TURKISH EQUITIES / COMPANY UPDATE

Bogazici Beton

5 July 2024

Outperform
(Maintained)

Close Price: TRY26.66
12M Target Price: TRY41.55
Upside Potential: 56%

More concrete prospects

We are re-iterating our Outperform rating for Bogazici Beton with a revised 12-month target price of TRY41.55/share (Prev: TRY57.41), offering 56% upside potential. We have revised both our inflation projections and estimates following the implementation of inflationary accounting for the upcoming period. Concrete sales prices were relatively stable in 1Q24 while the gross and EBITDA margins were down by 554bps and 524bps, respectively. On top of low seasonality in first quarters with weak construction activity, especially in housing projects, concrete prices were also stable in 1Q24 amid mounting competition. Although we anticipate a decline in concrete sales volume for the second quarter, as also seen in 2Q23, we expect a 14% HoH recovery in sales volume for 2H24 thanks to strong pending orders with higher exposure to infrastructure projects. With our conservative stable margin prediction for the rest of the year, our 2024 forecasts suggest an EV/EBITDA of 3.8x for 2024 vs. its historical average of 6.2x. With the projection of only minor volume growth for 2025, our EV/EBITDA multiple reaches 2.6x. Despite the monetary losses which the company has booked on its solid balance sheet with its calculated TRY1.5bn net cash position as of the end of 2024, its 2024F P/E multiple of 7.8x implies a 32% discount to its peers. Despite a weak sector outlook, Boğaziçi Beton has improved its resilience to economic slowdowns in volume terms thanks to its relatively high level of pending orders with a concentration on infrastructure projects. With its highly discounted valuation and solid balance sheet, we maintain our Outperform rating for the stock and deem the current discounted levels to be highly attractive for investors seeking to play on a revival for the industry in the coming period.

Margins have bottomed and volume growth looking healthy for 2H: Despite the weak demand dynamics in the domestic market, Boğaziçi Beton's sales volume remained almost stable in 1Q24 compared to 1Q23. However, with raw material and manufacturing costs exceeding the incremental unit sales prices, its gross margin was squeezed by 5.5% in 1Q24. For the rest of the year, although the company has over 4 million m^3 in pending concrete orders, we conservatively assume concrete sales of 3.6mn m^3 due to slowing construction activities and intensive competition in the construction material segment and for 2H24, we forecast a healthy 14% HoH recovery in sales volume. We believe concrete prices already started to rebound in 2Q24, which will partially offset the pressure from elevated costs - but have assumed margins will remain at their current levels for the remainder of the year, which would imply nearly stable EBITDA generation in real terms on a YoY basis.

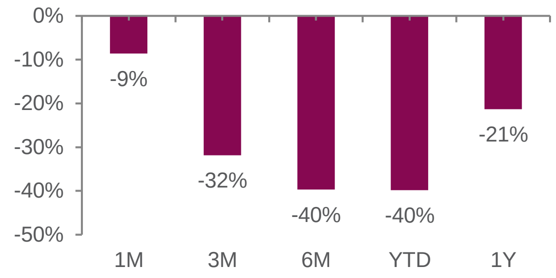
Solid FCF generation despite headwinds: With the completion of its solar power plant investment, Boğaziçi Beton has no heavy capex requirement while its CUR is still at 60%. With our nominal assumption of TRY2.0bn in EBITDA generation and TRY349mn in capex, we forecast TRY1.2bn in FCF for 2024, implying a FCF yield of 12.2% vs. an average of 2.7% for BIST Industrials. With our assumption of a 3.9% CAGR in total sales volume for the next 3 years, we also calculate a 20.2% CAGR in FCF generation for the next 3 years. This may pave the way for sustainable dividend payments, with our forecast of a 5.7% DY in 2025 and a 13.9% CAGR in the DPS over the next 3 years.

Discounted valuations offer good entry level: Based on our 2024YE prospective earnings, the stock trades at a P/E of 7.8x and EV/EBITDA of 3.8x, implying an average 37% discount to the current multiples of domestic peers. Despite the challenging economic environment with the slowdown in housing projects, we believe the company is defensively positioned as its pending concrete orders are mainly for infrastructure projects and resilient to the downturn in the construction activity. Accordingly, in view of its solid FCF generation capability with highly discounted multiples, we maintain our "Outperform" rating for the stock.

