

# Turkey — Energy

## Galata Wind Energy

### Catch The Wind

**Adding GWIND to our Model Portfolio with a 12-month TL 11 price target and 61% return potential.** Our positive view is based on i) FX based revenue generation and upside potential to EBITDA, ii) low borrowing costs and reduced net debt position. (Average annual interest of EUR 28.6m debt is 0.19%), iii) possible capacity increases (500 MWh capacity target as of 2025). iv) attractive valuation multiples and discount compared to peers. Our valuation is equal weighted DCF (25% risk free rate, 5.5% equity premium, 24% WACC) and peer multiples comparison. (2022E EV/EBITDA 7.2x). Details of our valuation are on Page 3-4.

**Business structure resistant to energy cost and currency risks.** Maintenance and financial costs are the only regular expenses that are sensitive to currency risk. In 2022, apart from Taşpınar Solar Plant CAPEX, we expect Galata Wind to make a total of \$8.3m in foreign currency-based payments (\$4.4m maintenance, \$3.9m financial costs), which are naturally hedged by FX based revenue. Galata Wind sold 70% of its total production at the YEKDEM price (\$133 for solar plants, \$94 for wind plants) at the time they went public in 2021. Although this rate will decrease to 34% in 2022 after the Şah Wind Plant (105MWh) is transferred to PTF, with the addition of Taşpınar Solar Plant (43 MWh), which will start operating in 2023, it will remain at 38% levels until 2027. We expect the Company to achieve \$27.17m YEKDEM sales in 2022. Remaining 66% of the production is sold with MCP (market clearing prices). According to 29.03.2022 dated Energy Market Regulatory Board statement the ceiling cap of the MCP is set to TL1200/MWh (\$82/MWh with current USD/TL ratio). In our model, average MCP is estimated as \$80/MWh for 2022, \$75/MWh for 2023, and \$65/MWh for 2024 and beyond. Before the energy crisis, MCP was around \$60/MWh (Table 8). Additionally, Galata Wind earns around \$2,25/MWh EBITDA from carbon certificate sales. The carbon income we calculated for 2022 is cTL28m.

**Minimal borrowing cost and decreasing net debt ratio.** EU renewable energy support and the global ESG investment trend enables Galata Wind to acquire loans with remarkably low interests. €29m existing total debt is subject to only 0.19% interest per annum. We expect the company to payoff TL256m debt in 2022 mainly due to the closed TL based loans. We expect \$30m CAPEX for Taşpınar Solar Plant which will start its production in 2023.

**Possible capacity increases.** The company whose current installed capacity sits at 269 MWh aims to increase it to 500 MWh by 2025. In our model the company has been assumed to reach 311 MWh installed capacity by 2023 due to the Taşpınar Solar Plant. Further capacity increases would act as strong catalysts for the stock performance. Finally \$1.25m mcap/MWh ratio at the time of the IPO (22.04.2021) is currently at \$0.92m level with a 26% discount.

**Attractive multiples compared to global peers.** The 4.8x EV/EBITDA and 7.3x P/E ratios we expect in 2022 are traded at a discount compared to the 7.2x and 16.2x multiples of global peers (Page 4). Moreover GWIND has been trading on average at 10.36x EV/EBITDA since the IPO (Table 6). Our expectation of average USD/TL for 2022 is 15.50. The main risks of the company are unexpected regulatory changes setting MCP below expectations, higher hydro plant contribution lowering MCP and weather conditions limiting production.

GWIND	2018	2019	2020	2021	2022E	2023E
Net Income (TL mn)	33	64	156	171	502	617
Revenue (TL mn)	672	248	335	540	1,086	1,257
EBITDA (TL mn)	146	193	264	428	859	997
Net Debt/EBITDA (x)	2.4	1.4	1.8	1.1	0.4	0.2

Source: Company Data, INFO Research Estimates

## BUY

Price: TL6.82

Price Target: TL11

### Company Data

Company Data	GWIND
Stock Ticker	GWIND
Stock Rating	BUY
Price Target	11
Up/downside to PT	61%
Share Price	6.82
52-week range (TL)	3.26 - 7.89
No. of shares (mn)	535
Free Float (%)	30
MCAP (TL mn)	3,647
MCAP (USD mn)	248
Net Debt (TL mn)	489
3M ADV (USD mn)	4
3M ADV/FF MCAP (%)	0.1%

### Valuation

	2020	2021	2022E	2023E
P/E (x)	23.3	21.3	7.3	5.9
EV/EBITDA (x)	15.7	9.7	4.8	4.1
P/B (x)	3.9	3.7	2.5	1.8
Div. Yield	0.0%	0.7%	2.8%	3.4%

