

Turkey– Construction Engineering Services

Birleşim Mühendislik

Profitable High Growth in Sight

The market leader in the electro-mechanical contracting industry in Turkey. Birleşim Mühendislik is the market leader among companies providing large-scale electro-mechanical installation contracting services in Turkey with a market share of 10% based on sales revenues. Birleşim Mühendislik and its subsidiary, Erde Mühendislik, undertake the electrical and mechanical installation works of large-scale projects in the Turkish construction sector, especially hospitals, hotels, offices, business centers and high-rise buildings, shopping centers and residential projects, industrial facilities and mixed projects. The company, which has received a total of 1.5 billion USD worth of installation contracting work in the last 10 years, has been involved in many important and prestigious projects in every segment of the construction industry in Turkey. In addition to the company's current payroll (500 mostly white collar), the company's subcontractors employ about 5,000 workers in the on-going projects. This figure corresponds to approximately 15% of the total employees in the sector.

New opportunities after a tough period. We estimate that the total of new logistics investments, which are expected to have high-tech shelving/storage systems in Turkey, will reach approximately ~5 billion USD in the 2022-2026 period. We see that leading e-commerce companies such as Trendyol, Amazon and Hepsiburada have started investments to establish e-logistics storage and distribution centers all over Turkey. In addition, the public sector accelerates the construction of regional logistics centers, especially under the leadership of the State Railways Authority (TCDD). Currently, the company has signed a new contract worth 250 mn TL as of January 2022 where the "Trendyol Ankara Logistics Transfer Center Project" signed with Trendyol amounts to TL 232 mn. This project is planned to be completed in the next 6 months.

According to our estimates, the share of revenues from logistics and industrial construction works in total sales will reach 30-35% in the upcoming period. The total project amount of international Turkish contracting companies, which declined to 15 billion USD in 2020 due to the pandemic, doubled in 2021 and reached 30 billion USD. This figure indicates the highest business volume after the peak recorded in 2012-2013. We see that Birleşim Mühendislik has taken the necessary steps to become a major player again in overseas markets by expanding its technical and administrative staff. We expect the company to undertake high-volume projects in the coming period, especially in Russia and Central Asian countries. We estimate that revenues from overseas contracting works will correspond to 20% of total revenues in the next 5 years.

The healthcare sector will continue to be an important source of income. We think that the health sector projects, which accounted for 44% of the company's total revenues in the last 10 years, will maintain their importance in the coming period. Although the large-scale city hospital projects with the PPP model have come to an end, the Ministry of Health continues to invest in hospitals. As we discuss in this report, we expect new hospital investments, which require approximately 8 m2 of indoor construction, to continue in the 2022-2026 period in Turkey. On the other hand, although Turkey's population growth rate is higher compared to developed countries, the total population has started to age, which will require continuous investments in the health infrastructure. In addition to the investments required for new capacity, maintenance and repair works of the infrastructure currently in service can be expected to be an important source of income. Finally, Birleşim will be able to secure sizeable contracts in the new hospital projects expected to be built especially in Russia and Central Asian countries. In this context, we expect healthcare construction works to account for about 30% of the company's revenues in the next 5 years.

We expect net sales to grow at 20% CAGR in USD terms in the 2021-2026 period. We expect the company, which has booked an average annual net sales of 80 million USD in the last 5 years, to deliver the same level of sales in the 2022-2023 period. The current backlog at the end of 2021 is approximately 200 mn TL. In addition, we expect the company to sign new contracts amounting to TL 900 mn in 2022 of which TL250 has already been signed in January 2022. In our view, the company can comfortably grow its new project roster at 20-25% CAGR in USD in the next 5 years.

We expect margins to increase on logistics and industrial segments as well as overseas projects. Despite the exchange rate and interest rate volatility in the last 3 years, the company has increased its EBITDA margin rapidly in the last 3 years to approximately 16% in the 2021/3Q period. The most important reasons for this increase are: 1) the decrease in the number of companies that can undertake large projects and 2) the company's focus on more profitable projects. However, as we expect the exchange rate shock in the last quarter of 2021 and the subsequent increase in inflation to cause an increase in operating expenses in the last quarter, we expect the EBITDA margin to come in at 13% at the end of 2021. We expect the company's EBITDA margins to remain at this level after increasing to an average of 18% over the next two years.

We initiate Birleşim Mühendislik with a target price of 14.6 TL and a BUY recommendation. We estimate the target market value of the company by using the weighted average of the DCF (70%), peer 22E EV/EBITDA (15%) and the trailing EV/EBITDA (15%) of the non-financial IPOs in 2021. According to our estimates, the stock is trading at a 35% discount to its peers with 22E EV/EBITDA of 4.4x. The sustainable increase we expect in the company's EBITDA margin implies a 25% CAGR in USD terms in EBITDA in 21E-24E period. According to our model, the stock should trade at 8.5x EV/EBITDA, going forward, which we believe is sustainable given the favorable dynamics.

