QNB FINANSINVEST

TURKISH EQUITIES / TRANSFER OF COVERAGE

10 January 2024

Turkish Automotive Sector

Closed the year with records

We are re-initiating our coverage for Turkish automotive companies, FROTO, TOASO, and DOAS with new sector data forecasts, company specific estimates and updated macroeconomic calculations. On our revised valuation models, FROTO stands out as our top-pick amongst auto players followed by TOASO and DOAS. Turkish automotive companies have had a stellar year, with 63% YoY domestic market volume growth in 2023. The growth was mainly supported by the low interest rate environment and the gradual stabilisation in USD/TRY rates. Export volumes to the EU/UK were also strong, benefiting from pent-up demand from 2021-22 with record order books. Momentum remained brisk in the last quarter on the seasonality effect; however, we believe the risks now are on the downside for demand in 2024. Our stance rests on the fact that delayed orders are masking the demand challenges caused by a tightening monetary policy at home and deteriorating macroeconomic outlook in export markets. We believe most of these orders are decayed, raising question marks over the sustainability of the 2023's growth trajectory. Commercial vehicle (CV) sales may increase asymmetrically compared to passenger car (PC) sales, along with the electric vehicle (EV) transition and continuance of investment expenditures. Hence, we foresee a total light vehicle (LV) shrinkage of 27% in the domestic market with a PC shrinkage of 29%, and light commercial vehicle (LCV) shrinkage of 20%. On the production front, the EV trend has also had a significant impact on the product lines of domestic original equipment manufacturers (OEMs), forcing them to modify existing product lines or build new lines. This has led to aggressive new model launches and electrification of existing models, which we have incorporated in our valuations and sector projections.

In view of these changes, we are re-initiating our coverage for three stocks that trade on the Borsa İstanbul; FROTO, TOASO, and DOAS. We initiate coverage of these stocks;

Ford Otosan - Keeping Pace… Re-initiating with an Outperform rating and 12-month DCF-driven TP of TRY1,225/share, offering 63% upside potential from current market levels. The stock trades at a P/E of 6.3x and EV/EBITDA of 6.2x based on our 2024YE prospective earnings, implying an average of 91% and 63% discount to its 5-year average historical multiples, respectively.

Tofas – On the Cusp of a Transition… Re-initiating with an Outperform rating and 12-month DCF-driven TP of TRY317/share, offering 46% upside potential from current market levels. The stock trades at a P/E of 5.9x and EV/EBITDA of 5.2x based on our 2024YE prospective earnings, implying an average of 59% and 28% discount to its 5-year average historical multiples, respectively.

Dogus Otomotiv – Hazy Domestic Outlook Weighs on Profitability… Re-initiating with a Neutral rating and 12-month DCF-driven TP of TRY323/share, offering 28% upside potential from current market levels. The stock trades at a P/E of 3.2x and EV/EBITDA of 3.7x based on our 2024YE prospective earnings, implying an average of 61% and 25% discount to its 3-year average historical multiples, respectively.

FROTO
Outperform
(Transfer of Coverage)

Close Price: TRY755
12M Target Price: TRY1,225
Upside Potential: 62%

TOASO
Outperform
(Transfer of Coverage)

Close Price: TRY218
12M Target Price: TRY317
Upside Potential: 46%

DOAS
Neutral
(Transfer of Coverage)

Close Price: TRY252
12M Target Price: TRY323
Upside Potential: 28%

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Manufacturing Remains Solid

The EV trend has had a significant impact on original equipment manufacturers' (OEMs) product lines, forcing them to modify the existing or build new manufacturing lines. This has led to aggressive new model launches and electrification of existing models. We believe this trend will continue going into 2024-25. Electric CV projects are also in the agenda for most OEMs, contributing to overall new model launches and electrifications. The rate of replacement is poised to increase in the coming years with these new or existing electrified models, along with the low base effect for volumes from the Covid-19 pandemic and the semiconductor shortage.

According to figures provided by the Automotive Manufacturers Associations (OSD), 11M23 export volumes were up 6% YoY, mostly attributable to the advantage of Turkish OEMs in terms of production and freight costs. We expect the proportion of production being exported to hover at around 60-70%, with most exports being shipped to the EU and MENA regions, allowing the companies to mitigate any downside risks related to the Turkish Lira and raw material prices.

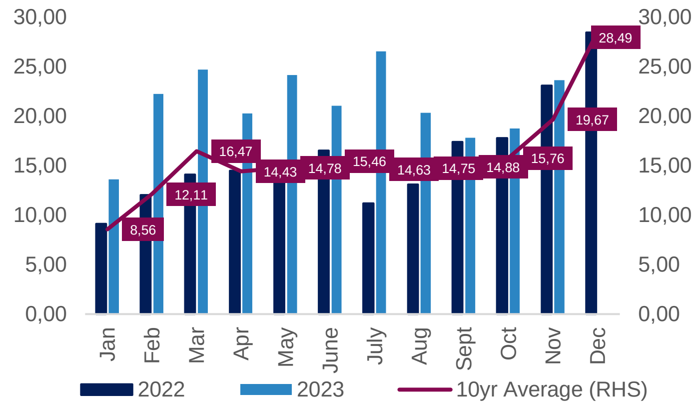
Figure 1– Productions and Exports Data (k/units)

(Units)	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Total Production												
2020	109,783	128,003	103,359	11,164	63,147	103,273	118,030	75,342	142,129	150,746	143,264	149,638
2021	106,176	116,088	123,427	105,496	82,860	107,219	65,418	106,748	107,029	108,078	115,078	131,557
2022	90,523	105,646	106,565	107,180	103,984	135,424	91,211	92,625	128,872	114,835	133,469	142,314
2023	111,837	111,959	142,799	112,733	137,012	118,898	135,360	73,020	130,545	136,177	138,735	-
3-yr Average	*104,580*	*115,424*	*119,038*	*84,143*	*96,751*	*116,204*	*102,505*	*86,934*	*127,144*	*127,459*	*132,637*	
Discount to avg.	*7%*	*-3%*	*20%*	*34%*	*42%*	*2%*	*32%*	*-16%*	*3%*	*7%*	*5%*	

(Units)	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Total Exports												
2020	89,962	102,615	83,771	10,613	44,406	70,809	78,242	42,875	92,832	104,093	101,691	94,629
2021	77,569	87,908	95,633	78,086	51,873	70,458	50,781	82,621	76,249	87,027	75,892	102,288
2022	67,890	78,735	78,924	76,173	78,663	86,620	59,636	64,513	96,810	91,352	96,869	93,939
2023	79,381	78,764	95,684	75,412	86,019	90,650	80,875	69,950	77,208	98,126	94,143	-
Chg. (yoy)	*17%*	*0%*	*21%*	*-1%*	*9%*	*5%*	*36%*	*8%*	*-20%*	*7%*	*-3%*	-
Chg. (mom)		*1%*	*-18%*	*27%*	*-12%*	*-5%*	*12%*	*16%*	*-9%*	*-21%*	*4%*	-
Average	*78,701*	*87,006*	*88,503*	*60,071*	*65,240*	*79,634*	*67,384*	*64,990*	*85,775*	*95,150*		
Discount to avg.	*1%*	*-9%*	*8%*	*26%*	*32%*	*14%*	*20%*	*8%*	*-10%*	*3%*		

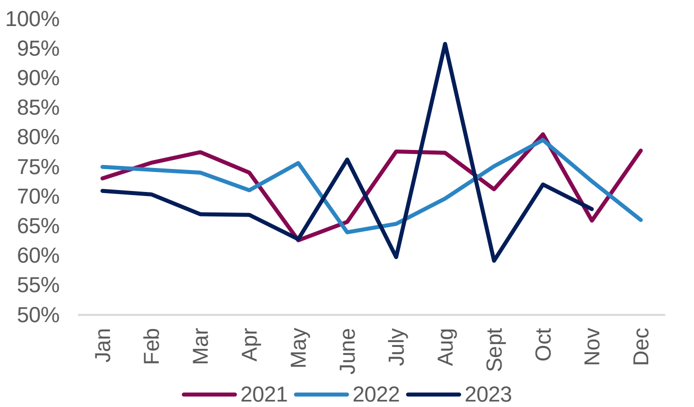
Source: BloombergNEF - QNBFI Calculations

Figure 2 – Total Light Vehicle (LV) Exports (unit/k)



Source: OSD

Figure 3 – Exports/Production (%)

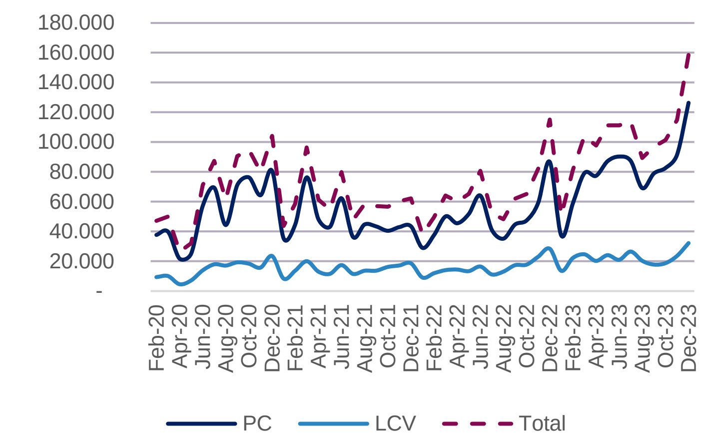


Source: OSD

Normalization in the Domestic Market

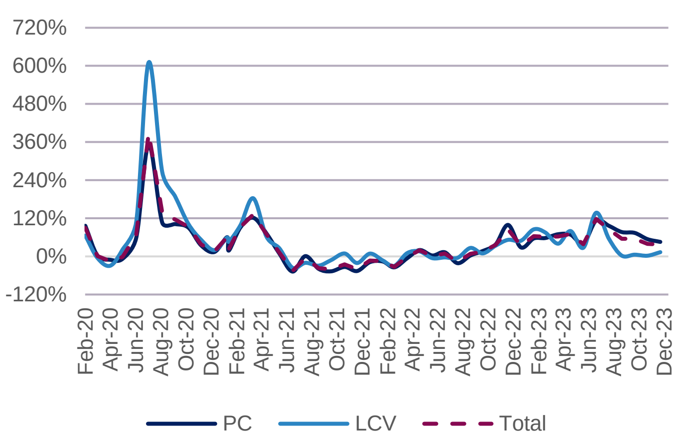
Turkish automotive companies have enjoyed a stellar year so far, reaching record volumes in both PC and CV sales. Looking at 2023 figures, PC sales were strong, accounted for 78% of all LV sales. Comparing the data to previous year, PC sales were up 63% YoY to 966k units while LCV sales only rose by 39% YoY to reach 265k units. The growth in 2023 mainly supported by the pent-up demand from the semi-conductor shortage which affected vehicle availability in 2021-2022. Heavy Commercial Vehicle (HCV) sales also performed strongly, supported by the need of infrastructure facilities, particularly in cities affected by the devastating earthquake. Sales reached 35,000 units in 11M23, up 29% YoY, according to data published by the heavy commercial vehicles association (TAID).

Figure 4 – Monthly Vehicle Sales (units)



Source: Automotive Distributors' Association (ODD)

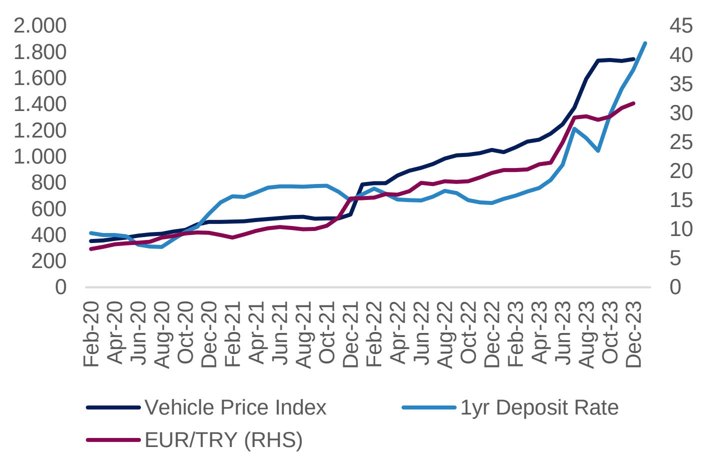
Figure 5 – Monthly Vehicle Sales Growth (%)



Source: ODD

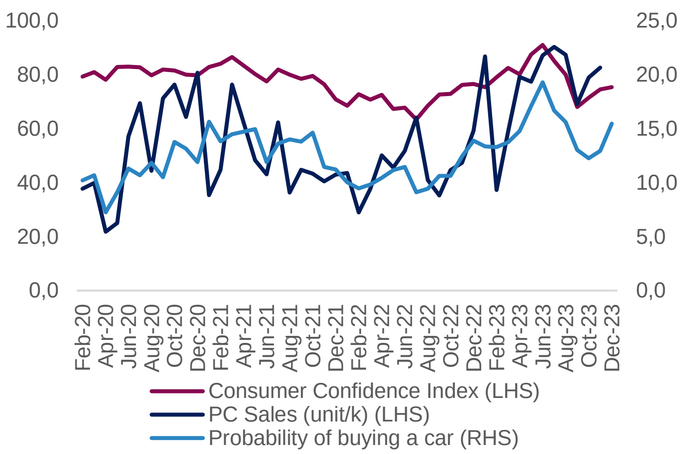
The negative real interest rate environment with the gradual stabilisation of exchange rates at the beginning of 2023 was another driver of the surge in demand, with consumers strengthening their purchasing power. Furthermore, motor vehicles have been used as an alternative investment tool in this high inflation, low interest rate environment. As a result, vehicle sales were strong, despite a deteriorating macroeconomic environment, a depreciating currency, a lack of discounts, and low interest rate promotions by the companies.

Figure 6 – Vehicle Price Performance



Source: CBRT and Turkish Statistical Institute (TUIK)

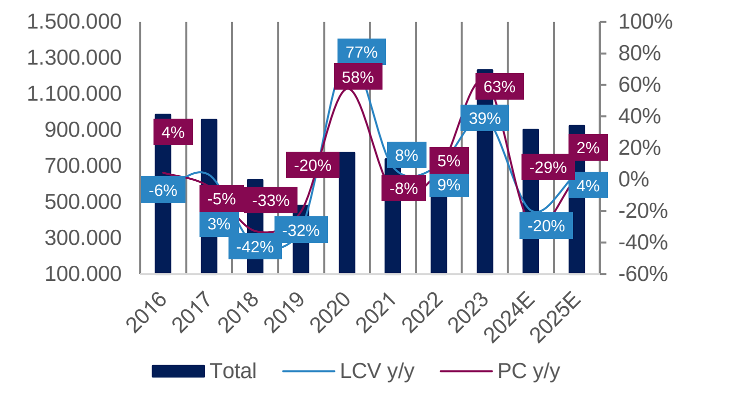
Figure 7 – Macro Indicators / Total Domestic PC Sales



Source: ODD, TUIK

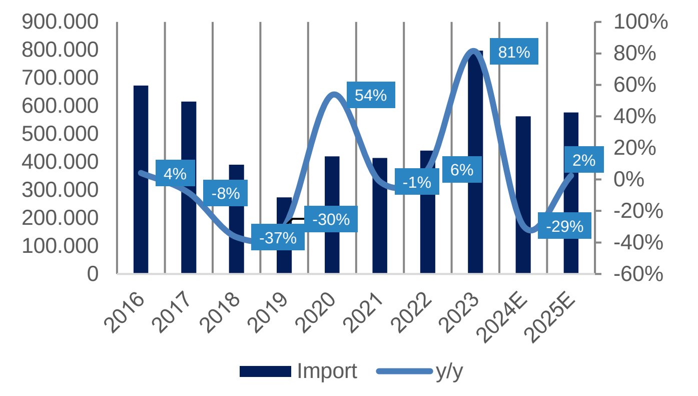
Total LV sales volume rose by 57% in 2023, reaching record highs to 1.23mn units. Going into 2024, we expect YoY declines. Our view rests on the fact that the positive real interest rate environment and dip in second hand car prices are indications of a normalization in the market. Therefore, we believe demand will be subdued in 2024, forecasting a total PC volume shrinkage of 29% and LCV shrinkage of 20% in 2024 representing a total LV shrinkage of 27%. Our asymmetrical growth expectation is based on continuing investments and the increasing need for CVs in the wake of the devastating earthquakes which struck the south of Türkiye. We expect a sharper contraction in volumes of imported cars than in domestically produced cars. For the PC market, we expect a shrinkage of 24% in domestically produced cars and a 31% contraction in volumes of imported cars.

Figure 8 – **Total LV Projections**



Source: ODD - QNBFI Calculations

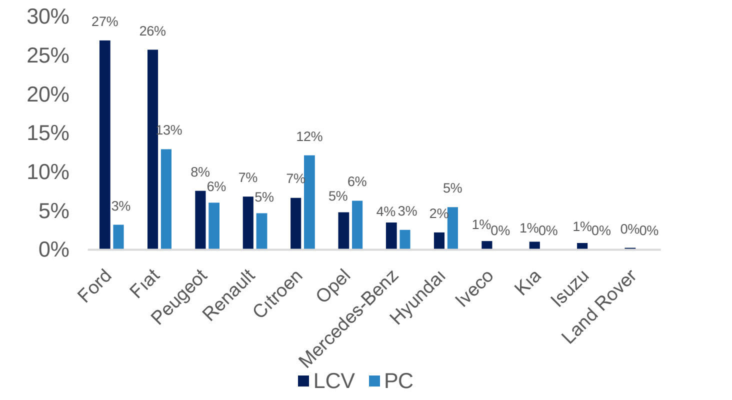
Figure 9 – **Total LV Imports**



Source: ODD - QNBFI Calculations

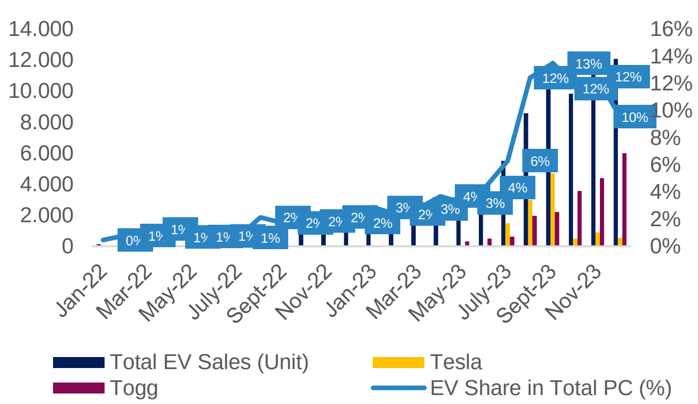
In terms of market shares, Tofas' presence in PC market still remains strong with the Fiat brand commanding a 14% share in total domestic PC sales. On the LCV front, Ford maintains its dominant position with strong Courier, Custom and Transit sales. Going forward, we do not expect any major shift in market shares, but expect Ford to increase its share in the PC market with the Puma model. The migration to EVs has been observed with two leading brands – TOGG and Tesla. The launch of the TOGG and Tesla's model Y has driven the share of EVs in total PC sales. According to December figures, EVs were accounting for 10% of total PC sales, compared to just 2% at the beginning of 2023. We expect the migration to EVs to continue, but at a slower pace, as we consider the growth starting in May as a hype by the launch of the TOGG and Tesla's expansion into Turkey.