Source: INFO Research Estimates

### Stock Performance



### INFO Research

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Table 1. Financials

Income Statement					Financial Analysis				
(TL mn)	2020	2021	2022E	2023E		2020	2021	2022E	2023E
<b>Net Sales</b>	<b>335</b>	<b>540</b>	<b>1,086</b>	<b>1,257</b>	<b>Growth (%)</b>				
Gross profit (loss)	246	395	837	977	Sales	34.9	61.2	101.0	15.8
Operating Expenses	-17	-30	-62	-72	EBITDA	36.6	62.3	100.6	16.1
<b>Core EBIT</b>	<b>229</b>	<b>365</b>	<b>774</b>	<b>905</b>	Net Profit	143.3	9.3	193.5	22.9
Inc.& Exp. from Other Operations	45	40	31	37	<b>Margins (%)</b>				
<b>Reported EBIT</b>	<b>274</b>	<b>405</b>	<b>806</b>	<b>942</b>	Gross Margin	73.5	73.1	77.0	77.7
Financial Income/Expenses	-76	-209	-171	-141	EBITDA Margin	78.7	79.2	79.1	79.3
Other income	0	0	0	0	EBIT Margin	68.4	67.5	71.3	71.9
PBT from continuing operations	199	196	635	801	Net Margin	46.6	31.6	46.2	49.0
Tax on Continuing Operations	-42	-25	-133	-184	<b>Efficiency</b>				
<b>Net Profit</b>	<b>156</b>	<b>171</b>	<b>502</b>	<b>617</b>	Receivables Days	32	40	45	45
					Inventory Days	7	3	4	4
<b>EBITDA</b>	<b>264</b>	<b>428</b>	<b>859</b>	<b>997</b>	Payables Days	44	52	50	50
					Working Capital/Net Sales (%)	8.0	10.0	9.4	9.5
					<b>Profitability (%)</b>				
<b>Balance Sheet</b>					ROA	9.6	9.7	21.5	20.9
(TL mn)	2020	2021	2022E	2023E	ROE	16.9	17.1	34.1	31.0
<b>Current Assets</b>	<b>171</b>	<b>389</b>	<b>797</b>	<b>1,204</b>	ROIC	12.8	31.8	33.1	31.1
Cash and Marketable Securities	66	159	270	409	<b>Leverage (x)</b>				
ST Trade and Related Receivables	35	85	234	455	Asset/Equity	1.75	1.77	1.58	1.48
Inventories	2	1	2	3	Net Debt/EBITDA	1.84	1.14	0.38	0.22
Other Short-Term Assets	69	145	291	337	Capex/Revenues (%)	126.7	15.5	45.0	4.0
<b>Long Term Assets</b>	<b>1,449</b>	<b>1,378</b>	<b>1,533</b>	<b>1,741</b>					
<b>TOTAL ASSETS</b>	<b>1,621</b>	<b>1,768</b>	<b>2,330</b>	<b>2,945</b>					
<b>Short Term Liabilities</b>	<b>302</b>	<b>288</b>	<b>190</b>	<b>238</b>					
ST Financial Payables	257	249	90	102					
ST Trade and Other Payables	10	31	84	118					
Other Short-Term Liabilities	35	7	15	17					
<b>Long Term Liabilities</b>	<b>391</b>	<b>482</b>	<b>668</b>	<b>718</b>					
LT Financial Payables	293	399	502	525					
Other Long-Term Liabilities	98	83	167	193					
<b>Equity</b>	<b>927</b>	<b>998</b>	<b>1,472</b>	<b>1,989</b>					
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>					
<b>TOTAL LIABILITIES AND S.HOLDERS' EQUITY</b>	<b>1,621</b>	<b>1,768</b>	<b>2,330</b>	<b>2,945</b>					

Source: Company Data, INFO Research Estimates

Table 2. DCF

DCF (TL mn)	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
EBIT	159	229	365	774	905	1,044	1,080	1,131
+ Depreciation & amortisation	34	35	63	84	93	113	143	166
- Capex	-11	-425	-84	-489	-50	-58	-60	-62
- Change in working capital	18	-13	-27	-48	-18	-18	-4	14
- Taxes	-35	-50	-91	-178	-208	-240	-248	-260
- Other								
<b>Free cash flow to firm (FCFF)</b>	<b>166</b>	<b>-224</b>	<b>226</b>	<b>144</b>	<b>721</b>	<b>841</b>	<b>910</b>	<b>989</b>
Discount factor				0.86	0.69	0.56	0.45	0.37
Discounted cash flow for projected period	1,871			123	500	472	413	364
Discounted cash flow for perpetuity	2,963							
Enterprise value	4,834							
- Last year's net debt	489							
- Minority interest	0							
+ Participations	0							
Equity value	4,345							
COE	28%							
<b>12 Months Equity Value</b>	<b>5,581</b>							