BUY

Target Price: TL 14.6

Company Data

Ticker	BRLSM
Recommendation	BUY
Target Price (TL)	14.6
Target Return (%)	%70
Current Price (TL)	8.6
52w range (TL)	7.83-12.12
No. of shares (mn)	102
Float (%)	%38
MCAP (TL mn)	875
MCAP (USD mn)	64
Equity (TL mn)	389
Net Cash (TL mn) (2021/9)	165
3m ADTV (USD mn)	2.9
3m ADTV/MCAP (%)	%12
2021E Dividend Yield (%)	%0

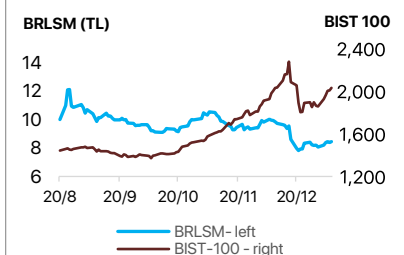
as of close of 11-01-2022

Valuation Multiples

	Current	22E	23E
P/E (x)	10.9	5.1	3.5
EV/EBITDA (x)	7.6	4.4	2.5
P/B (x)	1.8	1.4	1.1
P/Sales (x)	1.2	0.8	0.6

Source: INFO Research estimates

Price Performance



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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Table 1. BIRLESIM MUHENDISLIK Financial Statements

Income Statement							Financial Indicators					
	2018	2019	2020	2021T	2022T	2023T		2019	2020	2021T	2022T	2023T
Net Sales	358	506	578	711	1,050	1,579	Grwoth					
Cost of Sales	-329	-438	-483	-590	-840	-1,232	Net sales (%)	41.6	14.1	23.1	47.6	50.4
Gross profit	29	69	95	121	210	347	EBIT (%)	306.2	49.3	14.2	84.5	70.4
Operating Expenses	-16	-19	-20	-36	-53	-79	EBITDA (%)	276.6	44.3	13.1	72.2	79.2
Core EBIT	12	50	75	85	158	268	Net Profit (%)	ad	63.9	34.0	114.4	47.2
Inc./ Exp. from Other Operations	5	5	-2	0	0	0	Margins					
Reported EBIT	18	55	72	85	158	268	Gross margin (%)	13.6	16.4	17.0	20.0	22.0
Financial Income/Expenses	-15	-12	-5	-10	28	13	EBITDA margin (%)	11.4	14.4	13.2	15.4	18.4
Other Income/Expenses	-8	7	9	20	24	29	EBIT margin (%)	9.9	12.9	12.0	15.0	17.0
PBT from continuing operations	-4	50	77	95	209	310	Net profit margin (%)	7.2	10.4	11.3	16.4	16.1
Taxation on Continuing Operations	-5	-13	-17	-15	-37	-56	Efficiency					
Profit from continuing operations	-10	37	60	80	172	254	Receibanles (days)	103	152	185	180	180
Net Profit	-10	37	60	80	172	254	Inventory turnover (days)	48	49	50	40	40
Net profit (USD mn)	0	6	9	9	13	14	Payables (days)	135	135	135	135	135
EBITDA	15	58	83	94	162	290	Opex/Sales (%)	3.7	3.4	5.0	5.0	5.0
EBITDA (USD mn)	3	10	12	11	12	16	Profitability					
							ROA (%)	8.0	11.1	11.2	16.3	17.9
							ROE (%)	51.1	50.2	25.2	30.9	36.1
							Leverage					
							Assets/Equity (x)	6.17	3.50	1.86	1.91	2.09
							Net Debt/Equity (x)	-0.38	0.40	-0.37	-0.27	-0.19
							Net Debt/EBITDA (x)	-0.59	0.72	-1.92	-1.05	-0.52
							Selected Operational Indicators					
								2019	2020	2021T	2022T	2023T
							Total contracts signed (TL mn)	507	100	370	900	1,200
							Backlog (TL mn)			200		
							Macro Estimates					
								2019	2020	2021T	2022T	2023T
							USDTRY (avg)	5.7	7.0	8.9	13.4	18.2
							USDTRY (eop)	5.94	7.4	13.3	17.0	19.6
							Real GDP growth (y/y %)	-0.4	1.8	9.0	3.0	3.0
							CPI (%)	11.8	14.6	36.1	25.0	15.0

Source: Company Data, INFO Research estimates

BIRLESIM MUHENDISLIK Valuation

We estimate the target market value of the company by using the weighted average of the DCF (70%), peer 22E EV/EBITDA (15%) and the trailing EV/EBITDA (15%) of the non-financial IPOs in 2021. According to our estimates, the stock is trading at a 35% discount to its peers with 22E EV/EBITDA of 4.4x. The sustainable increase we expect in the company's EBITDA margin implies a 25% CAGR in USD terms in EBITDA in 21E-24E period. According to our model, the stock should trade at 8.5x EV/EBITDA, going forward, which we believe is sustainable given the favorable dynamics.

