

October 23, 2024

Erdemir

EBITDA per ton at its lowest level of the past six quarters

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Erdemir reported a net profit of TRY 801mn (3Q23: TRY 41mn net profit) in 3Q24. Our estimate was for a net loss of TRY 240mn, and the market's was for a net loss of TRY 86mn. Better-than-expected cost management and tax income despite our tax expense expectations chiefly explained the deviation from our net profit expectations. In 3Q24, TRY 2,044mn of net financial expenses pressured the bottom line while TRY 933mn of deferred tax income supported the net profit.

In 3Q24, Erdemir printed TRY 48,729mn of revenues (+30% YoY) slightly above our TRY 47,792mn estimate and the market's TRY 47,612mn call. In 3Q24, the company recorded a 1,924k ton sales volume, slightly above our 1,887k ton expectation (3Q23: 2,040k tons).

The Company booked TRY 4,546mn of EBITDA; above our TRY 3,853mn estimate and the market's TRY 4,278mn estimate. Although EBITDA per ton was realized at USD 73, slightly above our USD 63 estimate, it marked the lowest level of the past six quarters.

Net debt up... The Company's net debt position rose to TRY 68,599mn at the end of 3Q24 from TRY 61,756mn at the end of 2Q24. The Net Debt/EBITDA ratio increased to 2.91x from 2.55x, with the effect of higher debt and weaker EBITDA.

EBITDA per ton has hit its lowest level since Q1 2023, when the impact of the earthquake was strongly felt. We expect the level in Q3 2024 to mark the lowest point of this year, with a gradual recovery over the coming quarters. We believe that the recent recovery in product prices and the delayed impact of lower costs for key raw materials may reflect in the financial results of Q4 2024.

| | 2022/12 | 2023/12 | 2023/09 | 2024/09 | 2024E |
|---------------------|---------|---------|---------|---------|---------|
| P/E | 9,24 | 41,24 | N.M. | 8,90 | 11,80 |
| P/BV | 1,40 | 0,87 | 1,00 | 0,71 | 2,40 |
| EV/EBITDA | 8,81 | 15,08 | 21,13 | 9,96 | 9,20 |
| EV/Sales | 1,84 | 1,59 | 1,83 | 1,20 | 1,14 |
| Net Sales (TRY Mn) | 127.783 | 147.900 | 101.010 | 148.947 | 206.304 |
| Net Profit (TRY Mn) | 18.005 | 4.033 | -3.867 | 10.787 | 14.092 |
| EPS (TRY) | 5,14 | 1,15 | -1,10 | 3,08 | 4,03 |

OUTPERFORM
TP: TRY 66.84
Previous TP: TRY 66.84
Upside: 41%

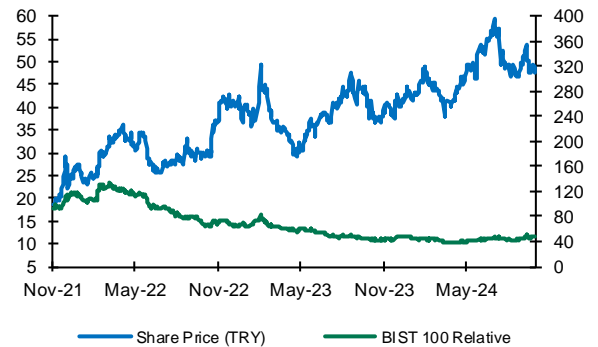
| | TRY | US\$ |
|---------------------------|---------------------|------|
| Close | 47,52 | 1,39 |
| BIST 100 | 8.839 | 259 |
| US\$/TRY (CB Bid Rate): | 34,24 | |
| 52 Week High: | 53,55 | 1,80 |
| 52 Week Low: | 26,74 | 1,18 |
| Bloomberg/Reuters Ticker: | EREGL.TI / EREGL.IS | |

| | | |
|------------------------|----------|-----------|
| Number of Shares (Mn): | 3.500,0 | |
| | (TRY Mn) | (US\$ Mn) |
| Current Mcap: | 166.320 | 4.866 |
| Free Float Mcap: | 79.834 | 2.336 |

| | 1 M | YOY | YTD |
|----------------------------|----------|------|------|
| TRY Return (%): | -4,4 | 26,5 | 17,3 |
| US\$ Return (%): | -5,0 | 3,5 | 0,9 |
| BIST 100 Relative (%): | 7,1 | 7,5 | -0,8 |
| Avg. Daily Vol. (TRY Mn): | 5.121,66 | | |
| Avg. Daily Vol. (US\$ Mn): | 160,82 | | |

| | |
|-----------------------|------|
| Beta | 1,10 |
| Volatility (Stock) | 0,35 |
| Volatility (BIST 100) | 0,25 |

| | |
|-----------------------|-------|
| Shareholder Structure | % |
| Ataer Holding | 49,3 |
| Free Float | 47,2 |
| Erdemir's own shares | 3,6 |
| Total | 100,0 |



On the global front, major central banks such as the ECB, BoE, and Fed have started cutting interest rates. As the theme of monetary easing accelerates, we expect a revival in global steel demand. Consequently, we believe that the Chinese steel market, which accounts for over 50% of the world's steel production, will recover, leading to stronger product prices.

