



Sabancı Holding

21 December 2022

[Genel / Public](#)

SAHOL: Initiating coverage with TP of TL70.0/share. We think Sabancı deserves a higher valuation as earnings profile improved significantly in energy JVs, banking operations deliver resilient performance and asset-sales helped to increase liquidity at holding level. We calculate target NAV of Sabancı at TL188bn based on our valuation of subsidiaries (including Enerjisa Üretim), indicating 55% discount to target NAV. We assume conglomerate discount to narrow to 25% in our valuation (vs. 2-year average of 41%) and reach a TP of TL70.0/share, which offer significant upside potential of 69%.

ENJSA: Initiating coverage with TP of TL48.0/share and Outperform rating: Enerjisa is the leading electricity distribution and retail company in Turkey, accounting for 23% total electricity distribution volume. We like ENJSA on the back of (1) Uptrend in Regulated Asset Base after inflation re-valuation, which we expect would also lead to higher investment return component (2) higher retail mark-ups in nominal terms thanks to the jump in electricity prices (3) expected improvement in leverage with capex reimbursements accelerating and retail working capital normalizing in 2023E.

Energy Generation: Hidden value for SAHOL. Sabancı Holding has an installed capacity of 3.7GWh in energy generation business through its 50-50% JV with E.ON. We think the market assigns little value to Generation business, which managed to lower net Debt/ EBITDA ratio to 0.1x as of 9M22 (from: 8.3x in 2017). We estimate EBITDA of generation segment to increase to USD604mn in 2022E. In our target NAV for SAHOL; we apply 7.0x EBITDA multiple for ENJSA Üretim (vs. domestic peer average of 11.6x) and reach TL51bn valuation for SAHOL's stake, which accounts for 27% of our target NAV.

New Economy investments under Holding company. SAHOL aims to accelerate value accretive investments (which are set to deliver IRRs of at least 1-3% above WACC – depending on region) especially in new economy areas such as climate technologies, advanced materials and digital Technologies. Following the sale of Philsa stake for TL3.1bn in early 2022, Sabancı Holding has executed successful buyback program, repurchasing 99.8mn shares (23.9mn shares from Exsa) from the market. The company recently sold 64.7mn of these shares, which would further bolster liquidity position and allow new investments under Holding company. Holding-only net cash of SAHOL stood at TL4.4bn as of 3Q'22.

Finance: CPI-linker portfolio of AKBANK covers 78% of its consolidated equity as of 9M22, which lifted ROEs in 2022E due to high inflation. We believe solid capital buffer and high provisioning ratios of the bank would help it maintain strong profitability, though we expect some normalization in ROEs from 58% in 2022E to 33% in 2023E. Insurance companies, which account for 3% of target NAV, could see an improving outlook in 2023E thanks to the recovery in premium generation, lower claims and higher investment income.

Industrial portfolio: We expect cement-makers to enjoy strong domestic demand and rising product prices in '23E, while Kordsa is getting closer to see its composite business ramping up and Brisa, the company's JV with Bridgestone, has increased its scale and offers long-term growth story. Combined EBITDA of these companies was c.USD400mn in 2021, which we estimate could rise to USD491mn in 2022E and USD557mn in 2023E.

Rating	Outperform		
Target Price	TL70.00		
Current Price (20/12/2022)	TL41.42		
Return Potential	69%		
Bloomberg Ticker	SAHOL TI		
Market Cap. (TLmn)	84,514		
Market Cap. (USDmn)	4,534		
Free Float	49.6%		
# of Shares (mn)	2,040		
3-Month Avg. Trading Vol. (TLmn)	2,135		
Price Performance	1M	3M	12M
Nominal (TL)	14%	57%	195%
Nominal (USD)	14%	51%	129%
Relative to BIST100	-5%	-6%	12%
Estimates (TLmn)	2021	2022E	2023E
Net Income	12,032	38,705	32,277
Valuation	2021	2022E	2023E
P/E	7.0x	2.2x	2.6x
P/BV	1.6x	0.9x	0.7x
Dividend Yield (%)	1.8%	3.1%	3.3%
SAHOL vs. Subsidiaries	TP	Upside	
AKBNK	24.3	22%	
ENJSA	48.0	60%	
AKCNS	73.6	29%	
CIMSA	116.00	25%	
KORDS	106.0	23%	
SAHOL	70.00	69%	

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SABANCI HOLDING CURRENT NET ASSET VALUE

Listed Subsidiaries	Stock Price	Mcap TL million	SAHOL % stake	Value of SAHOL stake	% share in current NAV	Sector
AKBNK	20.00	104,000	40.8%	42,432	37%	Banking
ENJSA	29.98	35,408	40.0%	14,163	12%	Energy
AKGRT	4.15	6,690	36.0%	2,408	2%	Financial Services
AGESA	42.34	7,621	40.0%	3,048	3%	Financial Services
AKCNS	57.20	10,951	39.7%	4,347	4%	Building Materials
CIMSA	92.50	12,495	54.5%	6,810	6%	Building Materials
BRISA	56.55	17,254	43.6%	7,523	7%	Industrials
KORDS	85.95	16,720	71.1%	11,888	10%	Industrials
CRFSA	82.15	10,497	57.1%	5,994	5%	Retail
TKNSA	29.18	5,865	50.0%	2,933	3%	Retail
Total - Listed Subsidiaries		227,501		101,546	88%	
Non-listed Assets	Book Value TL million	Value of SAHOL stake	% share in current NAV			
Subsidiaries and other assets	9,695	9,695	8%			
Holding-only net cash	4,419	4,419	4%			
Current NAV		115,660				
Sabancı Holding Market Cap		84,514				
% discount to current NAV					-26.9%	

SABANCI HOLDING TARGET NET ASSET VALUE

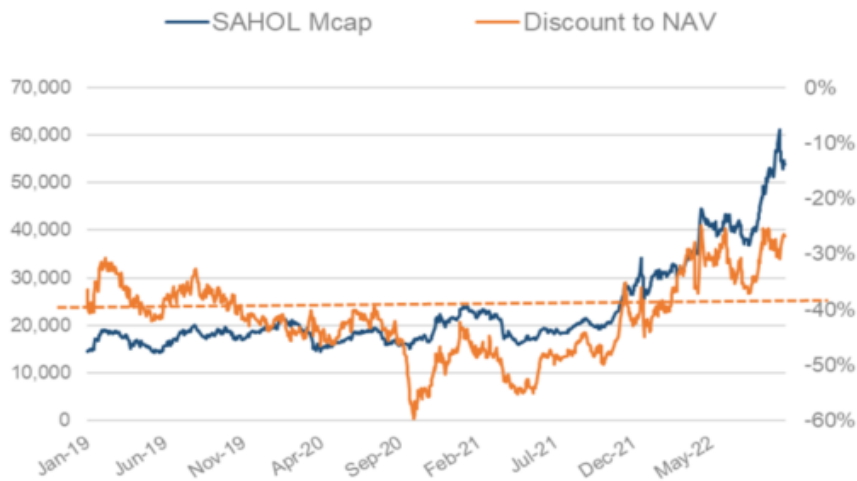
Listed Subsidiaries	Target Price	Target Mcap (TL mn)	Upside Potential	Value of SAHOL stake	% share in target NAV	Valuation Method
AKBNK	24.30	126,360	22%	51,555	27%	DDM
ENJSA	48.00	56,691	60%	22,677	12%	Multiple-based val.
AKGRT	n.a.	6,690		2,408	1%	Current Mcap
AGESA	n.a.	7,621		3,048	2%	Current Mcap
AKCNS	73.60	14,091	29%	5,594	3%	DCF
CIMSA	116.00	15,670	25%	8,540	5%	DCF
BRISA	n.a.	17,254		7,523	4%	DCF
KORDS	106.00	20,620	23%	14,661	8%	DCF
CRFSA	n.a.	10,497		5,994	3%	Current Mcap
TKNSA	n.a.	5,865		2,933	2%	Current Mcap
Total - Listed Subsidiaries		281,359		124,932	67%	
Non-listed Assets	Target Value TL million	Value of SAHOL stake	% share in target NAV	Valuation Method		
ENJSA - Generation	101,395	50,697	27%	Multiple-based val.		
Sabancı Climate Technologies	2,964	2,964	2%	Book Value		
Subsidiaries and other assets	5,025	5,025	3%	Book Value		
Holding-only net cash	4,419	4,419	2%	Book Value		
Target NAV		187,789				
Conglomerate discount assumption				-25%		
Target Market Cap				140,842		
Target Stock Price				70.00		
Current Stock Price				41.42		
<i>Upside Potential</i>				<i>69%</i>		