The basic assumptions we use in DCF valuation are given below:

- Risk-free rate of return: 24%
- Share risk premium: 6.5%
- Share beta: 0.5
- Long-term nominal growth rate: 10%

Table 2. BIRLESIM MUHENDISLIK DCF Model

DCF							
(TL mn)	2020	2021T	2022T	2023T	2024T	2025T	2026T
EBIT	75	85	158	268	398	564	818
+ Depreciation & amortisation	8	9	4	21	23	22	22
- Capex	-5	-7	-11	-16	-23	-33	-48
- Change in working capital	-86	-40	-76	-159	-221	-284	-301
- Taxes	-16	-21	-36	-62	-91	-130	-188
- Other	0	0	0	0	0	0	0
Free Cash Flow to Firm (FCFF)	-24	25	39	53	85	139	303
Discount factor		1.01	0.83	0.68	0.56	0.46	0.38
Discounted cash flow for projected period	319	25	32	36	48	64	114
Discounted cash flow for perpetuity	1,079						
Enterprise Value	1,398						
- Net debt	-165						
- Minority interest	0						
+ Participations	0						
Equity Value	1,563						
Implied Price Target (PT)	15.3						
Current Price	8.58						
Potential Upside	79%						
WACC							
Risk free rate	24.0%						
Beta	0.5						
Equity risk premium	6.5%						
Cost of equity	27.3%						
Cost of debt, after tax	11.3%						
Capitalisation rate	35.0%						
Weighed average cost of capital	21.7%						
Terminal growth rate	10.0%						

Source: Company Data, INFO Research estimates

Table 3. BIRLESIM MUHENDISLIK Valuation

	Target Price (TL)	Weight (%)	EV/EBITDA (x)	
DCF	15.3	70	8.6	@target multiple
Peer multiples	12.3	15	6.8	2002E consensus
New IPOs median	13.5	15	14.1	@LTM multiples
Target Price (TL)	14.6			
Target Return (%)	70			

Source: Company Data, INFO Research estimates

Table 4. BIRLESIM MUHENDISLIK Peer Valuation

Company	Ticker	LTM									12MF Consensus		
		MCAP (TL mn)	Net Sales (TL mn)	Net Profit (TL mn)	Net Debt (TL mn)	EBITDA (TL mn)	P/E (x)	P/S (x)	EV/EBITDA (x)	P/EBITDA (x)	P/E (x)	EV/EBITDA (x)	P/EBITDA (x)
ENKA	ENKAI	85,344	19,411	6,326	-32,392	5,542	13.5	4.4	9.4	15.4	14.7	6.8	10.9
TEKFEN	TKFEN	8,554	14,377	1,002	-1,129	1,073	8.5	0.6	6.3	8.0	7.5	4.6	5.2
ALARKO	ALARK	5,633	1,538	1,039	-1,012	425	5.4	3.7	17.2	13.3	5.0	12.2	14.9
ANEL	ANELE	673	804	-115	438	-43	-5.8	0.8		-15.6	-	-	-
ORGE	ORGE	543	241	77	5	91	7.1	2.2	6.0	5.9	-	-	-
						median	7.1	2.2	7.9	8.0	7.5	6.8	10.9
Birlesim Muh.	BRLSM	875	583	86	-165	119	10.0	1.5	5.8	7.2	5.1	4.4	5.4
									Prem./Discount (%)		-32%	-35%	-50%

Source: Company Data, INFO Research estimates

DISCLAIMER & DISCLOSURES

Analyst Certification

I, Serhan Gok, hereby certify that the views expressed in this research report accurately reflect the personal views of the INFO Research team, regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

INFO Research Team

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Rating Methodology:

We employ Discounted Cash Flow (DCF) model and peer multiple analysis to derive at our target prices. Our recommendation methodology is as follows:

Buy: If Target Price is 5 percentage points higher than the estimated Cost of Equity

Hold: If Target Price is within -5 and 5 percentage points of the estimated Cost of Equity

Sell: If Target Price is lower than 5 percentage points of the estimated Cost of Equity

Please note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

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