

EARNINGS REVIEW 4Q17

Turkey | Utilities | 13 March 2018

Zoren

High voltage...

We maintain our BUY rating for ZOREN and raise our FV estimate to TRY2.33/share from the previous TRY2.00/share on the back of rising net allowed real rate of return to 13.61% from 11.91% by EMRA and the capacity increase in Alasehir II GPP to 45MW from 24.9MW.

Zoren announced its 4Q17 results with TRY1,265mn revenues (+277% YoY, +10% QoQ), TRY224mn EBITDA (+138% YoY, -20% QoQ) and TRY23mn net income (-81% YoY, -13% QoQ). Along with the robust 4Q17 performance, all the metrics remarkably surpassed our estimates. Hence, revenue and EBITDA came in at 25% and 27% higher than our estimate, respectively, and while we were expecting a TRY27mn net loss at the bottom line, the company managed to post a TRY23mn of net income.

Looking into details:

- Along with the consolidation of OEDAS and OEPSAS as well as first time contribution from Unit I of Kizildere III geothermal power plant, top line growth surged by 277% in 4Q17 comparing to 4Q16. In line with increasing share of low-margin supply business, EBITDA margin declined to 17.7% from 28.0% on a YoY basis. Higher than expected EBITDA contribution from electricity generation and solar PV module sales was the main reason behind the EBITDA deviation in comparison to our estimate. Electricity generation arm constituted 81% of share in EBITDA breakdown, whereas distribution and retail constituted 19% of share in 4Q17.
- TRY23mn of net income was visibly ahead of our TRY27mn of net loss on the back of robust growth in operating profit on a YoY basis, lower than expected financial expenses owing to capitalization of interest expenses and FX losses on ongoing investments, as well as TRY31mn of deferred tax assets.
- Net debt to EBITDA slightly increased to 8.0x in 4Q17 from 7.9x in previous quarter. Ongoing rehabilitation investments, working capital needs and new corporate and sukuk issuances particularly in 4Q17 were the main reasons behind the rise in net debt. Thus, the robust EBITDA performance in 4Q17 in comparison to 4Q16 was not adequate to deleverage the company.

The stock is trading at 3.4% and 69.8% discount in terms of 2018-2019E average EV/EBITDA and P/E respectively when compared to int'l peers.



BUY	10% upside
Fair Value	TRY2.33
Prev. (BUY)	Prev. (TRY2.00)
Bloomberg ticker	ZOREN TI
Share Price	TRY2.12
Market Cap	USD1.1bn/TRY4.24bn
Free Float	15%

TRY mn 4Q17	Actual	Global Es	Deviation
Revenue	1,265	1,013	24.9%
EBITDA	224	176	27.0%
margin	17.7%	17.4%	0.3 pps
Net profit	23	-27	n.a.
margin	1.8%	-2.7%	4.5 pps

TRY mn	4Q17	4Q16	YoY	3Q17	QoQ
Revenue	1,265	336	276.6%	1,148	10%
EBITDA	224	94	137.9%	280	-20%
margin	17.7%	28.0%	-10.3 pps	24.4%	-6.7 pps
Net profit	23	122	-81.0%	27	-13%
margin	1.8%	36.4%	-34.5 pps	2.3%	-0.5 pps

Performance	1M	3M	6M	12M
Absolute	2.4	45.2	19.1	79.7
Relative	-0.7	33.7	9.8	36.0
Relative \$	2.2	45.7	7.0	76.4

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Zorlu Enerji

Recommendation:

Fair Value:

Share Price:

Upside / Downside:

Previous Fair Value:

% change to Fair Value:

Bloomberg ticker:

Reuters code:

Shares In Issue Less Treasury (m)

Market Cap (TRY m)

Net Debt (as of 4Q17-end)

Enterprise Value (TRY m)