**WACC**

Risk free rate	25.0%
Beta	0.63
Equity risk premium	5.5%
Cost of equity	28.4%
Cost of debt, after tax	11.3%
Debt ratio	29.5%
<b>Weighed average cost of capital</b>	<b>24%</b>
Terminal growthrate	10.0%

Source: Company Data, INFO Research Estimates

Table 3. Valuation

Valuation			
Method	Weight	Implied Value	Contribution
DCF	50%	5,581	2,791
Peer Comparison	50%	5,689	2,845
Target Value (TL mn)			5,635
<b>Target Price (TL)</b>			<b>11</b>
<b>Current Price (TL)</b>			<b>6.82</b>
<b>Upside Potential</b>			<b>61%</b>

Source: Info Research Estimates

Table 4. Peer Multiples

RT Ticker	Company Name	Mcap (USD mn)	2022(E)		2023(E)	
			P/E	EV/EBITDA	P/E	EV/EBITDA
EDPR:PT	Edp Renovaveis Sa	25,021	37.2	15.3	35.1	14.1
601016:CNA	Cecep Wind Power Corp (A)	3,656	16.9	11.6	13.6	9.1
BONHR:NO	Bonheur	1,762	16.2	5.7	14.2	5.8
EKT:DEX	Energiekontor Ag	1,505	31.4	15.6	27.1	12.9
ARISE:SE	Arise	241	5.3	5.6	5.8	5.9
GOOD:GB	Good Energy Group Plc	58	15.3	7.0	11.6	5.8
AZRE:USY	Azure Power Global Ltd	840	19.6	9.3	13.3	7.8
SPCG:TH	Spcg Pcl	543	7.4	6.5	11.5	8.9
NEW:AU	New Energy Solar Ltd	196	7.4	7.2	6.8	7.0
	Median		16.2	7.2	13.3	7.8
GWIND	Galata Wind Enerji	248	7.3	4.8	5.9	4.1
			123%	49%	125%	89%

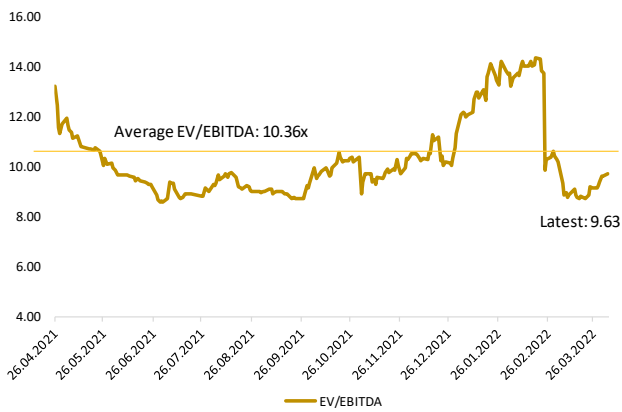
Source: Equity RT, INFO Research Estimates

Table 5. Peer Performance

	Absolute Return in Local Currency (%)				Relative Return in Local Currency (%)			
	YTD	1M	3M	12M	YTD	1M	3M	12M
Edp Renovaveis Sa	8.1	14.9	14.7	26.9	0.3	2.1	8.0	5.3
Cecep Wind Power Corp (A)	-28.7	-16.2	-25.2	13.0	-21.0	-12.0	-18.0	19.9
Bonheur	1.3	18.6	-0.1	61.9	-3.8	11.7	-3.6	35.6
Energiekontor Ag	36.3	53.7	38.7	62.3	49.2	38.6	55.4	68.9
Arise	11.4	27.6	6.3	0.8	26.1	18.6	21.5	3.9
Good Energy Group Plc	9.3	-1.9	6.0	18.6	8.1	-9.6	6.7	7.8
Azure Power Global Ltd	-4.3	8.0	4.6	-37.9	-2.4	3.5	6.3	-41.5
Spcg Pcl	-3.6	-0.4	-4.7	-8.2	-6.2	-2.2	-6.1	-14.9
New Energy Solar Ltd	0.6	-10.9	0.6	8.1	-0.4	-15.7	1.2	-1.8
Galata Wind Enerji	16.8	-6.3	7.7		-6.7	-19.8	-7.1	

