TURKISH EQUITIES / COMPANY UPDATE

# Tofas

## Production challenges loom, but poised for a great 2025

**We are maintaining our Outperform rating for Tofas with a revised target price of TRY546/share, implying 62% upside potential. The stock has surpassed the target price of TRY317/share we set on January 10 this year and has outperformed the BIST-100 Index by 21.4%. We revise our TP upwards as the Stellantis Otomotiv (SO) acquisition and the production of the K0 model draws near. Compared to our previous assumptions, we have raised our volume assumptions for 2024E with demand at home remaining stronger than our expectations in 1H24, supported by one-offs such as robust sale of tax privileged handicapped vehicles, as well as, companies attempting to deplete stocks with additional sales campaigns due to GSR-II and low-priced vehicles flocking from China. Tofas LV sales on the other hand has been struggling with low capacity utilization rates due to the production termination of Doblo brand and severe competition in the domestic market. Despite our sluggish view on automotive sales for the rest of the year, and production termination of LCVs, poises the Company for a humble 2024; the company has a remarkable 2025 growth story with the contribution of Stellantis distribution and with the start of K0 production. Our EBITDA figure points to a 42% real shrinkage in 2024E, but an 66% real growth in 2025E. Along with healthy earnings momentum, the stock trades at a steep discount, EV/EBITDA of 5.3x which implies an 38% discount to its 3-yr historical average. Looking at our findings and valuation, we justify that investment community were highly cautious on Tofas until May, 2024, probably attributable to the unknown timeline of the Competition Board's approval and the high CAPEX transition period ahead of the Company post-acquisition. Overall, by assuming Stellantis closure of YE24 we eliminate the risk of the delay and concluded that the risk-reward trade-off is enticing at the current share price levels.**

**You may also find latest developments for the automotive sector on Appendix.**

**Capacity utilization rate (CUR) at its lowest for 20 years, but expected to pick-up with the K0 production** The Doblo brand's manufacturing termination has negatively impacted the company's CUR, which had slid to 50% as of 1Q24, and with the termination of Fiorino brand, it will plunge further, to 38%, for the 2024 full year – its lowest for 20 years. Nevertheless, we expect a steep increase in production as production of the K0 kicks off in early 2025, as well as the pick-up in deliveries to Europe and other major export markets. We expect a CUR of 56% in 2025E and 65% in 2026E. The volume contribution from the Stellantis will be significant as well, expecting sales of 158k PC and 42k units of LCV vehicles in 2025, leading to total domestic LV sales of 334,000 vehicles. For 2025, we project Tofas to deliver 103,000 of the K0 model, mainly for export, indicating vigorous 140% growth in export volumes. Accordingly, we forecast 100% revenue growth for the Company in 2025.

**EBITDA margin to slip to historical averages on normalization of vehicle sales, while we expect further dilution with inclusion of Stellantis Otomotiv** We expect the pricing advantages presented by high demand and restricted availability to diminish after 1Q24. Accordingly, we find the current margin levels unsustainable, forecasting a fall in the IAS-29 EBITDA per vehicle to EUR2,096 in 2024E (2023: EUR2,808), with a 2024E IAS-EBITDA margin of 10.2% (2023: 14.9%). In 2025, sales of Stellantis branded vehicles could compromise margins before the synergies from the acquisition become established. Yet, we are forecasting a strong real EBITDA growth of 66%, with a SO, Tofas blended new IAS-EBITDA per vehicle of EUR999. We forecast a sharp contraction in the PBT per vehicle from EUR2,610 in 2023 to EUR711 in 2024, reflecting the reduced 2023 FX and interest income, and monetary losses. Accordingly, we expect a PBT margin of 7.3% for 2024E (2023: 13.8%), and expect 5.3% PBT margin in 2025, mainly due to the reduced FX and interest income, as the cash will be spent on the SO deal.

4 July 2024

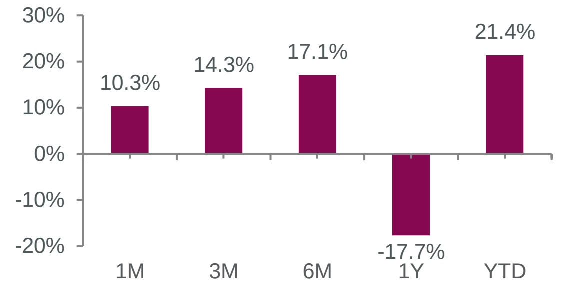
**Outperform**
**(Maintained)**

Close Price: TRY338.00
12M Target Price: TRY546.00
Upside Potential: 62%

Stock data

| | |
|---|---|
| Bloomberg / Reuters | TOASO TI / TOASO.IS |
| Mcap (US$mn) | 5,201 |
| EV (US$mn) | 4829.9 |
| Avg. Trd. Vol. (US$mn) | 45.5 |
| Free float | 24% |

Relative Performance to BIST100




| Key Data (TRYmn) | 2023 | R.2023 | 2024E | R.2024 | 2025E |
|---|---|---|---|---|---|
| Revenues | 127,601 | 180,415 | 151,292 | 187,037 | 373,399 |
| *Growth* | 3% | | -16% | | 100% |
| EBITDA | 17,168 | 26,865 | 15,525 | 19,193 | 31,797 |
| *Growth* | 52% | | -42% | | 66% |
| Net Profit | 14,417 | 20,385 | 11,161 | 13,799 | 19,599 |
| *Growth* | 71% | | -45% | | 42% |
| P/E (x) | 7.9 | | 15.1 | | 8.6 |
| EV/EBITDA (x) | 6.8 | | 11.9 | | 5.3 |
| P/BV (x) | 2.7 | | 3.3 | | 2.6 |
| FCF yield (%) | 11% | | 2% | | 11% |
| Div. yield (%) | 2.8% | | 1.7% | | 2.6% |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## Figure 1 – Summary financials & key metrics (TRYmn)

| Income Statement (TLmn) | 2022 | 2023 | Restated 2023 | 2024E | Restated 2024E | 2025E |
|---|---|---|---|---|---|---|
| **Revenues** | **124,019** | **127,601** | **180,415** | **151,292** | **187,037** | **373,399** |
| **Gross Profit** | **15,062** | **22,493** | **31,803** | **22,124** | **27,351** | **46,533** |
| **EBITDA** | **17,168** | **19,001** | **26,865** | **15,525** | **19,193** | **31,797** |
| Depreciation | 7,294 | 3,938 | 5,568 | 4,748 | 5,870 | 10,281 |
| **EBIT** | **9,874** | **15,062** | **21,297** | **10,777** | **13,323** | **21,516** |
| Net other income | -1,571 | -1,721 | -2,433 | 977 | 1,208 | 1,822 |
| Income from investing activities | 113 | 119 | 168 | 179 | 221 | 250 |
| Net financial income | 1,415 | 4,199 | 5,938 | -817 | -1,010 | -3,962 |
| Profit from associates | 0 | 0 | 0 | 0 | 0 | 0 |
| **PBT** | **9,831** | **17,660** | **24,970** | **11,116** | **13,742** | **19,626** |
| Taxes Paid | 1,219 | 4,645 | 6,567 | 2,779 | 3,435 | 4,906 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net Profit/(Loss)** | **8,427** | **14,417** | **20,385** | **11,161** | **13,799** | **19,599** |

| Balance Sheet (TLmn) | 2022 | 2023 | Restated 2023 | 2024E | Restated 2024E | 2025E |
|---|---|---|---|---|---|---|
| **Current assets** | **55,198** | **69,618** | **98,433** | **81,234** | **100,427** | **130,970** |
| Cash equivalents | 19,804 | 28,601 | 40,438 | 36,538 | 45,171 | 23,377 |
| Trade receivables | 24,643 | 21,192 | 29,963 | 21,968 | 27,159 | 54,220 |
| Inventories | 5,554 | 11,175 | 15,800 | 13,801 | 17,062 | 31,343 |
| Other current assets | 5,197 | 8,650 | 12,231 | 8,926 | 11,035 | 22,031 |
| **Non-current assets** | **18,601** | **20,899** | **29,550** | **28,178** | **34,835** | **55,303** |
| Tangibles | 9,233 | 10,144 | 14,343 | 14,682 | 18,151 | 19,950 |
| Intangibles | 5,596 | 4,904 | 6,934 | 7,444 | 9,203 | 20,417 |
| Other non-current assets | 3,771 | 5,851 | 8,273 | 6,052 | 7,481 | 14,936 |
| **Total assets** | **73,799** | **90,517** | **127,983** | **109,412** | **135,262** | **186,273** |
| **Current liabilities** | **43,007** | **40,924** | **57,862** | **50,155** | **62,004** | **108,253** |
| Short-term loans | 8,510 | 7,753 | 10,962 | 13,995 | 17,301 | 16,794 |
| Trade payables | 31,310 | 27,110 | 38,331 | 28,974 | 35,820 | 73,725 |
| Other current liabilities | 3,187 | 6,060 | 8,569 | 7,186 | 8,883 | 17,735 |
| **Non-current liabilities** | **4,943** | **7,159** | **10,122** | **8,544** | **10,563** | **12,172** |
| Long-term financial loans | 3,112 | 5,860 | 8,285 | 7,032 | 8,693 | 8,438 |
| Other non-current liabilities | 1,831 | 1,299 | 1,837 | 1,513 | 1,870 | 3,734 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| **Shareholders' Equity** | **25,849** | **42,435** | **59,999** | **50,713** | **62,695** | **65,848** |
| **Total liabilities and equity** | **73,799** | **90,517** | **127,983** | **109,412** | **135,262** | **186,273** |

