TURKISH EQUITIES / COMPANY UPDATE

Ford Otosan

Autos shifting down a gear – Ford Otosan remains solid

27 December 2024

Outperform
(Maintained)

Close Price: TRY940
12M Target Price: TRY1,371
Upside Potential: 46%

We are revising our forecasts for Ford Otosan while maintaining our "Outperform" rating. Our new 12-month TP of TRY1.371/share offers 46% upside potential. Despite a murky outlook for 2025 for both the domestic and European CV market, we expect a 13% increase in overall volumes (exports up 17%, domestic down 6%) for Ford Otosan thanks to the production of the VW 1 tonne CV, electrification of some current models which started in 1H24, and the ramping-up of Custom and Courier models. Our LT operational margin forecasts are revised down compared to previous years due to the increasing share of exports, and increasing share of EV's in the Company's portfolio. Our new EBITDA margin forecasts around 8-9% (down from 9-10% previously) throughout our 10-year projection horizon. In 2025, we expect domestic margins to pick-up from a low base and foresee 28.5% EUR-based growth in our EBITDA assumptions. Including the hard currency cost plus markup scheme we are bullish on the Company despite a more competitive and less profitable picture, as recent investments and VW production drives one of the most significant growth stories in the BIST universe. On the negatives, the heavy CAPEX period for new investments continues, and is expected to continue in 2025 as well, diluting our FCFF margin for the short term and bringing higher short-term financial costs too, weighing on the bottom-line. The stock trades at an EV/EBITDA of 6.9x on our YE25 forecasts, implying a 14% discount to its 10-yr average. Although the discount on ST multiples are not very attractive, we maintain our "Outperform" rating on nearing solid operational earnings momentum – may keep the multiples at relatively high levels compared to historical averages in the coming quarters.

Export volumes to surge thanks as VW's 1 tonne CV production gets underway… Merging into the end of 2024, Ford Otosan debuted the VW's 1 tonne CV, which is set to boost export sales from early 2025, with a capacity of 160,000 units of the recently unveiled 1-ton van to be produced annually. Assuming a ramp-up period for production, we project production of 80,000 of the vans in the first year, 100,000 in 2026, and 120,000 in 2027. We anticipate that the company will use its adaptable manufacturing lines to produce both electric and internal combustion engine (ICE) variants of current models, which will boost sales volume to a lesser degree. As such, we anticipate a 17.1% rise in export volumes and assuming the company sacrifices some of the market share it gained in the absence of some of its competitors' models in the domestic market, we expect 6.1% YoY volume shrinkage in 2025.

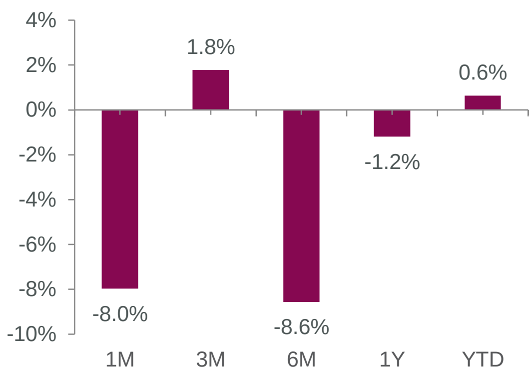
Normalisation in profitability to continue, with EBITDA margin to decline to historical levels… With a higher share of exports, plus production related challenges such as the strong TRY along with high cost inflation, profit margins have sagged so far in 2024. With the cost-plus mark-up scheme, the effect of this situation was limited for Ford Otosan; yet, we expect 2024E EBITDA per vehicle to shrink by 33.0% to EUR1,811, before picking up to EUR2,052 in 2025. Our new EBITDA per vehicle assumption ranges between EUR2,000-2,300. With higher volumes, we expect the EBITDA to grow by 28.5% in EUR terms, translating into an EBITDA margin of 8.0% in 2025E. Assuming normalised (lower) margins, we predict an average 8.1% EBITDA margin through our 10-year projection period, with export volumes accounting for about 85% of total volumes. With net profit impacted by financial charges, the PBT per car continues to decrease – estimated at EUR1,602 in 2024, a decrease of 46.6%. With higher sales, we anticipate a 11.2% increase in the PBT per car to EUR1,781 in 2025.

2025E EV/EBITDA at a 14% discount to 10-yr average… The Company is trading at a 6.9x EV/EBITDA ratio based on 2025E projected profits, and the multiple levels indicate an 17% discount to its 10-year average. Multiples are now less appealing due to the significant CAPEX period-related increase in net debt, with our 2024E predictions suggesting a net debt/EBITDA multiple reaching all-time highs of 2.7x. Even though 2025E will be another CAPEX-heavy year for the Company, the multiple eases to 2.0x in our projections. Along with the ramp-up of the mentioned models, the multiple eases further to 1.6x in 2026E.

