

Turkey– Automotive

KARSAN

Going electric

Turkey's e-mobility transformation leader. While Contract Manufacturing continued as the main business model of the company until 2013, the company also started the production of its own diesel models under the Jest brand in 2013. The company has subsequently started the e-mobility transformation program in 2015 in light of the green transformation and the Zero Emission Vehicle policy in Europe, which is its main export market, especially after the Paris Climate Agreement. The company has rapidly started strategic R&D studies launching the first electric minibus brand with e-Jest brand in 2018. This was followed by the Low-Floor City Bus e-ATAK in 2019, the driverless (autonomous) e-ATAK in 2021, and the Low-Floor City Bus e-ATA (10-12-18 meters) in 2021. While the share of KARSAN branded electric vehicle sales in total sales reached 19% at the end of 2021, we expect this figure to increase to 57% by the end of 2022.

On the other hand, following the expiry of the agreement with Hyundai at the end of 2021, the company signed a 5-year agreement with Renault for the production of Megane diesel/gasoline passenger cars under the Contract Production Model. We expect this project to generate approximately EUR 40 mn of annual sales revenue for 5 years. On the other hand, according to our estimates, with the acceleration of e-mobility transformation, the share of Internal Combustion Engine (diesel/petrol) vehicles (KARSAN branded commercial vehicles, Megane and Menarinibus) produced by KARSAN in total sales will decrease to 7% at the end of 2027 while the share of electric vehicle sales will rise to 86%. We think that this level of e-mobility transformation speed will be remarkable on a global scale.

The European e-bus market continues to grow rapidly. E-bus sales in the European market grew by 67% y/y at the end of 2021, reaching 3,777. Over the past decade, we see that e-bus sales have grown at CAGR of 54%. Local governments in the European Union agreed in 2019 to increase the share of e-buses in the existing fleet by 2025 and 2030, within the framework of the Green Public Procurement Rules. Accordingly, at least a quarter of new buses purchased by public authorities in cities across Europe must be "clean" by 2025 and at least a third by 2030. According to a study conducted by ING in 2021, there are approximately 180 thousand public transport vehicles in Europe. In order to achieve the above-mentioned goals, European local governments should purchase approximately 45 thousand e-buses in the 2022-2025 period. In the light of this information, we foresee that e-bus sales in Europe will increase to 16 thousand units annually by the end of 2025 and to 30 thousand units by the end of 2030. These figures imply 43% and 17% CAGR for the 2021-25T and 25T-30T periods, respectively. We expect energy security concerns caused by the Ukraine crisis to accelerate the green transformation and help increase the purchase of new e-buses, especially by public institutions and municipalities. With a high price-quality performance of the brands offered by KARSAN in the e-bus segment, we expect the company's share in the European e-bus market to be 4% by the end of 2022 and rise to 5% on average in the 2023-2027 period.

E-bus transformation in Turkey will gain momentum after 2023. According to our estimates, there are approximately 30 thousand buses belonging to municipalities (including private public buses) in Turkey. Approximately one third of these are located in Istanbul, Ankara and Izmir. We think that many municipalities, especially big cities, will initiate the e-bus transformation between 2023 and 2028. Assuming that 20% of the public transport bus fleets will turn into electric buses, we predict that the total e-bus sales in Turkey will be around 6 thousand in the 2023-2028 period. We think that the infrastructure investments required for e-transformation will also accelerate following the "Charge Service Regulation" published by EMRA in April 2022.

The commercial fleet e-mobility transformation offers great opportunities in the coming period. According to a study by E&Y, approximately 20% (~65 million) of the total number of vehicles in the EU in 2020 consists of commercial vehicle (van, pick-up, company passenger cars, bus, minibus, midibus) fleets. About half of this figure (~40 million) light commercial vehicles consists of light commercial vehicles (vans, pick-ups). While electric commercial vehicles accounted for only 1% of the total commercial vehicle fleet in 2020, this figure will increase 24x by 2030 to 10.5 million units, according to E&Y forecasts. In other words, by 2030, approximately 25% of the total commercial vehicle fleet in the EU will consist of fully electric vehicles. It is expected that a significant part of the urban small light commercial vehicle demand, which emerged as a result of the rapid increase in e-commerce after the pandemic, will be met by electric vehicles. We think that KARSAN will enter the electric light commercial vehicle market with its own brand in the foreseeable future.