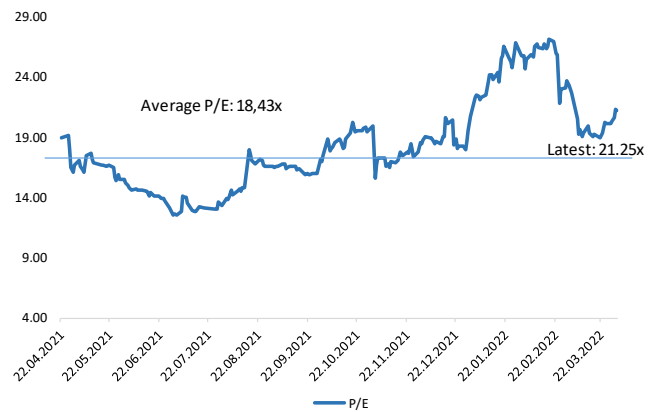
Source: Equity RT

**Table 6. Historical EV/EBITDA Multiple (x)**



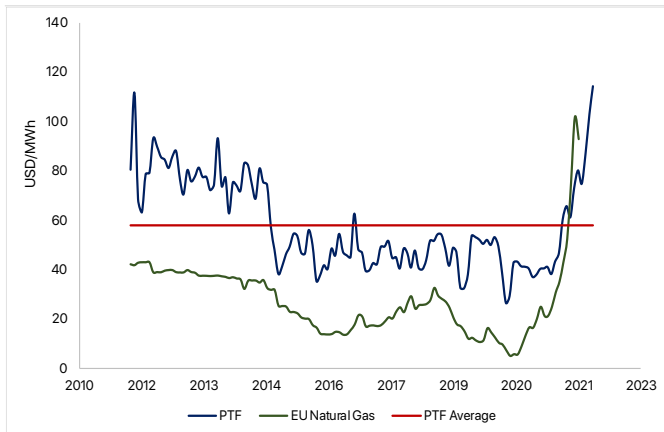
Source: Equity RT

**Table 7. Historical P/E Multiple (x)**



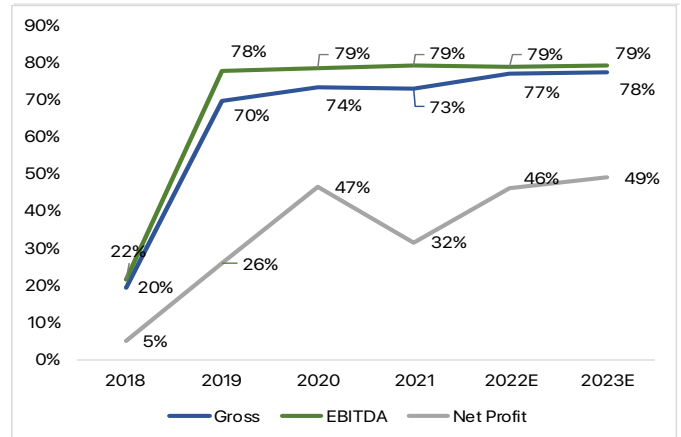
Source: Equity RT

**Table 8. Historical MCP Data (USD/MWh)**



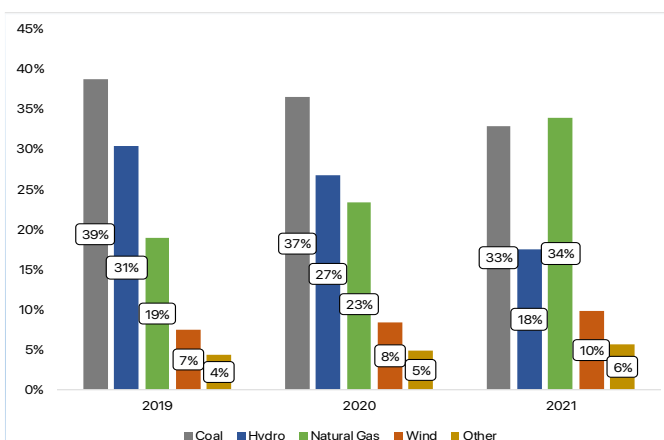
Source: EPIAŞ (Energy Market Regulatory Board), Federal Reserve Economic Database

**Table 9. Historical Margins (%)**



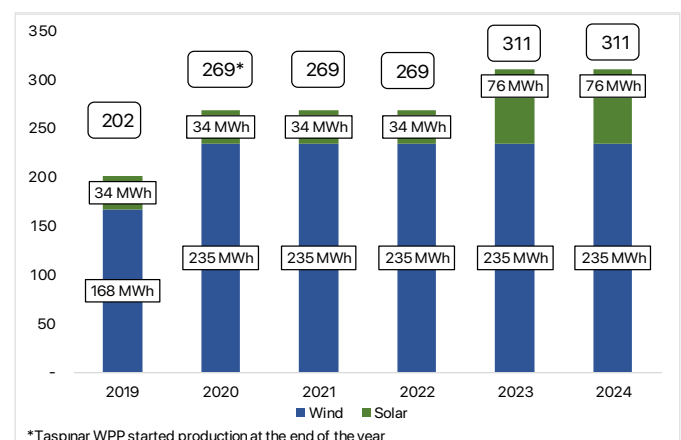
Source: Company Data, INFO Estimates

**Table 9. Turkey Energy Production Distribution (%)**



Source: EPIAS (Energy Market Regulatory Board)

**Table 10. GWIND Total Installed Capacity (MWh)**



\*Taşpınar WPP started production at the end of the year

Source: Company Data, INFO Research Estimates

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