Figure 10 – **2023 - Market Shares in Total PC Sales**



Source: ODD - QNBFI Calculations

Figure 11 – **Domestic EV Sales**



Source: ODD - QNBFI Calculations

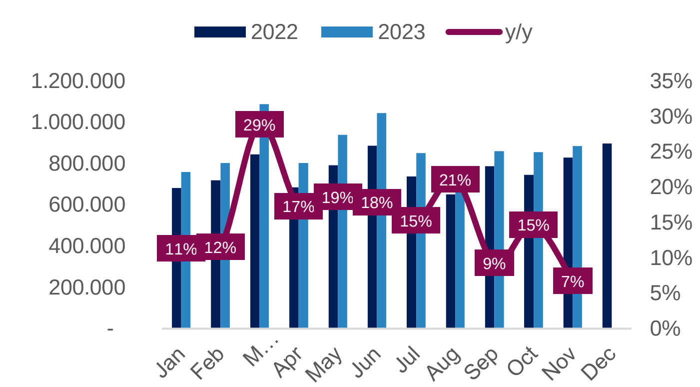
European Market to Remain Brisk, Especially on LCV Segment

EU's car market also enjoyed a bountiful year, with sales expanding significantly to 9.29mn units in 9M23, representing 17.3% YoY growth. PC registrations grew by 6.8% in November, marking the sixteenth consecutive monthly increases and in 9M23, PC registrations reached 7.9mn units, increased by 17.0% YoY. For the CVs, 9M23 CV (ex-bus) sales reached 1.35mn units, up by 19.3% YoY. LCV (vans >3.5t) sales reached1.08mn units increased by 14.6% YoY.

As in Türkiye, pent-up demand due to the semi-conductor shortage in 2021-22 was realised in 2023. Despite the pent-up demand, sales volumes have not yet returned to pre-pandemic levels. This suggests to us that the pent-up demand may continue into 1H24. The trend towards decarbonization also poses upside as it leads to renewals in vehicle fleets of large companies. Combined with a possible improvement in the macro outlook, we may see a return to pre-pandemic level.

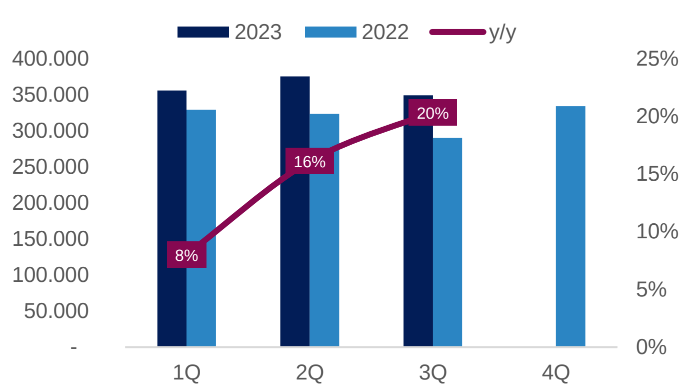
In our projections, however, we have remained conservative on our volume expectations for both the PC segment on the back of a possible decay in pent-up demand and the contrarian argument of a continuing deteriorating macro environment postponing renewals to 2025. We are somewhat more sanguine about the CV segment as replacements for CVs are more mandatory. We believe the renewals will continue on the CVs, either electrification or disposal of old vehicles despite any macro headwinds.

Figure 12 – Total EU PC Sales (units)



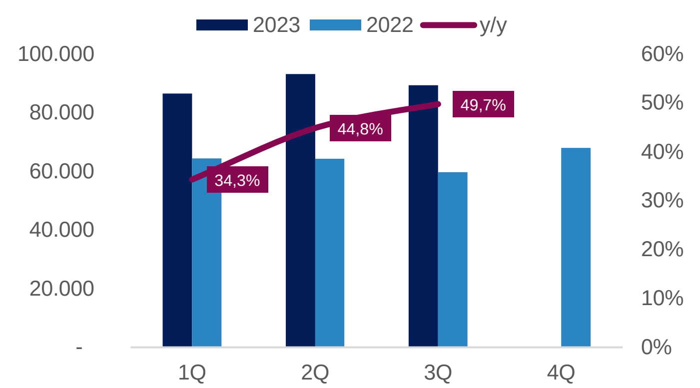
Source: The European Automobile Manufacturers' Association (ACEA)

Figure 13 – Total EU LCV Sales (units)



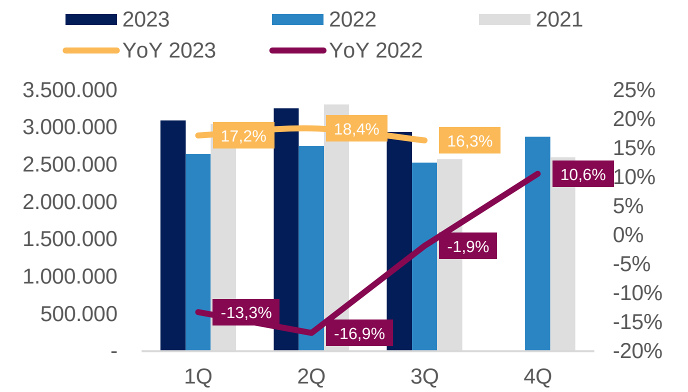
Source: ACEA

Figure 14 – Total EU HCV Sales (units)



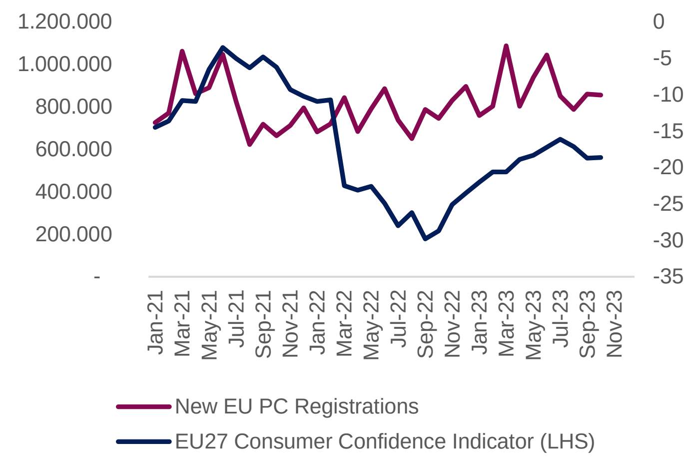
Source: ACEA

Figure 15 – Total EU PC+LCV+HCV Sales (Units)



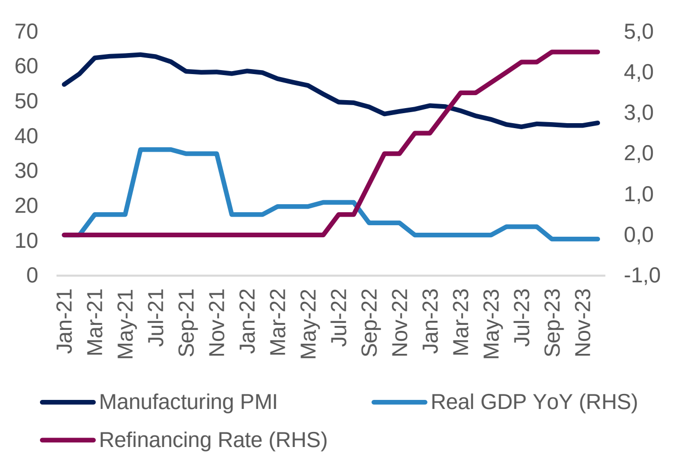
Source: ACEA

Figure 16 – PC Registrations / EU27 CCI



Source: ACEA - Bloomberg - QNBFI Calculations

Figure 17 – EU Macro Indicators

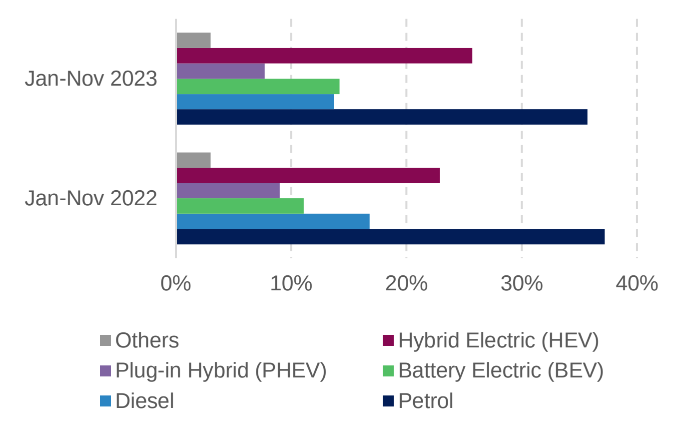


Source: Bloomberg - QNBFI Calculations

The shift to battery electric vehicle (BEV) continued in the PC segment, accounting for a 14% market share in the Jan-Nov 2023 period, compared to 11% in the same period of the previous year. Petrol share declined by 1% compared to same period previous year to 36%. Diesel share dropped significantly by 3 points to 14% losing its shares to mostly BEV and HEV type vehicles.

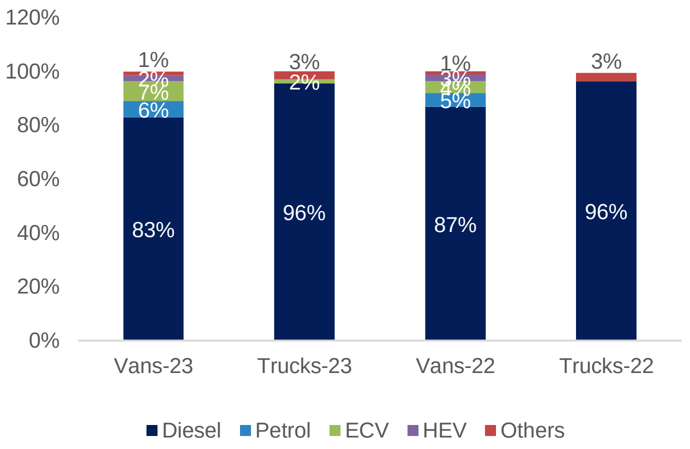
On the CV front, diesel vans remained the most popular option throughout in 9M23, commanding 83% of the market—slightly lower than its 2022 share of 87%. The popularity of alternative fuels and electric options is growing, resulting in minor changes in the market positioning. The market share of electrically charged vans increased to 7.3%, with sales volumes almost doubling with a 91.4% rise. In the meantime, 89% of the market was comprised of petrol and diesel vehicles in this segment, with sales of petrol vehicles increasing by 39.6% with sales of diesel vehicles up by 9.1%.

Figure 18 – PC Shares by Power Source - Jan-Oct 2023-22



Source: ACEA

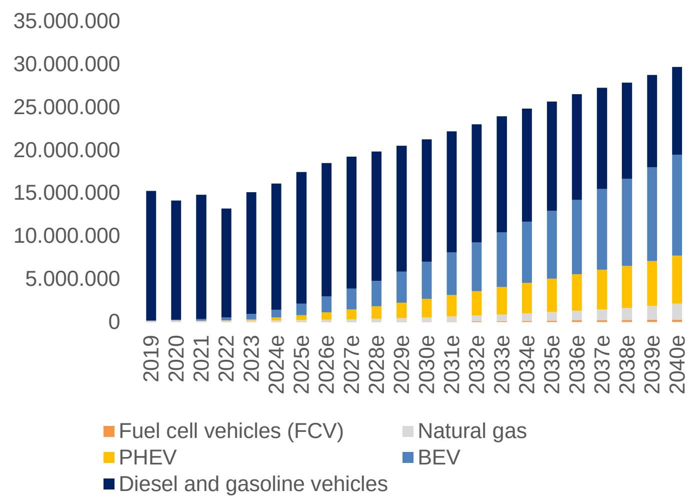
Figure 19 – CV Shares by Power Source - Jan-Oct 2023-22



Source: ACEA

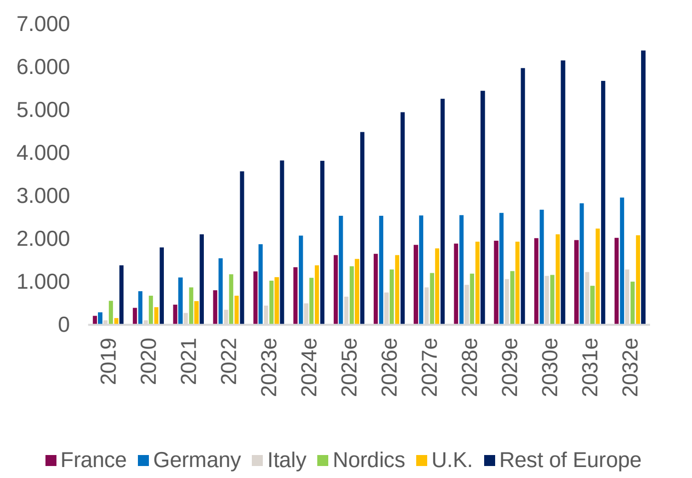
Transition to EV in CV sales in Europe expected continue, increasing 8% in 2024, according to BloombergNEF data. The growth slows down in 2025e, growing only 4% and reaching a total of 2.6mn units. Charger investments are increasing as well and projected to be increased in the upcoming years. The data shows us two things. First, pent-up demand from Covid-era continues with strong new CV registrations, second is the industry shifts to new challenges with heavier regulations on decarbonization. We see that as an opportunity for OEMs although they are forced to shift manufacturing lines and inventing a long-term strategy. We expect that Europe and the UK will continue to commit to EV transition in CVs, investing in the necessary fields to accelerate EV transformation for 2024 and onwards and encourage EV adoption. Accordingly, we may continue to see large fleet replacements which will keep the market resilient.

Figure 20 – CV by Type Sales Projections (k units)



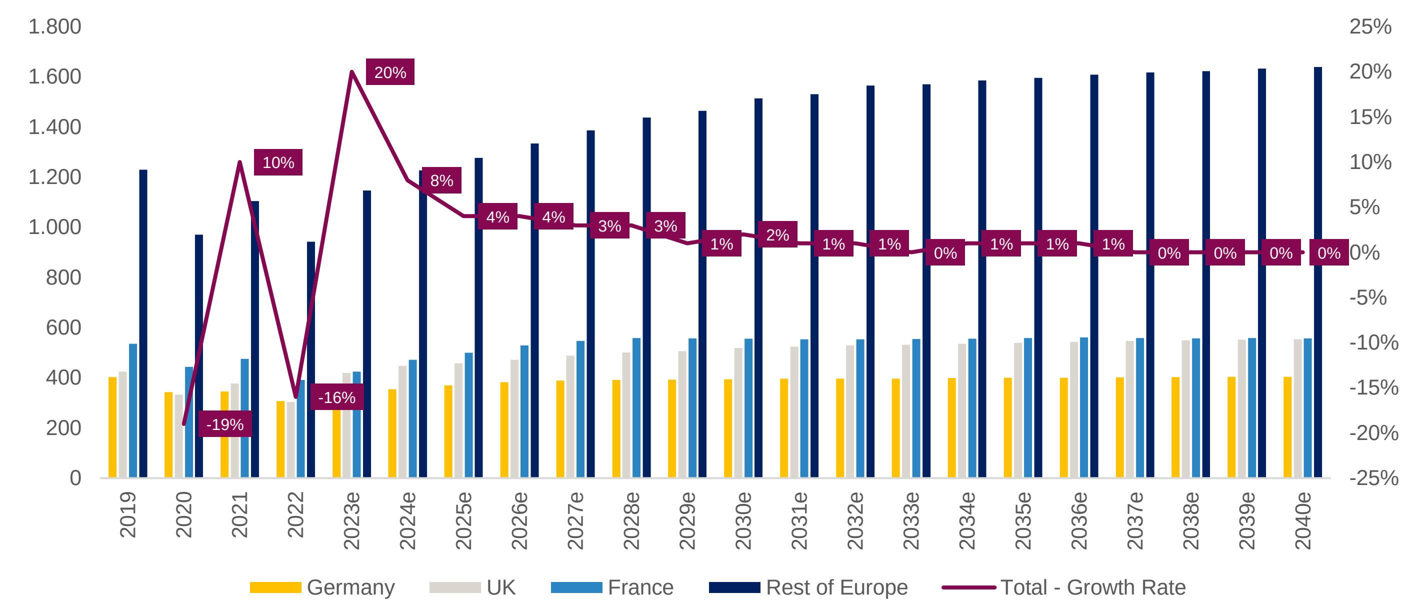
Source: BloombergNEF - QNBFI Calculations

Figure 21 – Annual Charger Investment by Country ($/mn)



Source: BloombergNEF - QNBFI Calculations

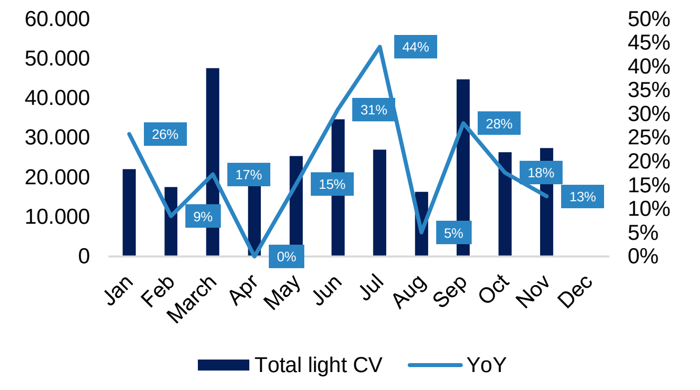
Figure 22– CV Volume Projections by Country (k/units)



Source: BloombergNEF - QNBFI Calculations

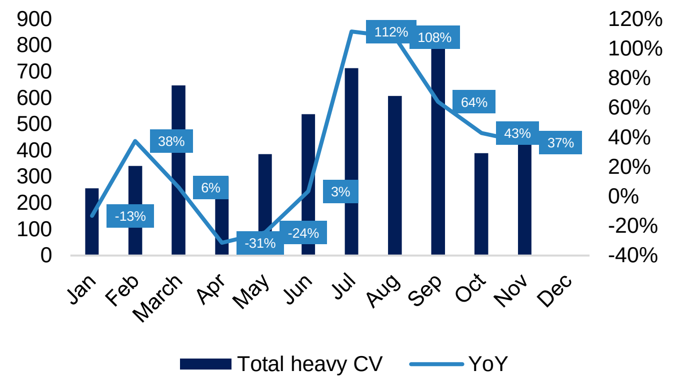
Looking at sole UK CV registrations data, which is one of the major exports markets for Turkish manufacturers, 2023-YTD LCV sales kept its high pace and increased to 311.7k units, representing an increase of 19.8%. November data showed the 11th consecutive monthly increase, up by 12.7% to 27,433 units. Demand for MCV more than doubled, up by 161%. In terms of market shares, Ford's dominance continues in the LCV segment with a YTD market share of 30% (Jan-Nov22: 38%), followed by Volkswagen 10% (Jan- Nov22: 10%), and Vauxhall 10% (Jan- Nov22: 10%). On the HCV front, again Ford has the biggest share with 32% (Jan-Nov22: 30%), followed by Mercedes with 26% (Jan- Nov22: 18%), and Fiat with 16% (Jan-Nov22: 18%).