| Key metrics | 2022 | 2023 | 2024E TRY Real | 2024E | 2025E TRY Real | 2025E |
|---|---|---|---|---|---|---|
| **Growth** | | | | | | |
| Revenue growth | 318% | 3% | -16% | 19% | 100% | 147% |
| EBITDA growth | 207% | 11% | -42% | -18% | 66% | 105% |
| Net income growth | 174% | 71% | -45% | -23% | 42% | 76% |
| **Profitability** | | | | | | |
| Gross Margin | 12.1% | 17.6% | 17.6% | 14.6% | 14.6% | 12.5% |
| EBITDA margin | 13.8% | 14.9% | 14.9% | 10.3% | 10.3% | 8.5% |
| Net margin | 6.8% | 11.3% | 11.3% | 7.4% | 7.4% | 5.2% |
| Return on assets (ROA) | 17.3% | 17.5% | 20.9% | 10.2% | 11.1% | 13.6% |
| Return on equity (ROE) | 53.3% | 42.2% | 47.7% | 21.9% | 23.9% | 32.8% |
| Return on cap. emp. (ROCE) | 62.5% | 63.9% | 31.9% | 16.0% | 9.7% | 16.9% |
| **Leverage** | | | | | | |
| Net Debt | -8,182 | -14,988 | 86,416 | -15,512 | 182,777 | 1,855 |
| Net debt / Equity | -0.3 | -0.4 | 1.4 | -0.3 | 2.9 | 0.0 |
| Net debt / EBITDA | -0.5 | -0.8 | 3.2 | -1.0 | 9.5 | 0.1 |
| EBIT Interest coverage | -1.6 | -1.9 | -2.7 | -54.5 | -67.4 | -58.3 |
| **Efficiency** | | | | | | |
| Total asset turnover | 1.7 | 1.4 | 1.4 | 1.4 | 1.4 | 2.0 |
| Equity turnover | 4.8 | 3.0 | 3.0 | 3.0 | 3.0 | 5.7 |
| WC/Sales | 8% | 1% | 1% | 6% | 6% | 6% |
| Opex/Sales | 4.2% | 5.8% | 24.8% | 7.5% | 22.5% | 6.7% |

| Cash Flow (TLmn) | 2022 | 2023 | Restated 2023 | 2024E | Restated 2024E | 2025E |
|---|---|---|---|---|---|---|
| EBITDA | 17,168 | 19,001 | 26,865 | 15,525 | 19,193 | 31,797 |
| Change in working capital | -1,866 | 6,370 | 9,007 | 1,538 | 1,902 | 5,042 |
| Taxes (EBIT x 25%) | 1,225 | 3,961 | 5,601 | 2,779 | 3,435 | 4,906 |
| Capital Expenditures | 1,494 | 1,259 | 1,780 | 8,953 | 11,068 | 9,507 |
| Adjustment | -5,898 | 5,388 | 7,618 | 1,914 | 2,366 | 5,453 |
| FCFF | 10,418 | 12,798 | 18,095 | 4,169 | 5,155 | 17,794 |

*Source: QNBFI Estimates*

## Valuation

We valued Tofas using DCF methodology and found a 12-month target price of TRY 546/share. Our 12-month TP offers 62% upside potential on the latest close. In our valuation model, we have incorporated an average weighted-average cost of capital (WACC) of ≈25% for our long-term valuation horizon, driven from a 47.5% cost of borrowing, 45.2% cost of equity (40% risk-free rate, 5.5% equity risk premium and a 0.94 stock beta) for 2024, which is assumed to decay until 2026. Finally, we set a terminal growth rate of 10%.

Our key model assumptions are as follows;

- We are forecasting moderate revenue growth for 2024 in nominal terms given the weaker volume forecasts and expectation of a change in FX trajectory. The Stellantis deal and new models will support the top-line significantly from 2025, and we forecast a CAGR of 36.8% between 2024-2029.
- We have assumed that margins will narrow while hovering above historical averages for 2024 and 2025 as we find the 2022-23 margin levels unsustainable. Therefore, our forecasts conservatively point to nominal EBITDA shrinkage for 2024. We project a nominal 3.8% YoY shrinkage in our non-IAS EBITDA for 2024, to be followed by a 29.9% nominal CAGR growth between 2024-2029. Our non-IAS EBITDA forecast points to an EBITDA margin of 14.3% for 2024E and 11.4% for 2025E.
- FCFF will attain an attractive CAGR of 61.3% between 2024-2029 based on our calculations. As the transition period progresses and the period of high CAPEX in 2024 and 2025 draws to a close, we expect a surge in the FCFF margin to 8.0% in 2026E (2024E: 3.4%, 2025E: 5.9%).
- 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 15.1x and IAS-adjusted EV/EBITDA of 11.9x, but looking at 2025E prospective earnings, the Company trades at a P/E of 8.6x and IAS-adjusted EV/EBITDA of 5.3x, implying average respective discounts of 10% and 38% to its 3-year historical average multiples.

**Figure 2 – Summary of DCF Model**

| TOASO TRYmn | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 122,005 | 301,117 | 372,688 | 446,234 | 521,337 | 584,689 | 654,534 | 732336 | 815,721 | 904,896 |
| y/y growth | *19%* | *147%* | *24%* | *20%* | *17%* | *12%* | *12%* | *12%* | *11%* | *11%* |
| EBIT | 10,777 | 21,516 | 29,237 | 37,166 | 44,684 | 51,228 | 63,866 | 70,907 | 79,747 | 86,211 |
| Adjusted EBITDA | 17,418 | 34,430 | 41,995 | 49,761 | 57,434 | 64,353 | 71,746 | 79,069 | 87,452 | 96,472 |
| y/y growth | *-4%* | *98%* | *22%* | *18%* | *15%* | *12%* | *11%* | *10%* | *11%* | *10%* |
| EBITDA Margin | *14%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* |
| Inc./dec. in W/C | 1,517 | 2,222 | 1,017 | 735 | 751 | 634 | 698 | 778 | 834 | 892 |
| CAPEX | 8,953 | 9,507 | 3,878 | 4,189 | 4,524 | 4,886 | 5,277 | 5,699 | 6,155 | 6,647 |
| **FCFF** | **4,169** | **17,794** | **29,728** | **33,881** | **40,588** | **45,473** | **48,950** | **53,746** | **59,029** | **65,726** |
| WACC | 40.0% | 34.8% | 26.5% | 22.3% | 22.2% | 22.2% | 22.2% | 22.2% | 22.2% | 22.2% |
| PV of FCFF | **105,078** | | | | | | | | | |
| Terminal growth rate | *10%* | | | | | | | | | |
| Terminal Value | 591,854 | | | | | | | | | |
| PV of Terminal Value | **71,105** | | | | | | | | | |
| Value of Firm | **176,183** | | | | | | | | | |
| Minority Interest | 0 | | | | | | | | | |
| Net debt @ 1Q24 | -11,987 | | | | | | | | | |
| Equity Value | 188,170 | | | | | | | | | |
| Fair Value | 376 | | | | | | | | | |
| **12M TP (TL)** | **546** | | | | | | | | | |
| **Upside** | 62% | | | | | | | | | |

*Source: QNBFI Estimates*

**Figure 3 –** Productions and Exports Data (k/units)

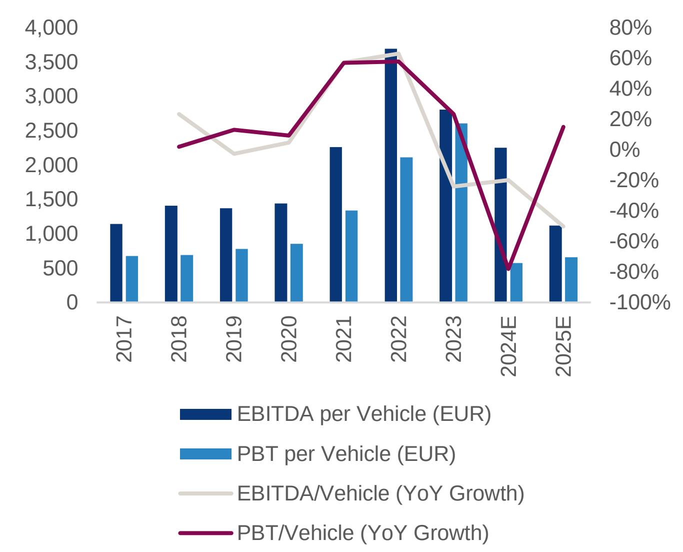
| Domestic Sales Figures | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|
| Passanger Cars (PC) | 47,234 | 35,388 | 54,638 | 90,494 | 70,860 | 96,656 | 125,053 | 92,912 | 104,203 |
| Stellantis PC | | | | | | | | | 158,630 |
| Light Commercial Vehicles (LCV) | 54,563 | 24,879 | 17,758 | 40,819 | 45,122 | 45,681 | 57,690 | 20,633 | 13,342 |
| Stellantis (LCV) | | | | | | | | | 41,996 |
| Imported | 4,784 | 4,818 | 4,676 | 3,824 | 6,327 | 6,460 | 18,019 | 16,654 | 16,205 |
| Total PC | 47,234 | 35,388 | 54,638 | 90,494 | 70,860 | 96,656 | 125,053 | 92,912 | 262,833 |
| Total LCV | 54,563 | 24,879 | 17,758 | 40,819 | 45,122 | 45,681 | 57,690 | 20,633 | 55,338 |
| **Total LV** | **106,581** | **65,085** | **77,072** | **135,137** | **122,309** | **148,797** | **200,762** | **130,198** | **334,377** |

| Export Sales Figures | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|
| Passenger Cars | 128,664 | 114,178 | 93,201 | 60,840 | 45,524 | 38,347 | 42,696 | 43,977 | 44,417 |
| Light Commercial Vehicles | 134,963 | 129,655 | 100,944 | 57,063 | 66,953 | 83,138 | 17,783 | 12,018 | 90,010 |
| **Total Export LV** | **263,627** | **243,833** | **194,145** | **117,903** | **112,477** | **121,485** | **60,479** | **55,994** | **134,427** |

| Total Sales Figures | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|
| Total PC | 175,898 | 149,566 | 147,839 | 151,334 | 116,384 | 135,003 | 167,749 | 136,889 | 307,250 |
| Total LCV | 189,526 | 154,534 | 118,702 | 97,882 | 112,075 | 128,819 | 75,473 | 32,650 | 145,348 |
| **Total LV** | **370,208** | **308,918** | **271,217** | **253,040** | **234,786** | **270,282** | **261,241** | **186,193** | **468,803** |