Stock data

Bloomberg / Reuters	BOBET TI / BOBET.IS
Mcap (US$mn)	309,9
EV (US$mn)	292,3
Avg. Trd. Vol. (US$mn)	4,3
Free float	30%

Relative Performance to BIST100



Key Data (TRYmn)	2023	R.2023	2024E	R.2024	2025E
Revenues	8.902	12.586	10.582	13.082	13.376
Growth	*41%*		*19%*		*26%*
EBITDA	2276	3218	2241	2771	2825
Growth	*66%*		*-2%*		*26%*
Net Profit	1404	1985	1292	1597	1794
Growth	*260%*		*-8%*		*39%*
P/E (x)	7,0		7,8		5,6
EV/EBITDA (x)	4,1		3,8		2,6
P/BV (x)	1,9		1,7		1,4
FCF yield (%)	14%		12%		15%
Div. yield (%)	4%		5,7%		5,2%

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Figure 1 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	2022	2023	Restated 2023	2024E	Restated 2024E	2025E
Revenues	**6.294**	**8.902**	**12.586**	**10.582**	**13.082**	**13.376**
Gross profit	**904**	**1.809**	**2.558**	**1.770**	**2.188**	**2.318**
EBITDA	**1.371**	**2.276**	**3.218**	**2.241**	**2.771**	**2.825**
Depreciation	535	552	**781**	599	741	665
EBIT	**837**	**1.724**	**2.437**	**1.642**	**2.030**	**2.160**
Net other income	45	250	**353**	333	412	404
Income from investing activities	65	204	**288**	285	352	351
Net financial income	-255	-728	**-1.029**	-537	-664	-523
Profit from associates	0	0	**0**	0	0	0
PBT	**692**	**1.449**	**2.049**	**1.723**	**2.130**	**2.392**
Taxes	-302	-45	**-64**	-431	-532	-598
Minority interest	0	0	**0**	0	0	0
Net income	**390**	**1.404**	**1.985**	**1.292**	**1.597**	**1.794**

Balance Sheet (TLmn)	2022	2023	Restated 2023	2024E	Restated 2024E	2025E
Current assets	**1.832**	**2.968**	**3.613**	**4.596**	**5.682**	**6.388**
Cash equivalents	370	1.575	1.917	2.904	3.590	4.290
Trade receivables	1.219	1.104	1.343	1.312	1.622	1.658
Inventories	111	107	130	133	165	167
Other current assets	132	182	221	248	306	273
Non-current assets	**3.170**	**4.796**	**5.839**	**4.566**	**5.645**	**4.621**
Tangibles	2.964	4.410	5.369	4.203	5.196	4.217
Intangibles	2	4	5	6	7	7
Other non-current assets	204	382	465	358	442	397
Total assets	**5.002**	**7.764**	**9.452**	**9.162**	**11.327**	**11.009**
Current liabilities	**1.141**	**2.081**	**2.533**	**2.745**	**3.394**	**3.246**
Short-term loans	119	651	792	941	1.163	1.100
Trade payables	687	1.010	1.230	1.255	1.552	1.575
Other current liabilities	334	420	511	550	679	571
Non-current liabilities	**483**	**446**	**543**	**458**	**566**	**534**
Long-term loans	78	382	465	393	486	470
Other non-current liabilities	405	65	79	65	80	65
Minority Interest	**0**	**0**	**0**	**0**	**0**	**0**
Shareholders' equity	**3.377**	**5.237**	**6.375**	**5.959**	**7.367**	**7.229**
Total liabilities and equity	**5.002**	**7.764**	**9.452**	**9.162**	**11.327**	**11.009**

