UNLU & Co

29 May 2025

Erdemir

Company update

Equity Research | CEEMEA/Turkey

Reserved view on steel ops; gauging upside on gold mining potential. Hold.

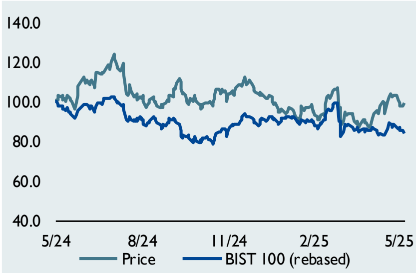
- **Conservative view on steel operations mainly due to weak FCF outlook, placing gold mining prospect into perspective, maintain Hold:** We have updated our valuation (blended target 6.0x FY25E–FY26E EV/EBITDA (net debt adjusted)) and estimates for Erdemir, raising our 12M target price by 6% to TL30.1/share. This revision primarily reflects updated macro assumptions including FX and steel price forecasts. Our 12M TP implies a 26% upside potential yet remains below the 54% average upside across our non-bank coverage. We reiterate our Hold rating (downgraded from Buy in Jan. 2022), with shares having underperformed the BIST-100 by 60% and declined 33% in USD since. On our estimates, Erdemir trades at FY25E/FY26E P/E of 19x/8x (vs. 10-year historic median of 8x) and EV/EBITDA of 9x/6x (vs. 10-year historic median of 5x).
- **EBITDA/tonne has likely troughed yet achieving sustained mid-cycle profitability appears challenging in the medium term:** In the immediate term, we continue to see headwinds in operating profitability, with 2Q25E EBITDA/tonne (IFRS based) of USD70 (vs. USD60 in 1Q25 and USD101 in 2Q24) due to softness in regional demand and prices. Partial dissipation of global tariffs could lead to a slightly better EBITDA/tonne outlook for 2H25, translating to a limited increase to USD85 in FY25E (from USD82 in FY24). In FY26, a gradual upward trend could continue to USD110 partially supported by a lower interest environment in the domestic market, higher EU growth and regional projects. However, global overcapacity and cheaper import pressure is likely to set a ceiling to the pace of improvement. As such we believe that EBITDA/tonne of USD35 in 4Q24 is likely to prove to be a trough, yet achieving and sustaining mid cycle profitability (USD140 on our estimates) is likely to be challenging until 2H27 where benefits of higher self-sufficiency in pellet and iron ore is likely to be more tangibly felt. The associated contribution to gross profit could be c. USD200m to USD250m p.a. once the related self-sufficiency investments are fully completed.
- **CAPEX has peaked in 2024 yet remains substantially elevated vs. historic levels:** One of primary reservation remains the dilutive impact of Erdemir's heightened CAPEX on its FCF to be intact in the foreseeable future. On our numbers, we expect Erdemir to incur a CAPEX of USD825m in FY25 and USD700-800m p.a. on average between FY26-FY30 (vs. 2011–2020 average: USD211m p.a.), which is supportive of Erdemir's longer-term outlook yet limited tangible contribution in the near term. As a recap, the multi-tiered investments include **1)** Various ongoing modernization investments, **2)** Pelletizing plant investment with 3.0mtpa capacity at an estimated CAPEX of USD550m, and **3)** investments at an estimated CAPEX of USD3.2bn targeting to cut carbon emissions including electric arc furnace, DRI and renewable energy.
- **The gold mining prospect could prove to be slight to meaningful valuation-wise but would be cash flow negative until 2028 in any scenario:** Based on regional comparable and scenario modeling, Ermaden's Sivas gold discovery could range from a modest resource—akin to smaller deposits like Bakırtepe (operated by Demir Export)—to a strategically meaningful asset for Erdemir if a ~1Moz deposit is confirmed. In a high gold price environment (e.g., USD4,000/oz), even a 160koz deposit shows solid economics, while a mid-sized ~480koz deposit could generate a pre-tax NPV of ~USD500mn. In a high-case scenario, NPV could approach ~USD1.0bn—material relative to Erdemir's market cap. If developed, the project would likely follow a standard open-pit heap leach model. These valuations are hypothetical and dependent on the results of the ongoing UMREK-compliant reserve study, expected in 2025, which will clarify deposit size and grade. In summary, the Sivas gold discovery offers long-term optionality for Erdemir, with a scenario-based pre-tax NPV range of ~USD0.2–1.0bn. While strategically aligned with Erdemir's upstream diversification goals, near-term financial impact is limited, with capital intensity being a key variable.

Recommendation:	**HOLD**	Maintained
Target Price:	TL 30.10	(From 28.32)

* Stock ratings are relative to the relevant country benchmark. ' Target price is for 12 months. Produced by: UNLU & Co

Share data	
RIC	EREGL.IS
Sector	Commodities
Price (28 May 2025)	TL 23.86
Market cap. (TLm)	167,020
Enterprise value (TLm)	223,183
Market cap. (USDm)	4,285
Enterprise value (USDm)	5,725
Avg. daily trade value (USDm)	109.01
Free float (%)	46.7

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	4.1	6.9	-3.4
Relative (%)	5.6	12.5	12.3

Source: BIST 100, UNLU & CO

The price relative chart measures performance against the Turkey BIST 100 which closed at 9,178 on 28 May 2025.

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Valuation metrics	2021A	2022A	2023A	2024A	2025E	2026E
P/E (x)	4.2	6.3	34.1	12.5	18.8	8.2
EV/EBITDA (x)	2.3	4.8	10.8	11.3	9.4	6.1
EV/sales (x)	0.9	1.0	1.2	1.2	1.1	0.9
Dividend yield (%)	13.8	0.0	1.0	0.5	1.1	2.4

Ratio analysis	2021A	2022A	2023A	2024A	2025E	2026E
ROE (headline basis) (%)	24.7	17.7	2.6	6.2	3.2	5.7
ROIC (EBIT basis) (%)	34.8	17.6	5.1	3.6	4.0	6.2
Gross margin (%)	37.4	20.0	10.6	9.8	11.3	15.0
EBITDA margin (%)	38.8	20.9	11.5	10.3	12.0	14.8
EBIT margin (%)	35.8	18.1	7.9	6.0	7.5	11.2
Net margin (%)	22.8	14.1	2.7	6.6	3.8	6.5
Net debt/EBITDA (x)	-0.2	0.5	2.5	3.1	3.1	2.4
Interest coverage (to EBITDA) (x)	0.0	-0.1	-0.3	-0.4	-0.3	-0.2

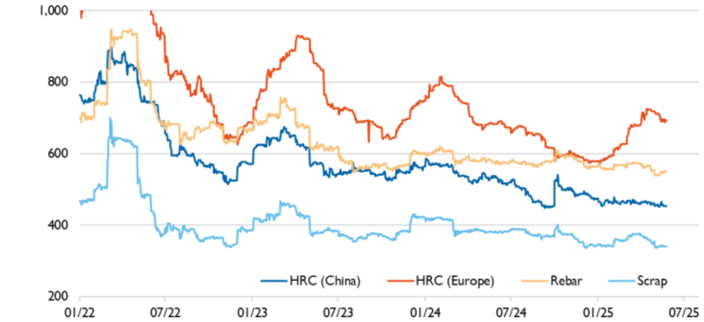
Profit and loss (TLm)	2021A	2022A	2023A	2024A	2025E	2026E
Revenue	**68,227**	**127,783**	**147,900**	**204,060**	**233,474**	**314,978**
Growth (y/y)	113%	87%	16%	38%	14%	35%
Gross profit	25,516	25,539	15,657	20,005	26,477	47,157
EBITDA	**26,468**	**26,655**	**16,989**	**21,092**	**27,931**	**46,653**
Growth (y/y)	*297%*	*1%*	*-36%*	*24%*	*32%*	*67%*
EBIT	24,416	23,161	11,616	12,255	17,610	35,195
Growth (y/y)	*375%*	*-5%*	*-50%*	*6%*	*44%*	*100%*
Other income/expense	450	491	3,027	9,251	1,305	400
Financial income/expense	(949)	(1,539)	(5,805)	(7,984)	(8,055)	(8,759)
Profit before tax	23,917	22,112	8,837	13,522	10,860	26,836
Tax	(7,838)	(3,459)	(4,508)	671	(1,520)	(5,367)
Effective tax rate	*32.8%*	*15.6%*	*51.0%*	*-5.0%*	*14.0%*	*20.0%*
Minorities	(551)	(648)	(296)	(712)	(468)	(1,077)
Net income	**15,527**	**18,005**	**4,033**	**13,481**	**8,871**	**20,392**
Growth (y/y)	*369%*	*16%*	*-78%*	*234%*	*-34%*	*130%*
Weighted diluted number of shares (m)	3,500	3,500	3,500	3,500	7,000	7,000
Earnings per share (EPS) (TL)	4.436	5.144	1.152	3.852	1.267	2.913
Dividend per share (DPS) (TL)	4.450	0.000	0.500	0.131	0.250	0.583
Dividend pay-out ratio	*100%*	*0%*	*43%*	*3%*	*20%*	*20%*