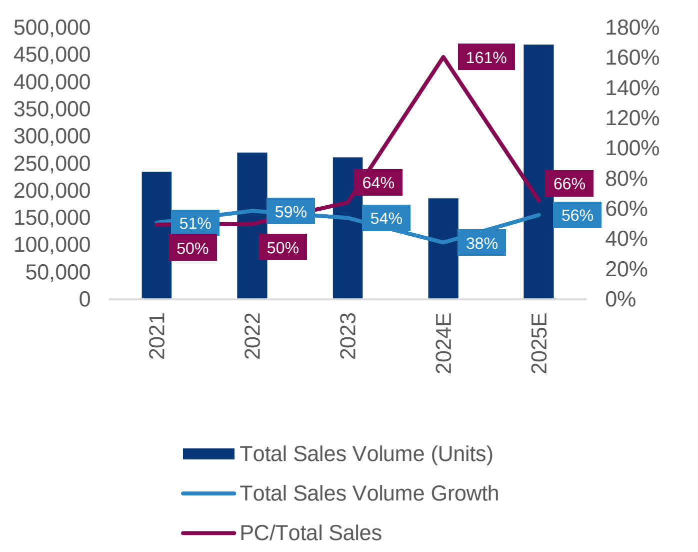
*Source: OSD - QNBFI Calculations*

**Figure 4 –** Profitability per Vehicle




*Source: The Company – QNBFI Calculations*

**Figure 5 –** Sales Projections (units)




*Source: The Company – QNBFI Calculations*

# APPENDIX – SECTOR OUTLOOK

**Manufacturing still solid:** According to figures provided by the Automotive Manufacturers Associations (OSD), 4M24 total production was down by 1% YoY, whereas 4M24 exports increased by a mild 1%. Turkish original equipment manufacturers (OEM) continued to capitalize on their advantage in production and freight costs. Export volumes picked up in April by 21% MoM, though only up by 1% YoY, on resilient European vehicle demand. Export/production jumped to 78% from 67% in the previous month and same month previous year. We expect the proportion of production being exported to hover at around 70-80%, 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.

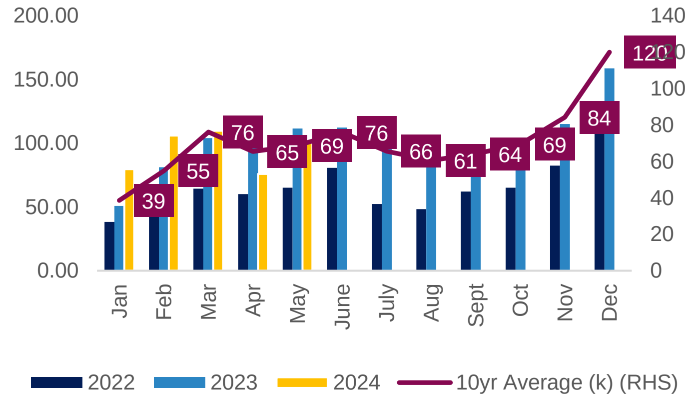
**Figure 6 – Productions and Exports Data (k/units)**

| *(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 | 119,314 |
| 2024 | 108,483 | 133,396 | 136,611 | 97,877 | 131,956 | | | | | | | |
| *Chg. (yoy)* | -3% | 19% | -4% | -13% | -4% | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |
| *Chg. (mom)* | *-9%* | *-19%* | *-2%* | *-21%* | *22%* | *-13%* | *14%* | *-46%* | *79%* | *4%* | *2%* | *-* |
| *4-yr Average* | *104,255* | *116,772* | *127,351* | *84,143* | *96,751* | *116,204* | *102,505* | *86,934* | *127,144* | *127,459* | *132,637* | *135,706* |
| *Discount to avg.* | *7%* | *-4%* | *7%* | *34%* | *42%* | *2%* | *32%* | *-16%* | *3%* | *7%* | *5%* | *-12%* |

| *(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 | 92,148 |
| 2024 | 75,106 | 89,454 | 91,985 | 76,204 | 85,192 | | | | | | | |
| *Chg. (yoy)* | -5% | 14% | -4% | 1% | -1% | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |
| *Chg. (mom)* | *-18%* | *-16%* | *-3%* | *21%* | *-12%* | *-5%* | *12%* | *16%* | *-9%* | *-21%* | *4%* | *-* |
| *4-yr Average* | *74,987* | *83,715* | *90,557* | *63,298* | *65,240* | *79,634* | *67,384* | *64,990* | *85,775* | *95,150* | *92,149* | *95,751* |
| *Discount to avg.* | *6%* | *-6%* | *2%* | *19%* | *32%* | *14%* | *20%* | *8%* | *-10%* | *3%* | *2%* | *-4%* |

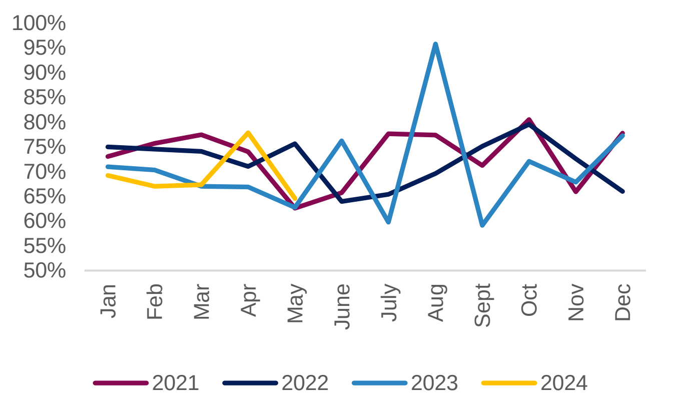
*Source: OSD - QNBFI Calculations*

**Figure 7 – Total Light Vehicle (LV) Exports (unit/k)**




*Source: OSD*

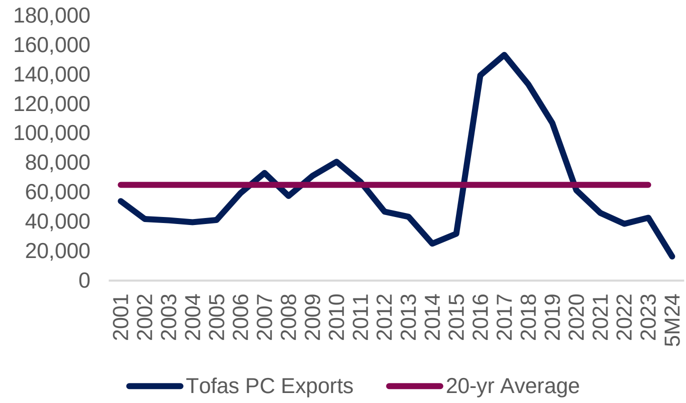
**Figure 8 – Exports/Production (%)**




*Source: OSD*

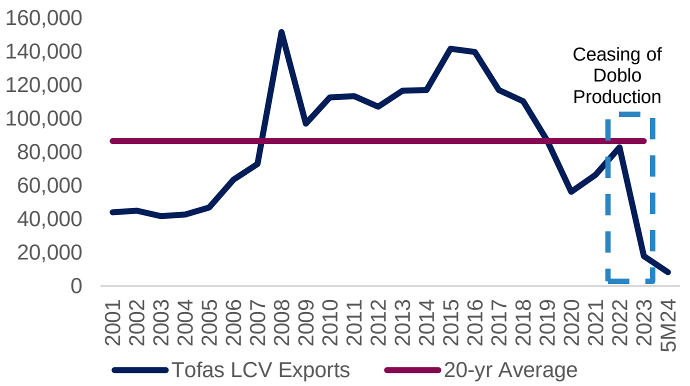
Looking at Tofas' standalone exports data, deliveries have been subdued due to the decision to terminate the Company's signature LCV model, the Doblo. LCV production remains significantly below the Company's 20-year average, accordingly its exports figures. We expect the issue to be resolved in 2025, with the Doblo to be replaced by the K0. In the PC segment, manufacturing remains solid, with exports coming off a low-base, rising 69% YoY to reach 14,000 units in 4M24.

