

TURKEY– Steel

KARDEMIR

The tide is turning– BUY reiterated

The stock has sold off sharply from its peak due to the concerns about product prices and material costs. KRDMMD share price declined by 18% since its peak seen in May 10, 2021, as investors were worried about lower product prices and rising raw material costs.

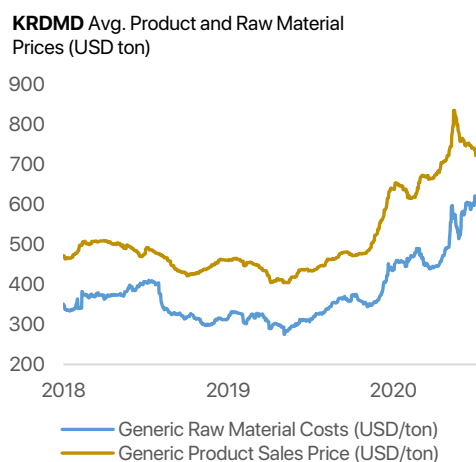
Kardemir's generic product margin sharply fell in May-June 2021. The company's market implied average product prices (weighted average of Black sea Billet, China Round, LME Steel Bar and China Wire Rod)* declined by 15% from its peak level on May 15, 2021 to USD720 per ton in the first week of July 2021 largely due to 1) measures taken by the Chinese government to curb excessive rise in commodity prices, 2) improvement in global supply chains, and 3) higher supply (Exhibit 1). On the other hand, the company's market implied raw material costs* rose by 10% since the beginning of May 2021, reaching USD620 per ton mainly due to a 70% increase in coking coal prices. Supply tightness in China amid coal mines closures in north and east China for safety inspections after mining accidents across China in early June pushed up coal prices significantly. Also, the Australian import ban imposed by the Chinese government due to political tensions has contributed to soaring coal prices.

As a result of these global factors, Kardemir's market implied product sales margin plummeted to 16% in July 2021 from about avg. 50% in 1Q/2021 (Exhibit 2). We see that Kardemir's share price have broadly moved in tandem with the market implied margins which averaged at 60% in 2015-2021.

Easing material cost pressures and robust demand in the domestic market should lead to a bounce-back in the stock. In our view, coking coal and iron ore prices will likely fall in the next few quarters largely as the Chinese government pushes ahead with measures to curb soaring commodity prices and its pledge to clean up the emissions-heavy steel industry. Thus, we expect Kardemir's market implied margins to mean revert to its long-term historical average of 50%-60%. We expect the company's EBITDA to come in at USD220 per ton in 2Q/2020 and hover at these levels in 3Q/2021. Barring a sudden downturn in economic growth in the remainder of the year, it is likely that the company's 2021E EBITDA will beat our estimate of TL3.6 bn.

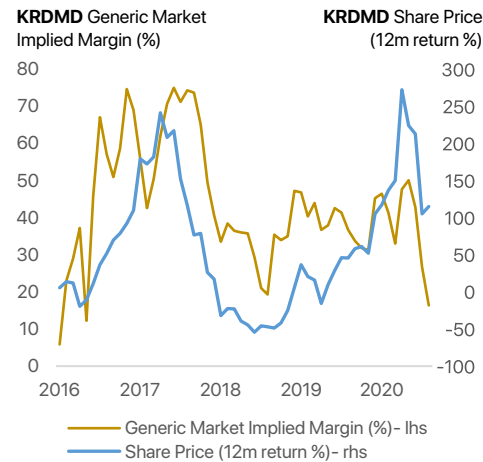
BUY maintained with a target price of TL11.0 for KRDMMD shares. On our numbers, the stock is currently trading at 1.9x 22E EV/EBITDA (38% discount to global peer median). In our view, the recent sharp correction in KRDMMD shares offers a good buying opportunity as 1) market implied margins are likely to recover, 2) a sharp decline in company's financial leverage, and 3) robust domestic demand. We also note that our valuation model factors in a significant normalization in the company's long-term margins at an avg. EBITDA of USD120 per ton vs. avg. USD180-200 per ton in 2021. In other words, our target price is based on rather conservative assumptions, going forward.