Cash flow (TLm)	2023A	2024A	2025E	2026E
EBIT	11,616	12,255	17,610	35,195
Depreciation & Amortization	5,373	8,837	10,321	11,458
Change in working capital	(15,743)	(11,068)	(7,082)	(25,921)
Taxes paid	(4,508)	671	(1,520)	(5,367)
CAPEX	(22,765)	(35,113)	(33,113)	(37,423)
CAPEX/Revenues	*-15.4%*	*-17.2%*	*-14.2%*	*-11.9%*
Free cash flow	**(26,028)**	**(24,417)**	**(13,784)**	**(22,058)**
Free cash flow margin	*-17.6%*	*-12.0%*	*-5.9%*	*-7.0%*
Dividends paid	0	(1,750)	(915)	(1,750)
Increase (decrease) in net cash	**(28,236)**	**(22,512)**	**(23,150)**	**(24,061)**

Balance sheet (TLm)	2023A	2024A	2025E	2026E
Cash	24,073	55,260	76,416	84,493
Total current assets	134,518	182,856	222,448	267,930
Property, plant equipment	147,415	206,913	285,216	360,557
Intangible fixed assets	8,106	9,343	12,277	15,140
Total non-current assets	175,515	242,303	330,364	416,180
Total assets	**310,033**	**425,159**	**552,812**	**684,110**
Current liabilities	89,292	76,289	91,530	111,160
Total non-current liabilities	29,213	104,446	145,774	175,672
Total ordinary shareholders' equity	191,529	244,424	315,507	397,277
Total equity and liability	**310,033**	**425,159**	**552,812**	**684,110**
Net working capital	64,331	75,399	82,481	108,402
Net cash (debt)	(41,930)	(64,442)	(87,592)	(111,653)

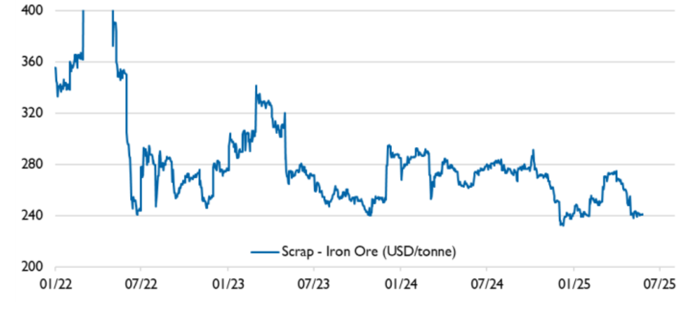
Source: Company financials, ÜNLÜ & Co estimates

Figure 1: Key steel prices (USD/tonne)



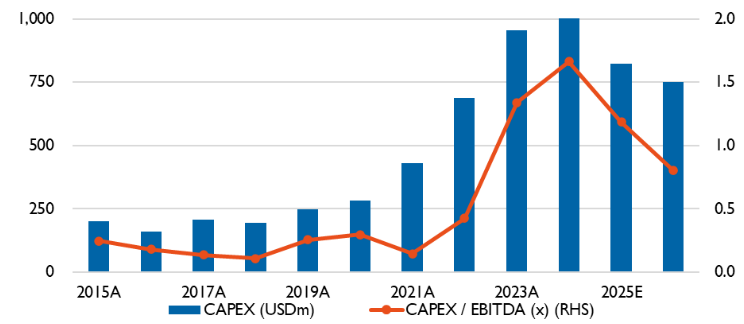
Source: Bloomberg Finance L.P.

Figure 2: Scrap-Iron Ore Differential (USD/tonne)



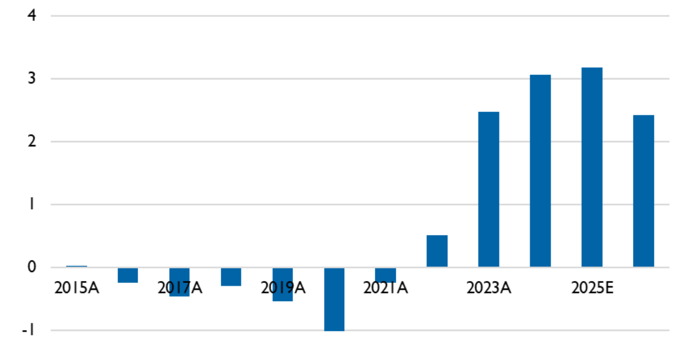
Source: Bloomberg Finance L.P.

Figure 3: Erdemir's CAPEX (USDm) & CAPEX/EBITDA (x)



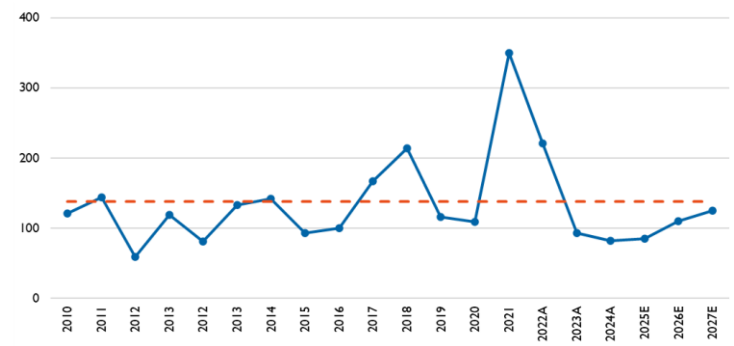
Source: Company Data, Unlu Estimates, Rasyonet

Figure 4: Erdemir's net debt/EBITDA (x) (12M trailing)



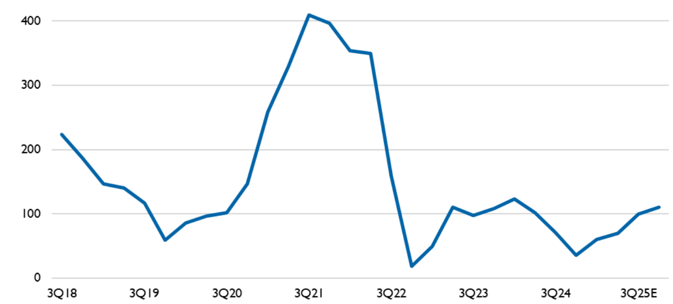
Company Data, Unlu Estimates, Rasyonet

Figure 5: Erdemir's EBITDA/tonne (USD/tonne) (annual) (IFRS)*



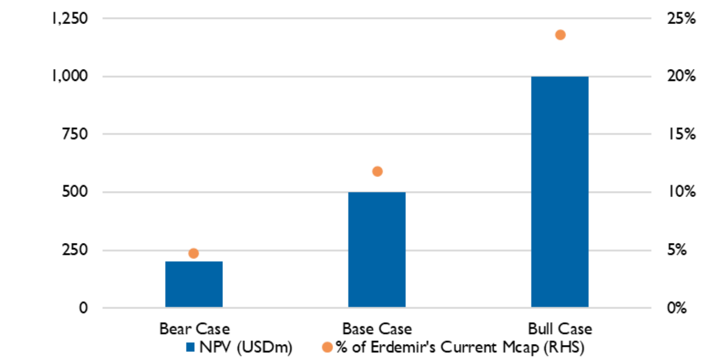
*Source: Company Data, Rasyonet, * IFRS EBITDA/tonne could differ from Company disclosed EBITDA/tonne*

Figure 6: Erdemir's EBITDA/tonne (USD/tonne) (quarterly) (IFRS)*



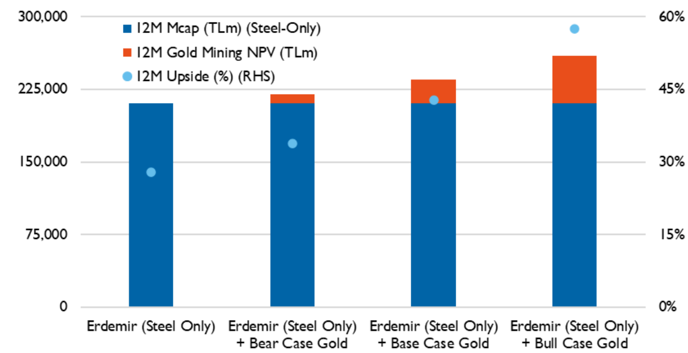
*Source: Company Data, Rasyonet, * IFRS EBITDA/tonne could differ from Company disclosed EBITDA/tonne*

Figure 7: NPV (USDm) of Gold Mine Scenarios and corresponding share in Erdemir's Market Cap. *



*Source: Unlu Estimates, Rasyonet, *as % of latest market cap. in USD*

Figure 8: 12M Target Market Cap. Scenarios (TLm) inclusive of bear/base/bull gold mine operations *

