

## Brisa

### Non-skid despite the market conjuncture

We are maintaining our Outperform rating for Brisa with a new TP of TRY150.00/share, suggesting 90% upside potential. (Previous 12-month TP: TRY168.00/shr). Brisa's IFRS financial figures have been squeezed by inflation accounting while sales volume has held up fairly well with a mere 3% contraction vs. a 17% YoY contraction in the domestic market in 3Q24 that our downward revision in the 12-month TP was mostly driven by our downward revision in the net income estimates leading to adjustment in our multiple valuation. In the last quarter, we expect a healthy recovery in margins on the back of revisions to sales price with high seasonality and a relatively limited negative impact of inflation accounting thanks to a normalized QoQ pattern in the inflation index. We forecast much healthier and realistic IFRS financials next year on our assumption of a more limited negative impact of inflation accounting on EBITDA, given our expectation of a depreciation in the Lira against the USD in line with inflation. Accordingly, we calculate 33% EBITDA growth in real terms, implying a recovery in net income level TRY883mn in restated 2024 terms to TRY3.5bn in 2025. The stock trades at an EV/EBITDA of 3.3x and P/E of 6.9x based on our 2025, implying an average 32% discount to global peers and a 56% discount to its historical average. With its discounted valuation, we maintain our Outperform rating for the stock in anticipation of its earnings momentum for the coming quarters.

**Global tire market still going strong:** Despite weakness in the OE market, global tire demand maintained its healthy growth momentum in 9M24 with the replacement market posting a robust 4% YoY growth vs. the negative CAGR of 1.3% between 2019-2023. In regional terms, the European replacement market enjoyed solid momentum with 11% YoY growth in September supported by sales of winter and all-season tires, with the market growth for the YtD reaching 7% YoY in 9M24. On top of the low base effect, improving consumer sentiment on declining interest rates suggests that the growth in the European market will continue in the coming period, after having been negatively differentiated from other regions globally. In Türkiye, following a superb CAGR of over 5.8% between 2020-2023, the total market contracted by 12% in 9M24 with 3Q being the weakest quarter, with a 17% contraction. For the last quarter, the weak demand conditions are likely to continue but we think 2025 will be a year of recovery for both OE and replacement markets as new model production launches by producers (leading to around 15% inorganic auto production capacity growth) and a recovery in the replacement market amid declining domestic auto sales in the wake of the vigorous 8M24.

**A recovery around the corner:** Despite a 12% market contraction in 9M24, Brisa managed to maintain healthy sales volumes with a mere 1% contraction in YoY terms thanks to its market share gains in both the replacement and OE markets. Furthermore, the 5% growth in export sales cushioned the negative impact of weak domestic conditions on sales volumes in 3Q24, which only narrowed by 3% despite a 17% contraction in the market. In terms of financials, the company's EBITDA margin declined to 10.1% in 3Q24 vs. 14.1% in 2Q24, with inflation accounting having a negative impact of around 468bps. In 4Q, we expect the EBITDA margin to recover to 15% on sales price revisions and 4<sup>th</sup> quarter seasonality in winter tire sales in 4Qs, while the inflation accounting effect will diminish on a forecasted 5.6% QoQ rise in the inflation index vs. the 8.4% in 2Q24 and 8.9% in 3Q24. Assuming a relatively stable trend in inflation in 2025, in line with the USD/TRY exchange rate, we calculate 33% EBITDA growth in real terms, implying a rebounding in net income from the restated TRY883mn in 2024 to TRY3.5bn in 2025.

**Deeply discounted:** Brisa trades at an EV/EBITDA of 3.3x and P/E of 6.9x based on our 2025 prospective earnings with our conservative IAS included assumptions based on 2.8% growth in sales volumes and a mere 3% rise in the sale prices in USD-terms, implying an average 32% discount to its global peers and a 56% discount to its historical average. Given the company's relatively resilient operational performance with potential upside on a recovery in the European economic outlook and a healthy balance sheet, we maintain our Outperform rating for the stock.