* Book Values as of 3Q'22

** Sabancı Climate Technologies raised its capital to TL 2.96 bn in October 2022

Source: YF Securities Research

Sabancı Holding: Historical NAV discount



2-year avg. -41%

Source: YF Securities Research

SAHOL Stock Performance	'3M	'6M	'12M
SAHOL	57%	107%	195%
<i>Vs. Listed Subsidiaries</i>			
AKBNK	74%	127%	182%
ENJSA	64%	109%	137%
AGESA	61%	106%	112%
AKGRT	106%	172%	75%
BRISA	53%	44%	101%
KORDS	53%	58%	142%
CIMSA	53%	169%	184%
AKCNS	93%	171%	185%
CRFSA	131%	119%	109%
TKNSA	127%	281%	357%
<i>Vs. Conglomerates</i>			
KCHOL	54%	86%	132%
DOHOL	97%	163%	209%
ALARK	35%	144%	656%
AGHOL	32%	150%	182%
<i>Vs. BIST Indices</i>			
XBANK (Banking Index)	66%	143%	214%
XELKT (Energy Index)	95%	198%	403%
XUSIN (Industrials Index)	70%	102%	137%

Source: YF Securities Research

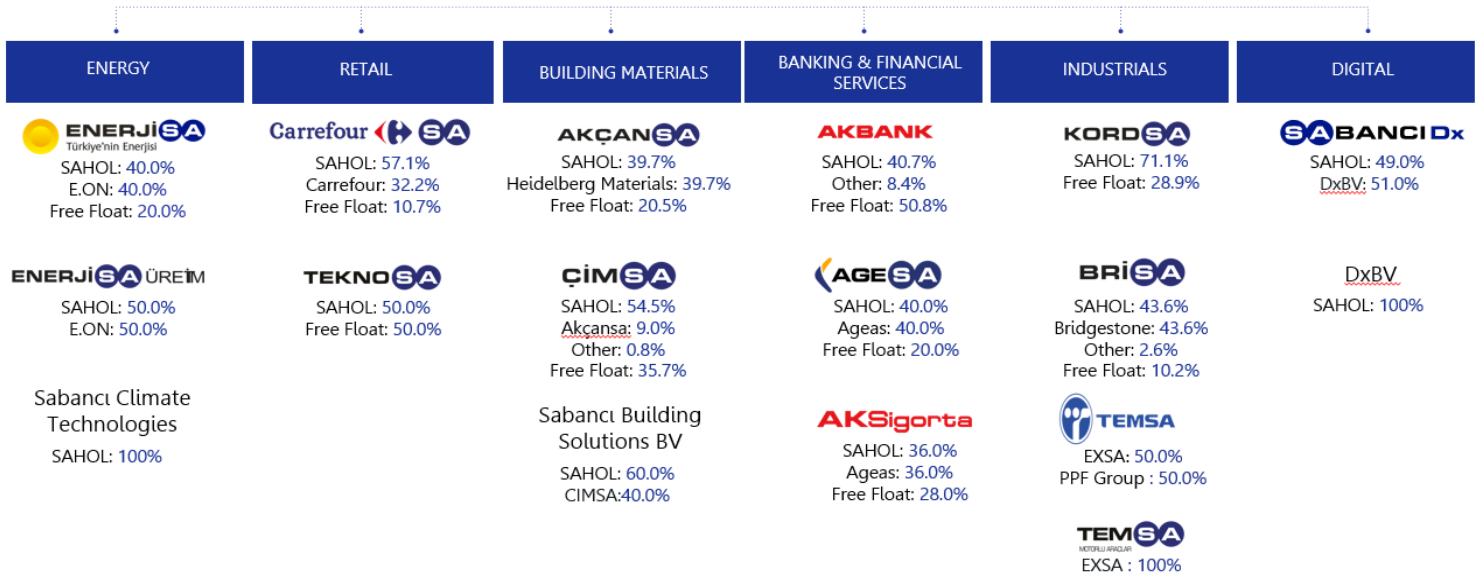
Sabancı Holding Company Profile

Sabancı Holding is one of the largest conglomerate in Turkey with its long-standing background dating back to 1925. The Holding company operates in 7 main business segments; which are Banking, Financial Services, Energy, Retail, Building Materials, Industrials and Digital. Sabancı has a strong presence in Turkish banking sector and its portfolio of non-financial subsidiaries offers a diversified basket of growth companies.

Subsidiaries	Segment	Ownership
Aksigorta	Financial Services	36%
Agesa Hayat ve Emeklilik	Financial Services	40%
Akbank	Bank	41%
Carrefoursa Carrefour Sabancı ve Ticaret Merkezi	Retail	57%
Teknosa iç ve Dış Ticaret A.Ş.	Retail	50%
Çimsa Çimento Sanayi ve Ticaret A.Ş.	Building Material	58%
Sabancı Building Solutions BV	Building Material	83%
Kordsa Teknik Tekstil Anonim Şirketi	Industrials	71%
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	Others	48%
Ankara Enternasyonel Otelcilik A.Ş.	Others	77%
Tursa Sabancı Turizm ve Yatırım İşletmeleri	Others	100%
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	Others	100%
DX Technology services and investment BV	Others	100%
Sabancı İklim Teknolojileri A.Ş.	Energy	100%
Joint Ventures	Segment	Ownership
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.	Industrials	44%
Akçansa Çimento Sanayi ve Ticaret A.Ş.	Building Material	40%
Enerjisa Enerji A.Ş.	Energy	40%
Enerjisa Üretim Santralleri A.Ş.	Energy	50%
Temsa Ulaşım Araçları Sanayi ve Ticaret A.Ş.	Other	24%
Sabancı Holding Shareholder Structure		(%)
Sabancı Family		50.4
Free Float		49.6

Source: YF Securities Research

SABANCI HOLDİNG



Source: Company

Sabancı Holding: Financial Results

SABANCI HOLDİNG CONSOLIDATED FINANCIALS	2020	2021	9M 2021	9M 2022
in TLmn				
REVENUES	59,354	88,192	58,971	154,426
Bank	37,976	53,006	36,164	97,693
Non-Bank	21,624	35,959	22,982	58,138
Industrial	4,536	7,928	5,190	13,761
Building Materials	2,270	4,371	3,008	7,916
Retail	13,479	16,841	11,581	23,609
Financial Services	-	5,147	2,009	11,047
Other	1,338	1,672	1,194	1,805
Intersegment eliminations	(246)	(773)	(176)	(1,405)
ADJUSTED EBITDA -excluding one offs	13,698	24,809	15,059	62,525
Bank	9,466	17,688	10,492	52,140
Non-Bank	4,232	7,121	4,567	10,385
Industrial	904	2,059	1,347	2,571
Building Materials	509	728	639	1,555
Retail	1,135	1,491	969	1,828
Energy	1,315	1,844	1,099	3,478
Financial Services	278	792	397	705
Other	91	208	117	248
NET INCOME CONTRIBUTION -excluding one offs	5,178	10,113	5,549	23,413
Bank	2,760	5,479	2,999	15,582
Non-Bank	2,418	4,634	2,550	7,831
Industrial	413	1,199	779	1,431
Building Materials	109	241	226	682
Retail	(63)	(121)	(152)	50
Energy	1,315	1,931	1,140	3,479
Financial Services	278	386	233	322
Other	366	997	324	1,867

Source: Company

Dividends (TLmn)	2017	2018	2019	2020	2021	2022
AKBNK	367	652	0	0	255	494
AKCNS	94	51	61	18	42	36
AKGRT	0	40	73	73	110	0
AGESA	9	19	40	64	64	0
BRISA	0	0	0	12	107	270
CRFSA	0	0	0	0	0	0
CIMSA	95	33	0	0	0	109
KORDS	41	48	48	35	0	114
TKNSA	0	0	0	0	0	-
ENJSA	0	142	189	283	454	586
Sabancı Holding*	0	0	0	0	0	26
Unlisted Companies	274	227	187	7	530	479
Total Dividends received by SAHOL	879	1,212	601	492	1,562	2,114

Source: Y.F. Securities Research

*Dividends paid to 35.1mn shares representing share buyback as of March 30, 2022

Source: YF Securities Research

Combined EBITDA (in TLmn)	2020	2021	9M21	9M22	% Chg.
BANK	9,466	17,688	10,492	52,140	397%
NON-BANK	11,459	15,745	10,751	23,064	115%
NON-BANK *Comparable	10,963	15,181	10,331	22,534	118%
ENERGY	6,838	8,656	5,884	13,947	137%
INDUSTRIALS	1,623	3,128	905	2,299	154%
BUILDING MATERIALS	764	1,060	937	1,828	95%
RETAIL	1,135	1,490	518	1,297	150%
RETAIL*Comparable	640	927	784	742	-5%
FINANCIAL SERVICES	999	1,194	2,115	3,982	88%
OTHER	100	216	126	267	112%
TOTAL	20,925	33,433	21,243	75,205	254%
TOTAL *Comparable	20,429	32,869	20,824	74,674	259%

*Excludes non-operational and non-recurring one-offs

Source: YF Securities Research

SAHOL – OVERVIEW OF SUBSIDIARIES

ENJSA - Energy Distribution & Retail

Initiate Coverage with an Outperform rating and TP of TL48.0

Enerjisa is the leading electricity distribution and retail company in Turkey, accounting for 23% total electricity distribution volume. The company serves 10.4 million customers in 14 cities across three distribution regions, representing 26% of total population of Turkey. ENJSA operates distribution grids based on long-term concession contracts. Başkent distribution region (Ankara, Kırıkkale, Kastamonu, Zonguldak, Bartın, Çankırı, Karabük) was acquired by ENJSA in 2009 at a price tag of USD1.2bn followed by acquisitions of Ayedaş (Istanbul- Asian side) at a price of USD1.2bn and Toroslar (Adana, Gaziantep, Hatay, Kilis, Mersin, Osmaniye) at a price of USD1.7bn in 2013. ENJSA is listed in BIST since 2018 and 20% of shares is held publicly, while the remaining shares are equally owned by SAHOL and E.ON.