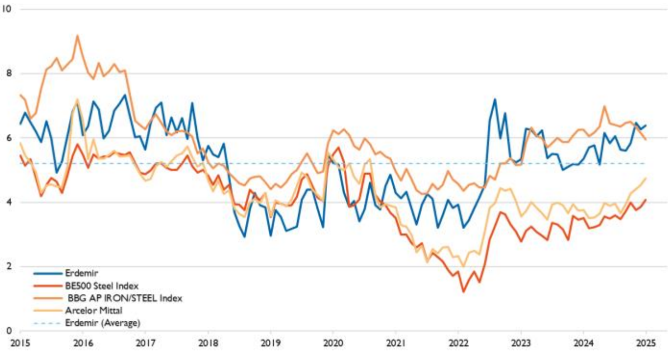


*Source: Unlu Estimates, Rasyonet, *12M (mid-2026) USD/TL rate used*

Investment Summary

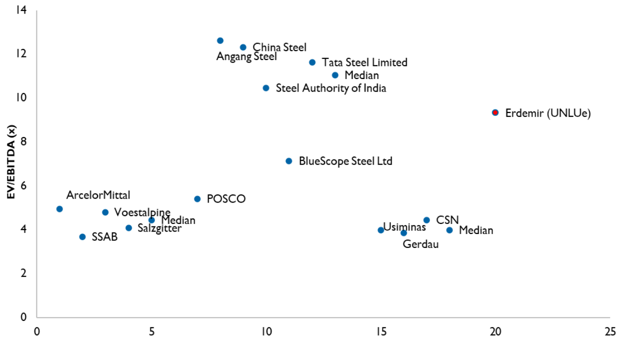
We have updated our valuation (blended target 6.0x FY25E–FY26E EV/EBITDA) and estimates for Erdemir, raising our 12M target price by 6% to TL30.1/share. This revision primarily reflects updated macro assumptions including FX and steel price forecasts. Our 12M TP implies a 26% upside potential, remaining below our ex-bank coverage average of 54%. We reiterate our Hold rating (downgraded from Buy in January 2022), with shares having underperformed BIST-100 by 60% since, with a 33% decline in USD. On our estimates, Erdemir trades at FY25E/FY26E P/E of 19x/8x (vs. 10-year historic median P/E of 8x) and EV/EBITDA of 9x/6x (vs. 10-year historic median EV/EBITDA of 5x).

Figure 9: 1Y blended forward EV/EBITDA (x) progression of Erdemir



Source: Bloomberg Finance L.P.

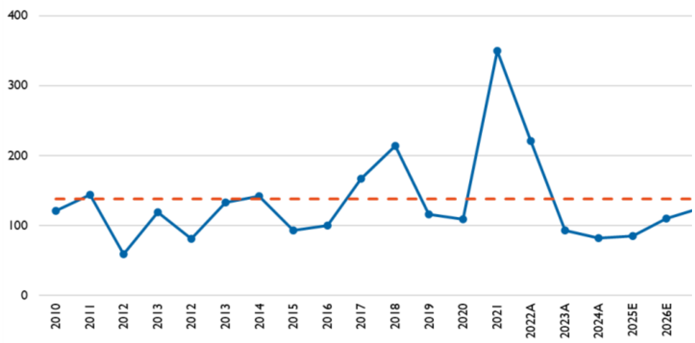
Figure 10: Steel Peers' FY25E EV/EBITDA (x) vs. FY25E P/E (x)



Source: Company Data, Bloomberg Finance L.P., UNLU Estimates

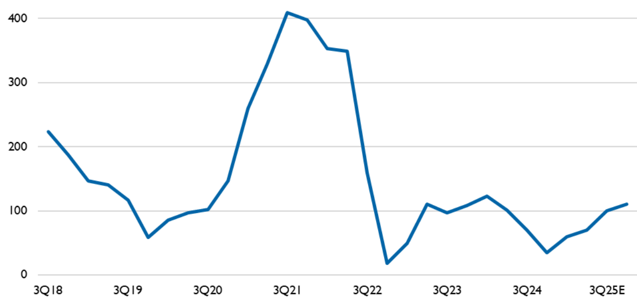
EBITDA/tonne recovery remains shallow given the global backdrop…: We believe 4Q24 EBITDA/tonne of USD35 marked the trough. For 2Q25, we expect IFRS based EBITDA/tonne of USD70 (vs. USD60 in 1Q25 and USD101 in 2Q24). We forecast FY25E EBITDA/tonne (IFRS based) of USD85 (vs. USD82 in FY24), and FY26E at USD110, assuming gradual policy easing, EU growth, and infrastructure momentum. The trajectory regarding global trade war and tariffs will be an important moving part given the relatively low trade barriers in the Turkish steel market exposing the market when global trade barriers tighten.

Figure 11: Erdemir's EBITDA/tonne (USD/tonne) (annual)



Source: Company Data, UNLU estimates, Rasyonet

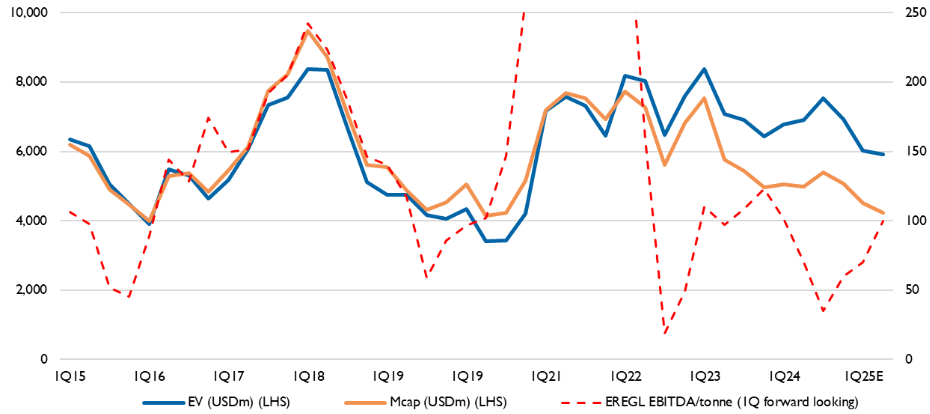
Figure 12: Erdemir's EBITDA/tonne (USD/tonne) (quarterly) (IFRS)*



*Source: Company Data, UNLU estimates, Rasyonet, * EBITDA/tonne calculation is based on IFRS accounts which differs from company provided EBITDA/tonne*

That said, global overcapacity and pricing pressure from imports will likely cap upside. Accordingly, we expect sustained mid-cycle margins of ~USD140/tonne to be deferred until 2H27, where the cost advantages related to Erdemir's higher self-sufficiency in pellet and iron ore should start to be felt in full. The associated contribution to gross profit could be c. USD200m to USD250m p.a. once the related self-sufficiency investments are fully completed.

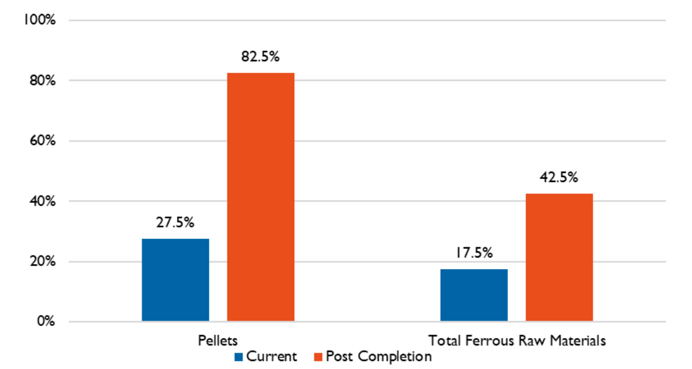
Figure 13: Erdemir's EV (USDm), Market Cap. (USDm) & EBITDA/tonne (1Q forward looking)



Source: Company Data, UNLU estimates, Rasyonet

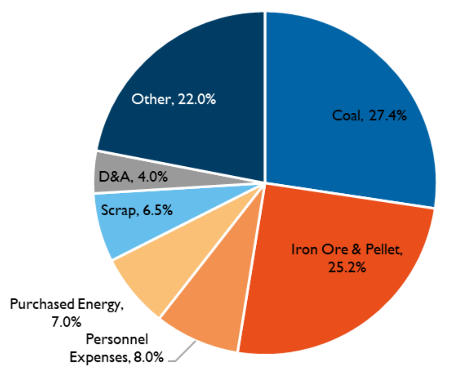
…While to be supported by in-house cost saving efforts: Erdemir has disclosed that the Company has started the construction of a pelletizing plant at its 90% subsidiary Ermaden's Bingol-Avnik iron ore field. Erdemir added drilling activities are in progress, with 80% completion as of 2023, with total expected iron ore reserves of c. 250-300m tonnes. Recall that in late 2022, Erdemir had announced plans to invest c. USD550m in pelletizing plant with 3.0m p.a. capacity through its subsidiary Ermaden with the following highlights: **1)** Investment cost of c. USD550m**, 2)** Total iron reserve of 250 – 300m tonnes**, 3)** Pelletizing plant production capacity of 3.0m tonnes p.a., with a cumulative >100m tonnes of pellet production within the scope of the iron ore reserves.