2022/1Q results are not indicative. As a result of sluggish automotive market, the expiry of the Hyundai contract and the war in Ukraine, the company's net sales decreased by 72% in the 22/1Q q/q to TL 271 mn. We estimate that the company's sales will increase by 230% in the 22/2Q period to reach 900 million TL on the back of 1) backlog in EVs and strong European market. With the start of Megane production in 4Q22, we estimate that the total net sales of the company will increase by 110% y/y to 4.3 billion TL by the end of 2022.

We add KARSAN to our recommendation list with a target price of 14 TL and a BUY rating. We determine the target market value of the company with the weighted average of the DCF (70%) and international peers at 23E EV/EBITDA (30%). According to our estimates, the stock is trading at a 50% discount international peers with an 23E EV/EBITDA of 4.4x. The sustainable increase we expect in the company's EBITDA margin implies 35% CAGR on EUR basis for EBITDA in 22E-27E. According to our financial model, the share should trade at 9.3x 23E EV/EBITDA. In our view, this multiplier points to a valuation that supports the company's e-mobility transformation story and high growth potential. In addition, we believe since the company was recently included in the BIST Sustainability Index, it offers an attractive investment opportunity for institutional investor. We believe that KARSAN's ESG rating will rise in the coming period, thanks to the rapidly continuing e-mobility transformation and the company management's focus on sustainability programs.

BUY

Target Price: TL 14

Company Data

Ticker	KARSAN
Recommendation	BUY
Target Price (TL)	14
Target Return (%)	%151
Current Price (TL)	5.6
52w range (TL)	3.4-6.0
No. of shares (mn)	900
Float (%)	%34.5
MCAP (TL mn)	5,067
MCAP (USD mn)	318
Equity (TL mn)	941
Net Debt (TL mn)	2,058
3m ADTV (USD mn)	47.4
3m ADTV/MCAP (%)	%43
2021 Dividend Yield (%)	%0.0

as of close of 20-05-2022

ESG Data

BIST Sustainability Score	50.3
CDP ESG Rating	B-
CDP Europe Average	B
CDP Global Average	B-
Refinitiv ESG Rating	56
Refinitiv ESG Ranking in Sector	78/229

Valuation Multiples

	Current	22E	23E
P/E (x)	51.2	18.7	7.9
EV/EBITDA (x)	17.5	6.6	4.4
P/B (x)	5.1	4.0	2.7
P/Sales (x)	1.1	0.6	0.4

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. KARSAN Financial Statements

Income Statement

	2017	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
Net Sales	953	1,442	1,704	1,560	2,069	4,416	7,742	11,969	16,373	21,649	28,381
Income from financing	40	63	28	56	31	66	116	180	246	325	426
COGS	-849	-1,225	-1,417	-1,142	-1,526	-3,246	-6,015	-9,069	-12,167	-15,943	-20,755
Gross profit	144	280	315	474	574	1,237	1,843	3,080	4,452	6,030	8,051
Operating Expenses	-86	-140	-130	-159	-250	-398	-619	-958	-1,146	-1,515	-1,987
Other expenses	-7	-9	-10	-10	-6	-9	-14	-22	-27	-35	-46
Core EBIT	57	140	185	315	324	838	1,224	2,122	3,306	4,515	6,064
Inc./ Exp. from Other Operations	112	87	72	210	456	451	496	500	533	659	720
Reported EBIT	169	227	258	525	780	1,289	1,719	2,623	3,839	5,174	6,784
Financial Income/Expenses	-171	-334	-314	-470	-724	-997	-995	-867	-1,118	-1,264	-1,220
Other Income/Expenses	5	70	81	2	-3	23	40	62	84	112	146
PBT from continuing operations	2	-37	25	57	54	314	764	1,817	2,805	4,021	5,711
Taxation on Continuing Operations	0	14	-4	-36	55	-64	-159	-386	-599	-860	-1,224
Profit from continuing operations	2	-23	20	21	108	250	605	1,431	2,207	3,161	4,486
Net Profit	7	-23	18	20	99	270	640	1,485	2,281	3,259	4,615
Net profit (USD mn)	2	-4	3	3	8	16	31	64	90	117	150
EBITDA	146	256	246	382	398	1,055	1,570	2,577	3,739	5,050	6,791
EBITDA (USD mn)	35	45	39	48	31	62	75	112	147	181	221