Favorable earnings stream ahead

We expect ENJSA to report strong earnings growth in 2023E and 2024E on the back of (1) growing Regulated Asset Base after inflation revaluation would also lead to higher investment return component (2) higher retail mark-ups in nominal terms thanks to the jump in electricity prices (3) possible improvement in leverage with capex reimbursements accelerating faster than capex spend. We estimate underlying net income of ENJSA to jump from TL2.7bn in 2022E to TL5.2bn in 2023E and TL7.0bn in 2024E.

Uptrend in Regulated Asset Base to keep strong momentum

We like positive real return (inflation+WACC) guaranteed by EMRA on capital spending of distribution grids. We estimate ENJSA would have regulated asset base of TL21.07bn by 2022-end, which is equal to 60% of current Market cap of the company. Average age of grid network is around 30 years in Turkey, which necessitates continuous investments. ENJSA had a 72% real increase in initial capex allowance for the 2021-2025 period and we estimate RAB growth to maintain long-term positive momentum.

Accelerating investments for the transition to EVs. Enerjisa's customer solutions business segment focuses on green energy, energy efficiency solutions (renewable energy certificates, lighting conversion solutions) and e-mobility (EV charging). The company has 263 public EV charging locations with 494 charging plugs, which makes it the leader in Turkey. The company also owns 23 MW installed solar generation capacity.

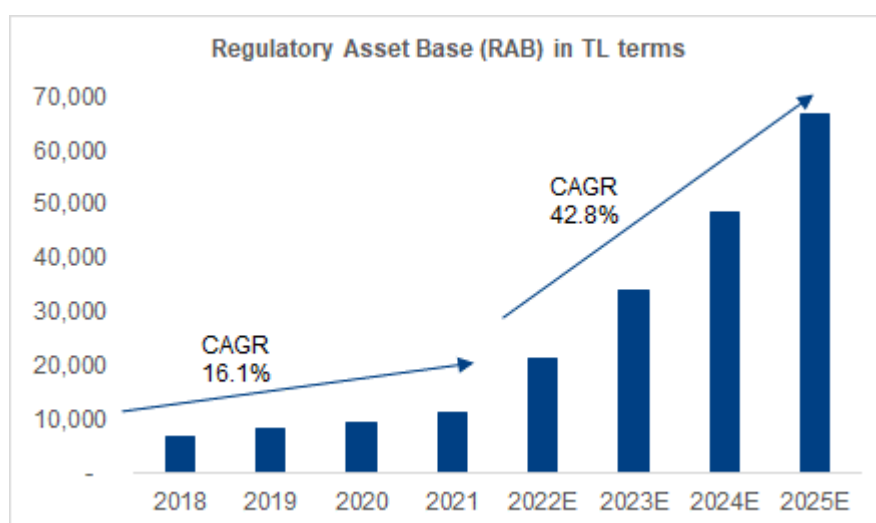
ENJSA KEY FINANCIALS							
TL Million	2017	2018	2019	2020	2021	2022E	2023E
Operating Profits	1,530	3,565	2,764	2,738	4,514	8,824	14,486
EBITDA	2,555	4,066	3,369	3,342	5,499	11,462	16,569
EBITDA (in USDmn)	700	844	594	477	617	668	736
Underlying Net Income	522	730	1,175	1,878	2,415	2,729	5,252
Regulated Asset Base (Closing B.)	5,322	6,948	8,400	9,354	11,238	21,362	34,026
Free Cash Flow	-775	-562	204	504	108	-829	7,094

Source: YF Securities Research

Distribution business: Offering inflation hedge

The distribution business of ENJSA has a low risk profile, where the legal ownership of infrastructure remains in the hands of government, but operators get a fixed real rate of return on grid investments (set by Energy Markets Regulator), which guarantees that distribution companies earn a positive real return in addition to inflation-indexed capex reimbursement. The operators also earn income based on their quality & efficiency metrics such as loss-theft ratio.

In 9M'22 period, distribution segment has 86% share in total operating earnings. Financial income from investments has 47% share in operational earnings of distributions segments. During 2016-2021 period, regulatory asset base (RAB) grew by 16% (CAGR) while operating earnings increased by 22.8% in same period (CAGR). Increase in inflation and higher capex support RAB growth while change in company's IRR approach reflects short-term inflation better to financial income (see 9 page for details).



Source: YF Securities Research

DISTRIBUTION Operating Highlights	2020	2021	2022E	2023E	2024E	2025E
Regulated Asset Base (Opening Balance)	8400	9354	11238	21,362	34,026	48,613
Actual allowed Capex	1790	2800	5,300	8,000	10,800	14,000
Capex Re-imburement	-1342	-2101	-4011	-6017	-8123	-10560
Inflation Impact on opening balance	506	1185	8835	10681	11909	14584
RAB (Closing Balance)	9,354	11,238	21,362	34,026	48,613	66,637
WACC (real in%)	13.61%	12.3%	12.3%	12.3%	12.3%	12.3%

New approach to IFRIC 12 to better reflect positive inflation effect on financial income: Since ENJSA is not the legal owner of distribution grids, the company uses IFRIC 12 as accounting standard that governs accounting for service concession arrangements. Accordingly, distribution license and investments are recorded as financial assets. While this financial asset is 100% protected against inflation, the company's previous accounting assumptions created some lag on inflation revaluation of RAB. ENJSA management announced a new approach to IFRIC 12 by the end of Q3. Accordingly, forecast period changed as 10 year (previous: concession period) and IRR calculated over 10 year period (previous: IRR calculated over the concession period for all projected cash flows). After new approach, difference in short term inflation is expected to result in higher IRR compared to previous assumptions.

Methodology of IFRS Financial Income over RAB

$$\text{IFRS FINANCIAL INCOME} = \text{AVERAGE IFRS RAB (Nominal)} \times (\text{Regulated mid-year WACC (real) + Inflation Rate})$$

Retail Operations: Tariff adjustments to improve FCF generation.

There are 2 market type in Turkey which are Regulated and Liberalized market. On regulated market, electricity procurement price calculated with regulated margin of 2.38% while retail companies purchase electricity from national tariff. Meanwhile liberalized segment could yield higher gross margins when sourcing cost is more favorable. As of 9M 22', gross profit from regulated segment has 82% share in total gross profit of retail operations. There is no concession in retail business compared to 30yrs concession period in distribution operations.

Company recorded TL6.0bn negative free cash flow in H1 under retail business which was mainly due to sharp increase in cost of electricity while free cash flow was at TL1.8bn in Q3. Recall that sharp fluctuations in cost of electricity may lead to a lag in retail companies' cash flows. Accordingly, we expect to positive impact from price equalization will be one of the driver for strong 2023 cash flow generation.