Figure 14: Erdemir's pellet & ferrous raw materials self-sufficiency *



*Source: The Company, * Current and Post completion of Ermaden's Bingol Investment*

Figure 15: Erdemir's Cost of Sales Breakdown* (2024A)



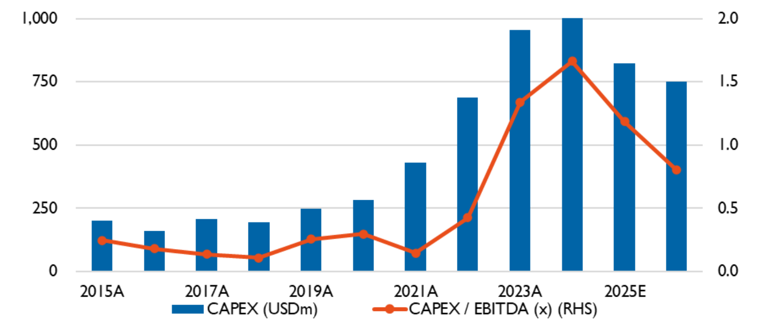
*Source: Company Presentation, * Excluding inventory write-downs and provisions released*

Following the completion of the investment, Erdemir expects: **1)** USD200m-USD250m p.a. profit impact based on pre-feasibility forecasts based on today's prices (as of November 2022), **2)** Increase in pellet self-sufficiency to 80-85% from 25-30%, **3)** Increase in ferrous raw materials self-sufficiency to 40-45% from 15%-20%. We continue to view the prospect as a tangible prospect for Erdemir to increase its structurally low self-sufficiency in pellet and ferrous raw materials in the longer term. As of 2024, iron ore & pellets had a 25.2% share in Erdemir's COGS (excluding inventory write-downs & provision), vs. 21.2% share in 2023. In addition, solar power plant investments totaling c,1,000MW are likely to come on-line gradually over the coming term and are planned to be completed by the end of 2026, that should increase Erdemir's self-sufficiency in electricity to 100% from 50%.

CAPEX has peaked in 2024 yet remains substantially elevated vs. historic levels: One of primary reservation remains the dilutive impact of Erdemir's heightened CAPEX on its FCF to be intact in the foreseeable future. On our numbers, we expect Erdemir to incur a CAPEX of USD825m in FY25 and USD700-800m p.a. on average between FY26-FY30 (vs. 2011–2020 average: USD211m p.a.), which is supportive of Erdemir's longer-term outlook yet limited tangible contribution in the near term. As a recap, the multi-tiered investments include **1)** Various ongoing modernization investments, **2)** Pelletizing plant investment with 3.0mtpa capacity at an estimated CAPEX of USD550m, and **3)** investments at an estimated CAPEX of USD3.2bn targeting to cut carbon emissions including electric arc furnace, DRI and 1GW of solar power.

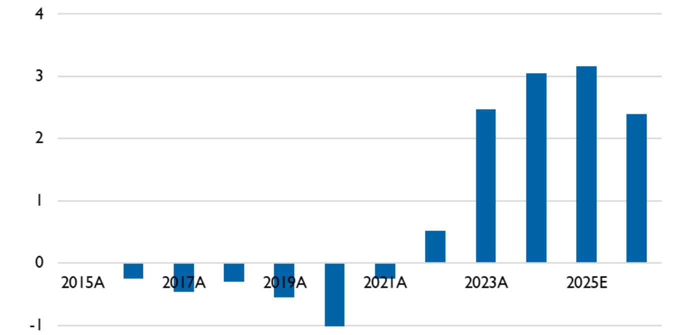
Regarding the recently completed CAPEX, as of mid-May 2025, Erdemir has completed and commissioned the modernization of its No.4 Coke Battery, which has an annual production capacity of 800k tons. The project was aimed at improving operational efficiency, lowering dependence on imported coke, and contributing to environmental performance targets. In addition, Isdemir <ISDMR TI, Not Rated> has completed and brought online its New 1st Blast Furnace, with an annual hot metal production capacity of 2.8m tonnes.

Figure 16: Erdemir's CAPEX (USDm) & CAPEX/EBITDA (x)



Source: Company Data, Rasyonet

Figure 17: Erdemir's net debt/EBITDA (12M trailing)



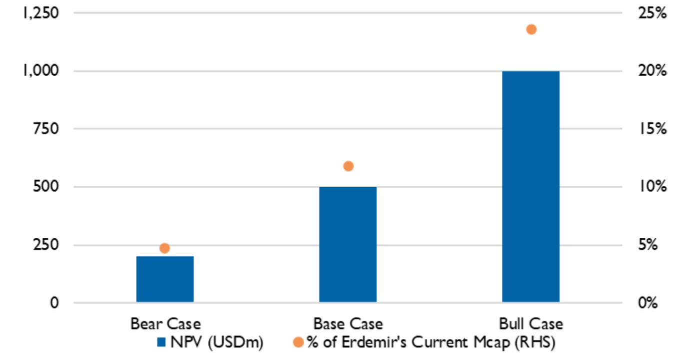
Source: Company Data, Rasyonet

Net debt remains elevated and constrains dividends: We expect net debt/EBITDA to remain in the c. 2.0x–3.0x range through 2027. Gross debt in USD terms should stay flat, but elevated CAPEX and higher financial expenses reduce deleveraging headroom. Dividend distribution has already been materially cut, and we do not expect a return to historical payout levels (>5% yield) before FY27. That said, with OYAK (Armed Forces Pension Fund) as the controlling shareholder through Ataer Holding's 49.3% stake in Erdemir, dividend resumption remains likely once balance sheet pressures ease.

Scenario analysis places the gold prospect in context: Erdemir disclosed in July 2024 that its 90%-owned subsidiary Ermaden had identified a potential gold deposit in Sivas, currently undergoing UMREK-compliant delineation. While no official reserve figure exists, we use regional comps and technical analogs to frame economic potential under various scenarios. Our base valuation uses USD4,000/oz gold and a 13% discount rate, assuming a greenfield project commencing in 2025. We stress that this is not a forecast, but a framework to gauge potential valuation impact.

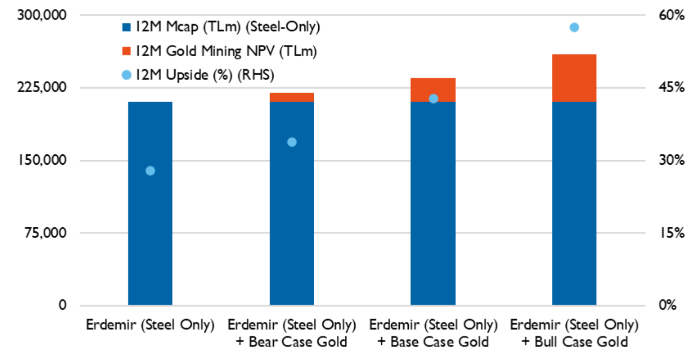
Valuation implications range from modest to meaningful; no contribution before 2028: In our view, Ermaden's Sivas discovery could range from modest (e.g., 160koz) to strategic (~1Moz). A 480koz deposit could yield a pre-tax NPV of ~USD500m, while a high-case scenario approaches ~USD1.0bn—material versus Erdemir's prevailing market cap. Development would likely follow a conventional open-pit heap leach model. However, key risks include: **1)** upfront CAPEX pressure added to Erdemir's already stretched balance sheet, **2)** no material cash flow before 2028, and **3)** permitting and execution hurdles. Overall, the Sivas gold asset could offer long-term optionality with a pre-tax NPV range of ~USD0.2–1.0bn.

Figure 18: NPV (USDm) of gold mine scenarios and corresponding share in Erdemir's market cap *



*Source: Unlu Estimates, Rasyonet, *as % of latest mcap in USD*

Figure 19: 12M target market cap. scenarios including Erdemir's gold mining prospects *



*Source: Unlu Estimates, Rasyonet, *12M (mid-2026) USD/TL rate used*

Valuation & Risks: Our 12M TP is based on a blended FY25E–26E EV/EBITDA of 6.0x. Our model includes CAPEX for ongoing and approved projects but excludes gold development costs. Key upside risks include better-than-expected margins, higher steel prices, and a larger-than-expected gold reserve. Key downside risks include weak demand recovery, import-driven pricing pressure, and a commercially marginal gold project.

