

Company Update

Tekfen Holding

19 April 2024

Green transformation offers a promising new chapter. Post FY23 results, we update our NAV valuation and find an attractive risk-reward for Tekfen Holding, which we estimate currently trades at 62% discount to the NAV. The company's new strategy roadmap envisages transformation into a green energy powerhouse, which would offer a new chapter in the investment case by not only unlocking value but also laying the ground for a new growth story. We raise our TP from TL58 to TL80/share and maintain Outperform rating.

Contracting continues to be a drag on results, yet risk of further provisioning seems limited. Tekfen reported net loss of TL-1.1bn in FY23 including TL-0.8bn negative impact from inflation accounting, which mainly weighed on fertilizer segment margins. Another major drag was new provisions for cost overruns (USD130mn in Q4 for Qatar North Field project, which was pre-communicated to the market back in Dec'23). We note that FY23 consolidated EBITDA of TL1.3bn excluding inflation accounting was above consensus estimate of TL0.9bn. Contracting segment generated significant EBITDA excluding Qatar North Field project, so FY23 EBITDA loss was contained at USD-32mn in the segment despite USD130mn provision impact. Management also indicated risk of further provision for cost overruns is very low. Agri segment saw about TL2.0bn negative impact on FY23 EBITDA due to application of inflation accounting. Excluding this, EBITDA of Agri segment was TL2.3bn, down slightly from TL2.9bn in FY22 despite a challenging year. Consolidated net debt position of Tekfen stood at USD40mn at the end of 2023, down from USD88mn in previous quarter. The company also disclosed that further claim collections took place in 1Q'24.

Green hydrogen and green ammonia are priority investment areas. Tekfen announced a major strategy overhaul in Sep'23 and signed a consultancy agreement with Dome Group in Dec'23 regarding potential strategic partnership and cooperation options. As part of green transformation plans, Tekfen aims to build a renewable energy capacity base, which is necessary for green hydrogen production. Given that Tekfen's fertilizer plants are already consumer of ammonia, green hydrogen investment would allow Tekfen replace its imports of grey ammonia with the green ammonia from the company's own value chain. Tekfen also aims to create synergies and thinks contracting segment could gain expertise in green hydrogen during the investment phase, which then could be leveraged as a contractor for 3rd party projects. The company also aims to expand its fabrication business to meet demand for offshore wind projects. We believe Tekfen's green transformation strategy would address medium term risks such as EU's CABM (border tax for carbon intensive exports).

Potential incentives, asset sales, strategic deals could improve sentiment towards the stock. Tekfen Holding underperformed Turkish XU100 benchmark by 33% over the last 12M due to volatile earnings trend. We think investor confidence and interest could recover as the company shows progress in its new strategy. Possible financing deals, asset sales and strategic deals for new investments could be important catalysts down the road. We also think the company is likely to receive incentives, which could be in the form of attractive financing, tax-cuts or various state support as Turkish government and Banks are also keen on promoting green energy projects.

Rating

Outperform
(maintained)

Target Price	TL80.00
Current Price (19/04/2024)	TL40.86
Return Potential	96%

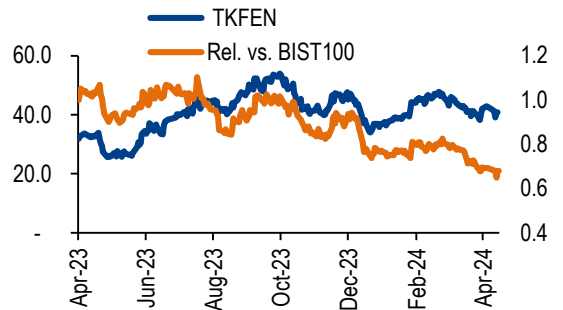
Bloomberg Ticker	TKFEN TI
Market Cap. (TLmn)	15,118
Market Cap. (USDmn)	466
Free Float	48%
# of Shares (mn)	370
3-Month Avg. Trading Vol. (TLmn)	301

Price Performance	1M	3M	12M
Nominal (TL)	-5%	6%	26%
Nominal (USD)	-6%	-2%	-25%
Relative to BIST100	-11%	-11%	-34%

Estimates (TLmn)	2023	2024E	2025E
Revenues	37,138	51,680	62,010
EBITDA	1,340	5,530	7,936
% margin	3.6%	10.7%	12.8%
Net Income	-298	2,071	3,168
% margin	-0.8%	4.0%	5.1%

Valuation	2023	2024E	2025E
P/E	n.m.	7.3x	4.8x
EV/EBITDA	8.8x	2.1x	1.5x
P/BV	0.7x	0.6x	0.5x
Dividend Per Share	2.82	0.00	0.00
Dividend Yield (%)	6.9%	0.0%	0.0%

Price Chart



*Figures represent estimates excluding inflation accounting impact

TKFEN: NAV Summary

	EBITDA (USD million)							Valuation Method	Net Cash (USD million)	Valuation (USD million)
	'19	'20	'21	'22E	'23E	'24E	'25E			Equity Value
Contracting	255	-49	-120	38	-32	12	16	Book Value (2023-end)	-85	-57
Fertilizer & Agri Business									-12	941
Fertilizer	81	105	202	148	69	131	170	5.0x normalized EBITDA (22-25 avg.)		648
Agri Production	-2	-4	-5	2	2	2	2	Estimated Farm Land Value		98
Services (Terminal)	20	25	19	21	26	28	29	8.0x normalized EBITDA (22-25 avg.)		207
Holding-level Overhead								NPV		-100
Holding-level Net Cash									57	57
Other assets										380
İstanbul - Beşiktaş Land&Buildings (7240 sqm land)								Appraisal Value (Jan 2023)		19.4
Akmerkez Office (2000 sqm)								Appraisal Value (Jan 2023)		9.0
Tekfen Tower (35.4K sqm office space)								Appraisal Value (Sep 2023)		104.1
10.5% stake in Akmerkez REIT								Market Price		34.0
10% stake in Socar Polymer								Acquisition Cost (20% discount)		80.0
Tekfen Ventures								1.5x Capital Invested		75.0
40% stake in AZFEN								Book Value (2023-end)		58.8
Target NAV (USD million)										1,234
Current Mcap (USD million)										465
Current Discount to NAV										-62%
Number of shares										370
Holding Discount										-40%
Target Price (TL/Share) 12M forward USDTRY 40.00										80.00
Current Stock Price										40.86
Upside Potential										96%

* EBITDA figures represent YF estimates excluding inflation accounting impact

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