RETAIL BUSINESS & CUSTOMER SOLUTIONS SEGMENT	2020	2021	2022E	2023E	2024E	2025E
Retail						
Regulated Gross Profit	738	974	3000	4,650	6,510	8,789
Liberalised Gross Profit	482	189	700	735	772	810
Customer Solutions Gross Profit	21	105	160	248	347	469
Opex	-385	-450	-950	-1,463	-1,975	-2,568
Bad Debt income and expense	42	152	186	120	126	132
Other	-19	27	-500	-100	-100	-100
Operational Earnings	879	997	2596	4190.0	5679.9	7532.3
Non Recurring Income and Expenses	13	-12	0	0.0	0.0	0.0
EBITDA of Retail + Customer Solutions	866	1009	2,596	4,190	5,680	7,532
Operational Earnings	879	997	2596	4190	5679.9	7532.2925
Price Equalization effects	-119	-2029	-3000	2200	2500	250.0
Net Deposit additions	-25	-39	400	50.0	50.0	50.0
Delta NWC	46	842	-500	-250.0	-50.0	-50.0
Operating Free Cash Flow before interest & taxes	781	-229	-504	6190	8180	7782
Power Retail Capex	-39	-84	-90	130	150	200
FCF before interest & tax	742	-313	-594	6,060	8,030	7,582

Consolidated INCOME STATEMENT	2020	2021	2022E	2023E	2024E	2025E
Capex Reimbursement	1,342	2,101	4,011	6,017	8,123	10,560
EBITDA + Capex Re-imb. (Operational Earnings)	4,717	7,654	15,473	22,586	27,518	33,255
EBITDA + Capex Reimbursement (Co.)	4,684	7,600				
Diff w/co.	33	54				
Operating Profits (before finance income expense)	2,738	4,514	8,824	14,486	17,714	21,068
Adjustment of depreciation and amortization	444	473	550	650	700	750
Adjustment of related to operational fx gains and losses	28	262	338	100	117	137
Adjustment related to valuation difference arising from deposit	162	306	1,704	1,334	864	741
Interest income related to revenue cap regulation	- 30	- 56	46	-	-	-
Adjustment of impairment of goodwill	-	-	-	-	-	-
EBITDA	3,342	5,499	11,462	16,569	19,395	22,696
Fair Value Changes of financial Assets	395	0	0	0	0	0
Non-recurring income related to prior fiscal years	469	-12	0	0	0	0
Non-recurring expenses	61	-94	-100	0	0	0
Other Adjustments	0	0	0	0	0	0
Consolidated Operational Earnings	5,642	7,548	15,373	22,586	27,518	33,255
Operating Profits before finance income expense	2,738	4,514	8,824	14,486	17,714	21,068
Total Financial Expenses	-1325	-1371	-2999	-2571	-2142	-2142
Weighted Average cost of financing	11.90%	16%	35%	30%	25%	25%
PBT	1,413	3,143	5,825	11,915	15,572	18,926
Income Tax	-325	-861	1,456	2,621	3,114	3,785
Net Income (Without Inflation Accounting)	1,088	2,282	4,369	9,294	12,457	15,141
Underlying Net Income	1878	2415	2,729	5,252	7,040	8,556

Dividend payout to continue; says payout from 2022 earnings to be based on IFRS figures

ENJSA says it would apply inflation accounting in IFRS financials by 2022-end, which would form the base for dividends. The company's guidance for underlying net earnings for FY22 IFRS (including inflation accounting impact) is between TL2.3bn and TL2.7bn, which means potential dividends could be around TL1.5bn (TL1.30/share) offering c.4.5% yield.

ENJSA Distribution – Valuation

We used 6x operational earnings multiple for Retail and Customer solutions segments and used 1.25x 2023 closing RAB as valuation method. According to our year – end 2023 estimates, ENJSA shares trade at 6.7x P/E (based on underlying net income) and 3.0x EV/EBITDA. Our target price stands at TL48 which implies 60% upside potential. Accordingly, we are initiating ENJSA with Outperform recommendation.

ENJSA Valuation		(TLmn)
Retail + Customer Solutions (6x 23E		
Operational Earnings)		25,140
2023 RAB * 1.25x		42,533
EV Total		67,673
2023 Net DEBT		11,006
TARGET Mcap		56,667
TP(TL)		48.0
Closing Price		29.98
Upside (Downside) Potential		60%

	2022E	2023E	2024E	2025E
P/E*	12.98	6.74	5.03	4.14
EV/EBITDA	4.34	3.00	2.57	2.19

*Underlying net income

ENERJISA ÜRETİM (Unlisted)

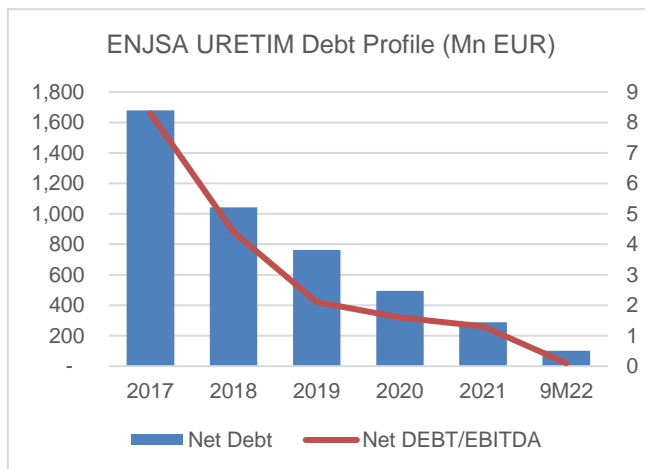
Enerjisa Üretim is a power generation and trading company, which is a joint venture with E.ON SE (50%-50%). Company has the largest installed power with 3.7 GW in Turkey while domestic and renewable power have 45% share in total portfolio. According to types of installed power, Hydro and Natural Gas has 36% and 42% share in total capacity, followed by domestic lignite (12%), wind (9%), and solar power (0.2%).

The company has invested USD404mn on the last 5 years to build current portfolio. These investments were the main driver of high leverage in Enerjisa Üretim. However thanks to high spot prices and strong profit generation the company managed to decrease net Debt/ EBITDA ratio to 0.1x as of Q3 (from: 8.3x in 2017).

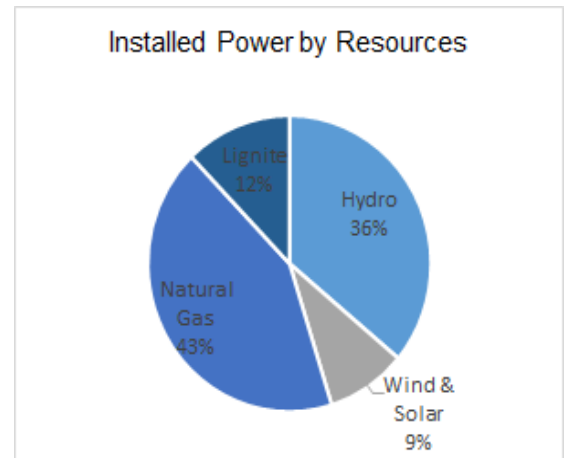
On the other hand, Sabancı Holding announced a strategic expansion of energy business with 1000 MW new capacity plan which will be with new YEKA project (15 Years USD guaranteed PPA).

Enerjisa Generation Summary Financials (TLmn)	2018	2019	2020	2021	9M21	9M22	Chg.
Sales	5,301	6,559	9,345	16,439	9,996	42,377	324%
EBITDA	1,413	2,413	2,777	3,264	2,307	6,587	186%
EBITDA Margin	26.7%	36.8%	29.7%	19.9%	23.1%	15.5%	
Net Income	39	1,179	1,311	1,931	1,002	4,895	389%
Net Margin	0.7%	18.0%	14.0%	11.7%	10.0%	11.6%	
Net DEBT/EBITDA	4.4x	2.1x	1.6x	1.3x	1.3x	0.1x	

Source: YF Securities Research



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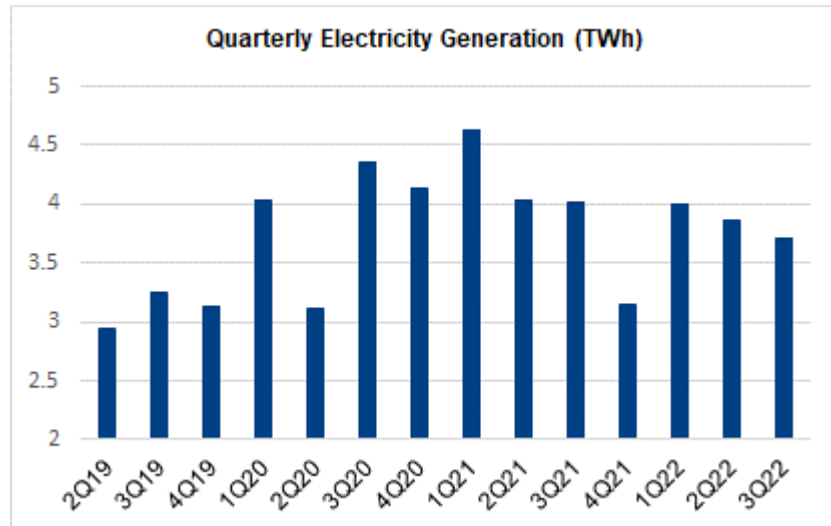


