

EARNINGS REVIEW 4Q17

Turkey | Automotive | 13 February 2018

Ford Otosan

A year of records

Following the announcement, we increase our target price to TRY61.50/shr. while maintain our Hold recommendation. Despite sound operational results and strong dividend expectations, we believe current share price and premium to peers does not offer much upside for the stock.

Ford Otosan disclosed its 4Q17 financial results with TRY8.2bn revenues (+45% YoY), TRY595mn EBITDA (+42% YoY) and TRY510mn net income (+61% YoY). Top-line result was in line with the expectations, however operational performance that produced a 7.2% EBITDA margin fell short of the consensus expectation of 8.1%. Despite lower than expected profitability, the bottom line was ahead of the consensus owing to the tax benefits recorded during the quarter.

Looking into details:

- Export volume grew by a strong 25% in 4Q17, marking the strongest expansion during the year on the back of the whopping 58% growth in Transit Courier exports. The main export item, Transit Custom also posted a robust 22% growth. Coupled with sluggish TL vs. EUR, export revenues grew by 52% YoY. Domestic volume was also up by 6% YoY in 4Q17, which was mainly attributable to an 18% expansion in passenger car sales. Domestic revenues surged by 34% YoY. All in all, despite an 11% increase in total wholesale volumes, revenues were up by 45% YoY.
- Margins, on the other hand, were negatively affected by the increasing raw material costs. Gross margin shrank by almost 100bps both YoY and QoQ. This hurt the EBITDA margin which, in turn, was down by 120bps QoQ, however the YoY contraction was limited at 20bps.
- The company is working on a relatively high capacity utilization rate of 88% which had previously led to a capacity expansion decision. Despite ongoing USD52mn investment, the company managed to reduce its net debt to EBITDA to 0.9x from 1.1x a quarter ago, owing to strong revenue and EBITDA generation, thus we expect the dividend distribution to continue.
- The guidance for 2018 is similar to that of 2017 with a small 5K increase on both ends of export volume target to 295K-305K units. Domestic volume guidance stands at 110K – 120K units.

The stock is trading at 36% premium in terms of 2018E average EV/EBITDA multiple compared to int'l peers.

Management will host an analyst meeting at 14:30 local time today.



HOLD 6% upside
Fair Value TRY61.50

Bloomberg ticker **FROTO TI**
Share Price TRY57.80
Market Cap USD5.3bn/TRY20.3bn
Free Float 18%

| TRY mn 4Q17 | Actual | Consensus | Deviation | Global Est |
|-------------|--------|-----------|-----------|------------|
| Revenue | 8,203 | 8,146 | 1% | 8,386 |
| EBITDA | 595 | 656 | -9% | 662 |
| margin | 7.2% | 8.1% | -0.8 pps | 7.9% |
| Net profit | 510 | 459 | 11% | 481 |
| margin | 6.2% | 5.6% | 0.6 pps | 5.7% |

| TRY mn | 4Q17 | 4Q16 | YoY | 3Q17 | QoQ |
|------------|-------|-------|----------|-------|----------|
| Revenue | 8,203 | 5,649 | 45% | 5,486 | 50% |
| EBITDA | 595 | 419 | 42% | 491 | 21% |
| margin | 7.2% | 7.4% | -0.2 pps | 9.0% | -1.7 pps |
| Net profit | 510 | 317 | 61% | 346 | 47% |
| margin | 6.2% | 5.6% | 0.6 pps | 6.3% | -0.1 pps |

| Performance | 1M | 3M | 6M | 12M |
|-------------|------|-------|-------|------|
| Absolute | -4.1 | -9.4 | -4.7 | 21.0 |
| Relative | -4.3 | -14.0 | -11.2 | -7.8 |
| Relative \$ | -5.3 | -8.0 | -11.3 | 16.8 |

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Ford Otosan

Recommendation:
Fair Value:

