TURKISH EQUITIES / COMPANY UPDATE

Sisecam

Revising up our estimates on declining energy costs

We are re-iterating our Outperform rating for Sisecam with a revised 12-month target price of TRY65.00/share, offering 39% upside potential (Prev: TRY45.00/share). The revision is mostly related to 1) our 10% upward adjustment in EBITDA forecasts and 2) our revision of an improvement in working capital/sales ratio for 2023 and beyond. Following a mild winter in Europe, the natural gas prices in Europe are hovering around 86% lower than its peak level in August 2022 while the tariff in Turkey is also 33% down compared to its 2022 year-end level. Accordingly, we revised up our EBITDA margin estimate throughout our projection period (+90bps for 2023) to reflect the recent normalization in energy prices globally. Additionally, following a nearly one-off 930bps margin erosion in the chemical segment in 4Q22, we expect to see a significant improvement by 1Q23 which suggests a nearly 520bps improvement in the cumulative margin performance, implying a solid recovery in the operational figures on QoQ level. The stock trades at a P/E of 7.2x and EV/EBITDA of 6.3x on its 2023 prospective earnings, suggesting an average of 28% discount to its global peers while we believe that the multiples may be reached to a new plateau with full contribution of non-cyclical chemical segment in the coming years which is now forecasted to comprise around 40% of the company's EBITDA generation. Along with nearing operational earnings momentum and more visible growth prospects with increasing soda ash capacity, we still maintain our "Outperform" rating for the stock following its solid performance over the last year.

A QoQ solid recovery in operational performance by 1Q23: After soaring throughout 2022, energy costs have recently started to decline in Turkey and the world – something we expect to positively impact the company's operational performance, given that natural gas has a 30% share in COGS. Accordingly, we calculate the current energy prices in Turkey to have +90bps impact on EBITDA margin. Additionally, following one-off weakness in the chemical segment in 4Q22 which led to a 6.1% QoQ decline in the EBITDA margin, we forecast a significant recovery in the operational performance as of 1Q23. Based on our new projections, we now calculate a 44% YoY growth in EBITDA for the full year, with the chemical segment expected to be the biggest contributor with a 40% share.

Consistent Buy-back program: We welcome Sisecam's regular buy-backs for the stock performance especially in such a volatile environment. Under its previous buy-back program, Sisecam purchased TRY85.4mn of nominally valued shares (2.8% of its paid in capital). In June'22, The company initiated a new buy-back program up to TRY150mn in nominally valued shares (corresponding to 4.9% of issued capital), allocating a maximum TRY3.0bn fund for the new buy-back program.

Growth coming from defensive soda ash: Following the completion of capex cycle until 2028, Sisecam's stake adjusted annual production capacity of soda ash expected to increase from its current level of 5.0mn tons to 8.0mn tons. Excluding one-off negative effect in 4Q22- stemmed from maintenance work conducted on coal fired boiler unit- the chemical segment's normalized EBITDA margin is forecasted to be around 23.5% vs. Sisecam's historical average level of 21.8% between 2017-2021. Considering chemical segment's rise in EBITDA generation to 40% level by 2023, we expect Sisecam's operations to become less cyclical to economic volatility and to grow further that our conservative assumptions point to a 21% CAGR in sales and 24% CAGR in EBITDA between 2023-2025 (9.5% and 12.7% in USD-terms).

6 March 2023

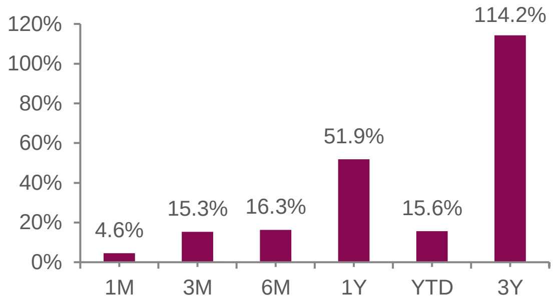
Outperform
(Maintained)

Close Price: TRY46.96
12M Target Price: TRY65.00
Upside Potential: 39%

Stock data

Bloomberg / Reuters	SISE TI / SISE.IS
Mcap (US$mn)	7,628
EV (US$mn)	8581.8
Avg. Trd. Vol. (US$mn)	175.8
Free float	49%