Stock data

Bloomberg / Reuters	FROTO TI / FROTO.IS
Mcap (US$mn)	9,263
EV (US$mn)	12,269
Avg. Trd. Vol. (US$mn)	31.8
Free float	18%

Relative Performance to BIST100



Key Data (TRYmn)	2023	R.2023	2024E	R.2024	2025E
Revenues	411,906	582,393	592,658	732,683	837,011
Growth	*93%*		*56%*		*41%*
EBITDA	42,710	60,388	42,190	52,158	66,673
Growth	*34%*		*-1%*		*58%*
Net Profit	49,056	69,360	33,113	40,936	48,446
Growth	*77%*		*-32%*		*46%*
P/E (x)	5.1		10.0		6.8
EV/EBITDA (x)	7.8		10.5		6.9
P/BV (x)	2.5		3.2		2.4
FCF yield (%)	-2%		2%		4%
Div. yield (%)	2.6%		8.9%		5.0%

Analyst
Tolga Han
+90 212 336 7277
tolga.han@qnbinvest.com.tr

Analyst
Can Alagöz
+90 212 336 7273
can.alagoz@qnbinvest.com.tr

Figure 1 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	2023	Restated 2023	2024E	Restated 2024E	2025E
Revenues	**411,906**	**582,393**	**592,658**	**732,683**	**837,011**
Gross Profit	**55,248**	**78,115**	**61,652**	**76,218**	**93,095**
EBITDA	**42,710**	**60,388**	**42,190**	**52,158**	**66,673**
Depreciation	6,065	8,575	12,166	15,041	16,212
EBIT	36,646	**51,813**	30,024	**37,117**	50,460
Net other income	7,371	10,422	1,376	1,701	1,944
Income from investing activities	2,800	3,959	3,360	4,154	4,032
Net financial income	611	865	2,550	3,152	1,411
Profit from associates	0	0	0	0	0
PBT	**47,428**	**67,059**	**37,310**	**46,125**	**57,846**
Taxes Paid	2,740	3,874	9,328	11,531	14,462
Minority Interest	0	0	0	0	0
Net Profit/(Loss)	**49,056**	**69,360**	**33,113**	**40,936**	**48,446**

Balance Sheet (TLmn)	2023	Restated 2023	2024E	Restated 2024E	2025E
Current assets	**139,828**	**158,498**	**188,684**	**233,264**	**252,433**
Cash equivalents	20,684	23,446	33,718	41,685	34,234
Trade receivables	61,938	70,209	73,067	90,331	103,193
Inventories	39,878	45,203	58,192	71,941	81,525
Other current assets	17,327	19,641	23,706	29,307	33,480
Non-current assets	**154,998**	**175,695**	**174,901**	**216,224**	**217,230**
Tangibles	77,708	88,085	92,370	114,194	110,268
Intangibles	24,399	27,657	20,301	25,098	23,261
Other non-current assets	52,890	59,953	62,229	76,932	83,701
Total assets	**294,826**	**334,193**	**363,585**	**449,488**	**469,663**
Current liabilities	**127,890**	**144,967**	**171,572**	**212,109**	**226,642**
Short-term loans	46,143	52,305	67,607	83,580	78,157
Trade payables	71,415	80,951	87,964	108,746	123,374
Other current liabilities	10,332	11,712	16,002	19,782	25,110
Non-current liabilities	**67,747**	**76,793**	**89,146**	**110,208**	**108,264**
Long-term financial loans	56,777	64,359	79,663	98,485	87,339
Other non-current liabilities	10,970	12,435	9,483	11,723	20,925
Minority Interest	0	0	0	0	0
Shareholders' Equity	**99,188**	**112,432**	**102,867**	**127,171**	**134,757**
Total liabilities and equity	**294,826**	**334,193**	**363,585**	**449,488**	**469,663**

Key metrics	2023	2024E TRY Real	2024E	2025E TRY Real	2025E
Growth					
Revenue growth	28%	2%	44%	14%	41%
EBITDA growth	34%	-30%	-1%	28%	58%
Net income growth	77%	-52%	-32%	18%	46%
Profitability					
Gross Margin	13.4%	13.4%	10.4%	10.4%	11.1%
EBITDA margin	10.4%	10.4%	7.1%	7.1%	8.0%
Net margin	11.9%	11.9%	5.6%	5.6%	5.8%
Return on assets (ROA)	20.9%	25.9%	10.0%	10.7%	11.3%
Return on equity (ROE)	65.3%	79.2%	31.6%	35.9%	39.8%
Return on cap. emp. (ROCE)	35.2%	41.0%	15.9%	17.2%	19.4%
Leverage					
Net Debt	82,237	116,275	113,552	140,380	131,262
Net debt / Equity	0.8	1.0	1.1	1.1	1.0
Net debt / EBITDA	1.9	1.9	2.7	2.7	2.0
EBIT Interest coverage	0.7	0.2	0.4	0.3	1.2
Efficiency					
Total asset turnover	1.4	1.7	1.6	1.6	1.8
Equity turnover	4.2	5.2	5.8	5.8	6.2
WC/Sales	9%	9%	9%	9%	8%
Opex/Sales	4.5%	12.8%	5.3%	14.0%	5.1%