BUY

TRY 2.33

TRY 2.12

10.0%

TRY 2.00

17%

ZOREN TI

ZOREN IS

2,000

4,240

7,049

11,289

Forthcoming Catalysts

1Q18 financial results

Jun 2018

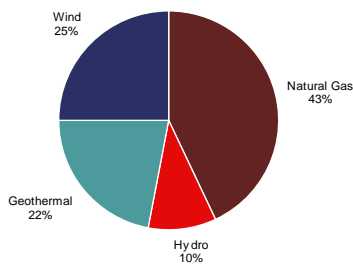
Global Securities Analysts

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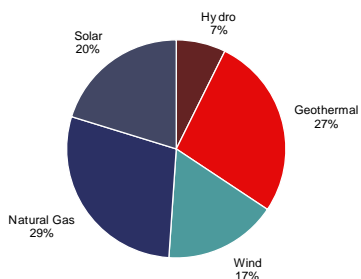
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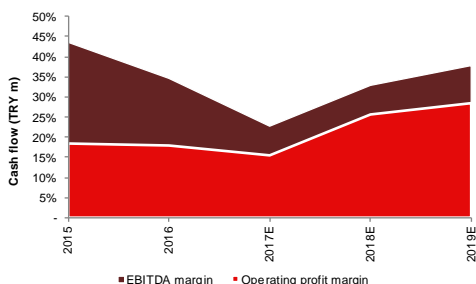
Current Capacity - 1.091 MW



2020 Target capacity - 1626MW



Margin Trends



Valuation Metrics (Year end Dec)

	2015	2016	2017E	2018E	2019E
P/E	-	-	81.7	31.8	16.8
EV / Sales	8.6	5.4	2.9	3.7	3.4
EV / EBIT	46.6	30.2	18.8	14.5	12.0
EV / EBITDA	19.7	5.7	12.8	11.3	9.1
P/BV	1.66	2.30	2.5	1.3	0.8

Key Ratios

	2015	2016	2017E	2018E	2019E
EBITDA margin	43.5%	34.6%	22.7%	32.9%	37.8%
Operating Profit margin	18.4%	17.9%	15.5%	25.6%	28.4%
Capex / Revenue	114.5%	42.5%	27.4%	37.6%	31.7%
Capex / Depreciation	4.56	2.55	3.79	5.20	3.39
Net Debt / EBITDA	15.6	12.7	8.0	8.1	6.7
ROA	-5%	0%	0%	1%	1%
ROE	(35%)	(1%)	3%	4%	5%

P&L Summary (TRY m)

	2015	2016	2017E	2018E	2019E
Revenue	575	1,195	3,871	3,991	4,735
% change		107.7%	224.1%	3.1%	18.6%
EBITDA	250	413	879	1,311	1,788
% change		65.0%	112.8%	49.1%	36.4%
% margin	43.5%	34.6%	22.7%	32.9%	37.8%
Depreciation & Amortisation	145	199	280	288	442
Operating Profit	106	214	599	1,023	1,346
% change		102.2%	179.8%	70.7%	31.6%
% margin	18.4%	17.9%	15.5%	25.6%	28.4%

EBIT

	106	214	599	1,023	1,346
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Net Income

	-267	-4	52	133	253
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Reported EPS (TRY)

	(0.36)	(0.01)	0.03	0.07	0.13
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Underlying EPS (TRY)

	(0.36)	(0.01)	0.03	0.07	0.13
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DPS (TRY)

	-	-	-	-	-
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Payout Ratio

	-	-	-	-	-
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Shares In Issue Less Treasury (m)

	750	750	2,000	2,000	2,000
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Balance Sheet (TRY m)

	2015	2016	2017E	2018E	2019E
Cash & Equivalents	154	98	335	479	568
Inventory	-	-	16	16	16
Trade Receivables	566	1,052	1,495	2,078	2,335
Fixed Assets	4,038	4,405	7,094	9,979	12,710
Other Assets	860	1,287	2,335	3,991	4,735
Total Assets	5,618	6,841	11,276	16,527	20,347
Interest Bearing Debt	4,067	5,356	7,384	11,076	12,515
Trade Payables	432	379	1,328	1,312	1,362
Other Liabilities	366	642	882	891	900
Total Liabilities	4,865	6,377	9,594	13,279	14,777
Shareholders' Equity	753	466	1,682	3,248	5,570
Minority Interests	(1)	(1)	-	-	-
Total Equity	753	465	1,682	3,248	5,570
Net Debt (Cash)	3,913	5,258	7,049	10,597	11,947



Exhibit 1 Publication schedule

Date	Publication
Apr 2018	1Q18 Earnings release
Aug 2018	2Q18 Earnings release

Source: Public disclosure platform

Exhibit 2 Recommendation history

21.12.2017 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
04.01.2018	Buy	2.00	1.58	26.6%
22.12.2017	Buy	1.91	1.53	24.8%

Source: Global Securities

Exhibit 3 Coverage universe recommendation overview

	Buy	Hold	Reduce	Sell	U/R
Universe	21	18	2	0	0
Universe %	51%	44%	5%	0%	0%

Source: Global Securities

Date of completion of this report: 13.03.2018 09:20 UTC+3

Date of email-distribution of this report: 13.03.2018 09:25 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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