Source: YF Securities Research

The list of ENERJISA Uretim plants

#	Plant	Location	Type of Resources	Installed Power MW	Power Generation Capacity (Gwh)
1	Arkun Barajı ve Hes	Yusufeli/Artvin	Hydro	245	780,1
2	Çambaşı HES	Çaykara Trabzon	Hydro	44.1	200.5
3	Dağdelen HES	Elbistan/Maraş	Hydro	8	27.6
4	Doğançay HES	Aladağ/Adana	Hydro	62	169
5	Hacınınoglu HES	Ilica Maraş	Hydro	142	382.6
6	Kandil HES	Ekinözü / Maraş	Hydro	208	589
7	Kavşak Bendi HES	Kozan / Adana	Hydro	191	766.1
8	Köprü HES	Kozan / Adana	Hydro	156	383.9
9	Kuşaklı HES	Fekel/Adana	Hydro	20	47.7
10	Menge Hes	Kozan / Adana	Hydro	89	203.1
11	Sarıgül HES	Ilica Maraş	Hydro	103	311.8
12	Yamanlı II HES	Saimbeyli/Adana	Hydro	82	234
13	Balıkesir RES	Balıkesir	Wind	143	549.2
14	Çanakkale RES	Çanakkale	Wind	29.9	91.6
15	Dağpazarı RES	Mersin	Wind	39	120
16	Erciyes RES	Kayseri	Wind	65	221
17	Akhisar RES	Manisa	Wind	55	130
18	Bandırma GES	Bandırma Balıkesir	Solar	2	3.3
19	Karabük GES	Karabük	Solar	7	11.1
20	Bandırma DGÇS	Bandırma Balıkesir	Natural Gas	936	7900
21	Bandırma II DGÇS	Bandırma Balıkesir	Natural Gas	607	5000
22	Kentsa DGÇS	Alikahya İzmit	Natural Gas	40	
23	Tufanbeyli Linyit	Adana	Lignite	450	3375

As of December 22' company has 3.7 GWh installed power capacity, which is planned to increase by 1 GWh to 4.7 GW until 2026. After investments share of renewable power is expected to increase in 57% level (currently: 45%) in total installed power.



Source: Company

Total generated electricity in Enerjisa Uretim plants decreased by 10% y/y in 9M22 periods due to lower contribution from natural gas plant which was partially offset by higher contribution from hydro plants. Meanwhile spot electricity prices maintained its strong momentum with 206% increase in TL terms driven by sharp increase in commodity prices, higher industrial demand and stronger tourism activity in year-to-date period (+113% y/y in USD term). Parallel to sharp increase in electricity prices, sales revenue of Enerjisa Üretim increased by %323 y/y to TL42.3bn in 9M22 period.

In late September, Energy Market Regulatory Authority (EMRA) announced to extension of settlement price application for 6 months. Accordingly, maximum settlement prices for electricity are determined as type of resources.

Price Cap Based on Resources								
TL/MWh	April	May	June	July	August	Sept	Oct	Nov
Natural Gas	2,500	2,513	2,896	2,903	3,172	4,619	4,500	4,501
Domestic Lignite	1,200	1,291	1,370	1,412	1,453	1,488	2,050	2,057
Imported Coal	2,500	2,732	3,062	3,557	3,427	3,373	2,750	2,179
Renewables	1,200	1,291	1,370	1,412	1,452	1,488	1,540	1,545

Source: EMRA

ENJSA's portfolio has high exposure to Natural Gas (Natural Gas plant 42% in total installed power) and Domestic Coal (Tufanbeyli Lignite plant has 12% share in total installed power). In addition, Tufanbeyli plant is the largest domestic lignite plant with 450 MW installed power capacity in Turkey.

According to current portfolio of company, we believe Enerjisa Uretim is well positioned for new settlement prices. Meanwhile, if there would be any cancellation of maximum settlement prices application as of Q2 23' would be an upside risk to our valuation.

After Russian – Ukraine war, electricity prices rose rapidly in the beginning of the year. Many electric generation companies decreased its leverage to historical low levels in Turkey while electric retail companies' cash flows negatively impacted by same reason. Then, as purpose of providing balance of system, energy regulator announced the maximum settlement application for 6 months in the late of Q1 22 and extend for 6 months until the end of Q2 23'. We believe developments had approved that the balance of SAHOL's energy portfolio versus extreme conditions.

Details of investments in Turkey and USA

Turkey

- As of late October, company announced an agreement with Enercon for 1000 MW wind plant.
- Sabancı Holding plans to increase its installed power of plants to 4.7 GW (after extension total portfolio will reach to 5% of Turkey's total installed power) until 2026. After investments share of renewables will reach to 57% in total (vs. 44% as of Q3 22')
- Management plans to reach 1332 MW in Wind power. The new plants will be at 4 x 250 MW capacity as new YEKA Project (dollar guaranteed PPA for 15 years). Expected capital expenditure for plants which totally will have installed power of 1000MW amounts to USD1.2bn. The new plants will be on west of country (city of Çanakkale, Balıkesir, Aydın and Muğla).

ENJSA URETIM – Valuation

We used 7x EBITDA multiple on 2022E (50% weight in valuation), and EV/MW comparison (50% valuation methods) as valuation methods for Enerjisa Uretim. Accordingly, we reached TL51.0bn target value for Sabancı Holding's 50% stake, which has 27% share in target NAV. Although we took median of sector as EV/MW comparison, we believe Enerjisa Uretim deserved higher valuation multiple versus its peers thanks to strong free cash generation, balanced portfolio allocation which provides company to benefits from change in maximum settlement prices and favorable liquidity position for expansion plan.

Power Generation by Resources (TWh)	2022E	2023E	2024E	9M 21	9M22
Domestic Lignite	2.90	3.34	3.34	2.14	2.05
Wind	0.73	0.78	0.78	0.51	0.53
Hydro	3.60	3.74	3.74	2.05	2.91
Natural Gas	8.41	8.89	9.21	7.97	6.05
Total	15.65	16.74	17.06	12.67	11.54

EBITDA per MWh (USD)	2022E	2023E	2024E	9M 21	9M22
Domestic Lignite	55	43	39		
Wind	55	46	44		
Hydro	55	46	44		
Natural Gas	14	13	14		

EBITDA (in TLmn)	2022E	2023E	2024E	9M 21	9M22
EBITDA from Power Generation	9,680	10,655	11,747	2,076	5,371
EBITDA from Other operations	1,185	1,200	1,333	42	885
EBITDA of Enerjisa Uretim	10,865	11,855	13,080	2,118	6,256

TLmn	Ticker	Mcap	Net DEBT	EV	EV (USD)	TTM EBITDA	EV/EBITDA	Installed P. (MWh)	EV (USD) / MW
	AKSEN	62,727	6,966	69,693	3,739	6,008	11.6	2,780	1.3
	AYDEM	19,698	11,642	31,339	1,681	2,653	11.8	1,020	1.6
	AYEN	11,577	2,736	14,313	768	2,175	6.6	410	1.9
	GWIND	12,910	(17)	12,893	692	912	14.1	269	2.6
	ODAS	16,632	968	17,600	944	2,819	6.2	504	1.9
	Median						11.60		1.87

Source: YF Securities Research

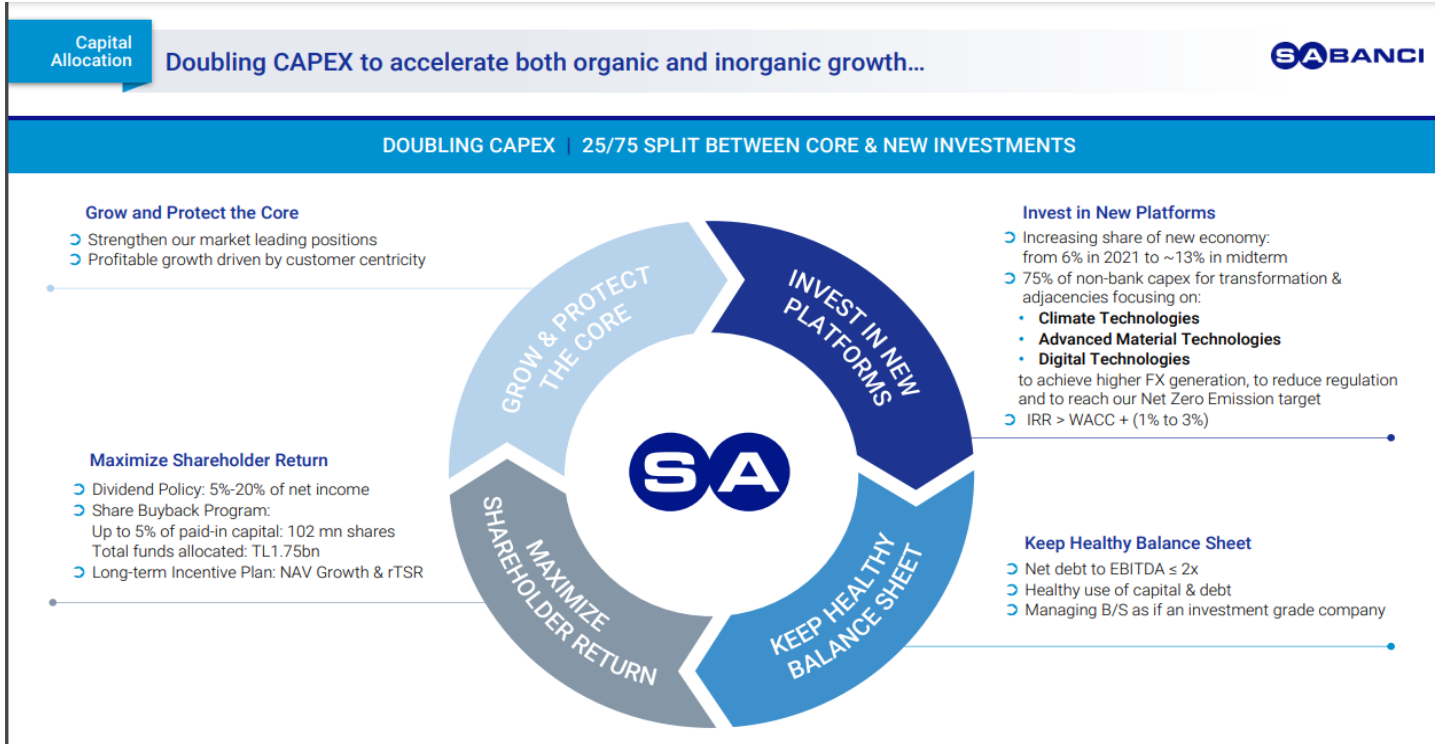
Method	Weight	Implied Value	Contribution
2022E EBITDA x 7	50%	37,103	18,552
Peer Comparison (EV/MW)	50%	64,292	32,146
Target Value (TL mn)			50,697