7 November 2024

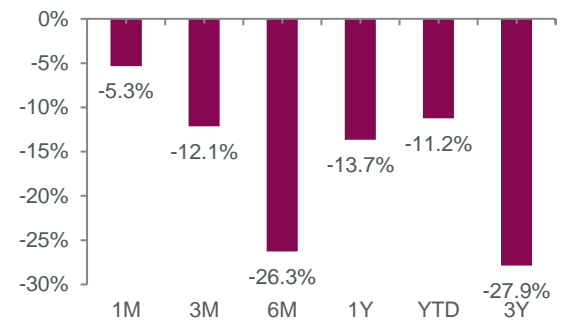
**Outperform**  
(Maintained)

Close Price: TRY 79.15  
12M Target Price: TRY150.00  
Upside Potential: 90%

#### Stock data

Bloomberg / Reuters	BRISA TI / BRISA.IS
Mcap (US\$m)	706
EV (US\$m)	837.2
Avg. Trd. Vol. (US\$m)	0.7
Free float	10%

#### Relative Performance to BIST100



Key Data (TRYmn)	2023	R. 2023	2024E	R. 2024	2025E
Revenues	26,498	38,025	33,307	41,176	48,444
Growth	-1%		-12%		18%
EBITDA	4,273	6,131	4,973	6,148	8,167
Growth	4%		-19%		33%
Net Profit	3,973	5,701	883	1,091	3,496
Growth	58%		-85%		220%
P/E (x)	6.0		27.2		6.9
EV/EBITDA (x)	5.7		5.4		3.3
P/BV (x)	1.3		1.3		0.9
FCF yield (%)	14%		-3%		10%
Div. yield (%)	6.5%		2.7%		2.1%

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**Figure 1 – Summary financials & key metrics (TRYmn)**