**Figure 9 – TOASO PC Exports (units)**




*Source: OSD – QNBFI Calculations*

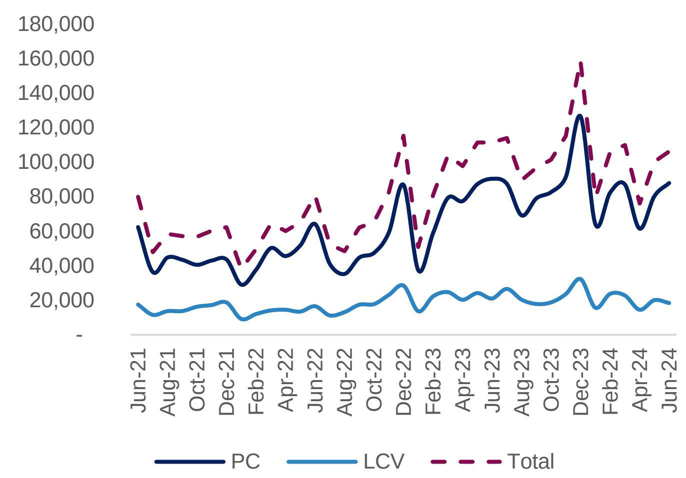
**Figure 10 – TOASO LCV Exports (units)**




*Source: OSD – QNBFI Calcultions*

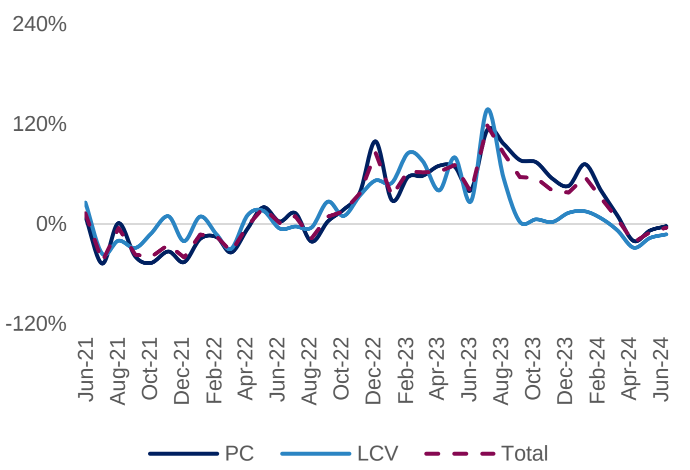
**Normalization in the Domestic Market** The Turkish automotive market still benefiting from high demand for vehicles, with 6M24 LV sales up by 4% compared to the same period of the previous year. According to the June data, demand for autos slowed slightly with sales of light vehicles (LV) shrinking by 4.6% YoY to 106,200 units, despite the ongoing sales campaigns associated with the GSR-II regulation. Sales of passenger cars (PC) decreased by 2.7% YoY to 87,900 units, while sales of light commercial vehicles (LCV) retreating by 12.6% YoY to 18,400 units. While the numbers appear strong, local players struggled to gain market share in the PC market with total sales of the Cherry PC of 7,500 (6,200 in May), corresponding to a market share of 8.5%. Fiat PC sales were strong at 9,000 units, corresponding to a total share of 10.3% in the PC market (7.3% in April). Renault commanded the highest market share in the PC market at 11.0% (12.1% in May), followed by Fiat and Cherry. In the LCV segment, Ford attained a market share of 27.9% (32.3% in May), followed by Fiat on 20.5% (21.5% in May) and Volkswagen on 9.2% (8.8% in May).

**Figure 11 – Monthly Vehicle Sales (units)**



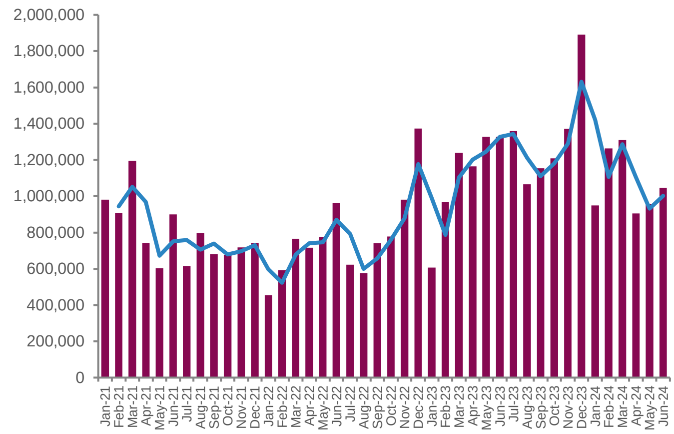

*Source: Automotive Distributors' Association (ODD)*

**Figure 12 – Monthly Vehicle Sales Growth (%)**



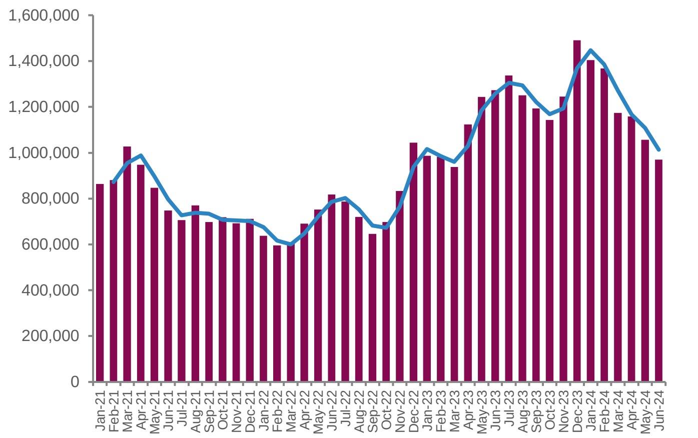

*Source: ODD*

**Figure 13 –** Seasonally Adj. Annual Rate 12-M (SAAR)




*Source: ODD - QNBFI Calculations*

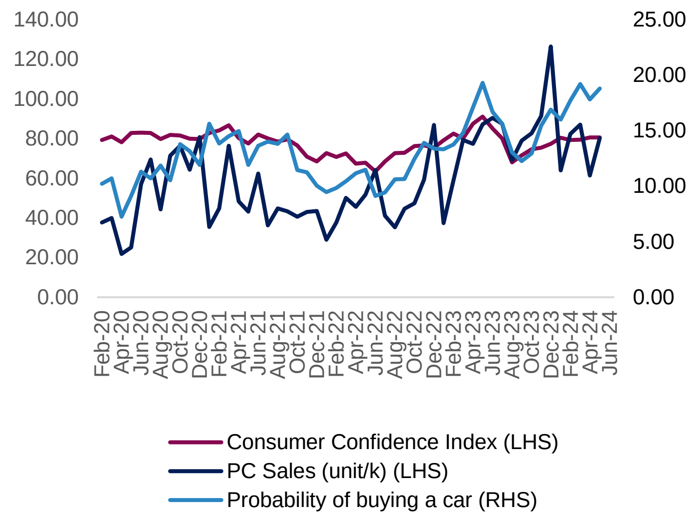
**Figure 14 –** 3-M Rolling SAAR




*Source: ODD - QNBFI Calculations*

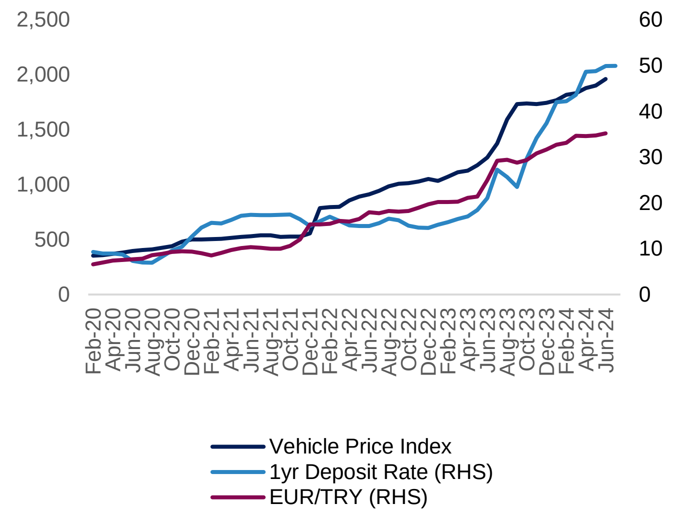
The environment of negative real interest rates with the gradual stabilization in exchange rates at the beginning of 2023 was another driver of the surge in demand, with consumers strengthening their purchasing power. Furthermore, motor vehicles have been used as an alternative investment tool in this 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 promotions by companies offering low interest rates on purchases. For 2024, the tables have turned; interest rates have increased and consumer confidence has decreased, yet demand has remained brisk thanks to factors such as the expectation of increasing USD/TRY rates ahead of the election, sale campaigns driven by the severe competition and GSR-II related discounts and strong tax privileged handicapped vehicles.

**Figure 15 –** Vehicle Price Performance




*Source: CBRT and Turkish Statistical Institute (TUIK)*

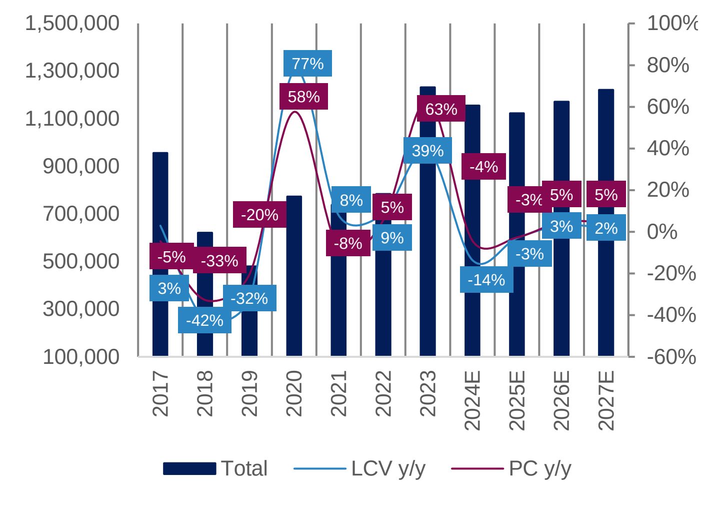
**Figure 16 –** Macro Indicators / Total Domestic PC Sales




*Source: ODD, TUIK*

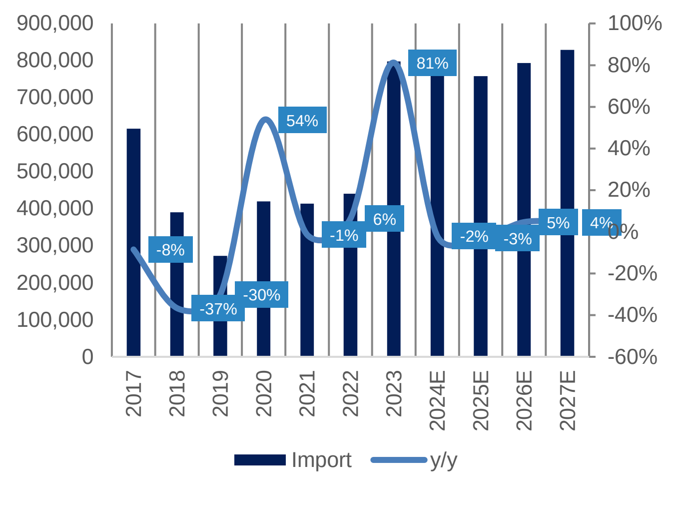
Total LV sales volumes rose by 57% in 2023 to reach a record 1.23mn units. With the expectation of a positive real interest rate environment and the dip in second hand car prices indicating a normalization in the market, we had expected a contraction of 27% YoY in LV volumes (29% in the PC segment and 20% in the LCV segment). Accordingly, based on 6M24 figures, we have revised our YE forecasts, now expecting a 6% shrinkage in the LV segment (4% YoY in the PC segment and 14% YoY in the LCV segment).

