves to trade at a premium over its peers, especially in down-cycle periods.

Figure 10 – DCF Tables

TRYmn	2024F	2025F	2026F	2017F	2028F	2029F	2030F	2031F	2032F	2033F	2024F
Revenues	33,623	40,972	46,417	51,133	56,329	62,417	69,163	76,638	84,921	94,099	104,269
Revenue Growth	*24%*	*22%*	*13%*	*10%*	*10%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*
EBIT	4464	5632	6668	7097	7536	8128	8950	9552	13984	15820	17854
EBITDA	6296	8003	9416	10257	11162	12483	13833	15328	16984	18820	20854
EBITDA Margin	*18.7%*	*19.5%*	*20.3%*	*20.1%*	*19.8%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes	-982	-1239	-1467	-1561	-1658	-1788	-1969	-2101	-3077	-3725	-3571
Inc./dec. in W/C	-1299	-484	-385	-261	-282	-343	-406	-402	-495	-513	-513
Capex	-2942	-3032	-2123	-2315	-2626	-2978	-3280	-3543	-3826	-4132	-4421
FCF	**1073**	**3248**	**5441**	**6119**	**6596**	**7375**	**8178**	**9282**	**9587**	**10450**	**12349**
WACC	40.4%	28.3%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%
PV of FCFs	**21206**										
Terminal Growth Rate	11%										
Terminal Value	148571										
PV of TV	**15716**										
Value of Firm	36923										
Net Debt (3M24)	532										
Participations	0										
Equity Value	**36391**										

Source: QNBFI Estimates

Figure 11 – Peer Analysis

Company	Country	Mcap (US$)	P/E 24 (x)	P/E 25 (x)	EV/EBITDA 24 (x)	EV/EBITDA 25 (x)
Continental AG	Germany	13,091.1	7.8	11.7	4.1	3.5
Michelin (CGDE)	France	27,201.1	10.3	11.8	5.1	4.9
Goodyear	USA	3,084.6	8.7	8.4	4.9	4.5
Bridgestone Corp	Japan	27,700.9	11.2	15.8	5.4	5.1
Sumitomo Rubber Ind	Japan	2,559.7	9.7	25.4	4.8	4.0
Yokohama Rubber Ind	Japan	3,658.4	7.2	12.3	5.4	5.3
Toyo Tire&Rubber Ind	Japan	2,415.6	6.1	7.8	3.5	3.4
Hankook Tire Co.	S.Korea	3,825.1	7.2	4.9	n.m.	n.m.
Nexen Tire Corp	S.Korea	552.2	4.9	n.a.	4.7	4.5
Kumho Tire Co Ind	S.Korea	1,288.9	6.7	n.a.	5.1	5.1
Apollo Tyres Ltd	India	4,011.2	17.0	n.m.	8.0	8.1
Average			**8.8**	**12.3**	**5.1**	**4.8**
Brisa		1,035	12.5	6.5	5.9	4.0
Discount / Premium			**42%**	**-47%**	**15%**	**-17%**

Source: Bloomberg, QNBFI Estimates

QNB Finansinvest Rating System

We employ a relative scale in our rating system (i.e. Market **Outperform, Neutral, Underperform**) in order to better present relative value propositions and more actively pursue long vs. short ideas at the BIST. The relevant benchmark is the broader Turkish stock market, using the BIST-100 index as a basis. The ratings also incorporate a certain degree of relativity within the analyst's own stock coverage universe due to asymmetric return expectations among the industries under our BIST coverage. The rating system combines analysts' views on a stock relative to the sectors under coverage, and the sector call relative to the market, together providing a view on the stock relative to the market.

Individual ratings reflect the expected performance of the stock relative to the broader market over the next 6 to 12 months. The assessment of expected performance includes a function of near-term company fundamentals, industry outlook, confidence in earnings estimates and valuation, and other factors.

An essential element of our rating methodology involves benchmarking a 12-month expected return against the cost of equity. We set a required rate of return for each stock, calculated from our risk-free rate and equity risk premium assumptions. The price target for a stock represents the value that the stock is expected to reach or sustain over the performance horizon of 12 months, according to the view of the analyst.

We have separated the stocks under our coverage into two groups, mainly with respect to their liquidity (market cap, free float market cap and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics to more-liquid large-caps. For the purposes of the relative stock rating, however, stocks within each group will be considered on an unweighted basis with regard to their market capitalization.

For a stock to be assigned an **Outperform** rating, the implied return *must* exceed the required rate of return by at least 5 percentage points over the next 12 months for our larger-cap stock coverage, or by 10 percentage points for the small-cap group. For a stock to be assigned an **Underperform** rating, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months. Stocks between these bands will be classified as **Neutral**.

When the potential upside of an *average* stock in our coverage exceeds its required rate of return (i.e. the market upside exceeding the implied average cost of capital), a greater number of stocks would fall into the aforementioned Outperform (Buy) category, illustrating the significance of the "relative return" concept (vis-à-vis absolute return) in picking better investment ideas with a positive alpha. The same holds true when the potential upside of an *average* stock in our coverage falls short of its required rate of return.

In this regard, as a supplemental methodology, we rank the stocks in our coverage according to their notional target price with respect to their current market price, and then categorise the top group (approximately 40-50% of the companies under coverage) as Outperform, the next 40-50% as Neutral and the lowest 10-20% (and no less than 10%) as Underperform.

It should be noted that the expected returns on some stocks may at times fall outside the relevant ranges of the applicable respective rating category because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges are permitted but becomes subject to review.

Also note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

Outperform. We expect the stock to outperform the BIST-100 over the next 6 to 12 months.

Neutral (Market Perform). We expect the stock to broadly perform in line with the BIST-100 index over the next 6 to 12 months. (Although we would normally have a neutral assessment of stocks in this category, if a stock has gone through a period of market underperformance, it would be an indication that the stock may be expected to improve its performance relative to market averages in the coming period, and vice versa).

Underperform. We expect the stock to underperform the BIST-100 over the next 6 to 12 months.

N/R. Not Rated.

U/R. Under Review.

Analyst Certification

The following analysts hereby certify that the views expressed in this research report accurately reflect their own personal views regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: **Can Alagöz.**

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

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