Figure 23 – UK New LCV Registrations



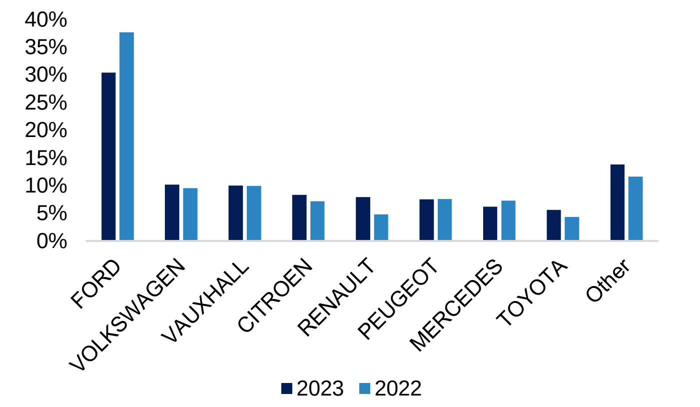
Source: The Society of Motor Manufacturers and Traders (SMMT) - QNBFI

Figure 24 – UK New HCV Registrations



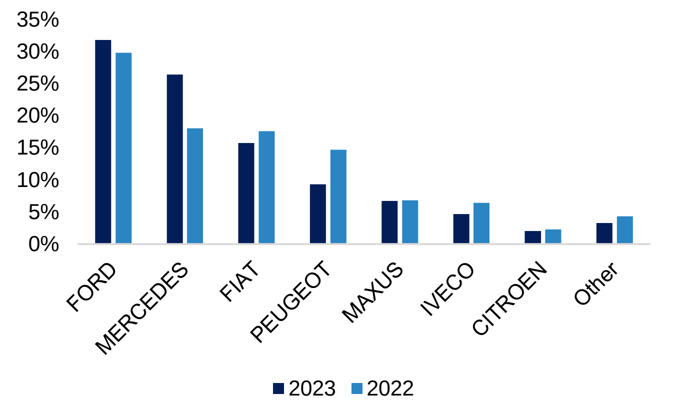
Source: SMMT - QNBFI Calculations

Figure 25 – UK LCV Market Shares



Source: SMMT - QNBFI Calculations

Figure 26 – UK HCV Market Shares



Source: SMMT - QNBFI Calculations

Ford Otosan

10 January 2024

Outperform
(Transfer of Coverage)

Close Price: TRY1,225
12M Target Price: TR755
Upside Potential: 62%

Keeping pace

We are re-initiating our coverage of Ford Otosan (FROTO) with an Outperform rating and 12-month DCF-driven TP of TRY1,225/share, offering 62% upside potential from the current market levels. Based on 2024YE prospective earnings, the stock trades at a P/E of 6.3x and EV/EBITDA of 6.2x indicating a 91% and 63% discount to its 5-yr historical average multiple, respectively. FROTO's recent acquisition and investments along with new vehicle launches will help offset the weakening in demand and boost 2024 revenues. Furthermore, we think LCV growth will decouple from PC growth, particularly in the domestic market as a tightening monetary policy will primarily impact consumption rather than investments. When it comes to exports, we estimate the CV market to expand by 8%, acting as the Company's primary revenue driver of 2024. The only downside we foresee for the Company in the near future would be the normalization in margins caused by the increasing share of EV models in total sales creating a higher cost base compared to ICE models and the rising weight of exports in total sales. Weighing in the pros and cons, we think that the Company's future prospects still offer great value.

Forecasting solid export revenue growth despite a deteriorating macroeconomic environment… The Company's recent investments in the Craiova and Yeniköy plant have increased its overall manufacturing capacity to 746,500 units from 721.700 units. With the announced investment plan in electrification and next generation vehicle projects, the Company plans to increase its capacity by over 900,000 units by 2025. Accordingly, we expect the Company to round off 2023 with revenues of TR337bn, up 96% YoY, forecasting revenue growth of 73% YoY in 2024 and 41% in 25. New Courier production in the Craiova plant and next-gen Custom model should help the Company gain market share and better tackle the headwinds. We expect export sales of 589,000 vehicles in 2024, indicating a 21.1% YoY increase in export volumes. We expect export revenues to capture a higher proportion of total revenues with higher production in Romania and Türkiye, with a higher F-Max (cargo truck) market share in Europe. According to our projections, the share of exports in total revenues will reach 81% in 2024 and 83% in 2025, compared to the 74% in our YE23 calculations.

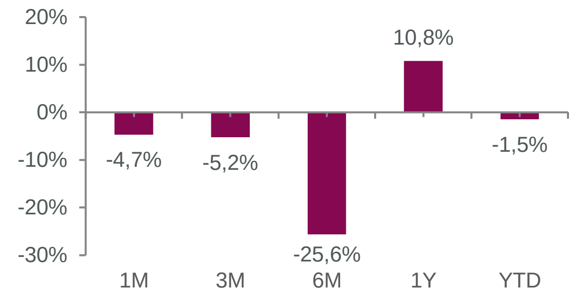
Margins to normalize but still hover above historical averages… Considering the growth trajectory seen in 2023, margins are unlikely to prove sustainable at the current levels; we rather view the levels seen in 2022 (and 2023E) as one-offs, led by supply chain disruptions in the aftermath of the Covid-19 pandemic and dramatic exchange rate movements. The Company's shift towards electrification, with its higher production costs, the ramping up of production in Romania, 1-ton CV production in Türkiye and, to a lower extent, an increasing share of exports in total revenues may also dilute margins in our view. Although exports carry slimmer but more stable profitability thanks to cost-plus export agreements, the Company achieves generating sustainable EBITDA. Accordingly, we expect EBITDA per vehicle to decrease by 16.6% to EUR2,032 and the PBT by 15.5% to EUR1,807 in 2024. Our calculations point to nominal EBITDA growth of 45% YoY in TRY terms, thanks to a higher top-line, but with the margin retreating to 9.8%.

Increased financial losses could limit bottom-line growth… Increasing debt levels (we expect net debt to increase to TRY 85bn in 2024) in a high interest rate environment are likely to weigh on net income. With the combination of reduced operational profitability and higher financial losses, we forecast a mere 20% YoY increase at the bottom-line for 2024 in Lira terms. Our forecasted net debt in 2024 implies a net debt/EBITDA multiple of 1.5x (2023e: 1.2x, 2022: 1.4x) and debt-to-equity of 3.8x (2023e: 3.6x, 2022: 3.5x).

Stock data

Bloomberg / Reuters	FROTO TI / FROTO.IS
Mcap (US$mn)	8,860
EV (US$mn)	10053.1
Avg. Trd. Vol. (US$mn)	33.3
Free float	18%

Relative Performance to BIST100



Key Data (TRYmn)	2021	2022	2023E	2024E	2025E
Revenues	71,101	171,797	336,963	583,065	823,900
Growth	*44%*	*142%*	*96%*	*73%*	*41%*
EBITDA	9,464	19,727	39,093	56,838	79,493
Growth	*79%*	*108%*	*98%*	*45%*	*40%*
Net Profit	8,801	18,614	35,232	42,347	56,355
Growth	*110%*	*111%*	*89%*	*20%*	*33%*
P/E (x)	7.4	6.1	7.2	6.3	4.7
EV/EBITDA (x)	7.4	7.1	7.3	6.2	4.8
P/BV (x)	6.4	5.3	6.1	4.2	2.8
FCF yield (%)	3%	4%	5%	1%	6%
Div. yield (%)	5.5%	5.8%	6.1%	8.0%	9.6%

Figure 27 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	**39,209**	**49,451**	**71,101**	**171,797**	**336,963**	**583,065**	**823,900**
Gross Profit	**4,015**	**6,187**	**11,154**	**23,941**	**51,824**	**71,909**	**99,677**
EBITDA	**3,350**	**5,283**	**9,464**	**19,727**	**39,093**	**56,838**	**79,493**
Depreciation	776	917	1,054	1,895	2,447	5,061	7,577
EBIT	2,574	4,367	8,410	17,832	36,647	51,777	71,916
Net other income	-152	439	1,028	1,308	5,173	6,166	8,713
Income from investing activities	0	1	-35	-14	-55	-66	-79
Net financial income	-471	-699	-716	-3,503	-7,430	-7,313	-13,261
Profit from associates	-1	0	0	0	0	0	0
PBT	**1,950**	**4,108**	**8,687**	**15,623**	**34,334**	**50,564**	**67,289**
Taxes Paid	21	40	77	94	4,592	12,641	16,822
Minority Interest	0	0	0	0	0	0	0
Net Profit/(Loss)	**1,959**	**4,195**	**8,801**	**18,614**	**35,232**	**42,347**	**56,355**

Balance Sheet (TLmn)	2019	2020	2021	2022	2023E	2024E	2025E
Current assets	**10,157**	**17,605**	**32,814**	**55,125**	**110,814**	**162,853**	**218,983**
Cash equivalents	3,203	8,124	14,174	10,115	29,114	19,483	22,381
Trade receivables	4,105	5,754	11,407	25,851	39,697	68,690	94,805
Inventories	1,827	2,449	5,269	13,854	35,154	63,019	85,319
Other current assets	1,021	1,277	1,964	5,305	6,848	11,661	16,478
Non-current assets	**6,250**	**6,745**	**9,979**	**40,928**	**77,961**	**134,604**	**197,633**
Tangibles	4,437	4,403	5,149	20,145	38,422	71,886	110,451
Intangibles	831	905	1,487	6,950	11,624	16,073	21,270
Other non-current assets	982	1,436	3,343	13,832	27,915	46,645	65,912
Total assets	**16,406**	**24,349**	**42,793**	**96,052**	**188,775**	**297,457**	**416,616**
Current liabilities	**8,645**	**12,481**	**20,782**	**46,206**	**96,808**	**157,900**	**220,904**
Short-term loans	3,648	3,933	8,257	13,219	28,466	35,314	51,279
Trade payables	4,545	7,748	11,379	30,146	61,960	110,925	153,146
Other current liabilities	452	800	1,147	2,841	6,382	11,661	16,478
Non-current liabilities	**3,096**	**4,824**	**11,862**	**28,444**	**50,776**	**77,158**	**102,367**
Long-term financial loans	2,560	4,148	10,799	24,700	46,280	69,578	91,657
Other non-current liabilities	536	677	1,063	3,744	4,497	7,580	10,711
Minority Interest	0	0	0	0	0	0	0
Shareholders' Equity	**4,665**	**7,044**	**10,149**	**21,402**	**41,190**	**62,399**	**93,345**
Total liabilities and equity	**16,406**	**24,349**	**42,793**	**96,052**	**188,775**	**297,457**	**416,616**

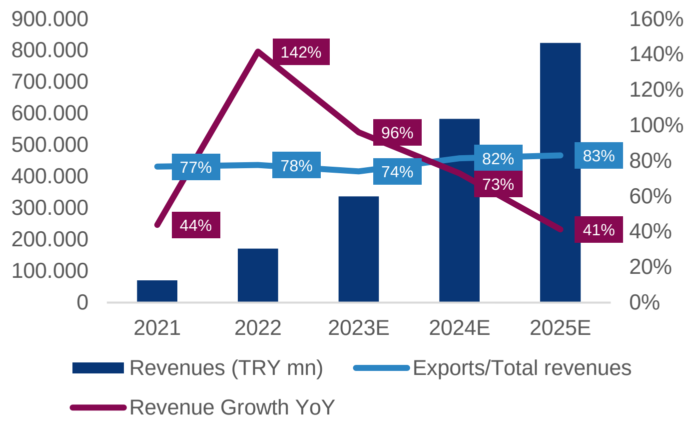
Key metrics	2020	2021	2022	2023E	2024E	2025E
Growth						
Revenue growth	26%	44%	142%	96%	73%	41%
EBITDA growth	58%	79%	108%	98%	45%	40%
Net income growth	114%	110%	111%	89%	20%	33%
Profitability						
Gross Margin	12.5%	15.7%	13.9%	15.4%	12.3%	12.1%
EBITDA margin	10.7%	13.3%	11.5%	11.6%	9.7%	9.6%
Net margin	8.5%	12.4%	10.8%	10.5%	7.3%	6.8%
Return on assets (ROA)	20.6%	26.2%	26.8%	24.7%	17.4%	15.8%
Return on equity (ROE)	71.7%	102.4%	118.0%	112.6%	81.8%	72.4%
Return on cap. emp. (ROCE)	72.2%	79.9%	58.0%	57.3%	38.2%	31.2%
Leverage						
Net Debt	-43	4,882	27,804	32,660	85,410	120,555
Net debt / Equity	0.0	0.5	1.3	0.8	1.4	1.3
Net debt / EBITDA	0.0	0.5	1.4	0.8	1.5	1.5
EBIT Interest coverage	-661.6	7.6	0.8	1.8	1.6	3.3
Efficiency						
Total asset turnover	2.0	1.7	1.8	1.8	2.0	2.0
Equity turnover	7.0	7.0	8.0	8.2	9.3	8.8
WC/Sales	2%	9%	7%	4%	4%	3%
Opex/Sales	3.7%	3.9%	3.6%	4.5%	3.5%	3.4%

Cash Flow (TLmn)	2020	2021	2022	2023E	2024E	2025E
EBITDA	5,283	9,464	19,727	39,093	56,838	79,493
Change in working capital	-1,024	5,182	5,908	1,335	7,426	6,194
Taxes (EBIT x 25%)	40	77	94	4,592	12,641	16,822
Capital Expenditures	909	2,369	9,632	20,724	37,801	45,159
Adjustment	-3	2	-13	-309	4,424	5,888
FCFF	5,356	1,838	4,080	12,133	3,394	17,205

Finansinvest vs Consensus		2024E			2025E	
	Estimate	Cons.	Deviation	Estimate	Cons.	Deviation
Revenues	583,065	544,527	7%	823,900	736,389	12%
EBITDA	56,838	55,239	3%	79,493	73,664	8%
Net Income	42,347	42,695	-1%	56,355	59,519	-5%

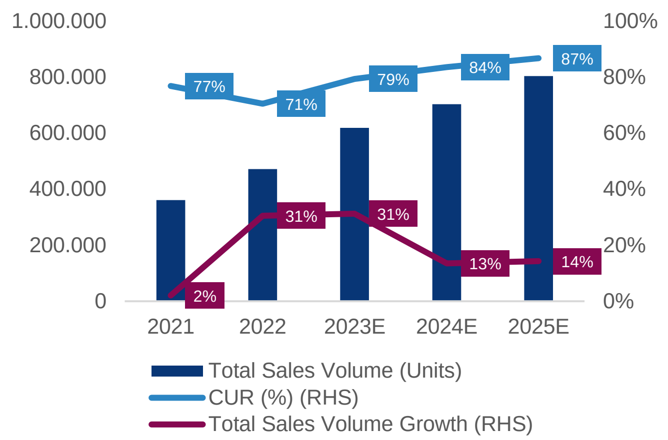
We are forecasting TRY111bn in revenues for 4Q23 (up 82.2% YoY), which would lead to 2023 revenues of TRY337bn (up 96% YoY). We expect FROTO's revenues to grow by 73% in 2024 and 41% in 2025, reflecting our trust in FROTO's vehicle portfolio in the EU's LCV market and the Company's close proximity to key markets. We assume 33.1% growth in the Company's CV export volumes in 2024 on the back of additional Custom production. As a result, the share of exports in total revenues is on course to reach 81.6% in 2024, while we assume a share of around 82% for the long term. The represented volumes point to a CUR of 84% for 2024 and 87% for 2025.

Figure 28 – FROTO - Sales Projections



Source: The Company Data - QNBFI Calculations

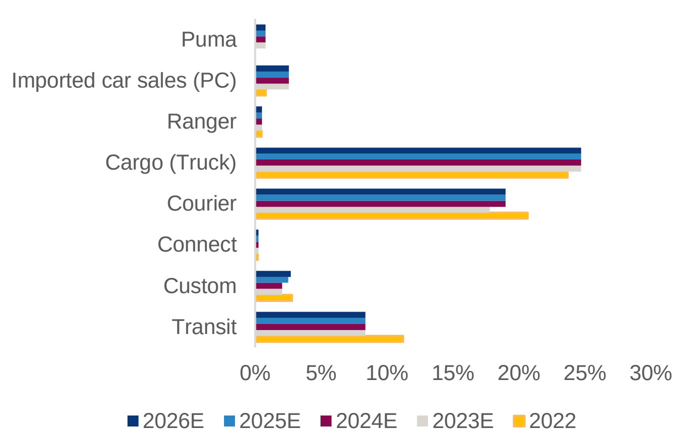
Figure 29 – FROTO - Volumes and CUR



Source: The Company Data - QNBFI Calculations

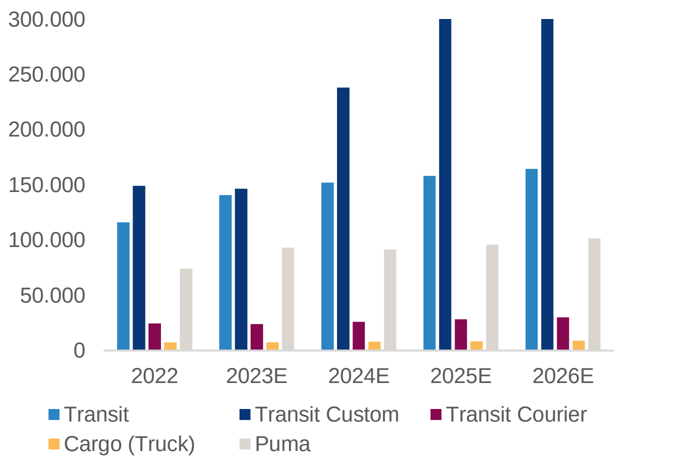
The risk of a contraction in the domestic market and uncertainty surrounding export markets due to a weaker macro environment is likely to be offset by the investment recovery fee guarantee in export agreements, along with a weakening of the TRY, in our view. Therefore, the forecast of 13.5% volume growth in 2024 is well within reach and open to further upside with the capture of further market share with the electrified Courier (expected launch date 4Q24), the Custom (expected launch date 1H24) and current Transit models. In the long-term, our biggest bet is on the truck segment, where we expect Ford Otosan to increase its presence in Europe with the F-Max.

Figure 30 – FROTO - Market Share in the Domestic Market



Source: The Company Data - QNBFI Calculations

Figure 31 – FROTO - Export Sales Projections (Units)



Source: The Company Data - QNBFI Calculations

We expect CV sales in EU to increase about 8%, and foresee the growth to slow down in 2025 with a mere 3% growth, with sales reaching a total of 2.6mn units. We believe growing high-power charging network investments are also gaining momentum and are projected to be stepped up in the coming years. We believe FROTO will stand out as the main beneficiary of Europe's EV transition in CVs with the new electrified Courier and Custom models in addition to all-electric E-Transit model. Accordingly, we expect export Transit sales to increase by 8%, Custom sales by 8% and sales of the Courier by 8% in 2024 with the contribution of electrified versions of all models.