**Figure 17 – Total LV Projections (units)**




*Source: ODD - QNBFI Calculations*

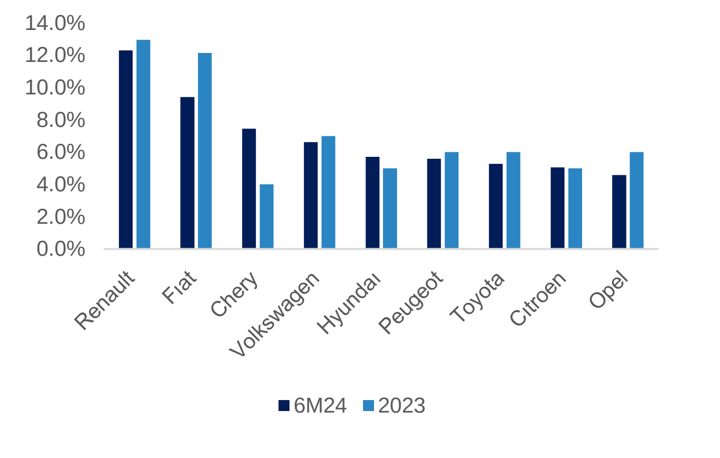
**Figure 18 – Total LV Imports (units)**




*Source: ODD - QNBFI Calculations*

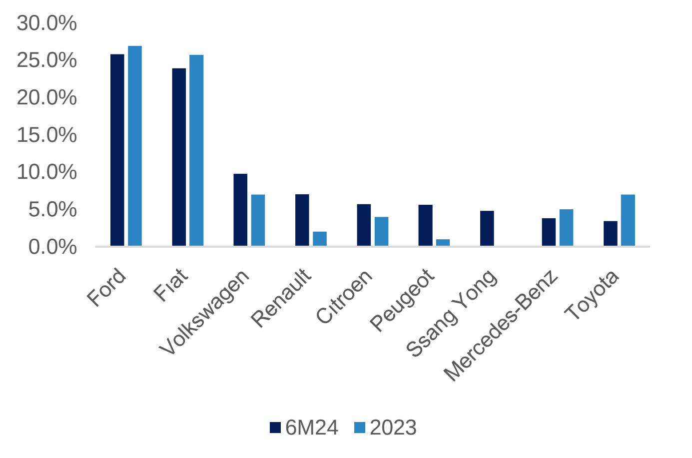
In terms of market share, Tofas' presence in the PC market remains strong with the Fiat brand commanding a 9.4% share in total domestic PC sales in 1H24. In the LCV segment, Tofas also maintains a high market share at 23.9%, although this is on course to decrease in 2H24E with the termination of Fiorino brand. A migration to EVs has been observed with two leading brands – TOGG and Tesla. The launch of the TOGG and Tesla's model Y has paved the way for a rise in the share of EVs in total PC sales. According to June 2024 figures, EVs accounted for 9% of total PC sales, compared to just 6% at the beginning of 2024. We expect the migration to EVs to continue, but at a slower pace, and assume they will maintain a share of approximately 10% in total PC sales.

**Figure 19 – PC Market Shares (%)**



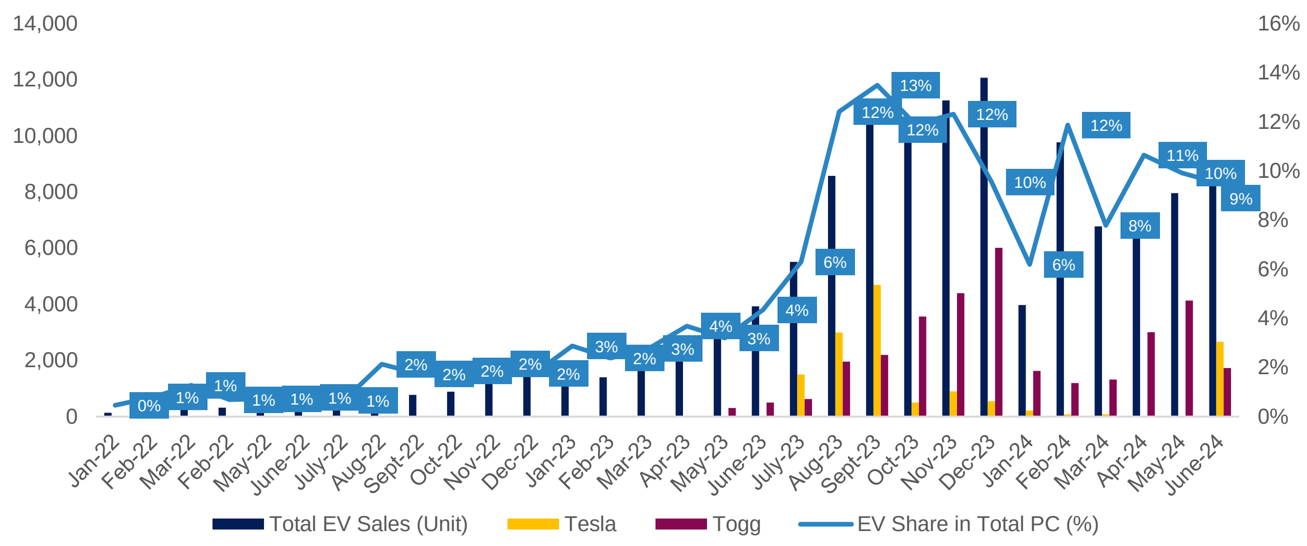

*Source: ODD - QNBFI Calculations*

**Figure 20 – LCV Market Shares (%)**



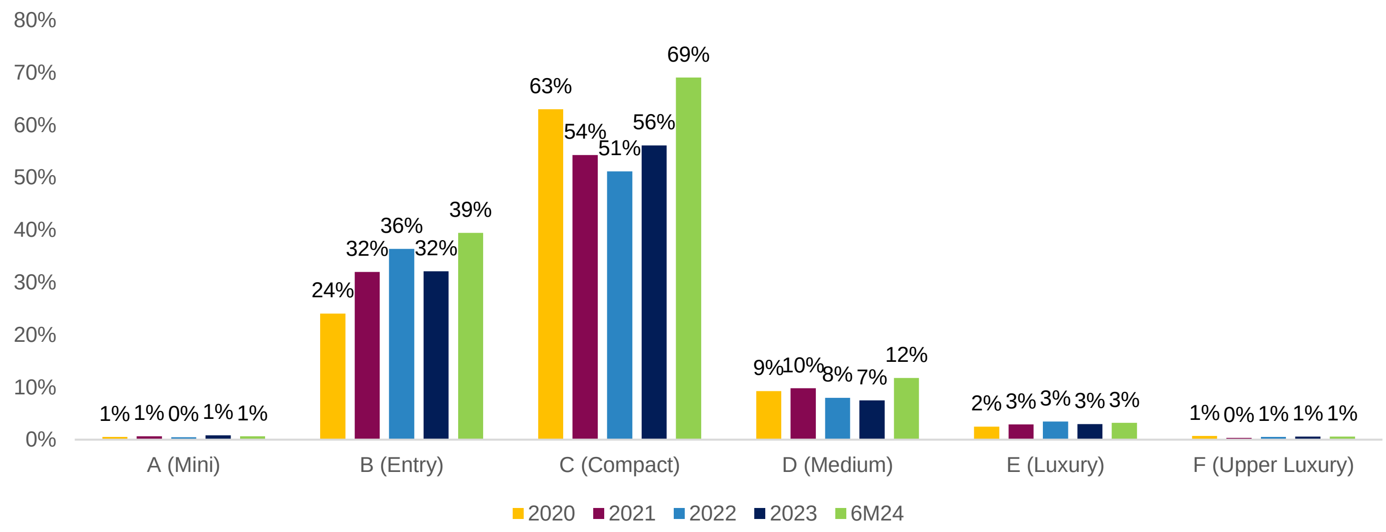

*Source: ODD - QNBFI Calculations*

**Figure 21 –** Electric Vehicle Sales (units)




*Source: OSD - QNBFI Calculations*

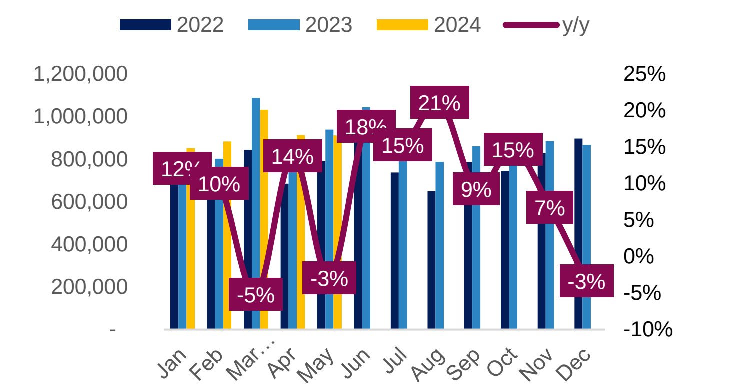
**Figure 22 –** Production by Motor Type