Exhibit 1. KARDEMIR Generic Raw Material and Product Prices



Source: Bloomberg

Exhibit 2. KARDEMIR Generic Market Implied Margin vs Share Price Performance



Source: Bloomberg

*Market Implied Product Margin= (Generic Product Price/Generic Raw Material Price-1)
 Generic Product Price= 40% BlackSea Billet + 20% China Round Steel + 20% LME Steel Bar + 20% China Wire Rod
 Generic Raw Material Price= 1.6 x Iron Ore + 0.8 x Coking Coal + 0.20 x Scrap

BUY

Price: TL7.09

Price Target: TL11.00

Company Data

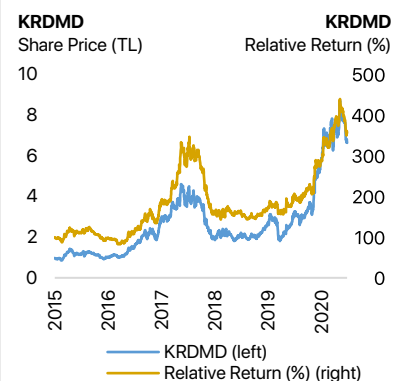
Stock Ticker	KRDMMD
Stock Rating	BUY
Price Target	11.00
Up/downside to PT	55%
Share Price	7.09
52-week range (TL)	2.59-8.71
No.of shares (mn)	780
Free Float	89%
MCAP (TL mn)	5,579
MCAP (USD mn)	644
EV (TL mn)	5,817
EV (USD mn)	672
Net Debt (TL mn)	238
Net Debt (USD mn)	29
3M ADV (USD mn)	83
3M ADV/FF MCAP (%)	15%

Valuation

	2020	21E	22E	23E
P/E (x)	134.4	2.6	3.3	2.9
EV/EBITDA (x)	6.7	1.6	1.9	1.6
EV/Sales (x)	0.8	0.4	0.4	0.3

Source: INFO Research estimates

Price Performance



INFO Research Team

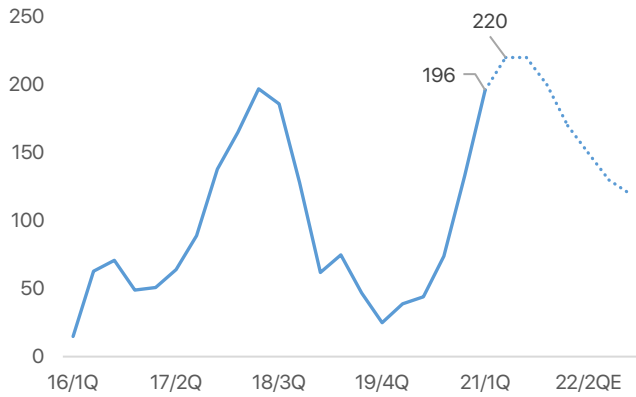
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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Exhibit 3.

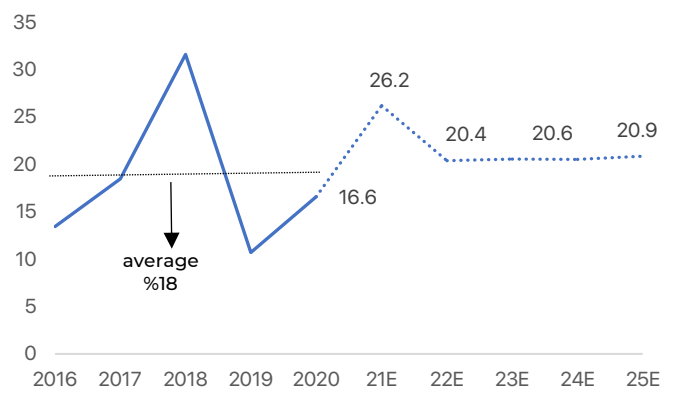
KARDEMIR EBITDA per ton (USD)



Source: EquityRT, INFO Research Estimates

Exhibit 4.

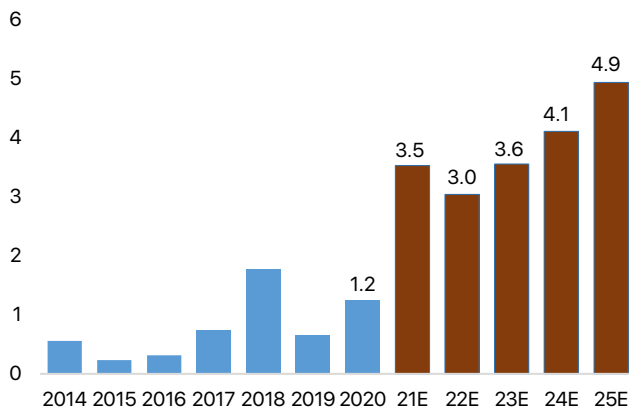
KARDEMIR EBITDA Margin (%)



Source: EquityRT, INFO Research Estimates

Exhibit 5.