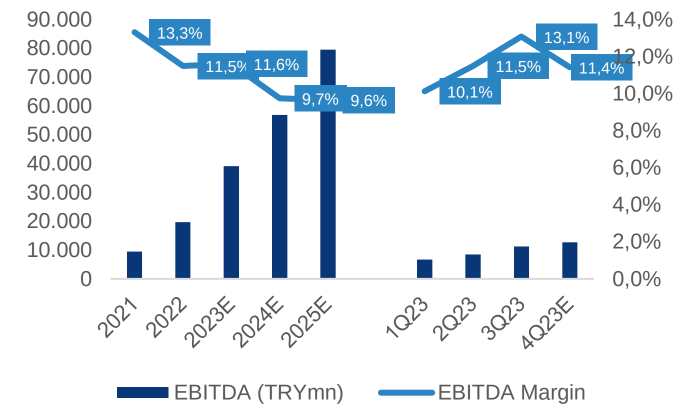
Figure 32 – Volume Forecasts

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Domestic Sales Total	**115,462**	**65,768**	**48,464**	**100,151**	**73,090**	**81,185**	**119,376**	**97,584**	**101,767**
Transit	29,080	16,350	12,972	24,807	20,773	21,395	22,151	17,791	18,502
Custom	7,642	4,690	3,394	5,820	4,372	5,354	5,404	4,340	5,540
Transit Connect	1,747	1,060	208	533	354	372	650	522	543
Transit Courier	35,549	19,659	16,768	35,445	28,541	39,403	47,206	40,485	42,104
Cargo (Truck)	5,190	3,526	2,841	5,315	7,298	8,957	10,423	10,423	10,631
Ranger	2,711	1,496	821	2,528	1,430	956	1,351	1,085	1,129
Puma	0	0	0	0	0	0	7,510	5,352	5,440
Other	33,543	18,987	11,460	25,703	10,322	4,748	24,680	17,586	17,877
Export Sales Total	**297,338**	**328,858**	**334,792**	**372,326**	**422,937**	**371,689**	**500,155**	**605,549**	**701,649**
Transit	100,181	120,154	116,805	88,687	107,345	116,068	140,840	152,108	158,192
Transit Custom	157,502	168,174	175,985	141,378	157,967	149,319	146,654	238,386	320,305
Transit Courier	37,864	38,553	38,941	21,568	18,004	24,476	24,130	26,061	28,406
Cargo (Truck)	1,309	1,817	2,671	2,510	5,168	7,585	7,537	8,139	8,465
Puma	-	-	337	118,180	134,431	74,241	180,765	180,855	186,281
Other	482	160	53	3	22	0	229	0	0
Total	**412,800**	**394,626**	**383,256**	**472,477**	**496,027**	**452,874**	**619,531**	**703,133**	**803,416**

Source: The Company Data - QNBFI Calculations

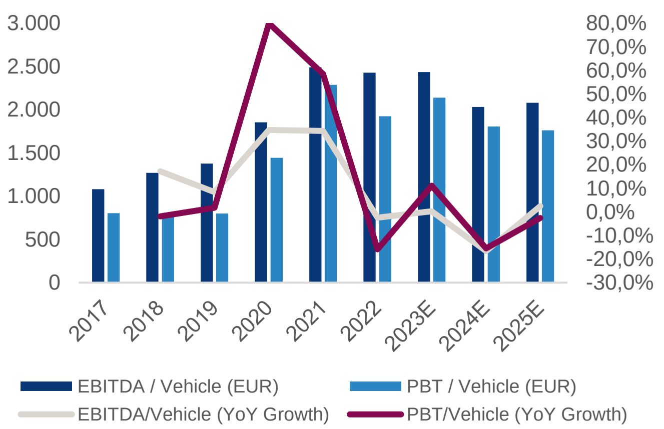
We are forecasting a CAGR of 28.4% in EBITDA between 2023-2028: We expect FROTO to close 2023 with EBITDA of TRY 39.1bn (up 98% YoY), corresponding to an EBITDA margin of 11.6%. We expect margins to normalise somewhat in the following quarters, to converge with historical averages due to the Company's shift in electrification (higher production costs), adding PC to production portfolio, and to a lower extent, the increasing share of exports in total revenues. Our forecast of a 5-year CAGR of 28.4% is highly achievable and sustainable in our view, as the cost-plus pricing scheme will serve to reduce volatility in operational profitability and allow the Company to generate sustainable EBITDA. Note that domestic sales are the most profitable for the Company thanks to FROTO's competitive advantages as an OEM. We also expect electrification of existing models to dilute margins as the cost of producing is higher than for ICE vehicles.

Figure 33 – EBITDA Forecast



Source: QNBFI Estimates

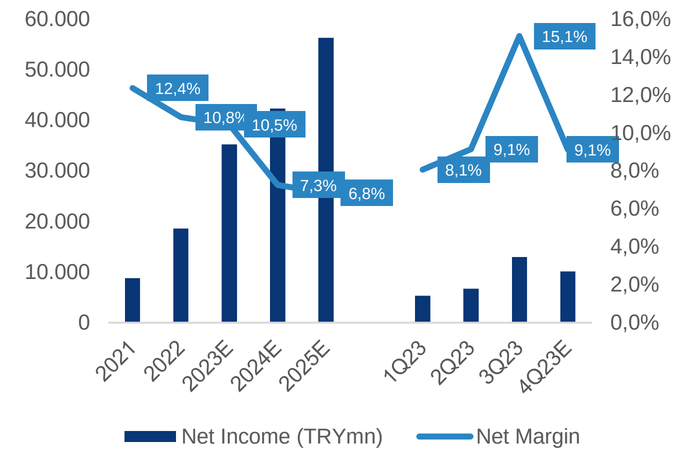
Figure 34 – EBITDA / PBT per Vehicle



Source: QNBFI Estimates

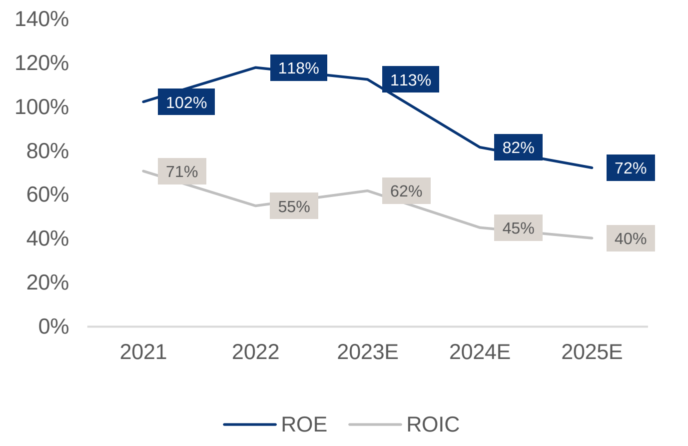
Forecasting a CAGR of 23.5% for net earnings between 2023-2028: We expect TL35.2mn in net earnings (up 89% YoY) for the 2023 full year, corresponding to a net margin of 10.5%. We forecast some erosion in the net margin due to rising financial expenses in parallel with rising interest rates. We incorporated tax incentives into our bottom-line expectations but remain somewhat conservative given the uncertainty over when the income will be realized. The ROE and ROIC are on course to erode too but remain attractive, in our view.

Figure 35 – Net Income Forecast



Source: QNBFI Estimates

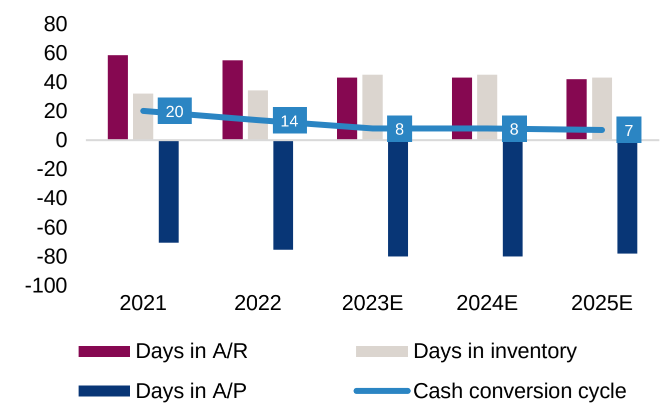
Figure 36 – ROE / ROIC



Source: QNBFI Estimates

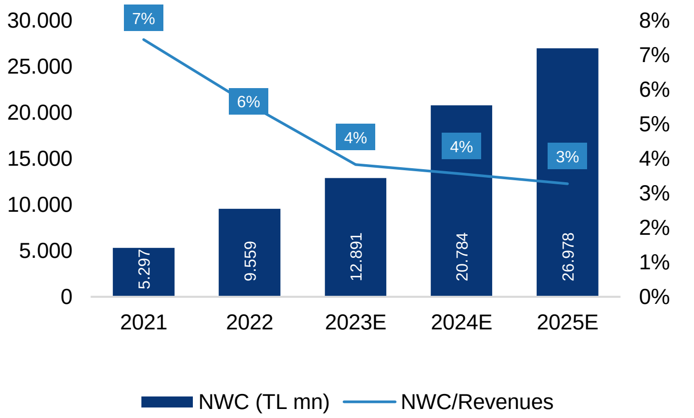
Forecasting a CAGR of 48.3% for the FCFF between 2023-2028: We expect a FCFF of TL12.1bn (up 197% YoY) in 2023, corresponding to an FCFF margin of 3.6%. We do not envisage any deterioration in net working capital as the deal between Ford Europe requires a payment within 14 days in Türkiye, while in Romania the Company collects its receivables within 30 days. We assume a contraction in the 2024 FCFF margin to 0.6% given our expectation of lower demand and higher capital expenditures. We have fully incorporated the Company's investment plans in our CAPEX assumptions and added maintenance CAPEX to arrive at a figure of EUR950mn in CAPEX for both 2024 and 2025. We expect dividend payments to continue despite the ongoing investments and foresee TRY21.1bn dividends in 2024E.

Figure 37 – Cash Conversion Cycle Forecast



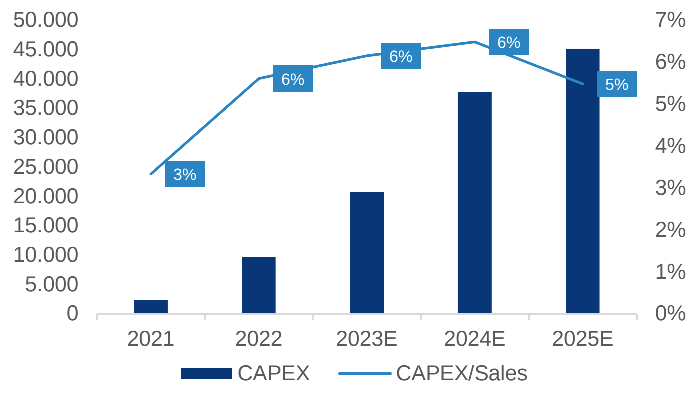
Source: QNBFI Estimates

Figure 38 – NWC/Sales



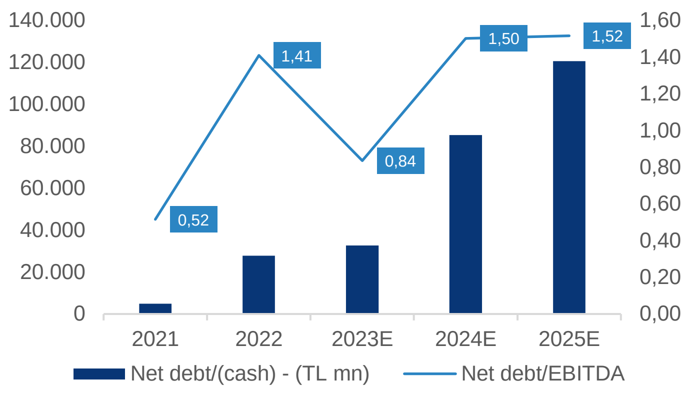
Source: QNBFI Estimates

Figure 39 – CAPEX Forecast



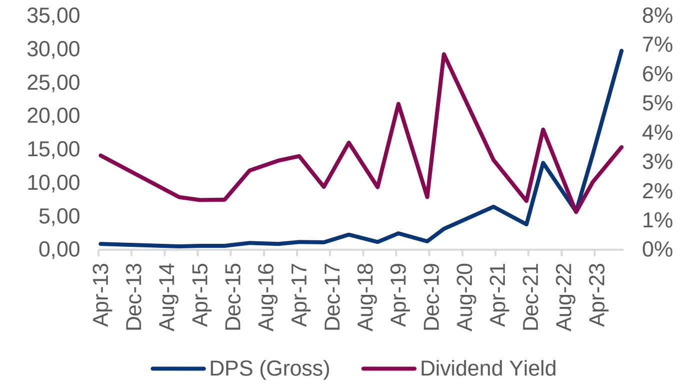
Source: QNBFI Estimates

Figure 40 – Net Debt Forecast



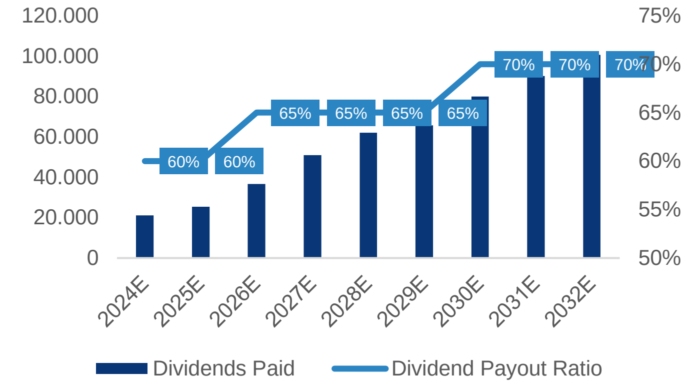
Source: QNBFI Estimates

Figure 41 – Historical DPS



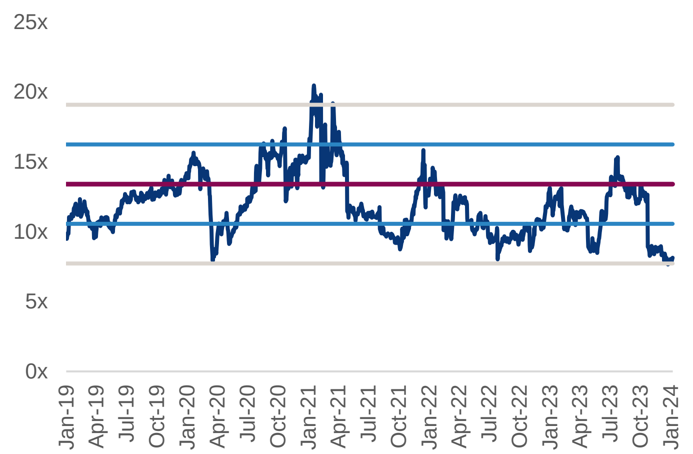
Source: QNBFI Estimates

Figure 42 – Dividend Projections



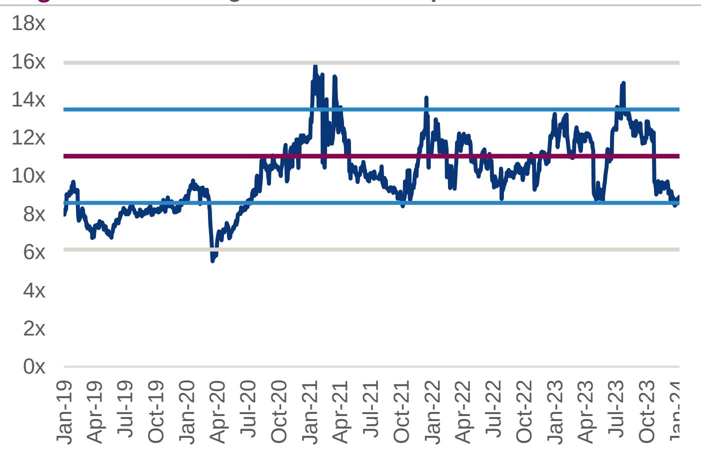
Source: QNBFI Estimates

Figure 43 – Trailing P/E Multiple



Source: QNBFI Estimates

Figure 44 – Trailing EV/EBITDA Multiple



Source: QNBFI Estimates

Valuation

We valued Ford Otosan using DCF valuation and set our 12-month price target at TRY 1,225/share. Our 12-M TP represents an 62% upside potential from the current market levels. In our valuation model, we have incorporated an average weighted-average cost of capital (WACC) of ≈25%, driven from 45% cost of borrowing, 44.9% cost of equity (40% risk-free rate, 6.0% equity risk premium, 0.82 stock beta) which decays until 2026. Lastly, we set a terminal growth rate of 10%.

Our key model assumptions are as followed;

- We are forecasting solid revenue growth for 2024-25 with a strong contribution from the production of the new Courier at the Craiova plant and the next-gen Custom model at the Yeniköy plant, a stronger FX trajectory and increasing sales volumes albeit to our expectation of growing EU's LCV market. Furthermore, launches of the all-electric Puma and the new Courier, including PHEV & BEV versions of Next-Gen Custom model will the boost top-line, in our view. We forecast 73% YoY revenue growth in 2024 and a 33.4% CAGR in revenues over the 2023-28 period.
- While we assume margins will be slashed, we still expect them to remain above their historical averages. We believe the 2022-23 levels for margins ≈12% are not sustainable. In general, we calculate that the electrification of existing plans, higher share of exports in total sales and adding PC to production portfolio will have a diluting impact on margins. However, we believe that EBITDA will, at least on a nominal basis, continue to grow in 2024 thanks to the growth at the top-line. We forecast 45% YoY EBITDA growth – for 2024 and a 28.4% CAGR in EBITDA over the 2023-2028 period.
- The heavy investment cycle for the aforementioned new vehicle launches, electrification of existing models and the BEV truck project continues. Accordingly, our CAPEX assumption is relatively high compared to previous years. However, we performed our calculations in line with the Company's investment plans.
- Based on 2024YE prospective earnings, the stock trades at a P/E of 6.3x and EV/EBITDA of 6.2x indicating a 91% and 63% discount to its 5-yr historical average multiple, respectively.

Figure 45 – Summary of DCF Model

FROTO (TLmn)	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
Revenues	583,065	823,900	996,619	1,212,395	1,424,903	1,600,215	1,798,547	1995686.8	2,212,250	2,442,641
y/y growth	*73%*	*41%*	*21%*	*22%*	*18%*	*12%*	*12%*	*11%*	*11%*	*10%*
EBIT	51,777	71,916	87,631	107,272	126,297	141,645	159,112	176,327	194,416	213,823
EBITDA	56,838	79,493	96,006	116,510	136,466	152,820	171,373	189,817	209,295	230,070
y/y growth	*45%*	*40%*	*21%*	*21%*	*17%*	*12%*	*12%*	*11%*	*10%*	*10%*
EBITDA Margin	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*9%*	*9%*
Inc./dec. in W/C	7,426	6,194	5,528	6,867	6,752	5,595	6,327	6,312	6,858	7,283
CAPEX	37,801	45,159	10,342	11,170	12,063	13,028	14,071	15,196	16,412	17,725
FCFF	**3,394**	**17,205**	**64,938**	**79,925**	**83,923**	**96,065**	**108,014**	**120,362**	**132,835**	**146,289**
WACC	36.1%	28.2%	22.5%	22.8%	22.9%	23.1%	23.3%	23.4%	23.5%	23.6%

PV of FCFF	**200,287**
Terminal growth rate	*10%*
Terminal Value	1,182,029
PV of Terminal Value	**128,950**
Value of Firm	**329,237**
Less Minority Interest	0
Net debt @ 3Q23	32,660
Equity Value	296,577
Fair Value per share as of now	845
Fair Value per share (12M FWD)	1,225
Upside / (Downside)	62%

Source: QNBFI Calculations

Tofas

10 January 2024

Outperform
(Transfer of Coverage)

Close Price: TRY218
12M Target Price: TRY317
Upside Potential: 46%

On the cusp of a transition

We are re-initiating our coverage for TOASO with an Outperform rating and 12-month DCF-driven TP of TRY317/share, offering 46% upside potential from the current market levels. Looking at the multiples, the stock trades at a P/E of 5.9x and EV/EBITDA of 5.2x based on our 2024YE prospective earnings, implying an average discount of 59% and 28% to its 5-year historical multiples, respectively. We have revised our model for Tofas by incorporating the acquisition of Stellantis Otomotiv (SO), K0 production, along with new assumptions for the market and macro-economy. We based our projections on the assumption that the transaction would be completed at the end of 1h24 upon receiving the Competition Board's approval at the end of its final examination. We added the sale of 79k SO vehicles to our YE24 assumptions, taking our total domestic sales volume forecast to 204k vehicles. Looking at the financials, we are expecting 57% revenue growth for 2024 with the help of SO branded vehicle sales. We find the 2021-23 margin levels unsustainable, and thus expect a 19% YoY slump in EUR based EBITDA per vehicle in 2024 on weaker margins. As well as lower operational profitability, the bottom-line will be let down by reduced income from FX gains and interest income, as most of the cash will be used for the SO deal. When the deal is sealed, share of domestic revenues in total revenues will increase and reach 84% in our calculations for 2024. We assume a rise in the share of export with the production of the K0 to around 22% in 2025 and beyond in our projections. The CUR numbers look depressing for 2024, sliding to 37% (2023E: 57%, 2022: 61%), with the termination of the Doblo model. Thus, we believe that all the negativity has already priced in, and 2025 prospects of the Company offers great value.