<b>Income Statement (TLmn)</b>	<b>2022</b>	<b>2023</b>	<b>Restated 2023</b>	<b>2024E</b>	<b>Restated 2024E</b>	<b>2025E</b>
Revenues	26,863	26,498	38,025	33,307	41,176	48,444
Gross Profit	5,954	6,499	9,326	8,129	10,049	12,348
EBITDA	4,103	4,273	6,131	4,973	6,148	8,167
Depreciation	1,390	1,474	2,115	2,163	2,674	2,942
EBIT	2,713	2,799	4,016	2,810	3,474	5,225
Net other income	-1,240	-760	-1,091	-435	-538	-233
Income from investing activities	172	544	781	426	527	444
Net financial income	1,172	706	1,013	-1,258	-1,555	-940
Profit from associates	0	0	0	0	0	0
PBT	2,818	3,289	4,719	1,543	1,907	4,496
Taxes Paid	-308	684	981	-660	-816	-1,000
Minority Interest	0	0	0	0	0	0
<b>Net Profit/(Loss)</b>	<b>2,509</b>	<b>3,973</b>	<b>5,701</b>	<b>883</b>	<b>1,091</b>	<b>3,496</b>
<b>Balance Sheet (TLmn)</b>	<b>2022</b>	<b>2023</b>	<b>Restated 2023</b>	<b>2024E</b>	<b>Restated 2024E</b>	<b>2025E</b>
<b>Current assets</b>	<b>16,552</b>	<b>29,929</b>	<b>31,611</b>	<b>20,927</b>	<b>25,871</b>	<b>29,900</b>
Cash equivalents	6,002	17,829	18,831	7,854	9,709	9,868
Trade receivables	3,954	5,188	5,480	6,064	7,496	9,925
Inventories	4,045	4,467	4,718	3,998	4,942	6,227
Other current assets	2,551	2,445	2,582	3,012	3,724	3,881
<b>Non-current assets</b>	<b>16,205</b>	<b>20,420</b>	<b>21,568</b>	<b>21,699</b>	<b>26,825</b>	<b>29,422</b>
Tangibles	11,632	16,588	17,520	19,035	23,532	25,956
Intangibles	806	1,229	1,298	1,258	1,555	1,710
Other non-current assets	3,767	2,604	2,750	1,407	1,739	1,756
<b>Total assets</b>	<b>32,757</b>	<b>50,350</b>	<b>53,180</b>	<b>42,626</b>	<b>52,697</b>	<b>59,322</b>
<b>Current liabilities</b>	<b>16,490</b>	<b>23,491</b>	<b>24,811</b>	<b>19,793</b>	<b>24,469</b>	<b>27,682</b>
Short-term loans	8,458	13,273	14,019	10,724	13,257	13,864
Trade payables	7,210	8,734	9,225	7,000	8,654	10,904
Other current liabilities	822	1,484	1,567	2,069	2,558	2,914
<b>Non-current liabilities</b>	<b>4,650</b>	<b>8,591</b>	<b>9,074</b>	<b>3,998</b>	<b>4,943</b>	<b>5,555</b>
Long-term financial loans	2,796	7,937	8,383	3,459	4,276	4,821
Other non-current liabilities	1,854	654	690	539	667	733
Minority Interest	89	103	109	99	122	122
<b>Shareholders' Equity</b>	<b>11,527</b>	<b>18,164</b>	<b>19,185</b>	<b>18,835</b>	<b>23,285</b>	<b>26,085</b>
<b>Total liabilities and equity</b>	<b>32,757</b>	<b>50,350</b>	<b>53,180</b>	<b>42,626</b>	<b>52,697</b>	<b>59,322</b>
<b>Key metrics</b>	<b>2022</b>	<b>2023</b>	<b>2024E TRY Real</b>	<b>2024E</b>	<b>2025E TRY Real</b>	<b>2025E</b>
<b>Growth</b>						
Revenue growth	0%	-1%	-12%	26%	18%	45%
EBITDA growth	0%	4%	-19%	16%	33%	64%
Net income growth	150%	58%	-85%	-78%	220%	296%
<b>Profitability</b>						
Gross Margin	22.2%	24.5%	24.5%	24.4%	24.4%	25.5%
EBITDA margin	15.3%	16.1%	16.1%	14.9%	14.9%	16.9%
Net margin	9.3%	15.0%	15.0%	2.7%	2.7%	7.2%
Return on assets (ROA)	11.7%	9.6%	12.5%	1.8%	2.2%	6.8%
Return on equity (ROE)	36.3%	26.8%	35.0%	4.7%	5.3%	15.4%
Return on cap. emp. (ROCE)	16.5%	26.3%	34.1%	4.4%	4.8%	13.5%
<b>Leverage</b>						
Adj Net Debt	-47	518	743	2,846	3,519	3,013
Net debt / Equity	0.0	0.0	0.0	0.2	0.2	0.1
Net debt / EBITDA	0.0	0.1	0.1	0.6	0.6	0.4
EBIT Interest coverage	5.4	-10.1	-10.1	1.5	1.5	10.4
<b>Efficiency</b>						
Total asset turnover	0.8	0.5	0.7	0.8	0.8	0.8
Equity turnover	2.3	1.5	2.0	1.8	1.8	1.9
WC/Sales	3%	3%	3%	10%	10%	10%
Opex/Sales	12.1%	14.0%	14.0%	16.0%	16.0%	14.7%
<b>Cash Flow (TLmn)</b>	<b>2022</b>	<b>2023</b>	<b>Restated 2023</b>	<b>2024E</b>	<b>Restated 2024</b>	<b>2025E</b>
EBITDA	4,103	4,273	6,131	4,973	6,148	8,167
Change in working capital	-2,400	-526	-755	-2,140	-3,070	-1,184
Taxes	-678	-700	-1,004	-660	-947	-1,000
Capital Expenditures	-1,550	-1,338	-1,921	-2,656	-3,811	-2,817
Adjustment	-371	1,693	2,430	31	45	-709
FCFF	-897	3,402	4,882	-451	-647	2,457
<b>Finansinvest vs Consensus</b>	<b>2024F</b>			<b>2025F</b>		
	Deviation	Estimate	Cons.	Deviation	Estimate	Cons.
Revenues	9%	33,307	30,681	58%	48,444	30,681
EBITDA	-	4,973	-	-	8,167	-
Net Income	-73%	883	3,237	8%	3,496	3,237

Source: QNBI Calculations

## Valuation

We base our valuation on an 80-20 weighting of the results derived from the extrapolation of DCF and multiple valuation methodology, and find a 12-month target value of TRY45,687mn, implying 90% upside potential.