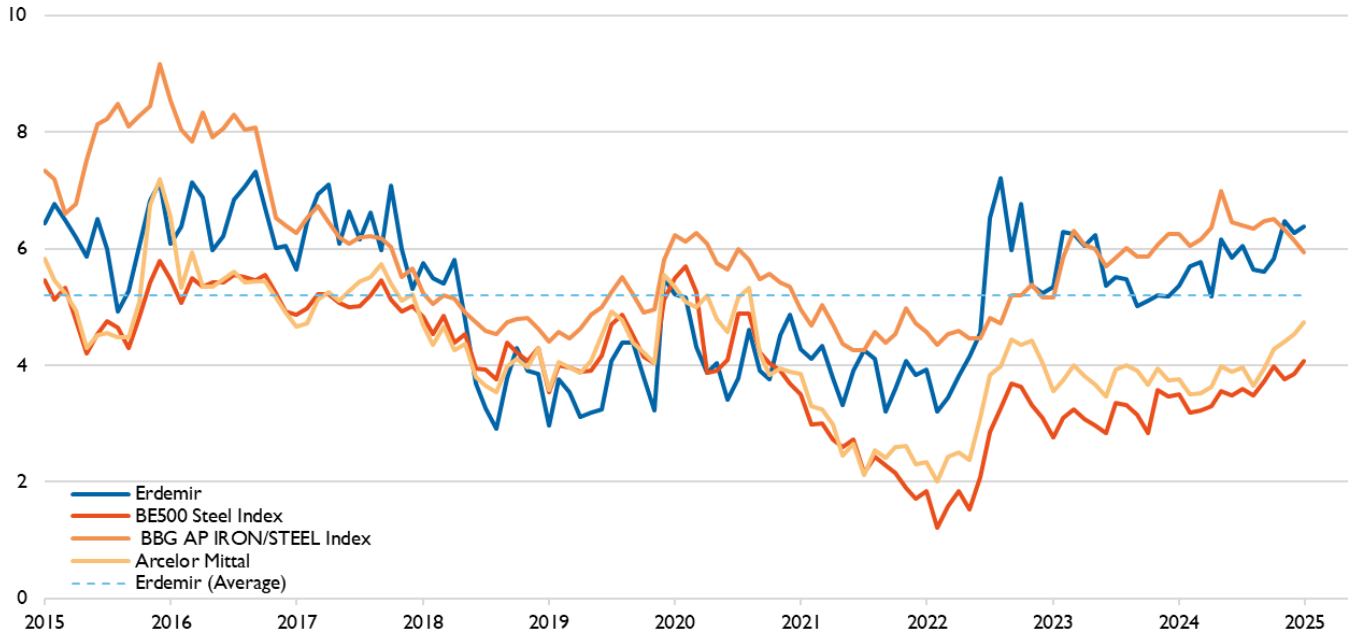
Peer Comparison

Figure 20: Erdemir's Peer Comparison

Region / Company	Mcap	P/E (x)			EV/EBITDA (x)			EBITDA margin (%)			Net Debt/ EBITDA (x)			Div. Yield
	(USDm)	2024A	2025E	2026E	2024A	2025E	2026E	2024A	2025E	2026E	2024A	2025E	2026E	2025E
EUROPE														
ArcelorMittal	26,551	10.3	7.6	6.1	5.2	5.0	4.3	11%	12%	13%	0.8	0.7	0.6	1.8%
SSAB	6,087	9.0	9.1	7.8	3.7	3.7	3.2	12%	12%	13%	-1.3	-1.2	-0.4	4.1%
Voestalpine	4,777	14.1	14.3	n.m.	4.0	4.8	4.2	10%	8%	9%	1.0	1.3	1.3	2.4%
Salzgitter	1,523	28.3	28.3	5.8	6.8	4.1	2.8	3%	5%	7%	3.1	2.6	2.2	1.3%
Median		**12.2**	**11.7**	**6.1**	**4.6**	**4.4**	**3.7**	**10%**	**10%**	**11%**	**0.9**	**1.0**	**0.9**	**2.1%**
ASIA PASIFIC														
POSCO	13,962	10.8	13.0	10.0	5.5	5.4	4.8	9%	10%	10%	1.6	2.0	2.0	4.3%
Angang Steel	2,922	n.a.	n.a.	27.9	n.a.	12.6	9.9	-1%	4%	5%	-5.1	2.7	2.2	0.1%
China Steel	10,498	108.1	35.6	26.9	15.0	12.3	11.3	11%	13%	14%	5.8	4.2	3.7	2.1%
Steel Authority of Indi	6,219	24.4	n.m.	15.2	10.4	10.5	8.6	9%	9%	10%	3.0	3.6	2.8	1.2%
BlueScope Steel Ltd	6,423	11.0	21.0	11.0	5.1	7.1	5.1	12%	9%	12%	-0.2	0.1	0.0	2.6%
Tata Steel Limited	23,634	37.8	53.3	15.9	13.0	11.6	7.8	10%	11%	15%	3.5	3.4	2.2	2.0%
Median		**24.4**	**28.3**	**15.6**	**10.4**	**11.0**	**8.2**	**9%**	**9%**	**11%**	**2.3**	**3.1**	**2.2**	**2.0%**
BRAZIL														
Usiminas	1,170	33.0	8.1	5.9	6.3	4.0	3.5	7%	10%	11%	0.4	0.1	0.1	1.7%
Gerdau	5,514	6.1	7.3	7.3	3.7	3.9	3.6	16%	15%	15%	0.4	0.7	0.6	4.1%
CSN	2,063	n.a.	21.4	22.5	4.9	4.4	4.4	23%	24%	24%	3.2	3.3	3.6	3.5%
Median		**19.6**	**8.1**	**7.3**	**4.9**	**4.0**	**3.6**	**16%**	**15%**	**15%**	**0.4**	**0.7**	**0.6**	**3.5%**
Erdemir (UNLUe)		**12.5**	**20.6**	**8.1**	**11.3**	**9.3**	**6.1**	**10%**	**12%**	**15%**	**3.1**	**3.2**	**2.4**	**2.5%**
Disc./Prem. vs. Europe		2%	76%	33%	145%	110%	64%							
Disc./Prem. vs. APAC		-49%	-27%	-48%	8%	-16%	-25%							
Disc./Prem. vs. Brazil		-36%	154%	11%	130%	134%	68%							

Source: Company Data, UNLU estimates, Rasyonet, Bloomberg Finance L.P.

Figure 21: Erdemir's EV/EBITDA progression vs. various indices & historic average



Source: Company Data, UNLU estimates, Rasyonet

1Q25 Review & 2Q25 Preview

1Q25 Results Review: Erdemir reported 1Q25 revenues of TL53.5bn (up 8% y/y, down 3% q/q), EBITDA of TL4.1bn (down 45% y/y, up 56% q/q), and net income of TL426m (down 92% y/y, down 84% q/q). Despite the notable contraction in profitability on a y/y basis, EBITDA was a notch better than expected, while net income was broadly in line. Key highlights were:

Figure 22: Erdemir's 1Q25 Earnings Summary

						Estimates		Deviation vs.	
TLm	1Q24	4Q24	1Q25	y/y	q/q	Ünlü	Cons	Ünlü	Cons
Revenues	49,748	55,113	53,545	8%	-3%	54,937	50,613	-3%	6%
EBITDA	7,517	2,641	4,127	-45%	56%	3,547	3,479	16%	19%
EBITDA margin	15.1%	4.8%	7.7%	-7.4pp	2.9pp	6.5%	6.9%		
Net profit	5,601	2,694	426	-92%	-84%	247	258	72%	66%
Net margin	11.3%	4.9%	0.8%	-10.5pp	-4.1pp	0.5%	0.5%		

Source: Company data, Unlu & Co estimates, Rasyonet Survey

- Total crude steel production declined to 1.93m tons (vs. 2.00m in 4Q24 and 2.31m in 1Q24), pulling capacity utilization to ~79% (vs. 89% in 2024 average and 75% in 2023). Total product sales (hot + cold + long) came in at 1.90m tons, slightly below 1Q24 (1.98m tons) and 4Q24 (2.19m tons). Segmental breakdown shows hot-rolled sales at 1.30m tons, cold-rolled at 0.43m tons, and long product sales at 0.18m tons. The softness in long product volumes was primarily linked to weaker domestic demand and a slower export environment. Cumulative export volumes rose to 422k tons in 1Q25 (vs. 345k in 4Q24 and 292k in 1Q24), accounting for 22.2% of total sales.

- EBITDA/tonne (IFRS based) stood at USD60 in the quarter (vs. USD123 in 1Q24 and USD35 in 4Q24). EBITDA margin was 7.7% in 1Q25, up 2.9pp q/q but down 7.4pp y/y, consistent with margin normalization across the sector. Net profit margin stood at 0.8%, with substantial net other and tax expenses weighing on the bottom-line. Net debt declined to TL56.2bn as of 1Q25 (vs. TL64.4bn in 4Q24), translating into a net debt/EBITDA ratio of 3.2x, up from 3.1x in the prior quarter. Working capital decreased by TL5.7bn q/q.

- HRC export prices from China, the Black Sea, and Southern Europe have shown mixed trends, while domestic rebar and billet demand remained relatively soft. Industry-wide capacity rationalization efforts remain limited, and the Turkish steel sector faces headwinds from cheap Asian imports and geopolitical fragmentation in export markets, in our observation.