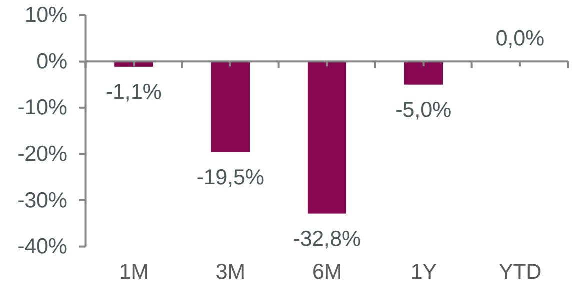
Stellantis branded sales and K0 production to be the main drivers of the top-line growth… Despite the expectation of lower domestic sales volumes caused by a tightening monetary policy, and a lower CUR with the termination of Doblo manufacture, we expect the Company to record 57% revenue growth in YE24. The volume contribution from the Stellantis will be significant in our view, as we expect 79k units of these vehicles to be sold in 2024, leading to a total domestic sales volume of 203k vehicles. The K0 model will contribute to 2025 revenues, along with full contribution of Stellantis sales and our forecasts of improving domestic volumes. We forecast 283k units of total domestic sales and 1118k units of export sales volume for 2025e which represents TRY294bn in revenues, indicating 83% YoY growth for 2025. We expect the Company to deliver 105k units of K0 model vehicles annually in 2025 and beyond, with sales of the SO to reach 158k vehicles, taking Tofas' total sales volumes to 402k units, and a healthier CUR of 57%.

EBITDA margin set to converge with historical averages… Considering the growth trajectory in 2023, we find the current margin levels unsustainable in the near future as the pricing advantages presented by high demand and restricted availability diminish. Sales of Stellantis branded vehicles could compromise margins before the synergies of the acquisition are seen, bringing down EBITDA per vehicle to EUR2,113 in 2024, (2023E: EUR2,623), corresponding to a 2024 EBITDA margin of 12.9% (2023E: 17.4%). We forecast a sharp contraction in the PBT per vehicle from EUR2,880 in 2023E to EUR2,065 for 2024, reflecting the reduction of 2023 FX and interest income, with the cash spent on the Stellantis deal. Accordingly, we expect a PBT margin of 12.6% for 2024 (2023E: 19.1%).

Stock data

Bloomberg / Reuters	TOASO TI / TOASO.IS
Mcap (US$mn)	3,639
EV (US$mn)	3156.2
Avg. Trd. Vol. (US$mn)	36.0
Free float	24%

Relative Performance to BIST100



Key Data (TRYmn)	2021	2022	2023E	2024E	2025E
Revenues	29,684	65,545	101,546	159,470	290,185
Growth	*26%*	*121%*	*55%*	*57%*	*82%*
EBITDA	5,585	10,959	17,646	20,507	29,731
Growth	*91%*	*96%*	*61%*	*16%*	*45%*
Net Profit	3,072	8,252	17,573	18,422	26,323
Growth	*82%*	*169%*	*113%*	*5%*	*43%*
P/E (x)	7.2	5.4	6.5	5.9	4.1
EV/EBITDA (x)	4.6	3.6	5.7	5.2	3.2
P/BV (x)	3.8	4.0	4.4	2.7	1.8
FCF yield (%)	14%	24%	9%	-3%	13%
Div. yield (%)	6.8%	7.1%	2.6%	3.2%	6.8%

Figure 46 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	**18,897**	**23,557**	**29,684**	**65,545**	**101,546**	**159,470**	**290,185**
Gross Profit	**2,386**	**3,117**	**5,619**	**12,009**	**21,673**	**25,838**	**39,788**
EBITDA	**2,368**	**2,929**	**5,585**	**10,959**	**17,646**	**20,507**	**29,731**
Depreciation	760	759	1,199	1,519	1,778	2,961	4,162
EBIT	**1,607**	**2,170**	**4,386**	**9,441**	**15,868**	**17,545**	**25,569**
Net other income	-59	-201	-499	-821	-801	-815	214
Income from investing activities	13	11	38	84	76	113	159
Net financial income	-216	-246	-622	-452	4,232	2,978	4,841
Profit from associates	0	0	0	0	0	0	0
PBT	**1,344**	**1,734**	**3,303**	**8,252**	**19,376**	**19,821**	**30,782**
Taxes Paid	29	32	113	762	4,319	4,955	7,696
Minority Interest	0	0	0	0	0	0	0
Net Profit/(Loss)	**1,369**	**1,688**	**3,072**	**8,252**	**17,573**	**18,422**	**26,323**

Balance Sheet (TLmn)	2019	2020	2021	2022	2023E	2024E	2025E
Current assets	**6,970**	**12,841**	**16,170**	**33,385**	**55,265**	**70,929**	**124,059**
Cash equivalents	2,826	4,251	4,215	12,019	24,050	16,344	30,766
Trade receivables	2,144	5,493	7,142	14,956	16,692	26,214	47,702
Inventories	749	1,524	2,379	3,260	9,628	17,207	32,243
Other current assets	1,251	1,574	2,433	3,150	4,894	11,163	13,349
Non-current assets	**5,840**	**6,634**	**7,304**	**6,991**	**10,909**	**35,926**	**49,396**
Tangibles	2,112	2,037	1,904	1,741	2,553	9,728	17,651
Intangibles	1,659	1,880	1,921	1,513	3,287	15,035	15,785
Other non-current assets	2,069	2,716	3,479	3,737	5,069	11,163	15,960
Total assets	**12,809**	**19,476**	**23,473**	**40,376**	**66,175**	**106,855**	**173,455**
Current liabilities	**6,126**	**10,881**	**13,758**	**26,069**	**36,970**	**62,312**	**108,221**
Short-term loans	1,847	2,827	4,138	5,165	7,063	12,749	15,299
Trade payables	3,885	7,484	8,768	19,002	25,247	42,244	79,605
Other current liabilities	395	570	851	1,903	4,660	7,319	13,318
Non-current liabilities	**2,354**	**4,126**	**3,972**	**2,993**	**3,318**	**3,748**	**5,486**
Long-term financial loans	2,104	3,863	3,621	1,889	1,794	2,153	2,584
Other non-current liabilities	249	264	351	1,104	1,523	1,595	2,902
Minority Interest	0	0	0	0	0	0	0
Shareholders' Equity	**4,329**	**4,469**	**5,743**	**11,314**	**25,887**	**40,794**	**59,748**
Total liabilities and equity	**12,809**	**19,476**	**23,473**	**40,376**	**66,175**	**106,855**	**173,455**

Key metrics	2020	2021	2022	2023E	2024E	2025E
Growth						
Revenue growth	25%	26%	121%	55%	57%	82%
EBITDA growth	24%	91%	96%	61%	16%	45%
Net income growth	23%	82%	169%	113%	5%	43%
Profitability						
Gross Margin	13.2%	18.9%	18.3%	21.3%	16.2%	13.7%
EBITDA margin	12.4%	18.8%	16.7%	17.4%	12.9%	10.2%
Net margin	7.2%	10.3%	12.6%	17.3%	11.6%	9.1%
Return on assets (ROA)	10.5%	14.3%	25.8%	33.0%	21.3%	18.8%
Return on equity (ROE)	38.4%	60.2%	96.8%	94.5%	55.3%	52.4%
Return on cap. emp. (ROCE)	38.7%	40.8%	33.2%	30.5%	17.1%	15.5%
Leverage						
Net Debt	-43	4,882	27,804	50,122	98,136	141,489
Net debt / Equity	0.0	0.9	2.5	1.9	2.4	2.4
Net debt / EBITDA	0.0	0.9	2.5	2.8	4.8	4.8
EBIT Interest coverage	-328.8	4.0	0.4	0.5	0.5	1.0
Efficiency						
Total asset turnover	1.2	1.3	1.6	1.5	1.5	1.7
Equity turnover	5.3	5.2	5.8	3.9	3.9	4.9
WC/Sales	-1%	2%	8%	1%	1%	3%
Opex/Sales	4.0%	4.2%	3.9%	5.7%	5.2%	4.9%

Cash Flow (TLmn)	2020	2021	2022	2023E	2024E	2025E
EBITDA	2,929	5,585	10,959	17,646	20,507	29,731
Change in working capital	525	1,220	-1,539	1,860	103	-838
Taxes (EBIT x 25%)	40	150	871	3,537	1,399	4,460
Capital Expenditures	893	1,062	889	2,590	21,885	11,884
Adjustment	0	0	0	0	0	0
FCFF	1,472	3,152	10,738	9,658	-2,880	14,225

Finansinvest vs Consensus		2024E			2025E	
	Estimate	Cons.	Deviation	Estimate	Cons.	Deviation
Revenues	159,470	168,982	-6%	290,185	290,099	0%
EBITDA	20,507	23,639	-13%	29,731	34,980	-15%
Net Income	18,422	18,193	1%	26,323	23,818	11%

TOASO's 9M23 domestic PC sales grew by 53% with LCV sales up by 39% YoY. Looking at Fiat sales, 2023 figures indicate that the Company captured around 2% in market share in the PC market but lost 1% in the LCV market which was hit by the production cut in production of the Doblo, which is expected to be fulfilled by K0 production in 2025. As Stellantis' portfolio mostly sells PC (personal cars), the share of PC volumes will increase in total domestic sales in 2024 as well. Export volumes, especially LCV volumes, continued to shrink and are expected to shrink further in parallel with Stellantis sales in our projections. Our sales projections, including specific models and markets, are set out below;

Figure 47 –Volume Forecast Tables

Domestic Sales Figures	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Passanger Cars									
Egea Sedan	42,873	32,985	51,567	79,371	49,183	68,668	83,543	59,826	63,698
Egea HB+SW	4,361	2,403	3,071	11,123	2,776	908	701	502	508
Crossover	0	0	0	0	18,901	27,080	47,302	33,873	34,263
Stellantis									
Opel	-	-	-	-	-	-	-	21,073	42,630
Peugeot	-	-	-	-	-	-	-	21,004	42,282
Citroen	-	-	-	-	-	-	-	14,513	29,507
DS	-	-	-	-	-	-	-	1,435	2,918
Light Commercial Vehicles	**54,563**	**24,879**	**17,758**	**40,819**	**45,122**	**45,681**	**51,959**	**50,320**	**67,740**
Doblo	26,907	11,709	9,519	23,952	28,865	24,321	15,522	0	0
Fiorino	27,656	13,170	8,239	16,867	16,257	21,360	36,436	29,191	0
K0	-	-	-	-	-	-	-	-	25,262
Stellantis									
Opel	-	-	-	-	-	-	-	5,378	10,620
Peugeot	-	-	-	-	-	-	-	8,195	15,929
Citroen	-	-	-	-	-	-	-	7,555	15,929
DS	-	-	-	-	-	-	-	0	0
Imported	**4,784**	**4,818**	**4,676**	**3,824**	**6,327**	**6,460**	**16,995**	**12,394**	**12,600**
Total PC	47,234	35,388	54,638	90,494	70,860	96,656	131,545	152,227	215,805
Total LCV	54,563	24,879	17,758	40,819	45,122	45,681	51,959	50,320	67,740
Total Domestic LV	101,797	60,267	72,396	131,313	115,982	142,337	183,504	202,547	283,546

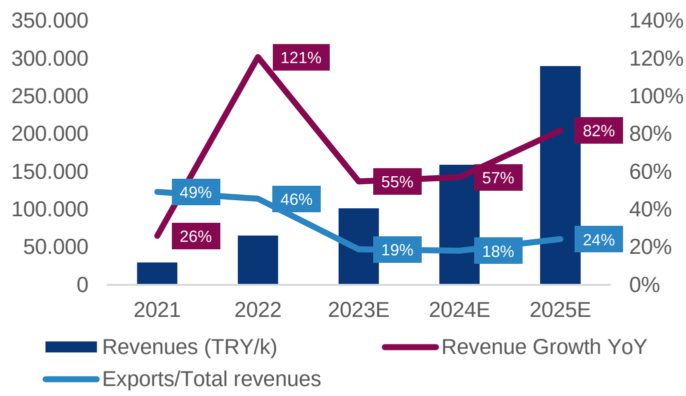
Export Sales Figures	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Passenger Cars	**128,664**	**114,178**	**93,201**	**60,840**	**45,524**	**38,347**	**38,809**	**38,033**	**38,414**
Tipo Sedan	30,473	24,600	23,160	19,153	16,278	7,890	14,471	14,182	14,324
Tipo HB+SW	98,191	89,578	70,041	41,687	21,320	21,240	20,629	20,216	20,419
Crossover	0	0	0	0	7,926	9,217	3,709	3,635	3,671
Light Commercial Vehicles	**134,963**	**129,655**	**100,944**	**57,063**	**66,953**	**83,138**	**20,360**	**20,074**	**80,010**
Doblo (LCV)	70,502	77,403	56,058	33,387	37,697	32,809	249	0	0
CKD+SKD/Other	64	34	42	17	12	0	5	10	10
RAM Promaster City	12,651	15,407	11,340	10,324	11,064	27,755	1,528	0	0
Mini Cargo (Fiorino)	51,746	36,811	33,504	13,335	18,180	22,574	18,578	20,064	0
K0	0	0	0	0	0	0	0	0	80,000
Total PC	128,664	114,178	93,201	60,840	45,524	38,347	38,809	38,033	38,414
Total LCV	134,963	129,655	100,944	57,063	66,953	83,138	20,360	20,074	80,010
Total Export LV	**263,627**	**243,833**	**194,145**	**117,903**	**112,477**	**121,485**	**59,169**	**58,108**	**118,424**

Total Sales Figures	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total PC	175,898	149,566	147,839	151,334	116,384	135,003	170,355	190,260	254,219
Total LCV	189,526	154,534	118,702	97,882	112,075	128,819	72,319	70,394	147,750
Total LV	365,424	304,100	266,541	249,216	228,459	263,822	242,673	260,655	401,969

Source: The Company Data - QNBFI Calculations

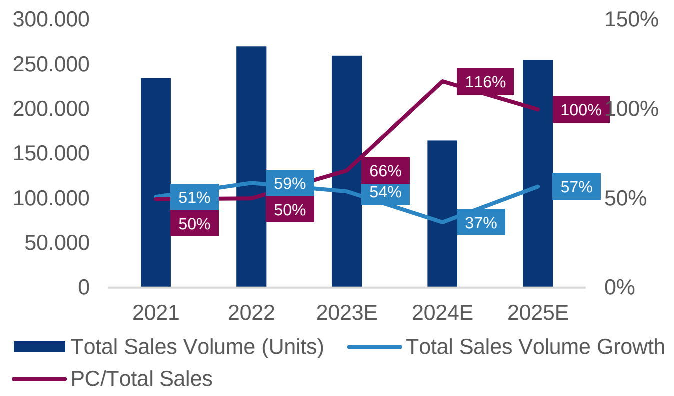
For the last quarter, we are forecasting TRY32.8bn in revenues (up 39.6% YoY) in 4Q23, pointing to 2023 revenues of TRY101.5bn (up 54.9% YoY). Despite the challenges we expect in the domestic market, we expect TOASO's revenues to grow by 57.0% in 2024 and 82.0% in 2025. Growth will mainly be driven by our forecast of a weaker TRY trajectory and the inclusion of Stellantis and K0 sales. The contribution from Stellantis volumes will be limited; we expect the sale of 79k vehicles in the second half of 2024, contributing to a total domestic volume of 202k units. The K0 model sales and full contribution from Stellantis Otomotiv will contribute to 2025 revenues, which are set to grow by 82% YoY in our projections. The weight of LCVs in total sales volume will increase in 2024, as we expect the Company to deliver 105k K0 model sales in 2025.

Figure 48 – TOASO - Revenue Projections



Source: ACEA - Bloomberg - QNBFI Calculations

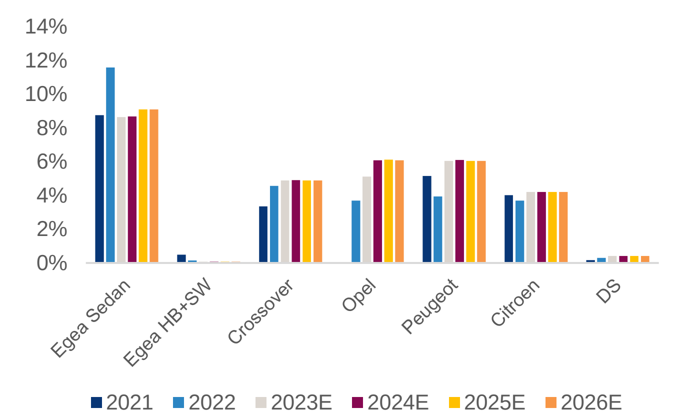
Figure 49 – TOASO - Volumes Projections



Source: Bloomberg - QNBFI Calculations

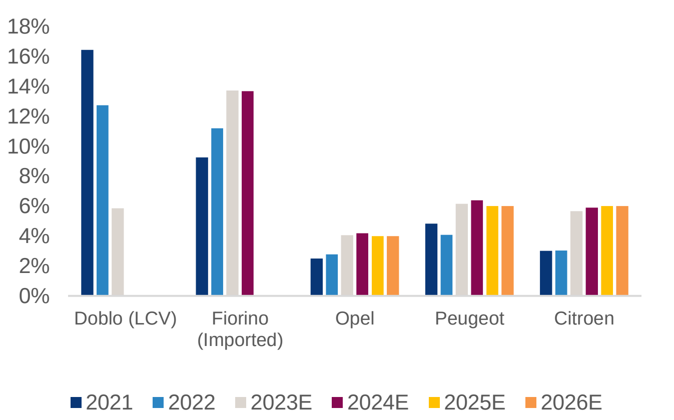
We forecasted a shrinkage in volumes in the domestic market due to the weaker macro environment. We estimate TOASO's total domestic LV market share of 16% for 2023E. With SO, the LV share would surge to 21% in our YE24 projections, and 33% in YE25 projections. Sole Tofas' total market share is expected to have shrunk to 16% in YE23 with shrinkage in the LCV market due to the stoppage in Doblo production, and shrink further to 14% in our YE24 projections with the termination of Fiorino brand. Depending on EV penetration in Türkiye, the Company may capture more market share in 2025 with the K0 model in the LCV market, but for the time being we are adding those sales to our export projections.

Figure 50 – TOASO – PC Domestic Market Shares



Source: ACEA - Bloomberg - QNBFI Calculations

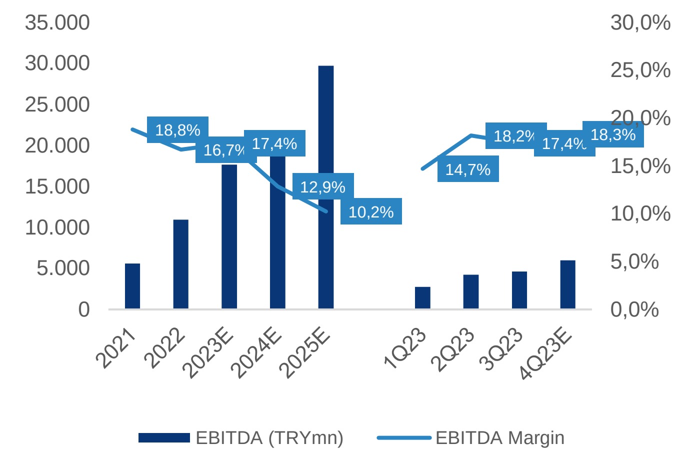
Figure 51 – TOASO – CV Market Shares



Source: Bloomberg - QNBFI Calculations

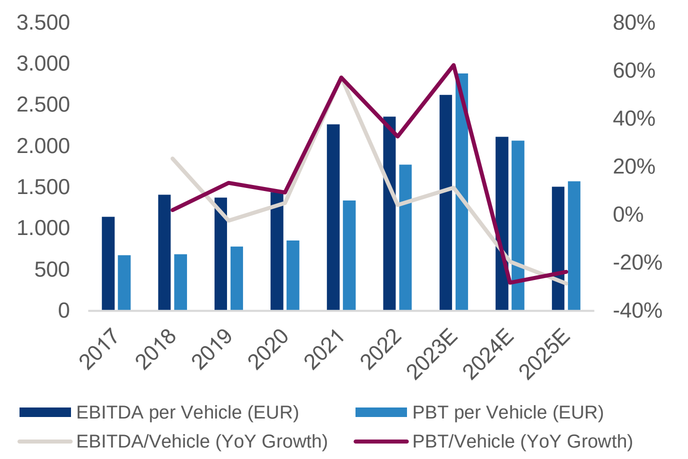
We are forecasting a CAGR of 19.7% in EBITDA between 2024-2029: The 9M23 EBITDA margin of 16.9% is quite high, especially compared to the 10yr average of ≈12.5%. For the last quarter, we estimate a 18.3% EBITDA margin, which will increase the 2023 fill year margin to 17.4%. Considering the growth trajectory for 2023, we believe that 2023 margins are not sustainable in the near future as the pricing advantages arising from high demand and low availability will fade away. Stellantis sales may compromise margins before the synergies arising from the acquisition, bringing the EBITDA per vehicle down to EUR2,113 in 2024, (2023E: EUR2,623), corresponding to a 2024 EBITDA margin of 12.9%. We forecast a decline in the PBT per vehicle from an estimated EUR2,880 in our 2023 projections to EUR2,065 for 2024. The dramatic decrease in the PBT per vehicle reflects the reduction of 2023 FX and interest income, with the cash having been spent on the Stellantis deal. Accordingly, we expect a PBT margin of 12.6% for 2024 (2023E: 19.1%).