According to the Official Gazette dated October 11, 2024, an anti-dumping measure has been imposed on "hot-rolled flat steel" imports from China, India, Japan, and Russia, ranging from 6.1% to 43.31% of the CIF price. We expect this development to alleviate pressure on domestic flat steel prices and indirectly have a positive impact on Erdemir.

- In line with the 3Q24 financial results and our expectations, we maintain our 12-month target price for Erdemir of TRY 66.84/share. We also maintain our "OUTPERFORM" recommendation as our target price represents 41% upside potential compared to the closing price on October 22, 2024.

Figure 1: Financials

| TRY Million | 9M23 | 9M24 | YoY | 3Q23 | 3Q24 | YoY | 2Q24 | QoQ |
|----------------------------|----------------|----------------|--------------|---------------|---------------|----------------|---------------|---------------|
| Revenues | 101.010 | 148.947 | 47,5% | 37.390 | 48.729 | 30,3% | 50.470 | -3,5% |
| Gross Profit | 9.574 | 17.595 | 83,8% | 4.821 | 4.329 | -10,2% | 6.237 | -30,6% |
| <i>Gross Profit Margin</i> | <i>9,5%</i> | <i>11,8%</i> | | <i>12,9%</i> | <i>8,9%</i> | | <i>12,4%</i> | |
| EBIT | 6.824 | 12.135 | 77,8% | 3.914 | 2.341 | -40,2% | 4.265 | -45,1% |
| <i>EBIT Margin</i> | <i>6,8%</i> | <i>8,1%</i> | | <i>10,5%</i> | <i>4,8%</i> | | <i>8,5%</i> | |
| EBITDA | 10.441 | 18.451 | 76,7% | 5.228 | 4.546 | -13,0% | 6.388 | -28,8% |
| <i>EBITDA Margin</i> | <i>10,3%</i> | <i>12,4%</i> | | <i>14,0%</i> | <i>9,3%</i> | | <i>12,7%</i> | |
| Net Profit | -3.867 | 10.787 | N.M. | 41 | 801 | 1835,5% | 4.386 | -81,7% |
| <i>Net Profit Margin</i> | <i>-3,8%</i> | <i>7,2%</i> | | <i>0,1%</i> | <i>1,6%</i> | | <i>8,7%</i> | |

Source: Finnet, Seker Invest Research

Figure 2: Key financials

| BALANCE SHEET (TRY Mn) | 2022/12 | 2023/12 | 2023/09 | 2024/09 | Chg% |
|-------------------------------------|----------------|----------------|----------------|----------------|-----------|
| PP&E | 80.716 | 147.415 | 128.520 | 189.260 | 47 |
| Intangibles | 5.305 | 8.106 | 7.484 | 9.137 | 22 |
| Other Non-Current Assets | 8.217 | 19.994 | 19.937 | 27.038 | 36 |
| Trade Receivables | 15.602 | 20.353 | 18.015 | 23.548 | 31 |
| Cash&Equivalents | 15.186 | 24.073 | 19.546 | 47.838 | 145 |
| Other Current Assets | 49.868 | 90.092 | 84.074 | 108.401 | 29 |
| Total Assets | 174.894 | 310.033 | 277.577 | 405.221 | 46 |
| Long Term Debt | 8.408 | 10.980 | 8.990 | 71.915 | 700 |
| Other Non current liabilities | 11.914 | 18.233 | 25.705 | 17.317 | (33) |
| Short Term Debt | 18.629 | 46.035 | 40.113 | 39.254 | (2) |
| Trade Payables | 11.228 | 23.427 | 17.401 | 23.802 | 37 |
| Other Current Liabilities | 6.052 | 19.830 | 19.283 | 19.957 | 3 |
| Total Liabilities | 56.231 | 118.504 | 111.494 | 172.245 | 54 |
| Total Equity | 118.662 | 191.529 | 166.083 | 232.976 | 40 |
| Total Equity&Liabilities | 174.894 | 310.033 | 277.577 | 405.221 | 46 |