*Source: OSD - QNBFI Calculations*

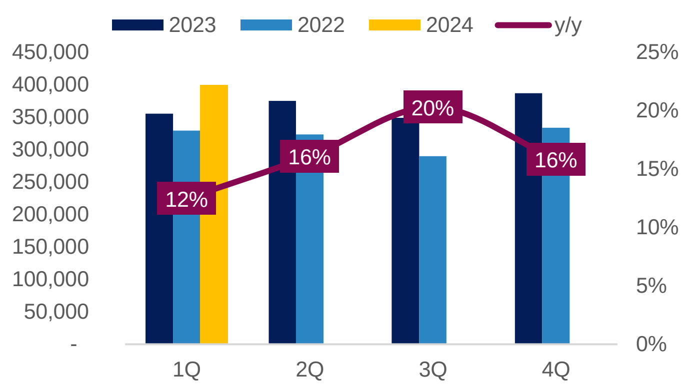
**European market to remain brisk, especially the LCV segment:** The EU's car market also enjoyed a bountiful year, with sales expanding jumping 14.5% YoY to 12.36mn units in FY23. Since the end of 2023, the sector has continued to perform well with a robust 5.1% YoY growth in the overall industry in 1Q24 YoY, with the industry reaching 3.25mn units at the end of first 3 months of 2024. PC registrations climbed by 4.4% YoY in 1Q24 while PC registrations reached 2.7mn units. In the LCV segment, 1Q24 CV (ex-bus) sales reached 0.4mn units, up by 12.5% YoY. As in Türkiye, the pent-up demand due to the semi-conductor shortage in 2021-22 was realized in 2023. Despite this, sales volumes have yet to return to their pre-pandemic levels, suggesting 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 levels. In our projections, however, we have remained conservative on our volume expectations for both the PC segment, given the possibility of pent-up demand fizzling out, and the contrarian argument of a continued deterioration in the macro environment, postponing renewals to 2025. We are somewhat more sanguine about the CV segment as replacements for CVs often tend to be mandatory.  We believe the renewals in CVs will continue, either with electrification or disposal of old vehicles, despite any macro headwinds.

**Figure 23 – Total EU PC Sales (units)**



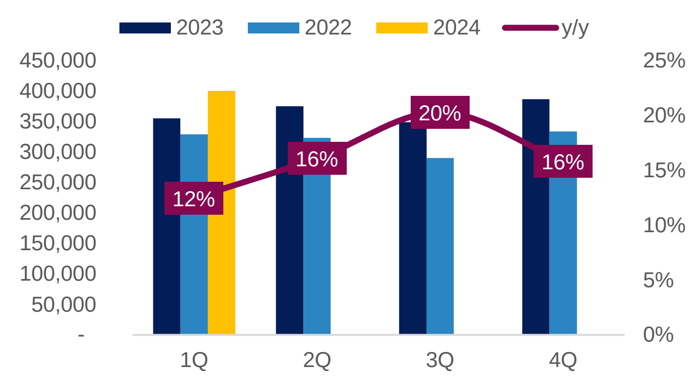

*Source: The European Automobile Manufacturers' Association (ACEA)*

**Figure 24 – Total EU LCV Sales (units)**



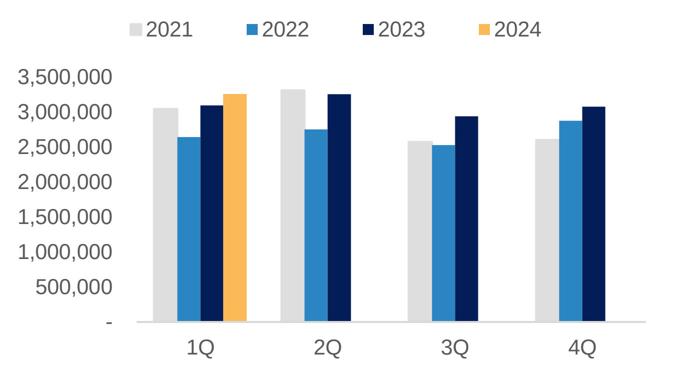

*Source: ACEA*

**Figure 25 – Total EU HCV Sales (units)**



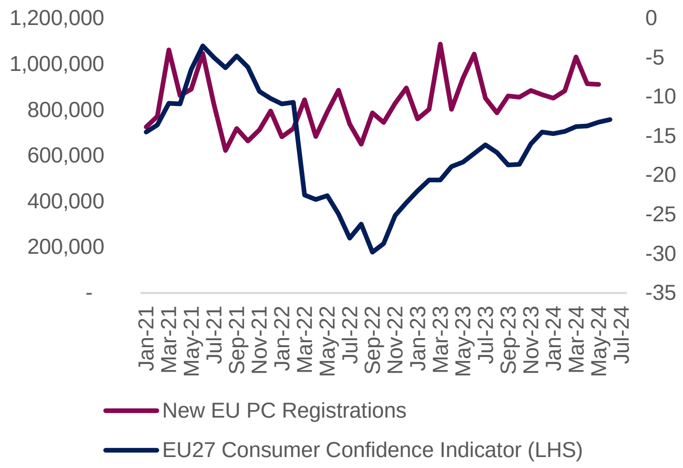

*Source: ACEA*

**Figure 26 – Total EU PC+LCV+HCV Sales (Units)**



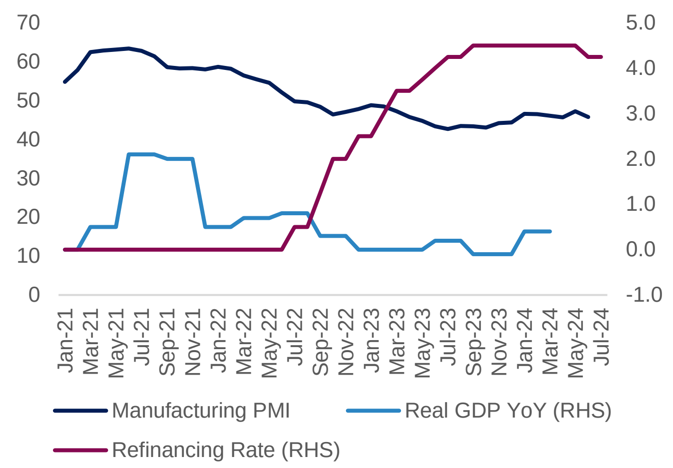

*Source: ACEA*

**Figure 27 –** PC Registrations / EU27 CCI




*Source: ACEA - Bloomberg - QNBFI Calculations*

**Figure 28 –** EU Macro Indicators

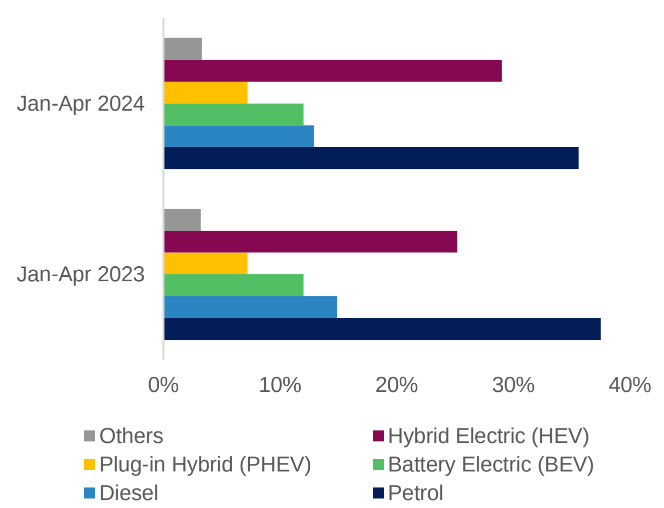



*Source: Bloomberg - QNBFI Calculations*

The shift to battery electric vehicle (BEV) continued with the same share as in the PC segment, accounting for a 12.1% market share in the Jan-May 2024 period, compared to 12.4% in the same period of the previous year. The share of petrol driven vehicles declined by 1.8 percentage point YoY while the share of diesel vehicles dropped significantly by 1.9 percentage points to 12.9%, mostly losing share to HEV type vehicles.

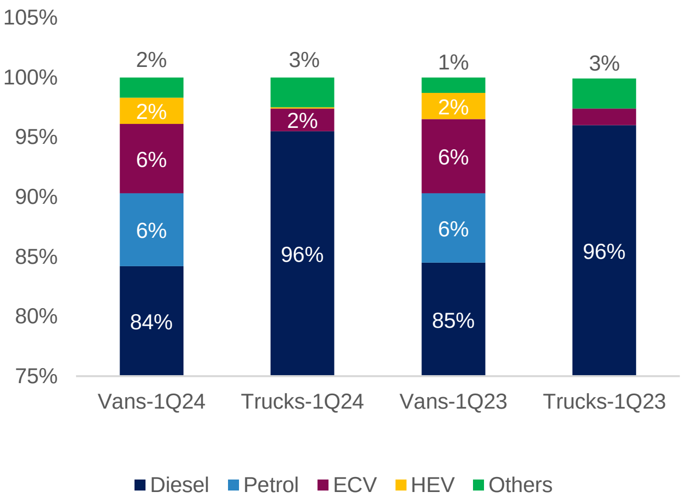
On the CV front, diesel vans remained the most popular option throughout in 3M24, commanding 84.2% of the market—slightly lower than their 2023 share of 84.5%. The popularity of alternative fuels and electric options is growing, resulting in minor changes in the market positioning. The market share of electrically charged vans decrease to 5.8%, comparing to same period of the previous year, 6.2%. In the meantime, 90.3% of the market was comprised of petrol and diesel vehicles in this segment, with sales of petrol vehicles increasing by 35.5% with sales of diesel vehicles up by 12.9%.