HOLD
TRY 61.50

Share Price: TRY 57.80
Upside / Downside: 6.4%
Previous Fair Value: TRY 47.20

Bloomberg ticker: FROTO TI
Reuters code: FROTO.IS

Shares In Issue Less Treasury (m) 351
Market Cap (TRY m) 20,283
Net Debt (TRYm - as of 4Q17) 1,798
Adjustments For Associates & Minorities -
Enterprise Value (TRY m) 22,081
Net Pension Deficit (Surplus) -

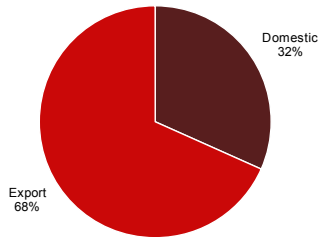
Forthcoming Catalysts

1Q18 financial results April 2017

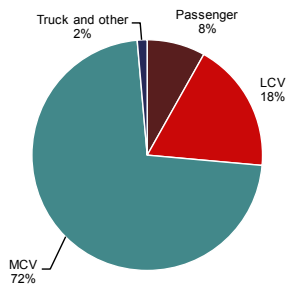
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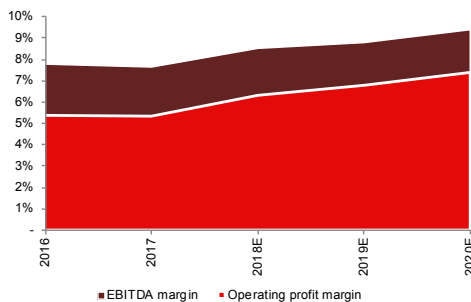
Revenue breakdown



Volume by product



Margin Trends



| Valuation Metrics (Year end Dec) | 2016 | 2017 | 2018E | 2019E | 2020E |
|----------------------------------|------|------|-------|-------|-------|
| P/E | 21.2 | 13.6 | 13.7 | 12.1 | 10.4 |
| EV / Sales | 1.2 | 0.8 | 0.8 | 0.7 | 0.7 |
| EV / EBIT | 11.4 | 9.0 | 9.7 | 10.3 | 9.5 |
| EV / EBITDA | 14.9 | 11.0 | 9.2 | 8.2 | 7.1 |
| P/BV | 6.4 | 5.5 | 5.2 | 4.9 | 4.6 |
| FCF Yield | 3.3% | 5.4% | 6.5% | 8.2% | 10.0% |
| OCF Yield | 6.9% | 9.1% | 11.0% | 12.3% | 14.4% |

| Key Ratios | 2016 | 2017 | 2018E | 2019E | 2020E |
|-------------------------|------|------|-------|-------|-------|
| EBITDA margin | 7.8% | 7.6% | 8.5% | 8.8% | 9.4% |
| Operating Profit margin | 5.4% | 5.3% | 6.3% | 6.8% | 7.4% |
| Capex / Revenue | 3.8% | 2.9% | 3.2% | 2.7% | 2.7% |
| Capex / Depreciation | 1.62 | 1.48 | 1.65 | 1.50 | 2.50 |
| Net Debt / EBITDA | 1.1 | 0.9 | 0.8 | 0.8 | 0.7 |
| ROA | 10% | 12% | 12% | 13% | 13% |
| ROE | 10% | 12% | 12% | 13% | 13% |

| P&L Summary (TRY m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 19,105 | 26,184 | 28,118 | 30,623 | 33,071 |
| % change | 14.1% | 37.1% | 7.4% | 8.9% | 8.0% |
| EBITDA | 1,485 | 2,000 | 2,394 | 2,689 | 3,104 |
| % change | 7.2% | 34.6% | 19.7% | 12.4% | 15.4% |
| % margin | 7.8% | 7.6% | 8.5% | 8.8% | 9.4% |
| Depreciation & Amortisation | 459 | 602 | 619 | 612 | 661 |
| Operating Profit | 1,027 | 1,398 | 1,775 | 2,077 | 2,443 |
| % change | 4.7% | 36.1% | 27.0% | 17.0% | 17.6% |
| % margin | 5.4% | 5.3% | 6.3% | 6.8% | 7.4% |
| Associates | | | | | |
| EBIT | 1,027 | 1,398 | 1,775 | 2,077 | 2,443 |
| Net Financials | -135 | 562 | -166 | -222 | -251 |
| Other Pre-tax Income | | | | | |
| Pre Tax Profit | 970 | 1,481 | 1,533 | 1,737 | 2,020 |
| Income Tax Expense | 15 | (9) | 48 | 56 | 67 |
| Discontinued Operations | | | | | |
| Minority Interests | | | | | |
| Net Income | 955 | 1,490 | 1,486 | 1,681 | 1,953 |
| Reported EPS (TRY) | 2.72 | 4.25 | 4.23 | 4.79 | 5.57 |
| Underlying EPS (TRY) | 2.72 | 4.25 | 4.23 | 4.79 | 5.57 |
| DPS (TRY) | 1.14 | 1.70 | 1.69 | 1.92 | 2.23 |
| Payout Ratio | 41.9% | 40.0% | 40.0% | 40.0% | 40.0% |
| Shares In Issue Less Treasury (m) | 351 | 351 | 351 | 351 | 351 |