Key metrics	2022	2023	2024E TRY Real	2024E	2025E TRY Real	2025E
Growth						
Revenue growth	589%	41%	-16%	19%	2%	26%
EBITDA growth	888%	66%	-30%	-2%	2%	26%
Net income growth	937%	260%	-35%	-8%	12%	39%
Profitability						
Gross Margin	14,4%	20,3%	20,3%	16,7%	16,7%	17,3%
EBITDA margin	21,8%	25,6%	25,6%	21,2%	21,2%	21,1%
Net margin	6,2%	15,8%	15,8%	12,2%	12,2%	13,4%
Return on assets (ROA)	12,0%	22,0%	26,8%	14,7%	16,0%	17,1%
Return on equity (ROE)	18,1%	32,6%	39,7%	22,1%	24,3%	26,2%
Return on cap. emp. (ROCE)	12,3%	29,9%	44,2%	29,4%	29,4%	39,8%
Leverage						
Net Debt	-208	-543	-767	-1.570	-1.941	-2.721
Net debt / Equity	-0,1	-0,1	-0,1	-0,3	-0,3	-0,4
Net debt / EBITDA	-0,2	-0,2	-0,2	-0,7	-0,7	-1,0
EBIT Interest coverage	10,8	2,4	3,5	2,0	2,3	2,4
Efficiency						
Total asset turnover	1,3	1,1	1,3	1,2	1,2	1,2
Equity turnover	1,9	1,7	2,0	1,8	1,8	1,9
WC/Sales	10%	2%	2%	2%	2%	2%
Opex/Sales	1,1%	1,0%	1%	1,2%	1,2%	1,2%

Cash Flow (TLmn)	2022	2023	Restated 2023	2024E	Restated 2024	2025E
EBITDA	1.371	2.276	3.218	2.241	2.771	2.825
Change in working capital	-477	442	624	11	13	-60
Taxes (EBIT x 25%)	-192	-396	-561	-411	-508	-540
Capital Expenditures	-62	-1.173	-1.659	-392	-484	-475
Adjustment	59	244	346	-219	-270	-244
FCFF	699	1.393	1.969	1.231	1.522	1.505

Source: QNBFI Estimates

Valuation

We have incorporated non-IAS valuation on DCF and derive a 12-month target value of TRY41.55/share, implying 56% upside potential.

- We value Bogazici Beton based on our TRY-denominated DCF model and reach a 12-month target price of TRY41.55/share, indicating 56% upside. We gradually reduce risk-free rate from 45.0% to 20.0% and assume 6.0% equity risk premium, a 1.0x stock beta and 13% terminal growth rate. Accordingly, the WACC is calculated at 46.7% for 2024 and 25.7% on average for the following couple of years.
- On our 2024 earnings forecast, Company's EV/EBITDA and P/E multiples stand at 3.8x and 7.8x respectively.

Figure 2 – DCF Summary

TRYmn	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	9.421	12.056	14.275	16.607	19.148	21.863	24.963	28.475	32.355	36.471
Revenue Growth	*32%*	*28%*	*18%*	*16%*	*15%*	*14%*	*14%*	*14%*	*14%*	*13%*
EBIT	1.673	2.193	2.632	3.065	3.511	4.052	4.642	5.269	5.875	6.393
EBITDA	1.987	2.542	3.019	3.493	3.984	4.574	5.104	5.596	6.224	6.782
EBITDA Margin	*21,1%*	*21,1%*	*21,1%*	*21,0%*	*20,8%*	*20,9%*	*20,4%*	*19,7%*	*19,2%*	*19%*
Taxes	-418	-548	-658	-766	-878	-1.013	-1.160	-1.317	-1.469	-1.598
Inc./dec. in W/C	11	-60	-43	-42	-41	-40	-51	-108	-51	-60
Capex	-349	-428	-487	-544	-602	-660	-723	-668	-731	-794
FCF	**1.231**	**1.505**	**1.831**	**2.141**	**2.464**	**2.861**	**3.169**	**3.502**	**3.973**	**4.329**
WACC	46,7%	37,4%	28,2%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%
PV of FCFs	**5.974**									
Terminal Growth Rate	13%									
Terminal Value	44.680									
PV of TV	**3.912**									
Value of Firm	9.886									
Net Debt	-570									
Minority Interest	0									
Equity Value	**10.455**									
12M Target Value	**15.788**									
12M TP (TL)	**41,55**									

Source: 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.

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