Figure 52 – EBITDA Forecast



Source: QNBFI Estimates

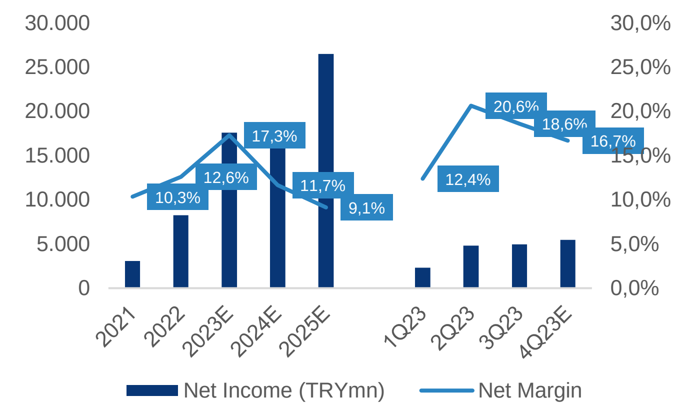
Figure 53 – EBITDA/PBT per Vehicle



Source: QNBFI Estimates

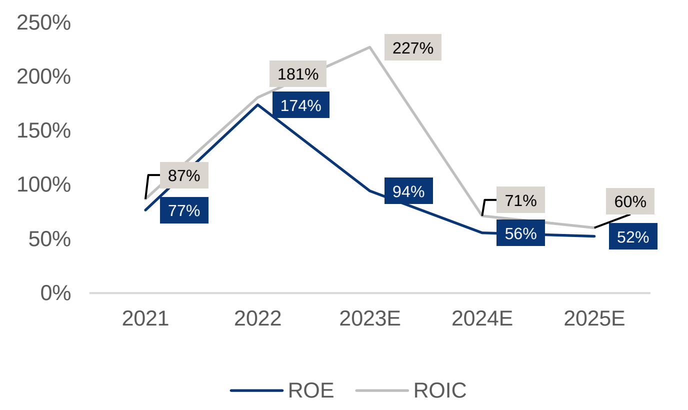
Forecasting a CAGR of 17.3% in net earnings between 2023-2028: We expect TRY17.6bn net income in 2023, estimating TRY5.5bn for 4Q23, corresponding to a 17.3% net margin for 2023. We expect lower operational profitability and lower FX and interest income in 2024. We calculate a mild 6% YoY increase in net income to TRY18.6bn in 2024, corresponding to a net margin of 11.7%. We incorporated tax incentives in our bottom-line expectations but adopted a conservative approach given the uncertainty over when the income will be realized.

Figure 54 – Net Income Forecasts



Source: QNBFI Estimates

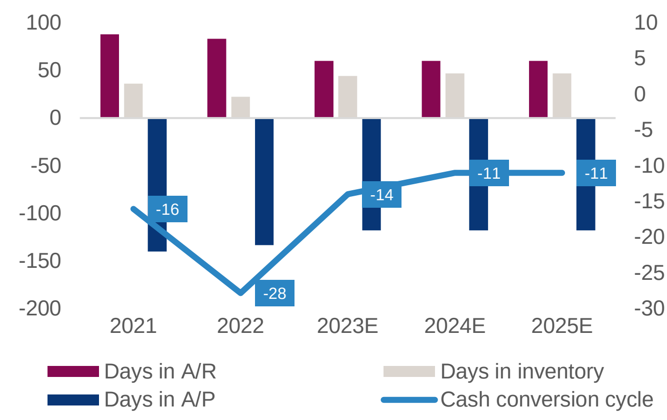
Figure 55 – ROE & ROIC



Source: QNBFI Estimates

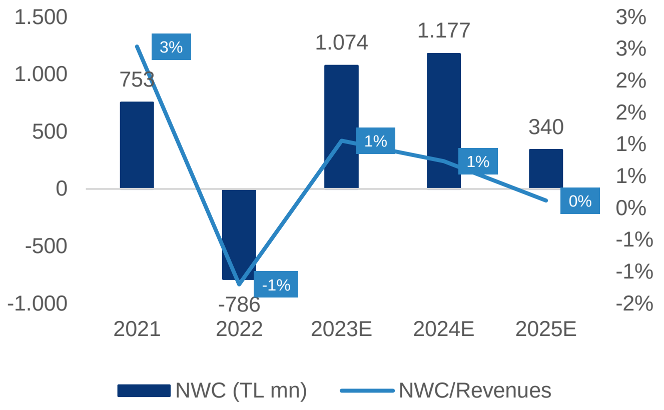
Forecasting TRY-2.9bn cashflows for 2024e: We expect a FCFF of TRY9.7bn (down 10% YoY) in 2023E, which corresponds to a FCFF margin of 9.5%. We expect net working capital to deteriorate with the acquisition of SO and a weaker demand environment. In the past years, NWC/Sales percentage was negative at in double-digits due to decreasing receivables and lower inventory days. In 2023, we started to see distortions. Payable days decreased with increasing inventory days. We expect the issue to worsen in 2024, as a dilutive effect of Stellantis may also be seen. In this respect, we expect NWC/Sales to increase to 5% in 2024; and TRY-2.9bn FCFF, representing a FCFF margin of -1.8%. Our CAPEX assumption includes the new investments. We carried out our calculations in line with the Company's strategic and investment plans. Accordingly, we expect EUR250mn of investment in both 2024 and 2025 to be spent on the production of new models.

Figure 56 – Cash Conversion Cycle Forecast



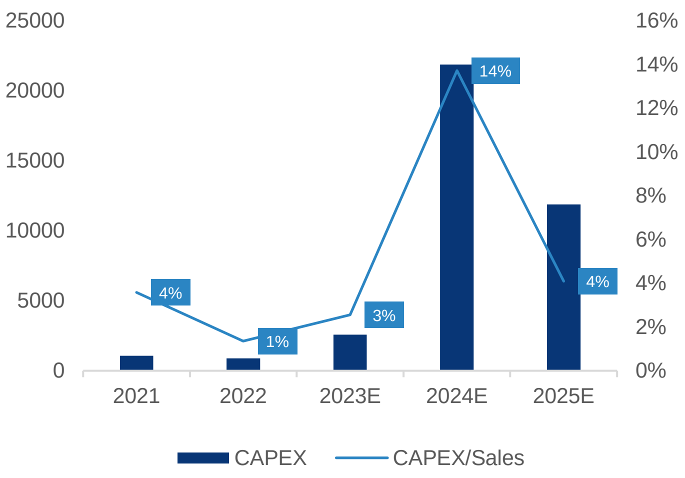
Source: QNBFI Estimates

Figure 57 – NWC/Sales



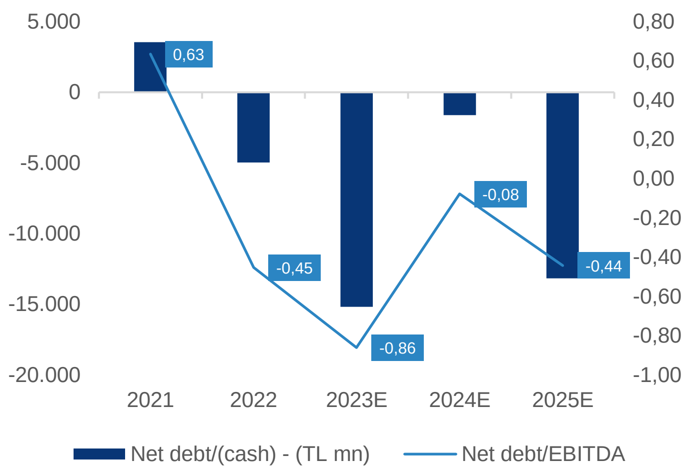
Source: QNBFI Estimates

Figure 58 – CAPEX Forecast



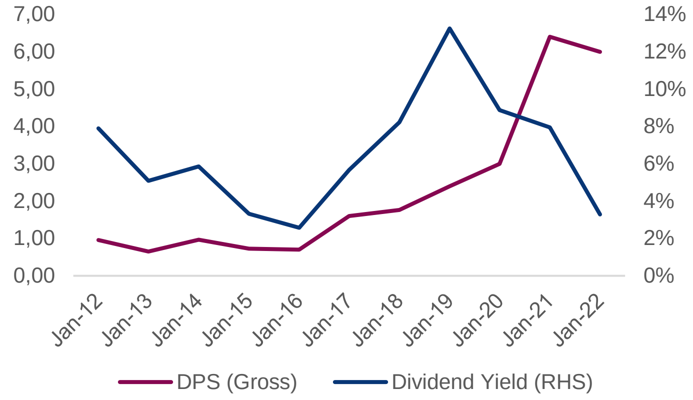
Source: QNBFI Estimates

Figure 59 – Net Debt Forecast



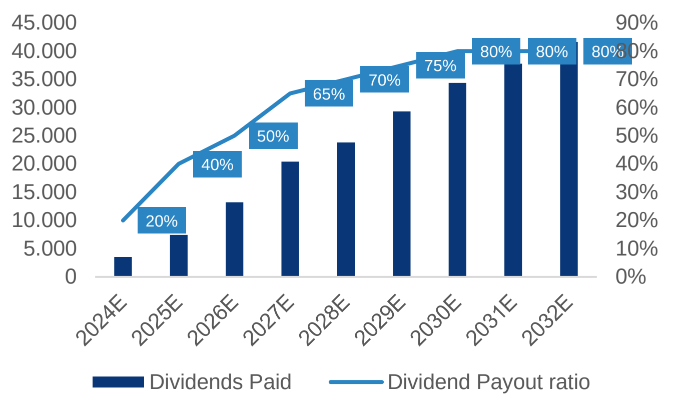
Source: QNBFI Estimates

Figure 60 – Historic DPS



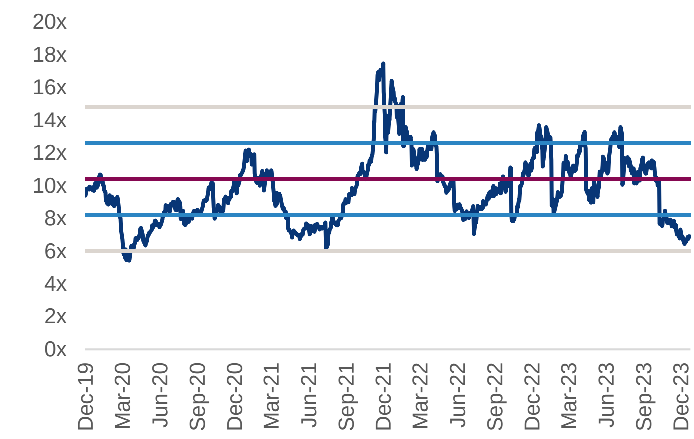
Source: QNBFI Estimates

Figure 61 – Forecasted Dividend Payments



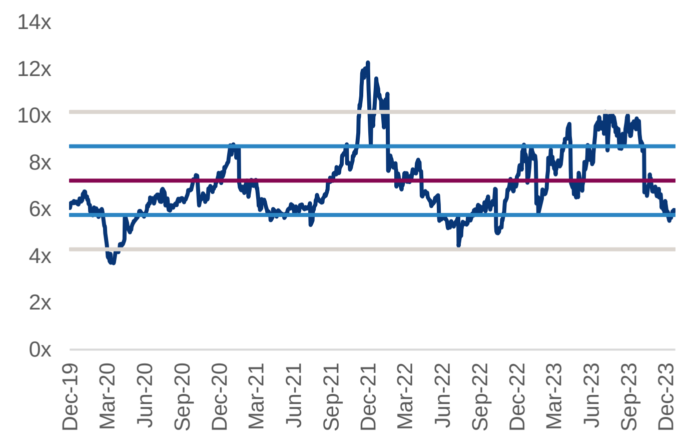
Source: QNBFI Estimates

Figure 62 – Trailing P/E Multiple



Source: QNBFI Estimates

Figure 63 – Trailing EV/EBITDA Multiple



Source: QNBFI Estimates

Valuation

We valued Tofas using DCF valuation and found a 12-month price target of TRY 317/share. Our 12-month TP offers 46% upside potential at the current market levels. In our valuation model, we have incorporated an average weighted-average cost of capital (WACC) of ≈25%, driven from 45% cost of borrowing, 45.2% cost of equity (40% risk-free rate, 6.0% equity risk premium, 0.92 stock beta) which decays until 2026. Lastly, we set a terminal growth rate of 10%.

Our key model assumptions are as follows;

- We are forecasting moderate revenue growth over the 2024-25 period given the weaker volume forecasts and expectation of a stronger FX trajectory. The Stellantis deal and new models will support the top-line significantly, and we forecast a CAGR of 34.5% between 2023-2028.
- We have assumed that margins will be slashed while hovering above historical averages for 2024 and 2025. We find the 2022-23 margin levels unsustainable. Therefore, our forecasts conservatively point to only nominal EBITDA growth for 2024. We project 16% YoY EBITDA growth for 2024, but to be followed by a 19.7% CAGR in EBITDA between 2023-2028. Our EBITDA forecast points to an EBITDA margin of 12.9% for 2024 and 10.2% for 2025.
- Our CAPEX assumption includes the new investments based on the Company's strategic and investment plans.
- Based on 2024 prospective earnings, the stock trades at a P/E of 5.9x and EV/EBITDA of 5.2x and, implying an average of 59% and 28% discount to its 5-year historical average multiples, respectively.

Figure 64 – Summary of DCF Model

TOASO (TRYmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues	159,470	290,185	348,469	404,662	446,702	492,991	543,539	599278.3	659,816	726,273
y/y growth	*57%*	*82%*	*20%*	*16%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
EBIT	17,545	25,569	29,529	34,406	37,619	41,301	45,391	49,882	54,696	59,735
EBITDA	20,507	29,731	34,350	39,660	43,340	47,527	52,162	57,243	62,692	68,431
y/y growth	*16%*	*45%*	*16%*	*15%*	*9%*	*10%*	*10%*	*10%*	*10%*	*9%*
EBITDA Margin	*13%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*9%*
Inc./dec. in W/C	103	-838	-285	-80	-98	-83	-80	-95	-117	-99
CAPEX	21,885	11,884	6,464	4,189	4,524	4,886	5,277	5,699	6,155	6,770
FCFF	**-2,880**	**14,225**	**21,898**	**24,264**	**25,964**	**28,479**	**31,288**	**34,359**	**37,609**	**40,578**
WACC	38.1%	29.3%	23.2%	23.2%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%
PV of FCFF	**60,613**									
Terminal growth rate	*10%*									
Terminal Value	335,169									
PV of Terminal Value	**35,407**									
Value of Firm	**96,020**									
Minority Interest	0									
Net debt @ 3Q23	-13,224									
Equity Value	109,244									
Fair Value per share as of now	218									
Fair Value per share (12M FWD)	317									
Upside / (Downside)	46%									

Source: QNBFI Calculations

Dogus Otomotiv (DOAS)

10 January 2024

Neutral
(Transfer of Coverage)

Close Price: TRY252
12M Target Price: TRY323
Upside Potential: 28%

Hazy Domestic Outlook Weighs on Profitability

We are re-initiating our coverage of DOAS with a Neutral rating and 12-month DCF-driven TP of TR323 /share, offering 28% upside potential from the current market levels. The stock trades at a P/E of 3.2x and EV/EBITDA of 3.1x based on our 2024YE prospective earnings, implying a 61% and 25% discount to its 3-year historical multiples, respectively. After a great year of high margins and solid sales volumes, we believe a process of normalization is approaching in parallel with the tighter monetary policy. Our view rests on the fact that softer demand in parallel with increasing vehicle availability will force the Company to sacrifice its upper hand in pricing and eventually initiate discounts and sales campaigns to maintain its market share We still expect DOAS to post strong 4Q results though, leading to an excellent set of 2023 results, yet, as the Company's sales heavily depends on the domestic demand, we believe DOAS is the most prone to downside risks amongst other players. Accordingly, we expect to start seeing a reversion in sales volumes and profitability margins. We do not foresee a growth in TRY terms in EBITDA or net income for 2024, and calculate 14% and 13% shrinkage, respectively.

Domestic LV volumes at risk from tighter monetary policy… The recent rate hikes implemented by the Central Bank of the Republic of Türkiye (CBRT) are likely to limit volume growth in the domestic market in 2024, postponing demand forward given the high opportunity cost of capital. Although higher interest rates on vehicle loans would normally further dampen demand, given that around 80% of car sales are cash transactions, this would only have a limited negative impact on our DOAS estimates. We foresee volume growth for the last quarter of 2023, but forecast a shrinkage of 28.7% in PC sales and 19.7% in LCV sales for 2024. This decline may extend until 1H25, and we therefore only forecast a mere 2% volume growth for 2025. The major upside rsik for our assumptions would be earlier than expected rate cuts, which may start from 2H24.

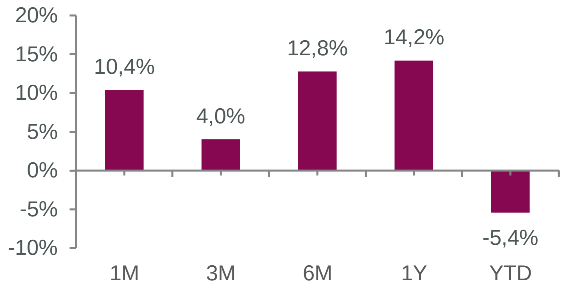
EBITDA margin set to converge with historical averages… Considering the growth trajectory in 2023, we find 2022-23e margin levels unsustainable for the future given that the pricing advantages arising from high demand and restricted availability will fade away. Until then, however, we can expect a strong last quarter, and estimate a 2023 full year EBITDA of TRY23.6bn, up 200% YoY and corresponding to a 18.2% EBITDA margin. For 2024, the risks are on the downside based on the aforementioned points, and accordingly we expect a decrease in EBITDA despite the expected changes in exchange rates. We forecast a 14% decline in EBITDA to TRY20.2bn in 2024, with a much more subdued 11.7% EBITDA margin. We expect EBITDA margins to converge with historical levels, although remaining above the historical levels of ≈6% throughout our forecast period.

Net income likely to be supported by strong VDF Servis, Yuce Auto and TUVTURK financials… Due to increasing inflation and a lower TRY, we have sharply raised our forecast of VDF Servis' income. TUVTURK, on the other hand, is likely to achieve the highest growth, given our expectation that vehicle inspections will remain high in 2024. Skoda sales, under Yuce Auto, are also likely to contribute significantly, with Skoda consistently capturing market share and increasing sales volumes. In this respect, we expect the total income from subsidiaries to represent 29% of the total 2024YE earnings.