| INCOME STATEMENT (TRY Mn) | 2022/12 | 2023/12 | 2023/09 | 2024/09 | Chg% |
|---|---------------|--------------|----------------|---------------|-------------|
| Net Sales | 127.783 | 147.900 | 101.010 | 148.947 | 47 |
| COGS | 102.244 | 133.658 | 91.437 | 131.352 | 44 |
| Gross Profit/(Loss) | 25.539 | 14.242 | 9.574 | 17.595 | 84 |
| Operating Expenses | 2.378 | 4.041 | 2.750 | 5.460 | 99 |
| Operating Profit/(Loss) | 23.161 | 10.201 | 6.824 | 12.135 | 78 |
| Net Other Operational Gain/(Loss) | 409 | 3.134 | 2.865 | 3.719 | 30 |
| Income/(Loss) from Investing Activities | 9 | (185) | (408) | 236 | N.M. |
| Financial Income/(Expense) | (1.539) | (5.082) | (3.145) | (5.909) | N.M. |
| Share of profit of equity accounted investments | 73 | 78 | 37 | 160 | 328 |
| Profit Before Tax (Loss) | 22.112 | 8.837 | 6.172 | 9.954 | 61 |
| Tax | 3.459 | 4.508 | 9.999 | (1.327) | N.M. |
| Net Profit/(Loss) | 18.653 | 4.329 | (3.827) | 11.281 | N.M. |
| Minority Interest | 648 | 296 | 40 | 493 | 1.120 |
| Parent Equity | 18.005 | 4.033 | (3.867) | 10.787 | N.M. |

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Source: Finnet, Seker Invest

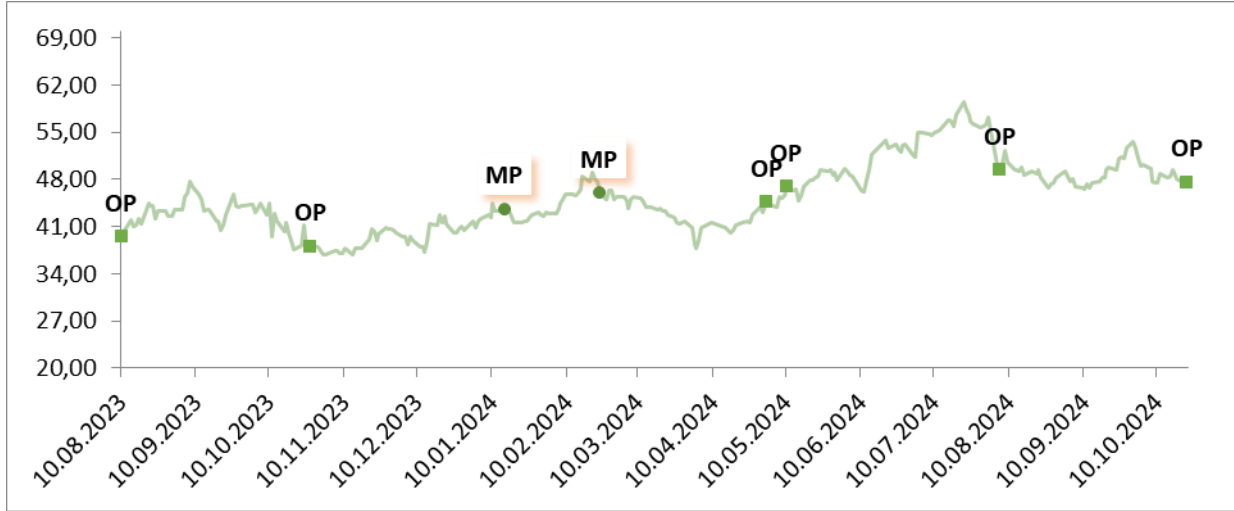
Figure 3: Key ratios

| KEY RATIOS | 2022/12 | 2023/12 | 2023/09 | 2024/09 |
|---------------------|---------|---------|---------|---------|
| ROAE | 22,5% | 2,6% | -0,4% | 9,4% |
| ROAA | 15,5% | 1,7% | -0,2% | 5,5% |
| Gross Profit Margin | 20,0% | 9,6% | 9,5% | 11,8% |
| Net Profit Margin | 14,1% | 2,7% | -3,8% | 7,2% |
| EBITDA Margin | 20,9% | 10,5% | 10,3% | 12,4% |
| T.Fin. Debt/Equity | 7,1% | 5,7% | 5,4% | 30,9% |

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Source: Finnet, Seker Invest

Historical Recommendations and target prices



| Date | Rec | Target Price (TRY) |
|-----------|---------------------|--------------------|
| 6-Mar-23 | Market Perform (MP) | 42.60 |
| 3-May-23 | Outperform (OP) | 42.60 |
| 1-Aug-23 | Outperform (OP) | 48.94 |
| 9-Aug-23 | Outperform (OP) | 48.94 |
| 27-Oct-23 | Outperform (OP) | 48.94 |
| 15-Jan-24 | Market Perform (MP) | 56.13 |
| 23-Feb-24 | Market Perform (MP) | 56.13 |
| 2-May-24 | Outperform (OP) | 56.13 |
| 10-May-24 | Outperform (OP) | 56.13 |
| 6-Aug-24 | Outperform (OP) | 66.84 |
| 23-Oct-24 | Outperform (OP) | 66.84 |

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Basis for 12m equity ratings

Outperform: The total return is expected to exceed the return of the BIST 100 by more than 10%.

Underperform: The total return is expected to fall below the return of the BIST 100 by more than 10%.

Market Perform: The total return is expected to be in line with the return of the BIST 100.

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