Management held a conference call post results with the following highlights: **1)** 2Q25 Outlook: Slight increase in prices but very similar to 1Q25 in terms of profitability, **2)** 2025 Production: 8.0m – 8.2m tonnes, **3)** 2025 EBITDA: USD90-100/tonne EBITDA in 2025 with expectations of improvement in 2H25, **4)** 2025 CAPEX USD800-USD850m of CAPEX in 2025 (maintenance: c. USD60m). If the reserve in the gold mine is significant, the CAPEX could rise, **5)** Regarding, sustainability of working capital improvement in 1Q25, management believes this is sustainable and not a temporary improvement. (40% from price, 60% from other factors including volume), **6)** Gold Mine Prospects: Reserve determination studies are ongoing. No timeline is provided. As soon as a UMREK reserve study is completed, it is planned to be released.

2Q25 Preview: For 2Q25, we expect IFRS based EBITDA/tonne of USD70 (vs. IFRS based EBITDA/tonne of USD60 in 1Q25 and USD101 in 2Q24). We forecast FY25E EBITDA/tonne (IFRS based) of USD85 (vs. USD82 in FY24), and FY26E at USD110, assuming gradual policy easing, EU growth, and infrastructure momentum.

Contextualizing the Gold Discovery Within Core Valuation

Erdemir announced in July 2024 that its 90%-owned mining subsidiary, Ermaden, encountered a gold deposit in Sivas province. The discovery is still undergoing resource delineation per UMREK (Turkey's reserve reporting standards). No official reserve figures are published yet. We attempt to leverage regional comparable (mainly that of Demir Export and Copler) and available technical reports (Environmental Impact Assessment report etc.) to estimate the deposit's possible scale and long-term economic value. We focus exclusively on economic valuation, modelling several development scenarios at a gold price of USD4,000/oz with a 13% USD discount rate. All assumptions are for a greenfield development, with CAPEX starting in late 2025. The purpose of the scenario analysis is not an attempt to accurately project potential value; rather placing the prospect in context of Erdemir's core operations and a potential rough range of valuation upside, if any.

The region and existing/similar prospects: Sivas region of Turkey is not historically known for large gold mines, but it hosts small-to-mid size gold deposits that provide useful benchmarks. In particular, Demir Export's Bakırtepe Gold Mine (Kangal, Sivas) offers a close analogy in geology and scale:

- **Bakırtepe Gold Mine (Demir Export, Koc Holding <KCHOL TI, Buy>)** – Discovered in mid-2000s, this open-pit heap leach operation is located ~80 km SE of Sivas. Bakırtepe Environmental Impact Assessment (EIA, or "ÇED") was approved in 2013, and the mine commenced gold production in 2015. Initial filings indicated ~150,000 oz of geological gold resource with 4.0 tonnes (≈128,600 oz) mineable reserves. The mine was designed for ~1.5 Mtpa ore processing capacity via cyanide heap leaching. By 2023, Bakırtepe had produced ~93,000 oz of gold cumulatively, and the operator was pursuing expansion via new open pits in adjacent areas. (Notably, further EIA processes for expansion were met with local environmental opposition due to sensitive biodiversity, demonstrating that permitting can be a challenge – though we do not delve into ESG/permitting in this report.) The Bakırtepe example suggests a small-scale deposit (~3–5 tonnes Au produced over its life) with a modest production rate on the order of ~10–15 Koz per year.

- **Copler Gold Mine (SSR Mining, Lidya Mining):** Located in Erzincan Province, about 250 km east of Sivas, the Copler mine was discovered in the late 1990s and began producing gold in 2010. It started as a mine focused on extracting gold from surface-level (oxide) ore using heap leaching, but it has grown into a major operation with both surface and deeper (sulfide) ore processing. The mine sits on a large gold and copper system formed by ancient volcanic and intrusive rocks. As of late 2023, the mine had about 67m tonnes of gold-bearing rock, with an average gold grade of 2.32 grams per tonne, containing around 5.1m ounces of gold. Gold is recovered using different methods: surface ore is treated with heap leaching, while deeper sulfide ore is processed with a high-pressure oxidation technique. Gold recovery rates vary from around 61% for oxides to up to 91% for sulfides. The mine is expected to produce about 281,000 ounces of gold per year, reaching a total of 4.25m ounces by the end of its mine life in 2038.

- **Himmetdede Gold Mine (Koza Gold <KOZAL TI, Hold>)** – While located just outside Sivas (in Kayseri province, ~35 km NW of Kayseri), Himmetdede is geologically within north-central Turkey and provides a sense of an upper-range deposit size in the region. It is an open-pit heap leach operation (with some underground potential) that began development around 2013 and entered production in 2015. Himmetdede is considered a "small" gold mine by global standards, containing under 30 tonnes of gold reserves (i.e., <~1 Moz Au). It processes low-grade ore (typically <1 g/t Au) at relatively high throughput suggesting a strategy focused on scale over grade.

For benchmarking purposes, we refer to the 2014 resource and reserve estimates, which capture the project's scale just prior to production startup and thus serve as a meaningful reference point for assessing the potential size of the recent Ermaden discovery. At that time, Himmetdede's Measured and Indicated resources totaled 51.5 Mt @ 0.63 g/t Au (~1.04 Moz), with Proven and Probable reserves reported at 26.1 Mt @ 0.74 g/t for 619 Koz Au, and an additional 22 Koz Au classified as Inferred. Although Himmetdede has since mostly ceased operations, it remains a representative example of what a moderately sized gold deposit in this region can yield suggesting that even successful exploration, such as the new Ermaden discovery, is likely to uncover deposits in the range of tens of tonnes of contained gold, rather than the hundreds of tonnes found in world-class systems.

Other nearby gold operations (e.g. Koza's Kaymaz mine in Eskisehir, or various projects in Central/Eastern Anatolia) similarly fall in the sub-1Moz category. In summary, regional analogues suggest that a plausible size for Ermaden's Sivas gold deposit is in the tens or hundreds of thousands of ounces of gold, rather than multi-million ounces. For modelling purposes, we will consider scenarios spanning a small discovery (~5 tonnes Au), a medium discovery (~15 tonnes Au), and a large discovery (~30 tonnes Au), to bracket the potential. These assumptions align with the scale of Bakırtepe (small case) up to the upper end of what might be found in Sivas (approaching Himmetdede size).

Deposit Characteristics and Assumed Parameters: The Sivas gold occurrence is likely an epithermal or disseminated style deposit hosted in volcanic or sedimentary units (given the regional context of Kangal's gold mineralization). Such deposits typically feature low to moderate gold grades that are amenable to heap leach extraction. Bakırtepe, for example, had an average grade on the order of ~0.5–1.0 g/t Au (estimated from its output and tonnage). We will assume the Ermaden discovery is similar: on the order of ~0.8–1.0 g/t Au average grade with predominantly oxide ore near surface (suitable for heap leaching).

Resource Size: Without published drilling results yet, we frame the possible resource (contained gold) into three scenarios:

- **Low Case:** ~5 tonnes contained Au (≈160,000 oz). This is akin to the Bakırtepe scale – essentially a small satellite deposit. It might correspond to, say, ~5–6m tonnes of ore at ~1 g/t.

- **Base Case:** ~15 tonnes contained Au (≈480,000 oz). This represents a moderate success – multiple times larger than Bakırtepe, but still within the region's known range. (For context, 15 t is about half the size of Himmetdede resource, and a level that would indeed be considered *"significant potential"* for a newcomer in Turkish gold mining.) In tonnage, this could be ~15–20 Mt of ore at ~1 g/t, or more tonnage if grade is lower.

- **High Case:** ~30 tonnes contained Au (≈960,000 oz). This optimistic scenario edges toward 1 Moz, essentially the upper bound of what has been found in central Turkey's gold fields to date. Achieving this might require that the Sivas property hosts multiple mineralized zones or a particularly robust system. For instance, it could entail ~30 Mt of ore at ~1 g/t. While ambitious, we include this case to assess upside value.

Recovery and Processing: We assume the deposit would be mined by open-pit methods and processed via heap leach with ADR (adsorption-desorption-recovery) plant – the same approach used at Bakırtepe. Heap leaching is cost-effective for low-grade, oxide gold ore but typically recovers only a portion of the gold. We assume a conservative 70% metallurgical recovery of contained gold in all scenarios (consistent with recoveries at similar heap leach operations). Thus, for example, a 15-tonne in-situ Au resource (base case) would yield ~10.5 tonnes of gold recovered (~337,000 oz) over the mine's life after accounting for 70% recovery.

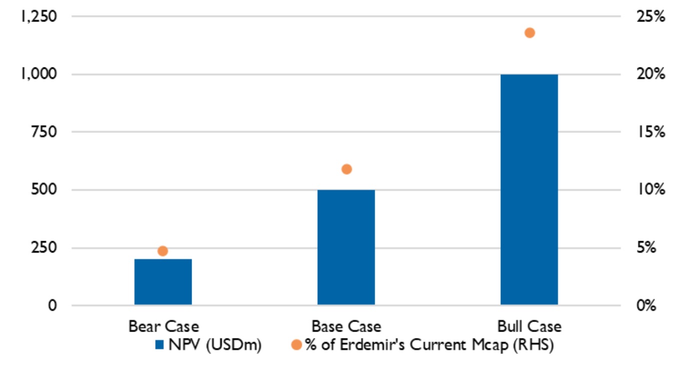
Production Scale: Given the assumed resource tonnages and drawing on regional EIA data, we project an ore processing rate in the range of 1.0 to 3.0m tonnes per year: 1) Small case: ~1.0 Mtpa, 2) Base case: ~1.5 Mtpa (similar to Bakırtepe 1.5 Mtpa design), 3) High case: ~3.0 Mtpa (scaled up for a larger resource).