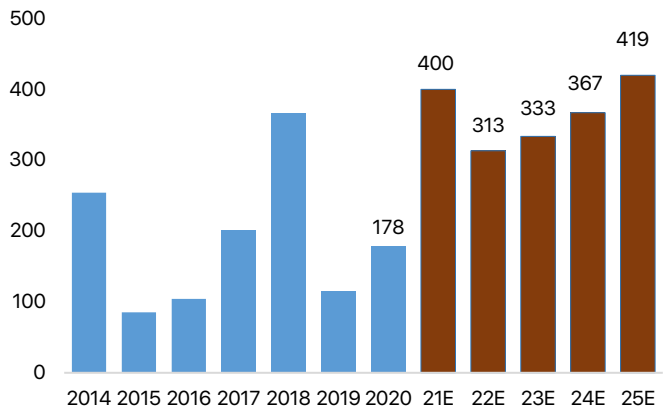
KARDEMIR EBITDA (TL bn)



Source: EquityRT, INFO Research Estimates

Exhibit 6.

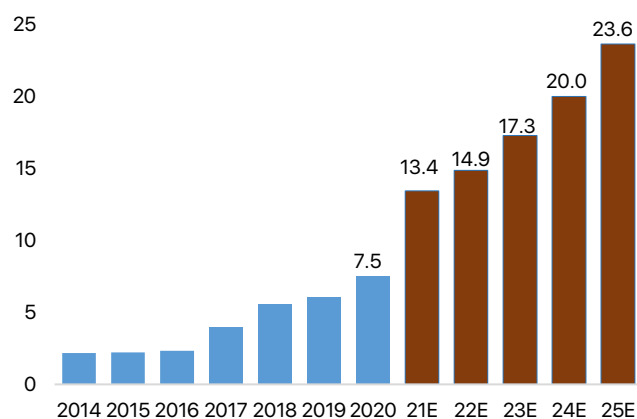
KARDEMIR EBITDA (USD mn)



Source: EquityRT, INFO Research Estimates

Exhibit 7.

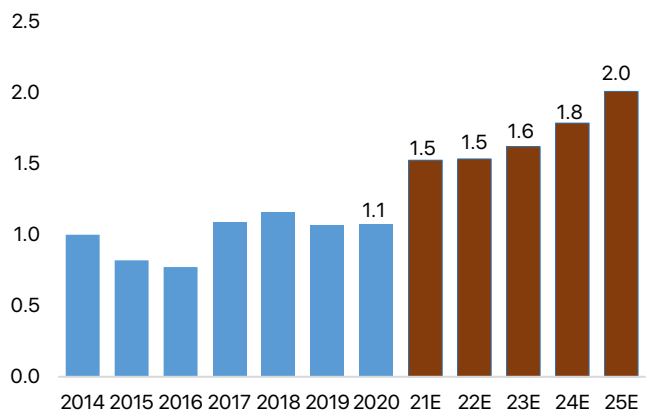
KARDEMIR Total Sales (TL bn)



Source: EquityRT, INFO Research Estimates

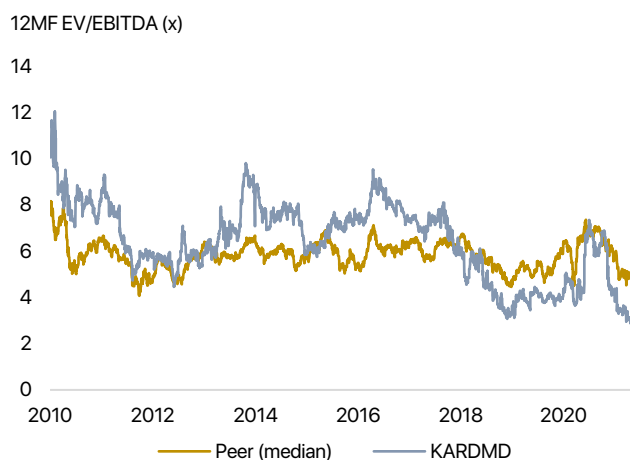
Exhibit 8.

KARDEMIR Total Sales (USD bn)



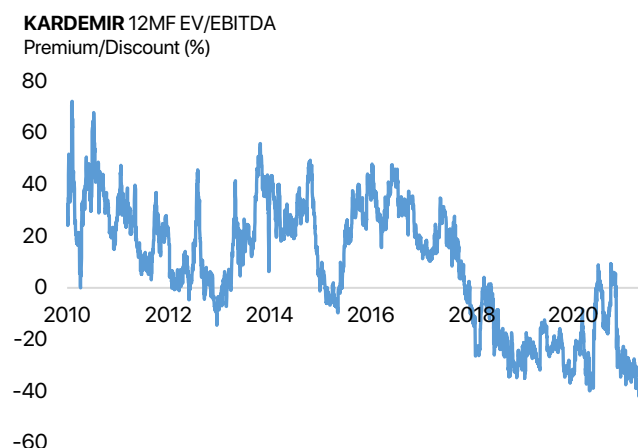
Source: EquityRT, INFO Research Estimates

Exhibit 9.