Stock data

Bloomberg / Reuters	DOAS TI / DOAS.IS
Mcap (US$mn)	1,853
EV (US$mn)	1750.2
Avg. Trd. Vol. (US$mn)	20.5
Free float	34%

Relative Performance to BIST100



Key Data (TRYmn)	2021	2022	2023E	2024E	2025E
Revenues	24,306	46,781	129,382	173,112	218,248
Growth	*29%*	*92%*	*177%*	*34%*	*26%*
EBITDA	2,378	7,853	23,568	20,194	23,943
Growth	*46%*	*230%*	*200%*	*-14%*	*19%*
Net Profit	2,332	7,824	20,128	17,422	22,463
Growth	*125%*	*236%*	*157%*	*-13%*	*29%*
P/E (x)	3.0	2.5	2.2	3.2	2.5
EV/EBITDA (x)	2.8	2.1	1.8	3.1	2.6
P/BV (x)	1.6	1.6	1.7	1.7	1.2
FCF yield (%)	25%	15%	12%	7%	13%
Div. yield (%)	8.5%	11.1%	13.0%	20.0%	18.9%

Figure 65 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	**9,844**	**18,900**	**24,306**	**46,781**	**129,382**	**173,112**	**218,248**
Gross Profit	**1,270**	**2,475**	**3,521**	**10,526**	**29,416**	**28,589**	**34,550**
EBITDA	**595**	**1,628**	**2,378**	**7,853**	**23,568**	**20,194**	**23,943**
Depreciation	126	131	182	298	1,727	2,857	3,579
EBIT	**469**	**1,497**	**2,196**	**7,556**	**21,841**	**17,337**	**20,364**
Net other income	17	-53	897	369	1,327	3,360	4,274
Income from investing activities	43	14	32	244	1,024	1,535	2,149
Net financial income	-615	-419	-597	-680	-2,376	-3,976	-3,454
Profit from associates	143	248	441	1,032	3,478	5,043	6,707
PBT	**57**	**1,288**	**2,969**	**8,521**	**25,293**	**23,298**	**30,040**
Taxes Paid	10	216	633	1,657	6,086	5,825	7,510
Minority Interest	1	5	4	24	56	52	67
Net Profit/(Loss)	**76**	**1,037**	**2,332**	**7,824**	**20,128**	**17,422**	**22,463**

Balance Sheet (TLmn)	2019	2020	2021	2022	2023E	2024E	2025E
Current assets	**2,515**	**4,602**	**6,583**	**13,297**	**33,782**	**41,208**	**53,657**
Cash equivalents	648	656	3,410	5,400	7,395	2,452	3,956
Trade receivables	745	1,047	1,011	3,332	9,925	14,703	19,134
Inventories	936	2,752	1,969	4,270	15,885	23,361	29,694
Other current assets	185	147	193	296	577	692	873
Non-current assets	**2,150**	**2,515**	**3,171**	**7,368**	**18,766**	**25,693**	**33,198**
Tangibles	848	901	1,096	2,015	2,878	4,271	6,018
Intangibles	34	55	90	155	362	649	991
Other non-current assets	1,268	1,559	1,985	5,198	15,526	20,773	26,190
Total assets	**4,665**	**7,117**	**9,755**	**20,665**	**52,548**	**66,901**	**86,855**
Current liabilities	**3,093**	**4,467**	**5,087**	**8,346**	**22,195**	**29,560**	**36,803**
Short-term loans	2,202	2,153	2,938	2,373	4,055	4,555	5,118
Trade payables	713	1,854	1,231	3,587	10,766	15,137	19,246
Other current liabilities	178	461	918	2,386	7,375	9,867	12,440
Non-current liabilities	**319**	**354**	**304**	**613**	**4,268**	**4,905**	**5,606**
Long-term financial loans	236	234	91	221	3,750	4,213	4,733
Other non-current liabilities	83	120	214	392	518	692	873
Minority Interest	7	9	13	37	46	56	69
Shareholders' Equity	**1,253**	**2,296**	**4,364**	**11,707**	**26,084**	**32,436**	**44,446**
Total liabilities and equity	**4,665**	**7,117**	**9,755**	**20,665**	**52,548**	**66,901**	**86,855**

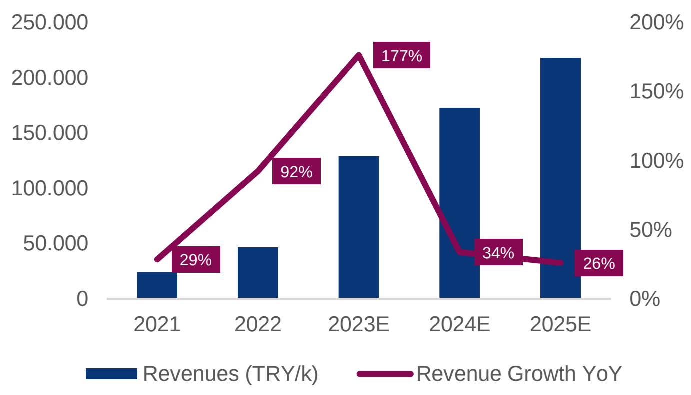
Key metrics	2020	2021	2022	2023E	2024E	2025E
Growth						
Revenue growth	92%	29%	92%	177%	34%	26%
EBITDA growth	173%	46%	230%	200%	-14%	19%
Net income growth	1269%	125%	236%	157%	-13%	29%
Profitability						
Gross Margin	13.1%	14.5%	22.5%	22.7%	16.5%	15.8%
EBITDA margin	8.6%	9.8%	16.8%	18.2%	11.7%	11.0%
Net margin	5.5%	9.6%	16.7%	15.6%	10.1%	10.3%
Return on assets (ROA)	17.6%	27.6%	51.4%	55.0%	29.2%	29.2%
Return on equity (ROE)	58.5%	70.0%	97.4%	106.5%	59.5%	58.4%
Return on cap. emp. (ROCE)	59.9%	40.6%	32.1%	34.8%	16.9%	14.2%
Leverage						
Net debt / Equity	0.0	1.1	2.4	1.9	3.0	3.2
WC/Sales	9%	4%	4%	6%	8%	8%
Opex/Sales	5%	5%	6%	6%	7%	7%

Cash Flow (TLmn)	2020	2021	2022	2023E	2024E	2025E
EBITDA	1,628	2,378	7,853	23,568	20,194	23,943
Change in working capital	977	-196	2,266	11,029	7,883	6,655
Taxes (EBIT x 25%)	251	468	1,469	4,714	4,039	4,789
Capital Expenditures	165	347	1,171	2,590	4,178	5,241
Adjustment	0	0	0	0	0	0
FCFF	235	1,759	2,947	5,235	4,094	7,259

Finansinvest vs Consensus		2024E			2025E	
	Estimate	Cons.	Deviation	Estimate	Cons.	Deviation
Revenues	173,112	118,826	46%	218,248	171,878	27%
EBITDA	20,194	18,875	7%	23,943	16,485	45%
Net Income	17,422	15,628	11%	22,463	13,620	65%

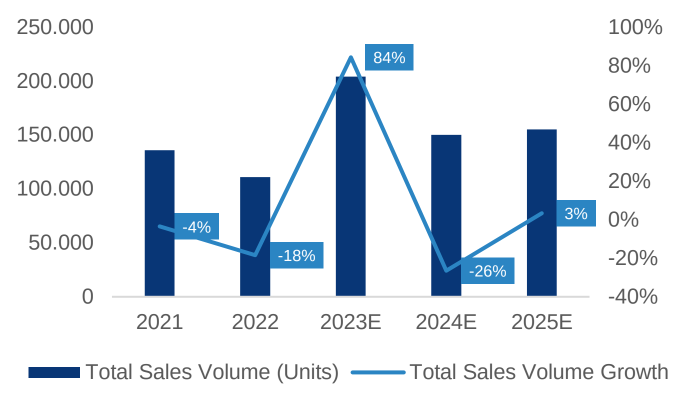
Dogus' 2023 PC sales grew 62% and LCV sales 66% YoY. Scania sales were strong as well, which led to a HCV segment growth of 53% YoY. Along with strong number of deliveries, having an upper hand in pricing and higher FX rates led the Company to post a YoY 9M23 revenue growth of 169%. For the last quarter, we are forecasting TRY46.7mn (+191% YoY) revenues in 4Q23, which represents a 2023E revenues of TRY129.4bn (+1169% YoY). Due to the challenges in the domestic market, we expect DOAS' revenues to grow a mild 34% and 26% in 2024 and 2025, respectively, mostly will be accounted by weaker TRY trajectory. We expect the subsidiaries to post strong revenues though, which will be accounted with equity pick-up method.

Figure 66 – DOAS - Revenue Projections



Source: ACEA - Bloomberg - QNBFI Calculations

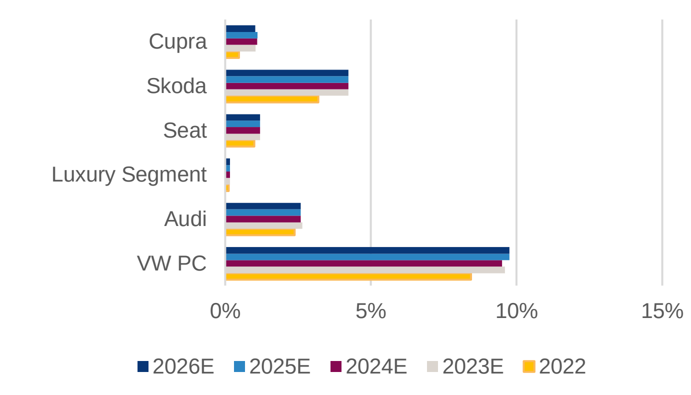
Figure 67 – DOAS - Volumes Projections



Source: Bloomberg - QNBFI Calculations

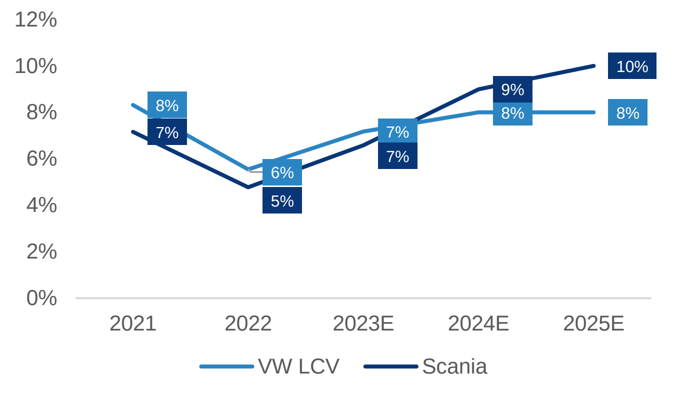
As mentioned, we forecasted volumes in the domestic market to shrink due to the weaker macro environment. We expect Dogus Oto's PC sales volume to shrink by 29.1% in 2024 vs. a 28.7% shrinkage in the overall market. We believe VW and Audi sales will slightly underperform the overall market but Skoda sales will be able compensate some of that.

Figure 68 – DOAS – PC Market Shares



Source: ACEA - Bloomberg - QNBFI Calculations

Figure 69 – DOAS – VW LCV and Scania Market Shares



Source: Bloomberg - QNBFI Calculations

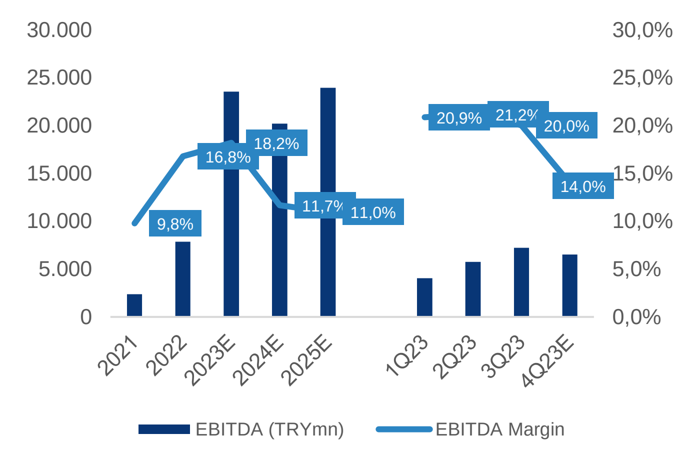
Figure 70 – Complete Volume Forecast Table

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Passanger Cars	**154,954**	**87,916**	**67,286**	**112,932**	**101,981**	**92,472**	**182,386**	**129,314**	**133,215**
y/y growth		*-43%*	*-23%*	*68%*	*-10%*	*-9%*	*97%*	*-29%*	*3%*
Volkswagen	91,343	45,388	37,029	54,886	51,547	50,015	92,753	65,430	68,248
Audi	21,172	12,969	9,576	19,537	13,219	14,100	25,558	17,847	18,142
Porsche+Bentley+Lamborghini	723	494	316	678	629	698	1,537	1,095	1,114
Seat	17,002	8,640	5,765	11,866	12,367	5,933	11,545	8,226	8,363
Cupra	0	0	0	0	288	2,810	10,119	7,589	7,741
Skoda	24,714	20,425	14,600	25,965	23,931	18,916	40,876	29,126	29,608
Light Commercial Vehicles	**29,738**	**17,352**	**8,718**	**13,163**	**16,789**	**18,318**	**21,792**	**20,843**	**22,031**
y/y growth		*-42%*	*-50%*	*51%*	*28%*	*9%*	*19%*	*-4%*	*6%*
VW LCV	28,041	16,175	8,253	12,006	14,597	10,568	19,017	17,046	17,728
Heavy Commercial Vehicles	**1,697**	**1,177**	**465**	**1,157**	**2,192**	**1,804**	**2,775**	**3,797**	**4,303**
y/y growth		*-31%*	*-60%*	*149%*	*89%*	*-18%*	*54%*	*37%*	*13%*
Scania	1,697	1,177	465	1,157	2,192	1,804	2,775	3,797	4,303

Source: The Company Data - QNBFI Calculations

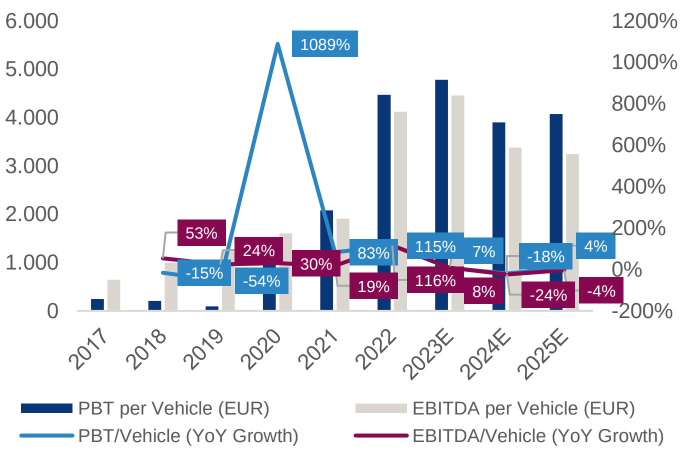
We are forecasting a CAGR of 6.5% in EBITDA between 2023-2028: The Company's margins surged from the beginning of 2022. The jump in profitability was driven by the company's upper hand in pricing due to restricted vehicle availability in the market and, to a lesser extent, the weaker TRY. The 9M23 EBITDA margin of 20.6% can be considered extremely high, especially when compared to the historical average of ≈6%. For the last quarter, we expect an EBITDA margin of 14.0%, which will bring down the 2023YE margin to 18.2% due to seasonality effect of employee bonuses. For 2024 and beyond, we believe the tables will be turned and expect profitability to merge with historical averages due to the reversing course of events within the sector and the economy. Based on our calculations, we are forecasting the EBITDA per vehicle to shrink 24% by in EUR terms in 2024 and a mild 4% in 2025, with PBT per vehicle shrinking by 18% in 2024, before recovering by 4% in 2025.

Figure 71 – EBITDA Forecast



Source: QNBFI Estimates

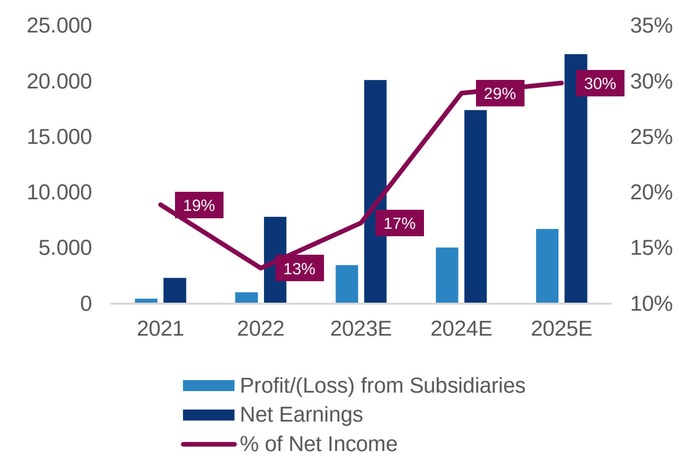
Figure 72 – EBITDA and PBT per Vehicle



Source: QNBFI Estimates

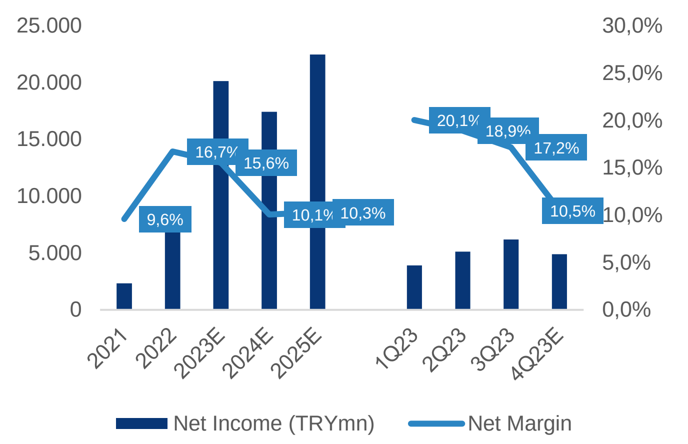
Forecasting a CAGR of 11.2% for net earnings between 2023-2028: We expect TL20.1mn of net earnings (up 157% YoY) in 2023, corresponding to a net margin of 15.6%. We expect strong contributions from the subsidiaries thanks to increasing inflation and a weaker TRY. We expect VDF Servis to post the most growth with a significant vehicle inspection cycle to take place in the 2024. Skoda sales under Yuce Auto are also set to contribute significantly with Skoda consistently capturing market share and increasing its sales volume. We are forecasting some erosion in the net margin due to rising financial expenses on the back of rising interest rates.