At ~1 g/t grade, these throughputs translate to annual gold production on the order of 20–70 thousand ounces per year (assuming 70% recovery). For instance, the base case ~1.5 Mtpa would produce roughly 34 Koz/year of gold, which is in line with a mid-tier Turkish gold operation. The high case at 3 Mtpa could produce approximately 67,000 ounces per year, approaching the scale of Koza Gold's larger operations. For reference, the Himmetdede mine averaged around 58,000 ounces of gold production annually between 2015 and 2023, with peak outputs of approximately 100,000 ounces in 2016 and 73,000 ounces in 2017.

Economic Valuation and NPV Analysis: Using the above assumptions, we modeled discounted cash flows for each scenario to estimate the NPV of the project (at a 13% discount rate, in line with a high-risk resource project hurdle rate). We assume a gold price of USD4,000/oz flat real (an aggressive upside price scenario). All values are in constant 2025 USD. The NPV is calculated at the end of 2025 (assumed project start). Key outputs are as follows:

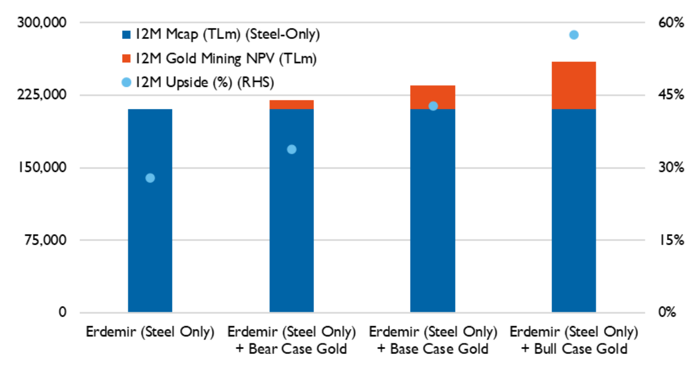
- **Low Case:** Short 5-year mine producing ~22 Koz/year. Even at USD4,000 gold, the smaller scale yields an NPV of roughly USD200m (pre-tax, 13% disc.). This reflects the strong margins (USD4,000/oz revenue vs ~USD700/oz cost) but limited ounces.
- **Base Case:** 10-year mine, ~34 Koz/year, with ~USD50M upfront CAPEX. NPV is on the order of USD500m at 13% discount rate. This scenario generates ~USD136M revenue per year (34k oz * USD4k), against ~USD20M operating cost, so about USD116M annual cash flow once at full production. The payback is very quick (within the first year or two of production), and the project is highly value-accretive for Erdemir if realized.
- **High Case:** ~10-year mine, aggressively mined at 3 Mtpa for ~67 Koz/year. Despite the high USD150M CAPEX, the NPV in this optimistic case approaches USD1.0 billion USD. The project would throw off roughly USD270M in revenue per year (67.5k oz * USD4k) against perhaps USD34M in costs, yielding over USD230M annual free cash flow in the initial years – a substantial business, albeit this is contingent on discovering a nearly 1 Moz deposit.

Figure 23: NPV (USDm) of Gold Mine Scenarios and corresponding share in Erdemir's market cap. *



*Source: Unlu Estimates, Rasyonet, *as % of latest mcap in USD*

Figure 24: 12M Target Market Cap. Scenarios (TLm) inclusive of bear/base/bull gold mine operations *



*Source: Unlu Estimates, Rasyonet, *12M (mid-2026) USD/TL rate used*

Conclusion: Based on regional comparables and our modeled scenarios, Ermaden's Sivas gold discovery could range from a minor addition (if it's on the small end like Bakırtepe) to a transformative new business line for Erdemir (if a nearly 1 Moz deposit is proven). In a high price environment (USD4,000/oz), even a small 160 Koz deposit shows strong economics, while a mid-sized ~480 Koz deposit yields roughly half a billion USD in NPV. The high-end scenario approaches a billion-dollar NPV, which would be highly material for Erdemir.

It must be emphasized that these figures are hypothetical and hinge on the actual exploration results. The ongoing UMREK-compliant reserve study (expected in 2025) will provide the first hard data on the deposit's size and grade. Once that is released, a more definitive economic assessment can be made. For now, benchmarking against similar Sivas-region projects suggests that a deposit on the order of tens of tonnes of gold is plausible. Developing such a mine in Turkey is technically straightforward – open-pit, heap-leach operations are well established – and economically attractive, provided gold prices remain strong.

In summary, the Sivas gold discovery offers significant long-term economic value upside for Erdemir. Under the assumptions of this analysis, the project could add on the order of USD0.2 to USD1.0 billion in NPV (pre-tax) to the company. Investors will be watching drilling updates and the formal reserve report to gauge where within our low/base/high spectrum the Sivas deposit falls. Erdemir's strategic push into mining (alongside its big iron ore project in Bingöl) could thus yield a valuable gold asset, diversify its portfolio and provide a hedge against steel cyclicality.

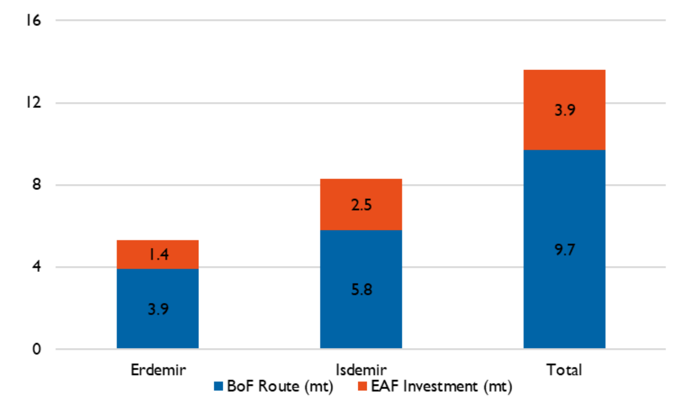
ESG & Decarbonization Strategy

As part of its Net Zero roadmap, the Group has outlined a phased strategy aligned with global climate targets to limit the temperature increase to 1.5°C. The plan sets out a 25% reduction in greenhouse gas emissions by 2030, increasing to 40% by 2040, with the goal of achieving net zero emissions by 2050. These targets are underpinned by a transition in production technologies and energy sources. By 2030, emission reductions are expected to stem from the deployment of Solar Power Plants (SPP), Electric Arc Furnaces (EAF), biomass integration, and energy efficiency initiatives. The 2040 milestone includes further reductions via Direct Reduced Iron (DRI) production using natural gas. Full decarbonization is anticipated by 2050 through the use of green hydrogen-based DRI processes combined with CCS technologies.

As of 2022, the Group's consolidated greenhouse gas emissions (Scope 1 + Scope 2) averaged approximately 2.2 tons of CO_2 per ton of crude steel. The emission breakdown indicates a high dependency on coal (84%), followed by natural gas (6%), electricity (5%), and other sources (5%). This emissions profile underscores the importance of the planned technology shifts and energy transition measures in achieving long-term carbon neutrality. The key pillars of the seven-pronged approach are as follows:

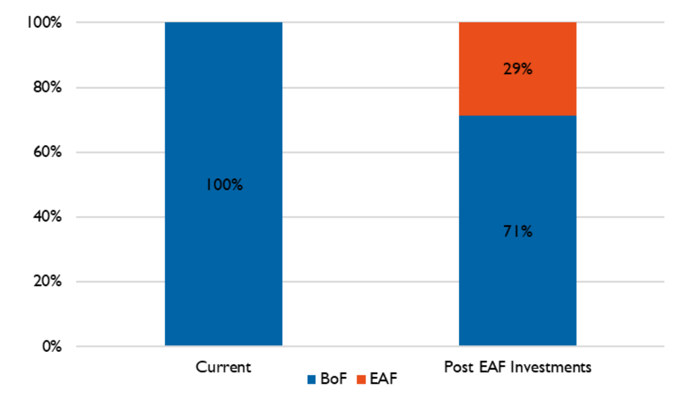
1.) EAF Investments: Erdemir and Isdemir have both planned Electric Arc Furnace (EAF) investments aimed at reducing unit carbon emissions in steel production. For Erdemir, the transition involves integrating a 1.4m tonnes EAF capacity alongside its existing 3.9m tonnes Basic Oxygen Furnace (BOF) route. This would raise the total crude steel production capacity to 5.3m tons, with an anticipated unit emission reduction of approximately 25.7%.