*Target value for Sabancı's 50% stake

Source: YF Securities Research

Sabancı Holding Capital Allocation Strategy

Sabancı intends to more than double, its capital expenditures to sales ratio, while the Holding also wants to keep its Net Debt/EBITDA below 2.0x. These capital expenditures would not only increase the capacity of existing business lines, but also provide opportunities to enter new generation business lines which is called as “New Economy” for the holding. In the mid-term, It is expected that approximately %75 of this additional capital is allocated to New Economy business lines, while the remaining 25% would be allocated to existing businesses. In 2022, almost 85% of capital expenditures has been allocated to new economy investments.



Source: Company Presentation

New Economy strategy is focusing on three main areas which are called i) Climate Technologies, ii) Advanced Material Technologies and iii) Digital Technologies. The main intention of this new economy investments is increasing FX share of revenues, decreasing regulation-linked income and reach Net Zero Emission target. Safar Investments which is operating in climate tech sector, Microtex which operates in composites sector, Radiflow which is operating in cyber security field, Arvento which is operating in new generation mobility solutions sector and Eşarj which is operating in DC Charging field can be seen as examples for investments of Sabancı to new economy in 2022. Additional to these investments, increase in the more advanced product groups in existing business lines such as focusing on CAC with Çimsa stays as another next-generation business investment.

With this 75% allocation of capital to “new economy” business lines, Sabancı want to increase the share of these businesses in the holding, which was 6% in 2021, to 13%. The profitability target of these businesses is WACC+1/3% IRR on average. In order to be successful at this strategy, Sabancı is planning to use the capital structure for the most efficient cost of capital.

Sabancı approaches its portfolio with a risk diversifying aspect. In existing businesses, management of market risk of electricity prices with generation and distribution business lines is a good example for this point of view. With new economy investments, Sabancı want to expand this risk lowering approach with i) increasing FX income generation and ii) decrease regulation dependency of revenues.

1) Sabancı Renewables

- Sabancı Holding announced establishment of Sabancı Renewables in October 22'. Sabancı Renewables fully owned by Sabancı Climate Technologies and indirectly owned by Sabancı Holding, was established in Delaware to create a renewable energy portfolio in the USA.
- Sabancı renewables has completed its first acquisition of a Project licence for the establishment of a 272 MW solar power plant in USA. The Project is expected to be completed in Q2 2024.
- The announced 272 MW solar investment is well positioned as it is close to high demand in the city of Houston.

2) Start-up Investments

- A long-term strategic partnership between Sabancı Climate Technologies and Safar Partners, one of the leading venture capital fund management companies in the US.
- First investments in start-ups that are part of Safar Partners' network: Commonwealth Fusion Systems; an initiative that is capable of bringing fusion technology to life Quaise Energy; a company developing deep geothermal energy technologies

With announced investment plan, company aims to expand its energy operations to USA which is 2nd largest renewable energy market in the world. Similar to SAHOL's 2050 net zero target, US companies have committed to source 80% of their consumption from renewable resources that is expected to be around 4,050 TWh until 2045. We welcome new expansion plans which provides Holdings to be a global player in energy business meanwhile energy oriented innovative investments points to potential synergies between companies.

AKBANK (AKBNK): TP: TL24.30/share (Outperform)

Turkish Banks has delivered strong financial results in 9M22 on the back of higher security yields, loan repricing, easing in funding costs with FX protected TL deposit scheme and solid fee income. In last quarter, recent regulations related to loan growth, loan rates and TL deposit share might limit loan growth and core NIM, in our view. Yet, considering upward trend in inflation, we believe higher CPI-linker yields would mitigate negative impact of regulations on Banks' profitability. Moreover, GDP growth in Turkish economy and TL valuation against foreign currencies (depending on macro-economic policies in Turkey and tightening policies in global economies) would remain crucial factor for banking sector's capital ratios and provisioning policies. Hence, we expect the Banks with high CPI-linker portfolio, solid capital buffer and elevated provisioning ratios to maintain their strong profitability.

We maintain AKBNK as our Top-Pick in the banking universe thanks to its strong capital (CAR: 19.3%, Tier-I: 16.1% with TL54.0bn excess capital as of 3Q22), CPI-linker portfolio (TL99bn as of 3Q22) and well cost management (Cost/Income ratio: 18.2% in 9M22). Our FY22 net income estimate for the Bank stands at TL56.1bn thanks to higher security yields, strong fee generation and well-managed Cost/Income ratio. Our 2022E net income corresponds to 58.3% ROE, while we forecast 2023E net income as TL40.9bn, pointing to 33.4% ROE.

AKBANK – Valuation

Our valuation is based on 23% (previously: %19) sustainable ROE, 20.0% risk free rate (previously: 22%) and a 5% equity risk premium, resulting in 2023E Target P/BV of 0.83x. The stock trades at 2023E P/BV of 0.81x and P/E of 2.5x

Sustainable ROE (2022-27E)	23.0%
Cost of Equity	27.0%
<i>Risk Free Rate</i>	20%
<i>Equity Risk Premium</i>	5%
<i>Beta</i>	1.39
Terminal Growth	4%
Target P/BV	0.83
Target BV (TLmn)	96,488
Subsidiaries (TLmn)	10,311
Target Mcap (TLmn)	106,800
Target Price	24.30
Last Price (20/12/2022)	20.00
Upside/Downside Potential	22%

AKSIGORTA (AKGRT)

Macro environment has been challenging for insurance companies recently in terms of both technical and investment income. Combined ratios increased due to higher inflation and higher FX rates, pushing up technical losses, while investment income came back due to negative real rate environment. Meanwhile, technical reserves increased due to macro dynamics such as FX rates, inflation, minimum wage raise etc. Aksigorta is an insurance company operating in motor own damage, motor third party liability, non-motor (fire, natural disaster etc.) and health segments. As of 9M22, Aksigorta announced TL1.6bn (9M21: TL64mn loss) net technical loss with combined ratio of 149% (9M21: 105%) due to higher claims. Meanwhile, investment income increased to TL1.1bn in 9M22 from TL423mn in 9M21 on the back of higher FX gains. All in all, the Company announced TL395mn net loss in 9M22 vs TL253mn net income in 9M21. As of 9M22, investment portfolio reached TL6.5bn (9M21: TL3.8bn) with 47% share in Eurobond, 21% share in Corporate Bond, 19% share in time deposit, 12% share in Government Bond and 1% share in equities.

AGESA (AGESA)

Agesa Hayat Emeklilik is an insurance company operating in pension, life and personal accident segments. As of 3Q22, Agesa stands as the leader among private companies with 18.1% market share in Pension Asset under Management (AuM) and 12.7% market share in total life and personal accident gross written premium (GWP). Pension AuM reached TL60.6bn with 82% annual growth. Meanwhile, number of participants in pension segment reached 1.6mn with 7% y/y growth. In life segment, GWP increased TL2.4bn implying 77% annual growth. In 3Q22, total technical profit increased by 67% to TL1.4bn on strong growth in life segment. Despite higher expenses parallel to higher trend in inflation, Company's expense ratio came down to 35% in 3Q22 thanks to higher revenues (3Q21: 37%). Addition to higher technical profit, invest income increased to TL459mn in 3Q22 (3Q21: TL125mn). Hence, net income reached TL807mn (3Q21: TL394mn), corresponding to 57,6% quarterly ROE (2021: 44%).