Source: Bloomberg

Exhibit 10.



Source: EquityRT, INFO Research Estimates

Exhibit 11. **KARDEMIR** Peer Valuation

BBERG Ticker	Company Name	Country	MCAP (USD mn)	P/E*		EV/EBITDA		EV/SALES	
				2021E	2022E	2021E	2022E	2021E	2022E
TKA GR	Thyssenkrupp AG	Germany	6,391		13.7	1.1	0.9	0.1	0.0
MT Lx	ArcelorMittal SA	Luxembourg	30,872	4.0	6.6	3.0	4.4	0.6	0.7
VOE AV	Voestalpine AG	Austria	7,271		10.0	8.6	5.0	0.8	0.7
SSABA SS	SSAB AB	Sweden	1,498	5.5	8.9	3.4	4.7	0.6	0.6
SZG GR	Salzgitter AG	Germany	1,849	4.5	6.6	2.7	3.2	0.2	0.3
NUE US	Nucor Corp	USA	28,634	6.0	12.6	4.2	7.6	1.0	1.1
CLF US	Cleveland-Cliffs Inc	USA	10,682	4.1	8.1	3.6	6.1	0.9	1.0
X US	United States Steel Corp	USA	6,183	2.4	6.3	2.7	4.8	0.7	0.8
CSNA3 BZ	Cia Siderurgica Nacional	Brazil	12,232	3.5	6.1	3.1	4.1	1.5	1.7
005490 KS	POSCO	Korea	18,423	6.8	7.2	3.7	3.9	0.6	0.6
SAIL IN	Steel Authority of India Ltd	India	7,091	11.3	4.1	6.5	3.7	1.2	1.0
BSL AU	BlueScope Steel Ltd	Austria	8,121	9.9	7.6	6.3	6.1	2.2	2.2
EVR LN	Evrz PLC	UK	12,088	4.9	7.4	3.8	5.1	1.2	1.4
MAGN RM	Magnitogorsk	Russia	8,989	3.8	6.0	2.9	3.8	0.9	1.0
MTLR RX	Mechel PJSC	Russia	423			4.6	5.6	1.1	1.2
NLMK RM	Novolipetsk Steel PJSC	Russia	18,714	5.1	8.3	3.9	5.7	1.5	1.8
CHMF RX	Severstal PAO	Russia	18,150	6.1	8.7	3.9	5.5	1.9	2.2
EREGL TI	Eregli Demir ve Celik	Turkey	7,282	5.0	7.4	3.6	5.0	1.2	1.3
	Median			5.0	7.4	3.7	4.9	1.0	1.0
KRDMD TI	Kardemir (D)	Turkey	644	4.2	5.1	3.0	4.1	0.9	0.8

Source: Bloomberg

Exhibit 11. KARDEMIR Share Price Performance

	Absolute Return in USD Currency				Relative to MSCI EM Index			
	YTD	1M	3M	12M	YTD	1M	3M	12M
thyssenkrupp AG	3	-14	-24	45	-2	-12	-25	13
ArcelorMittal SA	-4	-3	0	5	-8	-1	-1	-18
voestalpine AG	13	-9	-4	85	8	-7	-5	45
SSAB AB	38	-7	-9	77	31	-5	-10	38
Salzgitter AG	16	-5	-1	111	10	-3	-2	64
Nucor Corp	76	-15	17	139	67	-14	16	87
Cleveland-Cliffs Inc	45	4	16	309	37	6	15	219
United States Steel Corp	34	-15	-1	231	27	-13	-2	159
Cia Siderurgica Nacional SA	46	2	21	321	38	4	20	229
POSCO	-4	-2	-2	5	-9	0	-3	-18
Steel Authority of India Ltd	72	3	34	270	63	5	33	189
BlueScope Steel Ltd	20	-8	3	114	14	-6	2	67
Evraz PLC	37	-9	3	150	30	-7	2	96
Magnitogorsk	16	-5	5	67	10	-3	4	31
Mechel PJSC	-5	-7	17	13	-10	-5	15	-12
Novolipetsk Steel PJSC	17	-10	5	81	11	-8	4	42
Severstal PAO	24	-5	11	88	17	-3	10	47
Eregli Demir ve Celik	18	-6	7	93	12	-4	6	51
Median	19	-6	4	90	13	-5	3	49
Kardemir (D)	6	-9	-9	73	1	-7	-10	35
Kardemir (A)	-5	-6	2	13	-10	-4	1	-12
Kardemir (B)	6	-6	1	38	1	-4	0	8
MSCI EM Index	5	-2	1	28				

Source: EquityRT

DISCLAIMER & DISCLOSURES

Analyst Certification

I, Oytun Altaşlı Widmer, 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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