Figure 25: Erdemir's planned EAF investments by plant (mt)



Source: The Company

Figure 26: Erdemir's BOF & EAF breakdown progression



Source: The Company

Isdemir's plan includes adding 2.5m tons of EAF capacity to its 5.8m tonnes of BOF-based production, bringing the total to 8.3m tons. This integration is expected to reduce unit carbon emissions by around 17.3%. These EAF investments are part of broader decarbonization strategies intended to diversify production routes and lower average emission intensity. Under the current trajectory, management expects the EAF investment to be operational at Isdemir by the end of 2028, and at Erdemir by the end of 2030.

2.) Increasing energy efficiency: Erdemir has undertaken a range of operational improvement projects aimed at enhancing energy efficiency and reducing emissions, with an estimated impact of approximately 3.5%. These projects include the installation of Turbo Generator No. 10, a Waste Heat Recovery Boiler for the 2nd Slab Furnace, and various driver system implementations such as the Erdemir-designed driver system and PCI facility driver applications. Other initiatives involve a new turbo blower investment, a roof-type solar power system, APC (Advanced Process Control) integration in air separation facilities, and a driver-controlled air fan for the 1st blast furnace stove. The program also includes the use of a Coke Dry Quenching System and Oxy-Fuel technology.

Isdemir, a subsidiary of Erdemir, has implemented a similar set of projects, targeting an estimated emission reduction of around 3.1%. Key efforts include the retubing of Steam Boiler No. 3, capacity upgrades for Turbo Generators No. 1 and 2, installation of a new steam turbine for the coke dry quenching process, and deployment of a new air compressor. These actions are part of the Group's broader strategy to improve energy performance across its operations.

3.) Solar Power Plant investments: Erdemir and Isdemir are undertaking solar power projects as part of their renewable energy transition efforts, both scheduled to reach full capacity by the end of 2026. Erdemir's solar power plants, located in Van and Malatya, are expected to generate approximately 770,000 MWh of electricity annually, supported by an installed capacity of 424 MWp. This initiative is projected to contribute to an estimated 4.9% reduction in emissions. Isdemir's solar investments span the regions of Corum, Diyarbakir, and Sirnak, with a higher installed capacity of 530 MWp. These facilities are expected to produce about 940,000 MWh of electricity per year and are estimated to result in a 4.5% reduction in emissions. Both projects reflect ongoing efforts to reduce carbon intensity through renewable energy integration. Erdemir expects the completion of these investments to increase its' self-sufficiency in electricity to 100% from the prevailing 50%.

4.) Biomass usage: As part of its decarbonization roadmap, the Group is progressing with biomass integration to replace coal in key production processes. Biomass, having a zero-emission factor, is expected to contribute to emission reductions when used in place of conventional coal. In line with this approach, pilot pyrolysis plant installation work has commenced. At Erdemir, biomass usage is projected to result in a total coal reduction of approximately 205,091 tons per year, translating to an estimated emission reduction of 11.9%. The reduction spans multiple facilities, including the coke plant, sintering plant, blast furnaces (PCI coal), and steel mill. Isdemir's transition to biomass is anticipated to lower coal consumption by around 381,897 tons annually, corresponding to a projected emission reduction of 10.6%. Similar to Erdemir, the reductions are distributed across the coke and sintering plants, blast furnaces, and steelmaking operations.

5.) DRI with natural gas investments: As part of their greenhouse gas reduction initiatives, Erdemir and Isdemir are planning investments in Direct Reduced Iron (DRI) technology using natural gas. These projects are expected to lower unit carbon emissions through the partial replacement of the traditional Basic Oxygen Furnace (BOF) route. At Erdemir, the planned addition of 2m tons of DRI capacity will increase total production capacity to 5.9m tons. This transition is expected to result in a unit emission reduction of approximately 25.0%. Isdemir's plan involves a similar 2m tonnes DRI investment, increasing total crude steel capacity to 7.8m tonnes. The projected outcome is an 18.1% reduction in unit emissions. These DRI investments are aligned with the Group's broader decarbonization roadmap and reflect a shift toward lower-emission production technologies.

6.) DRI with green hydrogen investments: As part of its long-term greenhouse gas reduction strategy, the Group is evaluating investments in Direct Reduced Iron (DRI) production using green hydrogen as a potential substitute for coal in the iron and steelmaking process. Hydrogen is considered a key enabler for deep decarbonization in the sector, both as a fuel and as a reductant.

Türkiye's national energy strategy outlines the development of cost-effective hydrogen production infrastructure in energy-intensive industries such as steel. The official roadmap, published by the Ministry of Energy and Natural Resources in 2023, sets a phased trajectory for green hydrogen deployment. Targets include reaching 2 GW of electrolyzer capacity by 2030, increasing to 5 GW by 2035, and ultimately reaching 70 GW by 2053. Corresponding hydrogen production cost targets are set at 2.4 $/kgH_2$ by 2035 and 1.2 $/kgH_2$ by 2053. These milestones form part of the broader national

Net Zero Carbon Target for 2053 and indicate the regulatory and infrastructural support for potential future integration of green hydrogen into industrial operations.

7.) Carbon Capture and Storage (CCS): As part of its long-term decarbonization roadmap, the Group is incorporating Carbon Capture and Storage (CCS) technologies to address emissions that are considered technically unavoidable. The aim is to progressively reduce and ultimately neutralize carbon emissions by capturing and storing CO_2 released during industrial processes.

The decarbonization pathway foresees a phased reduction approach: initial gains by 2030 are expected through the combined impact of Solar Power Plants (SPP), Electric Arc Furnaces (EAF), biomass integration, and energy efficiency measures. By 2040, further emission reductions are anticipated with the expansion of Direct Reduced Iron (DRI) technologies using natural gas. The final stage targets full deployment of DRI based on green hydrogen in combination with CCS technologies, enabling the achievement of net zero emissions by 2050. This multi-step approach underscores the Group's commitment to aligning with Türkiye's national carbon neutrality targets.

Companies Mentioned
Erdemir (EREGL TI, Hold)
Isdemir (ISDMR TI, Not Rated)
Koc Holding (KCHOL TI, Buy)
Koza Gold (KOZAL TI, Hold)

Disclosure Appendix

Important Global Disclosures

The information and opinions in this research report were prepared by UNLU Menkul Degerler A.S ("UNLU & Co").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please contact UNLU & Co Research and / or Compliance - +90 212 367 3636.

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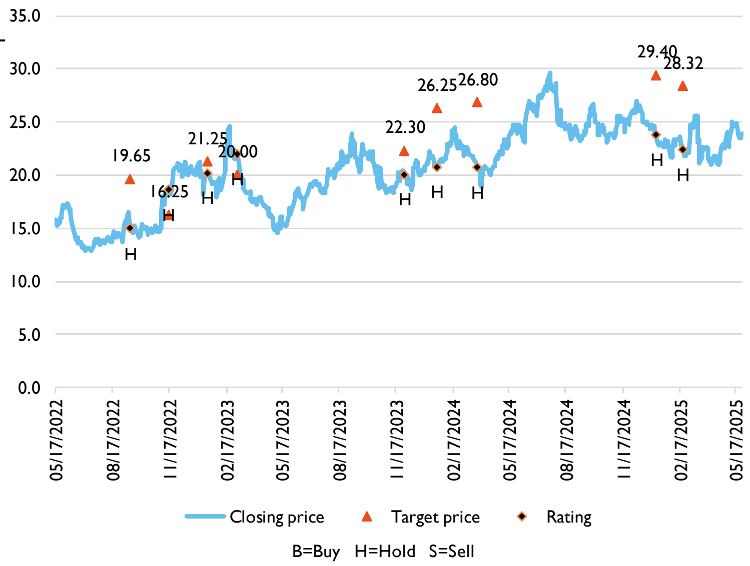
3-Year Price, Target Price and Rating Change History Chart for EREGL.IS

EREGL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
09/15/2022	14.92	**19.65**	**HOLD**	
11/15/2022	18.57	**16.25**	**HOLD**	
01/17/2023	20.20	**21.25**	**HOLD**	
03/06/2023	21.93	**20.00**	**HOLD**	
12/01/2023	20.05	**22.30**	**HOLD**	
01/22/2024	20.77	**26.25**	**HOLD**	
03/27/2024	20.66	**26.80**	**HOLD**	
01/10/2025	23.78	**29.40**	**HOLD**	
02/21/2025	22.38	**28.32**	**HOLD**	



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Hold (H): The stock's total return is expected to be in the range of 10-20% over the next 12 months.

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*Total return is calculated as the sum of the stock's expected Capital Appreciation and expected Dividend Yield.

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Ratings Distribution as of the date of this report	Buy	Hold	Sell	Restricted
All Recommendations (%)	63	35	2	-

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Price Target: TL30.1 (12-month target price)
Methods: Blended FY25E–26E EV/EBITDA multiple (net debt adjusted)
Risks: Key upside risks include better-than-expected margins, higher steel prices, and a larger-than-expected gold reserve. Key downside risks include weak demand recovery, import-driven pricing pressure, and a commercially marginal gold project.

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Erdemir	None

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