Relative Performance to BIST100



Key Data (TRYmn)	2021	2022	2023E	2024E
Revenues	32,058	95,349	140,043	178,453
Growth	*50%*	*197%*	*47%*	*27%*
EBITDA	7,562	20,455	29,485	38,604
Growth	*72%*	*170%*	*44%*	*31%*
Net Profit	9,133	19,345	19,881	25,378
Growth	*327%*	*112%*	*3%*	*28%*
P/E (x)	4.5	6.8	7.2	5.7
EV/EBITDA (x)	7.5	7.7	6.3	5.1
P/BV (x)	1.2	1.8	1.6	1.3
FCF yield (%)	-5.7%	1.3%	2.3%	0.1%
Div. yield (%)	1.3%	1.8%	1.9%	2.1%

Analyst
Sinan Caner Vardal
+90 212 336 7495
caner.vardal@qnbfi.com

Analyst
Can Alagoz
+90 212 336 7273
can.alagoz@qnbfi.com

Figure 1 – Summary financials & key metrics (TRYmn)

Income statement	2020	2021	2022	2023E	2024E
Revenues	**21,341**	**32,058**	**95,349**	**140,043**	**178,453**
Gross profit	**6,661**	**11,180**	**33,710**	**49,449**	**63,743**
EBITDA	**4,405**	**7,562**	**20,455**	**29,485**	**38,604**
Depreciation	1,651	2,061	5,101	6,510	8,651
EBIT	**2,755**	**5,501**	**15,354**	**22,975**	**29,954**
Net other income	492	727	1,713	-49	-54
Income from investing activities	992	3,190	5,639	2,722	1,650
Net financial income	-1,083	1,442	-3,297	-2,527	-2,037
Profit from associates	100	217	353	518	660
PBT	**3,255**	**11,078**	**19,762**	**23,639**	**30,173**
Taxes	-431	-1,853	371	-2,600	-3,319
Minority interest	687	91	788	1,158	1,475
Net income	**2,138**	**9,133**	**19,345**	**19,881**	**25,378**

Balance sheet	2020	2021	2022	2023E	2024E
Current assets	**21,217**	**35,673**	**73,610**	**100,345**	**132,745**
Cash equivalents	9,355	12,811	25,245	30,739	44,631
Trade receivables	4,353	9,186	19,840	29,140	37,133
Inventories	4,181	7,688	19,252	28,295	35,827
Other current assets	3,329	5,989	9,273	12,170	15,155
Non-current assets	**23,011**	**52,999**	**90,335**	**114,319**	**138,478**
Tangibles	16,241	30,954	54,566	70,811	90,141
Intangibles	368	3,995	812	812	812
Other non-current assets	6,402	18,050	34,957	42,697	47,525
Total assets	**44,228**	**88,673**	**163,945**	**214,664**	**271,223**
Current liabilities	**8,238**	**19,193**	**35,524**	**46,894**	**59,895**
Short-term loans	4,651	10,438	18,588	22,837	30,505
Trade payables	2,445	5,033	11,331	16,654	21,087
Other current liabilities	1,143	3,721	5,605	7,403	8,303
Non-current liabilities	**13,498**	**20,116**	**33,294**	**54,312**	**73,999**
Long-term loans	12,492	17,213	28,324	47,391	66,469
Other non-current liabilities	1,007	2,903	4,969	6,922	7,530
Minority Interest	**297**	**9,932**	**18,600**	**19,758**	**21,233**
Shareholders' equity	**22,491**	**49,364**	**95,128**	**113,458**	**137,330**
Total liabilities and equity	**44,228**	**88,673**	**163,945**	**214,664**	**271,223**

Key metrics	2020	2021	2022	2023E	2024E
Growth					
Revenue growth	18%	50%	197%	47%	27%
EBITDA growth	15%	72%	170%	44%	31%
Net income growth	12%	327%	112%	3%	28%
Profitability					
Gross Margin	31.2%	34.9%	35.4%	35.3%	35.7%
EBITDA margin	20.6%	23.6%	21.5%	21.1%	21.6%
Net margin	10.0%	28.5%	20.3%	14.2%	14.2%
Return on assets (ROA)	5.2%	13.7%	15.3%	10.5%	10.4%
Return on equity (ROE)	10.3%	25.4%	26.8%	19.1%	20.2%
Return on cap. emp. (ROCE)	8.1%	15.3%	17.2%	13.4%	13.8%
Leverage					
Net Debt	3,911	10,505	17,038	34,394	46,736
Net debt / Equity	0.2	0.2	0.2	0.3	0.3
Net debt / EBITDA	0.9	1.4	0.8	1.2	1.2
EBIT Interest coverage	4.6	2.1	2.6	1.6	1.4
Efficiency					
Total asset turnover	0.5	0.4	0.6	0.7	0.7
Equity turnover	0.9	0.6	1.0	1.2	1.3
WC/Sales	28.5%	36.9%	29.1%	29.1%	29.1%
Opex/Sales	18.3%	17.7%	19.3%	18.9%	18.9%