**Figure 29 –** PC Shares by Power Source - Jan-Oct 2023-22




*Source: ACEA*

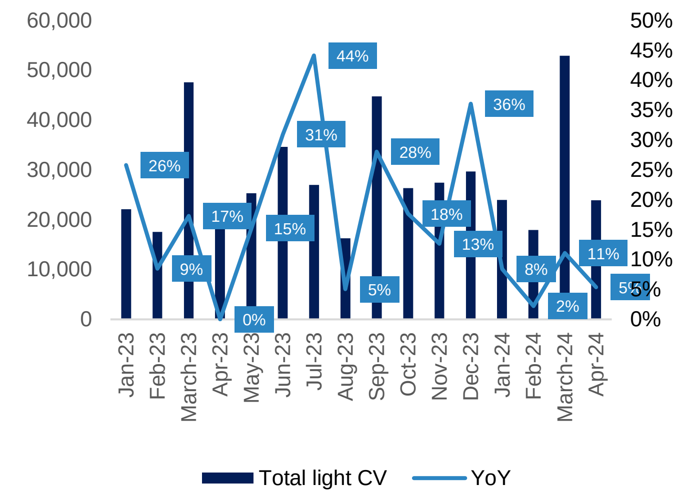
**Figure 30 –** CV Shares by Power Source - Jan-Oct 2023-22




*Source: ACEA*

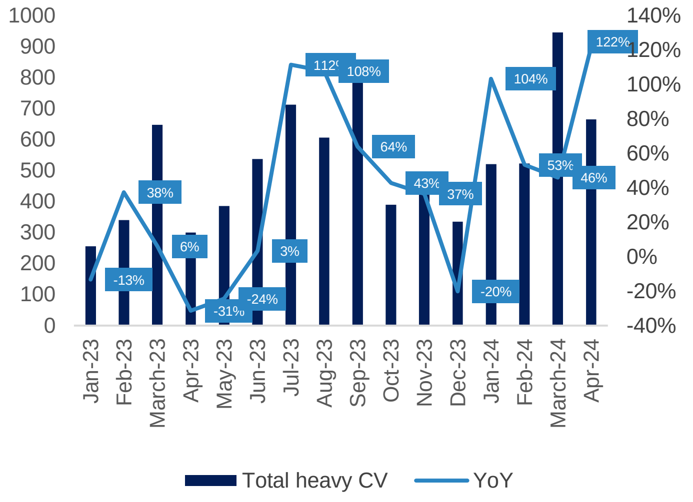
Looking at sole CV registrations in the UK, a major export market for Turkish manufacturers, 2024-YTD LCV sales remained brisk and increased to 145k units, representing an increase of 7.9%. May's data reflected the 17th consecutive monthly increase, with an increase of 8.2% to 25,853 units. In terms of market share, Ford maintains its domination of the LCV segment with a YTD market share of 31.9% (Jan-May 2023: 31.8%), followed by Volkswagen 10.4% (Jan- May 2023: 9.6%) and Vauxhall 9.6% (Jan-May 2023: 9%). On the HCV front, again Ford commands the biggest share at 26.8% (Jan-May 2023: 24.7%), followed by Mercedes at 24.1% (Jan-May 2023: 34.4%) and Fiat 21.5% (Jan- May 2023: 20.4%).

**Figure 31 – UK New LCV Registrations**



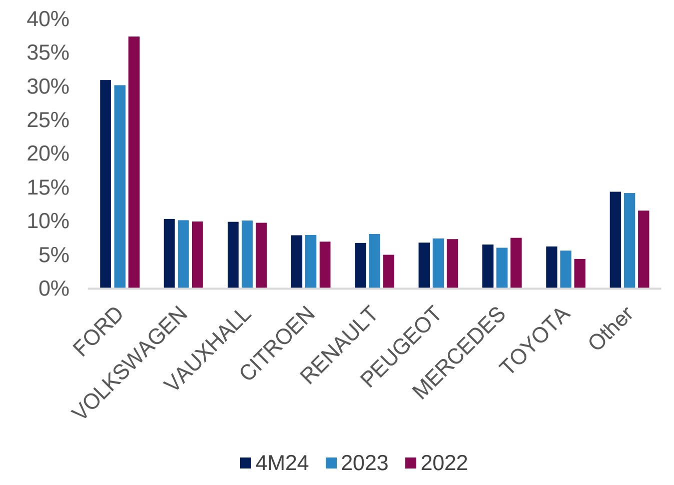

*Source: The Society of Motor Manufacturers and Traders (SMMT) - QNBFI*

**Figure 32 – UK New HCV Registrations**



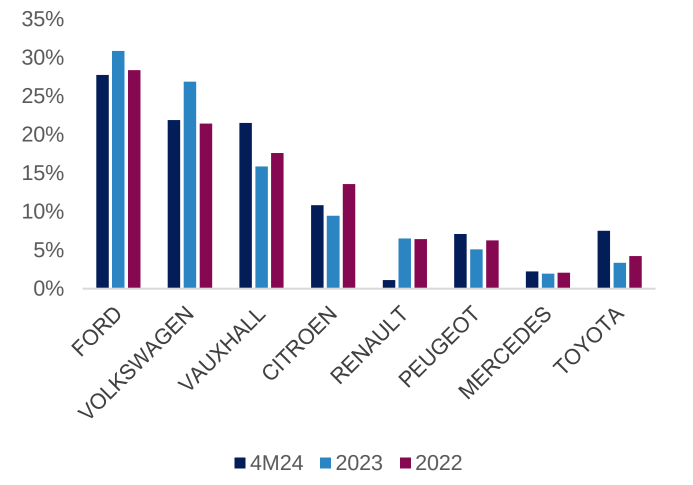

*Source: SMMT - QNBFI Calculations*

**Figure 33 – UK LCV Market Shares**




*Source: SMMT - QNBFI Calculations*

**Figure 34 – UK HCV Market Shares**

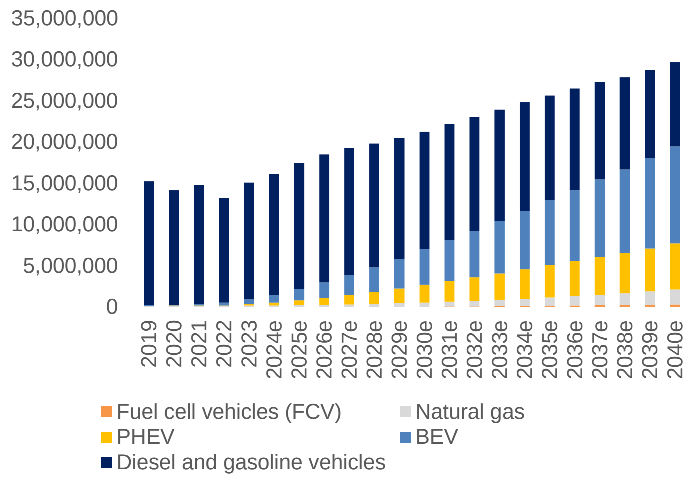



*Source: SMMT - QNBFI Calculations*

## Global EV Outlook

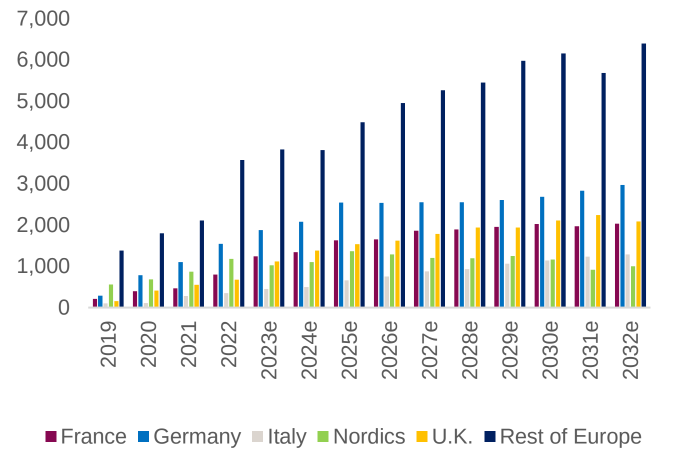
The Transition to EVs in CV sales in Europe expected continue, increasing by 8% in 2024, according to BloombergNEF data. The growth indicates a slowdown in 2025 with only 4% growth with the market reaching 2.6mn units. Charger investments are increasing as well and are projected to be ramped up in the coming years. The indicates firstly that pent-up demand from the Covid-era continues with a brisk pace of new CV registrations and secondly that the industry is shifting to new challenges with heavier regulations on decarbonization. We see this as an opportunity for OEMs, even though they are being forced to shift manufacturing lines and create long-term strategies. We expect Europe and the UK to continue to commit to the EV transition in CVs, investing in the necessary fields to accelerate EV transformation for 2024 and onwards and encourage the adoption of EVs. Accordingly, we are likely to see further large fleet replacements which will keep the market resilient. On the PC front, global EV adoption is forecasted to remain strong, led by China, the US and Europe.