Balance Sheet

(TL mn)	2017	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
Current Assets	680	1,036	1,300	1,545	1,925	3,373	5,317	7,845	10,686	12,913	14,387
Cash and Marketable Securities	34	131	50	87	312	238	404	616	836	1,099	1,436
ST Trade and Related Receivables	416	523	856	997	1,101	2,178	3,181	4,591	6,280	7,117	7,387
Inventories	110	184	124	178	314	534	989	1,491	2,000	2,621	2,843
Other Short-Term Assets	120	198	270	283	198	423	742	1,148	1,570	2,076	2,721
Long Term Assets	1,146	1,324	1,193	1,172	1,812	2,097	2,619	3,409	4,362	5,384	6,677
Fixed Assets	464	561	468	543	785	788	865	1,038	1,291	1,508	1,776
Intangible Assets	218	196	235	297	358	359	400	490	623	737	878
LT Receivables	249	221	86	0	227	485	850	1,314	1,797	2,376	3,115
Other Long-Term Assets	216	347	403	331	442	465	505	567	651	763	909
Total Assets	1,826	2,360	2,493	2,717	3,737	5,469	7,936	11,253	15,048	18,298	21,065
Short Term Liabilities	426	1,242	1,376	1,105	2,137	2,433	3,481	4,279	5,487	6,394	7,299
ST Financial Payables	173	882	1,051	712	1,480	1,432	1,663	1,513	1,748	1,478	883
ST Trade and Other Payables	190	248	230	308	480	622	1,153	1,739	2,333	3,058	3,980
Other ST Liabilities	64	112	95	84	178	379	664	1,027	1,405	1,858	2,436
Long Term Liabilities	1,045	790	496	884	606	1,792	2,607	3,695	4,372	4,010	3,014
LT Financial Payables	1,000	725	447	821	523	1,615	2,296	3,215	3,715	3,142	1,877
LT Trade and Other Payables	0	0	0	0	0	0	0	0	0	0	0
Other LT Liabilities	44	65	50	63	83	177	310	480	656	868	1,138
Shareholders' Equity	355	328	626	733	990	1,260	1,900	3,385	5,369	8,172	11,157
Paid-in capital	600	600	900	900	900	900	900	900	900	900	900
Total Liabilities	1,826	2,360	2,493	2,717	3,737	5,469	7,936	11,253	15,048	18,298	21,065