Cash flow	2020	2021	2022	2023E	2024E
EBITDA	4,405	7,562	20,455	29,485	38,604
Change in working capital	-778	-5,752	-8,945	-1,412	-6,257
Taxes (EBIT x 20%)	-551	-1,100	-1,261	-2,600	-3,319
Capital expenditure	-1,873	-2,637	-7,609	-23,315	-28,777
Adjustment	-185	-1,622	99	0	0
FCF	1,018	-3,549	2,739	2,158	251

QNB Finansinvest vs Consensus		2023E			2024E	
	Estimate	Cons.	Deviation	Estimate	Cons.	Deviation
Revenues	140,043	132,399	6%	178,453	163,588	9%
EBITDA	29,485	27,991	5%	38,604	36,193	7%
Net Income	19,881	20,371	-2%	25378	24,949	2%

Source: QNBFI Calculations

Valuation

We base our valuation on a DCF valuation methodology and reach a 12-month target value of USD10,600mn, suggesting a 39% upside potential.

- Our USD denominated DCF model is based on a 7.5% risk free rate. a 1.0x beta. a 5.5% equity risk premium and a 4% terminal growth rate.
- Sisecam has entered into capex cycle with Pacific LLP investment where its total soda ash capacity is projected to increase by 60% by the end of 2030. For the long-term. we consider the chemical segment as a leading growth driver of Sisecam. Currently, we plug in a total of USD2.4bn capex for soda ash capacity investment for 2023-2028 period. On the other hand, we factor in only c.USD300mn annual EBITDA contribution from this investment by 2028 for a sake of conservatism which poses upside risk to our valuation and long-term EBITDA estimates.
- On our 2023 earnings forecast, Company's EV/EBITDA and P/E multiples stand at 6.3x and 7.2x respectively.

Figure 2 – Sisecam DCF Valuation (USD)

USDmn	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues	5,706	6,610	6,843	7,087	7,362	8,488	9,005	9,460	9,852	10,243
Revenue Growth	*-0.7%*	*15.8%*	*3.5%*	*3.6%*	*3.9%*	*15.3%*	*6.1%*	*5.0%*	*4.1%*	*4.0%*
EBIT	936	1,110	1,147	1,222	1,288	1,322	1,434	1,520	1,611	1,698
EBITDA	1,201	1,430	1,525	1,623	1,685	1,985	2,136	2,257	2,379	2,497
EBITDA Margin	*21.1%*	*21.6%*	*22.3%*	*22.9%*	*22.9%*	*23.4%*	*23.7%*	*23.9%*	*24.2%*	*24.4%*
Taxes	-106	-123	-117	-131	-140	-174	-192	-206	-220	-232
Inc./dec. in W/C	58	232	60	68	70	295	130	125	99	97
Capex	950	1,066	1,172	759	439	662	702	738	768	799
FCF	**88**	**9**	**176**	**665**	**1036**	**853**	**1112**	**1189**	**1292**	**1369**
WACC	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%
PV of FCFs	**3,694**									
Terminal Growth Rate	4.0%									
Terminal Value	19,486									
PV of TV	7,431									
Value of Firm	11,124									
Net Debt	954									
Participations & Minority	995									
Equity Value	**9,176**									
12-mo Target Value	**10,600**									

Source: QNBFI Estimates

Figure 3 – Peer Analysis

	EV / EBITDA		P / E	
Company	**2023E**	**2024E**	**2023E**	**2024E**
Sisecam	6.3	5.1	7.2	5.7
Asahi	4.7	4.3	11.3	9.5
Saint Gobain	5.8	5.6	10.2	9.4
Xinyi	9.1	7.8	8.9	8.1
Central Glass	8.2	8.5	3.1	6.6
Vidrala	9.4	9.0	16.2	14.4
Solvay SA	5.7	5.5	9.2	8.9
Gerresheimer	9.3	8.0	16.7	13.9
Tata Chemicals	8.3	8.1	11.4	11.5
Fuyao Glass Industry	12.7	11.2	17.6	16.3
Ciech Sa	4.1	4.0	6.6	7.5
Median	**8.3**	**7.9**	**10.7**	**9.4**
Discount	**-24%**	**-35%**	**-33%**	**-40%**