**Figure 35 – CV Sales Projections by Type in Europe (k units)**



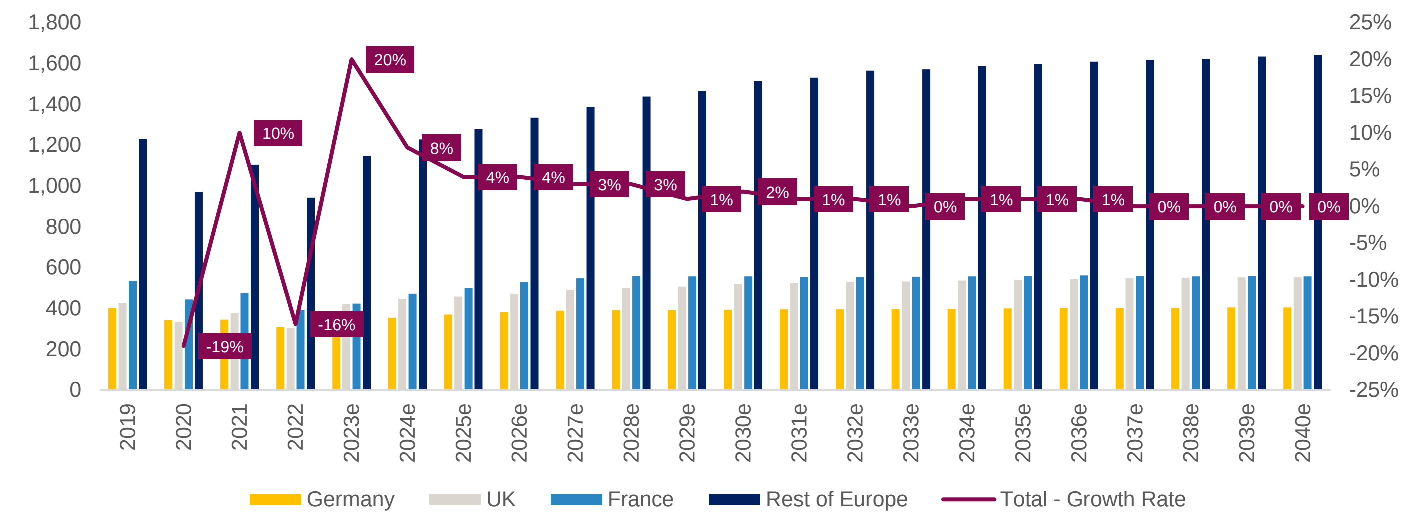

*Source: BloombergNEF - QNBFI Calculations*

**Figure 36 – Annual Charger Investment by Country ($/mn)**



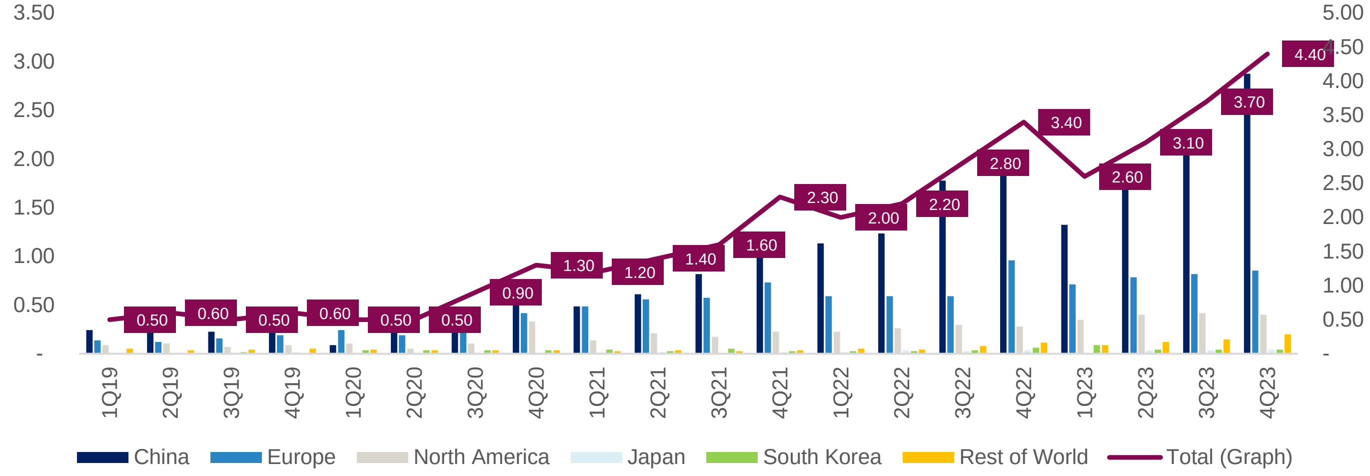

*Source: BloombergNEF - QNBFI Calculations*

**Figure 37– CV Volume Projections by Country (k-units)**



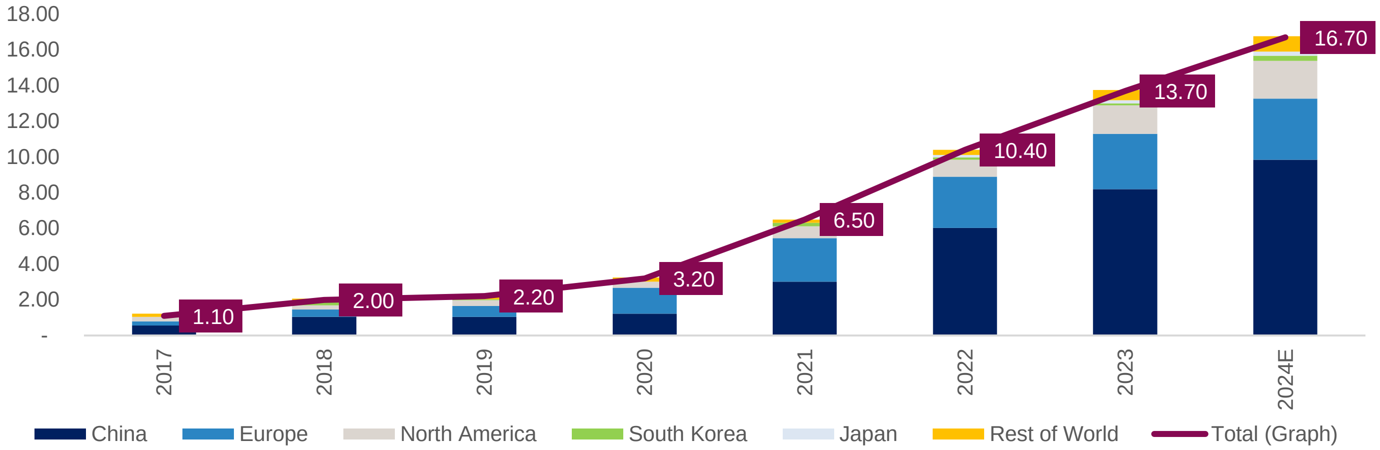

*Source: BloombergNEF - QNBFI Calculations*

**Figure 38–** Global passenger EV sales (mn/units) by region



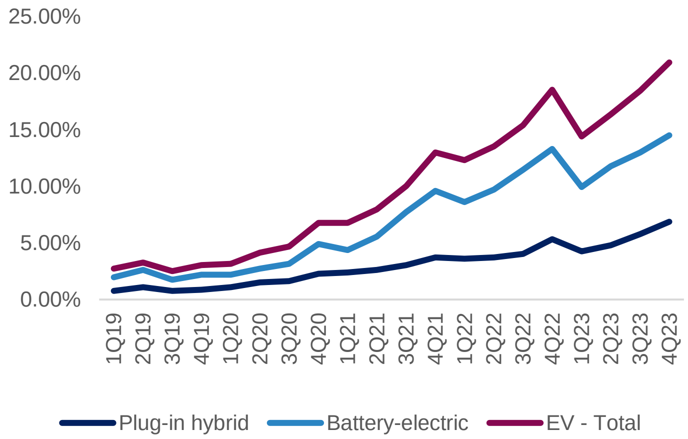

*Source: BloombergNEF - QNBFI Calculations*

**Figure 39–** Global passenger EV sales (mn-units) forecast



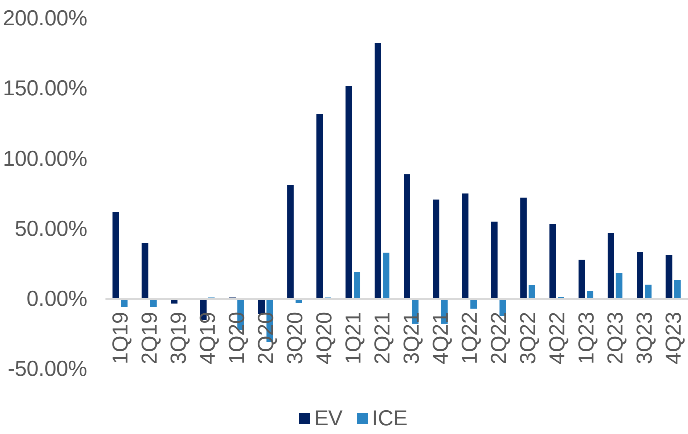

*Source: BloombergNEF - QNBFI Calculations*

**Figure 40 –** Global EV share of new PC sales (%)




*Source: BloombergNEF - QNBFI Calculations*

**Figure 41 –** Global passenger vehicle sales, YoY change (%)




*Source: BloombergNEF - QNBFI Calculations*

## QNB Finansinvest Rating System

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

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

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

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

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

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

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

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

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

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

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

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

**N/R.** Not Rated.

**U/R.** Under Review.

## Analyst Certification

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

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

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