Figure 73 – Projections of Profit/(Loss) from Subsidiaries



Source: QNBFI Estimates

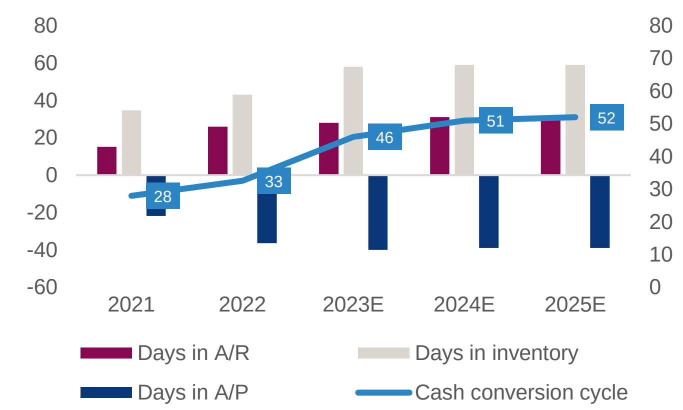
Figure 74 – Net Income Forecasts



Source: QNBFI Estimates

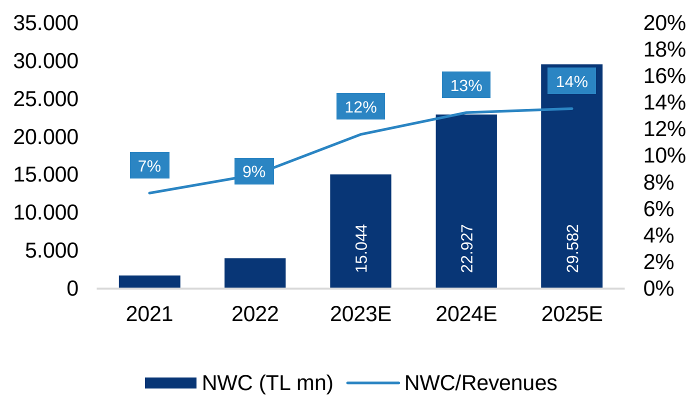
We are forecasting a CAGR of 17.2% in the FCFF between 2024-2028: We expect an FCFF of TL3.0bn (up 2% YoY) in 2023, corresponding to an FCFF margin of 2.5%. We expect the company's net working capital to deteriorate in a weaker demand environment. The NWC/Sales ratio has decreased to single digit levels in recent years thanks to decreasing receivables and lower inventory days. In 2023, we started to see some distortions with a sharp surge in inventory days with lowering payables days. We expect the issue to worsen in 2024, but still do not expect the NWC/Sales ratio to reach double digit levels in our projections. Yet, we expect TRY4.9bn FCFF, up by 65%

Figure 75 – Cash Conversion Cycle Forecast



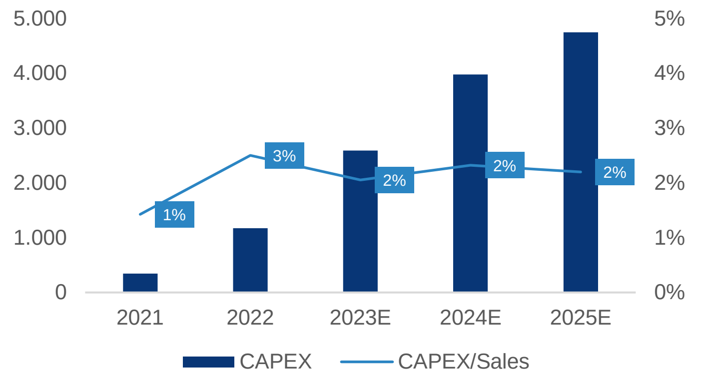
Source: QNBFI Estimates

Figure 76 – NWC/Sales



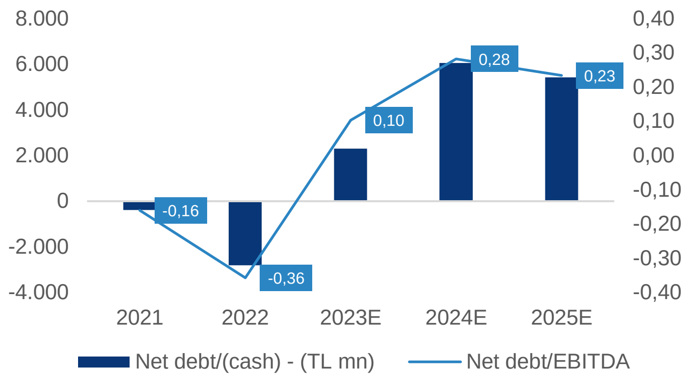
Source: QNBFI Estimates

Figure 77 – CAPEX Forecast



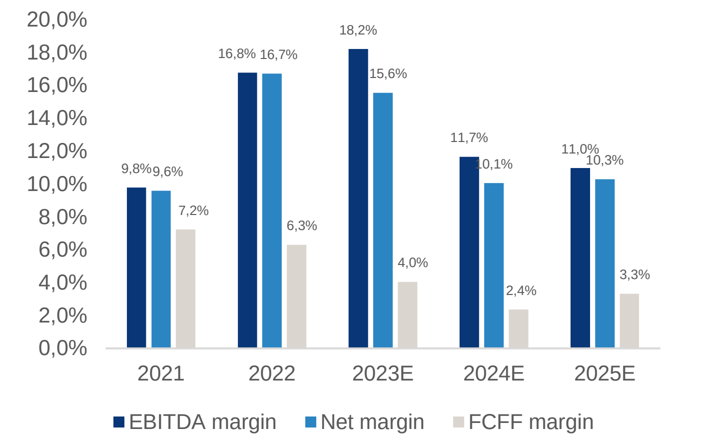
Source: QNBFI Estimates

Figure 78 – Net Debt Forecast



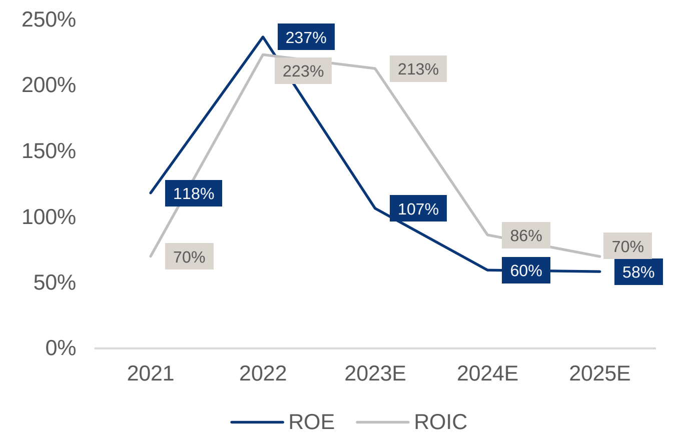
Source: QNBFI Estimates

Figure 79 – Margin Evolution



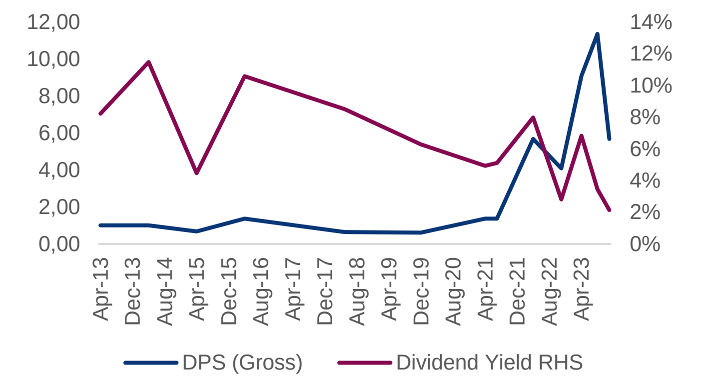
Source: QNBFI Estimates

Figure 80 – ROE - ROIC



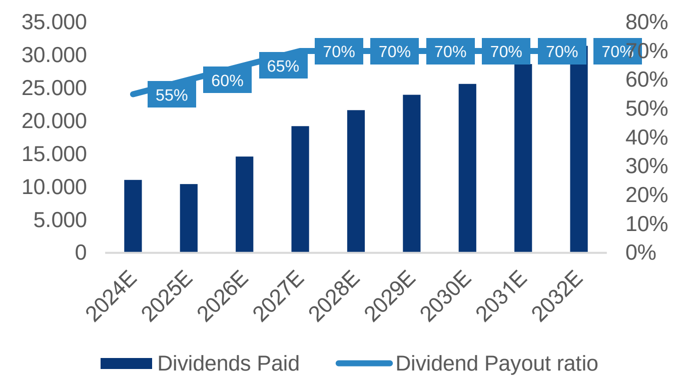
Source: QNBFI Estimates

Figure 81 – Historic DPS



Source: QNBFI Estimates

Figure 82 – Forecasted Dividend Payments



Source: QNBFI Estimates

Valuation

We valued DOAS using DCF valuation and set a 12-month price target of TRY323/share. Our 12-month TP represents an 28% upside potential from the current market levels. In our valuation model, we have incorporated an average weighted-average cost of capital (WACC) of ≈28%, driven from 45% cost of borrowing, 46.7% cost of equity (40% risk-free rate, 6.0% equity risk premium, 0.90 stock beta) which decays until 2026. Lastly, we set a terminal growth rate of 5%.

Our key model assumptions are as followed;

- We are forecasting moderate revenue growth for the years 2024-25, with weaker volume forecasts, and TRY trajectory. New model launches, facelifts of passenger car brands and electrification of current PC models supports top-line, but not so compelling, in our view. We forecast an 34% YoY revenue growth in 2024 and 22.9% CAGR over 2023-28E.
- We slashed margins yet, floated above the historical averages. We believe that 2022-23 margins are not sustainable. In general, we believe that DOAS' advantages in pricing will fade away. Therefore, we believe that EBITDA will shrink in 2024, due to lower appetite for cars, increasing competition and accordingly, pricing. We forecast an -14% YoY EBITDA shrinkage and a 6.5% CAGR over 2023-28E.
- Our CAPEX assumption is relatively in-line with previous years based on the Company's investment plans.
- Based on 2024YE prospective earnings, the stock trades at a P/E of 3.2x, and EV/EBITDA of 3.7x, respectively, implying an average of 61% and 25% discount to its 3-year average multiples, respectively.

Figure 83 – Summary of DCF Model

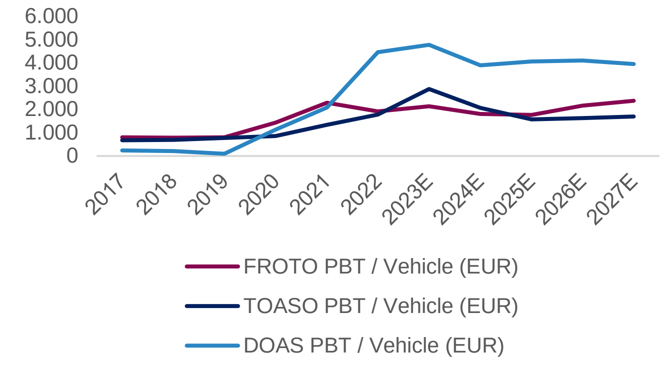
DOAS (TLmn)	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**
Revenues	173,112	218,248	265,290	316,455	362,977	411,703	465,296	514823.37	568,853	627,150
y/y growth	*34%*	*26%*	*22%*	*19%*	*15%*	*13%*	*13%*	*11%*	*10%*	*10%*
EBIT	17,337	20,364	23,013	25,943	27,089	27,851	30,860	33,468	36,241	39,148
EBITDA	20,194	23,943	27,097	30,569	32,330	33,788	37,523	40,877	44,399	48,210
y/y growth	*-14%*	*19%*	*13%*	*13%*	*6%*	*5%*	*11%*	*9%*	*9%*	*9%*
EBITDA Margin	*12%*	*11%*	*10%*	*10%*	*9%*	*8%*	*8%*	*8%*	*8%*	*8%*
Inc./dec. in W/C	7,883	6,655	7,170	7,145	6,592	6,934	7,504	6,952	7,581	8,195
CAPEX	4,178	5,241	5,986	6,789	7,698	8,730	9,805	10,907	12,016	13,349
FCFF	**4,094**	**7,259**	**8,522**	**10,522**	**11,573**	**11,367**	**12,709**	**14,842**	**15,923**	**17,024**
WACC	40.7%	39.4%	30.9%	24.5%	24.5%	24.6%	24.6%	24.6%	24.7%	24.8%

PV of FCFF	**28,402**
Terminal growth rate	*5%*
Terminal Value	90,272
PV of Terminal Value	**10,667**
Value of Firm	**39,069**
Add: Participation Valuation	6,932
Net debt @ 3Q23	-2,825
Equity Value	48,826
Fair Value per share as of now	222
Fair Value per share (12M FWD)	323
Upside / (Downside)	28%

Source: QNBFI Calculations – Rasyonet

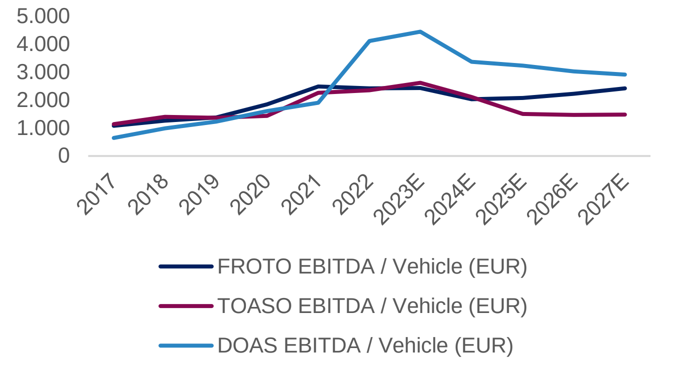
Comparisons

Figure 84 – PBT per Vehicle



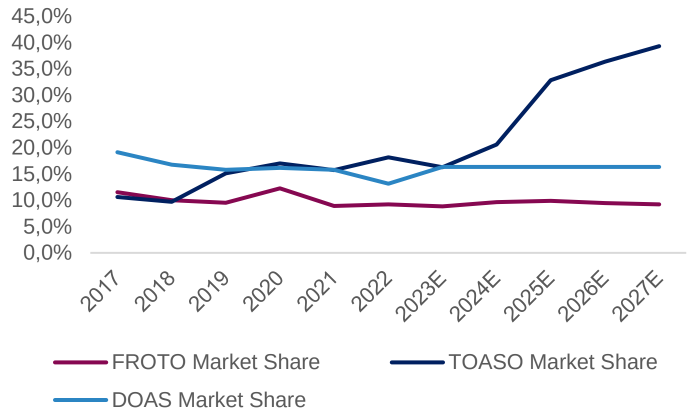
Source: QNBFI Estimates

Figure 85 – EBITDA per Vehicle



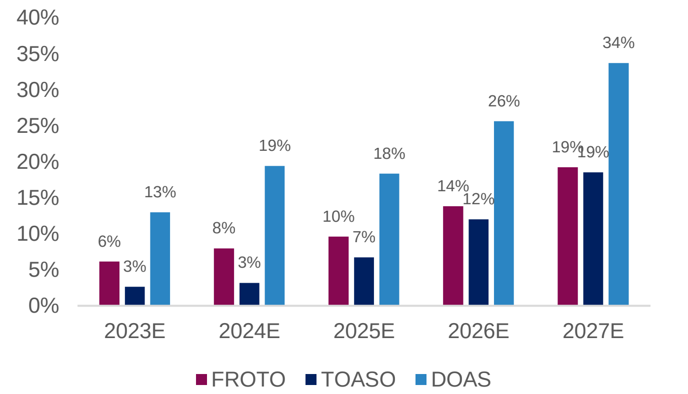
Source: QNBFI Estimates

Figure 86 – LV Market Shares



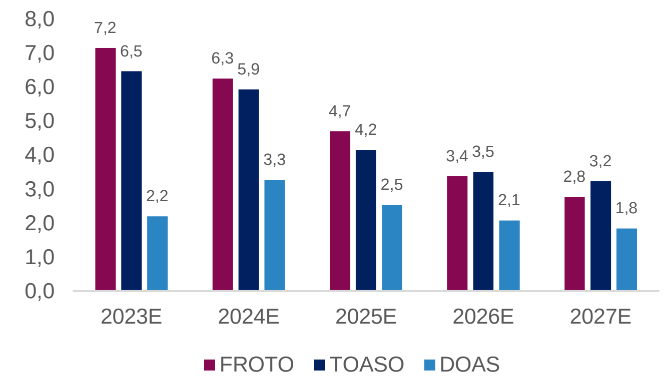
Source: QNBFI Estimates

Figure 87 – Dividend Yield



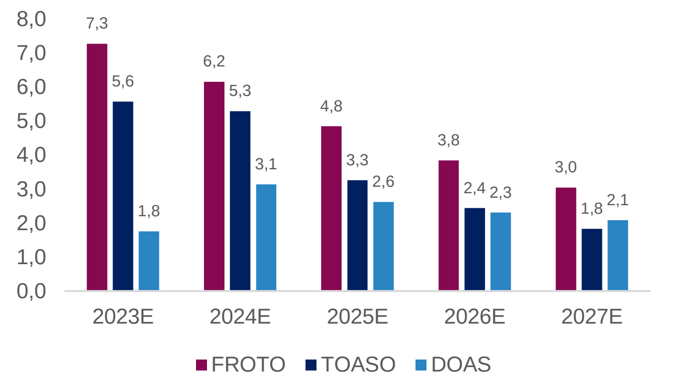
Source: QNBFI Estimates

Figure 88 – Forward P/E Multiples



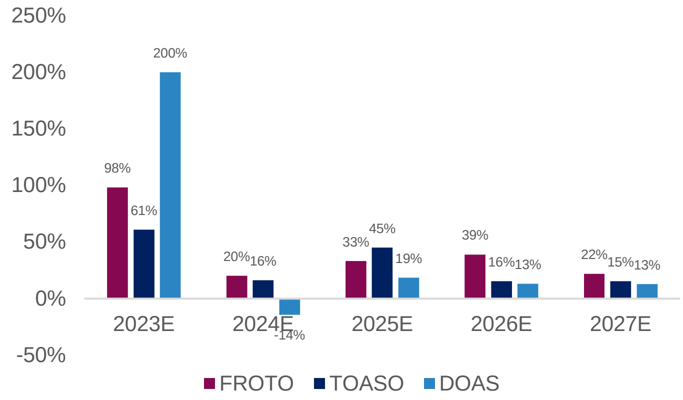
Source: QNBFI Estimates

Figure 89 – Forward EV/EBITDA Multiples



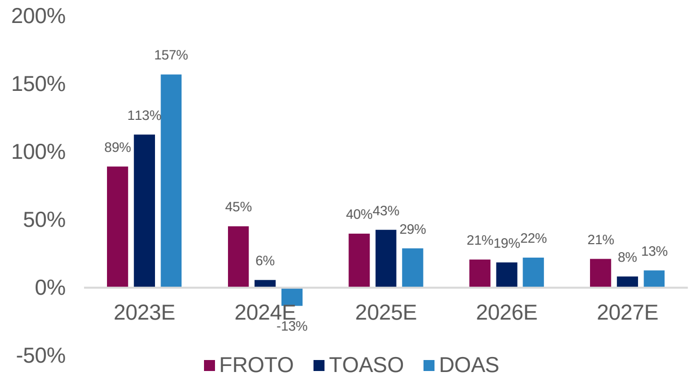
Source: QNBFI Estimates

Figure 90 – Net Income Growth



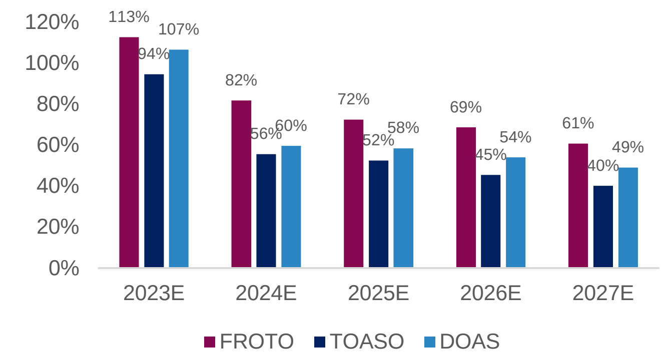
Source: QNBFI Estimates

Figure 91 – EBITDA Growth



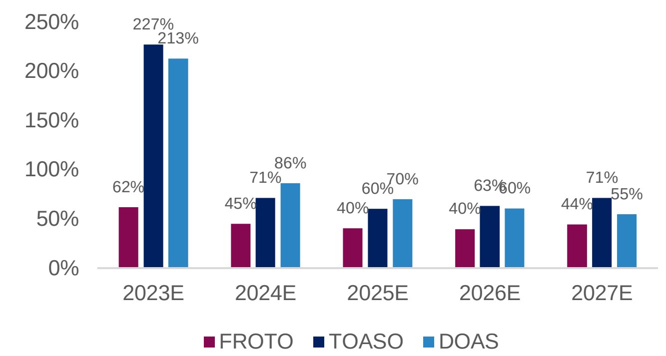
Source: QNBFI Estimates

Figure 92 – ROEs



Source: QNBFI Estimates

Figure 93 – ROIC



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.

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: **Tolga Han and Can Alagöz.**

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

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