| Cash Flow (TRY m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | 1,485 | 2,000 | 2,394 | 2,689 | 3,104 |
| Taxes paid | 19 | 46 | 48 | 56 | 67 |
| + Increase in accounts payable | 331 | 1,193 | 194 | 166 | 168 |
| -Increase in accounts receivable | 376 | 1,201 | 202 | 179 | 188 |
| -Increase in inventory | 54 | 98 | 104 | 113 | 96 |
| Cash flow from operations | 1,367 | 1,847 | 2,234 | 2,508 | 2,922 |
| Capex | 719 | 762 | 903 | 832 | 887 |
| FCFF | 672 | 1,092 | 1,323 | 1,667 | 2,027 |

| Balance Sheet (TRY m) | 2016 | 2017 | 2018E | 2019E | 2020E |
|--------------------------|--------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 1,189 | 1,806 | 1,876 | 2,413 | 3,819 |
| Inventory | 1,054 | 1,152 | 1,256 | 1,369 | 1,465 |
| Trade Receivables | 1,189 | 1,806 | 1,876 | 2,413 | 3,327 |
| Fixed Assets | 3,303 | 3,536 | 3,713 | 3,899 | 4,094 |
| Other Assets | 2,551 | 3,711 | 3,890 | 3,149 | 1,927 |
| Total Assets | 9,286 | 12,012 | 12,612 | 13,243 | 14,632 |
| Interest Bearing Debt | 2,852 | 3,604 | 3,782 | 4,433 | 5,469 |
| Trade Payables | 2,617 | 3,817 | 4,007 | 4,168 | 4,331 |
| Other Liabilities | 653 | 895 | 1,006 | 807 | 748 |
| Total Liabilities | 6,123 | 8,316 | 8,415 | 9,284 | 10,547 |
| Shareholders' Equity | 3,164 | 3,696 | 3,818 | 3,836 | 4,085 |
| Total Equity | 9,286 | 12,012 | 12,613 | 13,243 | 14,632 |
| Net Debt (Cash) | 1,663 | 1,798 | 1,906 | 2,020 | 1,650 |

FROTO

Figure 1 Publication schedule

| Date | Publication |
|----------|-----------------------|
| Apr 2018 | 1Q18 Earnings release |

Source: Public disclosure platform

Figure 2 Recommendation history

| 05.02.1993 (Initiation date) | Rating | Target Price | Prev. Day's close | Upside |
|------------------------------|--------|--------------|-------------------|--------|
| 04.08.2017 | Hold | 42.69 | 44.52 | -4.1% |
| 27.12.2016 | Hold | 34.95 | 28.59 | 22.3% |
| 20.06.2016 | Hold | 38.58 | 30.29 | 27.4% |

Source: Global Securities

Figure 3 Coverage universe recommendation overview

| | Buy | Hold | Reduce | Sell | U/R |
|------------|-----|------|--------|------|-----|
| Universe | 20 | 18 | 1 | 1 | 0 |
| Universe % | 50% | 45% | 3% | 3% | 0% |

Source: Global Securities

Date of completion of this report: 13.02.2018 09:55 UTC+3

Date of email-distribution of this report: 13.02.2018 10:00 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.

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