Cash Flow (TLmn)	2023	Restated 2023	2024E	Restated 2024E	2025E
EBITDA	44,160	62,438	43,034	53,201	66,673
Change in working capital	17,164	24,268	4,678	5,783	9,346
Taxes (EBIT x 25%)	2,117	2,993	4,197	5,189	9,400
Capital Expenditures	31,175	44,079	28,365	35,067	37,070
Adjustment	0	0	0	0	1,333
FCFF	-6,296	-8,902	5,793	7,162	12,190

Source: QNBI Calculations

Valuation

We continue to value Ford Otosan using DCF methodology and found a 12-month target price of TRY 1,371/share. Our 12-month TP offers 46% upside potential at the latest close. In our valuation model, we have incorporated an average weighted-average cost of capital (WACC) of ≈22% for our long-term valuation horizon, driven from a 44.0% cost of borrowing, a 45.5% cost of equity (40% risk-free rate, 5.5% equity risk premium and a 1.0 stock beta) for 2024, which is assumed to decline until 2028. Finally, we set a terminal growth rate of 11%.

Note that we have also incorporated a non-IAS valuation which is based on nominal terms in our relative valuation method.

Our key DCF model assumptions are as follows;

- We are forecasting 56% revenue growth for 2024 in nominal terms given the strong base in 2023 and steady trajectory in exchange rates. Upcoming launches will significantly support the top-line in the mid and long-term, and we forecast a non-IAS29 CAGR of 21.0% between 2024-2029.
- We have assumed that margins will converge to their historical averages in 2024 and 2025. Our forecasts point to a strong nominal EBITDA growth of 58% for 2025E, albeit driven by growth in volumes, to be followed by a CAGR of 25% in nominal EBITDA between 2024-2029. Our non-IAS EBITDA forecast points to an EBITDA margin of 9.4% for 2025E and 9.4% in 2026E, expanding slightly with the ramp-up period of current models.
- While the FCF will become more attractive in the future, in the short-term we believe the high CAPEX trajectory will deplete the cashflow. With new launches around the corner and the high CAPEX period of 2024 and 2025 drawing to a close, we expect an increase in the FCF margin and forecast cashflow of TR38.0bn in 2026 and TRY47.7bn in 2027, corresponding to FCFF margins of 4.4%, and 4.6%, respectively.
- Based on 2025 prospective earnings, the stock trades at a P/E of 6.8x and EV/EBITDA of 6.9x, but looking at 2026 prospective earnings, the Company trades at a P/E of 5.5x and EV/EBITDA of 5.7x – trading discounted compared to its historical averages.

Figure 28 – Summary of DCF Model

FROTO (TLmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	523,821	740,166	891,655	1,076,373	1,221,942	1,377,208	1,549,625	1741726.1	1,957,649	2,196,419
y/y growth	*58%*	*41%*	*20%*	*21%*	*14%*	*13%*	*13%*	*12%*	*12%*	*12%*
EBIT	31,361	52,765	64,712	79,826	90,622	103,637	117,712	132,810	148,691	166,650
EBITDA	44,398	70,357	84,882	102,918	116,812	133,285	151,192	170,885	192,239	215,413
y/y growth	*1%*	*58%*	*21%*	*21%*	*14%*	*14%*	*13%*	*13%*	*12%*	*12%*
EBITDA Margin	*8%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Inc./dec. in W/C	5,400	11,754	10,012	13,020	9,211	10,584	11,693	12,964	14,917	16,620
CAPEX	28,365	37,070	22,569	25,277	27,805	30,863	34,258	38,027	42,210	46,853
FCFF	**6,260**	**11,724**	**40,224**	**49,856**	**54,000**	**62,325**	**71,631**	**82,301**	**93,322**	**105,417**
WACC	36.9%	28.8%	22.8%	20.9%	18.9%	18.9%	19.0%	19.0%	19.0%	19.0%
PV of FCFF	**196,556**									
Terminal growth rate	*11%*									
Terminal Value	1,458,400									
PV of Terminal Value	**268,054**									
Value of Firm	**464,610**									
Less Minority Interest	0									
Net debt @ 3Q23	113,955									
Equity Value	350,656									
Fair Value per share as of now	999									
Fair Value per share (12M FWD)	1,348									
Upside / (Downside)	44%									

Source: QNBI Estimates

QNB Invest 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, Tolga Han.**

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