

Tofas

Export performance still weak

Despite the better than expected operational performance, we expect a negative impact on the stock following the downward revision in export volumes. We also keep our Hold rating for the stock as it continues to trade at a high premium compared to its peers. Domestic market is slightly better but headwinds related to major export markets may continue to hurt international shipments going forward.

Tofas announced its 3Q17 financial results with TRY3.8bn revenues (+22% YoY), TRY443mn EBITDA (+47% YoY) and TRY284mn net income (+35% YoY). There was a small negative deviation of 1% vs consensus and 6% our estimate at top-line. Yet, operational profitability was visibly better, generating a solid 11.7% EBITDA margin for the quarter, highest over the last 2 years, and exceeding the consensus expectations of 10.7% and our estimate of 10.6% on the back of robust gross profit margin generation. Thus, actual EBITDA at TRY443mn outpaced both our call of TRY431mn and consensus call at TRY413mn. Meanwhile, net income of TRY284mn was in-line with our estimate of TRY288mn while surpassing the conservative consensus expectation of TRY254mn, mainly as a result of better than expected operational results.

Looking into details:

- International shipments continued to slow down, and during the quarter international volume shrank by 13% YoY. However, export revenues grew by 8% YoY, mostly due to weak TRY against hard currencies. On the other hand, domestic volume and revenues soared by 39% and 55% respectively, as a result of the base effect created by a pretty weak 3Q16 that coincided with last year's failed coup attempt.
- Despite pressure from raw material costs, the profitability of company surpassed the market expectations with a solid 11.7% EBITDA margin driven by robust gross profit margin, which in turn was mainly attributable to the positive sales mix impact. The opex to sales ratio has normalized after historically low levels in the last two quarters.
- Following the weak international shipments, the company revised export volume guidance downwards for the third time this year to 280K-300K units from previous 300K-330K units. Meanwhile, domestic volume was revised up to 120K-130K from 115K-120K on back of better than expected domestic market performance.

The stock is trading at a 21% premium in terms of 2018E average EV/EBITDA multiple compared to int'l peers. The management will host a conference call at 5:30PM local time today to present the results.

HOLD 18% downside

Fair Value TRY25.83

Bloomberg ticker **TOASO TI**
 Share Price TRY31.56
 Market Cap USD4.1bn/TRY15.8bn
 Free Float 24%

| TRY mn 3Q17 | Actual | Consensus | Deviation | Global Est |
|-------------|--------|-----------|-----------|------------|
| Revenue | 3,804 | 3,853 | -1% | 4,049 |
| EBITDA | 443 | 413 | 7% | 431 |
| margin | 11.7% | 10.7% | 0.9 pps | 10.6% |
| Net profit | 284 | 256 | 11% | 288 |
| margin | 7.5% | 6.6% | 0.8 pps | 7.1% |

| TRY mn | 3Q17 | 3Q16 | YoY | 2Q17 | QoQ |
|------------|-------|-------|---------|-------|---------|
| Revenue | 3,804 | 3,112 | 22% | 4,499 | -15% |
| EBITDA | 443 | 302 | 47% | 470 | -6% |
| margin | 11.7% | 9.7% | 1.9 pps | 10.4% | 1.2 pps |
| Net profit | 284 | 210 | 35% | 312 | -9% |
| margin | 7.5% | 6.7% | 0.7 pps | 6.9% | 0.5 pps |

| Performance | 1M | 3M | 6M | 12M |
|-------------|------|------|------|------|
| Absolute | 1.7 | 3.4 | 7.9 | 44.7 |
| Relative | -6.4 | -2.5 | -9.9 | -1.1 |
| Relative \$ | -4.4 | -4.1 | 0.2 | 18.3 |

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TOASO

Table 1 Publication schedule

| Date | Publication |
|----------|-----------------------|
| Mar 2018 | 4Q17 Earnings release |

Source: Public disclosure platform

Table 2 Recommendation history

| 01.01.1992 (Initiation date) | Rating | Target Price | Prev. Day's close | Upside |
|------------------------------|--------|--------------|-------------------|--------|
| 20.06.2016 | Hold | 25.83 | 22.42 | 15.2% |
| 31.12.2015 | Hold | 21.40 | 18.77 | 14.0% |
| 29.07.2015 | Buy | 19.95 | 17.21 | 15.9% |
| 13.04.2015 | Buy | 18.55 | 16.29 | 13.9% |
| 13.01.2015 | Buy | 17.50 | 14.56 | 20.2% |

Source: Global Securities

Table 3 Coverage universe recommendation overview

| | Buy | Hold | Reduce | Sell | U/R |
|------------|-----|------|--------|------|-----|
| Universe | 16 | 18 | 2 | 2 | 0 |
| Universe % | 42% | 47% | 5% | 5% | 0% |

Source: Global Securities

Date of completion of this report: 03.11.2017 08:00 UTC+3

Date of email-distribution of this report: 03.11.2017 08:05 UTC+3

Explanation of Rating System

12-MONTH RATING DEFINITION

BUY: Buy stocks are expected to have a total return of at least 15% and are the most attractive stocks in our coverage universe on a 12-month horizon.

HOLD: Hold stocks are expected to deliver a positive total return of up to 15% within a 12-month period.

REDUCE: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.

SELL: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.

ANALYST CERTIFICATION

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