KORDSA (KORDS) TP: TL106.0/share (Outperform)

KORDS has a steady cash flow from tire reinforcement business, which has a global scale and competitive position. The company began to lever its balance sheet since 2018 by acquiring composite tech companies in the US, which formed the new business line of Kordsa. Despite the setback caused by Covid-19, which especially hit demand for composite materials from aerospace industry, Kordsa keeps investing in composite segment. The company acquired 60% shares of Microtex for EUR 24.6mn in 2022, which is a European supplier of composites targeting automotive sector. The acquisition expands Kordsa's presence in composite value chain from aerospace to automotive, deepening technology know-how and increasing synergy potential between two sub-segments. We expect growth to gain pace in composite business after 2024 when production of commercial aircraft should pick up.

New partnership for Solar Panel Production offers long-term value creation potential. KORDS announced a strategic partnership agreement with Toledo Solar Inc for primary rights of Toledo's solar panels in Europe & Middle East. The new strategic partnership would support sustainability while creating penetration potential into renewable sector. Toledo says it has a new solar panel technology, which offers increased efficiency in electricity generation. According to the agreement, Kordsa would have the rights to produce solar panels for Turkey, European and some other markets outside the US. However, there is no investment plan in the near term and a potential investment could take place after 2-3 years, based on technology progress of Toledo. Although this is a potential value creation in the long term, we think the partnership could support investment theme for Kordsa.

KORDS KEY FINANCIALS							
TL Million	2017	2018	2019	2020	2021	2022E	2023E
Sales	2,485	3,947	5,137	4,536	7,891	18,945	27,244
EBITDA	339	621	747	574	1,218	2,584	3,947
EBITDA (in USDmn)	93	129	132	82	137	151	175
Net Income	165	292	340	153	769	1,647	2,547
Capex	-183	-218	-168	-222	-228	-601	-900
Net Debt	617	1,388	2,384	2,529	4,239	8,811	10,020

Source: YF Securities Research

KORDS – Valuation

After change in our macro assumptions, we revised our 12M forward target price to TL106 from TL95, which implies 23% upside potential. According to our estimates, company trades at 6.6x P/E and 6.0x EV/EBITDA in FY23.

KORDS DCF Analysis						
Figures in USD million	2022E	2023E	2024E	2025E	2026E	Terminal
Sales	1,104	1,211	1,329	1,459	1,602	1,650
Sales growth	24.3%	9.7%	9.8%	9.8%	9.8%	3.0%
EBITDA	151	175	199	222	243	251
EBITDA growth	10%	17%	14%	11%	9%	
<i>EBITDA margin</i>	<i>13.6%</i>	<i>14.5%</i>	<i>15.0%</i>	<i>15.2%</i>	<i>15.2%</i>	<i>15.2%</i>
Taxes	(26)	(29)	(34)	(39)	(43)	(44)
Change in working capital	(69)	(25)	(28)	(30)	(32)	(14)
<i>WCR/Sales</i>	<i>30.9%</i>	<i>30.2%</i>	<i>29.6%</i>	<i>29.1%</i>	<i>28.5%</i>	<i>28.5%</i>
Capex	(60)	(85)	(85)	(85)	(35)	(50)
<i>Capex/Sales</i>	<i>5.4%</i>	<i>7.0%</i>	<i>6.4%</i>	<i>5.8%</i>	<i>2.2%</i>	<i>-3.0%</i>
Free cash flow	(5)	36	53	69	133	143
<i>Discount factor</i>	<i>1.00</i>	<i>1.10</i>	<i>1.21</i>	<i>1.33</i>	<i>1.46</i>	<i>1.61</i>
PV of Free cash flow	-5	33	43	52	91	
NPV 2021-2026	215					
NPV of Terminal value at 3.0% grow	1,269					
EV total	1,483					
- Net debt	383					
Target mcap (USDmn)	1,100					
Current mcap (USDmn)	897					
Current stock price (TL/share)	85.95					
Target stock price (TL/share)	106.00					
Upside / (downside)	23%					

Source: YF Securities Research

AKCANS (AKCNS) TP: TL73.6/share (Outperform)

Turkish cement market contracted by 13.70% y/y to 33.5m ton in 8M22 period, while demand in Marmara and Aegean regions remained strong (decreased by 1.05% and 0.53% in 8M22, respectively). On the export side, sales volume increased by 9.05% to 13.0mn ton. Parallel to both developments, we believe AKCNS is well positioned with high capacity in Marmara and Aegean regions (91% of total clinker capacity in Marmara and Aegean) and ongoing solid export performance (Company announced all time high export sales figure in 3Q22, with USD46mn). We expect strong demand in domestic market to continue in 2023 driven by demand & supply imbalances and strong performance in export side with the support of low-alkali cement demand from USA (59% of exports in 9M22; 45% in 9M21). With these catalysts, we expect sales volume to be at same levels for 22FY, and slightly higher volume in 2023. Despite the pressure of higher energy costs on margins, both strong demand and pricing power of AKCNS would support its robust position. Additionally, increasing usage of alternative fuel consumption and contribution of windmill to energy need in production processes also support profitability (as of 3Q22 AF rate reached to 25%, Sector Average: 9%). Another growth potential for AKCNS comes from its port operations which has high margins and additional expanding availability (57% average gross margin in the last 5 years).

We see AKCNS as a good proxy to invest in Turkey's cement sector that is expected to grow strongly on the back of high demographic potential and low current house inventory, with its ability of rotating its sales to export easily in an adverse scenario in domestic market and strong export base with more niche product segments such as Low Alkali Cement and cement with lower clinker (with usage of more flying ash). We see a concurrent deep slowdown in both of domestic and export market as the main risk factor for AKCNS.

AKCNS KEY FINANCIALS							
TL Million	2017	2018	2019	2020	2021	2022E	2023E
Sales	1,519	1,716	1,826	1,967	2,871	7,988	13,814
EBITDA	308	354	245	323	405	1,225	2,375
EBITDA (in USDmn)	85	74	43	46	45	71	106
Net Income	149	178	75	115	304	1,249	1,282
Capex	111	77	72	120	146	250	870
Net Debt	333	290	324	289	525	600	537

Source: YF Securities Research

AKCNS – Valuation

We valued AKCNS based on DCF (including target value of CIMSA shares at TL116.0/share) where we estimate cash flow for the period 2022-2026 and calculate terminal value based on 6.0x EBITDA multiple. We reach a target price of TL73.6/share for the stock, offering 29% upside potential vs. current price of TL57.2/share. AKCNS trades at 8.4x and 4.4x EV/EBITDA on our 2022 and 2023 estimates, compared to historical (2017-2021) average multiple of 8.1x.

AKCNS DCF Analysis					
Figures in TRY million	2022E	2023E	2024E	2025E	2026E
Sales	7,988	13,814	15,492	17,636	19,073
Sales growth	178.2%	72.9%	12.1%	13.8%	8.1%
EBITDA	1,225	2,375	2,974	3,526	3,814
EBITDA growth	202%	94%	25%	19%	8%
EBITDA margin	15.3%	17.2%	19.2%	20.0%	20.0%
Taxes	417	(142)	(387)	(488)	(584)
Change in working capital	(446)	(1,238)	(899)	(384)	(268)
WCR/Sales	5.6%	9.0%	5.8%	2.2%	1.4%
Capex	(250)	(870)	(976)	(1,111)	(1,202)
Capex/Sales	3.1%	6.3%	6.3%	6.3%	6.3%
Free cash flow	945	125	712	1,543	1,760
<i>Discount factor</i>	<i>1.00</i>	<i>0.82</i>	<i>0.67</i>	<i>0.55</i>	<i>0.45</i>
PV of Free cash flow	945	102	477	848	793
NPV 2021-2026	3,165				
NPV of Terminal value @6.0x EBITDA	10,302				
EV total	13,467				
- Net debt	785				
+Çimsa Shares	1,399				
Target mcap (TRYmn)	14,081				
Current mcap (TRYmn)	10,951				
Current stock price (TL/share)	57.2				
Target stock price (TL/share)	73.6				
Upside / (downside)	29%				
Risk-free rate	20.0%				
Beta	0.80				
Equity risk premium	5.0%				
Cost of equity	24.0%				
Cost of debt	22.0%				
Tax rate	20.0%				
Debt/equity	30.0%				
WACC	22.1%				

Source: YF Securities Research

CIMSA (CIMSA): Outperform, TP: TL116.00/share

CIMSA has completed two important deals in 2021 and 2022, which helped to simplify the company's operating structure.