- We use our nominal forecasts in our DCF model as the company's inflation accounting included financials are not indicative of its cash generation ability on the indexation and inventory revaluation. Accordingly, our forecasts for IFRS figures differ from the figures in our DCF model.
- Our TRY denominated DCF model is based on a 47% WACC for 2024 which we assume will gradually decline to 23.7% on the back of the fall in the risk-free rate from the current level of 45% to 20% in 2026.
- Our multiple analysis is based on a 50-50 blend of P/E and the EV/EBITDA multiples. On our 2024 IFRS based earnings forecasts, which negatively deviate from the actual figures due to inflation accounting, Brisa trades at a P/E of 27.2x and EV/EBITDA of 5.4x suggesting a 246% and 16% premium to its global peers, respectively. Based on 2025 prospective earnings, Brisa currently trades at a P/E of 6.9x and an EV/EBITDA of 3.3x, implying 37% and 26% discounts to international peers, respectively.
- Compared to global peers, Brisa has already improved its ability to keep its margins stable in industry down-cycles. Along with its strategic position on rising auto production capacity in Türkiye with its capability of producing new technology tires and its advantage of selling to both domestic and export markets, we think the company deserves to trade at a premium over its peers, especially in down-cycle periods.

**Figure 2 – Valuation Summary**

Method	Weights	TRYmn
DCF- Driven 12M Target Value	80%	48,011
Peers Analysis Implied Value	20%	36,393
12-Month Target Value		45,687
<b>12-Month Target Price</b>		<b>150.0</b>

Source: QNBI Estimates

**Figure 3 – DCF Tables**

TRYmn	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Revenues	31,781	42,078	49,406	55,335	60,868	68,172	75,589	83,814	92,933	103,044	114,255
Revenue Growth	24%	32%	17%	12%	10%	12%	11%	11%	11%	11%	11%
EBIT	2870	4726	6757	7313	8313	9504	10698	12034	13526	15245	17219
EBITDA	5033	7498	9979	10921	12174	13634	15118	16763	18587	20609	22851
EBITDA Margin	15.8%	17.8%	20.2%	19.7%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Taxes	-631	-1040	-1487	-1609	-1829	-2091	-2354	-2647	-2976	-3154	-3444
Inc./dec. in W/C	-2140	-1184	-885	-585	-527	-618	-564	-553	-624	-620	-620
Capex	-2656	-2817	-2086	-2359	-2724	-3204	-3660	-4099	-4591	-5142	-5656
FCF	-393	2457	5521	6369	7093	7722	8541	9463	10395	11693	13131
WACC	47.0%	32.9%	23.7%	23.7%	23.7%	23.7%	23.7%	23.7%	23.7%	23.7%	23.7%
PV of FCFs	23843										
Terminal Growth Rate	11%										
Terminal Value	114658										
PV of TV	14560										
Value of Firm	38402										
Net Debt (3M24)	3100										
Participations	0										
Equity Value	35302										

Source: QNBI Estimates

**Figure 4 – Peer Analysis**

Company	Country	Mcaps (US\$)	P/E 24 (x)	P/E 25 (x)	EV/EBITDA 24 (x)	EV/EBITDA 25 (x)
Continental AG	Germany	12,491.9	7.9	11.1	4.1	3.6
Michelin (CGDE)	France	23,794.0	9.6	10.4	4.9	4.7
Goodyear	USA	2,340.1	8.6	6.4	4.9	4.5
Bridgestone Corp	Japan	25,469.4	9.9	13.7	4.8	4.6
Sumitomo Rubber Ind	Japan	2,682.4	8.6	25.1	4.5	4.0
Yokohama Rubber Ind	Japan	3,463.6	6.3	11.0	4.7	4.5
Toyo Tire&Rubber Ind	Japan	2,205.9	5.5	6.8	3.0	3.0
Hankook Tire Co.	S.Korea	3,302.8	3.7	6.0	1.4	1.4
Nexen Tire Corp	S.Korea	471.1	4.5	n.a.	4.9	4.5
Kumho Tire Co Ind	S.Korea	927.9	3.8	n.a.	3.7	3.8
Apollo Tyres Ltd	India	3,663.4	18.0	44.3	8.6	8.6
<b>Average</b>			<b>7.9</b>	<b>11.0</b>	<b>4.7</b>	<b>4.5</b>
Brisa		701	27.2	6.9	5.4	3.3
<b>Discount / Premium</b>			<b>246%</b>	<b>-37%</b>	<b>16%</b>	<b>-26%</b>

Source: Bloomberg, QNBI Estimates

## QNB Invest Rating System

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

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

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

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

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

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

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

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

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

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

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

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

**N/R.** Not Rated.

**U/R.** Under Review.

## Analyst Certification

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

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

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