Source: Company Data, INFO Research estimates

Table 2. KARSAN

	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
Financial Indicators										
Grwoth										
Net sales (%)	51.2	18.2	-8.4	32.6	113.4	75.3	54.6	36.8	32.2	31.1
EBIT (%)	144.7	32.3	70.0	2.9	158.4	46.0	73.4	55.8	36.6	34.3
EBITDA (%)	622.7	444.8	55.1	4.3	164.8	48.9	64.1	45.1	35.1	34.5
Net Profit (%)	-438.6	-177.1	12.7	386.7	173.3	136.7	132.1	53.6	42.9	41.6
Margins										
Gross margin (%)	19.4	18.5	30.4	27.7	28.0	23.8	25.7	27.2	27.9	28.4
EBITDA margin (%)	17.8	14.5	24.5	19.2	23.9	20.3	21.5	22.8	23.3	23.9
EBIT margin (%)	9.7	10.9	20.2	15.7	19.0	15.8	17.7	20.2	20.9	21.4
Net profit margin (%)	-1.6	1.1	1.3	4.8	6.1	8.3	12.4	13.9	15.1	16.3
Efficiency										
Receibanles (days)	159	119	148	217	200	180	150	140	140	120
Inventory turnover (days)	47	44	40	48	60	60	60	60	60	60
Payables (days)	82	65	62	86	70	70	70	70	70	70
Cash Cycle (days)	125	98	126	179	190	170	140	130	130	110
Opex/Sales (%)	9.7	7.6	10.2	12.1	9.0	8.0	8.0	7.0	7.0	7.0
Profitability										
ROA (%)	-1.1	0.7	0.8	3.1	5.9	9.5	15.5	17.3	19.5	23.4
ROE (%)	-6.9	4.3	3.0	12.6	22.2	38.3	54.1	50.4	46.7	46.4
Leverage										
Assets/Equity (x)	7.20	3.98	3.70	3.78	4.34	4.18	3.32	2.80	2.24	1.89
Net Debt/Equity (x)	4.51	2.31	1.97	1.71	2.23	1.87	1.21	0.86	0.43	0.12
Net Debt/EBITDA (x)	5.76	5.88	3.79	4.25	2.66	2.26	1.60	1.24	0.70	0.19
Selected Operational Indicators										
	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
Total No. Of Vechicles Sold	6,706	5,009	3,086	3,442	12,182	56,630	56,930	52,267	47,598	42,677
KARSAN brands	1,224	669	610	583	1,012	1,510	1,830	2,187	2,548	2,627
Other Brands	5,482	4,340	2,476	2,859	11,170	55,120	55,100	50,080	45,050	40,050
Macro Estimates										
	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
USDTRY (avg)	4.8	5.7	7.0	8.9	15.6	18.0	20.2	22.2	24.4	26.8
USDTRY (eop)	5.3	5.9	7.4	13.3	18.0	20.9	23.0	25.3	27.8	30.6
Real GDP growth (y/y %)	4.4	-0.4	1.8	10.5	3.0	3.0	4.0	4.0	4.0	4.0
CPI (%)	20.3	11.8	14.6	36.1	50.0	20.0	10.0	10.0	10.0	8.0

Source: Company Data, INFO Research estimates

KARSAN Valuation

We add KARSAN to our recommendation list with a target price of 14 TL and a BUY rating. We determine the target market value of the company with the weighted average of the DCF (70%) and international peers at 23E EV/EBITDA (30%). According to our estimates, the stock is trading at a 50% discount international peers with an 23E EV/EBITDA of 4.4x. The sustainable increase we expect in the company's EBITDA margin implies 35% CAGR on EUR basis for EBITDA in 22E-27E. According to our financial model, the share should trade at 9.3x 23E EV/EBITDA. In our view, this multiplier points to a valuation that supports the company's e-mobility transformation story and high growth potential. In addition, we believe since the company was recently included in the BIST Sustainability Index, it offers an attractive investment opportunity for institutional investor. We believe that KARSAN's ESG rating will rise in the coming period, thanks to the rapidly continuing e-mobility transformation and the company management's focus on sustainability programs.