- 1) **Established JV with Sabancı, sold foreign assets to JV and bought Bunol Cement through this JV.**
- 2) **Sold off 2 cement factories in Turkey.** With the sale of 2 cement plants (Niğde and Kayseri), CIMSA is on the way of increasing its operational performance and capacity of its high-margin segments, White Cement and CAC (Calcium Aluminate). This transaction provides CIMSA for not only increasing margins but also additional fund for new capacity investments. The transaction was realized with EUR110mn+VAT and with this transaction, CIMSA turned to net cash position in 3Q22.

We see CIMSA as one of the potential leaders in the white cement market, globally (current market share of CIMSA is 7.2%). With its Bunol acquisition, CIMSA gained a big advantage to touch European and Americas market more effectively. CAC segment stands as another growth potential with the highest margin among all segments for CIMSA and would support the overall margins of the company.

While white cement and CAC segments would limit the higher cyclical effects of grey cement demand, increasing ability of rotating sales between domestic and export markets for grey cement also makes the performance of CIMSA more predictable.

On operational side, we expect a flattish FY22 figure for volumes except the sold facilities, thanks to strong domestic and export markets. Upward trend in cement prices would push up top line growth in 2022 and in 2023, according to our projections.

While increasing energy and fuel prices continue to weigh on margins, strict OPEX control and increasing share of more valuable products would make margins more robust. Additionally, usage of alternative fuel in all plants and renewable energy sources in AFYON facility strengthens CIMSA against volatile production costs (Company has 25% AF rate vs. 9% average rate in Turkey). Strong financial performance of AFYON in the last two quarters and expectation for continuing of this strong performance would affect CIMSA's financial performance directly.

CIMSA KEY FINANCIALS							
TL Million	2017	2018	2019	2020	2021	2022E	2023E
Sales	1,491	1,700	1,578	2,076	3,745	9,161	14,328
EBITDA	384	388	269	444	646	1,420	2,507
EBITDA (in USDmn)	105	81	48	63	72	83	111
Net Income	228	155	13	176	1,017	3,254	2,156
Capex	292	222	120	25	132	446	430
Net Debt	1,173	1,278	1,434	657	1,102	992	-16

Source: YF Securities Research

CIMSA – Valuation

We valued CIMSA based on DCF where we estimate cash flow for the period 2022-2026 and calculate terminal value based on 4.5x EBITDA multiple. We reach a target price of TL116.0/share for the stock, offering 26% upside potential vs. current price of TL92.5/share. CIMSA trades at 8.2x and 4.6x EV/EBITDA on our 2022 and 2023 estimates, compared to historical (2017-2021) average multiple of 8.3x.

CIMSA DCF Analysis					
Figures in TRY million	2022E	2023E	2024E	2025E	2026E
Sales	9,161	14,328	15,989	17,181	18,401
Sales growth	144.6%	56.4%	11.6%	7.5%	7.1%
EBITDA	1,420	2,507	3,198	3,436	3,680
EBITDA growth	120%	77%	28%	7%	7%
<i>EBITDA margin</i>	<i>15.5%</i>	<i>17.5%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>
Taxes	(192)	(463)	(600)	(647)	(695)
Change in working capital	(670)	(1,175)	(358)	(238)	(243)
<i>WCR/Sales</i>	<i>-7.3%</i>	<i>-8.2%</i>	<i>-2.2%</i>	<i>-1.4%</i>	<i>-1.3%</i>
Capex	(446)	(430)	(320)	(344)	(368)
<i>Capex/Sales</i>	<i>4.9%</i>	<i>3.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>
<i>Cash Received From Asset Sale</i>	<i>1,870</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Free cash flow	1,982	440	1,920	2,278	2,444
<i>Discount factor</i>	<i>1.00</i>	<i>0.83</i>	<i>0.69</i>	<i>0.58</i>	<i>0.48</i>
PV of Free cash flow	1,982	366	1,328	1,310	1,169
NPV 2021-2026	6,154				
NPV of Terminal value @4.5x EBITDA	7,920				
Equity Pickup	1,296				
EV total	15,370				
- Net debt	-559				
-Minority Interests	350				
Target mcap (TRYmn)	15,580				
Current mcap (TRYmn)	12,495				
Current stock price (TL/share)	92.50				
Target stock price (TL/share)	116.00				
Upside / (downside)	25%				
Risk-free rate	20.0%				
Beta	0.80				
Equity risk premium	5.0%				
Cost of equity	24.0%				
Cost of debt	22.0%				
Tax rate	25.0%				
Debt/equity	50.0%				
WACC	20.3%				

Source: YF Securities Research

CARREFOURSA (CRFSA)

Carrefoursa is operating in hypermarket and supermarket sector. The company has been operating since 1991 and made big acquisitions like Continent Mall in 2001, Gima and Endi in 2005, Kiler Alışverişi in 2015. The company has 664 supermarket, 27 hypermarket and 145 franchise store as of 30th September 2022. In the last four years, Carrefoursa increased its number of stores to 836 from 610 (37% growth), while main peer of the company, MIGROS, increased its number of stores to 2750 from 2090 (32% growth).

Paid-in capital of the company is TRY127.8mn and 57.12% of the company belongs to Sabanci Holding, while 32.16% of the company is owned by Carrefour Nederland BV and free float share of the company is 10.72%. Book value of the company is -651mn TRY as of 3Q22 while Market value is 7.4 billion TRY.

Sales of the Carrefoursa increased to 15.6bn TRY from 5.2bn TRY in the last four years with 32% CAGR. EBITDA also increased from 107mn TRY to 1.3bn TRY in 4 years with 86% CAGR (Peers Average: 55%, Migros: 46%). EBITDA Margin is at 8.2% (Sector Average: 8.1%) in 3Q22 and has been above sector average since 4Q19.

While operational profitability is robust and in line with sector average, because of high debt level, the company records net loss. However, Net Debt/EBITDA ratio decreased to 1.4x in 3Q22 (Sector Average: 0.5x) from 13.5x (Sector Average: 2.3x) in 3Q2018 with operational profitability.

With the new possible actions of the management in order to continue debt level more rapidly and continuation of the operational profitability, there can be potential to turn bottom-line earning to positive. At the current situation, Carrefoursa traded at discount respect to both of its historical and respect to peers according to EV/EBITDA and EV/Sales multiples.

CRFSA KEY FINANCIALS

TL Million	2017	2018	2019	2020	2021	9M21	9M22
Sales	4,557	5,203	6,386	7,915	9,368	6,633	12,870
EBITDA	131	107	547	671	842	534	969
EBITDA (in USDmn)	36	22	97	96	94	63	54
Net Income	-306	-11	-343	-304	-430	-389	-303
Capex	-138	804	-148	-150	-98	-106	-58
Net Debt	1,175	460	1,579	1,132	1,352	1,565	1,326

Source: YF Securities Research

TEKNOSA (TKNSA)

Teknosa was established in 2000 and Sabancı Holding's share in the company is 50%. The other part of the shares is in free float and is quoted to Borsa İstanbul since 2012. Paid-in capital of Teknosa is TL201mn. Operations of Teknosa can be separated two distinct areas, one of them is selling technological products via its own stores (193 stores as of 30th September 2022) and website that has been also used as a marketplace since the beginning of 2022. The other operation field of Teknosa is selling air conditioners and refrigerators via its dealer network under the brand of İklimsa. Additionally, Teknosa started to serve Solar Energy System establishment services under İklimsa.

Revenues of Teknosa came to 4.5 bn TL as of 3Q22 with 21% CAGR for last ten years (1Q13 : 659 mn TL). EBITDA also grew 16x to 387 mn TL from 25 mn TL, indicating 32% CAGR for last ten years. Hence, average EBITDA Margin is increased to 8.5% level in 2019-2022 from 3.2% levels in 2013-2018. Net income also grew 16x in ten years with 32% CAGR and came to 141 mn TL level in 3Q22. Net margin was realized as 3.1% in 3Q22 vs 0.7% average between 2019-2022. Teknosa is in net cash position as of 3Q22 with the figure of 745 mn TL. Financial debt of the company is 491 mn TL and 47% of the debt is short-term debt. Net FX position of the company is -28 mn USD, approximately as of 3Q22.

Market Cap of Teknosa is 5,9 bn TRY and indicates 4.6x Trailing EV/EBITDA and 13.4x Trailing P/E multiples.

TKNSA KEY FINANCIALS

TL Million	2017	2018	2019	2020	2021	9M21	9M22
Sales	3,391	3,477	4,137	5,607	7,520	4,951	10,789
EBITDA	169	155	309	470	681	421	933
EBITDA (in USDmn)	46	32	54	67	76	49	52
Net Income	20	-65	-149	85	131	96	437
Capex	-28	-37	-36	-37	-70	-34	-93
Net Debt	-73	-18	426	244	-500	112	-343

Source: YF Securities Research

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