Source: Bloomberg, QNBFI Estimates

QNB Finansinvest Rating System

We employ a relative scale in our rating system (i,e, Market **Outperform, Neutral, Underperform**) in order to better present relative value propositions and more actively pursue long vs, short ideas at the BIST, The relevant benchmark is the broader Turkish stock market, using the BIST-100 index as a basis, The ratings also incorporate a certain degree of relativity within the analyst's own stock coverage universe due to asymmetric return expectations among the industries under our BIST coverage, The rating system combines analysts' views on a stock relative to the sectors under coverage, and the sector call relative to the market, together providing a view on the stock relative to the market,

Individual ratings reflect the expected performance of the stock relative to the broader market over the next 6 to 12 months, The assessment of expected performance includes a function of near-term company fundamentals, industry outlook, confidence in earnings estimates and valuation, and other factors,

An essential element of our rating methodology involves benchmarking a 12-month expected return against the cost of equity, We set a required rate of return for each stock, calculated from our risk-free rate and equity risk premium assumptions, The price target for a stock represents the value that the stock is expected to reach or sustain over the performance horizon of 12 months, according to the view of the analyst,

We have separated the stocks under our coverage into two groups, mainly with respect to their liquidity (market cap, free float market cap and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics to more-liquid large-caps, For the purposes of the relative stock rating, however, stocks within each group will be considered on an unweighted basis with regard to their market capitalization,

For a stock to be assigned an **Outperform** rating, the implied return *must* exceed the required rate of return by at least 5 percentage points over the next 12 months for our larger-cap stock coverage, or by 10 percentage points for the small-cap group, For a stock to be assigned an **Underperform** rating, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months, Stocks between these bands will be classified as **Neutral**,

When the potential upside of an *average* stock in our coverage exceeds its required rate of return (i,e, the market upside exceeding the implied average cost of capital), a greater number of stocks would fall into the aforementioned Outperform (Buy) category, illustrating the significance of the "relative return" concept (vis-à-vis absolute return) in picking better investment ideas with a positive alpha, The same holds true when the potential upside of an *average* stock in our coverage falls short of its required rate of return,

In this regard, as a supplemental methodology, we rank the stocks in our coverage according to their notional target price with respect to their current market price, and then categorise the top group (approximately 40-50% of the companies under coverage) as Outperform, the next 40-50% as Neutral and the lowest 10-20% (and no less than 10%) as Underperform,

It should be noted that the expected returns on some stocks may at times fall outside the relevant ranges of the applicable respective rating category because of market price movements and/or other short-term volatility or trading patterns, Such interim deviations from specified ranges are permitted but becomes subject to review,

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

Outperform, We expect the stock to outperform the BIST-100 over the next 6 to 12 months,

Neutral (Market Perform), We expect the stock to broadly perform in line with the BIST-100 index over the next 6 to 12 months, (Although we would normally have a neutral assessment of stocks in this category, if a stock has gone through a period of market underperformance, it would be an indication that the stock may be expected to improve its performance relative to market averages in the coming period, and vice versa),

Underperform, We expect the stock to underperform the BIST-100 over the next 6 to 12 months,

N/R, Not Rated,

U/R, Under Review,

Analyst Certification

The following analysts hereby certify that the views expressed in this research report accurately reflect their own personal views 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: **Can Alagoz, Sinan Caner Vardal**

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts,

Disclaimer

All information given in this document has been obtained from sources believed to be reliable, and while QNB FINANSINVEST has taken reasonable care in verifying the accuracy and completeness of the information presented herein, it cannot be held responsible for any errors, omissions or for consequences arising from the use of such information, The investment information, commentary and advice contained within this document does not constitute investment advisory activity or any solicitation to buy or sell the securities mentioned herein, Investment advisory services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences, while the commentary and advice included in this document is of a general nature and therefore may not be appropriate for your financial situation or your risk and return preferences, As such, investment decisions based only on the information herein may not produce results that fit your expectations, The affiliates, officers, partners and employees, including persons involved in the preparation or issuance of this material may have a direct or indirect position in any security mentioned in this report,