Table 3. KARSAN Valuation Summary

(TL mn)	EV/EBITDA (x)	EV (TL mn)	Weight (%)
DCF	10.8	16,932	70 >> 10.8x based on fair DCF valuation
Peer Multiples	8.8	9,333	30
Fair value EV	9.3	14,652	>> 9.3x based on weighted average of DCF and peer valuation
Net Debt (-)		2,058	
Minority (-)		4	
Participations (+)		145	
Target EV		12,736	
Target Price (TL)		14	
Target Return (%)		151%	

DCF

(TL mn)	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
EBIT	315	324	772	1,108	1,943	3,060	4,190	5,639
+ Depreciation & amortisation	67	74	84	114	96	105	102	160
- Capex	-42	-155	-88	-232	-359	-491	-433	-568
- Change in working capital	-116	-225	-997	-928	-1,326	-1,604	-734	431
- Taxes	-69	-71	-170	-244	-427	-673	-922	-1,240
- Other	0	0	0	0	0	0	0	0
Free cash flow to firm (FCFF)	154	-53	-399	-182	-74	397	2,203	4,421
Discount factor			0.89	0.73	0.60	0.50	0.41	0.34
Discounted cash flow for projected period	2,052		-354	-133	-44	197	900	1,487
Discounted cash flow for perpetuity	14,872							
Enterprise value	16,923							
- net Debt	2,058							
- Minority interest	4							
+ Participations	145							
Equity value	15,007							
Target Price (TL)	16.70							
Target Return (%)	196%							

WACC

Risk free rate	23.0%
Beta	104.2%
Equity risk premium	6.5%
Cost of equity	29.8%
Cost of debt, after tax	11.3%
Capitalisation rate	45.0%
Weighed average cost of capital	21.4%
Terminal growth rate	10%

Source: Company Data, INFO Research estimates

Table 4. KARSAN Peer Valuation

Commercial EV Manufacturers								
Company	Country	MCAP (USD mn)	P/E (x)			EV/EBITDA (x)		
			Current	2022E	2023E	Current	2022E	2023E
Byd Co Ltd	Çin	49,759	231.6	114.4	72.7	35.9	28.1	22.3
Li Auto Inc	Amerika	20,519	6466.8	0.0	110.7		221.3	31.8
Yutong Bus	Çin	2,805	30.8	21.7	16.0	16.3	7.2	6.0
Ebusco Hold	Hollanda	1,497	126.2	48.0	11.7	79.0	38.4	8.8
Arrival	Amerika	1,194	-0.9	0.0	-17.2		-3.1	10.1
Nfi Group I	Amerika	780	-16.0	0.0	14.9	32.8	15.9	7.2
Blue Bird C	Amerika	391	-141.9	51.0	9.4	2864.5	19.3	8.2
Uluslararası Şirketler	Median		30.8	21.7	14.9	35.9	19.3	8.8
KARSAN		318	83.7	18.7	7.9	21.0	6.6	4.4
International Peers	Premium/Discount (%)		172	-14	-47	-42	-66	-50
Passenger and Commercial Vehicle Manufacturers								
Company	Country	MCAP (USD mn)	P/E (x)			EV/EBITDA (x)		
			Current	2022E	2023E	Current	2022E	2023E
KARSAN	Turkey	318	83.7	18.7	7.9	21.0	6.6	4.4
Ford Otosan	Turkey	6,027	9.8	8.8	7.8	10.0	7.7	6.2
Tofas	Turkey	2,281	9.6	7.7	6.1	6.1	5.5	4.6
Otokar	Turkey	600	8.4	9.5	5.0	11.7	10.1	6.3
Türk Traktör	Turkey	764	8.4	7.5	6.2	6.9	5.4	4.5
Turkey	Median		9.6	8.8	6.2	10.0	6.6	4.6
Renault	France	7,562	8.1	4.3	2.8	8.2	9.3	8.0
Yadea	China	5,397	25.7	18.5	14.2	16.1	9.6	7.8
Geely	China	17,469	24.1	15.7	11.9	10.3	6.6	5.5
Guangzhou	China	14,552	17.5	14.9	12.0	50.5	82.8	50.8
International	Median		20.8	15.3	11.9	13.2	9.4	7.9
KARSAN	Turkey	318	83.7	18.7	7.9	21.0	6.6	4.4
International Peers	Premium/Discount (%)		302	23	-34	59	-30	-44
Turkey	Premium/Discount (%)		774	112	27	111	0	-3

Source: Company Data, INFO Research estimates

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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.

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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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